

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	15 DECEMBER 2023
TITLE:	2023 ANNUAL RESPONSIBLE INVESTMENT REPORT
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Responsible Investment Annual Report 2023 *TO FOLLOW*	

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 December 2023. Significant RI work has been undertaken over the year including stakeholder engagement and modelling work on climate to arrive at a revised set of net zero climate targets.
- 1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI policies and priorities. For the year ending December 2022 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. The RI Annual Report is designed for public consumption and will be published on the Fund's website once approved by the Committee.

2. RECOMMENDATION

- 2.1. **Approves the Draft 2023 Annual Responsible Investment Report for publication.**
- 2.2. **Agrees the 2024 RI priorities as set out in 4.4.**

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 eleventh 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) Formal of adoption of revised net zero climate targets as specified in Item 09 – ‘Climate Policy Review’.
- b) Successfully decarbonising the listed equity portfolios across absolute and carbon intensity measures versus the Fund’s 2019 baseline year.
- c) 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.
- d) Integration of climate risk in less well-developed areas and asset classes such as the use of ‘synthetic’ Paris-aligned equity strategies.
- e) Agreement to allocate £160m to local impact investment opportunities.
- f) Significant stakeholder engagement work targeting a broad audience of Councillors, Unions, Employers, Members and Staff.
- g) 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.

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 2024, 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. Last year ‘Biodiversity’ was added as a priority theme and over the next year the Fund will explore the feasibility of a dedicated allocation to climate and nature-based solutions as part of its existing strategic allocation to illiquid assets. 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. RISK MANAGEMENT

5.1. An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6. EQUALITIES STATEMENT

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

7. CLIMATE CHANGE

7.1. 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.

8. OTHER OPTIONS CONSIDERED

8.1. None

9. CONSULTATION

9.1. The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager, 01225 395357
Background papers	None
Please contact the report author if you need to access this report in an alternative format	