October 2021

Avon Pension Fund Statement of Compliance with the UK Stewardship Code 2020 for the Year to 31 March 2021

Foreword from the Chair:

The Avon Pension Fund has long been an advocate for active stewardship; recognising that positive engagement with companies, policymakers and the investment industry can protect and enhance the value of our assets over the long-term, ultimately for the benefit of our membership. As a Tier 1 signatory to the Financial Reporting Council (FRC) Stewardship Code 2012, it was important to us to continue to adhere to the high standards expected of us by our stakeholders. We welcome the broader scope of the FRC UK Stewardship Code 2020 (the Code), which now covers all assets not just listed equities, and shifts the emphasis from policies and procedures to activities and outcomes, which is ultimately what's required if we are to effect environmental, social and governance change in the real world.

We support and apply the Code's definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society" and hope that the content of this report goes some way to demonstrating how we put this into practice.

During the year, and despite the ongoing challenges presented by the COVID-19 pandemic, we have continued to make progress with respect to our Responsible Investing priorities, most notably climate change. We have seen the carbon intensity of our listed equity portfolio reduce by 22% since last year, have seen capital invested in new and exciting renewable energy projects and have noted, with great pleasure, major steps being taken by some of the world's largest greenhouse gas emitters to position themselves for the low carbon transition as a direct result of intensive investor engagement.

The Fund is proud to work alongside strategic partners such as Brunel Pensions Partnership (Brunel), the Local Authority Pension Fund Forum and the Institutional Investors Group on Climate Change, recognising the breadth and depth of expertise these groups bring to bear. Collaboration is critical if we are to make genuine progress on the issues that affect us all. Equally, it is very important that we, as a Fund, continue to drive strategy, inform policy and debate and ensure that our members views and our policies are reflected in the work Brunel and our other service providers undertake on our behalf.

Over the past year we have seen a significant increase in contact with our members on environmental, social and governance (ESG) issues and have welcomed the opportunity to share the progress we have made through the development of a dedicated climate change 'microsite', printed articles and direct member engagement. We see this report, as well as the other disclosures we have voluntarily adopted such as the Financial Stability Board's Taskforce on Climate-related Financial Disclosures, as a natural extension to our communications strategy. Next year will see the Fund undertake its first dedicated ESG member survey and a social media launch, which shows a clear demonstration that we take our member's priorities seriously and are acting accordingly to meet them.

With the progress the Fund has made so far it is essential that we maintain momentum, continue to demonstrate leadership, and use our collective voice as investors to advance policy across all ESG issues at this critical time. Protecting our assets for the benefit of our members, as well as managing the risks and opportunities that come with investing in a sustainable and inclusive way, is an extremely complex task but with a progressive investment strategy and a robust governance framework surrounding it, I am confident that we are taking the steps necessary to deliver on our financial and ESG obligations.

Councillor Paul Crossley, Chair of Pension Committee, Avon Pension Fund

Purpose and Governance (Principles 1-5)

1. Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.

1.1. The overall objective of Bath & North East Somerset Council (the Council), as the administering authority of The Avon Pension Fund (the Fund) is to achieve a return on its assets, consistent with an acceptable level of risk, that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding on an ongoing basis in line with the funding strategy.

1.2. The investment strategy aims to generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating a return consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

1.3. Avon Pension Fund is administered by Bath & North East Somerset Council who are legally responsible for the Fund. The council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (the Committee), which is its formal decision-making body.

1.4. The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment and stewardship of the Fund's assets:

Belief	Rationale
The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked	A material change to one cannot be effected without due regard for the others.
Strategic Asset Allocation (SAA)	SAA is they key factor in determining the risk and return profile of the Fund's investments.
Investment governance is key to effective decision making	The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
Long-term approach to investing	The strength of the funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long-term view of investment strategy.
Environmental, Social and Governance (ESG) factors	ESG factors are important drivers of the sustainability of investment returns over the long-term and they can have a material financial impact if not managed appropriately.
Climate Change	The Fund believes climate change creates both risks and opportunities to the Fund's investments and has used an evidence-based approach to develop a set of objectives with the aim of delivering a portfolio aligned with the goals of the Paris Agreement, Key milestones that review the progress made over time ensure the Fund continues to work towards its medium-term and long-term objectives.
Diversification of assets is an important element of the risk management framework	By holding a range of assets that are not overly concentrated in any one area, the Fund expects to reduce the level of risk it is exposed to whilst increasing the potential to generate attractive risk-adjusted returns.
Active management can add value	While active management can create higher short-term volatility, it can offer superior risk-adjusted returns and opportunities to be active stewards of our assets.
Value for money from investments	Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, greater collaboration and therefore the potential to enhance returns.

1.5. The foundations of the Fund's approach to Responsible Investing (RI) are its RI principles, which are set out in the RI Policy. Delivering long-term sustainable returns for the benefit of our members requires an approach that integrates ESG factors at all stages of the investment decision-making process, from setting investment strategy to monitoring the Fund's service providers. To that end, the Fund seeks to identify innovative and sustainable investment opportunities, in line with its investment objectives. Recognising the value of the 'first mover advantage', the Fund began investing in sustainable equity strategies over two decades ago and has sought to maintain its position by more recently making dedicated investments in areas such as renewable infrastructure, affordable housing and low carbon strategies, as it seeks to deliver on one of its main priorities; to make its entire investment portfolio consistent with the goals of the Paris Agreement, by achieving net zero emissions by 2050, or earlier.

1.6. The Fund applies evidence-based decision-making in the implementation of its approach to RI and believes it has a duty to exercise its stewardship and active ownership responsibilities effectively by using its influence as a long-term investor to encourage responsible investment behaviour. Equally, we accept that we are a relatively small investor in global terms and that anything we do in isolation is likely to have little impact on the real economy. Our guiding principles recognise the importance of working collectively with industry groups and initiatives to maximise the impact we can have. Having a joined-up approach is essential to ensuring that the right policy frameworks are in place to unlock future investment opportunities and we recognise that our membership to groups such as the Local Authority Pension Fund Forum (LAPFF), the Institutional Investors Group on Climate Change (IICGG) and ClimateAction100+ (CA100+) provide invaluable insight and support in helping us to achieve our aims.

1.7. As an advocate for increased transparency in ESG disclosures, particularly where climate is concerned, the Fund has sought to keep all of its stakeholders informed through a combination of statutory reporting and enhanced disclosures such as our Annual Responsible Investment Report. Recently, the Fund has committed to issuing further disclosures in line with the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD).

2. Principle 2 – Signatories' governance, resources and incentives support stewardship.

2.1. The Committee is the primary decision-making body for the Fund. The Committee membership reflects the broad range of the Fund's stakeholders with elected councillors, employer and member representatives as well as independent members. Since 2019 when the governance structure was last reviewed the Committee has included:

- An additional independent representative - to strengthen its position and support retention of the Fund's professional investor status as well as making the Committee less exposed to the electoral cycle.
- An Academy representative - to better represent Academies and Multi Academy Trust employers.

2.2. In addition, a Local Pension Board was established in 2015 and serves to assist the Fund in meeting compliance with the Local Government Pension Scheme (LGPS) regulations and requirements of the Pensions Regulator (TPR) and ensure efficient and effective governance and administration of the Fund. The Pension Board reviews the Fund's ISS for compliance with the regulations.

2.3. The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. For instance, the Committee is responsible for agreeing the Fund's ISS which sets out the Fund's RI principles (including its approach to climate change), its policy on the exercise of voting rights and its position on social investments. The ISS is kept under review and revised every three years and from time to time, particularly when there is a material change in strategy. Prior to publication, the ISS is subject to consultation with scheme employers and Trade Unions as well as being published on the Fund's website for wider comment.

2.4. Due to the wide scope of the Committee's remit it is supported by the Investment Panel (the Panel) which considers the investment strategy, investment performance and stewardship activity in greater depth. The Committee has delegated authority to the Panel for specific investment decisions. The Panel consists of up to six voting members of the Committee.

2.5. The Committee and Panel meet formally each quarter and receive a standing performance report which summarises key RI workstreams and initiatives as well as voting and engagement data including how the Fund directed its votes over the reporting period, how many companies were engaged with and how those engagements related back to the Fund's RI priorities.

2.6. Both the Committee and the Pensions Board have member, including union, representation and other representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns. This allows member voices to be heard directly and for their views to be embedded in the decision-making process.

2.7. All Committee and Panel meetings are public. During the year the Committee received statements from members and campaigners requesting that the Fund divests from fossil fuel companies. The Committee welcomed the informed questions it received on its climate strategy and responded in kind; providing details of the Fund's carbon exposure, how it monitors engagement activity and how it is adapting its portfolio to ensure it is aligned with the goals of the Paris Agreement. As a result, the West of England Unison branches commended the Fund on their level of ambition and the actions taken so far to tackle climate change within the pensions and finance sector.

2.8. The Fund pools its assets with nine other administering authorities though the Brunel Pension Partnership (Brunel), which is authorised by the Financial Conduct Authority and has been established specifically to manage the assets of the pool. As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

2.9. The Fund's governance in respect of the dual accountability of Brunel to (i) the Council as Shareholder and (ii) the Fund as client has been strengthened with a sub-group of the Committee overseeing this important relationship.

2.10. The Committee is supported by a number of external advisors; Mercer Limited advise on all actuarial and investment aspects of the Fund (under separate contracts), including but not limited to; supporting investment performance monitoring and advising on RI. This year Mercer's investment advisory work has centred on a review of the Fund's equity portfolio along with an in-depth analysis of the Fund's carbon exposure using established metrics such as absolute emissions and weighted average carbon intensity (WACI) as well as new metrics such as implied temperature rise. This modelling helped inform and evolve the Fund's climate change strategy including the setting of two new interim climate change targets which are discussed under Principle 7 of this statement.

2.11. Osborne Clarke provide legal advice on investment and pension issues. The Committee, Fund Officers, external advisors, fund managers and administrators all operate in accordance with the relevant regulations namely the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, CIPFA Codes and the Pensions Regulator Codes of Practice.

2.12. The Fund's day-to-day duties are undertaken by a team of Officers led by the Group Manager for Funding, Investment and Risk. The team is made up of individuals with a range of specialisms and expertise. Qualifications held across the team include the Chartered Alternative Investment Analyst designation, the CFA Investment Management Certificate and Certificate in ESG investing. Team members are encouraged to pursue professional qualifications to strengthen their knowledge base and build relationships with industry peers. Recognising the need for dedicated resource to manage ESG and stewardship matters, the Fund appointed a Senior Officer at the beginning of the year whose key performance objectives are set partially in reference to the delivery of the Fund's wider RI policy.

2.13. The Fund recognises the importance of training for Committee and Pension Board members and officers responsible for financial management and decision making within the Fund. Training is provided to ensure Committee and Pension Board members and staff possess an appropriate level of knowledge, skill and understanding to carry out their duties.

2.14. The Fund has in place a formal training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. The Head of Business Finance & Pensions is responsible for ensuring that training is implemented.

2.15. Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Much of the training is delivered through detailed Committee reports and workshops where the topic is explored greater in detail. Over the year the Committee and Panel participated in workshops focussed on climate change, exploring new methodologies for assessing the carbon exposure of its equity portfolio and revisiting short- and medium-term climate objectives and its strategic asset allocation.

2.16. Committee members and Officers attend seminars and conferences to broaden their understanding of investments and topics of relevance to the LGPS. New Committee members are expected to attend the Fundamentals Training Courses offered by the Local Government Pension Committee and induction sessions arranged by officers. All Committee members are encouraged to complete the Pension Regulator's public sector pension online toolkit. Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

2.17. The Fund also took part in the National Knowledge Assessment carried out by Hymans Robertson in 2020 and has put together a training plan for both Committee and Pension Board members based on the recommendations.

2.18. The Fund feeds into the development of Brunel's RI strategy and policy, Climate Policy and Stewardship Policy through the Brunel Oversight Board, Brunel Client Group, and the Client RI Sub-Group. Brunel's Client Group is made up of officers from the ten partner funds. This group provides oversight through monthly updates, providing a forum to discuss our Committee's and beneficiaries emerging needs and concerns. In addition, the RI Sub-group, made up of members of the Brunel Pension Partnership, meets monthly. The Fund has nominated two representatives to attend all RI sub-group meetings. Discussion topics at these meetings can include:

- Stewardship interests
- Share best practice with Brunel and amongst partner funds
- Provide insights on concerns, issues, and member perspectives
- Shape priorities of Brunel and its stewardship service providers
- Review reporting outputs
- Knowledge share and receive a deeper dive into topics of interest
- Access expertise
- Consult on policy design and development

2.19. As part of the RI sub-group, workshops are conducted where deeper awareness or education on a particular topic is useful. During the year, workshop topics included the requirements of the new stewardship code, and sustainability-based investment outcomes and benchmarks.

2.20. Members of the Brunel Investment and RI teams presented at Committee and Panel meetings through the year on a range of topics including private markets, macro themes and the post-pandemic outlook for markets, portfolio construction, ESG integration and stewardship in emerging markets. There was a dedicated session for Committee members on RI, which explored how Brunel are implementing their climate change policy as well as providing examples of work in cyber, supply chain management and diversity. Taken together with Brunel

Investor Days, these provide a great many opportunities for Officers and Members of the Committee and Panel to scrutinise the work undertaken by Brunel on behalf of the Fund and to formally raise any areas of concern or further interest. Further detail on the governance structure in place with Brunel can be found in their Annual Report and Financial Statements.

2.21. Brunel's people profiles are publicly available on their website. They also voluntarily publish their gender pay gap reporting within their annual report and accounts. Brunel has a dedicated Responsible Investment team, including a dedicated Stewardship Manager who oversees voting and engagement. Stewardship at Brunel is applied across three avenues. Firstly, by appointed asset managers, secondly, through a specialist provider EOS at Federated Hermes (EOS), and lastly via collaborative forums. Brunel seeks to undertake direct engagement on our behalf where they think it will add value. The appointment of a dedicated engagement and voting provider enables a wider coverage of assets and access to further expertise across different engagement themes. The EOS team is diverse, made up of many nationalities and language capabilities, which facilitates engagement in local language and an understanding of cultural customs.

2.22. Responsibility for managing specific ESG risks, including climate risk, are explicitly incorporated into Brunel's investment principles and the role specifications of its Board, executives, and other key personnel. Responsible investment is a component of staff's annual objectives which informs annual appraisals.

3. Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

3.1. In respect of conflicts of interest, the Fund, the Committee and Pension Board adhere to the Council's Code of Conduct and Conflicts of Interest policy.

3.2. In addition, Committee and Pension Board are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website.

3.3. The Council, as the Administering Authority of the Fund, requires all Members of the Committee, Pension Board and Officers to declare any pecuniary or other registrable interests. Details of the declared interests are maintained and monitored on a Register of Interests. These are published on the Council's website under each member's name and updated on a regular basis.

3.4. There are, however, specific conflicts that can arise as a result of managing the Fund within a local authority framework. The Scheme Advisory Boards good governance review examines how potential conflicts of interest manifest themselves within the LGPS and sets out how policies should seek to manage conflicts such as commercial relationships between administering authorities and employers in the Fund, the dual role of the administering authority as an owner and client of Brunel and how investment decisions are made about local investments. The Fund has commissioned Hymans Robertson to undertake a review of its existing policies and procedures to identify where there are gaps and expects to implement the recommendations of the review next year.

3.5. The Fund expects all service providers to have effective policies addressing potential conflicts of interest. The Committee receives an annual report on the internal control environment of the Fund's investment managers, global custodian and their administrators. For the reports reviewed for the year ending 31 March 2021 in each case the external auditor's report stated that adequate controls were in place and achieved their respective objective(s). In the event a material conflict had arisen, and was identified as part of this review process, Fund officers would engage the service provider as part of an on-going dialogue to understand the reasons for the occurrence and to make a materiality assessment.

3.6. Brunel maintain a Conflict of Interest Policy, which is published on their website and includes a specific section on Stewardship conflicts. Examples of how Brunel manage perceived conflicts are included in their 2021 Responsible Investment and Stewardship Outcomes Report.

4. Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.1. Disclosure of the market-wide and systemic risks the Fund is exposed to as well as the process used to monitor the investment environment are detailed in the ISS. The primary risk the Fund is exposed to is the risk that its assets are insufficient to meet its liabilities, which is addressed by holding a diverse range of assets that are not overly concentrated in any one area and designed to achieve returns in a variety of market conditions.

4.2. Fund officers, external investment managers and the investment adviser monitor global markets to ensure systemic risks as well as asset class specific risks are properly considered. The year was dominated by the impact of the COVID-19 pandemic on the Fund's investments. An assessment of the impact of the pandemic on the Fund's asset allocation, specifically in relation to its commitments to private markets investments, determined that they remained appropriate given the Fund's long-term investment approach. However, measures were put in place to mitigate the risk of any potential short-term cash flow implications by phasing the capital commitments made to private markets portfolios over a longer period.

4.3. Fund officers conduct regular monthly calls with the investment adviser to discuss emerging themes in markets and have set up a Funding and Risk Management Group (FRMG) which is made up of senior officers and a specialist investment and actuarial consulting team to advise on both strategic and operational aspects of the Fund's Risk Management Framework (RMF), which comprises liability-driven investment (LDI), an equity protection strategy (EPS) and a cashflow matching strategy. Strategic issues arising from this group are then referred to the Panel or Committee as set out in the Group's Terms of Reference. In addition, the Panel and Committee receive detailed quarterly performance reports which include commentary on current and emerging topics and an assessment of how relevant they are to the Fund's investment strategy.

4.4. During the year, as part of its response to the pandemic, the Fund considered the upward inflationary pressures created by international monetary and fiscal stimulus packages in the context of its inflation-linked assets. Given the negative impact rising inflation would have on the Fund's liabilities, and therefore contributions, the level of inflation protection was increased during the year to the maximum permissible under the policy framework. This followed a year of wholesale regulatory reform in the inflation market which created uncertainty around methodologies for calculating inflation and the consequential impact on inflation-linked assets held by the Fund. The in-built flexibility of the Fund's RMF enabled a temporary move out of this market to allow due consideration to be given to the impact of the Government's proposal to consolidate inflation measures. Following the conclusion of the reporting period, FRMG has begun to consider the impact of the UK Governments inaugural green gilt issuance and whether a dedicated allocation to the asset class might be consistent with the Fund's wider climate objectives.

4.5. The Fund accepts, that as a relatively small investor in global terms, capital allocation decisions alone are likely to have little impact on the real economy, particularly in the case of climate change, where transformation at the speed and scale required to reach net zero will take a co-ordinated approach across the entire industry. Ensuring the right policy frameworks are in place to unlock investment opportunities and scale up flows of low carbon finance is essential to addressing the issue. A key part of our wider ESG strategy involves working collectively with industry groups and initiatives to maximise the impact we can have. An overview of the initiatives that the Fund is an active member of, along with a brief description of key workstreams and outcomes over the year, is included below.

Organisation/Initiative	Remit
BRUNEL Pension Partnership	To address climate risk, the partnership published its Climate Change Policy in January 2020. This policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon-zero future". To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Consultation responses are published on the Brunel website here: Policy advocacy.

	Brunel is involved in a number of industry initiatives including: IIGCC, Principles for Responsible Investment (PRI), CA100+, Transition Pathway Initiative (TPI), International Corporate Governance Network (ICGN), the UK Sustainable Investment and Finance Association (UKSIF).
IIGCC Institutional Investors Group on Climate Change	IIGCC's Policy Programme works with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. Recent examples of policy advocacy work the Fund has been involved in include pledging support for an Open letter to EU leaders from investors on a sustainable recovery from COVID-19, becoming a signatory of the 2021 Global Investor Statement to Governments on the Climate Crisis calling for a step up in Nationally Defined Contributions and backing an IIGCC letter calling on the UK Government to mandate large companies to disclose their net zero transition plans – and calling for further guidance in helping companies reach this goal.
Local Authority Pension Fund Forum	LAPFF is a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the LGPS funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. This year LAPFF have been instrumental in lobbying the mining sector for improved disclosures around tailings dams. Officers and Committee members attended four LAPFF business meetings during the year. Following the conclusion of the reporting period one of the Fund's

	Committee members was appointed to the LAPFF Executive Committee.
Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+ is an initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. The 2020 Climate Action 100+ Net-Zero Company Benchmark assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance, and disclosure. The benchmark helps the Fund to evaluate company ambition and action in tackling climate change.

4.6. During the year the Fund agreed to adopt reporting in line with guidance from TCFD. This is a critical framework that will help us achieve our own climate change objectives but is also a way of signalling to investee companies, service providers and our strategic partners how important climate risk transparency is if we are to achieve real-world emissions reductions.

5. Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

5.1. The Fund undertakes a review of its investment strategy every three years. At its last review in 2019/20, which drew on expert advice from our investment adviser, Mercer, the Fund developed its climate strategy which comprises a series of key objectives designed to help the Fund reach its 2050 net zero carbon goal, which are outlined further under Principle 7.

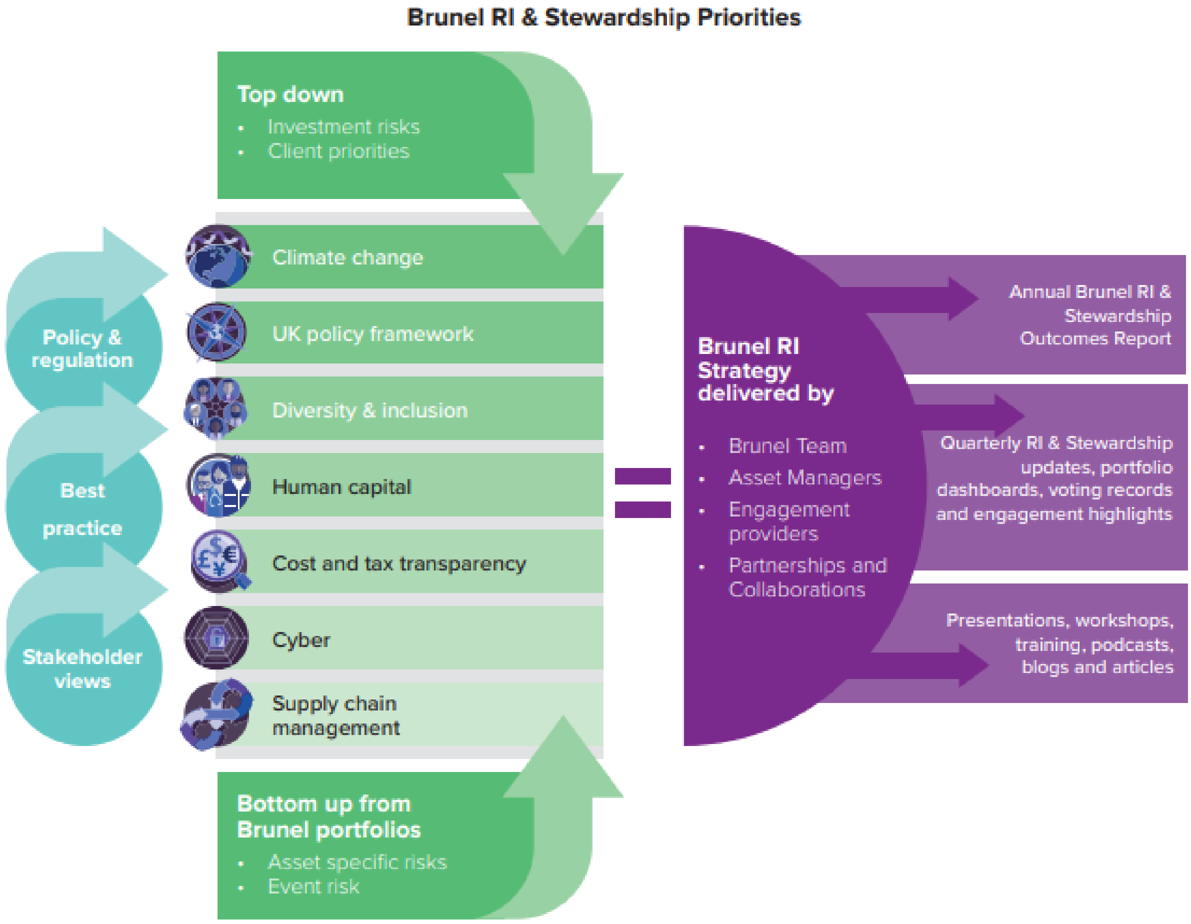
5.2. An outcome of the last investment strategy review was to assess the impact on returns of switching the Fund's entire equity allocation to low-carbon and sustainable equity strategies. Following the conclusion of the reporting period, the Fund has considered the allocation within equities, the benefits of diversification and where it can use its influence as a shareholder to greatest effect. A number of strategic asset allocation changes were made which are beyond the scope of this report. However, as part of this review the Fund reiterated its position on the importance of engagement and that, in order to continue to demonstrate its ambition in this area, it should continuously review its progress toward its climate objectives with the next 'checkpoint' in 2022, in line with the next triennial valuation. At this point the Fund will be taking stock of how our strategy has delivered against its goals with a clear message that divestment remains an option where companies fall short of our expectations.

5.3. A 2019 joint report between Unison and ShareAction, which reviewed the Investment Strategy Statements of the LGPS funds in England and Wales, ranked Avon Pension Fund 2nd out of the 88 funds included in the analysis, recognising the Fund as a leader in ESG integration in public policy. Next year the Fund will commission its investment adviser to undertake a peer group analysis designed to evaluate the Fund's implementation of its RI policy across 4 key areas: beliefs, policy, process and portfolios.

5.4. Stewardship and using the Fund's power as a shareholder to encourage companies and policy makers to adapt their activities to support ESG best practice is central to our approach to stewardship. It is therefore critical the Fund seeks assurances on the effectiveness of the engagement activity it participates in. The success of specific engagements undertaken by EOS on behalf of the Fund is measured against a series of clearly defined 'milestones', details of which can be found under Principle 9 and in the Annual Engagement Report ,which is published on our website. The Fund gets sight of every company that EOS engage with and engagement priorities are developed in partnership with EOS, Brunel and the Fund through the robust governance structure outlined under Principle 2. EOS has its voting process independently assured on an annual basis. Brunel further monitor EOS to ensure the delivery of service continues to meet expectations, and in the context of stewardship, that there is continued alignment of engagement and voting priorities and practices. For example, Brunel monitors voting implementation on a quarterly basis to ensure that it does not fall below a minimum threshold level of 95%.

5.5. Brunel's strategy and policies are designed for the long term (5+ years) and are reviewed annually. The Brunel Board approves and is collectively accountable for Brunel's policies, which includes the Stewardship Policy. Operational accountability for this policy is held by the Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

5.6. The Fund communicated its priorities and policies when Brunel's seven responsible investment priority themes were developed. The seven priority themes, as part of an integrated Responsible Investment process, are illustrated in the diagram below. Brief information on the seven priority themes is covered in the Brunel's Responsible Investment Policy. Further detailed information is included in Brunel's Responsible Investment and Stewardship Outcomes Report



5.7. The Fund reviews reporting outputs provided by Brunel via the RI sub-group to ensure that stewardship reporting is understandable, fair, and balanced and that outputs meet reporting requirements. The Fund contracts with Brunel to undertake its annual carbon metrics report, which is used as part of its TCFD disclosures. Climate metrics are evolving rapidly and there is significant variation in how certain metrics are calculated. As such the Fund is required to work closely with Brunel to ensure that the metrics delivered are consistent across all partner funds and comply with the latest industry and government guidance.

5.8. Tools such as the Transition Pathway Initiative (TPI) and Carbon footprinting analysis are invaluable in determining which companies to prioritise for engagement but also help track how companies are responding to investor pressure. Brunel, for instance, aim to have all material holdings ranked level 4 or above per the 'management quality' TPI scoring system. For those companies that are ranked level 3 or below, and that have shown no year-on-year improvement, Brunel will, in the first instance engage directly with the company, and where no improvement is shown will consider using their proxy vote to vote against company management. Further information relating to how the TPI tool is used in practice can be found here.

5.9. During April 2021 the Fund engaged the services of a third-party Stewardship provider to undertake gap analysis on our stewardship process and policies. The analysis mapped the Fund's stewardship activities reporting to the 12 principles of the 2020 UK Stewardship Code. The gap analysis provided an indication of areas where the Fund is likely to meet the standard expected of the Code as well as identifying areas where more could be done to develop or enhance compliance. The Fund will be utilising this feedback to continue to develop practices to meet the enhanced standards set by the new code.

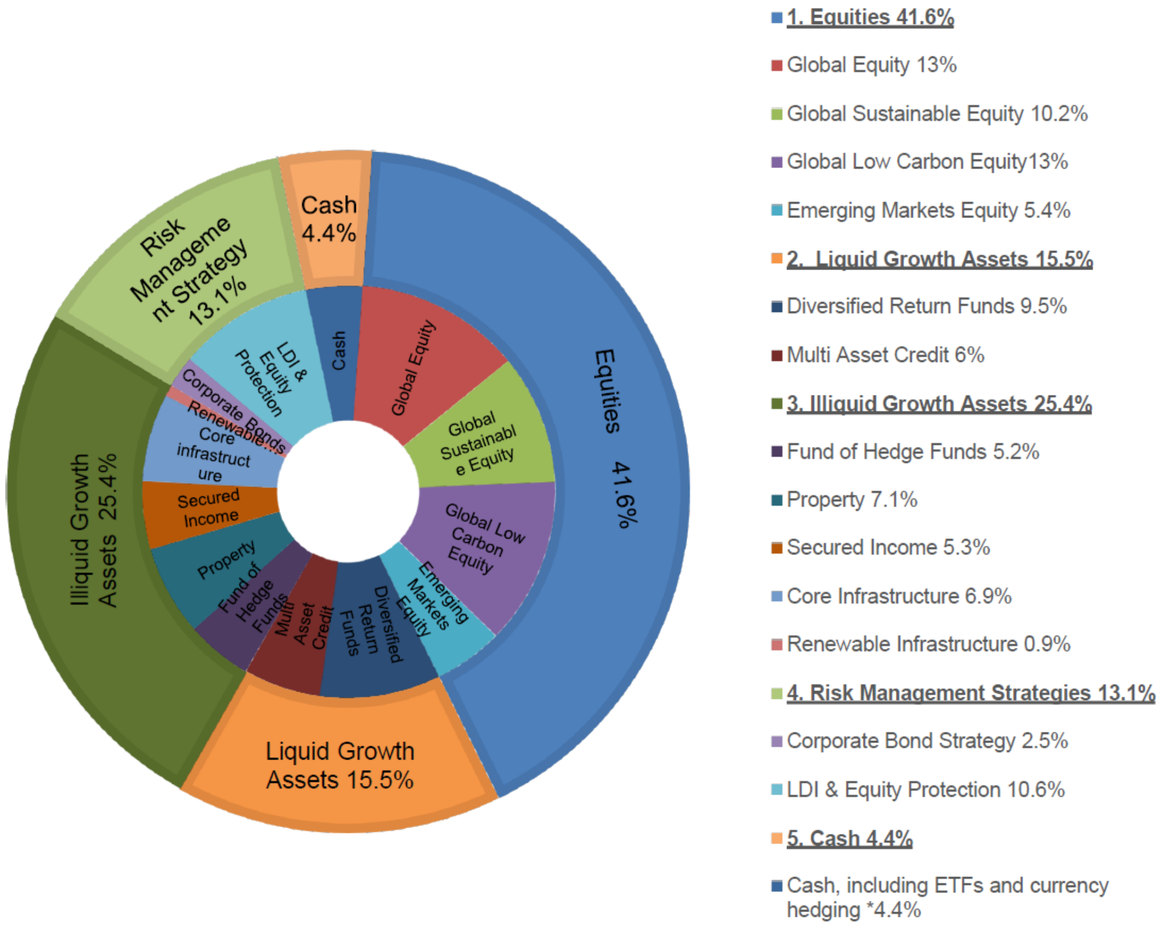
Investment Approach (Principles 6-8)

6. Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

6.1. The Fund administers the LGPS for over 120,000 members across 440 employers in the former Avon area. Employers include local unitary councils, universities, academies, town and parish councils, housing associations and charities. The Fund is now worth over £5.0 billion and in the top 100 of pension funds in the UK.

Active Members	39,159
Deferred Members	42,538
Pensioners	34,885
Undecided Leavers	8,740
Total Membership	125,322

6.2. The investment management structure and amount of assets (as a %) managed by each manager as at 31st March 2021 is set out below. This details the diverse range of assets and types of strategy the fund utilises.



6.3. Overall, the Fund takes a long-term approach to its investment decision making process and the length of the investment time horizon for the above assets are considered appropriate to meet the needs of our beneficiaries, given the long-term nature of the pension liabilities. Please refer to Appendix 1 of our Investor Strategy Statement for a clear explanation of the long-term asset allocation of the Fund, the role of each asset class within it in and how it helps achieve our strategy objectives.

6.4. The Fund is aware of its need to effectively connect with its beneficiaries and its Communication Policy Statement is set out here. Communication methods span a number of approaches, including:

- **Statutory reporting** - the Fund produces, and makes widely accessible, its Annual Report, Report to Council, ISS, Funding Strategy Statement, Governance Compliance Statement and Responsible Investment Policy. These cover a range of in-depth information specific to the Fund, from the structure of the scheme and beneficiary base, to the funding position, investment beliefs and key RI priorities.
- **Additional disclosures** - in addition to the above reports, the Fund produces a specialist Annual Report detailing the year's RI activities, covering voting/stewardship, asset allocation changes, climate change modelling and our latest decarbonisation progress. We also have in

place a wider, ever evolving, communications strategy aiming to effectively communicate the Fund's strategy in a way that is engaging, accessible and makes sense to all stakeholders. We have released a short, animated video on our new climate goals for members, while ESG topics are frequently covered in member newsletters, such as articles around our Net Zero pledge and examples of our recent engagement activities. An excerpt from our most recent member newsletter can be found below:

Avon Pension Fund
Climate Action Summary

Our investments

With so much investment capital at our disposal, it's one area where we can make a big impact relatively quickly - investing in environmentally-friendly projects and the growing green economy.

£250 million

committed to investment in renewable infrastructure

>50%

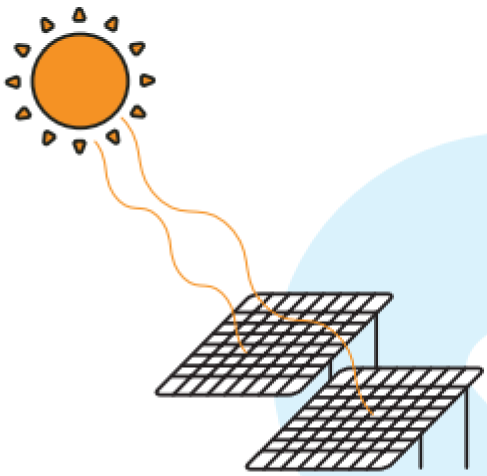
of equity portfolio invested in sustainable and low carbon strategies

£1.6 billion*

invested across ESG strategies
*as at 31st March 2021, inclusive of all private market commitments

30%

less carbon intensive than the broader equity market benchmark



Pressure groups and initiatives

We are member to a number of pressure groups and signatory to frameworks and initiatives dedicated to changing the behaviour of both companies and governments alike.

We're a proud signatory of the **Climate Action 100+** initiative, and a proud member of the **Local Authority Pension Fund Forum** (LAPFF).

Perhaps most notably, we provided key investment data to Brunel Pension Partnership which went towards the development of the **Institutional Investors Group on Climate Change** (IIGCC) net zero investor framework.

We're also an early adopter of guidance implemented by the **Task Force on Climate-Related Financial Disclosures** (TCFD) - not compulsory for LGPS, but just another way we can contribute to tackling the climate emergency.

BRUNEL Pension Partnership | Climate Action 100+ | Local Authority Pension Fund Forum | IIGCC The Institutional Investors Group on Climate Change

2 AVON PENSION NEWS - ISSUE 32/SUMMER 2021

- **Committee meetings** - in addition to having member representatives on our Committee, Committee meetings are open to the public and allow members to voice their opinions and concerns directly to Committee-members and Officers.
- **Direct member engagement** - on an ongoing basis, Officers respond to written and verbal questions and queries submitted directly by members or on their behalf through unions. This year topics have included our position around divestment and our progress on, and measurement of, portfolio decarbonisation.
- **Digital presence** - Fund information such as our RI Annual Report and ISS can be accessed via the Finance & Investments section of the Fund's website, while a dedicated climate emergency microsite has also been set-up to provide coverage of our ongoing efforts in this area. We are also developing our social media presence across a number of platforms to access a wider audience and provide more opportunities to connect with members.

6.5. However, we recognise that further improvements can still be made. This is why we're planning to expand our communications activity further, publishing regular ESG Ezines, and including articles in our newsletters covering topical RI issues. Finally, in order to further canvas the views of our members, we are undertaking a member survey on RI, asking how members feel about a range of ESG issues and what is most important to them. The results of this survey will provide insight into our members priorities and we will explore how we can incorporate them into our strategy over time.

7. Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

7.1. Avon Pension Fund began investing in UK socially responsible funds as far back as 2001, while also being early to recognise the significance of climate change, reporting it as a long-term financial risk in 2016. The Fund has analysed and published details of its carbon footprint since 2017. This same year we began investing in Low Carbon passive equity funds, alongside setting environmental targets that we continue to monitor and update.

7.2. The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio, while ESG concerns and climate change specifically are listed in the Fund's ISS, alongside other investment beliefs, as key factors crucial to developing strategy and decision-making.

7.3. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective.

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

7.4. The Fund's stewardship activity is guided by our RI priorities as defined in the Fund's Annual RI Report. These priorities currently include climate change, human capital, diversity & inclusion, cyber security and cost & tax transparency. Of these, climate change is a particular focus for the Fund and we have been continually developing how we manage the risks and opportunities it presents. This has included:

- **Target setting** – The Fund has committed to Net Zero emissions alignment by 2050 or earlier, in line with IIGCC guidelines. It also has interim goals in place to reduce the absolute emissions of the equity portfolio by 43% by 2025 and 69% by 2030, compared to its 2020 baseline.
- **Asset Allocation decisions** – For instance, asset allocation remains one of the Fund's primary tools to help meet our ambition to become a net zero investor. As an early investor in a passive low carbon strategy, we are now working with Brunel to assess how the Fund can help move the industry forward by looking at next generation low carbon products which employ systematic techniques to target material reductions in emissions today as well as into the future. The Fund has £1.2bn in low carbon and sustainable listed equities and a further £377m committed to renewable infrastructure projects across a number of portfolios. Following the conclusion of the reporting period, and as part of our recent equity allocation review, the Fund opted to reduce its allocation to emerging markets as broad and successful engagement is more difficult to achieve in these markets, which results in a greater financial risk, particularly in respect of climate change.

- **Annual portfolio carbon analysis** – This includes an analysis of weighted average carbon intensity (WACI), fossil fuel related revenues, reserves exposure and the disclosure rates among companies within the Fund's listed equity portfolio. These metrics are used to help chart our Net Zero and other decarbonisation targets while contributing to asset allocation discussions. Our Annual Carbon Metrics Report shows all active listed equity portfolios have a lower WACI than their respective benchmarks, while the portfolio also saw an overall 22% year-on-year reduction in its carbon intensity, based on WACI in the year to December 2020.

7.5. The Fund expects its investment adviser to proactively consider and integrate ESG issues when providing investment advice to the Fund. A key area where our investment adviser provides support is in climate change scenario analysis. This was conducted in both 2020 and 2021. In 2020, evidence-based modelling of our then current portfolios were compared to alternative portfolios with increased allocations to sustainable equities and low carbon real assets under a number of different climate change scenarios and timeframes. The results of this analysis heavily impacted on our investment decision making process and, as a direct result, the Fund made the decision to increase its allocation to Global Sustainable Equities from 3.5% to 10% of total assets, alongside committing more to the Renewable Infrastructure portfolio.

7.6. Our 2021 analysis was completed using Mercers' Analysis of Climate Transition (ACT) tool, which ranks individual companies based on their ability to transition to a low carbon economy. Going forward periodic scenario analysis and other science-based metrics will continue to shape ongoing investment policy decisions.

7.7. Responsibility for managing specific ESG risks, including climate risk, as they affect the Fund and Brunel, are explicitly incorporated into the role specifications of Brunel's' Board, executives, and other key personnel.

7.8. Brunel has built its Responsible Investment approach on three pillars: to integrate sustainability criteria into its operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in its activities.

7.9. Brunel's manager selection process is central to the effective implementation of the partnership's RI, Stewardship and Climate policies. Brunel expects appointed managers to clearly demonstrate how ESG risks and opportunities are embedded into their investment process and how they are a component of their evaluation of investment risk and return objectives as opposed to treating them as a stand-alone concern. Brunel also examines how a manager's organisational culture and approach feeds into the teams, internal challenge, risk management, and approach to stewardship.

7.10. Managers are also asked to provide an overview of their approach to Stewardship and engagement, how it's undertaken, by whom, how priorities are identified and how it fits into the overall investment approach. A case study illustrating how ESG and RI are integrated into the procurement process is detailed in a public case study on Brunel's website.

7.11. Brunel's Asset Management Accord is designed to clarify understanding and shape expectations in the implementation of the investment mandate awarded. The accord captures not only the partnerships expectations of managers, but also the spirit of what they can expect from Brunel. It supports long-term sustainable finance and specifically calls on managers to work collaboratively with Brunel across five main areas, namely communication, being long term, responsible investment & stewardship, collaboration, and thought leadership & innovation. Further details are located here: Asset Manager Accord.

7.12. The Brunel Partnership expects companies and fund managers to effectively identify and manage the financially material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business models. We have an expectation that companies should:

- Put in place specific policies and actions, both in their own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C.
- Disclose climate related risks and actions to mitigate these in line with latest best practice guidelines e.g. TCFD disclosures.
- Include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. As part of its manager selection and ongoing monitoring Brunel use data from the TPI and carbon footprinting. Both these tools greatly inform portfolio construction and design.

8. Principle 8 – Signatories monitor and hold to account managers and/or service providers.

8.1. The Fund actively considers RI capabilities and advice when selecting and monitoring its investment advisers, as set out in Principle 7. It also complies with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the "Order"), which the Competition and Markets Authority introduced in 2019. The Order requires that occupational pension scheme trustees must set strategic objectives for their Investment Consultancy (IC) providers, which are designed to enhance the workings of the markets. The objectives are expected to be closely linked to the Fund's investment objectives and are reviewed at least every three years or after any significant change to the Fund's investment strategy. Critically, the strategic objectives the Fund sets its IC provider (which also form the basis for review and assessment of the provider) include the responsibilities of the Fund to consider environmental, social and governance factors (including climate change) and stewardship risks.

8.2. The Fund receives Internal Control Reports from its managers and Custodian every year and these are reviewed by officers of the Fund annually to identify any potential causes for concern and ensure issues can be suitably explained or rectified. Significant failings would be a cause to terminate a manager or custodian relationship.

8.3. As part of its routine monitoring the Panel receive a quarterly assessment of all managers, including the Fund's legacy infrastructure, property and hedge fund mandates, which are currently being wound down or transitioned to Brunel. The 'traffic light' rating system employed by the Fund assesses managers in terms of traditional financial performance metrics and includes a dedicated ESG rating. Ratings are supported by the investment adviser's proprietary ratings framework, details of which can be found here.

8.4. Brunel has a comprehensive Manager Selection Policy together with Manager Monitoring and Portfolio Management policy to guide the appointment and monitoring of asset managers across all asset classes. However, the key components from a stewardship perspective can be summarised as philosophy, policies, people, processes, participation, and partnership. These key issues form part of ongoing manager monitoring where a risk assessment is carried out on a quarterly basis and a rating given. This includes an assessment of the managers stewardship activities. This is reviewed by the Brunel Investment Risk Committee. Further detail is included in Brunel's Responsible Investment policy.

8.5. All Brunel core products have been developed in conjunction with the Fund and the wider partnership. The Brunel Investment Risk Committee and the Brunel Investment Committee play key roles in ensuring that products are complying with guidelines, benchmarks and risk parameters. The Fund receives quarterly performance reports which include stewardship activity updates, portfolio narrative and risk metrics.

8.6. On an annualised basis product governance reviews are undertaken on all portfolios offered by Brunel to ensure that they remain fit for purpose and meet our strategic objectives and specific and ongoing needs. The Fund is consulted as part of the review and receive a report for assurance purposes. Should we require any changes or an additional portfolio to meet our strategic needs the Portfolio Creation and Amendment and Deletion (CAD) policy provides a high-level framework for exploring the development of new products and or to amend existing portfolio specifications at our request.

8.7. In line with any procurement of third-party services, there is a monitoring process in place to ensure that the service from providers meet expectations. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

Engagement (Principles 9-11)

9. Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

9.1. Engagement and active ownership are central to the Fund's approach to ESG; we believe that meaningful engagement can make a positive impact and ultimately create long-term value for our members. Listed equities provide the most immediate route into engaging with companies on a broad range of issues. Other asset classes are less advanced and are structured in a way that is not always conducive to active engagement with investors. However, progress is being made and we discuss some of the mechanisms being implemented by investment managers in other asset classes such as bonds that we can utilise to help move the industry forward. As the Fund's listed equites are now wholly invested in Brunel portfolios it is vital that underlying investment managers and EOS, as Brunel's appointed voting and engagement provider, meet our expectations, and that there is continued alignment of engagement and voting priorities and practices. Brunel monitor all service providers on an ongoing basis and in the event expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

9.2. The Fund feeds into the development of Brunel's engagement priorities which are communicated to EOS. There are multiple and distinct touchpoints throughout the year that Brunel and the Fund utilise to provide feedback on the engagement plan. 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. Across all Brunel listed equity portfolios, EOS were able to move at least one milestone forward for about 50% of the objectives set during the year to December 2020.

9.3. In the year to December 2020, EOS engaged with 657 companies on the Fund's behalf across 2,419 issues spanning Environmental, Social and Ethical, Governance and Strategy, Risk and Communication matters. A summary of the issues and objectives on which EOS engaged with companies on our behalf during 2020 is shown below:

Environmental topics featured in 20.9% of EOS engagements over the last year

- Climate Change 75.0%
- Forestry and Land Use 3.2%
- Pollution and Waste Management 12.7%
- Supply Chain Management 5.5%
- Water 3.6%

Social & Ethical topics featured in 19.1% of EOS engagements over the last year

- Bribery and Corruption 3.0%
- Conduct and Culture 18.4%
- Diversity 22.2%
- Human Capital Management 16.8%
- Human Rights 30.5%

Governance topics featured in 41.2% of EOS engagements over the last year

- Board Diversity 23.1%
- Board Independence 13.4%
- Executive Remuneration 45.6%
- Shareholder Rights 14.1%

Strategy, Risk & Communication topics featured in 18.8% of EOS engagements over the last year

- Audit and Accounting 5.5%
- Business Strategy 33.8%
- Cyber Security 6.6%
- Reporting and Disclosures 22.6%

9.4. Examples include intensive engagement with Alphabet on the ethical considerations surrounding the use of Artificial Intelligence (AI) and data governance, which led to the company publishing a set of principles to promote the responsible use of AI within the technology sector as well as further research published by the company including a white paper on AI governance, covering the need to address safety and transparency issues related to the technology. The full EOS case study is available here. Significant work was also undertaken by EOS throughout the year as a member of the PRI plastics working group; engaging with companies across the plastics value chain on topics such as plastics reduction targets and recyclability.

9.5. According to the CA100+ 2020 Progress Report, published in December, 43% of the focus companies engaged by the initiative have now set a net-zero target. However, only 10% of focus companies setting a 2050 net-zero target include downstream emissions (emissions generated by the end consumer using a company's product), highlighting significant gaps in approaches to target setting. Within the oil and gas sector BP announced it would set a net-zero target for 2050 for all the oil and gas it produces, as well as for its entire operations. Later in the year, the company published its methodology for determining whether new capital expenditure was consistent with the goals of the Paris Agreement. This came in direct response to the 2019 shareholder resolution where EOS led the filing. It also built on engagement over the previous 12 months to seek alignment of BP’s accounting assumptions with the goals of the Paris Agreement.

Elsewhere in the sector, EOS have worked closely with Total to produce a joint statement in collaboration with CA100+. This set out the ambition to achieve net-zero emissions and commitment to align its investments with the Paris goals. Repsol, the first oil and gas company to commit to net-zero emissions, increased the ambition of its downstream emission targets and its targets around renewable energy deployment. Although these developments are encouraging the lack of consistency in emissions reduction methodologies makes the relative assessment of company progress challenging. It is critical, therefore, that we continue to leverage our membership to groups such as IIGCC to ensure the companies in which we invest demonstrate best practice and are able to clearly communicate to investors how impactful their respective decarbonisation strategies are.

9.6. Appendix A to this report contains further examples of engagements which the Fund has participated in through the year.

9.7. However, our stewardship activity is not just confined to those listed companies we hold shares in. Responsible stewardship is a key consideration with the privately held assets we own such as real estate, infrastructure, secured income and private debt. During the year our core infrastructure manager, IFM, announced a net-zero target and published ambitious interim targets along with details of a review of their asset management processes, which will see them working closely with the underlying portfolio companies to implement emission reduction initiatives. For example, IFM worked with a major US oil and gas pipeline company to complete a series of acquisitions including a leading North American clean energy development, allowing the company to accelerate its growth plans and position itself to participate in the energy transition.

9.8. Brunel apply their Stewardship Policy across all asset portfolios and appoint managers who have robust processes in place to manage the risks presented by established issues such as climate change as well as emerging issues such as biodiversity, and who are willing to work with Brunel to create investment opportunities to address these issues. For instance, we are invested in the world’s first low-carbon commercial greenhouse via our allocation to Brunel’s Secured Income portfolio. The site, totalling 70 acres, is powered by waste heat coming from sewage treatment works which would otherwise flow into and heat up local rivers. The project uses 1/10th of the water usage of conventional field farming whilst generating a much greater crop yield. The technology used reduces the carbon footprint by up to 75%. In addition to environmental benefits, the project will create 137 permanent jobs in the local area, and an additional 117 seasonal jobs.

9.9. Bondholders are often faced with more resistance when approaching companies through traditional channels as investors financing companies through loans typically do not possess the same voting rights as shareholders, which often leads to a less impactful dialogue between lender and borrower. To overcome this, Brunel have been working with their underlying managers within the Private Debt portfolio, which we have a 5% strategic allocation, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising underlying borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis.

10. Principle 10 - Signatories, where necessary, participate in collaborative engagement to influence issuers

10.1. The Fund recognises that real world change comes about through coordinated action with the investment industry, corporate community, regulators and policymakers all working together. Playing our part means working with these groups to effect change and maximise the impact we can make within our sphere of influence. As a result, we work closely with our strategic partners to drive the development of ESG regulation and commitments made globally. Details on the remit of these organisations was shown in Principle 4.

10.2. As a Fund, we have also been involved in a number of collaborative engagement efforts with the wider investment community, such as:

- **2021 Global Investor Statement to Governments on the Climate Crisis** - We were one of the first signatories to this statement, co-ordinated by The Investor Agenda (including the IIGCC), which calls on governments to step up their activities towards meeting the Paris Agreement ahead of COP26 by making stronger national commitments and ensuring the COVID-19 recovery enhances resilience and supports a net zero goal. This statement has now been signed by 587 organisations representing over $46 trillion USD in assets.
- **Asset Owner Diversity Charter** - diversity is an integral part of our RI strategy and as such is a key priority. To help address the issue and build an investment industry that embodies a more balanced representation of diverse societies, we have recently signed-up to this charter. The charter seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry. In collaboration with Brunel, we follow its three main commitments to; incorporate diversity questions into manager selection, incorporate diversity into ongoing manager monitoring and lead and collaborate with others in the investments industry to identify diversity and inclusion

best practice. This has now been signed by over 16 other signatories representing over £1.08 trillion in assets.

- **Plastics pollution programme** - on an industry-wide scale, our collaborative engagement activity has included joining a plastic pollution group coordinated by First State Investment alongside the UK-charity the Marine Conservation Society, advocating with other investors for the inclusion of filters in washing machines to prevent micro plastics entering the planet's marine ecosystems.

Brunel undertake a number of collaborate engagement efforts on behalf of partner funds, as set out in their Responsible Investment and Stewardship Outcomes report. While this includes many successful collaborations and details of achievements made throughout the year, page 63 includes a case study titled Cybersecurity Coalition. This outlines an instance where the desired outcome is yet to be achieved. Here a coalition of investors wrote to a number of companies on their cyber security approaches to help determine risk, yet many did not respond, or only provided written responses rather than a full meeting. However, this exercise proved to be valuable for establishing a baseline of disclosure and best practice. Engagement is still ongoing, and the remit has now been expanded to a wider range of companies.

11. Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

11.1. Escalation is a key component of stewardship and we expect anyone acting on the Fund's behalf to take account of our RI priorities, alongside policies and frameworks that we have helped to inform and develop, principally through Brunel, and to take appropriate action should efforts to advance the Fund's priorities fail to progress satisfactorily. Where Brunel manages the Fund's assets, it is appropriate that day to day stewardship activity is delegated to Brunel and the underlying investment managers they choose to appoint. It is essential, therefore, that appropriate monitoring and reporting of stewardship activity takes place to ensure that our RI priorities are being met and that appropriate steps are taken to escalate the issue if not.

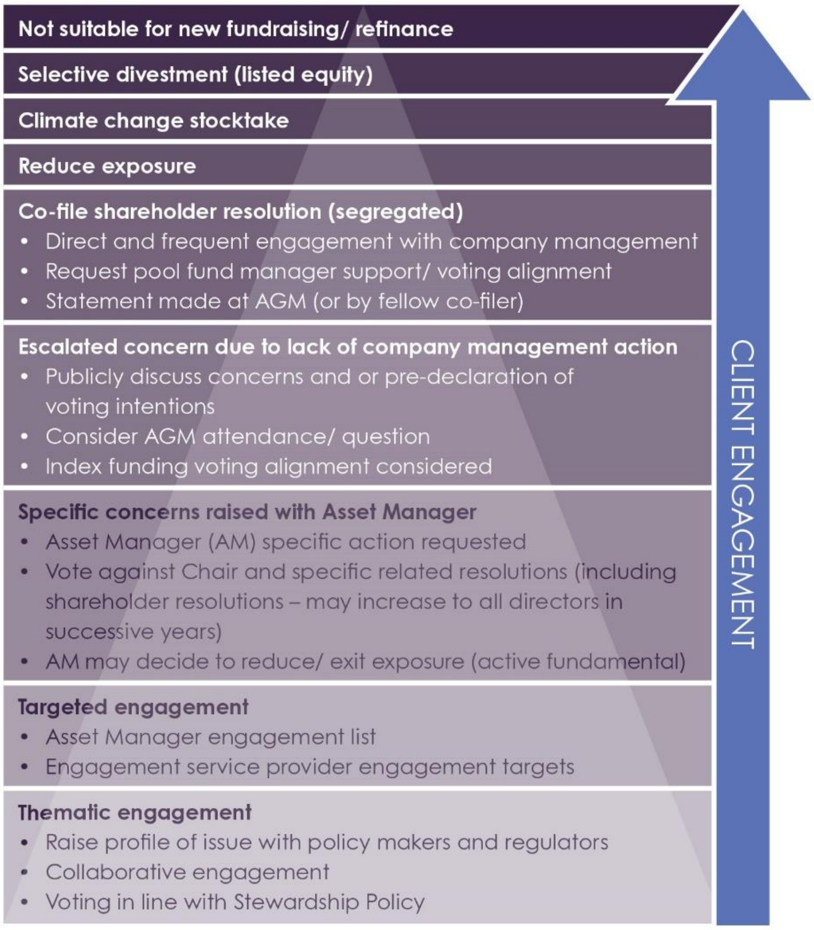
11.2. The Fund takes a pragmatic view on engagement recognising that it can take companies and policymakers time to effect change, particularly in the case of climate change where significant advances in technology, infrastructure and financing are required. We deliberately set a timeframe to assess companies that ensures there is time for engagement initiatives to develop and be measured. As engagement is a tool to change attitudes and behaviours, companies need to be able to respond to the challenge set by us and our partners with credible, measurable, and implementable policies and strategies and the process is by necessity, iterative. Equally we recognise that efforts to engage should take place within a well-defined framework and should not continue indefinitely where no progress is made. Indeed, our climate change objectives state that in the event companies persistently fail to engage, and where the Fund and Brunel have exhausted all other channels, we retain our right to selectively divest from companies, although this is by no means the preferred route for the reasons set out in our [position statement] on the exclusion of investments on ESG grounds. As referred to under Principle 5, the Fund's next checkpoint relating to progress made by companies to align their business models with credible net zero pathways will be in 2022.

11.3. The Fund's main route of escalation, outside of Brunel, is through LAPFF. A range of factors inform how LAPFF undertakes an engagement, including the company, the sector, and the nature of the issue to be addressed. The primary means by which LAPFF chooses its engagements is driven by aggregate member holdings. If LAPFF's approach to engagement is met with resistance or deemed not to be progressing quickly enough, escalation routes may include voting recommendations to members such as voting against the re-election of board member(s), filing shareholder resolutions at company Annual General Meetings (AGMs), or taking a more public stance such as targeted media campaigns including press releases. To further leverage engagement outcomes, LAPFF often works with other investor-led initiatives.

11.4. **LAPFF Case Study:** When news surfaced that Rio Tinto had destroyed two sites of significant cultural importance at Juukan Gorge in Western Australia in May 2020, LAPFF were keen to engage with the company given prior corporate governance failings and the mining industry's poor record of engagement with local communities. Given the sensitivity of the issue and the potential reputational damage to the company, it became evident early on that conventional methods of establishing a dialogue with the company would have little impact. Consequently, along with other UK-based and international investors, LAPFF launched a media campaign to express its concerns about Rio Tinto's conduct at Juukan Gorge, which ultimately led to the resignation of three executives (including the CEO) that had been implicated in the incident.

11.5. LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports which the Committee receive each quarter as part of routine reporting.

11.6. Brunel operates a clear process of engagement escalation and while engagement rarely follows a given pathway, the infographic below provides insight into Brunel's approach. Some steps might be skipped or happen simultaneously and there may be operational and legal constraints that prevent some actions being undertaken. Brunel seeks updates directly from underlying investment managers on which companies they are engaging with, what they are engaging on, how they assess the risk, and what level of escalation they are undertaking. This information is then fed back to the Fund via the governance structures in place; principally through the RI sub-group, which promotes regular client engagement and ultimately helps guide Brunel's approach and communication throughout the engagement process.



11.7. In parallel Brunel look at the engagement EOS are undertaking on the Fund's behalf, their engagement targets and escalation techniques. Brunel also use collaborative engagement and reach out to other investors to elevate areas of concern across a broad set of issues and to magnify the impact we can have as a fund. Voting is an intrinsic part of the escalation process. Further detail on Brunel's approach to escalation is outlined in their Stewardship Policy.

11.8. **Brunel Case Study:** As part of an engagement campaign designed to pressure banks into scaling back financing for the fossil fuel industry Brunel, representing the Fund, submitted a shareholder resolution at Barclays in December 2019, calling for the bank to "disclose targets to phase out the provision of finance to companies in the energy and utility sector that are not aligned with the Paris Agreement climate change goals". In response to positive shareholder pressure the bank later announced that it would put forward its own management resolution, "to become net zero by 2050". As part of the group of investors involved in the initiative, we commended Barclays on recognition of the issue and its level of ambition with respect to its overarching climate objective, however we did not feel that the wording of the resolution contained enough focus on the short- and medium-term actions needed in order to achieve their long-term goal. Consequently, the shareholder resolution was retained and put to a vote alongside Barclays' own resolution at their AGM in May 2020. Disappointingly, the shareholder resolution did not pass but did receive minority support with nearly

24% of votes in favour of the shareholder resolution; exceeding the 20% threshold that requires the bank to consult with shareholders on the matter and providing a further opportunity for Brunel and others to engage meaningfully with the bank to ensure it delivers on its commitments and takes real action to align its financing with the needs of the low-carbon transition.

11.9. The outcome of the Barclays engagement was used as part of a second ShareAction led shareholder resolution, which Brunel co-filed in December 2020. The resolution at HSBC, called for "the publication of a climate strategy and targets to reduce exposure to fossil fuel assets, on a timeline consistent with the Paris climate goals". Following intensive engagement with the bank in the run up to its AGM, the coalition of investors agreed to withdraw the shareholder resolution in exchange for a board-backed resolution committing it to setting a strategy with short- and medium-term targets to align its lending activity with the goals of the Paris Agreement, to publish a dedicated action plan on the phase out of coal-based lending and to report progress to shareholders annually.

Rights and Responsibilities (Principle 12)

12. Principle 12 - Signatories actively exercise their voting rights and responsibilities.

12.1. The Fund believes that voting is an integral part of the RI and stewardship process and serves to enhance long-term value creation for our members. Voting is delegated to Brunel and its underlying managers for the shares we hold in publicly listed companies, and we expect all underlying managers to exercise our right to vote at company meetings. During the year we participated in 3,880 company meetings, casting over 50,000 votes, demonstrating the scale and range of topics covered at company AGMs.

12.2. Committee members receive quarterly summary voting data, which details the number of votes cast across the Fund's passive and active listed equity portfolios and the percentage of those votes cast that were in support of, or directed against, company management.

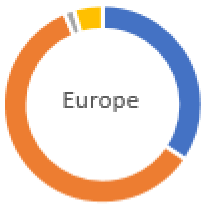
12.3. Further information in relation to how the Fund directs its votes is included in publicly available disclosures such as the Annual RI Report and the Annual Engagement Review, which is prepared by EOS on behalf of the Fund and published on our website.

12.4. The Fund provides input into the development of Brunel's voting guidelines, which guide EOS's voting recommendations alongside country and region-specific guidelines. Brunel's voting decisions are also informed by investment considerations, consultation with portfolio managers, other institutional investors, engagement with companies and escalation by the Fund. More details on this and the voting process, including the approach across asset classes, is explained further in Brunel's Stewardship Policy which underwent a comprehensive review during the year, where input was sought from all partner funds, to improve transparency and factor in regulatory changes, including the enhanced requirements of the 2020 Stewardship Code.

12.5. Over 40% of the Funds listed equities are held in passive pooled funds, where the underlying providers operate and implement their own voting policies. A portion of the passive equities are managed by BlackRock who provide us with full voting records each quarter and the rationale for any votes cast in opposition to company management. Over the year the Fund has noted significant positive developments in BlackRock's corporate position on ESG factors, particularly in respect of climate change, as well as improvements to its internal voting process. We were particularly pleased to see BlackRock use our vote at ExxonMobil's 2021 AGM in favour of recommendations to replace members of the Board with new directors with relevant transformative energy experience to help the company position itself competitively to address the risks and opportunities presented by the energy transition.

12.6. Legal & General Investment Management (LGIM) are the manager of Brunel's passive equity portfolios. LGIM are considered market leaders both in their approach to stewardship and their ability to implement it in a passive context. LGIM is fully transparent in the exercise of voting rights and discloses details of vote instructions on a per-meeting basis, with the rational provided for all votes cast against management. Vote disclosures and LGIM's voting policies can be found here. Furthermore, LGIM have a mechanism in place to allow Brunel, on a limited number of occasions, to direct voting for passive pooled holdings so that it is aligned with the voting recommendations undertaken by EOS in the active segregated holdings or where a partner fund has a specific investment policy commitment.

12.7. In 2020, EOS made voting recommendations to Brunel on 8,693 resolutions at over 700 meetings on our behalf. The regional split of the voting recommendations are included below. At 374 of those meetings, EOS recommended opposing one or more resolutions, while at 15 meetings, EOS recommended abstaining. They supported management on all resolutions at 271 meetings and recommended voting with management by exception at 57 meetings. A vote "for" by exception is applied where there is a reasonable prospect of ongoing positive engagement. During the year, as companies were faced with the challenges posed by Covid-19, Brunel utilised this voting method to minimise disruption for those companies worst affected by the pandemic, recognising the importance of stable leadership in times of crisis.



EOS made voting recommendations at 64 meetings (1,009 resolutions) over the last year

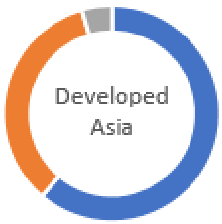
- Total meetings in favour 34.4%
- Meetings against (or against and abstain) 59.4%
- Meetings abstained 1.6%
- Meetings with management by exception 4.7%

EOS made voting recommendations at 192 meetings (3,312 resolutions) over the last year

- Total meetings in favour 37.5%
- Meetings against (or against and abstain) 46.4%
- Meetings abstained 5.2%
- Meetings with management by exception 10.9%%

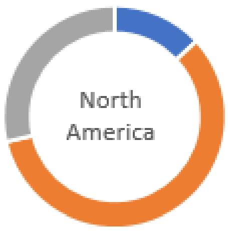
EOS made voting recommendations at 308 meetings (2,793 resolutions) over the last year

- Total meetings in favour 40.6%
- Meetings against (or against and abstain) 56.2%
- Meetings abstained 1.3%
- Meetings with management by exception 1.9%



EOS made voting recommendations at 67 meetings (512 resolutions) over the last year

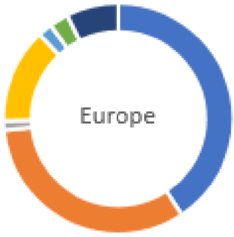
- Total meetings in favour 61.2%
- Meetings against (or against and abstain) 34.3%
- Meetings with management by exception 1.9%



EOS made voting recommendations at 84 meetings (1,052 resolutions) over the last year

- Total meetings in favour 13.1%
- Meetings against (or against and abstain) 58.3%
- Meetings with management by exception 28.6%

12.8. The issues on which EOS recommended to Brunel voting against management or abstaining on resolutions are shown below:



EOS recommended voting against or abstaining on 150 resolutions over the last year

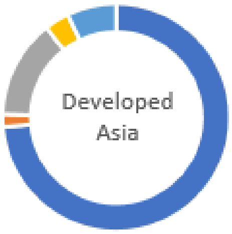
- Board structure 40.7%
- Remuneration 32.7%
- Shareholder resolution 1.3%
- Capital structure and dividends 13.3%
- Amend articles 2.0%
- Audit and accounts 2.7%

EOS recommended voting against or abstaining on 193 resolutions over the last year

- Board structure 22.3%
- Remuneration 62.7%
- Shareholder resolution 2.6%
- Capital structure and dividends 1.6%
- Amend articles 1.0%
- Audit and accounts 9.8%

EOS recommended voting against or abstaining on 584 resolutions over the last year

- Board structure 47.3%
- Remuneration 13.7%
- Shareholder resolution 2.7%
- Capital structure and dividends 19.5%
- Amend articles 6.0%
- Audit and accounts 3.9%
- Investment/M&A 0.5%



EOS recommended voting against or abstaining on 57 resolutions over the last year

- Board structure 73.7%
- Remuneration 1.8%
- Capital structure and dividends 14.0%
- Amend articles 3.5%
- Audit and accounts 7.0%

EOS recommended voting against or abstaining on 191 resolutions over the last year

- Board structure 27.2%
- Remuneration 30.9%
- Shareholder resolution 41.9%

12.9. Voting on Modern Human Slavery: As an escalation of the engagement on modern human slavery statements, Brunel voted against the statutory reports for Frasers group (previously Sports Direct). Frasers failed to disclose a modern human slavery statement in line with mandatory government requirements. A revised statement has since been published. The collaborative engagement with target companies continues.

12.10. Voting on Remuneration: Due to concerns about the excessive severance package awarded to the former CEO at McDonald's, and the lack of a robust 'clawback' policy, Brunel voted against the named executive officers' compensation. The resolution received 20.3% dissent.

12.11. LAPFF also issue voting recommendations to its members on a broad range of themes including remuneration, board composition, climate change and human rights. Over the year LAPFF issued 21 voting alerts relating to companies held by the Fund in its equity portfolios, including a recommendation to vote 'against' Royal Dutch Shell management on its energy transition strategy, or so-called 'say on climate', and 'for' a shareholder resolution that called on the company to set and publish interim greenhouse gas emissions reductions targets. When LAPFF recommendations differ from the position adopted by Brunel and its underlying managers further information will be sought to understand respective voting rationales. In this case Brunel, elected to 'abstain' from both votes, citing that a vote against company management would likely undermine engagement and dissuade others in the industry from adopting a 'say on climate' vote for shareholders. On the same issue, LGIM voted in line with the LAPFF recommendations, raising concerns around the strength of the company's decarbonisation plan. Conversely, BlackRock, elected to vote in favour of the management resolution citing the clear policies and action plans set out by the company to manage climate risk. This highlights the complexity of this particular issue as well as the importance of having a robust monitoring framework in place which enables the Fund to understand and account for differences in voting intentions when they arise.

12.12. The Fund has a large portfolio of private markets investments spanning property, infrastructure and private debt with commitments to these asset classes totalling nearly £1 billion. Most of our legacy private market property investments are through Limited Partnership arrangements which do not have automatic voting rights, except where we are part of the Limited Partnership Advisory Committee (LPAC). Where this is the case, we have approval rights for items such as changing contract terms (e.g. extensions or restrictions) and approving members of committees. During the year we voted in favour of a number fund extensions, where property valuations had been impacted by the COVID-19 pandemic and our interests were best served by extending the period the underlying investments could be held for. Brunel seeks LPAC seats where possible in order to exert influence and works closely with underlying managers to support their Responsible Investment and ESG efforts, improve standards and encourage best practice. Voting decisions for all private market asset classes are sent to Brunel's internal Private Markets Team, who along with their legal team negotiate side letters that align with the partner funds' ESG and wider governance requirements.

Appendix A: Engagement Case Studies for the Year to 31 March 2021

Company	Theme	RI Priority	Engagement lead	Held in	Engagement and Outcome
HSBC (UK)	Fossil fuel financing	Climate Change	Brunel	Brunel Low Carbon Passive & Blackrock Passive Portfolio	Intensive engagement by Brunel and the coalition of investors that previously filed a climate change resolution at HSBC, calling on them to publish a strategy to reduce exposure to fossil fuel assets on a timeline consistent with the Paris climate goals, has led to the withdrawal of the shareholder resolution. This is in exchange for HSBC's own board-backed resolution. The board-backed resolution, which now has shareholder approval, commits HSBC to goals such as phasing-out the financing of coal-fired power and thermal coal mining by 2030 within the OECD and by 2040 elsewhere. As well as implementing a strategy to align its provision of financing, starting with Oil & Gas and Power & Utilities, to the climate goals of the Paris Agreement.

Anheuser-Busch InBev (Belgium)	Executive gender diversity	Diversity & Inclusion	Federated Hermes EOS	Brunel Global Sustainable equity	Engaged due to lack of diversity on executive management team. This led to a woman being added to this executive team, while a global diversity and inclusion policy was also launched, covering unconscious bias training, algorithms to check for bias in interviews and increased parental leave benefits.
National Grid (UK)	Climate policy and target setting	Climate Change	LAPFF	Multiple	LAPFF has had long-term ongoing engagement with National grid, most recently as a lead engager for CA100+. These actions led to the board putting a ‘say on climate’ resolution to their AGM, asking shareholders to approve reporting on their Net Zero action plan. National Grid have also now set a target to reduce its Scope 3 emissions, the largest portion of its total emissions, by 37.5% below the 1990 baseline by 2034.

Alphabet (US)	AI Governance and ethics	Human capital, Cyber Security	Federated Hermes EOS	Multiple	Engagement focussed on making companies more aware of risks such as privacy/security, bias and discrimination when using AI. This was then escalated into supporting the establishment of societal risk and human rights oversight committees. Although this measure did not pass, following engagement Alphabet did make improvements in AI governance, changing its audit committee to an audit and compliance committee (ACC). The ACC's remit now includes reviewing sustainability, data privacy and civil and human rights risks.

Baidu (China)	Data protection compliance	Cyber Security	Federated Hermes EOS	Brunel Emerging Markets	EOS engaged nine times since 2018, voicing concerns around data privacy and protection, including around the risk of fines from regulators or lawsuits from customers if not compliant with EU regulation. This led to Baidu introducing new lines of governance defence to help ensure information security and data privacy, including employee training in this area. A privacy protection system was also established and overseen by top executives. Further committees around data assets, safety and ethics were also introduced.
Multiple	Budget decisions during COVID-19	Cost and tax transparency	Federated Hermes EOS	Multiple	In April 2020, EOS published an open letter to a number of CEOs enquiring how they were making difficult decisions around supply chains, employees and customers during the COVID pandemic. They noted that companies making workers redundant after having accepted taxpayer funded bailout money were drawing heavy criticism, especially if they had previously used surplus profits to fund share buy-backs. EOS instead encouraged companies to be responsible with their furlough schemes and to be fair with executive and staff pay.

Amazon (US)	Anti-union practices	Human capital	LAPFF	Multiple	Concerned about worker rights to free association and collective bargaining, LAPFF signed a letter calling on Amazon to provide a free and fair union vote at a facility in Alabama. While Amazon responded that all appropriate human and labour rights standards were being adhered to, the investor collaboration was not satisfied and continues to push on worker rights.
Pfizer (US)	Board gender and skills diversity	Diversity & Inclusion	Federated Hermes EOS	Brunel Low Carbon Passive	Pfizer were engaged with as the company typically only looked at current/former CEO's and those with scientific and technology expertise for its board seats, leading to low levels of gender diversity. However, recognising this, in 2020 they appointed two additional women directors with backgrounds across education and civil society.

Delta Airlines (US)	Climate change lobbying	Climate Change	CA100+	Blackrock Passive Portfolio	Engagement supported by CA100+ led to a vote on a resolution filed by BNP Paribas asking for transparency around lobbying and to file a report explaining how its lobbying activities align with the Paris Agreement goals. This vote recently passed with a majority vote.
Bayer (Germany)	Climate change targets	Climate Change	CA100+	Multiple	Engagement by CA100+ members, coordinated by IIGCC, started with sending a letter to Bayer in September 2020 asking for commitments around environmental disclosures and increased transparency around lobbying disclosures. Repeated engagements over the next year then led to the publication of Bayer's first Industry Association Climate Review in October 2021. This set out Bayer's position on climate policy, set climate targets, and assessed the alignment of industry associations and trade groups it is involved with. This review showed that 32% of Bayer's associates were fully aligned to Net Zero, but, as over half had no public climate positions in some areas, engagement will continue.

[ENDS]