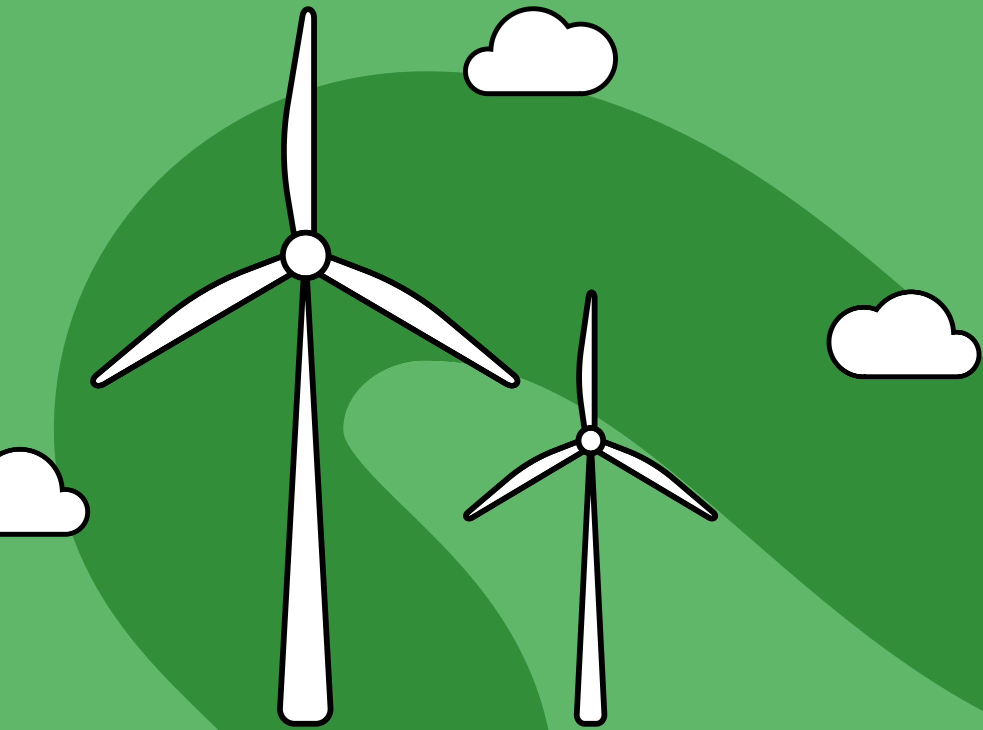


Annual Responsible Investment Report

Avon Pension Fund

2021/22

Bath & North East Somerset Council

for you, for now, for the future
lgps 2014

AVON PENSION FUND

Our Responsible Investment Journey

2001
- Begins investing in ESG strategies

2005
- Becomes a member of LAPFF collaborative engagement forum

2016
- Recognises climate change as a financial risk & begins annual carbon footprinting

2018
- Becomes signatory to CA100+

2019
- Recognised by Unison as leader in climate change risk management
- Commits to become net zero by 2050 with interim targets to measure progress
- Commits c.£400m to renewable infrastructure

2020
- Joins the Institutional Investors Group on Climate Change

2021
- Invests over £1bn in Paris-aligned and sustainable equities
- Launches first member survey on ESG
- Produces first TCFD compliant climate risk report
- Achieves FRC Stewardship Code signatory status

2022
- Reduces emissions by 42% versus 2019 baseline*
- Independent peer analysis ranks Fund climate strategy in top 3% of over 600 submissions

*emissions reductions relate to listed equity portfolios

Contents

Executive Summary

With some of the most significant changes to the Fund's strategy on climate change having taken place in the final months of 2021, this year's Responsible Investing Annual Report serves to update stakeholders on the progress we have made against our climate objectives. This report offers insight into the structural challenges climate-aware investors face 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.

Over the past year we were pleased to see the changes to our investment strategy yield tangible results including a **6% year-on-year reduction in the absolute emissions of our listed equities, equivalent to a 42% reduction versus our 2019 baseline year**, despite increasing the strategic allocation to equities from 37.5% to 41.5%. This puts us ahead of the decarbonisation flightpath used to determine emissions reductions required to meet net zero by 2050.

We were encouraged by the development of new forward-looking climate metrics which will be critical to providing the insights required by investors to guide future policy decisions on climate. **Over 20% of the Fund's listed equities demonstrate strong alignment to the low carbon transition.**

Having successfully launched a Paris-aligned passive equity product in 2021, which the Fund allocated over £0.5 billion to on launch, Brunel continued to demonstrate leadership in the field of responsible investment and climate strategy by piloting **green revenues** reporting and developing policy on biodiversity with examples of work relating to deforestation, palm oil, plastics, and water consumption.

We continue to invest capital in **renewable infrastructure** projects and have noted a pickup in the pace of capital deployment as the opportunity set across the sector has widened to encompass new transition technologies such as low carbon transport infrastructure and the emergence of hydrogen as a clean energy source.

Elsewhere, we have seen **social impact investing** come to the fore. While the ability of investors to monitor and report impact is still limited, the Fund's exposure to sub-sectors such as affordable housing, healthcare and life sciences means we are well placed to quantify the contribution our investments are making to social and/or environmental issues as reporting capabilities improve.

The Fund built on the progress made in integrating ESG into its risk management framework (RMF) and cash management strategies by adding a dedicated allocation to a Paris-aligned ETF which broadly tracks our investment in Brunel's Paris-aligned fund. As part of our next strategy review, we will be looking at alternative ways to implement the RMF in order to address structural and regulatory barriers, which in the past have prevented us from investing in a way that is fully aligned with our climate objectives.

Details of the steps the Fund is taking to address the climate emergency were presented as part of our second standalone **Taskforce on Climate-related Financial Disclosures Report** and in 2022 we successfully became a signatory to the new **FRC Stewardship Code**.

Following our inaugural **ESG member survey** in 2021 we welcomed the continued engagement with our members on ESG issues and used the feedback to further refine how we share the progress we have made by developing member-oriented communications, such as digital publications and bitesize versions of our climate disclosures.

Over the coming year the Fund will focus on its seven priority ESG themes and take the necessary action to accelerate progress towards our **net zero goal** as well as advocate for a supportive policy environment that will facilitate change ultimately for the benefit of our members.

Section 1

Responsible Investment Policy and Strategic Developments

Responsible Investment Policy

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 Responsible Investing (RI) Policy 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 Principles:

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

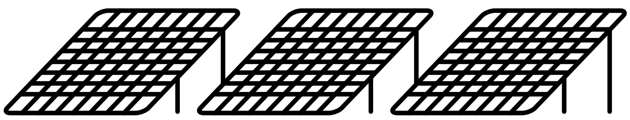
Our RI policy document is available to read in full here.

Climate Change

Climate Change has remained sharply in focus over the past year; both in terms of the risk presented to businesses by the transition away from fossil fuels and physical risks to operating models, for example, the operating viability of real assets such as infrastructure under extreme climate conditions.

COP26 was successful in catalysing a broad range of ambitious commitments including action on coal, vehicles, finance and nature. However, issues remain around how these pledges are now implemented, monitored, and reported. 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 below 2°C temperature increase is entirely consistent with securing long-term financial returns and is in the best interests of our members.



Our Climate Policy Objectives:

- To implement a <2˚C aligned portfolio by committing to net zero emissions by 2050, or earlier.
- To reduce the absolute emissions of the listed equity portfolio by 43% to 2025 and 69% to 2030 compared to a 2019 baseline.
- To reduce the carbon intensity of the equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark by 2022 – *this was achieved 2 years ahead of plan and will be revisited as part of the Fund's next RI policy review.*
- To invest sustainably to support a 'just transition'[1] to the low carbon economy with the aim of investing 30% of total assets in sustainable[2] and transition aligned investments by 2025 – *At March 2022 the Fund had £1.4bn of assets invested in sustainable and Paris-aligned equities and over £400m committed to renewable infrastructure.*

As part of our commitment to the IIGCC Net Zero Asset Owners framework, the Fund is committed to delivering real world emissions reductions as opposed to portfolio emissions reductions. This means our targets will be kept under review and updated in line with best practice. This could, for instance, see the carbon intensity target replaced with an objective that better reflects the fact many of the companies actively contributing to a lower carbon future exhibit high carbon intensities today.

The Fund will consider adopting a 'climate solutions' target that sits within the existing commitment to invest at least 30% of total assets in sustainable and net-zero transition aligned investments by 2025, accepting for the fact the industry is yet to adopt a common definition for 'climate solutions'.

To monitor progress against our climate commitments and to help inform future policy decisions on climate the Fund undertakes annual climate transition analysis across its listed equity portfolio. The first iteration of this analysis helped advance the Fund's existing climate objectives by adding two interim targets, namely, a 43% absolute emissions reduction by 2025 and a 69% absolute emissions reduction by 2030 relative to a 2019 baseline, for its listed equity portfolio.

At March 2022 the Fund had £1.4bn of assets invested in sustainable and Paris-aligned equities and over £400m committed to renewable infrastructure.

[1] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement. The concept builds on well-established global frameworks in terms of climate change, human rights, labour standards and inclusive growth. It focuses attention on the need to anticipate and manage the social and economic implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.

[2] Sustainable equity portfolios seek to maximise exposure to companies that are responding positively to the challenges of climate change, environmental sustainability or social well-being, whilst maintaining financial returns

Decarbonisation progress versus our 2019 baseline

The equity portfolio has decarbonised across all three metrics measured as part of the analysis. On an absolute emissions basis the equity portfolio has decarbonised by 41.6% 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 56.3% reduction in intensity, while Weighted Average Carbon Intensity (WACI) saw a 30.0% decrease.

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

Transition alignment of portfolio

Along with analysing emissions intensity data, the Fund also categorises companies along a spectrum from 'high carbon intensity with low transition potential' to 'high transition capacity' using various forward-looking inputs. In time this information will help to ensure the engagement activity undertaken on behalf of the Fund is focussed on the companies that are most material to our climate objectives and move us toward the IIGCC recommendation which states that 70% of financed emissions in material sectors such as energy and utilities should either be aligned to net zero or part of an active engagement programme.

Methodologies for forward-looking metrics are still evolving and so the results of the 2022 analysis which showed a 15% annual increase in the number of companies scoring in the top quartile for transition alignment should not be relied upon in isolation.

The Fund's TCFD Report contains further details relating to transition alignment and implied temperature pathway methodologies.

Asset transition rating	2021 (data as at 31/12/2020)	2022 (data as at 31/12/2021)
Strong alignment	5.7%	20.5%
Transition capacity	93.7%	79.0%
Poor alignment	0.6%	0.5%

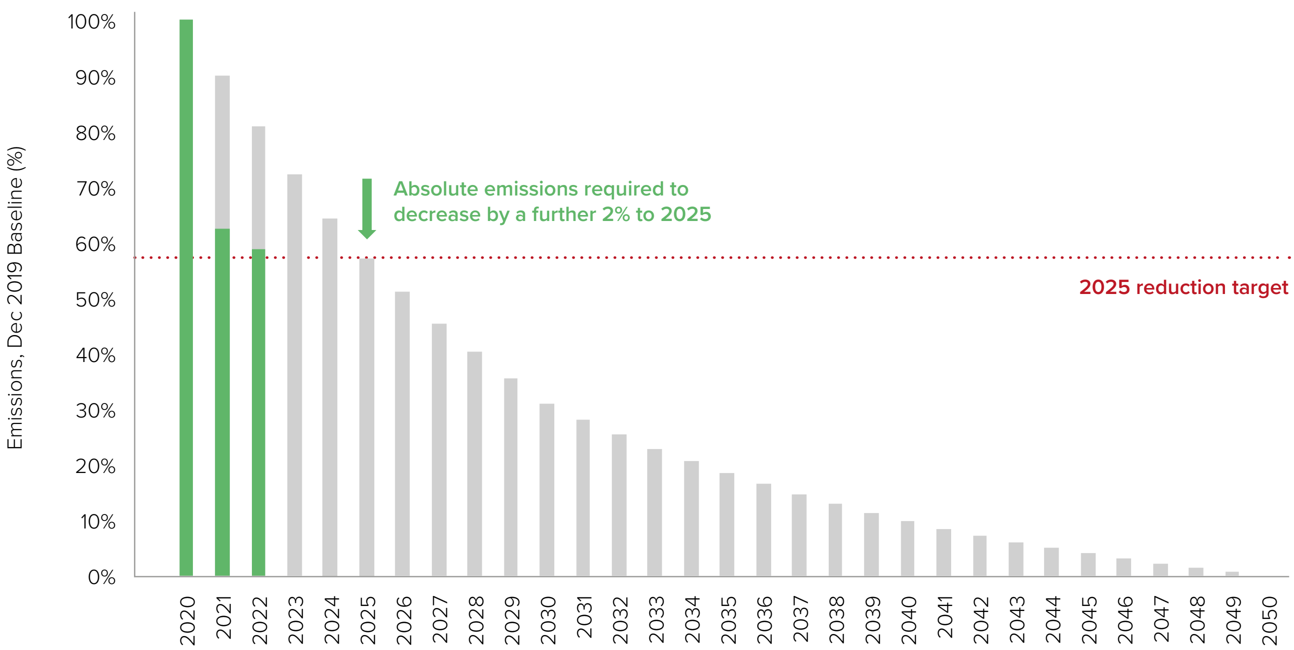
Source: Mercer, 2022

[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

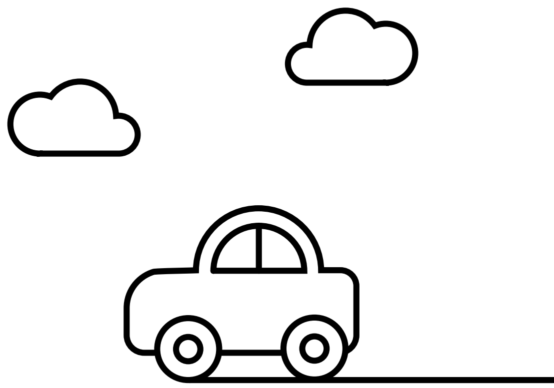
Decarbonisation pathway to 2050

Since the initial analysis was undertaken, the Fund's listed equity portfolio has decarbonised faster than the decarbonisation flightpath used to determine emissions reductions required to meet net zero by 2050.

Listed Equities Decarbonisation Path - 2019 Baseline
Absolute Emissions 2019-2022



While this is a positive result for the Fund we do recognise that decarbonisation at this pace may not continue and we will have to work with the industry and our strategic partners to develop innovative solutions as big efficiency gains become harder to replicate.



Responsible Investing Reporting & Disclosures Developments

Transparent reporting and climate-specific disclosures are critical if we are to make real progress. This **year the Fund produced its second report in line with guidance issued by the Taskforce on Climate-related Financial Disclosures (TCFD)**. This critical framework not only helps us to deliver on our own climate change objectives but is also a way of signalling to investee companies, managers and partners how important climate risk transparency is if the Fund is to effectively decarbonise.

The Report, which can be found at Appendix B has been completed to the fullest extent possible. While data is not always available in the quantity or quality desired, through lack of consistent emission information or due to the difficulty of reporting against certain asset classes, this should become more readily available over time. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory for LGPS.

The Fund successfully achieved signatory status to the FRC UK Stewardship Code 2020 ('the Code') after its first submission in October 2021.

As a signatory to the Code the Fund supports and applies the Code's definition of stewardship:

> "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society".

The Code is voluntary and comprises 12 'apply and explain' principles across 4 key pillars: Purpose and Governance, Investment Approach, Engagement, and Exercising Rights and Responsibilities. The report itself focuses on activities and outcomes to demonstrate application of the Code and can be accessed through the Fund's website here. We are currently working on the second annual submission to the FRC which will include details of work undertaken as part of the good governance review, examples of how the Fund has planned for, and responded to, market-wide and systemic risks and how we are putting measures in place to communicate our stewardship activities to our members.

Risk Management Strategies

(i) Integrating climate metrics and targets in cash investments/instruments

The Fund has committed significant capital to renewable infrastructure projects. These commitments are typically invested via closed-ended fund structures which draw capital over time as opportunities to invest arise. Capital is often required at short notice. Holding cash in advance of investments being made is sub-optimal from a returns perspective and so we worked in partnership with BlackRock to design a solution which involves investing in a suite of highly liquid ETFs optimised to match our strategic asset allocation. Over the year we added a dedicated allocation to a Paris-aligned ETF which broadly tracks our £500m investment in Brunel's Paris-aligned fund.

We routinely monitor the ESG score, carbon intensity and implied temperature pathway of this liquidity strategy to ensure it continues to deliver in line with our overarching climate objectives.

There remains a requirement to hold some cash in the portfolio. Last year we reported on how the Fund became an early adopter of liquid environmentally aware cash funds which employ both positive and negative screens and commit a portion of fees generated to actively acquiring and retiring carbon offsets while delivering on the conventional metrics of yield, liquidity and credit quality.

(ii) Integrating climate metrics and targets in risk management frameworks

We use capital intensive derivative-based strategies to manage investment risk and are required to hold a market-cap based equity strategy to control leverage in the vehicle which houses these strategies. As part of our approach to integrate climate across our entire portfolio we are working with industry to address the structural and regulatory hurdles associated with holding low carbon solutions/strategies in investment vehicles otherwise reserved for derivative based strategies. As the market evolves (i.e. the number of counterparties willing to quote prices for derivatives which reference a climate-aware benchmark increase) we will look to move away from using market-cap equity strategies altogether and instead adopt a synthetic approach which would involve using a bespoke instrument referencing a climate aware benchmark such as MSCIs Paris-aligned index suite.

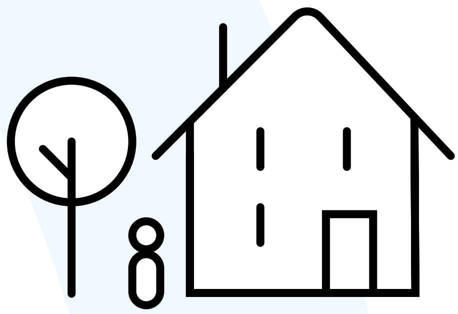
Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, considering the potential to build its exposure to green gilts and sustainability-linked bonds in a cost-effective way as issuance increases.

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

Responsible Investment in Private Markets

(i) Renewable Infrastructure

The war in Ukraine and resultant impact on energy prices globally brought the need to scale up investment in the clean energy transition into sharp relief. We saw the demand from investors for established renewables like wind and solar increase further leading to pressure on yields and a notable increase in the risk investors were willing to take to get exposure to these assets. To combat the supply-demand imbalance in these markets and improve diversification, the Fund sought to widen the scope of the investments it makes in renewables via its private markets portfolios and has begun investing in burgeoning areas such as energy storage, mobility (including EV charging) and sustainable district heating.



(ii) Social Impact

Interest in impact investing strategies, which focus on specific positive social and/or environmental outcomes, has increased significantly over the year. The Fund already has exposure to "impactful investments", through its global sustainable equities, Paris aligned equities and renewable infrastructure allocations, which combined represent over 30% of the Fund's total strategic asset allocation.

Our £220m allocation to the Brunel UK Property Portfolio is invested in a diverse range of underlying funds, including affordable housing strategies (which we reported on last year) and other specialist sectors such as life sciences and healthcare.

Case Study: Life Sciences (Brunel UK Property Portfolio)

A thriving life sciences industry is a key to providing research & development and diagnostics facilities to the medical and scientific communities. Through our UK property portfolio, we have committed £8.5m to UBS's UK Life Sciences Fund, which seeks to invest in and develop lab-grade facilities for use by the industry. One project recently unveiled by UBS is a huge joint venture to develop one of Europe's largest life sciences campuses. Located alongside GlaxoSmithKline's UK R&D centre and 40 other industry-firms, this development aims to convert 1.4 million square feet into lab and office facilities and create space for up to 5,000 jobs, helping to further cement this 'cluster' of facilities into a world leading life sciences destination.

Measuring and monitoring the impact of these strategies or assets in a standardised way presents challenges but is essential for investors who need to demonstrate how their capital allocation decisions are making a positive contribution across social and environmental dimensions. This is an area of focus for Brunel who are working on developing metrics that ensure its partner funds can reliably disclose the tangible benefits of investments made by underlying fund managers. Furthermore, the Fund will examine the benefits of a dedicated social impact allocation as part of its 2022/23 strategy review, which among other things, will look at the possibility of supporting local/regional projects.

Section 4 contains further examples of the current opportunity set across private markets sub-sectors.

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

Section 2

Pooling of Assets with Brunel

Pooling of Assets with Brunel

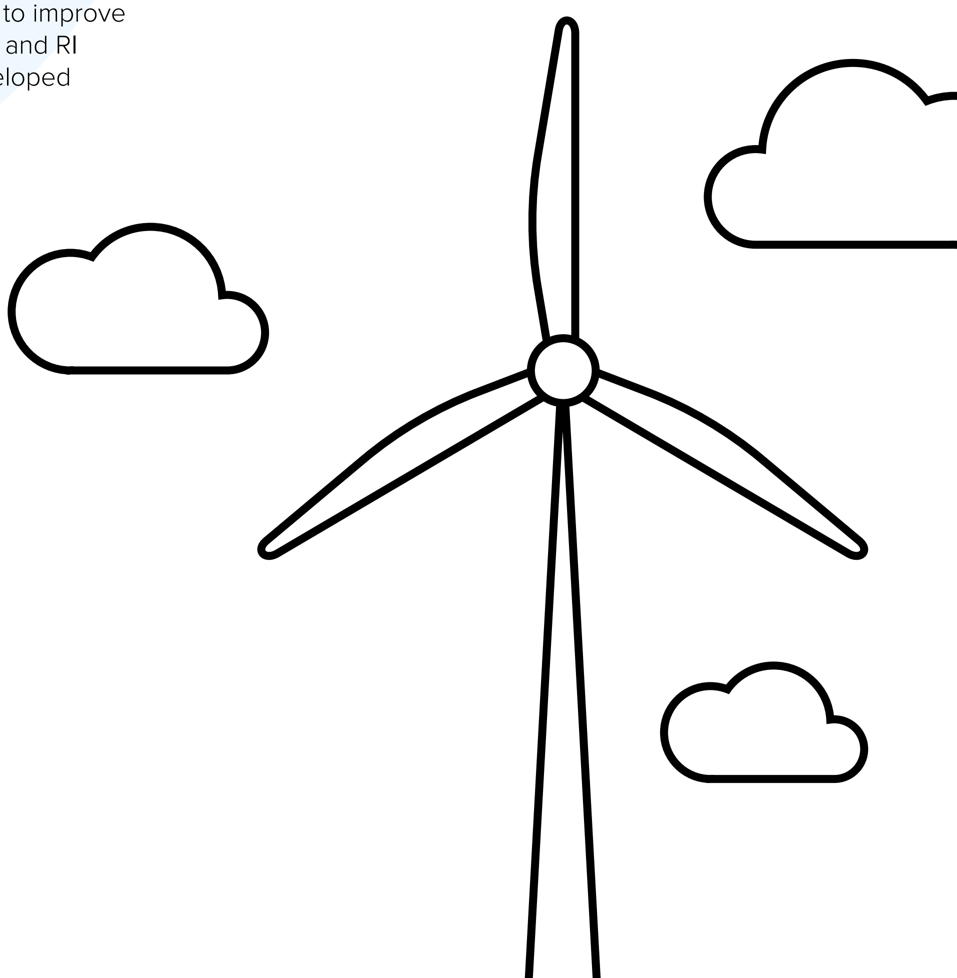
Brunel policies span climate change, stewardship and responsible investment more broadly and determine how the Fund's own approach to RI is implemented and monitored. Brunel's policies and priorities are informed by its investment beliefs which have been developed with all partner funds together with regulations and statutory guidance. Brunel's guiding principle is to deliver stronger investment returns over the long-term and to protect its clients' interests by contributing to a more sustainable and resilient financial system, which supports sustainable economic growth.

By the end of the year, Brunel had over 80% of its clients c.£38 billion of assets under its management.

Notably, in the last year, Brunel successfully completed the launch of its suite of listed markets portfolios including the launch of a Multi Asset Credit portfolio, to which the Fund subsequently allocated 6% (c.£290m) of its assets. This portfolio provides exposure to a broad range of specialist bond sectors, such as high yield corporate bonds, bank loans and emerging market debt while also seeking to improve the degree of climate transition alignment and RI disclosures in this relatively less well-developed asset class.

The strategic affiliation with the industry leading body, the Institutional Investors Group on Climate Change (IIGCC), was reinforced when Brunel's Chief Responsible Investment Officer was appointed to the role of Chair in December 2020. As an early adopter of initiatives such as TCFD, Brunel's RI disclosures continued to evolve in line with best practice, ensuring it retained its industry leading position in the field of RI.

The third edition of Brunel's 'Responsible Investment and Stewardship Outcomes Report' profiled successes across several key RI themes including social inequality, modern human slavery and cyber security. Given the growing awareness of Biodiversity on investment materiality and with a clear mandate from underlying partner funds, this year's report highlights 'Biodiversity' as a priority theme with examples of work relating to deforestation, palm oil, plastics, and water consumption.



Brunel's Biodiversity Strategy

We will:	We expect our asset managers to:	We expect high risk companies to:
Proactively identify nature- and climate-positive investment solutions	Assess exposure to risk and opportunities arising from biodiversity – starting with deforestation	Commit to having a net-positive impact on biodiversity throughout their operations and supply chains by 2030 at the latest
Proactively ask managers to evidence their approach	Identify opportunities for direct engagement with higher risk holdings, including exposure in supply chains, operations and/or financing	Establish governance and put processes in place to manage nature-related impacts and risk
Develop mechanisms to evidence impact and report case studies and outcomes	Engage on policy to support an enabling environment for businesses to avoid biodiversity risks and impacts	Identify the potential effect of the organisation's impact and dependencies on nature and consequential risk and opportunities on business strategy and planning
Support developing industry thought leadership and take part in collaborative engagement with policymakers, companies and businesses		Support capacity building across supply chains to avoid negative biodiversity risks and support nature-positive outcomes
Support the development and report against the guidance of the Taskforce for Nature-related Financial Disclosures (TNFD)	Provide case studies and prepare for increased transparency, in line with best practice guidelines, such as those of the TNFD	Start reporting on impacts and build capacity to increase transparency, in line with latest best practice guidelines, such as those of the TNFD

Source: Brunel 2022 Responsible Investment and Stewardship Outcomes Report

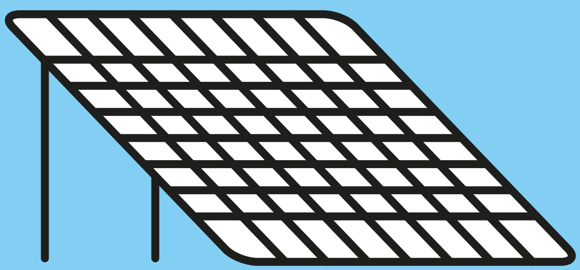
Since launching the Paris-aligned benchmarks in 2021 investor uptake has continued to gain traction, with around £4bn of Brunel partner fund capital transitioned to date.

The new benchmarks not only meet the requirements of the EU's Paris-aligned benchmark criteria by achieving a 50% reduction in carbon emissions over a ten-year period but go a step further by integrating forward-looking metrics and governance protections from the Transition Pathway Initiative (TPI). The TPI provides assessments of how the world's largest and most carbon-exposed companies are managing the climate transition. Exposure to any given constituent in the benchmark rises or falls according to several exposure objectives, covering fossil fuel reserves, carbon reserves and green revenues, as well as forward-looking alignment with the goals of the Paris agreement.

We reported on how the new benchmarks have helped move the industry on and directly address the shortcomings of both traditional market-capitalisation weighted and first generation low-carbon passive benchmarks in the context of achieving real world emissions reductions in last year's report, following a £575m investment by the Fund in the closing months of 2021.

While addressing climate change through our investment strategy has remained our focus this year, our exposure to best-in-class investment managers in addition to Brunel's internal dedicated team has allowed Avon to make a contribution across Brunel's seven priority themes, namely: climate change, biodiversity, circular economy and supply chain management, cyber, diversity, equity and inclusion, human rights and social issues and tax and cost transparency, details of which can be found in Brunel's third annual Responsible Investment & Stewardship Outcomes Report.

Source: Brunel 2022 Responsible Investment and Stewardship Outcomes Report



Section 3
Carbon Metrics

Carbon Metrics

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

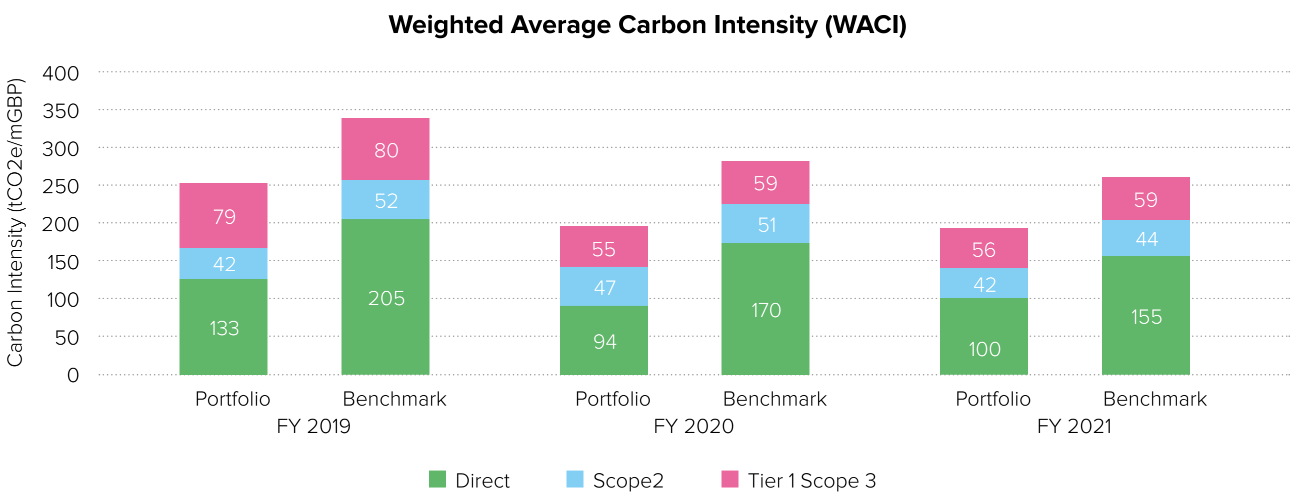
A summary of the key findings (for periods ending December 2021) can be found below.

(I) Weighted Average Carbon Intensity (WACI)

WACI is one of the measures recommended by the TCFD. **Relative to the industry benchmark the aggregate portfolio was 24% more efficient (less carbon intensive) than the benchmark.**

In addition this year's report shows:

- All active listed equity portfolios that the Fund invests in exhibit a lower WACI than their respective benchmarks, with the exception of the BlackRock Passive Global Equity fund which tracks its benchmark.
- Improvements in WACI brought about by the Fund's decision to exit emerging market equities was partially offset by its switch from the legacy passive low carbon equity fund (which focussed on portfolio decarbonisation) to the next generation Paris-aligned index which weights companies based on their transition capability and, for this reason, contributes to real-world emissions reductions.
- The global high alpha equity portfolio exhibited the lowest WACI of all active equity portfolios but had the highest future emissions number, whereas the sustainable equity portfolio showed a relatively high WACI driven by investments in companies who are at the forefront of the energy transition. These companies are leaders in challenging and difficult-to-abate sectors and often have a higher carbon intensity today than companies in other sectors. As expected the sustainable equity portfolio scored well on other metrics such as 'future emissions from reserves' (see below).



Case Study: Fortis, Inc. (Global Sustainable Equity Portfolio)

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

(ii) 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[4]. We can then assess the revenue exposure that each company has to these activities and aggregate this data to get an overall portfolio assessment.

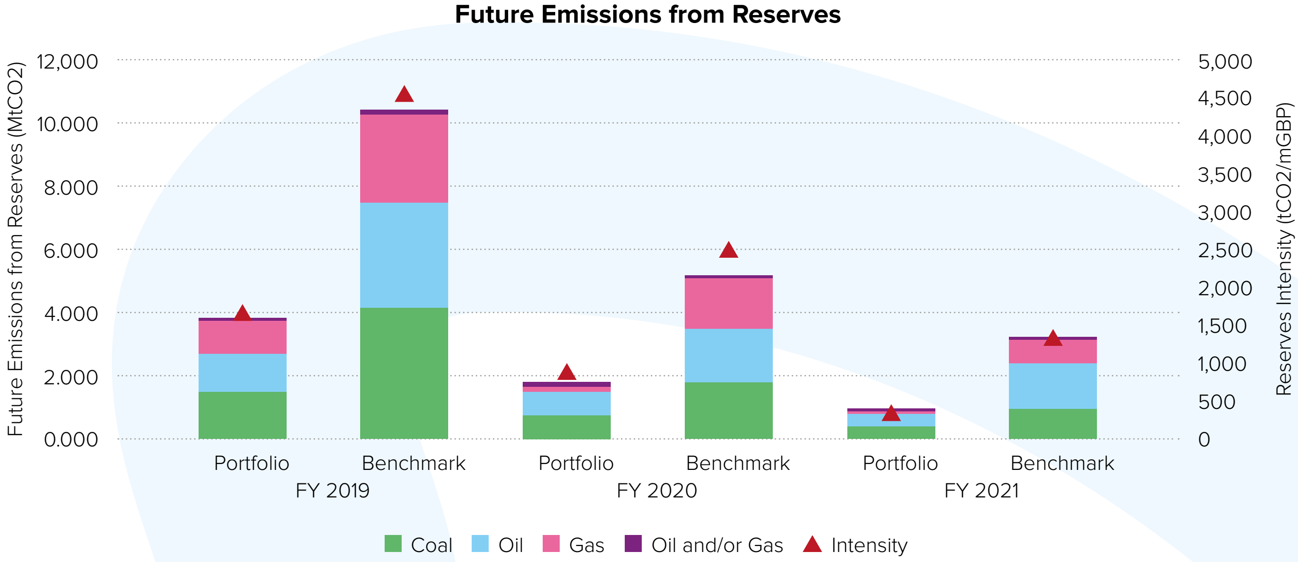
Weighted fossil fuel revenues exposure represents 0.62% (0.79% in prior year) of the aggregate portfolio relative to benchmark exposure of 1.72% (1.76% in prior year).

The removal of the allocation to the legacy low carbon passive fund was a significant driver in the reduction of fossil fuel revenues exposure, as this index assigned large weights to oil & gas support companies in order to keep direct emissions and return volatility low, thereby continuing to support the fossil fuel industry by prioritising portfolio decarbonisation above absolute emissions reductions.

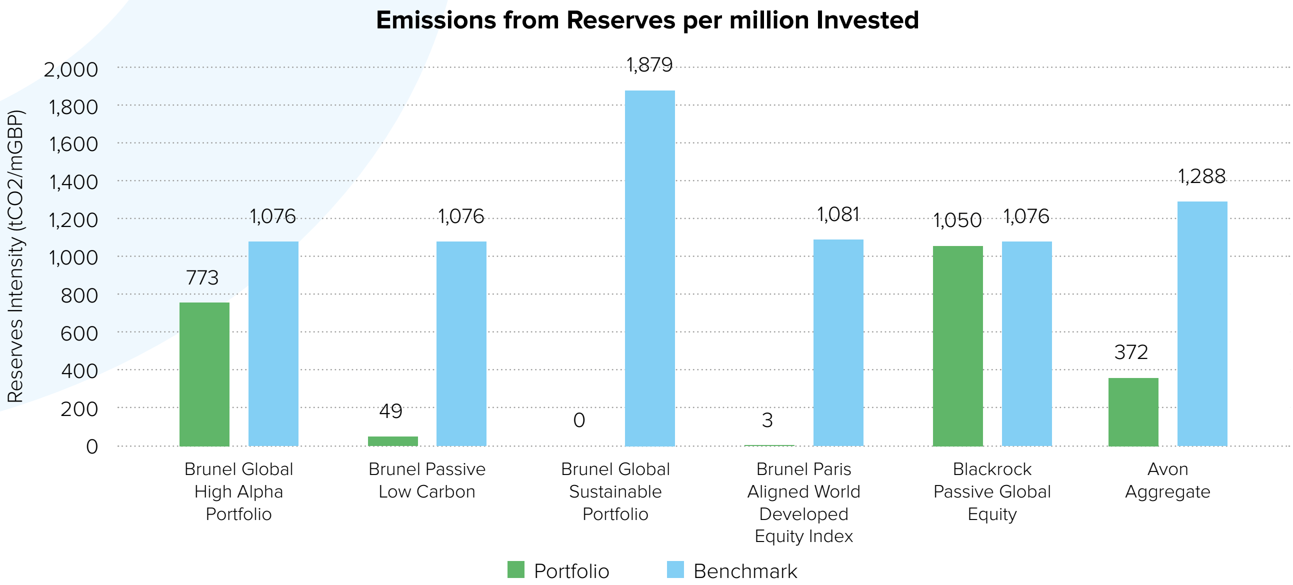
We identify companies that have both proven and probable fossil fuel reserves and can look at the exposure per portfolio and at an aggregate level. Taking the reserves exposures, we can assess potential future emissions that may result from these reserves being realised. This is a valuable forward-looking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

[4] 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

Future emissions from reserves are 0.9MtCO2 (1.6MtCO2 in prior year) versus 3.1MtCO2 (5.1MtCO2 in prior year) for the benchmark.



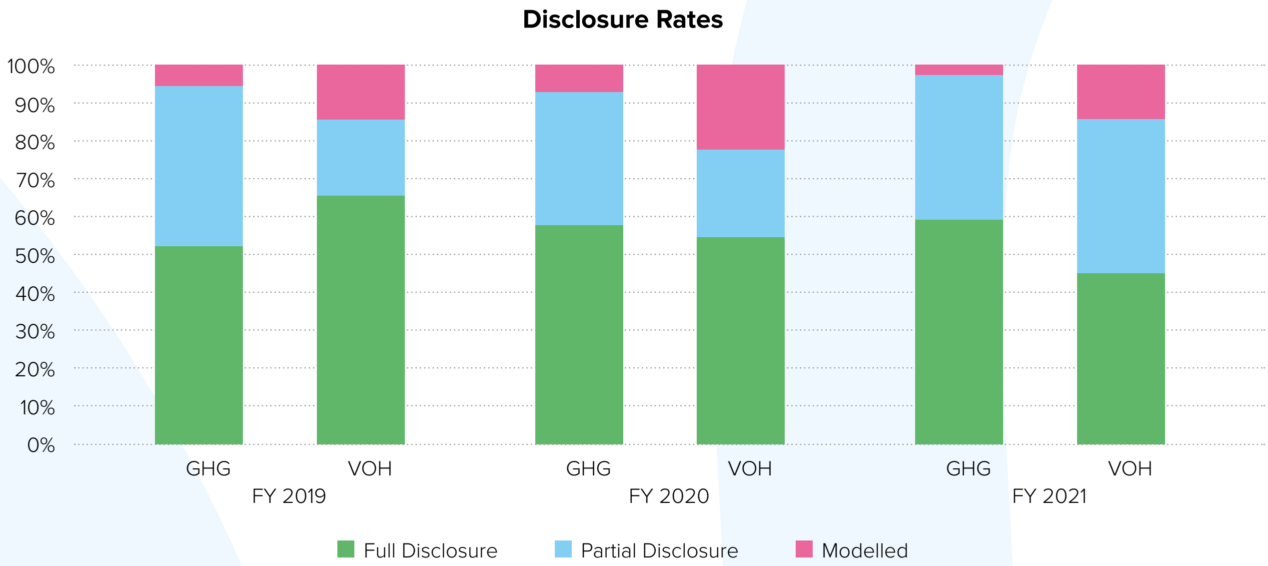
The 44% year-on-year improvement in future emissions from reserves is attributable to the increased investment in the Global Sustainable and Paris-aligned equity funds – both of which as can be seen from the below chart – have minimal exposure to future emissions from reserves.



(iii) Disclosure Rates

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

- On a carbon-weighted basis, the rates for full disclosure of carbon data were 60% compared to 58% in the prior year, which indicates disclosure rates among companies with high levels of emissions have increased over the past 12 months.
- On an investment-weighted basis, the rates for full disclosure of carbon data were 46% compared to 55% in the prior year. This outcome is attributed to the increased exposure the Fund has to small-cap companies within the sustainable equities portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. However, these rates do indicate scope for improved reporting among investee companies, which is a core aim of the engagement work adopted by the Fund, Brunel and its strategic partners.



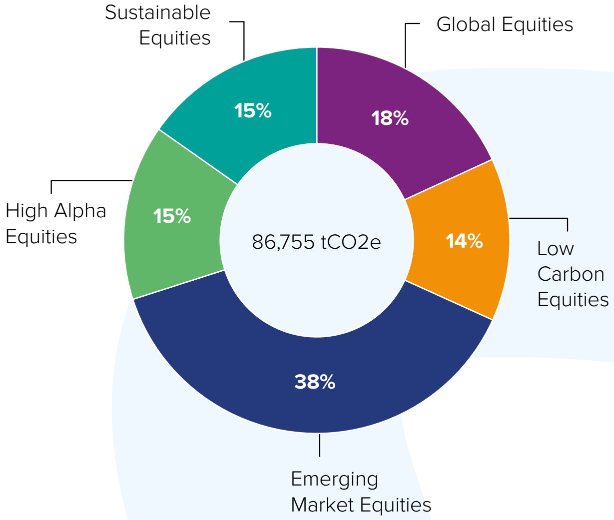
(iii) Absolute Emissions

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

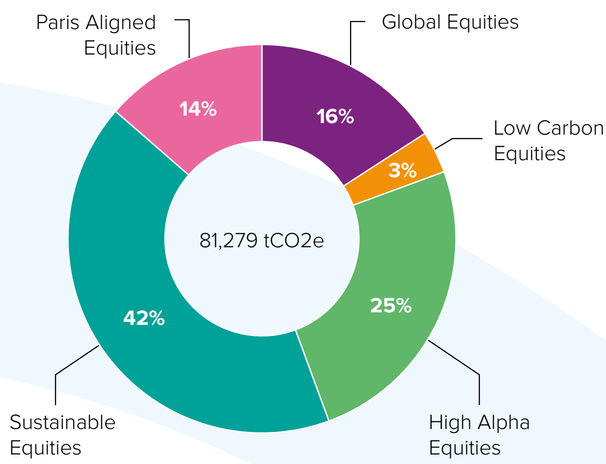
Absolute emissions in the Fund's baseline year were 139,256 tCO2e[5]. In 2021 this figure stood at 86,755 tCO2e, with the reduction largely attributed to the removal of the emerging markets allocation. **There has been a further reduction in absolute emissions over the past year (81,279 tCO2e) despite a market environment that saw commodity prices surge and an increase in the value of our assets**. The decrease is indicative of decarbonisation in underlying portfolios driven by investment managers allocating capital to less carbon intensive sectors and/or companies.

[5] Tonnes of carbon dioxide equivalent

Contribution to Absolute Emissions by Portfolio - 2021

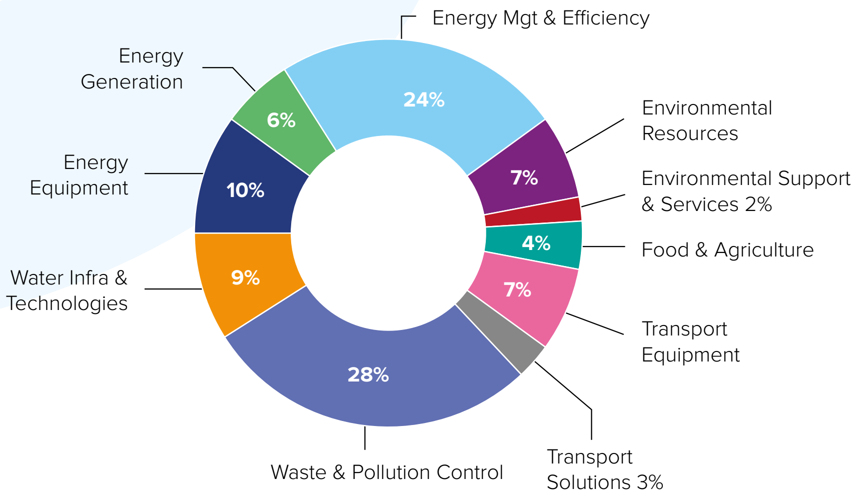


Contribution to Absolute Emissions by Portfolio - 2022



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. We were encouraged this year by Brunel's progress with respect to measuring the positive impact of its listed equity portfolios by piloting the FTSE Russell methodology to assess revenues of companies across various sectors that have exposure to products and services that deliver environmental solutions.

Global Sustainable Equities - Green Revenues

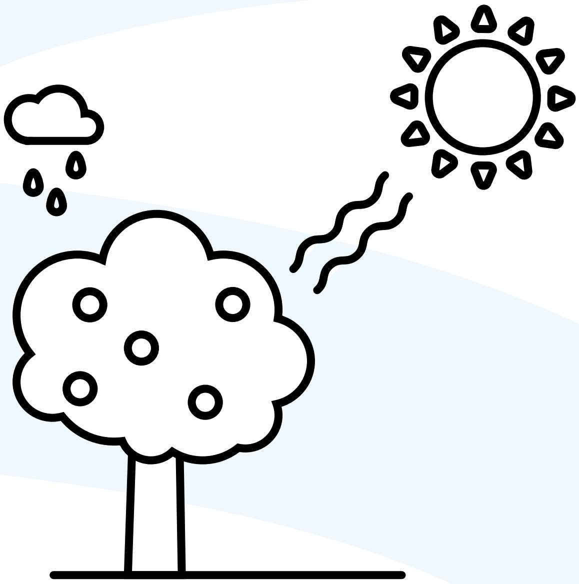


The Global Sustainable equity portfolio has 10.9% of exposure to green revenues compared to 8.5% in a standard global equity benchmark. The majority of green revenues (28.7%) come from waste and pollution control technologies and solutions, followed by energy management and efficiency (23.8%) and energy equipment (10.1%).

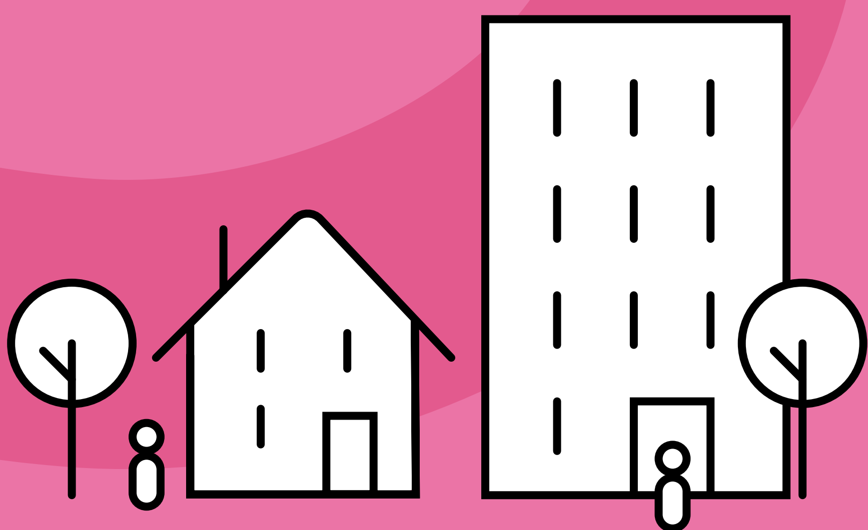
Critically, the top portfolio contributors to green revenues are the same companies that exhibit the highest carbon intensities today.

Case Study: Republic Services, Inc. (Global Sustainable Equity Portfolio)

- Highest carbon intensity and highest contributor to green revenues in the Global Sustainable Equity portfolio
- US leader in environmental services industry operating nationwide recycling and waste services
- Committed to reducing Scope 1 & 2 emissions by 35% by 2030; a Science-based Target Initiative (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



Section 4
Positive Impact in Private Markets



Positive Impact in Private Markets

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

Real assets play a pivotal role in delivering a net zero emissions future as well as supporting a 'just transition'[6] and serve to ensure we are generating the return required as well as making both an environmental and social contribution. Highlights of some of the projects we are invested in through our private markets portfolios can be found below.

(i) Infrastructure

Over the year continued demand for renewables driven primarily by geopolitical trends and the increased urgency to move away from oil and gas served to further compress yields and increase the risk investors were willing to take to access the sector. These structural forces have made it difficult for investors to source attractively priced assets in well-established sub-sectors such as wind and solar, which has driven increased investment in other infrastructure sectors which are critical to meeting global infrastructure needs and achieving the required climate adaptation and mitigation that the power sector alone cannot deliver. For instance, through its investment in the Brunel Cycle 2 Renewable Infrastructure vehicle, the Fund committed to an energy transition fund managed by Mirova.

This flagship fund will invest in onshore wind farms, solar power, hydroelectricity, biogas and will also diversify into offshore wind farms, the low-carbon mobility sector (to support the growth of the electric vehicle sector) and the emergence of hydrogen as a source of clean energy.

At the end of the year the Fund had c.£90m of its £235m commitment to renewable infrastructure invested through Brunel Cycle 1 and 2 portfolios.

In order to maintain its 5% strategic allocation to renewable infrastructure the Fund committed a further £55m to the Brunel Cycle 3 infrastructure portfolio, which has been constructed to overcome the structural challenges faced by the renewables sector.

The Cycle 3 portfolio will allocate 30-60% of assets to low carbon, energy-transition, renewable energy and renewable-enabling technologies and 40-70% to climate solutions and general infrastructure.

Case Study: Energy from Waste (Brunel Renewable Infrastructure Portfolio)

A new multifuel facility located in Slough which uses waste as an energy source will have a generating capacity of 50MW and use up to 480,000 tonnes per year of pre-processed waste-derived fuel. The project is already supplying electricity to the grid. Once fully on-stream, the facility will power around 100,000 households. It will save around 5.2 million tonnes of CO_2 through the project lifetime, equivalent to permanently removing 70,000 cars from the road.

[6] 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.

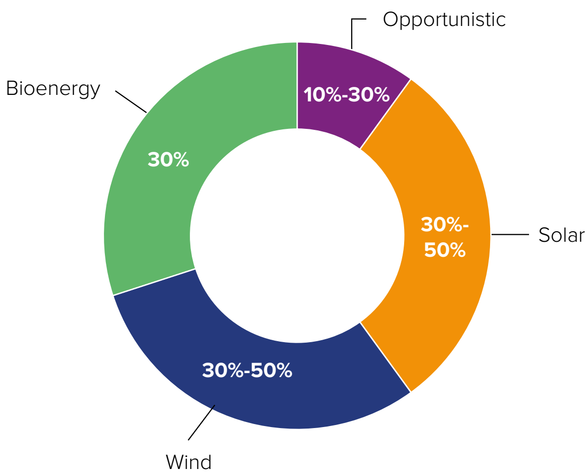
During the year our general infrastructure manager, IFM, announced that it would commit $500m to a newly launched net zero fund seeking to accelerate the world's transition to a net-zero emission economy by targeting investment opportunities in areas such as renewable power, energy storage, electricity transmission and distribution, electric transport infrastructure as well as nascent areas of the market such as low-carbon fuels and carbon capture.
The general infrastructure portfolio, which the Fund currently has a 5% strategic allocation to, will continue to transition new and existing assets gradually to decarbonise over time, with the aim of achieving a 40% reduction in emissions by 2030.

2021/22 was an acquisitive year for IFM with several notable deals including the acquisition of a 50% stake in Enwave Energy Corporation in partnership with Ontario Teachers' Pension Plan Board. Enwave is a fully integrated district energy business that provides innovative, sustainable district cooling and heating solutions to over 320 consumers across a range of sectors in North America. Enwave is a recognised leader in the development and implementation of pioneering technology designed to meet the energy needs of end users while simultaneously delivering real emissions reductions.

(ii) Secured Income

The Fund has a £465m commitment to the Brunel Secured Income portfolio which it subsequently increased by £240m in early 2022. Approximately 70% of capital is allocated to long-lease property assets, which consist of traditional sale & leaseback arrangements, ground rents and forward funding agreements. 30% of capital is allocated to an operational infrastructure fund formed to make investments in renewable assets located predominantly in the UK, with the principle objective of generated contracted income over a long-term time horizon from multiple sources. The fund continues to acquire a diversified portfolio of assets with a focus on solar, onshore and offshore wind, bioenergy and, opportunistically, assets in other renewable infrastructure areas. We have reported extensively on our investment in the ground-breaking project that saw the construction and operation of two of the UK's largest commercial greenhouses, warmed by waste heat from nearby water treatment facilities. Further details on this particular investment are available here.

Secured Income (Operational Infrastructure) Asset Allocation



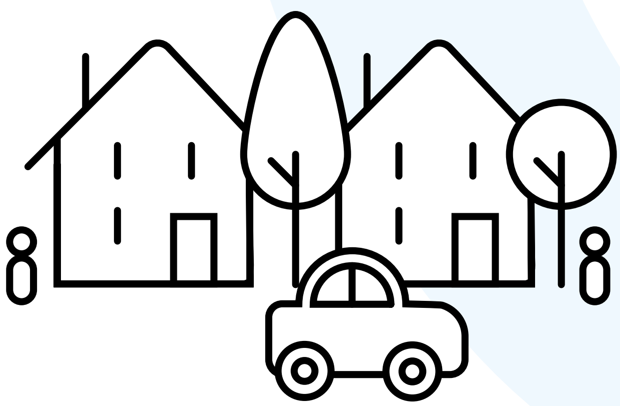
Case Study (Brunel Secured Income Portfolio): Supply chain transparency in solar

Policymakers and investors are increasingly focussed on supply chain transparency and sustainability. Significant draft EU legislation introduces mandatory supply chain due diligence for all companies selling products and services in the EU – no matter the location of the parent company. The new focus and legislation has helped ensure solar panels are not procured from companies or regions at high risk of human rights abuses. One underlying fund manager in the Brunel Secured Income portfolio is supporting the Solar Energy UK Supply Chain Transparency Working Group, which is working in partnership with SolarPower Europe to consider and develop a supply chain traceability protocol. It will be designed to build a supplier monitoring programme and enhance end-to-end transparency and traceability along the solar supply chain. It has also worked with peers to develop the Solar Sustainability Best Practices Benchmark, which provides industry standards for improved traceability and full disclosure of environmental and social aspects in the supply chain. These tools are enabling the solar sector to lead across several critical sustainability issues.

(iii) Property

Our UK Property portfolio is given a sustainability score by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio is compared to its peers and hence its potential climate change resilience. The most recent annual analysis showed that we exceeded the benchmark average in overall ESG performance. Details of projects that have contributed to the GRESB rating can be found in the Fund's TCFD Report here.

Among a diversified portfolio of core sectors including industrials, office-space, retail and residential the portfolio has continued to build exposure to specialist sectors. Last year we reported on the Fund's investment in a UK Affordable Housing Fund which seeks to alleviate the supply and demand imbalance in the private rental sector across the UK. At the end of the year over half of the Fund's original £10m commitment had been deployed and further opportunities for the property portfolio to invest in impact strategies had been identified in the life sciences, social and healthcare sectors.



Case Study: Positive Impact in UK Residential Sector (Brunel UK Property Portfolio)

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

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

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

Efficient waste management is incorporated in the building's design with refuse chutes on each floor divided into three vessels, reducing the amount of refuse going to landfill by up to 66%. A brown roof across 80% of the structure – which recreates the brownfield site that existed before the building was constructed – promotes biodiversity by allowing plants and wildlife to self-colonise.

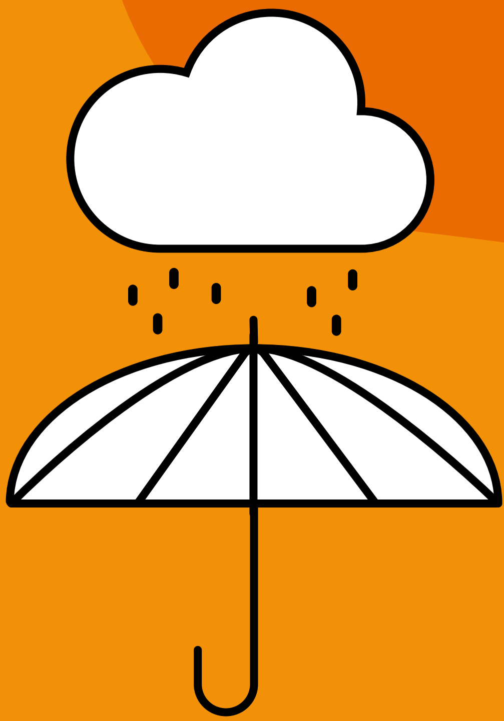
The scheme has been built to a voluntary certification standard known as the Code for Sustainable Homes, and BREEAM In-Use Residential certification will be sought once the minimum required occupancy level is reached.

(iv) Private Debt

Fixed income markets have lagged equities in the application of ESG criteria. This likely reflects a range of factors, principally; bondholders do not have the control rights shareholders do. To account for this, Brunel have been working with their underlying managers within the Private Debt portfolio, which we initially committed £245 million to, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues.

Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis.

The Fund has since increased its commitment by £170m partly in recognition of the innovative financing solutions developed by the underlying fund managers which reward borrowers who are able to demonstrate the impact of sustainability initiatives that span environmental themes, labour and human rights and sustainable procurement and supply chain transparency.



Section 5
Stewardship

(i) Engagement

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

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

Organisation/Initiative	Remit
BRUNEL Pension Partnership	To address climate risk, the partnership published its Climate Change Policy in January 2020. This policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon-zero future". 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).
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. Over the year, and as part of a continued programme of expansion, the IIGCC issued consultations and co-ordinated working groups made up of industry thought leaders, on how to integrate infrastructure, derivatives, hedge funds and private equity into the framework.

Organisation/Initiative	Remit
Local Authority Pension Fund Forum	LAPFF is a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the LGPS funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. This year LAPFF continued their engagement work with high emitting sectors under the purview of the 'Say on Climate' initiative. LAPFF also backed an All-Party Parliamentary Group inquiry into responsible investment for a just transition. The inquiry examined how investors can establish policies, understand the risks (including through engaging affected stakeholders), set expectations of companies, engage on the issue, and integrate just transition measures into capital allocation decisions. Human rights have been a significant focus for LAPFF over the course of the year. LAPFF has particularly focused on the impact of the global mining industry on human rights and has also undertaken substantial engagement with companies operating in the Occupied Palestinian Territories after many LAPFF member funds were approached by activist groups working on this issue. Officers and Committee members attended four LAPFF business meetings during the year. One of the Fund's Committee members is a member of the LAPFF Executive Committee. The most recent LAPFF Annual Report is available to read here.
Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+ (CA100+) is an initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. The 2020 Climate Action 100+ Net-Zero Company Benchmark assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance, and disclosure. The benchmark helps the Fund to evaluate company ambition and action in tackling climate change. It is one of several inputs in the 2022 Brunel climate stocktake and will help to facilitate company engagement and action. Climate Action 100+ published the second set of Net Zero Company Benchmark assessments in March 2022 to reflect evolving priorities of investors and the latest available climate science.

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 we can utilise to help move the industry forward.

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

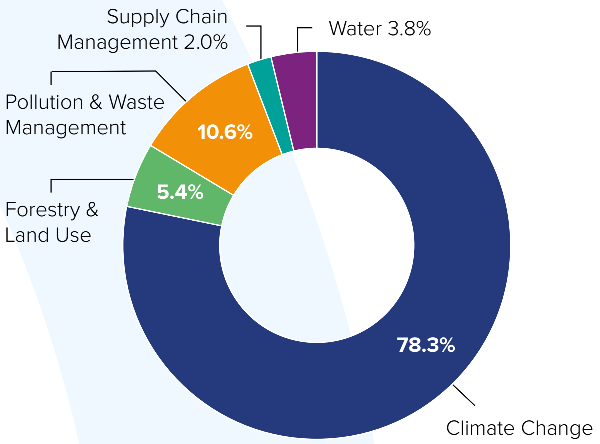
The Fund feeds into the development of Brunel's engagement priorities which are communicated to EOS. There are multiple and distinct touchpoints throughout the year that Brunel and the Fund utilise to provide feedback on the engagement plan.

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. Across all Brunel listed equity portfolios, EOS were able to move at least one milestone forward for about 48% of the objectives set during the year to December 2021.

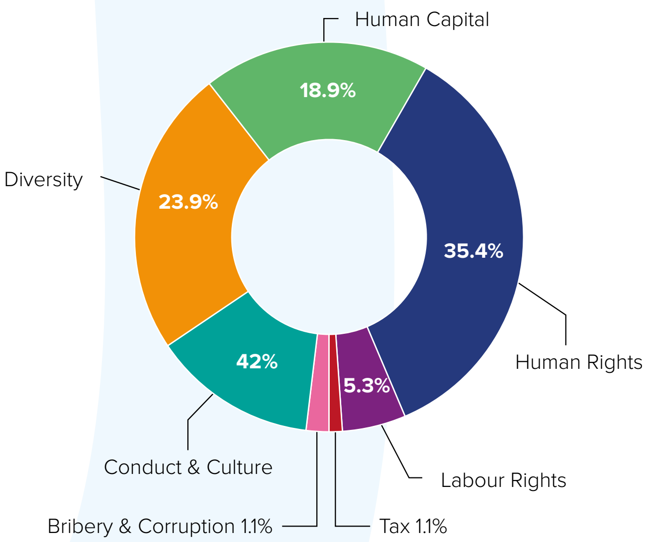
In the year to December 2021, EOS engaged with 640 companies on the Fund's behalf across 2,603 issues spanning Environmental, Social and Ethical, Governance and Strategy, Risk and Communication matters.

A summary of the issues and objectives on which EOS engaged with companies on our behalf during 2021 is shown below:

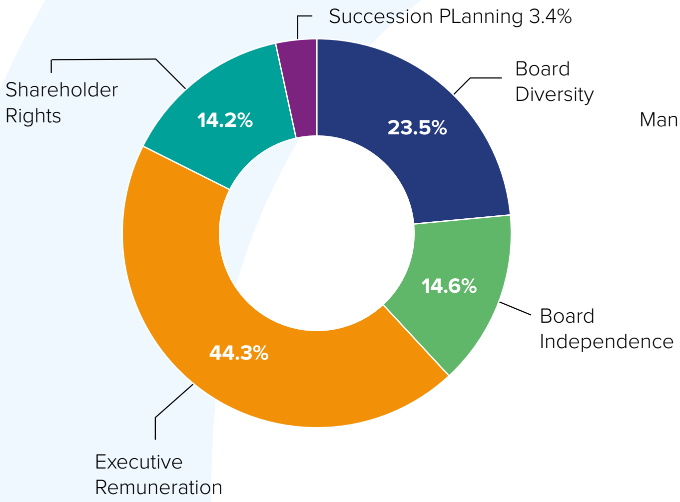
Environmental Engagement (23.5%)



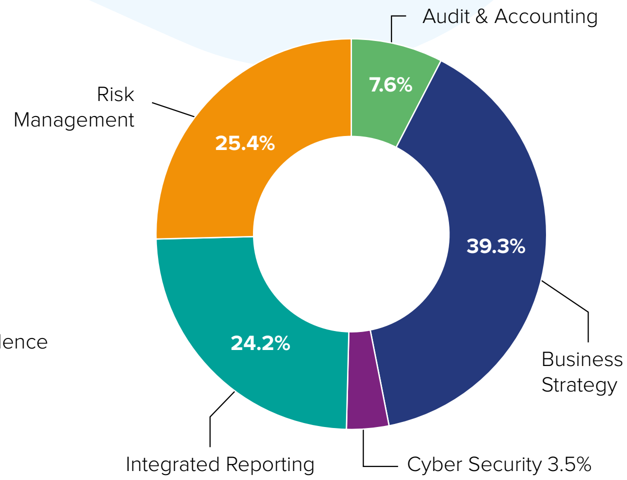
Social and Ethical Engagement (21.9%)



Governance Engagement (39.3%)



Strategy & Risk Engagement (15.3%)



In March 2021, CA100+ published its first assessment of focus companies against the Net-Zero Company Benchmark, a standardised framework for evaluating company progress. EOS contributed to the benchmark through its collaboration with the IIGCC – for example, on the inclusion of a test for capital expenditure alignment.

The second set of Net Zero Company Benchmark assessments published in March 2022 found that companies still had work to do with respect to the alignment of value chain greenhouse gas emissions. For example, while 83 of the companies assessed (52% of the total) had announced an ambition to achieve net zero by 2050 or sooner, 44 of these commitments did not cover the full scope of the companies' most material emissions. CA100+ also identified a need for long-term ambitions to be backed by clearer strategies and robust short- and medium-term targets. While 107 companies had set medium-term targets, only 21 met all the assessment criteria, and of the 75 companies to have set short-term targets, only eight met all the assessment criteria.

EOS co-led a CA100+ engagement with the US oil company ConocoPhillips – which the Fund holds in its global passive equity fund - asking for an enhanced assessment of its climate-related risk. CA100+ has a flagging mechanism to enhance the impact of investor voting on climate-related resolutions.

Seeking more ambition from ConocoPhillips, EOS flagged and recommended a vote for a shareholder proposal at the company's 2021 annual shareholder meeting that asked for absolute emissions reduction targets across Scopes 1 to 3. The proposal gained significant support (58%), adding credibility to EOS's continued engagement on the company's response to this request.

Alongside CA100+ lead investors, EOS attended the annual shareholder meeting of Air Liquide, a French multinational company which supplies industrial gases and services to various sectors, to ask questions about the company's energy transition plan. The company were challenged on the absence of a target for Scope 3 emissions, which represent 40% of its total emissions. As one of the most carbon intensive holdings in the Fund's sustainable equities portfolio, we were encouraged by the company's announcement in July 2022 that their Net Zero ambition covers Scope 1, 2 and 3 carbon emissions. Further assurance came from the Company's ability to provide an explanation of where Scope 3 emissions stem from and its explicit commitment to alignment of capital expenditure with its long-term emissions reduction target.

While CA100+ is focused on the world's biggest corporate emitters, it is vital that decarbonisation is achieved across the entire economy. This year EOS contributed to the new CA100+ Global Sector Strategies workstream, which will provide transition roadmaps for key sectors and identify the priority actions that companies, industries and investors should take. The aim is to help transform entire sections of the economy that require coordinated action. EOS contributed to the first Global Sector Strategy Reports on the steel sector and the food and beverage sector, highlighting the cross-sector actions needed to reach net zero.

Although these developments are encouraging the lack of consistency in emissions reduction methodologies makes the relative assessment of company progress challenging.

It is critical, therefore, that we continue to leverage our membership to groups such as the IIGCC and CA100+ to ensure the companies in which we invest demonstrate best practice and can clearly communicate to investors how impactful their respective decarbonisation strategies are.

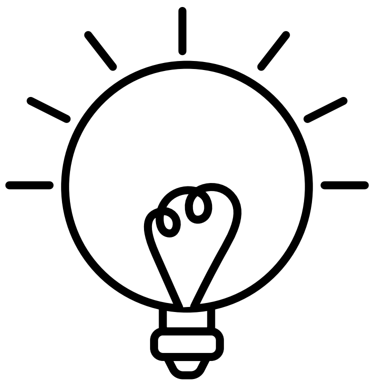
Biodiversity loss was recognised as an urgent challenge in 2021 given the importance of ecosystems for sustaining global food supplies, providing clean water and air, and absorbing harmful carbon dioxide to help mitigate global heating. In 2021 EOS published a white paper, Our Commitment to Nature, which set out engagement priorities and expectations for sustainable land use, marine ecosystems and sustainable food systems.

Throughout the year EOS continued to advocate for better public policy frameworks through their work with the Finance for Biodiversity Foundation and other collaborative initiatives.

EOS began engaging with companies across a range of sectors on how they can reduce their contribution to the five drivers of biodiversity loss, including climate change, pollution, and land and sea use change. For example, as pharmaceutical companies are highly dependent on nature, EOS asked Novartis – which is held in the Fund's high alpha and passive equity portfolios - to join global efforts to reverse nature loss by 2030. At the company's 2021 shareholder meeting, they asked the board for an assessment of the company's impacts and dependencies on nature, and for a commitment to having a net-positive impact on biodiversity across the full value chain.

Other notable company engagements undertaken by EOS over the year include the UK supermarket chain Tesco, who were challenged on their policy around the national living wage and Starbucks who engaged with EOS on how to improve their corporate strategy on diversity and inclusion. Significant work was also undertaken by EOS throughout the year as a member of the PRI plastics working group; engaging with companies across the plastics value chain, notably in the fast fashion industry, on topics such as plastics reduction targets and recyclability.

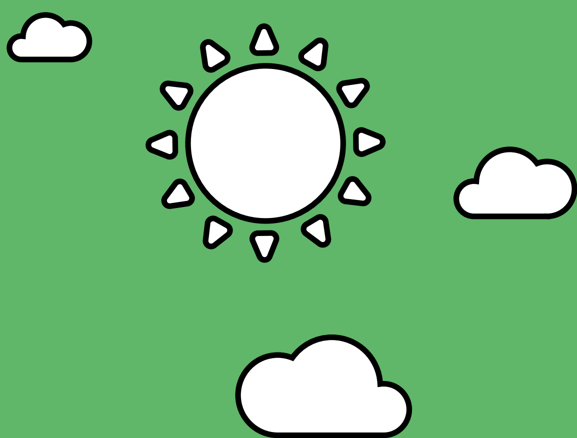
Appendix A to this report contains further examples of engagements undertaken on behalf of the Fund through the year.



The Fund has also directly participated in a number of collective engagement initiatives, including:

- **2022 Global Investor Statement to Governments on the Climate Crisis** - In April 2022 the Fund signed the 2022 annual 'Global Investor Statement to Governments on the Climate Crisis', alongside over 500 other investors managing nearly $39 trillion in AUM, ahead of COP27. Key policy requests include a call for governments to strengthen their NDCs with the goal of limiting global temperature rises to 1.5˚C, build on the agreed outcomes of COP26, scale up provision of climate finance from the public and private sector and to strengthen climate disclosures across the financial system.
- **Asset Owner Diversity Charter** - diversity is an integral part of our RI strategy and as such is a key priority. To help address the issue and build an investment industry that embodies a more balanced representation of diverse societies, we signed-up to this charter in July 2021. The charter seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry. In collaboration with Brunel, we follow its three main commitments to; incorporate diversity questions into manager selection, incorporate diversity into ongoing manager monitoring and lead and collaborate with others in the investments industry to identify diversity and inclusion best practice. This has now been signed by over 20 signatories representing over £1.6 trillion in assets.
- **Plastics pollution programme** - on an industry-wide scale, our collaborative engagement activity has included joining a plastic pollution group coordinated by First State Investment alongside the UK-charity the Marine Conservation Society, advocating with other investors for the inclusion of filters in washing machines to prevent micro plastics entering the planet's marine ecosystems.

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



(ii) Engagement Escalation

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.

As engagement is a tool to change attitudes and behaviours, companies need to be able to respond to the challenge set by us and our partners with credible, measurable, and implementable policies and strategies and the process is by necessity, iterative. Equally we recognise that efforts to engage should take place within a well-defined framework and should not continue indefinitely where no progress is made. Indeed, our climate change objectives state that in the event companies persistently fail to engage, and where the Fund and Brunel have exhausted all other channels, we retain our right to selectively divest from companies, although this is by no means the preferred route for the reasons set out in our position statement on the exclusion of investments on ESG grounds, which was updated in 2022.

The Fund's next checkpoint relating to progress made by companies to align their business models with credible net zero pathways will conclude in the first quarter of 2023 when Brunel publish their revised climate change policy and action plan. At this point the Fund will be taking stock of how our strategy has delivered against its goals with a clear message that divestment remains an option where companies fall short of our expectations.

The Fund's main 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. To further leverage engagement outcomes, LAPFF often works with other investor-led initiatives.

Case Study – LAPFF & Human Rights:

Last year we reported on the work LAPFF had undertaken on the corporate governance failings and the mining industry's poor record of engagement with local communities following several high-profile tailings dam collapses. Heading into its third year of engagement with the communities affected by the Mariana and Brumadinho tailings dam collapses, LAPFF report there has still been little progress in relation to certain aspects of reparations from these disasters. At the time of writing, only ten houses had been re-built out of over 500 expected in Mariana, Brazil, nearly six years after the dam collapse. While progress may have been slow, positive steps are beginning to emerge. For example, following requests from affected community members in Brazil, LAPFF was asked to facilitate a relationship between Brazilian investors and the affected communities. JGP Credito, a local investor, is now leading on the appropriate completion of Samarco compensation and reparations.

(iii) 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. During the year we were represented at over 4,000 company meetings, casting over 50,000 votes, demonstrating the scale and range of topics covered at company AGMs.

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.

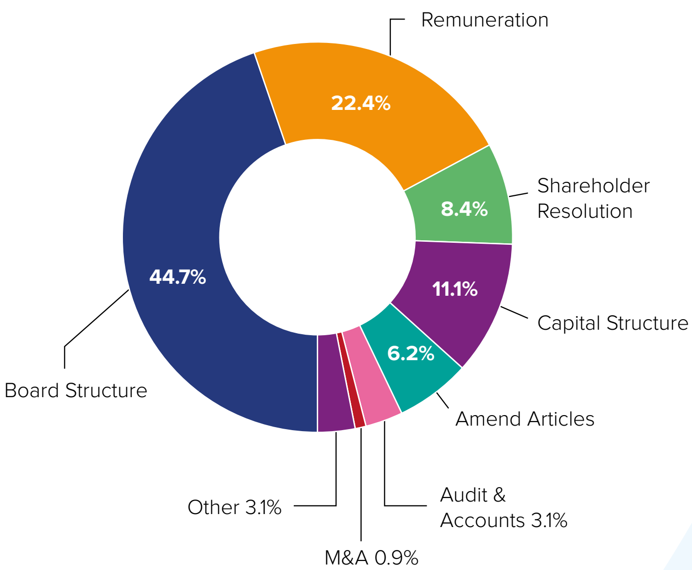
More details on this and the voting process, including the approach across asset classes, is explained in Brunel's Stewardship Policy.

During the year EOS made voting recommendations on 8,900 resolutions at over 700 meetings on our behalf.

At 373 of those meetings, EOS recommended opposing one or more resolutions, while at 4 meetings, EOS recommended abstaining. They supported management on all resolutions at 297 meetings and recommended voting with management by exception at 35 meetings. A vote "for by exception" is applied where there is a reasonable prospect of ongoing positive engagement.

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

Votes 'Against' by Theme



Case Study: Berkshire Hathaway Shareholder Resolution (Global High Alpha Equity Portfolio):

Berkshire Hathaway are one of the largest contributors to weighted fossil fuel revenues in the Fund's high alpha equities portfolio. In conjunction with Brunel and several other institutional investors, EOS filed a shareholder proposal at Berkshire Hathaway, hoping to trigger a dialogue with the company on climate change. The proposal asked Berkshire Hathaway's board to publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities. With Berkshire Hathaway opposing the shareholder proposal, it was defeated, but when adjusted for non-insiders, the vote results were close to 60% in favour of the proposal. Berkshire Hathaway Energy is the largest US power company without a net-zero goal.

LAPFF also issue voting recommendations to its members on a broad range of themes including remuneration, board composition, climate change and human rights. Over the year LAPFF issued 18 voting alerts relating to companies held by the Fund in its equity portfolios, including a recommendation to vote for a change to the board of ExxonMobil by voting n favour of four new directors and an independent chair nominated by Engine No 1, a small activist investor with a progressive climate policy. When LAPFF recommendations differ from the position adopted by Brunel and its underlying managers further information will be sought to understand respective voting rationales.

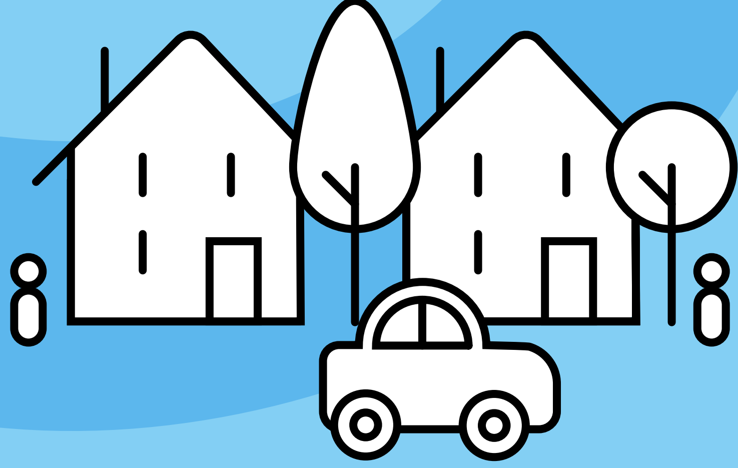
In this case Brunel's passive equity manager (LGIM) also voted in favour of the new board appointments. BlackRock voted for 3 of the 4 directors nominated by Engine 1 but against having an independent chair. They also voted for the existing chair/CEO to be re-elected. This highlights the complexity of the issue as well as the importance of having a robust monitoring framework in place which enables the Fund to understand and account for differences in voting intentions when they arise.

(iv) Stewardship in Private Markets

Most of our legacy private market property investments are through Limited Partnership arrangements which do not have automatic voting rights, except where we are part of the Limited Partnership Advisory Committee (LPAC). Where this is the case, we have approval rights for items such as changing contract terms (e.g. extensions or restrictions) and approving members of committees.

Brunel seeks LPAC seats where possible in order to exert influence and works closely with underlying managers to support their Responsible Investment and ESG efforts, improve standards and encourage best practice. Voting decisions for all private market asset classes are sent to Brunel's internal Private Markets Team, who along with their legal team negotiate side letters that align with the partner funds' ESG and wider governance requirements. Further information on Brunel's stewardship approach in private markets can be found in their Stewardship Policy.

Section 6
2022/23 RI Priorities



2022/23 RI Priorities

The Fund's RI priorities for 2022/23 have been updated to ensure consistency 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:

- Climate change
- Biodiversity
- Diversity, equity and inclusion
- Cyber security
- Cost and tax transparency
- Circular economy and supply chain management
- Human rights and social issues

2023 will see the Fund work with Brunel as part of its climate change stocktake to evaluate its approach to managing climate risk. Critically the stocktake will seek to address whether actions taken so far have been effective, how emerging research and broader stakeholder views can be integrated into future climate strategy and whether there are any companies that we should not invest in.

The Fund's own forthcoming investment strategy review will provide the first opportunity to review how we are progressing against our own climate change targets that are in place, ultimately, to serve the best interests of our members.

AVON PENSION FUND
Bath and North East Somerset Council
Lewis House
Manvers Street
Bath
BA1 1JG

Tel: 01225 39 5100

Email: avonpensionfund@bathnes.gov.uk
Website: www.avonpensionfund.org.uk

Alternative formats of this document can be made available on request.