

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	23 SEPTEMBER 2016	AGENDA ITEM NUMBER
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investment Report: Policy and Activities 2015/16		

1 THE 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. The activity undertaken by the Investment Panel, officers and investment managers to implement the policy is published each year in a Responsible Investment Report.
- 1.2 Transparency and disclosure of the Fund's RI policy and activities is an important element of being a responsible investor.
- 1.3 The Responsible Investment report for 2015/16 is at Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year and incorporates the annual report on Voting Activity from Manifest in an appendix. The report at Appendix 1 will be published on the Fund's website once it has been approved by the Committee.
- 1.4 The Fund's Statement of Compliance with the Stewardship Code has been updated and is included in Section 3 of Appendix 1 for approval by Committee. Additional descriptions and evidence has been included to provide a better overview of the way in which the Fund meets the requirements of the Stewardship Code.
- 1.5 Manifest will attend the meeting to present their report.

2 RECOMMENDATION

The Committee:

- 2.1 Approves the annual Responsible Investment Report for 2015/16
- 2.2 Approves the Fund's Statement of Compliance with the Stewardship Code in Section 3 of Appendix 1.

3 FINANCIAL IMPLICATIONS

3.1 The budget includes the costs of the proxy voting monitoring provided by Manifest.

4 RESPONSIBLE INVESTMENT REPORT

4.1 This is the fourth annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The RI policy was agreed in June 2012 and is to be reviewed in Quarter 4 2016. The Fund last updated its compliance statement with the Stewardship Code in June 2013 and Appendix 1 provides an updated statement for approval in Section 3.

4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account and the key ways in which the Fund sought to manage these risks during the year were as follows:

- a) Embedded ESG criteria into the evaluation of the tender for the Hedge Fund mandate.
- b) Monitored whether our investment managers implemented RI policies or approach in line with their stated policy and the Fund sought to influence where appropriate:
 - Held managers to account and queried RI / ESG factors in investment process where appropriate
 - Reviewed whether engagement activity of managers was in line with their policies
 - Highlighted key voting resolutions to investment managers where the resolution related to long term strategic ESG risks (ie; Anglo American, Glencore, Exxon and Chevron shareholder resolutions on carbon management)
- c) Actively participated in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks. Officers and committee members attended three business meetings during the year.

4.3 The trends in voting by investors undertaken by Manifest suggests that there is a gradual improvement in governance standards and the level of risk in the portfolio might be at its lowest point since monitoring began. In 2015 governance concerns were lower than for previous years, although in the emerging and Far Eastern markets the standards are still below those of UK/European markets. The Fund's Managers showed support for shareholder resolutions on sustainability reporting issues and for the first time opposed management significantly more than shareholders in this area. Following the introduction of the vote on Remuneration Policy in the UK all but the most controversial policy proposals received respectable levels of support with a lot of investors adopting a "wait and see" approach with regards to policy proposals. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors. A much higher level of opposition has been seen from Avon managers on remuneration.

5 RISK MANAGEMENT

5.1 Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment 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 and shareholder.

6 EQUALITIES

6.1 For information only.

7 CONSULTATION

7.1 For information only.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 For Information only.

9 ADVICE SOUGHT

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

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