BRUNEL

Pension Partnership

2021
Responsible Investment and Stewardship Outcomes

For the year ending 31 December 2020

Delivering stronger investment returns over the long term, protecting our Clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

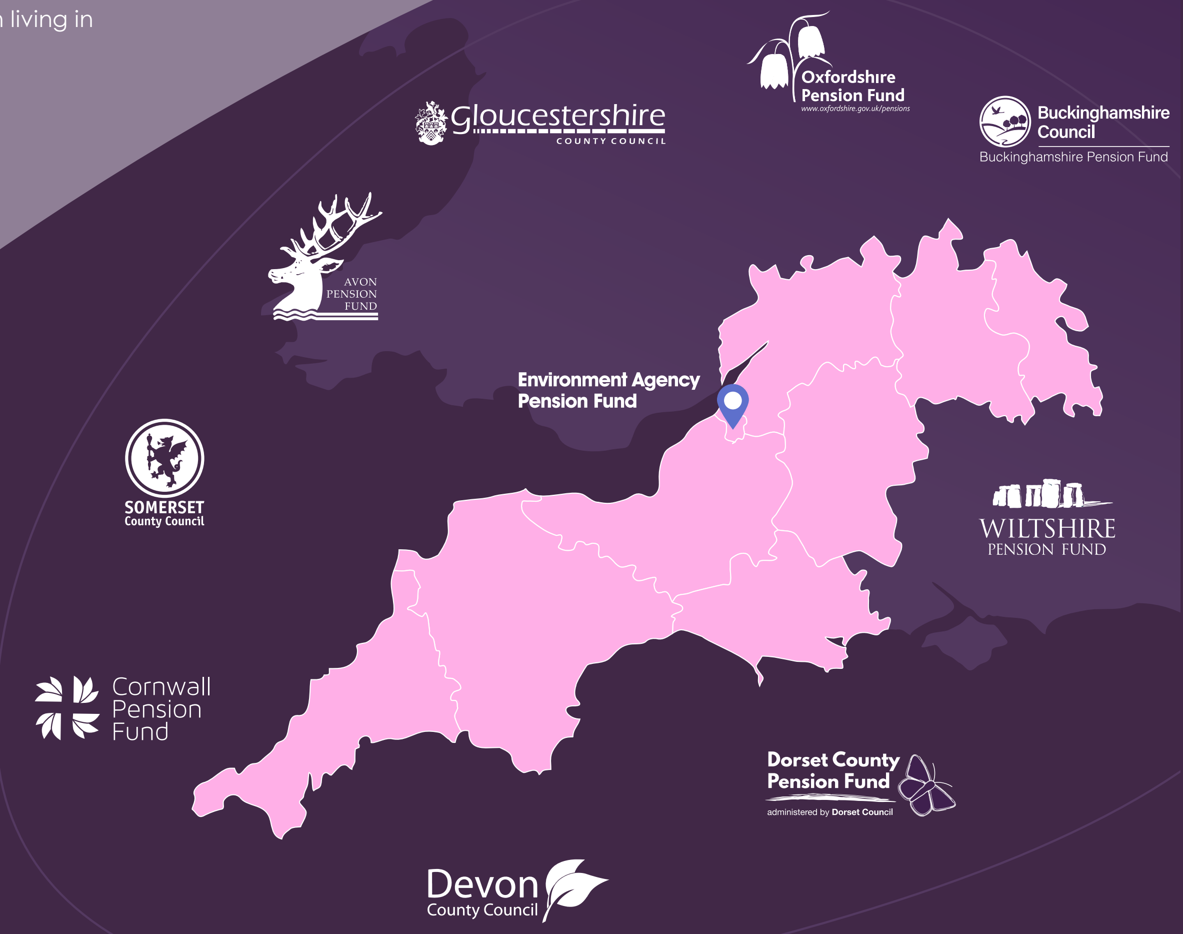
Brunel Pension Partnership Limited (Brunel) is one of eight national Local Government Pension Scheme (LGPS) Pools, bringing together circa £30 billion investments of 10 likeminded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

We would like to acknowledge the significant support and contribution of our clients to our work on Climate Change, Responsible Investment and Stewardship underpinning our mutual commitment to investing for a world worth living in.

We believe in making long-term **sustainable investments** supported by robust and transparent processes

We are here to **protect the interests** of our clients and their beneficiaries

In **collaboration with all our stakeholders** we are forging better futures by investing for a world worth living in



Executive Summary

Leaders
Recognised as leaders in RI, Climate and ESG in Europe and globally

Net-zero
by 2050, 50% carbon emission intensity reduction by by 2030

22%
greater carbon efficiency than benchmark for the Brunel Aggregate Portfolio – up from 15% a year earlier

35%
Females on board in UK Active and 28% in Global High Alpha – improvement in all active equities

75%
carbon saving and 254 jobs from Secured Income Portfolio greenhouse project

20%
Reduction in water intensity (38% below investment benchmark) by Robeco (Brunel Low Volatility)

78
world's largest mining companies asked to review their relationships with First Nations communities and indigenous peoples

3,101
issues engaged on at 881 companies achieving 1,050 milestones

1,046
company meeting voted at, 1,666 votes against or abstain

Cybersecurity
Coalition of investors focuses on 25 companies

SDGs
Reporting pilot underway

100%
of our appointed listed market fund managers are currently achieving or committed to cost transparency.

Message from our Chair

Denise Le Gal
Chair

Welcome to our 2021 Responsible Investment and Stewardship Outcomes Report for the year 2020.

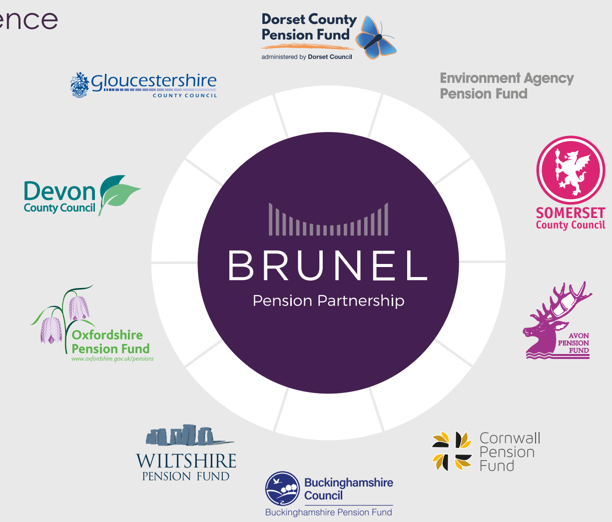
We launched this report last year to show our clients, shareholders, employees and the broader industry how we are performing against our own principles and targets. We advocate strongly and publicly for industry change across a number of areas, and we believe it is fundamental that we look at ourselves first of all.

The extraordinary events of 2020 enabled a strong spotlight to be shone on several of the issues covered in this report, among them, diversity & inclusion, human capital and climate change. We welcome the added scrutiny that has resulted. Indeed, we believe Brunel is strongly positioned for it, given both our extensive reporting practices and, on climate change more specifically, our involvement in enabling the launch of the Institutional Investors Group on Climate Change ground-breaking Net Zero Investment Framework.

We remain focused on our broader aim of forging better futures by investing for a world worth living in. Inevitably, that means thinking about issues across a range of asset classes, industries and geographies, and then taking appropriate action. The results of those actions are strongly in evidence throughout these pages.

Denise Le Gal

Denise Le Gal
Chair, Brunel Pension Partnership



Winner:
Pension Fund of the Year,
Environmental Finance Awards 2020

Introduction from our CEO

Laura Chappell
Chief Executive Officer

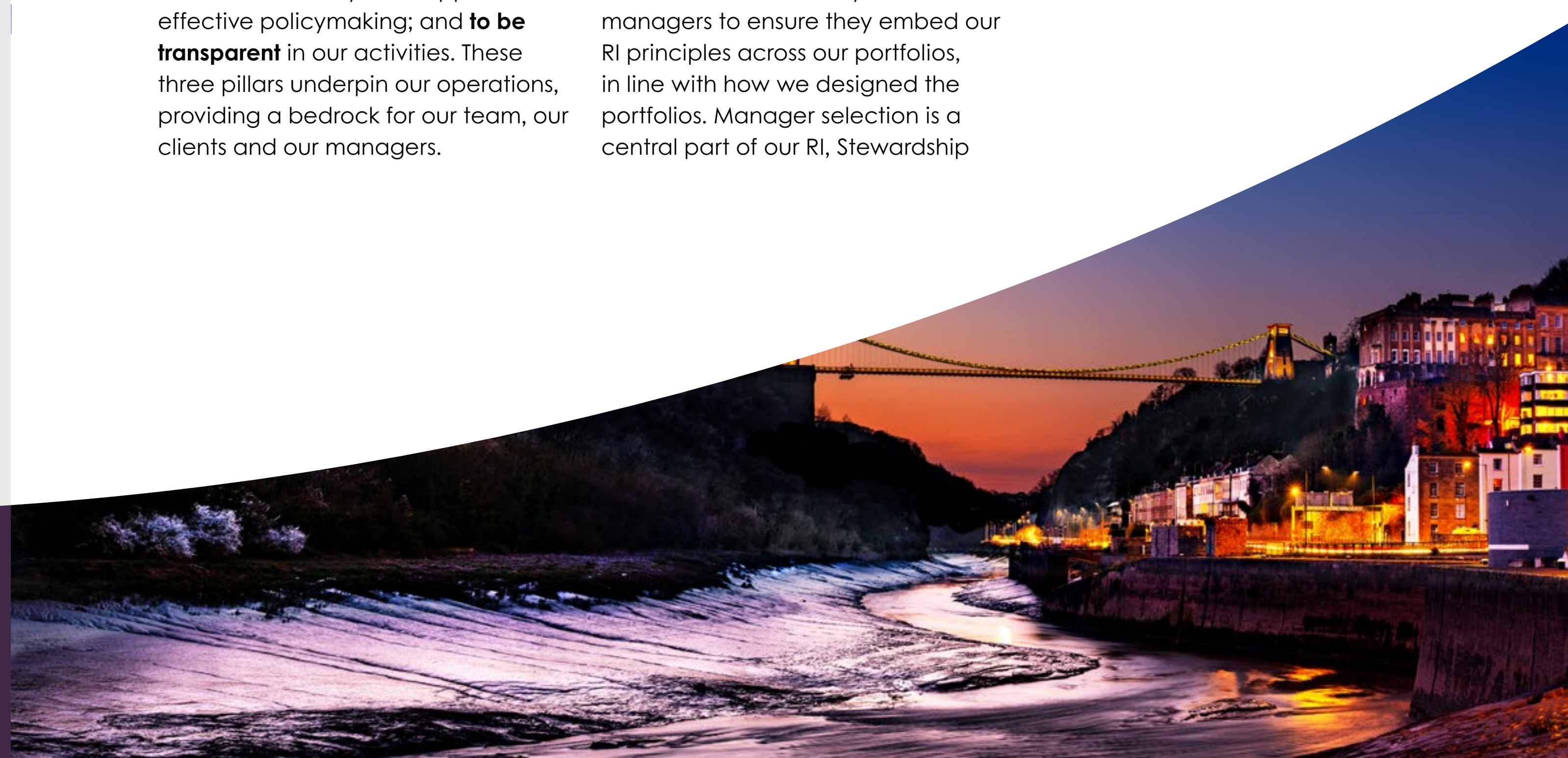
Our second Responsible Investment and Stewardship Outcomes Report reviews a year unlike any of us at Brunel have known, and one that none of us could have anticipated. Amid the changes, all companies have needed to respond nimbly to the crisis and to review their practices and performance. In short, the year has shown the value of just this kind of report, which enables us to go back to first principles and assess ourselves across several key metrics. As a result, even a global pandemic and lockdown has not prevented us from ensuring that our stewardship activities live up to our own high expectations.

We set our goals and make our decisions as a partnership, an approach that equips us to engage effectively not just with clients and shareholders, but also with managers and the broader asset management industry. These interactions and collaborations are crucial in enabling us to meet the long-term fiduciary and responsible goals set by our partnership.

Our Responsible Investment (RI) approach is built on three pillars: **to integrate** sustainability criteria into our operations and investment activities; **to collaborate** with others across the industry and support effective policymaking; and **to be transparent** in our activities. These three pillars underpin our operations, providing a bedrock for our team, our clients and our managers.

Despite the global disruption of 2020, Brunel was able to deliver widely on our plans through the year. By year-end, we had transitioned most of our clients' assets into Brunel funds. We also launched a number of new funds, including a Sustainable Equities Fund that positively targets sustainable investments, a Diversifying Returns fund, and a Global Small Cap fund. We completed Cycle 1 of Private Market investments (35% of which are in renewables) and embarked on Cycle 2, which has a dedicated sub-mandate for renewable energy opportunities.

We have worked closely with managers to ensure they embed our RI principles across our portfolios, in line with how we designed the portfolios. Manager selection is a central part of our RI, Stewardship and Climate policies. We examine how managers embed ESG principles into their investment process. We also look at their company culture, not least in the area of **diversity & inclusion**. We have continued to work with the Diversity Project and the 30% club to encourage a more inclusive culture – broader social movements in 2020 have offered a timely reminder of how much work remains to be done in this area. Although Brunel has too few employees to be obliged to report on diversity, we report on this area voluntarily.



Our climate ambitions were expressed in our work with the Institutional Investors Group on Climate Change, when we co-piloted the Net Zero Investment Framework ahead of an industry consultation. Faith Ward, our Chief Responsible Investment Officer, was named Chair of the IIGCC at the end of 2020. Having ensured Brunel's commitment to achieving Net Zero before 2050, Faith was closely involved in outreach to asset owners ahead of the formal launch of the framework in 2021. That outreach continues to mobilise asset owners and managers ahead of COP26 in the autumn. We have also been closely involved in work with both the TPI and TCFD in developing good practice in climate investing.

I am delighted to see how our determination to change the industry in this area is already bearing fruit, ahead of Brunel's own **Climate Stocktake** in 2022. To this end, we have begun work on Net Zero benchmarks, a major gap in the industry at present and one that prevents wholesale change. We have also been active in both shareholder engagement and voting, and our broader cooperation in this area has enabled significant climate policy changes at both HSBC and Barclays.

Responsible Stewardship and Responsible Investment cover many areas, among them water, biodiversity, cyber risk, cost transparency and supply chain risk. We review each of these in this report, since abuses or laxity in these areas can have grave consequences, and often severe social impacts. Focusing on climate risk to the exclusion of social factors is insufficient, and we are committed to integrating social risk and impacts into how we operate and invest.

Our role as a pension pool makes it imperative for us to address these issues holistically, in line with client needs, so that the interests of pensioners, planet and people are considered together. We believe this is the right approach, but we also believe it will enable us to reduce investment risk and deliver strong investment returns over the years ahead.

A year of disruption has given us an exceptional opportunity to ensure we are doing all we can to invest for a world worth living in.

Laura Chappell
Chief Executive Officer, Brunel Pension Partnership

Contents

The Big Challenge

Responsible investment (RI) is central to how Brunel fulfils its fiduciary duty. As responsible investors, we recognise that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment.

One of the biggest challenges therefore is trying to decide what exactly to do – where is the best place to target the resources you have, particularly when faced with a multitude of seemingly equally important risk and opportunities from one perspective or another. **So how does Brunel go about deciding on its responsible investment and stewardship priorities?**

The starting point for all our work is our Investment beliefs, which were drafted in collaboration with our clients. Brunel's shareholders (and clients) are nine Local Authorities and the Environment Agency. These organisations are at the forefront dealing with consequences, whether that be flooding, environmental degradation, fly-tipping, waste collection or social care, to name but a few. That our approach to investment considers these impacts and externalities[1] is entirely unsurprising but incredibly important.

Speaking to our clients directly, to their employers through AGMs and forums, and working with other stakeholders individually or in groups, enables Brunel to be close to a range of stakeholder issues and concerns.

Brunel Pension Partnership Investment Principles

- Long-term investors
- Responsible investors
- Best practice governance
- Decisions informed through experts and knowledgeable officers and committees
- Evidence and research at the heart of investments
- Leadership and innovation
- Right risk for right return
- Full risk evaluation
- Responsible stewardship
- Cost effective solutions
- Transparent and accountable
- Collaboration

The complete wording for these principles is available on our website: **www.brunelpensionpartnership.org**

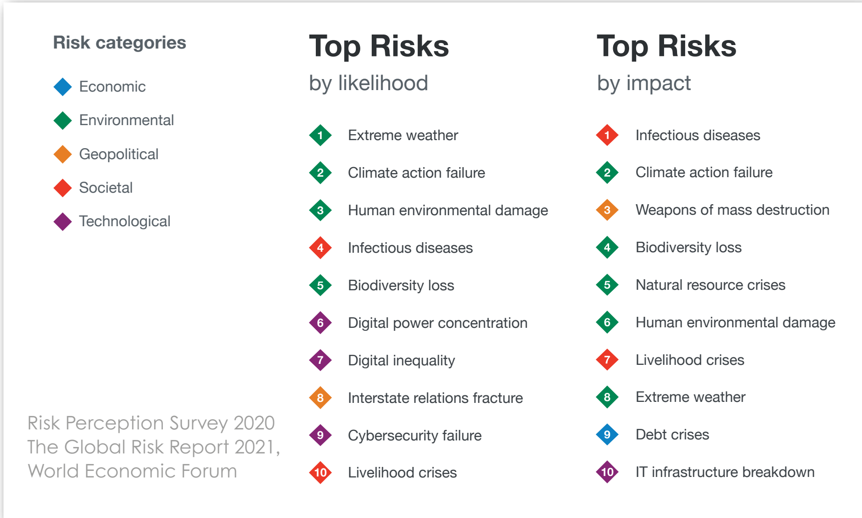
[1] An **externality** is a cost or benefit caused by a producer that is not financially incurred or received by that producer

Size does matter, not just in financial terms but also in terms of impact. A small company, or small allocation to a company, can have disproportionately large impacts on risk. We see this a lot when looking at climate change, for example. So, whilst we do look at our financial exposure in an absolute sense, we also consider the materiality of the sustainability risk to that company, as well as the risk that the company and its operations may present to the broader economy and society. This is sometimes referred to as '**double materiality**'.

Another concept we have embraced as helping to define our priorities is that of the '**Universal Owner**'. Whether Brunel is big enough to be classified as a universal owner can be debated, but it is a useful framing in recognising that, as diversified investors, we are exposed to risks arising from the whole economy and from right across financial markets. Universal ownership recognises the impact one asset or component of our portfolios has on another asset (for example, flood risk in real estate exacerbated by climate change arising from coal fired electricity generation). It also recognises the impact to the economy and society more broadly. Our approach therefore seeks not only to contribute to managing risks relating to individual investments, but to benefit the market and economy more broadly.

This leads to the need to look at systemic risks as well as portfolio risks. Dr Ellen Quigley[2], University of Cambridge, is a thought leader on how investors can address issues arising from universal ownership and systemic risk; and she presented to the Brunel Board as part of a half-day workshop in November 2020. The purpose of the workshop was to assess our overall approach to RI and to develop our risk framework relating to climate change. The Board workshop also looked at Brunel's priorities in relation to the **UN Sustainable Development Goals** as well as the work of the **World Economic Forum** (WEF), which produces a number of reports, including The Global Risk Report. The 2020 Report, published in January 2021, slices and dices risks in many ways; most importantly, it considers the interconnectivity of different risks. The extract below illustrates strong overlap with Brunel's current RI and stewardship priorities (page 10).

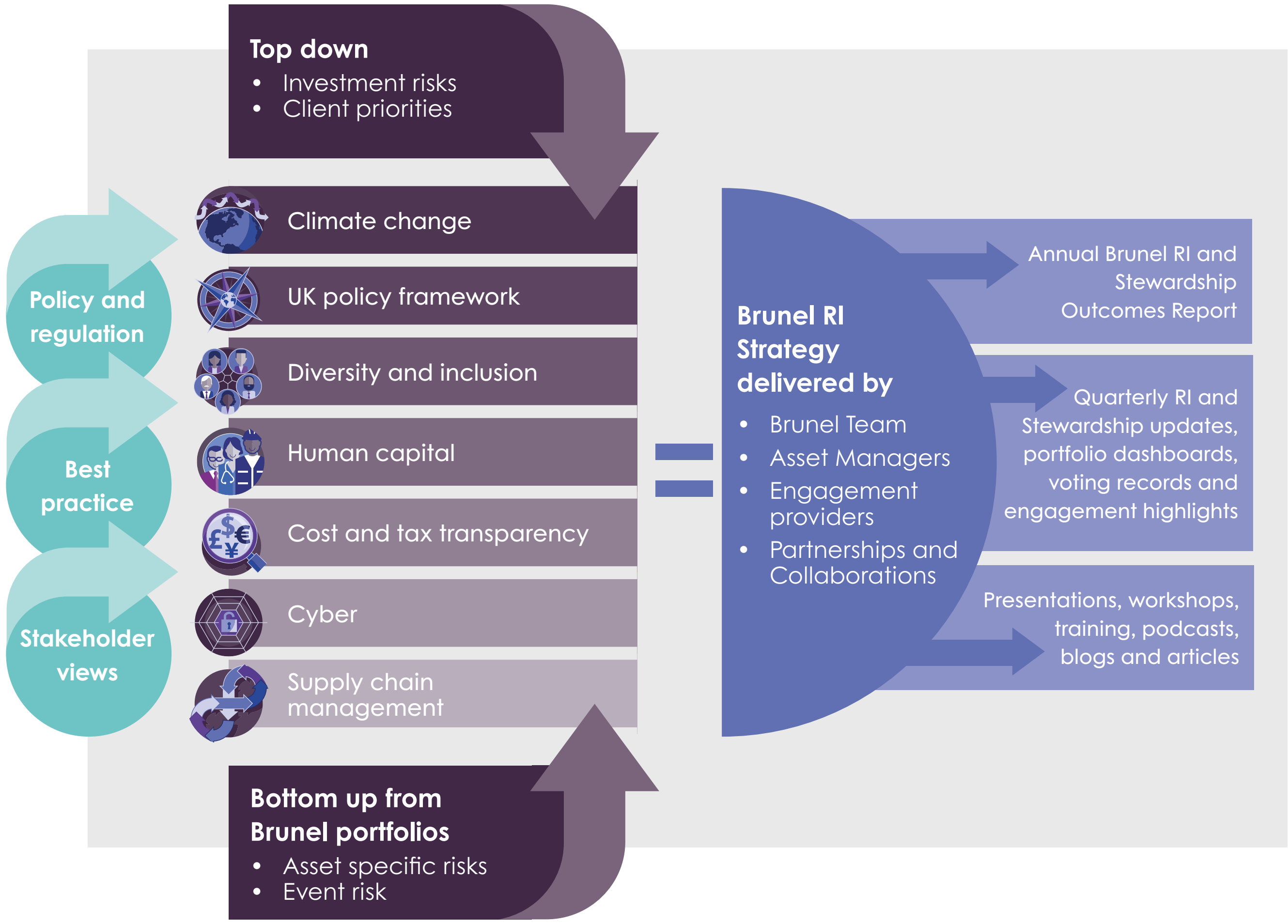
The outcome of the Board workshop was that our current priorities and approach to stewardship were appropriate and effective, **but that we need to proactively seek additional opportunities to amplify, and add to, our work on biodiversity. Biodiversity** is currently a sub-theme captured under supply chain management, but later in the report, we outline our next steps to respond to this request.



Risk Perception Survey 2020
The Global Risk Report 2021,
World Economic Forum

[2] E.Quigley, 2020, Universal Ownership and Systemic Risks - latest update on work https://www.cambridge.org/engage/coe/article-details/5fadc442ad40b800113d6637

Brunel RI and Stewardship Priorities



The whole organisation uses resources like the WEF reports, daily news feeds, input from our asset managers and other service providers. Combined with talking to other investors, policy makers and academics at events and private meetings, it equips us to be aware of new and emerging risks. The opportunity to discuss such risks is a standard agenda item of both the Brunel Investment Risk Committee and the Brunel Investment Committee, and at a strategic level as part of Executive Committee and Brunel Board meetings (page 12).

Whilst we set our priorities, the exact magnitude of activity on different themes does vary year on year, but also adapts to changes in circumstances. The rise of COVID-19 in 2020 added a new dimension to our priorities, and we had to make adjustments to our workplan.

Heart prints decorate Queen Square, Bristol, to support social distancing

We have had to navigate how companies approach effective shareholder engagement in a virtual world; the challenge of mental health in the workforce; and the problem of modern human slavery in supply chains. The risks linked to these issues were exacerbated by the various lockdowns imposed around the world – plans therefore needed adapting. Overall, the team just worked harder to absorb the increased activity, but some areas of legislation and regulation were put on hold, such as gender pay gap reporting in the UK.

The probability of success is a key consideration in how we prioritize. Whilst this does not stop Brunel raising issues that may not have widespread traction in the investment industry, it does have an impact at the level of resourcing. However, we are informed and flexible enough to deepen our expertise on key topics when the need arises or when events highlight a topic's urgency. One example was the death of George Floyd in 2020, which led to an outpouring of emotions in America and, subsequently, worldwide. His death shone a spotlight on racial inequality. Inevitably, it made us think more deeply about the issue in the investment industry, and dedicate more resources to this element of our Diversity & Inclusion theme.

The timing of engagement is critical. Good timing enables us to galvanize widespread investor support for action, thereby massively increasing the effectiveness of our stewardship activity. This was demonstrated by the rapid investor-led response to the 2019 Brumadinho dam disaster in Brazil, which resulted in ground-breaking interventions and progress that will save lives in communities worldwide that live near tailings dams.

Client outcome focus

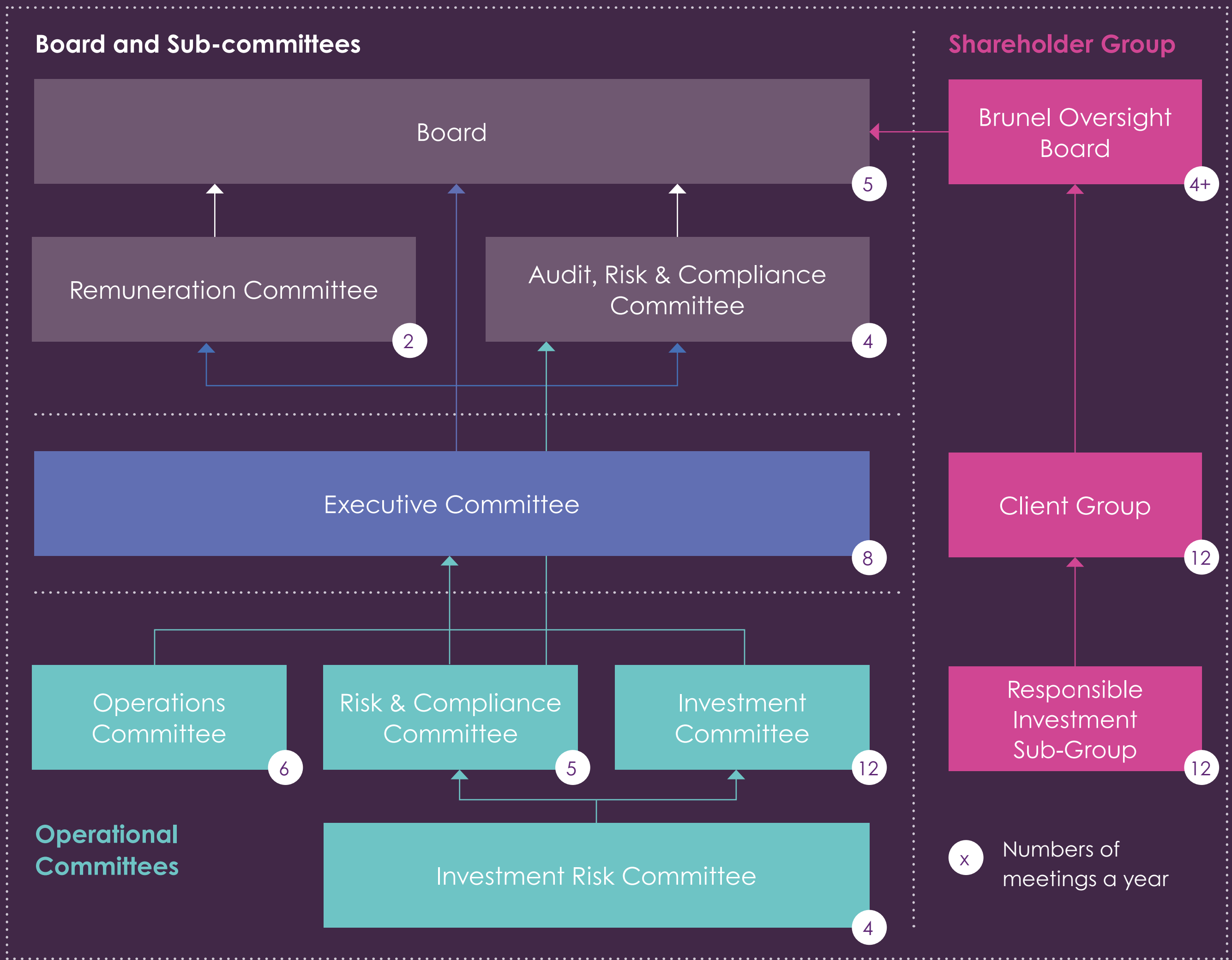
As illustrated in the diagram 'Brunel RI & Stewardship Priorities', we are heavily influenced by the views and concerns of our clients and their beneficiaries.

Brunel's Client Group is made up of Client Fund Officers who put Responsible Investment updates on the agenda on a monthly basis. In addition, the Responsible Investment Sub-group meets monthly and **acts as a forum for consultation and review of all RI and stewardship policies and reporting**. It also provides an opportunity for deeper discussion on Responsible Investment topics. We specifically ask this group to assess whether our reporting, such as in this report, is what they need and is fair, balanced and understandable.

We also believe that it makes our reporting 'fair and balanced', as well as more outcome and investment relevant, to report most of our metrics on a weighted average basis.[3]

We conduct client workshops to enable deeper awareness or training on a particular topic. In 2020, workshop topics included the requirements of the new stewardship code, and sustainability-based investment outcomes and benchmarks.

The Brunel team also presents frequently at pension committees, investment sub-groups, employer forums and dedicated responsible investment training events. Taken together with Brunel Investor Days, these provide a great many opportunities to respond to questions and listen to clients' areas of concern.



[3] Weighted average is an average resulting from the multiplication of each component by a factor reflecting its importance

In 2020, Brunel clients conducted an independent assurance review of Brunel, which included an assessment on the Responsible Investment Service. On this latter part, 90% of clients rated it 'good' or 'very good'[4]. We did, however, reflect on the qualitative feedback, **including requests for portfolios aligned with the Paris Agreement across all asset classes and reporting on the Sustainable Development Goals**. Both have been actioned in the latter half of 2020 and progress covered in this report, although work continues in 2021.

Walking the Talk

Our responsible investment policy commits Brunel to integrate RI in everything we do, including our own operations. There are examples of this throughout the report but, more broadly, we work in partnership with Future-Fit, a-not-for-profit organisation that aims to encourage business alignment with the Sustainable Development Goals (SDGs); we have committed to sustainable leadership by become a Future-Fit 'Pioneer'. Becoming a Pioneer demonstrated our commitment to embedding sustainability throughout our organisation and walking the talk across our own operations.

We have made progress across a number of our Future-Fit goals and aim to improve where "minor" action was flagged in our Future-Fit assessment from 2019.

Stonehenge, Wiltshire

[4] Brunel Client Assurance Survey, conducted by Mercer, July 2020.

Bringing it all together – CIO perspective

The global financial crisis (GFC) of 2008 left an indelible mark on financial markets; the scarring of the economic system, subsequent regulations and the actions of participants ultimately influenced the path of returns for the next decade. The outbreak of Covid and the government and central bank response is also likely to shape the future of the market, indeed the response function has in several ways accelerated the previous themes of debt and government intervention.

David Vickers
CIO

In addition, after years of generally disinflationary trends it may have sown the seeds for eventual inflation. It has also helped, alongside other developments, to provide a renewed focus on sustainability. The spread and response to Coronavirus has certainly served to highlight issues of inequality and show how interconnected the world is both politically and financially, providing a timely reminder that one must build into models both "traditional" and ESG risks when making strategic decisions about how to deploy capital.

Looking forward the social, economic and investment landscape will be driven to significant extent by the conditions of today, not least the fact that International Monetary Fund (IMF) estimates that global debt stands at $270 trillion, or 350% of global GDP, a figure we have not seen since the end of World War Two. In conjunction with this it is also important to note that interest rates around the developing world are at or close to zero. That point is spectacularly important for medium term investment returns. The past decade of quantitative easing (government purchasing of assets), austerity and fiscal prudence drove yields lower and covid pushed them to all time lows. Indeed, by December 2020 $18trn of government debt had negative yields (I.e., an investor paid a premium, as opposed to receiving one for giving the government money!)

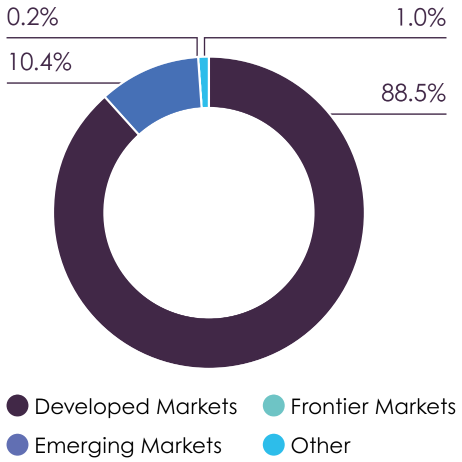
Why is this important? Developed market government debt is considered low risk and we use the term 'risk-free rate' as foundation to measure 'risk' other asset classes. As in any area of life, if you mess with foundations, you can expect significant knock-on impacts. As an example, if property offers a return of 5%, then that might be lower than historic returns but should be compared to what you can receive from a government bond which is close to zero. If suddenly you can receive 2% from the risk-free rate, then a 5% return doesn't look as attractive. As such that asset, property in this example, has to adjust by falling in value until the compensation above the risk-free rate is restored.

It may well be inflation, or at least the expectations of inflation that is the biggest risk to investors meeting their outcomes. If the post GFC was a decade of monetary policy, arguably what has changed now is the introduction of traditional fiscal stimulus – using public debt to stimulate the recovery. Money during this crisis has been channelled directly to the consumer as opposed to the banking sector and money supply has increased markedly. This has sparked concerns of inflation as fiscal stimulus has fuelled retail sales and increased savings rates which could be unleashed as additional demand as societies re-open, all at a time when bottle necks and supply in some areas are still constrained. All of this is before the $1.9trn US stimulus package and infrastructure bill have flowed through to markets. This combined with a rebasing effect from the lows of last year has already and could continue to move the expectations of inflation higher.

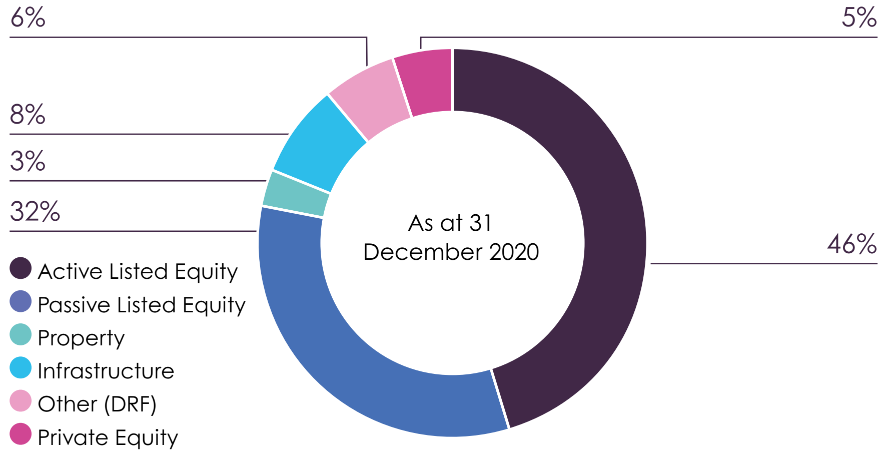
Some inflation would be welcome in order to erode the large debt burden, but the issue is that if inflation rises by more than is deemed comfortable by the market and the central banks it will drag bond yields and finally interest rates higher making the debt less financeable.

As we think about these long-term themes it is important, we view them through the lens of the portfolios we have built for our partner funds and the factors that our portfolios

Brunel Asset Allocation Geographical Split



Breakdown of Brunel Assets Under Management



are exposed to. We discuss the probabilities of these longer-term themes across our virtual desks and in our investment committees, tackling first the macro outlook and probability of events (as nothing should be taken as certain) and then discussing the likely impact on asset classes, thinking through what is priced in and ultimately working through the range of potential impacts on our portfolios. Fundamentally investment is about understanding all the risks that you are exposed to, formulating a view as to the distribution of potential returns and ensuring that the compensation on offer is appropriate.

The ramifications of climate change have always been a long-term theme that we believe investors needed to embrace. However, it does feel that the conflux of new reporting requirements, change in US government policy, societal changes and evolving investor demands, which have driven capital flows, accelerated through COVID. The outcome being that these issues have grown in prominence to a greater extent than I have witnessed previously. What the response to covid has shown us is that where there is a political will, significant financing can be found and governments and corporations from every region can, largely, work together towards a common goal. It certainly provides a blueprint for tackling climate change, which hitherto was often put by some in the "too big to tackle" camp. However, whilst showing the way the debt burden created has arguably left governments in a worse state financially to put into place the funding, incentives and programmes that are needed to radically move us forward. It is estimated by National Grid that getting the UK energy network to net zero for example will cost the UK £3trn and that retrofitting insulating to the UK housing stock perhaps another £2trn so says the energy technological institute. Financing is clearly needed in order to achieve Net Zero ambitions. President Biden's proposal of a new global tax regime therefore comes at an important time.

Greening the economy will create winners and losers, but the path will not be smooth or linear, as despite these inexorable trends, valuations of 'clean or green' stocks will inevitably run ahead of fundamentals and today's energy stocks will not all be in terminally decline, many have the resources and increasingly the focus to be part of the solution. Successfully navigating the investment landscape as we transition to net zero will therefore require an understanding of the long-term themes, the relationship between technological feasibility and profitability, but also the interplay between medium term valuation considerations and shorter-term investment flows. This narrative all assumes that we achieve net zero, clearly there are significant systemic risks if we do not manage to achieve the Paris targets. As mentioned earlier there are many potential futures and as an investor, we must consider them all and think about both probability and magnitude of impact.

As it stands today, governments, corporations and institutions that bind the economic ecosystem are not prepared for a warmer world, neither are current risk models, as they can't easily deal with events they have not seen, specifically the potential of nonlinear event compounding, creating tipping points and thus cascading effects. Removing a relatively simple piece of the puzzle such as insurance can create catastrophic effects as we saw during the GFC. It is a very real threat that some business, property and risks become uninsurable under numerous and credible scenarios, creating a litany of stranded and impaired assets and business ecosystems. Working with our investment partners, academics and such focused groups like the Principles for Responsible Investment (PRI) and Institutional Investor Group on Climate Change (IIGCC) to trace these fault lines is truly important as it can shine a light on where a new series of systemic risks may lie. This is important as even though we are aligned achieving net zero in our portfolios, much like covid it will not matter if we do this in isolation, as in isolation our efforts are not enough.

Next steps

- Private Debt portfolio to launch in 2021
- Fixed income portfolios to launch in 2021

Timeline

2017

July 2017
Brunel Pension Partnership formed

November 2017
Joined The Institutional Investors Group on Climate Change (IIGCC) and registered as Task Force for Climate related Disclosures (TCFD) signatory and supporter

December 2017
Board supports joining Diversity Project and 30% Club

2018

March 2018
First LGPS pool to become a signatory of UN backed Principles of Responsible Investment

May 2018
Five Year Responsible Investment Policy

October 2018
Launch of our Stewardship Policy

End of 2018
Brunel's First Annual Report and Financial Statements including TCFD & paygap report

2019

April 2019
Quarterly Portfolio dashboard reporting for ESG and carbon metrics

May 2019
Climate Position Statement

Brunel joins the Sustainability Accounting Standards Board (SASB's) Investor Advisory Group

September 2019
Published our Tax Position Statement

2020

January 2020
Public launch of Climate Change Policy

March 2020
UN PRI Transparency Report

May 2020
First Responsible Investment and Stewardship Outcomes Report published

Summer 2020
IIGCC's Net Zero Investment Framework testing and consultation

November 2020
Brunel is founding signatory to the Financing the Just Transition Alliance

2021

March 2021
Signed the IIGCC's Net Zero Investment Commitment

2021
Exploring Net Zero Benchmarks

2021
SDG Reporting in development

2022

October 2022
Climate Change Stocktake

2030

2030 target
50% reduction in carbon intensity

2050

2050 target
Net Zero investment Portfolios

Climate Change

Using our strengths and our position in the market to systematically change the investment industry so that it is fit for purpose for a world where the temperature rise needs to be kept to well below 2°C compared to pre-industrial levels.

Climate change presents an immediate systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet. It has direct implications for our Clients and their beneficiaries. It is therefore a strategic investment priority for us.

Scientific evidence suggests that our climate is changing faster than at almost any point in history. The world is already at approximately 1°C of warming above pre-industrial levels. This is causing more frequent and more extreme weather events, significantly affecting rainfall and sea levels, and impacting agriculture and food supply, infrastructure, flooding and water supply. That leads to rising migration and resource-based conflict.

World governments have started to respond. The signatories to the 2015 Paris Agreement committed to keeping global temperature rise this century to well below 2°C compared to pre-industrial levels, and to aim to limit the increase to 1.5°C. The signatories agreed to adopt and implement nationally determined contributions (NDCs) that set out the actions they would take to reduce greenhouse gas emissions, and to strengthen these efforts in the years ahead.

Yet we are currently heading towards a world of 4°C of warming compared to pre-industrial levels. To avoid catastrophe, governments and all sectors of society (individuals, companies and investors, among others), will need to do much more. To transition to the low carbon economy, we must reshape of our economy, eliminate almost all fossil fuel use, and reach Net Zero by 2050.

Brunel has committed to becoming Net Zero by 2050

Policy Advocacy

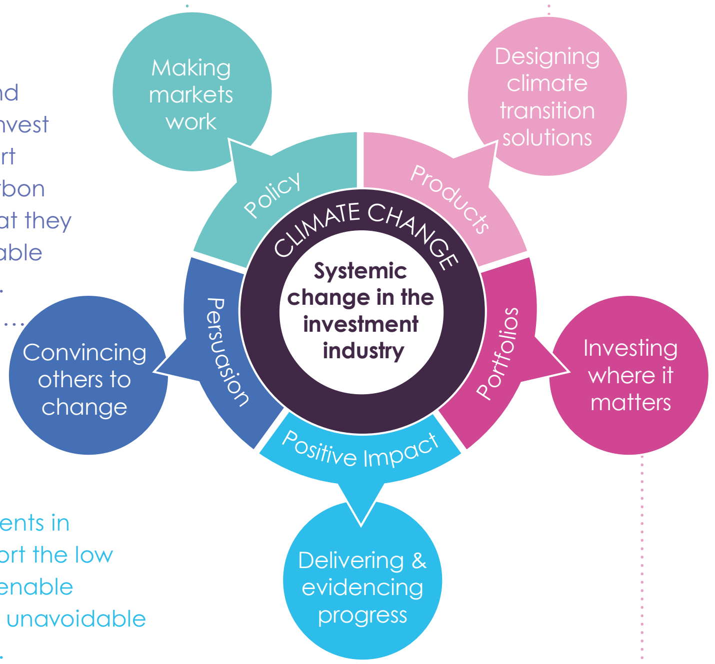
We want policy makers to establish comprehensive and robust climate change policy frameworks that deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy, and enable effective adaptation to the unavoidable impacts of climate change.

Product Governance

We want to increase the number and range of products available to our Clients and the wider investment market that deliver substantial climate change benefits.

Persuasion

We want the companies and other entities in which we invest and contract with to support the transition to the low carbon economy, and to ensure that they are resilient to the unavoidable impacts of climate change.



Portfolio Management

We want our investment portfolios to be resilient under a range of climate change scenarios (both mitigation and adaptation). We want to adopt best practices on climate risk management and to work with our managers to further improve and develop our processes.

Positive Impact

We want to enable investments in activities that directly support the low carbon transition and that enable effective adaptation to the unavoidable impacts of climate change.

What action have we taken?

Following the launch of our Climate Change policy in January 2020 we have made significant progress against all five areas. Highlights include:

- Investment in innovative climate solutions in our private markets' portfolios (case studies throughout the report)
- Significant milestones achieved in climate risk related corporate engagement (case studies throughout the report)
- Breaking new ground in the integration of climate risk into manager selection and appointment – see the interview with Daniel Spencer, the portfolio manager for the Multi-asset credit portfolio (page 48)
- Support of the development Paris Aligned Investment Initiatives Net Zero Investment Framework
- Excellent progress in decarbonising our listed equity portfolios working with our asset managers
- Publication of a separate, Climate Action Plan Report based on the recommendations of the Taskforce for Climate-related Financial Disclosure, supplementing our reporting in our **Annual Report and Financial Statements** on the governance, strategy and risk around climate change

The Paris Aligned Investment Initiative

We have been actively involved with the Institutional Investors Group on Climate Change (IIGCC) in the development of the Paris Aligned Investment Initiative. We have also been closely involved in drafting the **Net Zero Investment Framework**, which aims to set a global standard for investors to demonstrate they are Paris-aligned.

The Paris Aligned Investment Initiative had three main objectives:

- **Develop working definitions of concepts, terms and pathways** relevant to achieving Paris-aligned portfolios
- **Develop and assess methods and approaches** for measuring alignment and the transition of asset classes
- **Test the financial implications** of aligning portfolios to the goals of the Paris Agreement, using real-world portfolios and quantitative modelling

Net Zero Investment Framework

Governance & Strategy
Net zero commitment | Beliefs, strategy & mandates
Climate risk assessment | Monitoring & reporting

Portfolio Reference Targets
Emissions reduction | Investment in climate solutions

Strategic Asset Allocation
Scenario Analysis | Portfolio optimisation
Asset class variants | Review constraints

Portfolio and fund level
Structure for Alignment

Asset Level Assessment & Targets
Alignment & engagement targets & metrics
Asset assessment criteria | Recommended methodologies

Implementing Alignment
Portfolio Construction | Engagement & Stewardship
Selective Divestment | Direct Management

Asset class level
Shifts alignment of assets to meet portfolio goals

Stakeholder & Market Engagement
Asset mangers or clients | Data & service providers

Policy Advocacy
Global & national net zero policies
Disclosure & shareholder rights

External
Influences enabling environment to facilitate alignment

Brunel was a founding signatory of the **Financing the Just Transition Alliance** which has the vision to identify concrete steps that the financial sector can take to scale up climate action which also delivers positive social impact, both in terms of maximising the social benefits of net zero and also making sure no one is left behind

The project took an investment-led approach and delivered recommended frameworks for achieving Paris alignment by decarbonising portfolios and increasing allocations to climate solutions.

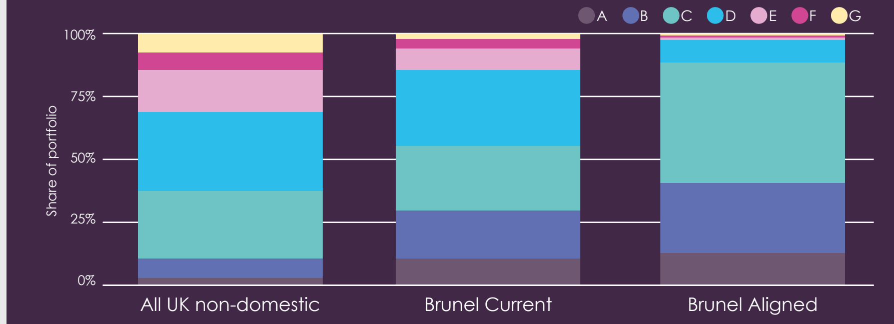
The Net Zero Investment Framework was released for consultation to the wider investment community in September 2020 ahead of being published in 2021. Brunel was also one of five investors that supported testing the methodologies supported by Avon Pension Fund.

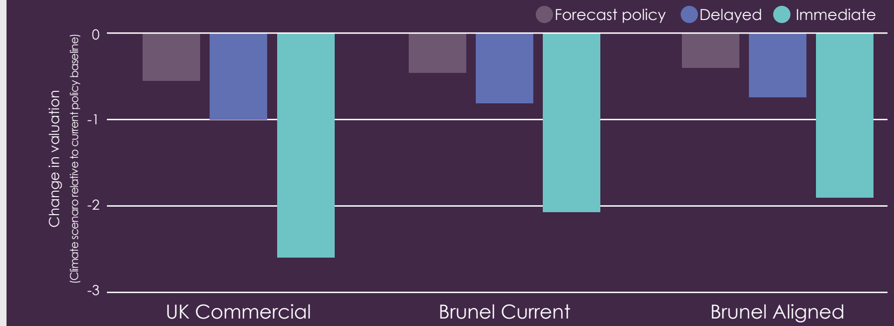
The next phase of the project entails creating frameworks for infrastructure and private equity asset classes and will be used to develop guidance on how to support investors with implementation. A dedicated **Paris Aligned Investment Initiative** microsite has been established to support investors.

Climate risk and real estate

Net Zero Investment Framework – Testing the methodology

We worked with three property managers that were able to provide data for a set of properties that represented a typical UK property portfolio. We then used that dataset as our 'Brunel Test Portfolio'. When looking at the valuation impact under different climate change scenarios, the 'Brunel Test Portfolio' performed better under all three scenarios compared to a typical UK commercial property portfolio.

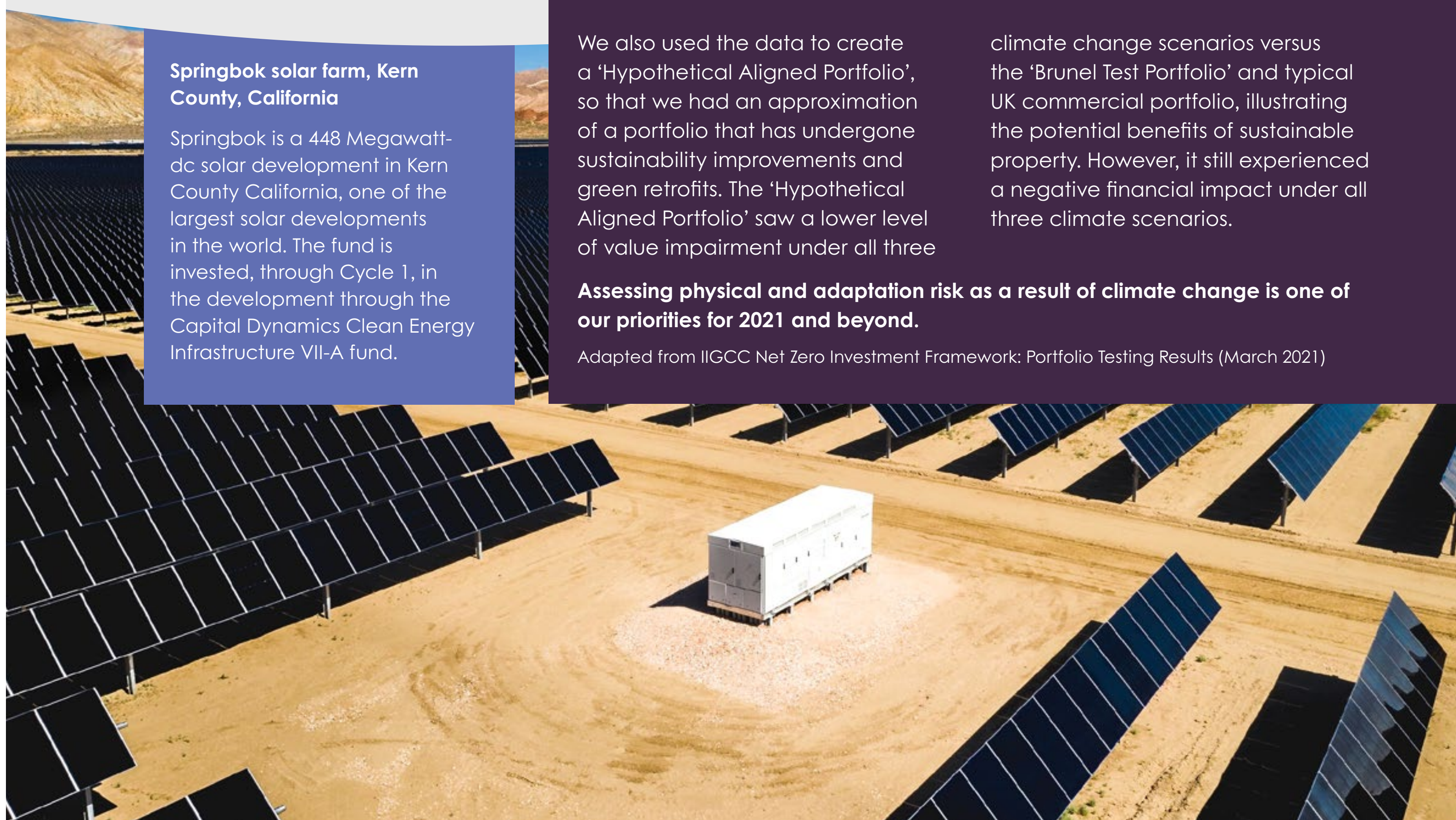




We also used the data to create a 'Hypothetical Aligned Portfolio', so that we had an approximation of a portfolio that has undergone sustainability improvements and green retrofits. The 'Hypothetical Aligned Portfolio' saw a lower level of value impairment under all three climate change scenarios versus the 'Brunel Test Portfolio' and typical UK commercial portfolio, illustrating the potential benefits of sustainable property. However, it still experienced a negative financial impact under all three climate scenarios.

Assessing physical and adaptation risk as a result of climate change is one of our priorities for 2021 and beyond.

Adapted from IIGCC Net Zero Investment Framework: Portfolio Testing Results (March 2021)



Springbok solar farm, Kern County, California

Springbok is a 448 Megawatt-dc solar development in Kern County California, one of the largest solar developments in the world. The fund is invested, through Cycle 1, in the development through the Capital Dynamics Clean Energy Infrastructure VII-A fund.

Listed Equities – metrics and targets

We integrate climate risk into the selection, monitoring and management of all our portfolios. In line with the Taskforce for Climate-related Financial Disclosures (TCFD), we support the setting and tracking of metrics and targets against which to monitor and evidence progress. Brunel's largest allocation is in listed equities, an area where there is sufficient comparable data to make target-setting meaningful. This is therefore where we have prioritised action.

Metrics and targets for listed equities

- Portfolio decarbonisation of our listed equity portfolios by no less than 7% per year from a fixed baseline of each respective portfolio benchmark emission intensity as at 31/12/2019 – in cases where the market benchmark decarbonised more rapidly, parity may be an acceptable minimum
- Fossil fuel revenues and exposure no greater than that of each respective benchmark
- Climate governance using TPI, targeting all our material holdings1 to be at TPI level 4 or above by 2022
- Engagement with our material holdings to persuade them to advance at least one level (up to 4*) per year against the TPI Management quality framework

Improving reporting on carbon metrics

We use carbon footprinting, alongside other tools, to provide essential analysis on the carbon performance of Brunel Portfolios and appointed managers. The data helps us identify major contributors and engagement opportunities.

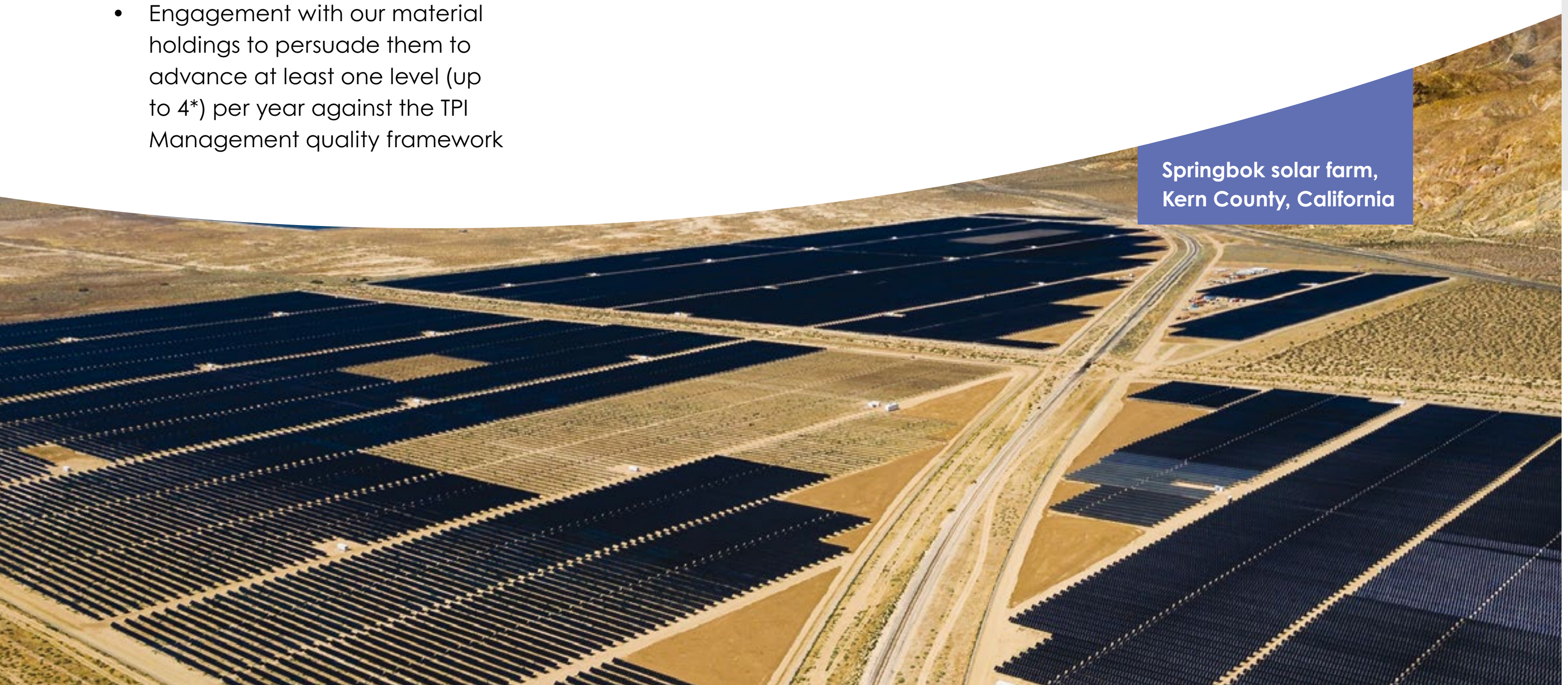
We report on a Brunel Aggregate Portfolio using a customised benchmark composed in the same proportions as the investments (see appendix). We also produce detailed carbon metrics report for each Brunel Portfolio, examples are provided below, but all can be found in our **Carbon Metrics Report**. Each client also has a dedicated report relating to their holdings. All data is as of December 2020.

Member of the PRI
2020 Leaders' Group
Climate reporting

Working with our clients and responding to the request to provide more detailed metrics, we have made a number of enhancements to our Carbon Metrics Reporting over the past 12 months. This has included more granularity around the following metrics:

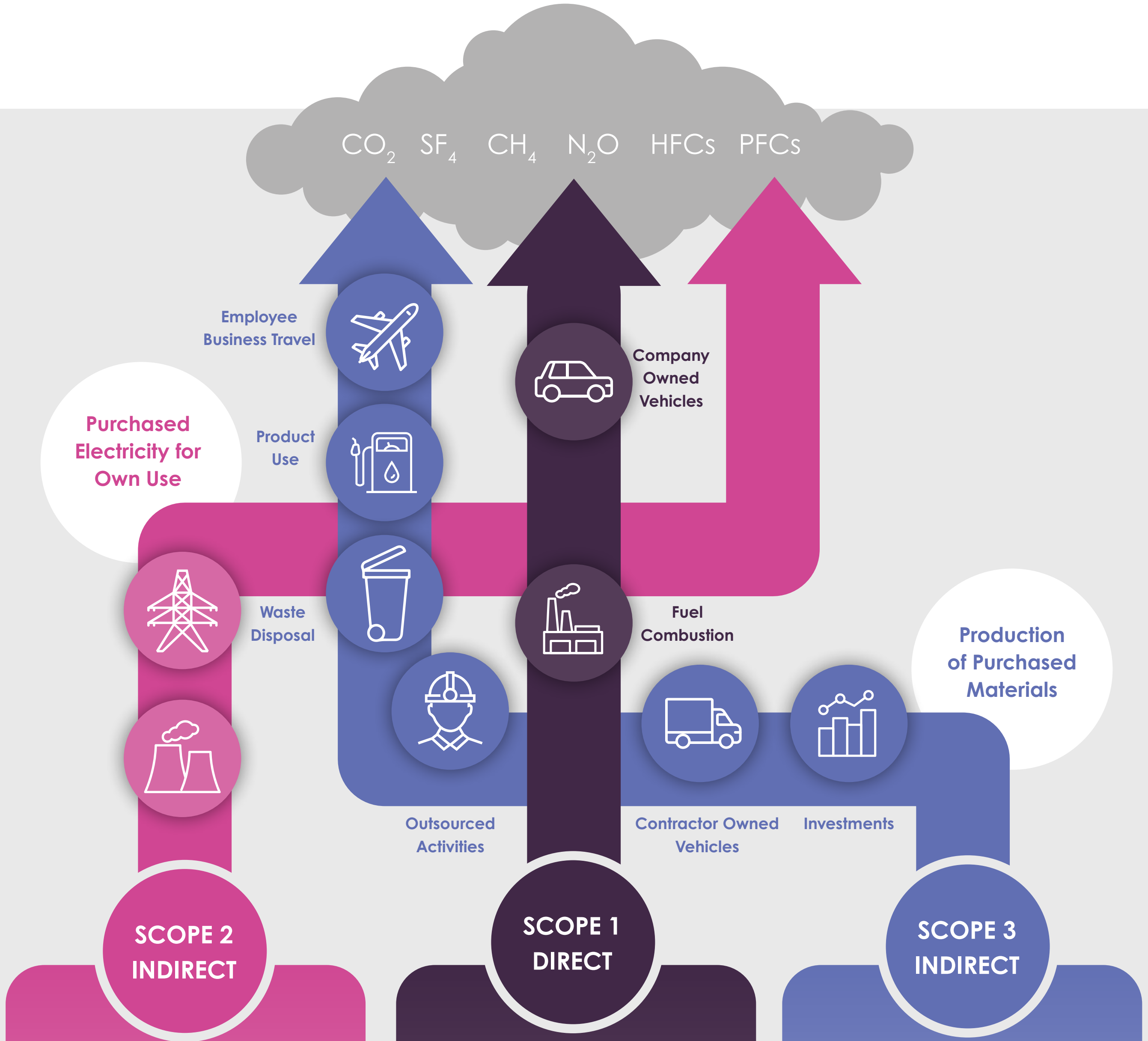
- Carbon intensity broken down by scope 1, scope 2 and tier 1 scope 3 emissions
- Industry breakdown of fossil fuel related activities for various energy and extractives industry activities
- Future emissions from reserves broken down by fossil fuel type

Our carbon footprinting incorporates scope 1, scope 2 and first tier scope 3 emissions; the diagram illustrates what the different these terms mean.



Springbok solar farm, Kern County, California

Scope 1, 2 and 3 definitions



Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. These emissions are created during the production of the energy.

Scope 1 emissions account for all direct greenhouse gas emissions from the activities of an organisation. This includes activities on site such as the use of gas boilers for heating buildings, emissions from company vehicles, leaks from air-conditioning units and emissions from any onsite processes such as cement manufacturing.

Scope 3 emissions are all other indirect emissions with the exclusion of scope 2 (see left). These emissions occur from activities or sources that the organisation do not directly own or control. These include activities such as business travel, employee commuting, waste and water services and investments.

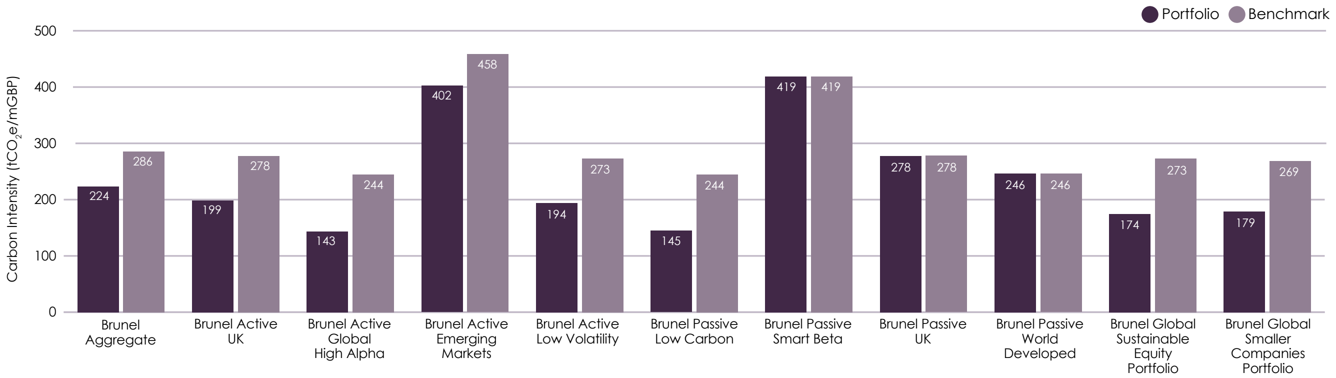
Weighted Average Carbon Intensity (WACI)

The WACI shows a portfolio's exposure to carbon-intensive companies. This measure is determined by taking the carbon intensity of each company and weighting it based on its holding size within the Portfolio. The WACI is one of the measures recommended by the TCFD and is a useful indicator of exposure to transition risk, such as policy intervention or changing consumer behaviour.

As of 31 December 2020, the Brunel Aggregate Portfolio had an efficiency of 22% versus the Custom Benchmark, up from 15.4% on 31 December 2019.

We outline the Weighted Average Carbon Intensity (WACI) of each of Brunel's listed equities portfolios below. All active equity portfolios have achieved at least a 7% emissions intensity reduction. All index tracking funds, except low carbon, match their benchmark. The priority action for 2021 is looking at low-carbon, potentially net-zero benchmarks for all our index-tracking portfolios. As part of our product governance review, we are reviewing our low carbon index portfolio in relation to the products and opportunities in the market.

We aim to reduce the carbon intensity of our portfolios by 7% each year



Portfolio	Carbon intensity 2020 vs December 2019 Benchmark Baseline
Brunel Aggregate Portfolio	-33.1%
Brunel UK Active Portfolio	-29.6%
Brunel Global High Alpha Portfolio	-52.4%
Brunel Emerging Market Equity Portfolio	-29.4%
Brunel Active Low Volatility Portfolio	-41.9%
Brunel Passive Low Carbon Portfolio	-51.9%
Brunel Passive Smart Beta Portfolio	-24.5%
Brunel Passive UK Portfolio	-1.2%
Brunel Passive World Developed Portfolio	-18.7%
Brunel Global Sustainable Equity Portfolio*	n/a
Brunel Global Smaller Companies Portfolio*	n/a

Meeting target Action underway

*Portfolios launched in 2020. We are in the process of establishing an appropriate benchmark date

Case Study: Portfolio Management – Working with our managers to achieve decarbonisation

Invesco and Brunel Pension Partnership: Building a multi-factor, low-carbon UK equity portfolio

Over the past 18 months, we have been working closely with Invesco, one of our UK managers, in order to decarbonise our UK Active Equity Portfolio.

Invesco uses an approach called quantitative investing, also known as systematic investing. This approach uses proprietary modelling and data analysis to deliver the investment objectives. The solution to looking at the climate risk, therefore, had to follow the same quantitative approach, rather than using tools such as engagement with the companies.

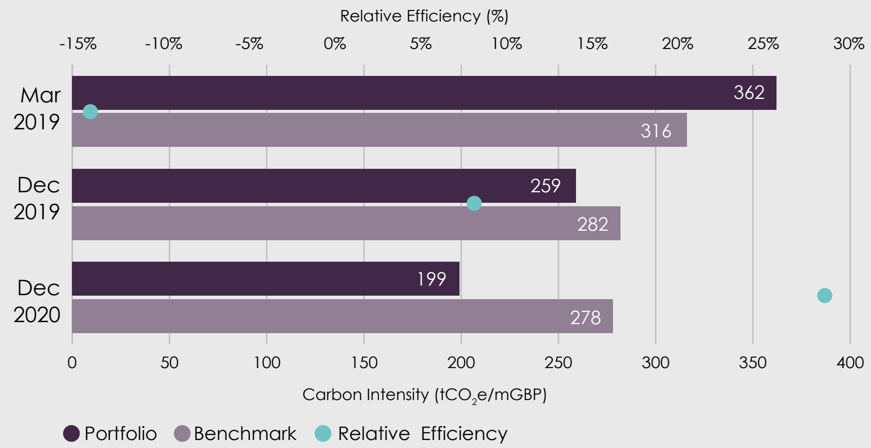
Along with Invesco, we identified several project objectives, including: stable and predictable carbon emission reductions over time; minimal impact on expected performance; and the ability to quantify the low-carbon impact on portfolio risk and return. Exposures to quality, momentum and value factors were maintained, which was important because they represent the targeted factors of the strategy.

Invesco was able to develop a bespoke low-carbon solution within the existing multi-factor strategy, which has significantly reduced carbon emissions – and aims to keep them below that of the FTSE All-Share Index.

The outcome from this work has been a significant reduction in the carbon intensity of the Brunel UK Active Portfolio from when first measured in March 2019 when it was 362 $tCO_2e/mGBP$). **The Portfolio as of December 2020 was 199 $tCO_2e/mGBP$ – a reduction in intensity of 45% over this 21 month time period.**

Turning to relative efficiency, as of December 2020, the Brunel UK Active Portfolio had a relative efficiency of 28.4% versus its benchmark, the FTSE All-Share Ex-IT – an improvement from an efficiency of 8.8% in December 2019. Over the last 12 months the Portfolio saw a decline in carbon intensity, from 259 $tCO_2e/mGBP$ as of December 2019 to 199 $tCO^2e/mGBP$ in December 2020 – a 23.2% reduction.

UK Active Equity

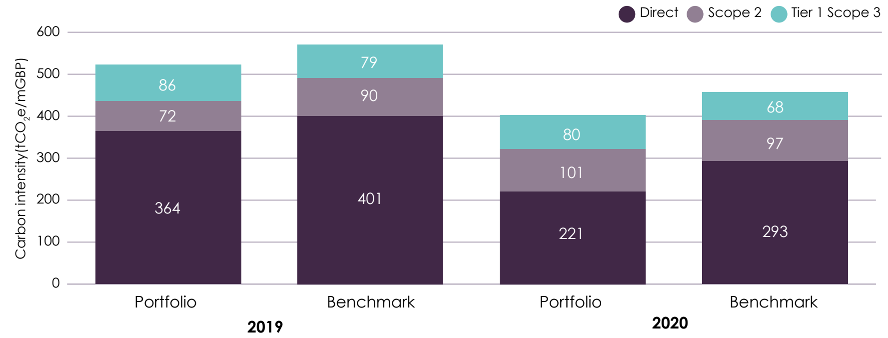


Brunel UK Active Portfolio - 45% emissions intensity reduction March 2019 to December 2020

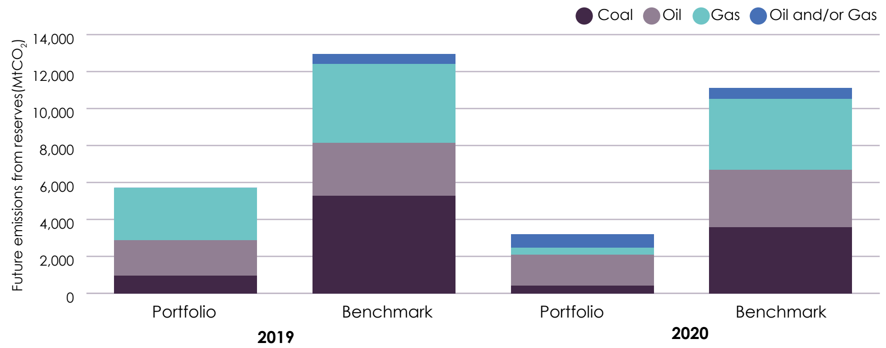
Brunel Emerging Market Portfolio

Following engagement with the Portfolio Managers, carbon intensity on the portfolio dropped from 522 tCO_2e/mGBP in December 2019 to 402 tCO_2e/mGBP in December 2020 – down 22.9%. Its efficiency relative to benchmark rose from 8.4% to 12.2% over the same period.

Weighted Average Carbon Intensity



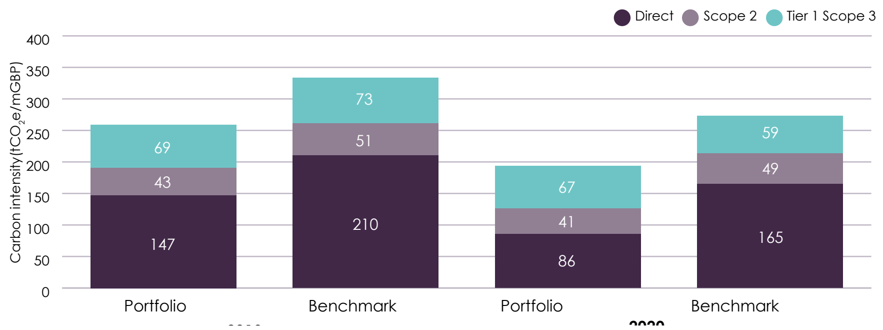
Future Emissions from Reserves



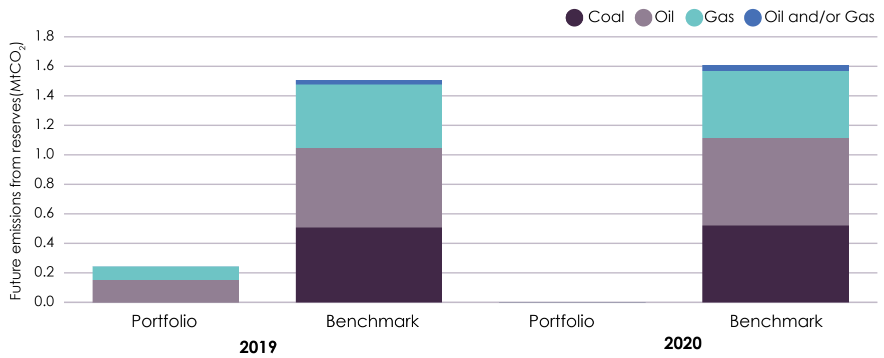
Brunel Active Low Volatility

Similar work saw carbon intensity in this portfolio fall from 259 tCO_2e/mGBP in December 2019 to 194 tCO_2e/mGBP in December 2020 – a 25.1% reduction. Efficiency versus benchmark rise from 22.4% to 28.9% in the same period.

Weighted Average Carbon Intensity



Future Emissions from Reserves



Fossil fuel-related activities

It is important to identify exposure to business activities in extractives industries in order to assess the potential risk of 'stranded assets'. Assets become "stranded" when they suffer premature write-downs, devaluations or conversion to liabilities – often due to changes in policy or consumer behaviour.

For each portfolio, we identify the exposure to extraction-related activities by analysing the revenue exposure and potential emissions from reserves for fossil fuel related activities. These metrics highlight companies with business activities in extractives industries, as well as companies that have disclosed proven and probable fossil fuel reserves in the portfolio (see Appendix for definitions).

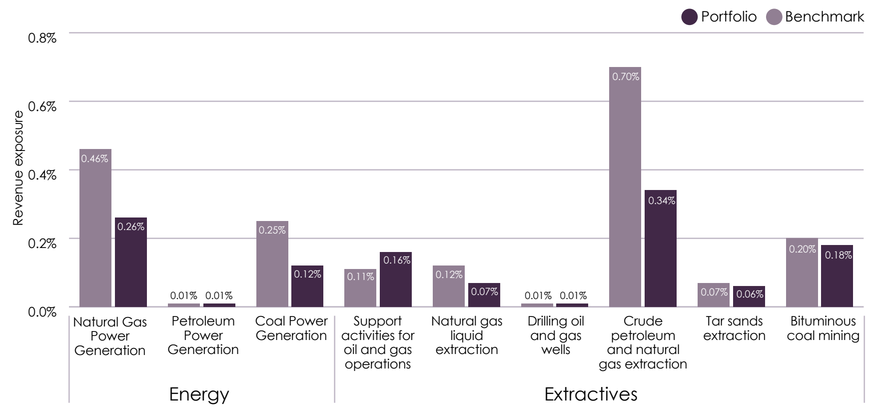
The Brunel Aggregate Portfolio (BAP) is less exposed to both fossil fuel revenues (1.4% vs 2.2%) and future emissions from reserves (24.8 $MtCO_2$ vs 46.2 $MtCO_2$) than its custom benchmark. Projected future emissions from reserves within the BAP have declined from 34.7 $MtCO_2$ in 2019 to 24.8 $MtCO_2$ in 2020, due to:

- decarbonisation of the Brunel portfolios (as discussed above)
- asset allocation changes between portfolios due to asset allocation investment decisions by clients
- additional Brunel portfolios launched in 2020 (Brunel Sustainable Equities and Brunel Global Small Cap)

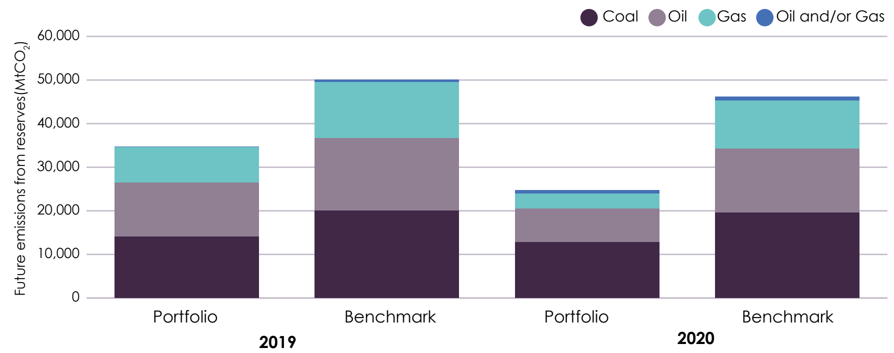
All of Brunel's active portfolios have reserves emissions lower than their benchmarks, except for the Brunel Global High Alpha Portfolio. The Brunel Low Volatility Global Equity, Brunel Sustainable Equities and Brunel Global Small Cap all have zero emissions from reserves.

Turning to fossil fuel reserves exposures, each of Brunels active portfolios has a lower level of fossil fuel reserves than its respective benchmark thus reducing its exposure to potentially stranded assets.

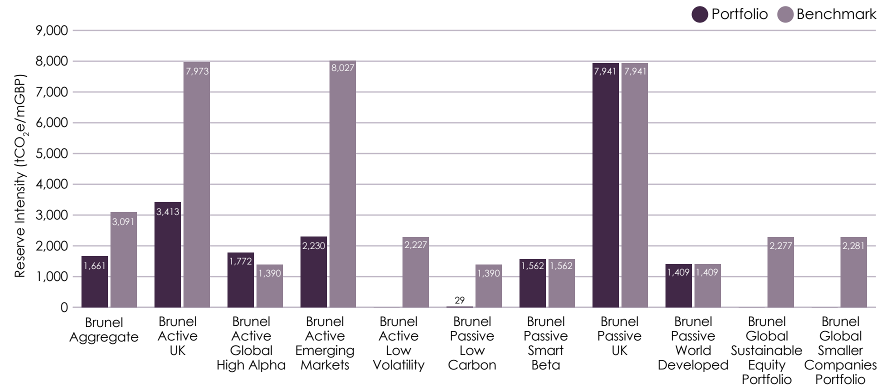
Industry Breakdown of Fossil Fuel Related Activities



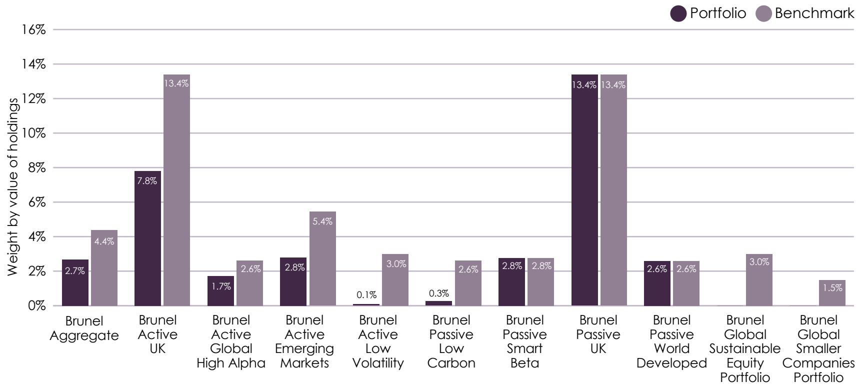
Future Emissions from Reserves



Emissions from Reserves per million Invested



Reserves Exposure

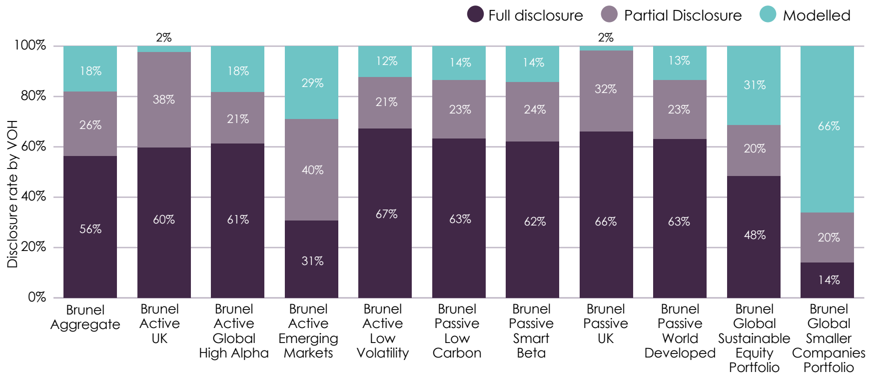


Disclosure Rates

To undertake the carbon emissions and fossil fuel analysis requires companies to disclosure all the required information. Disclosure rates vary enormously across the world and this is one of the reasons Brunel is a strong advocate for mandatory climate risk reporting for all companies. The higher the level of direct disclosure, the higher the confidence in the data against which to take action. Over time, we seek to increase the proportion of direct or 'full disclosure' of all our portfolios. More details on the definitions of the 3 levels of disclosure are outlined in the appendix.

The level of company disclosures for the Brunel Aggregate Portfolio and each Brunel Sub-Portfolio is illustrated below.

Unsurprisingly, companies under lower regulatory regimes such as Smaller Companies and Emerging Markets have lower levels of disclosure rates. Generally speaking all of our Portfolios tend to have higher disclosure rates than their respective benchmarks.



Transition Pathway Initiative (TPI)

Assessment of Our Active Equity Portfolios

We aim to have all our material holdings on TPI level 4 or above by 2022.

We use the TPI management quality scores to assess the transparency of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.

As of December 2020, within Brunel's Active Equity Portfolios there were 74 companies covered by the TPI tool. Of these, 30 holdings (41% by investment value) are categorised as Level 4.

From December 2019 to December 2020, 15 of those holdings not achieving level 4 or above were downgraded a TPI level. These companies accounted for 30% of our TPI-covered holdings by equity value. Over this same time period, 3 lower-scoring holdings were upgraded.

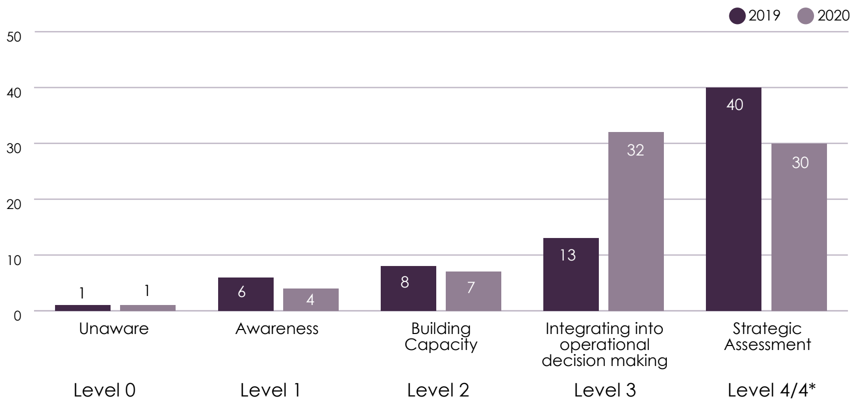
The fall in the proportion and number of companies ranked as level 4 and 4* from 2019 to 2020 was due to:

- A broader trend of falling TPI scores due to lagging support for climate policies and disclosure of trade association climate lobbying[5]
- Two new portfolios
- 11 holdings within our Active Equity Portfolios that are new to the TPI index

For those companies assessed as Level 3 or below, we are:

- engaging with all those who have not improved their TPI Level year-on-year
- considering voting against management at companies failing to improve

TPI Management Quality Brunel Active Equity Count



The TPI Tool

The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool uses publicly available company information to assess:

Management quality

The quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition

Carbon performance

How companies' carbon performance now and in the future might compare to the international targets and national pledges made as part of the Paris Agreement.

Companies management quality is assessed annually across 17 indicators.

Companies are placed on one of five levels:

Level 0 - Unaware of, or not acknowledging climate change as a business issue

Level 1 – Acknowledging climate change as a business issue

Level 2 – Building capacity

Level 3 – Integrated into operational decision-making

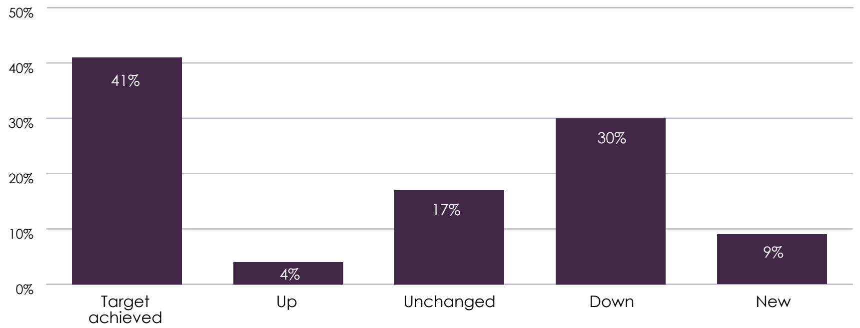
Level 4 – Strategic assessment

For more information see www.transitionpathwayinitiative.org

[5] For more information see TPI State of Transition Report 2021

At the lower end of Management Quality, 16% of companies in the Brunel Active Equity Portfolio by count are on Levels 0 to 2, against 38% across the TPI universe.

TPI Management Quality Score Changes Year on Year by Equity Market Value



As well as assessing companies' management quality scores, we use the TPI tool to undertake scenario analysis on specific holdings by assessing their carbon performance. TPI translate emissions targets made at the international level into sectoral benchmarks. This framework is known as the Sectoral Decarbonisation Approach.

TPI uses three benchmark scenarios which, in most sectors, are as follows:

- Paris pledges (i.e. NDCs)
- 2 Degrees (in line with Paris Agreement minimums)
- Below 2 Degrees (in line with ambitious interpretation of Paris)

Benchmarking is sector-specific and based on emissions intensity e.g. for electricity utilities, it is tonnes of CO_2 per MWh electricity generated. (See **TPI website for methodologies**.)

Over the last year, we have been in conversation with several providers over data and methodologies around climate scenario analysis. We are hoping to progress scenario analysis for both our listed market and private market portfolios.

The average Management Quality level of all companies in the Brunel Active Portfolios is 3.2. This is ahead of the average of the TPI database which is 2.6.

Focus area for 2021 – Net Zero Benchmarks

We recognise that climate-related risks can be managed differently according to whether funds are active or passive. We see traditional benchmarks and indices as a block to decarbonisation across the industry and are actively seeking and encouraging the development of lower carbon and Paris-aligned index solutions.

Case Study: Investing in climate solutions

DWS - Investing for the Low Carbon Transition

Through our Cycle 1 infrastructure portfolio, we are invested in the DWS Pan-European Infrastructure portfolio. It has a strong focus on ESG, with investments in innovative energy solutions aimed at supporting the low carbon transition.

Blue Pearl – Green Transition Solutions

Through this fund, we are invested in French and Belgian energy services businesses across installation and maintenance, heating ventilation air conditioning, and district energy and cooling.

Vertex – Sustainable Biofuel

Vertex is the sole bioethanol producer in Spain and Southern France and is one of the most efficient producers in Europe. The biofuel is added to gasoline to reduce the carbon intensity of vehicle emissions.

DWS

Next steps

- Net Zero policy benchmark with lower-carbon index solutions as key component to achieving our circa 20%+ emission intensity reduction by 2022 in each and every listed equity portfolio
- Establish our 2022 Climate Stocktake criteria
- Progressing our approach to analysing physical and adaption risk across all portfolios, in particular real estate
- Enhancing our climate scenario analysis

Case Study: Responsible investment and Stewardship in private markets

Capital Dynamics has a long-standing commitment to Responsible Investment ("RI") and utilizes a proprietary R-Eye™ Rating System to ensure a consistent and transparent approach to RI due diligence. This trademarked rating system scores each investment from 0 to 5 based on a set of criteria developed in conjunction with the UN Sustainable Development Goals. Each investment made at Capital Dynamics is rated from 0 to 5 at the time of investment and this score is updated at least once a year.

In February 2021, Capital Dynamics acquired a 50 MW onshore wind project in West Lothian, Scotland, which is expcted to be one of the largest subsidy-free onshore wind projects in the UK, once operational. The project received a high R-Eye™ score during the due diligence process, indicative of its impact on such areas as climate, environment, and local community.

Construction of Longhill will commence in March 2021 and is expected to achieve commercial operations in the second half of 2022. The project is estimated to reduce greenhouse emissions by over 2.6 million metric tons during its lifetime – the equivalent of emissions produced by over 550,000 passenger vehicles driven for a year or the electricity to power over 440,000 homes for a year.

Scorecard Snapshot

Climate change 5

Low carbon generation with large climate benefits.

Local habitat/ecosystem impact 5

Longhill will be replanting the trees that have been felled and have leased a forestry area outside of the site to plant trees that cannot be replanted on the existing site due to the windfarm.

Human environment impact 5

The project was granted planning consent with conditions set in place to ensure minimal impact to any human environment, ranging from noise emission to visual impact. These are being abided by as part of the planning guidelines. During construction, there will be a Construction and Environmental Management Plan to ensure minimal impact on the environment and enhance the site safety. An Ecological Clerk of Work will be appointed to monitor and ensure compliance with the environmental mitigation and management measures to mitigate any negative impact to the surrounding area.

Local employment 4

Local employment will be utilized where possible during the construction process. Key members of the asset management team managing the wind farm when it is operational will mostly be based in Scotland / North England.

Community engagement 5

Memorandum of Understandings have been signed with three local community groups based within the vicinity of the wind farm. Longhill is committed to contributing a significant portion of its annual revenue to supporting these local community groups.

Local resources 4

Resources from the site will be used where possible in supporting the build of the civil infrastructure of the windfarm with agreements in place with the landlords.

0 1 2 3 4 5

Tax and Cost Transparency

We seek to promote fair and transparent tax and cost systems as a way for corporations to contribute to the economies in which they operate and asset managers to demonstrate value for money.

We believe openness on investment costs and tax is key to building understanding and trust.

We expect companies to:

- Comply with all tax laws and regulations in all countries of operation
- Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely, and commit to paying their fair contribution
- Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions where they operate
- Disclose the taxes they pay (or collect) in each country
- Provide country-by-country reporting to demonstrate that taxes are paid where economic value is generated
- Adopt an approach to tax policy that is sustainable and transparent

We expect asset managers to:

- Comply with LGPS/FCA Cost Transparency Initiative (CTI) for listed market managers
- Support our cost transparency objectives in all asset classes

What actions have we taken?

Responsible tax practices or, at least, the expectation of an improvement in approach, was communicated by Brunel throughout 2020 as part of our response to the Covid-19 pandemic. We have championed tax transparency and previously reported on our support of the Tax Engagement Programme coordinated by the PRI. However, with many companies becoming reliant on taxpayer-funded bailouts or support for their workforce, how this is 'repaid' back to society in future years has never been more important.

Whilst tax issues were not a focus area of corporate engagement in 2020, EOS at Federated Hermes engaged with CEOs more broadly through an open letter, published in April 2020. The letter asked how they were making difficult decisions in relation to their employees, supply chains, customers and other stakeholders, in the context of Government support of the economy, and setting expectations of follow up engagement in 2021.

COVID-19 - Corporate response to the pandemic

Brunel has specifically asked Hermes EOS to focus on tax and executive remuneration in 2021, which they have committed to do;

"we will urge companies to act responsibly in critical areas such as good employment practices, the payment of appropriate levels of corporate taxation, and justifiable levels of executive remuneration."

Federated Hermes, Brunel Pension Partnership Annual Stewardship Report 2020

100% of our appointed listed market fund managers are currently achieving or committed to becoming LGPS/FCA CTI complaint.

Cost transparency – delivering value for money

Brunel is a signatory of the LGPS Code of Transparency and requires all appropriate managers to be signatories. We expect all our managers to have appropriate fee structures that align with client interest. Our private markets team has been actively engaging with General Partners to promote fair and transparent fee structures, which has been enhanced by the work of our private markets administrator, Colmore.

Our cost transparency reports are provided to clients and include disclosures such as:

- Portfolio investment activity and transaction costs
- A breakdown of ongoing charges
- Performance fees (if applicable)
- Incidental costs (if applicable)
- Lending and borrowing costs (if applicable)

Case Study: Cost Transparency

This case study is a summary version of one produced with CACEIS for **Pensions Age***, March 2021.*

We are a signatory to the UN-backed PRI and the LGPS Code of Transparency but we faced two particular challenges around monitoring our cost transparency.

One was the difficulty of what data made for an apt comparison – pooling is unusual and, even within pooling, Brunel operates quite differently to other pools. CACEIS provides access to a much wider dataset than we could otherwise have used and has a broader view of the cost transparency landscape. As a result, we have already been able to look at fees and performance data across different asset classes.

The second challenge was that our relatively small size meant we could only bring a certain amount of expertise in-house. The expertise CACEIS provides means we have a better grasp of our costs and a solid platform to manage them in the future. That, in turn, made it easier to explain the pension scheme's costs to clients and members – and using an independent third party provides that extra level of reassurance.

But a successful outcome in this area still requires significant input from Brunel. Local authorities have an understandable sensitivity to costs and to the value they receive from any service they pay for. Brunel has to demonstrate that it is taking a positive and highly proactive approach to its cost transparency programme, as well as demonstrating awareness of the complexity of the area more broadly.

It was therefore important that we addressed the topic through our Responsible Investment principles. Brunel has identified three component parts to integrating cost transparency into its decision-making: how it selects managers; how it monitors its assets; and how it manages the asset managers on an ongoing basis. All of this is wrapped up in our Responsible Investment Principles.

Initial reviews show Brunel is already considerably below post-consolidation Dutch or CACEIS averages on costs. This means the company is delivering a core part of the pooling agenda.

caceis INVESTOR SERVICES

Next steps

- Advocate strongly for corporates to act responsibly post-pandemic on tax and other practices indicative of their conduct and culture
- Promote best practice around tax and cost transparency within our own operations
- Engage our appointed managers on tax and cost transparency in regard to their own operations and stewardship activities

Diversity and Inclusion

We seek to promote fair, diverse and inclusive business environments and practices across the companies in which we invest, as well as across our own operations.

We believe that, to function and perform optimally, companies and their Boards should seek diversity of membership taking into account the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, as well as to reflect the diversity of society, including across race, gender, skills, nationality and background. This will make companies more sustainable and profitable over the long term.

We have long advocated for gender diversity and strongly believe that female representation on the Boards of UK FTSE 350 companies should be at least 33% by 2020, as set out in the report 'Women on Boards: 5-year summary', by Lord Davies, and the findings of the Hampton-Alexander review.

In the UK, as of January 2021, women held 36.4% of Board positions in the FTSE 100, 33.2% in the FTSE 250, and 34.3% in the FTSE 350.[6] The UK Government target was therefore reached in 2020, but has required policymakers, investors and companies to make significant shifts over the past decade. However, there is still much progress to be made when looking at broader senior leadership roles. For example, women currently make up only 26.5% of FTSE 100 executive committees, and just 27.1% at FTSE 250 companies. Progress at board level has been strongest in non-executive positions. Progress will only be sustained if women now fill more top executive roles.

Beyond boards and executive teams, progress has been uneven. Research by McKinsey, published in July 2020, found that, although women make up 39% of global employment, they account for 54% of overall job losses. It also found that global GDP growth could be $1 trillion lower in 2030 as a result of women's unemployment not simply tracking men's. Acting now, on the other hand, could add $13 trillion to global GDP in 2030. Moreover, the past year has highlighted the value of continued engagement in this area.

Ethnic Diversity

In May the world witnessed an outpouring of emotions in response to the death of George Floyd in America and the subsequent protests globally. This shone a spotlight on the racial inequality which persists today. **#TALKABOUTBLACK**, a workstream of the Diversity project looks to address the under-representation of black talent by developing a sustainable pipeline of black leaders in the asset management industry. The workstream launched the #IAM campaign to get the industry talking about this important topic. Helen Price, Stewardship Manager, shared her personal thoughts in a blog: **#IAM #TALKABOUTBLACK**, which reflected on the asset management's approach to engagement on ethnicity. Whilst we celebrated progress made on the targets of the Hampton Alexander review, the February update report of the Parker review showed there was 'slow progress' on ethnic diversity and that it would be challenging for FTSE 100

[6] Hampton-Alexander REview, FTSE Women Leaders, February 2021

companies to hit the 'One by 2021' target recommended by the Review in 2017. 37% of FTSE 100 companies surveyed (31 out of 83 companies) did not have any ethnic minority representation on their boards, and 4 FTSE 100 companies and 47 FTSE 250 companies failed to respond to disclosure requests. Within the investment industry, representation and engagement is woefully lacking and engagement has not been as decisive as for other aspects of diversity. Although Brunel includes ethnic diversity in its Stewardship policy and voting guidelines, we concluded that we need to do more.

In 2021, we will ramp up engagement on ethnic diversity with strengthened voting. We therefore updated our voting principle to say:

"In 2021 we will consider voting against the chair of the board of FTSE 100 companies that do not have at least one director from an ethnic minority background and have no credible plan to rapidly achieve this"

Job security is also a concern for ethnic minorities, who are more likely to be impacted by the Covid crisis. The McGregor-Smith Review, which looked at race in the workplace, found that tackling racial disparities in the UK labour market could result in an annual economic boost worth £24bn to the UK economy. In addition to engaging on diversity, Brunel has been engaging on precarious work practices (see Human Capital section).

While there is evidence that society and businesses have made shifts in order to advance diversity, we believe it is important to continue to push forward on this positive trajectory by working with the wider investment industry and the companies in which we invest and by improving our own operations.

Statue of Jan Reid, Black Lives Matter demonstrator, unveiled in Bristol, June 2020. The Black Lives Matter movement became a global phenomenon in 2020, creating a major opportunity for change. In June, Helen Price wrote a blog on #IAM and

#TALKABOUTBLACK and on how the finance industry is engaging.

What action have we taken?

Measuring Diversity & Inclusion within our portfolios

In 2019, we established a baseline for monitoring and reporting the percentage of women on Boards within our own investment Portfolios. One year on, we are pleased that our UK Active Equity Portfolio has seen an increase in the percentage of women on Boards and continues to exceed the 33% target (for females on Boards), as outlined in the Hampton-Alexander review. Our UK active Emerging Markets, Global High Alpha and Low Volatility portfolios have also seen an increase in the percentage of females on Boards from 2019 to 2020. In addition, Our Global High Alpha portfolio has exceeded the 28% target that we set in 2019.

	Percentage of females on Boards		
Portfolio Name	Portfolio 2019	Portfolio 2020	Benchmark
Brunel UK Active Equity	34.4%	35.6%	35.3%
Brunel Emerging Market Equity	11.3%	13.3%	11.7%
Brunel Global High Alpha	25.9%	28.4%	30.6%
Brunel Low Volatility	25.4%	26.7%	28.2%

Source data: Brunel Pension Partnership and Factset, December 2020. Figures are on a weighted average basis.

- **We encourage companies with below 250 employees to consider gender pay gap disclosure where practical. In the UK, we vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap**
- **We encourage our appointed managers to address and be transparent on gender pay gap and diversity statistics on an annual basis**

Diversity and Inclusion in Manager Selection

Diversity and Inclusion has been an integral part of Brunel's manger selection. We embed reporting requirements into our investment manager agreements and incorporate it into ongoing manager selection. It can be challenging for asset owners to identify what good looks like, due to a lack of transparency in the industry. Although some asset managers are making good progress, this is not the norm. Instead, progress is woefully slow, there continues to be uneven ethnic representation, and the industry continues to have one of the highest gender pay gaps. To tackle this, in Autumn 2020 we formed, and now co-lead, the **Asset Owner Diversity Working Group** with an objective to formalise a set of actions that asset owners can commit to in order to improve diversity, in all forms, across the investment industry. The group has been developing a charter which asset owners would sign up to and which would commit them to a number of asks. The aim of the project is to get more asset owners signalling to managers that diversity and inclusion is important; to seek to improve transparency and standardisation; and to ultimately improve diversity across the industry. We aim to release the charter in the later part of 2021.

Measuring Diversity and Inclusion

- We are proud to support the Diversity Project's five-year programme, which aims to achieve diversity across all dimensions, including gender, ethnicity, socio-economic background, LGBTI+, age and disability throughout finance. As part of this project, we provided insight for a paper titled '**Addressing Barriers to Diversity in Portfolio Management: Performance Continuity and Turnover**'. Throughout 2020 we spoke at numerous events to raise awareness of the guidance
- Where appropriate, we sign letters to companies encouraging them to improve their approaches to diversity. For example, in 2020 we co-signed letters to two Japanese companies which fell behind the 10% board diversity 2020 target of the 30% Club in Japan. Follow-on engagements were held to understand the companies' approach to diversity and to encourage disclosure.

Case Study: Diversity and Inclusion in Private Markets

A number of our appointed private market managers have become founding signatories of the **Institutional Limited Partners Association's Diversity in Action** initiative. The Initiative serves as a means for General Partners and Limited Partners to publicly acknowledge their commitment to take concrete steps to advance diversity, equity and inclusion, both within their organisation and across the industry more broadly.

The Initiative's framework lays out the essential criteria that address D&I across several themes and areas — from recruitment and talent retention, to investment practices, to community outreach.

AlpInvest Partners, **Ardian** and **KKR** are three of the founding signatories that manage private market investments for Brunel. In addition, **Stepstone Infrastructure and Real Assets** (SIRA), appointed in 2020 to actively deploy infrastructure capital and build a portfolio to Brunel's specifications, has also become a founding signatory. As well as a strong focus on Responsible Investing and sustainability throughout the due diligence phase, SIRA have upped the focus within their own operations, specifically around Diversity and Inclusion.

ilpa

Case Study: Montanaro Diversity and Inclusion engagement

Montanaro is one of the appointed managers within our **Global Smaller Companies Portfolio**. In the wake of the Black Lives Matter movement, it has been conducting targeted engagement with companies around the integration of diversity and inclusion.

One of their portfolio companies, Xylem, a water technology company, has introduced specific targets around ethnic minority and gender diversity. The company aims to have ethnic minorities accounting for 25% of the work force and for gender parity across the Senior Leadership Team globally by 2025. To achieve these targets, the company requires diverse candidate pools at interview stage. In addition, to help improve the diversity of candidates into junior roles, the company is working with the US Water Environment Agency to increase the number of black students in certain university courses related to their industry.

The company has already seen an improvement in the ethnic diversity target within the US workforce since the target was launched.

Diversity and Inclusion at Brunel

Within our own business we aim to promote diversity and inclusion at the highest level. The top positions on our Board, Chair and CEO, are both held by women: Denise Le Gal and Laura Chappell. In addition, throughout the company we have a roughly 50/50 gender split in staffing. Brunel has fewer than 250 employees and is not required to disclose its gender pay gap. However, Brunel is committed to be an attractive and transparent employer and therefore voluntarily discloses its gender pay gap data. In addition, we seek to continue to improve our own approach to diversity and inclusion in line with best practice.

Women make up the following share of each quartile:

2018	2019	2020
50% of Upper	40% of Upper	33% of Upper
57% of Upper Middle	50% of Upper Middle	42% of Upper Middle
29% of Lower Middle	20% of Lower Middle	67% of Lower Middle
100% of Lower	82% of Lower	77% of Lower

Employee Salaries Quartile	2018/2019	2019/2020	Change
Upper	1.38	1.52	-0.14
Middle Upper	2.01	2.20	-0.19
Lower Middle	3.74	3.80	-0.06
Lower	6.01	6.50	-0.49

Source: Brunel Pension Partnership, 2020 Annual Financial Statements

Brunel acknowledges its own gender pay gap. The gap reflects the fact the lower quartile still largely comprises female members of staff (77%), despite falling 5% over the year. Brunel is committed to giving staff opportunities to develop through corporate and individual training and development plans. This is demonstrated by our annual pay review, which incorporates a competency framework, enabling the business to identify opportunities to develop our workforce.

As of 5 April 2020, Brunel had 49 employees (27 female and 22 male), a small sample that makes the data highly sensitive. Small differences can therefore alter outcomes profoundly. There is also a gender pay gap in the upper quartile (67% of the upper quartile is male in comparison, 33% are female). Where gender pay differentials occur, they are recognised, and then addressed by training and development.

The median gender pay gap has fallen for a second consecutive year, which is testament both to Brunel's awareness of the issue and to its commitment to address the gap through training and flexible working. The mean gender pay gap, however, has increased, due to the male-female ratio change on our Board and in senior management. This serves as a reminder that board membership changes can materially impact our gender pay gap.

Next steps

- Having achieved our portfolio specific targets, we aim to stay above this level but continue to seek improvement on the percentage of female representation on Boards for each of our active investment portfolios.
- Engaging with companies on ethnic diversity, asking companies for a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic representation at all levels, including the board
- To encourage improvements in the amount of data available around diversity and inclusion, working with our data and engagement providers
- Continue to maintain and publish our own diversity statistics and gender pay on a voluntary basis. We will explore further developing disclosures
- Continue co-leading the Asset Owner Diversity Working Group with the aim of improving transparency and diversity in the investment industry. We aim to release the asset owner diversity charter in the latter part of 2021

Sustainable Development Goals

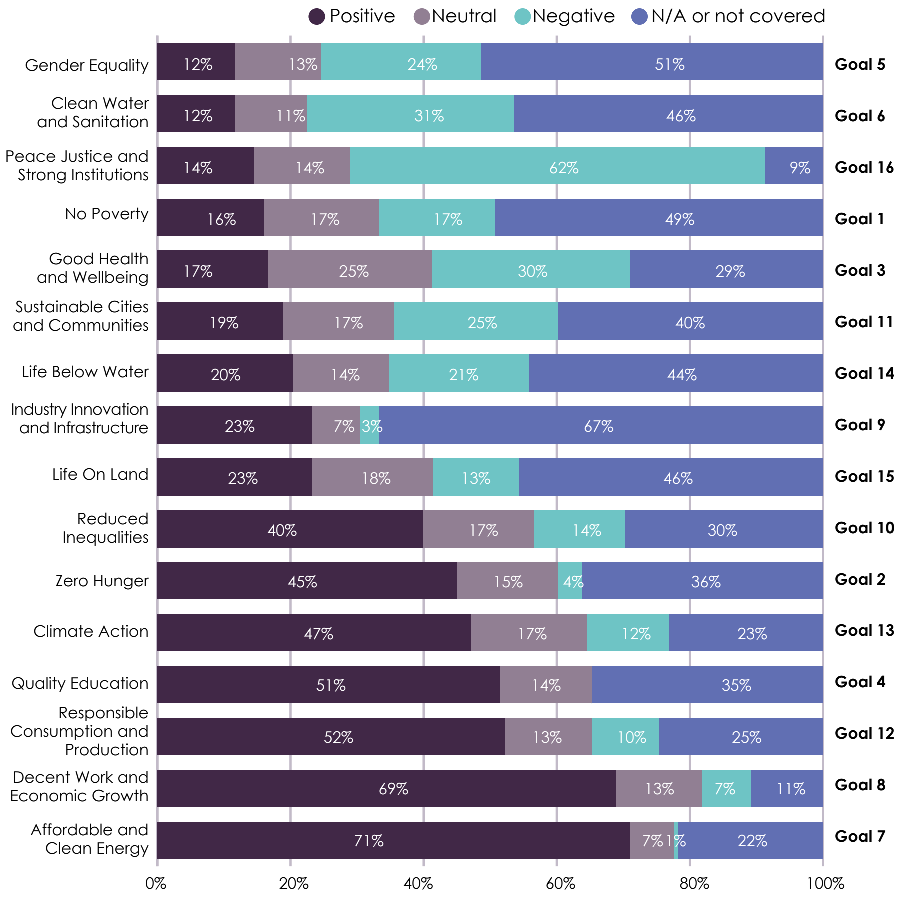
The Sustainable Development Goals (SDGs) were defined in 2015 by the United Nations as "a shared blueprint for peace and prosperity for people and the planet, now and into the future".

The 17 goals (169 targets and 231 indicators), agreed by governments across the world, are to be achieved by 2030. It is estimated[7] that between $5 trillion and $7 trillion a year is needed to finance achieving the SDGs and with the funding gap of $2 trillion to $4 trillion a year between now and 2030, this presents investment opportunities for private finance.

SDGs are also a lens on systemic risks to any business whose operations or assets are not aligned, for example dependant on precarious employment contrary to 'decent work and economic growth (SDG 8) or polluting water course, contrary to life below water (SDG 14).

We use the Sustainable Development Goals (SDGs) in workshop training exercises for clients in order to raise the awareness of important ESG factors. We found these exercises to be a useful way to encourage wider thinking about the SDGs as a tool for Strategic Asset Allocation (SAA) construction, identifying potential risks and opportunities and engagement. In 2020 the UNPRI published a case study on **Brunel's SDG workshop**.

Using the SDGs to enhance portfolio analysis, reporting and stewardship



[7] https://www.sustainablegoals.org.uk/filling-the-finance-gap/

We have been working with Truvalue Labs (TVL), one of data providers, to pilot and develop their new data set looking at company activity contribution to the goals.

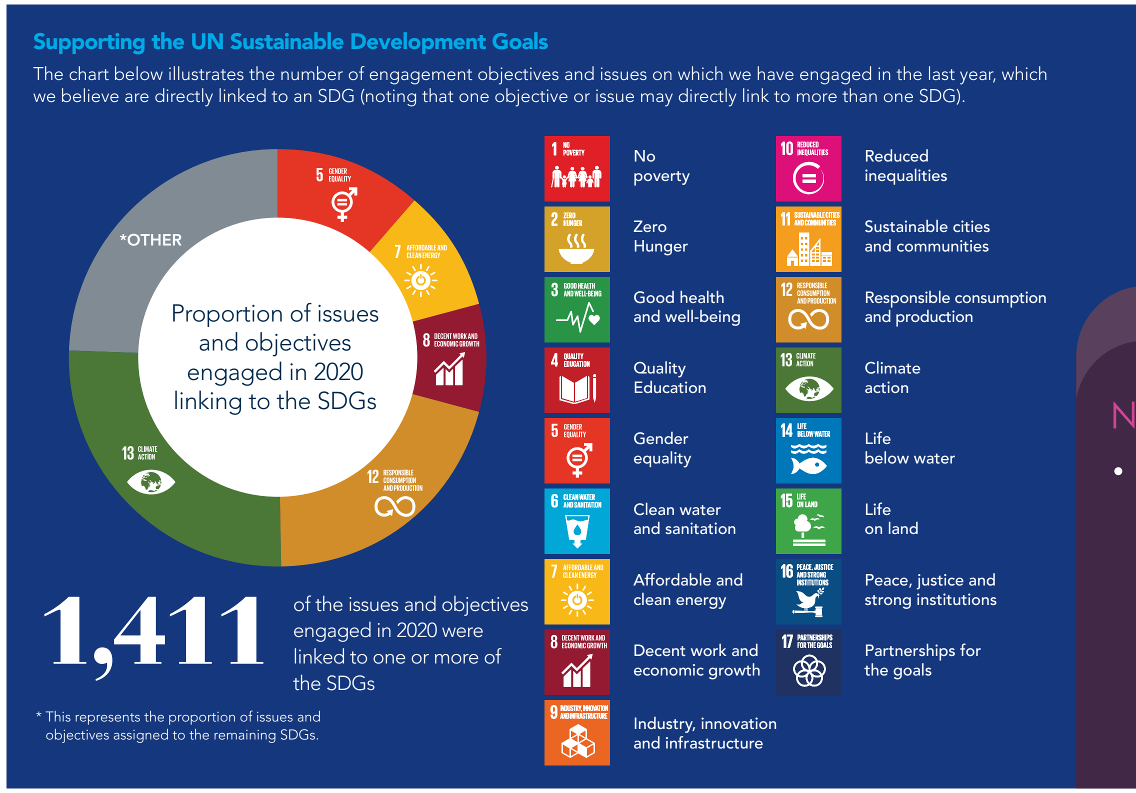
As part of this pilot, TVL have analysed our UK Active Portfolio using this new data set. The Portfolio has the greatest positive contribution to Goal 7 - Clean and Sustainable Energy, with 71% of news flow related to this goal being positive in nature. Holdings such as Barratt Homes outlining plans for tackling carbon emissions and Aviva setting 2050 net zero targets for its pension business have been driving this.

The Portfolio has also strong positive contribution to Goal 8 - Decent Work and Economic Growth. Holdings such as Unilever launching a 4 day week for staff in New Zealand, Kingfisher Group announcing plans to open 400 new stores and Morrison's creating 1,000 new jobs contributed towards such Goals.

The data set is also able to detect companies that have a negative impact on the SDG's – one of the features that we particularly like. The Portfolio has a negative contribution to Goal 16 – Peace, Justice and Strong Institutions, largely due to its holdings in banks that have been investigated for money laundering.

SDGs shaping company engagement

EOS at Federated Hermes are also using SDGs in their engagement with companies as they "believe that the long-term success of business is inextricably linked to achievement of the goals because the SDGs help to create an economic context and society in which businesses can best thrive." The diagram below illustrates the mapping of the engagement undertaken on Brunel's portfolios.



Next steps

- Continue to pilot the SDGs analysis of portfolios and share a more comprehensive case study later in 2021.

Human Capital

We seek to promote strong HR and sustainable renumeration policy frameworks across the companies in which we invest, as well as within our own operations.

The most profitable and sustainable companies are those that attract, develop and retain talent. The COVID-19 crisis has created huge challenges and disruption for businesses and organisations in the UK and around the world. The environment over the past twelve months has enabled us to further ramp up our work across the human capital theme and has amplified the importance of the 'S' in ESG.

Our Approach

As part of our investment selection process, we expect our fund managers to understand and support the struggle against violations of human rights. We expect companies to comply with all legal requirements and the duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK and the United Nations Guiding Principles on Business Human Rights (UNGPs). We are supportive of companies that provide disclosure on their workforce and follow the Transparency in Supply Chains guide issued by the Home Office. We encourage companies to adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chains. We use several data sources to monitor the underlying companies within our portfolios on human rights and supply chain standards, as well as on compliance with the Ten Principles of the United Nations Global Compact.

Within our investments, we engage with companies on their approach to human capital management. We expect all companies to have Board-level oversight of strategies relating to employee development, and to contribute to a positively engaged, committed and talented workforce. In addition, we expect companies to provide contextual information and disclose key performance indicators on an annual basis.

What actions have we taken?

Modern Human Slavery

There are 40 million people entrapped in modern slavery globally,[8] of which 25% are children and 58% are women and girls. This is an issue that is on our own doorstep, with an estimated 136,000 victims of modern human slavery living in the UK.[9] It is likely in the supply chain of almost every company globally; $18bn of imported goods produced by people trapped in forced labour are reckoned to be imported into the UK every year.[10]

Modern human slavery can take many forms and it is often out of sight. It is usually as a result of people becoming controlled and entrapped in jobs which from the outside can seem like normal employment. People who are trapped in slavery often face violence or threats, may be forced into inescapable debt, have their passports taken away or risk deportation. For many, they have been taken advantage of whilst vulnerable because they were trying to escape poverty and insecurity, or to improve their lives and support their families.

The vast majority of forced labour is in the private sector – where an estimated 16 million people are exploited. It is often in sectors such as construction, agriculture or domestic work.

Covid crisis and modern human slavery

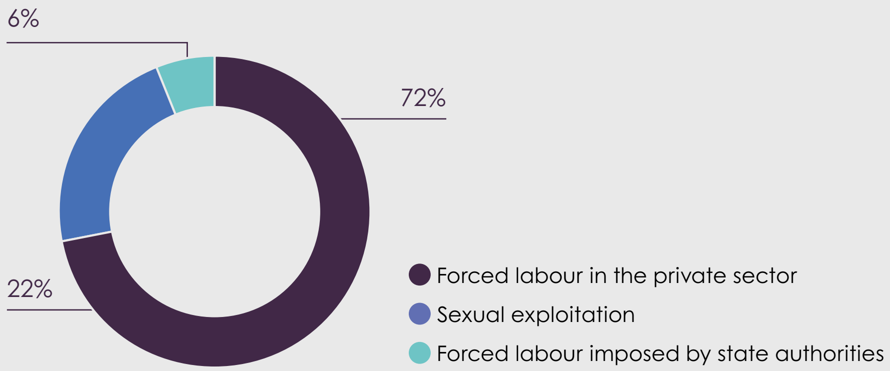
The Covid crisis has increased the risk of modern human slavery – with many more people globally falling into poverty. It has also sparked migrant labour crises in geographies that rely heavily on migrant labour, such as the Middle East. For example, international migrants comprise over 80% of the populations of the UAE and Qatar, 70% in Kuwait and 55% in Bahrain.[11] Many of these migrants have lost their jobs due to the Covid pandemic and are unable to travel home due to travel restrictions, limited savings and loans they took out to pay recruiter fees.

We are part of a group of 39 investors, representing $3 trillion, that has written to 54 companies in The Gulf, focusing on high-risk sectors such as hospitality, construction and oil and gas. We are asking companies to:

- **Engage independent specialists** to perform exit interviews
- Commit to **reimbursing recruitment fees** and adopt the 'employer pays principle'
- Perform **best practice due diligence** on labour outsourcing companies

So far, the responses from companies has been mixed. Aside of continuing engagement, the next steps of this work will be to identify where our portfolios are exposed to companies with poor practices.

Forced labour by type



Find it, Fix it, Prevent it

We support this engagement programme coordinated by CCLA and Rathbones and representing £2.4 trillion of collective assets. The programme engages with UK businesses to encourage them to identify instances of modern human slavery in their supply chains and to remediate the issue.

For more information on the project see www.modernslaveryccla.co.uk

Engagement on modern human slavery statements

We are part of an investor coalition with £3.2 trillion AUM coordinated by Rathbones. The engagement targets FTSE 350 companies that have been identified as non-compliant with meeting the Modern Day Slavery Act 2015 requirement of having a modern day slavery statement. In 2020, twenty companies had become compliant as a result of the engagement, a hit rate of 90%.

8 International Labour Organisation
9 Global Slavery Index
10 Global Slavery Index

11 International Organisation for Migration (IOM), World Migrations Report 2020

Banksy mural, Bristol

Walking the talk

Due to the nature of our business, we consider ourselves at low risk of being directly involved in facilitating modern human slavery. However, we recognise that we play a key role in helping to eliminate modern human slavery, through our operations and our investments. Whilst our direct operations are based in the UK, our investment portfolios are exposed to companies and assets with global operations and supply chains.

We have undertaken a review of where we can improve our own approach to managing modern day slavery risks within our operations. Whilst Brunel Pension Partnership is exempt from publishing a modern-day slavery statement (the Modern Slavery Act 2015 requires this of organisations in the UK with an annual turnover of at least £36 million), we have voluntarily written and published our statement to comply with best practice. We have also committed to reviewing our supplier contracts in 2021 and will undertake more in-depth assessments of our supplier's approach to modern slavery as part of this review.

Mental health in the spotlight

Since the initial lockdown in the UK at the end of March 2020, levels of happiness and anxiety were significantly worsened compared with pre-pandemic levels. According to The Office of National Statistics, by June 2020 almost one in five adults in Britain was likely to be experiencing some form of depression, doubling from around one in ten in March of the same year.[12] Before the pandemic, mental health was costing UK businesses between £33 billion and £42 billion every year,[1] as well as causing devastating social consequences. The Covid crisis has raised both the financial and social costs of poor mental health.

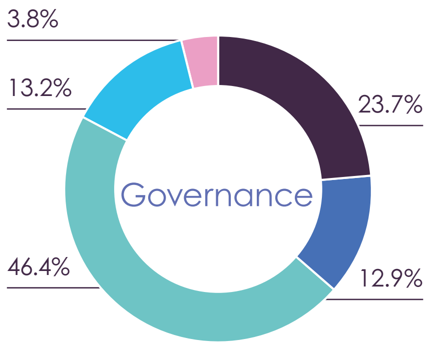
As a member of an investor group representing £2.2 trillion, we co-signed letters to the CEO's of all FTSE 100 companies asking that formal mental health workplans are established during the period of disruption bought about by the Covid crisis. This urged companies to implement items such as training for all line managers on mental health; increased flexibility in job design and performance appraisals; and giving employees clear details on how to access support.

Mental health and wellbeing have also been areas of focus internally at Brunel. We have increased the support that is available to employees through a number of initiatives including training sessions, yoga classes and private health insurance (the latter covers speaking therapies). Our CEO, Laura Chappell, has **written openly** about the importance of prioritising mental health and the need to create positive systemic change. We responded to a public consultation on the **CCLA Corporate Mental Health Benchmark** and support their approach aiming to provide a view on how listed companies approach and manage employee wellbeing.

[12] Coronavirus and depression in adults, Great Britain: June 2020

Culture, conduct and ethics

In 2020, we engaged with 881 companies globally across 3,101 issues. Out of the 1,271 company engagements relating to 'governance issues', 46.4% of these were discussions around inappropriate executive remuneration, and almost a quarter related to board-level diversity, skills and experience.

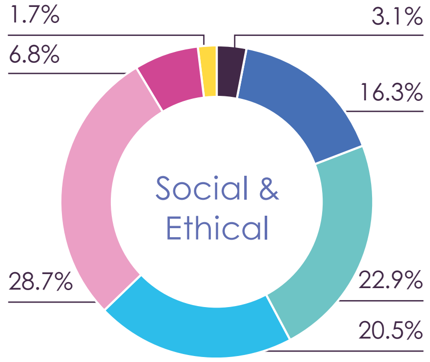


Governance topics featured in **41.0%** of our engagements over the last year.

- Board Diversity, Skills and Experience
- Board Independence
- Executive Remuneration
- Shareholder Protection and Rights
- Succession Planning

Source: Federated Hermes Brunel Pension Partnership Annual Engagement Report 2020

'Social and ethical' issues and objectives made up 18.4% (571) of our company engagements. Human rights and human capital development issues accounted for almost 50% of these.



Social and Ethical topics featured in **18.4%** of our engagements over the last year.

- Bribery and Corruption
- Conduct and Culture
- Diversity
- Human Capital Management
- Human Rights
- Labour Rights
- Tax

Source: Federated Hermes, Brunel Pension Partnership Annual Stewardship Report 2020

Next steps

- We will initiate a project to identify where we have exposure to companies falling short of best practice around managing modern human slavery risks
- We will work to identify our exposure to sectors that have a greater likelihood of precarious employment practices.

Responsible Stewardship

We are committed to responsible stewardship and believe that through responsible, active ownership we can contribute to the care, and long-term success, of all the assets within our remit.

We support and apply the UK Stewardship Code 2020 definition of stewardship:

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

Source: UK Stewardship Code 2020

The main body of this report details our approach and provides examples of stewardship progress. It should be read in conjunction with the **Responsible Investment (RI) Policy**, the **Climate Change Policy**, the **Stewardship Policy** and the **Voting Guidelines**. Brunel's' Responsible Investment Policy sets out the overarching principles that guide everything that Brunel does.

The Climate Change Policy delves deeper into our most systemic risk. The Stewardship Policy and Voting Guidelines then set out how we operationalise these policies.

Brunel undertakes stewardship of its capital in the design, construction and monitoring of its portfolios, and supports its clients in ensuring their Strategic Asset Allocation is undertaken responsibly. For example, we use training, workshops, detailed briefing papers and analytics (including ESG and carbon metrics).

We view asset managers as our first line of defence in the management of all portfolio related risks, including ESG risks, so integration of ESG is a vitally important part of selection and monitoring process.

Integrating Responsible Investment into our Manager Selection

Integrating Responsible Investment into manager selection is a core part of our work. Mandate design and a risk appraisal process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things.

The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus our manager selection criteria are determined for each search.

We have a track record of action evidenced by work such as Brunel Asset Management Accord designed to capture not only our expectations of managers, but also the spirit of what they can expect from us. The accord supports long-term sustainable finance and especially calls on managers to work collaboratively with Brunel on thought leadership and integration of ESG issues.

The examples on the right show some of the key issues we address when we appoint managers.

Philosophy	Policies	People
Board-level leadership	Commitment	Diversity and Inclusion
Corporate culture	Policy framework	Human Capital
Investment	Pricing and transparency	Numbers & retention

Processes	Participation	Partnership
Investment	Thought-leadership	In it together
Reporting	Innovation	Culture fit
Stewardship	Contribution to investment industry	

More information about the selection and monitoring of managers is on our **website**

Stewardship across asset classes

Our updated Stewardship Policy provides detail more detail on our stewardship activities as it applies to each asset class and we have provided case studies throughout this report to bring the policy to life. This includes the selection process for Brunel's Multi-asset Credit Fund, where integration of ESG risks and climate is very new to the industry.

Brunel's Private Markets Portfolios are offered in cycles, with each cycle being two years long with a "top-up window" in the intervening year. The underlying private market fund cycle involves investment selection (sourcing), asset management (value creation) and exit (disposal). We apply the same principles of selecting and monitoring managers no matter which type of asset, but the stewardship tool and techniques adapt to be appropriate to the circumstances, not least the level of control allowed through the legal structure.

Analysing stock-specific ESG risks

One of top stewardship priorities in 2020 was the on-boarding of climate-related data and ESG risk metrics into Brunel's investment risk platform. Thousands of data points relating to these risks are now available to all the listed market portfolio managers to help them with the monitoring and reporting of these risks. However, whilst this has been very successful, the work is on-going. Sourcing new data as needed, but also to evaluate the effectiveness of the data sets and adjust accordingly. More information on the stewardship of data providers is presented in our **Stewardship Policy**.

We recognise that ESG data is a developing discipline, and we are strong advocates for improved disclosure from companies and assets in which we invest. This theme cuts across every one of our priority areas. In addition to our own and our asset managers' analysis of ESG risks within our portfolios, we also use certain third party proprietary and public data sources. Where we have used third party data to set our objectives and targets, we have been clear on the source of the data.

We are members of the **Financial Reporting Council's Investor Advisory Group (IAG)** and **Sustainability Accounting Standards Board (SASB)** Alliance IAG, as part of our work to promote on better quality reporting on material ESG risks. We are also vocal supporters of the adoption of the **Taskforce for Climate-related Finance Disclosure (TCFD)**.

Conflicts of Interest

We invest in thousands of companies and there are likely to be overlaps with those from whom we source goods and services, not least publicly listed asset management companies, as well as the activities of our clients. The activities of our clients are very broad and involve large scale contracting and regulation. Our Conflict of Interest policy, reviewed bi-annually, describes the circumstances that could give rise to a conflict of interest and the principles to be followed in order to identify, avoid, manage or (in the event the other routes are not possible) to disclose a potential conflict of interest clearly to our Clients. Our recently updated **conflict statement**, which includes our approach to stewardship conflict of interest, is published on our website.

The effective management of potential Conflicts of Interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. Conflict of interest clauses are included in investment management and service agreements. For example, where our voting provider perceive a potential conflict when executing votes on our behalf, they alert us to provide an opportunity to further review the recommendations before they are instructed.

Our suite of policies guides our actions to manage perceived conflict of interest. In 2020 examples included considering perceived conflict of interest during the selection of investments, when, for example looking at direct held investments. It was also factored into deciding engagement strategies. Where an opportunity presents itself, we consult with clients to gather their thoughts, this helps guide our actions and, in some instances, we may opt to pursue some engagements privately rather than in the public domain. As a result of these measures there were no conflicts of interest that arose during 2020.

RI in Multi-Asset Credit

Brunel's Multi Asset Credit Fund is both complex and pioneering. Its complexity lies in its range of asset classes across the bonds universe, incorporating sovereign bonds, Investment Grade credit, High Yield credit, asset-backed securities, mortgage-backed securities and more sub-classes besides. This complexity reflects our clients' desire to gain exposure to a wide range of products across fixed income. As a result, our Responsible Investment principles had to be implemented across a wider range of asset classes than for most other funds, adding yet another layer of complexity.

In the interview below, Alex Monro, Head of Communications, asked Daniel Spencer (pictured right), Portfolio Manager on the Multi Asset Credit Fund, how Brunel approached portfolio design, manager selection and the alignment of incentives as it built into the fund.

What were the client requirements Brunel sought to address by designing and delivering a Multi Asset Credit fund?

The main request from clients was to access a range of sub-investment grade credits, and MAC provides a very clean solution to this problem. From a pension fund perspective, MAC can be useful when you are looking to de-risk from equities a bit but still generate returns in excess of defensive assets. Another reason was cost savings.

The fund focuses on sub-Investment Grade (IG) credit. Do you have to be even more rigorous with manager selection than for IG manager selection?

The level of due diligence does not change but the scope does change somewhat. In MAC you're dealing with $16 trillion of debt across multiple regions and asset classes. We have to evaluate manager skill across different geographies and asset classes. There are also asset allocation considerations; we have to evaluate a manager's ability to allocate across various sub-asset classes in fixed income.

Investment Grade vs High Yield

Investment Grade: A broad credit rating for municipal or corporate bonds at a relatively low rate of default

High Yield: A broad credit rating for bonds that pay higher interest to reflect a higher risk of default

You focus on the philosophy of an applicant fund manager but obviously it will never be exactly the same as Brunel. How much overlap does there need to be?

It's very difficult to answer. You obviously need some overlap and shouldn't work with managers who don't have any alignment with Brunel. In terms of those who do have crossover, it's more about whether they're willing to work with us as the relationship evolves. For example, an asset manager with a large amount of AUM might align well with Brunel today but IS less likely to listen to us in future when we disagree. Another manager may differ more from Brunel today but believes in the partnership element; these are managers who are more likely to work well with Brunel and listen to our input. That said, some larger firms do still listen.

What behavioural patterns among applicant managers raised flags for you during the selection process?

Two specific examples would be remuneration and misleading behaviour. If the manager doesn't give you details on how they pay staff, or suggest compensation is linked to asset growth, or to short-term performance, that's a bad sign. Compensation must be aligned with our objectives where feasible. We are also wary of managers who provide misleading information. For example, we asked a manager for evidence of their skill in high yield vs the broader high yield market. We were supplied with a series of relative returns vs cash, which was very misleading.

How did you assess the company culture of applicants?

There's a huge difference between what you see on paper and the true culture of a company. There are two ways we attempt to address this: face-to-face meetings and data requests. Meeting managers and stakeholders in a face-to-face environment is usually the best way to evaluate culture. It enables us, for example, to ask the portfolio managers directly about RI implementation, because we know the RI section of written tender documents is typically influenced by an RI team. As an example, we had a portfolio manager who looked at us blankly when asked if there was a trade idea that was abandoned due to environmental concerns, so we immediately suspected RI wasn't a significant part of the team culture. On the more behavioural side, I like to establish the type of person the Portfolio Manager is. We typically don't buy into the star fund manager culture,

where one individual holds everything together. As an example, we always look out for incidents where the PM is answering something that others should be answering in a meeting environment. If one individual is dominating the conversation, that tells you something very important.

Most managers know how to talk about ESG and RI. How do you determine that a manager has the right principles and has successfully integrated them right through the investment process?

This is quite hard. Managers are getting better at telling us what we want to hear. A good way to identify the stronger responses is to think about the fund in question and see if a response addresses the specific features of MAC. A manager with poor RI integration will typically speak about RI more broadly (like about fixed income in general) as opposed to talking about MAC itself. Hence, we look for items such as engagements specific to the product and difficulties working within sub-IG. We also look at managers at the corporate level from an RI perspective. Examples of this include looking at PRI assessment reports and how they are performing in relation to that. We would also look at initiatives they are involved in and why, such as Climate Action 100+.

What does it mean for a manager to adopt your Climate Change Policy in how they invest?

It's one of the toughest questions for both us and the managers – very few managers in MAC have impressed me on this question. I want to know first and foremost that they've read the policy. If their decarbonisation targets are set and aligned, then that's a good start. We found that the real difference between a good and bad response is all around understanding of two-degree alignment (see our Climate Change section for details.). If the manager has no idea of the difference between a company that is or isn't aligned to the Paris accord, then it's a bad sign. We also found that many managers proposed alignment to our policy through exclusions alone, which is not good enough. Finally, climate change alignment has to relate to the product we're investing in – they need to know where the carbon data is weak on, say, structured credit (a debt pooling vehicle), and how they manage that gap.

Is it hard to implement RI in credit?

It's arguably more important to be responsible in credit versus equities because you are directly providing capital for companies to do good or bad, especially in the primary market. However, the onus is really on the manager to work it out, at least broadly, on both the carbon footprint and on social policies.

Can you give an example of a candidate showing the right kind of thought leadership?

One manager we liked in this process really understood our constraints around getting to Net Zero by 2050 in a universe that is very difficult to quantify. The response related these challenges to MAC in particular, which was rare. The manager also had a realistic view on what you could do in different asset classes and geographies. For example, there were feasible solutions in place where there were, say, asset classes you couldn't really engage with over environmental protections, like EM Sovereigns. Regarding 2C alignment, the manager had a firm view on which companies and industries were and weren't aligned, which was again rare amongst submissions. On engagement, the manager had a sensible framework to identify companies who require engagement to align with the Paris accord. Finally, the manager also showed thought leadership by looking forward at what Brunel wants to do but can't yet do e.g. scenario modelling on physical and transitional risk.

What kind of changes at one of your appointed fund management companies would cause you concern?

Changes in corporate structure – For example, are they buying or about to be bought by another asset manager? This risk has become larger in the past few years. We also look at activity within the portfolio management teams, it's a potential issue if a key member or several team members all leave at once. Other organisational aspects we look at are in areas such as risk and compliance. High levels of turnover in these areas may imply dominance of the PM team. On the RI side, you sometimes find that a fund manager you work with has bought a controversial company – and even if it's not your mandate, it shows they're potentially not aligned with your criteria.

Next steps

- Brunel MAC will be launching in 2021

ESG Risks in China

China's increasing prominence as a political and economic power, coupled with its growing position in many investors' portfolios, makes consideration of its culture, politics, and business environment important for Brunel as investors. Indeed, Chinese companies do make up some of Brunel's largest overall holdings. However, we also recognise that when looking at China it is equally important in terms of the supply chains and as a consumer to companies all over the world.

Brunel's approach to responsible investment issues is firstly to deepen our understanding of the potential risks whilst assessing how these might reinforce or oppose other investment risks and opportunities. We also identify how we might best address issues, mitigating where possible unintended consequences. Our approach is thorough and takes time. It also means we are unlikely to walk away from an issue as whilst this action may appear to reduce exposure to one risk it may well increase others. Blanket divestment rarely removes risk – just hides it from plain sight.

What actions have we taken so far?

Our early research began when a growing volume of stories concerning human rights abuses and forced labour in the Chinese autonomous region of Xinjiang came to our attention. In one article written by the Australian Strategic Policy Institute, international companies were implicated in abuses through their supply chains. We undertook an initial engagement exercise with our portfolio managers on this report.

Our different asset managers will have different investment processes and different potential exposure to the risks, so we would have expected a degree of variance in their responses. The level of awareness of the issue is high and some engagement with companies directly impacted had to be undertaken. However, it was identified further investigation and engagement was needed.

The situation in China is complex due to the global nature of supply chain relationships. Following more in-depth research covering industry thought pieces, academic literature, news, government documents and the consultation of regional specialists at both Hermes and Sustainalytics, we identified several key areas for further consideration:

- Human rights in supply chains
- Data privacy, censorship and surveillance
- Corporate governance
- Hong Kong and Taiwan
- Climate change
- Share class structure (ADR/H-Share/A-Share)

Members of the Listed Markets and RI team worked together to develop and pilot analytical tools to support the investment team in assessing the risks and enhance their portfolio monitoring.

In parallel, Brunel has continued to support the City of London and PRI led collaboration with Chinese investors focusing on environmental and climate disclosures, for example presenting at the UK-China TCFD workshop in December 2020.

Next Steps

Our work relating China will continue in 2021 and is a priority action area.

- Continue engagement with companies linked to the issues identified above
- Roll-out analytical tools for portfolio managers
- Deeper engagement with asset managers is underway
- Continue our research including engaging with other industry participants.
- Support bi-lateral exchanges on climate and environmental disclosures with Chinese investors

Stewardship Policy Review Outcome

Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our **Stewardship Policy** is developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The Responsible Investment group provides updates to the client group and further updates are provided to the wider client group as required. The Stewardship Policy is reviewed no less than annually. We undertook an extensive review over the year and made many improvements to the policy. We need to extend our policy to cover new product/service launches. We also reflected client feedback and a desire to provide greater transparency and regulatory changes – specifically, the enhanced UK Stewardship Code and Shareholder Rights Directive II. Some of the changes include:

- Expansion of governance and oversight, our escalation process and conflict of interest
- Our use and oversight of service and data providers
- New sections added following product and service launches:
  - Stewardship implementation across asset classes
  - Responsible stock lending and Recall
- Separation of the voting guidelines into a standalone document

Voting Guidelines updates

Our engagement, emerging themes and a reflection of the previous proxy season feed into the review of our **Voting Guidelines.** Changes made in response to Covid-19 are detailed under the section voting during 2020. Our updated guidelines, published in January 2021, incorporate the following main changes:

- Climate Change: Ramped up TPI voting principle
- Remuneration: We will consider voting against the remuneration report where excessive windfall gains have not been adequately addressed by the remuneration committee
- Tax: Aggressive tax practices, even legally-deployed ones, will be unfavourably viewed, particularly where a company has relied on government support and aid during turbulent times
- Overboarding policy: updated to reflect that certain industries and multi-site operating companies require a greater time commitment
- Virtual/Electronic Annual General Meetings: We will consider supporting temporary legislation changes to accommodate exceptional circumstances that restrict the ability to hold a meeting in person
- Diversity: Ramping up of existing thresholds. Addition of ethnicity principle. In 2021, we will consider voting against the chair of the board of FTSE 100 companies that do not have at least one director from an ethnic minority background and have no credible plan to rapidly achieve this.

We will vote against the re-election of the company chair where:

- a company has not at least reached Level 4 of the TPI framework in Europe
- a company has not reached level 3 of the TPI framework for US and Asia, or where the TPI score has fallen from level 4
- the company's strategy is materially misaligned with the goals of the Paris Agreement
- the company's strategy is misaligned to Net Zero ambitions

Companies scored for the first time will be differentiated and reviewed on a case-by-case basis.

Case Study: Virtual AGMs

In-person company meetings were disrupted by lockdowns, leading to postponements, meetings behind closed doors, and a move to virtual meetings. We witnessed a variety of approaches to virtual AGMs. In some cases, shareholders were able to submit questions, in others, this was restricted or prohibited. Whilst virtual AGMs led to significant increases in shareholder attendance, there was a concern that the lack of standardisation could create future operational barriers and hamper future shareholder engagement and reduced transparency.

We invited Lumi Global, a software provider who facilitates virtual and hybrid companies' meetings, to the UK Pension Scheme Responsible Investor Roundtable. Lumi provided an overview of their platform capabilities and asset owners fed back their experiences and expectations. Following stakeholder feedback, Lumi has further developed its software platform to streamline the Q&A process for a virtual or hybrid AGM. New innovations include:

i) allowing remote participants to pose questions which are then reviewed, vetted, and categorised by the moderator and subsequently provided to the Chair

ii) questions can be alternated between virtual and in-room participants

iii) for complete transparency, meeting holders can choose to collate, publish and answer all questions after the meeting, providing a full transcript to all participants

Further to this, we invited the FRC to the Cross Pool RI group to discuss AGMs and guidelines, and to hear our experiences. In October, the FRC published the report: **Corporate Governance, AGM's: An Opportunity for Change**, outlining best practice guidance for companies planning and conducting future AGMs.

Global best practice guidelines

As global investors, we apply our principles of good stewardship globally, whilst recognising the need for local market considerations. As a UK-based investor, our key reference points are the **UK Stewardship Code 2020** and **UK Corporate Governance Code** and guidance produced by UK industry bodies, for example, the **British Venture Capital Association** (BVCA – private equity) **RI toolkit**.

We are committed to supporting policy makers, regulators and industry bodies in the development and promotion of codes and guidance. For example, we are members of the Financial Reporting Council Investor Advisor Group.

We support policy makers in other countries where practicable, generally by contributing to a collaborative consultation submission.

Exercising our rights

Engagement objectives are identified in three ways. Firstly, top down, looking at Brunel's holdings to identify thematic areas of risk and opportunity. Secondly, bottom up, reviewing exposure to individual companies and to specific ESG risks and opportunities. Thirdly, reactively to event risks, for example, after a specific, usually significant, incident.

We appointed EOS at Federated Hermes as our engagement and voting services provider. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes. Additionally, the team's languages, connections, and cultural understanding greatly enhances our capacity to create and maintain constructive relationships with company boards.

Policy Advocacy Highlights

- DWP Climate Action Consultation
- FCA Climate-Related Disclosures Consultation
- Department of Labour Financial Factors in Selecting Plan Investments Consultation
- Government climate change letters

We publicly disclose our consultation responses on our website

Escalation process

Escalation is a key component of stewardship and whilst it rarely follows a given pathway the infographic below provides some insights to our approach. Some steps might be skipped or happen simultaneously and there may operational and legal constraints that prevent some actions being undertaken, however regular Client engagement helps guide our approach and communication throughout.

Not suitable for new fundraising/ refinance

Selective divestment (listed equity)

Climate change stocktake

Reduce exposure

Co-file shareholder resolution (segregated)
- Direct and frequent engagement with company management
- Request pool fund manager support/ voting alignment
- Statement made at AGM (or by fellow co-filer)

Escalated concern due to lack of company management action
- Publicly discuss concerns and or pre-declaration of voting intentions
- Consider AGM attendance/ question
- Index funding voting alignment considered

Specific concerns raised with Asset Manager
- Asset Manager (AM) specific action requested
- Vote against Chair and specific related resolutions (including shareholder resolutions – may increase to all directors in successive years)
- AM may decide to reduce/ exit exposure (active fundamental)

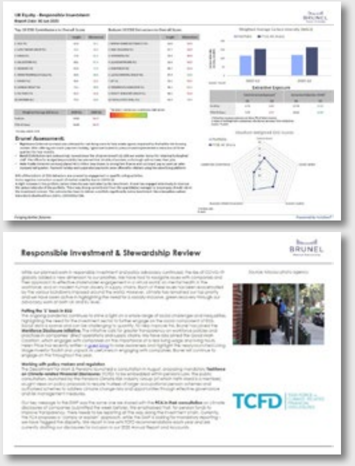
Targeted engagement
- Asset Manager engagement list
- Engagement service provider engagement targets

Thematic engagement
- Raise profile of issue with policy makers and regulators
- Collaborative engagement
- Voting in line with Stewardship Policy

CLIENT ENGAGEMENT

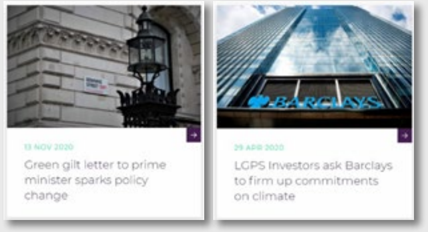
Brunel provides clients with a suite of public reports on our stewardship activities, and with environmental, social and governance metrics to empower clients own stewardship activities and to enable oversight.

Regular Reporting

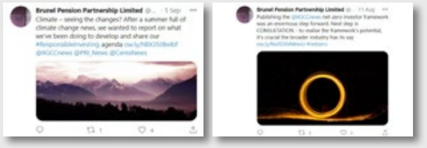


Annual Reporting

News Alerts



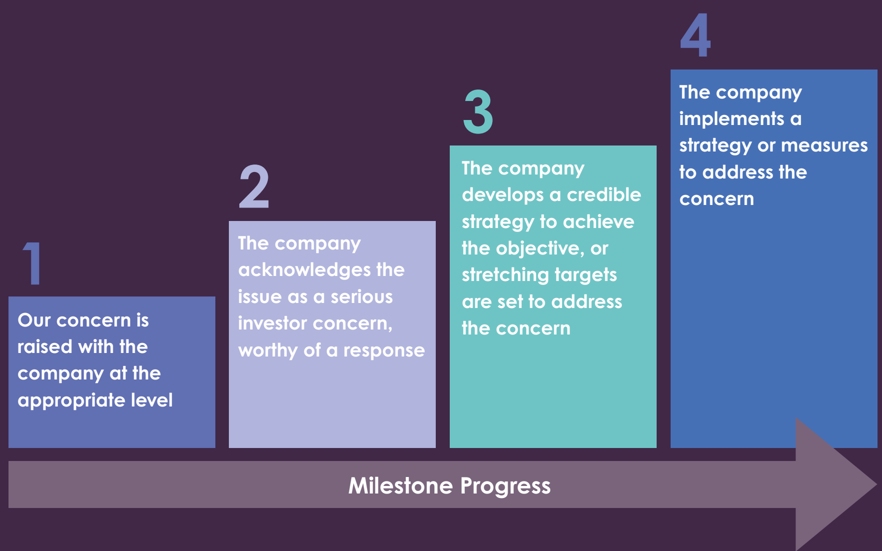
Social Media



Measuring Progress

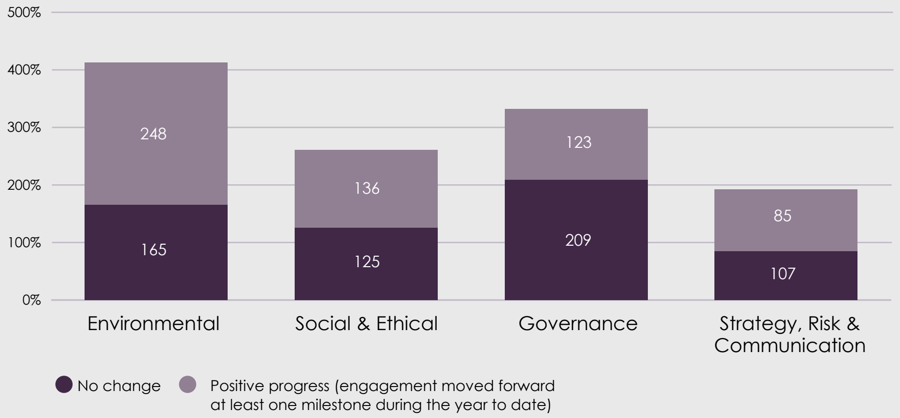
To ensure meaningful impact and to be able to measure and report effectively, EOS at Federated Hermes (EOS) engagement is guided by a client-driven **engagement plan**. Brunel is in regular contact with EOS and provides input into this plan, together with our clients, who join quarterly update and feedback calls.

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



Engagement Progress

Engagement during 2020 made significant progress. EOS undertake engagement over three-year cycles. During 2020, EOS engaged with **881** Brunel-held companies on 1,050 milestones. At least one milestone was moved forward for about **51%** of objectives during the year.



Engagement covers active equity portfolios, please note this does not include engagement undertaken directly by Brunel or its managers.

Our top ten holdings were engaged on the below themes during 2020. A full overview of companies engaged by theme is disclosed on our **website**.

	Environmental			Social and Ethical			Governance			Strategy, Risk and Communication		
	Climate Change	Natural Resource Stewardship	Pollution, Waste and Circular Economy	Conduct, Culture and Ethics	Human Capital Mgmt	Human Rights	Board Effectiveness	Executive Remuneration	Shareholder Protection and Rights	Business Purpose and Strategy	Corporate Reporting	Risk Mgmt
Microsoft Corp		●		●	●			●				
Apple Inc	●			●		●		●	●	●		
Amazon.com Inc	●		●		●	●		●			●	
Alphabet Inc	●			●	●	●	●	●	●	●		●
Mastercard Inc							●	●				●
Taiwan Semiconductor Manufacturing Co Ltd	●	●						●				●
AstraZeneca PLC							●	●		●		
Royal Dutch Shell PLC	●		●	●		●	●	●				●
Diageo PLC		●						●				
Facebook Inc	●					●	●			●		●

Asset manager engagement and outcomes tracking

This annual report is designed to meet the best practice requirements of the UK Stewardship Code 2020.

When it comes to measuring engagement outcomes across our managers, collaborative initiatives, and direct engagement, we encounter challenges. There is no set standard and there is a lack of consistency in the ways that investment managers and third parties collect, process, and distribute information related to stewardship. This may be due to the investment style, asset class and resources. Differences include variations in the definition of an engagement, and classification of an outcome and the environmental, social and governance themes being engaged on. Some investment managers already have established processes, whilst others are either developing new systems or enhancing existing infrastructure.

We need to be careful that a reporting desire does not shift the focus of long-term engagement to short-termist quick wins and tokenism, so it is to be expected that this is challenging and may take time to develop. Nonetheless, it leaves us in difficult position when trying to aggregate outcomes which are authentic, accurate and meaningful.

Next steps

- Engage with managers on how they develop outcomes reporting
- Evolve meaningful milestone reporting to cover our managers, and Brunel's activities, whether internal or collaborative

Quarterly summary engagement reports are made publicly available on our website: **Engagement Records**. Further **insights** are published on the Federated Hermes website. These cover many of Brunel's thematic priorities:

Climate change and infectious diseases

Climate change and human rights

Our debt to nature

limited shelf-life - why the fast fashion model is under strain

Q&A -how companies can address gender bias in ai

Data privacy and protection in the coronavirus pandemic

Voting

Implementation of Brunel's voting principles for segregated active equity accounts is supported by EOS at Federated Hermes (EOS). Our **voting guidelines** inform their voting recommendation alongside other country- and region-specific guidelines. Our passive pooled investments are voted by Legal and General Investment Management and the small number of votes across private markets and listed alternatives are voted by Brunel. Our **Stewardship Policy** outlines our approach to voting and the process we follow in more detail. Brunel retains full voting rights and voting decisions are informed by investment considerations, consultation with portfolio managers, clients, other institutional investors, and our engagement with companies. The vast majority of voting is undertaken within listed equities. However, there are occasions in other classes where voting may be available.

Voting during 2020

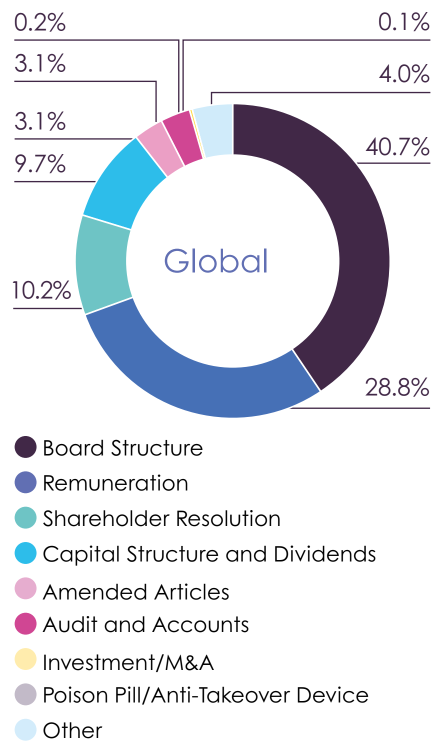
In 2020, companies were faced with the Covid-19 crisis and the challenges it posed. We recognise the critical role of good and stable leadership in management during times of crisis. We implemented a temporary change to our proxy guidelines to vote "FOR" by exception; this was applied where there was a reasonable prospect of ongoing positive engagement. Ongoing concerns were not diluted, and companies were informed that, without positive change, our vote would revert to our normal position once the worst of the crisis had passed. Where companies were unresponsive to engagement, votes against relevant directors were maintained unless there was an indication of imminent and severe financial distress.

Voting statistics

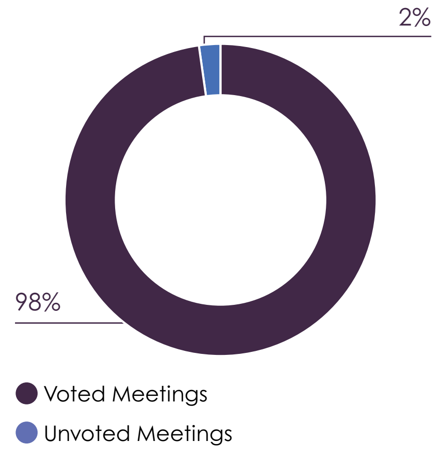
In 2020, **1,046** company meetings were voted at, representing **98%** of the voteable meetings. Across passive portfolios, 99% of meetings were voted at, and across private markets and listed alternatives**, 100%** were voted. This represents an excellent level of voting execution. Unvoted meetings were due to share blocking, POA's or operational barriers.

'Against' recommendations were made for 558 meetings (53.3%) and with-management-by-exception recommendations for 98 meetings (9.4%); board governance and remuneration remained the areas of highest dissent.

We recommended voting against or abstaining on **1,666** resolutions over the last year



The votes cast on ballots during 2020 were aligned with management recommendations in **89%** of cases, while the ISS Benchmark Policy Recommendations were for **93%** alignment with management recommendations. This deviation demonstrates the value of the oversight by EOS and Brunel.

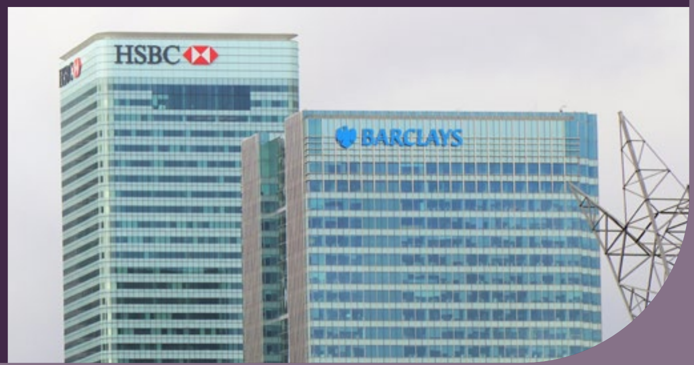


Voting Spotlight: Bank Climate Shareholder Resolutions

In December 2019, Brunel co-filed a shareholder resolution at Barclays, the first climate change resolution to ever be filed at a European bank. Since filing, Brunel, alongside lead filer ShareAction, engaged with Barclays and other shareholders. Positive shareholder pressure led to a significant step by the bank as, in April, it put forward a proposed “ambition to become net zero by 2050”. While Barclays’ own resolution set out an overarching 2050 ambition encompassing all financing across all sectors, the shareholder resolution ensures a greater focus on short- and medium-term actions needed in order to achieve that long-term goal. Both proposals were put to vote at the May annual general meeting. Barclays’ proposal passed, but we were pleased to see that votes for the shareholder resolution (23.95%) exceeded the 20% threshold that requires the bank to consult with shareholders and explain the views received and actions taken publicly within six months. We will continue to engage constructively to ensure that Barclays delivers on its commitments and takes real action to align its financing with the needs of the low-carbon transition.

Engagement expanded to include Europe’s second largest financier of fossil fuels. The Rainforest Action Network (RAN) found HSBC provided $87bn to some of the world’s largest fossil fuel companies since the signing of the Paris Agreement (2016-2019). In December 2020 Brunel co-filed a ShareAction led shareholder resolution at HSBC. The resolution called for HSBC to publish a climate strategy and targets to reduce its exposure to fossil fuel assets, on a timeline consistent with the Paris climate goals. We believe this resolution would enable the bank to meet the Net Zero ambition it set out.

Following intense and diligent engagement Q1 2021, the power of shareholder engagement prevailed. The coalition of investors, representing $2.4 trillion in assets, agreed to withdraw the shareholder resolution in exchange for a board-backed resolution. Europe’s largest bank has tabled a resolution for its May AGM that commits it to set a strategy with short- and medium-term targets to align its provision of finance with the goals of the Paris Agreement; to publish a coal policy; and to report on progress annually. HSBC has committed to engage with the co-filing groups in the development of the coal policy, we will continue engaging with the bank during 2021.

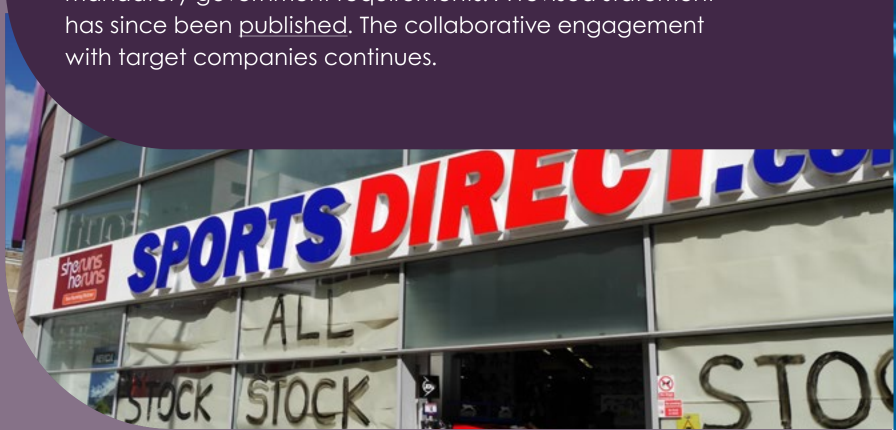


Voting Spotlight: Remuneration

Due to concerns about the excessive severance package awarded to the former CEO at McDonald’s, and the lack of a robust ‘clawback’ policy, we voted against the named executive officers’ compensation. The resolution received 20.3% dissent.

Voting Spotlight: Modern Human Slavery

As an escalation of the engagement on modern human slavery statements, we voted against the statutory reports for Frasers group (previously Sports Direct). Frasers failed to disclose a modern human slavery statement in line with mandatory government requirements. A revised statement has since been published. The collaborative engagement with target companies continues.



Cyber

We seek to promote corporate awareness and action on cyber security, the responsible use of personal data, and the use of AI in order to both protect commercial risks and reputational damage.

For the purpose of this report, the term ‘cyber’ refers to an array of issues covering data privacy, data security and ‘big data’, including artificial intelligence (AI) and the associated human rights issues.

The complex nature of cybercrime makes its precise economic cost difficult to estimate. It is thought the yearly cost to the UK economy is at least £34 billion.[13] On a global level, a report by Accenture estimates that the total value at risk (i.e. the maximum amount expected to be lost) from cybercrime is $5.2 trillion from 2019-2023.[14]

During the Covid pandemic, more companies experienced cyber security breaches than before. According to the UK Government’s Cyber Security Breaches Survey 2020,[15] 46% of UK businesses reported having cyber breaches or attacks across the calendar year.

Given the significant financial consequences of poor cybersecurity, the growing threat it presents, and the increase in related regulation worldwide, we believe it is imperative that companies are fully aware and take appropriate action. Companies have become increasingly aware of cyber security issues, with eight in ten UK businesses reporting that cyber security is now a high priority for their senior management boards (up from 69% in 2019).[16] The rise of AI raises risks from both a moral perspective and a security perspective, as criminals increasingly turn to AI too.

[13] Centre for Economics and Business Research, The business and economic consequences of inadequate cybersecurity, 2015
[14] Ninth Annual Cost of Cybercrime Study, Accenture, 2019
[15] Department for Digital, Culture, Media & Sport – Official Statistics Cyber Security Breaches Survey 2020
[16] Department for Digital, Culture, Media & Sport – Official Statistics Cyber Security Breaches Survey 2020

What actions have we taken?

Brunel uses several data sources to review cyber security within its portfolios.

We have previously supported the Investor Statement on Corporate Accountability for Digital Rights, which was sent to 22 companies in the ICT sector. It defined investor expectations for ICT companies and recognised the importance of the Ranking Digital Rights Corporate Accountability Index as a tool that aids companies in meeting their human rights and fiduciary responsibilities, and helps investors identify and assess digital rights risks in their portfolios. This was also supported by some of Brunel's appointed managers.

The Ranking Digital Rights Corporate Accountability Index evaluates 26 of the most powerful telecommunication companies across a number of indicators, specifically on their disclosure commitments and policies affecting freedom of expression and privacy.

The companies hold a combined market capitalisation of more than $11 trillion. The products and services of these companies are used by a majority of the world's 4.3 billion internet users.[17]

Within the Ranking Digital Rights Corporate Accountability Index, a score of 100 represents full disclosure, and 0 represents no disclosure. We can examine how the weighted average scores for companies we hold in our Active Equity Portfolios fare against the average index scores. Within Brunel's Active Equity Portfolios, there is a greater weighting to those telecoms companies with better Ranking Digital Rights scores – thus the Overall, Freedom of Expression and Privacy scores are higher than the averages. The Governance score has fallen from 2019 and is now lower than the Ranking Digital Rights index score. This is due to our relatively high exposure to Alibaba and Amazon, which joined the index in 2020, and scored poorly across the governance indicators.

Ranking Digital Rights Corporate Accountability Index

Methodology Enhancements

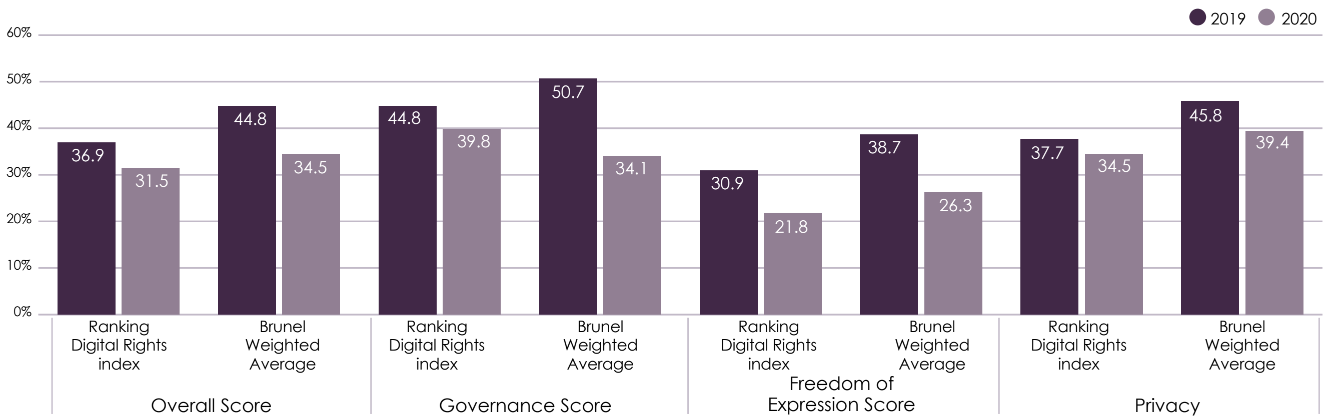
The 2020 index methodology has been enhanced to reflect geopolitical and technological developments, with clear human rights implications.

Specifically, the RDR 2020 methodology has incorporated new indicators on **targeted advertising and algorithms** that set transparency standards for how companies can demonstrate respect for human rights online as they develop these technologies.

Big Tech has been incorporated into the index - two new companies were added to the index for the first time in 2020: **Amazon** and **Alibaba.**

Brunel Active Equity Portfolio Weighted Average versus Ranking

Digital Rights Average Index Scores



Source: Ranking Digital Rights Corporate Accountability Index and Brunel Pension Partnership

[17] Ranking Digital Rights 2020 Corporate Accountability Index

Artificial Intelligence and data privacy

Our engagement & voting provider, EOS, has been engaging with companies specifically on data privacy and artificial intelligence since April 2018. In 2019 they published '**Expectations on Responsible Artificial Intelligence and Data Governance**', which set out engagement frameworks encompassing a breadth of risks across data governance, bias and cyber security. EOS also joined a group of investors engaging on cyber security. The PRI collaborative engagement had 55 institutional investors representing over US$12trn in assets under management. Using cyber governance as a proxy for cyber resilience, these investors engaged 53 companies in a range of sectors (healthcare, financial, consumer goods, information technology and telecommunications) over 2017-2019. Companies were assessed against 14 indicators of cyber governance and risk management. Over the engagement period, the targeted companies made significant strides in reporting on cyber-related governance mechanisms and processes. The average score across the companies improved from 6.1 to 8.5 (out of 14 indicators) over 2017-19. The number of companies leading on disclosure increased, as did the level of detail and scope of information disclosed.

2017	2019
Average score (number of indicators met out of 14)	
6.1	8.5
Percentage and number of companies disclosing 10 or more indicators	
13% (7 companies)	42% (22 companies)
Percentage and number of companies disclosing two or fewer indicators	
21% (11 companies)	6% (3 companies)

Source: Engaging on cyber security: Results of the PRI Collaborative Engagement

However, despite these positive trends, cyber security-related disclosures cannot be considered the norm. For instance, in 2019, a majority of the targeted companies did not provide information on audits, evidence of cyber security training for all staff, or details of relevant board expertise.

The collaborative group published the outcomes of their engagement in the following report: **Engaging on cyber security: Results of the PRI Collaborative Engagement**. The report provides investors with:

- An analysis of how companies within this initiative have progressed on corporate reporting over the last two years
- Insights from the PRI collaborative engagement that shed light on how cyber risks are being perceived and addressed among companies from diverse sectors
- A set of investor recommendations on engagement, including tools to benchmark disclosure and set expectations

EOS's engagement on data privacy and artificial intelligence continued into 2020. Data privacy became increasingly important as the impact of Covid was felt globally, and as local lockdowns resulted in millions working and learning from home and finding themselves reliant on technology to stay connected. EOS's report, **Data privacy and protection in the coronavirus pandemic**, outlined how these unique circumstances created a quandary for governments. In recent years, policymakers have attempted to crack down on intrusions by technology companies into users' data privacy, with tighter regulation and greater scrutiny. Yet governments also turned to technology companies to help tackle the pandemic. Contact tracing apps and health data sharing raised civil liberty questions and concerns about a similar intrusion into data privacy by government. This complex topic was embedded into EOS's engagement with technology and healthcare companies to ensure they are aware and demonstrate their commitment to upholding basic human rights principles.

Case Study: Alphabet - engagement through EOS

In April 2018, EOS began engaging with Alphabet on how its technologies manage the prioritised content of Google Search and YouTube, to avoid human rights concerns arising through the application of artificial intelligence (AI). EOS encouraged the company to go beyond publishing AI principles, and to demonstrate how the principles are being applied. After multiple touchpoints, engagement stepped up and a letter was sent to the chair of the board, recommending a feedback system in its AI ecosystem, and asking for further disclosure on content governance. At the 2019 annual stockholder meeting, EOS supported a shareholder proposal aimed at better addressing societal risk and voiced concerns relating to AI governance directly to the executives and board.

Progress on the application of AI was made in 2019 with the publication of a 30-page white paper and a series of actions by YouTube to improve transparency and accountability. Since 2019, the company has improved tools to measure the fairness, transparency and explicability of AI. It has also improved stakeholder engagement and communications with regard to how AI's social impact is assessed and measured.

In November 2020, Alphabet changed its audit committee to become an audit and compliance committee (ACC). The ACC's charter now mandates it to review sustainability, data privacy and civil and human rights risks – bringing the company closer to meeting the request for enhanced board oversight. EOS continues to engage with the company through a human rights lens to encourage board accountability over the responsible use of AI.

Published 02 December 2020: **Alphabet Case Study**

Case Study: NetEase Data Protection – engagement through EOS

EOS began engagement with NetEase in 2018. EOS put forward ideas to improve communication on ESG to shareholders and suggested that the company publishes a sustainability report to describe key social and environmental impacts. On data privacy and protection, EOS highlighted the financial materiality and relevance of compliance with General Data Protection Regulation (GDPR), and shared best practices from the technology sector globally.

In March 2020, NetEase improved shareholder communication by establishing a Twitter account. By the end of June, it published its first ESG report, which captures material topics recommended by EOS, investors, stakeholders, ESG professionals and some influential ESG rating agencies. Topics covered included human capital, privacy and data protection, cybersecurity, environment, and business ethics. The company acknowledged data privacy and protection as a fundamental human right within the report and referenced the applicable data protection frameworks to which it will comply in and outside of China, which include GDPR.

While its inaugural ESG report lays a good foundation, EOS encourages NetEase to disclose details about a privacy impact assessment and how its different business units and mobile apps comply with China's new data privacy law. EOS also continues to engage with the company on such topics as climate change, human capital management, board diversity, and board refreshment.

Published 13 October 2020: **NetEase-case-study**

Engaging on objectionable content

In 2019 a collaborative engagement was started, led by New Zealand Super Fund, New Zealand Government Superannuation Fund and National Provident Fund. Brunel co-signed letters to Facebook, Alphabet and Twitter and led by asking them to strengthen their controls to prevent the livestreaming and distribution of objectionable content. As a direct result of this engagement, Facebook updated the charter of its Audit and Risk Oversight Committee[18] in 2020 to explicitly include a review of content-related risks that violate its policies, as well as the steps the company has taken to monitor, mitigate and prevent such abuse.

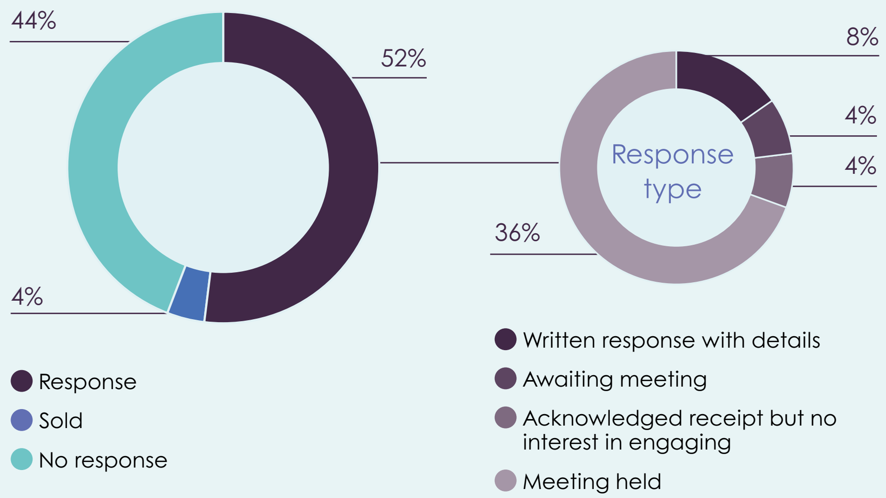
Case Study: Cybersecurity Coalition

In 2020, Royal London Asset Management (RLAM) convened the Cybersecurity Coalition, with representatives from Brunel, Border to Coast, NEST, RMPI Railpen and USS. RLAM evaluated and researched its stock exposure to cybersecurity risks by using the Sustainability Accounting Standards Board (SASB) materiality lens, thereby providing input into the identification of a targeted list of companies.

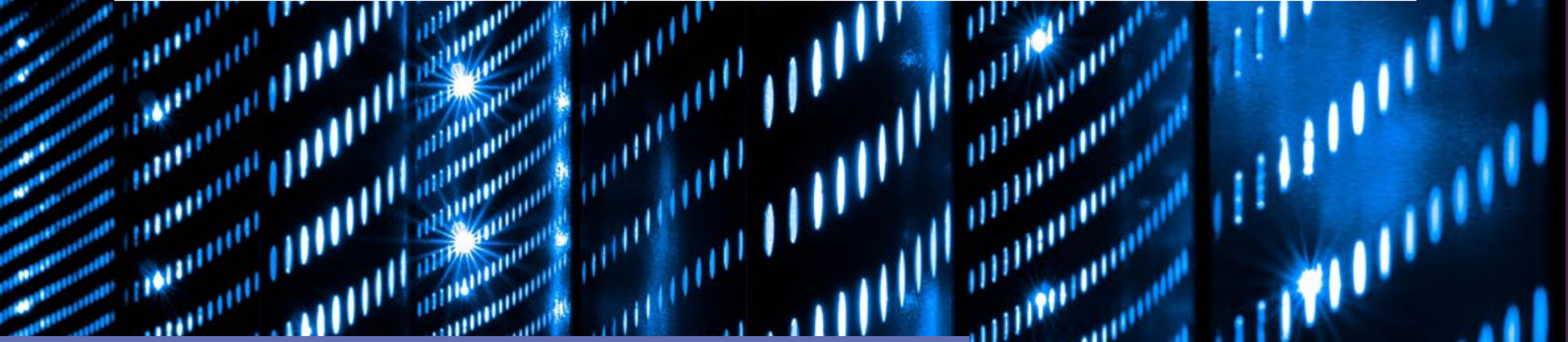
The coalition wrote to 25 companies to better understand their approach to cyber security, including in such areas as training, scenario analysis and management of third parties. We received responses from over half of companies contacted and met with eight companies.

Through the company interactions, we are establishing a baseline of disclosure and best practice; we are also identifying information gaps to agree next steps and areas for improvement. Engagement is ongoing and the coverage has been expanded to incorporate other companies in sectors of risk, or where preliminary research does not satisfy minimum standards of disclosure.

Figure 3 Engagement Process



[18] https://investor.fb.com/corporate-governance/audit-committee-charter/default.aspx



When we appoint managers, we integrate cyber security issues into the selection process. It therefore forms a part of the rigorous due diligence undertaken to assess how the manager is handling cyber security, both initially and on an ongoing basis. Any concerns are discussed with the manager and, where needed, conditions may be set around cyber security prior to entering any agreement. In such cases, managers are monitored more frequently.

Walking the talk

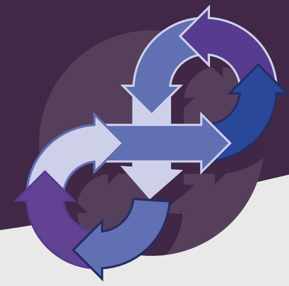
Within our own operations, we have received the Cyber Essentials badge, a government-backed, industry-supported recognition that we have met the basic levels of controls needed to protect against online threats. We recognise this as a minimum standard which we aim to exceed across our operations in line with best practice.

Next steps

- Continue engagement on data privacy, with a focus on upholding basic human rights principles and raising awareness around metadata use and the risk of it being reverse engineered to identify individuals
- Continued participation in the Cybersecurity Coalition to further build knowledge and establish a baseline of disclosure and best practice
- Continue to engage with our asset managers on cyber issues; both how they approach integration into investment selection and how they are managing the risks within their own operations
- Continue to report the weighted average of our Active Equity Portfolio to inform engagement activities
- Continue to maintain and build on our own cyber security expertise to ensure we continue to meet best practice across our own operations

Supply Chain

We seek to focus on specific companies and sectors where the effective management of suppliers is a principal business risk. The complex and extensive nature of supply chains in a globalised world presents many sustainability and socioeconomic risks.



As Covid resulted in the forced closure of businesses across the globe production halted and supplies were disrupted. The resilience of supply chains came under increasing scrutiny and will undoubtedly be an area of increased focus going forward.

Our engagement work relating to supply chains covers a wide range of issues. This is an area where we respond dynamically via collaborative opportunities the most, as such we provide highlights of our activities. Last year's report included case studies on tailings dams, plastics pollution, palm oil, animal welfare, water, antimicrobial resistance and biodiversity (AMR). We continue to include most of these themes in this year's reports, we have removed AMR, animal welfare and palm oil. Whilst we continue to engage on these themes, in this year's report, we have opted to include increased coverage of water and biodiversity, including deforestation, and indigenous rights.

Next steps

- Continue to raise awareness and engage with companies and fund managers around supply chain risks and opportunities, including but not limited to biodiversity, plastics, water and the importance of managing tailings dams risks
- Continue to engage with companies in collaboration with Ceres and FAIRR
- Working with Bath University MSc students to review the findings of the Dasgupta Review and explore how the findings can be translated into investment decisions. We are also supporting the Green Finance Institute in their exploration of the issue.
- Investigate water risk exposure in our portfolio

Plastics Pollution

While delivering many benefits to society, the plastics economy has many drawbacks, which have become urgently apparent.

Each year, at least 8 million tonnes of plastics leak into the ocean. This is equivalent to emptying the contents of one garbage truck into the ocean every minute. If no action is taken, this is expected to increase to two per minute by 2030 and four per minute by 2050, by which point the plastic in the ocean is forecast to weigh more than the fish.

In addition to large-scale marine pollution, plastics production is also incredibly carbon-intensive. Approximately 90% of plastics production is from virgin fossil fuel stocks, representing 6% of global oil consumption. At current rates of consumption, plastics will account for 15% of the global annual carbon budget by 2050. As well as environmental reasons for addressing plastics pollution, there are also strong economic incentives. Plastics pollution costs the global economy an estimated $40 billion annually and is expected to increase strongly under a business-as-usual scenario.

What actions have we taken?

To play our role in managing the complex and widespread risks and opportunities associated with plastics pollution, we are an active member of the Principles of Responsible Investment (PRI) Plastic Working Group. This comprises 29 global investors representing US$5.9 trillion in assets. The group focuses on building an understanding of plastics from a global and holistic perspective, including how plastics fit in with the broader circular economy concept, as well as looking at the risks and opportunities associated with plastics. Following on from the reports published in 2019, the group has been working on additional report for publication in 2021.

Brunel, alongside 26 international investors, joined a collaborative engagement led by First Sentier Investment, with support from the Marine Conservation Society. Using our collective influence, we aim to engage with 18 of the largest manufacturers of washing machines around the world to understand what they're doing about micro plastic through washing machine use and to champion technological advances to tackle this issue. Engagement will take place during 2021.

Consumption of plastic has increased 20-fold in the last 50 years and is set to triple again by 2050, yet only around 14% is recycled. Meanwhile, microplastics threaten to contaminate all living organisms, with unknown health consequences.

Bristol, Jody Thomas

Case Study: Our fund managers living their values

Montanaro is one of our small cap managers. They raised concerns over the amount of single-use plastic following a site visit with Santen, a provider of solutions for eye treatment. In 2020, the company announced that it will be introducing biomass-based bottles for some of its products as a direct result of the managers' engagement.

Water

More than 40% of the world's population lives in water-stressed regions.

The Organisation for Economic Cooperation and Development (OECD) projects that, under business-as-usual circumstances, water demand would increase by 55% globally by 2050.[19] With the increased effects of climate change and greater competition for water, many agriculture companies – the world's largest users of water – have significant water risks.

Hands, Face, Space – we became accustomed to washing our hands during 2020, in some instances to the tune of happy birthday. Advice was issued that this could help slow the spread of coronavirus, but for those who live in areas without a clean and constant water supply this is a problem. Brunel contributed to a workshop with WaterAid to discuss and inform a briefing on the role of institutional investors in supporting and enabling action on water, sanitation and hygiene (WASH).

Case Study: Private Equity – Water Logic

Neuberger Berman is one of our chosen private equity managers. We made a $60 million commitment to their Impact Fund. The fund is ground-breaking in seeking attractive financial returns in lockstep with positive social and environmental impact, having identified investment themes that map to 15 of the 17 UN Sustainable Development Goals (SDGs). One such investment in the fund is Waterlogic. Waterlogic is a leading point-of-use ("POU") water filtration and dispenser company, that designs, assembles, distributes and services POU water systems. This POU solution eliminates the need for frequent plastic bottle deliveries, reducing plastic use and up to a 72% reduction in carbon footprint.

[19] OECD, Addressing water scarcity, Acting together so the world does not go thirsty

We expect companies and fund managers to take water risk into account within their management and portfolio construction.

Case Study: Robeco – Water integration

Robeco manages a quantitative low-risk factor investing portfolio within Brunel's Low Volatility Global Equities fund. Water intensity can pose financially material risks to a company in three ways primarily: physically, socially and from a regulatory standpoint. Contribution to biodiversity loss and climate change, changes in regulation and fines for poor practices, and negative impacts on local communities are all examples of such risks. Bringing down the water footprint of investment portfolios helps to mitigate these potential financial risks.

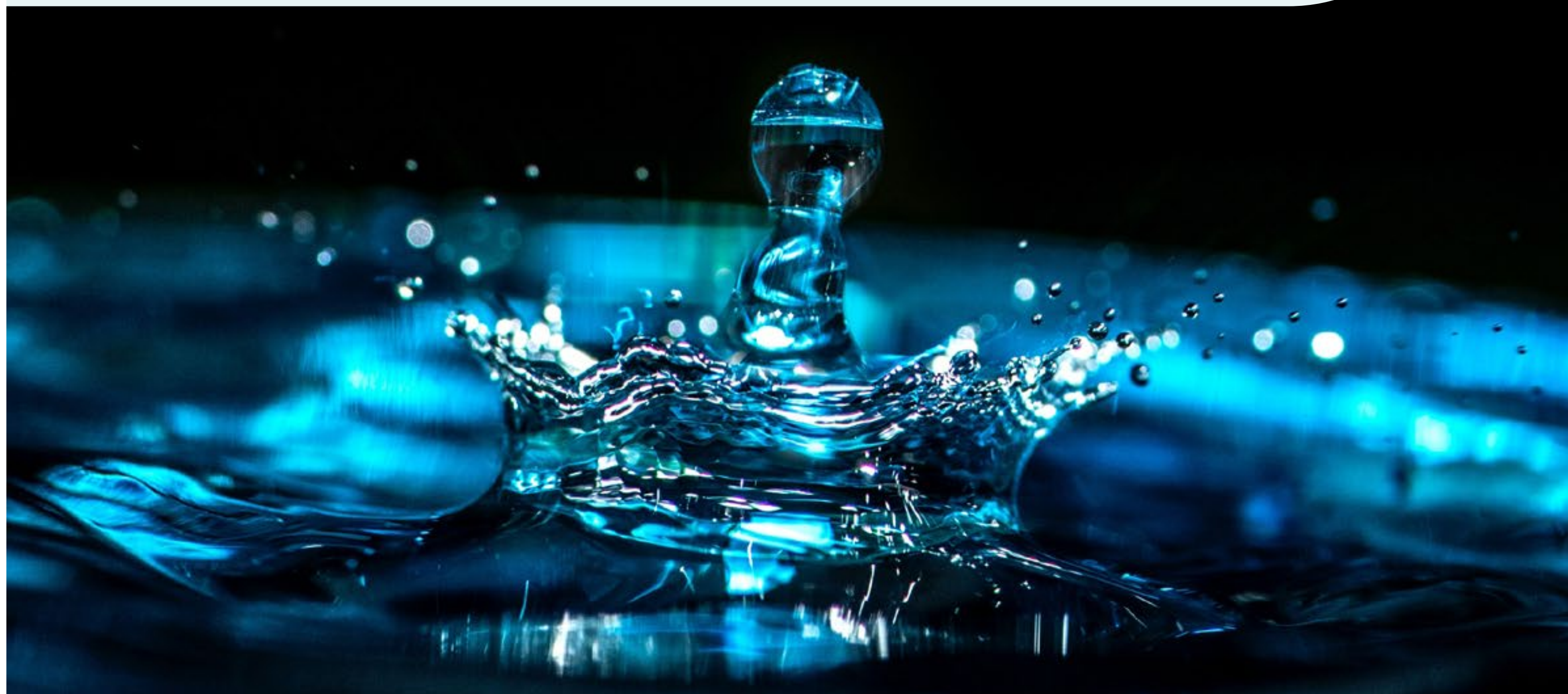
Robeco's ESG integration ensures we avoid the risk of being overexposed to less sustainable companies while maintaining exposure to the top-ranked stocks. Robeco's research demonstrated a 20% water, waste and carbon footprint reduction is possible, while preserving portfolio characteristics, such as exposure to the factors which drive our investment performance. For each attractive stock that does not score well on sustainability characteristics, there appear to be sufficient sustainable alternatives to achieve a comparable exposure to low-volatility, income and sentiment factors.

For water intensity, Robeco's ESG data is based on the annual SAM Corporate Sustainability Assessment (CSA). 'Water Use' measures companies' total water withdrawal in cubic meters, excluding water discharged with an equivalent quality level than the water extracted. Metrics are standardized by dividing a company's absolute footprint by the annual revenues (in mUSD).

Over the course of the past two years, the water intensity of the portfolio has been lowered by over 20% from 850 m3/mUSD revenues in Q1 2019 to 670 m3/mUSD revenues today. Currently the Robeco portfolio achieves a 38% reduction water intensity versus the MSCI World Index.

Robeco's Active Ownership team are engaging with an international mining company in the portfolio focusing on their water risk management. Dialogue is progressing well; the company's water intensity is very high with 6078m3/mUSD revenues when compared to the level of the market index, but 25-35% lower than large industry peers.

The financial materiality of water-related risks is monitored by Robeco. Companies which improve their water intensity may become eligible for inclusion in the portfolio. Inclusion of water-related risk as a cause for engagement is revisited annually and continues to be important feature of Robeco's agenda.



Biodiversity, Communities and Land use

Biodiversity is the amount of variety of life on Earth and is necessary for healthy and fully functioning ecosystems.

Ecosystem services delivered by biodiversity, such as crop pollination, water purification, flood protection and carbon sequestration are vital to human wellbeing and are worth an estimated $125-140 trillion per year (1.5 times total global GDP).[20] Protecting biodiversity loss is critical for climate change mitigation, disaster risk reduction, water and food security and human health.

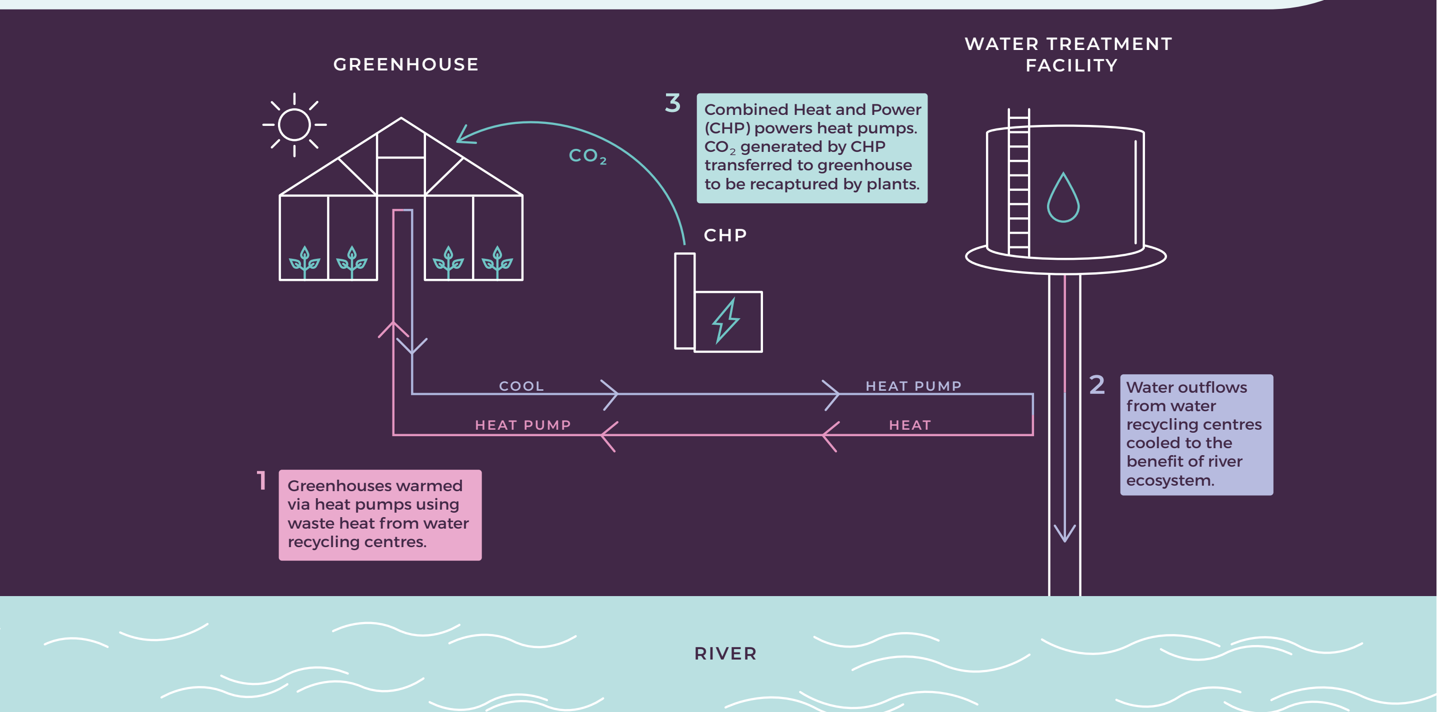
The UN's landmark 2019 global assessment report on biodiversity and ecosystem services identified a major decline in biodiversity at a level unprecedented in human history, with extinction rates accelerating. In 2021, countries are expected to agree on a post-2020 framework for biodiversity at the Convention on Biological Diversity COP 15. Like the Paris Agreement for climate change, the targets will be delivered by countries and companies. This is an area of increased engagement. EOS outlined the value of biodiversity and expectations of sectors with high biodiversity impacts in a recently published white paper: **Biodiversity and Sustainable Land Use: Our Commitment to Nature**. This included an expectation that companies should commit to having a net-positive impact on biodiversity.

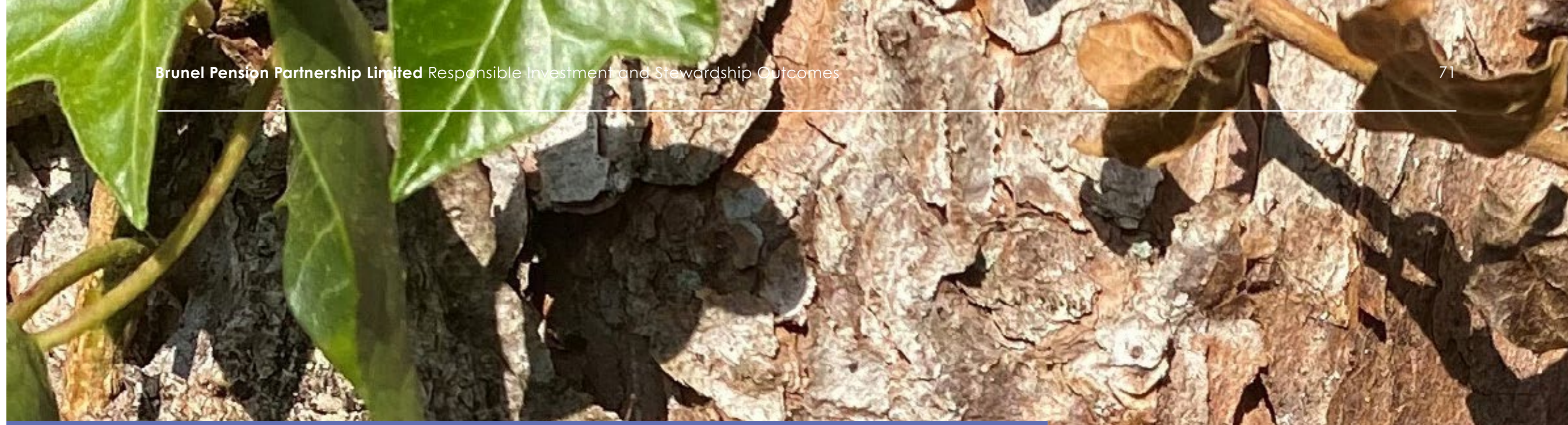
[20] OECD, Biodiversity: finance and the economic and business case for action, May 2019

Case Study: Sustainable agriculture in East Anglia

The Brunel Secured Income Fund is invested in **the world's first ever low-carbon greenhouse via Greencoat Capital**. The two greenhouses totalling over 70 acres (the size of 46 football pitches), are warmed via heat pumps using water from recycling centres and energy will be provided by a Combined Heat and Power (CHP) plant. The waste heat comes from sewage treatment works, which would otherwise flow into and heat up local rivers. The CO^2 generated from the CHP plants is transferred into the greenhouses to be recaptured by the growing plants.

The greenhouses are 7m tall glass structures and allow crops to grow vertically along line wires from hydroponically nutrient-rich water solutions instead of soil. The project uses 1/10th of the water usage of field farming whilst being ten times productive. In addition, rainwater is captured from the building's roof and is recirculated to ensure no wastage. As well as providing the UK with home-grown tomatoes, the technology reduces the carbon footprint by up to 75%. In addition to environmental benefits, the project will create 137 permanent jobs in Norfolk and Suffolk, and an additional 117 seasonal jobs.





In 2019, HM Treasury commissioned the Dasgupta Review, an independent, global review on the Economics of Biodiversity led by Professor Sir Partha Dasgupta, Frank Ramsey Professor Emeritus, University of Cambridge. Findings were published in February 2021. They called for changes in how we think, act and measure economic success to protect and enhance our prosperity and the natural world. Grounded in a deep understanding of ecosystem processes and how they are affected by economic activity, the new framework sets out how we should account for nature in economics and decision-making. **Brunel is working with University of Bath** students to take the findings of the report and apply it to pension investments.

Deforestation

Last year, the UK government launched a consultation aimed at reducing deforestation in UK supply chains. Over 60,000 responses were received, with 99% in support of requirements that companies demonstrate that they know where the commodities they use have come from and comply with local law. Based on the response, the government will introduce a new law through the Environment Bill to prevent illegal deforestation in the supply chains of UK businesses.

As a result of the escalating crisis of deforestation and forest fires in Brazil and other countries, in June 2020, a coalition of investors, including Brunel, signed an open letter to the government of Brazil outlining their concern about escalating deforestation, and sought dialogue with key government authorities. In July 2020 this engagement, led by Storebrand Asset Management, was formalized as the Investors Policy Dialogue on Deforestation in Brazil (IPDD), supported by the PRI with 43 institutional investors joining as investor members. We also co-signed letters sent by the Investor Initiative for Sustainable Forests (IISF) seeking transparency and traceability in Brazilian cattle supply chains.

Tailings Dams

In January 2019 the Brumadinho dam in Brazil collapsed, tragically killing over 270 people and causing one of Brazil's worst environmental disasters. This prompted global investors to take collective action on companies operating tailings dams. Brunel joined the Investor Mining and Tailings Safety Inititative, which called for a global independent and transparent classification system of the world's tailings dams based on the consequences of failure. As part of the initiative led by the Church of England and the Council on Ethics of the Swedish National Pension Fund, companies have been asked to make disclosures on their tailings' facilities. The initiative feeds into a global review co-convened by International Council on Mining and Metals (ICMM), the PRI and the United Nations Environment Programme (UNEP). We participated in investor roundtables throughout 2019; in 2020, we marked the first anniversary of the Brumadinho disaster at a Summit on Global Mining and Tailings Safety. This brought together community representatives, investors, mining companies, global experts and international organisations. In January 2020, the global database of tailings dams (Global Tailings Data Portal) was launched and in August 2020 the Global Industry Standard on Tailings Management was unveiled.

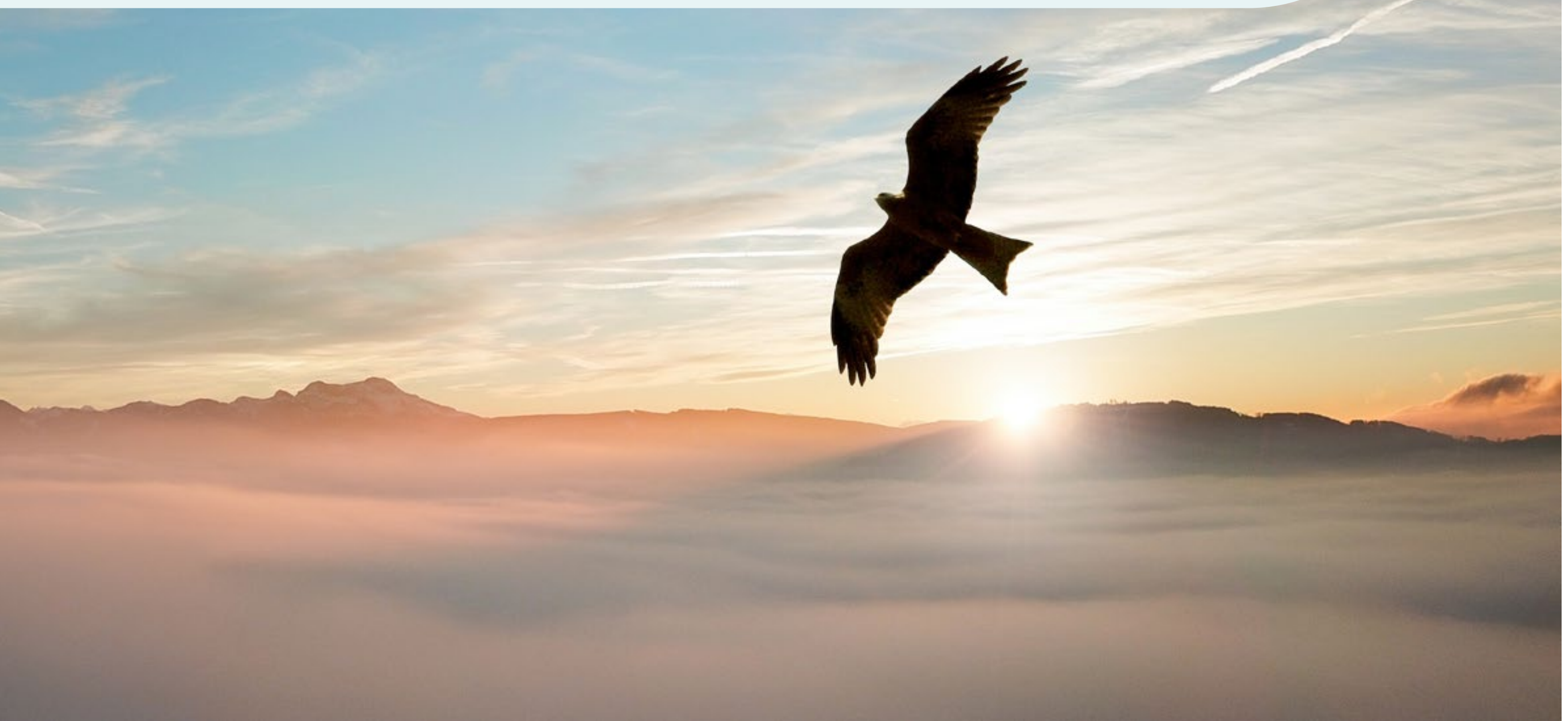
Indigenous Rights

When Juukan Gorge in Western Australian was blown up by Rio Tinto in the pursuit of iron ore, the world was shocked. In sectors such as extractives and agriculture, companies that do not establish good relationships with impacted indigenous peoples create risks to communities and jeopardise their social licence to operate. Brunel co-signed letters to 78 of the world's largest mining companies, requesting a review of their individual relationships with First Nations communities and indigenous peoples. Engagement continues, with the aim of improving disclosures and transparency on how companies take into account the local community.

Case Study: Capital Dynamics Eagle Shadow Mountain Solar Project

Capital Dynamics has acquired Eagle Shadow Mountain Solar Project. Located near Clark County, Nevada, Eagle Shadow Mountain is the first of two clean energy projects in the region due for completion at the end of 2021.

The site is located on the Moapa River Indian Reservation and is expected to generate up to 400 new jobs during the 18-month construction period. The Moapa River Indian Reservation has a population of less than 250 tribal residents called the Moapa Band of Pauites. Capital Dynamics will work closely with members of the tribe and will rely heavily on their rich talent pool for both building and operating the solar and storage plants.



Appendix

Partnerships and affiliations	
30% Club	Aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations.
A4S – Accounting for Sustainability	The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 to promote improvements in reporting and transparency.
British Private Equity & Venture Capital Association (BVCA)	Industry body and public policy advocate for the private equity and venture capital industry in the UK.
The Diversity Project	A group of leaders in the investment and savings profession who are working to accelerate progress towards an inclusive culture within our industry.
Future-Fit Business Benchmark	Not-for-profit organisation with the aim of encouraging and equipping business leaders and investors to take action in response to today's biggest societal challenges, from climate change to inequality.
The Green Finance Initiative	Launched in January 2016 by the City of London in partnership with the government to promote the UK as a global centre for green finance.
Institutional Investor Group on Climate Change (IIGCC)	A forum for collaboration by institutional investors on the investor implications of climate change.
Local Authority Pension Fund Forum (LAPFF)	The UK's largest collaborative forum for collective engagement, covering £200bn in collective assets under management.
Pensions for Purpose	Collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.
Sustainable Accounting Standards Board (SASB) **SASB Alliance Member**	SASB standards focus on financially material issues with a mission to help businesses around the world report on the sustainability topics that matter most to their investors.
ShareAction	Charity that promotes Responsible Investment and gives savers a voice in the investment system.
The Transition Pathway Initiative	Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies.
Principles for Responsible Investment	United Nations-supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors. Brunel was the first LGPS Pool to join.
The TCFD (The Task Force on Climate-related Financial Disclosures)	Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
UKSIF (The UK Sustainable Investment and Finance Association)	Membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.

Appendix

Carbon Reporting

The Brunel Aggregate Portfolio Custom Benchmark

Benchmark	Benchmark Weight
FTSE Allshare ex-IT	8.8%
MSCI World	32.8%
MSCI Emerging Markets	9.3%
MSCI ACWI	14.9%
Brunel Passive Smart Beta	6.3%
Brunel Passive UK	5.1%
Brunel Passive World Developed	19.3%
MSCI World Small Cap	3.5%

Definitions to levels of disclosure

Full Disclosure - Companies reporting their own carbon data (eg in financial reports, CDP disclosures etc)

Partial Disclosure - The data disclosed by companies has been adjusted to match the reporting scope required by the research process. This may include using data from previous years' disclosures as well as changes in business activities.

Modelled - In the absence of usable or up to date disclosures, the data has been estimated by Trucost models.

The rate of companies in the Brunel Aggregate Portfolio for which fully disclosed carbon data was available was 61% (carbon weighted measure) and 56% (investment weighted measure). This indicates scope for improved reporting among investee companies which is a core part of our engagement strategy.

Portfolio	Carbon intensity 2020 vs December 2019 Benchmark Baseline	Portfolio Dec 2020 tCO_2e/mGBP	Portfolio Dec 2019 tCO_2e/mGBP	Dec 2019 Benchmark Baseline tCO_2e/mGBP
Brunel Aggregate Portfolio	-33.1%	224	282	334
Brunel UK Active Portfolio	-29.6%	199	259	282
Brunel Global High Alpha Portfolio	-52.4%	143	158	301
Brunel Emerging Market Equity Portfolio	-29.4%	402	523	570
Brunel Active Low Volatility Portfolio	-41.9%	194	259	334
Brunel Passive Low Carbon Portfolio	-51.9%	145	150	301
Brunel Passive Smart Beta Portfolio	-24.5%	419	554	554
Brunel Passive UK Portfolio	-1.2%	278	281	281
Brunel Passive World Developed Portfolio	-18.7%	246	303	303
Brunel Global Sustainable Equity Portfolio*	n/a	174	n/a	334
Brunel Global Smaller Companies Portfolio*	n/a	179	n/a	n/a

Meeting target Action underway

*Portfolios launched in 2020. We are in the process of establishing an appropriate benchmark date

Meet the Team

Faith Ward

Chief Responsible Investment Officer

Faith is the Chief Responsible Investment Officer for Brunel Pension Partnership and Chair of the Institutional Investors Group on Climate Change (IIGCC). These roles enable her to advocate for better appreciation of systemic risk as well as design solutions that embed such risks into the operations of finance and investment, an industry she has served for over 25 years.

Other roles include, member of the Ethics Investment Advisory Group for the Church of England National Investing Bodies; member of SASB's Investor Advisory Group; co-chair of the European and UK Working Group of SASB; member of the Financial Reporting Council (FRC) Investment Advisory Group and Climate Ambassador for the National Federation of Women's Institutes.

A founder of the Transition Pathway Initiative Faith was formerly its co-chair. She was also the chair of the Reporting and Assessment Advisory Committee for the United Nations Principles for Responsible Investment (UNPRI).

Laura Hobbs

Responsible Investment Manager

Laura joined Brunel Pension Partnership in February 2020 and has over ten years of investment experience. She previously worked across a number of roles including as an investment analyst, a portfolio manager and most recently as Deputy Head of Ethical and Responsible Investment at CCLA, the charity specialist asset manager. Laura is a member of the Chartered Financial Analyst (CFA) Institute and has been a CFA charterholder since 2015. She is also an independent member of the World Wildlife Fund (WWF) Investment Committee. Laura graduated from the University of Bristol in 2010 with an honours degree and masters in geographical sciences.

Helen Price

Stewardship Manager

Helen leads on stewardship, engagement and voting at Brunel Pension Partnership (Brunel). She draws on knowledge built from her BA (honours) in Business Studies and from working in different sectors. Helen is eager to improve representation within the industry and at companies in which we invest, she is a member of the Diversity Project Steering Committee and co-leads the Asset Owner Diversity Group. Helen is also a member of the PRI's Plastic Investor Working Group and the PRI Reporting and Assessment Advisory Committee; she is passionate about the role of pension funds in moving to a more sustainable business world and is involved in industry wide initiatives to improve standards in responsible investment and corporate sustainability.

Click here to meet the rest of the Brunel Team

Click here to meet the team at Federated Hermes

Getting in touch with the team

If you have any questions or comments about this report please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

Please visit our website to read our latest reports, news and insights and other materials to keep you up to date.

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on investments.brunel@brunelpp.org

List of Images

BRUNEL
Pension Partnership

Winner:
Climate-Related Risk Management,
European IPE Awards 2020

Winner:
ESG, European IPE Awards 2020
