

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	23 SEPTEMBER 2022
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Responsible Investment Annual Report 2021/22 Appendix 2 – Draft 2021/22 Taskforce on Climate-related Financial Disclosures (TCFD) Report	

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.
- 1.2. Given that transparency and disclosure of the RI policy and activities is an important element of being a responsible investor, the Fund publishes an annual report demonstrating how the policy has been implemented during the year. This year the report covers periods to March 2022. Significant RI work has been undertaken over the year including the implementation of the asset allocation changes agreed as part of the Fund's 2021 equity review and the adoption of two new interim decarbonisation targets as part of the Fund's climate policy.
- 1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI policies and priorities. For the year ending December 2021 Brunel have published their third Responsible Investing and Stewardship Outcomes Report – elements of this report have been incorporated into the Fund's Annual RI report which contains links to the full Brunel document.
- 1.4. Appendix 2 is the Fund's draft TCFD report for the year ending March 2022. The Report will form an appendix to the RI Annual Report and is designed for public consumption. Both documents will be published on the Fund's website once approved by the Committee.
- 1.5. As a signatory to the FRC Stewardship Code the Fund is required to submit an annual statement to the FRC. FRC guidelines require this report to contain detail relating to Fund governance aspects, policy and processes as well evidence of how effective stewardship is put into practice. The Fund successfully became a signatory to the FRC Stewardship Code last year. The report will be circulated to Committee members via email and signed off by the Chair prior to submission to the FRC in October.

2. RECOMMENDATION

- 2.1. **Approves the Draft Annual Responsible Investment Report for publication and agrees the 2022/23 RI priorities listed in Section 6 of the Draft Report.**

2.2. Approves the Draft Taskforce on Climate-related Financial Disclosures (TCFD) Report for publication.

3. FINANCIAL IMPLICATIONS

- 3.1. The budget includes the costs of the carbon and environmental analysis provided by Brunel as an elective service.

4. RESPONSIBLE INVESTMENT REPORT

4.1. This is the tenth 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 draft Report to be approved can be found at Appendix 1.

4.2. 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 period covered by the report are:

- a) Successfully decarbonising the listed equity portfolios across absolute and carbon intensity measures over the year (and versus the Fund's 2019 baseline year) despite an increase in the equity allocation from 37.5% to 41.0% in the same period.
- b) Increased pace of deployment of the Fund's strategic allocation to renewable infrastructure in light of a widening opportunity set beyond established forms of renewables such as wind and solar.
- c) Integration of climate risk in less well-developed areas and asset classes such as the use of Paris-aligned ETFs in the Fund's liquidity strategy.
- d) Specific examples of social impact within the Fund's UK property allocation.
- e) Enhanced disclosures including the Fund's second TCFD Report and FRC Stewardship Code signatory status achieved following the Fund's inaugural submission in October 2021.
- f) Continued collaborative work with strategic partners including LAPFF, ClimateAction100+ and IIGCC, which saw the Fund participate in high profile engagements, shareholder resolutions and policy advocacy work calling on domestic and international governments to increase their nationally defined contributions (NDCs) ahead of COP27.

4.3. The RI report explains how Brunel and its third-party providers have delivered against policy. Among other things, the report includes engagement highlights, examples of policy advocacy work that Brunel has either led or participated in and voting data generated by EOS at Federated Hermes.

4.4. The Fund's RI priorities for 2022/23, contained in the final section of the report, have been updated to ensure consistency with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. This year 'Biodiversity' has been added as a priority theme. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use, data management and artificial intelligence and fast fashion that are fed into EOS at Federated Hermes' annual engagement plan. The Committee are asked to agree these priorities:

- a) Climate change
- b) Biodiversity

- c) Diversity, equity and inclusion
- d) Cyber security
- e) Cost and tax transparency
- f) Circular economy and supply chain management
- g) Human rights and social issues

5. DRAFT TCFD REPORT (Taskforce on Climate-related Financial Disclosures)

- 5.1. In 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets and Avon Pension Fund has now adopted this guidance and set out its own disclosures.
- 5.2. The Report has been prepared to the fullest extent possible and in line with regulations that currently only apply to private sector schemes. Guidance mandating climate disclosures for LGPS will come into force in April 2023 and the Fund will be required to submit its first report in line with the updated guidance by December 2024. A DLUHC consultation on this is currently underway and the Fund will respond in due course.
- 5.3. The TCFD Report will form an appendix to the RI Annual Report and is designed for public consumption. The draft report, which has been reviewed by Mercer, can be found at Appendix 2.

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. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

- 8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9. OTHER OPTIONS CONSIDERED

- 9.1. None

10. CONSULTATION

- 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	