

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 SEPTEMBER 2017	AGENDA ITEM NUMBER
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – Responsible Investment Report: Policy and Activities 2016/17		

### 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. The RI policy was agreed in November 2016 and is due to be reviewed in 2019/20.
- 1.3 The Responsible Investment report for 2016/17 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 and the environmental risk report from Trucost. The report at Appendix 1 will be published on the Fund's website once it has been approved by the Committee.
- 1.4 Trucost will attend the meeting to present their report.

### 2 RECOMMENDATION

#### The Committee:

- 2.1 Approves the annual Responsible Investment Report for 2016/17

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The budget includes the costs of the proxy voting monitoring provided by Manifest and the carbon and environmental analysis provided by Trucost.

### **4 RESPONSIBLE INVESTMENT REPORT**

- 4.1 This is the fifth 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 November 2016.
- 4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account. The key ways in which the Fund sought to manage these risks during the year were as follows:
- a) Embedded ESG criteria in the Strategic Investment Review. Specifically, following the RI review in 2016, an allocation to a Low Carbon Equity Index was agreed in the strategic review.
  - b) Utilised the services of Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio.
  - c) 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)
  - d) 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 four business meetings during the year.
- 4.3 The trends in voting by investors undertaken by Manifest suggests that there has been gradual improvement in governance standards and Avon's Fund manager's level of dissent remains higher than general shareholders. In 2016 (similar to 2015) Avon's fund managers showed opposed management significantly more than shareholders in general on sustainability related issues. 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.
- 4.4 The Aggregate Fund exposure within equities is more carbon efficient than its benchmark, outperforming by 20.5% owing both to positive sector allocation and stock selection effects. Fund managers are investing in less carbon intensive

sectors and picking less carbon intensive stocks than the benchmark. The Portfolio is 7.9% less environmentally intensive than its benchmark.

## **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 (Strategic Director of Resources) 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>	