2024 Responsible Investment Annual Report

Contents

Foreword - 2024

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. It also 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 are making good progress against our interim climate targets, **as we seek to deliver on our 2045 net zero target. We stand behind our commitment to divest from high impact companies if they cannot evidence a credible alignment strategy before 2030.**

I would like to thank all of those who have taken the time to engage with the Fund over the past year including scheme employers, Councillors, Union representatives and others on the Fund’s approach to responsible investment. We see stakeholder engagement as key to the successful growth and sustainability of the Fund and will continue to welcome challenge as we progress and evolve our responsible investment strategy. This year’s Report contains a number of topical features designed to demonstrate how the Fund manages complex risks such as investing in conflict affected regions and sustainability issues in renewables supply chains.

We were pleased to see our listed equity portfolio deliver a **63% 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. **We have committed to further expanding the scope of decarbonisation targets across asset classes as reporting capabilities evolve. This is the first year we have reported on the carbon intensity of our £180m corporate bond portfolio, having made a commitment to reduce its carbon intensity by 60% by 2030.**

Brunel continued to demonstrate leadership in the field of responsible investment and climate strategy by developing policy on biodiversity, co-ordinating a pilot project with S&P on nature-risk profiling. Despite a rise in anti-ESG sentiment in some jurisdictions, 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. This report cites a number of examples where proactive engagement has led to positive tangible results. **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.

Last year the Fund was recognised for climate innovation and for its work on transition aligned equity strategies. We have continued the theme of innovation this year, working with industry to structure investment vehicles designed to channel capital into the Avon region. In this report you'll read about our £35 million investment in local solar, our £50 million commitment to local affordable housing and our plans to support local businesses. The Fund is now well placed to quantify the contribution it makes to pressing social and environmental issues on both a local and national level.

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 natural capital 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

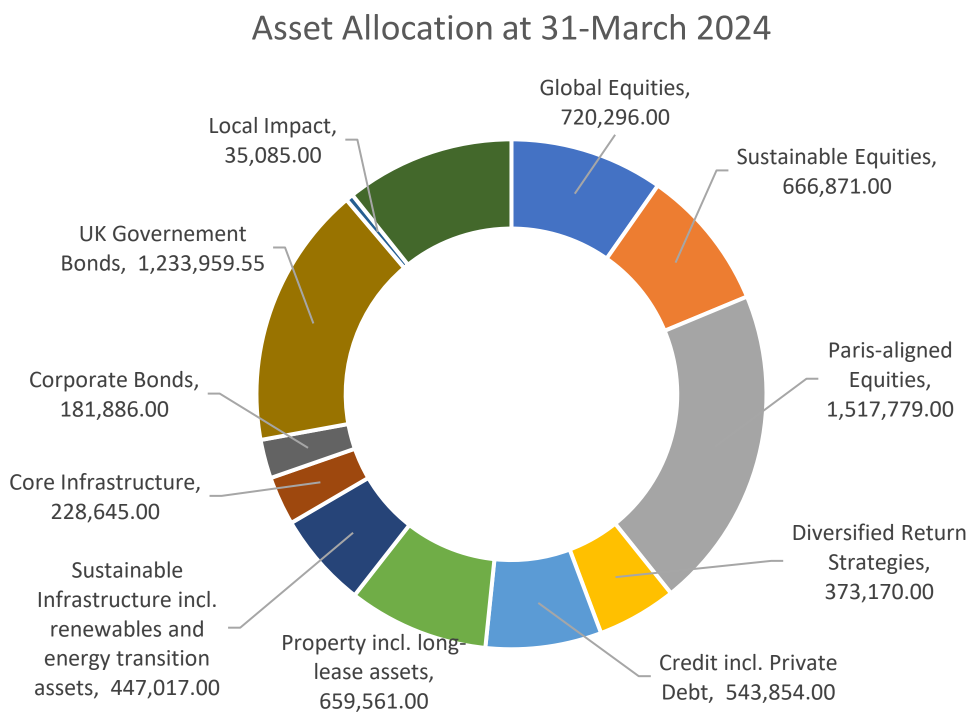
Section 1: Responsible Investment Policy and Strategic Developments

(a) 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:

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



(b) Climate Change

Climate Change is a key strategic priority for the Fund. 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.

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 clear 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).**
- **For listed equities, we will ensure 70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement by the end of 2024 and 90% by 2027.**

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. **Over the next year we expect this to take the form of a dedicated 'climate solutions' target, an express allocation to natural capital that will sit within the existing 32% strategic allocation to illiquid assets and the continued deployment of local impact capital.**

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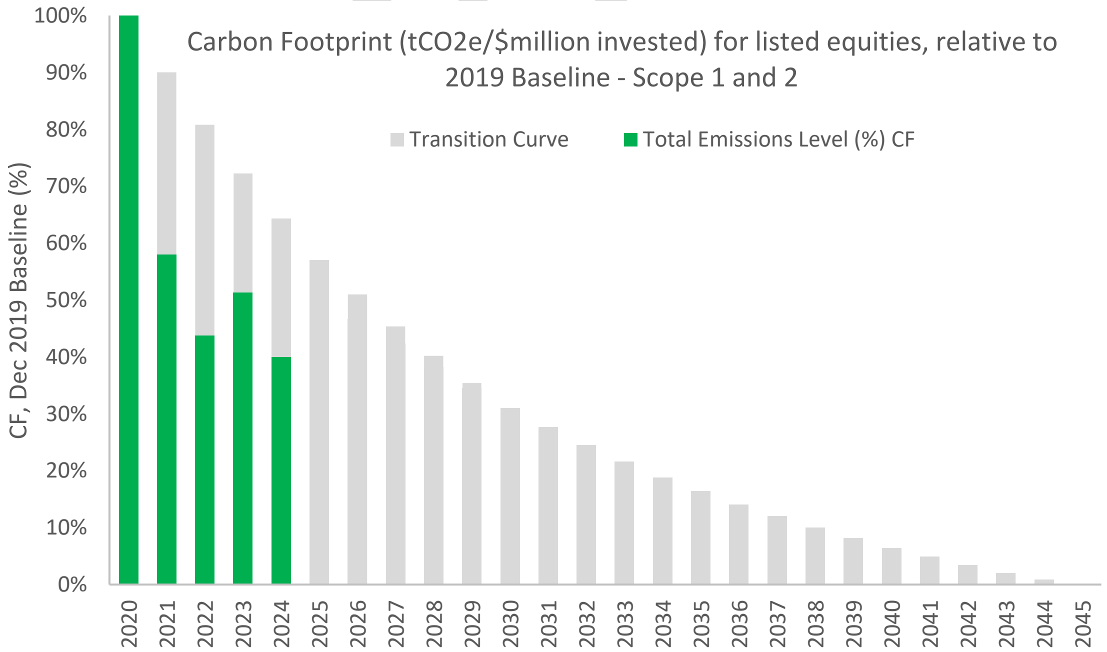
[1] https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/
[2] https://www.mercer.com/insights/investments/investing-sustainably/evolving-transition-in-portfolios/

(I) Decarbonisation progress versus the 2019 baseline

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 and corporate bond portfolios. Our equity portfolio has decarbonised across all three metrics used in the analysis. On an absolute emissions basis it has decarbonised by 63% 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 60% reduction in intensity, while Weighted Average Carbon Intensity (WACI) saw a 41% decrease.

The strategic decision taken in 2019 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.

The Fund's listed equity portfolio is decarbonising faster than the projection used to determine emissions reductions required to meet net zero by 2045. The chart below shows the Fund is significantly ahead of its interim decarbonisation targets of -43% to 2025 and -69% to 2030. Further detail relating to carbon metrics and targets is included in Section 4.



Source: Mercer

[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

(II) Transition Alignment and Engagement

As well as analysing emissions intensity data, the Fund assesses companies based on alignment criteria developed by best-in-class frameworks such as the Transition Pathway Initiative and Climate Action 100+. We expect transition alignment to increasingly become the focus as large decarbonisation efficiencies (driven by asset allocation decisions) become harder to replicate in future years.

Accurate alignment 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% of the highest emitting companies in the Fund's equity portfolios are either aligned, aligning or subject to active engagement by the end of 2024 (extending to 90% by 2027).**

The Fund acknowledges that engagement should not go on indefinitely and has 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.**

Furthermore, the Fund recognises that stewardship tools are unlikely to be effective in sectors and industries that have no, or very limited, capacity to transition or pivot to sustainable industries and for this reason supports the use of activity-based exclusions across specific parts of the energy, tobacco and defence sectors. Potential benefits of employing a limited number of activity-based exclusions include streamlining the investment process and allowing our managers to focus on positive capital allocation and engagement as primary levers to encourage companies to decarbonise and enhance resilience, which will ultimately help the Fund deliver its responsible investing priorities.

During the year Brunel enhanced the transition alignment framework applied to their suite of portfolios. To underpin overarching net zero commitments and to focus resource on the most material sectors and industries, Brunel's managers will be expected to adhere to a predetermined set of criteria in the context of 'climate controversial' companies where credible transition plans are inadequate. Further details of this framework can be found in the following case study.

Brunel Case Study: Assessing Alignment for Action

Brunel incrementally increase expectations on companies, agreeing this with partner funds annually.

Holdings are grouped, based on an impact assessment and then ranked against the CA100+ 'Alignment Maturity' indicators, which form minimum requirements of investee companies within high impact sectors.

Any directly owned listed market companies, who are unable to comply with the criteria, either through the CA100+ Net Zero benchmark or in the provision of credible evidence, will be subject to challenge via the asset manager and selective divestment within 12 months of each annual reassessment date.

Summary of Alignment Maturity Expectations for 2024/2025

No.	Climate Action 100+ Disclosure Indicator	Essential for all markets	Strongly Recommended
1	Net-Zero GHG Emissions by 2050 (or sooner) ambition	Meets all criteria (partial is acceptable for emerging markets)	
2	Long-term (2036-2050) GHG reduction target(s)	Yes - meets all criteria **OR** Partial – meets some criteria	
3	Medium-term (2026 to 2035) GHG reduction target(s)	Yes - meets all criteria **OR** Partial – meets some criteria	
4	Short-term (up to 2025) GHG reduction target(s)	Yes - meets all criteria **OR** Partial – meets some criteria	
5	Decarbonisation strategy		Yes - meets all criteria **OR** Partial – meets some criteria
6	Capital allocation alignment		Yes - meets all criteria **OR** Partial – meets some criteria
7	Climate policy engagement		Yes - meets all criteria **OR** Partial – meets some criteria
8	Climate Governance		Yes - meets all criteria **OR** Partial – meets some criteria
9	Just transition: The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities		Yes - meets all criteria **OR** Partial – meets some criteria
10	Disclosure (TCFD or equivalent)	Yes - meets all criteria **OR** Partial – meets some criteria	
11	Historical GHG Emissions Reductions (Beta)		Yes - meets all criteria **OR** Partial – meets some criteria

Reviewing the criteria – an annual process

Brunel are committed to review the criteria, the timelines and the efforts of Asset Managers and companies to meet these expectations annually. This is to ensure Brunel keeps pace with the rapidly changing market, scientific, technological and policy developments and context. The expectation is set so that the minimum requirements become more stringent over time.

Read more about Brunel's approach to 'assessing alignment for action' in their 2024 Climate Change Policy

Source: Brunel Pension Partnership

Section 2: Human Rights & Social Issues Feature - Investing in Conflict Affected Areas

Ongoing conflicts across the world highlight the risks to human rights and supply chains as well as impacting global trade and energy security policy. In addition to these conflicts, political events such as elections in less stable regions underscore the need for a nuanced understanding of the impacts of geopolitical risks.

The Fund strongly adheres to its legal and fiduciary duties; investment decisions are based on an assessment of the financial consequence of a number of matters, including investment risk and returns, prudent financial reasons, and ESG.

Whilst the Fund is politically neutral, we are a long-term responsible investor and we apply this to all the investments we make. Brunel appoints external asset managers who are responsible for selecting the companies in which we are invested. Brunel scrutinises these asset managers' investment and risks processes, including their approach to stewardship and integration of ESG risks. We expect our investment managers to be aware of, and fully assess, all material investment risks including the risk of operating in areas of conflict.

Similarly, Brunel expects their managers to be aware of all material investment risks relating to the companies in which they invest, including those with significant exposure to areas of conflict. They closely monitor stocks that are assessed by independent third parties to be in breach of the UN Global Compact principles.

In addition, Federated Hermes EOS (EOS) monitor Brunel's holdings for direct and significant links to high-risk regions, as identified by authoritative sources such as the United Nations Human Rights Council.

Brunel: Considerations for managers
Brunel expects its managers to understand and respond to human rights issues and human capital management. As part of their selection process and ongoing engagements, Brunel consider whether companies: • Comply with all legals requirements and their duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK and the United Nations Guiding Principles on Business Human Rights (UNGPs) • Provide contextual information and disclose key performance indicators on an annual basis • Provide disclosure on their workforce and follow the Transparency in Supply Chains guide issued by the Home Office • Have Board level oversight of strategies relating to employee development, and to contribute to a positively engaged, committed and talented workforce. • Adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chains

Engagement with companies in high-risk areas

Based on materiality and exposure, selective companies are identified for engagement through correspondence or company meetings to address the adverse human rights impacts linked to the high-risk areas in which they operate or have exposure to.

The general approach to engaging with companies doing business in high-risk regions is to request that they carry out actions consistent with the UN Guiding Principles on Business and Human Rights, which include:

- To conduct enhanced human rights due diligence in high risk regions;
- To engage with those stakeholders impacted by business operations, including from vulnerable and marginalised populations;
- To demonstrate that the business is appropriately using its influence to promote positive human rights outcomes, including for vulnerable and marginalised populations.

In addition to Brunel engagement, the Local Authority Pension Fund Forum (LAPFF) has stepped up its engagement with companies in affected areas and other investors to better understand how to engage in a helpful way with companies operating in conflict affected and high-risk areas. This engagement is necessary not least because the humanitarian and human rights conditions in these countries have a bearing on whether investee companies can create sustainable shareholder value.

This year we undertook an analysis of our portfolio which identified companies known to operate in the Occupied Palestinian Territories (OPT)[4] listed in the table below:

Security Name	GICS Sub-Industry Class.	Company Description	Market Value (£)	% of Fund
Siemens AG	Industrial Conglomerates	German multinational technology conglomerate.	1,541,718	0.03%
Booking Holdings INC	Hotels Resorts & Cruise Lines	American technology company providing online travel and related services.	3,854,545	0.07%
CNH Industrial NV	Agriculture & Farm Machinery	, Technology and services company supplying the agriculture and construction industries.	3,314,640	0.06%
Caterpillar INC	Construction Machinery & Heavy	World leading manufacturer of construction, mining and other engineering equipment.	2,188,204	0.04%
Expedia Group INC	Hotels Resorts & Cruise Lines	American travel technology company.	135,623	0.00%

[4] Based on the report of the United Nations High Commissioner for human rights and a report by Non-Governmental Organisation, DanWatch

General Mills INC	Packaged Foods & Meats	American multinational manufacturer and marketer of branded consumer foods.	161,246	0.00%
Motorola Solutions INC	Communications Equipment	American video equipment, telecommunications equipment, software systems and services provider.	398,045	0.0%
Paypal Holdings INC	Transaction & Payment Processing	American multinational financial technology company.	931,997	0.02%
TOTAL	**--**	**--**	**12,526,018**	**0.22%**

The majority of these companies are invested in a passive equity product. Passive products track an underlying index (in this case the FTSE Paris Aligned World Developed Equity Index) and do not involve active stock selection.

As part of the Brunel Pension Partnership, we do not invest in controversial weapons, and we expect all our fund managers to invest in line with the United Nations Global Compact. We also require that companies comply with all legal requirements and the duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK, and the United Nations Guiding Principles on Business Human Rights.

We use Global Industry Classification Standards to identify the sector and subsector of the companies in which we invest; 'arms/weapons' is not an industry classification. Companies who sell weapons or provide ancillary services or products to the military can appear under a number of different classifications.

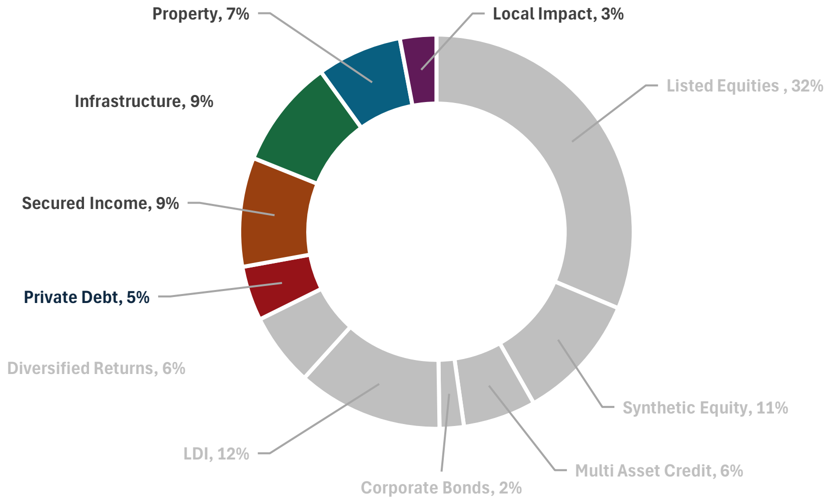
Based on the detailed holdings list we publish online, we have analysed the investments which fall under the "Aerospace & Defence" industry classification. This picks up companies that build aircraft and the associated propulsion units, as well as defence related industries. The Fund's holdings in this sector equates to £10,194,084 or 0.18% of the Pension Fund's holdings as at the 31 March 2024. Diversified companies such as integrated energy companies and diversified aerospace and defence companies remain in scope for investment and will continue to play a pivotal role in delivering the Fund's fiduciary duty.

Although stewardship is particularly challenging in the context of high conflict – risk regions, it is also where there is potential to influence sustained change, however, incremental. Brunel work to ensure that the asks of target companies are carefully crafted considering record of progress, the level of transparency and stakeholder engagement on due diligence processes.

Elements of this section are credited to Brunel. Further information relating to Brunel's approach to Human Rights and Social Issues can be found at the following link: https://www.brunelpensionpartnership.org/wp-content/uploads/2024/06/2024-Responsible-Investment-and-Stewardship-Outcomes-Report-2.pdf

Section 3: Positive Impact in Private Markets - Renewable Energy and Local Affordable Housing

The Fund has a large portfolio of private markets investments spanning property, secured income assets, infrastructure and private debt with current commitments totalling over £1.5 billion.



Real assets such as infrastructure and property play a pivotal role in delivering a net zero emissions future as well as supporting a 'just transition'[5] and serve to ensure we are generating the return required as well as making both a positive environmental and social impact.

(a) Renewable Energy

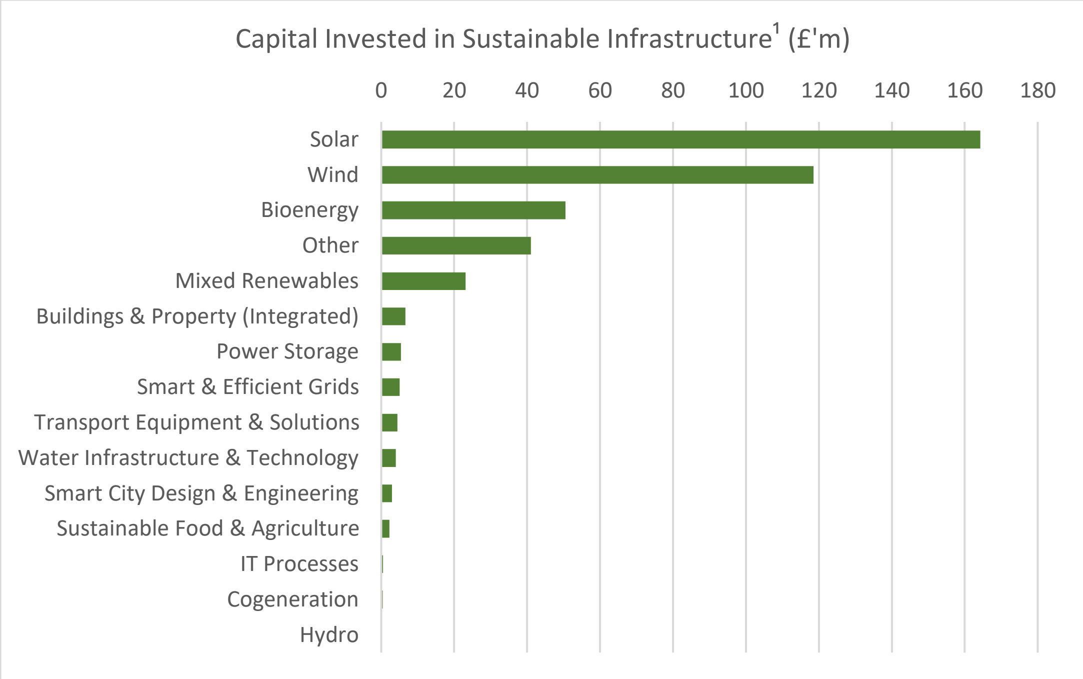
At the end of the year our investments in sustainable infrastructure totalled just under £500m and spanned established renewable energy assets such as wind and solar as well as energy transition assets such as bioenergy, smart grids and power storage.

While the structural forces such as increased cost of capital and supply chain disruption that created a headwind for infrastructure assets last year have largely persisted, the Fund's well diversified infrastructure portfolio, and its exposure to renewable energy specifically, remains compelling due to its strong inflation correlation and secure income traits.

At the end of March-24 the Fund had approximately £165m invested in solar, £120m in wind and £50m in bioenergy. "Other" investments in the table below refers to investments that do not fit into the FTSE's Green Revenues Methodology

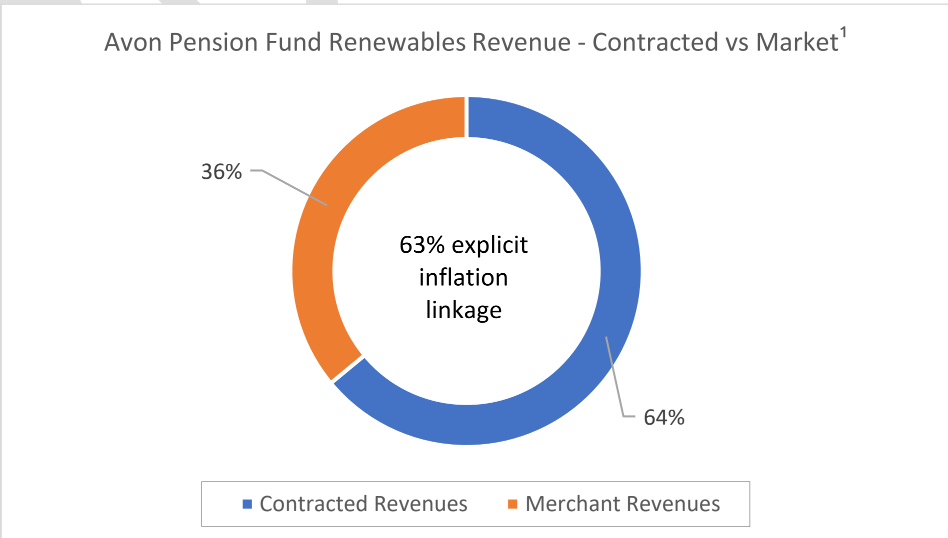
[5] The 'just transition' highlights the social consequences of climate change and provides the framework for connecting climate action with inclusive growth and sustainable development for regions and communities most effected by the phase out of the fossil fuel industry. The Fund pledged its support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

and comprise assets such as diversified utilities companies, health services and logistics and storage services.



[1] *Estimated sustainable infrastructure exposure across Brunel infrastructure, Brunel secured income, IFM core infrastructure and local impact portfolios*

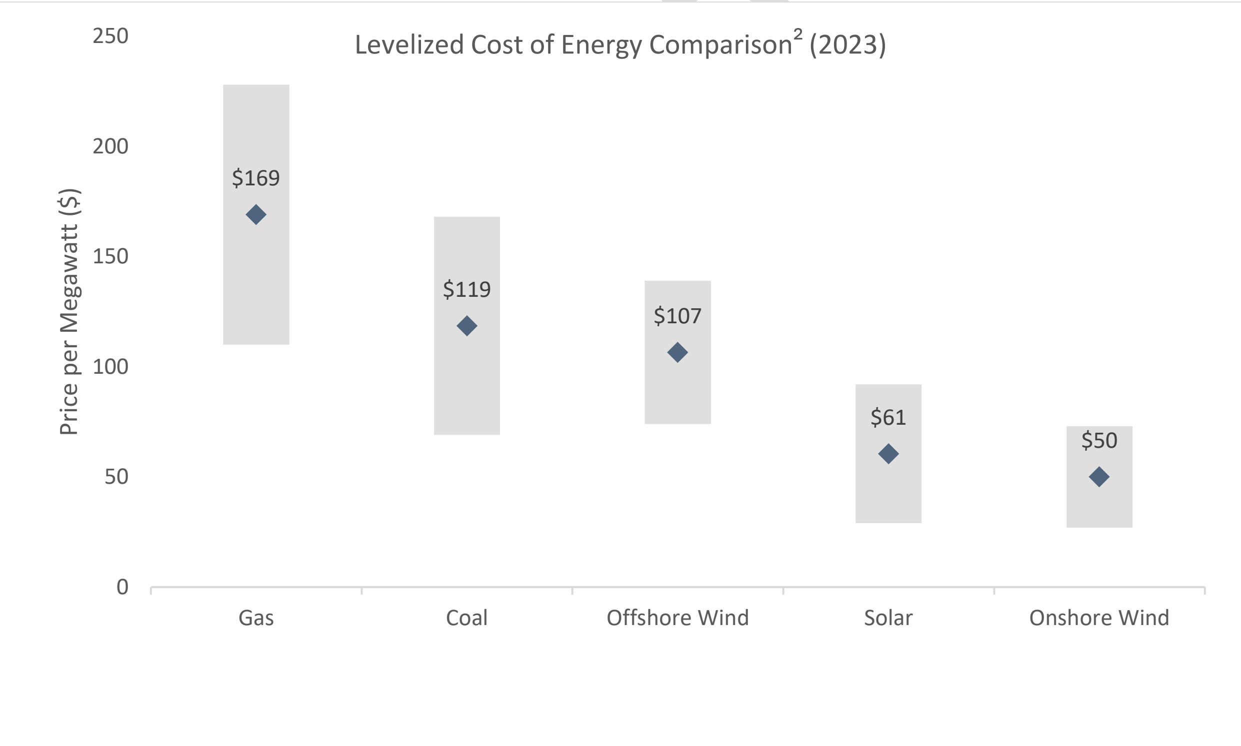
The precise nature of the cashflows from renewables varies by country but in the UK the most common structures used to support renewables include a contractual link to inflation. Subsidies allow producers - and by extension investors in renewables - to effectively sell electricity at inflation-linked prices over several years, with payments often guaranteed by central government. Typically, a portion of cashflows in renewable energy projects are subject to open market electricity prices or "merchant risk", where the link between energy prices and inflation means that an implicit connection is maintained, an ideal attribute for a Fund with inflation-linked liabilities.



[1] *Source: Schroders Greencoat – Greencoat Renewable Income Fund at March-24*

The push for decarbonisation, coupled with energy security concerns, continues to benefit renewable energy and underpin the investment case. The levelized cost of energy (LOCE), which compares the cost of generating electricity from renewable technologies (e.g., wind and solar) to conventional technologies (e.g., gas and coal), shows that in many regions globally, renewables have become the most cost-effective option for new electricity production, which will continue to displace the use of fossil fuels[6].

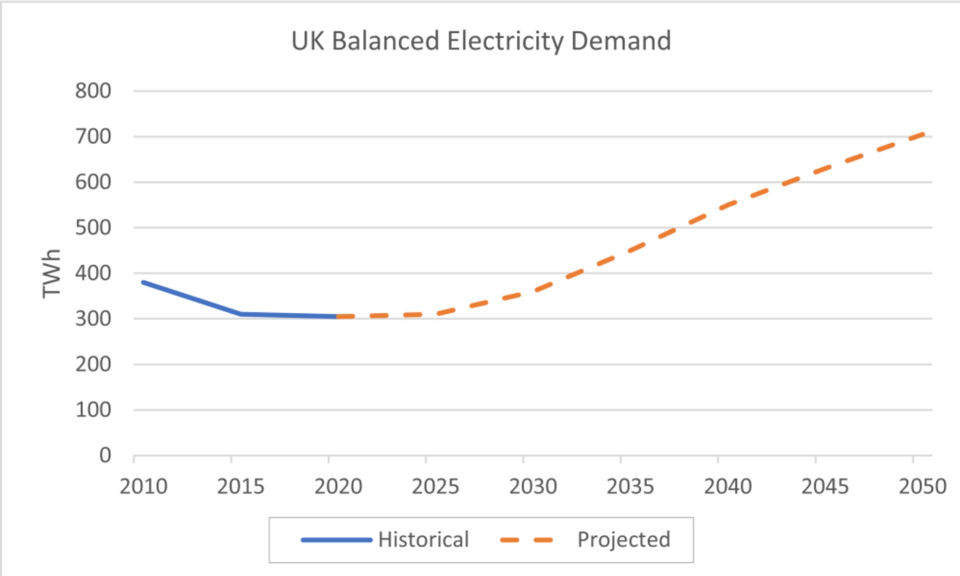
The LOCE of solar energy has decreased by 84% since 2009[7] and in 2023 solar was the largest source of global renewable capacity at 36.7% or 1,418GW, closely followed by hydropower, wind energy and bioenergy. The status of solar energy as one of the main renewable sources of capacity is likely to remain in future years, reflected by its predominance in 347GW out of 473GW of renewable power additions in 2023[8].



[6] https://www.lazard.com/media/xemfey0k/lazards-lcoeplus-june-2024-_vf.pdf
[7] Aurora Energy Research, Schroders Greencoat
[8] https://www.irena.org/Publications/2024/Jul/Renewable-energy-statistics-2024

Case Study: Artificial Intelligence and the Demand for Green Energy

Where renewables projects are built without government subsidies, they will often enter into long-term and inflation-linked contracts with creditworthy counterparties in sectors as diverse as consumer staples, energy utilities and, increasingly, technology companies, underscoring the race to meet net zero commitments while satisfying the power demands of cloud computing and artificial intelligence.



Corporate deals covering a record 46GW, equivalent to the total installed wind and solar capacity of the UK, were announced last year with Amazon and Microsoft the top purchasers.

Source: https://www.ft.com/content/70f3ce57-1d02-4aa9-a94f-d8d728671672
https://www.theccc.org.uk/2021/02/01/the-numbers-behind-the-budget-six-ways-to-explore-the-sixth-carbon-budget-dataset/

Climate Policy: UK as a destination for green investors…

Ambitious national pledges and net zero targets, coupled with the stability offered by a new government with a sizeable majority and mandate from the electorate, has the potential to make the UK a destination of choice for energy transition investors versus continental Europe and the USA where the political outlook is less certain and where, on balance, climate policy is being tempered.

The UK Government has pledged to work alongside private investors to double onshore wind installed capacity, triple solar and quadruple offshore wind by 2030 as they seek to deliver a zero-carbon electricity system by 2030.

This will require a rapid increase on current rates of deployment and equates to c.£200bn in new renewables investment over the remaining decade, highlighting the scale of the investment opportunity[9].

Case Study: Avon Pension Fund invests in local solar assets

During the year Avon Pension Fund alongside Cornwall, Devon, Gloucestershire, Oxfordshire and Wiltshire funds invested £230m in solar assets in the Southwest region.

The £230m investment, made through the Schroders Greencoat 'Wessex Gardens' partnership, will deliver clean energy, at scale, and is designed to align with the Fund's commitment to tackling climate change.

It formed part of the largest operational solar deal ever transacted in the UK and is consistent with the funds' ambitions around place-based investing.

The portfolio targets a net 7% return, is valued at £230m and is invested in 17 assets with a generating capacity of approximately 196MW, equivalent to powering nearly 70,000 homes.

Active Development Pipeline

Remaining committed capital totals c.£100m which Schroders Greencoat are seeking to deploy in the next 12+ months into regional opportunities as diverse as ready-to-build solar projects, pre-construction battery projects and geothermal.

"We are pleased to see the close of the first investment as part of this ground-breaking collaboration. We are clear that climate change is an existential threat, and we want to drive real change through how we invest"
Nick Dixon, Head of Avon Pension Fund

[9] Source: Schroders Greencoat

Case Study: Forced Labour in Solar Supply Chains

China currently dominates global solar supply chains

Global solar manufacturing capacity has increasingly moved from Europe, Japan and the United States to China over the last decade. China has invested over USD 50 billion in new solar supply capacity – ten times more than Europe – and created more than 300,000 manufacturing jobs across the solar value chain since 2011.

Today, China's share in all manufacturing stages of solar panels exceeds 80%. China has been instrumental in bringing down costs worldwide for solar, with multiple benefits for the clean energy transition. However, the geographical concentration in global supply chains creates potential ESG challenges, principally in connection to forced labour and other human rights abuses.

A study by Sheffield Hallam University in 2021 concluded that the solar industry is particularly vulnerable to forced labour in the Uyghur Region because:

- 95% of solar modules rely on one primary material – solar-grade polysilicon
- Polysilicon manufacturers in the Uyghur Region account for nearly half of the world's solar-grade polysilicon supply
- Reported participation of major polysilicon manufacturers in labour transfer and/or labour placement programmes within the Uyghur Region.

Addressing forced labour risks in solar supply chains: Schroders Greencoat & the Solar Stewardship Initiative

Schroders Greencoat is a supporter of the Solar Stewardship Initiative ('SSI') and has been since 2022. The SSI is an industry wide scheme to establish a solar PV industry responsible supply chain framework to address modern slavery issues linked to polysilicon production in high-risk regions of the world.

A member of the Greencoat Solar team sits on the Responsible Sourcing Committee board and has been involved in the evolution of the SSI since inception. Following the successful conclusion of the SSI pilot and public multi-stakeholder consultation, the new SSI ESG Standard was published in 2023. It is the first ESG standard to be specifically tailored to the needs of the solar PV industry. The SSI pilot was conducted across 11 sites in China, Germany and Norway by independent auditors to test their performance against the standard. This standard will be complemented by the SSI Supply Chain Traceability Standard, to be launched next year.

Read more about the Solar Stewardship Initiative here

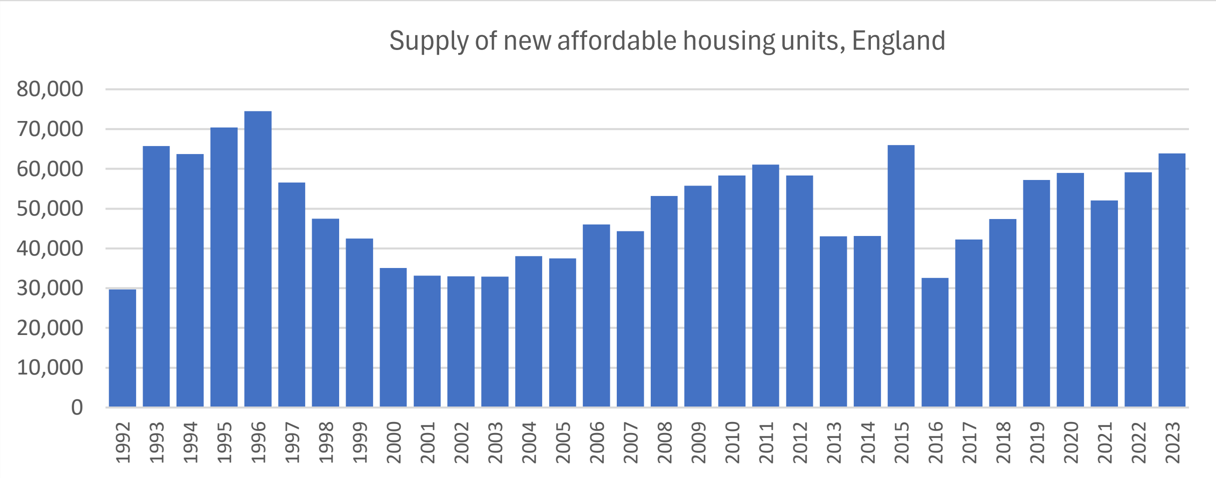
Source: https://www.iea.org/, https://www.shu.ac.uk/helena-kennedy-centre-international-justice/research-and-projects/all-projects/in-broad-daylight , https://www.solarstewardshipinitiative.org/

(b) Local Affordable Housing

The investment case for affordable housing in the UK is clear, with demand far greater than supply, and local authority waiting lists oversubscribed. Affordable housing will provide the Fund with inflation-linked income and the potential for long-term capital appreciation. It also provides positive benefits to those on lower or median incomes, priced out of home ownership in the less secure private rental sector. We believe that **the positive impacts delivered by investing in affordable housing are completely integral to the investment case.**

Chronic undersupply of quality affordable homes

An estimated 300,000-350,000 new homes are needed annually to meet overall housing demand and approximately half of these need to be affordable. Approximately 60,000 new affordable homes were delivered in 2023, which represents a significant capital shortfall. Housing Associations are struggling to tackle the need for new housing, with the Government keen for the institutional sector to play a larger role.



Source: MHCLG, Live Table 1000, Data as of Jul 24

How do we define 'affordable housing'?

Making a contribution to the overall supply of affordable housing will have a positive social impact due to the overall need for housing in the UK. The greatest absolute need for housing is in the General Needs segment, which includes Social & Affordable Rent, Intermediate Rental Housing, Shared Ownership and several other tenure types which are specified in the table below.

With 6.7 million people in need of affordable standard housing provision and more than 1 million of these currently on local authority waiting lists, it is within General Needs segment that the Fund believes it can make the greatest positive impact, raise the local supply of affordable housing, while also delivering steady inflation-linked rental income, enabling the fund to meet future pension promises.

Table []: Affordable Housing Landscape

Impact: Moderate ↑ … ↓ High

Risk: Less ↑ … ↓ More

Tenure Type	Rent Standard	Typical Tenant	Typical Asset
Private Rental Sector	Open market rent	Young professionals, Families	Mostly multi-family buildings in (semi) urban settings
Shared Ownership	Part buy, part discounted rent	Middle incomes	
Discounted Market Rent	80% of market rent	Low- to middle-incomes	
Intermediate Rental Housing	80% of market rent	Key workers, Seniors	Smaller multi-family buildings, increasingly single-family estates in urban and rural settings
Affordable Housing	80% of market rent	Low- to middle-incomes	
Social Housing	50% of market rent	Unemployed, low-income	
Specialist Supported Housing	Local Housing Allowance, 30% of market rent	Tenants with long-term physical or mental health conditions	Shared and self-contained dwellings
Transitional Housing	Local Housing Allowance, 30% of market rent	Vulnerable Adults, Unemployed	

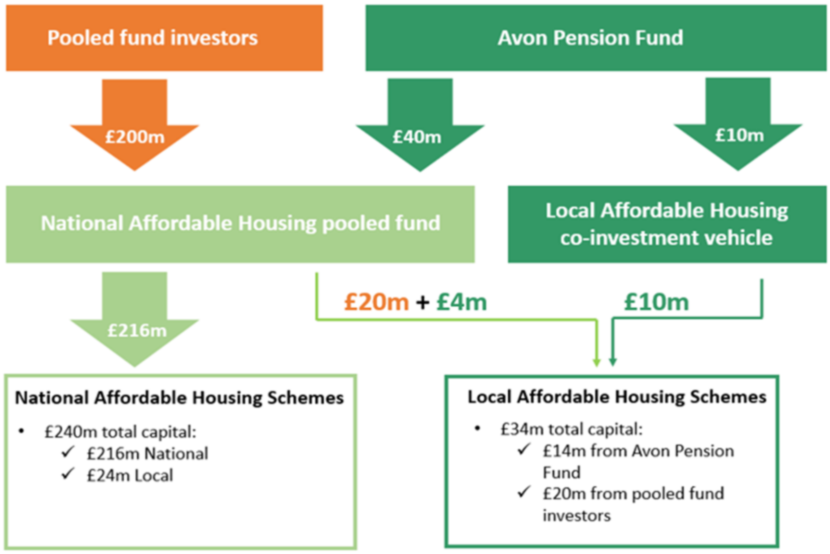
Case Study: Avon Pension Fund Invests £50m in Affordable Housing

During the year the Fund appointed Octopus Investments to invest £50m in affordable housing, funding around 250 new homes for up to 1,000 people.

An innovative solution to increase the supply of local affordable housing

An innovative 'co-investment' structure was created to direct at least £10m of capital into new build developments in the Avon region of Bristol, Bath & Northeast Somerset, North Somerset, and South Gloucestershire.

An illustrative example of how the co-investment will work in practice.



Affordable Housing and Net Zero

Avon's commitment will contribute to the acquisition of purpose-built affordable homes that surpass the minimum legal standards and meet a minimum energy efficiency standard of EPC B, with a goal of achieving EPC A. Existing homes acquired, will undergo refurbishment and upgrades to meet high specifications and energy standards.

The whole portfolio will operate on a net zero basis by 2040, and any new stock acquired after 2030 will be net zero.

In addition to accelerating the delivery of genuinely affordable quality homes, the fund seeks to reduce fuel poverty by leveraging the expertise of Octopus Energy. Initiatives designed to reduce resident bills include supply of green energy, use of energy networks and smart meters with a long-term aim of delivering affordable homes with zero energy bills.

"It's great to see how our Affordable Housing Fund's innovative place-based co-investment offer has provided Avon with a solution to deliver local impact." ***Jack Burnham, Head of Affordable Housing at Octopus Real Estate***

Section 4: Climate Metrics & Monitoring

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 how it is mitigating the risks presented by climate change.

We prioritise the disclosure metrics for our listed equities, which represent over 40% of total fund assets. The Diversified Returns and Multi-asset Credit portfolios both embed climate risk requirements into their design and ongoing monitoring. However, both funds contain significant exposure to asset classes where methodologies are still being developed. We expect to include these asset classes as data coverage and consistency improves over time.

We have seen sustainability metrics for fixed income products improve over the past 12-18 months and can now quantify underlying exposures in terms of carbon intensity and transition alignment for our £200m corporate bond portfolio.

A summary of the key findings (for periods ending December 2023) can be found below.

(a) 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. As carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, WACI 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 34% more efficient (that is, less carbon intensive) than the benchmark.**

Some highlights from this year's report:

- All the Fund's active listed equity portfolios exhibit a lower WACI than their respective benchmarks and have delivered improvements versus last year, reflecting the fact stock selection decisions by asset managers have contributed to the overall trend of decarbonisation of the Fund.
- The global high alpha equity portfolio exhibited the lowest WACI 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 significant year-on-year decrease in WACI, fossil fuel revenues and future emissions from reserves was primarily brought about by the Fund's decision to move its entire passive equity exposure into a Paris-aligned solution and subsequently to increase this allocation to c.£1.5bn.

Case Study: Achieving ‘Real Zero’ by 2045

NextEra Energy, Inc.

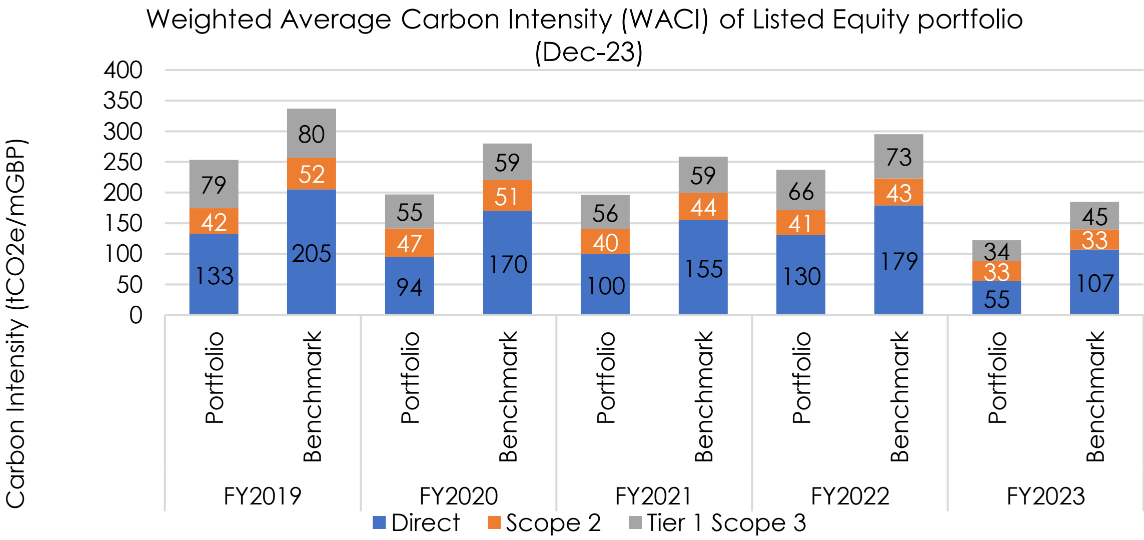
At March 2024, we held c. £6.5m in NextEra Energy, which contributes nearly 5% of the Fund’s overall WACI.

NextEra Energy has been a pioneer in renewable energy, primarily focusing on wind and solar power generation. Through its subsidiaries, such as Florida Power & Light and NextEra Energy Resources, the company has aggressively expanded its renewable energy portfolio, making it one of the largest producers of wind and solar energy in the world.

Whilst NextEra is a top emitter in our portfolio, they are driving the transition using their Real Zero Blueprint, which includes:

- **Solar and Wind Expansion:** Plans to expand solar capacity to over 90,000 megawatts and add more than 50,000 megawatts of battery storage by 2045
- **Green Hydrogen:** Convert 16 gigawatts of existing natural gas units to run on green hydrogen
- **Vehicle Fleet:** Convert 60% of light-duty vehicle fleet to electric or plug-in hybrid by 2030 and achieve 100% zero emission vehicles by 2045
- **Energy Efficiency:** Continue to invest in energy efficiency programs, reducing peak demand and overall energy consumption.

Overall, NextEra Energy’s efforts exemplify the proactive steps the energy sector can take to combat climate change and drive the global transition towards a sustainable, low-carbon future.



(b) Fossil Fuel Exposure & Stranded Asset Risk

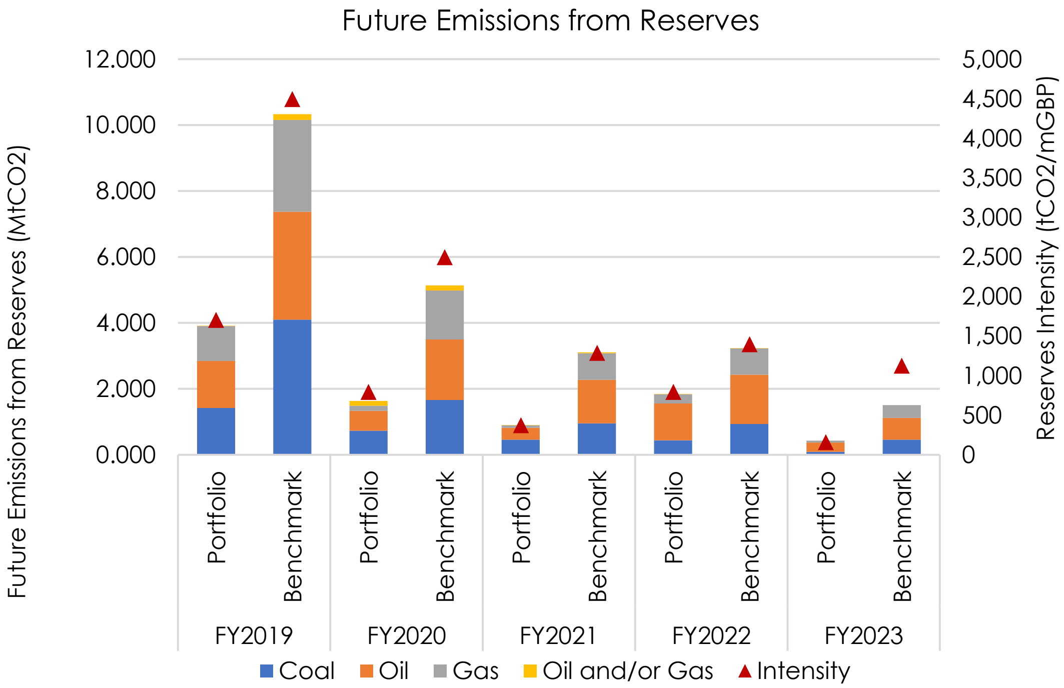
It is important to identify exposure to business activities in extractives industries to assess the potential risk of 'stranded assets' (premature write-down, loss and devaluation). We identify the exposure to stranded asset risk by assessing fossil fuel revenues exposure and future emissions from reserves.

To determine fossil fuel revenue exposure, we identify companies with exposure to fossil fuel related energy generation and fossil fuel related extraction activities[10]. 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 decreased significantly over the year and now represents 0.43% (2022/23 1.42%) of the aggregate portfolio relative to benchmark exposure of 2.33% (2022/23 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 0.43 (2022/23 1.84) MtCO2 versus 3.03 (2022/23 3.22) MtCO2 for the benchmark, demonstrating low stranded asset risk in the portfolio.

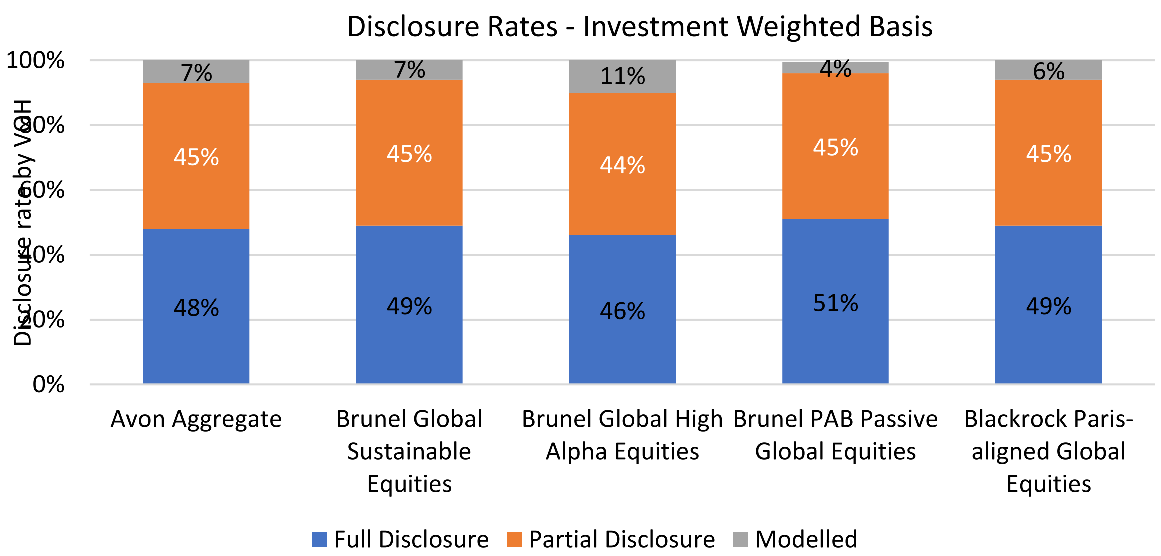


[10] Energy: Natural gas, petroleum, and coal power. Extractives: Oil & gas support activities, LNG extraction, drilling, crude petroleum and natural gas extraction, tar sands extraction, bituminous coal mining

(c) 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 an investment-weighted basis, the rates for full disclosure of carbon data were 48% compared to 46% in the prior year, indicating an improved level of emissions reporting among underlying companies. The modelled disclosures reduced from 13% to 7%, which is a positive development. The Fund actively supports Brunel's policy position calling for mandatory disclosures of scope 1, 2 and material scope 3 emissions data and, while there has been progress relative to last year, the data indicates scope for improved reporting among investee companies. 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 intended to support progress on the climate agenda.
- Conversely, on a carbon-weighted basis, the rates for full disclosure have declined from 55% to 37%, attributable to an improvement in the methodology which reflects more granular data. In order to qualify as 'full disclosure', companies must now disclose emissions across all Kyoto[11] protocol gases, whereas in previous years only an aggregate emissions figure was required.



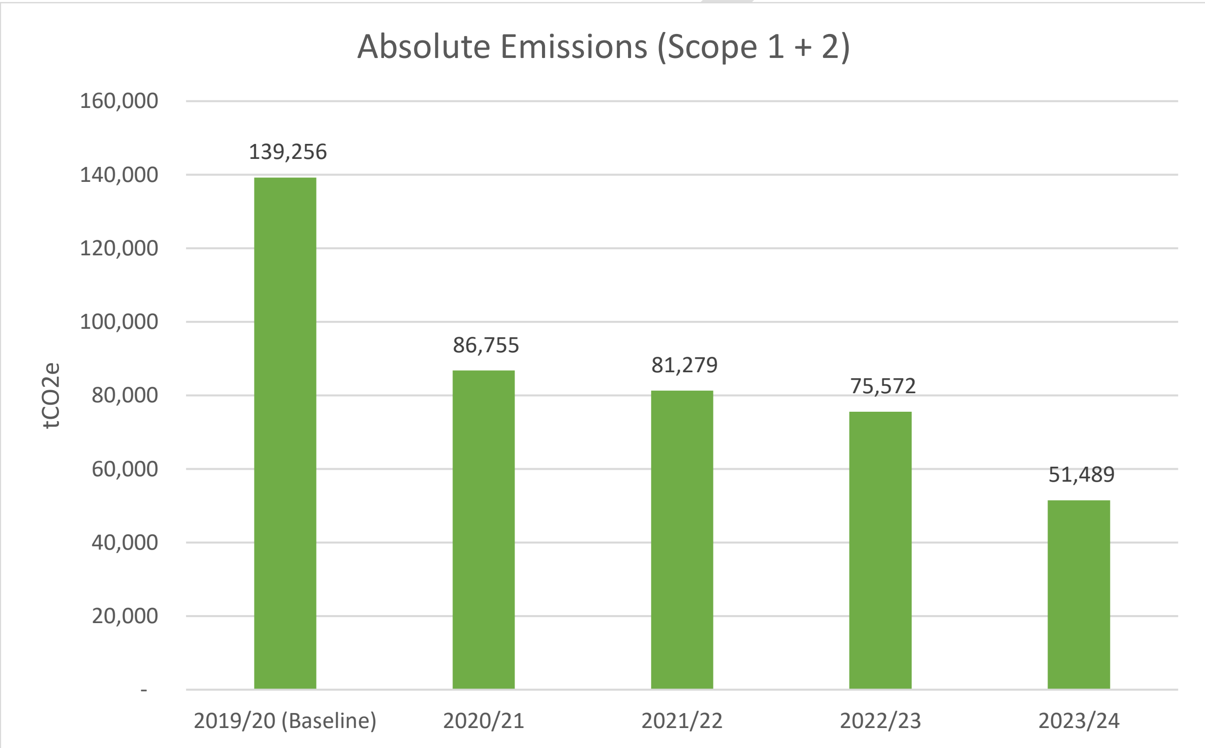
[11] https://unfccc.int/process-and-meetings/the-kyoto-protocol/what-is-the-kyoto-protocol/kyoto-protocol-targets-for-the-first-commitment-period

(d) Absolute Emissions

Whilst intensity-based measures of emissions give very valuable carbon risk information, to create "real world" impact the Fund recognises the need to reduce its absolute emissions.

Absolute emissions in the Fund's baseline year were 139,256 tCO2e[12]. This year the figure stood at 51,849 tCO2e, with the c.63% reduction largely attributed to asset allocation, namely the removal of emerging market and UK equity exposure and the investment in Brunel Paris-aligned and Global Sustainable Equity portfolios.

The reduction in absolute emissions over the past year (from 75,572 tCO2e) was mainly driven by the disinvestment from the Passive Global Developed mandate, which was the most carbon intensive mandate amongst the equity portfolio last year.



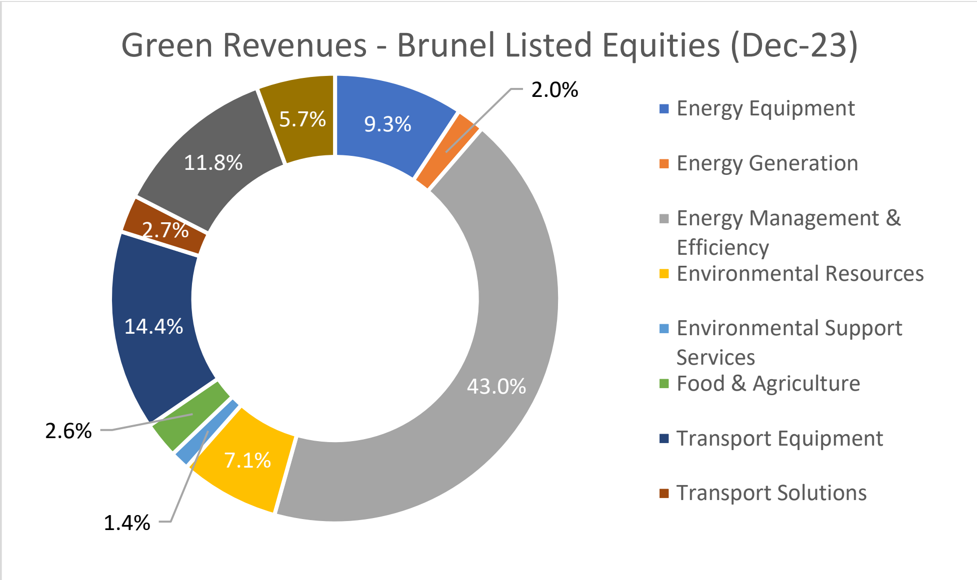
Source: Mercer

We will continue to report absolute emissions but recognise it can create challenges from a measurement perspective. The higher the percentage holding in a company within a portfolio, the greater the Fund's 'owned' emissions. This means different portfolios cannot be compared on a like-for-like basis and the size of a particular investment can skew the results.

[12] Tonnes of carbon dioxide equivalent

(e) 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.



Source: Brunel

The aggregate Brunel listed equity portfolio has 12.9% (2022/23 10.8%) exposure to green revenues compared to 8.5% (2022/23 7.1%) in a standard global equity benchmark[13]. The majority of green revenues (43.0%) come from energy management and efficiency, followed by transport equipment (14.4%) and waste and pollution control technologies and solutions (11.8%). Critically, the top portfolio contributors to green revenues are the same companies that exhibit the highest carbon intensities today.

[13] FTSE All World Developed

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

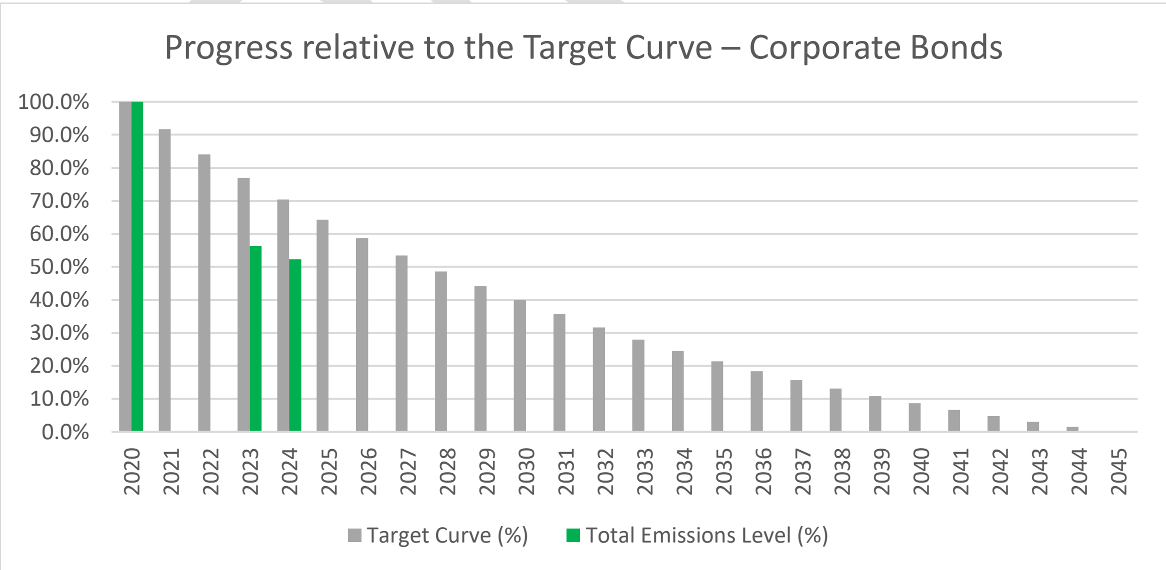
Republic Services, Inc.

- Top 10 highest carbon intensity company and 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

Increasing Climate Data Coverage

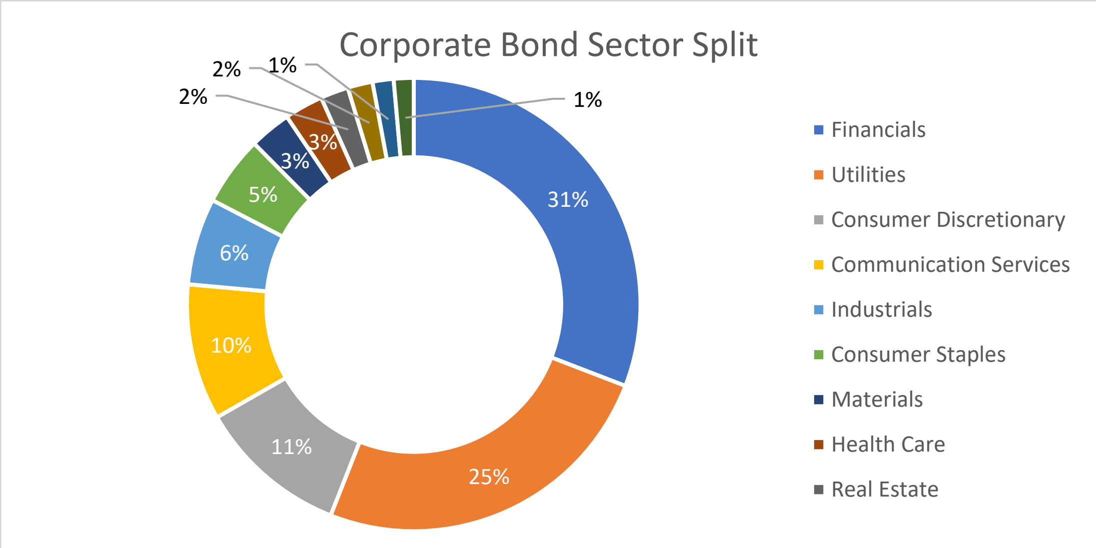
By 2030 we will reduce the carbon intensity of our c.£200m (March-24) corporate bond portfolio by 60% (versus 2019 baseline). To measure progress against this target, and with the ambition of extending climate analysis across the entire portfolio, this year we have worked with our managers and consultants to report on our fixed income products.

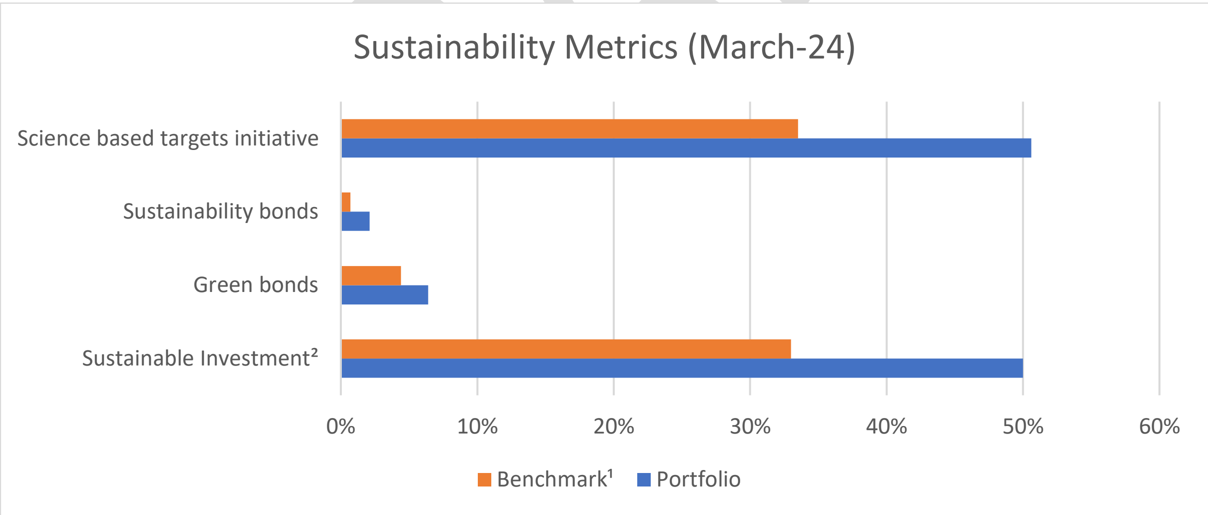


Source: Mercer

Over the last 4 years, the Carbon Footprint (scope 1 + 2) of the corporate bond portfolio has decreased by c. 48% relative to the 2019/20 baseline. Hence, the Fund is currently ahead of the proposed decarbonisation pathway to achieve the interim reduction target of 60% by 2030.

A sample of the enhanced sustainability metrics available for the corporate bond portfolio can be found below.

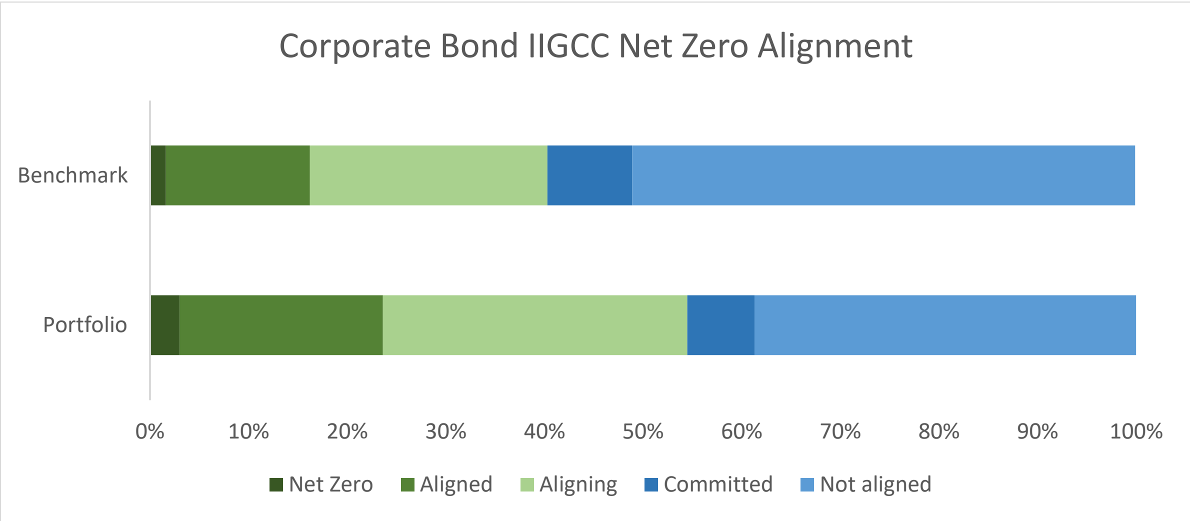




[1] BBG Global Aggregate Corporate Index
[2] This calculation represents the market value of the portfolio that are sustainable investments per BlackRock's *methodology*
Source: BlackRock

This portfolio scores well relative to the global corporate bond benchmark across a series of sustainability measures. Over 50% of underlying borrowers have set a SBTi approved target relative to 33% in the index.

Green bonds represent over 6% of the portfolio relative to 4% in the index. A green bond dedicates its proceeds to financing new or existing projects that advance environmental objectives. The manager of our corporate bond portfolio independently assesses each underlying bond against a taxonomy that grades use of proceeds by improvements over baseline energy consumption, CO_2 emissions, and alignment to long-term decarbonisation.



Section 5: Stewardship: Voting & Engagement

(a) 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 that will 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 2024
IIGCC Institutional Investors Group on Climate Change	IIGCC's Policy Programme works with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. The IIGCC have also been responsible for developing a Net Zero Investment Framework, which outlines a common set of recommended actions, metrics and methodologies to maximise investors' contribution to achieving net zero emissions by 2050 or sooner. This has been expanded over the past year to cover additional asset classes, including infrastructure and private equity.

	Over the last year the IIGCC has helped investors respond to the challenges of climate-related risks and integrate these into their investment process. In collaboration with partners, the IIGCC has launched Nature Action 100, the first collaborative engagement initiative focused on addressing nature and biodiversity loss.
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. Last year LAPFF continued its extensive work on climate change engagement as well as the impact on human rights in the global mining industry. Continued conflicts around the world saw LAPFF step up its engagement with companies operating in conflict affected and high-risk areas with a particular emphasis on human rights and humanitarian conditions. In response to member wishes, LAPFF has started to engage more on natural resource protection, particularly in the context of climate change. The most recent LAPFF Annual Report is available here.
Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take appropriate action on climate change in order to mitigate financial risk and to maximize the long-term value of assets. The Climate Action 100+ (CA100+) Net Zero Company Benchmark assesses the performance of 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/

(b) Engagement with Investee Companies

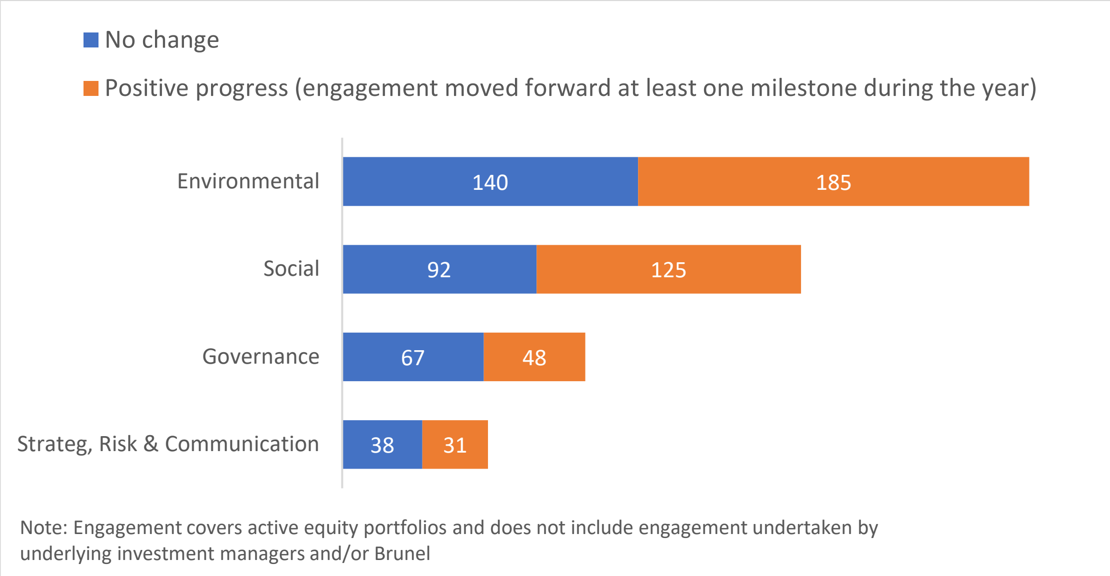
Listed equities provide the most immediate route into engaging with companies on a broad range of issues. Other asset classes are less advanced and are structured in a way that is not always conducive to active engagement with investors. However, progress is being made and, in this report, we discuss 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.

The Fund invests via portfolios managed by Brunel, who are responsible for appointing underlying managers for each portfolio. Brunel has appointed Federated Hermes EOS as its engagement and voting services provider. This enables wider coverage of assets and access to further expertise across different engagement themes. As these providers engage with underlying holdings on the Fund's behalf, it is vital that there is continued alignment of engagement and voting priorities and practices.

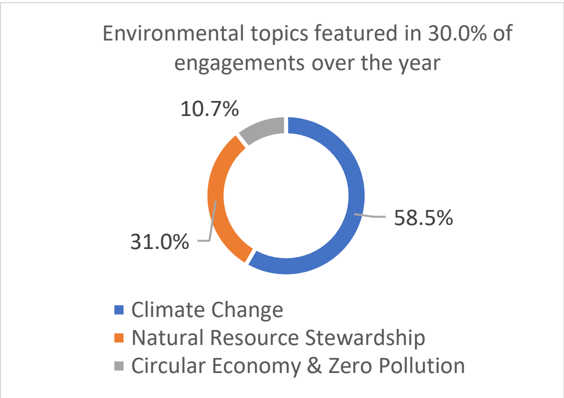
Brunel publishes its voting and engagement records on its website on a quarterly basis here

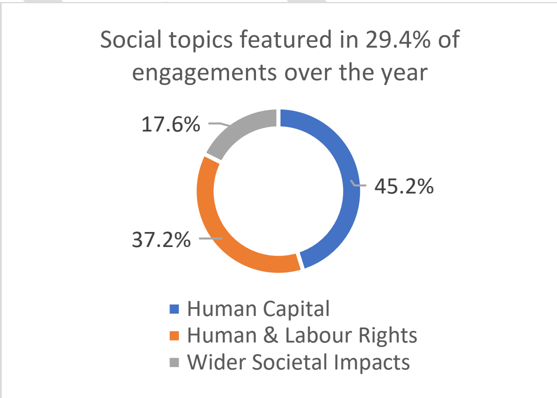
To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also defined. Progress against these objectives is assessed regularly and evaluated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

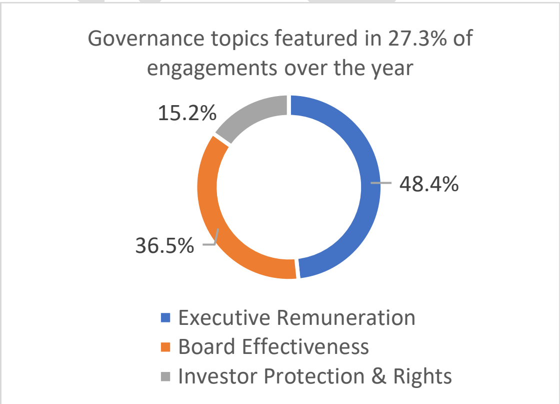
Engagement undertaken by EOS on behalf of the Fund during the year to December 2023 made significant progress. Across the Fund's listed equity investments, EOS were able to move at least one milestone forward for 54% of the objectives set during the year. This compares to 55% in the prior year.



During the year, EOS engaged with 414 companies across 2,032 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:







EOS – Increasing Focus: Biodiversity
EOS has been at the forefront of advocating for the protection and conservation of the natural world and related engagement in this area has intensified. At COP28, Federated Hermes announced its intention to work with the Global Alliance for a Sustainable Planet on innovative investment solutions. The ambition is to create a scalable platform that aligns impact-focused patient capital with the development needs of countries on the frontline of climate change. Future engagement will focus on halting or reversing marine and terrestrial biodiversity loss at companies that are involved in the retail and production of food, including their global supply chains, as well as other sectors with significant physical or deforestation impacts, such as mining. They expect companies to aim for a net-positive impact on biodiversity as best practice. Engagement will cover issues such as deforestation, water stress, regenerative agriculture, antimicrobial resistance (AMR), sustainable proteins and chemical runoff management. *Source: Federated Hermes EOS*

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: Hermes 2023 Annual Review

Brunel also collaborate on a range of initiatives directly with companies and policymakers on behalf of partner funds, as set out in their Responsible Investment and Stewardship Outcomes report. Some examples to highlight include joining the Global Mining Commission, support in the development and launch of the International Sustainability Standards Board (ISSB) Standards to enhance the comparability and reliability of climate-related reporting, work with the Asset Owner Diversity Charter and the Fair Reward Framework.

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, Brunel have coordinated 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:

Direct Engagement Initiative: Climate Physical Risk

Last year we reported Brunel had appointed a leading sustainability advisory firm, Chronos Sustainability, to conduct a two-year engagement programme designed to deepen the understanding and advance the engagement process on physical climate risks with companies held in portfolios.

The engagement focuses on companies in the consumer staples sector and the objectives of the programme are:

1. Identify the risks to consumer staples companies associated with physical climate risk and encourage them to assess and manage the risk and adapt effectively to climate impacts.
2. Understand how companies are impacting biodiversity and managing biodiversity to mitigate climate impacts, including identifying and managing potential maladaptions, conflicts and trade offs
3. To build Brunel's capacity on stewardship and provide an opportunity to be involved in engagement

This programme is already underway; letters inviting companies to participate have been sent out and some meetings have already taken place with active participation from the Fund and other members of the Brunel client group. The engagement programme will run until at least 2026 and reports assessing progress, identifying learnings, themes, best practice and innovation will be published in due course.

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.

Case Study: Water Utilities

The water utilities sector has been under heavy scrutiny with questions raised over their operation and climate resilience, as well as their social license to operate, given ongoing pollution incidents and high levels of indebtedness. Brunel, RLAM and partner funds have worked together to understand how companies they invest in are demonstrating improvements and addressing the interrelated issues of climate adaption, biodiversity, just transition and antimicrobial resistance (AMR).

The two-year engagement programme aims to influence water companies to improve against investor expectations:

- Adaption to climate physical risks: encouraging the use of innovative technology, such as AI and nature-based solutions, to manage pollution and leakages in order to ensure sustainable water management
- Biodiversity: in collaboration with the UK Centre of Ecology and Hydrology they have been asked to reflect best practice standards such as creating a biodiversity action plan and management of sites of scientific interest (SSSIs) to favourable conditions
- A just transition: focus on affordability, community engagement and place-based solutions
- Antimicrobial resistance: demonstrate how they are considering risk

Research and initial engagement in 2022, enabled development of a scoring system to measure companies' current performance and progress in the above areas.

Engagement conversations have taken place with Pennon Group and Wessex Water – both were constructive dialogues that provided additional clarity on the company's disclosures, future plans and opportunities for further improvement.

The investor group, of which Avon is a member, will continue to monitor the companies' performance and engage with them to drive change. At the end of the engagement period, RLAM will publish a report on the outcomes of this engagement initiative.

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.

LAPFFs activities cover the full breadth of the ESG spectrum, from climate change-related issues with a particular focus on greenwashing, human-rights issues in the global mining sector and water. More recently, due to continued conflicts around the world LAPFF has stepped up its engagement with both companies and other investors operating in conflict affected and high-risk areas. In addition, in line with member wishes, LAPFF has started to engage more on natural resource protection, particularly in the context of climate change.

A summary of recent LAPFF engagement work can be found below. Further detail is included in LAPFFs Annual Report here.

LAPFF Engagements: A Broad Spectrum

Technology Sector and Governance

Objective: LAPFF recognised a number of years ago that technology companies tend to have poor governance structures, including dual class shares and share concentration in the hands of their founders. Many of the technology companies LAPFF members hold are headquartered in the US and are notoriously hard to engage. Consequently, LAPFF's objective each year is to issue voting alerts challenging these companies' governance arrangements.

Achieved: This year, LAPFF issued voting alerts to support a large number of shareholder resolutions at Alphabet, Amazon, Meta and Tesla, calling on companies to improve not only their governance approaches, but also a range of social and environmental activities.

In Progress: LAPFF will continue to issue voting alerts and participate in collaborative engagements in this area until companies demonstrate acceptable improvement in their environmental, social and governance practices.

Responsible Mineral Sourcing

Objective: LAPFF has continued to engage with electric vehicle (EV) manufacturers as the growing global production of EVs corresponds with a surge in demand for minerals for battery construction. A series of LAPFF engagements, and continual research reports on the issues provide that EV supply chains are fraught with human rights and environmental issues, from mineral procurement right through to the refinement and processing of minerals.

Achieved: LAPFF established initial conversation with representatives from Renault, General Motors, Volvo and Volkswagen. Engagements have highlighted that supply chains for vehicle manufacturers are vast and complex, with limited transparency. In these initial meetings, LAPFF has pushed for enhanced disclosures at every level of a company's human rights risk management. LAPFF has also continued to press for company membership of the Initiative for Responsible Mining Assurance (IRMA), an organisation which aims to create a global audit standard for the mining industry.

In progress: LAPFF is set to continue its engagements on this issue. Whilst predominantly looking at the procurement of minerals, LAPFF has also asked companies about the refinement and processing of those minerals and will look to probe more on the full supply chain of minerals for vehicle manufacturers.

Russia-Ukraine – Unilever

Objective: Unilever has been in the spotlight for failing to leave Russia after the Russian invasion of Ukraine. LAPFF has participated in a range of investor calls highlighting the challenges for companies in Unilever's position and approached the company to understand better its challenges in deciding whether to remain in or exit the Russian market.

Achieved: LAPFF met with Unilever's Chair, Nils Anderson, to discuss the issue and sought to understand Unilever's decision in the context of three issues that had been raised through investor and UN guidance on this topic; the essentiality of the company's products and services in Russia, the health and safety of staff in Russia, and the impact staying or leaving would have on the Russian regime.

In Progress: LAPFF is continuing to engage with the company to determine what the best outcome would be for Unilever and investors from both a human rights and a financial perspective.

Source: https://lapfforum.org/wp-content/uploads/2024/01/LAPFF-Annual-Report-2023.pdf

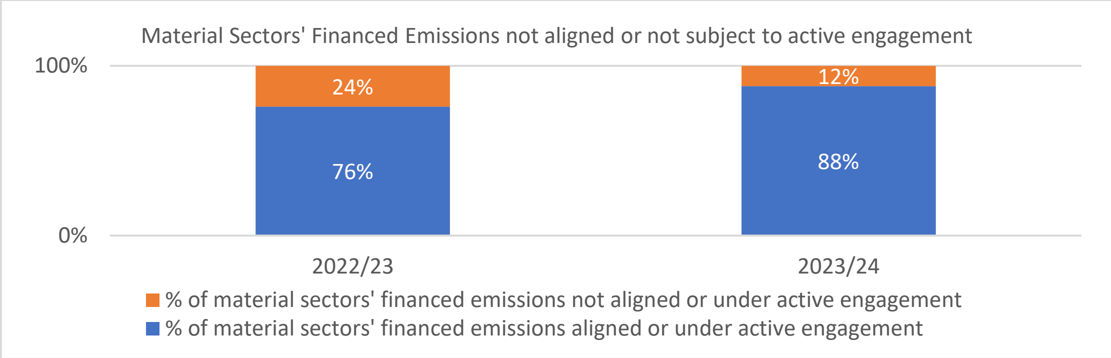
(c) Engagement Targets

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 has an engagement target ensuring 70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement and stewardship actions by 2024, increasing to 90% by 2027 for all listed equities across Brunel portfolios[14]. This year 88% of financed emissions within the listed equity portfolio are aligned[15] or subject to active engagement (up from 76% last year).

[14] 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.

[15] Companies have been deemed to demonstrate evidence of alignment if they have approved SBTi targets or categorized as aligned by the Transition Pathway Initiative.



Analysis reveals a relatively small number of companies (3.9% of the portfolio) account for an outsized contribution to emissions (c. 50%) 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, and ultimately if they fail to demonstrate improvement will be captured under the Fund's 2030 divestment commitment.

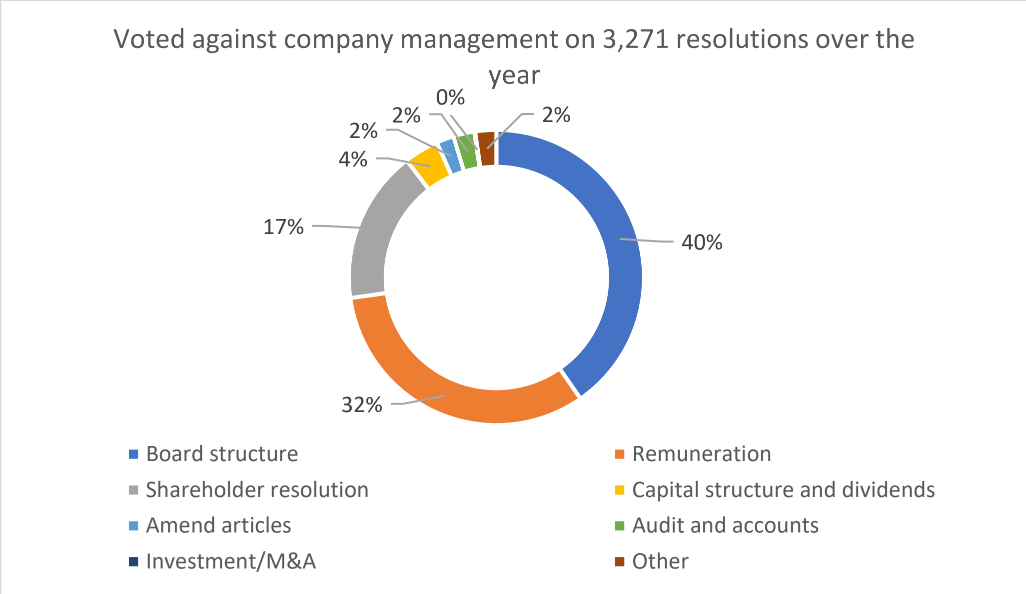
(d) Voting Activity

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 4,468 resolutions at over 295 meetings on our behalf. At 216 of those meetings, EOS recommended opposing one or more resolutions, while at 1 meeting, EOS recommended abstaining. They supported management on all resolutions at 53 meetings and recommended voting with management by exception at 25 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: Meta Platforms, Inc – AGM 31 May 2023

Brunel voted FOR the shareholder resolution to report on child safety and harm prevention. The company has improved disclosure on children's rights, but still lacks metrics and targets that show the effectiveness of these efforts. Going beyond exploitation, we would like the company to enhance its "child safety" practices to include not only protection from exploitation, but mental health, device addition, and other emerging issues that more holistically address child safety, health and wellness.

This vote is part of a wider engagement initiative by EOS on Digital Rights Principles, which provide a high-level engagement framework for the ICT sector and other data-reliant sectors.

The UN Guiding Principles on Business and Human Rights (UNGPs) outline the corporate responsibility to human rights, including a human rights policy commitment, a human rights due diligence process and a process to enable access to remedy. As digital rights were relatively nascent when the UNGPs were published in 2011, these EOS Digital Rights Principles provide guidance for contemporary issues that requite companies' attention when fulfilling their broader obligations to the UNGPs. Companies whose business models misalign with the UNGPs have salient adverse impacts on peoples' lives and face material financial risks to long-term holistic value.

Case Study: Shell Climate Resolution

Background: Shell is among the top contributors to the Fund's financed emissions. Brunel have a long history of engagement with the company, including most recently voting against the CEO and Chair and the Energy Transition Progress report due to climate related concerns, as well as voting for the resolution requesting interim scope 3 emissions reduction target for 2030.

"Shell's current intensity target covering Scope 3 emissions for 2030 is not yet Paris-aligned and will not lead to large-scale (net) reduction in absolute emissions in this crucial decade." Follow This

Resolution: Brunel, together with a group of 26 other institutional investors, co-filed a shareholder resolution urging Shell to align with the Paris Climate Agreement by disclosing interim Scope 3 emission reduction targets. The resolution was led by Follow This, a Dutch not-for-profit organisation whose mission is to empower shareholders to vote for change at Big Oil by putting climate action on the ballot.

The co-filing represents an escalation of Brunel's previous engagement with Shell and demonstrates their commitment to tackling the climate crisis at its source. The resolution was backed by some of Europe's largest institutional investors and was designed to give Shell a shareholder mandate to drive the energy transition.

Outcome: The resolution was taken to Shell's AGM on 21 May where the resolution received 18.6% support from shareholders. The resolution did not receive enough support to pass. Brunel are working with partner funds and other stakeholders to assess next steps, which will be disclosed in due course.

Source: https://www.follow-this.org/wp-content/uploads/2023/02/Follow-This-Shell-Climate-Resolution-2023.pdf

Section 5: 2025 RI Priorities and Forward Look

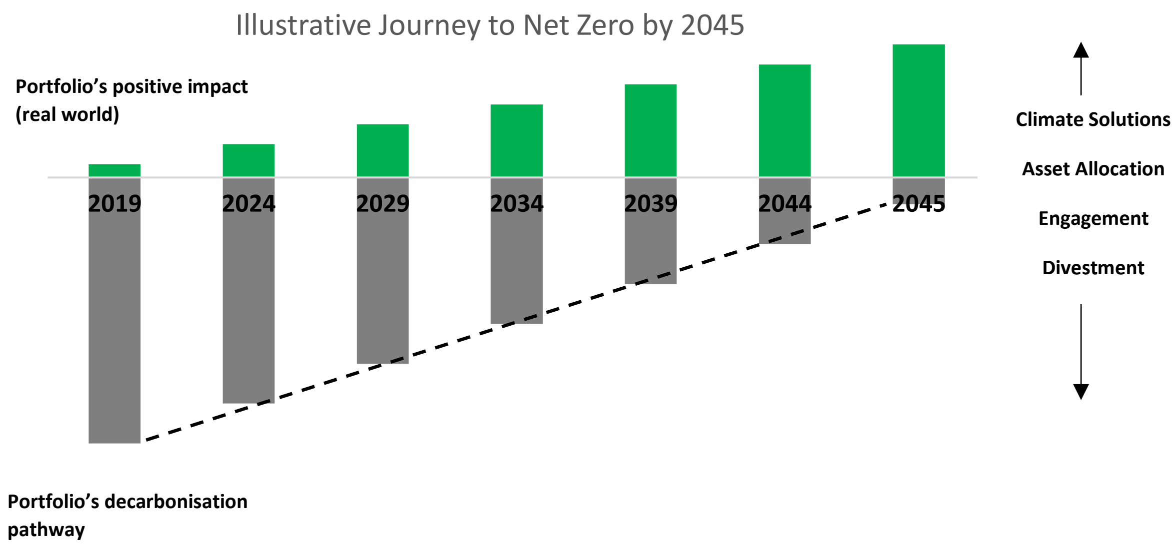
The Fund's RI priorities are consistent with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use, data management 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 & Nature**
- **c) Human rights and social issues**
- **d) Diversity, equity and inclusion**
- **e) Cyber security**
- **f) Cost and tax transparency**
- **g) Circular economy and supply chain management**

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 to 62% in the past year and we will seek to increase coverage to 100% of assets over time.**

Decarbonisation 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.



Forward Look: Avon Pension Fund - Investing in Nature

As we navigate the challenges of climate change, the intertwined relationship between biodiversity and the broader concept of nature is gaining attention, urging a holistic approach that safeguards natural habitats while conserving biological diversity.

Transition to a low carbon world through decarbonisation is only part of the story and it is necessary to look beyond these solutions at ways carbon can be removed from the atmosphere. It is increasingly acknowledged that removing emissions is an essential part of any net zero strategy and natural capital represents the most efficient and low-cost way to support the energy transition.

Natural capital broadly refers to the planet's stock of renewable and non-renewable natural resources such as land, air, water, soil, minerals and living organisms. **Natural capital investment strategies seek to invest in these real assets and associated supply chains to generate attractive financial returns while also having a positive impact on the protection and restoration of Earth's ecosystems and biodiversity.**

Spectrum of Natural Capital Investments

Strategy	Environmental Solutions	Sustainable Resources	Restoration and Regeneration
Asset	• Renewable Energy • Waste Solutions • Circular Economy	• Sustainable Forestry • Sustainable Agriculture • Regenerative Agriculture	• Reforestation • Conservation & Rewilding • Wetland & Coastal Restoration
Return drivers	Traditional return drivers e.g. • Profitability • Environmental solutions	Value derived from production and sale of natural assets plus carbon markets e.g. • Timber for construction • Carbon credits	Emerging return drivers e.g. • Biodiversity credits
APF currently invested?	✓	✓	✗

Source: Mercer

Carbon Credits: A Viable Investment?

At its most basic level, a carbon market is a trading environment that allows emitted carbon to be bought and sold.

Buyers of carbon credits: An increasing number of companies have set net zero targets and will need to offset their emissions even as technology and energy efficiencies improve.

Sellers of carbon credits: An organisation offsetting carbon, through afforestation for instance, can profit from successful carbon reduction efforts by selling the credits it generates to companies seeking to offset their emissions to reach net zero.

The cashflows generated by carbon credits represent a viable investment proposition for the Fund and can help accelerate the net zero transition by financing emission reduction and removal activities that are critical to stabilising the global climate, supporting local livelihoods and safeguarding biodiversity.

Reasons to exercise caution…

Carbon markets are relatively nascent, and returns are uncertain, with a wide range of assumptions for the expected future price of carbon. Factors influencing the value and availability of carbon credits include new guidance and frameworks, political risks and alternative solutions. For any investment involving carbon-credit generation, it's important to understand the extent to which any manager's strategy is relying on returns from carbon credits, versus more traditional sources of return like timberland sales, and the manager's assumptions about the price of those credits.

Biodiversity and Nature Risk in Context

- **Dependency risk** – 85% of the world's largest companies have significant dependency on nature across their direct operations.
- **Impact risk** – 22 million hectares of land use for direct operation of the world's largest companies to generate USD 29 trillion revenue in 2021. This is equivalent to fully degrading 2.2 million hectares of the most pristine and significant ecosystems.
- **Reputational risk** – 46% of the world's largest companies have at least one asset located in a Key Biodiversity Area that could be exposed to future reputational and regulatory risk.

The World Economic Forum reports that three sectors – food, land and ocean use; infrastructure and the built environment; and energy and extractives – are responsible for endangering 80% of threatened or near-threatened species. Companies operating within these systems have a responsibility to make the necessary transformations to their own operations and supply chains to continue to create greater social, environmental and economic value.

Sources: TNFD, S&P, S&PGS, https://www.weforum.org/agenda/nature-and-biodiversity/

Therefore there is a strong investment case for natural capital solutions. Aside from strong alignment with a range of UN sustainable development goals[16] and the positive impact on biodiversity, natural capital offers a broad range of portfolio construction benefits – including low correlation to other asset classes, capital preservation in recessions and exposure to a range of defensive assets that provide a hedge against inflation.

Existing Investment Case Study: Aurora Sustainable Lands

Aurora Sustainable Lands, one of our infrastructure investments, actively manages and conserves North American forestlands to remove and store carbon from the atmosphere. Founded in Q4 2021, Aurora seeks to acquire industrial timberlands and transition the management focus on those lands from timber harvesting operations to carbon removal and storage.

Aurora now owns 1.6 million acres of forestland that consist primarily of naturally regenerating hardwood forests, all in the eastern half of the United States. Aurora has already reduced harvest rates by 50% from prior ownership's practices across the portfolio, increasing carbon removal and storage, creating healthier forests and contributing to global climate goals.

Source: Brunel

[16] https://sdgs.un.org/goals

Natural Capital Policy Frameworks

The Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD is designed to help businesses understand the risks and opportunities that result from their impacts and dependencies on nature

The framework aims to provide decision makers in business and capital markets with better quality information through corporate reporting on nature that improves enterprise and portfolio risk management

Better information in the hands of investors and other capital providers can help shift the flow of global capital to more positive outcomes for nature and society.

IIGCC – Nature Action 100

The IIGCC were part of a group of institutional investors that developed Nature Action 100, announced at COP15 in Montreal. This global investor-led initiative aims to support greater corporate action on reversing nature and biodiversity loss to mitigate financial risk and protect the long-term economic interests of investors.

The initiative has more than 200 investor participants representing $25.7 trillion in AUM. Work is currently being undertaken to develop a first draft of the Nature Action 100 Company Assessment Benchmark. This is expected to be published in 2024/5, basing much of the guidance on the actions taken by companies covered.

Read more about how Brunel are advocating for supportive biodiversity and natural capital policy here: Brunel 2024 Responsible Investment Report

Next Steps

During 2024/5 the Fund will build on its existing natural capital investments, which are predominantly in the Brunel Cycle 3 infrastructure portfolio, by making a dedicated allocation between £100-150m, which balances the risks of investing in this relatively nascent area with the positive real-world impact and financial return the Fund seeks, while holding ourselves to the highest standards, ultimately for the benefit of our members.

[ENDS]