Exclusion of Investments on Environmental Social and Governance (ESG) grounds

The Avon Pension Fund is a long-term investor. As a pension fund, its overarching responsibility is to deliver financially sustainable returns for an acceptable level of risk to meet the future pension benefits of our members as they fall due over time and in a way that that employer contributions paid into the Fund are as stable and affordable as possible.

The Fund has a fiduciary duty to act in the best financial interest of its members. This includes considering Environmental, Social and Corporate Governance ('ESG') risks and opportunities that may be financially material to the Fund. All investment decisions that can impact the strategic objectives of the Fund must be justified by the investment case as any shortfall in investment returns ultimately has to be met by the employers in higher contributions. Therefore the Fund does not adopt a "divest" policy. The LGA and the LGPS Shadow Advisory Board has obtained counsel's opinion on the investment fiduciary duty of LGPS funds which supports the Fund's current stance not to divest from investments purely on ESG grounds.

The Fund has a Responsible Investing (RI) policy which sets out the framework for considering such risks throughout the investment decision making process. This policy was reviewed in 2016 and actions arising from it were implemented during 2017/18. The updated policy can be found at http://www.avonpensionfund.org.uk/sites/default/files/RIP2016.pdf

The key beliefs underpinning the RI policy are:

- As a long term investor the Fund seeks to deliver long term sustainable returns by integrating ESG issues at all stages of the investment process
- Identification and management of ESG risks that maybe financially material is consistent with its fiduciary duty to members
- The Fund seeks to identify and invest in innovative and sustainable investment opportunities that are in line with its investment objective, based on evidence based decision-making.
- Active engagement with investee companies is the preferred option to bring about change whilst managing overall investment risk issues; divestment achieves more limited outcomes.
- Recognition that climate change is one of the ESG factors that pose a long term financial risk.

As a result of the review the Fund has taken the following actions in 2017-18:

- Analysed its carbon footprint of the Fund's equity portfolio at 31 March 2017, which showed the fund to be 20.5% more carbon efficient than its benchmark (potential universe of stocks it could invest in). The report provided by Trucost is included within the Responsible Investing Annual Report 2016-17 published on the Funds website.

- Having ascertained it carbon exposure, the Fund has reduced its carbon risk further particularly within its passively managed global equities (where the portfolio replicates the holding in a market index) by switching @ £450m of assets into a passively managed Low Carbon Fund. This is expected to reduce the carbon footprint of these assets by @ 2/3rds, thus an important step to reducing the Fund's overall carbon exposure.
- Agreed to invest 5% of assets in Sustainable Global Equities and 2.5% in Renewable Infrastructure assets. This will enable the Fund to actively commit capital to longer term investment opportunities that provide solutions for many of the global ESG themes.

Alongside engagement with a company, voting is a tool through which investors can influence company boards across a range of issues. The Fund's policy is to delegate the voting decision to our managers so that the voting is aligned with their engagement with the company.

The Fund acknowledges that its 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 the ongoing review of the Fund's approach and the processes that underpin the delivery of these policies to ensure they remain relevant. The Fund will carry out further analysis of the carbon and environmental footprint next year.

As a member of the Brunel Pension Partnership (Brunel), the Fund has proactively engaged with the pool to ensure that its RI objectives and policy will be appropriately met in the future. The Brunel's Investment Principles clearly articulate the commitment of the pool to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the process in the selection, non-selection, retention and realisation of assets.   One of the principal benefits, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, managed by Brunel on behalf of the Fund, explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach to each portfolio will vary in order to be the most effective in mitigating risks and enhancing shareholder value..

In addition, Brunel has become a signatory to the UN backed Principles of Responsible Investment and has published a comprehensive Responsible investment Policy which was developed in conjunction with its LGPS clients.

The Fund's latest Investment Strategy Statement which explains its investment strategy in detail can be found at https://www.avonpensionfund.org.uk/sites/default/files/ISS-20171208.pdf - Strategy Statement December 2017

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