



## **Stewardship Code Report 2024**

## Executive Summary

The Gloucestershire Pension Fund is pleased to present this report which details how the Fund meets the 12 principles under the Financial Reporting Council's 2020 UK Stewardship Code. The Fund is proactive in managing its responsibilities to its members and beneficiaries, both as a Pension Fund and an asset owner, and believe that stewardship is integral in achieving the long-term objectives of delivering investment performance.

The codes 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" is fully supported and we seek to apply this through the management of the Fund's investments.

The Fund has taken significant action over the last year in enhancing its stewardship approach. The Fund has developed and published a responsible investment policy, which sets out the Fund's investment beliefs and includes specific climate related targets to reduce carbon emissions within its investment portfolio, with a goal of achieving net zero emissions by 2045. In addition, as part of its strategic asset allocation to infrastructure, the Fund, in partnership with 5 other Brunel based LGPS Funds, invested in the Wessex Gardens Renewable Infrastructure Fund. This exciting opportunity is managed by Schroders Greencoat, under their project Toucan Energy and consists of 17 solar farms largely located within the South-West of England, which will not only provide reliable risk adjusted returns but also contribute to a substantial contribution to the Fund's net zero strategy.

During the year, the Fund published its first report under the Taskforce for Financial Related Disclosures framework (TCFD), covering the period from 1 April 2023 to 31 March 2024. This provides a framework which will demonstrate how the Fund considers these risks and opportunities when formulating investment strategies and asset allocations. The Fund believes that this will also enhance decision making and strategic policy implementation going forwards, so have therefore now decided to produce a report based on the principles of the TCFD guidance in advance of legislation being introduced. The intention is to produce a TCFD report on an annual basis going forward.

The Fund continues to work in partnership with the Brunel Pension Partnership and partner Local Government Pension Funds within the Pool, in developing effective policies and practices in managing the Fund's investments. The Fund have during the year become members of the following organisations as asset owners, to assist both committee members and officers in the ongoing assessment of climate related risks and opportunities, and for the Fund to be proactive in collaboration with likeminded investors going forward:

- Institutional Investors Group on Climate Change (IIGCC)
- Climate 100+
- Transitional Pathway Initiative (TPI)

- Pensions for Purpose

The Fund will continue to seek ways of strengthening its stewardship activities going forward and remains committed to responsible investment. This application outlines our adherence to the principles of the UK Stewardship Code, demonstrating our dedication to sustainable and responsible investment practices that benefit our members and contribute positively to society, whilst contributing to a sustainable and resilient financial system.

## Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Gloucestershire County Council is the administering authority for the Fund under the Local Government Pension Scheme (LGPS) regulations. The County Council has delegated responsibility for the administration and management of the Fund to the Pensions Committee. As at 31 March 2024 the Fund currently has 241 participating employers and 60,899 member records of which 19,867 are pensioners; 21,216 are deferred; and 19,816 actively contributing.

The primary function and purpose of the Fund is to:-

- Ensure that sufficient funds are available at all times to meet the pension obligations to its members as they fall due
- Maximise the return from investments at acceptable risk levels.

The Fund has a [Funding Strategy Statement](#) that sets out the requirements of funding, and the following strategic objectives:-

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates • reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

In order to deliver the long term funding strategy the Fund has developed an [Investment Strategy Statement](#). Both of these documents are key in setting how the Fund will manage and meet pension liabilities going forward. They are prepared in full consultation with

members of the Fund, ensuring that proposals are transparent and provide opportunities to influence the Fund's stewardship.

Additionally, scrutiny is provided through the Pension Board, which under legislation each Administering Authority is required to establish. The Board assists the Fund with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Gloucestershire Pension Fund

The Fund is part of the [Brunel Pension Partnership](#) which is a Financial Conduct Authority (FCA) regulated investment pooling company, which was formed in 2017, following pooling requirements set out by the UK Government. Formed through the partnership of 10 LGPS funds, located mostly within the South-West of England, with each separate Pension Fund acting as both a shareholder (equal 1/10th) and client within this agreement.

The Fund has c97% of its investments managed through the Brunel Pool, including 100% of the listed assets of the Fund.

The Fund interacts with Brunel and partner funds through the regular attendance at the following Brunel bodies:

- Brunel Oversight Board
- Client Group
- Shareholder Forum
- Investment Sub-Group
- Responsible Investment Sub-Group
- Operations Sub-Group
- Finance Sub-Group

Brunel has, since its inception, taken a lead in developing responsible investment strategies and processes, with a stated aim to “systematically change the investment industry to ensure that it is fit for purpose for a world where the temperature rise needs to be kept to 1.5°C compared to pre-industrial levels.” Brunel aims to deliver stronger investment returns over the long term, protecting clients' interests through contributing to a more sustainable and resilient financial system which supports sustainable economic growth and a thriving society.

Whilst the Fund retain responsibility for asset allocation and investment strategy, and exposure to climate and wider environmental, social and governance (ESG) risks, the partnership with Brunel is essential in managing these risks, and achieving more sustainable investments which have the best chance of achieving appropriate risk adjusted returns for the long term.

With the majority of the Fund’s investments being managed directly by Brunel, then management have a clear role in monitoring their performance and delivery in the management of climate and associated responsible investments policies. This monitoring is undertaken by officers through the regular attendance at the respective Brunel meetings and Sub-Groups, through the receipt of regular monitoring reports including an annual carbon metrics report. These meetings are invaluable to the Pension Fund in ensuring that the intended governance arrangements within the Pool are operating as intended and are aligned to the Fund’s strategic goals and objectives.

During 2024 the Fund published, following consultation with its members, a [Responsible Investment Policy](#), which sets out the following beliefs related to integrating stewardship and responsible investment into the Fund’s investment process:-

Investment Belief	Comments/Implications
<p><b>ESG factors are financially material, and can have an impact on investment risk and return outcomes. ESG factors should be integrated into risk management processes.</b></p>	<p>The Committee believes that having a broader perspective with regard to investment implications of ESG can improve risk management and lead to new opportunities. As such, regular training is received to ensure the Committee are up to date on these key areas.</p> <p>ESG and RI issues are embedded and considered fully in the ongoing assessment, creation, and review of the Strategic Asset Allocation for the Fund’s investments. This is demonstrated through the recent specific allocation towards social and affordable housing in 2023. This is focused on creating an investment portfolio with positive social and environmental impact whilst achieving competitive market returns.</p>
<p><b>Taking a broader and longer-term perspective on risk is consistent with fiduciary duty.</b></p> <p><b>Indeed, identifying sustainability themes and opportunities is likely to lead to improved risk management, greater portfolio resilience and new and attractive investment opportunities.</b></p>	<p>The Committee recognises that long-term sustainability issues, including climate change, present risks and opportunities that increasingly requires explicit consideration given the long-term time horizon of the Fund.</p> <p>This has already resulted in capital allocation decisions being made, with strategic allocations to a range of ‘sustainable’ investments with allocations made in 2023 and further investments planned for 2024.</p>
<p><b>Climate change poses a systemic risk that will affect all asset classes and geographies.</b></p> <p><b>The Committee are supportive of the Paris Agreement’s objective to limit global warming to ‘well below 2°C’ relative to pre-industrial levels, and pursue efforts to limit warming to 1.5°C if possible.</b></p>	<p>As investors the Committee believe they should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.</p> <p>This has resulted in the critical decision to target ‘Net Zero’ carbon emissions by 2045, as referenced above and explained in more detail in Section 7. The Committee anticipate doing further work in 2024 to understand the exposure to climate risk and how this differs across the investment strategy, as part of TCFD reporting requirements.</p>

<p><b>Effective stewardship and engagement (or active ownership), including collaboration, can create and preserve value for companies, and produce wider benefits for the economy, society and the environment.</b></p>	<p>The Committee believe that active ownership helps the realisation of long-term shareholder value and are therefore looking to ensure any voting rights held on their behalf are used appropriately. This includes engagement with Brunel, as well as underlying managers where appropriate. At present the primary focus is on engagement rather than 'exclusion', but this will be kept under regular review.</p>
<p><b>Engagement with Scheme Membership and Employers on responsible investment strategies and practices</b></p>	<p>The Committee believes that being transparent on all its actions but particularly on Responsible Investment and ESG issues is essential for effective governance going forward. Engagement with its members and employers is an integral part of this approach, and the Fund will continue to develop an effective communication strategy where information is shared openly, members' views are actively sought and considered fully throughout the management of investments going forward.</p>
<p><b>Demonstrating and promoting best practice in RI is important.</b></p>	<p>There is a strong desire from the Committee to target best practice and exhibit thought leadership. The publishing of an RI Policy and further work planned is consistent with this desire.</p>

The Fund considers responsible investment as a core element of its fiduciary duty and requires its Investment Managers to monitor and assess all environmental, social and governance considerations which may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate.

## Climate

The Fund has identified climate change as a significant risk to the Pension Fund's long term investments, given its systemic nature and potential effects it could have on global financial markets. As a result, the Fund has set a net zero target for 2045 and associated pathway targets for transition which are set out below. Stewardship and engagement are and will continue to be essential activities in achieving this goal.

Scope	Committee Target	Comments
<p><b>Total Fund</b></p>	<p><b>Total Fund carbon reduction target of 50% by 2030 (carbon footprint scope 1+2).</b></p>	<ul style="list-style-type: none"> <li>Listed equities and corporate bonds are the initial area of focus, with further asset classes (e.g. private markets) expected to be incorporated over time.</li> <li>Target is consistent with that set by Brunel.</li> </ul>
<p><b>Total Fund</b></p>	<p><b>Allocating 30% of the Fund to sustainable / low carbon green assets by 2025</b></p>	<ul style="list-style-type: none"> <li>Supports overall objective of supporting the global climate transition and sustainability ambitions of the Fund.</li> <li>The Fund has made allocations to the Brunel Sustainable Equity and FTSE Paris Aligned World Developed strategies, with a current SAA of 23%. The Fund has also recently made a commitment to a local Renewable Energy mandate with Schroders Greencoat, which when drawn down will assist in meeting this objective and is in the process of selecting managers for the 5% Social/Affordable Housing allocation.</li> </ul>

<b>Total Fund</b>	<p><b>Expand specific net zero target setting and monitoring of metrics for other asset classes over 2024/25, data and methodologies permitting, starting with property and infrastructure.</b></p> <p>Scope 3 emissions to be included when data quality and consistency of measurement are sufficient.</p>	<ul style="list-style-type: none"> <li>• Consistent with IIGCC Framework and other investors targeting a 'whole of portfolio' approach across scope 1, 2 and 3 emissions.</li> </ul>
<b>Listed Equities</b>	<p><b>A listed equities decarbonisation target of 60% reduction by 2030 (carbon footprint scope 1+2) versus the 31 December 2019 baseline.</b></p>	<ul style="list-style-type: none"> <li>• The equity portfolio has changed materially since the baseline date. Given the decarbonisation to date and Brunel's 7% year-on-year decarbonisation ambition, the Committee agreed to increase the level of ambition to beyond 50% emissions reduction by 2030.</li> </ul>
<b>Corporate Bonds</b>	<p><b>A corporate bonds decarbonisation target of 50% reduction by 2030 (carbon footprint scope 1+2) versus the 31 December 2020 baseline.</b></p>	<ul style="list-style-type: none"> <li>• Carbon footprint intensity has remained largely unchanged over the period since the baseline, suggesting a 50% reduction is ambitious but appropriate.</li> </ul>

The Fund undertakes an annual review of the carbon emissions associated with its listed investment holdings and monitor the Fund's progress in achieving these transition targets.

As part of its strategic asset allocation to infrastructure, the Fund, in partnership with 5 other Brunel based LGPS Funds, invested in the Wessex Gardens Renewable Infrastructure Fund. This exciting opportunity is managed by Schroders Greencoat, under their project Toucan Energy and consists of 17 solar farms largely located within the South-West of England, which will not only provide reliable risk adjusted returns but also contribute to a substantial contribution to the Fund's net zero strategy.

During the year, the Fund published its first report under the [Taskforce for Financial Related Disclosures framework \(TCFD\)](#), covering the period from 1 April 2023 to 31 March 2024. This provides a framework which will demonstrate how the Fund considers these risks and opportunities when formulating investment strategies and asset allocations. The Fund believes that this will also enhance decision making and strategic policy implementation going forwards, so have therefore now decided to produce a report based on the principles of the TCFD guidance in advance of legislation being introduced. The intention is to produce a TCFD report on an annual basis going forward.

## Impact Investing

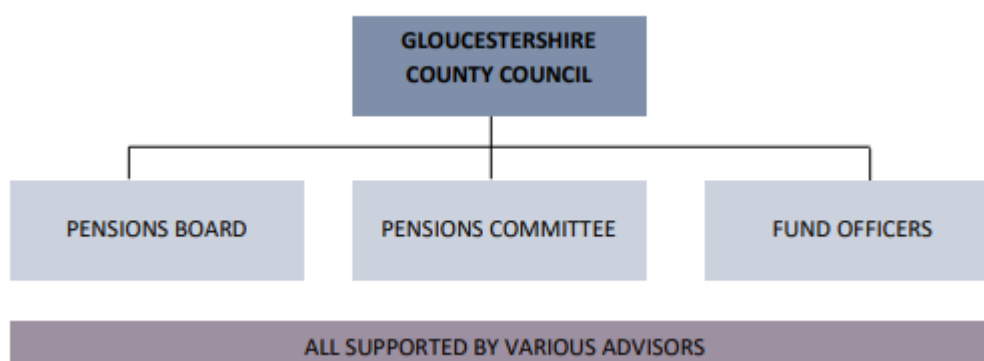
During 2024 the Fund made its first investments under its 5% strategic asset allocation (approx. £165m) to a Social and Affordable Housing Portfolio. The Pension Committee approved the appointment of three fund managers, following a rigid selection process, fully incorporating ESG considerations. The investment is allocated across three key funds, each targeting distinct aspects of the social and affordable housing sector:

- Gresham House Residential Secure Income Fund: Focuses on delivering secure income through investments in shared ownership and independent retirement rental homes.
- Octopus Affordable Housing Feeder Fund I: Dedicated to accelerating the delivery of good quality and genuinely affordable homes across the UK.
- Residence National Homelessness Fund 2: Provides safe and decent homes for individuals and families at risk of homelessness.

## Principle 2: Signatories' governance, resources, and incentives support stewardship.

### Governance

As noted within principle 1 above, the Gloucestershire County Council is the Administering Authority of the Fund and has delegated the responsibility for the administration of the Fund to the Pension Committee. The Governance structure of the Fund is set out in the [Governance Policy & Compliance Statement](#).



The County Council decides the composition of, and makes appointments to, the Pension Committee. Currently the membership of the Pension Committee comprises 7 County Councillors, all of whom have voting rights. In addition, there are two employer and one employee non-voting representatives. Although the employer and employee representatives do not have voting rights, they are treated as equal members of the committee and have access to all committee meeting papers, advisers, officers,

meetings, and training as if they were Council Members and have the opportunity to contribute to the decision-making process.

Under the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, the Committee have established a Local Pension Board. The role of the Board is to assist the Pension Committee (in its role as Scheme Manager), to secure compliance with the Regulations and all associated legislation, and to ensure the efficient and effective governance and administration of the scheme

The Pensions Board meets 4 times a year and consists of seven members as follows:

- three employer representatives (one of which needs to be a County Councillor)
  - three scheme member representatives
  - one independent member (non-voting) to act as the Chair of the Pensions Board.
- The Chair of the Pension Board cannot be a Gloucestershire County Councillor

The Fund has an appointed independent Investment Adviser, who attends all Pension Committee meetings, supports the investment decision making, performance monitoring including the on-going review of the Fund's responsible investment strategy. The advisor provides the Committee with quarterly reports on the Fund's performance, with insights on the global markets and economic conditions, which assist in the Funds stewardship of assets held, through its strategic asset allocations.

Members of the Pension Board are required under current regulations to have the relevant knowledge and understanding of scheme rules, fund policies and pensions law. Whilst this legal requirement doesn't apply to individual members of the Pension Committee, it does apply to Committee collectively, the Fund have an active training programme which will enhance the skills and knowledge of both the Board and Committee members, incorporating the annual assessment through the CIPFA Knowledge & Skills Framework and survey process undertaken by the Fund's actuary.

The Fund has established a [training strategy](#), which outlines the legal framework and the expectations for members of the Committee, Board and Officers in enhancing their skills and knowledge in managing the Fund. A log of training undertaken is maintained and details are published within the [Annual Report](#), and also included within the Boards Annual Statement which is reported and approved by the County Council each year.

The Fund has a Head of Pensions and a small investment and accounting team of 7 staff members. Ultimate responsibility for the Funds delivery of stewardship activities lies with the Pensions Investment & Accounting Manager who heads up this team and reports directly to the Head of Pensions. This role includes the oversight and governance of the Fund's investment portfolio, including setting and implementation and monitoring of the responsible investment and stewardship strategies and practices. Knowledge and skills within the team is enhanced through the regular attendance at conferences and specific training workshops on responsible investment workshops wherever possible. Additionally, training is also provided by the dedicated responsible investment team at Brunel.

Key to the role of the Fund's Investment team is the close working relationship with the Brunel Pension Partnership who through the LGPS pool arrangement manage 97% of the Fund's investments. There are 9 other Local Government Pension Fund's within the Brunel Pool.

The Brunel Pension Partnership (Brunel), which is authorised by the Financial Conduct Authority and has been established specifically to manage the assets of the pool. As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

Brunel's responsible investment strategy and policy, Stewardship Policy and Climate Change Policy were developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group and Responsible Investment Subgroup. The Gloucestershire Fund takes an active role in all of these groups and see this as an essential part of asset stewardship and welcomes the collaborative approach the pool offers.

Whilst Brunel's strategy and policies are designed for the long term (5+ years), they are reviewed annually. The Brunel Board approves and is collectively accountable for the broader suite of Brunel's policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Head of Stewardship to ensure high levels of coordination and implementation.

Within Brunel's responsible investment team, a dedicated Stewardship Manager is employed, who oversees all voting and engagement on behalf of the pool. Stewardship is undertaken via the following avenues:-

- by appointed asset managers
- through a specialist provider in EOS at Federated Hermes
- through collaborative forums.

The appointment of EOS as a dedicated engagement and voting provider enables a wider coverage of assets and access to further expertise across different engagement themes. The EOS team is diverse, made up of many nationalities and language capabilities, which facilitates engagement in local languages and an understanding of cultural customs. Brunel seeks to undertake direct engagement where it feels that this will add value. Brunel publishes its gender pay gap in its annual report and accounts and staff profiles are located on the website.

Responsibility for managing specific ESG risks, including climate risk are explicitly incorporated into Brunel's investment principles and the role specifications of its Board, executives, and other key personnel.

Brunel publish an annual [Responsible Investment and Stewardship Outcomes Report](#), which outlines the activities undertaken and provides specific examples of engagement undertaken in influencing change on both climate and wider ESG issues.

The Fund is a member of various bodies through which it receives access to webinars, research and analysis including the Local Authority Pension Fund Forum, Climate Action100+, Pensions with Purpose, the Institutional Investors Group on Climate Change and the Transitional Pathway Initiative.

### Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

The Fund has a Conflict of Interest policy, which was last reviewed and approved in September 2024. The policy intends to guide the Pension Committee members, Pension Board members, officers, and advisers, and aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

A conflict of interest is defined in section 5(5) of the Public Service Pensions Act 2013 as a financial or other interest likely to prejudice the way in which someone carries out their role. It further specifies that a conflict does not include a financial or other interest arising merely by virtue of that person being a member of a relevant pension scheme. A conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Gloucestershire County Council,
- at the same time, they:
  - have a separate personal interest (financial or otherwise), or
  - have another responsibility in relation to that matter or have a family member or close colleague having a specific responsibility or interest in that matter which gives rise to a possible conflict with their first responsibility.

A register of conflicts is maintained and managed by the Head of Pensions. In order for the Administering Authority to fulfil its obligations to manage and monitor potential conflicts of interests the Pension Committee and the Pension Board must include an item on conflicts of interest at each meeting. The Pension Board must also include an item on conflict of interest in its Annual Report.

At the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda, including anything related to stewardship or responsible investment items.

A briefing is provided to all new members of the Committee clearly setting out their roles and responsibilities on the Pension Fund Committee, including in relation to the Conflict of Interest policy and how it relates to stewardship, for example through the need to comply with Market Abuse Regulation around insider trading.

The Fund expects all service providers to comply and fully disclose any conflicts of interest in the delivery of these services. Where these are disclosed, the Fund will liaise with the relevant providers to ensure that the conflict is correctly managed and risks to the Fund are mitigated.

Brunel maintain a [Conflict of Interest Policy](#), which is published on their website and includes a specific section on stewardship conflicts. The Brunel site outlines situations in which a conflict of interest could arise during stewardship activities and a number of steps have been taken to reduce the risk of an actual conflict and to mitigate the impact of such conflict. Examples of how Brunel manage perceived conflicts are included in their 2024 [Stewardship Outcomes Report](#).

## Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The Pension Committee has a responsibility to monitor and oversee the management of risks and opportunities, ensuring the prudent and effective stewardship of all assets, and that the pension obligations of its members are met. The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures that risk management is an integral part in the governance of the Fund at a strategic and operational level.

In December 2024 the Pension Committee, following a full review approved a new risk management policy, which:-

- sets out the philosophy for management of risk, risk attitudes and risk appetite
- sets out how risks management is implemented throughout the Fund
- outlines the responsibilities of officers, Committee & Board Members, and requires advisers of the Fund to be aware of the Policy and assist in the meeting the objectives of the Policy
- sets out procedures for the effective management of risk.

In relation to risk management, the Fund will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the delivery of services (including advisers to the Fund, employers and all other partners involved in the delivery of services)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships
- minimise the cost of risk.

The risk management process entails four key processes, Risk identification, risk analysis, risk control and risk monitoring. The Fund maintain a risk register which under regular monitoring identifies and classifies through a RAG rating system all key risk identified by the Fund. This register is reported to and reviewed on a quarterly basis by both the Pension Committee and Board.

The register includes the identification of market wide risks to the investment environment and systemic risks, which are kept under constant review and monitoring by the Fund's officers through regular meetings with the Fund's Independent Investment Advisor, the Fund's Actuary Hymans Robertson and members of the Brunel Pension Partnership, and other third party bodies as required.

The Fund views diversification as an effective tool in mitigating investment risks. The Fund's strategic asset allocations outlined within its Strategic Investment Strategy ensures that the Fund's investments are spread over a number of distinct asset classes within both listed and private markets. This approach attempts to ensure that any exposure to losses within an individual asset class under market conditions are minimised, and the Fund is able to achieve an appropriate level of risk adjusted return and meet its on-going pension obligations.

The Fund believe that the financial system has a key role in the transition to a resilient and sustainable global economy. To this end working in partnership with Brunel and other fund managers the Fund seeks to invest in companies committed to building a sustainable and better future and have a proactive approach to engagement and stewardship with industry to promote and influence change of business practices to a more sustainable manner. Whilst the Fund recognises it has a part to play in the transition of the financial system as an institutional asset owner, it also recognises that working in collaboration with other likeminded asset owners and bodies will enhance the effectiveness of stewardship and engagement. As a result, during 2024 the Fund became members of :-

- the Institutional Investors Group on Climate Change (IIGCC)

- Climate 100+ group
- Pensions for Purpose
- Transitional Pathway Initiative

This is in addition to the well-established membership of the Local Authority Pension Forum(LAPFF) and the Pensions and Lifetime Savings Association (PLSA). These partnerships ensure that the Fund can participate in wider co-ordinated engagement with companies and fund managers to influence change on climate and other wider ESG issues and practices.

The Fund recognise that the risk associated with climate change to its long term investment goals are significant and material given its systemic nature and effects it could have on global markets. As a result, as outlined within Principle 1 above the Fund has set a net zero GHG emissions target by 2045. In addition, the Fund has set a number of pathway targets which it seeks to achieve which will enhance the transition in achieving the ultimate net zero target. The Fund recognises its role as an institutional investor in collaborating with partners, aiming to systematically change the investment industry to ensure that it is fit for purpose for a world where temperature rises are limited in line with the goals of the Paris Agreement and that members retire into a world worth living in.

As part of this process the Fund have established annual carbon metric analysis for listed and bond investment holdings which assists the Fund in tracking the progress in decarbonisation and in meeting these climate related targets. It also enables the identification of the top 10 holdings which have the biggest carbon footprint and prompts greater targeted engagement with Brunel and fund managers to influence these companies transitions accordingly.

The Fund recognises that tackling the systemic risk of climate change will require a concerted effort across the investment universe. Specifically, asset owners and asset managers will need to align their engagement activities to ensure those companies with the greatest climate impact are on a pathway to net zero. The on-going collaboration with Brunel and other partners will hopefully enhance this global industry change.

In addition, the Fund takes a proactive approach to respond to any consultations from Government, regulators, and specific sector bodies in seeking to influence effective and sustainable systemic change.

Although climate change is viewed as the single greatest sustainability risk, the Fund recognise that there are other significant risks relating to sustainability themes, such as biodiversity loss or social disruption stemming from breaches of international human right standards, that may also pose major systemic risks. During 2024 the Pension Committee approved a new Responsible Investment policy for the Fund. The aim of this policy is to identify the key issues and commit to a plan that seeks to address and, where necessary, mitigate the main ESG risks to the long-term future of the Fund.

The Pension Committee held a workshop in November 2024 to review their investment beliefs for responsible investment and reviewed wider ESG issues, with a view to linking the United Nations Sustainable Development Goals ( UN SDGs) as an ongoing framework to prioritise issues for engagement activity and focus.



This work is ongoing, but it is anticipated that this will be finalised in early 2025. Members of the Committee and Board also received specific training on natural capital, cyber security and gender pensions gap during this workshop.

As part of the work with the Funds actuary, a full assessment of Climate risks is undertaken and monitored in formulating the Strategic Funding Statement for the Fund. In addition, during 2024 as part of the publication of the Fund's first report under the Taskforce for Climate Related Financial Disclosures (TCFD) the Fund commissioned climate scenario analysis against its current strategic asset allocations in order to assess the on-going risk to the Fund.

### Principle 5- Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

The Fund's policies are kept under regular review and are updated and approved by the Pension Committee as required.

As previously indicated this year a Responsible Investment Policy has been developed, outlining the Funds responsible investment beliefs, and sets a number of expectations on stewardship and engagement to promote more sustainable approaches, together with targets especially for climate decarbonisation pathway to achieving net zero GHG

emissions by 2045. As part of this process the Fund confirmed its desire to become a signatory to the Stewardship Code, prompting this application.

Every three years the Fund together with advice from its Independent Investment Adviser undertakes a fundamental review of its investment strategy, considering results from the actuarial triennial funding valuation. This in turn will establish its on-going strategic asset allocations having due regard to risks and opportunities, facing the fund.

All policies are published on the Fund's website following approval and are freely available to members, employers and wider public accordingly. Where appropriate the Fund will consult with employers or the wider membership with policy proposals prior to formal discussion and approval by the Pension Committee. Policies are also reviewed by the Pension Board.

Brunel's responsible investment strategy, Stewardship Policy and Climate Change Policy were all developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group and Client Responsible Investment Sub-group on which officers and Members of the Fund participate.

The Fund's attendance in these specific meetings with Brunel and partner LGPS funds ensures a proactive approach in developing investment portfolios and policies including wider stewardship, voting and engagement approaches and that the Brunel policies are aligned to that of the Fund.

Although the Finance and Investment team for the Fund is small there is a proactive approach to building knowledge and skills and adopt best practice in managing the Funds financial information, and investment stewardship activities. The team welcome the partnership and collaboration opportunities offered within LGPS investment pooling and regularly share knowledge with partner LGPS partner funds. On going training to members of the team is obtained through but not limited to :-

- Research and publications
- Information from third parties and specific initiatives that the Fund supports including Pensions for Purpose, IIGCC, Transitional Pathway Initiative, PLSA and LAPFF.
- Industry events, conferences, and webinars
- Brunel presentations and training sessions
- Continued Profession Development
- Specific deep dives on asset classes or investment managers when required

This approach has enhanced the Funds ability to be able to work in partnership with its external investment partners but have the necessary skills and knowledge to challenge approaches and compliance with the funds policies particularly around responsible investment and climate related activities. An open and inclusive culture has been developed throughout the Fund, ensuring that all staff members are valued and developed. The fund strives to deliver excellent services for its membership, censure

compliance with its policies and achieve the best risk adjusted returns. Collaborative working with Brunel and other fund managers in achieving these goals is essential.

Whilst Brunel’s strategy and policies are designed for the long term (5+ years), they are reviewed annually. The Brunel Board approves and is collectively accountable for the broader suite of Brunel’s policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Head of Stewardship to ensure high levels of coordination and implementation.

Brunel has identified seven priority themes which are informed by its investment beliefs, Clients’ policies, and priorities together with stakeholder views, regulatory and statutory guidance, aligned with best practice. The seven priority themes, as part of an integrated Responsible Investment process, are illustrated in the diagram below. Detailed information on the seven priority themes is included in [Responsible Investment and Stewardship Outcomes Report](#)



Reporting outputs provided by Brunel to clients to track progress against stewardship commitments are reviewed by the RI Sub-group to ensure that stewardship reporting is understandable, fair, and balanced. Brunel publishes its stewardship activities, including engagement and voting records on its website.

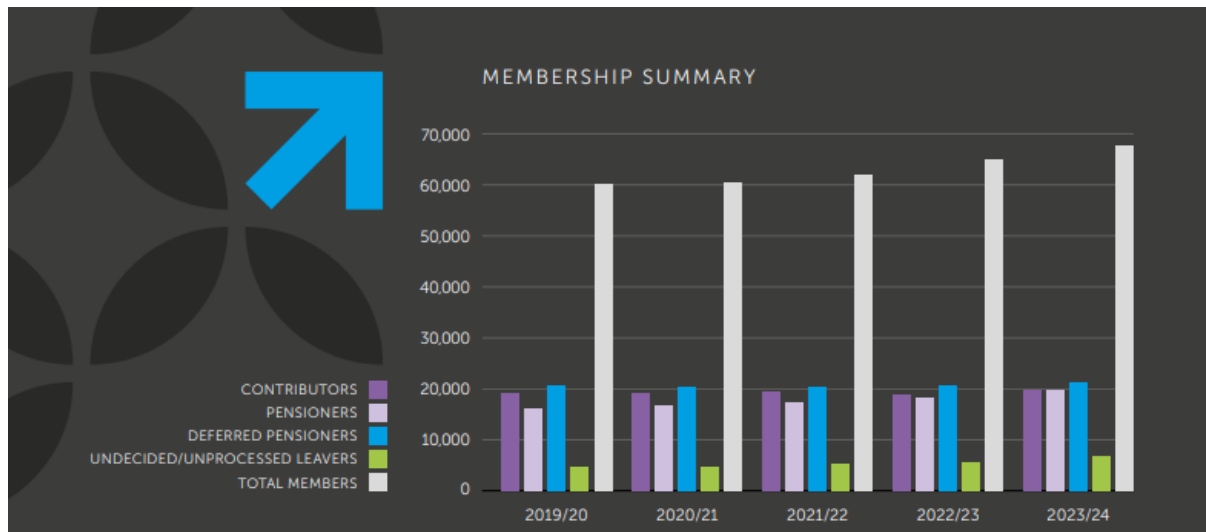
The Fund also reports the results from the Climate Metrics report in its annual TCFD report and uses the emissions data to assess performance against the annual reduction targets set out in its responsible investment policy.

In line with UK regulatory guidance, Brunel provide the Fund with separate TCFD Product level reports for each of its equity portfolios plus the sterling bond portfolio. This will enable the Fund to assess the extent to which each of these portfolios are aligned with a net zero pathway, alongside a picture of the overall alignment of the aggregated portfolio. This is a key assurance tool for the Fund to track its own alignment with its net zero objective. The Product reports will also allow the Fund to provide more granular reporting to stakeholders, including Committee members in its own TCFD reporting.

**Principle 6 - Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

The Gloucestershire Pension Fund is principally governed by the Local Government Pension Scheme Regulations 2013 [as amended] (effective from April 2014). The scheme covers eligible employees and employees of other bodies eligible to be employers in the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown within the Fund’s [2023/24 annual report](#).

Individual Membership within the Fund as at the end of March 2024 stood at approximately 60,899, split between active contributors (19,816), pensioners (19,867) and deferred members (21,216). There were also unprocessed leavers (7,835) at the end of March 2024., The following chart provides a 5 year summary of individual membership:-

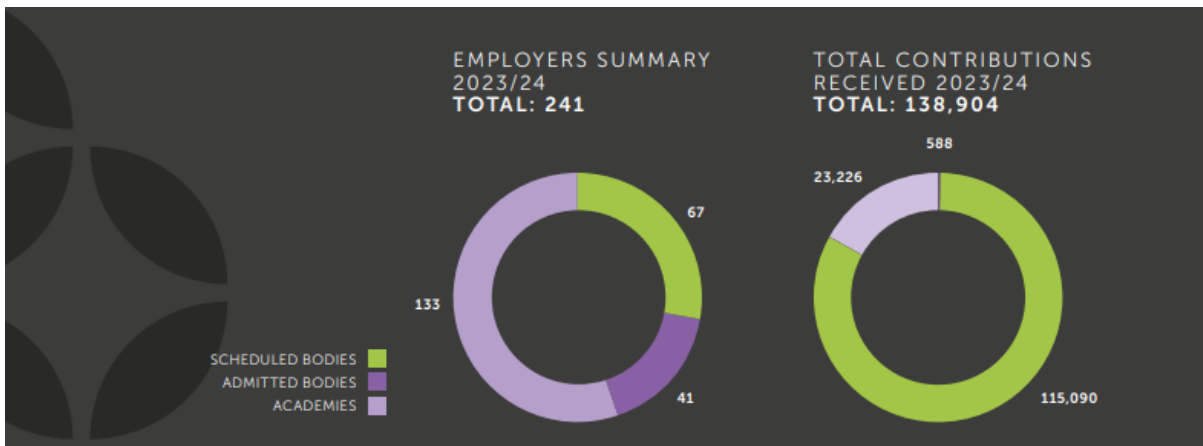


Pension benefits payable under the scheme are laid down by the 2013 Regulations . All payments are set out and guaranteed, so any shortfall in specific employer funding levels is met through the Pension Fund and adjusted through the setting of employer contribution rates through the triennial actuarial valuation process. The Scheme is a defined benefit scheme and provides a pension based on 1/49th of pensionable pay each

year of membership, adjusted in line with CPI. Liabilities to members accrued prior to 2013 scheme are also payable through the Fund.

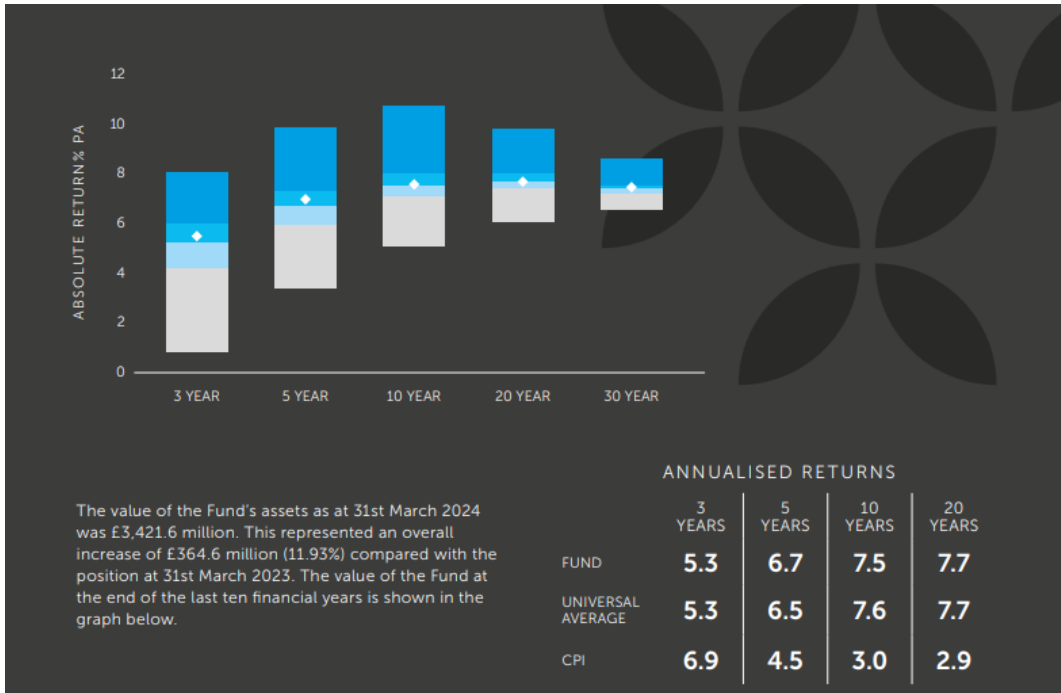
The Fund is financed through contributions from both employers and employees, together with income from investments earned by the Fund. Any surplus funds received from contributions following the payment of pension benefits are invested. Whilst employer contribution rates are set through the actuarial triennial valuation process, employee contribution rates are set by Government under regulation and currently range from 5.5% to 12.5% of pensionable pay depending on salary bandings.

The following chart provides more information on the number of employers within the Fund and the level of contributions received during the 2023/24 financial year:-

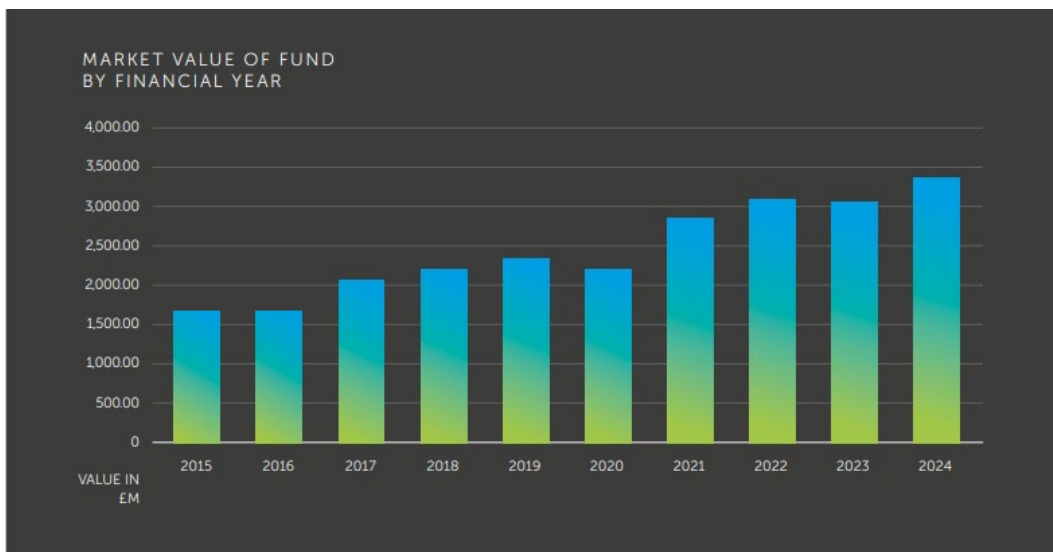


The Fund closely monitors the availability of cash to ensure that all pension and operational obligations are able to be paid in a timely manner and in accordance with contractual requirements. The level of income received through contributions in excess of benefits paid to members, although decreasing does remain which enables the Fund to maintain a long term investment strategy without the need to retain large levels of cash or liquid assets to meet pension payments. This situation remains under constant review together with the Fund’s strategic asset allocation to asset classes. It is possible that from April 2026 pension benefit payments will exceed contribution income so a revision of investment classes may be required in order to facilitate the receipt of investment income, rather than reinvestment to offset this shortfall and ensure that all benefit payments are fully funded and paid on time.

Investment performance of the fund is shown within the following tables:-



The value of the Fund as at the end of March 2024 totalled £3.421Bn and the following table shows how this compares to preceding periods:-



The funds strategic asset allocation as at the end of March 2024 is shown below, which demonstrates the use of diversification by the Fund as an effective tool in managing risks and seeking to achieve appropriate risk adjusted returns for its membership:-

	Strategic Asset Allocation Target 2023-24	Actual Asset Allocation as at 31st March 2024
	%	%
<b>EQUITIES</b>		
UK Active Equities	10.0	11.8
Global High Alpha	13.5	14.4
Emerging Markets	6.5	6.0
Global Sustainable Equities	13.0	12.9
Passive Paris Aligned	10.0	11.1
<b>Total Equities</b>	<b>53.0</b>	<b>56.2</b>
<b>FIXED INCOME</b>		
Multi Asset Credit	7.0	7.2
Sterling Corporate Bonds	10	10.2
<b>Total Fixed Income</b>	<b>17.0</b>	<b>17.4</b>
<b>ALTERNATIVE MARKETS</b>		
UK & Global Property	10.0	7.8
Diversified Returns	0.0	5.1
Infrastructure	7.0	5.6
Private Equity	3.0	2.5
Private Debt	5.0	4.1
Venture Capital	0.0	0.1
Social & Affordable Housing	5.0	0.2
Risk Management Framework	0.0	-0.1
<b>Total Alternative Markets</b>	<b>30.0</b>	<b>25.3</b>
<b>CASH</b>	<b>0.0</b>	<b>1.1</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Given the nature of the Pension Fund’s business and long term pension liabilities, the Fund has to take a long term view when setting investment strategies to ensure that these obligations are fully funded. As a long term institutional investor, the Fund recognises the importance of proactive and effective risk management throughout its operational and investment processes. The identification of all risks including climate and other systemic risks to the global markets are all considered, and mitigated through the diversification of investments and managed through the Fund’s responsible investment policy which aims to maximise sustainable investment returns and promote a better world to live in. The Fund through its partnership with Brunel and partner LGPS funds is also able to influence both the governance and investment strategies of the Brunel Pool and work collectively on stewardship and engagement strategies.

The Fund recognises the need for effective communication to all its stakeholders especially its members, ensuring that information on investment decisions is readily available, largely through its website. All agenda and associated papers are all available via the County Council’s website, but the Fund operate separate [finance and investment](#)

[website](#) which provides information on approved strategies and policies, performance reporting updates and additional holdings and carbon metric reports.

The Fund has a [communication policy](#) which was reviewed and updated in 2024 through which the Fund seeks to deliver best practice communications to its members, employers and other stakeholders, which are dynamic, segmented, customer-focussed, compliant and use modern technology whilst remaining cost effective and providing value for money.

Communication and engagement with employers and individual members is undertaken by the website, formal letters, and emails where contact information has been provided. We are working to improve the use of electronic engagement methodology to enhance the effectiveness of communication channels and also looking to replace the issue of the annual benefits statement via postal services to access via an online portal.

The Fund undertook a branding review in 2024 and have now introduced a new logo to improve the identity of the Fund which is being rolled out across all media used by the Fund in communicating to its stakeholders. As part of this the Fund is restructuring and improving its website which is anticipate being completed in early 2025.

The Fund seeks to engage and consult with its members on the development and implementation of policies and procedures wherever possible. In 2024 as part of the development of the responsible investment policy the Fund undertook a survey inviting both individual members and employers to comment and respond on the proposals and outline their own responsible investment beliefs to assist the Fund in taking this forward. Whilst the number of formal responses received was very small, the Pension Committee considered these responses prior to approval of the policy in June 2024. It is hoped that future engagement will be improved when updated emails contact information is obtained from our membership. The Fund is also looking to expand the use of social media platforms going forward.

Brunel maintain a formal website which outlines its governance arrangements, investment policies, investment holdings information and its climate related disclosures and metrics. We direct our members to this site, where appropriate to enhance the availability of the Fund's investment information.

## Principle 7 - Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

As outlined within the previous principle responses, the Fund through its strategic asset allocation, and liaison with an Independent Investment Adviser, the Fund uses diversification as an effective tool in managing investment and associated risks. As a result, the Fund invests in a wide range of asset classes, within both listed and private market environments. With the majority of these investments being managed by Brunel via the LGPS pool, then the Fund has developed joint engagement and stewardship processes. The Fund as, a client within Brunel, it takes a proactive approach in the development, setting and monitoring of the Brunel policies including responsible investment and stewardship approaches.

The consideration of stewardship and ESG engagement is embedded throughout the Brunel process, from portfolio development, fund manager selection and monitoring and on-going performance monitoring, not only for the expected returns on the investments but whether the specific holdings are appropriate against RI or wider ESG metrics or concerns.

The Fund with partner LGPS funds approves the Brunel policies having ensured this is in line with their own investment beliefs as individual asset owners. Brunel are then responsible in delivering and managing these investment portfolios, via a series of selected fund managers and external partners. Brunel monitor and review these fund managers on a regular basis and in turn report back quarterly to all client Funds to enable transparent and open discussion on the current portfolio performance and investment holding information. This process ensures that the Fund is able to monitor and review each investment portfolio, through lookup and transparency reporting, and able to challenge Brunel on either performance or wider ESG/climate related issues or metrics.

Selected fund managers provide regular reports which outline their engagement on both performance and ESG related activities. All managers are signatories to the United Nations principles of responsible investment initiative.

Brunel, who are a signatory to the Stewardship code, have developed in consultation with client funds, a robust investment management system which embeds active stewardship and consideration of ESG risks and opportunities. Given the interconnectivity of the impact of ESG factors on investment performance then it is essential that this taken as one approach, and as such all portfolios are managed on this approach with responsible investment being integral to performance monitoring and investment delivery.

The following table gives an overview of how ESG activity at Brunel is undertaken:-



	To Integrate	To Collaborate	To be Transparent
Own Operations	<ul style="list-style-type: none"> <li>Board commitment</li> <li>In all we do</li> <li>Staff objectives</li> </ul>	<ul style="list-style-type: none"> <li>Contributing to local and global community initiatives</li> <li>Diversity and inclusion ambassadors</li> </ul>	<ul style="list-style-type: none"> <li>Best practice own reporting including climate change, diversity and tax</li> </ul>
Portfolio implementation	<ul style="list-style-type: none"> <li>All asset classes globally</li> <li>Fully integrate into managers selection</li> <li>Low carbon and sustainability portfolio options</li> </ul>	<ul style="list-style-type: none"> <li>Innovating investment solutions</li> <li>Cross pool collaboration</li> <li>ESG risk metrics and tools</li> </ul>	<ul style="list-style-type: none"> <li>Impact reporting</li> <li>Positive case studies</li> <li>Carbon and sustainability metrics</li> </ul>
Responsible Stewardship	<ul style="list-style-type: none"> <li>Single voice</li> <li>Active engagement</li> </ul>	<ul style="list-style-type: none"> <li>Annual engagement plan</li> <li>See Partnerships and Affiliations</li> </ul>	<ul style="list-style-type: none"> <li>Proxy voting Policy and records</li> <li>Pre-declaration on selective votes</li> </ul>

Clearly the effectiveness of the selection process of fund managers is critical to providing fully embedded responsible investment and stewardship processes. Brunel have and continue to enhance the continual assessment of managers performance, culture and investment beliefs and methodologies to ensure that these are and remain in line with the agree Brunel ethos and agreements. This in turn ensures that these are aligned with those of the Fund. Brunel have developed an Asset Manager Accord which sets out expectations and is specifically designed to provide clarification of the required Brunel investment process and beliefs. This greatly assists in the selection process of managers when tendering for new or restructured portfolios and enhances opportunities for establishing long term partnerships with likeminded mangers.

The additional appointment of EOS as a dedicated engagement and voting provider to work in partnership with Brunel, enables a wider coverage of assets and access to further expertise across different engagement themes. Utilising this external industry expertise to wider its impact as an asset owner, enhances the opportunities to work in collaboration with other asset owners to direct engagement and influence change across various sectors where appropriate. This also ensures that a robust voting system is established and managed, providing challenge and engagement throughout.

### **Case Study - Social & Affordable Housing – Manager Selection**

During 2024, the Fund in partnership with Redington Investment consultancy undertook a direct selection process of fund managers, outside of the Brunel pool in the creation of a new Social & Affordable Housing Portfolio. Integral to the assessment of managers was the review of how ESG was embedded both within their own organisations but how these were managed within the investment fund. Assessment of cultures, board governance arrangements and gender of key staff were all assessed together with wider environmental and social impact factors.

Following the selection of the managers and making the first investments into the fund in the later part of 2024, the fund has now developed clear processes for regular reporting and engagement both for performance and wider impact and climate related information and metrics. This is integral to our aim to show the positive nature of these investments, in enhancing opportunities for sustainable affordable housing , and help make a world a better place to live in going forward.

### **Case Study - Development of Carbon Metrics for TCFD and Responsible Investment Policy**

The Fund produced its first TCFD report in 2024, recognising best practice and the need for transparent reporting and review of climate related activities. To enhance the reporting metrics within the report the fund undertook an analysis of its listed and bond investment holdings to identify its carbon footprint. A similar 2020 base line analysis was also undertaken to be able to track performance of each portfolio in decarbonisation. This work undertaken with Mercer Investment Consultancy, provided a robust framework in monitoring climate metrics for both specific investment holdings and wider portfolios within the listed equities and bond asset classes. The Fund aim to expand this process further across other asset classes but recognise that currently the availability of reliable and timely carbon disclosures across the investment industry is not available.

The Fund also approved in June 2024 a Responsible Investment Policy, which sets out key climate related targets including having net zero emissions by 2045. The ongoing monitoring and tracking of both the performance against these targets and the ongoing engagement of our top emitters will be embedded into the Fund on going processes. This will also enhance our assessment of climate risks when considering our strategic investment strategy and portfolio make up going forward. The Fund are currently working with Brunel in developing a quarterly update of the Fund's and other partner Fund's top ten emitters, outlining any engagement undertaken by Brunel, EOS, or wider external partners. This reporting framework will be shared and discussed by the Pension Committee accordingly.

## Principle 8 - Signatories monitor and hold to account managers and/or service providers

The responsibility for managing all aspects of the Fund both for administration and investment activities lies with the Pension Committee as outlined in Principle 2 above. This includes the performance monitoring of Brunel.

The Pension Committee receive quarterly investment performance reports from Brunel and also receive regular updates from Fund Managers which provide an opportunity to ensure their strategies are in line with expectations and to discuss any risks the Committee is concerned about. Officers also have regular meetings with the Independent Financial Adviser and Fund Managers through which performance is reviewed, and key issues are discussed, including stewardship and responsible investment. The Independent adviser attends all Pension Committee meetings and training sessions to support members.

The Chief Investment Officer of Brunel attends the Committee and provides an annual review of the Funds investment portfolio managed within the pool and answers questions or concerns from committee members as required. Performance of these portfolios is discussed and tracked against appropriate industry benchmarks. Additionally, on request other members of the Brunel investment team are asked to attend and provide specific portfolio reports and updates. During 2024 the Committee in having concerns on the performance of two of its listed equity funds, requested that the Brunel team attended the Committee to answer questions on why performance was below expectations and assess measures being taken to improve this going forward. This transparent and open reporting process ensures that Brunel and specific fund managers are accountable, and that the Committee always acts proactively in managing its assets and act in its member's best interest.

When appointing managers across all asset classes, Brunel evaluates across 6 P's, philosophy, policies, people, processes, participation, and partnership. These key issues form part of ongoing manager monitoring where a risk assessment is conducted on a quarterly basis and a rating given. This includes managers' stewardship. This is reviewed by the Brunel Investment Risk Committee (BIRC).

There is a monitoring process in place to ensure delivery of service meets expectations. If expectations are not met, Brunel would proceed to retender in line with its standard policies and practices. In evaluating the Manager and considering whether to place the Manager on Watch or even to terminate the mandate, Brunel will principally consider whether the expectation of long-term outperformance is still intact. Demonstration of original idea generation, examples of detailed research on key issues and topics, thoughtful portfolio construction, application of good price discipline and evidence of successful trading with good cost control will all be viewed positively.

The Fund together with other partner client funds receive copies of all meeting minutes and reports from the Brunel Investment Risk Committee (BIRC) which assist Officers of the Fund in reviewing investment activities and processes and ensure that Brunel is carrying out an appropriate level of assurance over the fund managers it has mandated to provide investment services.

Officers of the Fund also attend the Brunel Client Assurance Group meeting which are held quarterly and provide an overview of the performance for the various portfolios managed within the pool. This provides the Fund an opportunity to assess the investment processes and receive assurance that these remain appropriate and do not represent a risk to the Funds investment requirements going forward. These are valued meetings and are held in a manner that promotes open challenge and debate within the partnership.

In addition to the above reporting framework, quarterly holding reports are provided for the listed equity and fixed income portfolios to the Fund and partner funds, which enable officers to undertake more detailed analysis of company holdings where necessary. Where these holdings are questioned then the fund manager via Brunel will provide justification on the investment holding and the consideration made in making this decision including wider ESG or climate related concerns.

Proxy Voting and engagement reporting is also provided by Brunel on a quarterly basis. This includes that undertaken by Hermes EOS, who provide engagement and proxy voting services to the Brunel pooled funds for their active portfolios, and Legal and General Investment Management who provide this service for the passive portfolio. As with the holdings reports, these reports are regularly reviewed by officers of the Fund to ensure that the activities carried out on the Fund's behalf by these service providers are aligned with the Funds own expectations on responsible investment and stewardship.

The officer's attendance at the monthly Brunel Responsible Investment Sub Group; Investment Sub Group; and Client Group meetings also provides the Fund the opportunity to discuss, review and challenge processes where appropriate, and agree modifications in policies and procedures where appropriate. Thus, ensuring that governance arrangements embed fully the review and implementation of effective stewardship and engagement.

### **Case Study - Human Rights & Social Issues: Compass Group, Modern Slavery in the supply chain**

EOS's engagement with Compass Group Plc, a leading UK-based provider of outsourced food and support services globally, began in October 2020, focusing on the issue of modern slavery within its operations and supply chain. Despite acknowledging Compass's establishment of a human rights policy and its dedication to eradicating modern slavery, EOS questioned the efficacy of its measures to detect instances of modern slavery throughout its network. This scrutiny extended to the company's recruitment practices, particularly concerning migrant workers employed through its joint venture with Abu Dhabi National Hotels (ADNH), a topic which was pursued as part of the 2020 'Find It, Fix It, Prevent It' initiative aimed at combating modern slavery, ([this](#)

[initiative was recently updated and can be found here](#)). EOS's continued dialogue culminated in productive discussions with Compass's executive team in late 2021, leading to the procurement of a third-party evaluator to scrutinise the recruitment and treatment of workers from seven source countries, alongside a bolstering of the company's human resources expertise. The subsequent independent review in 2022 revealed compliance with International Labour Organisation forced labour indicators, identifying no major violations but highlighting minor areas for improvement, such as the need for language-appropriate documentation for workers.

The company's responsive measures, including the establishment of monitoring procedures for the identified areas of improvement and a commitment to ongoing progress, are a positive outcome from EOS's engagement objective with this company. Furthermore, Compass's pledge to introduce a Group-wide Third-Party Integrity Due Diligence Policy and establish a Migrant Labour Working Group in 2023 marks significant steps forward. These initiatives reflect a deepening commitment to addressing the complexities of modern slavery within its business model and supply chain, setting a precedent for continuous enhancement of its human capital management practices. EOS's engagement will nonetheless persist, focusing on the effectiveness and implementation of these new policies and groups, ensuring Compass Group's enduring dedication to ethical and responsible business conduct.

In May 2024 Compass Group PLC were held in our many of the Fund's listed active and passive equity portfolios.

## Principle 9 - Signatories engage with issuers to maintain or enhance the value of assets.

As outlined previously within the responses for the other principles, the Fund recognises the need to embed the management of ESG risks throughout its investment processes. Voting and engagement with fund managers and specific holding companies is an important part of this process, in influencing change over the long term.

Given most of the Fund's investments are managed through the Brunel pool (c97%) then Brunel under this arrangement undertake proactive stewardship and engagement on behalf of the Fund, either direct with the fund managers appointed or via the external engagement partnership with EOS, who are part of Federated Hermes. They were appointed by Brunel following a competitive tendering and due diligence exercise to undertake engagement, proxy voting and stewardship on behalf of the Fund and partner client funds within the pool. This covers all segregated active listed equity portfolios and

corporate fixed income portfolio. As with standard contract management processes, the contract arrangements and related performance undertaken is closely monitored to ensure that these are in line with expectations and that the voting and engagement has been undertaken in accordance with the pool's best interests and that targeted approaches have been developed following full discussion and agreement with the Brunel responsible investment team.

EOS provide quality quarterly reporting on the specific engagement and proxy voting undertaken on behalf of the Fund and partner funds, and this is available to Fund Officers for review, challenge, and further discussion with Brunel either directly or through the monthly responsible investment subgroup meetings. EOS also provides an annual engagement outcomes report and attend the responsible investment sub group to present activities undertaken across global markets and provide more metric and quantitative analysis of voting trends. This information assists the Fund in monitoring its engagement activities and its effectiveness as an asset owner in influencing changes in business processes and policies to improve ESG factors, without materially impacting upon the Fund's overall investment performance.

In addition to the above as part of the Brunel responsible investment sub group the Fund together with partner client funds are asked to consider, input and agree the annual engagement plan for EOS, which sets out engagement priorities across 12 themes grouped under environmental; social; governance; strategy; and risk & communications. Further information on these themes is provided below:-



Part of the programme of engagement milestones are established to be able to assess whether this has been successful and met its objectives set at the outset. Progress in achieving these objectives is regularly assessed and evaluated.



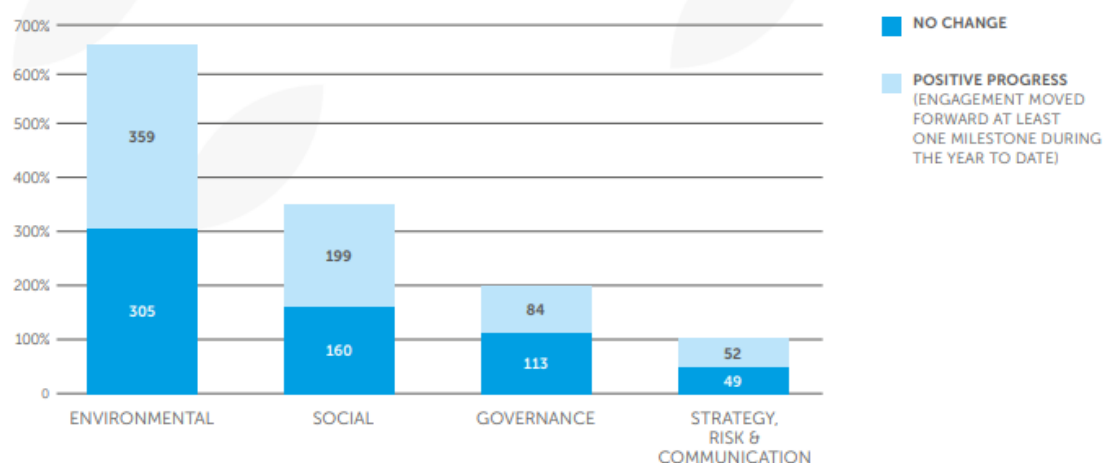
EOS' primary approach is to engage privately with companies, behind closed doors. Where engagement is not succeeding at the pace that EOS believe is required, they will also consider using escalated engagement techniques that may be more public, such as:

- Collaborative engagement with like-minded institutional investors
- Speaking at the company's AGM
- Filing or co-filing a shareholder resolution, and
- Raising concerns in the public domain

EOS largely vote on behalf of Brunel managed investments, but Brunel can if required, override the recommendations of EOS should the circumstance be such that they would prefer to vote in a different manner. Examples of such circumstances would be where the speed or intensity of escalation are not considered sufficient, or awareness of contextual information based on Brunel's on research or experience from fund managers.

Whilst more final metrics are awaited for 2024, EOS undertook on behalf of the Fund in 2023 specific engagement with 805 Brunel managed companies on 1,321 milestones. This represented 99% of votable meetings . EOS recommended voting against or abstaining from at least one or more resolution at 879 meetings. Voting in favour of management resolutions were made at 404 meetings, with a further 48 meetings instruction to vote in favour by exception. The vast majority of these voting recommendations related to board structure and remuneration. Brunel overturned voting proposals of EOS at 21 meetings during 2023. At least one milestone was moved forward for about 52% of objectives during 2023. This is summarised by themes as follows:

ENGAGEMENT UNDERTAKEN ON BEHALF OF BRUNEL BY FEDERATED HERMES



Source: Brunel Pension Partnership 2024 Responsible Investment and Stewardship Outcomes for the year ending 31st December 2023.

Voting on the passive equity funds managed within the pool, is undertaken by the fund manager Legal & General Investment Management (LGIM). Although LGIM are not bound

to the Brunel's voting guidelines, opportunities exist for Brunel to direct voting for pooled holdings so that these are aligned to active segregated holdings.

The Fund believes that existing structure in directing engagement within the Brunel pool, is an effective tool in ensuring that the Fund, with partner funds acts as an active asset owner and exercise its rights and its position of ownership to influence the behaviour and activities of investee companies, recognising different approaches required for each asset class to enhance ESG disclosures and improved processes.

Engagement through the Brunel process has three main stands, firstly the direct engagement with and by appointed fund managers, who incorporate this within their fund selection and monitoring processes. Secondly through the EOS specialised engagement and voting coverage on listed equity and fixed income portfolios. Lastly, engagement is enhanced through collaboration, with other like-minded asset owners or industry forums. This process therefore ensures that the Fund and its partner funds through collaboration, have a more effective influence on companies and wider industry practices, although recognising the limitations surrounding the size of the pool within the global markets.

The Fund clearly as a client of Brunel has an active part in establishing and monitoring of all policies including its responsible investment and stewardship policies. These are kept under constant review to ensure these remain aligned with the Fund's own investment beliefs and principles. The Fund has as previously mentioned in the previous principle responses, have become supporters and members of a number of key organisations that can enhance the ability for global engagement, such as the IIGCC, Climate 100+, TPI, and Pensions for Purpose.

#### **Case Study: Target setting at Shell – in the thick of it**

Urging Shell to align with the Paris Agreement, by disclosing interim scope 3 emission reduction targets, has been the topic of a resolution co-filed by Brunel, Follow This and 26 other investors. As an evolution of previously filed resolutions by Follow This, Brunel believe that the wording of this resolution encourages the company to reframe its current target to align with the Paris agreement in a way that best aligns with its strategy and long-term climate ambitions.

Co-filing this resolution is an escalation of Brunel's previous engagements with Shell. Last year, we voted against the CEO and Chair and the Energy Transition Progress report due to climate related concerns and voted FOR the resolution requesting interim scope 3 emissions reduction target for 2030. Not only was Shell one of the top contributors to Brunel's financed emissions in 2022, with ongoing concerns regarding the credibility of its climate commitments and the alignment of its targets with Paris goals. These concerns were amplified by announcements at their Capital Markets Day in June 2023 which included a retraction of expected decline in oil production to 2030.

Brunel co-filed as, at the time the resolution was filed, the company had an intensity target for its combined scope 1, 2 and 3 emissions which made it difficult to

independently assess targeted scope 3 emissions reductions. Furthermore, Brunel's engagement conversations with the company indicated that it is unlikely to provide substantive targets on scope 3 due to implications to sales volume.

Since the resolution was filed, Shell has come out with an update to its energy transition strategy. While the company did disclose partial scope 3 emissions reduction targets (covering oil sales) it is not considered to be comprehensive given that it does not cover the LNG business which is projected to expand. The company has also retired its medium term targets and scaled back its short-term emissions reduction target. Brunel do not expect to withdraw the resolution considering its relevance in its portfolio, the materiality of scope 3 emissions for the company and the broader context of oil and gas majors backtracking on climate commitments. However, Brunel are keeping the doors open for further dialogue with the company

### **Case Study: Pass through voting at Exxon**

In April 2024 Brunel announced its intention to vote against the re-election of directors and the approval of executive compensation at this year's Exxon AGM on 29th May. This unusual step is in response to Exxon taking shareholders, Follow This and Arjuna Capital to court for filing a resolution calling for more ambitious climate targets. Despite the shareholders retracting their resolution, the oil giant persisted with the case.

In a statement Brunel made it clear that it viewed the continuing litigation by Exxon despite the retraction of the proposal to be a threat to shareholder rights. As such Brunel felt it necessary to send a signal to the board by voting against company resolutions. Although Brunel only holds a relatively small number of Exxon shares through an index tracker it will use pass-through voting to vote against the company at the AGM.

## **Principle 10 - Signatories, where necessary, participate in collaborative engagement to influence issuers.**

The Fund recognise that if it is to achieve its investment beliefs and its long term aspirations for achieving a net zero emissions target by 2045, it needs to work in collaboration with like-minded investors and partner LGPS funds to have a stronger more

effective voice in influencing change towards a sustainable financial system, where its members can enjoy its pensions in a world worth living in.

Following the issue of the Governments “LGPS: Investment Reform Criteria and Guidance” in 2015, which set out how the Government expected funds to establish asset pooling arrangements, the Fund has taken a proactive approach in working in partnership in the collective goal of meeting the Governments requirements. The Governments objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure

As a result, the Fund joined with nine other LGPS pension funds to establish the Brunel Pension Partnership in December 2016. The whole governance structure of Brunel is focused on providing equality for its client funds in setting policies and investment structures, seen as an essential element in meeting its collective long term investment objectives. The development of responsible investment and stewardship policies, which represented the interests all partner funds were integral to this process. The Fund continues to work in partnership with Brunel and partner funds and welcome this structure as it recognises the benefits of sharing expertise, resources, and knowledge and also the enhanced influence through stewardship and engagement that can be achieved through collaborative working.

Whilst Climate related monitoring and engagement is the most significant area of focus the Fund recognise the essential need for engagement of wider ESG issues and work collectively to ensure that this is also being undertaken, as set out in principle 9 above. Brunel is a signatory to several different collaborative investor groups, including the Institutional Investor Group on Climate Change (IIGCC), The Climate Action 100+ group, Investor Policy Dialogue on Deforestation (IPDD) Initiative, Asset Owner Diversity Working Group, Nature Action 100+ and Share Action.

In addition, the Fund has, as mentioned in previous principle responses, have also become supporters and members of a number of key organisations that can enhance the ability for global engagement, such as the IIGCC, Climate 100+, TPI, and Pensions for Purpose. The Fund is supportive of these organisations and the action they take to engage with companies on key issues relevant to the Fund’s members and beneficiaries.

The Fund also recognises that collaboration and affiliation to these organisations enhances the sharing of knowledge, ensures that the Fund’s officers and Committee members are kept informed of industry developments, initiatives, and scientific analysis and metrics which all inform decision making going forward.

Whilst the Fund does engage directly with specific private market fund managers managed outside of the Brunel pool, it recognises that it is currently challenging to undertake more proactive engagement with companies given the size of the Fund and

limited resources available. It is therefore important for the Fund to work in collaboration with Brunel to ensure that the stewardship and engagement policies and processes undertaken are robust and as effective as possible in influencing change going forward.

### **Case Study - Climate: Danone, Climate Lobbying**

EOS has been actively involved in dialogues with Danone, (alongside other members of the CA100+ lead investor engagement group and the CA100+ Climate Lobbying Working Group), to ensure its climate lobbying efforts are aligned with a 1.5-degrees trajectory. EOS, along with the other participants, emphasised the importance of transparency and accountability, urging the company to review its direct lobbying activities and the stances of the trade bodies it is affiliated with. Following these conversations, Danone highlighted that it will endeavour to analyse its efforts against this CA100+ climate benchmark and agreed to publicly disclose its findings.

In May 2024, Danone were held in the many of the Fund's active and passive listed equity portfolios.

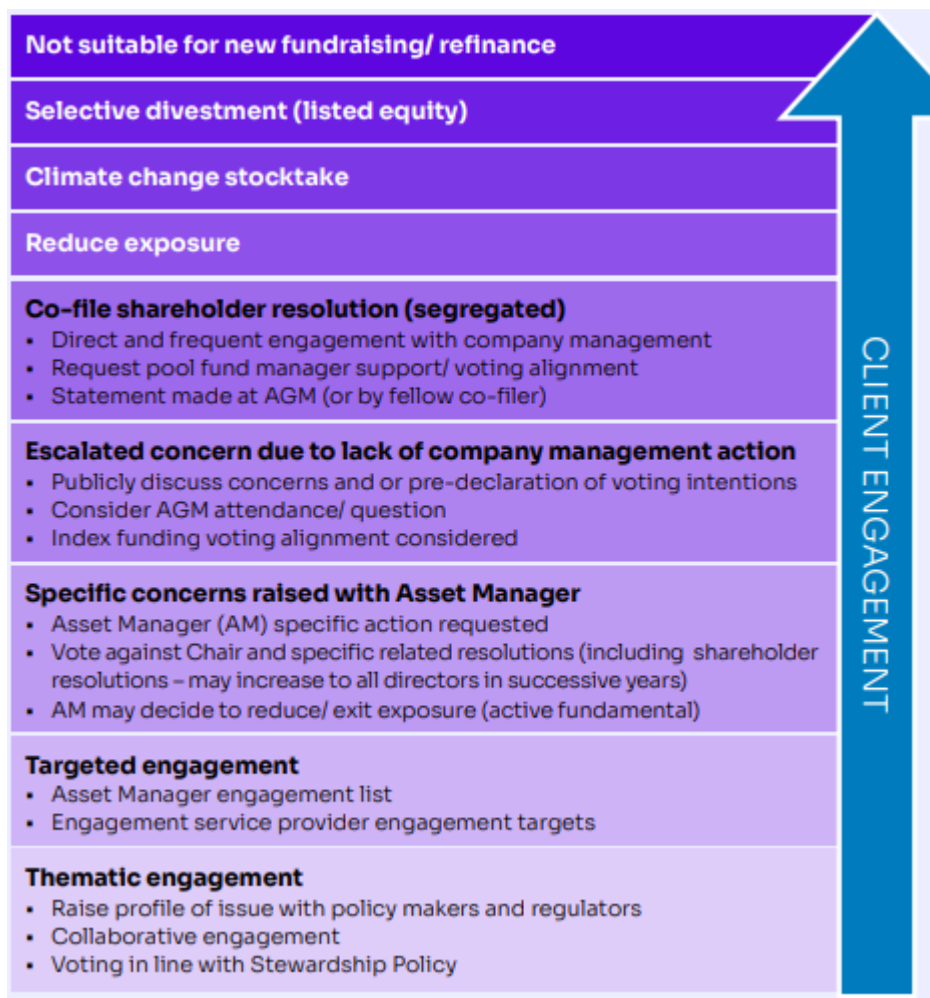
## **Principle 11 - Signatories, where necessary, escalate stewardship activities to influence issuers.**

The Fund recognises that, although there is value to be gained from engagement with companies in terms of building relationships to help drive improved performance, engagement cannot be an end in itself. For engagement to be effective it requires there to be milestones and objectives set that should be delivered in a timely manner, and fully supported with a clear escalation process when these are not met.

Through the development of the Fund's responsible investment policy the Fund have implemented an enhanced monitoring and engagement process for its top carbon emitters within its listed and bond portfolios. This resulted in the Fund making a specific request from Brunel, via the Responsible Investment Working Group, to develop a quarterly reporting process detailing all engagement undertaken with these top emitters for consideration by both Fund officers and Committee members. As part of these discussions, it was clear that partner client funds also welcomed this initiative and fully supported this enhanced approach. It is clear from the analysis that the top ten holdings with the highest carbon emissions, represent a significant percentage of the total emissions within these portfolios and highlight the need for engagement in influencing a transition to cleaner working practices going forward.

[Brunel's Stewardship Policy](#) clearly outlines how it proactively undertakes stewardship and engagement activities in managing assets for its client funds. This confirms that the Brunel Investment Risk Committee (BIRC) and the Brunel Investment Committee fully consider any engagement concerns. If appropriate, escalation is requested to the investment managers. Brunel expect regular updates on the company's managers are engaging with, what they are engaging on, how they assess the risk, and what level of

escalation they are undertaking. In parallel review of the engagement EOS are undertaking, their engagement targets and escalation may also be undertaken. In addition, collaborative engagement may be applied, and Brunel will reach out to other investors to elevate areas of concern to companies. Voting is an intrinsic part of the escalation process. Brunel, supported by EOS, executes thousands of votes annually. The following table summarises this process:-



### Case Study: Escalating on Diversity

Brunel co-filed a resolution at the Charter Communications 2024 AGM, with British Columbia Investment Management Corporation (BCI), NEST and UBS, to disclose a diversity policy and set out clear plans for succession to ensure that the company increases board representation of women. The supporting statement noted that the company had only one female director on the board at the time of filing, in contrast to peers where the average was 30% board representation. The average director tenure (10 years) also exceeded the peer average and provided ample opportunity for board refreshment.

The resolution was a natural escalation of Brunel's previous votes against the nomination chair due to diversity concerns, supported by the fact that the company did not have a strong history of engaging with shareholders on this topic. Earlier dialogues with the company were not promising, but a breakthrough was made when they announced a new female appointee to the board during the engagement. Further dialogue with Charter Communications reassured the co-filing cohort that the company was serious about their commitment to advance diversity in future appointments. They committed to continue to engage with shareholders on diversity, opening communication channels and access which had previously been very limited.

As a result of these improvements, and their public commitment to gender and other forms of diversity in director recruitment efforts in their proxy statement, Brunel decided to withdraw the resolution.

This development marks an important milestone for the company on its journey on diversity and a sound example of how engagement on the back of co-filing a resolution can result in productive exchanges and amount to a 'win-win' for companies for investors alike.

#### **Case study: Climate Alignment Policy**

At the end of 2023, a new climate alignment policy for the highest emitting companies was agreed between Brunel and the client funds. This was developed as a framework to deliver against the Brunel Climate Change Policy 2023-2030, which outlines the basis of climate engagement and ultimately where appropriate divestment.

The Climate Change Policy applies to all holdings, but climate alignment policy specifically applies to listed holdings. The criteria detailed below applies to all listed holdings but when we expect them to become climate aligned is based on an assessment on the impact they have on the climate. Holdings are grouped, based on this impact assessment as follows:-

- Listed Holdings – c3200 companies currently held by Brunel
- High impact sectors – those companies that are part of a specified list of high impact sectors
- Climate 100+ companies – 170 organisations, identified by climate 100+, an investor led initiative as the world's largest corporate greenhouse gas emitters

The expectations below for climate alignment as a subset of more holistic climate risk, and stewardship expectations for holdings, and we would expect clear plans demonstrating management of physical climate risk and resilience. As detailed below the assessment using the Climate 100+ alignment maturity indicators in forming a minimum requirement of organisations. Any companies held by Brunel who are unable to comply with the criteria will be subject to challenge via the asset manager and selective divestment within 12 months of the reassessment date. If companies have been identified under this assessment which fail these minimum standards which are not held

within the Brunel portfolios, then asset managers will be instructed not to invest in that company in the future, unless the company improves.

### Summary of Alignment Maturity Expectations for 2024/2025

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

The Fund took an active part in the discussions that led to a tighter new alignment policy that provided more focus on providing progression in the transition pathway of company’s decarbonisation. The Fund are fully supportive of this improved escalation process and view this as an essential tool in meeting its net zero aspirations. This policy is being reviewed annually with the expectation that this will continue to be tightened, to enhance the decarbonisation of portfolios.

## Principle 12 - Signatories actively exercise their rights and responsibilities

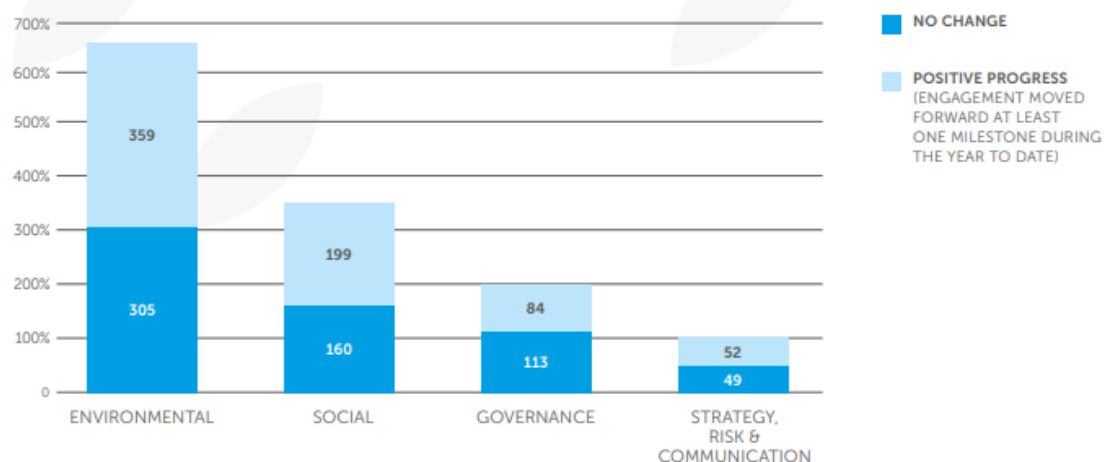
The Fund takes its responsibility as an asset owner very seriously and as a result aims to vote 100% of its holdings managed through the Brunel pool, via either EOS, the proxy voting manager for active markets, or via Legal & General Investment Management for passive funds held. Exercising voting rights is an effective tool in influencing the companies the Fund invests in and helps in mitigating long term investment and wider ESG associated risks. Voting decisions are fully delegated to fund managers, while recognising that the Fund maintains ultimate responsibility for ensuring that voting is undertaken in the best interests of the Fund.

The Service agreement between Brunel and the client funds outlines the expectations that the fund has around voting their shares; “The Manager shall issue proxy voting instructions or vote on a show of hands at a meeting in relation to any Portfolio Fund's units.”

The implementation of Brunel's voting guidelines is supported by EOS at Federated Hermes. The voting principles guide Hermes’ voting recommendation alongside country and region-specific guidelines. Voting decisions are also informed by investment considerations, consultation with portfolio managers, clients, other institutional investors, and engagement with companies. The voting and exercising of rights process, including the approach across asset classes including fixed income and alternatives, is explained in further detail in [Brunel’s Stewardship Policy](#).

Whilst more final metrics are waited for 2024, EOS undertook on behalf of the Fund in 2023 specific engagement with 805 Brunel managed companies on 1,321 milestones. This represented 99% of votable meetings. EOS recommended voting against or abstaining from at least one or more resolution at 879 meetings. Voting in favour of management resolutions were made at 404 meetings, with a further 48 meetings instruction to vote in favour by exception. The vast majority of these voting recommendations related to board structure and remuneration. Brunel overturned voting proposals of EOS at 21 meetings during 2023. At least one milestone was moved forward for about 52% of objectives during 2023. This is summarised by themes as follows:

ENGAGEMENT UNDERTAKEN ON BEHALF OF BRUNEL BY FEDERATED HERMES



Source: Brunel Pension Partnership 2024 Responsible Investment and Stewardship Outcomes for the year ending 31st December 2023.

Although the Fund is not able to directly vote its own shares held in the Brunel portfolios, or file shareholder resolutions, it can engage with Brunel to influence their activity in these areas. As the Fund receives quarterly updates and metrics on all engagements and voting undertaken with investment companies, and this ensures that this transparent process can be easily monitored to ensure that the exercising of its rights have been undertaken in line with its long term interests.