

Democratic Services

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17 November 2016

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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Cheryl Kirby (Parish and Town Councils) and Steve Paines (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Thursday, 24th November, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Thursday, 24th November, 2016 at 2.00 pm** in the **Avonfields Room, 1st Floor, - Somerdale Pavilion, Keynsham (formerly the Fry Club and Conference Centre)**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author

whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

- 4. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Reception: Civic Centre - Keynsham,- Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.
6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.
7. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Thursday, 24th November, 2016

at 2.00 pm in the Avonfields Room, 1st Floor, - Somerdale Pavilion, Keynsham (formerly the Fry Club and Conference Centre)

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 23RD SEPTEMBER 2016 (Pages 7 - 16)

8. RESPONSIBLE INVESTING POLICY (Pages 17 - 34)

The Committee is invited to pass the following resolution before discussing Exempt Appendices 1, 2 and 3:

Having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of Section

100(A)(4) of the Local Government Act 1972, the Committee resolves that the public shall be excluded from the meeting for the discussion of the Exempt Appendices 1, 2 and 3 of this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

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Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 23rd September, 2016, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Steve Paines (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor), Julie Masci (Grant Thornton), Paul Middleman (Mercer), Steve Turner (Mercer) and Sarah Wilson (Manifest)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Chris Pearce.

28 DECLARATIONS OF INTEREST

There were none.

29 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

30 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

31 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

32 MINUTES: 24TH JUNE 2016 AND 30TH JUNE 2016

The public and exempt minutes of the meetings of the 24th and 30th June 2016 were approved as a correct record and signed by the Chair.

33 APPROVAL OF FINAL ACCOUNTS

The Finance and Systems Manager presented the report. He introduced Julie Masci of Grant Thornton.

Ms Masci presented the Audit Findings for the Avon Pension Fund for year ended 31 March 2016. She drew attention to the summary of findings set out on page 6 of Appendix 2. The lack of separation of the journal entries for the APF and the Council identified in 2014/15 was not achieved in 2015/16, so it remained an issue for the 2015/16 audit. However, it was understood that complete separation had been achieved from 1st April 2016. There were two recommendations about minor issues.

A Member asked about section 9 on page 41 of the accounts (Change in Market Value of Investments), which appeared to show that the Fund had lost £85.5m during the year. The Investments Manager explained that Sterling had depreciated toward the end of the year, so some money had been lost on the currency hedge. The loss is offset by an increase in the value of hedged assets. In addition there was a timing issue relating to the sale of equity for reinvestment in infrastructure. The proceeds of the sale of the equities were invested on 1st April 2016, so that on 31st March they were still in the cash balances.

A Member asked why members' contributions to additional benefits were lower in 2015/2016 than in 2014/15. The Acting Pensions Manager suggested that as 2015/16 was the first year of the Career Average Revalued Earnings (CARE) scheme, there might have been an increase in Fund members deciding to pay for additional benefits in anticipation of this.

The Finance and Systems Manager (Pensions) invited the Committee to approve the Committee's Annual Report. He asked Members to note that figures would need to be inserted on agenda pages 107 and 109 when the CIPFA benchmarking data became available on 30 September. A Member suggested that information about TPR Trustee Toolkit training undertaken by Members should be included, as it was in the Pension Board Annual Report.

A Member asked about the increase in payments to and on account of leavers in of £2.86m in 2015/16 (agenda page 34). The Finance and Systems Manager (Pensions) explained that this was because of the transfer of Probation Service employees to the Greater Manchester Pension Fund.

RESOLVED:

1. To note the final audited Statement of Accounts for 2015/16.

2. To note the issues raised in the Annual Governance Report.
3. To approve the draft Avon Pension Fund Annual Report 2015/16.

34 APPROVAL OF FUNDING STRATEGY STATEMENT

The Investments Manager presented the report. She reminded Members that the draft FSS had been presented to the June Committee. It had then gone to employers for consultation. The Committee was now invited to approve the final FSS.

A Member asked whether it was normal to receive so few responses to a consultation on the FSS. The Investments Manager replied that it was a reasonable number of responses and that they came from a good selection of employers.

A Member asked about the insurance of ill-health costs referred to in paragraph 5.4 of the report (agenda page 143). The Investments Manager replied that the work had been started, but progress had been limited because of workload. She had had a conversation about it with the Actuary the previous day as how to progress the project.

A Member asked about the apparent conflict between 5.3(3), “the medium term recovery period will be held as 15 years rather than reduced to 12 years”, and 5.3(1)(b) “shorten the deficit recovery period by at least 3 years”. The Investments Manager explained that the aim was to manage affordability. If deficit recovery contributions should remain at the same level as determined in the 2013 valuation, this would lead to some employers’ deficits reducing by more than 3 years.

A Member suggested that with over 200 employers in the Fund the proposal in 5.3(2) for “employer specific” short term pay assumptions might be impracticable. Mr Middleman responded that he needed feedback from employers about their pay assumptions, which differed for different types of employer. This did not mean that there would be individual pay assumptions for each individual employer. Pay assumptions needed to be refined to maintain affordability and there might be two or three different options for employers.

RESOLVED:

1. To note the feedback responses received, and the proposed modifications to the draft FSS.
2. To approve the Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, for general publication and distribution to the Fund’s employing bodies.
3. To delegate the refinement and finalisation of the draft FSS to Fund Officers, with the assistance of the Fund Actuary.

35 GAD SECTION 13 REPORT

The Investments Manager presented the report, which she said was for information only.

A Member noted that GAD had flagged up the long-term cost-efficiency of the Somerset County Council Pension Fund as something about which they might have engaged with the administering authority under section 13 of PSPA 2013, had it been in force at the time the dry run had been undertaken. He asked whether the Committee should be concerned now that Somerset was a member of Project Brunel. The Head of Business, Finance and Pensions replied that the issue with Somerset CC Pension Fund was funding; it was a strategic issue which should concern only the Somerset CC Pension Fund Committee. Pooling only related to operational issues; the pool managers would implement the strategies of the member funds.

A Member asked whether the maturity rank of the Fund, 5.9(82) was something to be worried about. Mr Middleman said that this indicated the Fund had a lot of pensioners and was cashflow negative, but it was only one of a number of measures and was not by itself a cause for concern. The result of the valuation was more important.

A Member asked about the level of non-statutory employees in the Fund, which at 6% was quite high. Mr Middleman said that he did not think that the number was really the right measure of risk. The Fund had for some years insisted on covenants and bonds for admitted bodies. There was also a need for the right sort of monitoring between valuations.

RESOLVED to note the Section 13 Dry Run Report.

36 ANNUAL RESPONSIBLE INVESTING REPORT

The Assistant Investments Manager presented the report.

Sarah Wilson presented the Manifest Monitoring Review of Shareholder Voting 2015 for the Avon Pension Fund. She reported that the number of meetings voted at by the Fund's managers in 2015 was 905, down from 1,166 in 2014, comprising a total of 13,532 resolutions (compared with 17,711 in 2014). The bulk of the meetings took place in the period April-June. The Fund's managers supported 96.25% of the recommendations of company management. She drew attention to the comparison of manager voting patterns in section 5.1 of the report (agenda pages 267-269).

[Councillor Mike Drew joined the meeting.]

A Member said that he was concerned that some companies might be overvaluing their assets, which might include stranded assets, and that they should be challenged to demonstrate that the asset values they were claiming were justified. Ms Wilson said this was an important issue, but it should be remembered that accounting standards were set by independent organisations, such as the International Accounting Standards Board. Therefore, the first thing on which to seek assurance was that companies were properly audited and that they were complying

with accounting standards. As far as stranded assets were concerned, it should be noted that these were not covered by current accounting standards, which relate only to financial assets. There were initiatives to encourage companies to address the issue of stranded assets. The Member said that he thought that the important influence on companies was the bottom line, and that investors should keep probing and not let companies think they were going to forget about this issue.

A Member asked how companies could be encouraged to address the challenges and opportunities arising from environmental change. The Assistant Investments Manager said this would be taken into account in the review of responsible investing; there would be two more meetings on the review with the outcome reported to the Committee in December. The Member asked whether the fact that Jupiter was fossil free at the time the report was written was due to accident or design. The Assistant Investments Manager replied that it was by design; the Jupiter mandate was the only mandate that had exclusions. It should be noted, however, that while Jupiter had achieved their performance targets over the recent period, because of the exclusions they have in the UK index they have had volatile performance versus the benchmark over time; this will be taken into account in the review. Ms Wilson pointed out that under Regulations issued in 2013 under the Companies Act 2006 all companies now have to report their greenhouse gas emissions, so that is possible to calculate the carbon impact of portfolios.

A Member asked whether it was acceptable that there was such a wide variation in managers' voting against the Template for Management and that so many managers did not publish how they had voted. Ms Wilson replied that Manifest did not expect all managers to follow best practice 100%; they had to exercise their individual judgments. As far as disclosure of their voting was concerned, they might not do this in public, but they did disclose to the Fund.

In conclusion Ms Wilson said that in the UK constructive dialogue with company boards was encouraging them to be more open, whereas in the United States, where companies had faced an aggressive environment, legislation was going through the House to prevent discussion of company failings and shortcomings. It should be remembered that some fund managers had no training in ESG and SRI issues and were on a learning curve.

RESOLVED:

1. To approve the annual Responsible Investing Report for 2015/16;
2. To approve the Fund's Statement of Compliance with the Stewardship Code in section 3 of Appendix 1.

37 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager informed the Committee that the Panel had made no decisions or recommendations.

RESOLVED to note the minutes of the Investment Panel meeting on 5 September at Appendix 1 and the summary of the Meet the Managers Workshop at Exempt Appendix 2.

38 REVIEW OF INVESTMENT PERFORMANCE

he Assistant Investments Manager presented the report. He said that it had been a positive quarter, though managers had struggled in a volatile environment. Depreciation of Sterling had had a negative impact. The funding level had risen to 85% because of asset performance. The Statement of Investment Principles (SIP) had been updated to reflect changes made to the bond portfolio and the funding of the IFM infrastructure mandate; the Committee was invited to approve the revised SIP.

Mr Turner presented the Mercer Investment Performance Report. He said that it in general had been a good quarter. He expected that the effect of Brexit would not be clear for a few years. Equities had recovered after an initial sharp fall. Sterling had fallen by 15% and he believed there was still a strong rationale for maintaining the currency hedging policy. Because of the new way of calculating the deficit, there was less reason to be concerned about gilt yields. He was comfortable with the performance of the majority of fund managers. The development of the proposals for a liability-driven investment framework was on track and that Mercer would soon be able to recommend a manager.

A Member said that she was concerned to see that the relative 3 year return (agenda page 350) was sinking ever lower and that so many managers had not achieved their targets on 3-year performance (agenda page 353). She asked whether there were any actions that the Fund could take to improve returns. Mr Turner said that he expected recent underperformance to correct itself. There was uncertainty in the market because of the US election. Much of the current underperformance of managers was due to currency. JP Morgan (Fund of Hedge Funds) had delivered a massive return because of currency. Extreme movements of currency can take place in a very short period of time. The rationale for currency hedging had been accepted at the last Panel meeting.

RESOLVED:

1. To note the information set out in the report.
2. To note LAPFF Quarterly Engagement Report at Appendix 4;
3. To approve the revised Statement of Investment Principles at Appendix 5.

39 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL AND TO NOTE PENSION BOARD REPORT TO COUNCIL

The Investments Manager presented the report. She invited the Committee to approve the Committee's Annual Report and to note the first Annual Report of the Local Pension Board. These would be submitted to Council in November.

A Member was struck by the large amount, £2.21 per member against the CIPFA average of £0.78, invested by the Fund in communications (agenda page 394). She wondered whether this level of spend was justified by the benefits, particularly since the uptake of electronic services by members had not increased as much as had

been hoped. The Head of Business, Finance and Pensions responded that it was true the Fund had invested heavily in IT and communications, and was trying to expand electronic communications as much as possible. This was a painful process, because there were so many employers and members in the Fund. Other funds were beginning to invest more in IT and he felt that the CIPFA figures did not accurately reflect the true position. Another Member said that she thought it was important to invest in communications with Fund members. She was not sure that at present members were reading and understanding information sent to them by the Fund and suggested that thought needed to be given to how to target information relevant to specific categories of member. The Acting Pensions Manager said that a key part of the IT Strategy was to increase the uptake of Member Self-Service.

RESOLVED:

1. to approve the 2016 Annual Report to Council 2016;
2. to note the Local Pension Board Annual Report.

40 BUDGET AND CASHFLOW MONITORING 2016/17

The Finance and Systems Manager (Pensions) presented the report.

RESOLVED to note:

1. the administration and management expenditure incurred for 4 months to 31 July 2016.
2. the budget for stage 3a of the pooling project;
3. the Cash Flow Forecast to 31 March 2017.

41 PENSION FUND ADMINISTRATION

The Acting Pensions Manager presented the report.

A Member said that she was impressed by the progress of the Data Improvement Plan; the Annual Report, covering the year up to 31 March, reported data as 96% complete, whereas the figure at 30 June was 99.36% complete.

A Member said that the Actuary would need to take into account the big fall in the number of employees that would follow redundancies at Bristol City Council. The Head of Business, Finance and Pensions said that this would be picked up in the impact on payroll contributions. What was important for the valuation was the amount coming in contributions, not the number of employees in any employer.

A Member praised the two APF staff who worked non-stop for 4 hours at an Options Day, and thanked them for the fantastic job they had done.

A Member said that the table of key performance indicators did not show by how much the targets had been missed and what the size of backlogs were. The Acting

Pensions Manager said that the new form of performance report to be introduced would show this and would comment on the reason for failing to achieve the target.

RESOLVED to note:

1. Summary Performance Report and Performance Indicators to 30 June 2016.
2. Progress on the Data Improvement Plan.
3. Risk Register.

42 LGPS REGULATORY UPDATE

The Acting Pensions Manager presented the report.

The Investments Manager gave an update on pooling. She advised that the Government has established a review panel to consider all pooling proposals. Representatives from the Brunel partnership had met the panel and though no formal feedback had been received, information had been received from the LGA that the panel had been assured by the thoroughness of the proposal and by the detailed legal work that had been done. The deadline for presenting the proposals to all the Councils in the partnership was February 2017, and the target date for the investment company to begin operations was 1st April 2018. The DCLG had indicated that the revised Investment Regulations will be presented to the Secretary of State for signing in September, and should be laid before the House of Commons by the end of October or early November.

The Head of Business, Finance and Pensions said that it had been hoped that a special meeting of the Council could be convened to approve the creation of the investment company, but this did not now appear possible. It appeared that the proposal would now have to go to Council in February 2017, as the first item on the agenda of the annual budget meeting. Bath and North East Somerset would be the last Council in the partnership to consider the proposal. The proposal would be put to the Committee in December. The Committee's comments and decision would be reported to Council in February.

A Member asked if, given the complexity of the issues, briefings could be arranged for all Councillors before the February meeting. The Head of Business, Finance and Pensions said that briefings would have to be arranged for Cabinet and the Group Leaders and consideration would be given to how these could be extended to other Councillors.

RESOLVED to note:

1. the current position regarding the potential changes that would affect the administration of the Fund;
2. the current position regarding HM Treasury consultations and pending commencement dates.
3. the verbal update on the pooling of assets.

43 WORKPLANS

The Investments Manager presented the report.

RESOLVED to note the workplans and training programme for the relevant periods.

The meeting ended at 3.53 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	24 November 2016	AGENDA ITEM NUMBER
TITLE:	RESPONSIBLE INVESTING POLICY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Draft Responsible Investing Policy</p> <p>Exempt Appendix 2 – Appendix 1 to Draft Responsible Investing Policy</p> <p>Exempt Appendix 3 – Estimated Costs</p> <p>Appendix 4 – Current Responsible Investing Policy</p>		

1 ISSUE

- 1.1 The Fund has a Responsible Investing (RI) Policy in place to address the impact of risks arising from RI issues on the investments portfolio.
- 1.2 The current policy was agreed in June 2012 and changes in risks and opportunities arising from RI considerations since then have made it appropriate to review the policy.
- 1.3 The process the Committee has been through in developing the revised draft policy is set out in section 4.
- 1.4 Committee are asked to agree the revised policy at Exempt Appendices 1 and 2, and to delegate action to Panel and Officers as appropriate.

2 RECOMMENDATION

That the Committee:

- 2.1 Approve the revised Responsible Investing Policy at Exempt Appendix 1.
- 2.2 Approve Appendix 1 to the Responsible Investing Policy at Exempt Appendix 2
- 2.3 Delegate action to Panel and Officers as appropriate

3 FINANCIAL IMPLICATIONS

- 3.1 The triennial valuation of the Fund's liabilities and assets determines the contribution levels. The extent to which ESG risks and opportunities can be addressed to improve financial risk and return will affect the next triennial valuation in 2019.
- 3.2 The costs of revising the responsible investing policy have been provided for in the budget. The estimated costs of implementing the proposed actions are included in Exempt Appendix 3.

4 REVIEW PROCESS

- 4.1 **Scope** - Committee agreed the scope for the review of the RI policy in September 2015.
- 4.2 **Meetings** – In preparation for agreeing a revised policy, the Committee held two workshops. These workshops considered information which included:
- (1) Current policy and activity
 - (2) Regulations, fiduciary duty and investment strategy
 - (3) ESG risks, types of risk, how risks are evaluated
 - (4) Investment approaches and tools, including:
 - a) Engagements vs exclusion – risk management approaches
 - b) Current collaboration and opportunities
 - c) Active ownership
 - d) Products available to manage risk or take opportunities e.g. passive equity, sustainable investments, impact investing
 - e) Tools for measuring exposure/risk and how the information could be used
 - (5) How investment managers measure and take account of ESG risks, evaluating manager ESG capabilities
 - (6) Best practice and implementation of RI approach by pension funds
 - (7) Divestment campaign summary
- 4.3 **Advice** – Mercer provided bespoke reports as well as background research, and their specialist ESG advisor advised throughout the review. The Committee also received presentations from an investment manager, and a pension fund investor that has developed a best practice policy in addressing ESG issues within their asset portfolio.
- 4.4 **Additional background information** - Over recent meetings the Committee has heard and considered representations from individuals supporting a fossil fuel divestment campaign. A summary of these representations was included in the Workshop material. In September the Committee also received the Fund's Annual RI report that summarises RI activity for the year. Finally, three members of the Committee have attended LAPFF meetings during the past year.

5 POLICY

- 5.1 The draft policy is at Exempt Appendices 1 and 2.
- 5.2 Where any policy changes impact the overall risk and return characteristics of the investments portfolio, the proposals must be considered as part of the

upcoming Investment Strategy Review in 2017. Other elements are able to be implemented ahead of that time.

- 5.3 Estimated costs and potential impact on resources of proposed changes are noted at Exempt Appendix 3.

6 DELEGATION OF ACTIONS

- 6.1 The Committee may decide to delegate the exploration and/or the implementation of some proposed actions arising from the revised policy. Such delegation can be made in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

- 1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
- 2. Review the Statement of Investment Principles and submit to Committee for approval.*
- 3. Report regularly to Committee on the performance of investments and matters of strategic importance*

and have delegated authority to:

- 4. Approve and monitor tactical positions within strategic allocation ranges.*
- 5. Approve investments in emerging opportunities within strategic allocations.*
- 6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
- 7. Approve amendments to investment mandates within existing return and risk parameters.*
- 8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
- 9. Delegate specific decisions to Officers as appropriate.*

7 RISK MANAGEMENT

- 7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8 EQUALITIES

- 8.1 An equalities impact assessment is not necessary as the report contains only recommendations to note.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are set out in the report.

11 ADVICE SOUGHT

11.1 The Council's Section 151 Officer (Divisional Director – Business Support) has had the opportunity to input to this report and has cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager 01225 395420
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1881/16

Meeting / Decision: AVON PENSION FUND COMMITTEE

Date: 24th November 2016

Author: Matt Betts

Report Title: RESPONSIBLE INVESTING POLICY

Exempt Appendix Title:

Exempt Appendix 1 – Draft Responsible Investing Policy

Exempt Appendix 2 – Appendix 1 to Draft Responsible Investing Policy

Exempt Appendix 3 – Estimated Costs

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on implications for changes to the current mandates and future investments the Fund may make. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Avon Pension Fund

Responsible Investment Policy

June 2012



Avon Pension Fund

Responsible Investment Policy

The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour

The policy demonstrates how the Fund will implement these beliefs within the strategic and operational decision- making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

- The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes This is evidenced by evaluating the following as part of the strategic investment review process:
 - The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing
 - Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value.
 - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that exclude or positively select investments could be appropriate for particular mandates.
- The Fund requires its investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles.
- When appointing external investment managers, the Fund:
 - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and make use of this as an integral part of the selection process when relevant.
 - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
 - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.

- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets.
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role.
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible.
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives.
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles.
- The Fund encourages its external investment managers to become UNPRI signatories.
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.
- This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.

Approved by the Avon Pension Fund Committee on 22 June 2012.

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