

# Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 JUNE 2012	AGENDA ITEM NUMBER
TITLE:	RESPONSIBLE INVESTMENT POLICY	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Exempt Appendix 1 – Summary Exempt Appendix 2 – Responsible Investing Stage 2 Report Exempt Appendix 3 – Report on Investment Duties Exempt Appendix 4 – Proposed Responsible Investment Policy		

## 1 THE ISSUE

- 1.1 Responsible investing issues can have a material impact on investment risk and return in the long term and therefore should be considered within the Fund's strategic investment policy. In addition, as an asset owner, the Fund has a duty to ensure it carries out its stewardship duties effectively.
- 1.2 This paper proposes a Responsible Investment (RI) Policy for the Fund which follows two workshops at which RI issues and the wider investment context were explored in detail.
- 1.3 The policy seeks to ensure the long term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor. The proposed policy is appropriate, proportionate and achievable to implement within the Fund's resources and governance framework.

## 2 RECOMMENDATION

**That the Committee agrees:**

- 2.1 **To adopt the proposed Responsible Investment Policy included at Exempt Appendix 4.**
- 2.2 **The implementation process included at Exempt Appendix 1.**

### 3 FINANCIAL IMPLICATIONS

- 3.1 Any changes to the investment strategy that may arise from the policy could lead to changes in the cost structure and could incur one-off fees associated with changes to the portfolio, such as transition fees and advisor fees. Cost implications would be considered fully within any decision to alter the investment strategy or structure of the Fund.

### 4 CURRENT RESPONSIBLE INVESTMENT POLICY

- 4.1 The current policy is an aggregation of policy factors that fall within the responsible investment arena. The proposed policy is the first time the Fund has considered its RI policy in a holistic way.

### 5 POLICY REVIEW PROCESS

- 5.1 The review process consisted of the following:

**Stage 1** – The Stage 1 Report set out the issues, drivers and trends of responsible investing, the impact on investment risk and performance, and the ways of incorporating RI into investment strategy. This was considered at Workshop 1 (December 2011) where the Committee agreed the RI Beliefs underpinning the policy framework and put forward a policy framework for further analysis in Stage 2.

**Stage 2** – The Stage 2 Report (included in exempt Appendix 2) comprised a gap analysis between the current policy and proposed policy framework, identifying actions required to achieve the stated beliefs. This was considered at Workshop 2 (April 2012) at which the Committee came to a consensus on the majority of the elements of the proposed policy and asked for clarification of other points.

- 5.2 The RI 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

- 5.3 The Fund has sought advice to clarify the responsibility of the Committee when considering investments. This advice is included in Exempt Appendix 3.

- 5.4 It should be noted that the proposed policy allows flexibility for all investment approaches to managing RI risks to be adopted as long as it is aligned with the strategic investment objective.

## **6 PROPOSED RESPONSIBLE INVESTMENT POLICY**

- 6.1 The proposed Responsible Investment Policy is set out in Exempt Appendix 4 with a summary of the issues considered in Exempt Appendix 1. The policy is based on the framework that was debated at the Committee workshops. In addition, care has been taken to ensure that the policy and actions required to implement it are appropriate, proportionate and achievable to implement within the Fund's resource and governance framework.
- 6.2 The policy sets out the underlying beliefs on which the policy is based. It demonstrates how the Fund will implement these beliefs within its strategic and operational decision-making processes. It recognises that the Fund's strategic investment policy will develop over time as the economic outlook and expected investment risks and returns vary, and therefore allows flexibility to manage RI issues within an evolving strategy, rather than be prescriptive. The objective should not be for the strategic policy to reflect every RI investment approach, but to ensure RI risks and opportunities are integrated into the Fund's strategic investment policy.

## **7 IMPLEMENTATION**

- 7.1 Once the responsible investment policy has been agreed, the Fund's Statement of Investment Principles will be amended to reflect the beliefs and policy framework. Full details of the implementation plan are included in Exempt Appendix 1.
- 7.2 Some elements of the policy that are not already in place can be implemented fairly quickly with little resource or cost implications, whereas others may require longer term structural changes to the investments structure. Because of this, the implementation timeframe for any agreed policy is over the medium term and as such the policy should be viewed as a roadmap for future activity rather than an immediate mandate for wholesale change.

## **8 RISK MANAGEMENT**

- 8.1 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.
- 8.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund. Responsible investing issues can have a material impact on investment risk and return in the long term and therefore should be considered within the strategic investment policy

## **9 EQUALITIES**

- 9.1 An equalities impact assessment is not necessary.

## **10 CONSULTATION**

- 10.1 N/a

## **11 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 11.1 The issues being considered are contained in the report.

## 12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	