

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	12 JANUARY 2011	AGENDA ITEM NUMBER
TITLE:	PROPOSAL FOR SRI POLICY REVIEW	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of Attachments: Nil		

1 THE ISSUE

- 1.1 The Committee has agreed to review the Fund's policy towards Socially Responsible Investing (SRI) during 2011. This report sets out the proposed brief for the review and the Panel is asked to review the brief, make amendments and agree the final brief to recommend to the Committee.
- 1.2 It is envisaged that the SRI policy will be reviewed by the full Committee after the new Committee is confirmed following the May 2011 local elections. The review will be in two stages, the first to understand the background to SRI and agree an overall policy direction and the second to start developing an implementation strategy whilst recognising the impact/constraints of our existing investment strategy.

2 RECOMMENDATION

- 2.1 **The Investment Panel agrees any amendments to the brief for recommendation to the Committee.**

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for investment advice to review the SRI policy.

4 BACKGROUND

4.1 The Investment Panel considered the Fund’s approach to SRI and corporate governance during 2010. However, given that SRI or ESG (Environmental, Social and Governance) and corporate governance covers a wide range of issues and there are a number of approaches to investing to be considered, it was agreed that it should be considered in full by the Committee in order to agree the Fund’s policy and direction of travel.

4.2 In the meantime a number of initiatives recommended by the Panel were approved by the Committee as follows:

- (1) To appoint a voting agent to monitor the Fund’s voting activity. This will improve transparency to the Committee and scheme members and strengthen the Fund’s compliance with the UK Stewardship Code and Myners Principles. Manifest were appointed in December as the Fund’s vote monitoring agent
- (2) To report the activity of the Local Authority Pension Fund Forum to the Committee on a quarterly basis.
- (3) To include an evaluation of the integration of environmental, social and governance risks within the manager’s investment process in all active equity mandate tenders. This was included in the global equity tender undertaken in 2010.

5 PROPOSED BRIEF OF THE REVIEW

5.1 The proposed review is set out below. The project has been divided into two Committee workshops which will enable work to be developed once objectives and direction of travel agreed following the first workshop. It is proposed that the first workshop will be held in July 2011. Papers will be prepared ahead of the workshop to provide information.

First workshop

Overview & Direction of Policy		
1	Overview of SRI/ESG investing	<ul style="list-style-type: none"> • How investment approaches to SRI/ESG/corporate governance have evolved • How UK regulations are influencing behaviour of UK plc <ul style="list-style-type: none"> - Examples of good/poor practice of UK plc • Investment/Regulatory framework <ul style="list-style-type: none"> - Ethical debate versus legal framework – including responsibilities of trustees - UK versus overseas equities - Stewardship codes & compliance regime - UN PRI – what it would mean for us to comply

2	Policy Development	<ul style="list-style-type: none"> • Preferred v Deliverable policy • Conflict of interest • Conflict of objectives • Timescales
3	Define Fund's objectives	<ul style="list-style-type: none"> • Define high level objective as to the Fund's role as a responsible investor and set realistic long term targets (direction of travel)

Second workshop

Implementation of direction of travel		
1	Recap of the Fund's current policy	<ul style="list-style-type: none"> • UK SRI equity portfolio • UK Stewardship Code compliance and voting policy • Manager selection process • Limitations of current investment structure – pooled funds, overseas assets
2	Does the Fund's current approach meet its objectives?	<ul style="list-style-type: none"> • Voting policy • Jupiter portfolio • Other portfolios
3	Implementation Assessment & options	<ul style="list-style-type: none"> • Policy impact assessment • Overlays • Specialist mandates (ranging from "screened" to "sustainability" portfolios) • Activism / voting policy
6	Action points	<ul style="list-style-type: none"> • Agree direction of travel and action points

5.2 The Panel are asked to discuss and agree the brief to be recommended to the Committee.

5.3 In addition, the Panel is asked to comment on whether holding the first workshop in July is appropriate given the first committee meeting post 2011 elections will only be on 24 June.

6 RISK MANAGEMENT

6.1 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.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No decisions are being made. The issues being considered to make a recommendation to the committee are contained in the report and comments are sought in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	