2023 Responsible Investment Annual Report

Foreword

With some of the most significant changes to the Fund's strategy on climate change having taken place at the end of 2023, this year's Responsible Investing Annual Report sets out the scale of work undertaken in this area and serves to update stakeholders on the progress we have made against our climate objectives, offers insight into the risks and opportunities faced by responsible investors and provides details of the Fund's focus over the coming year as we seek to deliver on our financial and environmental, social and governance (ESG) obligations.

We have made material progress against the interim climate targets we set in 2019/20, enabling the Fund to increase its level of ambition this year by **formally adopting a 2045 net zero target underpinned by credible medium-term targets, including a commitment to divest from high impact companies if they cannot evidence a credible alignment strategy before 2030.**

I would like to personally thank all of those who participated in a far-reaching engagement programme that saw Fund officers consult scheme employers, Councillors, Union representatives and others on the Fund's net zero strategy. I would like to extend my thanks to our members who completed our second ESG survey, the response rate of which was hugely encouraging and elicited a broad, and hugely valuable, set of views and opinions.

We were pleased to see our investment strategy, **which includes over £2bn in transition aligned and sustainable equites and £500m in commitments to renewables and energy transition assets**, yield tangible results with our listed equity portfolio delivering a **46% reduction in absolute emissions versus our 2019 baseline year,** putting us firmly ahead of the decarbonisation flightpath used to determine emissions reductions required to meet net zero by 2045.

We were encouraged by the reporting advances in private markets and the development of robust forward-looking climate metrics which will be critical to providing the insights required by investors to guide future policy decisions on climate. **This year we have agreed to reduce the carbon intensity of our £165m corporate bond portfolio by 60% by 2030 and will expand the scope of decarbonisation targets across asset classes as reporting capabilities evolve.**

Brunel continued to demonstrate leadership in the field of responsible investment and climate strategy by piloting infrastructure green revenues reporting and developing policy on biodiversity. Against a backdrop of anti-ESG sentiment, Brunel and its service providers were able to reinforce the Partnerships responsible investment principles through its robust stewardship work, both at investee company level and through supportive policy advocacy work. **Through our membership to the Institutional Investors Group on Climate Change (IIGCC) we were able to express the urgency required to bridge the gap between public and private funding and highlight the need to build climate adaptation and resilience at COP28.**

The Fund itself was recognised for climate innovation and was shortlisted for the industry award of 'Best Sustainable Investment Strategy' for its work on synthetic transition aligned equity strategies, an LGPS first.

Elsewhere, we have seen place-based impact investing come to the fore. **Agreement to allocate £160m to local impact investments spanning renewables, affordable housing and funding for small businesses** will see the Fund well placed to quantify the contribution it makes to pressing social and environmental issues.

Over the coming year the Fund will focus on its priority ESG themes and take the necessary action to accelerate progress towards our **net zero goal by looking at allocations to nature-based solutions such as forestry and sustainable agriculture** as well as continuing to advocate for a supportive policy environment that will facilitate change ultimately for the benefit of our members.

Councillor Paul Crossley, Chair, Avon Pension Fund Committee

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Section 1 – Responsible Investment Policy and Strategic Developments

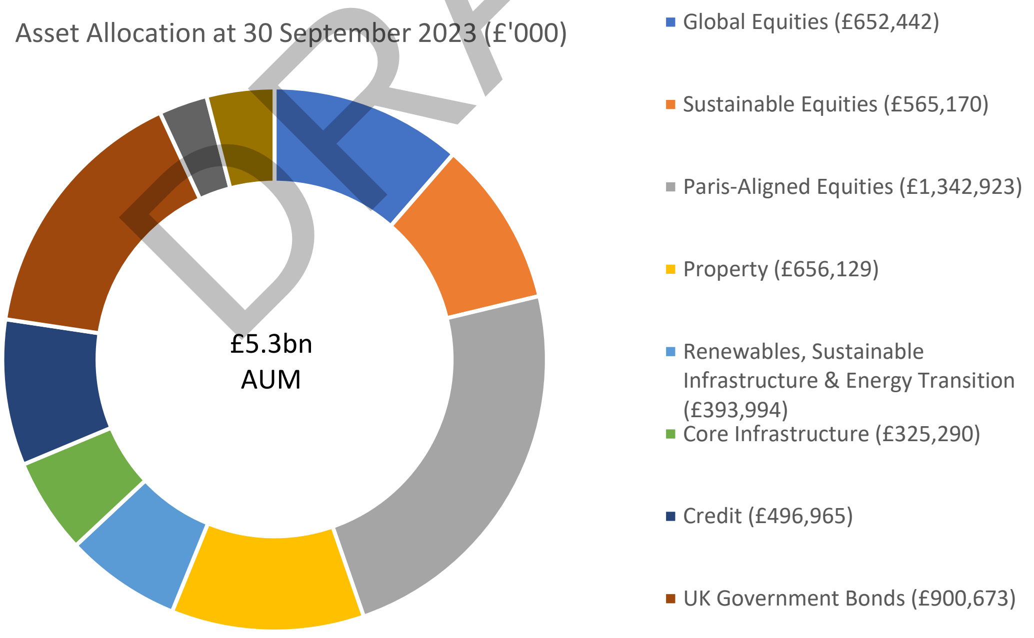
Responsible Investment Beliefs

As a long-term investor, the Fund seeks to deliver financially sustainable returns to meet the pension benefits of the scheme members and managing financially material Environmental, Social and Governance (ESG) risks is consistent with our fiduciary duty. Our approach to responsible investment seeks to integrate ESG issues into the strategy in the belief this can positively impact financial performance.

Our approach to RI is based on the following RI beliefs:

- Climate change poses an existential threat to the wider world as well as long-term investments.
- We believe in investing responsibly to make a positive real-world impact.
- There is increasing convergence between financial returns and climate-aware investments.
- Working with like-minded investors we can collectively engage companies and policymakers to drive positive change.

Investing to Maximise Real-World Impact



Climate Change

Climate Change is a key strategic priority for the Fund. This year we undertook a full review of our investment strategy and net zero targets.

It is widely accepted the current rate of increase in global climate finance is not on track to deliver a 1.5°C global warming scenario. The Climate Policy Initiative estimates that at least $4.3 trillion in annual finance flows by 2030 is required to avoid the worst impacts of climate change[1]. Over half of the transition financing required will need to come from the private sector to meet globally agreed targets for 2050[2]. As such, the role for the Fund and its strategic partners remains as critical as ever. We believe that investing to support the objectives underpinning the Paris Agreement that deliver a 1.5°C temperature increase is entirely consistent with securing long-term financial returns and is in the best interests of our members.

Our Climate Objectives - Net Zero by 2045

- **We commit to be Net Zero on financed emissions by 2045 across the whole Fund.**

To help us achieve our overarching Net Zero goal, we have set a number of clear tangible targets for climate action in the years 2024-30:

- **By 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.**
- **The Fund will reduce the carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).**
- **By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).**
- **We will ensure 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027.**

[1] https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/
[2] https://www.mercer.com/insights/investments/investing-sustainably/evolving-transition-in-portfolios/

As part of our commitment to the IIGCC Net Zero Asset Owners framework , the Fund is committed to delivering real world emissions reductions as opposed to portfolio emissions reductions. This means our targets will be kept under review and updated in line with best practice. **This could, for instance, see the Fund adopting a dedicated 'climate solutions' target or making an express allocation to nature-based solutions that sits within the existing 32% strategic allocation to illiquid assets.**

To monitor progress against our climate commitments and to help inform future policy decisions on climate the Fund undertakes annual climate transition analysis across its listed equity portfolio. The latest iteration of this analysis helped advance the Fund's existing climate objectives by adding an additional target, namely, a **60% carbon intensity reduction by 2030 relative to a 2019 baseline, for our corporate bond portfolio**.

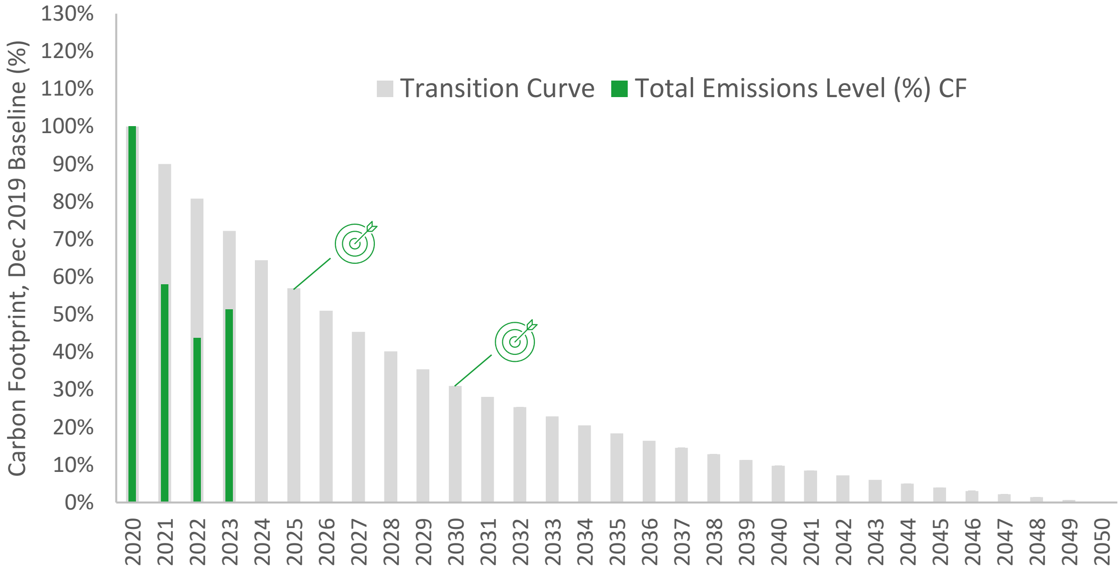
Decarbonisation progress versus the 2019 baseline

The equity portfolio has decarbonised across all three metrics measured as part of the analysis. On an absolute emissions basis the equity portfolio has decarbonised by 45.7% versus the baseline, despite having increased the strategic allocation to equities in the period covered by the analysis (from 37.5% to 41.5%). Progress versus the baseline was also observed across metrics that are normalised to account for the increased allocation to equities. On a carbon footprint basis the equity portfolio saw a 48.7% reduction in intensity, while Weighted Average Carbon Intensity (WACI) saw a 26.0% decrease.

The strategic decision to terminate the highly carbon intensive emerging market equity allocation and invest the proceeds in Brunel's Paris-aligned[3] and active sustainable equity funds was the biggest driver of these improvements. However, all of the mandates that were held over the period also decarbonised, which is a reflection of market-wide decarbonisation efforts as well as the active decisions made by the underlying investment managers to allocate capital to less carbon intensive sectors and/or companies.

Since its baseline year, the Fund's listed equity portfolio has decarbonised faster than the projection used to determine emissions reductions required to meet net zero by 2050. The chart below will reflect the Fund's 2045 net zero target from next year and the existing targets of -43% to 2025 and -69% to 2030 will remain in place given they are already ambitious and largely consistent with a 2045 net zero trajectory.

[3] The Brunel Paris-aligned equity index complies with the EU's official Paris Aligned Benchmark standards and better achieves the Fund's climate objectives. Further details of the systematic decarbonisation rules implemented by the new Paris-aligned index were detailed in last year's Report



Source: Mercer

While this is a positive result for the Fund, we do recognise that decarbonisation at this pace may not continue, and we will have to work with the industry and our strategic partners to develop innovative solutions as big efficiency gains become harder to replicate. Over the year the Fund noted an uptick in its carbon footprint, which was primarily brought about by the Fund's temporary switch from a Paris-aligned passive equity index to a global market-capitalisation based index. Although the Fund subsequently moved its entire passive equity exposure into a Paris-aligned solution, this statistic does highlight how market dynamics can result in non-linear pathways to net zero.

Transition Alignment and Engagement

Along with analysing emissions intensity data, the Fund assesses companies based on alignment criteria developed by best-in-class frameworks informed by tools such as the Transition Pathway Initiative and Climate Action 100+.

This information will help to ensure the engagement activity undertaken on behalf of the Fund is focussed on the companies that are most material to our climate objectives and move us toward our stated aim of ensuring **70% the highest emitting companies in the Fund's equity portfolios are under active engagement by the end of 2024 (extending to 90% by 2027).**

The Fund acknowledges that engagement should not go on indefinitely and agreed that **by 2030 we will divest from developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.**

Engagement work should not just be limited to policymakers and the companies we invest in. We exist to serve our members and over the year we have sought to collect their views and opinions alongside input gathered from a broader set of stakeholders including Councillors, Unions and Employers in the scheme, to help shape the direction of our investment strategy. Details of the extensive engagement programme we embarked on over 2023 can be found in Section 5 of this report.

Innovation in Climate-based Investments

During the year the Fund switched £700 million equities from a market-cap index to a synthetic Paris-aligned strategy, which systematically increases exposure to companies credibly aligned to the transition. **Avon now holds over £1.3 billion in dedicated Paris-aligned index strategies and has moved away altogether from using standard market-cap indices, which are inconsistent with the Fund's wider climate objectives. This sits alongside Avon's existing £500 million in sustainable equities and £500 million capital commitments to renewable infrastructure and energy transition assets.**

Working in partnership with BlackRock we designed a solution to overcome the regulatory challenges faced by the use of nonstandard equity indices in Qualified Alternative Investor Funds. The derivative-based product is designed to release liquidity to support other areas of the investments portfolio while expressly supporting the low carbon transition. The innovative structure allows us to invest in an equity strategy consistent with our overarching climate objectives.

Aware of the implications of using a derivative based solution where there is no standardised way of accounting for emissions, we opted to use the same approach we currently employ for traditional equity holdings, and to report this annually. To magnify the positive climate impact we utilise an environmentally aware cash fund to hold collateral required to support the synthetic Paris-aligned equity product. The solution demonstrates how the Fund seeks to embed climate at all stages of the investment process, bringing together both climate and financial considerations in an approach that represents a first for the LGPS community.

"Avon have been at the forefront in developing innovative and fresh investment solutions to progress on their net zero agenda. Working together with BlackRock and the wider industry to develop unique structures, in areas that present challenges to investors, that improve their net zero positioning, is testament to their thought leadership and commitment. We are hopeful that other investors will take inspiration from this partnership approach as they seek to deliver on their own climate ambitions".

Justin Wheeler, BlackRock

Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, considering the potential to build its exposure to green gilts and sustainability-linked bonds in a cost-effective way as issuance increases.

Details of industry-led initiatives that we have been a part of and information relating to how we have discharged our stewardship responsibilities across ESG themes is covered in the following sections of this report.

Section 2 – Carbon Metrics

We have been measuring and reporting the carbon intensity of our listed equity portfolios annually since 2017 to promote transparency and help the Fund understand its contribution to mitigating the risks of climate change and to determine opportunities for improvement.

A summary of the key findings (for periods ending December 2022) can be found below.

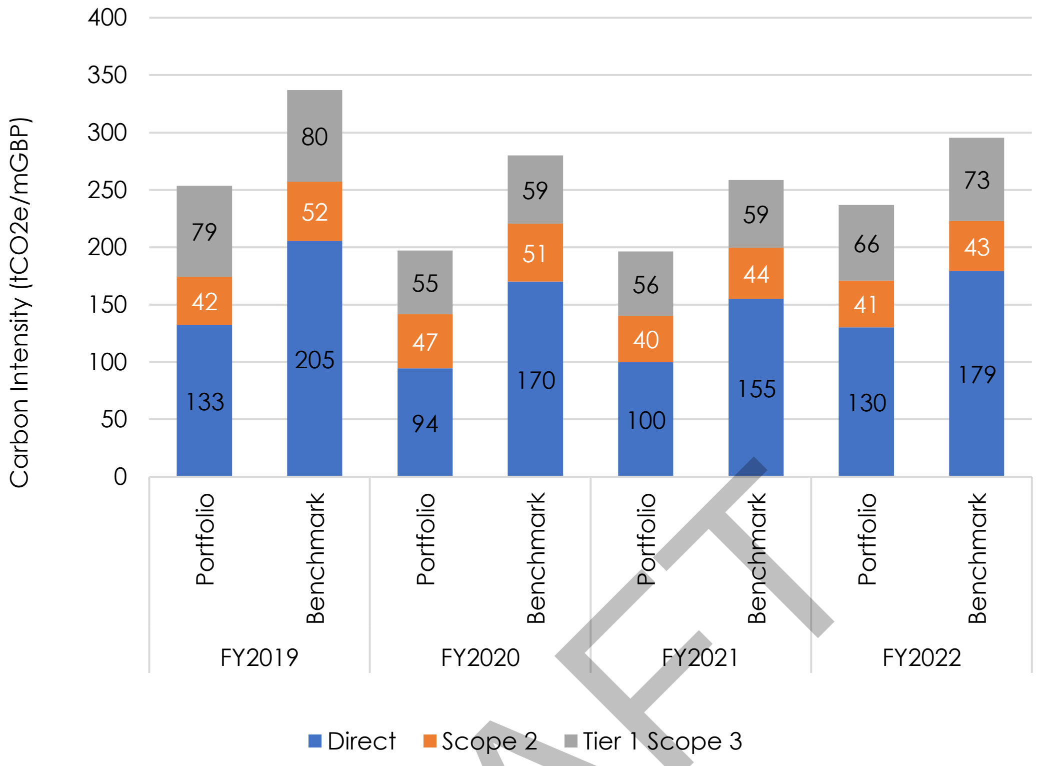
(I) Weighted Average Carbon Intensity (WACI)

A portfolio WACI is determined by taking the carbon intensity of each company and weighting it based on its holdings size within the portfolio. The WACI is one of the measures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) framework because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy interventions and changing consumer behaviours. **Relative to the industry benchmark the aggregate portfolio is 20% more efficient (less carbon intensive) than the benchmark.**

In addition this year's report shows:

- All active listed equity portfolios that the Fund invests in exhibit a lower WACI than their respective benchmarks, with the exception of the BlackRock Passive Global Equity fund which tracks its benchmark.
- Improvements in WACI brought about by historical asset allocation changes have been partially offset as the Fund has continued to increase exposure to transition aligned mandates. This trend was most pronounced last year following the switch from a legacy passive low carbon equity fund (which focussed on portfolio decarbonisation) to the next generation Paris-aligned index which weights companies based on their transition capability and, for this reason, contributes to real-world emissions reductions.
- The global high alpha equity portfolio exhibited the lowest WACI of all active equity portfolios but had the highest future emissions number, whereas the sustainable equity portfolio showed a relatively high WACI driven by investments in companies who are at the forefront of the energy transition. These companies are leaders in challenging and difficult-to-abate sectors and often have a higher carbon intensity today than companies in other sectors. As expected the sustainable equity portfolio scored well on other metrics such as 'future emissions from reserves' (see below).
- A year-on-year increase in WACI was primarily brought about by the Fund's temporary switch from a Paris-aligned passive equity index to a global market-capitalisation based index. Although the Fund subsequently moved its entire passive equity exposure into a Paris-aligned solution, this statistic does highlight how market dynamics can result in non-linear pathways to net zero.

Weighted Average Carbon Intensity of Listed Equity Portfolio (Dec-22)



Case Study: Emissions and Transition Potential in the Utilities Sector

Fortis, Inc.

- Top 5 contributor to WACI & Fossil Fuel Revenues in the Global Sustainable Equity portfolio.
- Operates as a gas and electricity distribution company offering regulated utilities across the US and Canada
- 2050 net zero target for direct GHG emissions
- Achieved 20% GHG emissions reduction since 2019; seeks to reduce GHG emissions by 50% by 2030 and 75% by 2035
- Aims for a coal-free generation mix by 2032 with clear timeline for coal asset retirements
- $3.4bn clean energy capital deployed over the next 5 years

Source: Brunel Pension Partnership

(II) Fossil Fuel Exposure & Stranded Asset Risk

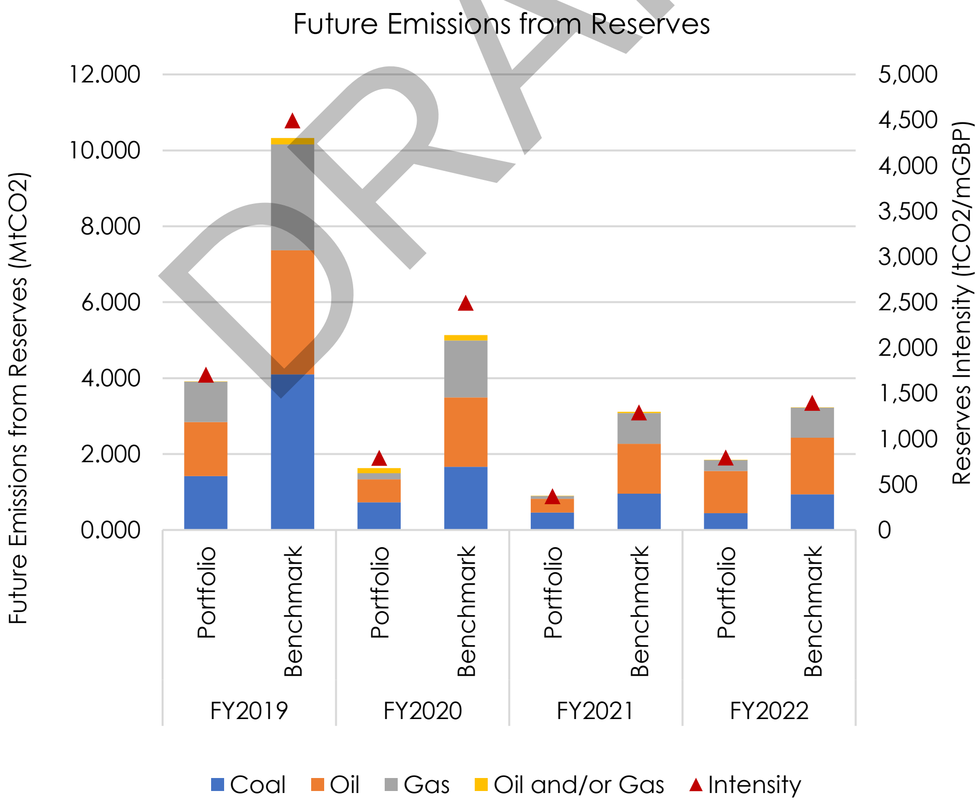
It is important to identify exposure to business activities in extractives industries in order to assess the potential risk of ‘stranded assets’ (premature write-down, loss and devaluation). We identify the exposure to stranded asset risk by assessing fossil fuel revenues exposure and future emissions from reserves.

To determine fossil fuel revenue exposure, we identify companies with exposure to fossil fuel related energy generation and fossil fuel related extraction activities[1]. We can then assess the revenue exposure that each company has to these activities and aggregate this data to get an overall portfolio assessment.

Weighted fossil fuel revenues exposure represents 1.42% of the aggregate portfolio relative to benchmark exposure of 2.82%.

We identify companies that have both proven and probable fossil fuel reserves and can look at the exposure per portfolio and at an aggregate level. Taking the reserves exposures, we can assess potential future emissions that may result from these reserves being realised. This is a valuable forward-looking metric that allows us to assess the potential contribution to emissions embedded in our portfolio.

Future emissions from reserves are 1.84 MtCO2 versus 3.22 MtCO2 for the benchmark.



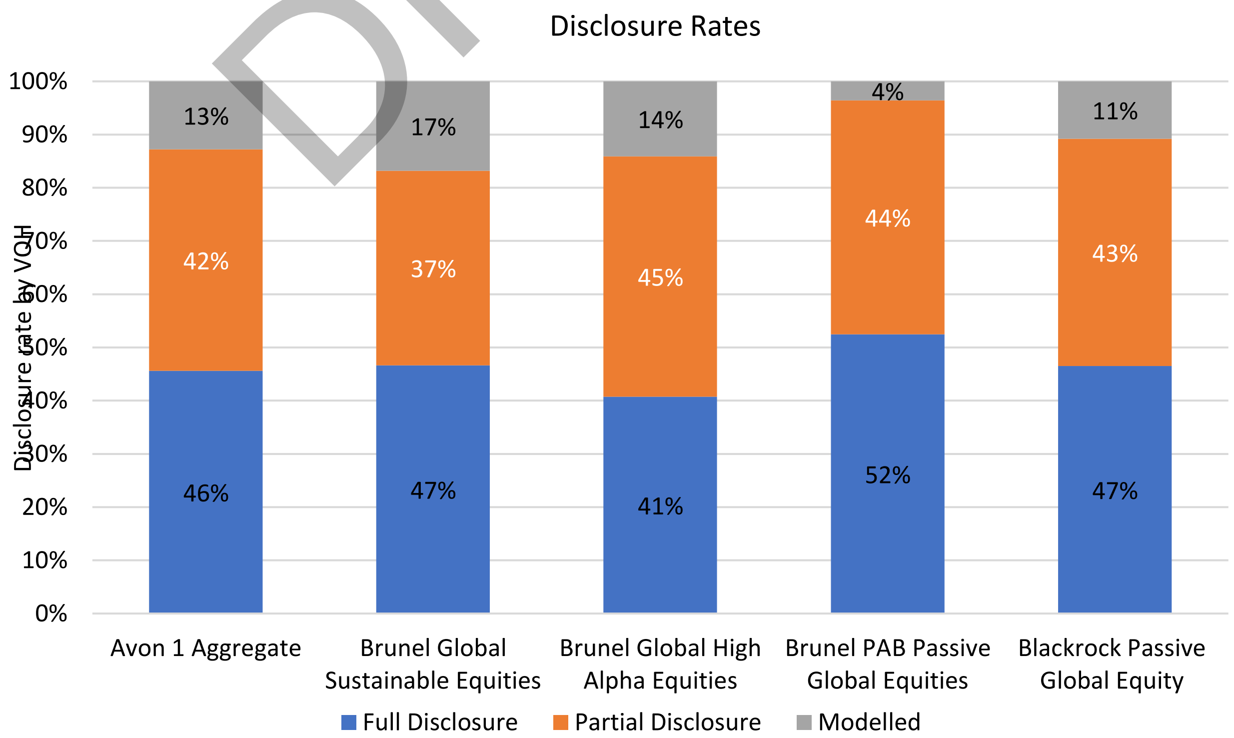
[1] Energy: Natural gas, petroleum, and coal power. Extractives: Oil & gas support activities, LNG extraction, drilling, crude petroleum and natural gas extraction, tar sands extraction, bituminous coal mining

The year-on-year absolute increase in future emissions from reserves is attributable to asset allocation and stock selection. Heightened commodity prices drove an increase in revenues for energy and utilities companies, which in turn drove higher company valuations to the extent companies in these sectors formed a larger portion of the investable universe than they did in the prior year.

(III) Disclosure Rates

The level of carbon disclosure is based on each company's direct Scope 1 emissions and can be classified as fully disclosed, partially disclosed or, where data is lacking, modelled.

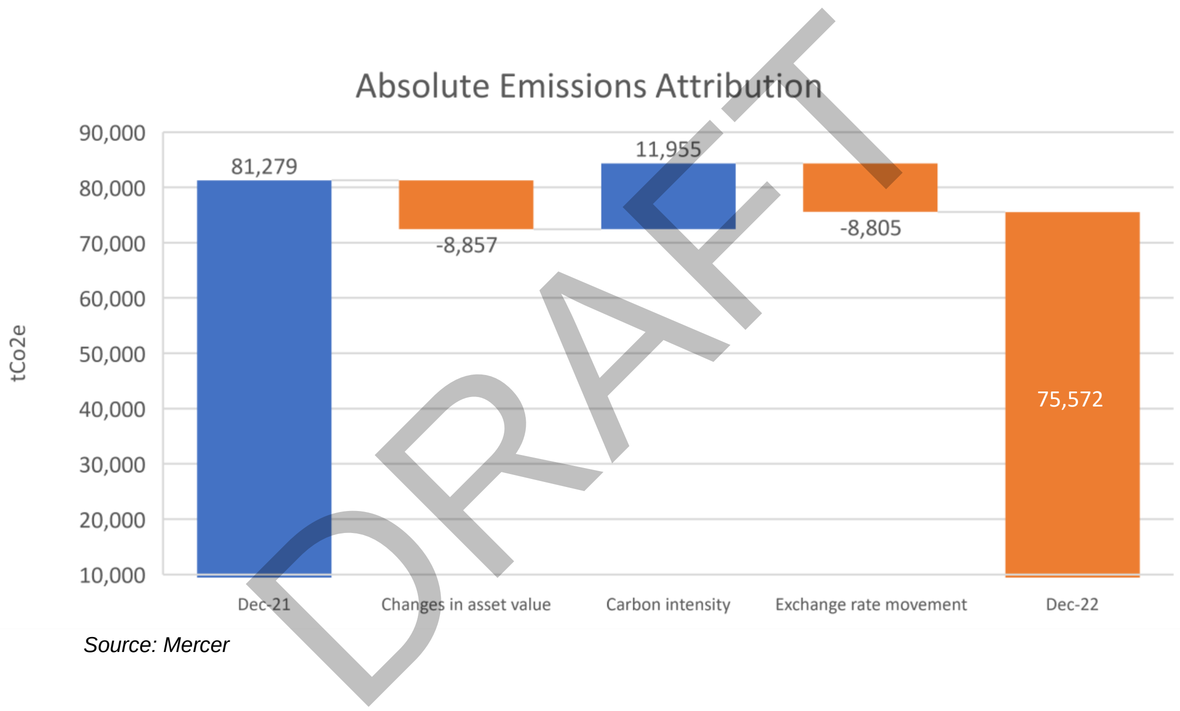
- On a carbon-weighted basis, the rates for full disclosure of carbon data were 55% compared to 60% in the prior year. This is likely to be the result of the temporary shift into a market-capitalisation index mid-year and does not necessarily mean disclosure rates among companies with high levels of emissions have decreased over the past 12 months. The Fund also notes the rise of anti-ESG sentiment, particularly in the US, where companies are being punished by certain investors for purportedly prioritising climate change over shareholder returns. This has led to a perverse trend in companies withholding data which supports progress on the climate agenda.
- On an investment-weighted basis, the rates for full disclosure of carbon data were 46%, broadly comparable to last years rate. This outcome is attributed to the exposure the Fund has to small-cap companies within the sustainable equities portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. However, these rates do indicate scope for improved reporting among investee companies, which is a core aim of the engagement work adopted by the Fund, Brunel and its strategic partners.



(IV) Absolute Emissions

Whilst intensity-based measures of emissions give very valuable carbon risk information, in order to create "real world" impact the Fund recognises the need to reduce absolute emissions. The higher the percentage holding in a company within a portfolio, the greater the Fund's 'owned' emissions. This can create challenges from a measurement perspective as it means different portfolios cannot be compared on a like-for-like basis and the size of the portfolio can skew the results.

Absolute emissions in the Fund's baseline year were 139,256 tCO2e[2]. This year the figure stood at 75,572 tCO2e, with the c.46% reduction largely attributed to asset allocation, namely the removal of emerging market equity exposure. **There has been a further reduction in absolute emissions over the past year (from 81,279 tCO2e).** The attribution of absolute emissions reductions over the past year is set out below.

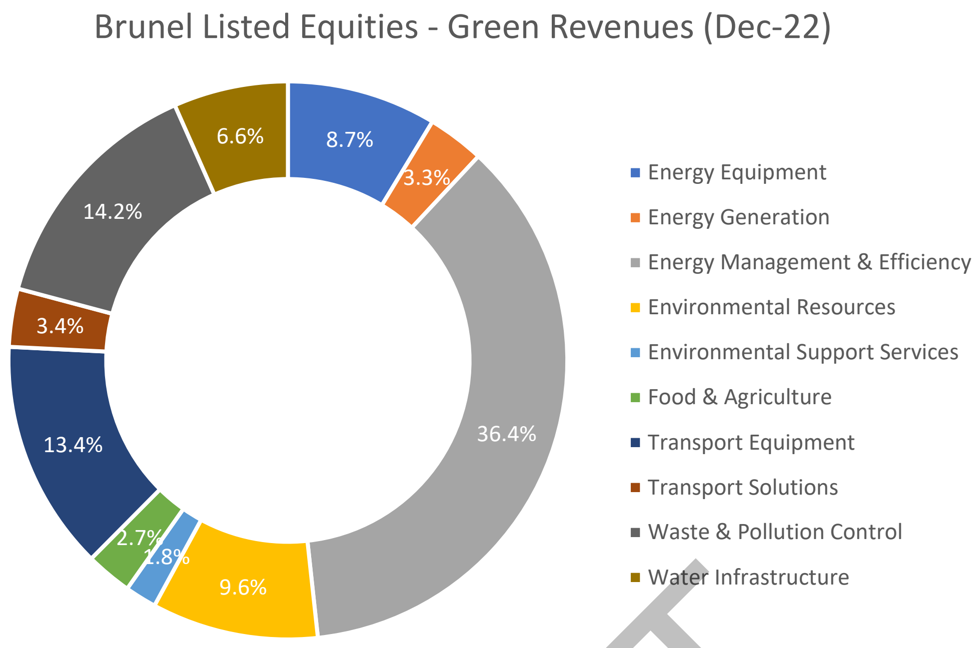


Source: Mercer

(V) Green Revenues

The Fund is supportive of the development of a wider set of metrics that can provide a more rounded perspective on companies vital to the transition and, in time, will utilise measures such as **green revenues** to help quantify the proportion of our investments in climate solutions. Brunel report green revenues data for listed equities based on the FTSE Russell methodology, which assesses revenues of companies across various sectors that have exposure to products and services that deliver environmental solutions.

[2] Tonnes of carbon dioxide equivalent



Source: Brunel

The aggregate Brunel listed equity portfolio has 10.8% exposure to green revenues compared to 7.1% in a standard global equity benchmark[3]. The majority of green revenues (36.4%) come from energy management and efficiency, followed by waste and pollution control technologies and solutions (14.2%) and transport equipment (13.4%). Critically, the top portfolio contributors to green revenues are the same companies that exhibit the highest carbon intensities today.

Case Study: Environmental Solutions in the Waste Management & Pollution Control Sector

Republic Services, Inc.

- Highest carbon intensity and highest contributor to green revenues in the Global Sustainable Equity portfolio
- US leader in environmental services industry operating nationwide recycling and waste services
- Committed to reducing Scope 1 & 2 emissions by 35% by 2030; an SBTi approved target
- To increase the use of landfill generated biogas as a low-carbon fuel 50% by 2030
- To increase the recovery and circularity of key materials 40% by 2030 thereby fulfilling demand for post-consumer recycled content and limiting the use of high-carbon virgin materials

Source: Brunel Pension Partnership

[3] FTSE All World Developed

Section 3 – Positive Impact in Private Markets

The Fund has a large portfolio of private markets investments spanning property, secured income assets, infrastructure and private debt with current commitments to these asset classes totalling over £1.5 billion. Real assets play a pivotal role in delivering a net zero emissions future as well as supporting a 'just transition'[1] and serve to ensure we are generating the return required as well as making both an environmental and social impact. Highlights of some of the projects we are invested in through our private markets portfolios can be found below.

(I) Infrastructure

Structural forces such as the increase in cost of capital, supply chain disruption and the viability of certain subsidy regimes have made it difficult for investors to source attractively priced assets in well-established sub-sectors such as wind and solar. Valuations softened over the year for construction assets and development platforms; anecdotal evidence showed new projects being paused or cancelled due to 30-40% cost inflation most notably in UK offshore wind. Despite these challenges the Fund's well diversified infrastructure investments are expected to be a net beneficiary of higher energy prices and the greater need for production capacity. Furthermore, Government targets will increase the size and pace of demand for capital into the energy transition space, including energy infrastructure and clean energy generation.

The Brunel Cycle 3 infrastructure portfolio has been constructed to tap into this potential by setting a 70% minimum target for 'sustainable infrastructure' (low carbon, energy-transition, renewable energy, and renewable-enabling technologies), of which at least 40% will be in dedicated climate solutions.

Case Study: Infrastructure – Organic Farming

Meadowlark Lans Fund (Brunel – Cycle 3) focuses on organic farmland which seeks to improve soil health and organic matter and reduce emissions from farming, with associated biodiversity, ecosystem and climate benefits.

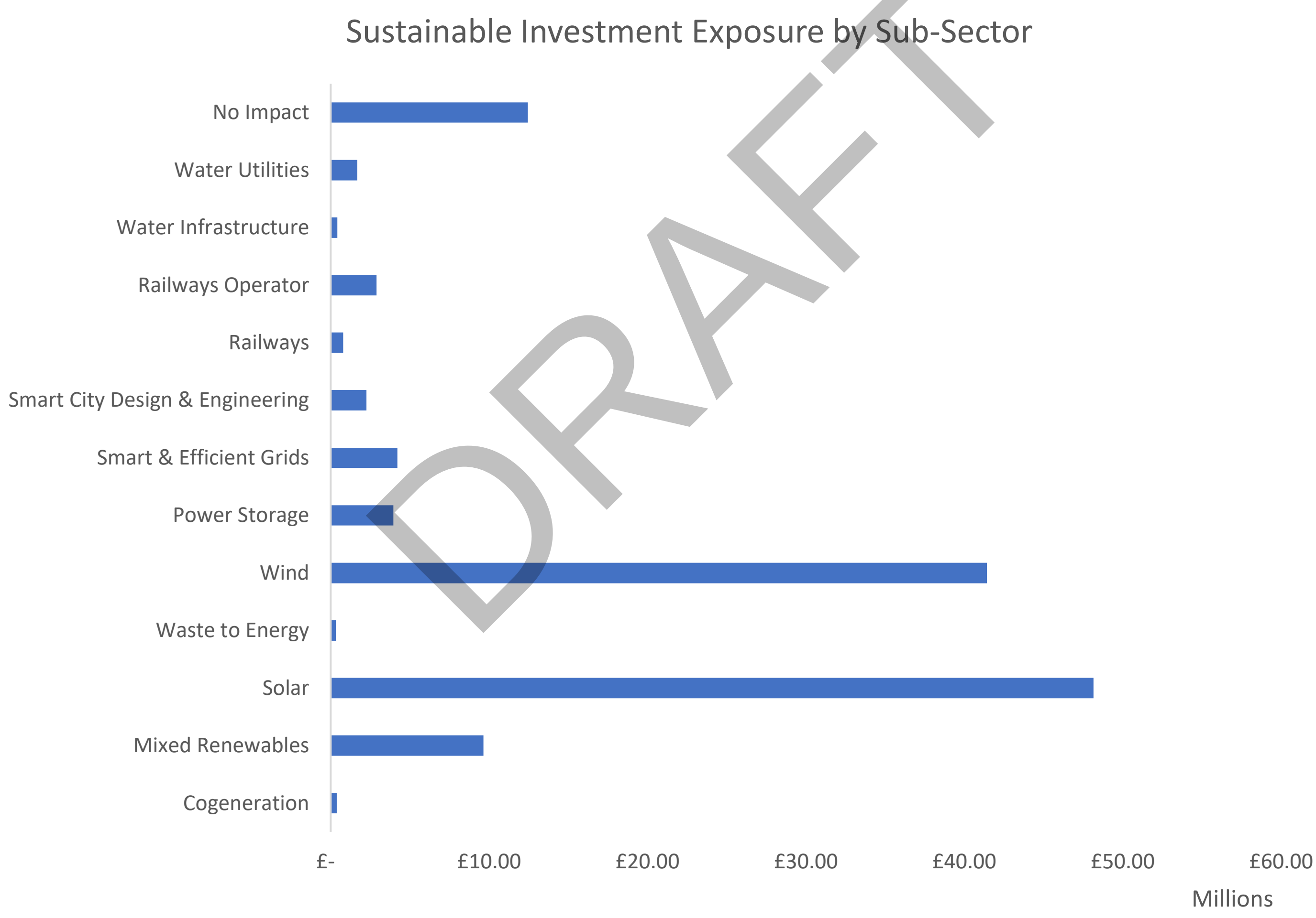
The conversion of conventional farmland to organic, and sustained organic farming practices, are expected to drive impactful environmental benefits from improved soil health and microbial activity that will result in improved biodiversity and ecosystems. The improved soil organic matter will allow for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

Source: https://www.brunelpensionpartnership.org/wp-content/uploads/2023/05/2023-Responsible-Investing-and-Stewardship-Report.pdf

[1] The 'just transition' highlights the social consequences of climate change and provides the framework for connecting climate action with inclusive growth and sustainable development for regions and communities most effected by the phase out of the fossil fuel industry. The Fund pledged its support for a 'just transition' alongside a $5 trillion coalition of investors in 2019.

This year saw Brunel work with their strategic partner, StepStone, to map underlying infrastructure investments to FTSE's Green Revenues Methodology. Below is a breakdown of sustainable investments by sub-sector that fall into FTSE's classification system. This represents pioneering work to bridge the data consistency gap between public and private markets reporting. "No impact" investments in this context refers to currently unassigned investments that do not fit into the FTSE classification system. This does not mean the investment is by any means not impactful. As technologies evolve and capital deployed in certain areas reach critical mass, they may be assigned to a FTSE Green Revenue classification.

As at September 2022 the Fund had £48.2m invested in solar, £41.4m in wind and £9.6m in mixed renewables.



Case Study: Solar on Reclaimed Landfill Sites

Ockedon solar farm owned by NTR (Brunel – Cycle 1) is located in Essex and is considered to be one of the largest solar farms to be built on a repurposed landfill site in Europe. It will provide enough power for 17,000 hones once operational.

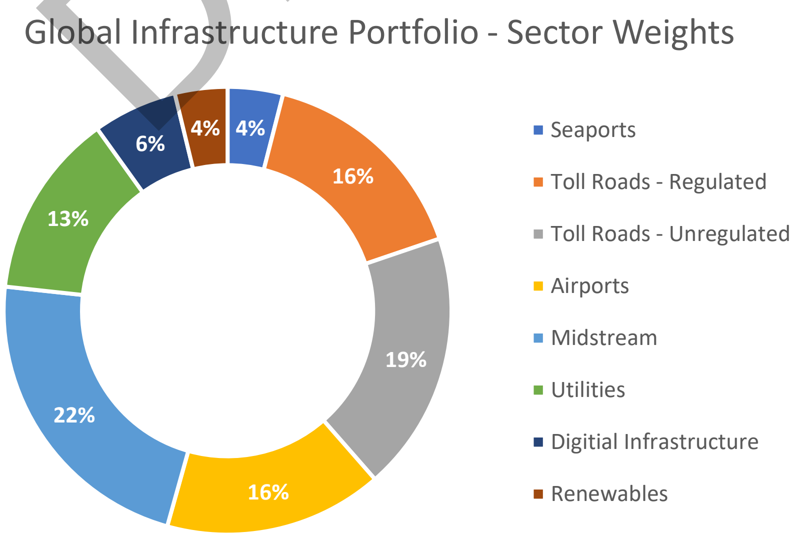
The acquisition is in line with NTR's focus on creating a circular economy, with the former landfill site being left undisturbed. Specialist engineering techniques have been adopted by NTR to repurpose the land for renewable energy power generation.

Using the latest solar technology, NTR will install 540 watt bi-facial panels which are capable of capturing sunlight on both sides of the panel. These panels have a higher efficiency rate, resulting in increased output density and optimisation of energy yield per square metre. The project is expected to start delivering power to the grid as early as 2023/24.

Source: https://www.brunelpensionpartnership.org/2023/11/29/climate-change-progress-report-2023-published/

At the end of the year the Fund had c.£165m of its £290m commitment to renewable infrastructure invested across all Brunel private markets cycles.

The general infrastructure portfolio, which the Fund currently has a 4% strategic allocation to, will continue to transition new and existing assets gradually to decarbonise over time, with the aim of achieving net zero Scope 1 and 2 emissions for all portfolio companies by 2050; and reducing scope 1 and 2 annual emissions by at least 2.02 million tonnes of CO_2e by 2030 (from a 2019 baseline).



The airport assets held in the portfolio, which represent approximately 16% of sub-sector exposure, have been in focus this year. The criticality of decarbonising and transitioning the aviation sector is brought into sharp relief by the fact flying will continue to be the only viable means to connect many destinations globally for both passenger and airfreight purposes. Research points to major airports continuing to see strong demand, and with it, aviation technology will have to evolve to deliver improved fuel efficiency, sustainable aviation fuels (SAF) and eventually electrification and/or a switch to hydrogen.

Case Study: Sustainability at Manchester Airport Group

Sustainable Aviation Fuels

A portfolio company - Manchester Airport Group (MAG) - have signed a memorandum of understanding with Fulcrum BioEnergy to support the development and delivery of Sustainable Aviation Fuel (SAF). As part of the agreement, SAF will be supplied to Manchester airport, meaning that up to 10% of the fuel used by aircraft at the airport could be replaced by SAF.

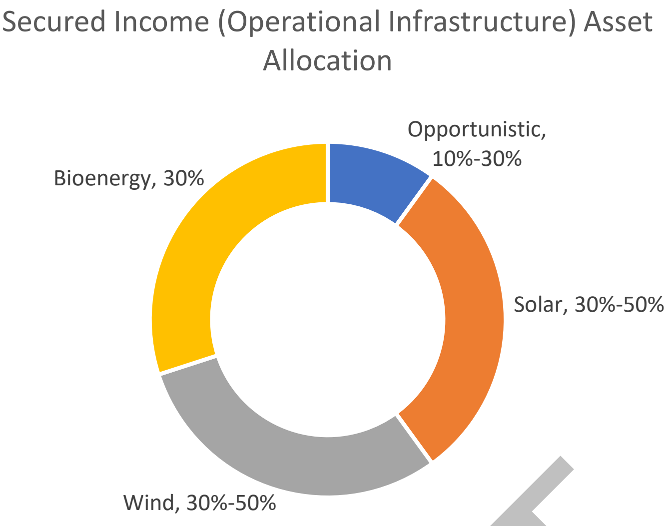
Jet Zero Strategy Engagement

MAG has welcomed the UK Government's Jet Zero Strategy to support the aviation industry to reach net zero by 2050. The strategy includes an interim target of Net Zero domestic flights by 2040, a new SAF mandate to ensure at least 10% of jet fuel is SAF by 2030 and a commitment to ensuring at least five SAF plants are under construction by 2025.
Specifically, to support the aviation industry in delivering these goals, MAG has announced new pledges including launching a new initiative offering five years of free landing fees to the first zero-emission aircraft operating transatlantic flights from its airports. It has also created financial incentives to encourage airlines to go beyond the UK SAF mandate on flights from its airports.

Source: https://mediacentre.manchesterairport.co.uk/manchester-airport-supports-governments-jet-zero-strategy-with-new-pledges-for-a-more-sustainable-aviation-sector/

(II) Secured Income

The Fund has a £700m commitment to the Brunel Secured Income portfolio. Approximately 60% of capital is allocated to long-lease property assets, which consist of traditional sale & leaseback arrangements, ground rents and forward funding agreements. 40% of capital is allocated to an operational infrastructure fund formed to make investments in renewable assets located predominantly in the UK, with the principle objective of generated contracted income over a long-term time horizon from multiple sources. The fund continues to acquire a diversified portfolio of assets with a focus on solar, onshore and offshore wind, bioenergy and, opportunistically, assets in other renewable infrastructure areas. We have reported extensively on our investment in the ground-breaking project that saw the construction and operation of two of the UK's largest commercial greenhouses, warmed by waste heat from nearby water treatment facilities. Further detail on this particular investment is available here.



Case Study: Renewables, Recyclability and the Circular Economy

Achieving national net zero commitments relies in part on the adoption of a more circular economy, where waste is continually recycled and used as an input for something new. While an estimated 85% to 90% of wind turbine components can be recycled, wind turbine blades remain a challenge. Most commonly, decommissioned turbine blades are landfilled. Schroders Greencoat (SG) are working to understand and overcome the challenges in turbine recyclability.

Funding for Innovation

In 2022 SG launched its first grant-making programme to find and support academic research and non-profit projects that advance the industry's knowledge around wind turbine blade recycling, repurposing and recovery. The programme was launched in partnership with BizGive, an online platform that connects organisations to external impact partners, such as universities, charities and community groups. The £250,000 impact programme has attracted applications from a wide range of unique projects. Through this project the University of Edinburgh received a grant of £125,000 for a 12-month research project focused on recycling old wind turbine blades into powders that can be used in surface coatings. The project aims to deliver an easy, low-cost processing route for decommissioned blade materials which produces a valuable, high-end product that can be added to the surface coatings of engineering and structural components to prevent corrosion and erosion. For example, it could be used to protect new wind turbine blades from erosion caused by particulates.

Source: https://www.greencoat-ukwind.com/~/media/Files/G/GreenCoat-UKWind/ESG/c120063CCL_High.pdf

(III) Private Debt

Fixed income markets have lagged equities in the application of ESG criteria. This likely reflects a range of factors, principally; bondholders do not have the control rights shareholders do. To account for this, Brunel have been working with their underlying managers within the Private Debt portfolio, which the Fund has committed £415 million to, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis. Innovative financing solutions developed by the underlying fund managers reward borrowers who are able to demonstrate the impact of sustainability initiatives that span environmental themes, labour and human rights and sustainable procurement and supply chain transparency.

(IV) Property

Our UK Property portfolio is given a sustainability score by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio is compared to its peers and hence it’s potential climate change resilience. The most recent annual analysis showed that we exceeded the benchmark average in overall ESG performance, achieving a score of 81 (average 79). Among a diversified portfolio of core sectors including industrials, office-space, retail and residential the portfolio has continued to build exposure to specialist sectors. Last year we reported on the Fund’s investment in a UK Affordable Housing Fund which seeks to alleviate the supply and demand imbalance in affordable housing for working families across the UK. At the end of the year all of the Fund’s original £10m commitment had been deployed and further opportunities for the property portfolio to invest in impact strategies had been identified in the life sciences, social and healthcare sectors.

Case Study: Local Positive Impact in UK Residential Sector

Across multiple buildings fronting Castle Park, Castle Park View adds 300 new Build to Rent homes and 75 affordable homes to Bristol's housing at the heart of the city centre. The construction process created local jobs and supported skills development with c.1,290 apprenticeship weeks and over 300 career support sessions.

The scheme has been designed around the principle of using and sharing sustainable energy sources and benefits from a new district heating network, powered by a large-scale water source heat pump that draws water from the nearby harbour – the country's largest project of its kind and a key component of Bristol's 2030 Net Zero carbon plan. Heat is produced by a central plant and supplied to buildings throughout the city, allowing for improved efficiency over a series of localised boilers. This provides low carbon, cost-efficient heat and hot water for residents.

Renewable energy is generated on-site at Castle Park View through almost 200 photovoltaic roof-mounted solar panels which convert sunlight to electricity, powering the building's communal areas. The ability to tap into this resource equates to carbon savings of around 20% versus regular electricity sources. Other energy-saving measures include the installation of energy-efficient lighting and high-performing fitted kitchen appliances in each apartment, contributing to an Energy Performance Certificate rating of B.

Efficient waste management is incorporated in the building's design with refuse chutes on each floor divided into three vessels, reducing the amount of refuse going to landfill by up to 66%. A brown roof across 80% of the structure – which recreates the brownfield site that existed before the building was constructed – promotes biodiversity by allowing plants and wildlife to self-colonise. The scheme has been built to a voluntary certification standard known as the Code for Sustainable Homes, and BREEAM In-Use Residential certification will be sought once the minimum required occupancy level is reached.

Source: https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/stewardship/mg-investments-annual-stewardship-report-2022.pdf

Section 4 – Local Impact Investments

A key outcome of the Fund's 22/23 investment strategy review was agreement to allocate an initial 3% (£160m) of total fund assets to a local impact portfolio, building on the Fund's existing 'impactful' investments which include renewable infrastructure, affordable housing, and listed exposure to sustainable and transition aligned equities.

Case Study: Orchard Street Partners (UK Property Impact Fund)

Via its Brunel UK Property allocation, the Fund committed £8.5m to Orchard Streets inaugural impact fund at first close.

The fund will target value-add real estate investment opportunities with the potential to generate a measurable social and environmental impact. Specifically, it will focus on three impact areas from decarbonising existing buildings via an accelerated programme of refurbishment, investing in local communities, using a proprietary place-based needs model to identify and respond to local social issues.

It will also focus on making buildings healthier for those that live and work in them, for example through improving air quality, access to green space and wellness amenities.

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

Source: https://www.orchard-street.co.uk/news/orchard-street-announces-first-close-ps400-million-impact-fund-focused-decarbonisation

A prerequisite of any investment will be its ability to exhibit demonstrable impact both in terms of intentionality and additionality in the local area. Investments made as part of this new allocation will be asset-class agnostic and are expected to be made up primarily of sustainable infrastructure assets, affordable housing strategies and, to a lesser extent, sector-specialist opportunities.

These asset classes have the benefit of being well established and scalable and achieve a balance between delivering positive impact across 'environmental' and 'social' dimensions while meeting the Fund's overarching risk/return objective.

> *"Investing in renewable generation assets across Brunel's constituent counties generates resilient cashflows for underlying investors, and clean energy where their pension beneficiaries work and live. We're very pleased to be working with Brunel partner funds again – our close relationship with them, which dates back to 2019, is key to making initiatives like this one possible."*
>
> Matt Ridley, Partner, Schroders Greencoat

The portfolio will comprise a smaller allocation to specialist sectors such as Supported and Regulated Housing and/or venture capital including SME financing. These opportunities are expected to be additive to the return of the overall portfolio and deliver a highly material social impact.

The Fund has built in sufficient flexibility so as not to preclude investments outside of the region if a particular opportunity enables capital to be deployed in the Southwest. The Fund made its first local impact commitment in October 2023, details of which can be found in the below case study.

Case Study: Renewable infrastructure and Energy Transition Assets Across the South West of England

October 2023 saw the Fund make its first local impact commitment to a Schroders Greencoat managed fund, Wessex Gardens LP along with 5 other underlying Brunel partner funds. Aggregate commitments totalled £330m, with Avon committing £50m. The mandate will make long-term investments in renewable infrastructure and energy transition assets across the South West of England.

In scope investments include a wide range of renewable energy technologies, including traditional sectors of solar PV and wind, and innovative energy transition sub-sectors such as battery storage and green hydrogen production. With a large amount of capital being deployed into a concentrated geography, the investments are expected to deliver significant local impact across the region, creating jobs in the South West while providing clean energy to the national grid.

The partnership represents the largest-ever commitment by UK local government pensions into place-based and locally-focused renewable energy infrastructure.

The investments will not only contribute to meeting the UK's net zero and energy security targets, but also the net zero targets and environmental impact goals of the Fund.

Source: https://www.schroders.com/en-gb/uk/institutional/media-centre/schroders-greencoat-raises-%C2%A3330-million-for-renewable-infrastructure-fund-from-uk-local-government-pension-schemes/

Section 5 – Stewardship

(I) Policy Advocacy

Engagement and active ownership are central to the Fund's approach to ESG; we believe that meaningful engagement can make a positive impact and ultimately create long-term value for our members.

The Fund recognises that real world change comes about through coordinated action with the investment industry, corporate community, regulators and policymakers all working together. Playing our part means working with these groups to effect change and maximise the impact we can make within our sphere of influence. We work closely with our strategic partners to drive the development of ESG regulation and commitments made globally. An overview of the initiatives that the Fund is an active member of, along with a brief description of key workstreams is included below:

Organisation/Initiative	Remit
BRUNEL Pension Partnership	To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Consultation responses are published on the Brunel website here: Policy advocacy. Brunel is involved in a number of industry initiatives including: IIGCC, Principles for Responsible Investment (PRI), CA100+, Transition Pathway Initiative (TPI), International Corporate Governance Network (ICGN), the UK Sustainable Investment and Finance Association (UKSIF). Brunel RI and Stewardship Report 2023
	IIGCC's Policy Programme works with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. The IIGCC have also been responsible for developing a Net Zero Investment Framework, which outlines a common

IIGCC Institutional Investors Group on Climate Change	set of recommended actions, metrics and methodologies to maximise investors' contribution to achieving net zero emissions by 2050 or sooner. Over the year, and as part of a continued programme of expansion, the IIGCC issued consultations and co-ordinated working groups made up of industry thought leaders, on how to integrate infrastructure, derivatives, hedge funds and private equity into the framework.
Local Authority Pension Fund Forum	LAPFF is a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the LGPS funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. This year LAPFF continued their engagement work with high emitting sectors under the purview of the 'Say on Climate' initiative. Human rights have been a significant focus for LAPFF for several years. LAPFF has particularly focused on the impact of the global mining industry on human rights and has also undertaken substantial engagement with companies operating in the Occupied Palestinian Territories after many LAPFF member funds were approached by activist groups working on this issue. Officers and Committee members attended four LAPFF business meetings during the year. One of the Fund's Committee members is a member of the LAPFF Executive Committee. The most recent LAPFF Annual Report is available to read here

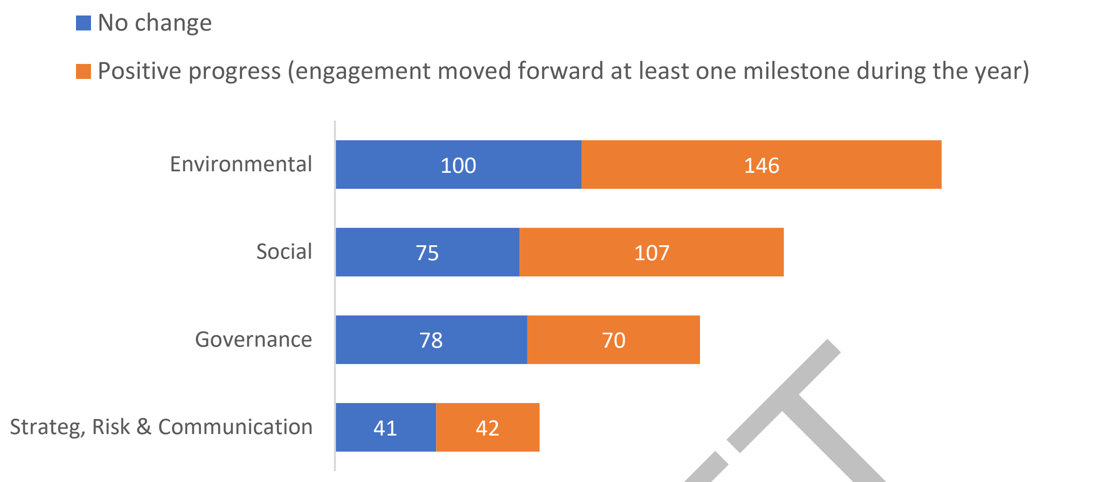
	The Climate Action 100+ (CA100+) Net Zero Company Benchmark assesses the performance of focus companies against three high-level goals: emissions reduction, governance, and disclosure on and implementation of net zero transition plans. The Benchmark draws on public and self-disclosed datasets from companies, which are categorised into two types of indicators: • Disclosure Framework Indicators, which evaluate the adequacy of corporate disclosures; • Alignment Assessments, which evaluate the alignment of company actions with the Paris Agreement goals. The Framework is assessed by the Transition Pathway Initiative (TPI) and FTSE Russell. Alignment assessments are provided by the Carbon Tracker Initiative. Source: https://www.climateaction100.org/net-zero-company-benchmark/

(II) Engagement with Investee Companies

Listed equities provide the most immediate route into engaging with companies on a broad range of issues. Other asset classes are less advanced and are structured in a way that is not always conducive to active engagement with investors. However, progress is being made and, in this report, we discuss some of the mechanisms being implemented by investment managers in other asset classes such as fixed income that are helping to move the industry forward.

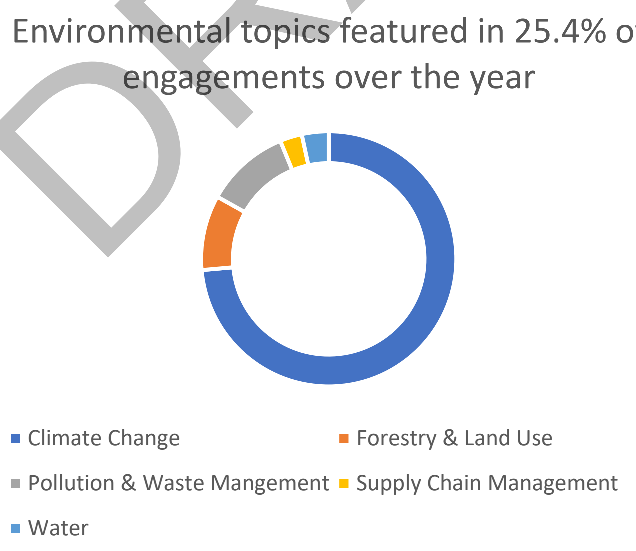
As the Fund's invests in Brunel portfolios it is vital that underlying investment managers and EOS at Federated Hermes (EOS), as Brunel's appointed voting and engagement provider, meet our expectations, and that there is continued alignment of engagement and voting priorities and practices.

To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also defined. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal. Engagement undertaken by EOS on behalf of the Fund during the year to December 2022 made significant progress. Across the Fund's listed equity investments, EOS were able to move at least one milestone forward for 55% of the objectives set during the year. This compares to 48% in the prior year.

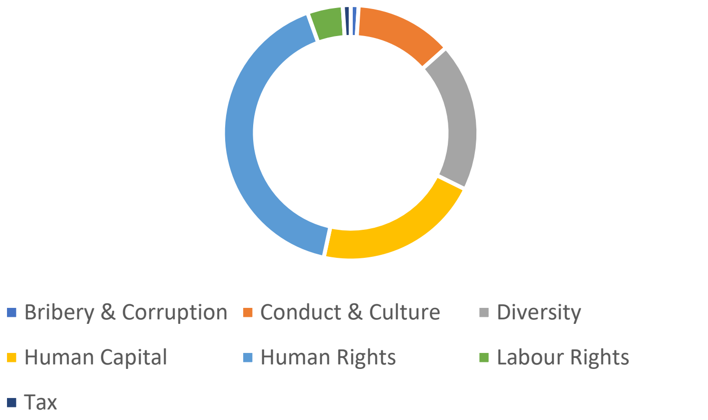


Note: Engagement covers active equity portfolios and does not include engagement undertaken by underlying investment managers and/or Brunel

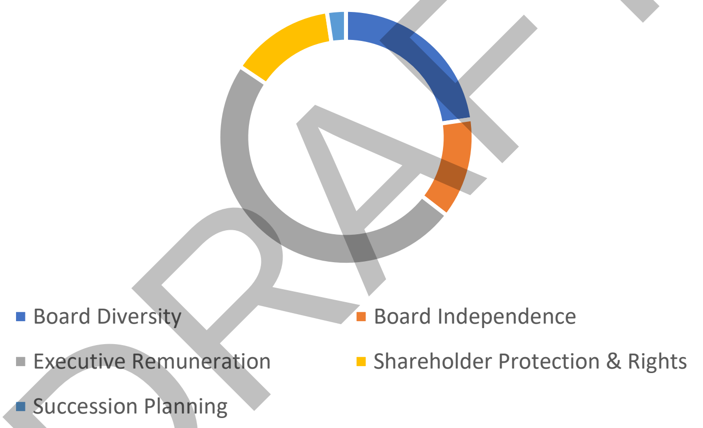
During the year, EOS engaged with 466 companies across 1,977 issues spanning Environmental, Social, Governance and Strategy, Risk and Communication matters. A summary of the issues and objectives on which EOS engaged with companies is shown below:



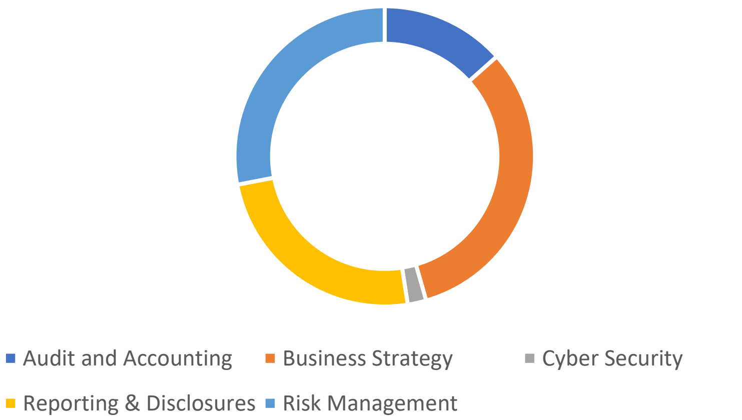
Social topics featured in 24.9% of engagements over the year



Governance topics featured in 37.2% of engagements over the year



Strategy, Risk & Communication topics featured in 12.4% of enegagements over the year



Case Study: German Automotive Sector & Climate Lobbying (GHA, GSE, PAB)

12% of global greenhouse emissions come from the road transport sector.

Many automotive companies have set emissions reduction targets focused on a shift to electromobility – but to implement this effectively, a supportive policy environment is essential.

EOS have undertaken extensive engagement with Mercedes-Benz and BMW (companies held in the Fund's active and passive equity portfolios), discussing how these companies must align their direct and indirect lobbying activities through trade associations with disclosed emissions targets. Work has been ongoing for 5 years and has included numerous site visits, in-person meetings with investor relations and heads of department at both companies, questions posed at AGMs and co-ordination of shareholder resolution proposals.

Outcome & next steps: BMW issue first Group Climate Engagement Report, Mercedes-Benz undertake public review of all lobbying activity, publish Group Climate Policy Report. EOS continue to engage on this topic, pressing for greater quality and detail in disclosures.

Source: https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/german-automotive-engagement-on-climate-lobbying/

EOS Engagement Initiative: Deforestation, Biodiversity and Sustainable Food Systems

Over the year EOS have continued to advocate for best practice and industry standards, including calling for an ambitious Global Biodiversity Framework at COP15.

Specifically, EOS have developed a dedicated biodiversity engagement programme to accelerate and deepen the focus on biodiversity protection and restoration. The programme includes 15 companies from the food and beverage sector and raises material issues for engagement including regenerative agriculture, deforestation, sustainable proteins, water use, animal welfare, antimicrobial resistance, chemicals and pollution, and ocean health.

Other sectors for which biodiversity loss is material include infrastructure, banking, fast fashion, chemicals and extractives due to their operational and supply chain impacts on biodiversity. In future, EOS will be integrating more biodiversity discussions for these sectors to progress cross-industry action on biodiversity.

Source: https://www.hermes-investment.com/uploads/2023/02/d61735e0dbe2062de0912a79f28e734e/eos-annual-review-2022-singles.pdf

Other notable company engagements undertaken by EOS over the year spanning the rising cost of living, human capital and the concept of a "just transition" and digital privacy rights are available to read here.

Brunel also undertake a number of collaborate engagement efforts directly with companies and policymakers on behalf of partner funds, as set out in their Responsible Investment and Stewardship Outcomes report.

Building on the momentum of previous initiatives including the 'Global Investor Statement to Governments on the Climate Crisis', Asset Owner Diversity Charter and a targeted campaign calling for water utilities companies to reduce pollution and to preserve natural capital by having clear biodiversity action plans, this year saw Brunel co-ordinate a joint two year engagement programme on climate physical risks in the food and agriculture sector. The Fund is an active participant in the initiative, further details of which can be found below:

Brunel Engagement Initiative: Climate Physical Risks in the Food and Agriculture Sector

In July 2023 a leading sustainability advisory firm was appointed by Brunel to co-ordinate and conduct a two-year engagement programme focussing on 20 companies in the consumer staples sector on behalf of Brunel partner funds.

Understanding and engagement on physical risks is relatively nascent. The objectives of the engagement are to:

1. Articulate the investment risk linked to food and agriculture companies.
2. Encourage companies to assess and manage physical risks.
3. Understand how companies are impacting biodiversity and managing biodiversity to mitigate climate impacts.

Engagement meetings with companies are expected to start in 2024 with reports issued shortly thereafter assessing progress, identifying learnings, themes, good practices and innovations.

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

We recognise that efforts to engage should take place within a well-defined framework and should not continue indefinitely where no progress is made.

Engagement Escalation and Divestment: Suncor Energy Inc.

[INSERT GRAPHICS]

- Highly carbon intensive investment in energy company (global high alpha equity portfolio).
- Business model (oil sands) fundamentally challenged by desire to transition to low carbon future with revenue streams concentrated in areas where transition is dependent on significant technological innovation.
- Ambitious emission reduction targets (scope 1 & 2) and actively seeking positive industry change meant the company could demonstrate a commitment to transition alignment.
- Ultimately, due to targets being insufficiently embedded into action and management incentives and a public shift in policy direction, the underlying investment manager was unconvinced public commitments would be delivered and the decision was made to disinvest in 2023.

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

One of LAPFFs strategic priorities over the past few years has been on holding the mining sector to account following several high-profile and devastating tailings dams collapses. LAPFF holds a firm view that understanding and addressing human rights impacts are necessary to ensure the sustainable creation of long-term shareholder value. A summary of recent LAPFF engagement work with the mining sector can be found below. Further detail is included in LAPFFs Annual Report here.

LAPFF Company Engagements: Mining and Human Rights

Anglo American

Objective: During its recent visit to the Minas Rio dam it was clear to LAPFF how threatened local populations felt by the presence of the dam. Consequently, LAPFF would like to ensure that the Anglo American board understand the risks presented by the possibility of this dam's collapse and that the company engages meaningfully and effectively with communities

Achieved: LAPFF has alerted Anglo American to the communities' concerns on a number of occasions, including through a letter to the chair raising these concerns. The company chair and CEO have been receptive.

In progress: LAPFF will continue to engage with Anglo American to ensure that the company listens appropriately and effectively to communities and takes appropriate accountability for its legacy tailings dams.

BHP

Objective: BHP has historically been open to engagement with LAPFF however, when pressed on its approach to addressing its impacts from the Samarco tailings dam collapse, BHP has shut down its engagement avenues. This withdrawal from engagement raises significant concerns for LAPFF, both in terms of the prospects for improving the company's approach to human rights and environmental impacts and in terms of what this behaviour says about its company culture.

Achieved: LAPFF has written continuously to BHP expressing its concerns about the company's lack of engagement and questioning the company's reasoning in refusing to engage.

In progress: LAPFF will continue to press on the engagement issue as it believes that engagement is critical to progress, and that BHP has not adequately justified its position not to engage. It will also continue pushing the company to consider better ways that ensure ESG issues do not fall through accountability gaps present in joint venture governance structures.

Glencore

Objective: LAPFF has engaged with Glencore on a range of topics, including board composition, anti-bribery and corruption, climate, and human rights. Over the course of the year, LAPFF was approached by Peruvian community members concerned that Glencore's operations at Antapaccay are creating negative social and environmental impacts, in particular water contamination.

In progress: LAPFF will prioritise the need for an independent environmental and social impact assessment. LAPFF has asked Glencore for independent assessments of its processes in the past(for example, in relation to its internal control system) and will continue to push the company to take this route in relation to a range of critical processes.

Source: https://lapfforum.org/wp-content/uploads/2022/12/LAPFF_annual-report-final.pdf

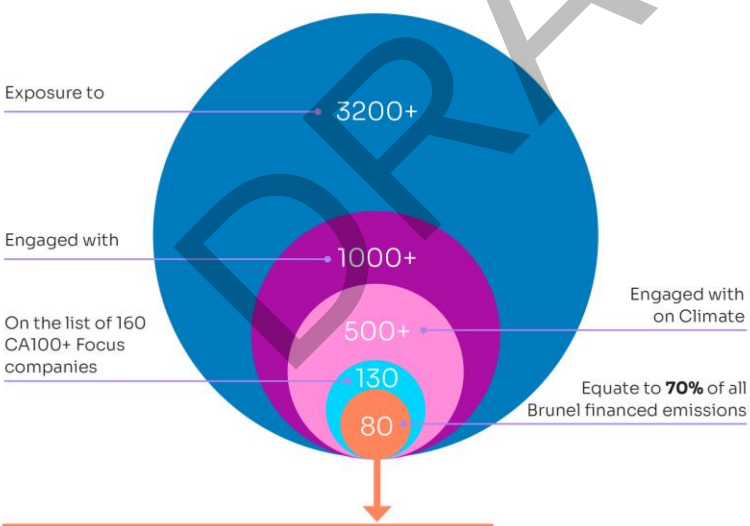
(III) Engagement Targets

One of the central tenets of the Paris Aligned Investment Initiative (PAII) is the *"implementation of a stewardship and engagement strategy consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner".*

Aligned with the PAII Asset Owners Commitment and Brunel, the Fund agreed to adopt a formal engagement target ensuring 70% of financed emissions in material sectors are covered by active engagement by 2024, increasing to 90% by 2027 for all listed equities across Brunel portfolios.

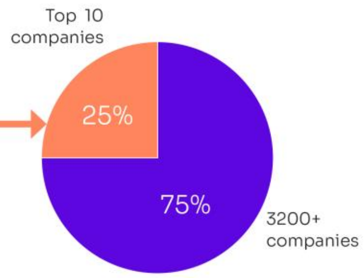
The target applies across all Brunel listed equity portfolios, rather than specifically to the Fund's investments. This approach is consistent with maximising real-world impact, where the entire market is required to decarbonise and, ultimately, transition to a low carbon economy.

Analysis undertaken by Brunel reveals a relatively small number of companies account for an outsized contribution to emissions and some of the highest contributors to emissions demonstrate alignment with 1.5 degrees, having set accredited net zero targets. However, others have not been assessed and/or have not set targets; these companies will be the focus of engagement work and progress will be monitored annually.



Rank	Company Name	% of Brunel financed emmissions
1	Shell plc	3.90%
2	Holcim Ltd	3.65%
3	Anglo American Plc	3.01%
4	Breedon Group plc	2.54%
5	BP p.l.c.	2.44%
6	Suncor Energy Inc.	2.07%
7	Anhui Conch Cement Company Limited	1.98%
8	CRH Plc	1.93%
9	Glencore Plc	1.92%
10	Steel Dynamics, Inc.	1.80%

The top 10 companies are responsible for 25% of all of the Brunel financed emissions



Figures correct at December 2022

Brunel financed emissions

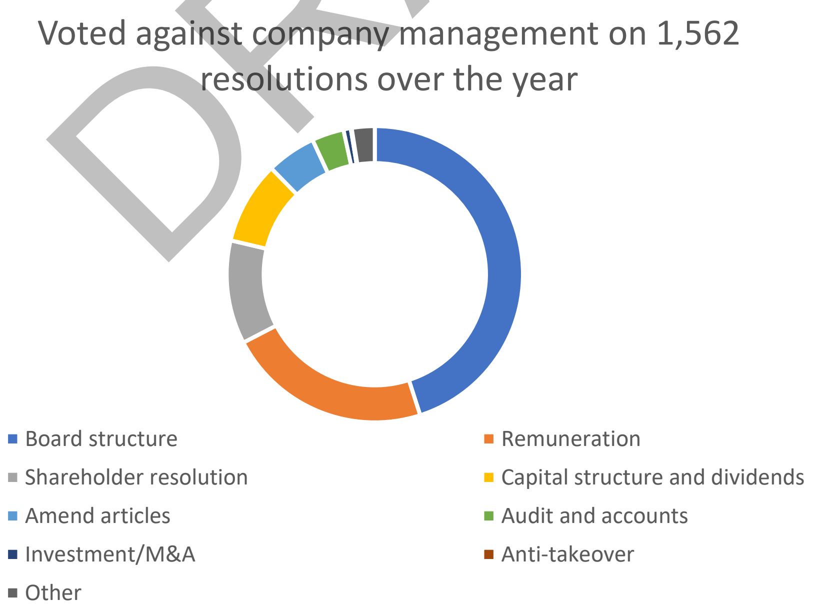
(IV) Voting Activity

The Fund believes that voting is an integral part of the RI and stewardship process and serves to enhance long-term value creation for our members. Voting is delegated to Brunel and its underlying managers for the shares we hold in publicly listed companies, and we expect all underlying managers to exercise our right to vote at company meetings.

The Fund provides input into the development of Brunel's voting guidelines, which guide EOS's voting recommendations alongside country and region-specific guidelines. Brunel's voting decisions are also informed by investment considerations, consultation with portfolio managers, other institutional investors, engagement with companies and escalation by the Fund. More details on this and the voting process, including the approach across asset classes, is explained in Brunel's Stewardship Policy.

During the year EOS made voting recommendations on 10,177 resolutions at over 850 meetings on our behalf. At 474 of those meetings, EOS recommended opposing one or more resolutions, while at 2 meetings, EOS recommended abstaining. They supported management on all resolutions at 341 meetings and recommended voting with management by exception at 36 meetings. A vote "for by exception" is applied where there is a reasonable prospect of ongoing positive engagement.

The **issues** on which EOS recommended voting against management or abstaining on resolutions are shown below:



Case Study: Significant Vote Real Living Wage

Sainsbury's

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

Escalation Process: Despite improvements in other sectors, no companies within the supermarket sector are accredited, and ongoing engagement has struggled to yield results. Brunel and Good Work Coalition, discussed escalation options and decided to proceed with filing a shareholder resolution seeking for Sainsbury's to accredit as a living wage employer by July 2023.

Sainsbury's is the second largest U.K. grocery chain with 16.5% of market share. It operates over 600 supermarkets; 800 convenience stores and at the time directly employed 189,000 workers. Across the coalition the highest holdings were in Sainsburys, and it was felt that given Sainsbury's policies and approach there was a higher chance of success.

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

The resolution did not receive enough support to pass or require a public response from the company and Sainsbury's did not decide to accredit to the real living wage foundation. Whilst this is disappointing, resolutions of this kind rarely pass first time. Pre-declaration by several investors in support of the resolution did mean pay rises were secured for thousands of London-based workers and helped to significantly raise the profile of this issue and drive further discussion with the wider industry.

Source: https://www.brunelpensionpartnership.org/wp-content/uploads/2023/05/2023-Responsible-Investing-and-Stewardship-Report.pdf

Voting Misalignment at Oil & Gas AGMs

Shell plc

Following a notable deceleration of prior commitments to reduce oil & gas output from Energy companies this year, Brunel along with select other UK pension schemes opted to vote against Shell directors at its AGM in May. Votes were also cast against Shell's Energy Transition Progress Report and in favour of a shareholder resolution calling for near-term large scale emissions reductions targets.

UK Asset Owner Roundtable

Following the conclusion of the proxy season, Brunel announced that it would convene a meeting (via the UK Asset Owner Roundtable forum) of major fund managers over a perceived misalignment between long-term interests and voting intentions, with European oil and gas majors as the focus.

"UK asset owners are concerned that despite unequivocal warnings from the United Nations and the IPCC of the risks of delayed action on climate change, that short-term interests are trumping long-term interests of pension funds.", writes Faith Ward.

Source: https://www.brunelpensionpartnership.org/2023/10/13/positive-dialogue-at-the-aligning-expectations-roundtable/

Source: https://www.brunelpensionpartnership.org/2023/05/17/opening-a-constructive-dialogue-are-short-term-considerations-eclipsing-the-long-term-interests-of-pension-funds/

(V) Stakeholder Engagement Initiatives

In autumn 2023 we gathered key stakeholders' views on our investment strategy and net zero goals as part of a far-reaching climate review. A series of engagement sessions allowed us to interact with hundreds of stakeholders including staff, Councillors, Unions and Employers in the scheme. We also conducted a second ESG focussed member survey. Ensuring Members views are properly considered is a key requirement of the FRC Stewardship Code and the results of the survey and engagement sessions form a critical input into the future strategic direction of the Fund.

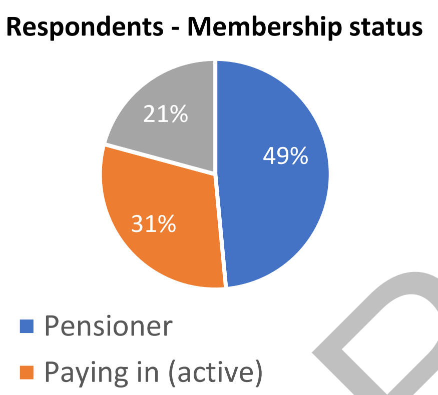
Generally, among key stakeholders and members, there is broad support for driving real-world impact and seeking greater ambition on climate change while not putting the Fund at risk. This tended to converge on a fresh net zero target of 2040-2045.

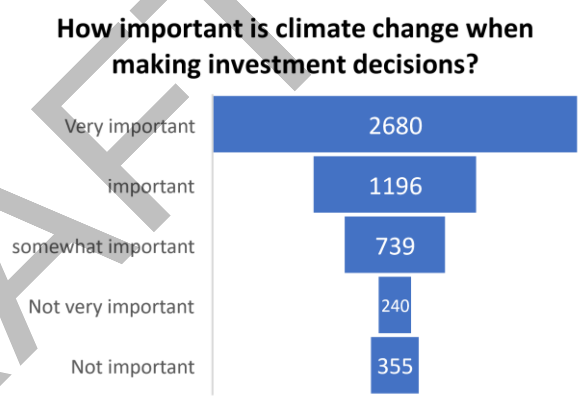
Stakeholders in general support investing in companies aligning towards net zero, even where they exhibit high carbon intensity today. Further, all stakeholders support the idea of making some local investments and generally agree that affordable housing and green infrastructure (e.g. solar / wind) across the South West could make attractive investments and achieve positive goals for wider society.

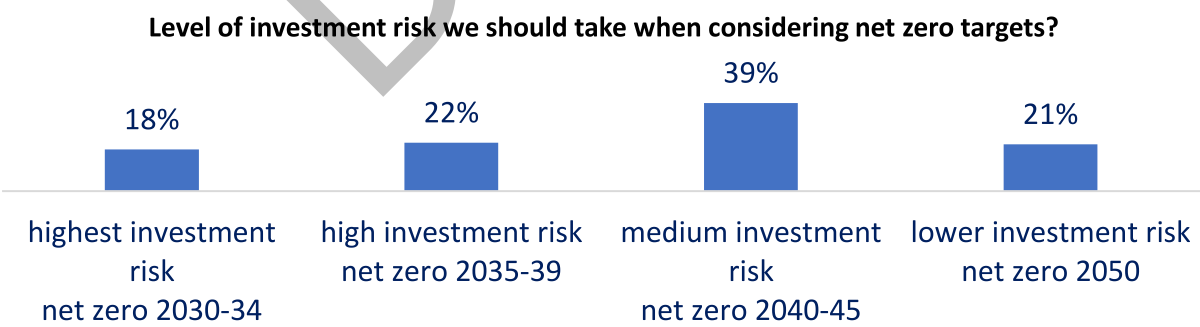
Stakeholders also acknowledged that the ‘Engagement vs Divestment’ issue is complex and nuanced. They generally agreed the Fund needs to do both as joint tools to constructively exert influence and encourage companies to accelerate their net zero path, but engagement should not go on indefinitely. Specifically, there is support for divesting from non-aligning companies by 2030.

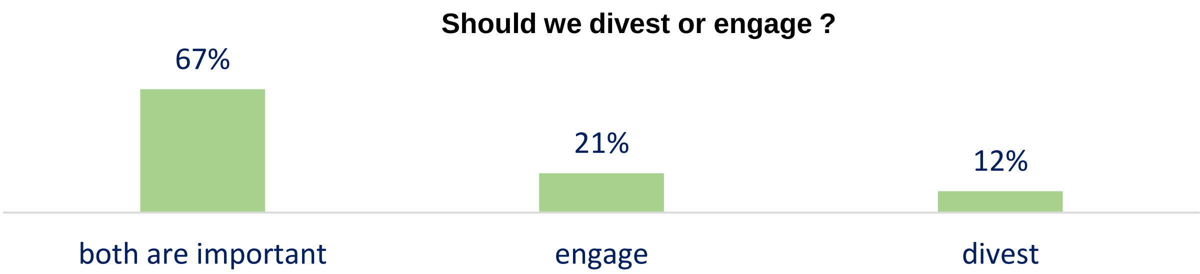
While there is clear support for bringing forward the Fund’s net zero target, with more ambitious intermediate milestones, attendees of the engagement sessions, particularly in the local authority, gave strong consideration to potential material increases in risk, and by extension, the impact on employer contributions this could create.

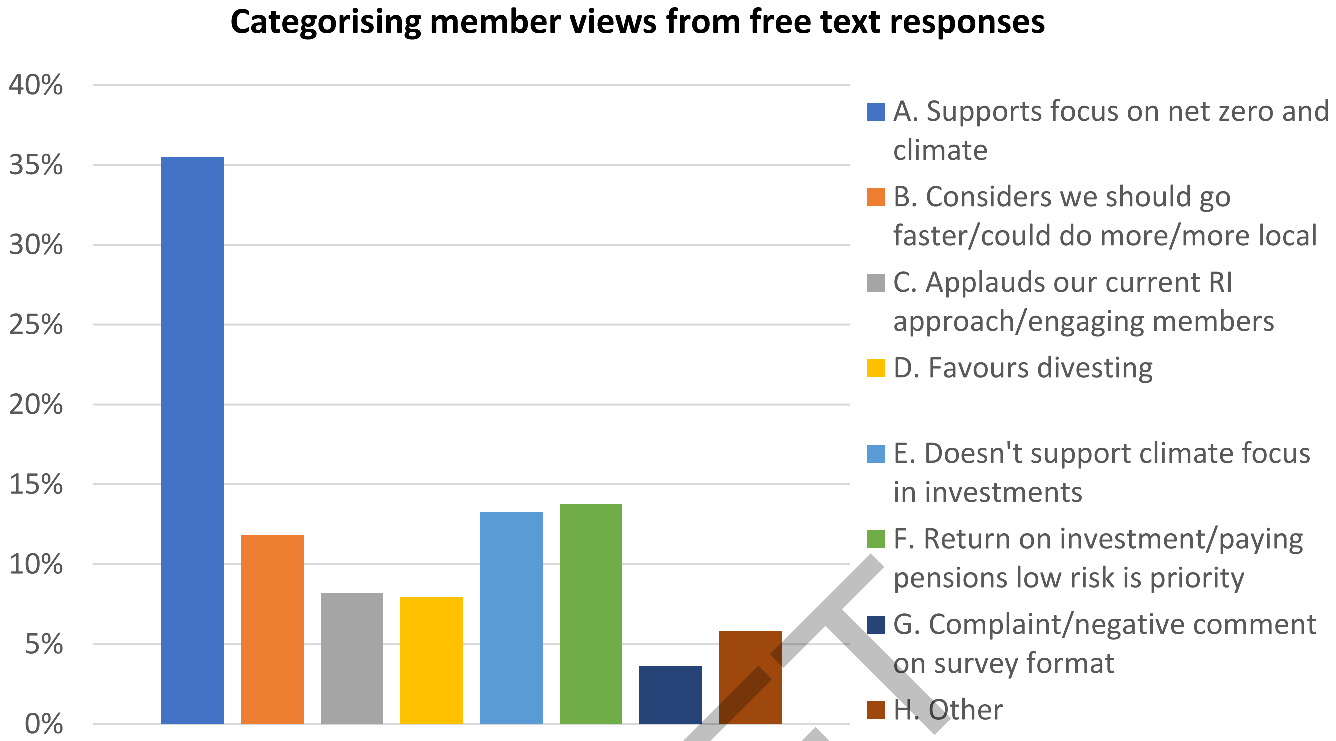
Highlights of the member survey results are presented below. Full survey results were presented to the APF Committee at its December 2023 meeting. The presentation and minutes of the meeting are available to view here [INSERT LINK]










Categorising member views from free text responses
40%
35%
30%
25%
20%
15%
10%
5%
0%
A. Supports focus on net zero and climate
B. Considers we should go faster/could do more/more local
C. Applauds our current RI approach/engaging members
D. Favours divesting
E. Doesn't support climate focus in investments
F. Return on investment/paying pensions low risk is priority
G. Complaint/negative comment on survey format
H. Other

Section 6 – 2024 RI Priorities and Forward Look

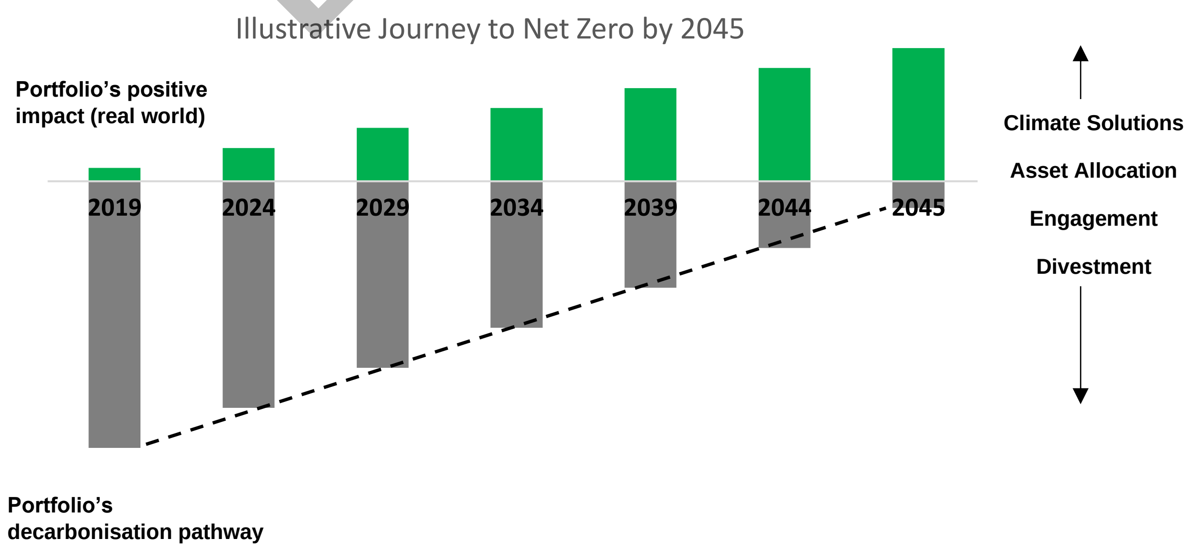
The Fund's RI priorities are consistent with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use, data management and artificial intelligence and fast fashion which are fed into Brunel's annual engagement plan.

The main priorities for the Fund are:

a) **Climate change**
b) **Biodiversity**
c) **Diversity, equity and inclusion**
d) **Cyber security**
e) **Cost and tax transparency**
f) **Circular economy and supply chain management**
g) **Human rights and social issues**

We have a deep belief in, and focus on, the need for climate related activity to underpin all investments. With this in mind, our approach and methods of reporting will continue to evolve as both data and requirements do. **The amount of the portfolio covered by climate analysis has increased from 42% to 62% in the past year and we will seek to increase coverage to 100% of assets over time.**

Declining carbon intensity metrics alone are not necessarily reliable indicators of a successful transition approach and there is a growing recognition of the importance of adaptation action to increase climate resilience. There is a clear need for a broader definition of the climate transition. This should be one that expands beyond carbon reduction to address the issues of nature loss, physical risks and adaptation.



Our 2045 target reflects the fact conservation and protection of natural capital is critical to mitigation efforts and to combatting climate change. Over the next year we will explore the financial risks associated with the degradation of ecosystems and, by extension, the viability of a dedicated nature-based solutions allocation, which could help to reduce deforestation and support opportunities in regenerative agriculture, food security and water quality.

As responsible stewards of capital we will seek to understand a rapidly evolving market and balance both the risks and opportunities created by climate change as well as broader environmental, social and governance issues while holding ourselves to the highest standards, ultimately for the benefit of our members.

[ENDS]