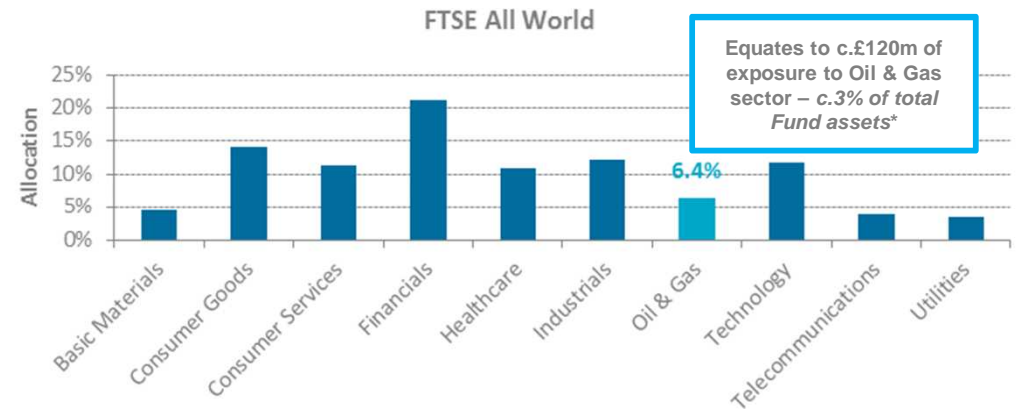
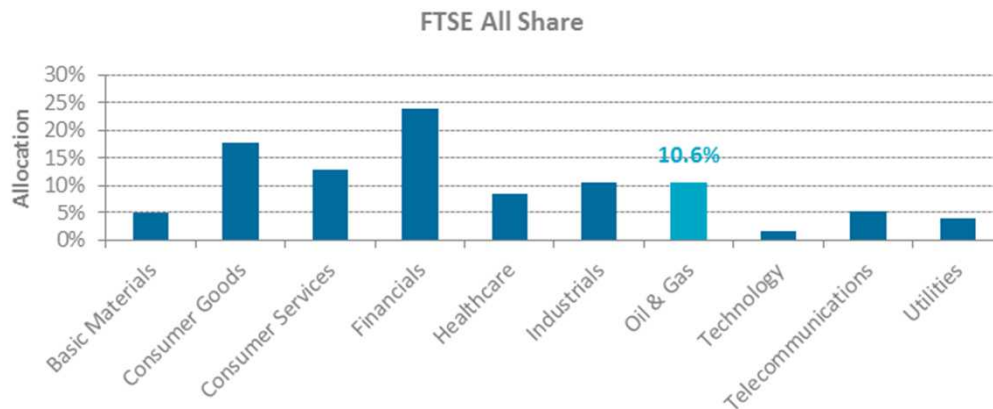


AVON PENSION FUND: FOSSIL FUELS

OIL AND GAS SECTOR EXPOSURE (31 MARCH 2016)



* Figure is based on total equity holdings as at 31 March 2016, assumed to be invested in line with the FTSE All World Index. Note that this does not reflect the actual holdings of managers, which will be specifically reviewed later in the year.

The charts above show the Index exposure to the Oil and Gas sector as at 31 March 2016 for UK and global equities. Basic materials also contains mining companies, industrials includes transport services, utilities including gas and electricity distribution and consumer services includes airlines and travel and tourism, which are all fossil fuel intensive industries. Note that there are a number of more sophisticated approaches to considering fossil fuel exposure of holdings, primarily looking at companies which have a fossil fuel reserves for energy purposes, or that generate at least a certain proportion of their revenue from extracting thermal coal or producing oil from oil sands.

KEY ISSUES

- Investors are increasingly aware of the need to manage risks posed by climate change, including policy related risks.
- The recent Paris Agreement sets out the ambition of global governments to manage carbon emissions and tackle climate change. It is anticipated that the policy response to managing climate change will become more urgent in the coming years.
- Some of the key financial risks associated with climate change are rising carbon prices and the potential for “stranded assets” i.e. the possibility that a proportion of existing fossil fuel reserves will never be utilised due to changes in regulation, demand and technology. As a result, the companies that own these stranded assets face a potential future reduction in value.

DISINVESTMENT VS. OTHER OPTIONS

- Disinvestment from fossil fuel related companies may offer a clear signal of intention to beneficiaries BUT divestment is not as simple as it sounds:
 - There is no standard definition of “Fossil Fuels”. Some investors have focused on divesting from the most carbon intensive sectors, such as coal or tar sands.
 - Divestment does not offer exposure to opportunities aligned with a shift to a low carbon industry.
- Engagement can be useful to discourage future investment by companies in high carbon projects while encouraging investment in lower carbon alternatives.
- Will be covered in more detail in the RI review later in the year

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