

# Responsible Investment Annual Report 2025

Avon  
Pension  
Fund



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# Foreword

**I am pleased to introduce this year's Responsible Investment Report which sets out the significant progress the Fund has made across climate metrics, stewardship and impact investing. The Fund has a duty to protect long-term financial returns and believes it can do so while making a positive real-world impact on critical environmental and social issues.**

We have continued to make substantial reductions in the carbon intensity of our listed equity and corporate bond portfolios, exceeding several of our interim targets, while navigating an increasingly challenging backdrop with rising anti-ESG sentiment and evolving public policy.

Our stewardship and engagement work has encouraged companies to be more open about how they deal with climate risks and strengthened net zero commitments within critical, but hard to abate, sectors.

Our updated climate targets for 2035 reflect both the momentum achieved to date and the evolving market landscape, ensuring we remain aligned with the latest scientific and policy guidance. Over the coming years, progress towards net zero will increasingly rely on underlying company decarbonisation and effective engagement. We will therefore continue to prioritise stewardship, advocating for credible transition plans and holding companies to account where progress stalls.

This year has also seen meaningful advancement in our local investment programme, an area of growing strategic importance for the Fund. Our investments in renewable energy, affordable housing and SME financing are already delivering tangible social, economic and environmental benefits, while maintaining a strong focus on long term financial performance.

Through our Local Impact Portfolio – planned to reach £300m by end of 2027 – we have deployed capital into regional solar generation, supported the development of new affordable homes, and invested in high potential local businesses. These investments demonstrate how institutional capital can help strengthen regional economies, create skilled jobs, and accelerate the transition to a low carbon future directly within the communities our members live and work in.

Looking ahead, we remain committed to evolving our responsible investment strategy as data quality improves, new asset classes emerge, and our understanding of climate and nature related risks deepens. This includes our plans to expand our natural capital allocation, which will be important both for climate resilience and biodiversity outcomes.

Finally, this year marks an important transition for the Fund as we move from our current pooling arrangements with Brunel Pension Partnership to join Local Pensions Partnership Investments (LPPI). We are grateful for Brunel's pioneering work in the field of responsible investment and the contribution to the development of our own responsible investment approach, particularly in climate strategy, stewardship and data transparency. As we enter a new chapter with LPPI, we remain committed to maintaining the highest standards of responsible investment and ensuring continuity in our progress towards net zero, while unlocking new opportunities for collaboration, efficiency and innovation.

**Councillor Toby Simon**  
**Chair, Avon Pension Fund Committee**



# **Our Responsible Investing Approach**

# Investing for a Sustainable Future

**As responsible investors, we recognise that environmental, social, and governance (ESG) factors are fundamental drivers of long term value. Integrating considerations such as climate change, regulatory shifts, and changing societal expectations in our investment strategy supports resilient returns, reflects our fiduciary duty, and demonstrates leadership in addressing global challenges.**

## **Our Responsible Investment Beliefs**

Our investment beliefs set out the core principles that guide how we view the role of ESG factors in creating long-term value for our members. These beliefs shape every aspect of our investment approach and provide a consistent framework for making decisions on behalf of our members. We have maintained our conviction in these principles, which continue to guide our approach. Our responsible investment (RI) beliefs are:

- 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 change.
- We believe the benefits of local impact investments support regional economic development, address social and environmental challenges and support the Fund's investment return objective.

## Our Responsible Investment Priorities

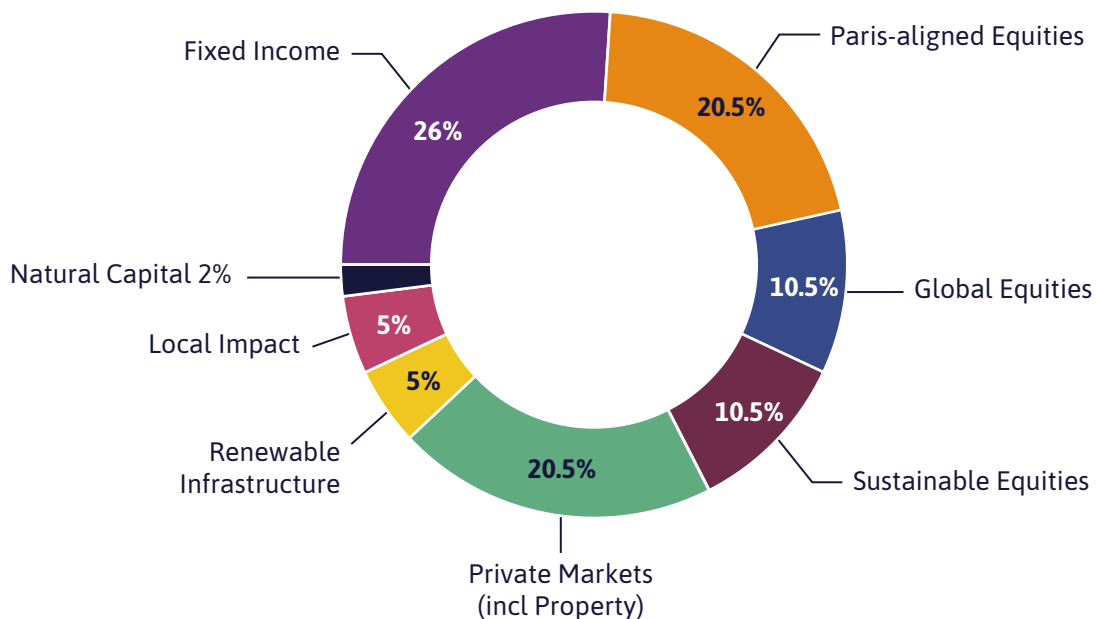
Building on these beliefs, our responsible investing priorities translate our principles into clear areas of action. They outline where we focus our efforts to manage long-term risks, capture opportunities, and ensure that our investment approach supports both financial resilience and a sustainable future. Our beliefs are consistent with those of our pool provider, Brunel Pension Partnership (Brunel), and together with their support these priorities help turn our beliefs into areas of focus that seek to protect and grow our assets over the long-term.

1. Climate change
2. Biodiversity and nature
3. Human rights and social issues
4. Diversity, equity and inclusion
5. Cyber security
6. Cost and tax transparency
7. Circular economy and supply chain management

## Fund Overview

Our asset allocation reflects a balanced approach designed to deliver long-term sustainable returns for our members. By investing across a diversified mix of asset classes, we aim to generate stable long term value while aligning our capital with sustainable outcomes.

### Strategic Asset Allocation



This report covers our activity during 2025 and draws on the latest available data at the time of writing. Due to the lagged nature of ESG reporting, some datasets in this report apply to periods ending December 2024 and March 2025, reflecting the release cycles of external providers. The Fund has built a meaningful track record of reporting against a consistent set of metrics, evidencing progress over time. We expect greater clarity and insights to come from improved reporting over time.

Section 1:  
**Climate**



# Why Climate Change Matters for Investors

**Climate change is a key strategic priority for the Fund. Both physical risks – such as extreme weather, water scarcity, and rising temperatures – and transition risks including shifts in regulation, technology, and consumer behaviour, can materially affect company valuations and long term performance.**

Understanding these environmental factors is essential for long-term investors. Companies that can adapt early are more likely to deliver resilient returns, while those that fail to respond may face stranded asset risk, regulatory penalties, or reputational harm.

Although global climate action is accelerating, with rapid growth in clean technologies and expanding net zero commitments, progress remains uneven and insufficient to meet internationally agreed climate goals. The direction of travel is clear, but the pace and pathway vary widely across regions and industries. Current climate investment, estimated at around US Dollars (USD)1.9 trillion in 2023, is far below the USD7.5 trillion per year required by 2030 for a 1.5°C pathway, even under optimistic growth projections<sup>1</sup>.

## Our Climate Change Targets

Given this backdrop, 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 to limit temperature increase to 1.5°C by 2050 is entirely consistent with securing long-term financial returns and is in the best interests of our members.

In 2023, the Fund adopted an ambitious net zero target of 2045. To support this ambition, it is important to have clear and measurable interim targets to ensure our progress remains on track.

<sup>1</sup>Intergovernmental Panel on Climate Change (IPCC)

## Net Zero by 2045

**Target: we commit to be Net Zero on financed emissions by 2045 across the whole Fund.**

Our interim targets for climate action are:

### Decarbonisation:

- The Fund will reduce the carbon intensity of its listed equity portfolios by 69% by 2030 (versus 2020 baseline). **Having met this target ahead of time, the Fund has adopted a new primary target of an 84% reduction by 2035.**
- By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2020 baseline). **Having met this target ahead of time, the Fund has adopted a new primary target of a 79% reduction by 2035.**

### Engagement and Divestment:

- For listed equities, we will ensure 90% of financed emissions in material sectors are either aligned<sup>2</sup>, aligning or subject to direct or collective engagement by the end of 2027.
- 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<sup>3</sup>.

Stewardship and engagement are central to our net zero approach. We use our collective influence to support companies in high impact sectors to align with a net zero pathway, and we expect to see clear evidence of progress. Where engagement does not deliver the necessary change and companies in these sectors cannot demonstrate they are aligned or aligning by 2030, we will divest.

In addition, all our investments are aligned with UN Global Compact Principles and we apply limited activity-based exclusions to Tobacco, Coal, Oil Sands and Controversial Weapons<sup>4</sup>.

<sup>2</sup>Paris Aligned Asset Owners – [visit the website here](#)

<sup>3</sup>Applies to companies in the CA100+ list only

<sup>4</sup>We maintain no investments exposures to issuers:

- with tobacco production revenues equal or greater than 25%
- with thermal coal extraction revenues equal or greater than 50%
- with oil sands extraction revenues equal or greater than 25%
- who manufacture controversial weapons and have been deemed to have failed to comply with UN Global Compact Principles (which cover human rights, labour standards, the environment and anticorruption)

## Measuring Progress

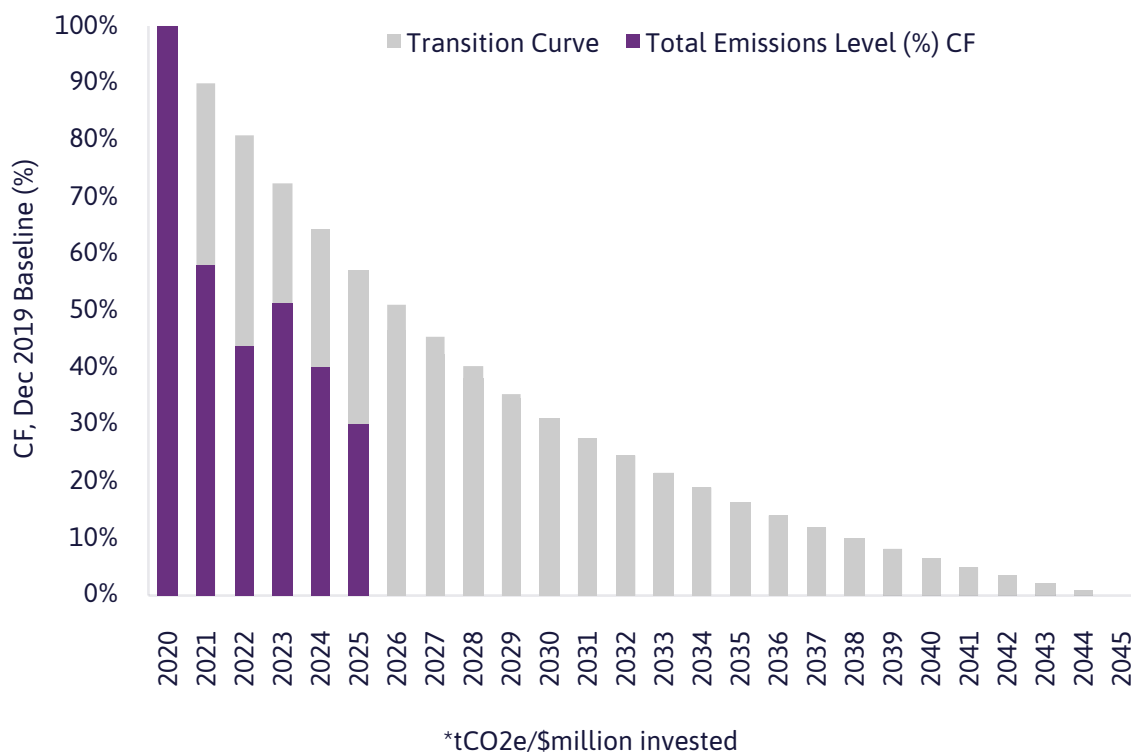
It is prudent to periodically reassess the Fund’s targets to ensure they are still appropriate. Now that five years have passed since the original targets were established (2020 baseline), and as the Fund moves closer to its net-zero date, we should continue to review their suitability and align them with the latest market guidance as the science, policy and technological landscape evolves.

Considering the progress achieved by the Fund to date, we believe our decarbonisation pathway remains ambitious yet achievable and enables the Fund to invest in higher-intensity companies across climate solutions, transition and emerging markets categories.

To monitor progress against our climate commitments and to help inform future policy decisions on climate change, the Fund undertakes annual climate transition analysis across its listed equity and corporate bond portfolios.

### Transition Progress - Physical Listed Equities

#### Carbon Footprint\* for listed equities, relative to Baseline - Scope 1 and 2



**Key takeaways:**

- The Fund has decarbonised by 71% on a Carbon Footprint (scope 1+2) basis since the 2020 baseline.
- The Fund is currently achieving its 2030 target to decarbonise by 69%.
- The Weighted Average Carbon Intensity (WACI) of the portfolio decreased by 48% in the same period, whilst absolute emissions decreased by 73%.
- The listed equities portfolio is much more carbon efficient when compared to the wider market (59% below MSCI ACWI as at Dec 2024).

**Engagement** – currently 71% of financed emissions in material sectors are either aligning to net zero by 2050 and/or under active engagement, surpassing our 2024 target of 70%. To increase momentum, this target now extends to 90% by 2027.

**Transition Progress - Corporate Bonds****Key takeaways:**

- The Fund has decarbonised by 65% on a Carbon Footprint (scope 1+2) basis since the 2020 baseline.
- The Fund is currently ahead of its 2030 interim decarbonisation target for corporate bonds.
- The WACI of the portfolio decreased by 52% during the same period.

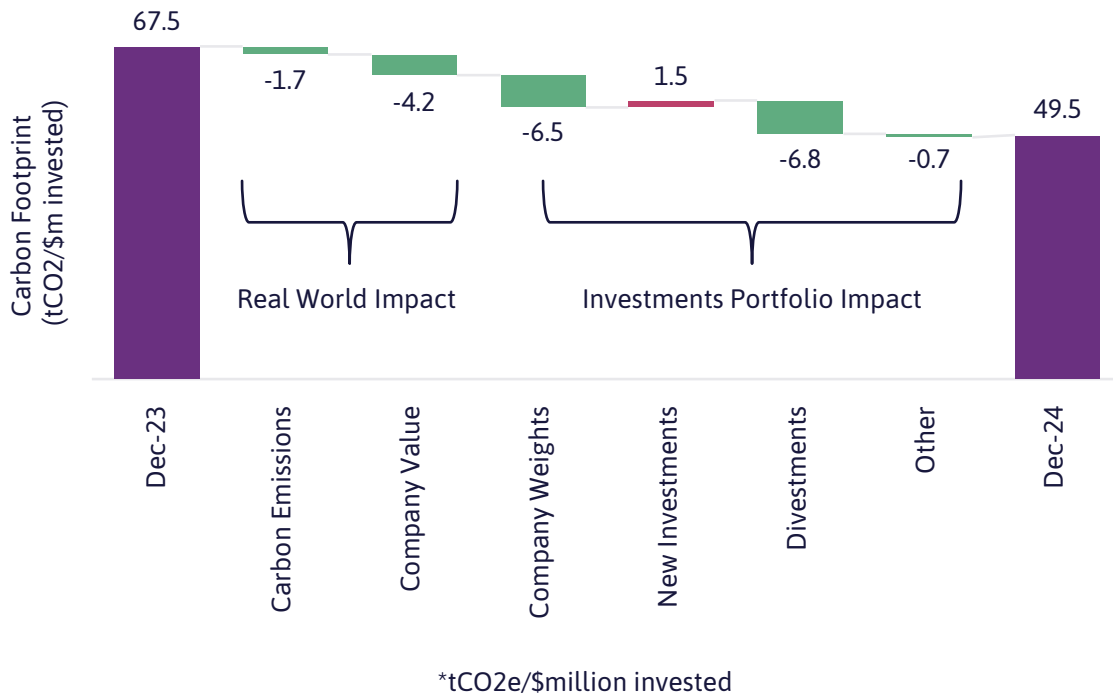
**What's driving emissions reductions?**

A significant portion of the reduction in carbon footprint is attributable to progress made in the last 12 months. While long-term attribution analysis is still an emerging area, the Fund has worked hard this year to pinpoint the key drivers behind decarbonisation.

As can be seen from the chart below the carbon footprint (scope 1 + 2) of the listed equity portfolio has reduced from c.67.5 tonnes per \$1m invested to 49.5, a 27% reduction. The biggest positive impact has come from portfolio-led decisions including changes to underlying company weights and positions sold, while new investments made during the period increased carbon footprint by approximately 1.5 tonnes per \$1m invested (+2.2%). A large portion of these new investments operate within hard to abate sectors, which is an area explored in detail later in this report.

While the data shows underlying managers are responding positively to the challenge of climate change by adjusting portfolios accordingly, we would expect drivers such as the change in absolute emissions of companies to play a more critical role in the future as these factors contribute to real world emissions reductions.

### Annual Reduction in Carbon Footprint – Listed Equities



### Looking Forward

Decarbonisation progress is likely to rely more heavily on underlying company decarbonisation, including through engagement, than strategic changes to our asset allocation. Therefore, progress is expected to be more challenging and slower moving as we move towards the Fund’s 2045 net zero target.

## Climate Solutions

Climate solutions are investments that directly support the transition to a low-carbon economy, such as renewable energy, energy efficient technologies and climate-resilient infrastructure. These types of solutions represent a meaningful and growing part of our investment approach.

Currently, we have a 12% allocation to dedicated climate-solution strategies. These include investments to renewable infrastructure as part of our private markets' exposure and other renewables exposure in our Secured Income portfolio.

In addition to this, there are holdings across other asset classes – such as other areas of private markets commitments – which contribute to the low-carbon transition. When these broader exposures are taken into account, the total allocation to climate solutions is closer to 15% (circa £890m), reflecting our commitment to supporting a more sustainable economy while delivering long term value for members.

Asset Class	Climate Solutions	£	Comments
Secured Income (Renewables)	100%	£238m	Solar, wind, bioenergy (among others) £m commitment shown
Renewable Infrastructure	100%	£290m	Solar, wind, energy storage (among others) £m commitment shown
Local Impact (Renewables)	100%	£50m	Solar, with upcoming expansion into energy storage £m commitment shows
Listed Equities	12%	£294m	As measured by % revenues contribution to climate mitigation
Multi-Asset Credit	3.5%	£5m	As measured by % revenues contribution to climate mitigation
Corporate Bonds	7.5%	£9m	£m invested shown, weighted by Strategic Asset Allocation
<b>Total</b>		<b>£886m</b>	<b>Representing c15% of total Fund assets</b>

**Natural Capital:** The Fund has agreed to invest 2% of assets towards Natural Capital solutions – investments that protect, restore, or enhance the world's natural assets – which would further bolster the allocation in this area. Work has been ongoing with Brunel to identify an appropriate solution which will now continue under our new pooling arrangements.

**Local Impact:** The Fund currently has a 5% allocation to our Local Impact Portfolio, which will further increase exposure to renewable themes. More detail on our Local Impact investments can be found later in this report.

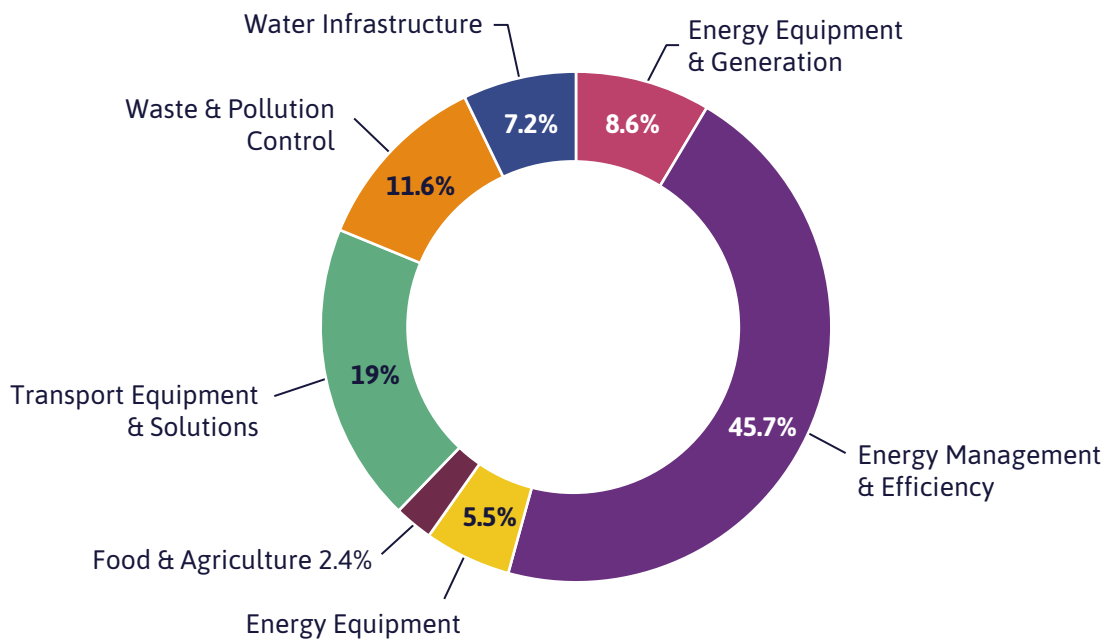
## Green Revenues

The Fund supports the development of a broader set of metrics that provide a more rounded view of companies critical to the net zero transition. Over time, this will include the use of measures such as green revenues to help quantify the share of our investments contributing to climate solutions.

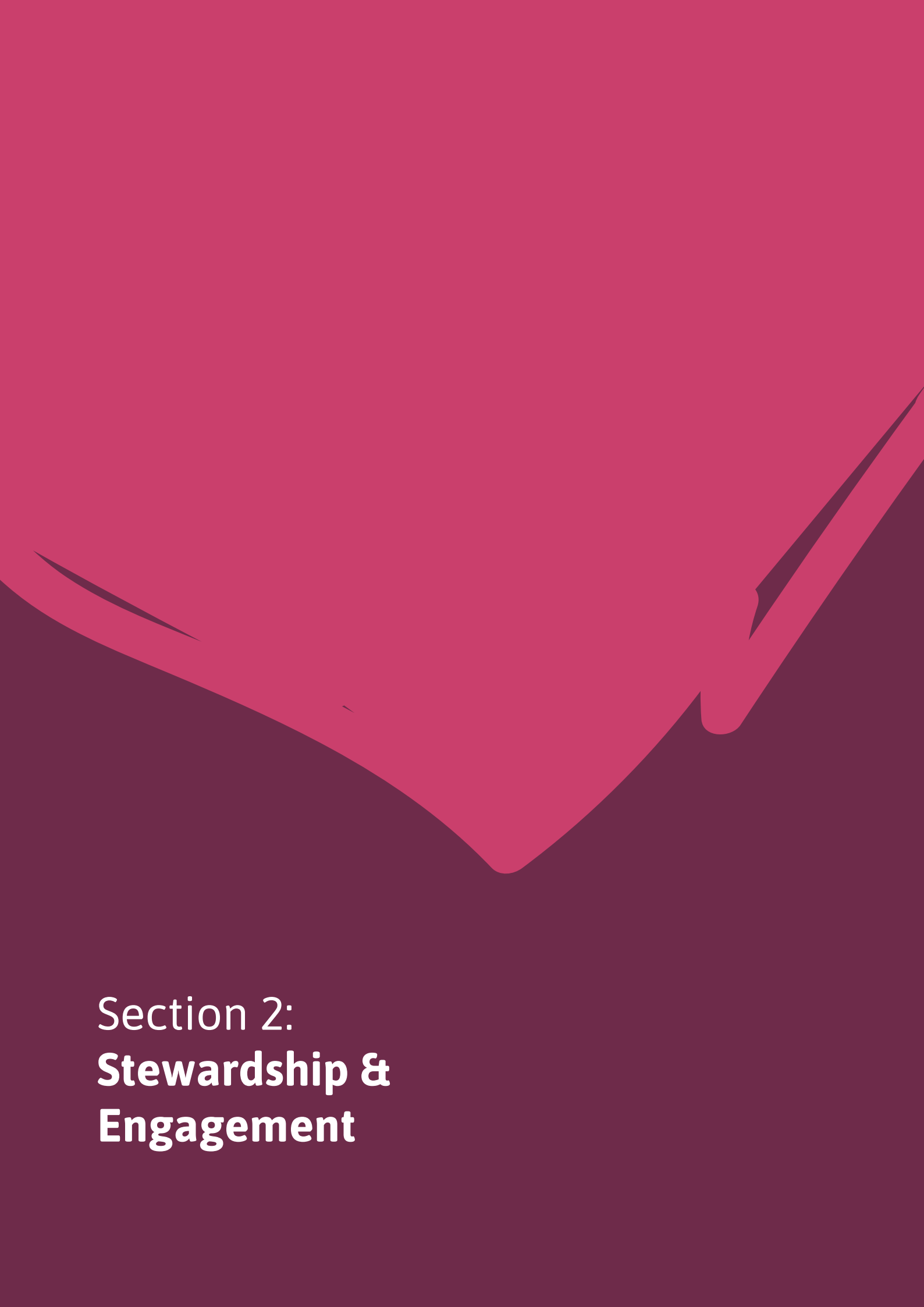
Green revenues capture the portion of a company’s income derived from activities such as renewable energy, energy efficient technologies, and clean transportation. Brunel reports green revenues data for listed equities using the FTSE Russell methodology, which evaluates company revenues across various sectors to identify exposure to products and services that deliver environmental benefits.

These metrics offer investors a clear, activity based indication of how aligned a business is with the transition to a low carbon economy. Higher levels of green revenues can point to stronger long term growth prospects as demand for sustainable solutions grows, and they help highlight companies that may be better positioned for regulatory, technological, and market shifts driven by climate change.

### Green Revenues – Brunel Listed Equities



As at December 2024



Section 2:  
**Stewardship &  
Engagement**

# Why it matters for investors

**Stewardship and engagement sit at the heart of our responsible investment strategy as the mechanisms through which we can use our influence to shape better long-term outcomes.**

The Fund recognises that meaningful real-world change can only be achieved through coordinated action across the investment industry, the corporate sector, regulators and policymakers. Our role is to contribute actively to this collective effort by working with these groups to drive progress and amplify the impact we can have within our sphere of influence. We continue to collaborate closely with our strategic partners to shape the evolution of ESG regulation and support the advancement of global sustainability commitments.

We do this collectively through our pool provider and other LGPS partner funds, but also through other initiatives we are part of, including:



## Engagement Progress

We have updated our target for financed emissions in material sectors that are either aligned, aligning or subject to direct or collaborative engagement from 70% by the end of 2024 to 90% by 2027.

Progress vs targets:

- Currently 71% of financed emissions in material sectors are either aligned to net zero by 2050 and/or under active engagement
- Furthermore, 69% of all financed emissions are either aligned to net zero by 2050 and/or under active engagement.

## Engagement Overview - EOS

The Fund invests through portfolios managed by Brunel, who are responsible for appointing underlying managers for each portfolio. Brunel has selected EOS at Federated Hermes (EOS) as its engagement and voting services provider, enabling broader coverage across asset classes and access to deep expertise across a wide range of engagement themes.

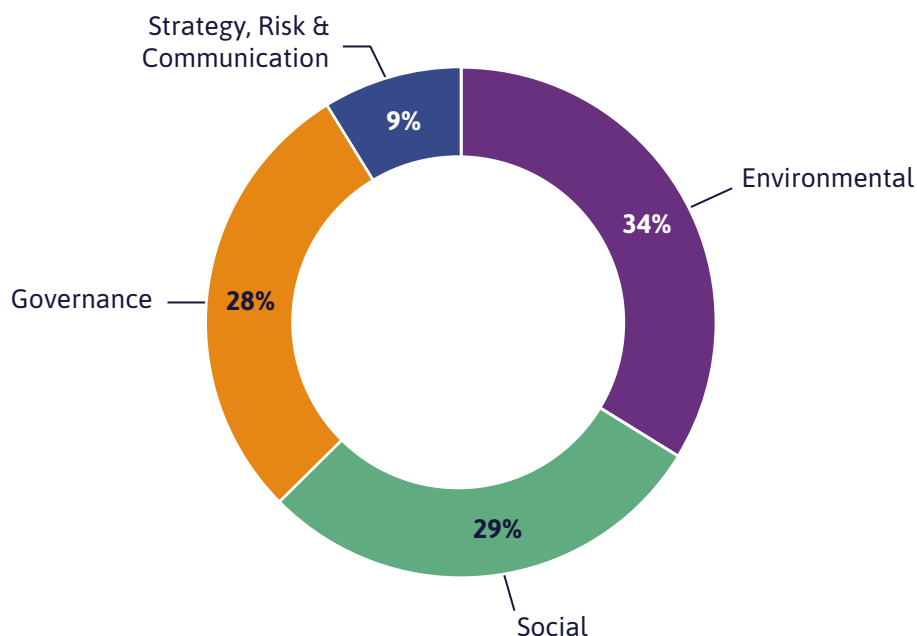
### Review of progress in 2024

During the year, EOS remained at the forefront of engaging with companies and policymakers on climate action, particularly as the financial and social costs of extreme weather events continue to rise.

EOS engaged with 382 companies on 1,890 environmental, social, governance, strategy, risk and communication issues and objectives. Of these:

- 52 companies featured engagements with the CEO or chair
- 216 companies featured engagements with senior management or board members
- 121 public policy interactions, including consultation responses, letters, meetings and discussions

### EOS Engagement by Theme

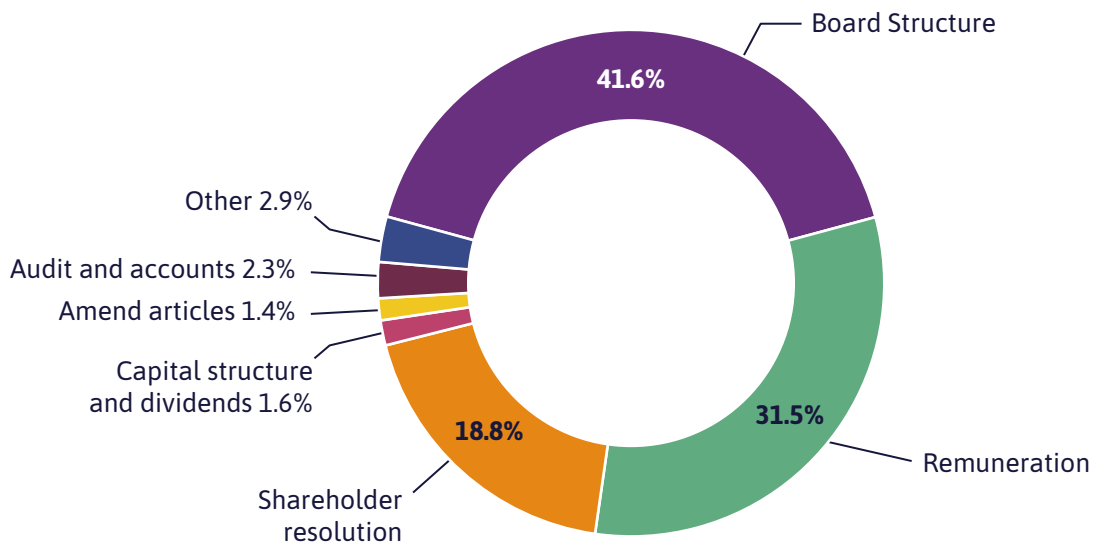


### Voting overview

In 2024:

- EOS made voting recommendations on 4,509 resolutions at 295 meetings.
- At 207 meetings, votes were instructed to oppose one or more resolutions, and at no meetings, votes were instructed to abstain.
- 33 meetings were instructed in line with the recommendations to vote in favour by exception to EOS policy, and 55 supported management on all resolutions.

### Resolutions Instructed Against Management



## **Case Study: Tackling Climate and Nature Physical Risk in the Food and Beverage Sector**

Physical climate risks are increasingly disrupting global food and beverage supply chains. These risks arise from both acute events – such as floods, storms, and heatwaves – and chronic shifts including long term temperature increases, water scarcity, and changing pest and disease patterns. Such impacts threaten company operations, damage assets, reduce productivity, and undermine supply chain stability.

### **Brunel's Engagement Initiative**

To address this challenge, Brunel launched a dedicated engagement programme on climate physical risks and biodiversity, supported by Chronos Sustainability. The initiative focuses on helping food and beverage companies:

- Assess and understand their exposure to physical climate risks
- Strengthen governance and strategic oversight
- Integrate adaptation and nature related considerations into risk management
- Use biodiversity to enhance resilience
- Build investor capacity for effective stewardship on climate and nature issues

### **Engagement Progress**

The programme was developed collaboratively with Brunel and Chronos and supported by five partner funds. In March 2024, Brunel issued engagement letters to 20 focus companies. As of March 2025, 15 companies have responded to the letter, 14 companies have completed one round of dialogues and 13 remain engaged in a second round of dialogues currently underway.

The dialogues have been constructive and substantive. Many companies brought technical experts to the discussions, offering insights that extended well beyond what is available in public reporting. Conversations centred on how companies are integrating climate adaptation and nature into their broader climate strategies, with several leading companies sharing examples of emerging good practice.

### **Early Outcomes and Next Steps**

Early engagement has prompted several companies to strengthen transparency and governance, with some clarifying board oversight of climate physical risks and improving the scope of their risk assessments. Investors have encouraged companies to reflect these improvements in public disclosures to demonstrate credible progress.

The next phase will focus on peer to peer learning and encouraging companies to elevate good practice across the sector. A key priority will be integrating net zero, adaptation, biodiversity and nature considerations into a coherent, strategic approach to climate resilience.

## Conclusion

Brunel's engagement demonstrates how investors can play a catalytic role in driving corporate action on climate physical risks and biodiversity. While progress is emerging, significant gaps remain across the consumer staples sector. Continued, structured engagement – supported by clear expectations, robust assessment frameworks, and collaborative learning – will be critical to ensuring companies are prepared for the accelerating physical impacts of climate change.

## Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) represents the majority of the LGPS, including 87 funds and seven pool companies. Their ability to reflect and articulate views and approach to engagement is unique, with LGPS representatives front and centre of their company engagements. The challenging operating environment has made engaging with companies more complex, so LAPFF have redoubled their efforts in this area.

Further information together with examples of how the Fund collectively engages with companies can be found in the [LAPFF Annual Report here](#).

## Decarbonising Hard to Abate Sectors

LAPFF treats decarbonisation in hard-to-abate sectors as a financial and governance issue. Hard-to-abate refers to industries for which emissions are difficult or costly to eliminate. These include aviation, cement and steel, all of which are sectors of focus for LAPFF.

As with the broader approach to decarbonisation, LAPFF also expects companies to provide investors with:

- material climate-related disclosures, including Scope 1-3 emissions,
- targets aligned to 1.5C,
- how they integrate carbon risk management into strategy, and
- how they focus on real emissions reductions (not over reliance on offsets or carbon capture technology where other solutions are viable).

To ensure appropriate governance on this issue, LAPFF expects there to be clear board accountability and a "say on climate" vote to embed shareholder oversight. The Forum also expects companies to have a credible just transition plan so social factors are integrated into climate transition plans.

LAPFF's engagement in this area has included:

- **Aviation:** Wizz Air & IAG
- **Cement:** Heidelberg Materials; CRH
- **Steel:** ArcelorMittal & ThyssenKrupp

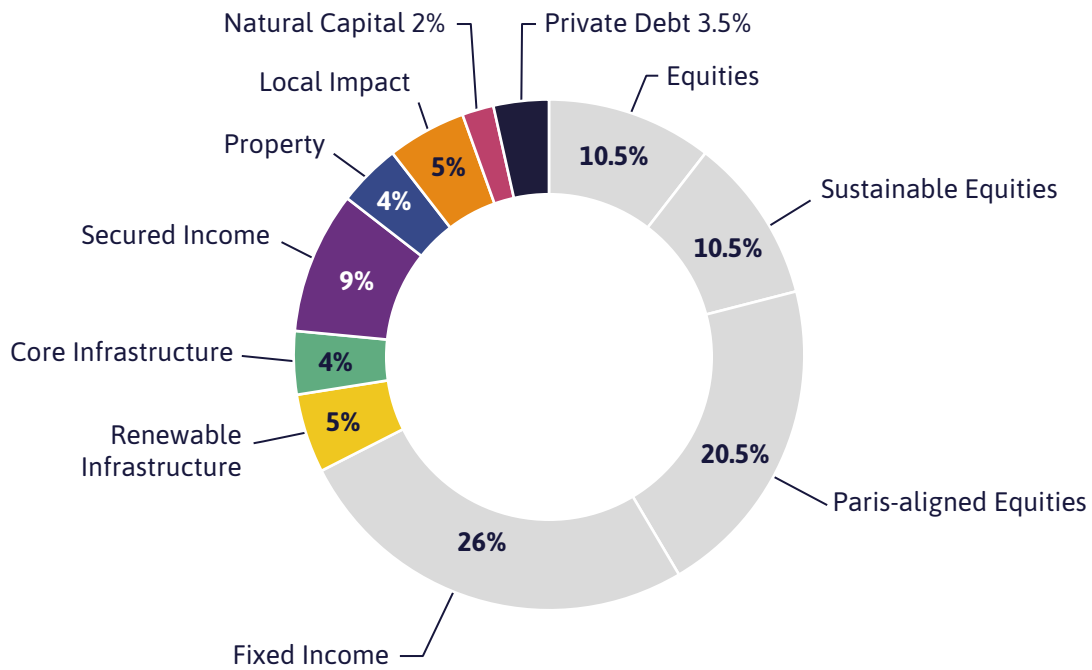
Looking ahead – decarbonising cement, steel and aviation, is an ecological necessity and critical to reducing climate-related investment risks. Targeted engagement in these industries is therefore critical to driving economy-wide emissions reductions and safeguarding long-term value for beneficiaries.

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 as well as a dedicated allocation to local impact assets. Total allocation to private markets represents over a third of Fund assets or c. £2 billion.

### Summary of Private Markets Exposure\*



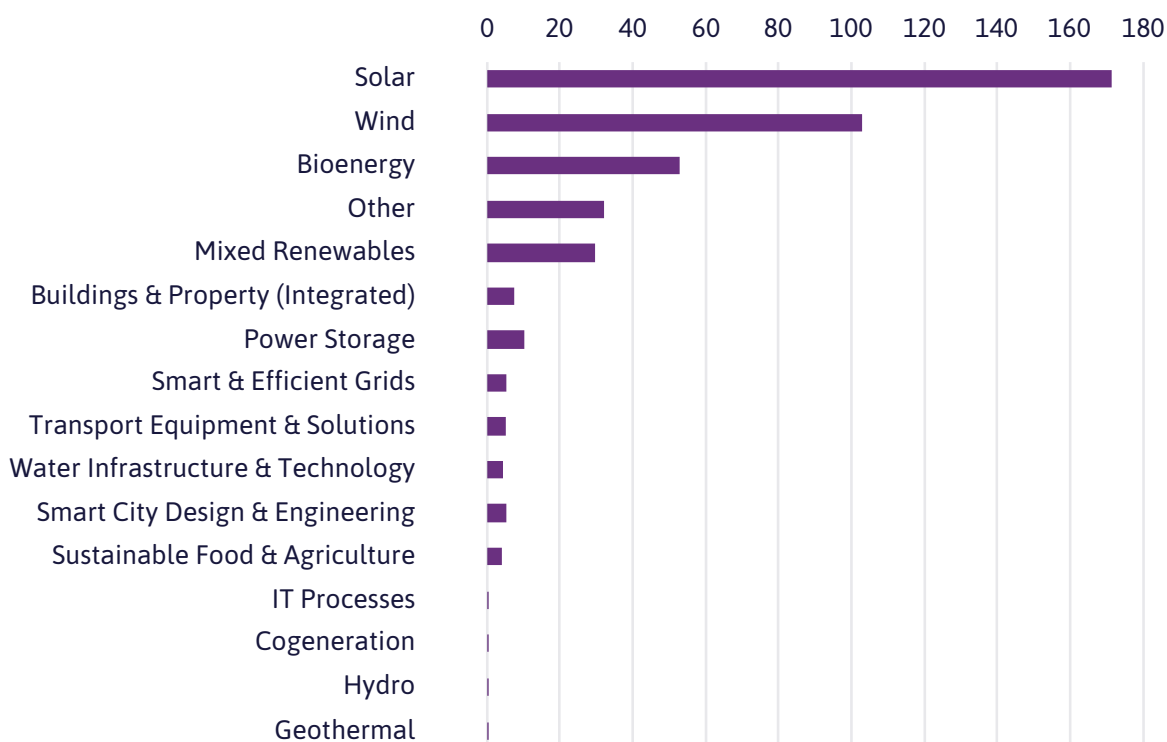
\*Based on strategic asset allocation

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' and serve to ensure we are generating the return required as well as making both a positive environmental and social impact.

### Sustainable Investment Exposure - Infrastructure

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.

#### Capital Invested in Sustainable Infrastructure\* (£'m)









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

At the end of March 2024 the Fund had approximately £170m invested in solar, £100m in wind and £50m in bioenergy. “Other” investments in this context refers to investments that do not fit into the FTSE’s Green Revenues Methodology and comprise assets such as diversified utilities companies, health services and logistics and storage services.

### Private Markets Portfolio Focus: Local Impact

The Fund has committed to building a dedicated Local Impact portfolio which invests to generate positive social and environmental outcomes in the South West. The first Local Impact investment was made in 2024. The Local Impact portfolio began as a strategic allocation of 3% of total assets (c.£180 million), investing across three priority themes: renewable energy, affordable housing, and small and medium-sized enterprise (SME) financing. The allocation rose to 5% of total assets (c.£300m) at the Fund’s 2025 investment strategy review and the Fund will work closely over the coming months with strategic partners and its new pooling provider, LPPI, to deploy further capital and support local growth plans.

**Our Local Impact Portfolio:**

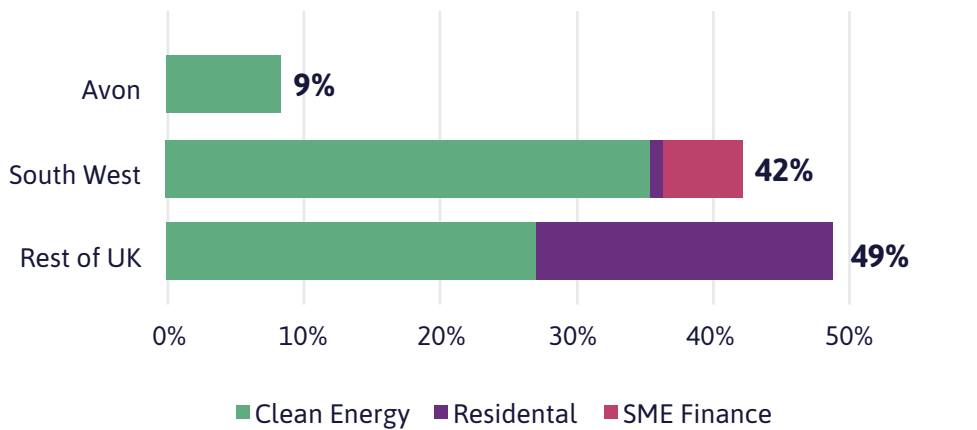
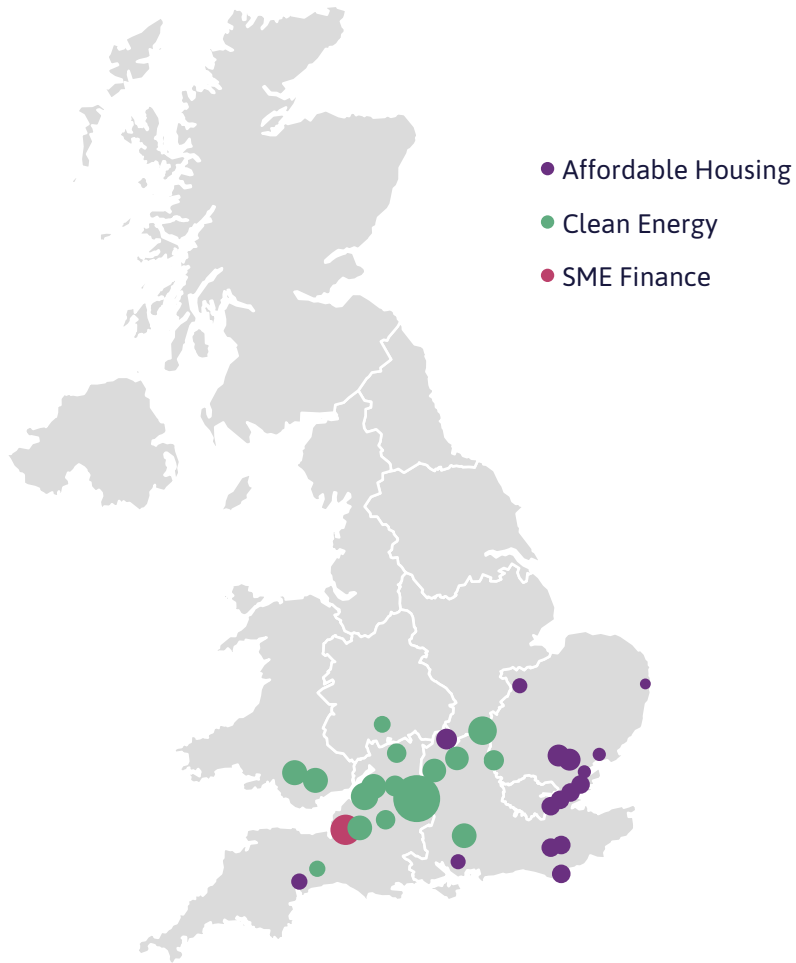
Fund	Total fund commitments	Deployed to date (% of total committed amount)	Avon Pension Fund commitment	Avon Pension Fund share	Investment Theme	Geographic focus	Objective
Foresight Regional Investment VII LP	£102m	£7.2m (7%)	£50m	 49%	SME Finance 	South West of England	Investing in high potential businesses in the South West
Wessex Gardens LP	£330m	£241m (73%)	£50m	 15%	Clean Energy 	Cornwall, Dorset, Somerset, Avon, Devon, Wiltshire, Oxfordshire, Buckinghamshire, Gloucestershire	Investing in renewable energy generation assets to facilitate the transition to a low carbon economy
Octopus Affordable Housing Fund	£202.5m	£81m (40%)	£40m (+ £10m reserved for Avon based schemes)	 11%	Affordable Housing 	National, with local Avon 'sleeve'	Increasing the number of available affordable houses in areas of high need

To date, over £50m has been invested, 72% in solar assets, 23% in affordable housing and 5% supporting regional businesses.

The distribution of asset classes will balance over time as commitments are drawn by the underlying investment managers.

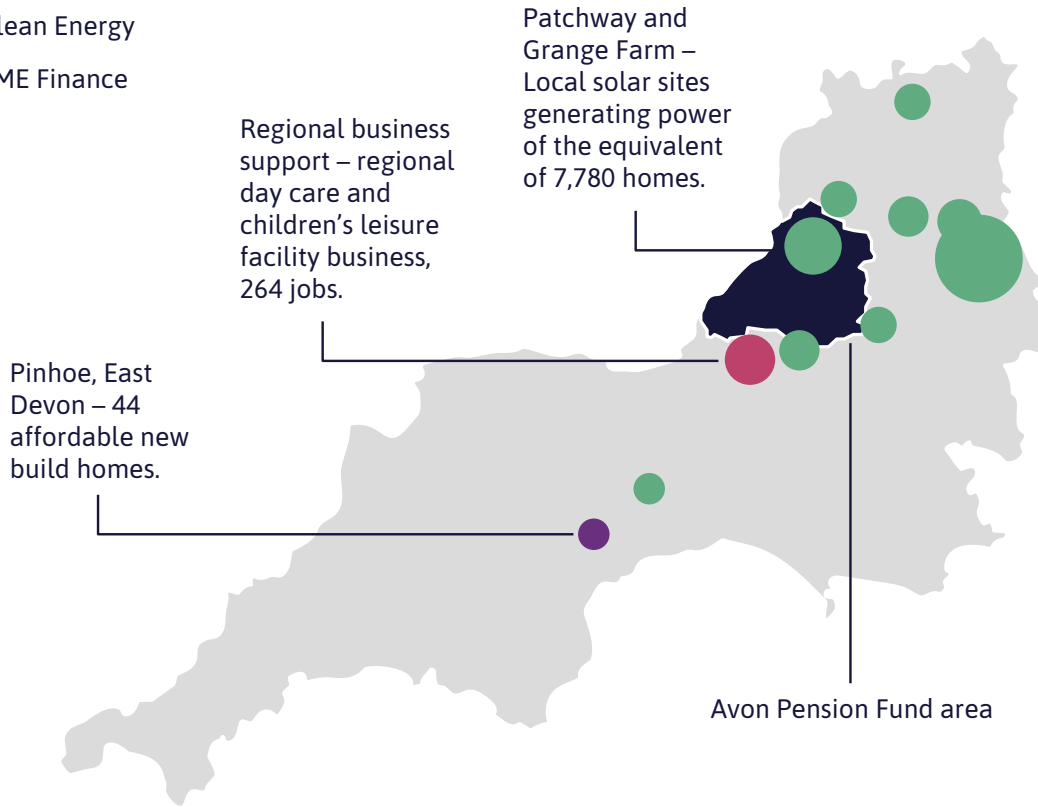
The majority of assets in the portfolio are in southern areas of the UK, with 9% of portfolio investment in the Avon area and a further 42% of investment in the rest of the South West. This amounts to £26 million being invested in the region.

### Location of Assets



### Location of Assets in the South West

- Affordable Housing
- Clean Energy
- SME Finance



## Local Impact in Numbers:

### Affordable Housing

The South West faces some of the sharpest housing pressures in the UK, with high price-to-income ratio and an estimated 200,000 additional homes needed, creating a clear opportunity for investment in affordable housing.

- 648 homes completed, in development or planned, of which 7% are in the South West
- 303 newly developed homes, of which 44 developed in the South West
- 100% of homes located in areas of 'constrained affordability'<sup>5</sup>
- 1,507 residents in total, 58% of whom live in Shared Ownership homes and 42% Affordable Rent
- 100% of Affordable Rent residents from Local Authority waiting lists
- 98% of homes are EPC B or above, compared to a national average of EPC D<sup>6</sup>

### Clean Energy

Meeting the region's 2030 net zero target requires a further 13% year-on-year reduction in emissions and substantial investment in renewable generation and retrofits, creating urgent demand for scalable clean energy infrastructure<sup>7</sup>. The Fund's own 2045 net zero commitment, which includes an interim 2030 decarbonisation target, aligns with and reinforces this transition, supporting both the region's near-term goal and long-term climate resilience.

- 18 solar sites, all of which are in the South West<sup>8</sup>
- 176,911 MWh clean power generated
- 65,523 equivalent homes powered<sup>9</sup>
- 66,125 tCO<sub>2</sub> avoided in total<sup>10</sup>

### SME Finance

SMEs employ the majority of the South West's workforce but productivity lags behind national levels, and the region attracts only a small share of UK equity investment, highlighting the need for further capital to unlock business growth and jobs.

- One provider of children's leisure sites and daycare nurseries, headquartered in the South West
- 14 sites across the South West, Midlands and Wales
- 264 jobs supported, of which 220 are based in the South West

<sup>5</sup> Constrained Affordability is defined as having an affordability ratio greater than the national median.

<sup>6</sup> The Office for National Statistics (ONS) (2023) Median energy efficiency score by of property band, by country and region, England and Wales, up to 2023. The overall median benchmark for homes across England and Wales is EPC D.

<sup>7</sup> The West of England Strategic Framework.

<sup>8</sup> The underlying fund was launched with an agreed scope and mandate with the pension fund investors on what is considered the South West. In this instance the South West is defined as Cornwall, Dorset, Somerset, Avon, Devon, Wiltshire, Oxfordshire, Buckinghamshire and Gloucestershire.

<sup>9</sup> The number of homes powered is based on the average annual household energy consumption for renewable electricity generation using the latest reported figures and reflecting the fund's electricity generation.

<sup>10</sup> Carbon emissions avoided are reported using Schroders Greencoat's methodology, which follows Partnership for Carbon Accounting Financials (PCAF) guidance. This approach assumes that renewable generation displaces the marginal generator in the electricity system — the fossil-fuel power source (typically gas or coal) that would have been dispatched to meet demand in the absence of renewables. Emissions factors for the marginal generator (gCO<sub>2</sub>/kWh) are sourced from the International Energy Agency (IEA, 2024).

## In Focus: Business Needs in the South West

SMEs play a central role in the South West economy, with 64% of the two million people employed in the private sector working in businesses with fewer than 250 employees<sup>11</sup>. Despite their key role in the economy, productivity levels in the region lag considerably behind the UK, with both Gross Value Added (GVA) per hour worked and GVA per job below the UK average by 7.5% and 9.8% respectively<sup>12</sup>. Despite the South West being home to 9% of the UK's SME's, a disproportionately low number of equity deals in 2024 were in the region, accounting for only 3% of all deal investment<sup>13</sup>. Many SMEs in the region face barriers to growth, including limited access to capital and challenges in transitioning to net zero. The West of England Strategic Framework<sup>14</sup> has highlighted the need for the region to build investment ready ecosystems to support innovation and the key role SMEs can play in driving quality employment and access to green jobs across sectors.

### Foresight's South West Fund

As of 31st March 2025, Avon Pension Fund had committed £50 million to the Foresight Regional Investment VII Fund, which aims to support the growth of high-potential SMEs in the South West. Whilst still in its early stages, with first deployment in March 2025, the fund will provide growth capital and operational support to businesses that can deliver both financial returns and local economic impact.

Commenting in an interview with the Fund, Amy Crofton, Managing Director at Foresight Group said, "With over 430,000 small to medium sized enterprises (SMEs) across the South West, we know the region to be dynamic with a thriving community of SMEs and entrepreneurs. We see it as an exciting time to support businesses on their journey and help drive growth across the region", adding...

"We see the South West as a heartland of innovation with Avon having become the UK's fifth largest technology location and the Silicon Gorge technology hub expanding across Bath, Bristol, Swindon and Gloucester and with notable depth in leisure, aerospace and manufacturing, the pipeline of potential investments is very exciting".

### Portfolio company: Family Adventures Group

The South West Fund's first investment was a £5.3 million commitment to Family Adventures Group, a Somerset-based operator of nurseries and children's leisure sites. With 14 sites across the South West, Midlands and Wales, Family Adventures Group employs over 264 staff, 220 of whom are in the South West, and offers apprenticeships for Level 3 childcare qualifications.

[Read the full interview with Amy](#)  
[Read more about Family Adventures Group](#)

<sup>11</sup> Business Population Estimates 2024, ONS.

<sup>12</sup> Regional and subregional labour productivity, UK: 2023, ONS.

<sup>13</sup> Small Business Equity Tracker 2025, British Business Bank, June 2025

<sup>14</sup> The West of England Strategic Framework – [visit the website here](#)



Section 4:  
**Human Rights**

**Human rights are the fundamental freedoms and protections to which every individual is entitled, regardless of identity or background. They encompass civil, political, economic, social, and cultural rights and are grounded in international frameworks such as the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. These standards define how people should be treated and create the conditions for individuals to live with dignity, equality, and opportunity.**

For investors, human rights are not only a moral and social imperative but also a material consideration. Companies that fail to respect human rights face operational, legal, and reputational risks. Issues such as forced labour, unsafe conditions, discrimination, land rights abuses, and limits on freedom can disrupt supply chains, damage brands, and trigger regulatory action. In contrast, companies that manage human rights risks often show stronger governance, more resilient business models, and better long term performance.

As a pension fund with long term obligations to our members, integrating human rights helps safeguard the sustainability of returns while aligning investment practices with societal expectations. This includes assessing how companies identify and mitigate risks, engaging with management to strengthen practices, and using stewardship tools to drive accountability and improvement. It also requires recognising systemic risks – such as inequality or geopolitical instability – that can affect entire markets and undermine long term value creation.

Investors are increasingly expected to demonstrate transparency in how they address human rights. Clear policies, appropriate due diligence, and outcome reporting are essential. By embedding human rights into investment decision making and stewardship, we hope to contribute to more resilient economies, fairer societies, and better outcomes for our members.

## Fund's Approach

The Fund upholds its legal and fiduciary duties to make investment decisions based on financial considerations including risk, return, prudence, and ESG factors.

As a long term responsible investor, we expect our investments to align with internationally recognised human rights standards. Through Brunel, we appoint external asset managers who select the companies in which we invest. Brunel rigorously evaluates these managers' investment and risk processes, including how they identify, assess, and respond to human rights risks across their portfolios.

We expect managers to consider all material human rights risks - such as labour rights abuses, supply chain exploitation, or exposure to conflict affected and high risk regions - and to integrate these into their investment decisions. Brunel also monitors companies flagged by independent third parties as breaching the UN Global Compact principles, ensuring heightened scrutiny where human rights concerns are identified.

In parallel, EOS reviews Brunel's holdings for direct and significant links to high risk regions, drawing on authoritative sources such as the UN Human Rights Council. This provides an additional layer of oversight and helps ensure that human rights risks are identified early and addressed through engagement or escalation where appropriate.

## Integrating Human Rights into Investment Processes

Where holdings present elevated human rights risks, managers are required to **avoid** them or clearly **explain** the rationale for their inclusion, demonstrating how concerns are being assessed, monitored, or escalated.

To support this oversight, Brunel applies global standards screening, maintains restrictions on controversial weapons, and draws on independent research providers. Sustainalytics screens active portfolios for potential breaches of international norms, including the UN Global Compact principles, evaluating the seriousness of the issues, the degree of company responsibility, and the adequacy of management responses. If concerns remain unresolved and managers cannot evidence meaningful progress, the Fund expects Brunel to take appropriate action, including recommending divestment where necessary.

## Human Rights Stewardship and Engagement

Through Brunel, the Fund participates in stewardship activities aimed at improving corporate human rights performance. EOS at Federated Hermes, alongside Brunel's appointed managers, engages companies on enhanced human rights due diligence, transparency, and disclosure of outcomes. These engagements draw on detailed research, third party investigations, and insights from Non-Governmental Organisations, media sources, government agencies, and affected stakeholders. Specialist teams with expertise in areas such as international law and supply chain risk lead this work.

Brunel also collaborates with other investors and industry initiatives to strengthen market wide expectations on human rights, promote stronger governance practices, and support the adoption of technologies that enhance supply chain transparency and human capital management.

### Managing Risks in Conflict Affected and High Risk Areas (CAHRAs)

Investments linked to CAHRAs can involve complex and rapidly evolving risks. The Fund relies on Brunel to monitor these exposures and take proportionate action to manage them. Brunel's approach is built on three pillars:

- 1. Align with global norms** – restrict investment in companies breaching UN Global Compact principles and exclude controversial weapons or their components.
- 2. Integrate risks into decisions** – ensure human rights risks, particularly those linked to conflict affected regions, are systematically assessed and incorporated into investment processes.
- 3. Monitor and engage** – engage with companies operating in CAHRAs to ensure they understand and address their human rights responsibilities, escalating where necessary.

The Fund expects Brunel, through its appointed managers, to take clear and proactive steps in response to human rights violations. Within the active segregated portfolios, Brunel uses Sustainalytics to apply Global Standard Screening (GSS) to identify companies that are violating or at risk of violating international norms as enshrined in the UN Global Compact principles, which has resulted in selective divestment. Factors such as severity of allegations, company responsibility and management of issues are all considered and involves detailed discussion of the asset managers' response to concerns at the Brunel Investment Risk Committee.

## Case Study: Volkswagen – Navigating Human Rights Risks in Xinjiang

In late 2022, Sheffield Hallam University published a report highlighting concerns about the high risk of human rights abuses in the Xinjiang region of China, particularly linked to the automotive industry. Volkswagen Group (VW) had a long-standing joint venture with SAIC Motor Corp., which was implicated in the report. Although the company had previously conducted an internal investigation and found no evidence of forced labour, MSCI applied a red flag to VW due to a lack of third-party independent verification.

In response to growing pressure from investors, including EOS, VW commissioned an independent audit in 2023. The company reported “no indications” of forced labour, prompting MSCI to remove its red flag. However, EOS identified inconsistencies and continued to press VW for greater transparency, including assessments of other joint ventures in the region. VW later released the full audit report, which highlighted the structural barriers to credible verification in Xinjiang, such as government oversight of audit teams, state appointed interpreters, and restrictions on data collection.

Global scrutiny intensified through 2024, with concerns raised by human rights organisations, US lawmakers, and the EU Parliament under the Uyghur Forced Labor Prevention Act. In November 2024, VW announced it would sell its Xinjiang assets, officially citing economic reasons, though investor and reputational pressures were widely understood to be significant drivers.

While VW’s exit reduces the risk of direct links to forced labour, material exposure remains through its supply chain. Xinjiang is a major production hub for commodities such as aluminium and electronic components, making ongoing due diligence essential. EOS continues to engage with VW to ensure robust oversight of high risk suppliers and greater transparency across the company’s broader China operations.

### Key lessons

- Audits in high risk, authoritarian regions lack credibility.
- Forced labour risks often sit deep within supply chains, beyond direct operations.
- Regulatory scrutiny, investor engagement, and transparency are critical in driving corporate action.

This case illustrates the reputational, legal, and ethical vulnerabilities companies face when operating in or sourcing from high risk regions – and the importance of persistent investor stewardship in improving human rights outcomes.

## Engaging members on – Aerospace & Defence

In late 2024 and throughout 2025, the Fund faced calls from scheme members and other stakeholders to divest from companies supplying Israel, prompted by concerns about the conflict in Gaza and the wider occupied territories. The issue attracted significant correspondence, petitions and media attention.

In March 2025, the Pension Fund Committee chose to address these concerns by considering whether the Fund should continue investing in the Aerospace and Defence sector more broadly, rather than focusing on a specific country. The Committee acknowledged the sensitivity of the issue and the strength of feeling among some stakeholders, while emphasising the Fund's political neutrality and legal duty to act in members' best financial interests.

The Committee's decision-making was guided by its Investment Strategy Statement, which prioritises stewardship and engagement over divestment, except where companies pose poor long-term financial prospects. While the Fund's policy allows for divestment on non-financial ESG grounds, this is only lawful if it does not risk significant financial detriment and if there is good evidence of significant majority support among members of the Fund.

Therefore, Avon Pension Fund undertook extensive engagement during 2025, including responding to member correspondence, providing regular updates and commissioning an independent, professionally designed member survey. The survey asked members whether the Fund should continue investing in Aerospace and Defence companies and explored views on factors such as financial returns, NATO defence needs and supplying countries involved in conflict.

In September 2025, 26,360 Avon Pension Fund members were invited to take part in the anonymous online survey, with 2,500 members (9.5%) responding. Results were weighted to reflect the Fund's membership profile. The Committee welcomed the strong response rate on a complex and emotive issue.

42% of members voted to divest from Aerospace & Defence, 47% voted to remain invested, with 11% unsure. Hence there was not significant majority support among members of the Fund for divestment, which informed the Committee's final decision to remain invested in Aerospace & Defence.

Read more about the survey, including the full results and Committee decision-making process [here](#).

# Glossary



## Material Sectors

Material sectors are defined as material in accordance with the IIGCC Net Zero Investment Framework (NZIF 2.0) are the industries considered most critical for achieving portfolio level decarbonisation because they have the highest emissions, the clearest transition pathways, and the greatest influence on global climate outcomes. NZIF 2.0 uses these sectors to determine where investors must set asset level targets and prioritise engagement.

## Financed Emissions

Financed emissions are the greenhouse gas emissions that a financial institution is indirectly responsible for through the activities it funds. Financed emissions are a core part of climate risk reporting because they show how a portfolio contributes to global emissions and where transition risks may lie.

## High Impact Sectors

Industries whose core activities create significant environmental or social risks, meaning their operations can strongly influence outcomes such as climate change, biodiversity loss, human rights, labour conditions, and community wellbeing. These sectors include energy, mining, utilities, transportation, agriculture, chemicals, and heavy manufacturing.

## Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity (WACI) measures the carbon efficiency of a portfolio by calculating the portfolio weighted average of each company's carbon intensity, defined as its Scope 1 and Scope 2 emissions relative to its revenue. It expresses emissions per unit of economic output, therefore WACI allows investors to compare carbon performance across sectors and portfolios, making it a core metric in climate risk reporting frameworks.

## Scope 1 Emissions

Direct greenhouse gas emissions from sources a company owns or controls, such as onsite fuel combustion, manufacturing processes, or company operated vehicles.

## Scope 2 Emissions

Indirect greenhouse gas emissions from the generation of purchased electricity, steam, heat, or cooling that a company consumes. These emissions occur at the utility provider's facilities but are attributed to the company using the energy.

## Scope 3 Emissions

All other indirect greenhouse gas emissions that occur across a company's value chain, including activities such as purchased goods and services, business travel, employee commuting, waste disposal, transportation and distribution, and the use and end of life treatment of sold products. These typically represent the largest share of a company's total carbon footprint.

## **Just Transition**

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.

## **UN Global Compact Principles**

A set of ten internationally recognised principles that encourage businesses to operate responsibly by protecting human rights, upholding fair labour standards, advancing environmental stewardship, and preventing corruption. These principles provide a universal framework that guides companies in integrating ethical, sustainable practices into their strategies, operations, and organisational culture.

## **Controversial Weapons**

Controversial weapons are those weapons that have a disproportionate and indiscriminate impact on civilian populations, sometimes even years after a conflict has ended. In scope are companies involved in the manufacture of tailor-made and essential components for anti-personnel mines, cluster munitions, chemical and biological weapons, depleted uranium, nuclear weapons, and white phosphorus. Key features of controversial weapons include them being; tailor-made, specifically designed for the weapon under consideration, and essential – key for the functioning of the weapon.

## **Conflict-Affected and High-risk areas (CAHRAs)**

Geographic regions where governance is weak, conflict or widespread violence is present, or where serious human rights abuses, corruption, or illicit trade are prevalent. These areas require enhanced due diligence from companies because business activities may inadvertently contribute to conflict financing, human rights violations, or other severe adverse impacts.

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