

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.

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Background papers	
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