

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22 MARCH 2024</b>
TITLE:	<b>BRUNEL POLICY POSITION: ACTIVITY-BASED EXCLUSIONS</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: <b>Exempt Appendix 1 – Brunel Activity-based Exclusions Analysis</b>	

## **1 THE ISSUE**

- 1.1 As a continuation of their work on the climate agenda, and ESG more broadly, Brunel propose the adoption and limited use of activity-based exclusions, which can act as a mechanism that enables efficiencies to be gained, allowing time and resources to be deployed on more complex areas of the climate transition.
- 1.2 The proposal does not change Brunel’s approach to engagement over divestment, as engagement will be of limited effectiveness in the industries set out as part of the proposal.
- 1.3 The proposed exclusionary criteria are set in reference to industry-standard criteria, with implications for very specific parts of the energy, tobacco and defence sectors.
- 1.4 The purpose of this paper is to invite discussion from Committee members on whether they deem the limited use of activity-based exclusions to be consistent with the Fund’s overarching approach to responsible investment. Committee views will then be fed back to Brunel who will update their policy position based on the consensus views of all underlying client funds.
- 1.5 The Committee can take a position where they support all, some, or none of the proposed criteria.

## **2 RECOMMENDATIONS**

**The Avon Pension Fund Committee is asked to:**

- 2.1 **Support Brunel’s limited use of activity-based exclusions as set out in Exempt Appendix 1.**

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no immediate financial implications arising from this discussion.

## **4 ACTIVITY BASED EXCLUSIONS**

- 4.1 Exempt Appendix 1 shows the impact the application of exclusions will have on the actively managed Brunel listed equity and corporate bond portfolios as well as the impact on the investable universe.
- 4.2 The exclusions are intentionally targeted at companies with activities that have no, or very limited, capacity to transition or pivot to alternative industries. The threshold for exclusion across the specified sectors has been set sufficiently high to ensure diversified companies e.g. integrated energy companies and diversified aerospace and defence companies are not captured. Companies in these sectors remain in scope for investment and will continue to play a pivotal role in delivering the Fund's fiduciary duty.
- 4.3 Critically, the proposed changes have minimal impact on the Fund's current holdings, with only one small position representing less than 0.1% of total Fund assets affected. Furthermore, the proposed exclusions are largely consistent with those applied by the passive Paris-aligned equity strategy, which the Fund has a 20.5% strategic allocation to.
- 4.4 The potential benefits of employing a limited number of activity-based exclusions that can streamline the investment process allows Brunel to focus on positive capital allocation and engagement as its primary levers to encourage companies to decarbonise and enhance resilience, which will ultimately help the Fund deliver its own responsible investing priorities.

## **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 addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable 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 & APF has had the opportunity to input to this report and has cleared it for publication.

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**Background  
papers**

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