Bath & North East Somerset Council

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AVON PENSION FUND

Avon Pension Fund

Responsible Investing Annual Report 2017/18

Contents

The report comprises the following sections:

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. This is the sixth year that the Fund has published its Responsible Investment Annual Report.

The annual Responsible Investment report summarises the activities undertaken during 2017/18 by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

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

Executive Summary

As a responsible investor, the Fund managed its Responsible Investment risks through the following activity during the year 2017/18:

Strategy

- Successfully appointed a manager to run a low carbon equity strategy representing 10% of Fund assets.
- Extended the current UK SRI mandate to a Global Sustainable Fund that was created for, and seeded by, the Avon Pension Fund.
- Worked with Brunel Pension Partnership (Brunel) to identify opportunities to deploy the Fund's 2.5% strategic allocation to renewable infrastructure.

Manager Monitoring

- Promoted Responsible Investment / Environmental, Social and Governance by:

- Following through with issues identified throughout the year by the Fund's Committee, Investment Panel and third party ESG providers.
- Monitoring managers' integration of Environmental, Social and Governance factors in their investment process where appropriate.
- Reviewing whether engagement activity of managers was in line with their stated policies.

Voting Analysis

- The Fund participated in over 2,000 separate company meetings over the year, casting votes in over 29,000 resolutions
- In general terms, the Fund noted an increase in remuneration-related proposals in the UK market. This is because UK companies must generally submit remuneration policies for shareholders' approval every three years. Most UK companies submitted remuneration policies for the first time in 2014 and therefore submitted them again in 2017.
- Across Europe dissent on remuneration-related proposals slightly increased between 2016 and 2017, however, on average and across all voting topics, levels of investor dissent remained stable between 3.8%-3.9% from 2016-2017.
- In 2017, dissent on UK board member re-elections was consistent with shareholders looking for more board gender diversity and sanctioning companies that do not show progress in this respect.

Engagement and Collaboration

- The Fund continued to participate in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools for managing Responsible Investment (RI) risks. Officers and Committee members attended four business meetings during the year.

More detail on each area is provided within each relevant section of this report.

1. Approach to Responsible Investment

This section sets out the Avon Pension Fund's Responsible Investment Policy and how it incorporates R.I into the investment process, details of strategic changes and Initiative support.

Responsible Investment Policy

In recognition of the changing landscape with respect to ESG issues as well as broader industry developments, the Fund periodically reviews its Responsible Investment Policy. The last review was undertaken in conjunction with the Fund's investment consultant, Mercer, in 2016. The policy can be found on the website: Avon Pension Fund Responsible Investment Policy

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

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

2017/18 saw the Fund implementing, and executing on, a number of the long term strategic priorities that were identified as part of the 2016 RI Policy review and the wider strategic investment review in 2017, specifically:

R.I Priority	2017/18 Activity
Engagement: The Fund seeks to identify strategic ESG risks for engagement on the basis of advice from the Funds investment advisors. It is the intention to select a number of topics on a regular basis (12 to 24 months) and to work with our investment managers and LAPFF to better direct engagement activity on these topics.	The Engagement and collaboration section of the report sets out the key engagement priorities and how the activity undertaken by the Fund. The Priorities for 2018/19 can be found at the end of the report.
Evaluate and manage carbon exposure: The Fund has identified climate change as a potential financial risk and the Fund intends to measure and understand its carbon exposure and actively examine measures for reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.	The Fund switched its entire passive equity holding into a Low Carbon tracker fund which seeks to minimise carbon exposure by overweighting companies with low carbon emissions. In addition the Fund re-appointed Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio at 31 March 2018. A summary of the findings can be found in the Section 2: Monitoring.
Sustainable Opportunities: Consider the case for sustainable opportunities, in-line with the Fund's investment objectives.	The Fund continues to explore sustainable opportunities on a case by case basis. During 2017/18 the Fund seeded a new Global Sustainable Equity Fund which seeks to invest in companies which offer the potential for growth and that meet strict ESG criteria such as environmental impact, provision of healthcare, societal contribution and gender equality.
Improving Disclosure and Reporting: The Fund recognises that there are increasing expectations around disclosure and transparency with respect to ESG issues. The Fund intends to enhance analysis, disclosure and reporting on its RI activities and progress.	This is the sixth Responsible Investment report published by the Avon Pension Fund. On an annual basis content is reviewed and disclosure improved. This year's report includes carbon analysis undertaken by Trucost and input from Brunel.

Further details on how the Fund has delivered the policy are covered throughout this report.

1.1 Change to Investment Mandates

When appointing external investment managers, the Fund:

- Includes in tenders an assessment of a managers' process for evaluating ESG risks within their investment process and makes use of this as an integral part of the selection process when relevant.
- Considers whether appointing managers with specialist ESG research capability could better meet the investment objective of the mandate.
- Includes the adoption of the PRI principles in the criteria for evaluating managers.

During 2017/18 the Fund appointed Loomis Sayles to manage a Multi-Asset Credit mandate, which seeks to provide diversified and dynamic exposure to different areas of the credit market, with a sub-investment grade bias. The manager established an ESG Committee in 2012 to oversee the integration of ESG matters into its investment process across all asset classes, including credit. Furthermore it is a UNPRI signatory and was awarded Tier 1 status as a signatory of the FRC Stewardship Code in 2016.

The Fund increased its allocation to Diversified Growth Funds (DGFs) with the appointment of Ruffer to meet the Fund's objective for DGFs of 'equity like returns with lower volatility'. The appointment process revealed that corporate governance is a central consideration for Ruffer when it comes to equity selection. The manager was able to demonstrate how it frequently engages with companies on governance issues such as executive remuneration and mergers and acquisitions. Ruffer became a signatory to the UN PRI in 2016 and was also awarded Tier 1 status to the FRC Stewardship Code.

2017/18 saw the Fund transition the legacy passive equity assets (equivalent to 10% of total Fund assets) into a low carbon global equity index fund designed to manage potential risks associated with the transition to a low carbon economy. BlackRock developed the pooled fund product as a result of the allocation made by Avon. By overweighting companies with low carbon emissions (relative to sales) and those with low potential carbon emissions, the index reflects a lower carbon exposure than that of the broad market. The Fund prefers an approach based on reduced weighting as opposed to a 'negative screen' exclusionary approach, which filters out companies that derive a meaningful proportion of their revenues from industries such as oil extraction. The decision was made not to invest in an index that excludes carbon emitters completely given the implications this has with respect to the Fund's ability to actively engage and effect change within investee companies. Additionally, negative screening results in a reduced investable universe and it can lead to higher volatility of returns due to the lack of exposure to areas of the market that a strategy cannot access.

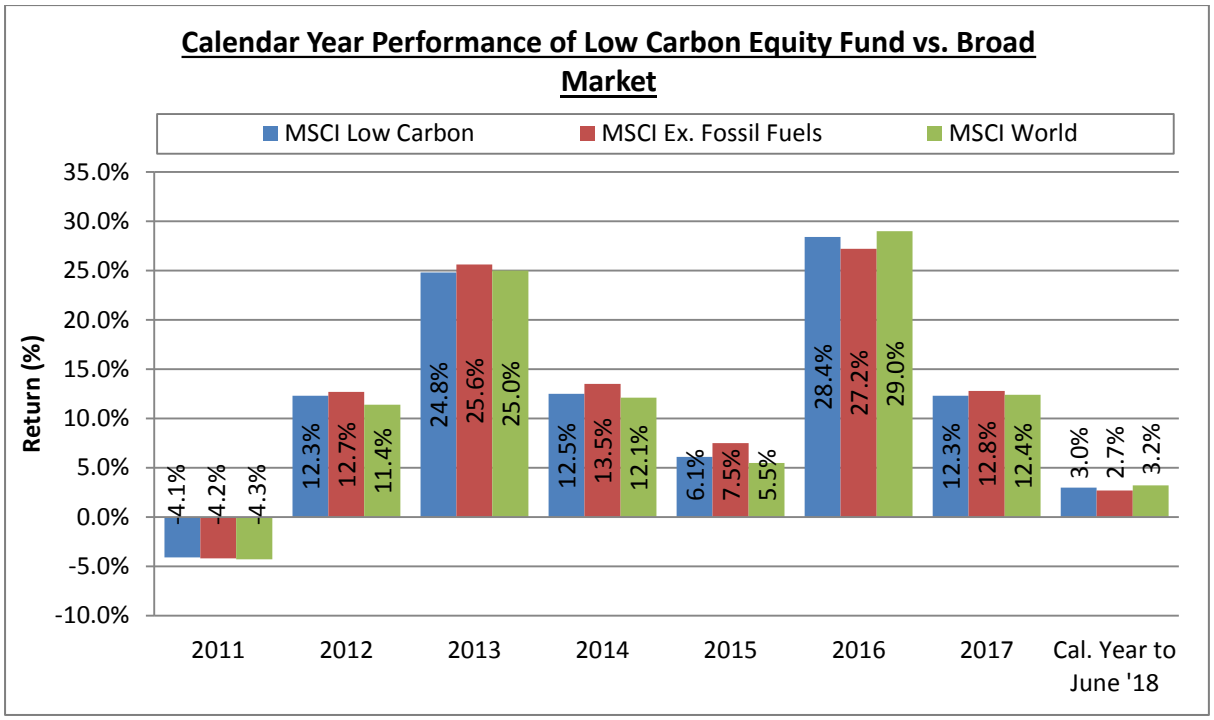
Finally, as part of the Fund's commitment to make an allocation to sustainable equities, it worked with Jupiter (the Funds existing UK SRI equity manager) to develop and seed a pooled global sustainable equity fund. Recognising the broader opportunity set that investing in a global universe brings with it the Fund was able to

draw on Jupiter's strong heritage in sustainable investing and its proprietary investment selection model which assesses, among other things, a company's impact on the planet, the strength of its governance and alignment with shareholder values as well as its societal contribution either through its end product or through its business practices.

A summary of the current investment mandates and their approach to ESG can be found in Annex 2.

1.2 Measuring the Success of Investing in a Low Carbon Global Equity Index Fund

Since inception the Low Carbon Global Equity Index Fund has delivered an absolute return of c.3% and despite an increasing oil price over the same period, given up just 0.2% of returns relative to its parent index, the MSCI World (see below chart). This fund seeks to replicate the MSCI Low Carbon Target Index which compares favourably versus other environmentally focused indices with regards to carbon intensity. This is due in part to the index construction methodology where all companies are individually assessed on their carbon emissions as opposed to an exclusionary index that might discount a sector such as Energy and in doing so not properly take account of the carbon emissions generated by those companies that are retained in the investable universe. Based on 5 years of history this Low Carbon Index has demonstrated lower volatility than its parent index, which has translated into better risk adjusted returns.



In general the Fund favours an approach that actively reduces its exposure to carbon but maintains the ability to engage with its investee companies to promote best practice for managing the transition to a low carbon economy. Arguably by wholesale disinvestment the investor foregoes the opportunity to effect change at a company that is not meeting the expectations of its shareholders in respect of environmental, social or governance issues.

1.3 UNPRI

- The Fund supports the principles underlying the UN Principles for Responsible Investing (PRI)
- All of the Fund's Investment Managers are signatories to the PRI. The principles are detailed in the table below:

UNPRI Principles	
1. Incorporate ESG issues into Investment analysis and decision-making process	2. Active owners, incorporate ESG issues into our ownership policies and practices
3. APF seeks appropriate disclosure on ESG issues by the entities in which we invest	4. Promote acceptance and implementation of the principles within the investment industry
5. Work together to enhance our effectiveness in implementing the principles	6. Report on activities and progress towards implementing the principles

2. Monitoring

This section sets out the Avon Pension Fund's Policy on monitoring Manager activity and provides an overview on the monitoring carried out by the Investment Panel along with developments from the Fund's Managers.

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed and to ensure they take ESG risks into account. In addition the Fund also seeks to influence investment managers where appropriate.

2.1 Stewardship Statement

The Fund remains a Tier 1 signatory to the FRC Stewardship Code. The Fund's statement can be found in Annex 1.

Of the fifteen investment managers the Fund employs, three had initially been assigned Tier 2 status. Through ongoing engagement with the FRC two of those managers were upgraded to Tier 1 status during the year.

2.2 Manager Policy Updates

The Fund requests updates on Manager Policy changes. The following updates have been made this year:

Manager	Update
Pyrford	Upgraded to Tier 1 status under the UK Stewardship Code.
Partners	Established a Responsible Contractor Policy, which is particularly relevant to Real Estate as it aims to set standards and ESG expectations for the relationship with contractors.
JP Morgan	Began incorporating topics related to prudent workplace practices as part of the due diligence reviews of the underlying funds JP Morgan invest in.
BlackRock	Regularly review and update their voting policies. Most recently reviewed and approved by the BlackRock Investment Stewardship (BIS) Global Oversight Committee in Q217.
Loomis	Upgraded to Tier 1 status under the UK Stewardship Code.

2.3 Climate Change Analysis

28.5% more carbon efficient than benchmark

Trucost's second annual assessment of the carbon footprint of the Fund's listed equity portfolios shows a year-on-year improvement in the carbon footprint performance of the Fund's aggregate equity portfolio, driven mainly by underlying improvements in the passive portfolios, specifically the addition of the Low Carbon portfolio.

The equity assets in aggregate are more carbon efficient than the benchmark, outperforming the benchmark by 28.5% in terms of carbon to revenue (up from 20.5% in 2017).

Sector allocation and stock selection effects combined translate into a positive overall effect, which means that as a rule the fund managers are investing in less

carbon intensive sectors and picking less carbon intensive stocks than the benchmark. Sector allocation resulted in the portfolio being 19.1% more carbon efficient than the benchmark and stock selection resulted in the portfolio being 9.4% more carbon efficient than the benchmark. The two sectors that have the greatest positive effect on carbon efficiency of the portfolio are Utilities (14.0%) and Energy (7.0%). While these sectors are highly carbon intensive they contribute positively to the fund when compared to the benchmark, as the underlying companies are more carbon efficient than their peers in the same sector.

30.3% less environmentally intensive than the benchmark

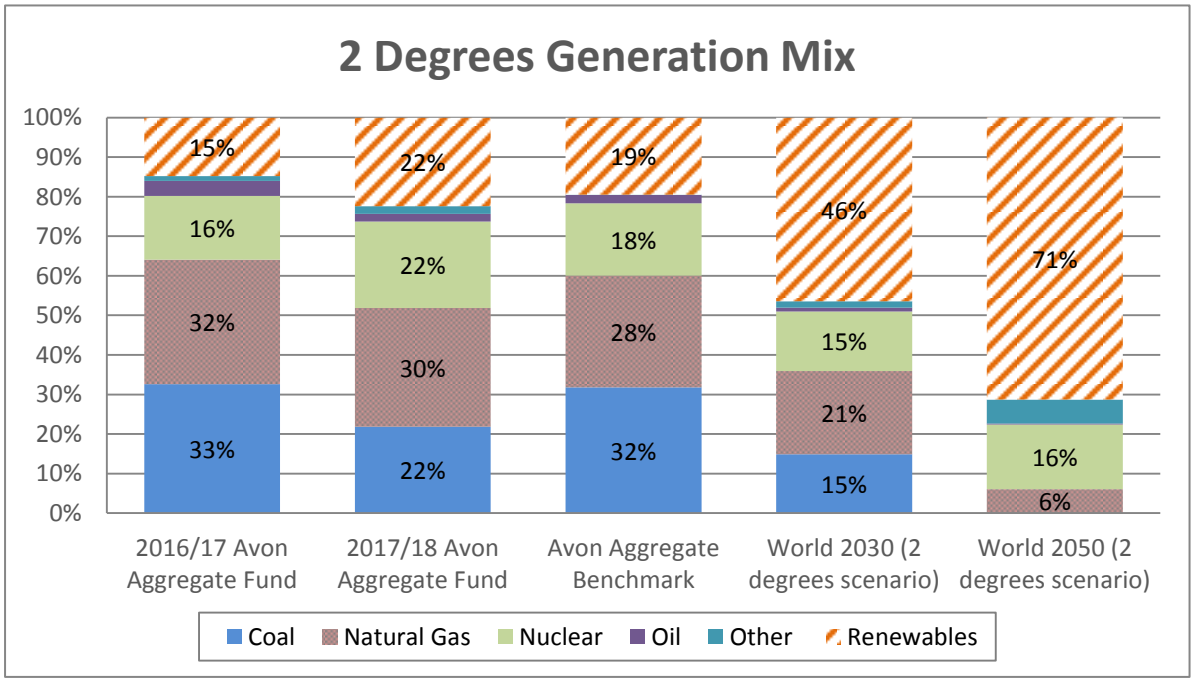
In its present state, every time the portfolio generates £1m of revenue, 335.30 tonnes of carbon dioxide equivalent (tCO^2e) emissions are emitted, a 15% reduction on last year's number of 386.36 tonnes.

In terms of fossil fuel exposure, the equity assets have a lower level of exposure to extractives than the benchmark (1.5% vs. 2.2% in terms of revenue, and 5.8% vs. 10.7% in terms of value of holdings). It also has a lower level of exposure to companies with fossil fuel reserves, in terms of value of holdings (4.5% vs. 9.7%).

Trucost also analysed the environmental foot print of the Fund, that is its exposure to greenhouse gas emissions, water, waste and other pollutants, and was able to determine that the total environmental footprint of the Fund outperforms its benchmark by 30.31%, a significant year-on-year improvement from 7.9%.

Generation Mix

The chart shows the Fund's power generation mix by type of energy in comparison to last year's analysis, the benchmark and the IEA 2 degree 2030 and 2050 targets.



There has been a transition towards less coal, less natural gas and less oil in the generation mix relative to last year and a significant reduction in coal versus the benchmark. Following the analysis undertaken last year the Fund recognised that the aggregate portfolio had a lower 'renewables' proportion, leading to a lower level of alignment with the 2 degree scenario mix than the benchmark.

The 2017/18 analysis reveals an increase in 'renewables' that outstrips the benchmark, However, there is still the opportunity to better align the aggregate portfolio with the 2 degrees scenario by increasing the proportion of renewable energy in the overall generation mix. The Fund's commitment to invest 2.5% of total assets in renewable energy infrastructure in the medium term should see the generation mix further aligned with the 2 degrees scenario.

The Trucost Executive Summary can be located in [Annex 3].

3. Engagement and Collaboration

This section sets out the Avon Pension Funds engagement priorities and its engagement activity throughout the year. It also summarises the activity of its manager, case studies and activities of LAPFF.

Avon Pension Fund Activity

3.1 Engagement Priorities

The Fund recognises the importance of managing ESG risks that can be both long-term and short-term in nature. The Fund seeks to understand and manage ESG and reputational risks to which it is exposed. In addition to Climate Change resilience and the strategic management of climate change risks at investee companies and corporate tax responsibility, the Fund added pay equality and risks arising from technology to the engagement priority list for 2017/18.

Climate Change Risks at Investee Companies

Corporate Tax Responsibility

Technology

Pay Equality

Climate Change Resilience

Notably, the Fund became a signatory of Climate Action 100+, a five-year 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 help achieve the goals of the Paris Agreement.

Engagement with Fund Managers

The Fund wrote a letter to all of its investment managers requesting feedback on how climate change risk has been incorporated into the assessment of risk in the investment process. The Fund's managers have been very active in incorporating climate change resilience into their engagement and integration of ESG. Different ways in which some of the Fund managers achieve this include:

- Several managers became founding signatories of Climate Action 100+ - a collaborative initiative led by the IIGCC, UNPRI and HSBC Global Asset Management designed to engage systemically important greenhouse gas emitters across the global economy that have significant opportunities to drive the clean energy transition.
- Engaged directly with companies on their current greenhouse gas (GHG) emissions, reduction activity, feasibility of adopting renewable production, carbon pricing, and scenario analysis and adapting to changing regulation.
- External advice sought on the effectiveness of various third party carbon foot-printing tools thus advocating for stronger models and analytical tools to identify the actual carbon risk that carbon footprints may not capture.
- Letters sent to companies, G7 and G20 global leaders highlighting need for disclosure and commitment to Paris Climate Agreement.
- One alternative investment manager partnered with the Clean Energy Finance Corporation (CEFC) to develop a carbon emission reduction and energy efficient framework for infrastructure assets.
- Published thought leadership on 'The Price of Climate Change' and 'Adapting Portfolios to Climate Change' designed to inform and educate portfolio managers' investment processes.

TCFD – Task Force on Climate-Related Financial Disclosures

Building on the feedback provided during the 2016/17 consultation on the inclusion of climate related financial disclosures, some managers subsequently moved to adopt the recommendations and began reporting against the TCFD framework.

Pay Equality & Technology

Managers were asked how they address and evaluate cyber security and pay equality issues within investee companies. Some of the different ways in which fund managers achieve this include:

- Attendance at regulatory events with the Financial Reporting Council (FRC) and the Investment Association (IA) to discuss the ongoing reforms to the UK Stewardship Code and Governance Code.
- Participated in a review of the IAs remuneration principles for UK public listed companies and provided feedback on developments during the AGM season. The consultation focused on a number of issues relating to quantum of fixed and variable pay, bonus disclosure, policy renewals, the use of discretion by remuneration committees and executive pensions.
- Undertook a review of the investment case for State Owned Enterprises (SOEs) and companies whose content (specifically in relation to social media companies) is restricted by Government and whether this censorship threatens the case for investing in such companies.
- One manager partnered with a strategic intelligence and advisory firm to deliver an ongoing and 'real time' program that reviews and assesses asset cyber security and awareness enabling a feedback loop to be created between investor and company.
- It was noted that fund of fund managers actively assess whether underlying managers conduct thorough due diligence on the service providers they engage with as part of wider General Data Protection Regulation (GDPR) requirements.
- Third party specialists appointed by several mangers to develop a status audit for portfolio companies that need to comply with GDPR.

3.2 Investment Manager Activity

Investment Managers provided an update on where they focused and engaged throughout the year. The key points are as follows:

BlackRock

- Engaged with a number of companies in the auto sector on climate-related risks and opportunities relating to Electric Vehicle technology.
- Initiated direct engagement with six property and casualty insurance companies to better understand their approach and reporting relating to climate risk management.
- Sent letters to the CEOs and general counsels of approximately 120 of the most carbon-intensive companies globally in BlackRock's aggregate equity portfolio.
- Discussed TCFD disclosure requests in two case studies; with an Australian oil major around its climate risk governance approach and with a number of Chinese companies in the heavy emitting sectors including energy, power generation, construction materials, and petrochemicals.
- Engaged with several auto manufacturers on the impact of technology, labour issues, worker retention and training.
- Engaged on structural reform and human capital challenges including labour relations and employee training.
- Direct engagement with a UK retailer on corporate governance and workforce management practices.

Genesis

- Actively participated in briefings from corporate governance groups such as the International Corporate Governance Network (ICGN).
- Disinvested from an Asia Pacific financial sector company due to inadequate IT infrastructure which created a disruption in service and where the company did not satisfactorily improve their internal control environment.

IFM

- Committed to producing and publishing an annual report on the carbon footprint of all infrastructure investments in which IFM has a meaningful exposure, or over which IFM yield significant influence.
- In March 2018, IFM issued a new round of information requests to each of its infrastructure assets, asking for updated carbon emissions data and evidence of any emissions reduction improvements or activity undertaken over the past year.
- During 2017 the Australian Council of Superannuation Investors (ACSI), of which IFM is a member, engaged with 16 priority companies under a Climate Change theme, designed to elicit responses on their material risks utilising the UK Financial Stability Board's Task Force on Climate-related Financial Disclosure (the TCFD).
- IFM Investors is actively involved in global collaborations to protect the rights of workers around the world. One notable example of this is how IFM have improved contractor employment practices towards unskilled workers at Brisbane Airport Corp.

JP Morgan

- Carried out governance engagement with underlying hedge fund managers, supporting and guiding board structure
- Began incorporating topics related to prudent workplace practices as part of the due diligence reviews.
- Members of, and sits on the board of, many different initiatives such as Financial Stability Board's Task Force on Climate-related financial disclosures, World Business Council for Sustainable Development, Cross Sector Biodiversity Initiative.

Jupiter

- Initiated a research project with the CDP (formerly Carbon Disclosure project) to consider practical solutions for climate risk analysis following renewed criticism of carbon foot-printing as a climate risk management tool by institutional investors.
- Has been a CDP survey respondent since 2006 and was awarded 'A' for its report for the first time in 2017
- UN PRI: Joined PRI working group on the integration of UN Sustainable Development Goals into investments frameworks, in an effort to contribute more to the initiative
- Is a founder signatory of the Women in Finance Charter, an active member of the industry initiate Diversity Project and a member of 30% Club
- Hosted a ShareAction Briefing for Addressing Climate Risk Roundtable for Pension Fund Trustees in 2017
- Hosted a Two Degree investing event entitled 'Asset-Level data and Climate related financial Analysis'.
- Met with Chairman of a FTSE 100 Chemicals company, which provided insight into the company strategy and capital allocation to manage the risks associated with the technological transition to the production of battery materials to meet future demands of electric car components.
- Met a FTSE 100 Bank to discuss corporate governance matters and the bank's role in the development of sustainable financial markets.
- Met the Head of IR and Head of Corporate Citizenship at a FTSE100 Energy company to discuss long-term trends in the UK energy market, such as the near and long term capability of smart meters and infrastructure for large commercial to residential customers.
- Undertook an engagement exercise on pay equality focusing both on company's development and application of principles and policies related to the living wage and equal pay for equal work, while also connecting with the related matters such as employee diversity.

- Met representatives of some of the largest consumer staples companies to engage on pay equality and diversity.

Unigestion

- Unigestion and 30 other PRI signatories participated in a PRI coordinated collaborative engagement with 130 large global corporations suspected of producing excessive carbon footprints that they were not reporting. Letters were sent to these companies urging them to disclose their full and complete carbon footprint to investors.
- Engaged directly with portfolio companies on a variety of corporate governance concerns such as Director Appointments, Merger & Acquisition activity and Board Governance by voicing concerns and requesting that they be addressed.
- Signed on to the Climate Action 100+ collaborative engagement.

Partners

- Signed a UNPRI-organized investor statement to G7 and G20 governments in support of the Paris Agreement.
- Applies its ESG due diligence tool, which is based on the Sustainability Accounting Standards Board (SASB) principles, to all potential opportunities. Partners Group's assessment methodology efficiently identifies the most material climate-related topics for a given industry.
- For companies currently in the portfolio, Partners Group completes an annual ESG KPI reporting process that solicits data on energy consumption and air emissions.
- Assess a prospective investment's human resources policies and practices. Pay equality is considered as part of the human resources topics covered. If a material issue is identified during due diligence in these areas, it would immediately get flagged and addressed.
- Recognises the importance of setting up appropriate cyber controls and procedures in portfolio companies, in order to protect stakeholders' information as well as mitigate significant investment risk. For this reason, cyber activities and data security are also among the items covered by proprietary ESG due diligence tool.
- Worked with a third party to develop a status audit for portfolio companies that need to comply with GDPR by May 2018.

Pyrford

- In December 2017, Pyrford signed up to Climate Action 100+
- Used the 2017 "2 Degrees of Separation Report" produced by the respected Carbon Tracker think tank, in conjunction with the UNPRI and other Institutional Investors
- Upgraded to Tier I status under the UK Stewardship Code.

Ruffer

- Ruffer is a founding investor signatory of Climate Action 100+
- Ruffer's Director for Responsible Investment is a member of The Investment Association's Remuneration and Share Schemes Committee. As well as giving feedback on governance changes, the Committee also publishes an annual Principles of Remuneration to the Chairs of Remuneration Committees of listed companies and develops strategies on how to combat excessive executive pay by holding executives and remuneration committee chairs to account.

Schroders

- Completed a significant amount of climate change research and analysis, including Carbon Value at Risk model which examined how carbon pricing could affect cost structures and profits, and identified companies or sectors at greater or lesser risk.
- Undertook over 150 engagements with portfolio companies with weak disclosure on their climate strategies.
- Emphasised the importance of transparency and the value of disclosures addressing their exposures to climate risks and opportunities.
- Have also been actively involved in collective engagement activities as part of the 'Aiming for A' investor coalition, which promotes greater transparency towards climate risk management and coordinates shareholder resolutions to reflect investor views.
- Co-filed climate change resilience resolutions at Anglo American, Glencore and Exxon Mobil and supported the climate change resolutions filed at Shell and Rio Tinto.
- In December 2017, became a founding signatory to the Climate Action 100+ initiative.
- Following on from the letter co-signed to G7 finance ministers in 2015 Schroders co-signed another letter to G20 leaders in 2017 to encourage them to continue with progress in this area.
- Examined labour standards at customer fulfilment centres, participated in a collective engagement with UK apparel and online retailers, visiting several UK fulfilment centres to observe labour conditions and what the companies were doing to retain and attract staff for future growth

3.3 Engagement Highlights by Investment Managers

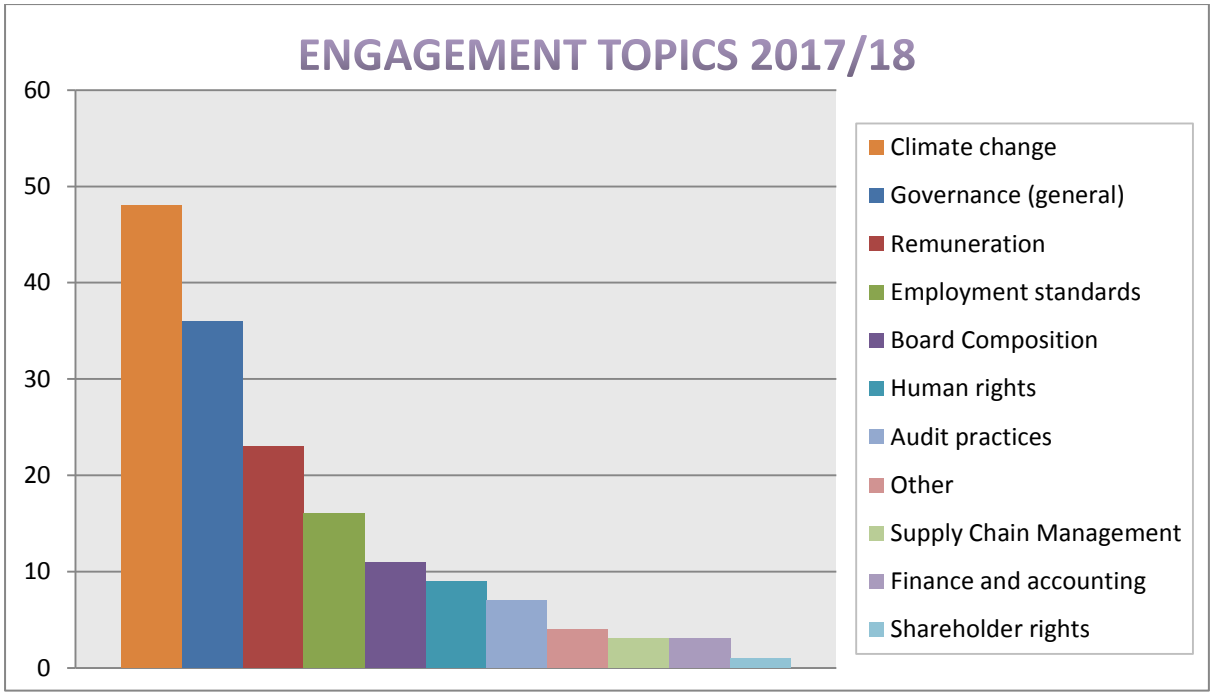
The table below demonstrates engagement across a number of issues taken forward by our investment managers (IM) and shows a range of actions taken.

Company/ Industry	Action	Outcome
TESCO	IM asked for greater transparency around sugar in the company's reporting, in line with the Investor Expectations document	Since sharing the Investor Expectations with the company there is more detail in the CSR report on health & wellness compared to previous years
Pearson	IM asked for executive pay to reflect the difficult year that employees and shareholders have had and expressed that they would like to see total shareholder return (TSR) play a major role in any long-term incentive plan (LTIP)	The company have sent a separate letter on their remuneration policy and implementation. They have noted the IM's preference for TSR and have increased the weighting to this in the LTIP, balancing that against the requirements of other shareholders who prefer measures that they consider to be directly in the control of management
Coca Cola	IM asked for greater transparency around sugar in the company's reporting, in line with the Investor Expectations document	No change to the annual report but changes to CSR reporting and new goals concerning sugar reduction and diversifying the product mix
HSBC Holdings plc (Hong Kong)	IM asked to have a smaller but stronger board.	At the AGM it was announced that two non-executives, who the IM viewed as having too many directorships, were stepping down. Mark Tucker, an executive well-respected in Asian financial services, will become Chair. David Nish, ex-Standard Life, has now joined the board.
Capita Group plc	IM asked the company to improve the executive structure and monitoring of the business.	It was announced with the full year results that the CEO is stepping down. A new management structure has been implemented with just six divisions and shorter reporting lines. The board has been improved with the appointment of Matthew Lester as Non-Executive Director.
Pfizer Inc	IM requests the company to renew or refresh board.	A new board member was added in 2017
Mitsubishi Estate	IM met with the company at the Manager's office as part of its annual update on corporate governance issues.	Discussions covered the disclosure and changes to its executive director remuneration and the independence of directors.

Royal Dutch Shell (Shell)	IM met with the company on Shell's response to climate change and its commitment to reduce its greenhouse gas emissions.	The company discussed its plans to achieving this over the short, medium and long-term and re-confirmed it is committed to the Paris Agreement. Shell states that it is committed to updating their ambitions every 5 years and the Chairman stressed the commitment of management to these ambitions. IM to attend the Shell's Responsible Investors Annual Briefing on the 16 April 2018.
BP	A member of IM's responsible investment team was part of the group that made a statement at the BP AGM on behalf of Climate Action 100+. Manager specifically asking for additional information from the Board about the methodology used to set BP's targets to reduce its operational emissions and its specific target for reducing methane emissions. (TCFD). While the IM was reassured by some of the responses, they are following up with the company on certain points raised.	Other questions focussed on the disclosure of the company's scope 3 greenhouse gas emissions, BP's support for third party industry associations and a timeline for reporting that fully adopts the recommendations of the Task Force on Climate-related Financial Disclosures

3.4 LAPFF

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. In 2017/18 LAPFF, who now represent 79 LGPS funds and five pools, engaged on the following topics:



The R.I policy and engagement priorities for the year were discussed with LAPFF. Committee Members and Officers attended all four LAPFF business meetings in 2017/18. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report. LAPFF groups its engagement activities within the following categories and highlights this year are discussed below.

Promoting good governance

- The Forum has sought further detail and assurances from companies about how they are mitigating the risks posed by cyberattacks.
- LAPFF had meetings with the Chairmen at BT and Vodafone to discuss cybersecurity as both companies are at the forefront of the threat given their role in the exchange of information.
- LAPFF continued to both engage companies on board diversity and be an active member of 30% Club investor coalition which works to achieve a minimum 30% women on FTSE-350 boards and 30% women at senior management level in FTSE100 companies.
- LAPFF submitted a response to the Parker review of ethnic diversity of UK Boards which set out how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.
- The Forum joined with the Council of Institutional Investors in writing to the SEC (US Security and Exchange Commission)to share concerns about several provisions in the Financial Choice Act 2017
- LAPFF co-signed a letter to SEC over new regulations that make it more difficult to file shareholder resolutions in the US. A meeting is being sought to explore these concerns further.
- LAPFF raised remuneration issues and held several meetings to discuss pay policies and schemes.

- Direct engagement on executive pay with the Shell remuneration committee chair, Smith & Nephew, BP, Easyjet, Vodafone.
- LAPFF met with a number of companies' CEOs and chairs to discuss their approach to M&A (Mergers and Acquisitions)and their insight has helped to substantiate the findings in LAPFF's trustee guide, 'The Case for Engaging in M&A: Raising Standards of Corporate Governance by Asking the Right Question.

Managing environmental risk

- LAPFF undertook 48 engagements around environmental and carbon risk during 2017 – Representing 30% of engagement overall.
- LAPFF issued voting alerts recommending members support shareholder resolutions at PPL, Chevron and Exxon Mobil, requiring the companies to undertake analysis and produce publicly available reports on the impact that a two-degree scenario , as outlined in the Paris Agreement, would have on their business and shareholder value.
- Through 50/50 Climate Project initiative, LAPFF continued dialogue with Exxon Mobil Corporation on succession planning and directors' qualifications , raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensations.
- LAPFF had meetings with Southern Company's legal counsel along with other US investors, to discuss climate change and carbon risk and explore how the company is positioning itself to report its strategy for a +2ºC scenario in the context of the shareholder resolution to the company which received 46% support from shareholders. The meeting was coordinated via the Forum's partnership with the 50/50 Climate Project.
- Following LAPFF engagement, Total confirmed that they did report in a resource-neutral way using a carbon intensity measure and also set out how their strategy was consistent with a two-degree scenario.
- LAPFF had meetings with Rio Tinto's CEO and the chair of National Grid which explored the companies' experience of internal carbon pricing, the impact of the Taskforce on Climate-Related Financial Disclosure (TCFD) and progress on scenario planning.
- LAPFF engaged with several energy and mining companies- BP, Shell, Anglo American- on how their remuneration policies could create incentives for an accelerated low carbon transition.
- LAPFF are supportive of the Transition Pathway Initiative (TPI)

Targeting social issues

- Had discussions with National Express for a number of years regarding allegations that its employment standards in its US operations are inadequate. Many of these allegations have come from employees via trade unions.

Therefore, LAPFF has consistently pressed National Express to engage more openly with unions. LAPFF continued to engage with both National Express and the unions, using both voting alerts and engagement meetings to encourage both parties to talk. LAPFF has every confidence that, as with its FirstGroup engagement, the two parties will reach an agreement that will strengthen the company and benefit workers.

- This year the range of human rights engagements increased. LAPFF engaged again on the use of cluster munitions, as well as with companies operating in Israel.
- Engaged with extractives companies facing pressure from community groups over their mining practices.
- LAPFF also engaged with 21st Century Fox over its sexual harassment scandal, which seems to be snowballing across the entertainment industry and even played a role in its bid for Sky.
- Continued engagement with Sports Direct, a company with which LAPFF has attempted to engage over a number of years. This past year, LAPFF issued a voting alert, attended an investor question and answer session held by Mike Ashley and attended the Company's AGM to ask again for an independent review of corporate governance and workplace conditions. LAPFF has been pleased with some developments at the Company, including the appointment of a worker representative to liaise with the Board.

Consultation responses/ Initiatives

- LAPFF provided The Pensions and Lifetime Savings Association (PLSA) with feedback on its work force reporting tool and submitted a number of comments and suggestions to ShareAction as it develops the Workforce Disclosure Initiative (WDI)
- Demanded that the European Commission demonstrate that it has followed a lawful procedure in endorsing IFRS 9.
- Called for the Financial Reporting Council (FRC) to be replaced with an independent companies commission following a failure to enforce the Companies Act 2006 in respect of both 'true and fair' accounting requirements.
- Partnered with the 50/50 Climate Project, to support effective long-term climate change strategies amongst the public companies with the 50 largest carbon footprints.
- Publication of research paper on Corporate Governance Reform and the Government's subsequent response in its White Paper have prompted much debate in 2017; LAPFF advocated in particular for alignment of executive pay with long-term performance and that a greater voice to be given to employees and consumers in the boardroom. The Forum's response was reported in IPE and has been posted on Thomson Reuter's Practical Law site.
- LAPFF attended sessions to update investors on the Access to Nutrition Index, and in particular the India and US Spotlight Indices. The Forum plans to further engage on public health issues and assess the

related investment risks.

- LAPFF wrote to the Chairman of the US Securities and Exchange Commission (SEC) to support the implementation of the Pay Ratio Rule.
- LAPFF responded to the government-backed Parker Review on Ethnic Diversity of UK Boards' consultation report 'Beyond One by 21'
- LAPFF engaged 161 times with a total of more than 50 companies in 2017/18 through various methods which include meetings, attending AGM's, sending letters and having dialogue with the company.

3.5 Pooling

The Brunel Pension Partnership is a collaboration of ten LGPS funds (client funds) bringing together circa £30 billion of assets. At its centre, is an FCA regulated company wholly owned by the 10 client funds, which is responsible for implementing each client funds' investment strategy.

As part of this initiative, the Fund continues to support collaboration across the LGPS funds on voting and engagement and participates in the Responsible Investment (RI) sub group (previously Stewardship group). Collaboration via the group helps to identify what the client funds expect Brunel to deliver on their behalf and acts as a forum for client funds to share best practice with respect to RI. Development of policy extends to the Brunel Oversight Board, Brunel Client Group, membership of which includes representatives from the administering authorities which it serves and Brunel staff. Progress and policy compliance is monitored by all the groups outlined above.

Discussions over the year fell into four main areas:

Collaboration

Funds worked together to identify a collective view to feed into the pool, which helped form the basis of Brunel's RI priorities. Representatives within the group shared details on each of their fund's R.I activities, knowledge and experience.

Engagement

Brunel and Avon both support Climate Action 100+, a five-year initiative calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Voting

Throughout the year feedback was provided that ultimately fed into Brunel's Responsible Investment Policy and the Stewardship Policy, which includes detail on the pools approach to voting and engagement.

Reporting

Avon is committed to reporting on its RI related activities with full transparency and through the pool will continue to provide:

- Annual Carbon Reporting
- Publication of voting records(this will be via the Brunel website no less than twice a year)
- Holdings data

One benefit of pooling is the ability to enhance the existing reporting and increase the use of analytics. In addition to the above Avon, via Brunel, will be in a position to provide:

- Quarterly performance reports with integrated ESG metrics and RI updates on engagement, voting and industry activity;
- Reporting provided by Brunel's appointed engagement and voting provider, such as
  - Case studies
  - Quarterly public engagement report
  - Quarterly statistics factsheets
  - Public engagement plan

More information on Brunel's approach to responsible investment, as well as key achievements over the year, is detailed below.

3.6 Brunel Policy Development

Since its creation in 2017, Brunel has built upon its investment principles to firm up the investment portfolios, with a comprehensive RI Strategy. The RI Policy (a summary of the RI strategy) and Stewardship Policy (which include listed equity voting policy guidelines) are publicly available with other supporting information in the Responsible Investment area of the Brunel Website.

Brunel takes account of ESG considerations in all aspects of investment decision making, principally through the analysis of:

- Macro socio-economic and environmental risks that can present investment risks and opportunities across Brunel and in each of its portfolios.
- Bottom up, holdings driven ESG analytics are used to assess on-going risks and opportunities in portfolios which assist with both portfolio and manger monitoring.

- Manger selection process, covering everything including ESG capabilities as well as culture, conduct, incentive alignment and other wider organisational issues that could be relevant.

3.7 Brunel Key Achievements

To Integrate

- Brunel is a member of the Institutional Investors Group on Climate Change (IIGCC) and a supporter of the Transition Pathway Initiative (TPI) and Climate Action 100+, which support the integration of carbon and climate risk into due diligence processes and engagement with companies and other assets.
- To promote best practice Brunel are working with the Diversity Project, for which Brunel's Chair, Chief Executive Officer (CEO) and Chief Responsible Investment Officer (CRIO) are ambassadors. Brunel is also a member of The 30% Club which aims to develop a diverse pool of talent for all businesses through the efforts of its members who are committed to better gender balance across all organisational levels.
- Brunel has appointed Legal & General Investment Management Ltd (LGIM) to manage £6bn-worth of passive equities. The funds were transitioned in July 2018. LGIM's clear commitment to responsible investment, stewardship, promoting diversity internally as well as externally illustrate how ESG concerns are integrated across Brunel's entire business model.

To Collaborate

- Brunel was the first LGPS pool to become a signatory of the UN backed Principles for Responsible Investment (PRI).
- Brunel has been active in providing input to UK policy makers, specifically the FRC on the UK Corporate Governance Code, narrative reporting and UK Stewardship Code as well as being a member of the FRC Investor Advisory Panel. Brunel has also submitted to the Kingman review of the FRC and to the DWP review of Trustee Duties. Copies of responses and details of advocacy work are publicly available.
- Brunel has also supported specific initiatives, supported by UK Government, relating to Green and Social Finance as well as supporting the Scheme Advisory Board.

To be Transparent

- Brunel is a signatory of the LGPS Code of Transparency. Brunel requires all of its investment managers to be signatories of this code or an equivalent.
- Brunel is committed to decarbonising listed portfolios, providing carbon foot printing to assist in reducing unrewarded carbon risk and low carbon portfolio opportunities. Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosure.

4. Voting Analysis

The Fund delegates voting to its investment managers and regularly monitors how its investment managers undertake voting activities in comparison to relevant codes of practice. The following section summarises the LAPFF alerts the Fund forwards to relevant managers for the year and the rationale of managers when voting differed to LAPFF's recommendation. It also examines at a high level the overall voting undertaken on behalf of the Fund by its Managers, the voting themes, shareholder comparisons and conclusion.

4.1 LAPFF Voting Alerts

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 17 companies for which LAPFF issued a voting alert during the year; the table is split across 7 categories. Note that some companies appear across multiple categories, of which a large proportion addresses climate change, analysis and scenario assessment.

LAPFF Recommendations

Approve the Remuneration Policy	Report on impacts of climate change policies	Review and Report on Business Standards	Proposal Regarding Report on Transition to a Low Carbon Economy
Smith & Nephew plc X	SH PPL √	SH Wells Fargo √	SH Chevron √
Carilliion X	SH Exxon Mobil √		
Glaxosmithkline plc X	SH The Southern Company √		
BP PLC √			
Royal Dutch Shell plc √			
WPP X			
Babcock International Group plc X			
Sports Direct √			
Approve executive compensation	**Election of chair/ CEO/ Director**	**Receive the Annual report**	**Extension of the guaranteed minimum value for eligible employees participating in the Company's share schemes**
The Southern Company X	Enquest plc X	Sports Direct X	Sports Direct X
Sports Direct X	The Southern Company X		
	Sports Direct X		

Colours and symbols denote LAPFF voting recommendation.

SH denotes Shareholders Resolution.

Oppose X
Abstain =
For √

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions, particularly where voting is not in line with LAPFF recommendations.

The below table highlights where votes cast by the Fund's equity managers differed to the LAPFF recommendation:

Company	Resolution	Outcome For	LAPFF	Management Rec	Manager 1	Manager 2
Smith & Nephew plc	Approve the Remuneration Policy	98%	OPPOSE X	FOR √	FOR √	
Carillion	Approve the Remuneration Policy	99%	OPPOSE X	FOR √	FOR √	
Glaxosmithkline PLC	Approve the 2017 Remuneration Policy	95%	OPPOSE X	FOR √	FOR √	FOR √
Wells Fargo	SH Review and Report on Business Standards	--	FOR √	OPPOSE X	OPPOSE X	
PPL	SH Climate change: 2 degree scenario analysis	57%	FOR √	OPPOSE X	OPPOSE X	
Exxon Mobil	SH Report on climate change policies	57%	FOR √	OPPOSE X		OPPOSE X
Chevron	SH Proposal Regarding Report on Transition to a Low Carbon Economy	27%	FOR √	OPPOSE X	OPPOSE X	
WPP	Approve the remuneration policy	92%	OPPOSE X	FOR √	FOR √	
The Southern Company	Re-elect of Dale E. Klein	--	OPPOSE X	FOR √	FOR √	
	Re-elect of Steven R. Specker	--	OPPOSE X	FOR √	FOR √	
Babcock International Group Plc	Approve the Remuneration Policy	96%	OPPOSE X	FOR √	FOR √	
Sports Direct	Receive the Annual report	98%	OPPOSE X	FOR √	FOR √	

-- unpublished voting outcome

The Fund notes a marginal uptick in votes cast contrary to LAPFF recommendations relative to last year. This is not necessarily a reflection of lower levels of dissent amongst investment managers but more likely a function of an increasing number of proposals, particularly in relation to remuneration-related proposals in the UK market. This is because UK companies must generally submit remuneration policies for shareholders' approval every three years. Most UK companies submitted remuneration policies for the first time in 2014 and therefore submitted them again in 2017.

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

Smith & Nephew plc (Approve Remuneration Policy)

- Manager 1

We identified no material concerns with the Remuneration Policy proposed by management. As part of the changes brought by the new policy, the CEO would have an increased shareholding requirement, from 200% to 300%.All of the changes were in line with good practice and on par with peers.

Glaxosmithkline PLC (Approve Remuneration Policy)

- Manager 1

We voted FOR after consultations with the company. While we expressed concerns that the salary is high considering the candidate to the CEO position is internal to the company, the package was still below the former chief executive's pay. We noticed an improvement in most components and a quantum on level with peers and decided to support, on balance.

- Manager 2

A vote in favour of the remuneration policy was considered warranted. A previous high-level engagement with the company's Chairman and the Chairman of the Remuneration Committee shortly after their appointments informed Manager's voting stance at the time of the AGM. The meeting highlighted several relevant governance themes, including the highly competitive global pharmaceutical market in which the group operates, the Board's approach to near-term succession planning for the CEO and the need to compete for top talent not only in the UK but also in the US, where market rates for executive and top scientist compensation operate at a significant premium to those in the UK.

The proposed policy was analysed ahead of the May 2017 AGM. It contained several changes which were considered improvements compared to the previous version. In terms of quantum, the new policy operated within the same parameters as the existing structure with regards to serving executives, while providing the Remuneration Committee with a measure of flexibility over long-term incentive plan (LTIP) awards for future hires in order to facilitate effective recruitment. In terms of structure, the group's LTIP was simplified by the removal of matching elements from the reward framework, while the structure of the annual bonus was also simplified and in our view, improved on a pay-for-performance basis. The at-target pay-out under the annual bonus as a proportion of salary was reduced, while the executive shareholding requirement was increased, strengthening management alignment with shareholders. In addition, it was noted that the new Chief Executive's total package upon appointment represented a 25% reduction compared to the previous CEO. Taking these factors into account in the context of the company's strategy and competitive landscape, support for the policy was considered warranted. As set out in Manager's corporate governance and voting policy, we recognise that companies operate in competitive environments and pay packages must be balanced to attract, retain and motivate talented executives to deliver for shareholders, while avoiding paying more than is necessary for this purpose. They are not prescriptive in their approach to the design of pay policies seek to judge these matters on a case by case basis, taking sector and industry dynamics into consideration.

Wells Fargo (SH Review and report on Business Standards)

- Manager 1

For regulatory or conflict reasons, a few securities in our portfolio are voted through third-party external providers based on the custom policy we have provided them with. The item was voted in line with our views and if discretion had been exercised, the same voting decision would have been made as we find the proposal was not in our clients' best interest.

PPL (Climate Change 2 degree scenario analysis)

- Manager 1

We engaged with PPL in advance of the 2017 AGM to better understand the company's approach to climate reporting. While the company was not as far along as others in its sector, we vocalised our expectations for reporting along the lines of the TCFD framework and detected openness by the company to continue to improve. Since the 2017 AGM, the company has made strides in its climate reporting to include a 2 degree scenario analysis and carbon reduction goals. The company did not receive a similar proposal in 2018.

Chevron Proposal regarding Report on transition to a low carbon economy)

- Manager 1

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Manager 1 has been engaging in direct and private dialogue with Chevron over several years on a wide range of governance issues that we believe have long-term economic implications for investors.

In advance of the 2017 AGM, Chevron published a report, “Managing Climate Change Risks, a Perspective for Investors”, which the company states is in response to some of its shareholders expressing interest in gaining greater insight into how Chevron manages climate change risks. We welcome this evolution in Chevron’s reporting, which appears to have led the shareholder proponents to withdraw the proposal**. Manager 1 commends the company for enhancing its disclosure as well as the shareholder proponents’ pragmatic decision to withdraw because of the company’s progress.**

WPP (Approve Remuneration Policy)

- Manager 1

We found significant improvements in the remuneration even if the quantum remains high, including decrease in STI and LTI opportunities, reduction in threshold vesting level under LTI, reduction in pension contribution for CEO and new recruits, and benefits to be replaced with an allowance 12% lower than in 2016 for the CEO.

The Southern Company (Re-elect of Dale E. Klein)

- Manager 1

Directors open to improvement.

The Southern Company (Re-elect of Steven R Specker)

- Manager 1

Directors open to improvement.

Babcock International Group plc (Approve Remuneration Policy)

- Manager 1

The new CEO was appointed at a higher salary than former CEO, but following the removal of the deferred bonus matching plan, this represents a reduction in overall total remuneration relative to his predecessor.

Sports Direct (Receive the Annual Report)

- Manager 1

This is the company's routine submission of the directors' report and financial statements for the year. The auditors' report contained in the annual report states that, in the opinion of the auditors, the Company's financial statements give a true and fair view of the state of the Group's affairs as at 30 April 2017.

4.2 Summary of Voting Analysis

The Fund seeks to analyse the proxy voting activity of the Fund's investment managers to understand how managers are utilising their voting rights in conjunction with their engagement activity.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio.

The Fund's overall voting activity in aggregate for the year ending 31 March 2018 can be seen in the below table.

Voting Period	Company Meetings Voted	Resolutions Voted	Votes For	Votes Against	Abstained	Withheld
Q217	1,386	21,117	19,417	1,666	1,163	71
Q317	213	3,087	2,909	185	54	6
Q417	60	670	595	34	44	17
Q118	471	4,939	4,638	235	64	1
Total	**2,130**	**29,813**	**27,559**	**2,120**	**1,325**	**95**

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

4.3 2017/18 Voting Themes

Working with Brunel and the investment management community the Fund identified the following developments in the market with respect to common voting themes:

- The common practice amongst UK companies to consult with major shareholders on new remuneration-related proposals prior to publication of any voting documents increased over the year, with many companies opting to put their second round of remuneration policies to a shareholder vote.
- As a result of the adoption of a revised Shareholders' Rights Directive by the European Council in April 2017 the proportion of companies analysed who disclose detailed voting results was above 90% for all countries with the exception of three Nordic countries, where disclosure practices vary significantly.
- Based on a sample of major index companies across 17 European markets ISS voting analytics revealed that average voter turnout and average number of proposals per meeting increased marginally between 2014 and 2017.
- The European average dissent level across all voting topics increased progressively from 3.5% in 2008 to 3.9% in 2014 and has been relatively stable since then, remaining between 3.8%-3.9% from 2015-2017.
- Across Europe dissent on remuneration-related proposals slightly increased between 2016 and 2017, however for the UK the average dissent decreased. This may be at least partly linked to improvements put in place at a number of companies following shareholder discontent at 2016 general meetings. It should also be noted that in the UK a number of potentially contentious remuneration-related proposals were withdrawn by companies before AGMs.
- In 2017/18, dissent on UK board member re-elections was higher when expected board diversity post-election was lower. These results are consistent with shareholders looking for more board gender diversity and sanctioning companies that do not show progress in this respect.

It is anticipated that in 2018/19 incentive performance measures, board and committee composition, climate change, auditor independence and audit fees will continue to be prominent themes.

5. Priorities 2018/19

This section sets out engagement topics for the Fund over the next year and highlights some of the work which has begun. This section also identified some of trends managers and LAPFF will be focusing on.

The Fund's 2018/19 engagement priorities will be informed by Brunel's RI and Stewardship policies, LAPFF and its investment managers. There is expected to be a large degree of alignment with Brunel's priority themes that are detailed below. Engagement with investment managers residing in the Brunel investment portfolios will be undertaken directly by Brunel and fed back into LAPFF.

The engagement priorities for 2018/19 are:

Climate Change Risks at Investee Companies

Corporate Tax Responsibility & Reliable Accounts

Social Inequality

Board Diversity

Technology & Cyber Security

Supply Chain Management

The engagement priorities remain relatively unchanged partly due to the risks being long-term and engagement spanning long time frames. The addition of ‘Supply Chain Management’ comes directly from the identification of this issue by Brunel and is defined as “companies and sectors where the effective management of suppliers is a principal business risk e.g. food provenance, scarce supply base or joint ventures in high risk activities/countries. Sub-themes include climate risk, modern slavery, water quality and availability and the reduction of single-use plastics.

Annex 1: Statement of Compliance with Stewardship Code

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Avon Pension Fund takes its responsibilities as a shareholder seriously and believes that by discharging Stewardship duties it can enhance and protect value to the Fund. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

The Fund's policy in this area is set out in its Statement of Investment Principles (SIP) and Responsible Investment Policy which highlights:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Investment Governance Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund seeks to apply this code across all portfolios.

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. 12 of 15 managers have published a statement of commitment to the Stewardship Code, an additional 3 since 2013. Links to manager statements are included in the appendices to this statement. The remaining three managers make investments in infrastructure, overseas property and currency hedging where the opportunity for stewardship activity is limited. 13 managers are signatories to the UK PRI, including the Infrastructure and property managers who are also closely aligned to the UN Global Compact.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meetings where practical.

Further details on how the Fund monitors the activity of external managers on an ongoing basis can be found in its response to Principle 3. Its monitoring of Voting can be found in its response to Principle 6.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The Fund considers that conflicts of interest in relation to stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

Internal sources for conflicts of interest

Committee members and Officers may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential for the stewardship of any local investments made by the Pension Fund that could be directed to benefit wider Council policy.

The Fund seeks to address these in the following way:

Pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings in line with the council's code of conduct and interest rules. This is a standing item on every committee agenda and declarations are made public. Annually declarations should be made to the Monitoring Officer.

The Section 151 Officer has delegated responsibility of the Fund to the Head of the Pensions to separate decisions of the Council as Administering Authority and Pensions. This ensures that any stewardship decisions are made in the best interest of the Funds members and are not conflicted by the employer interests of the Administering Authority.

External sources for conflicts of interest

Third party advisors and Investment Managers tasked with representing shareholder interests may perform roles other than which they are employed for and to that extent conflicts may arise.

The Fund seeks to address these in the following way:

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Transactions should be conducted in the best interests of the client and effected on terms no less favourable to the client than if the conflict of interest did not exist. The need to avoid conflicts of interest is also highlighted in our Investment Management Agreements (IMAs) and contracts with external parties.

All investment managers have conflicts of interest policies in place, which most review annually. Several managers have Conflict of Interest Boards to monitor and investigate conflicts of interest. The third party proxy voters utilised by the Fund's managers have Conflicts of Interest Boards and policies in place. Investment Managers annually review their providers voting policy to ensure it remains consistent to their approach to stewardship and that of its clients.

Where the Fund employs the expertise from Advisors and Service providers, conflicts of interest is included within the contracts and service level agreements.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund understands its Stewardship responsibilities and engages with its Investment managers via the following methods:

- Written correspondence
- Phone Calls
- One-to-one meetings

The Fund engages for the following reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of the Fund's investments in order to meet its Fiduciary duty
- To monitor developments in ESG, business strategy, financial performance and management within a company
- To enhance our analysis of risks and opportunities.

The Fund monitors its managers on a quarterly basis by looking at performance against a benchmark, developments, and the rating provided by its investment consultant. On an annual basis manager performance is included in the Annual Report and as part of the Responsible Investment Report. Annually Internal control reports of all managers and custodians are reviewed.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings. The engagement activity is summarised in the Fund's Annual Responsible Investment Report.

The Fund ensures that is does not become an insider to any trading activity. The policies of the investment managers towards becoming an insider can be found in their Stewardship Statements.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Escalation by the Fund's managers may include:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
- Promotion of UNPRI principles
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Case studies of escalated intervention and outcome will be included in the Fund's Responsible Investment report from 2016 onwards.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum. The Fund analyses its own portfolio looking at ESG risks to shareholder value and advises managers of its focus each year. Any concerns with management are escalated to the Investment Panel agenda and where appropriate investment managers will be invited to panel meetings to discuss concerns.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. Each year Committee members put themselves forward to be a representative at LAPFF meetings together with Officers, contributing towards setting the engagement focus for the year, and reporting back to the Committee. Examples of collaboration in the past include supporting shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.

In addition to the above collaboration Officers meet with other pension Funds, asset managers and other organisations to discuss developments in the market. As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

The Fund's managers work collaboratively with other parties and provide details in their Responsible Investment or Stewardship reports. This collaboration is summarised in the Fund's Responsible Investment Report.

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide detailed monitoring analysis of voting activity; this is

reported on an annual basis as part of the Responsible Investment Report. Aggregate voting records of managers are reported to the Committee at the quarterly meeting.

Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio and comparing the voting activity of the investment managers against aggregate voting by shareholders. The activity is benchmarked against Manifests view of best practice

Table 1: Summary of Managers vote reporting and explanation where not fully published.

Manager	Report Type	Link
Blackrock	Votes	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	Votes	https://vds.issgovernance.com/vds/#/MTcy/
JP Morgan	Not available	JPMAAM invests in funds and not direct securities, and therefore there is no voting record available. https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	Votes	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/Voting-Records
Pyrford	Votes	www.pyrford.co.uk under "Responsible Investment"
Ruffer	Votes	https://www.ruffer.co.uk/approach/environmental-social-and-governance-issues
Schroders	Votes	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/
Standard Life	Votes	http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/our_voting_records.html
Loomis	Votes	Available on request
TT	Not available	Does not publicly disclose voting records, as it considers that that information belongs to the clients on whose behalf it has voted and not the general public.
Unigestion	Not available	https://www.unigestion.com/responsibility/

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on stewardship and voting activity in its annual Responsible Investment Report. The report includes details of investment manager activity, voting analysis, LAPFF alert analysis, engagement and collaboration. Case studies will also be incorporated in the report from 2016 onwards.

The Fund also annually reviews and updates it's SIP, which sets out the Fund's approach to responsible investing and assesses compliance with governance best practice. Periodically the Fund also reviews its Responsible Investment policy. The engagement activity undertaken by LAPFF is reported to the Committee on a quarterly basis. The Fund's investment managers provide a mixture of annual, bi-annual and quarterly reports detailing their activities for the year; these are summarised in the Responsible Investment Report.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers and reports its findings to the committee.

Approved, 23rd September 2016

Annex 2: ESG Approaches of Current Investment Mandates

Manager	ESG Approach
Blackrock	• Engage with companies on ESG issues relevant to long-term economic performance. • ESG analysis extends across all sectors and geographies to identify companies lagging behind peers. As long-term investors Blackrock seeks for companies to change on their own terms, but are persistent to ensure they adopt sound practices that support long term value creation.
Loomis	• A subcommittee of the ESG Committee meets at least monthly to plan and deliver internal training, to identify external training opportunities, to prepare public statements on ESG activities at Loomis Sayles and other communications (including in response to specific client requests), to prepare the PRI report, and to address other ESG-related matters.
IFM Investors	• Responsible investment factors and their impact are assessed on new investments entered into. IFM aim to improve the performance of investee companies across a range of responsible investment factors. • A detailed proprietary guide has been developed to assess infrastructure ESG factors and risks against IFM policy and with reference to international benchmarks; this includes a checklist of over 80 questions such as greenhouse gas emissions, water supply, waste, environmental pollution, labour and community relations, governance and workplace safety. • Actively monitor emerging responsible investment themes that can destroy or enhance value. Engage with directors on key R.I issues and benchmark and establish performance targets based on comparable peers.
JP Morgan	• Actively engage managers on a range of issues that may include social, environmental and sustainability concerns. • Review the governance structure prior to making an investment in a manager and when appropriate and material we actively engage with our managers to improve on their governance. • View good governance as a pre-requisite for responsible investing and a tool to help mitigate potential risks and conflicts. Governance is closely reviewed and considered in investment decisions.
Jupiter (R.I Mandate)	• Use a screening approach that excludes investments in armaments, tobacco, nuclear power as well as extractive sector companies, whilst integrating Environmental, Social and Governance criteria into company selection. • Jupiter monitors investments. They are active investors who engage directly and use voting rights to improve standards of corporate governance, environmental and social responsibility. • Provide regular updates of activities as active shareholders, including involvement in industry initiatives.
Partners	• Identifies and analyses ESG factors from an early stage, using the firm's clear methodology to mitigate risk, allow for active value creation and positive benefits. Judgements on these factors are fully integrated into Partners Group's five step investment process (irrespective of asset class) to ensure that investments respect, and where possible, benefit society and the environment.
Pyrford	• Include ESG ratings in stock summary analysis in addition to four corporate governance indicators (Ownership structure, Voting structure, Accounting disclosure, Governance track record). It is the responsibility of the portfolio manager/analyst to rate each of these from 1 to 5.
Schroder Equities	The Global equity strategy fully integrates ESG analysis within its bottom up fundamental approach. • ESG and sustainability factors are analysed and appraised both within the initial modelling and stock-rating conducted by the regional equity analysts and, separately by the Global & International Equity team's Global Sector Specialists (GSS), as a part of the team's assessment of the sustainability of future earnings growth and fundamental risk assessment of each stock. The GSSs assign a formal ESG score for each stock from 1 to 5. • Stocks are selected for portfolios on the basis of an appraisal of both the growth potential of a stock and assessment of fundamental risk, both of which incorporate an assessment of ESG. In

	doing so Schroders seek to balance upside potential and downside risk in the weighting of stocks within portfolios in order to deliver consistent and attractive risk-adjusted returns.
Ruffer	• Ruffer has a single investment approach and an in-house research team, which means we have been able to systematically integrate ESG considerations across our research and investment processes. The cornerstone of our ESG approach is that our dedicated responsible investment team partners closely with the analysts in our research team to actively identify and evaluate the risks and impacts to the environment or society that could arise as a result of poor management of a company's operations. We align our integrated ESG analysis with our robust stewardship strategy on engagement and voting. As an active investment manager with a relatively concentrated portfolio of direct equity holdings, each company in Ruffer's portfolios is covered by an analyst in our research team. Members of our responsible investment team participate in the weekly sector-focussed research meeting where new stock ideas are raised. ESG considerations are then discussed, where relevant, at stock reviews within the research team and with portfolio managers, and are included in the stock note. As ESG risks and opportunities continue to evolve, these are raised in periodic conviction reviews and considered throughout the time we are invested in the company.
Standard Life	• The RI team is active throughout Standard Life Investments, working closely across asset classes with all investment teams including the Multi- Asset team and the governance & stewardship team (G&S). The overall objective is to ensure every facet of ESG is integrated across the business. Standard Life apply this approach throughout the investment processes.
Unigestion	• In all of our equity portfolios we include ESG analysis at different steps of the process to eliminate stocks with important specific ESG risks such as environmental, excessive carbon emissions, workforce treatment or corporate governance issues, legal problems or fraud. We also exclude stocks with direct exposure to controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons) from all our equities portfolios
Genesis	• ESG factors are evaluated before investing in a company and through the investment period. Businesses are formally ranked, based on qualitative judgement on sustainable competitive advantage and the likely persistence of excess returns. Assessment of the quality of a company continues for so long as the holding is in client portfolios. • Management quality is assessed by the stock owner through ongoing dialogue with the board and company management via regular meetings, site visits, calls and correspondence. Stock owners engage with management on a variety of material issues, including ESG matters, which impact strategy or performance.
Schroder Property	• The property team considers ESG factors in its investment process and in the on-going monitoring of managers. • We seek to ensure that our Managers are aware of their obligations and have appropriate processes in place, e.g. through evaluation of annual GRESB (Global Real Estate Sustainability Benchmark) submissions on sustainability performance. This is both good practice and also good business.
TT	• ESG risks and opportunities are integrated within bottom up stock research and detailed in each stock's investment case. These are treated in the same way that TT treats other risks to specific investments. • It is the role of every analyst to ensure that their stock analysis takes into consideration ESG factors e.g. regulation changes (GHG emissions), physical threats (climate change), brand and reputational issues (health & safety, labour practice), shareholder rights and corporate governance. Where the risk is perceived too high it is the stock would be rejected as a suitable candidate for the portfolio. • TT continues to monitor for the emergence of ESG risks and will take action depending on the severity e.g. engage with company, vote against resolution at AGM or sell the stock.

Annex 3: TruCost Report

Avon Pension Fund:

Carbon Footprint of Listed Equity Portfolios

2018

TRUCOST

S&P Dow Jones Indices
ESG Analysis

September 2018