

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 DECEMBER 2018	AGENDA ITEM NUMBER
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investment Annual Report 2017/18 Appendix 2 – Brunel Pension Partnership Responsible Stewardship Policy Statement		

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 2017/18 is at Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year and incorporates the annual 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.

2 RECOMMENDATION

The Committee:

- 2.1 Approves the annual Responsible Investment Report for 2017/18

3 FINANCIAL IMPLICATIONS

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

4 RESPONSIBLE INVESTMENT REPORT

- 4.1 This is the sixth 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.
- 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) Successfully appointed a manager to run a low carbon equity strategy representing 10% of Fund assets.
 - b) Utilised the services of Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio.
 - c) Monitored whether investment managers implemented RI policies and/or approaches in line with their stated policy. Where appropriate the Fund sought to influence investment managers, specifically by:
 - Holding managers to account and querying RI / ESG factors in their respective investment processes
 - Reviewing whether engagement activity of managers was in line with stated policies
 - Highlighting key voting resolutions to investment managers where the resolution related to long term strategic ESG risks
 - 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 Fund participated in over 2,000 separate company meetings over the year, casting votes in over 29,000 resolutions. In general terms, the Fund noted an increase in remuneration-related proposals in the UK market. Across Europe dissent on remuneration-related proposals slightly increased over the year. Dissent on UK board member re-elections was consistent with shareholders looking for more board gender diversity and sanctioning companies that did not show progress was a common theme.
- 4.4 The Aggregate Fund exposure within equities is more carbon efficient than its benchmark, outperforming the benchmark by 28.5% (i.e. having a lower exposure) versus last year's number of 20.5%. This change was driven mainly by introducing a passively managed Low Carbon Global equity portfolio into the Fund. Sector allocation and stock selection taken together, translate into a positive overall effect, which means that investment managers are investing in less carbon intensive sectors and picking less carbon intensive stocks than the broader market. Analysis of the Fund's environmental footprint (its exposure to greenhouse gas emissions, water, waste and other pollutants) revealed that it outperforms the benchmark by over 30%, a significant year-on-year improvement from 7.9% in 2016/17.

5 BRUNEL PENSION PARTNERSHIP RESPONSIBLE STEWARDSHIP POLICY

5.1 Appendix 2 contains details of Brunel's Voting Policy, which was approved by Brunel's Board on 25 October 2018. Implementation of the Voting Policy will be supported by Hermes EOS, Brunel's appointed engagement and voting services provider.

6 RISK MANAGEMENT

6.1 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.

7 EQUALITIES

7.1 For information only.

8 CONSULTATION

8.1 For information only.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 For Information only.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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Background papers	none
Please contact the report author if you need to access this report in an alternative format	