BRUNEL
Pension Partnership

2023
Responsible Investment and Stewardship Outcomes

For the year ending 31 December 2022

Delivering stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

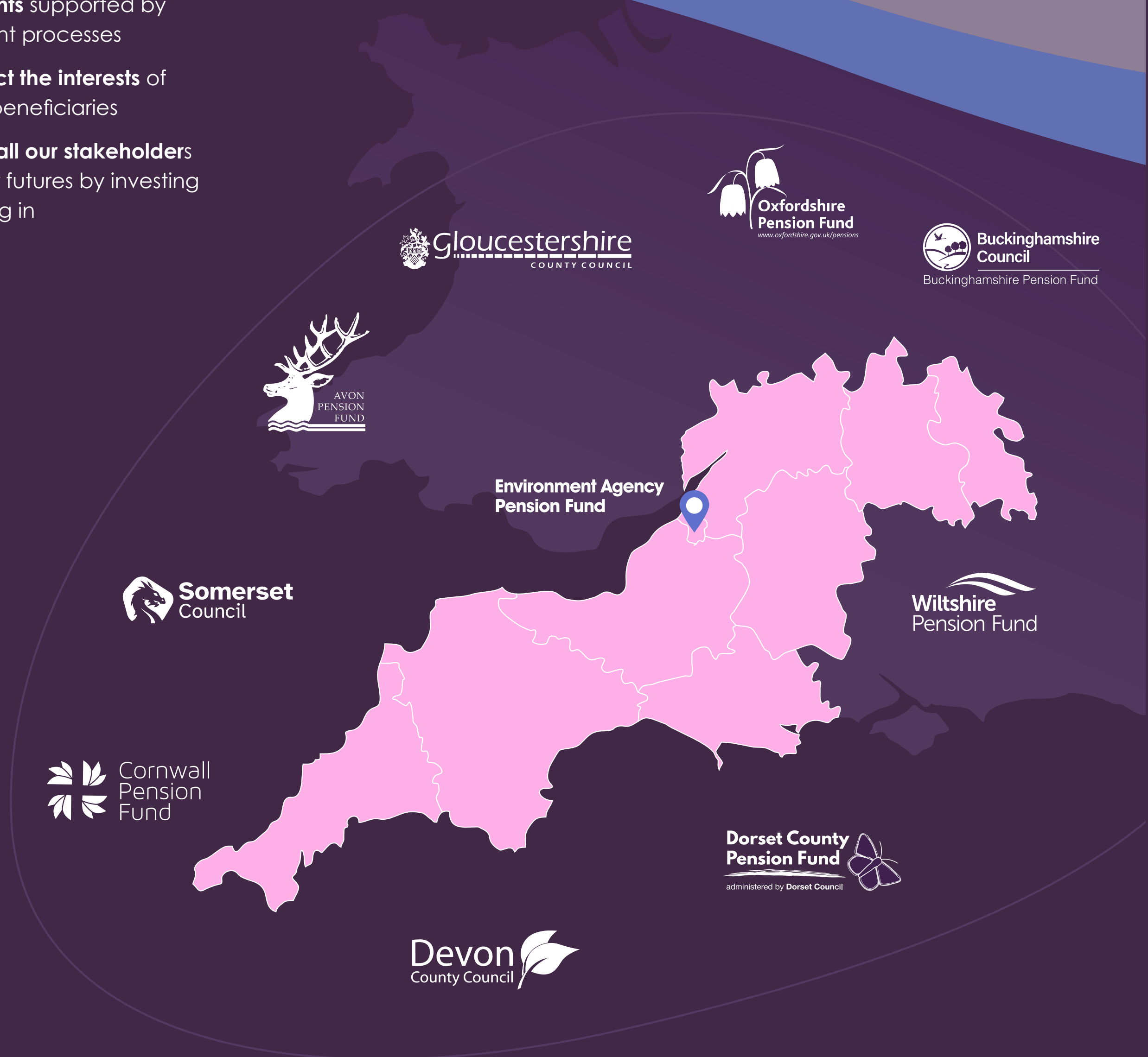
Brunel Pension Partnership Limited (Brunel) is one of eight national Local Government Pension Scheme (LGPS) Pools, bringing together circa £35 billion investments of 10 likeminded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

We would like to acknowledge the significant support and contribution of our clients to our work on Climate Change, Responsible Investment and Stewardship underpinning our mutual commitment to investing for a world worth living in.

We believe in making long-term **sustainable investments** supported by robust and transparent processes

We are here to **protect the interests** of our clients and their beneficiaries

In **collaboration with all our stakeholder**s we are forging better futures by investing for a world worth living in



Executive Summary

Leaders
Awards won in impact, stewardship and diversity

35%
Reduction in carbon intensity from 2019 baseline

54%
of engagement milestones progressed in the year

100%
Brunel International property portfolio managers signed up to GRESB

899
Companies engaged with by EOS on Brunel's behalf

19,000
Workers benefit from pay uplift following real living wage engagement

82%
CA100+ focus companies in Brunel portfolios have committed to Net Zero

£675bn
pension fund asset co-signed the Brunel letter on stakeholder capitalism

£1.7bn
Asset Owner Diversity Charter signatory base

Message from our Chair

Denise Le Gal
Chair

I take great pleasure in writing an introduction to our Responsible Investment and Stewardship report each year. For me it is a key part of the Brunel calendar, giving us an opportunity to consider the effectiveness of our actions and think about how we are performing against our principles.

As an LGPS pool our priority is always to manage our fiduciary duties to our clients, the nine Local Authorities and the Environment Agency. By their very nature our clients are directly impacted by the manifestations of climate change and other social challenges, whether having to provide flood defences, temporary housing for those displaced or the provision of public services to meet the needs of their populations.

For our clients, Responsible Investment (RI) and its role in expediting societal change is an essential feature. By embodying responsible approaches to environmental and social investing, we support our clients with their duty to provide not only for their members' retirement, but for the world they will retire into.

Responsible Investment is part of the DNA of Brunel, right from our inception we, along with our clients, felt that providing industry leadership on Responsible Investing was key. Without regular review, we cannot assume that we continue to meet this founding goal.

This year has provided a further opportunity to evaluate our progress and consider how our investment principles affect change, with the completion and publication of our Climate Stocktake. This root and branch review assessed and shared our progress, accountability, and position, as well as providing refinement and focus for our future policies.

Our fourth Outcomes Report comes in advance of mandatory TCFD reporting and demonstrates the Brunel courage that helps us lead the way on this essential cause. I hope you agree that the contents of this report show that our investment approach, the resulting actions and outcomes are aligned with our organisational objective, our ambition: to forge a better future by investing in a world worth living in.

Denise Le Gal

Denise Le Gal
Chair, Brunel Pension Partnership

Dorset County Pension Fund
Environment Agency Pension Fund
Somerset Council
Avon Pension Fund
Cornwall Pension Fund
Devon County Council
Wiltshire Pension Fund
Oxfordshire Pension Fund
Buckinghamshire Council
Gloucestershire County Council
BRUNEL Pension Partnership

IPE EUROPEAN PENSION FUND AWARDS 2022 WINNER IMPACT INVESTING

Winner:
European IPE Awards 2022

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Introduction from our CEO

Laura Chappell
Chief Executive Officer

"By continuing to deliver the goals set by our partnership, we will not just benefit our clients and their members. In the long-term, we will demonstrate to the wider industry our belief that RI is indispensable to achieving healthy long-term results."

Our fourth Responsible Investment and Stewardship report demonstrates progress across our seven RI priorities, evaluated and refined in collaboration with our clients. As our business matures, our embedded approach to working with those who share our beliefs continues to bear fruit. Our partnership approach with our clients and stakeholders enables each step to be an evolution, growing from joint activities and an aligned focus.

Understanding and aligning behind 'the why' is something we feel is essential at Brunel – it is well known that purpose driven organisations perform better and have more engaged staff. So, our deep, pioneering approach to Responsible Investment, values, and beliefs are at the centre of everything we do.

Our core purpose, 'Forging better futures by investing for a world worth living in', stems from the belief that taking environmental, social and governance factors into account will not only enhance long-term returns but is essential for society. And we know that our staff are behind this - in our last employee survey, staff gave culture, values and RI as leading reasons for choosing to work for the company. In just five years, Brunel has seen the company grow from five people to a highly professional asset owner with more than sixty staff and £35 billion in AUM.

In the 5th year of Brunel, and our fourth delivering a Responsible Investment and Stewardship report, we've introduced a new People Strategy. Integrating our values into our day to day, focussing on five key aspects of life that impact our staff, such as training and development.

Our three pillars of RI run through everything we do and help maintain our enviable culture. The **integration of sustainability criteria** is as present in our staff kitchen, as in our conversations with investment managers (look at the interview later in the report for an example of how this is present in our scorecard for new investments). Our wider application and consideration of sustainability has been highlighted by one of our major achievements of 2022, the launch of our Cornwall Local Impact Fund. Our smallest ever portfolio, and winner the IPE Impact Investing Award 2022, targets affordable housing and renewables allowing the Cornish Pension Fund members to invest directly in the county's future.

Our values

Responsibility
We proritise our duty of care to our stakeholders.

Courage
We make bold decisions and blaze new trails to achieve progress

Partnership
We empower people through culture, community and coordination

Passion
Our shared belief in what we do will always be key to our success.

To be transparent similarly runs through our veins, descriptions around our core values were developed from internal workshops and "We will risk over-sharing externally (climate impact, gender pay) and internally (being yourself/ honest) to maintain open culture" was born. Our Climate Stocktake (see page pg. 55 for more information) allowed us to take a breath and review our Climate objectives, engage, and discuss with our stakeholders on how they, and experts, felt we were progressing, and ask whether we were on track to achieve our objectives. This activity gave us a fantastic opportunity to demonstrate and engage others in our continuous improvement – we believe that to be truly effective, we need to review and refine our activities regularly.

Our approach to the Climate Stocktake exemplified our third pilar, **to collaborate**. We worked with many of our stakeholders, asset managers, journalists, special interest groups and many facets of our clients - from the Pension officers committees, and embracing and leveraging their member research as well. This allowed each of these groups to scrutinise our actions, progress and input to evaluation and goal setting.

That said, to collaborate, remains 'the what' – as an LGPS pool we are run by and for our clients, working on their behalf with Asset Managers, and others across the industry - so working in close collaboration is what we do. Fundamentally, we believe that to affect broader industry change, engagement with those around us is the only way and that the best change is never only a negative move.

We take a nuanced approach to RI and stewardship – not simply criticising bad behaviour by companies and investors but seeking to help transform it. We take steps to avoid investing in companies that do not take social and environmental risks seriously. We firmly believe that it is better to address the underlying problems, than avoid them. It is not enough for asset owners and managers to simply try to change other companies.

Our Private Markets portfolios provide ready-made examples of our seven RI priorities in action and are already making an impact on communities. Including biodiverse industrial plants; emissions-cutting office blocks; biomass end-product recycling; healthcare support for vulnerable communities; smart energy; peatland protection; an online children's library; ESG integration into private debt lending rates; rural broadband provision; US low-income healthcare provision; and the founding of bee populations at solar sites.

Responsibility for supporting and delivering Brunel's responsible investing and stewardship activity exists across the whole organisation. Although led by our investment teams, aspects are present in personal objectives for all teams. Whether that is embedding RI and climate into our contractual arrangements and risk management processes (Compliance and Risk team); leading on cost and tax transparency (Investment Operations team), leading client engagement (Client Relationship team) or ensuring that, in our own operations, we practice and share what we preach (Communications, HR and Finance teams).

This enthusiasm comes right from the top, as the Brunel board leads, approving and holding collective accountability for Brunel RI, Climate and Stewardship Policies. They also evaluate and hold the business accountable to the deeply embedded commitment to responsible investment and to making long-term, sustainable investments, supported by robust and transparent processes.

Laura Chappell
Chief Executive Officer
Brunel Pension Partnership

Investing for a world worth living in

Our partnership commitments on climate change and Responsible Investment (RI), with our shared values, **aim to help our clients provide not only for their members' retirement, but for the world they will retire into.**

When Brunel defined its vision as **investing for a world worth living in**, opinions as to how this fitted with the role of a pension partnership varied from the supportive to the cynical – but in the five years since Brunel formed much has changed in the industry and indeed the world. In 2017, the guidance from the Taskforce for Climate-related Finance Disclosures (TCFD) had only just been published. The growth of society's awareness and understanding of risks to nature and the climate have been exponential – and by extension its expectations on the financial sector. A global pandemic, the war in Ukraine and the consequential impacts on the supplies of energy, food, and other raw materials, as well as to the cost-of-living more broadly, has illustrated the interdependencies of the world we live and invest in. These systemic risks have associated financially material impacts. Reflecting on those five years helps us see that the vision of **investing for a world worth living in** clearly is in the best financial interests of our clients and their beneficiaries.

Brunel believes being aware of these impacts, risks and interdependencies, and where possible responding to them, is a core component of fulfilling our fiduciary duty to our clients and their beneficiaries.

We capture this in our stated aim (below) for our work in responsible investment and stewardship.

> We aim to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society

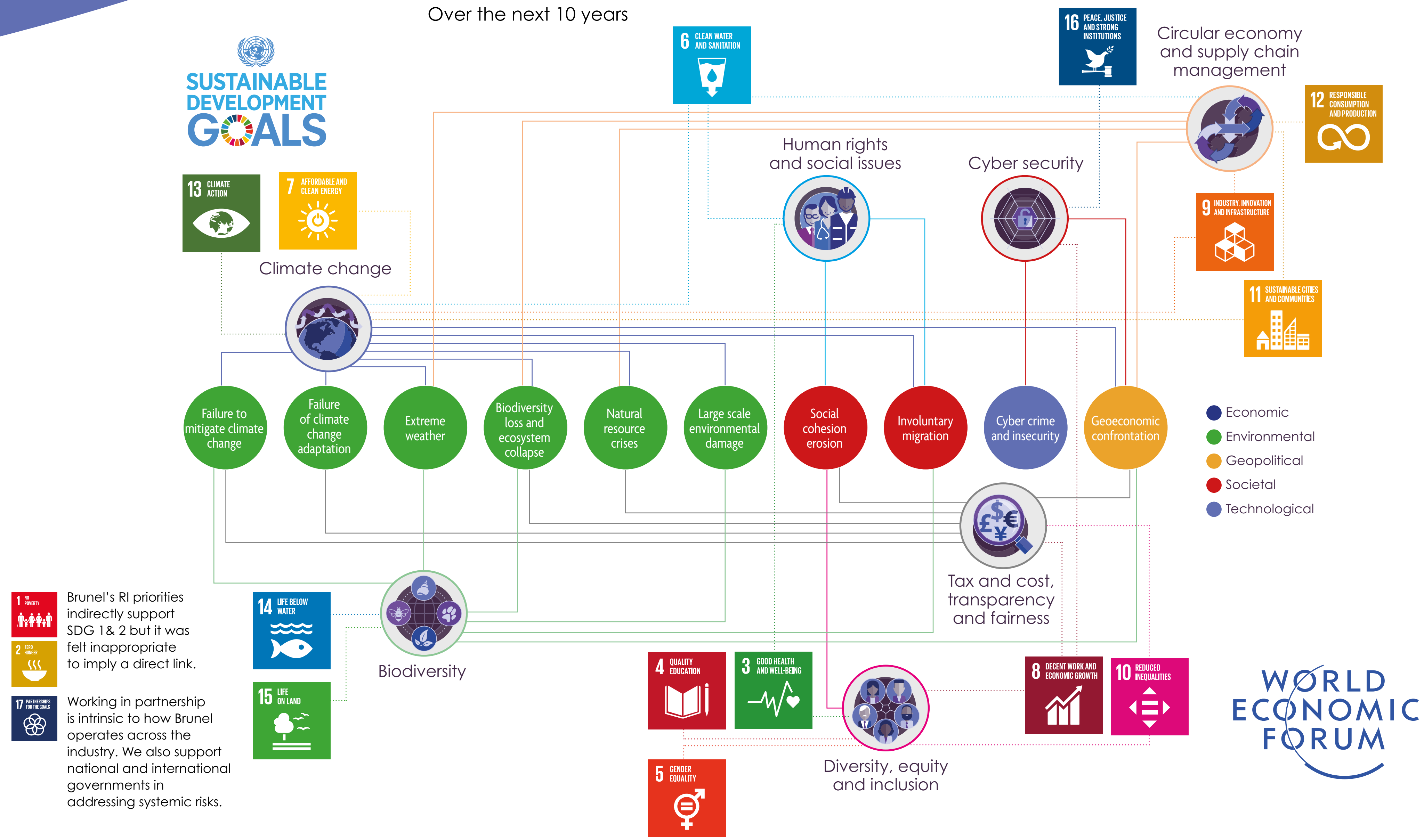
[1] www.Sdg.un.org/2030agenda

[2] Global Risk Report 2023, January 2023 - www.weforum.org/reports/global-risks-report-2023

[3] 12,000 businesses across 121 countries

Linking Long-Term Global Risks and Sustainability Goals to Brunel's RI Priorities

Over the next 10 years



A thriving society, which supports sustainable growth and allows the people and the planet to prosper is central to the seventeen Sustainable Development Goals (and 169 underlying targets) for 2030 set out in 2015 by the United Nations.[1] We find these goals, supported by more than 150 countries and territories, a useful framework for looking at long-term sustainability risks and opportunities in investment decision making.

On an annual basis we draw on the World Economic Forum (WEF) The Global Risks Report 2023[2], which itself draws on an Executive Opinion Survey, identifying the most severe threats to each country in the next 2 years, as acknowledged by business leaders.[3]

On a day-to-day basis we look to news flow, academic and industry research as well as conferences and peer networking events. We use these resources to inform risk discussions in various forums within Brunel's governance structure including but not limited to Brunel's Board, Investment Committee(s), Risk and Compliance Committees, and at a portfolio specific level in Brunel's Investment Risk Committee - which convenes every quarter. To illustrate that Brunel's RI and stewardship priorities reflect major systemic risks (source WEF) and sustainability challenges (source SDGs) as illustrated in the figure above.

Setting priorities

In setting our RI priorities and stewardship priorities we start with our investment principles.

We also engage extensively with our clients (who are also our shareholders) as well as their stakeholders. Brunel is owned and operated solely for the benefit of the nine Local Authorities and the Environmental Agency who formed it.

As public bodies, the governance structures and transparency of our clients supports the flow of information that enables Brunel to reflect the views of its stakeholders in its priorities. We regularly participate in employer forums, client AGMs as well a range of other events that proactively seek the views of all stakeholders.

In 2022, we furthered this through a stakeholder survey as part of Brunel's Climate Stocktake.[4] Interviews with 20 stakeholders were undertaken by Chronos Sustainability. More details are in section – Clients at the Centre (page 38). One of the areas of feedback was asking Brunel to do more physical climate risk from an adaptation and resilience perspective. This is also a topic that ranked highly in the WEF risks and is a core component of the SDG Goal of Climate Action. Our own research also led to us recognising that we needed to amplify our work on climate adaption. In response, our updated Climate Change Policy has an increased focus on this risk, including commitments on setting metrics, disclosure, and a specific stewardship exercise.

Brunel Pension Partnership Investment Principles

- Long-term investors
- Responsible investors
- Best practice governance
- Decisions informed through experts and knowledgeable officers and committees
- Evidence and research at the heart of investments
- Leadership and innovation
- Right risk for right return
- Full risk evaluation
- Responsible stewardship
- Cost effective solutions
- Transparent and accountable
- Collaboration

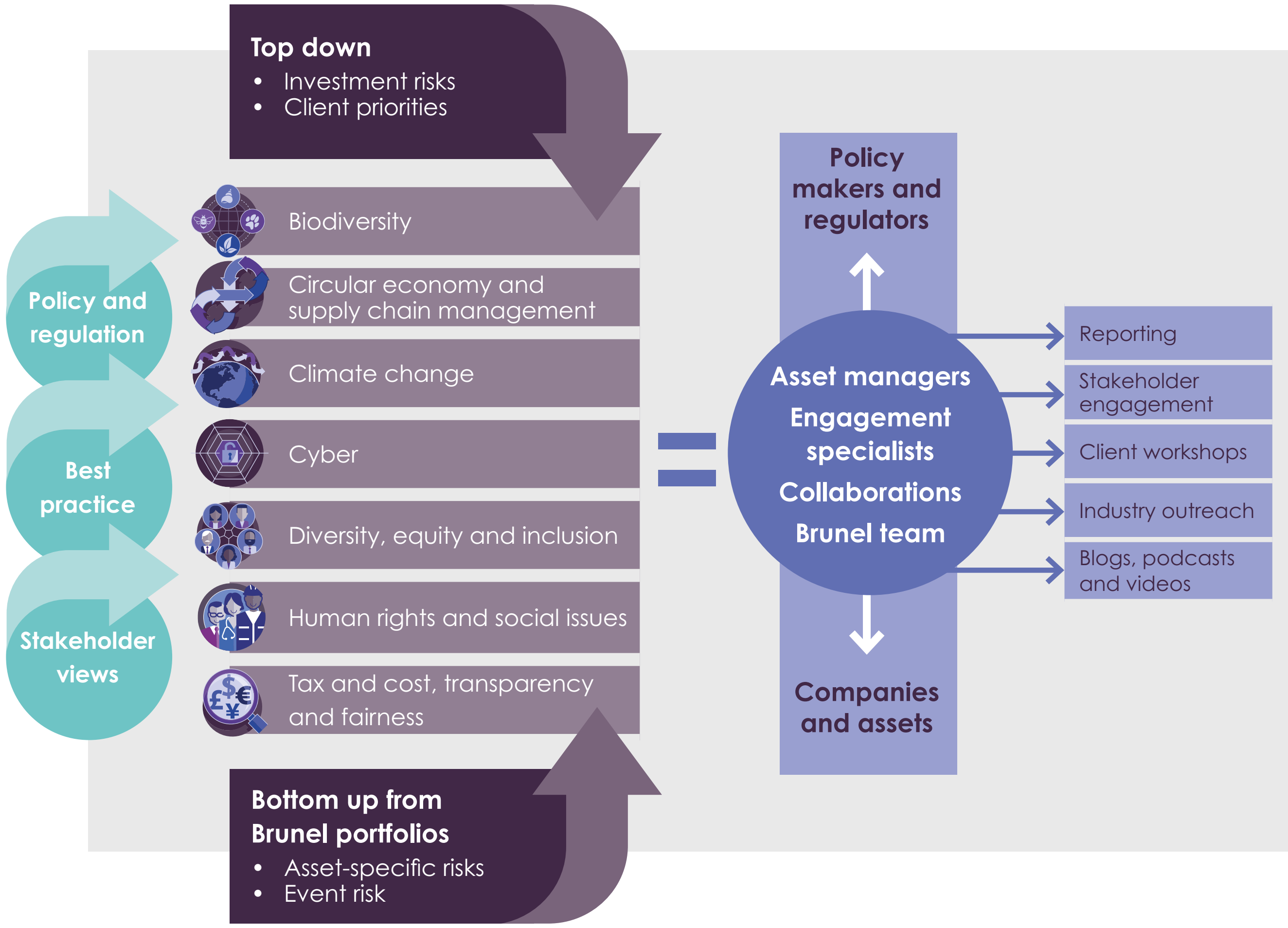
The complete wording for these principles is available on our website.

As illustrated in the diagram opposite, other inputs into setting Brunel's RI priorities include an evaluation of regulations, best practice and asset specific risk (or idiosyncratic risk). Assets or sector specific risk is considered through the lens of 'double materiality', a concept that acknowledges financial as well as environmental, social, and governance (ESG) risks (and opportunity) of business. This concept encompasses that not only can these risks and opportunities impact the value of an asset but that the company and its operations may also present a risk to the broader economy and society.

This is important to Brunel as we are exposed to risks arising from the whole economy and from right across financial markets. Universal ownership[5] recognises the impact one asset or component of our portfolios has on another asset (for example, flood risk in real estate exacerbated by climate change arising from coal fired electricity generation). It also recognises the impact to the economy and society more broadly.

Another consideration is timing, are there other pressures on the company that mean they are likely to be more receptive to investor engagement on a topic? For example, is there policy or regulator interest and/or wider investor interest that would enable collaboration? All these factors increase the probability of a successful outcome and therefore the allocation of time and resource.

Brunel RI and Stewardship Priorities



Managing Systemic Risks

Brunel's approach to managing systemic risk is to leverage its role in the finance system. Brunel, in partnership with its clients, sits at the top of the investment chain. **Brunel outsources 100% of its assets under management and specialises in portfolio construction and risk management through the selection, appointment, and monitoring of asset managers.** We work collaboratively with other investors, policy makers and regulators to build capacity to manage these risks and opportunities.

4 www.brunelpensionpartnership.org/wp-content/uploads/2023/03/Brunel-Climate-Stocktake-Report-1.pdf

5 Brunel has used the work of Ellen Quigley (as outlined in our 2021 report) and recommend .Quigley, 2020, Universal Ownership and Systemic Risks - https://www.cambridge.org/engage/coe/article-details/5fadc442ad40b800113d6637

Brunel wins:

- ICGN Stewardship Award
- SFRD4AO Diversity Award
- IPE Impact Investing award

IPE EUROPEAN PENSION FUND AWARDS 2022
WINNER IMPACT INVESTING

Resourcing corporate engagement

Our approach is to leverage an outsourced model to maximise impact. **Our first line of asset-level engagement and stewardship** is via our appointed asset managers. Our inclusion of asset manager case studies as well as those documenting our selection processes aim to provide evidence of this in practice. **Our second line is a specialist engagement provider**, who provides additional engagement resource and executes our voting intentions across our non-pooled listed active fund assets. **Finally, our third line is the internal team**, working directly, but often collaboratively, Brunel will undertake direct engagement with businesses.

Our investment team have strong knowledge of environmental, social and governance risks. Maintaining and building this knowledge is a core component of the team's personal development, which may include Chartered Financial Institutes' (CFA) UK ESG and Climate modules. For those who are part of Senior Management Certification Regime (SMCR) we have integrated climate and RI as competency requirements, where appropriate.

All staff have RI or sustainability related personal objectives, which is the central component of our performance management process.

Brunel does not routinely use bonuses or variable pay as part of its approach to remuneration. We do, however, have capacity to use small, one-off recognition awards to acknowledge exceptional efforts by an individual or team which could include stewardship and investment activities.

Walking the Talk

Our responsible investment policy commits Brunel to integrate RI into everything we do, including our own operations.

Key areas of progress in 2022

- A new People strategy further enhancing our approach to diversity and inclusion, for example providing the option annually to opt out of mandatory bank holidays for the coming leave year and adding up to 8 days annual leave
- LGBT Great accredited* with our CEO, Laura Chappell, as Champion
- Increased take up of our Electric Vehicle and Cycle to Work scheme
- School outreach promoting the finance industry as opportunity for all, promoting diversity in our industry
- Becoming Cyber Essentials Plus certified. This is the highest level of certification offered under the government-backed, industry-supported scheme. We recognise the scheme's rubric as a minimum standard which we aim to exceed across our operations in line with best practices
- Work on establishing our operational carbon footprint progressed, to identify a clear baseline and actions for improving our own climate impacts

Postponed action

We have established that Brunel and its direct suppliers are meeting real living wage standards, but we have not yet sought formal certification due to prioritising resources to other Equity, Diversity and Inclusion (EDI) objectives.

Next steps

- Launching our Graduate recruitment scheme.
- Setting objectives and targets to reduce our operational carbon impacts

LGBT GREAT 2023 BRONZE STANDARD For LGBT+ Equality within Financial Services

* LGBT Great provides members with business-to-business networking to improve LGBTQ+ DE&I through the Inclusion Index Benchmarking Tool (iiBT).

Risk landscape – CIO perspective

David Vickers
CIO

2022 was a year of changing investment tides. It was Russia's invasion of Ukraine, in February that proved to be the spark that lit the inflationary fuse and transformed capital markets. A more hawkish turn by central bankers in the New Year had already pushed equity and fixed income markets negative in January but it was the invasion that added fuel to the fire.

At the outset of the war, Russia and Ukraine produced 29% of the world's wheat, while Russia was the world's second-largest natural gas and third-largest oil producer. This created the bedrock for a "cost of living crisis" in most countries as wages failed to keep up with the rises in basic goods and services. While energy and food rose sharply in the first quarter, prices have now calmed significantly, but inflation had already taken hold. We took the decision to require all our asset managers to sell any residual Russian exposure on the balance that the risk of permanent loss to any Russian assets was significant. There was also a faint silver lining in that many countries – notably, Germany – raised their ambitions on sustainability as energy resilience and independence became a key political aim.

We are fortunate to be managing portfolios for open-ended Defined Benefit schemes, as we are obliged to target 20-30-year time horizons, for members' retirements, and for the world they will retire into. Nevertheless, the new economic paradigm has not proved easy. The rising price of energy – and energy stocks – was a headwind to relative performance, given our portfolios' low carbon exposure. To put this into perspective against a backdrop of falling equity markets, the energy sector was up over 60%. Furthermore, short-term underperformance was often disappointing, even beyond the energy challenge as growth stocks underwent a fundamental revaluation based on the new and much higher levels of interest rates.

Somewhat understandably market commentators questioned whether there was a "cost" to employing a responsible approach to investing. Our answer was an emphatic no! Indeed aligning portfolios with the Paris goal – of delivering a temperature increase well below 2°C, ideally 1.5°C – is entirely consistent with securing long-term financial returns. We do not believe following such a path forces us to compromise financial returns. Instead, not taking into account such a financially material and known risk as climate change would arguably be a dereliction of fiduciary responsibility – a view reinforced by the regulators and the Bank of England. What is true to say is that any policy that deviates from benchmark positions will potentially have short term consequences. A fuller peice on this can be found on our website.

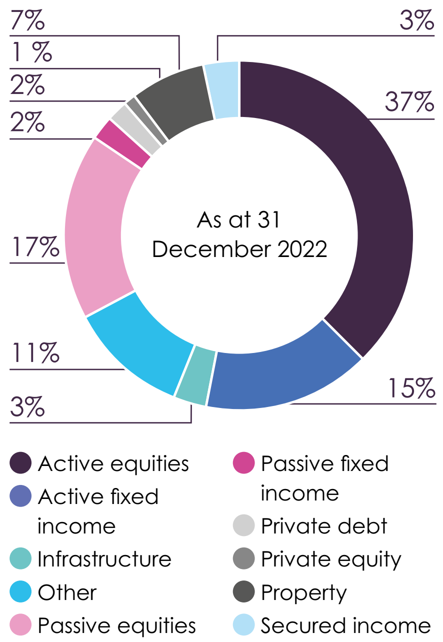
Within our private market franchise we continued to invest with purpose in cycles 1 and 2 and we were able to launch cycle 3 which was specified to have an even greater focus on Impact investing. For example, Cycle 3 Infrastructure has minimum targets for Sustainable Infrastructure of at least 70%, of which at least 40% will be in Climate Solutions. We have also experienced significant success in changing the terms of the vehicles that we and others invest in, such that they are more demonstrably aligned to our ESG policy. This is a huge step forward in so much as it is our ambition to change the financial framework, not just for us but for all investors. We hear similar themes from our other partners where our work on best practise has been adopted across their organisations.

Our pioneering work in private markets was recognised when we won the Impact Investing award at Europe's IPE Awards in Rotterdam. The award particularly recognised the launch of the ground-breaking Cornwall Local Impact portfolio. The portfolio neatly captures our range of priorities: appropriate investment returns; cost savings; and social and environmental impact.

It was a seminal year for us in so much as we undertook a climate stocktake. Then early in 2023, having collaborated with all our partners in 2022, we launched our new climate policy, as mentioned by Laura and Denise. On other fronts I would highlight our engagements with asset managers, governments, and regulators; Helen Price's work promoting the Asset Owner Diversity Charter; and Faith Ward's public roles at COP 27 and as Chair of the IIGCC.

2022 was a difficult year as are all periods of significant regime change and one in which the events have not fully played out, but we continue to evolve, collaborate, and progress such that all of our partners can achieve their increased ambitions as it relates to Net Zero and other such pledges. It is a useful discipline in writing a synopsis of what has transpired as much like our triannual stocktake it keeps our feet to the fire and sharpens our lens on accountability for the assets we look after on behalf of our partners members.

Breakdown of Brunel Assets Under Management



Marking progress

2017

Founding of Brunel Pension Partnership

- Became member of IIGCC
- Signed up to Taskforce for Financial-Related Disclosures

2018

- Received FCA approval
- First LGPS pool to sign UNPRI
- Launched RI Policy and RI-focused Asset Management Accord
- Launched first 5 listed market portfolios
- Launched private markets (PM) cycle 1 across private equity, infrastructure, secured income

2019

- Published Climate Position Statement
- Launched risk management framework
- Reached 50% mark for transition of client assets
- Launched Low Volatility, Emerging Markets and High Alpha portfolios
- Joined Investor Advisory Group of the Sustainability Accounting Standards Board
- Launched UK and global property portfolios

2020

- Published Climate Change Policy
- Launched Diversifying Returns, Small Cap, Sustainable Equities portfolios and risk management framework
- Launched PM cycle 2 across private debt, private equity, infrastructure, secured income
- Backed Barclays AGM climate resolutions
- Won European ESG and Climate Risk Mgmt. awards (IPE) and Pension Fund of 2020 (Environmental Finance)

2021

- Committed to Net Zero
- Completed launch of 17 listed portfolios
- Co-launched FTSE Paris-aligned benchmarks with £3bn transition
- Co-launched Asset Owner Diversity Charter
- Cop 26 Glasgow

2022

- Climate Stocktake
- COP 27 Egypt
- Barclays and HSBC change lending policy
- Won multiple awards across investment, innovation, portfolios, climate risk management, diversity (IPE, ICGN, Pensions for Purpose)

2023

- Climate policy 2023-2030
- Preparing for Mandatory TCFD Reporting
- Climate footprint (operational emissions)
- Infrastructure Cycle 3 with a 70% mimum target for sustainable infrastructure

2030

2030 target

50% reduction in carbon intensity

2050

2050 target

Net Zero investment Portfolios

Biodiversity

We seek to promote action to limit the loss of biodiversity and increase rejuvenation to deliver a net-positive impact on biodiversity in the investment opportunities we make.

The United Nations convened COP15 delivered much needed impetus to addressing the ongoing loss of terrestrial and marine biodiversity. The policy framework on biodiversity, agreed in December 2022 by 188 governments (including the UK), named the Kunming-Montreal Global Biodiversity Framework (GBF)[6], established four international overarching goals with twenty-three under pinning targets.

The headline targets for 2030 included:

- 30% of the world's land, inland waters, coastal areas and oceans being protected
- 30% of degraded terrestrial, inland waters, coastal, and marine ecosystems to be restored or restoration underway
- Net-zero loss of areas of high biodiversity importance, including those with high ecological integrity
- Remove or reform harmful subsides, whilst incentivising positive action including the mobilisation of $200 billion per year of public and private finance

> "Without such action, there will be a further acceleration in the global rate of species extinction, which is already at least tens to hundreds of times higher than it has averaged over the past 10 million years." GBF, 2022

There are also targets that will support Brunel's stewardship with companies focusing on reducing the use of pesticides, chemicals, and halving food waste.

Clearly learning from the climate agreements, the GBF places clear commitments on financial institutions (as well as large companies) **"to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity through their operations, supply and value chains and portfolios."** We are delighted that the agreement strongly reinforces the biodiversity strategy set out by Brunel last year and is available on our website.

Brunel's work on biodiversity in 2022 was focused on outreach to our managers and engagement specialists. This enabled us to highlight the growing importance of the issue, set out our expectations going forward and identify emerging best practices. We are delighted to share examples of this work in practice.

The links and interrelationships between climate and biodiversity are clear, but we recognised that making it explicit when we updated our climate policy would assist both us and all our stakeholders. We have also identified that it would be helpful if we could apply similar tools and techniques, such as carbon footprinting, that have assisted us in our climate work in identifying priority companies to engage with and track portfolio progress over time. These tools would assist in aligning these activities with the challenges of nature risk.

[6] UN Convention on Biological Diversity, www.cbd.int/article/cop15-cbd-press-release-final-19dec2022

Nature Risk Profile

S&P Global (S&P), Brunel's provider of climate analytics, was a logical partner to explore tackling portfolio analysis in relation to nature risk. We are now partnering with S&P Global Environment in a pilot exercise to profile nature related risks within our active portfolios. The Nature Risk Profile methodology was launched in January 2023, by S&P and the UN Environment Programme (UNEP), to support the financial sector in measuring biodiversity risk in a scientifically robust manner. This provides decision useful data on the impacts and dependencies of nature within a portfolio.[7]

The methodology has been designed to align with and support the Taskforce on Nature-related Financial Disclosures (TNFD), which Brunel has committed, in principle, to use to shape its reporting in the future. The TNFD aims to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities. The ultimate aim of this is to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.[8]

The nature risk profile pilot highlights Brunel's key role in being involved in industry leading activities that will improve the ability of stakeholders to assess their exposure to nature-related risk that will inform effective biodiversity related targets and engagement strategies.[9]

Once the pilot has been completed, mapping various nature impacts and dependencies to understand and manage risk, we aim to engage with companies in our selected portfolios who are either causing the most impact or have potentially high investment risk arising from deteriorating ecosystem services.

Capacity building in our asset managers

Ballie Gifford is one of our asset managers who has also been tackling the issue and exploring how to analyse and integrate biodiversity-related risks into their investment analysis. Building nature risk capability is one of the key asks of our asset managers from our strategy.

In developing their own approach Ballie Gifford drew on the beta versions of the TNFD framework alongside other existing and emergent datasets. They drew from approaches recommended by organisations like the Partnership for Biodiversity Accounting Financials and the analysis conducted by the Dutch and French central banks (Indebted to Nature and A "Silent Spring" for the Financial System?, respectively).

Like Brunel, recognising the interrelationship between biodiversity loss and climate change, Baillie Gifford are integrating their screening tool into their firmwide Climate Audit tool to ensure analysts are able to easily identify which holdings are potentially exposed to biodiversity impacts or dependencies (particularly deforestation) and which may therefore require further analysis and potentially engagement. They also participated in the United Nations Environmental Protection - Finance Initiative (UNEP-FI) pilot of the TNFD LEAP (Locate, Evaluate, Assess, Prepare) framework for financial institutions (focusing on offshore windfarms) as part of building out their investment approach.

Escalating Biodiversity Engagement

The health of ecosystems and the biodiversity they support are the foundations of the long-term sustainability for businesses and economies. With over half of global GDP being dependent on nature and more than 1 billion people relying on forests for their livelihoods.[10] Biodiversity is being recognised across the industry as an equalling pressing issue to the climate crisis. Nature has a direct impact on the climate as land and the ocean absorb more than half of all carbon emissions.[11] Last year Brunel updated its priorities and separated Biodiversity out rather than including it within supply chain management and communicated this priority to our asset managers and appointed engagement and voting provider, EOS at Federated Hermes (EOS).

[7] www.spglobal.com. (n.d.). Nature | S&P Global. [online] Available at: https://www.spglobal.com/esg/solutions/nature [Accessed 12 Apr. 2023].
[8] TNFD. (n.d.). TNFD releases fourth and final beta framework. [online] Available at: https://tnfd.global/news/tnfd-releases-fourth-final-beta-framework-v0-4/#:~:text=This%20release%20marks%20the%20fourth [Accessed 12 Apr. 2023].
[9] Biodiversity: the next frontier for financial institutions. [online] Available at: https://www.brunelpensionpartnership.org/wp-content/uploads/2022/05/Biodiversity-the-next-frontier.pdf
[10] https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/
[11] https://www.un.org/en/climatechange/science/climate-issues/biodiversity

How is EOS addressing biodiversity through engagement?

EOS developed a dedicated biodiversity engagement programme to accelerate and deepen the focus on biodiversity protection and restoration. The programme includes 15 companies from the food and beverage sector around the globe. The selection process for the target companies was based on multiple factors, including laggard companies on the Forest 500 or Farm Animal Investment Risk and Return (FAIRR) benchmarks, companies with low ratings on the World Benchmark Alliance Seafood Index, or those selected as having poor water-related performance as part of the Ceres Valuing Water Finance Initiative. EOS also looked at companies with controversies related to biodiversity, such as inappropriate antibiotic use and animal welfare concerns.

EOS sent a letter to each company identified outlining the risks of not addressing biodiversity loss. They also held individual and collaborative engagement meetings to highlight their expectations and discuss how each company could contribute to halting and reversing nature loss.

Other sectors for which biodiversity loss is material include infrastructure, banking and financial services, fast fashion, chemicals, and extractives, due to their operational and supply chain impacts on biodiversity. In EOS's engagements, they are integrating more biodiversity discussions for these sectors to progress cross-industry action on biodiversity.

Material issues for engagement include regenerative agriculture, deforestation, sustainable proteins, water use, animal welfare, antimicrobial resistance, chemicals and pollution, and ocean health. The key topic for EOS is deforestation, as it has the most related metrics and certification schemes across the industry.

Regenerative Agriculture

More than half of the world's agricultural land is degraded, this leads to productivity losses of $400 billion a year and is a risk to food security in the future. It is predicted that further land degradation could reduce global food productivity by 12%, thereby increasing food prices by 30% over the next 25 years.[12] Regenerative agriculture not only focuses on sustainability but a rehabilitation approach to food and farming systems, it seeks to enhance the farm ecosystem, rather than exhaust it. Regenerative farming can reduce the industry's environmental impact, including lowering greenhouse gas emissions - regenerative farming on 40% of the world's cropland would save around 600 million tons of emissions. This is around 2% of the total, equivalent to the total footprint of Germany.[13]

Listed Equities Engagement

EOS have engaged extensively on regenerative agriculture. They expect companies to increase the use of these methods in their direct and indirect supply chains to source a significant proportion of total ingredients through these sustainable techniques. Best practice is for companies to document the benefits and outcomes of their regenerative agriculture strategy on biodiversity, soil health, carbon sequestration, crop yields, water flow and other focus areas, with relevant KPIs tracked and disclosed.

EOS were impressed by Carrefour's regenerative agriculture pilot, and they urged the company to scale its work to a larger proportion of its supplier base. Similarly, General Mills set a goal of advancing regenerative agriculture on one million acres of farmland by 2030 and EOS encouraged the company to scale its ambition across its suppliers and the industry. They also discussed regenerative agriculture with Kellogg's and challenged it to strengthen its commitment by setting a target on the amount of land or proportion of ingredients sourced using regenerative agriculture techniques. With Saputo, EOS discussed the importance of increasing the focus on sustainability within the supply chain. EOS encouraged the company to set expectations and support suppliers on carbon, deforestation, pesticide use and other aspects of sustainable agriculture. Engagement on regenerative agriculture is ongoing.

[12] https://www.weforum.org/agenda/2021/09/why-empowering-100-million-farmers-to-transform-our-food-systems-matters/
[13] https://www.weforum.org/agenda/2023/01/5-ways-to-scale-regenerative-agriculture-davos23/

Case Study: Stepstone, Infrastructure - Organic Farming

We hold MeadowLark Lands Fund I in our Cycle 3 Infrastructure portfolio, aimed at creating a more sustainable food system. MeadowLark focus on organic farmland which seeks to improve soil health and organic matter and reduce GHG emissions from farming, with associated biodiversity, ecosystem and climate benefits.

The conversion of conventional farmland to organic, and sustained organic farming practices, are expected to drive impactful environmental benefits from improved soil health and microbial activity that will result in improved biodiversity and ecosystems. The improved soil organic matter will allow for additional sequestering of carbon from the atmosphere increasing soil carbon. A further benefit of organic farming is the reduced usage and run off pesticides and synthetic fertilisers into water systems.

Case Study: Stepstone - Profile and New Mountain Capital, Private Equity - Innovative Farming

New Mountain Capital in our Cycle 2 Private Equity Portfolio acquired Profile Products a leading developer and manufacturer of highly engineered specialty agriscience materials. Their work promotes environmental sustainability whilst delivering superior performance for horticulture, erosion control, sports turf, and other specialty applications.

Profile has pioneered significant innovation through the introduction of its highly engineered wood substrate product known as HydraFiber®, a growing medium that promotes improved water availability and soil porosity, which allows for better, faster root development and greater yields for growers. In addition, the HydraFiber® is more cost competitive than the products being replaced and improves clients' environmental sustainability outcomes.

Deforestation

Deforestation was an increased area of focus for EOS in engagements and voting for 2022. By 2025, the aim is to publicly report credible progress on eliminating forest-risk and agricultural commodity-driven deforestation impacts in investments via successful engagement.

Deforestation for palm oil production has a significant impact on the environment and subsequent ecosystems, including, but not limited to, the loss of biodiversity, soil degradation, and greenhouse gas emissions. The destruction of forests also affects the livelihoods of local communities who rely on these ecosystems for their survival.

DBS Group Holdings Ltd. is a financial services group who provide a full range of services in consumer, SME and corporate banking in key Asian markets. Currently banks play a role in continuing to finance the palm oil industry, especially in South East Asia. Since 2016, financial institutions have provided US$38 billion to the Southeast Asian palm oil sector.[14] Within Indonesia, around 85% of emissions released are due to land-use activities, with 37% due to deforestation and 27% due to peat fires.[15] The deforestation induced in the search for palm oil profits is a direct threat to biodiversity in a region of the world already acutely sensitive to climate change.

EOS began engaging on palm oil financing with Singapore's largest bank DBS in January 2019. The bank was urged to demonstrate that its palm oil lending criteria was able to meet the latest Roundtable on Sustainable Palm Oil (RSPO) standard for all borrowers.

The bank confirmed that its new borrowers were asked to demonstrate alignment with No Deforestation, No Peat and No Exploitation (NDPE) or an equivalent.

Engagement continued with the bank being urged to ask its existing borrowers to obtain RSPO certification in September 2020. In March 2021, DBS had raised its ESG standards for the palm oil sector, encouraging its customers to apply an NDPE policy throughout the supply chain. Its clients were also asked to achieve full RSPO certification via a time-bound action plan that was communicated to DBS.

The bank pledges not to knowingly finance companies that are involved in the conversion of high carbon stock forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved. DBS has adopted a zero-tolerance approach to forest burning. We will monitor DBS's progress in implementing the sustainable palm oil policy for all its lending relationships and clear communications of its progress.

EOS encouraged companies including Meiji Holdings, Yakult Honsha, Asahi Group, Saputo, Kellogg's and General Mills to commit to zero deforestation by 2025 for all commodities, regions and suppliers, including indirect suppliers. They discussed how this commitment would be implemented through certification, traceability, and due diligence.

Deforestation is a key priority of our appointed Passive Equities manager LGIM. In 2022 they continued their deforestation engagement campaign with portfolio companies. In September they published their Deforestation Policy, and communicated that they will be sanctioning companies for not meeting their minimum expectations of having a deforestation policy or programme from 2023 onwards.

LGIM joined the Finance Sector Deforestation Action (FSDA) initiative, through their involvement in the FSDA initiative, they are working with other investors to accelerate progress in key sectors and across value chains. This is a critical step towards reversing deforestation globally and aligning the financial sector with a Paris Agreement-compliant 1.5°C pathway. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation. The FSDA has also identified key companies in deforestation critical sectors to engage with, and LGIM has taken the lead on four of these engagements.

Engagement on deforestation was escalated to annual shareholder meetings. Where it is believed that companies' actions are materially misaligned with limiting global warming to safe levels, including through links to deforestation votes against the chair or other responsible directors were implemented.

Due to concerns about deforestation, we voted against directors at Kikkoman Corp, WH Group and Industrial and Commercial Bank of China.

Next steps

The focus is expected to turn to implementing the Global Biodiversity Framework at the national level in areas such as deforestation, sustainable agriculture, and disclosure of impacts and dependencies. With the TNFD framework expected to be finalised in Autumn 2023, more companies should start to disclose information about their nature-related risks and opportunities in a standardised and decision-useful manner.

Companies and investors should continue to improve their understanding of the importance of addressing biodiversity loss alongside climate change. Collaboration across the industry will be essential for solving ongoing challenges and tackling the biodiversity crisis with the urgency it requires.

EOS and Brunel will continue to prioritise this topic through engagement, advocacy, and active participation in industry initiatives. We will do this through:

- Supporting developing industry thought leadership on biodiversity and take part in collaborative engagement with policymakers, companies and businesses
- Continuing to raise awareness and engage with companies and fund managers around biodiversity risks
- Continuing to engage companies and our fund managers around the importance of managing plastics pollution risks and opportunities
- Using nature risk profile to assess exposure to nature-related risk and identify companies for engagement who are either causing the most impact or at risk of deteriorating ecosystems services

[14] (i)https://www.banktrack.org/campaign/banks_and_palm_oil
[15] (i)https://www.banktrack.org/campaign/banks_and_palm_oil

Responsible Stewardship

We are committed to responsible stewardship and believe that through responsible, active ownership we can contribute to the care, and long-term success, of all the assets within our remit.

We support and apply the UK Stewardship Code 2020 definition of stewardship.

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Source: UK Stewardship Code 2020

This report details our approach and provides examples of stewardship progress. It should be read in conjunction with our Responsible Investment (RI) Policy, Climate Change Policy, Stewardship Policy and Voting Guidelines. Brunel's Responsible Investment Policy sets out the overarching principles that guide everything that Brunel does. The Climate Change Policy delves deeper into our most systemic risks. The Stewardship Policy and Voting Guidelines then set out how we operationalise these policies.

Brunel undertakes stewardship of its capital in the design, construction, and monitoring of its portfolios, and supports its clients in ensuring their strategic asset allocation is undertaken responsibly. For example, we use training, workshops, detailed briefing papers and analytics (including ESG and carbon metrics).

We view asset managers as our first line of defence in the management of all portfolio related risks, including ESG risk, so it is a vitally important part of the selection and monitoring process.

Integrating Responsible Investment into our Manager Selection

Integrating Responsible Investment into manager selection is a core part of our work. Mandate design and a risk appraisal process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things.

The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus our manager selection criteria are determined for each search.

We have a track record of action evidenced by work such as Brunel Asset Management Accord designed to capture not only our expectations of managers, but also the spirit of what they can expect from us. The accord supports long-term sustainable finance and especially calls on managers to work collaboratively with Brunel on thought leadership and integration of ESG issues.

The examples on the right show some of the key issues we address when we appoint managers.

Philosophy	Policies	People
Board-level leadership	Commitment	Diversity and Inclusion
Corporate culture	Policy framework	Human Capital
Investment	Pricing and transparency	Numbers and retention

Processes	Participation	Partnership
Investment	Thought-leadership	In it together
Reporting	Innovation	Culture fit
Stewardship	Contribution to investment industry	

More information about the selection and monitoring of managers is on our **website**

Stewardship across asset classes

Our Stewardship Policy provides more detail on our stewardship activities as it applies to each asset class. We have provided case studies and interviews throughout this report to bring the policy to life.

Brunel's Private Markets Portfolios are offered in cycles, with each cycle being two years long with a "top-up window" in the intervening year. The portfolio specification and scope are designed with clients well in advance of each new cycle and their allocation decisions.

Cycles refer to the fact that most private market investing is done via closed-ended funds, so prior invested capital will eventually be returned and require reinvesting, should clients wish to maintain strategic asset allocations to the selected asset classes. The underlying private market fund cycle involves investment selection (sourcing), asset management (value creation) and exit (disposal). We apply the same principles of selecting and monitoring managers no matter which type of asset, but the stewardship tool and techniques adapt to be appropriate to the current circumstances, not least the level of control allowed through the legal structure.

As global investors, we apply our principles of good stewardship globally, whilst recognising the need for local market considerations. As a UK-based investor, our key reference points are the UK Stewardship Code 2020 and UK Corporate Governance Code.

Conflicts of Interest

We invest in thousands of companies and there are likely to be overlaps with those whom we source goods and services, not least publicly listed asset management companies, as well as the activities of our clients. The activities of our clients are very broad and involve large scale contracting and regulation. Our Conflict of Interest policy, reviewed bi-annually, describes the circumstances that could give rise to a conflict of interest and the principles to be followed in order to identify, avoid, manage or (in the event the other routes are not possible) to disclose a potential conflict of interest clearly to our clients. Our conflict statement, which includes our approach to stewardship conflict of interests, is published on our website.

The effective management of potential conflicts of interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. Conflict of interest clauses are included in investment management and service agreements. For example, where our voting provider perceives a potential conflict when executing votes on our behalf, they alert us to give an opportunity to further review the recommendations before they are instructed.

Conflict of Interest - a 2022 example

Having both public and private market investment occasionally generates a potential conflict of interest. Public and private companies can have significant business relations and we may have investments in both parties. Brunel outsources stock selection to asset managers and engagement to our appointed voting and engagement providers, but we do at times undertake direct engagement which can present a potential conflict.

In 2022, one such incident occurred when Brunel was considering co-filing a shareholder resolution at Sainsbury's (more details pages 26-27). Supermarkets often do sale and leaseback transactions with property funds. Sainsburys is a large tenant of several of Brunel's property funds therefore anything that changes their financial position has a wider impact. The resolution seeking accreditation to the real living wage foundation was escalated to clients through the Responsible Investment Sub Group, to the Chief Investment Officer and discussions were undertaken to canvas wider views on the resolution, ultimately clients supported the resolution and Brunel proceeded with co-filing.

Private Debt – the final frontier of Stewardship

Private debt funds, alongside hedge and absolute return funds, are generally ranked quite low when it comes to ESG integration, climate, and stewardship*, but at Brunel we like a challenge. We have committed to be a responsible steward across all our asset classes, and whilst being pragmatic, we are also robust and have been clear that we are willing to walk away if we feel the commitment to improve is not evident.

Private debt has been an on-going area of stewardship engagement and one of which we have been pleasantly surprised at the pace of progress. We are currently embarking on our cycle 3 private debt programme which is very much regarded as a continuation of the ambitious work undertaken for cycle 2, but with a notable emphasis on measurement of carbon/ greenhouse emissions (within a broader long-term goal of reducing such in line with Net Zero) for investee companies. It has become increasingly possible to request that General Partners (GP) have (or have clear roadmaps for) the detailed mapping of emissions/carbon intensity data in line with industry best practices (specifically scopes 1-2 and upstream/ downstream measurement for scope 3).

Generally speaking European managers have been more advanced in their efforts to date, and Brunel has been able to make investments with GPs who have extensive mapping efforts underway (even if using a majority of proxy data at this stage). We have also been able to engage them to set ambitious targets around factors such as: (i) efforts to increase the share of portfolio level emissions sourced from actual companies; (ii) establishing a medium term target to move portfolios towards net zero; and (iii) the onboarding of external consultants and data providers to aid in (i) and (ii). A particular success story has been our collaboration with a prominent European GP to help steer the formation of their climate policy and their onboarding of what Brunel regards as leading data providers and initiatives.

Within the US, a region typically further behind on the climate journey, we have been engaging with GPs to help move best-practice RI-integrators towards onboarding the necessary infrastructure to utilise proxy data to measure portfolio level emissions.

* Mercer ESG ratings

Stewardship Policy Review outcome

Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy is developed in conjunction with key stakeholders.

The Responsible Investment subgroup provides updates to the client group and further updates are provided to the wider client group as required. The Stewardship Policy is reviewed no less than every 12-18 months.

We undertook an extensive review during 2020 and made many improvements to the policy which incorporated client feedback and at a minimum, met developing regulatory developments, such as the UK Stewardship Code and Shareholders Rights Directive II (SRDII). Brunel's policy has won several awards, most recently The International Corporate Governance Network named Brunel Pension Partnership winner of its 2022 Global Stewardship Disclosure Awards in the category of asset owners with under £60 billion in AUM. In March 2023, we reviewed the policy again, due to the extensive updates made previously and no client requests for additional updates, changes were minimal, these include:

- Removed reference to the British Venture Capital Association (BVCA – private equity) RI toolkit, this has been replaced with Paris Aligned Investment Initiative Net-Zero Investment Framework and the ESG Data Convergence Project
- Incorporated updates from climate change policy
- Added Climate Action 100+ Net Zero Benchmark to list of data sources

Voting Guidelines updates

Our engagement, emerging themes, and a reflection of the previous proxy season feed into the review of our Voting Guidelines. Our updated guidelines, published in March 2023, incorporate the following main changes:

- We expect companies to adopt the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD) for the management and reporting of climate-related risks and opportunities. The audit committee should be responsible for ensuring these material risks are explicitly accounted for in the financial statements and the external auditor should be engaged to provide an opinion on this matter
- Climate Change: Enhanced TPI voting principle
- Reflecting the rising cost-of-living this year Executive salary increases should be ideally lower proportionally than for the workforce and we will consider voting against the remuneration policy where excessive salary increases larger than the wider workforce have been implemented, as well as assessing the ways that companies are supporting their workforce, customers and suppliers with the rising cost of living
- Diversity: Enhanced voting thresholds and updated our company expectations - we expect companies to clearly disclose board diversity and encourage directors to self-identify. Companies should create a culture where self-identification is possible. For companies of all sizes across Europe, we support a medium-term goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as nonbinary), race and ethnicity and other diversity traits such as LGBTQ+ and disability

We will vote against the re-election of the company chair where:

- A company has not at least reached Level 4 of the TPI framework in Europe and Australia
- All coal, oil, gas, utilities, and automotive companies below level 4
- A company has not reached level 3 of the TPI framework for US and Asia and emerging markets, or where the TPI score has fallen from level 4
- The company has failed the CA100+ benchmark level 3 indicator – medium-term (2026-2035) GHG reduction target(s)

Companies scored for the first time will be differentiated and reviewed on a case by case basis.

Case study: Significant Vote Real Living Wage

Engagement Background

Brunel is a member of The Good Work Coalition, a collaborative engagement initiative led by ShareAction, engaging collectively to drive up UK standards in the workplace. Since 2020 the coalition has been sending letters and meeting with companies to discuss the real living wage, the main focus has been supermarkets but has also included other sectors.

Nearly 10,000 employers are accredited with the living wage foundation, nearly half of whom have signed up since March 2020. Over half of the FTSE 100 are accredited.

Why do we support a real living wage?

During Covid we witnessed the great resignation, companies have experienced challenges in filling job posts since; better wages support retention, improve productivity of staff and reduce hiring and training costs. The number of accredited businesses continues to rise, creating increased hiring challenges for companies who pay below the living wage.

Workers in the supermarket sector are one of the largest groups of low paid workers, this contributes towards inequalities, women and ethnic minorities make up larger proportions of this group, 49% of female workers and 44% of ethnic minority workers earn less than the real living wage compared to 35 per cent of men and 41 per cent of white workers.[16] An improvement in the real living wage would contribute towards reducing the pensions pay gap, ethnicity and gender pay gaps. Reducing inequality equips people to focus on the long term increasing public support for initiatives essential to tackling climate change.

Payment below the real living wage is an unaccounted for cost to business and externalised cost to society. Financial stress can impact an individual's physical and mental health, adults living in households in the lowest 20% income bracket in Great Britain are two to three times more likely to develop mental health problems than those in the highest[17] and those individuals typically have access to higher costs of borrowing which perpetuates the situation and further drives inequality.

Escalation Process

Despite improvements in other sectors, no companies within the supermarket sector are accredited, and ongoing engagement was not resulting in progress. The coalition discussed escalation options and decided to proceed with filing a shareholder resolution seeking for Sainsbury's to accredit as a living wage employer by July 2023.

This resolution was ground breaking, the first of its kind in the UK. We brought the resolution to the client responsible investment subgroup for discussion, providing a background on engagement to date and escalation options explored. One question raised was why we were only filing at one supermarket, this was something the coalition had discussed: the shareholder resolution was going to be filed by meeting the 100+ shareholders requirement, as such it takes a lot of time and resource to file, it would not have been possible to cover multiple supermarkets at the same time. Sainsbury's is the second largest U.K. grocery chain with 16.5 per cent of the market share. It operates over 600 supermarkets; 800 convenience stores and at the time directly employed 189,000 workers. Across the coalition the highest holdings were in Sainsburys, and it was felt that given Sainsbury's policies and approach there was a higher chance of success. The resolution was also discussed with the Chief Investment Officer, ultimately clients were supportive, and Brunel proceeded with co-filing the resolution.

Response to the resolution by investors

There was a mixture of investor views on this resolution, a few investors predeclared they would not be supporting the resolution, sighting the filing at only Sainsburys as one of the reasons for this decision. This was to be expected, the resolution tackles a social issue where quantifying the financial materiality can be more challenging. Views differ on the best approach and the changing environment, rising inflation and cost of living, which led some to consider the more near-term impact of the resolution. The resolution itself was filed by investors representing £2.2 trillion in assets, including LGIM. We saw a number of new investors who predeclared that they would support the resolution, Aviva, Coutts and Co, GSI and the Coal Pensions Board.

Impact of the resolution

Following the filing of the living wage shareholder resolution at Sainsburys, Brunel has been involved in ongoing engagement meetings with the supermarket. This led to Sainsbury's announcing an additional pay rise for their London staff in April, resulting in all directly employed staff earning the real living wage, an estimated 19,000 workers benefited as a result. Engagement continued to seek accreditation and coverage of third party contractors, however Sainsburys were not supportive and so the resolution went to the AGM.

Resolution outcome

The resolution was taken to Sainsbury's AGM on the 7th of June where the living wage shareholder resolution received the support of 16.7% of investors, a further 2.6% abstained. This was the first ever resolution of its kind filed in the UK, the level of support for this first of its kind resolution is positive.

Were the goals met?

The resolution did not receive enough support to pass or require a public response from the company and Sainsbury's did not decide to accredit to the real living wage foundation. Whilst this is disappointing, ground breaking resolutions of this kind rarely pass first time, we did secure pay rises for thousands of workers and it did bring the issue to the forefront and drove discussion in the industry.

Next steps?

One challenge posed by the supermarket industry is the split of private and public ownership, expanding the filing of resolutions would mean a number of supermarkets would not be covered by this approach. The coalition will continue to engage with the industry and investors on the real living wage and explore the best next steps.

[16] https://www.livingwage.org.uk/news/over-two-fifths-all-supermarket-workers-earn-below-real-living-wage
[17] Marmot, M., Allen, J., Goldblatt, P., Boyce, T., McNeish, D., Grady, M., & Geddes, I. (2010). Fair society, healthy lives: Strategic review of health inequalities in England post 2010. Retrieved from instituteofhealthequity.org/projects/ fair-society-healthy-lives-the-marmot-review [Accessed 07/11/16].

Exercising our rights

Engagement objectives are identified in three ways, firstly, top down, looking at Brunel's holdings to identify thematic areas of risk and opportunity. Secondly, bottom up, reviewing exposure to individual companies and to specific ESG risks and opportunities. Thirdly, reactively to event risks, for example, after a specific, usually significant, incident.

We appointed EOS at Federated Hermes (EOS) as our engagement and voting services provider. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes. Additionally, the team's languages, connections, and cultural understanding greatly enhances our capacity to create and maintain constructive relationships with company boards.

Escalation process

Escalation is a key component of stewardship and whilst it rarely follows a given pathway the infographic below provides some insights into our approach. Some steps might be skipped or happen simultaneously and there may operational and legal constraints that prevent some actions being undertaken, however regular client engagement helps guide our approach and communication. Brunel provides clients with a suite of public reports on our stewardship activities, and with environmental, social and governance metrics to empower clients own stewardship activities and to enable oversight.

Not suitable for new fundraising/ refinance

Selective divestment (listed equity)

Climate change stocktake

Reduce exposure

Co-file shareholder resolution (segregated)
- Direct and frequent engagement with company management
- Request pool fund manager support/ voting alignment
- Statement made at AGM (or by fellow co-filer)

Escalated concern due to lack of company management action
- Publicly discuss concerns and or pre-declaration of voting intentions
- Consider AGM attendance/ question
- Index funding voting alignment considered

Specific concerns raised with Asset Manager
- Asset Manager (AM) specific action requested
- Vote against Chair and specific related resolutions (including shareholder resolutions – may increase to all directors in successive years)
- AM may decide to reduce/ exit exposure (active fundamental)

Targeted engagement
- Asset Manager engagement list
- Engagement service provider engagement targets

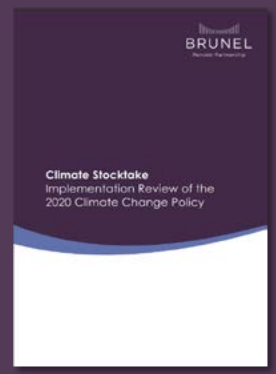
Thematic engagement
- Raise profile of issue with policy makers and regulators
- Collaborative engagement
- Voting in line with Stewardship Policy

CLIENT ENGAGEMENT

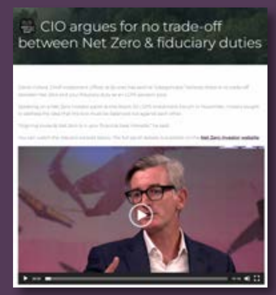
Brunel provides clients with a suite of public reports on our stewardship activities, and with environmental, social and governance metrics to empower clients own stewardship activities and to enable oversight.

Annual Reporting

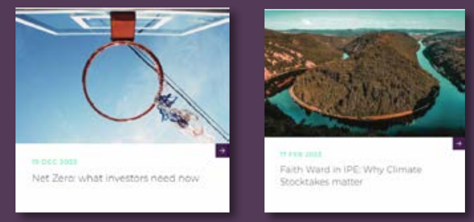
Additional Reporting



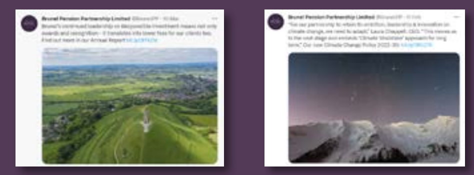
Videos



News Alerts



Social Media



Measuring Progress

To ensure meaningful impact and to be able to measure and report effectively, EOS engagement is guided by a client-driven engagement plan. Brunel is in regular contact with EOS and provides input into this plan, together with our clients, who join quarterly update and feedback calls.

To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also identified. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

1 Our concern is raised with the company at the appropriate level

2 The company acknowledges the issue as a serious investor concern, worthy of a response

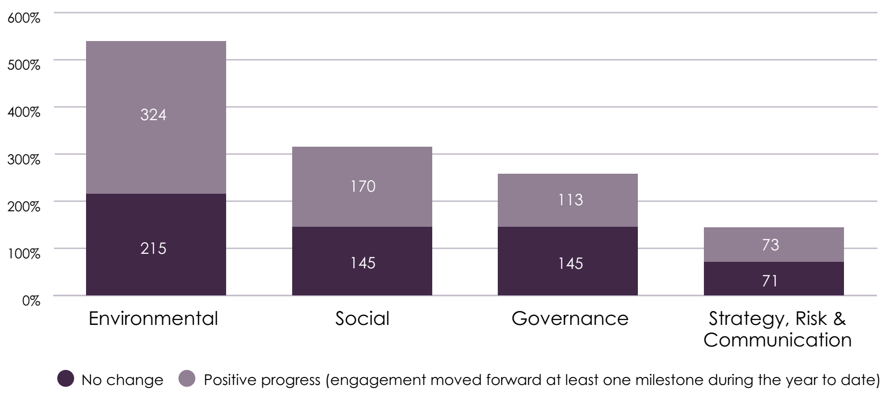
3 The company develops a credible strategy to achieve the objective, or stretching targets are set to address the concern

4 The company implements a strategy or measures to address the concern

Milestone Progress

Engagement Progress

Engagement during 2022 made significant progress. EOS undertake engagement over three-year cycles. During 2022, EOS engaged with **899** Brunel-held companies on 1,256 milestones. At least one milestone was moved forward for about **54%** of objectives during the year.



Engagement covers active equity portfolios, please note this does not include engagement undertaken directly by Brunel or its managers.

Asset Manager Engagement and Outcomes Tracking

This annual report is designed to meet the best practice requirements of the UK Stewardship Code 2020.

In last year's report we discussed our aspiration to include an aggregate breakdown of the themes and outcomes across our managers, collaborative initiatives, and direct engagements. This is a challenging process due to a lack of standardisation. Differences are due to a lack of consistency in the ways that investment managers and third parties record, collect, process, and distribute information relating to stewardship, they also result from different investment styles, across asset classes and differences in resources and systems. Resulting in variations in the definition of an engagement, and classification of an outcome and the environmental, social and governance themes being engaged on.

We have started to aggregate objectives and are making progress, however the data cleansing required is vast and resources have been a challenge this year, something experienced across the industry. Additionally, we have expanded the project to incorporate an analysis of whether material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. Whilst we are not yet able to include the data in this report, we will be publishing this in our climate progress report in the coming months and expand on this reporting in next year's outcomes report.

Next steps

- Publish progress against 70% net zero climate engagement targets in climate progress report 2023
- Collect an updated engagement outcomes template annually and evolve our reporting on progress against these objectives

Our top ten passive and active equity holdings were engaged on the below themes during 2022. A full overview of companies engaged by theme is disclosed on our website.

	Governance					Social							Environmental					Strategy, Risk and Communication				
	Shareholder Protection and Rights	Board Independence	Executive Remuneration	Board Diversity, Skills and Experience	Succession Planning	Human Capital Mgmt	Human Rights	Conduct and Culture	Labour Rights	Diversity	Bribery and Corruption	Tax	Supply Chain Mgmt	Climate Change	Forestry and Land Use	Pollution and Waste Mgmt	Water	Risk Management	Audit and Accounting	Integrated Reporting and Other Disclosure	Business Strategy	Cyber Security
Microsoft Corp			●				●	●					●							●		●
Alphabet Inc	●	●		●			●	●		●			●							●	●	
Amazon.com Inc			●			●	●					●	●	●		●						●
Apple Inc	●	●	●	●			●			●			●								●	●
Mastercard Incorporated			●	●			●			●		●	●	●							●	
UnitedHealth Group Incorporated			●	●	●	●	●	●		●								●		●		
Taiwan Semiconductor Manufacturing Co Ltd												●		●								
Unilever Plc			●				●			●			●	●	●							
AstraZeneca PLC			●	●	●													●			●	
Nestle SA			●	●			●			●			●	●	●	●						

Quarterly summary engagement reports are made publicly available on our website: Engagement Records. Further insights are published on Federated Hermes website, these cover many of Brunel's thematic priorities:

Money to burn?

Litmus test for chemical sector decarbonisation

What does COP15 mean for investors

Why cheap palm oil is a price the planet can't pay

Lifting the lid on packaging and food waste

How regenerative agriculture can sow the seeds of change

The wages of fear

The spoils of the pandemic: in this together?

Why companies need a just transition plan

Voting process

Implementation of Brunel's voting principles for segregated active equity accounts is supported by EOS. Our Voting Guidelines inform their voting recommendation alongside other country- and region-specific guidelines. Our passive pooled investments are voted by Legal and General Investment Management and the small number of votes across private markets and listed alternatives are voted by Brunel. Our Stewardship Policy outlines our approach to voting and the process we follow in more detail.

Brunel retains full voting rights and voting decisions are informed by investment considerations, consultation with portfolio managers, clients, other institutional investors, and our engagement with companies. The vast majority of voting is undertaken within listed equities, however, there are occasions in other classes where voting may be available.

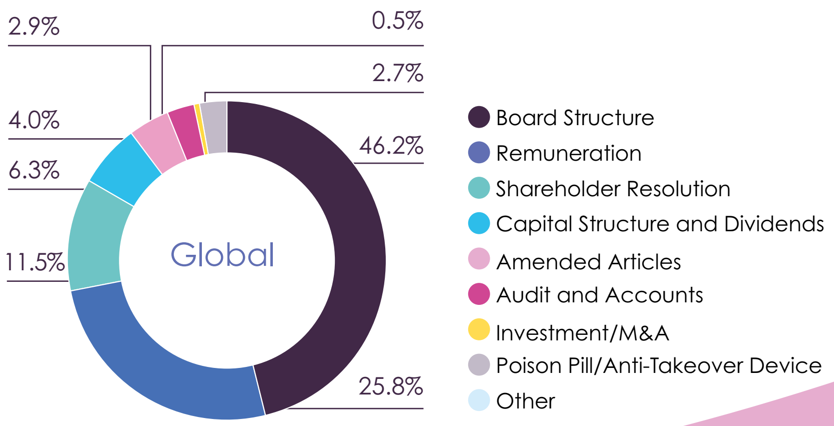
Voting during 2022

In 2022, **1,416** company meetings were voted at, representing **99%** of the voteable meetings. Across passive portfolios, **99%** of meetings were voted at, and across private markets and listed alternatives, **100%** were voted at. This represents an excellent level of voting execution. Unvoted meetings were due to share blocking, Power of Attorney (POA)'s or operational barriers.

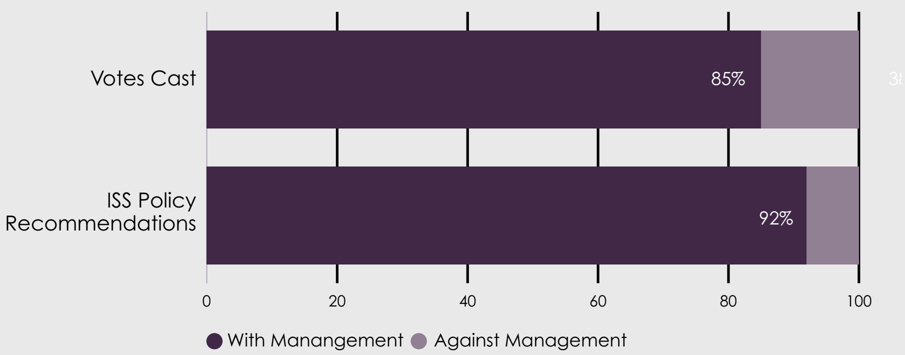
'Against' recommendations were made for 813 meetings (60.7%) and with-management-by-exception recommendations for 4 meetings (4.3%); board governance and remuneration remained the areas of highest dissent. The highest level of support for Shareholder proposals were the areas of corporate governance, and social and human rights.

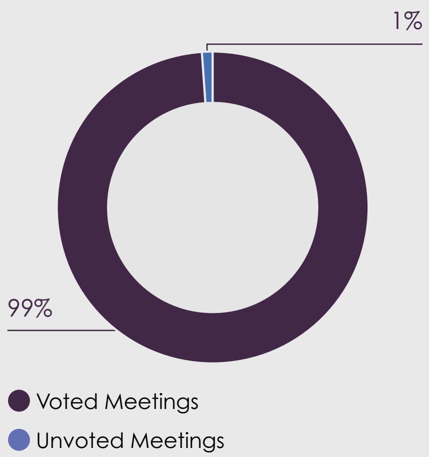
Our voting records are available on our website: Voting Records

We recommended voting against or abstaining on **2,729** resolutions over the last year



The votes cast on ballots during 2022 were aligned with management recommendations in **85%** of cases, while the ISS Benchmark Policy Recommendations were for **92%** alignment with management recommendations.





Policy Advocacy and Systemic Stewardship

Central to Brunel's approach to responsible investment is to assess and address the systemic barriers to the outcomes that Brunel believes support a thriving society and economy. Policy and regulation are pivotal components of corporate and financial systems, they provide a framework of rules, limitations and guidelines that participants need to operate within. Therefore, supporting policy makers and regulators through responding to consultations, providing advice, and participating on working groups are all ways which Brunel seeks to bring out systemic change.

We are transparent about our advocacy work and publish copies of letters, consultation responses and other relevant materials on our website. For example, in September 2022 Brunel, in collaboration with other investors, wrote to the Prime Minister and subsequently Chancellor/s and Ministers of State in relation to UK Net-zero commitment, addressing the pressures relating to energy security and pressing for renewed commitment to net-zero and a clear delivery plan.

Whilst conventional methods of communication are the norm, early in 2022 Brunel, in response to a series of letters and articles in the financial media criticizing corporates consideration of sustainability issues, we responded in kind. We coordinated a letter co-signed by asset owners, collectively representing £675bn of assets, to Financial Times. The letter sought to voice the views of the significant shareholders of these companies and support the actions taken to think through their purpose and manage environmental, social and governance risks that might impede delivering it.

> "Long-term value is most reliably generated by companies led with a clear sense of purpose that guides their strategy and informs their values"
>
> **Brunel letter, 2022**

In 2022, much of the policy and regulatory developments have focused on sustainability and climate reporting requirements for companies and the financial sector. Brunel has been active in supporting this work through a number of avenues, but in particular we highlight our role in ongoing groups which we have committed considerable resources to supporting.

International

- International Sustainability Standards Board (member of the Investor Advisory Group (ISSB IAG))

European

- Institutional Investors Group on Climate Change (Board Chair, Co-Chair of the UK Sustainable Finance Working Group) and member of the Paris Aligned Investment Initiative Steering Group

UK

- Transition Plan Taskforce Delivery Group (member and Co-Chair of the Adaptation Workgroup)
- Green Taxonomy Advisory Group (member and Chair of Workstream 4)

ESG data governance – persistence of advocacy efforts

One of the areas Brunel has advocated for persistently is regulation of ESG data providers. We do not advocate the standardisation of ESG data and recognise the advantages that come from the varied methodologies, but we do have concerns regarding the lack of regulatory oversight of providers.

Like many investors Brunel uses a wide range of environmental, social and governance data, a large proportion of which have been integrated on to our risk platform. Thousands of data points relating to these risks are now available to all of the listed market portfolio managers to help them with the monitoring and reporting of these risks. A member of the RI team is designated as the contract manager for all of our ESG data providers and has a review meeting no less than annually, but usually more often. We instigate ad hoc meetings with data providers to clarify outcomes of scores or screens. For example, we recently met with one data provider regarding their application of UN Global Compact guidelines. A case study on partnering with our data providers is set out in the biodiversity section of this report.

As outlined above, we do actively steward data providers with further detail provided in our Stewardship Policy. However, we have sought for this to be reinforced through regulation. We have advocated both formally through consultation responses and informally through industry outreach for several years. Persistence appears to have paid off. In November 2022, the FCA announced the formation of a group to develop a Code of Conduct for Environmental Social and Governance (ESG) data and ratings. This has been further reinforced in March 2023 in the UK Government's Mobilising green investment: 2023 green finance strategy.

Case study: Interview with Stephanie Carter, Portfolio Manager

A conversation with Stephanie Carter, talking about how relationships underpin the RI requirements and engagement in the Small Businesses asset class.

Is working with small companies a very different challenge to working with more mainstream global asset classes?
It really is, working with smaller companies involves unique challenges when it comes to RI and reporting. Smaller companies tend to have fewer resources and smaller teams, so they often don't have an investor relations team to provide the sort of data that we ask for in other asset classes. This is why we have strong partnerships with the asset managers that we work with - their influence is essential. To add to that, ratings platforms have less value in this asset class given the limited disclosures available, and there is also a lack of sell side research available for asset managers to consider. This makes it even more important for our managers to conduct their own thorough ESG research and develop a deep knowledge of the potential ESG risks arising in the portfolio. A proactive and comprehensive engagement strategy is also important, particularly given the increased prevalence of governance issues in smaller companies, which are more likely to have less diverse management teams and family-owned structures.

Are there specific opportunities that small company investing offers?
Typically, investment in smaller companies will represent a larger share of ownership so there is more scope for meaningful engagement. This offers a way to contribute towards positive change, for example in improving disclosures and transparency. Smaller companies are typically less developed in their approaches to ESG, it provides a greater opportunity to engage with companies more meaningfully. Often smaller companies are more open with help to progress, and on numerous occasions I've seen companies welcoming guidance on best practices and implementing new measures following interactions with our asset managers. This is another reason that it's so important for our asset managers to engage with smaller companies, as there is even more scope for positive change to be made.

If asset managers really steer your ability to understand RI in these portfolios, how do you develop the right kind of working partnerships?
Well, it really is a partnership, as we work closely together, and it is an ongoing relationship. But our insistence and focus on RI is there right from the start. Our procurement process is based on scoring asset managers to ensure a consistent view of the opportunities and risks, but this is just one aspect. During interviews with asset managers, it was a red flag when investment teams were reluctant to answer questions on ESG risk themselves and consistently deferred to RI specialists. There was a high chance that they were not as focussed on RI as we would want them to be.

It is all about people in this market, and we want to see that everyone on the team has a focus on RI and that it is woven into their investment process. This doesn't necessarily mean providing the most slick and sophisticated RI reporting – sometimes you simply see the passion and desire to grow RI credentials when you're talking with asset managers. Most importantly, there should be an understanding of the materiality of ESG risk and a desire from asset managers to proactively develop their approach.

How can you tell RI is a passion?
We engage extensively with prospective managers and continue this engagement throughout our relationship – often visiting them at their offices, meeting people from all across the business and joining their team meetings where appropriate. If an organisation has an RI committee, we want to see that the commitment is reflected within executive management. Where an organisation is truly passionate about RI, it is prevalent in all areas and at every level, from the board right through to the research analysts.

Another thing I like to look for is whether analysts or portfolio managers are involved in any of the engagement efforts with companies, as engagement can be more effective when this is the case. I also consider the motivations of the investment team to investigate ESG risk, for example whether there are clear passions, deep understanding of the materiality, or even incentives offered.

How do you make sure that this focus remains and isn't just an initial effort to win you over?
This comes from the partnership approach. In our initial processes, we identify managers who seem truly aligned with Brunel's investment values and ways of working. So, we trust them to continue in that vein. That said, we typically meet with managers at least once a quarter on different topics and ensure that RI is central to our conversations. That's another way we like to signify the importance of RI to Brunel – we make sure RI is a key feature of every agenda, not a bolt-on at the end of a meeting.

I also ensure that areas such as thematic research aren't just used as marketing material but can be integrated into investment decision making. In other words, I'm always looking to ensure that ESG research and engagement is purposeful – the 'so what?' is important. For example, where ESG risk is material, I want to know how this impacts an investment idea, whether it's through a change in a financial model or an engagement plan which has both measurable targets and an action plan for next steps if ineffective.

What does putting RI in the front and centre of meetings look like in practice?
We use data to support these conversations. Although it is a challenge in this area, we are able to get data about specific stocks and ask the teams to talk about the specific RI risks linked to those stocks. We don't always let them know in advance which stocks, so we feel that we get a true reflection.

This isn't done to catch them out, we're partnering with them, but it should be at the front and centre of their minds.

We also use data to highlight if there are any significant changes, and then we ask about those changes. Often changes to the carbon intensity are caused by the difference in predicted versus actual emissions, but any significant changes are always flagged, and we have direct conversations about them. We also use ESG scoring databases to flag issues, which we can discuss with asset managers to understand their perspective on the materiality of the risk and the direction of any planned engagement.

It must be hard to manage so many things several steps removed from the actual investments.
It is, but this is why the initial setup of the relationship and working in partnership is so key. We do also get opportunities to get closer to some of the investments. I recently visited a company that we'd invested in via one of our asset managers. I was able to review the site and see the investment process in action. I was impressed with how the asset manager held those in company management to account on key topics such as carbon reduction and use of plastics. It was great to see a continuation of previous discussions between the asset manager and the company management, which provided reassurance in the asset manager's approach.

Saskia Osborne, Senior Portfolio Analyst - achieving impact through Brunel's property portfolios

In the interview below, Saskia Osborne talked about achieving local impact in Brunel's property portfolios.

Property has traditionally been a staple of Local Authority investment, but has this continued in the pooled funds that Brunel manages?
Yes, property provides a fantastic opportunity, this I why I love working on these funds. Not only do we have the opportunity to have a impact as a pooled fund of about £2bn, but they meet so many requirements. They are long term investments providing both capital and income returns, meeting our need to drive value for our clients but also, they provide a tangible investment.

It is exciting to be able to point at a building and say 'that one is ours' and see how our on-going requirements are making a real-world difference – whether that is the addition of wildlife-friendly landscaping making them a nicer and more biodiverse environment or the addition of solar panels to large industrial building rooves.

Are there property funds that pre-date Brunel in your portfolio? How do you encourage those to monitor and meet your stringent Responsible Investing requirements?
It is a nuance of our property holdings, that they have legacy funds included in them, and some of those wouldn't meet our current standards. But this is where we have an opportunity to influence change and encourage improvements. Although they pre-date our management, we do still hold them accountable.

We work with those managers to bring them into the fold, requiring them to participate in benchmarks such as GRESB (Global Real Estate Sustainability Benchmark). Using benchmarks allows us to view trend data and look at whether their performance is improving or not. The nature of property allows space for innovation and older portfolios can make significant progress.

Property funds are in their very nature diverse, does this provide challenges for ensuring RI compliance?
Yes, it really does. The diversity of the property portfolios is part of their strength, with so many different sectors and regions, we benefit from a huge range of approaches to RI and a diverse approach to societal challenges. This allows us to spread risk and benefit from differing market conditions – an approach that the last six months has ratified! However, this comes with a huge range of approaches to data gathering.

Consistency in reporting is really challenging, there are numerous data points that can be considered, although we are beginning to see the benefit of some maturity in this market. Our focus on key benchmarks with our managers has seen some emergence of consistency across these. This provides us with a more comparable way to review progress, and future opportunities.

One way we challenge this, is that we have our own Annual Reporting survey, which enables us to measure objectively across our portfolios. Although this was a challenge for many managers initially, there is a real willingness to engage now. When we introduced the annual survey the only ESG-specific question asked was about Energy Performance Certificate (EPC) data, we now have over 50 ESG data points that are completed, covering a range topics, such as decarbonisation targets, data coverage and physical climate risks.

Does the annual survey replace other metrics?
No, it allows us to pull together a range of data points into one place. We try to reduce the opportunities for free text, to allow us to create a comparable data source. But details can be found in the underlying information, whether that is GRESB scores, Climate Risk Real Estate Monitor (CRREM) metrics or any of the other factors we consider.

What benefits does this independent data source provide you?
It is incredibly useful to have the tangible data points, as it allows us to have objective monitoring conversations with our managers in our regular meetings. We are beginning to be able to see trends in behaviours, which allows us to hold our manager to account on their progress.

An example is that we not only ask whether they have a Net Zero Carbon target for their investments, but also what it is and how they are working towards it. This allows us to track this in our ongoing conversations with them and validate the progress that they are making towards it. For example, one of our long lease property funds in the secured income portfolio has laid out targets which includes milestones every few years on green certified assets, carbon footprint data, and the proportion of renewable energy sourced across their portfolio. The final stage for them, and many of our managers, will be carbon offsetting where they are unable to reduce carbon any further.

There is always a challenge with monitoring in this way, do you have any tricks to help differentiate those who treat reporting as a tick-box exercise and those making a real difference?
This is an inherent challenge, but it is one of the benefits of Brunel having such a strong vision and ethos around RI. We have a reputation for being a leader in this field, and we ensure that we only work with managers who share our ambitions.

When we are looking to work with a new manager – or when we are monitoring our existing managers – we ask what new things are they doing. I'm always on the hunt for the mentions of something that moves things forward – it isn't enough to be just meeting the old requirements.

Those managers we work most closely with, tend to be excited to tell us about new opportunities and undertakings. Where new properties are using design in an influential way, for example putting attractive staircases in view, to encourage their use rather than lifts being front and centre. Simply having EV charging points isn't enough – how are they ensuring that they are used and available?

If someone comes to us telling us about their score of GRESB score of 82, almost immediately we are asking: what are you going to do to make it 90 next year?

When you are evaluating a new fund, what are the red flags you look out for?
There are lots of shortcut or things to watch out for when evaluating funds, one thing I have learnt is to discount the name of the fund – just because it is named an 'impact fund' doesn't mean it will truly be one! Another thing I look out for is annual reports or proposals that have pages and pages about the return and the benefits of a project, then one single ESG page at the end. I'd rather not see a specific page on ESG or RI – for me, those projects that get me excited are those that don't explicitly mention these objectives., they are inherent and demonstrated in every sentence.

We're a long way now from the world in which we had to choose between responsible property investment and returns. We have data points that can empirically prove that offices in London with better EGS ratings are empty for shorter periods of time. The ESG credentials have become the selling point.

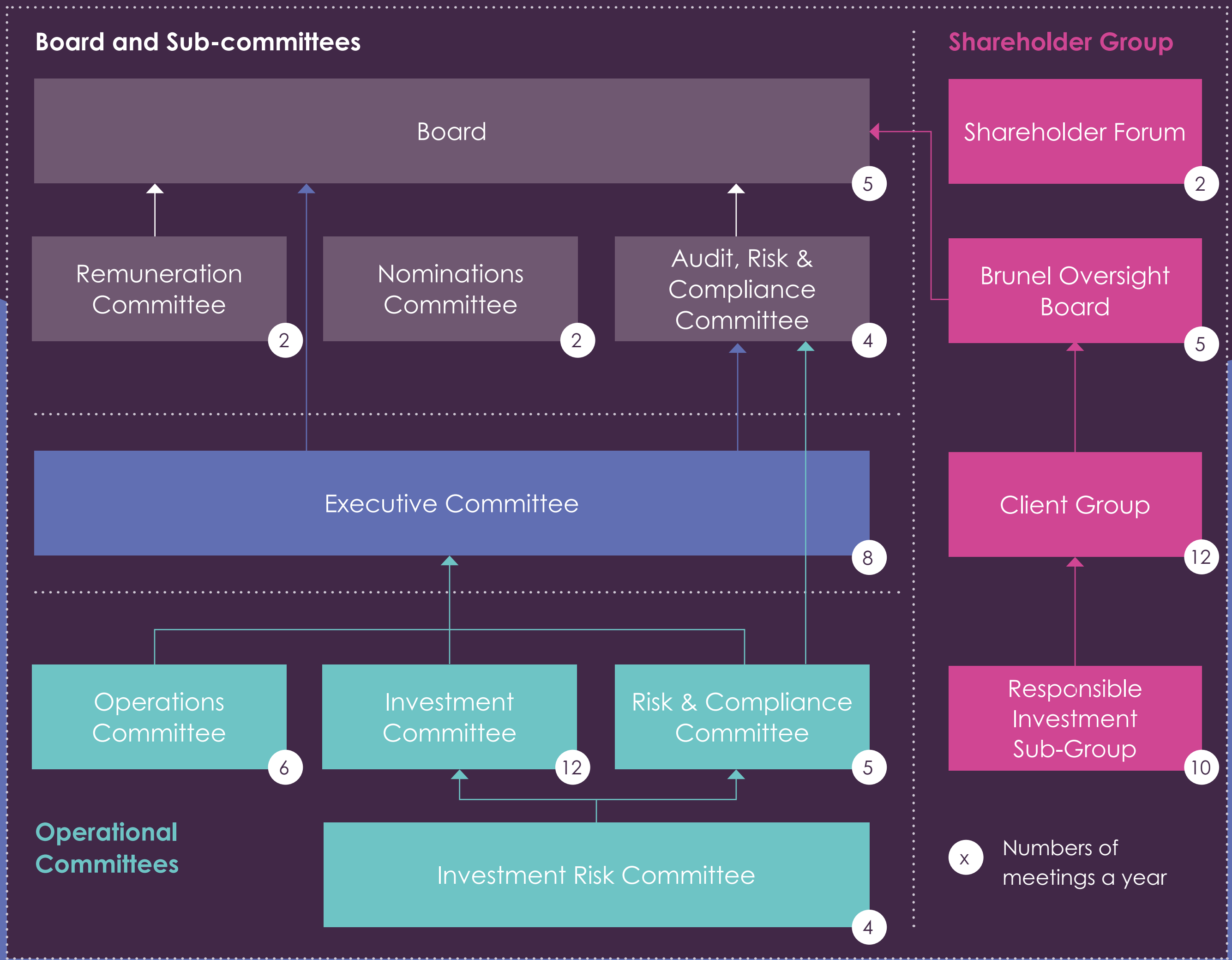
Do you think Brunel is driving a difference on RI reporting?
Yes, absolutely. Between our push for standardised data and our influence as a significant investor in many of these areas, we are seeing engagement increase and improvements year on year. GRESB is a prime example of this. It was a little known benchmark a few years ago, but we have asked about it consistently in our annual survey and we now have 100% of our international property portfolio managers signed up to provide this and almost all of our UK ones too.

Clients at the centre

Brunel is a partnership, bringing together like-minded funds, who collectively ensure Brunel has a clear mandate on responsible investment, climate change and stewardship.

Our focus on ten clients enables Brunel to have deep and regular contact with officers, commitees, and sub-committees with the funds we serve. Formal touchpoints with client officers occur no less than twice a month, allowing investment issues, including RI and stewardship to be raised. Individual client engagements supplement the formal schedule of collective forum. This includes the Brunel Oversight Board (BOB)[18], Client Group (CG) and its subgroups one of which is a dedicated Responsible Investment Sub-group (RISG).[19] The roles of the RISG and CG in consulting and shaping responsible investment, climate and stewardship priorities and on-going monitoring and oversight of delivery is embedded in the policies.

Clients' chair and set the agendas for each of these groups, which ensures the governance arrangements meets their needs. We specifically task RISG to assess whether our reporting, including this report, is what they need and is fair, balanced and understandable. We believe that this adds a level of rigour to our reporting and ensures it meets the requirement of being 'fair and balanced'. We also ask for input to ensure it is outcome and investment relevant, and report most of our metrics on a weighted average basis.[20]



Climate Stocktake – Stakeholder Engagement

In 2022, we undertook a Climate Stocktake within which we conducted a series of interviews. Twenty interviews, across 15 organisations were led by Chronos Sustainability, and complemented by two deep-dive workshops involving all clients. These enabled us to understand what has worked well so far, but importantly improvements and specifically clarity on client climate priorities.

Key outcomes from stakeholder interviews

There is strong support among Member Funds for Brunel's overarching approach to climate change, in particular the focus on engagement and investment opportunities. Overall, stakeholders felt that Brunel met or exceeded their expectations on climate change across each of the five elements of the Climate Policy, but expectations had also increased over the last three years and clear areas for improvement were identified.

A recurring theme across the interviews was that gaps in data and methodologies – acknowledging that these are industry-wide issues and not unique to Brunel – limit stakeholders' ability to fully assess and understand Brunel's performance.

Specific feedback on reporting included requests to tailor communications to different stakeholders, clearly identifying reasons for action undertaken and disclosing barriers to progress. Clients were also keen to continue to expand the range of net-zero aligned products, with supporting disclosures, to demonstrate progress, real world impact and alignment.

Annual independent assurance review

Brunel clients conduct an independent assurance review of Brunel each year. This includes an overall assessment of the Responsible Investment Service. In 2022, 90% of clients rated it 'good' or 'very good[21]', a reduction from 2021. The scores across other areas were also lower although broadly good, a trend that is reflective of the increasing demands on clients themselves.

The qualitative feedback was consistent with the stocktake interviews above with a focus on requests for improvements in reporting. These requests specified more on impact, physical risk, natural capital, and metrics relating to the Taskforce for Climate-related Financial Disclosure, particularly across private markets and relating to scenarios. **All these requests have been reflected in the commitments in the updated policy on Climate Change (2023-2030).**

Award winning partnership

In 2022, Brunel and Cornwall Pension fund were recognised by both *Pensions for Purpose* and *Investments and Pensions Europe* (IPE) in the Impact Investing category for the launch of a Local Impact portfolio to channel LGPS investment into affordable private rental housing and renewables in the county.

The new portfolio has been launched to meet the specific criteria set by Cornwall Pension Fund, which centres on achieving local impact and is divided into three mandates. Fifty-five per cent will be in affordable private rental housing in Cornwall run by PGIM and the remaining funds are evenly split across the other two mandates: a UK renewables mandate invested in the Greencoat Renewable Income fund; and a Cornwall-focused mandate, 'Greencoat Cornwall Gardens', a newly-formed fund that will target new renewable assets in Cornwall.

[18] Comprised of the Pension Committee Chairs or their delegates
[19] CG and RISG are comprised of fund officers and members of the Brunel Pension Partnership limited.
[20] Weighted average is an average resulting from the multiplication of each component by a factor reflecting its importance
[21] Brunel Client Assurance Survey, conducted by Mercer, October 2022.

Diversity, Equity and Inclusion

We seek to promote fair, diverse, and inclusive business environments and practices across the companies in which we invest, as well as across our own operations.

We believe that to function and perform optimally, companies and their Boards should seek diversity of membership considering the company's long-term strategic direction, business model, employees, customers, suppliers, and geographic footprint, as well as to reflect the diversity of society, including across race, gender, sexuality, skills, nationality, and background. This will make companies more sustainable and profitable over the long term.

Gender Diversity

We have long advocated for gender diversity and strongly supported the recommendation, of 33% female representation on the boards of UK FTSE 350 companies by 2020, as set out in the report 'Women on Boards: 5-year summary', by Lord Davies, and the findings of the Hampton-Alexander review. The UK Government target was reached in 2020, it required policymakers, investors, and companies to make significant shifts over the past decade.

The FTSE Women Leaders Report, which continues this incredibly important work, and success, of the Hampton-Alexander and Davies reviews that came before it set out a number of recommendations for 2025, we imbed these into our engagement with companies:

- Increased voluntary target for FTSE 350 Boards, and for FTSE 350 Leadership teams to a minimum of 40% women, by the end of 2025
- FTSE 350 companies to have at least one woman in the Chair or Senior Independent Director role on the Board, and/or one woman in the Chief Executive or Finance Director role in the company, by the end of 2025
- Key stakeholders to set best practice guidance or have mechanisms in place to encourage FTSE 350 Boards that have not achieved the prior 33% target, to do so

We continue to see progress, in the UK. As of January 2023, women held 40.2% of Board positions in the FTSE 350, an all time high and up from just 9.5% in 2011. We highlighted in previous years reports that there was still much progress to be made, within both top executive roles and the broader senior leadership team, we have also seen improvement in these areas. The number of women in the Combined Executive Committee and Direct Reports in the FTSE 100 has increased to 34.3%, up from 32.5% last year and in the FTSE 250 increased to 33%, up from 30.7% last year. Around half of FTSE 250 companies have met or are well on their way to meeting the 40% target. That leaves another half with still some way to go in the next three years.

The work over the next three years is to make sure women are not only at the board table, but also appointed in greater numbers to the four biggest roles, Chair, SID, CEO and Finance Director.

FTSE 350 Women on Boards meets 40% target three years ahead of the deadline

There are too few women in top CEO, and Finance Director roles, given overall progress

[21] https://ftsewomenleaders.com/wp-content/uploads/2023/03/ftse-women-leaders-review-report-2022-v2.pdf
[22] https://www.ey.com/en_uk/news/2023/03/parker-review-announces-new-targets-to-improve-ethnic-diversity-of-ftse-350-company-boards

Ethnic Diversity

In previous reports we outlined the slow progress made by the investments industry on engaging on ethnic diversity and in implementing the recommendations of the Parker Review. But 2021 signalled a change with more investors imbedding recommendations into their voting and engaging with companies on this important issue.

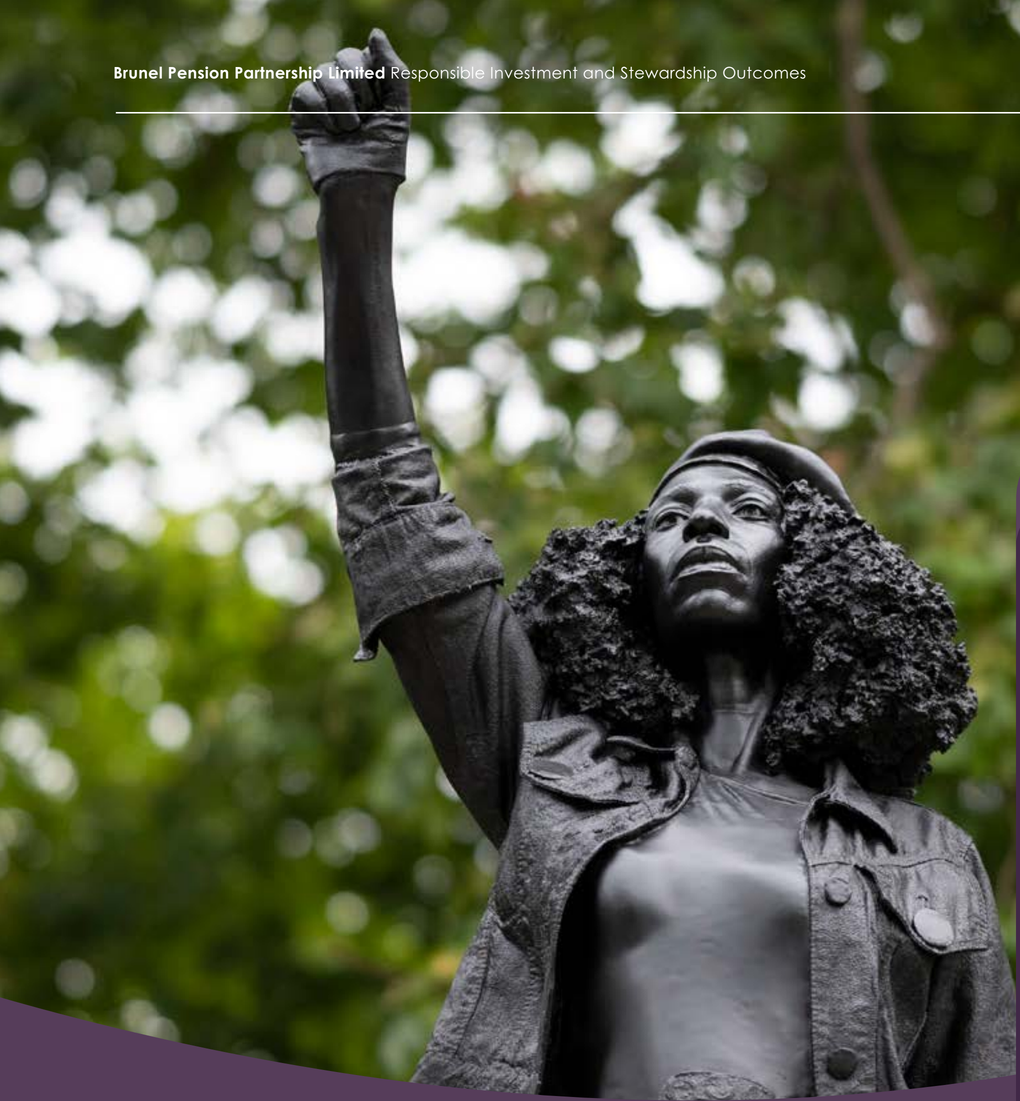
Investor pressure is paying dividends, the Parker review progress report revealed that 96 FTSE 100 companies met the target of at least one minority ethnic director, up from 89 last year. Within the FTSE 250 companies are progressing towards the 2024 deadline, with 67% meeting the target, up from 55% last year. Across the FTSE 100 almost half of the companies have more than one minority ethnic director on their board.

Whilst this progress is encouraging, there is still a long way to go and progress continues to lag that seen across gender. It's important to look beyond the board to the executive, the Parker review has launched new targets for December 2027, that we imbed into our engagement with companies:

- Each FTSE 350 company will be asked to set a percentage target for senior management positions that will be occupied by ethnic minority executives in December 2027
- 50 of the UK's largest private companies have been set the target of having at least one ethnic minority director on the main board by December 2027. Each company will also be asked to set a target for the percentage of ethnic minority executives within its senior management team

Diversity formed 20% of EOS's engagement on social issues during 2022. They have continued to focus on diversity, equity, inclusion and representation, asking companies to develop a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic and gender representation at all levels. Through the engagement plan EOS challenge companies to expand their consideration of diversity metrics to include representation and equity for the LGBTQ+ community and people with disabilities. These strategies should include articulation of culture and employee proposition to improve workforce loyalty and wellbeing.

In 2023, to enhance the quality of board performance and corporate decision-making, engagement will focus on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity. The goal should be to achieve a representation that is reflective of the diversity of the stakeholders it aspires to serve. Boards will be asked to demonstrate the lessons learned post-pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices. We remain committed to improving a board's "software", which relates to how it functions, in addition to its "hardware", which relates to its composition and structure. The board should continuously monitor and assess the prevailing company culture to ensure it is in line with the company's purpose, strategy, and values.



Ethnicity Pay Gap Reporting

Monster's global Future of Work report found 86 per cent of employees consider inclusion and diversity (I&D) critically important.[24] So far only 15 of the FTSE100 companies report on their ethnicity pay gap, but with public sentiment and broader stakeholder expectations shifting there is a distinct business case for promoting transparency and demonstrating best practice in this area.

Share Action launched an Ethnicity Pay Gap programme last year to increase ethnicity pay gap reporting, within the financial sector as none of the financial sector within the FTSE 100 were reporting this. The campaign called for:

- Companies with no procedures in place for Ethnicity Pay Gap reporting to begin making disclosures
- Those presently reporting are encouraged to improve the standard of their disclosures and undertake analysis of disparities to identify their causes, and solutions to address them

To date, ShareAction has asked 16 questions at company AGMs over the proxy season on this issue. All companies have welcomed the questions, with three – Abrdn, Hiscox and Schroders – committing to publish their ethnicity pay data once their disclosure rate has increased.

In 2023, engagement will be broadened out to food products and services, given their disproportionate number of minority workers with poor wages, and working conditions.

[24] https://www.peoplemanagement.co.uk/article/1793094/majority-candidates-reject-job-offer-employer-didnt-support-diversity-research-finds

Next steps

- Having achieved our portfolio specific targets, we aim to stay above this level but continue to seek improvement on the percentage of female representation on Boards for each of our active investment portfolios
- Engaging with companies on ethnic diversity, asking companies for a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic representation at all levels, including the Board
- To encourage improvements in the amount of data available around diversity and inclusion, working with our data and engagement providers
- Continue to maintain and publish our own diversity statistics and gender pay on a voluntary basis. We will explore further developing disclosures
- The Asset Owner Diversity Working Group, with the aim of improving transparency and diversity in the investment industry, will review the charter questionnaire, continue to grow the signatory base and report on progress

Asset Owner Diversity Charter

Following the successful launch of the Asset Owner Diversity Charter in 2021 this initiative was a primary focus of our activities during 2022. Helen Price, Head of Stewardship at Brunel, is Co-Chair of the Asset Owner Diversity Working Group, which led the charter's development and launch.

The signatory base grew from 17 to 24, representing £1.7trn AUM and the first multi manager was onboarded as a signatory.

AODC: A Year in Review

In December the working group held their first hybrid event, which was sponsored by one of Brunel's asset managers - Ninety One. The working group was joined by consultants, asset owners and asset managers to discuss what effect the charter was having, explore best practice and share the findings from the first year's questionnaire.

- Responses received from over 100 managers
- Gender data being the most readily available with ethnicity disclosure improving. The least available data was social economic background
- Only 23% of managers surveyed informed us that they published a gender pay gap in the past year and only 3% published their ethnicity pay gap. More ambition and transparency is needed to close the gender and ethnicity pay gaps
- 81% of managers have a diversity strategy or policy, smaller managers to date have typically taken a less formal approach, but this is changing with 67% now having a policy
- 48% of managers set diversity targets with 28% setting KPIs linked to senior management remuneration
- Less than 50% of firms are tracking and measuring promotions through a diversity lens
- 63% of managers indicated they were providing mentoring and 42% sponsorship to underrepresented groups, not a single manager was tracking take up - in order to ensure the right initiatives, policies and programmes are effective and targeting the right areas. Managers should consider collating data in these areas
- 10% of firms publish their family leave policies
- The majority of firms are not using quotas during the recruitment process

An aggregate report will be published, it will explore these high level findings further, along with best practice case studies to help support engaging conversation in ongoing manager monitoring. Brunel and BT Pension Scheme will sponsor the publication of this report.

Focus for 2023

Going into 2023 we aim to improve the response and disclosure rate from managers, setting out our expectations in the progress report. We will continue to build our signatory base with a focus on expanding out of the UK to take the initiative global. Towards the latter half of 2023, we will conduct a review of the questionnaire with a focus on incorporating the findings from the socio-economic diversity taskforce.

Helen Price
Co-Chair Asset Owner Diversity Working Group, Brunel Pension Partnership

What actions have we taken?

Measuring Diversity and Inclusion within our portfolios

In 2019, we established a baseline for monitoring and reporting the percentage of women on Boards within our own investment portfolios and set targets across our portfolios, these have been hit in previous years and we continue to see year on year improvement. Our Global High Alpha and Low Volatility portfolios have both now reached 33%, exceeding previous ambitions we had set. We have also seen an increase in the percentage of females on Boards from 2019 to 2022 across emerging markets.

To ensure British companies continue to raise their game and open up opportunities to everyone, the FTSE Women Leaders Review set out new recommendations in 2022, including a voluntary target for FTSE 350 Boards and for leadership teams to be increased to a minimum of 40% women's representation by the end of 2025.[25] It's great to see that at a board level the 40% target is already being hit within our active equity portfolio. Through our engagement with companies, we will focus on seeking improvement in representation within the executive level, as well as improvements across Chair, Senior Independent, Chief Executive or Finance Director roles by the end of 2025.

- **We encourage companies with below 250 employees to consider gender pay gap disclosure where practical. In the UK, we vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap**
- **We encourage our appointed managers to address and be transparent on gender pay gap and diversity statistics on an annual basis**

Percentage of Females on Board for Brunel Active Portfolios by weighted average

	Percentage of females on Boards				
Portfolio Name	Portfolio 2019	Portfolio 2020	Portfolio 2021	Portfolio 2022	Benchmark
Brunel UK Active Equity	39.30	39.46	39.82	40.48	40.34
Brunel Emerging Market Equity	17.96	18.08	18.55	20.12	15.50
Brunel Global High Alpha	31.94	32.10	32.68	32.92	33.44
Brunel Low Volaitlity	33.61	33.72	34.53	32.94	31.43

Source data: Brunel Pension Partnership and Factset, December 2022. Figures are on a weighted average basis.

[25] https://www.gov.uk/government/news/sea-change-in-uk-boardrooms-as-women-make-up-nearly-40-of-ftse-100-top-table-roles

Diversity and Inclusion at Brunel

Within our own business we aim to promote diversity and inclusion at the highest level. The top positions on our Board, Chair and CEO, are both held by women: Denise Le Gal and Laura Chappell. Brunel has fewer than 250 employees and is not required to disclose its gender pay gap however, Brunel is committed to be an attractive and transparent employer and therefore voluntarily discloses its gender pay gap data.

Brunel aims to create an inclusive and diverse workplace and the gender pay review helps us to monitor fair remuneration within our workforce. We have where possible, adopted hiring practices that address the gender pay gap through looking for a gender-balanced cohort of candidates and seeking balance across a much broader range of diversity and inclusion metrics.

Brunel began the reporting year with close to 60 employees, the aggregate data on male-female balance is still highly sensitive to any new departure or arrival. Where pay differentials do occur, they are recognised, and then addressed by training and development.

Women make up the following share of each pay quartile:

2020	2021	2022
33% of Upper	31% of Upper	38% of Upper
42% of Upper Middle	43% of Upper Middle	40% of Upper Middle
67% of Lower Middle	75% of Lower Middle	53% of Lower Middle
77% of Lower	69% of Lower	81% of Lower

The CEO pay ratios examine the relationship between the employee salaries throughout the organisation and the CEO's pay. These ratios show how much the CEO earns relative to employees in each quartile. The CEO pay ratio increased due to an increase in CEO salary (partially to rebalance between base pay and pension) and a decrease in the lowest pay level in the company)

CEO pay ratios	2021	2022	Change
Quartile 2	1.52	1.91	0.39
Quartile 3	2.07	2.76	0.69
Quartile 4	3.53	4.51	0.98
Lowest	6.09	9.24	3.15

No staff receive contractual bonus pay. However, a small number of staff received one-off recognition payments.
Source: Brunel Pension Partnership, 2022 Annual Financial Statements

Brunel acknowledges its own gender pay gap. Primarily, that reflects the fact that, over the reporting year, the lower quartile still largely comprised female members of staff (81%), up from 69%. This reflected the creation of new administrative roles, and the preponderance of female applicants. As the graphics demonstrate, our other quartile changes show mixed results, and the median hourly rate difference between male and female staff has increased.

We seek to continue to improve our own approach to diversity and inclusion in line with best practice. Our efforts in the past year were particularly focused on recruitment; development of our people; and workplace culture.

Human rights and social issues

We seek to invest in companies that respect all human rights, international norms and promote strong labour standards.

The most profitable and sustainable companies are those that attract, develop and retain talent. 2022 continued to be a challenging year for companies, as economies began to emerge from the covid pandemic. Some countries were still in a state of lockdown and the war in Ukraine and rising inflation perpetuated supply chain disruption globally. People are facing a cost-of-living crisis, one impacting those on the lowest wages disproportionality. From December 2021 to December 2022, domestic gas prices increased by 129% and domestic electricity prices by 65%. The cost-of-living crisis and rising inequality has led to the biggest strike action since 2011, it's estimated that rails strikes cost the UK hospitality sector £1.5bn in December.[26] Strikes will be a dominant feature of 2023 alongside the continued challenges of hiring into certain sectors. Our work across human rights and social issues continues to build on the momentum over the past years that has elevated the 'S' of ESG.

Our Approach

As part of our investment selection process, we expect our fund managers to understand and support the struggle against violations of human rights. We insist that companies comply with all legal requirements and the duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK and the United Nations Guiding Principles on Business Human Rights (UNGPs). We are supportive of companies that provide disclosure on their workforce and follow the Transparency in Supply Chains guide issued by the Home Office. We encourage companies to adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chains. Several data sources are used to monitor the underlying companies within our portfolios on human rights and supply chain standards, as well as on compliance with the Ten Principles of the United Nations Global Compact. Within our investments, we engage with companies on their approach to human capital management. We expect all companies to have Board level oversight of strategies relating to employee development, and to contribute to a positively engaged, committed and talented workforce. In addition, we expect companies to provide contextual information and disclose key performance indicators on an annual basis.

[26] https://www.theguardian.com/business/2022/dec/30/rail-strikes-cost-uk-hospitality-sector

Case Study: Labour Rights

Labour rights violations are an issue in many parts of the world, creating high exposure to risk amongst complex labour-intensive supply chains. Forced labour, long working hours, poor working conditions, and restrictions on the freedom to work, often impact vulnerable groups the most. Large scale supply chains with poor transparency led to companies breaking labour rights laws without their own knowledge. In last year's outcomes report we reported on how we've engaged with our managers on forced labour in China, the following case study details engagement undertaken with Taiwanese electronics manufacturer Hon Hai – also known as Foxconn.

EOS have been engaging on a wide range of labour issues including long hours and monotonous work since 2014. Hon Hai itself has acknowledged that staff turnover was high, with most of its human resources work focused on administration. Furthering this, despite employing over one million people globally, they did not have a human capital management strategy. An example of labour right violations was the existent student worker programme allowing them to employ underage workers.[27] Furthering their rocky labour rights record an internal company investigation found some controversial displaced Uighur workers at its Zhengzhou campus in China, but they had been there for over a decade.[28]

EOS engaged with the company and they acknowledged that there were operational oversight issues, and the company subsequently developed a labour strategy, which prevented students under the age of 18 from working in production. Remedial actions were discussed which included the termination of the existing student worker programme and raising the working age to the international labour standard of 18.

Through engagement several human capital management frameworks and metrics for tracking and disclosure were discussed with the chief people officer. EOS found that the company already measured some of these metrics and had some good internal practices, but they were concerned about disclosure.

In 2021, when asked about the risk of forced labour in and from the Xinjiang Uyghur Autonomous Region (XUAR). Hon Hai shared a public statement saying that: "… at no time has Foxconn ever had employees in its workforce in any market who have not voluntarily joined our firm. Any allegations to the contrary are categorically false." It referenced a Validated Audit Process it asked the Responsible Business Alliance to conduct, which published a report in October 2020 indicating that no workers from XUAR were employed at the time of the audit. The chair made a further statement in May 2021 that the company was committed to promoting and protecting the rights of each worker. In May 2022, we were pleased to receive the company's new long-term social goals, which included milestones to 2025 and beyond, including some metrics. The plan addresses important aspects of a human capital management strategy, including human rights and labour standards, opportunities for employee feedback, and inclusion and diversity. Overall, this shows significant progress, and we remain committed to following up with the company on implementation.

Alliance Bernstein invited Brunel's Will Findlay-Wilson to speak on modern slavery

"Modern slavery is a component of our broader focus on human rights and social issues, informing our stewardship strategy as we identify opportunities for change through our voting and stewardship activities."

Will Findlay-Wilson, Senior Portfolio Analyst, Brunel Pension Partnership

Brunel often engages with our investment managers on areas of heightened risk related to companies, industries, or geographies.

"We have engaged AB on some of these issues ourselves. Regard for these issues forms part of our due diligence on investment managers, and other third-party suppliers, ensuring our own operations are sound."

Having previously engaged with AB on modern slavery, they invited Will to an industry roundtable to share insights on addressing modern slavery issues in portfolios.

We expect asset managers to show awareness of potential risks beyond basic materiality and issues flagged by ESG rating agencies. Investigations should be diligent where allegations are serious and credible. Managers should exhibit a willingness to investigate their companies' claims, and to challenge their companies when they exhibit disengaged boilerplate responses. They should also demonstrate awareness of emerging regulation, such as the Uyghur Forced Labour Prevention Act in the US. Openness and transparency around engagement timescales, objectives and the credibility of outcomes is essential.

Q: What are some of the drivers that have made human rights/ modern slavery a priority for your organisation?
Strategically, human rights are a priority theme within Brunel's RI philosophy. From the perspective of systemic risk, research demonstrates that modern slavery is endemic in global society. Whilst modern slavery is more prevalent in certain geographies and industries, it is a significant issue that all investors should consider.

Modern slavery can lead to increased litigation and reputational risks. Research also suggests that climate change is exacerbating modern slavery. In some portfolios, Brunel's pivot to climate change technology investments has raised difficult questions around human rights trade-offs. For example, the solar energy industry has been tarnished by links to modern human slavery, particularly in the polysilicon supply chain. In some cases, our clients have a lower tolerance for modern slavery risks than their portfolio managers may have.

Q: How do modern slavery considerations form a part of your organization's corporate responsibility objectives?
Modern slavery is a component of our broader focus on human rights and social issues, informing our stewardship strategy as we identify opportunities for change through our voting and stewardship activities. Collaborative engagements are identified alongside other investors to further these goals. A good example is the CCLA-led engagement in the United Arab Emirates; another example is our support of Rathbones' collaborative engagement on modern human slavery statements.

We engage with our investment managers on areas of heightened risk related to companies, industries and geographies. We have engaged AB on some of these issues ourselves. Regard for these issues forms part of our due diligence on investment managers, and other third-party suppliers, ensuring our own operations are sound.

Q: Describe some of the challenges that you have faced in formulating and implementing a human rights framework across your investment portfolios.
One big challenge is that there are different human rights standards across geographies and different cultural and political attitudes, particularly relating to the role of the individual versus the role of the state. It's important not to project Western or Western European views onto all cultures but, at the same time, we need to have solid standards, especially in areas where engagement is challenged.

Often these issues are vast in scope and require a step-by-step process to make progress. Some companies are reluctant to make public disclosures. For others, we aim to change the narrative around supply chain due diligence and to identify problems as part of a positive process of improvement, and not simply as a basis for criticism. In some instances, there is a divergence of short-term investment return objectives and human rights goals.

Q: What are your highest priorities when it comes to incorporating human rights into your investments?
Brunel adopts a top-down approach. Firstly, there is action that can deal with this issue systemically and at global scale. For example, working an appraisal of these risks into a company's agreed responsibilities, within their own risk controls (audit of climate, modern human slavery, cyber risk). At the manager level, we work with managers who are philosophically aligned with us, and endeavour to collaborate. Idiosyncratic country or sector issues also warrant attention. For example, confronting emerging human rights issues in particular geographies or industries (such as mining, apparel, and agriculture), requires a higher level of engagement. Finally, at the company level, we aim to identify companies where there are risks that are not well-managed for engagement.

A full transcript of the roundtable, including insight from asset owners in the US and Australia is available here.

Alliance Bernstein – Modern Human Slavery

Because it's so insidious and difficult to root out, modern slavery is a growing challenge for businesses across industries. That makes it a global issue for the investors who channel capital to companies through their investment processes—an issue that demands concrete actions. Direct dialogue with global supply-chain managers at current or potential investments offer a path to enhancing fundamental research and encouraging firms to evaluate modern slavery risks. Risks such as brand and reputation, litigation, employee strikes and supply-chain interruptions, and customer boycotts can hurt financial performance.

Modern Human Slavery has long been a focus of Alliance Bernstein (AB), one of our appointed active listed equities managers. In last year's outcomes report we provided a detailed case study on how AB developed and implemented a modern slavery research methodology. During 2022, AB have continued their work in this space, taking a closer look at the role investors play in assessing and reducing modern human slavery risk and a deep dive into the specific challenges within the fishing and finance industries.

Building from their sector-agnostic framework, AB developed best-practices guides for a number of high-risk industries: fishing, apparel, technology, mining and finance. The risk to people in these industries varies, and so do best practices.

At AB, the primary objective is to understand how effective companies are at reducing modern slavery risk. By collaborating with certain firms, they've identified five criteria that can collectively serve as a best-practices benchmark:

1. Governance Framework
2. Risk Identification
3. Action Plan to Reduce Risks
4. Action Plan Effectiveness
5. Future Improvement

Not all the criteria apply to every company equally in all situations, but they help investors consider how firms might respond to modern slavery risk.

[27] https://www.ft.com/content/88524304-319f-11e3-817c-00144feab7de
[28] https://www.businessinsider.com/apple-forced-uighur-labor-iphone-factory-2020-3?r=US&IR=T

Case Study: Workplace Culture Sexual Harassment

The issue of sexual harassment in the workplace is a pervasive problem that affects millions of employees worldwide. Although there are numerous laws and policies aimed at preventing sexual harassment, many companies continue to struggle with fostering a safe and respectful workplace culture. The 2022 Gender Equality in the Workplace report by Randstad, which surveyed 6,000 working adults, found that the majority (72%) of women had either encountered or witnessed inappropriate behaviour from male colleagues at work.[29] Showing that although policies are in place the issue is still prudent.

Microsoft have recently found its culture under scrutiny when it announced plans to buy troubled video game franchise producer Activision Blizzard in January 2022. In 2021, during the build up to this takeover, Activision was accused by the US Equal Employment Opportunity Commission of failing to take corrective and preventive measures on sexual harassment complaints, discriminating against women in pay and promotions, and discriminating against pregnant workers.[30] In July 2021 they also faced a lawsuit from California regulators alleging the company "fostered a sexist culture".[31]

Held both actively and passively by Brunel, in Q1 2022 there was engagement with Microsoft on a 2021 shareholder proposal that had gained 78% support, which asked the board to report on the effectiveness of its workplace sexual harassment policies. In tandem Microsoft were forwarded expectations for board oversight of sexual harassment and discrimination issues that had already been sent to the Activision board.

In response, the company said that its communications on these issues had improved. It also committed to annual public reporting on the implementation of its sexual harassment and gender discrimination. This transparency was appreciated, and they were then encouraged to integrate Microsoft policies and practices at Activision Blizzard when the acquisition closed.

Engagement will continue with these companies on their approach to gender equity, governance of sexual harassment and discrimination, and a culture of safety for women, and all employees. In 2023, engagement will be intensified in these sectors with a look to broaden approaches to other sectors where there may be similar systemic problems.

Significant Vote – Concealment Clauses

At Apple's AGM across all listed market portfolios, passive and active, we voted in support of a shareholder resolution requesting a report on concealment clauses. More information on the impact that the company's standard arbitration provision has on Apple's employees may bring information to light that could result in improved recruitment, development and retention and could help the company prepare for pending federal legislation on the matter. The resolution received 50% support. In November 2022 Apple announced that it is ending the use of concealment clauses from employee contracts for all employees.

[29] https://www.randstad.co.uk/about-us/diversity-inclusion-wellbeing/workplace-gender-equality/
[30] https://www.reuters.com/technology/microsoft-faces-challenge-cleaning-up-activision-blizzards-culture-2022-01-20/
[31] https://www.theguardian.com/technology/2022/mar/29/activision-blizzard-sexual-harassment-lawsuit-eeoc-settlement

Case Study: Freedom of Association – Passive Equities

The human right of freedom of association when applied to the workplace ensures that employees can form unions, engage in collective bargaining, and advocate for better working conditions without fear of discrimination from their employers. However, the exercise of this right in the workplace has been a contentious issue, with many companies and employers limiting employees' freedom of association.

In 2021, it was reported that Amazon had been accused of interfering with efforts by its workers to unionise . This activity has since been investigated, and the US National Labour Relations Board Region (NLRB) declared that Amazon's conduct was inappropriate and not in line with International Labour Organisation (ILO) standards. Subsequently, Amazon were forced to read out a public notice to its employees stating that it will "cease and desist" from retaliating against people engaging in union organising .

Over the last year, our passive listed equities manager LGIM has engaged with Amazon five times, independently and collaboratively, to discuss the company's approach to, and policies on, human rights. The shareholder resolution that was supported at the company's AGM in 2021 asked for a civil rights, equity, diversity and inclusion audit report, and gained 45% support from shareholders. In January 2022, engagement was furthered with a signed collaborative letter, stating that the company immediately adopt a global policy of neutrality and commit to negotiate with unions in good faith. In response, the company argued that it currently adheres to all ILO standards on freedom of association.

At the company's 2022 AGM across our entire listed equities portfolio we supported a shareholder resolution seeking a report on protecting the rights of freedom of association and collective bargaining, the proposal received 39% support.

Engagement continues with the company to make some specific requests and to understand its latest progress on key social topics.

Case Study: Infrastructure – Nobina Project "Rise"

In our Cycle 2- General Infrastructure portfolio, we are co-investors alongside Basalt in Nobina, a bus transport and special needs transportation provider in the Nordics. Nobina has a fleet of ~3,700 buses and transports ~317 million passengers per year.

Bus transportation produces less GHG than the equivalent car journeys, in tandem the vehicle fleet is 78% powered by renewable fuel. By 2030, Nobina is targeting 100% renewable fuel and 80% less CO2 emissions per km driven against its 2015 baseline, with further energy efficiency measures in depots and bus heating. Nobina played an important role during the COVID pandemic through providing special needs transportation for the elderly and sick.

[32] https://www.nytimes.com/2021/03/16/technology/amazon-unions-virginia.html
[33] https://www.theguardian.com/technology/2022/nov/28/amazon-staten-island-new-york-retaliation

Climate Change

Using our strengths and our position in the market to systematically change the investment industry so that it is fit for purpose for a world where the temperature rise needs to be kept to well below 2°C, pursuing efforts to limit warming to no more than 1.5°C, above pre-industrial levels.

Climate change presents an immediate, systemic and material risk to the ecological, societal, and financial stability of every economy and country on the planet. It has direct implications for our clients and their beneficiaries. It is therefore a strategic investment priority for us and our clients.

Brunel's experience and expertise in managing climate change-related risks and opportunities; our scale; our influence; and the strength and support of our clients, provides us with a unique position in the investment industry.

In 2020 we designed a five-point plan as part of our Climate Change Policy – to guide our work. Committing to regularly monitor its implementation and publicly report on its effectiveness.

During 2022 we undertook our first Climate Stocktake – a deep dive to assess what we had delivered; stakeholder views of our progress to date; our priorities going forward together; and what updates to the scientific advice and investment best practices were relevant to shape the policy.

Following this analysis, our new Policy is launched. It extends that five-point plan to 2030, as we pursue our aim to change the broader financial system. The Climate Change Policy has been developed in collaboration with our clients and key stakeholders. For each area we have set targets which are consistent with the Net-Zero Investment Framework and its target setting guidance. They also reflect the Brunel and client priority to have real world impact and reduce real risk, not to just superficially make our portfolios look better.

Overall Strategy Target

We commit to be Net Zero on financed emissions by 2050, with the goal of limiting global temperature rise to 1.5°C, and Net Zero on our own operations (scope 1 and 2) by 2030.

This commitment is made through the Paris Aligned Asset Owners, part of the Paris Aligned Investment Initiative (PAII).

Public Policy Target – Sovereign Debt

100% of UK sovereign issuance to be subject to direct or collective engagement.

Brunel's **sovereign debt exposure** is almost all UK-based* and designed for the primary purpose of liability matching and therefore falls outside of the scope of the NZIF requirements. However, Brunel's policy work continues to focus on the UK government's Net Zero commitments and we actively participate in supporting implementation.

* our multi-asset portfolio can hold EM sovereign debt. Our collaborative work on EM strategically seeks to address engagement on those assets.

Product Governance Target – Portfolio alignment

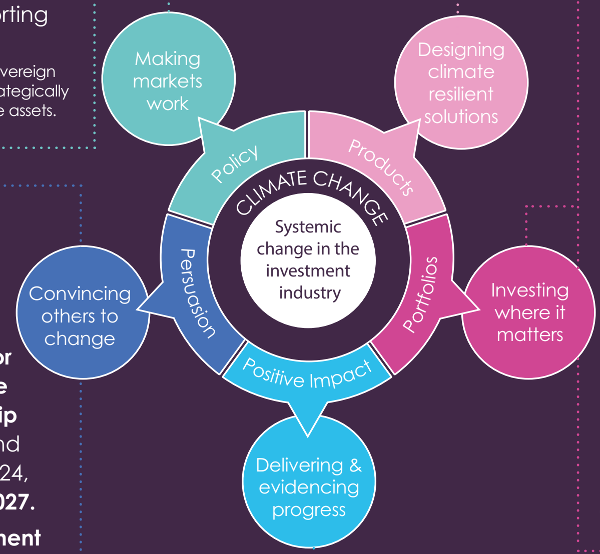
100% AUM in material (high impact) sectors* in developed listed equities that are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning by 2030**, extending to **all markets by 2040.**

Brunel's ambition is that **by 2040 all listed assets are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning**.**

By June 2024, Brunel commits to setting alignment targets for corporate bonds, infrastructure, real estate and secured income consistent with the NZIF and a timeline for target setting in other assets classes.

* Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with Transition Pathway Initiative sectors including banks.

** Note that, for a product to be on track for meeting its target, at least 80% of assets must fall into in the first and second categories



Portfolios - Decarbonisation

Brunel Target: Reduce emission carbon intensity (scope 1&2) for all Brunel's listed equity and corporate bond portfolios **by 50% by 2030, using a trajectory of at least 7% per annum reduction**, from baseline of investable universe as at 31/12/2019 (or appropriate subsequent date).

Brunel also commits to set additional decarbonisation targets to cover separate **Scope 3** targets to incorporate material sectors and other activities that will assist in achieving our overall goal **no later than June 2024.**

Persuasion Target – Portfolio stewardship

Ensure **70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement and stewardship actions** for all listed equity and corporate bonds by June 2024, increasing to **90% by June 2027.**

Engage with **100% of investment managers and general partners*** on measuring emissions, disclosure levels and setting targets for decarbonisation and alignment **by June 2024.**

Engage 100% of carbon-based energy and transport infrastructure assets as part of collective or direct engagement, or management interventions. Brunel Infrastructure portfolios have limited exposure to such assets and, where they do, it is often part of a wider programme of energy transition and/or efficiency.

With regard to our private markets' portfolios more broadly, we will sequentially focus on our infrastructure, secured income, real estate, private equity and private debt portfolios, with the ambition of **setting targets for the first three of these by June 2024.**

* Real estate scope is limited to the model portfolios and engagements in private markets will be a combination of direct and via our strategic partners.

Positive Impact - Climate solutions

We commit to providing investment opportunities across asset classes to contribute to Brunel's own alignment, which in-turn allows clients to meet their climate solutions targets.

- **Global Sustainable equity portfolio** (reporting green revenues)
- **Green, Climate and SDG bonds** (report % AUM and £m)
- **Infrastructure**

  Brunel's Infrastructure portfolios have strong ESG credentials, limiting exposure to high climate impact areas and have strategy targets including;

  - Cycle 1: **>35%** in renewable energy
  - Cycle 2: **50%** in renewable and climate solutions
  - Cycle 3: **70%** minimum target for Sustainable Infrastructure, of which at least **40%** (i.e. most of the SI allocation) will be in climate solutions

  Brunel will provide annual updates as to the sustainable exposure, including climate solutions, of its infrastructure portfolios from 2023 onwards.
- **Real Estate and Secured Income** (impact and renewables exposure – reporting metrics to be developed)

We feature numerous case studies of investments that specifically target climate solutions through decarbonisation and energy efficiency as well as climate adaptation and resilience, in our annual reporting. **We plan to expand our reporting through developing metrics to assist with assessing the portfolios and to set targets in June 2024.**

Climate Stocktake

The main purpose of the stocktake was to assess of the effectiveness of actions taken to address the commitments made in our 2020 policy.

We published a Climate Stocktake report, describing the main actions taken between 2020-2022, and their outcomes. The review was undertaken by Chronos Sustainability, summarising the main points, the report stated that;

- Significant progress had been made both relative to its starting point in 2020 and relative to the ambitious targets set at that time
- Brunel are ahead of target to reach the Net Zero halfway point by 2030, thanks to outdoing its 7% annual carbon exposure reduction target
- Brunel has undertaken considerable engagement with all of its investment managers on climate change and has developed market-leading investment products (the Paris Aligned Benchmark harnesses indices for climate investing and the Multi-Asset Credit portfolio drives forward RI in more esoteric bond asset classes)
- Brunel facilitated significant investments in green assets via its infrastructure and secured income portfolios
- Brunel has also established firm foundations – in terms of, internal accountability and governance processes, building manager competence, strengthening data and performance measurement – that will underpin its work in the coming years

The review also involved stakeholder engagement to establish areas for improvement and client priorities for action. These are summarised on page 39.

As part of the stocktake Brunel specifically undertook to review the effectiveness of its policy advocacy and identify areas for further escalation. The review is publicly available along with other examples and evidence of action against the Policy Advocacy Pillar of our policy.

Key highlights of work for 2022

- Extensive outreach promoting our climate public policy positions and promoting the Paris Aligned initiative's Net Zero Investment Framework at UN Climate Conference - COP27
- Supporting well-functioning markets by working collaboratively through Glasgow Financial Alliance for Net Zero (GFANZ) and with the UK Government development of a Green Taxonomy and Transition Plans
- Supporting the development of the International Sustainability Standards Board (ISSB) and specifically the exposure drafts for sustainability report and climate reporting. Brunel's CRIO is a member of the Investor Advisory Group for the ISSB

Evidencing outcomes

We have made significant progress in evidencing outcomes from actions on climate, but it continues to remain an area for continual improvement. This is outlined in the client feedback gathered through the stocktake and other feedback. In this report we highlight the outcomes in 4 areas using a combination of quantitative analysis and case studies.

- Portfolio decarbonisation
- Measuring positive Impact – FTSE Green Revenues data set
- Real world impact – Orchard Street Partners real estate case study
- Engagement success – TPI and Climate Action 100+

Portfolio decarbonisation

The principal target of the 2020 policy was the portfolio decarbonisation target. The Brunel aggregate portfolio is the weighted average of the underlying investment mix that our clients have chosen. Compared to its benchmark, the aggregate portfolio is **27% less carbon intensive** on a Weighted Average Carbon Intensity (WACI) basis and **35% less than the baseline** set in 2019.

Weighted Average Carbon Intensity (WACI)

A portfolio WACI is determined by taking the carbon intensity of each company and weighting it based on its holding size within the portfolio. The WACI is one of the measures recommended by the TCFD because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy interventions and changing consumer behaviours.

Carbon Intensity of Brunel's portfolios compared to the Benchmark of December 2022

Carbon intensity

Weighted Carbon Intensity of Brunel's portfolios compared to 2019 baseline

Portfolio	Reduction %	2022 Portfolio	2019 Baseline
Brunel Aggregate	34.68%	224	343
Active Portfolios			
Brunel UK Active Equities	21.91%	220	282
Brunel Global High Alpha Equities	40.22%	180	301
Brunel Emerging Markets Equities	44.70%	315	570
Brunel Low Volatility Global Equities	40.16%	200	334
Brunel Global Sustainable Equities	20.89%	264	334
Brunel Global Small Cap Equities *	32.25%	209	309
Brunel Sterling Corporate Bonds**	17.52%	152	184
Passive Portfolios			
Brunel Passive Smart Beta	12.81%	483	554
Brunel Passive UK Equities	-5.80%	298	281
Brunel CTB Passive UK Equities	10.96%	250	281
Brunel Passive Developed Equities	5.65%	286	303
Brunel PAB Passive Global Equities	41.08%	179	303
Brunel CTB Passive Global Equities	26.13%	224	303

* Trucost updated methodology in 2020 means we have taken December 2020 as a baseline for the Brunel Global Small Cap Equities

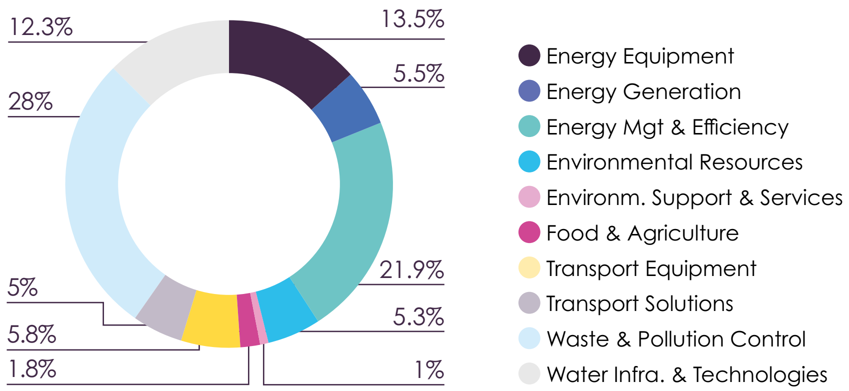
** This Portfolio has a baseline of 31 December 2021

Measuring positive Impact – FTSE Green Revenues data set

In 2021, Brunel began using FTSE Green Revenues data to examine the investment in green and climate solutions in listed markets. The FTSE-Russell Green Revenues data set relies on publicly disclosed information to assess the revenue exposure of companies that have exposure to products and services that deliver environmental solutions in 10 sectors, 64 sub-sectors and 133 micro-sectors.

The sectors are listed in the key.

Example portfolio - Brunel Global Sustainable Equities December 2022



In 2022, we used the data to analyse all listed market portfolios and have added this information our clients' carbon metrics reporting as at December 2022.

The Brunel Global Sustainable Portfolio has 12.4%[34] of exposure to green revenues compared to 7.3% in its benchmark, the FTSE All World, as of 31 December 2022. The majority of green revenues (28.0%) come from waste and pollution control technologies and solutions, followed by energy management and efficiency (21.9%) and energy equipment (13.5%).

Brunel, with the support of its advisor StepStone Group, has also used the green revenue definitions to analyse it infrastructure investment, enabling Brunel aggregate commitments and clients to report climate solutions targets as part of their climate policy commitments. We aim to report the first outcomes of this work later in 2023.

Real world impact

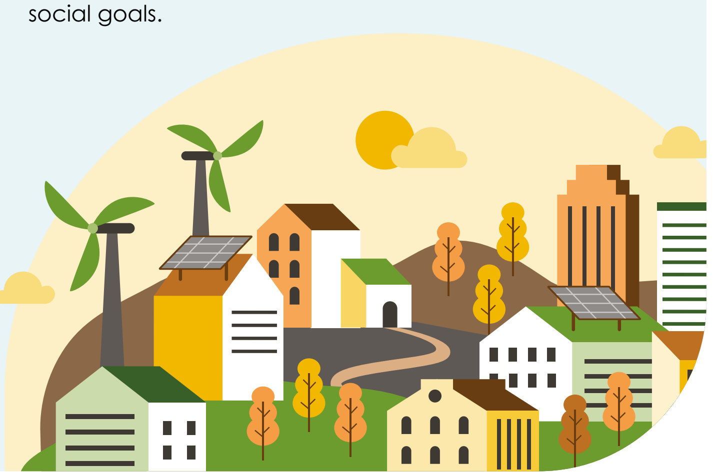
A clear client priority is being able to evidence real-world impact. We are seeking to develop metrics and reporting that will support our ability to provide a broader picture of impact. In the meantime, we continue to share case studies that highlight the real-world impact.

Case Study: Orchard Street partners

We committed just under £90m with Orchard Street in their inaugural impact fund at first close. Brunel acts as the Fund's cornerstone investor on behalf of eight of our ten underlying local authority partner funds. The fund sits within our UK Property portfolio.

The fund will target value-add real estate investment opportunities with the potential to generate a measurable social and environmental impact. Specifically, it will focus on the three impact areas from decarbonising existing buildings via an accelerated programme of refurbishment, investing in local communities, using a proprietary place-based needs model to identify and respond to local social issues. It will also focus on making buildings healthier for those that live and work in them, for example through improving air quality, access to green space and wellness amenities.

Orchard Street has also taken a market leading approach by linking 30% of its performance fees to the achievement of the Fund's specific impact objectives, thereby aligning itself directly. Not only to financial outcomes, but also to important environmental and social goals.



[34] This measures the percentage of green revenues in all revenues.

The TPI Tool

The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool uses publicly available company information to assess:

Management quality

The quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.

Carbon performance

How companies' carbon performance now and in the future might compare to the international targets and national pledges made as part of the Paris Agreement.

Companies' management quality is assessed annually across 17 indicators.

Companies are placed on one of five levels:

Level 0 - Unaware of, or not acknowledging climate change as a business issue

Level 1 – Acknowledging climate change as a business issue

Level 2 – Building capacity

Level 3 – Integrated into operational decision-making

Level 4 – Strategic assessment

For more information see www.transitionpathwayinitiative.org

Engaging with companies on climate action

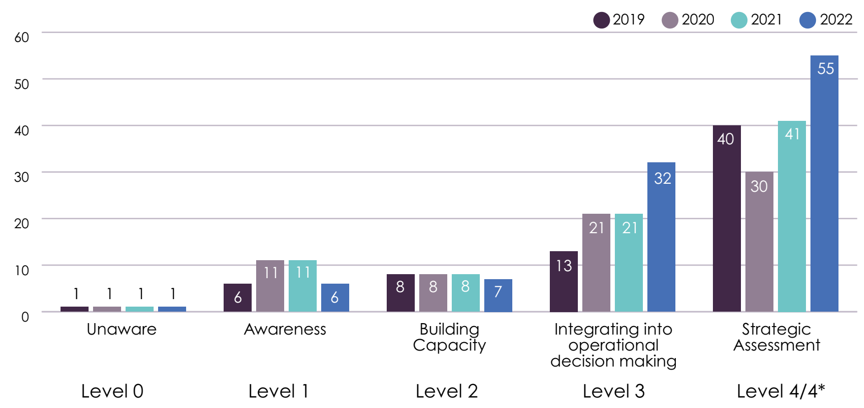
Transition Pathway initiative

We aimed to have all our material holdings on TPI level 4 or above by 2022. We used the TPI management quality scores to assess the transparency of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low carbon transition.

As of December 2022, within Brunel's active equity portfolios there were 101 companies covered by the TPI tool. Of these, 55 holdings (63% by investment value) are categorised as Level 4 or above.

We also aim to move companies forward, evidence by moving up a level. In 2022, 9 names within our active equity portfolios moved up a TPI level.

TPI Management Quality Brunel Active Equity Count



The TPI Centre at a glance

SUPPORTERS

136 SUPPORTERS

$50tn COMBINED AUM

COMPANIES

599 COMPANIES

16 SECTORS

47 COUNTRIES OF LOCATION

$10tn OF TOTAL MARKET CAP

SECTORAL BENCHMARKS

2 BENCHMARKS FOR ENERGY
Electricity, oil & Gas

3 BENCHMARKS FOR TRANSPORT
Autos, Aviation, Shipping

5 BENCHMARKS FOR INDUSTRIAL AND MATERIALS
Aluminium, Cement, Diversified Minning, Paper, Steel

Climate Action 100+

Brunel Pension Partnership is a signatory to Climate Action 100+ (CA100+) which is a global initiative led by 700+ investors who together represent over $68 trillion in combined assets under management. The Initiative's aim is to ensure that the world's largest listed corporate emitters take action on climate change, in line with the aims of Climate Action 100+ is coordinated by its five founding investor networks: AIGCC, Ceres, IGCC, IIGCC and PRI.

The initiative's centerpiece is the CA100+ **Net Zero Company Benchmark,** an assessment of the climate change performance of 100 'systemically important emitters', which account for 80% of annual global industrial emissions, and a further 60+ companies who have a significant opportunity to drive a broader economic transition to net zero emissions by 2050. The Benchmark assesses these companies against 10 indicators that reflect the key commitment priorities of the Initiative.

The three aims of Climate Action 100+

Signatories to CA100+ agree there should be a common engagement agenda across sectors, regions and business types which consists of seeking commitments from corporate boards and senior management to:

1. Implement a strong **governance framework** which clearly articulates the board's accountability and oversight of climate change risk;
2. Take action to **reduce greenhouse gas emissions** across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to 1.5°C;
3. Provide **enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines.

By supporting this high-level agenda, investors are identifying and communicating with companies about detailed expectations. Further, enhanced disclosure about the management of climate risk will enable investors to assess the robustness of companies' business plans against a range of climate scenarios to improve investment decision-making.

Investors use the Benchmark to engage with these companies collectively in a process coordinated by CA100+. This engagement resulted in a significant number of companies making significant commitments to action. By October 2022, 75% of companies had committed to achieve net zero emissions by 2050 across at least part of their emissions footprint, a 22% increase from March and 17% increase from 2021 (see chart page 60) below. In addition, most of these companies had made progress on their internal climate governance, with 90% having some level of board oversight of climate change and 89% having committed to report in line with TCFD recommendations.

As of December 2022, Brunel has exposure to 130 of the 159 companies covered by CA100+.

Brunel CA100+ key statistics 2023

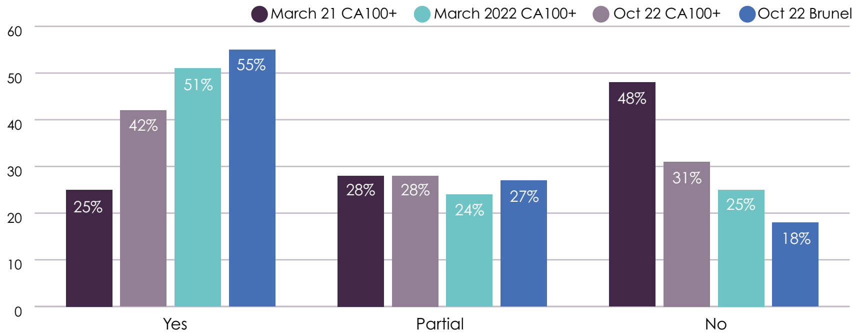
The current CA100+ Universe is 159 companies, as at the 31 December Brunel had exposure to 130. Numbers represent the percentage number of companies fulfilling the indicators below;

	Brunel cohort	CA100+
Net Zero commitment	82%	75%
Board level oversight	95%	92%
Committed to the basic aspects of TCFD framework	97%	91%

Progress across CA100+ focus companies on net zero target setting.

By October 2022, 75% of focus companies have set a net zero emissions for 2050 (or sooner) by ambition that covers, at least, their Scope 1 and 2 GHG emissions, an increase of 42%, significant improvement from March 2021.

Indicator 1 - Net Zero GHG by 2050 (or sooner) ambition



Brunel Portfolios

When we look at Brunel's portfolios, we see that CA100+ engagement has supported significant changes in companies in which we invest. One example is BP which, in February 2022, committed to achieving net zero lifecycle emissions from the energy products it sells by 2050. However, the changes in the energy market have impacted commitments with BP announcing a reduction in the production assets it was aiming to remove, although they maintain their overall strategy is still aligned. Brunel, alongside other investors, are actively engaging with BP to establish the impact of these changes. The engagement is on-going.

Brunel has committed to using the CA100+ benchmark as part of the assessment of net-zero alignment maturity. Details are provided in the Climate Change Policy 2023-20230 and the assessments will be published annually in our Climate Action Plan Progress Report.

The successes of the CA100+ initiative clearly demonstrates the power of collective investor engagement to drive substantial changes in how companies manage climate change-related risks and opportunities. When trying to achieve these outcomes, it is essential that investors are aligned behind an ambitious, common agenda. We believe that working with the companies in which we invest, through the CA100+ initiative to address the business impacts of climate change is not only consistent with our fiduciary duty but is also essential to achieving the goals of the Paris Agreement. For further details on Climate Action 100+, including detailed descriptions of the indicators used to assess companies, please see the initiative's website.

Next steps

- More details on our activities on climate action to be published in our Climate Action Plan Progress Report
- Development of metrics and targets for private market portfolios, including sustainable exposure
- Enhance the reporting of physical climate risk, climate engagement and real-world outcomes

Tax and Cost, Transparency and Fairness

We seek to promote fair and transparent tax and cost systems as a way for corporations to contribute to the economies in which they operate and asset managers to demonstrate value for money.

We believe openness on investment costs and tax is key to building understanding and trust.

We expect companies to:

- Comply with all tax laws and regulations in all countries of operation
- Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely and commit to paying their fair contribution
- Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions where they operate
- Disclose the taxes they pay (or collect) in each country
- Provide country-by-country reporting to demonstrate that taxes are paid where economic value is generated
- Adopt an approach to tax policy that is sustainable and transparent

We expect asset managers to:

- Comply with LGPS/FCA Cost Transparency Initiative (CTI) for listed market managers
- Support our cost transparency objectives in all asset classes

Brunel believes taxation is an essential component of a healthy, sustainable society. This is the first of six principles on taxation that guides our approach. These principles are set out in our Tax Policy, for which there is a published summary (2022 update) on our website.

In 2022/23 Brunel participated in the PRI Tax Reference Group, an active knowledge sharing group open to all PRI signatories on the issue of tax. A key paper highlighted within the group was the PRI's paper on "How to Consider Tax in Voting Practices" published in December 2022. The paper explores how investors can effect change through integrating tax issues within their voting policies.

Tax is already integrated into the Brunel voting policy. Our voting guidelines outline tax as a key principle for companies and their boards to manage. Failure to meet our expectations on tax will be factored into the assessment of whether to support a relevant resolution proposed by management or by shareholders.

To ensure our voting policy is reinforced by a coherent stewardship strategy we utilise our relationship with EOS. EOS has set responsible tax practices as an expanding theme for engagement during 2023-25 focusing on four critical areas: tax policy, governance, stakeholder engagement and transparency.

The focus on corporate tax as a systematic issue builds on the previous support Brunel has provided to the PRI in promoting investor action on tax in 2021, and Brunel's clear articulation of its principles on taxation across its operations, including in relation to its investment structures, was highlighted in the PRI's discussion paper on tax fairness "What Is Tax Fairness And What Does It Mean For Investors?".

In April 2022, Brunel engaged directly, together with several asset owners, with Amazon on a variety of issues one of which was the tax transparency. Concerns over Amazon's approach to tax transparency remain, and Brunel is continuing engagement through our engagement provider and asset managers.

Cost Transparency and Fairness

Brunel is a signatory of the LGPS Code of Transparency and requires all qualifying managers to be signatories. We expect all of our managers to have appropriate fee structures that align with client interests. Our private markets team has been actively engaging with General Partners to promote fair and transparent fee structures, which has been enhanced by the work of our private markets' administrator, Colmore.

Our cost transparency reports are provided to clients and include disclosures such as:

- Portfolio investment activity and transaction costs
- A breakdown of ongoing charges
- Performance fees (if applicable)
- Incidental costs (if applicable)
- Lending and borrowing costs (if applicable)

A focus on costs and cost transparency has contributed to our achievements in making savings for our clients, one of the main drivers for pooling. Brunel is currently making cost savings of £34 million, ahead of its 2025 target, which translates to almost four times the cost that is incurred through the negotiated management fees.

Brunel is supportive of aligning asset manager or fund incentives with broader sustainability outcomes where appropriate. For funds which are explicitly targeting impact, particularly in private markets we support the idea of linking 'carry' which forms part of the fee/ incentive structure for the fund with the outcomes being delivered. Whilst still in its infancy we are already starting to see clear examples of General Partners linking the carry received to the sustainable outcomes of investments.

Successful examples include Apax Partners who have developed an 'Apax Impact Improvement Score' that will measure the impact outcomes during an investment hold period through various key performance indicators. The score for each investment in a fund is then embedded into the management's compensation criteria. Another example is Orchard Street partners who have taken a market leading approach by linking 30% of their performance fees to the achievement of specific impact objectives within their fund (see page 57 for more).

Next steps

- Continue to support PRI establishment of new asset owner leadership group on Tax and outreach and continue to promote transparency and fairness with investors and companies
- Continue to enhance our disclosures and analysis in relation to cost transparency and fairness

Cyber

We seek to promote corporate awareness and action on cyber security, the responsible use of personal data and use of AI to both protect commercial risks and reputational damage.

For the purpose of this report, the term 'cyber' refers to an array of issues covering data privacy, data security and 'big data', including artificial intelligence (AI) and the associated human rights issues.

As the digital economy surged off the back of the COVID-19 pandemic, so did cybercrime. This trend continued throughout 2022, Cyber attacks such as phishing, ransomware and distributed denial of service (DDoS) attacks increased. Cloudflare, a major US cybersecurity firm that provides protection services for over 30% of Fortune 500 companies, found that DDoS attacks increased by 79% year over year. With ongoing economic and geopolitical instability experts are predicting that 2023 will be a consequential year for cybersecurity.[35]

According to the World Economic Forum's new annual report, The Global Cybersecurity Outlook 2023,[36] 93% of cyber leaders and 86% of business leaders believe a far-reaching and catastrophic cyber event is at least somewhat likely in the next two years, an increase on last year's report. Cyber leaders, business leaders and boards of directors are now communicating more directly and more often, but they continue to speak different languages.

Organisations continue to face significant challenges when it comes to effectively addressing cyber concerns. The report noted that leaders are responding to these concerns by strengthening controls for their third parties with access to their environments and/or data and re-evaluating which countries they do business in. Leaders intend to strengthen controls for third parties with access to their environments and/or data and are likely to achieve this by focusing on in-house solutions for cyber-risk management, whereas security leaders place a higher priority on partnerships with other organisations. This gap between leaders can leave firms vulnerable to attacks as a direct result of incongruous security priorities and policies.

The complex nature of cybercrime makes its precise economic cost difficult to estimate. From April 2021 to April 2022 cybercrime cost £3.1bn in reported losses[37] to individuals, the average cost of a data breach in 2021 was over $4.5 million and a UK Government report, The Cost of Cyber Crime, estimated that the total costs of cybercrime to the UK economy is £27 billion a year.[38] On a global level, a report by AAG estimated the average cost of a cyber breach in 2022 was $4.35 million. It's predicted that cybercrime cost the global economy around $7 trillion in 2022, and this number is expected to rise to $10.5 trillion by 2025.[39]

Given the significant financial consequences of poor cybersecurity, the growing threat it presents, and the increase in related regulations worldwide, we believe it is imperative that companies are fully aware and take appropriate action, in particular prioritising partnerships with other organisations.

[35] https://www.weforum.org/agenda/2023/01/cybersecurity-storm-2023-experts-davos23/

[36] https://www3.weforum.org/docs/WEF_Global_Security_Outlook_Report_2023.pdf

[37] https://www.comparitech.com/blog/information-security/uk-cyber-security-statistics/#:~:text=2021%2D2022%20losses%20to%20fraud,April%202021%20to%20April%202022.

[38] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/60942/THE-COST-OF-CYBER-CRIME-SUMMARY-FINAL.pdf

[39] https://aag-it.com/the-latest-cyber-crime-statistics/#:~:text=Cyber%20Crime%20Trends%202023&text=The%20average%20cost%20of%20a,to%20%2410.5%20trillion%20by%202025.

Case Study: Privacy Rights

Biometrics are increasingly being used by companies to unlock devices but at the same time advances in technology have made it possible to capture date from online content such as shared photos, this may be collected passively or even covertly. Companies have a duty to ensure that they are collecting information with users' permission, that they are protecting and using information responsibly. When a person's physiological biometric information is compromised, it can be extremely difficult if not impossible to change their unique data and can cause problems for future biometric authentication.

Facebook, rebranded as Meta, were exposed to allegations from an internal whistle-blower Frances Haugen, who alleged that the company prioritised profitability over its positive impact. The company is now being sued by Texas attorney-general who alleges that it harvested and exploited biometric data without proper consent, in violation of its privacy laws. Meta stated that these claims were without merit .

EOS wrote letters to some of the largest tech companies around the globe including Alibaba, Alphabet, Amazon, Apple, Baidu, Kakao, Meta, Microsoft, Tencent, and Twitter, introducing the Digital Rights Principles. EOS made several requests including that companies obtain consent from users for the collection, inference, sharing, and retention of their data, and enhance their disclosure on enforcement of policies and protections for children and young people.

In 2022, the company published its first human rights report. The report provides some helpful information on its policies and procedures – for example, those enforcing the community standards governing content on its platforms. However, the report falls short of the highest standard for user privacy rights in our view, which is a commitment to obtaining user consent for collection, inference, sharing, and retention of their data.

The recently published EOS Digital Rights Principles and engagement, were used to inform voting decisions at Meta's Annual General Meeting, we supported a number of shareholder resolutions, these included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection.

Engagement continues with Meta on improving reporting on privacy rights.

[40] https://www.reuters.com/technology/texas-sues-meta-over-facebooks-facial-recognition-practices-report-2022-02-14/

Case Study: Ethical AI

Artificial intelligence (AI) is developing at a rapid rate and influencing how companies identify growth opportunities and how users interact online. This technology is developing so quickly that the law has not kept pace with its use. Investors are required to increasingly engage with companies to place a fundamental importance for their policies to go beyond legal requirements to ensure respect for fundamental human values. If used unethically AI can cause severe deleterious effects for individuals, the environment, and society.[41] During 2022, a UK coroner found that harmful online content had contributed to the death of a 14-year-old schoolgirl in a "more than minimal way".[42] Building user trust in the protection of digital rights and use of AI has become a critical part of any company's social licence to operate.

EOS has been engaging with companies specifically on data privacy and artificial intelligence since April 2018. In 2019, they published 'Expectations on Responsible Artificial Intelligence and Data Governance', which set out engagement frameworks encompassing a breadth of risks across data governance, bias and cyber security, their engagement on this was covered in our 2021 outcomes report. Earlier in 2022, EOS wrote to some of the largest tech companies around the globe and introduced their Digital Rights Principles. They made several requests including that companies enhance their disclosure on enforcement of policies and protections for children and young people. They also asked that they build trust in their use of AI, especially for the purposes of curating, ranking, and recommending online content.

EOS met with most of the global tech companies to reiterate the Digital Rights Principles requests and tracked their responses. One company they met with was Alibaba. Alibaba uses AI to optimise its supply chain, drive personalised advertisements and build products. Alibaba has two main pipelines it enhances with AI; driving sales with optimised recommendation systems and cloud AI to support variable sales/traffic volumes.[43] Although market leaders in AI integration across their supply chain, Alibaba has come into controversy in China over their collection and control of data and their failure to adhere to the China Personal Information Protection Law. In 2021, Alibaba were fined US$2.8Bn for antitrust violations.[44]

EOS engaged with Alibaba on complying with China's Personal Information Protection Law, establishing more transparent data policies, and having mechanisms in place to mitigate customer grievances. They held follow up meetings to reiterate these requests and track their responses. At the meeting with Alibaba, the company acknowledged the need to enhance its focus on ESG issues, and outlined plans to recruit experts and develop an ESG strategy that includes the responsible deployment of AI. Alibaba has made progress, and we now have an established and ongoing dialogue with the company. It has assured us that its upcoming ESG report will include enhanced disclosure on key topics. Further detail on wider engagement with Alibaba and next steps can be found here.

EOS also engaged with standards-setting organisations for digital rights such as the Global Network Initiative and the Ranking Digital Rights Index to influence their standards and inform our views on best practice. They gave feedback on the Value Reporting Foundation's (formerly the Sustainability Accounting Standards Board's) draft reporting framework for content governance and freedom of expression, to encourage the inclusion of metrics on children and teens. We also signed a statement in support of the EU Digital Markets Act and Digital Services Act.

The Digital Rights Principles will be used to inform voting recommendations at relevant shareholder resolutions with companies. EOS will continue liaising with the Global Network Initiative and the Ranking Digital Rights Index to advance respect for digital rights.

Walk the talk

When we appoint managers, we integrate cyber security issues into the selection process. It, therefore, forms a part of the rigorous due diligence undertaken to assess how the manager is handling cyber security, both initially and on an ongoing basis. Any concerns are discussed with the manager and, where needed, conditions may be set around cyber security prior to entering any agreement. In such cases, managers are monitored more frequently.

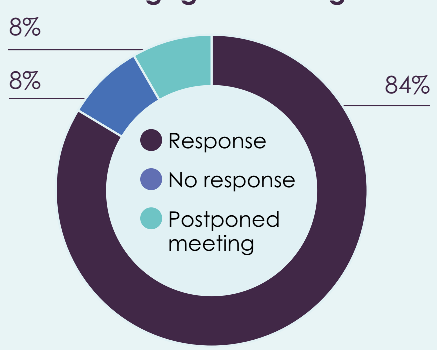
[41] https://news.harvard.edu/gazette/story/2020/10/ethical-concerns-mount-as-ai-takes-bigger-decision-making-role/
[42] https://www.itv.com/news/london/2022-09-30/molly-russell-online-content-viewed-by-schoolgirl-ruled-as-unsafe
[43] https://emerj.com/ai-sector-overviews/artificial-intelligence-at-alibaba/#:~:text=Internal%20and%20external%20evidence%20suggests,machine%20interaction%2C%20and%20quantum%20computing
[44] https://www.reuters.com/business/retail-consumer/china-regulators-fine-alibaba-275-bln-anti-monopoly-violations-2021-04-10/

Case Study: Cybersecurity Coalition

In 2020, Royal London Asset Management (RLAM) convened the Cybersecurity Coalition, with representatives from Brunel, Border to Coast, NEST, RMPI Railpen and USS. We have found phase 1 and 2 engagements useful to monitor risk given the confidentiality of policies and lack of public disclosure in this area.

In 2022, phase 3 of the engagement programme was launched and twelve companies that may be at higher risk to cyber attacks were identified for engagement. Of the 12 companies we contacted, only one was unresponsive and one requested we delayed our meeting as they were conducting an internal review on ESG disclosures.

Phase 3 Engagement Progress



We used the learnings from phase 1 and 2 to inform the publication of investor expectations at the end of 2021. Alongside the focus on governance and risk management the minimum expectations focus on areas of enhanced risk such as corporate culture, corporate action and third parties. The advanced practices are informed by examples of best practice we have encountered. We used these expectations as the basis of our letters and meetings in phase 3 to gain the information necessary to assess how a company performs against these investor expectations.

A common theme we discovered was the value companies gained from collaboration both with peers and with government bodies. One company was a founding member and host of the Cyber Defence Alliance which shares best practice and threat intelligence with other UK banks, another company participated in external industry and government committees such as the Rail Cyber Security Committee and Rail Information Exchange (part of National Cyber Security Centre). Companies also welcomed the engagement from the coalition providing access to CEO and CFO's, as well as the wider team to discuss our investor expectations and the companies approach to the changing landscape.

Employees are the gatekeepers for IT systems, they are the most vulnerable part of a company's defence, with increased personal targeting and a merging of home and work life we were keen to understand what training companies were provided. We were provided some excellent examples of enhanced training, one company specifically targeted senior leadership in simulated attacks, and one even attempted, with permission, mock identify theft of an employee which was then presented as training to demonstrate the vulnerabilities present in employees personal cyber security. We were impressed to see the awareness of this growing risk and the creativity of approaches taken to train and educate employees.

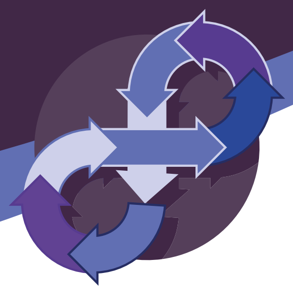
Overall, this engagement programme reassured us that the targeted companies are broadly meeting the investor expectations. It reaffirmed the value of direct conversations with companies given the lack of public disclosures. We will be identifying the priorities for Phase 4 of the engagement initiative and aim to commence this in 2023, we will report on the progress next year.

Next steps

- Continued participation in the Cybersecurity Coalition to phase 4
- Continue to engage with our asset managers on cyber issues; both how they approach integration into investment selection and how they are managing the risks within their own operations
- Continue to engage with companies on privacy rights to ensure that user data is being used appropriately and with consent

Circular Economy and Supply Chain Management

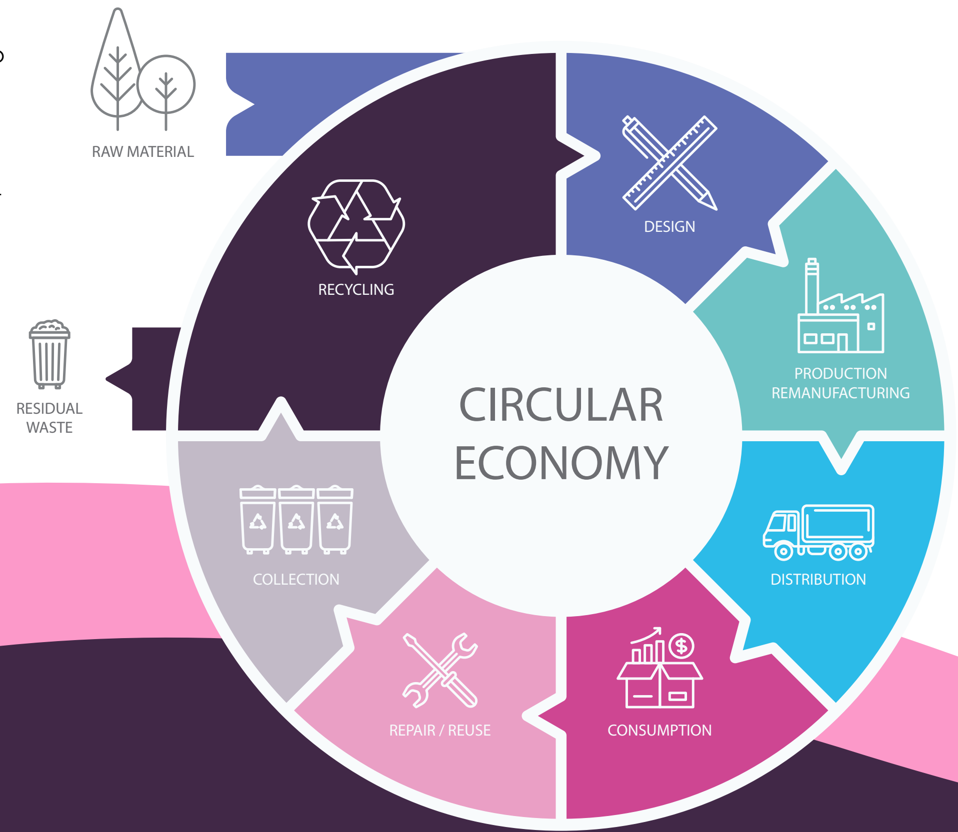
We seek to focus on specific companies and sectors where the effective management of suppliers is a principal business risk. The complex and extensive nature of supply chains in a globalised world presents many sustainability and socioeconomic risks.



An increasing need (and opportunity) for a shift from linear to circular business models is central to futureproofing businesses and reducing negative impacts on the environment. Rising investor concerns reflect the threat of fines and the loss of a social licence to operate, as well as the harm done to wider society and investments. This includes through air pollution, the leakage of single-use plastics and chemicals into waterways, and catastrophic oil spills or tailings dam leaks.

What is the circular economy? The Ellen Macarthur Foundation defines it as follows:

A circular economy is a systemic approach to economic development designed to benefit businesses, society, and the environment. In contrast to the 'take-make-waste' linear model, a circular economy is regenerative by design and aims to gradually decouple growth from the consumption of finite resources.



Antimicrobial Resistance (AMR)

The World Bank forecasts that antimicrobial resistance (AMR) will cause a 3.8% loss to GDP per year by 2050, a significant impact to the global economy.[45] Furthering this, AMR is anticipated to be the cause of 10 million deaths by 2050. For this reason, the Word Health Organisation (WHO) has declared AMR as one of the top ten global health threats facing humanity.[46] Despite the urgent need to safeguard antibiotics and preserve their efficacy, over two-thirds of the global supply are currently used in animals.[47] The World Bank has, therefore, highlighted animal agriculture as a 'critical frontier' for tackling AMR.[48]

Analysis by the FAIRR Initiative has shown that despite most companies acknowledging AMR as a material risk to their business they continue to manufacture, sell and market antibiotics. Animal pharmaceutical companies have an intrinsic role in driving up AMR. A recent paper Global trends in antimicrobial use in food-producing animals,[49] Global trends in antimicrobial use in food-producing animals: 2020 to 2030[50] by Ranya Mulchandani,Yu Wang, Marius Gilbert and Thomas P. Van Boeckel, used farm surveys and drug sales to collate antibiotic use in farming because "the majority of data on antibiotic use in the world is unusable", according to epidemiologist Thomas Van Boeckel. Antibiotic usage in 229 countries suggest that Africa's use is probably twice what the World Organization for Animal Health reports and use in Asia is 50% higher than reported.

FAIRR sent investor statements to 7 companies who were invited to engage with a small subset of signatories. These statements were supported by 65 investors and investor representatives, with more than $16 trillion in combined assets. The engagement aimed to drive greater disclosure and clarity over how – and if – animal pharmaceutical companies are addressing the risk of AMR throughout their value chain, from factory to farm.

An Investor Action on Antimicrobial Resistance Progress Report[51] was published in November 2022, it contains a number of investor case studies, including one from our engagement provider EOS and our appointed managers Nordea, Mirova, Genesis and LGIM.

Voting

We used all of our listed equities to support a shareholder resolution asking for a report on the public health costs of antimicrobial resistance at Abbott Laboratories. The proposed study will contribute to inform shareholders and other stakeholders on how the actions that Abbott Laboratories take, or do not take, may contribute to slowing the growth of anti-microbial resistance (AMR).

Whilst the company has made efforts, implementing AMR training for healthcare professionals and appropriate packaging, AMR is a serious financially material issue for which the board need to understand the importance of. Other investors shared the same sentiment and the proposal received 89% shareholder support. We will be looking to see how the company responded to this proposal. voting in the run up to the next AGM.

[45] worldbank.org/en/topic/health/brief/antimicrobial-resistance-amr
[46] https://www.who.int/news-room/fact-sheets/detail/antimicrobial-resistance
[47] https://www.pnas.org/doi/full/10.1073/pnas.1503141112
[48] https://documents1.worldbank.org/curated/en/323311493396993758/pdf/final-report.pdf
[49] Global trends in antimicrobial use in food-producing animals: 2020 to 2030 by Ranya Mulchandani,Yu Wang,Marius Gilbert and Thomas P. Van Boeckel
[50] https://journals.plos.org/globalpublichealth/article?id=10.1371/journal.pgph.0001305
[51] https://amrinvestoraction.org/article/progress-report-2022

Washing Machine – Reducing Plastic Waste

Brunel, alongside 26 international investors, joined a collaborative engagement led by First Sentier Investment, with support from the Marine Conservation Society. Using our collective influence, the aim was to engage with 18 of the largest manufacturers of washing machines around the world. To understand what they're doing about microplastics through washing machine use and to champion technological advances to tackle this issue. On the 5 January, Samsung, one of our target companies, announced a collaboration with Patagonia to develop a new machine with a microfibre filter. This is another huge positive development for us following on from the Grundig Fibrecatcher machine launch in late 2021. Samsung machines are the third most popular brand in France where a new law comes into force in in 2025 which prohibits the sale of machines without a filter. Engagement continues with a focus on business plans post Jan 2025 for companies who will be impacted by the French Circular Economy Law.

Plastic Legislation

- France includes in its 2020 Circular Economy Law a requirement that by 2025, all new washing machines sold domestically must be able to filter out microfibres
- Australia announced in March 2021 with its National Plastics Plan, that it intends to work towards an industry-led phase-in of microfibre filters on all new washing machines by 2030
- The Microplastic Filters (Washing Machines) Bill, which was tabled in November 2021 in the UK House of Commons, if passed into law would require washing machine manufacturers to fit microplastic-catching filters to new domestic and commercial washing machines. It went to a second reading in February 2023

Case Study: LyondellBasell - equities

EOS has been engaging with LyonellBasell on Climate change and the circular economy. Following this engagement, LyondellBasell prioritised actions in its 2020 sustainability report to help eliminate plastic waste from the environment including waterways and oceans and to advance a circular economy. The company has a goal to produce and market two million metric tons of recycled and renewable-based polymers annually by 2030. To deliver on this ambition, it recently announced a new organisational structure including a Circular and Low-Carbon Solutions business segment and is strategically investing along the value chain. Whilst a quantifiable water goal was not set by the company, water management efforts are well covered in the sustainability report. Overall, this progress is positive to see, engagement continues.

Repair, Redesign, Reuse

The phrase Reduce, Reuse, Recycle is one many know, recycling bins have become a permanent feature in homes. More and more companies are looking at the packaging they use and exploring alternative materials. But, if we are to create a sustainable world worth living in we need to shift to a circular economy, one which requires us to shift to a mindset of repair, redesign and reuse.

Stewardship is an intrinsic part of our private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and long term nature of the investments that are made. When assessing potential private market investments, we pay particular attention to ESG and sustainability throughout the selection process. The below case studies demonstrate how our Infrastructure investments are supporting the circular economy model.

Case Study: Infrastructure, Infravia Capital – Energy from waste

In our Cycle 2-General Infrastructure portfolio we have invested in an Infravia Capital Fund investment, through Blue Phoenix Group (BPG). BPG is focused on providing integrated sustainable solutions to the energy-from-waste ("EfW") sector for treatment and recycling of bottom ash that remains after waste incineration.

BPG provides an essential service to EfW operators, diverting their output from landfill and recycling it into usable product. They are uniquely positioned to capture growth from the trend to reduce landfill and increase recycling in the EU, the UK and other selected international markets.

Recycling and processing plants are critical infrastructure to move the waste supply chain towards a more circular model and as such BPG is a key enabler of the green agenda.

Case Study: Infrastructure, NTR – Reclaimed Landfill Site

NTR has acquired Ockendon solar farm following its acquisition from REG Power Management. The solar farm is located in Essex (UK), with the solar farm considered to be one of the largest to be built on a repurposed landfill site in Europe and will provide 58.8MWp for 17,000 homes, once operational.

NTR is held in our Cycle 1 Infrastructure portfolio. In line with NTR's focus on creating a circular economy to protect the environment, the former landfill site is being left undisturbed, with specialist engineering and design techniques being adopted by NTR to repurpose the land for renewable energy power generation.

Using the latest solar technology, NTR will install 540Watt bi-facial solar panels which are capable of capturing sunlight on both sides of the panel. These panels have a higher efficiency rate, resulting in increased output density and optimisation of energy yields per square metre. Mobilisation works have commenced with the project expected to be fully operational in Q3 2023.

Case Study: Infrastructure, West Street Infrastructure Partners – Modular Building

Adapteo is a co-investment with West Street Infrastructure Partners, a Cycle 1 Infrastructure investment. Adapteo is a provider of modular buildings, the company is a leader in Sweden, Finland, Denmark and Norway and a challenger in Germany and Netherlands.

Adapteo's buildings are based on a modular and circular construction technique meaning buildings can be moved and recycled, resulting in lower life cycle CO2 emissions compared to construction of a fixed building. Their buildings are also made from mostly renewable materials using sustainably sourced wood as the main material and operate with 100% renewable electricity procured for all business operations in Sweden and Finland.

The majority of Adapteo revenues are from high-quality space for social infrastructure, such as education, day-care, and elderly care. Adapteo offers a cheaper and sustainable alternative to major renovations. Furthermore, modularity allows municipalities to redeploy buildings where they are more needed.

Circular Economy Legislation

The concept of circular economy has gained significant attention in recent years as a path to achieving sustainable development goals. In response, many countries and international organisations have developed policies and strategies to promote the adoption of circular economy practices. For example, all of Australia's environment ministers have agreed to work with the private sector to design out waste and pollution to achieve a circular economy by 2030.[52] In the EU, France is leading the way with some world first measures. They are the first country to ban the destruction of unsold non-food products. There are clear signals on the direction of policy and diligence requirements, companies and legislators are having to adapt to these changing conditions.

Investors can cause, contribute to, or otherwise be linked to adverse impacts through their investment holdings in companies or projects implicated in environmental harms. However, all businesses, including investors and other financial actors, have a responsibility to respect human rights and the environment. Although this is mutually accepted by the market and institutions alike, the UK is a laggard in adoption of circular economy value chain diligence. Mandatory human rights and environmental due diligence is already in place across Europe, including France, Germany and Norway and the EU is expected to adopt the draft Corporate Sustainability and Due Diligence Directive. The UK has not indicated that it intends to follow suit. A broad range of stakeholder groups, including civil society representatives, businesses as well as business associations, have been calling for mandatory due diligence rules.[53]

In February 2022, the Corporate Justice Coalition and the Business and Human Rights Resource Centre adopted a proposal for a directive on corporate sustainability due diligence, within which Brunel was an undersigned investor. The aim of this directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations. This was signed by 39 investors representing over £4.5 trillion in assets under management and advice, it supported a 'Business, Human Rights and Environment Act', an ambitious piece of UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains.

In March 2022, the UK Competition and Markets Authority set out its recommendations for further action for government, some of which broadly align with the EU's circular economy proposals.[54]

[52] https://www.dcceew.gov.au/environment/protection/circular-economy#:~:text=All%20of%20Australia's%20environment%20ministers,a%20circular%20economy%20by%202030.

[53] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

[54] https://uk.practicallaw.thomsonreuters.com/w-035-3165?transitionType=Default&contextData=(sc.Default)&firstPage=true

Investor Mining 2030

Following the Brumadinho disaster in Brazil, the Investor Mining and Tailings Safety Initiative was established (see previous Outcomes Report). Drawing on this initiative, the resulting Mining 2030 Investor Agenda will drive systemic change to practically support the sector and companies within it. The collaborative investor-led initiative will consider eight systemic issues faced by the mining sector that currently challenge, or could challenge, the sector's social licence to operate. Brunel attended a series of investor-led roundtables during 2022 to input into the identification of key interventions that will contribute to the development of a Mining 2030 Investor Agenda intended to support this vital sector to meet the mineral demands of society and the low carbon transition.

The Global Commission will be Chaired by the Church of England Pensions Board with a Vice Chair appointed by His Grace Dr Thabo Makgoba, the Archbishop of Cape Town, South Africa. The United Nations Environment Programme (UNEP) will be a technical advisor to the Global Commission.

The Commission is overseen by an Investor Steering Committee which is collectively responsible for the long-term success of the initiative.

Brunel is a member of the steering committee which meets monthly. The remit of the Steering Committee includes:

- Formation of the Commission, appointment of a multi-stakeholder membership and ensuring delivery of mission
- Ensure necessary Commission funding and budgetary controls
- Receive the Commission conclusions and establish a 2030 implementation programme

We look forward to continuing to work collaboratively with our peers on this systemically important sector and supporting the great work being led by the Church of England Pensions Board.

Case Study: Infrastructure, Stepstone – Logistics tunnels

In our Cycle 2-General Infrastructure portfolio we hold Cargo Sous Terrain (CST), a Meridiam Sustainable Infrastructure Europe IV investment. CST is aiming to provide a long-term, sustainable solution to logistical challenges in Switzerland, supporting the logistics sector in its transition to carbon neutrality. It will comprise of a network of tunnels to enable end-to-end delivery of goods, linking to overground logistics hubs ensuring efficient and environmentally friendly delivery.

The first section that is around 70km long will connect the Härkingen hub with Zurich from 2031, with 10 other hubs along this section. A preliminary lifecycle assessment estimated that this section will reduce carbon emissions by over 45,000 tonnes per year, improving air quality, and reducing congestion to create more liveable cities.

CST will further ensure positive social impacts with the use of efficient routes and green delivery vehicles resulting in a 50% reduction in noise pollution per year, and the CST's bundling system reducing inner-city deliveries by 30%.

The CST project strongly contributes to the Sustainable Development Goals 9 (Industry, Innovation, and Infrastructure) and 11 (Sustainable Cities and Communities). The project will revolutionise the logistics industry with modern and environmentally sustainable infrastructure, while the smart city logistics, will provide an alternative and resilient solution to urban logistics, reducing pollution and congestion.

Next steps

- Participate in the Mining 2030 steering committee, contributing to the development of a mining 2030 investor agenda
- Continue to raise awareness across the wider investment industry around the importance of the circular economy

Brunel roles and responsibilities

The **Brunel Board** is accountable for Brunel's Responsible Investment, Climate Change and Stewardship priorities and policies. Operational accountability on a day-to-day basis is held by the **Chief Responsible Investment Officer (CIO)**, with oversight from the **Brunel Investment Committee** in addition to the Board. This oversight is supported by the inclusion of RI, climate and stewardship matters in the **Chief Investment Officer's** report, as well as the integration of key risk metrics into both strategic and operational risk reports.

The **Chief Executive Officer CEO** is responsible for ensuring effective implementation of the priorities and policies across the whole organisation. Ensuring that Brunel's own operations meet or exceed best practice standards. Specifically, climate risk has been identified as a principal (level 1) strategic risk to Brunel. As such, the risk is owned by the CEO, with oversight from **Brunel's Audit, Risk and Compliance Committee** forming part of Brunel's overall strategic risk framework.

The **CIO** is responsible for ensuring the integration of RI, stewardship and climate change into portfolio construction, implementation and overall investment decision-making. All members of the investment team have explicit responsibility for the implementation of responsible investment (RI) principles, including but not limited to climate risk, within their respective roles. As such, any training needs are identified through our standard appraisal and personal objective setting processes.

Audit and assurance

Brunel does not undertake external verification of its RI, climate or stewardship reporting, but elements contained within are subject to a variety of assurance mechanisms. For example, Brunel conducts regular internal audits on all aspects of its operations, as such the effective integration of RI and stewardship within the context of each of these will be reviewed.

In 2022, we implemented the internal audit recommendations outlined in the 2021, investment governance review. This requested "enhancements to formally documenting arrangements, particularly those relating to new commitments, like Net-Zero would provide further assurance and reduce the risk that these commitments would not be met."

Next steps

- In 2023, we anticipate further reviews, through internal audit, of Brunel's implementation of its climate and net-zero commitments.

Appendix

Partnerships and affiliations	
30% Club	Aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations.
A4S – Accounting for Sustainability	The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 to promote improvements in reporting and transparency.
Asset Owner Diversity Working Group	Brunel co-chairs the Asset Owner Diversity Working Group which established the Asset Owner Diversity Charter and aims to improve.
Asset Owner Leadership group on Tax Fairness	New group forming in 2022 to focus on tax transparency and fairness.
Asset Owner Technical Advisory Committee	CIO sits on the Asset Owner TAC which advises the Executive on the strategy and execution of the PRI Asset Owner work stream.
British Private Equity & Venture Capital Association (BVCA)	Industry body and public policy advocate for the private equity and venture capital industry in the UK.
CA100+	Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.
Climate Change working group	The group is responsible for helping the Investment Association (IA) to develop and deliver the IA position on climate change.
Diversity Project	A group of leaders in the investment and savings profession who are working to accelerate progress towards an inclusive culture within our industry. We are a member of the steering committee and various workstreams.
FAIRR	The FAIRR Initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive animal production.
Financial Reporting Council (FRC)	The Financial Reporting Council is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes.
FRC Stakeholder Insight Group	The group represents preparers, investors, audit committee chairs and other key parts of the stakeholder universe including reporting framework owners and civil society groups. The group provides an opportunity to share perspectives on key areas of concern and emerging risks relating to accounting, reporting, auditing, and governance issues as well as to share perspectives on key opportunities and potential for focus for the FRC.
Future-Fit Business Benchmark	Not-for-profit organisation with the aim of encouraging and equipping business leaders and investors to take action in response to today's biggest societal challenges, from climate change to inequality.
Glasgow Financial Alliance for Net-Zero (GFANZ)	GFANZ is a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy. Brunel is a member of the GFANZ through PAII, but also the CIO supports the workstreams.
Global Policy Reference Group	The group is first and foremost an email exchange of information on policy, regulation and soft-law initiatives that encourage or require responsible investment.
Green Finance Institute	GFI's mission is to accelerate the transition to a clean, resilient and environmentally sustainable economy by channelling capital at pace and scale towards real-economy outcomes that will create jobs and increase prosperity for all.
HM (Treasury) UK Government Green Taxonomy Taskforce and Transition Plan Taskforce working group.	HMT have established industry advisory groups to assist with the development and implementation of the UK Government's Green Finance: A Roadmap to Sustainable Investing. Brunel is a member of the Green Taxonomy Taskforce and Transition Plan Taskforce working group.

Appendix

Partnerships and affiliations	
International Sustainability Standards Board (ISSSB)	The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
Investment Association	Trade body that represents Investment Managers and Investment Management Firms in the UK.
Institutional Investor Group on Climate Change (IIGCC)	A forum for collaboration by institutional investors on the investor implications of climate change. Brunel sits on the Board of IIGCC as Chair.
International Corporate Governance Network (ICGN)	ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment.
Investor Policy Dialogue on Deforestation (IPDD) Initiative	The Investors Policy Dialogue on Deforestation (IPDD) is a collaborative investor initiative which engages with public agencies and industry associations in selected countries on the issue of deforestation.
Occupational Pensions Stewardship Council	The council provides schemes with a forum for sharing experience, best practice, and research, and providing practical support, promoting and facilitating high standards of stewardship of pensions assets.
Pensions for Purpose	Collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.
Plastics Investor Working Group	The working group consists of 29 global investors representing US$5.9 trillion in assets. The group has focused on building an understanding of plastics from a global and holistic perspective, including how plastics fit in with the broader circular economy concept.
Principles for Responsible Investment	United Nations-supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors. Brunel was the first LGPS Pool to join. Brunel is part of all the following.
Reporting and Assessment Advisory Committee	The objective of the RAAC is to advise the Reporting and Assessment (R&A) team with its strategic path and development of the Reporting Framework outputs and services.
Sustainable Accounting Standards Board (SASB)	SASB standards focus on financially material issues with a mission to help businesses around the world report on the sustainability topics that matter most to their investors.
SASB Alliance Member	SASB are in the process of merging to support the establishment of the ISSB.
ShareAction	Charity that promotes Responsible Investment and gives savers a voice in the investment system.
Transition Pathway Initiative	Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies. Brunel sit on the Board and Advisory Committee of TPI.
Task Force on Climate-related Financial Disclosures (TCFD)	TCFD was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
UKSIF (The UK Sustainable Investment and Finance Association)	Membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.

Carbon Reporting

The Brunel Aggregate Portfolio Custom Benchmark

Benchmark	Benchmark Weight
FTSE Allshare ex IT	9.78%
MSCI World	20.78%
MSCI Emerging Markets	5.75%
MSCI ACWI	21.47%
Brunel Passive Smart Beta	1.69%
Brunel Passive UK	0.68%
Brunel Passive World Developed	8.11%
MSCI Small Cap World	4.65%
Markit iBoxx GBP Non-Gilts (All Stocks) Index	10.84%
FTSE Developed World	16.25%

Definitions to levels of disclosure

Full Disclosure - Companies reporting their own carbon data (eg in financial reports, CDP disclosures etc)

Partial Disclosure - The data disclosed by companies has been adjusted to match the reporting scope required by the research process. This may include using data from previous years' disclosures as well as changes in business activities.

Modelled - In the absence of usable or up to date disclosures, the data has been estimated by Trucost models.

The rate of companies in the Brunel Aggregate Portfolio for which fully disclosed carbon data was available was 61% (carbon weighted measure) and 56% (investment weighted measure). This indicates scope for improved reporting among investee companies which is a core part of our engagement strategy.

Meet the Team

Faith Ward

Chief Responsible Investment Officer, Brunel Pension Partnership
Chair, Institutional Investors Group on Climate Change

Faith is currently Chief Responsible Investment Officer for Brunel Pension Partnership and Chair of the Institutional Investors Group on Climate Change (IIGCC). These roles enable her to advocate for better appreciation of systemic risk as well as design solutions that embed such risks, like climate change, into the operations of finance and investment, an industry she has served for over 25 years.

Faith's other roles include member of the Ethics Investment Advisory Group for the Church of England National Investing Bodies; member of Investor Advisory Group for ISSB (formerly SASBIAG); Member of the UK Green Taxonomy Advisory Group; and Climate Ambassador for the National Federation of Women's Institutes.

Faith is a founder and formerly its co-chair of the Transition Pathway Initiative and currently NED. She was also the chair of the Reporting and Assessment Advisory Committee for the United Nations Principles for Responsible Investment (UNPRI).

Helen Price

Head of Stewardship, Brunel Pension Partnership
Co-Chair, Asset Owner Diversity Working Group

Helen leads on stewardship, engagement and voting at Brunel Pension Partnership (Brunel). She draws on knowledge built from her BA (honours) in Business Studies and from working in different sectors. Helen is eager to improve representation within the industry and at companies in which we invest. She co-leads the Asset Owner Diversity Group who launched the Asset Owner Diversity Charter. Helen is also a member of the PRI's Plastic Investor Working Group and the PRI Reporting and Assessment Advisory Committee. She is passionate about the role of pension funds in moving to a more sustainable business world and is involved in industry-wide initiatives to improve standards in responsible investment and corporate sustainability.

Chris van der Merwe

Responsible Investment Officer

Chris joined Brunel in July 2022 having previously gained experience at the Transition Pathway Initiative through completion of his MSc in Climate Change, Management and Finance at Imperial College London.

Chris leads on Brunel's ESG data integration and carbon metrics strategy and is passionate about the role that finance can play in helping to solve the challenge of climate change and create a more sustainable future. Chris currently sits on the FTSE Russell Sustainable Investment Technical Advisory Committee.

He previously worked at Atkins the multi-disciplinary engineering firm where he supported their development of tracking project emissions and led a working group aimed at increasing net-zero skills and capabilities within the firm.

Oliver Wright

Responsible Investment Officer

Oliver joined Brunel in February 2023 having previously gained experience in the Impact Investment field in Jordan. Oliver read Business Entrepreneurship BSc at Southampton University with a year in industry in San Francisco. He then completed his postgraduate MA in Environmental studies at Tel Aviv University.

Click here to meet the rest of the Brunel Team

Click here to meet the EOS at Federated Hermes

List of Images

Getting in touch with the team

If you have any questions or comments about this report please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

Please visit our website to read our latest reports, news and insights and other materials to keep you up to date.

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on investments.brunel@brunelpp.org.