

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 SEPTEMBER 2019	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 Annual Report 2018/19 (draft)		

### 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 will be updated following the 2019/20 strategic investment review.
- 1.3 Brunel are our strategic partner for developing, implementing and monitoring our RI policies and priorities. Therefore their RI policy is included in our report. For the year ending December 2019 onwards, Brunel will provide an annual RI report which will be incorporated in the Fund's annual RI reports in the future.
- 1.4 The draft Responsible Investment report for 2018/19 is in Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year. The report 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 2018/19
- 2.2 Agrees the RI priorities for 2019/20.

### **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 seventh 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 Awareness of climate change and the implications for pension funds in terms of the risk to asset values as the world transitions to a low carbon economy increased markedly during the year. The Fund received a number of statements from members and campaigners requesting that the Fund divests from fossil fuel companies. The Committee has committed to review its current policy to remain invested when it reviews its strategic policy later this year. The Fund has acknowledged the risk climate change poses to its asset portfolio since 2016 and has been implementing strategies to reduce the impact; this will develop further as the Fund continues to explore the range of solutions and opportunities within its investable universe.

4.3 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making. The major strategic updates during the year were as follows:

- a) Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners.
- b) Appointment of Trucost via Brunel for third year to analyse the carbon and environmental footprint of the Funds equity portfolio.
- c) Monitoring, reporting and scrutinising investment managers RI activity
- d) Active participation 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.
- e) Development of Brunel's RI and Stewardship Policies – member of the Client Group's RI sub group that works with Brunel to develop their policies.

4.4 The Fund participated in over 1,800 separate company meetings over the year, casting votes in over 25,000 resolutions. In general terms, the Fund noted an increase in environmental-related proposals winning voter support. In the UK market executive remuneration and board structure continued to be a focus for shareholder resolutions.

4.5 The Fund's exposure within equities is more carbon efficient than its benchmark, outperforming the benchmark by 28% (i.e. having a lower exposure). The lower exposure is attributed to the Fund's low carbon passive strategy and active equity managers generally 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 20%.

4.6 The report contains information relating to how Brunel's third party providers help them to deliver against policy. Specifically, the report includes a review of the

major engagement activity undertaken by Brunels Voting and Engagement provider, Hermes EOS (however, our asset transitioned after the main AGM season so the activity was limited this year). From 2019 onwards, Brunel will provide an annual RI report detailing their activity in more depth. This will be incorporated into our annual RI report. In addition, Brunel provides quarterly information in terms of ESG metrics and carbon analysis for its listed equities portfolios.

- 4.7 Within the wider scope of Responsible Investing which covers all our Stewardship activities (voting and engagement with companies), Avon was acknowledged as a leader in the LGPS community for its RI policy development in Unison/ShareAction 2018 report entitled “Responsible Investment in the LGPS”.
- 4.8 The Fund’s RI priorities and additional engagement themes for 2019/20 are in the final section of the report. The Committee are asked to agree these priorities:
- a) Climate change including pollution, waste and plastics
  - b) Human capita and diversity
  - c) Cyber security especially in respect of access and governance
  - d) Cost and tax transparency

## **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 CLIMATE CHANGE**

- 6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **7 OTHER OPTIONS CONSIDERED**

- 7.1 None.

## **8 CONSULTATION**

- 8.1 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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<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	