

Bath & North East
Somerset Council



Avon Pension Fund

Responsible Investment Policy

November 2016



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Introduction and Purpose

The Avon Pension Fund ('Fund') is a long-term investor. Our aim is to deliver financially sustainable returns to meet the future pension benefits of our members.

We have a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance ('ESG') issues that may be financially material to the Fund.

The Fund defines **Responsible Investment (RI)** as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance.

In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed. This policy sets out the Fund's approach to RI and details the actions the Fund, and its external providers, take on behalf of the Fund's members and other stakeholders, to protect the Fund from ESG and reputational risks.

The Fund's Approach to RI

As a long-term investor, the Fund recognises that it should manage ESG risks that can be both long-term and short-term in nature. In addition, the Fund seeks to identify investment opportunities aligned with its long-term objectives. The Fund supports the principles underlying the UN Principles for Responsible Investing (PRI). The Fund's RI Policy seeks to improve compliance with these principles.

The foundations of the Fund's approach to RI are its **RI Principles**, which are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver **long-term sustainable returns**.
- The identification and management of ESG risks that may be financially material is **consistent with our fiduciary duty** to members.
- The Fund **integrates ESG issues at all stages of the Fund's investment decision-making process**, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund seeks to identify **innovative and sustainable** investment opportunities, in-line with its investment objectives.
- The Fund applies **evidence-based decision-making** in the implementation of its approach to RI.
- The Fund has a **duty to exercise its stewardship and active ownership responsibilities** (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Fund **recognises the importance of collaboration** with other investors in order to achieve wider and more effective outcomes.
- The Fund aims to be **transparent and accountable** by disclosing its RI policy and activity.
- The Fund recognises that **climate change is one of the ESG factors that pose a potential long-term financial risk**.

Implementation

The Fund seeks to **integrate RI across its investment decision-making process for the entire portfolio**. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective. Additional details of the Fund's strategic investment approach can be found at <http://www.avonpensionfund.org.uk/finance-and-investments>

- The Fund considers ESG issues when setting its **investment principles and objectives**.
- ESG issues are considered when setting the Fund's **strategic asset allocation**. As part of its strategic investment review process, the Fund considers:
 - The impact of ESG issues on each asset class.
 - The materiality of ESG risks within each asset class or approach to investing, recognising the differing characteristics of asset classes.
 - Whether there are any strategic ESG-related opportunities that would generate value.
 - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage ESG risks is the most appropriate approach. The Fund recognises that approaches that exclude or positively select investments may be appropriate for particular mandates. The Fund actively seeks to identify positive ESG-related opportunities that do not detract from risk-adjusted returns.

Working with the Fund's Investment Advisors and Investment Managers

In setting and implementing its investment strategy, the Fund takes advice from professional investment advisors.

- The Fund actively considers RI capabilities and advice when selecting and monitoring its investment advisors.
- The Fund **expects its investment advisors to proactively consider and integrate ESG issues** when providing investment advice to the Fund.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund.

- The Fund **actively considers ESG integration and active ownership when selecting and monitoring investment managers**.
- When **appointing external investment managers**, the Fund:
 - Includes in tenders an assessment of managers' process for evaluating ESG risks within their investment process and makes use of this as an integral part of the selection process when relevant.
 - Considers whether appointing managers with specialist ESG research capability could better meet the investment objective of the mandate.
 - Includes the adoption of the PRI principles in the criteria for evaluating managers.
- When **monitoring external investment managers**, the Fund:
 - Requires its investment managers to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes.

- Actively monitors the decisions of its investment managers' regarding ESG issues that have a material impact on the value of the Fund's assets.
- Actively monitors the active ownership activities of its investment managers.
- The Fund encourages its external investment advisors and investment managers to be signatories, and demonstrate commitment, to the PRI.

Active Ownership (Voting and Engagement)

The Fund recognises that it has **responsibilities as a shareholder**, as well as rights, and is an **active owner**. The Fund seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

- Where practicable, the Fund **will exercise its voting rights in all markets** and its investment managers are required to vote at all company meetings.
- The Fund is a **signatory to the UK Stewardship Code** (Code) and has outlined its approach to stewardship, including voting and engagement, in its [Statement of Commitment to the Code](#). The UK Financial Reporting Council (FRC) has classified the Fund as a Tier 1 asset owner signatory, which recognises that the Fund provides a good quality and transparent description of its approach to stewardship.
- The Fund delegates voting and engagement to its investment managers and regularly **monitors how its investment managers undertake voting and engagement activities** in comparison to relevant codes of practice.

Collaboration

The Fund recognises that **collaboration with other investors is a powerful tool to influence** the behaviour of companies, policy makers and other industry stakeholders. The Fund seeks to work with and support the initiatives of other bodies with similar goals.

- The Fund takes an **active role in the Local Authority Pension Fund Forum (LAPFF)** to effectively exercise its influence through collaboration.
- The Fund aims to be flexible in its collaborative initiatives, responding to invitations to collaborate on a case-by-case basis.
- The Fund regularly reviews its participation in collaborative initiatives, including the benefits of participation.

Example: Collaboration in Practice – 'Aiming for A'

Through its participation in LAPFF, the Fund co-filed shareholder resolutions on climate change resilience at Rio Tinto in 2016 and supported similar resolutions at BP and Shell in 2015 as well as Glencore and Anglo American in 2016 as part of the 'Aiming for A' initiative.

The votes had virtually unanimous shareholder support as the companies committed to provide increased disclosure on how they are tackling climate change at a strategic level.

Reporting and Stakeholder Engagement

The Fund recognises that **transparency and disclosure** is an important aspect of being a responsible investor.

- The Fund requires transparency and disclosure from its investment managers, including reporting on engagement progress and success.
- The Fund publishes an annual RI report, outlining the activities it has taken over the prior 12 months, including reporting on its voting and engagement. The Fund's most recent report can be found at <http://www.avonpensionfund.org.uk/finance-and-investments>

Our Strategic RI Priorities

The Fund has considered its strategic RI priorities on the basis that the integration of ESG issues into the Fund's investment processes and ownership practices can positively impact financial performance. The Fund has identified the following as strategic (3-5 year) priorities from an RI perspective:

- **Proactively engage on strategic ESG risks:** the Fund seeks to identify strategic ESG risks for engagement on the basis of advice from the Funds investment advisors. It is the intention to select a number of topics on a regular basis (12 to 24 months) and to work with our investment managers and LAPFF to better direct engagement activity on these topics.
- **Evaluate and manage carbon exposure:** the Fund has identified climate change as a potential financial risk and the Fund intends to measure and understand its carbon exposure and actively examine measures for reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.
- **Identify sustainable investment opportunities:** consider the case for sustainable opportunities, in-line with the Fund's investment objectives.
- **Improve public disclosure and reporting to members:** the Fund recognises that there are increasing expectations around disclosure and transparency with respect to ESG issues. The Fund intends to enhance analysis, disclosure and reporting on its RI activities and progress.

Details on the Fund's RI priorities for the current year are detailed as an Appendix to the policy.

Our Commitment

We acknowledge that the Fund's approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues as well as broader industry developments. We are committed to making ongoing improvements to the Fund's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

This Policy will be reviewed as part of any strategic review of the Fund's investment objectives and management of risk, or as required in response to changing regulations or broader governance issues.

Approved by the Avon Pension Fund Committee on 24 November 2016 and due to be reviewed in 2019/20.

Appendix to RI Policy

Appendix: RI Priorities for 2017/18

Engagement

- The Fund in conjunction with LAPFF has identified the following topics as its strategic ESG engagement priorities for 2017/18:
 - Climate change resilience and strategic management of climate change risks at investee companies (e.g. disclosure, sustainability)
 - Corporate tax responsibility (e.g. tax planning responsibility, tax avoidance)
 - Board diversity at investee companies (e.g. gender, ethnicity)
 - Social inequality and working conditions (e.g. living wage, zero-hours contracts etc).
- The Fund is working with LAPFF and its investment managers to identify suitable engagement opportunities within the Fund's investment portfolio.
- The Fund will review engagement priorities on an annual basis as part of the annual RI report.

Evaluate and manage carbon exposure

- The Fund has identified climate change to be a potential long-term financial risk. The Fund is reviewing the tools and solutions available to assess and manage carbon exposure and recognise the potential transition to a low carbon economy. These include:
 - Review of annual carbon footprinting at the Fund and investment manager level.
 - Incorporate climate risk assessment as part of the Fund's 2017 investment strategy review (considering the Fund's investment strategy under a range of climate change scenarios, including a 2°C scenario).
 - Review of the Fund's benchmark for its passive equity exposure and the consideration of low carbon indices to reduce carbon exposure as part of the strategic investment review.

Sustainable Opportunities

- The Fund will review the case for introducing an allocation to sustainability-themed assets as part of its 2017 investment strategy review.

Improving Disclosure and Reporting

- The Fund will revise its RI reporting in 2017 to include additional analysis undertaken on its RI risks.

LGPS Pooling

- The Fund is exploring how asset pooling can enhance the Fund's approach to RI. The Fund is proactively engaging throughout the pooling process to ensure that its objectives and approach to RI will be appropriately met by the Brunel pool.