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To: The Chair and Members

of the Investment and Pension Fund Committee County Hall Topsham Road

Exeter Devon EX2 4QD

Date: 18 February 2021 Contact: Gerry Rufolo 01392 382299

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#### **INVESTMENT AND PENSION FUND COMMITTEE**

Friday, 26th February, 2021

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.30 am to consider the following matters. This will be a Virtual Meeting. For the joining instructions please contact the Clerk for further details.

Phil Norrey Chief Executive

#### AGENDA

#### **PART I - OPEN COMMITTEE**

- 1 Apologies for Absence
- 2 Minutes

Minutes of the meeting held on 27 November 2020, previously circulated

3 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

4 Pension Board (Pages 1 - 4)

Minutes of the Devon Pension Board meeting held on 22 January 2021, attached

#### 5 Brunel Oversight Board (Pages 5 - 12)

Minutes of the Brunel Oversight Board meeting held on 3 December 2020, attached

6 <u>Investment Management Report</u> (Pages 13 - 36)

Report of the County Treasurer (CT/21/21), attached

7 Treasury Management Strategy 2021/22 (Pages 37 - 46)

Report of the County Treasurer (CT/21/22), attached

8 <u>Investment Strategy Statement</u> (Pages 47 - 140)

Report of the County Treasurer (CT/21/23), attached

9 Private Markets Investments (Pages 141 - 146)

Report of the County Treasurer (CT/21/24), attached

#### 10 Employer Changes

- (a) New Admitted Body The following application for admitted body status has been approved since the last meeting of the Committee:
  - Direct Cleaning Services began a contract for cleaning services at Exmouth Community College on 07/08/2020 - closed agreement.
- (b) New Academy conversions and changes.
  - St Peters CofE Primary School, Plymouth joined St Christopher's Academy Trust 01/04/2020 (late notification).
  - South Devon UTC joined to Education South West 01/01/2021.
  - Inspiring School Partnership joined Greenshaw Learning Trust 01/01/2021.
  - All Saints Academy Plymouth joined Ted Wragg Academy Trust 01/01/2021

#### 11 Annual Consultative Meeting with Staff and Retired Members

The Annual Consultative Meeting is being held in the afternoon following the Investment and Pension Fund Committee meeting, commencing at 2.15pm. Presentations will be made by Faith Ward, Chief Responsible Investment Officer at the Brunel Pension Partnership, Mark Gayler, Assistant County Treasurer, Daniel Harris, Head of Peninsula Pensions, and Cllr Colin Slade, Chair of the Devon Pension Board. Members of the Committee are invited to attend.

#### 12 <u>Dates of Future Meetings</u>

18 June 2021, 17 September 2021, 26 November 2021 and 25 February 2022 all at 10.30 am

# PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

#### 13 Exclusion of the Press and Public

Recommendation: that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

14 Brunel Update: Business Plan and Reserved Matters Requests (Pages 147 - 176)

Report of the County Treasurer (CT/21/25), attached

15 <u>Brunel Pension Partnership - Transition of Assets</u> (Pages 177 - 180)

Report of the County Treasurer (CT/21/26), attached

Members are reminded that Part II Reports contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). They need to be disposed of carefully and should be returned to the Democratic Services Officer at the conclusion of the meeting for disposal.

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#### **Declarations of Interest for Members of the Council**

It is to be noted that Members of the Council must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

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**Induction Loop available** 



DEVON PENSION BOARD 22/01/21

#### **DEVON PENSION BOARD**

#### 22 January 2021

#### **Present**

Councillors C Slade (Chair), S Randall-Johnson, J Hodgson and R Bloxham

William Nicholls, Independent Member Carl Hearn, Fund Employer Representative Julie Bailey, Fund Member Representative Paul Phillips, Fund Member Representative Andy Bowman, Fund Member Representative Colin Shipp, Fund Member Representative

Attending in Accordance with Standing Order 25

Councillors R Bloxham and J Hodgson

#### \* 192 Minutes

**RESOLVED** that the Minutes of the meeting held on 19 October 2020 be signed as a correct record.

#### \* 193 Items Requiring Urgent Attention

No item was raised as a matter of urgency.

#### \* 194 <u>Pension Board Membership</u>

The Board noted the Report of the County Treasurer (CT/21/6) on Pension Board's membership as constituted in 2015. Under the Board's terms of reference, two employer reps were appointed annually by the County Council, and two were appointed from an annual employer meeting, one for an initial four year term and one for an initial six year term. Four fund member representatives were appointed from applicants responding to an advertisement following an interview process, two for a four year term and two for a six year term. A non-voting independent member was also appointed for a six year term.

The report outlined the process for advertisement and appointments which would be subject to confirmation at the Annual Meeting of the Council in May 2021.

#### \* 195 Review of Attendance

The Board noted the Report of the County Treasurer (CT/21/07) on the record and review of Member attendance of meetings and training events in accordance with the Board's Terms of Reference.

DEVON PENSION BOARD 22/01/21

The record of attendance would be updated to correct any inaccuracies.

Members suggested that the record be reviewed by Officers to distinguish attendance at mandatory and discretionary training events. A member also referred to the useful monthly training provided on-line by the Local Government Association.

#### \* 196 <u>Investment Strategy Statement</u>

(Councillor J Hodgson attended in accordance with Standing Order 25 and spoke to this item referring to the Social, Environmental and Governance policy and the view to increase the current carbon reduction target).

The Board considered the Report of the County Treasurer (CT/21/08) on the Investment Strategy Statement and draft update which was attached at Appendix 1. The main change was an update of the stewardship section which had been revised to reflect the updated UK Stewardship Code and new policy documents published by the Brunel Pension Partnership.

Members' comments and discussion with Officers included:

- clarification of the 7% carbon reduction target within the Statement (whether an ongoing annual reduction target); and
- the Statement did reflect the Board Members' view that there were appropriate and comprehensive Governance and Stewardship arrangements in place.

These views would be relayed to the Investment and Pension Fund Committee on 26th February, when the revised Statement was due to be presented for approval.

It was **MOVED** by Councillor C Slade and **SECONDED** by S Randall Johnson and

**RESOLVED** that the revised Investment Strategy Statement set out in Appendix 1 to this Report be endorsed, and the comments outlined above be submitted to the Investment and Pension Fund Committee for consideration.

#### \* 197 Devon Pension Fund Risk Register

The Board considered the Report of the County Treasurer (CT/21/09) on the identified risks incorporated in the Fund's Risk Register for monitoring by the Board as part of its scrutiny role. The Board had been previously considered the Risk Register at its meeting on 19th October 2020.

The Risk Register was attached at Appendix 1 to the Report and it highlighted the key risks in relation to the Pension Fund, the current processes in place to mitigate these risks, and the planned improvements in place to provide further

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assurance. It incorporated the risk register of both the Investments Team and Peninsula Pensions. The Report also detailed risk changes since the last meeting of the Board relating to the pandemic, carbon reduction, negative interest rates, and Brexit.

Members' discussion points with the Officers included:

- employer data security and current arrangements to mitigate the risk including a recent initiative requesting employers to confirm and sign off information; and ongoing improvements as part of the current Improvement Plan relating to data accuracy and security;
- annual consultative meeting: clarification within the Register relating to invitees;
- implications of the McLeod/Sergeant judgement on which no action could be taken pending the outcome of Government advice;
- current legal challenges in regard to the Exit Cap and conflict between Public Sector and the Local Government Pension Scheme; and
- PP17 Pension System failure: the need to retain this on the Register noting the secure and effective mitigation measures in place.

It was **MOVED** by Councillor C Slade and **SECONDED** by Councillor S Randall Johnson and

**RESOLVED** thar the Pension Fund Register and the additional actions proposed to mitigate risk be endorsed.

#### \* 198 Investment and Pension Fund Committee

(Councillor R Bloxham attended in accordance with Standing Order 25 and spoke to this item).

The Board received the Minutes of the Investment and Pension Fund Committee held on 27 November 2020.

#### \* 199 Peninsula Pensions Performance Report

The Board noted the Report of the County Treasurer (CT/21/10) on Peninsula Pensions' Team performance.

Peninsula Pensions also monitored performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information.

The Report detailed performance summary and the high, medium and low priority areas.

Members' discussion points with the Officers included:

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- the excellent performance of Peninsula Pensions staff during the difficult circumstances of the pandemic which was commended by the Board;
- the majority of complaints received related to recently retired members' expectations as to the timing of payments when Peninsula Pensions was reliant on timely information from the employer; and improvements were planned to introduce inter-month payments rather than wating for the pay roll:
- additional work and pressures on the Team from last June as a result of a new HR system introduced by a major employer; and
- the improved Peninsula Pension website conforming with recent accessibility requirements: <a href="https://www.peninsulapensions.org.uk/">https://www.peninsulapensions.org.uk/</a> and an employer representative acknowledged its quality and they encouraged their staff to sign into the on-line self-service facility.

#### \* 200 <u>Actions and Recommendations Tracker</u>

(Councillor Hodgson attended in accordance with Standing Order 25 and spoke to this item referring to climate change policy)

The Board noted the Report of the County Treasurer (CT/21/11) on progress on completing actions arising from internal audits and Pension Board recommendations and requests. The Report detailed the progress against this year's audit plan.

Members' discussion points with the Officers included:

- progress of the drafting of the Members' Handbook which Members agreed should, when finalised, be made available on-line in a printable format; and
- planned actions in hand as a result of Board recommendations in relation to dedicated ESG webpages and climate change.

#### \* 201 Future Work Programme

The Board received and noted the Report of the County Treasurer (CT/21/12) on the Board's Future Work Programme over the next three meetings.

#### \* 202 Dates of Future Meetings

Meetings to be held at 10.30 am as follows:

Monday, 26th April 2021 Tuesday, 13th July 2021 Monday, 11th October 2021 Wednesday, 2nd February 2022 and Wednesday, 4th May 2022.

The Meeting started at 10.30 am and finished at 11.20 am

## **Brunel Pension Partnership**



# Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps

Date and time: Thursday 3rd December 2020, 10:30 – 12:35

**Location:** Microsoft teams

Pension Committee Rep	presentatives	
Shaun McGall	Avon	
Tim Butcher	Buckinghamshire	
Derek Holley	Cornwall	
Ray Bloxham	Devon	Apologies
Richard Hopkins	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	Chair
Ray Theodoulou	Gloucestershire	
Kevin Bulmer	Oxfordshire	Vice Chair
Graham Noel	Somerset	
Tony Deane	Wiltshire	

Member representative obser	vers	
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	

Fund Officers and Representa	ıtives	
Tony Bartlett	Avon	
Liz Woodyard	Avon	
Sean Johns	Cornwall	
Mark Gayler	Devon	
Craig Martin	EAPF	
Graham Cook	EAPF	
Matthew Trebilcock	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Daniel Wilson	Mercer – Client Side manager	Minutes

## **Brunel Pension Partnership**



Brunel Pension Partnership	Ltd	
Denise Le Gal	Brunel, Chair	
James Russell-Stracey	Brunel, CSO	
Faith Ward	Brunel, CRIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Cox	Brunel, HoLM	
David Anthony	Brunel, HoF & CS	
Alice Spikings	Brunel, CRA	
Catherine Dix	Brunel, CRM	

Item	Agenda	Paper provided	Action
1	Confirm agenda	Agenda	
	Requests for Urgent or items for Information	Verbal	
	Any new declarations of conflicts of interest	C of Interest policy	
	There were no urgent items of business or con note.	flicts of interest to	
	Cllr Ray Bloxham sent apologies with Richard behalf of Devon. Bruce Shearn had also sent McCall attending on behalf of the Avon Fund	apologies with Sean	
	Ahead of the start of the formal meeting RT extends and had therefore not stood for re-election as congratulated RG on his election thanked the work over the 2 years of his chairmanship.	ty Council in May, s Chair of BOB. He	
	RG thanks RT for his work as Chair of the Overs influence both inside and outside of the group thank him for his contributions to the Board ar a whole. RG thanked the group for electing hexplained he is looking forward to working wit Board.	o, he continued to nd the partnership as im as chair and	
	DLG noted some recent positive news for the explained that in total the partnership had be awards at the LAPF awards. She congratulate RI award and congratulated Cornwall for their the fund of the year award. Brunel had also we management award and the ESG award. DLG on her nomination to chair the IIGCC.	een nominated for 9 ed the EAPF on their ir success in winning on the climate risk	

2	Review of 3 September 2020 BOB minutes	Minutes	
	The minutes from the 3 <sup>rd</sup> September were agree explained that any actions contained in the notation completed or to be covered in the meeting.	eed. It was	
3	Client Assurance Framework		
	SJ explained that the operation sub-group ha undergoing a review of all the partnerships rep feedback from all interested parties. He adde review and the on-going improvements, Brune project manager who was starting in Decemb	oorting gathering d to aid with this el had hired a	
	SJ noted paper 4b where all monitoring metric green other than the secured income investment page 3 which was yellow, SJ explained that the COVID impact which has resulted in a slow drawdown, SJ noted that this was close to be soon be green.	nent assessment on his was as a result of wer pace of	
	RT noted that it would be helpful to understandare performing best and worse, potentially adwhich are exceeding expectations and one vishort. SJ commented that the detailed portfol shows the detail around the managers, he did that any outlying managers could be commended that any concerns with manger performances by the officers.	Iding a comment to which are falling io monitoring report accept the point nted on but did	
	RT noted to the sector exposure section of the 20 holdings for each one, it was explained the report there seemed to be high concentration as Apple and Microsoft, RT questioned if there tracking allocations to individual stocks over the portfolio's? DC explained that they do look at exposure regularly, DC explained that the high down to passive equities which often do have added that liquidity and stock exposure is mo any over exposures would result in a trigger.	at on page 11 of the of of big names such is a mechanism for the different of the individual stock in concentration is the big names. DC	
	DH explained that he has some concern arou equities portfolio, he explained that holding be Apple who often use backdoor methods to commounts of carbon means they are not fulfilling out for the low carbon portfolio. DC explained be producing a piece of work around Paris Ali would be taken into account. KB noted that a petroleum products are often looked at in an explained that there are lots of positives and to be considered. RH endorsed these comme requested some detail around the difference and emissions. DC agreed and explained that reason for choosing to transition rather than details.	ig names such as contribute large ag the objectives set at that Brunel would ignment and this carbon and regative light, he hat these also need onts and he had between lubricants at this is the main	

LW explained that the Investment Sub Group usually present the transitions outcome report. She opened the floor to questions regarding the papers as she had taken them as read.

RT noted that the transition process is controlled to somewhat by outside forces, he questioned whether any of the transitions had been affected by the highly volatile markets. DC explained that liquidity has not been a problem, there has been a lot of information from managers and their own analysis around liquidity throughout the COVID situation and explained that they have always been comfortable with the level of liquidity they have. DC explained that markets were still volatile but not as volatile as earlier on in the year. The costs of the transitions were reported to be slightly higher than they were expecting but they understand why this is and they are happy with the reasons.

DH asked about the Diversified Growth Fund and whether the transition has caused any significant costs? DC explained that this was no, and that the tax burden on a number of the products was zero and with them being in Luxemburg and Ireland then the tax burden is very low anyway.

#### 4 Brunel CEO Update

LC provided an update, and she noted the acceleration on fixed income with a number of launches aimed for completion by Q2 2021. This means that in terms of transition the portfolios are now back on track.

LC explained that in October and November, Brunel had held a number of workshops with Client Group (CG) to run through priorities and product developments, specifically around low carbon and RI. These discussions have aided the further discussions around business plan and budgets. These are being worked through Financial Sub Group (FSG) and results of this work will be shared in January.

LC explained that in terms of budgets, Brunel are still on track and there was currently an underspend as a result of little travel over the year and reduced training and expenses, the FSG are currently reviewing whether to roll this over to next year.

LC explained that in terms of the Shareholder Non-Executive Director, the recruitment process was live and the recruiters had reported that there were 60 applications so far, the recruiters explained that they expect over 100 application once the process has closed. RG, KB and SC are involved in the longlist process where interviews will be held in January.

LC explained that work productivity had picked up to normal levels and in areas even increased, this is as a result of working from home now becoming the norm. Brunel are still satisfied that working from home remains suitable.

JB questioned how regular the investor days will be and how the information will be provided? LC explained that these are likely to be quarterly in a slightly different format, she added that the new CIO emphasises that it is key to have investors involved and this will likely be seen with increased information provided in communications.

#### 5 Governance Review update

RG explained that this has been guided by the CG and shareholders and also led by JRS. JRS expressed thanks to the parties involved. He explained that this stemmed from the meeting in June where initial issues had been raised and been worked through the S&G sub-group.

The first paper detailed the changes to the SHA and recommendations from S&G and added that these had been through CG for agreement. JRS explained that a marked up revised SHA has been shared with the CG to then be taken to the legal teams of each fund, there have been a number of queries, most of which have been addressed. Once these have been rectified then an SRM will be issued and once done an active and new shareholder agreement will be in place.

JRS explained that in the paper he had outlined the 6 most material changes.

- 1. Board composition
- 2. Appointment of the SNED.
- 3. Efficiency of the partnership SRM and RM to be changed from 20 days to 10 days with the ability for funds to request an extension.
- 4. Funding the ability to carry forward budgets when needed.
- 5. SRM's and RM's to be able to distinguish operational issues, operational issues should be in the remit of the company.
- 6. Shareholder rep meeting commitment to hold at least 2 meetings per year.

RT explained that it needs to be recognised that there has been some tension between the board and the shareholders. RT explained that in his view some of this tension has exposed the need for an external look at the communication between the two parties.

DLG noted that Brunel were happy for someone external to analyse the situation. It was CG who chose that Brunel were in the best place to evaluate the governance structure. It was explained that if the evaluation was too controversial then an external party could get involved.

TD explained that he was disappointed that an external party was not brought in for the governance review, he explained that he felt the party who undertook the review were not the right team to carry out the review.

KB explained that he disagreed with RT's suggestion, he noted that a delay at this stage would not be right and that BOB are not a decision making body and that this would have to go to the shareholders if there was something that needed changing.

SM explained that he thinks first of all they need to see effectiveness of the changes made, he proposed reviewing after 6 months to see the real effect of the governance review and then make a decision whether further additions need making. RG explained this was sensible and explained that BOB will always want to analyse this in the future. The majority agreed with this approach.

JRS explained that there are some items the Strategy and Governance Sub-group chose not to include in the first round of the revisions, he noted that there are areas in the second round of revisions where it may be useful to have an external party. RG added that the second part has more complex issues and it may be difficult to come to a broad agreement on these and it may be useful to get an external party to provide insight.

DH explained that he felt that if a consultant was appointed to review, they would not have much to go on as the funds and partnership structure is so different to usual governance structures, he explained that this may result in major delays, and unsatisfactory results.

DH questioned what would happen if a fund did not vote within the 10 days? LC explained that Brunel would work with the fund to look for an extension and that 10 should be suitable anyhow.

JB agreed with the proposals set out by JRS and explained that the process has been a distraction for the executive members at Brunel. He added that in the future, he was not sure with the involvement of an external provider/advisor but was open to an external facilitator. JB explained that when setting up Brunel decisions were made that they knew they would have to return to and that there were always going to be complex issues to rectify.

RG explained that they need to move forward with this and accepted the want for an external advisor/facilitator. There is a potential agenda item for a future meeting around this.

#### Appraisal of the SNED

JRS explained that there will be the opportunity for all shareholders to have an input to this and that they are working to the deadline

	of the AGM in March. He explained that the appraisal forms will be sent to shareholders in early March.	
6	AOB	
	There were no AOB's recorded.  The next meeting will discuss the budgetary matters for 2021. The next meeting is on the 28th January.	
	Meeting close: 12.00	

CT/21/21 Investment and Pension Fund Committee 26 February 2021

#### **INVESTMENT MANAGEMENT REPORT**

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee be asked:

- 1. That the Investment Management Report be noted.
- 2. To note compliance with the 2020-21 Treasury Management Strategy.

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#### 1. FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at 31 December 2020.

|                          | Fund Value | Target     | Fund asset  | Variation |
|--------------------------|------------|------------|-------------|-----------|
|                          | as at      | allocation | allocation  | from      |
|                          | 31.12.20   | 2020/21    | at 31.12.20 | Target    |
|                          | £m         | %          | %           | %         |
| Fixed Interest           |            |            |             |           |
| Global Bonds             | 314.2      | 7          | 6.4         |           |
| Multi-Sector Credit      | 347.8      | 7          | 7.1         |           |
| Cash                     | 41.6       | 1          | 0.8         |           |
|                          | 703.6      | 15         | 14.3        | -0.7      |
| Equities                 |            |            |             |           |
| Passive Equities         | 1,701.1    | 33         | 34.6        |           |
| Active Global Equities   | 305.2      | 5          | 6.2         |           |
| Global Smaller Companies | 267.1      | 5          | 5.4         |           |
| Emerging Markets         | 275.9      | 5          | 5.6         |           |
| Sustainable Equities     | 152.7      | 3          | 3.1         |           |
| Low Volatility Equities  | 325.6      | 7          | 6.6         |           |
|                          | 3,027.6    | 58         | 61.5        | +3.5      |
| Alternatives/Other       |            |            |             |           |
| Diversified Growth Funds | 482.6      | 7-9        | 9.8         |           |
| Property                 | 396.3      | 10         | 8.1         |           |
| Infrastructure           | 203.7      | 5-8        | 4.1         |           |
| Private Debt             | 109.2      | 3          | 2.2         |           |
|                          | 1,191.8    | 27         | 24.2        | -2.8      |
| Total Fund               | 4.923.0    | 100        | 100.0       | P.        |

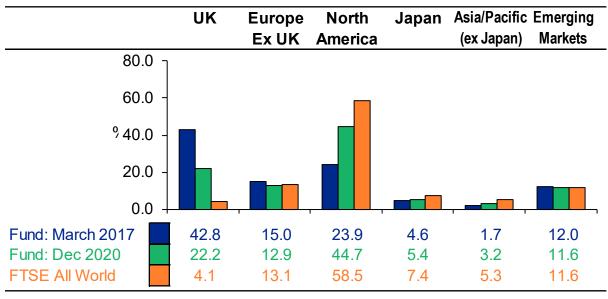
The key points with regard to the end of quarter asset allocation are summarised below:

- a) The Fund value as at 31<sup>st</sup> December 2020 stood at £4,923 million, an increase of around £330 million over the quarter.
- b) Following another positive quarter for equity markets, the allocation to equities is now 3.5% above target. The largest over-weights are to passive equities which have benefited from the currency hedging strategy, and active global equities which have benefited from significant outperformance. £45 million was transferred from Brunel's Global High Alpha portfolio to the Smaller Companies portfolio during December in line with the Committee's decision at the November meeting.
- c) The global bonds allocation is slightly below the target allocation following a flat performance over the quarter.
- d) Given that equities are 3.5% above the target allocation, it would be good practice to rebalance the allocations back to target. However, the major underweight area is the allocation to alternatives/other, and within that the allocations to the private markets headings. For the private markets allocations, we are dependent on committed funds being called on by Brunel for their underlying investments, so it is not possible simply to reallocate funds quickly. Therefore, it is proposed to take no action to rebalance the equity allocation.

#### Geographical Weighting of Equity Allocation

e) The following chart gives the geographical split of the Fund's equity allocations against the FTSE All World Index geographical weightings.

#### Geographical Split of Equity Allocation compared to the FTSE All World Index



f) The Fund remains overweight to UK equities and underweight to North America. Action was taken to reduce the UK overweight on a phased basis between March 2017 and February 2019, but the Committee then agreed that no further action be taken, on the basis that the US market was beginning to look expensive, whereas the UK market looked comparatively cheap. However, the UK market has suffered to a greater degree from the coronavirus pandemic, which has not helped the overall Fund return.

#### 2. FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year, and on a rolling three and five year basis is shown in the following chart.

#### **Longer Term Fund Performance Summary**



Source for LGPS Universe: PIRC Local Authority Pension Performance Analytics

The performance statistics quoted are net of fees. The LGPS universe figures for the last quarter are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The Fund return of +22.2% over the nine months reflects the significant recovery of markets after the falls during the quarter to 31 March resulting from the coronavirus pandemic. The return over the quarter and financial year to date are ahead of both the strategic benchmark and the LGPS universe average.

The three year returns to 31<sup>st</sup> December are behind both the benchmark and universe returns largely as a result of the poor performance during the quarter from January to March 2020 when the Fund was affected more significantly than others by the impact of the pandemic on markets, although the Fund has bounced back since. Looking back to three years ago, the Devon Fund was seen as more defensively positioned than other funds, but since then some other funds have taken advantage of a period of good returns to de-risk, which put them in a better position to withstand the market losses arising from the pandemic, while the Devon Fund's greater reliance on the DGFs' defensive capabilities did not deliver to the same extent.

A breakdown of the performance of the Total Fund for the year and three years to 31 December 2020 and the comparative Index returns are shown in the following table:

#### Performance to 31 December 2020

| Sector                   | Financi<br>To E | ial Year<br>Date | Three  | Years | Benchmark Description   |
|--------------------------|-----------------|------------------|--------|-------|-------------------------|
|                          | Fund            | Bench            | Fund   | Bench |                         |
|                          | Return          | mark             | Return | mark  |                         |
|                          | %               | %                | %      | %     |                         |
| Fixed Interest           |                 |                  |        |       |                         |
| Global Bonds             | 3.6             | 1.6              | 4.6    | 4.2   | BarCap Global Bonds     |
| Multi-Sector Credit      | 25.6            | 19.3             | 5.6    | 3.0   | MSC Bespoke *           |
| Cash                     | 0.1             | 0.0              | 1.3    | 0.4   | GBP 7 Day LIBID         |
| Equities                 |                 |                  |        |       |                         |
| Passive Equities         | 29.9            | 30.1             | 5.4    | 5.4   | Devon Passive Index     |
| Active Global Equities   | 40.0            | 33.7             | 7.9    | 10.1  | FTSE World / MSCI World |
| Global Smaller Companies | 18.6            | 17.2             | -      | -     | MSCI World Small Cap    |
| Emerging Markets         | 43.0            | 40.9             | 6.0    | 6.2   | MSCI Emerging Markets   |
| Sustainable Equities     | 9.1             | 8.6              | -      | -     | MSCI AC World           |
| Low Volatility Equities  | 16.2            | 34.6             | -      | -     | MSCI AC World           |
| Alternatives/Other       |                 |                  |        |       |                         |
| Diversified Growth Funds | 16.5            | 3.0              | 1.2    | 4.4   | Devon Multi Asset       |
| Property                 | 1.2             | 0.5              | 3.8    | 2.4   | MSCI Property Indices   |
| Infrastructure           | 2.7             | 3.8              | 5.3    | 5.5   | GBP 7 Day LIBID+5%      |
| Private Debt             | -0.3            | 3.8              | 6.9    | 5.5   | GBP 7 Day LIBID+5%      |

| Total Fund   22.2   20.5   4.8   5.9   Devon Bespoke Index |
|------------------------------------------------------------|
|------------------------------------------------------------|

<sup>\*</sup> Composed of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index; 1/3 JPMorgan Emerging Markets Bond Index Plus; 1/3 CSFB Bank Loan Index.

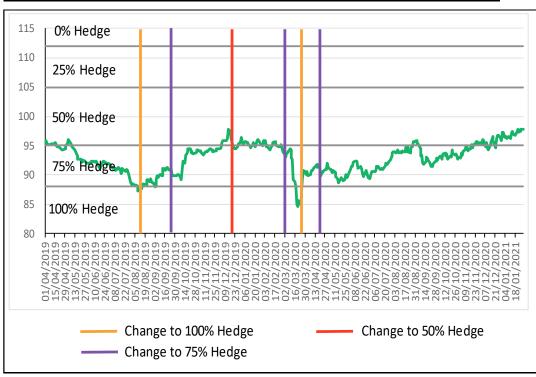
- a) Equities, bonds and the diversified growth funds have all delivered good positive returns over the nine months of the financial year to date, as markets have rebounded following the falls of the quarter to March. Property, infrastructure and private debt have all had weaker returns over the last six months. While equity markets fell in March 2020 and then bounced back, the impact of the pandemic on the private markets had less initial impact due to lagged valuation cycles, but has resulted in lower returns in the current financial year.
- b) The allocations to global bonds and multi-sector credit were ahead of their benchmarks, both for the nine months and for the three year period to 31 December 2020.
- c) Within the equity allocations, active global equities have performed above benchmark, with significant out-performance from the Brunel Global High Alpha portfolio. The active global equities return also includes the performance of the specialist funds up to September when they were transitioned to Brunel's Global Smaller Companies portfolio.
- d) The returns of the Global Smaller Companies and Sustainable Equities allocations are above benchmark. The lower absolute returns reflect the shorter period of investment, as they were only launched in September/October 2020. The performance of the RWC Fund has contributed to the total global smaller companies return over the last quarter.

- e) The emerging markets portfolio has also had high above benchmark returns.
- The Low Volatility Equities portfolio has performed well below the benchmark. This is to be expected in a rising market, as low volatility equities are expected to provide more stable returns. Although the performance against the broader global equity index appears disappointing, the portfolio has performed in line with the more comparable MSCI Minimum Volatility Index. Over the quarter, the fund outperformed this index by 0.9% while, over the year, it performed in line with it. This gives some comfort that the managers' strategy is in line with the market proxy, despite the fact that the market conditions witnessed over the past year have not been favourable to a low-volatility investment strategy.
- g) The diversified growth funds have recovered with a +16.5% return over the nine months, but this has not made up for the poor performance in the quarter to 31 March. Performance over the last full year remains negative. The DGFs have now transitioned across to Brunel's Diversifying Returns Fund, and the performance reported is a combination of the previous managers (Barings and Baillie Gifford) and the Brunel portfolio.

#### Currency Hedging

h) The following graph shows the value of Sterling against a weighted average of the other major currencies, from April 2019 onwards. This represents the period over which the current strategy of hedging the global developed passive allocation has been implemented automatically by Brunel's selected passive manager, Legal and General Investment Management.

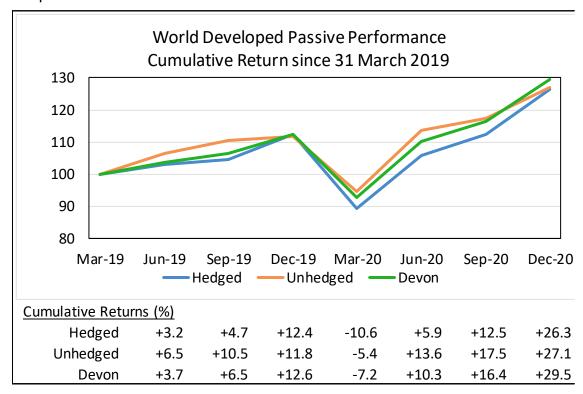
#### Value of Sterling v. Weighted Average of US Dollar, Euro and Yen



i) The strategy agreed by the Committee is to increase or decrease the hedge ratio on the Fund's global passive equity funds based on the ranges as shown on the chart. The middle (base 100) position reflects a weighted average of £1 = \$1.40, £1 = €1.15 and £1 = ¥150. The hedge ratio was decreased from 100% to 75% in April 2020 and has remained at that level for the remainder of the period shown.

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j) The return achieved by the strategy compared with the returns of the fully hedged global developed passive fund and the unhedged fund over the period from 1 April 2019 to 31 December 2020 are shown by the following chart. The ability of the strategy to vary the hedge has enabled the Devon allocation to outperform both the unhedged and 100% hedged returns over the period shown.



#### 3. FUNDING LEVEL

The triennial actuarial valuation, as at 31 March 2019, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 91%.

The Fund Actuary has provided a quarterly update, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 December 2020 without completing a full valuation, the results will be indicative of the underlying position.

a) The returns over the period since the 2019 Triennial Valuation are shown in the following table.

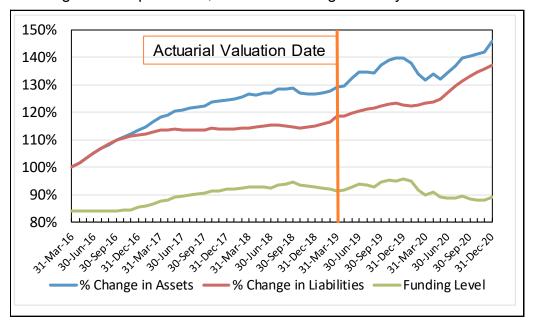
|                                   | Actuarial  | Actual |
|-----------------------------------|------------|--------|
|                                   | Assumption | Return |
| 2019/20                           | 5.1%       | -8.0%  |
| 2020/21 to date                   | 3.8%       | 22.2%  |
| Return since 31/3/19 (annualised) | 5.1%       | 6.9%   |

b) Following the bounce back of the markets from the March falls, the annualised return to date of +6.9% is now above the Actuary's assumption of a +5.1% return. This has a positive impact on the value of Fund assets and therefore on the funding level.

c) The valuation of liabilities depends on the assumptions used by the Actuary, in particular those for pension and salary increases and the discount rate applied to liabilities. The assumptions used by the Actuary for the December 2020 funding update, compared with those used in the 2019 Triennial Valuation are shown in the following table.

| Actuarial Assumptions   | March | December |  |
|-------------------------|-------|----------|--|
|                         | 2019  | 2020     |  |
| Pension Increases (CPI) | 2.65% | 2.46%    |  |
| Salary Increases        | 3.65% | 3.46%    |  |
| Discount Rate           | 5.10% | 4.43%    |  |

- d) While the assumption for pension and salary increases has been reduced, the discount rate has also been reduced. These changes reflect reductions in the assumed yields on both equities and bonds going forward, and also the impact of RPI/CPI changes that will be introduced by 2030. The revised assumptions have the effect of increasing the Fund liabilities, which has a negative impact on the funding level.
- e) The Actuary's valuations and funding updates show the financial position on a smoothed basis for each month since the 2016 full valuation. Therefore, the chart below smooths to some extent the impact of the significant market falls resulting from the pandemic, and the following recovery.



- f) Using the smoothed basis, the Actuary has estimated a funding level of 89% as at 31 December 2020, compared with the 91% funding level at the 2019 Triennial Valuation. The funding level at the 2016 Valuation was 84%.
- g) One issue not factored into the analysis is the impact that Covid-19 may have on mortality rates, and therefore the impact of revised demographic assumptions on the liability value. This is an area that the Fund Actuary will be exploring further ahead of the next triennial valuation in 2022.

#### 4. BUDGET FORECAST 2020-21

Appendix 1 shows the income and expenditure to date for 2020-21 against the original budget forecast. The following points should be noted.

- a) Employers' contributions to date are high because they include deficit contributions for the whole of the next three year period from those employers who chose to make up-front payments in return for a discount. The element of those payments which relates to 2021-22 and 2022-23 will be accrued at year end and will not therefore impact on the final outturn for 2020-21. However, the current forecast is for employer contributions to be £5 million higher than the original forecast.
- b) Transfers into the Fund to date are already higher than the original forecast for the year. The updated forecast is that they will be £3 million higher.
- c) Investment income from property, infrastructure and private debt is received in cash and can be used to aid cashflow. Income to date from these allocations is lower than would normally be anticipated, probably as a result of the pandemic, and as a result the income forecast has been reduced by £10 million. The income that is accounted for, but automatically reinvested as cash is projected to be higher than originally forecast, largely because the global bonds segregated mandate managed by Lazard will now continue beyond the end of the financial year before transition to Brunel.
- d) Peninsula Pensions expenditure to date now includes the income from Somerset and other service level agreements for the quarter to December, and is in line with the original forecast.
- e) Invoiced fees are expected to be around £1 million higher than the original forecast. This is partly due to the Lazard mandate continuing to the end of the year, and the delayed transition of the DGFs. The fees charged by managers appointed by Brunel are not directly invoiced but taken directly from the fund. The value of the assets managed by Wellington and Lazard are both higher following an increase to the asset allocation, which also results in higher fees. However, the total manager fees, including those of the Brunel appointed managers, are expected to be lower than originally forecast. This is partly due to a reduction in the forecast performance fees on some of the private market fund where returns are expected to be lower as a result of the pandemic.
- f) Governance and oversight costs are still forecast to be broadly in line with the original budget forecast. In many cases the timing of payments is not consistent across the year and therefore it may be difficult to relate the expenditure to date to the full year forecast. A small underspend is forecast on the Pension Board budget.

#### 5. CASH MANAGEMENT

The following table shows that the unallocated cash on deposit, as at 31 December 2020, was £34.6m, plus \$1.8m in US Dollars. As at 31 January the cash on deposit was £25.2m, plus \$0.9m in US Dollars The cash held is being maintained at a lower level than in the past, with a target level of only 1% of the Fund, and it is therefore necessary to ensure its liquidity for cashflow purposes. Interest rates available for

cash have reduced further as a result of the coronavirus pandemic and are now barely above zero.

#### Cash on Deposit

| Type of Deposit          | Maturity      | Actual   | Average  | Current  | Average  |
|--------------------------|---------------|----------|----------|----------|----------|
|                          | period        | as at    | Interest | as at    | Interest |
|                          |               | 31/12/20 | Rate     | 31/01/21 | Rate     |
| GBP Deposits             |               | £m       | %        | £m       | %        |
| Call and Notice Accounts | Immediate     | 34.6     | 0.06     | 25.2     | 0.02     |
|                          | 35 Day Notice | 0.0      |          | 0.0      |          |
|                          |               |          |          |          |          |
| Term Deposits            | <30 Days      | 0.0      |          | 0.0      |          |
|                          | >30 Days      | 0.0      |          | 0.0      |          |
|                          |               |          |          |          |          |
| TOTAL GBP                |               | 34.6     | 0.06     | 25.2     | 0.07     |
| USD Deposits             |               | \$m      | %        | \$m      | %        |
| Call and Notice Accounts | Immediate     | 1.8      | 0.00     | 0.9      | 0.00     |

#### Points to note:

- a) The cash balance reduced during January as the result of infrastructure fund drawdown of commitments totalling just under £10 million.
- b) The weighted average rate being earned on GBP cash deposits, as at 31 December 2020, was 0.06%. By the end of January this had dropped to 0.02%. The yield on immediately available cash from both banks and money market funds has reduced further since the end of December. The Bank of England is expected to maintain the base rate at 0.1% for the foreseeable future. The US Federal Reserve has similarly low rates and as a result the rate achievable on US Dollars investment has fallen to zero.
- c) The deposits in place during 2020-21 have fully complied with the Fund's Treasury Management and Investment Strategy.

#### 6. ENGAGEMENT ACTIVITY

As a responsible investor, the Fund should report regularly on its engagement activity. Voting and engagement are largely delegated to the Fund's external investment managers. The voting records of the Fund's principal equity managers at company meetings held over the last quarter is summarised in the following table.

#### Votes Cast at Company Meetings in the quarter to 31 December 2020

|                                  | Quarter to 31 December 2020 |             |                |  |
|----------------------------------|-----------------------------|-------------|----------------|--|
|                                  |                             |             | Votes against  |  |
|                                  | Number of                   | Number of   | management     |  |
| Manager                          | Meetings                    | Resolutions | recommendation |  |
| Brunel / LGIM Passive Portfolios | 478                         | 4,006       | 625            |  |
| Brunel - Active Portfolios       | 117                         | 766         | 111            |  |
| RWC European Focus Fund          | -                           | -           | -              |  |

Points to note:

- a) Brunel actively vote the shares held within their funds on behalf of their client funds, including Devon. The Brunel passive allocation will include all the companies in the relevant indices, both UK and across the developed world, hence there are many more meetings voted at than for the active portfolios. For the passive equity allocation Legal and General Investment Management (LGIM) manage the investments and voting on the shares is delegated to them, hence they are shown separately. On significant issues, Brunel may request that their shares held by LGIM are split out and a different vote made. Brunel's engagement activities are also included in their quarterly report.
- b) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, for example on remuneration policies or shareholder resolutions on climate change related issues, LAPFF will issue a voting alert to its members, including a recommendation on how to vote. The voting alerts for the quarter to 31 December 2020 are attached at Appendix 2 to this report.
- C) Of the three alerts, the most interesting is the shareholder resolution at Procter and Gamble. Procter and Gamble use both palm oil and forest pulp, pointing to the fact that these commodities are the leading drivers of deforestation and forest degradation. The shareholder resolution called for Procter and Gamble to issue a report assessing if and how it could increase the scale, pace and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. It is quite rare for shareholder resolutions to succeed unless the company agrees to support them, but in this case the resolution passed with the support of over 2/3 of shareholder votes. Along with engagement by shareholders, this is likely to promote real change at Procter and Gamble.
- d) The LAPFF quarterly engagement report for the quarter to 31 December is attached at Appendix 3 to this report. The report again highlights LAPFF's engagement with several companies around the issues of tailings dams and the impact on local communities. There are also details of LAPFF's engagement with car manufacturers about their plans to convert production to electric vehicles, and engagement on human rights issues with arms manufacturer BAE.

Mary Davis
County Treasurer

[Electoral Divisions: All]

LOCAL GOVERNMENT ACT 1972: LIST OF BACKGROUND PAPERS: NIL Contact for Enquiries: Mark Gayler

Tel No: 01392 383621 Room: G97

### Appendix 1

#### **Devon County Council Pension Fund Budget Forecast 2020/21**

|                                                    | Actual<br>2019/20<br>£'000              | Original<br>Forecast<br>2020/21<br>£'000 | Actual to<br>30 June<br>2020<br>£'000 | 2020/21   | Variance<br>from<br>Original<br>Forecast<br>£'000 |
|----------------------------------------------------|-----------------------------------------|------------------------------------------|---------------------------------------|-----------|---------------------------------------------------|
| Contributions                                      |                                         |                                          |                                       |           |                                                   |
| Employers                                          | (207,397)                               | (135,000)                                | (138,019)                             | (140,000) | (5,000)                                           |
| Members                                            | (40,758)                                | (40,000)                                 | (31,752)                              | (40,000)  | 0                                                 |
| Transfers in from other pension funds:             | (17,279)                                | (9,000)                                  | (10,008)                              | (12,000)  | (3,000)                                           |
|                                                    | (265,434)                               | (184,000)                                | (179,779)                             | (192,000) | (8,000)                                           |
| Benefits                                           |                                         |                                          |                                       |           |                                                   |
| Pensions                                           | 157,626                                 | 165,000                                  | 121,991                               |           | 0                                                 |
| Commutation and lump sum retirement benefits       | 27,170                                  | 28,000                                   | 19,352                                |           | 0                                                 |
| Lump sum death benefits                            | 3,674                                   | 4,000                                    | 3,090                                 | 4,000     | 0                                                 |
| Payments to and on account of leavers              | 497                                     | 500                                      | 310                                   | 500       | 0                                                 |
| GMP Refund from HMRC                               | (519)                                   | 0                                        | 0                                     | 0         | 0                                                 |
| Individual Transfers                               | 12,778                                  | 9,000                                    | 6,609                                 | 9,000     | 0                                                 |
|                                                    | 201,226                                 | 206,500                                  | 151,352                               | 206,500   | 0                                                 |
| Net Withdrawals from dealings with fund members    | (64,208)                                | 22,500                                   | (28,427)                              | 14,500    | (8,000)                                           |
| <b>3</b>                                           | ( , , , , , , , , , , , , , , , , , , , | ,                                        | ( - / /                               | ,         | ( - , ,                                           |
| Investment Income                                  |                                         |                                          |                                       |           |                                                   |
| Received as Cash                                   | (36,532)                                | (35,000)                                 | (16,606)                              | (25,000)  | 10,000                                            |
| Reinvested by Fund Manager                         | (22,820)                                | (5,000)                                  | (8,544)                               | (10,750)  | (5,750)                                           |
| Remvested by Fund Flundger                         | (59,352)                                | (40,000)                                 | (25,150)                              | (35,750)  | 4,250                                             |
|                                                    |                                         |                                          |                                       |           | -                                                 |
| Administrative costs                               |                                         |                                          |                                       |           |                                                   |
| Peninsula Pensions                                 | 2,328                                   | 2,400                                    | 1,821                                 | 2,400     | 0                                                 |
|                                                    | 2,328                                   | 2,400                                    | 1,821                                 | 2,400     | 0                                                 |
| Investment management expenses                     |                                         | •                                        | •                                     | •         |                                                   |
| External investment management fees - invoiced     | 7,485                                   | 3,500                                    | 3,450                                 | 4,500     | 1,000                                             |
| External investment management fees - not invoiced | 7,849                                   | 11,500                                   | 6,446                                 | 10,000    | (1,500)                                           |
| Custody fees                                       | 59                                      | 60                                       | 59                                    | 74        | 14                                                |
| Transaction costs                                  | 1,153                                   | 1,200                                    | 759                                   | 1,200     | 0                                                 |
| Stock lending income & commission recapture        | (36)                                    | (10)                                     | (18)                                  | (24)      | (14)                                              |
| Class Action Proceeds                              | (41)                                    | 0                                        | 0                                     | 0         | 0                                                 |
| Other investment management expenses               | 23                                      | 25                                       | 16                                    | 25        | 0                                                 |
|                                                    | 16,492                                  | 16,275                                   | 10,712                                | 15,775    | (500)                                             |
| Oversight and governance costs                     |                                         |                                          |                                       |           |                                                   |
| Investment & Pension Fund Committee Support        | 76                                      | 90                                       | 67                                    |           | 0                                                 |
| Pension Board                                      | 36                                      | 45                                       | 31                                    |           | (4)                                               |
| Investment Oversight and Accounting                | 376                                     | 380                                      | 195                                   |           | 0                                                 |
| Brunel Pension Partnership                         | 45                                      | 45                                       | 17                                    | 45        | 0                                                 |
| Legal Support                                      | 20                                      | 25                                       | 22                                    |           | 0                                                 |
| Actuarial Services                                 | 144                                     | 50                                       | 98                                    |           | 0                                                 |
| Investment Performance Measurement                 | 115                                     | 100                                      | 45                                    |           | 0                                                 |
| Subscriptions                                      | 49                                      | 50                                       | 31                                    | 50        | 0                                                 |
| Internal Audit fees                                | 25                                      | 25                                       | 0                                     |           | 0                                                 |
| External Audit fees                                | 24                                      | 25                                       | 15                                    |           | 0                                                 |
|                                                    | 910                                     | 835                                      | 521                                   | 831       | (4)                                               |
| Total Management Expenses                          | 19,730                                  | 19,510                                   | 13,054                                | 19,006    | (504)                                             |

#### Appendix 2

#### **LAPFF Voting Alerts**

|            | Company AGM E                |                                                  | Voting Record                                                        |     |                   | cord                 |                                    |                                                           |
|------------|------------------------------|--------------------------------------------------|----------------------------------------------------------------------|-----|-------------------|----------------------|------------------------------------|-----------------------------------------------------------|
|            |                              | AGM Date                                         | AGM Date Target Resolution                                           |     | LGIM<br>(Passive) | Brunel<br>Active     | Active Portfolios<br>Held In       | Outcome                                                   |
|            | Proctor and Gamble           | 13-Oct-20                                        | Shareholder Resolution: Report on Efforts to Eliminate Deforestation | For | For               | For                  | Low Volatility<br>Equities         | Approved (67.7% votes for)                                |
|            | BHP Group Ltd<br>(Australia) |                                                  | Amendment to the Constitution of BHP Group Ltd                       | For | For               | Not<br>Applicable    |                                    | Not Approved (90.4% votes against)                        |
| <b>1</b> ( |                              | 15-Oct-20                                        | Cultural Heritage Protection                                         | For | Not<br>Applicable | Not<br>Applicable    | Not Applicable*                    | Withdrawn                                                 |
|            |                              | Lobbying related to Covid-Recovery               | Lobbying related to Covid-19<br>Recovery                             | For | For               | Not<br>Applicable    |                                    | Invalid (However 22.4% votes for and 77.6% votes against) |
| age ;      | Oracle Corporation 04-Nov-2  | Shareholder Resolution: Report on Gender Pay Gap | For                                                                  | For | For               | Global High<br>Alpha | Not Approved (54.0% votes against) |                                                           |
| 24         |                              |                                                  | Shareholder Resolution:<br>Require Independent Board<br>Chair        | For | For               | For                  | Low Volatility<br>Equities         | Not Approved (64.6% votes against)                        |

<sup>\*</sup> Held in Brunel's Active UK Equities portfolio, but the Devon Fund is not invested in that portfolio.



## Quarterly Engagement Report

October-December 2020



# Climate goals, BHP, Vale, Standard Chartered, HSBC

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#### **CLIMATE EMERGENCY**



It is the fifth anniversary of the Samarco dam collapse in Mariana, Brazil

# LAPFF meets AngloAmerican and Glencore chairs on stakeholder engagement

**Objective:** Part of LAPFF's strategy to make progress on tailings dam safety has been to meet company chairs to explain the Forum's perspective on the importance of speaking meaningfully with affected communities. The Forum had managed to speak to the chairs of Vale and BHP but had yet to meet with the chairs of AngloAmerican and Glencore on this issue.

Achieved: Over the last quarter, LAPFF Chair, Cllr Doug McMurdo, spoke with both AngloAmerican Chair, Stuart Chambers, and Glencore Chair, Tony Hayward, on this issue. Both chairs recognised the importance of engaging effectively with affected communities but did not provide much detail on how their respective companies were going about this engagement.

"The more I discuss joint ventures with mining companies, the more concerned I become. These entities seem to mask significant governance failings that more often than not lead to significant ESG failings. We need to figure out a way forward on this issue."

Cllr Doug McMurdo

Cllr McMurdo noted that the Forum had held a webinar on 5 November to remember the fifth anniversary of the Samarco dam collapse in Mariana, Brazil and to highlight the fact that reparations thus far have been woefully inadequate. He also raised concerns about the role of joint ventures in contributing to poor environmental, social, and governance standards in mining projects. While there was general agreement that joint ventures were problematic, the different companies had different perspectives on these structures, which might account for the dissonance in running them.

As an added dimension to this work, Cllr McMurdo also met with a number of Brazilian investors, including Previ, the largest public pension fund in Brazil, to test their appetite for engaging with the

#### **CLIMATE EMERGENCY**

#### SAY ON CLIMATE

In December, LAPFF came out in support of the 'Say on Climate' initiative which aims to secure a 'say on climate' vote at a wide number of company AGMs. This followed a meeting with Sir Chris Hohn who earlier this year had been successful in securing an annual vote at the Spanish airport group Aena's AGM on its climate transition plan. Sir Chris runs the Children's Investment Fund Management which is associated with the Children's Investment Fund Foundation. The difference between this initiative and, for example, Climate Action 100+ is that it is not exclusive to

high carbon-emitting companies but can be applied to all listed companies. Recommended actions also include advocating for a mandatory 'say on climate' which would mean it would be on every company AGM ballot. Further information can be found at www.sayonclimate.org.



affected communities. LAPFF found in its Rio Tinto engagement on Juukan Gorge that engaging with both local communities and local investors in Australia helped to galvanise a unified voice and support for change. The Forum is looking to build a similar coalition amongst Brazilian communities and investors.

These engagements fit within the continuing collaborative efforts between investors through another Church of England-led initiative on engagement with Indigenous communities. Over 70 letters were sent to mining companies globally to request improved disclosure on stakeholder engagement and governance. The results are now being collected to determine next steps.

In Progress: The Forum has yet to meet with Rio Tinto on the Juukan Gorge incident, despite additional requests to this end. Rio Tinto has granted investors meetings on climate change and general governance at board level but continues to push back on human rights and stakeholder engagement discussions. Having heard from community representatives in both the US and Mongolia on Rio Tinto's conduct, it is becoming clear that there are systemic failings in the company's ESG assessment processes that LAPFF will want to discuss when a meeting is finally granted.

It is also increasingly clear that joint ventures need more investor attention. Apart from the fact that they facilitate governance gaps, it was apparent from this quarter's meetings that the investors involved do not have a common vision for their operation or how to address ESG issues through these structures. This must

change quickly for progress to be made.

The Glencore meeting also focused largely on the company's announcement that it would be exiting coal and giving a greater focus to base metals. It will be important to follow up with the company to see how its strategy is being implemented, especially as the company is forecasting an increase in coal production to 2025 and with a new CEO, Gary Nagle, who is currently Head of Coal Assets, taking over from Ivan Glasenberg in the first part of next year.

## Financing a Just Transition Alliance

Cllr Rob Chapman, LAPFF vice chair, joined the first meeting of the Alliance which aims to translate financial sector commitments into real world impact. The Alliance aims to build on positive momentum to encourage tangible action and profile promising case studies. Co-ordinated by the London School of Economics, a report will be produced setting out recommendations in time for COP 26.

#### ArcelorMittal and National Grid CA100+ Engagements Continue

**Objective:** to seek evidence of progress in the period to 2030 against the companies' net zero targets and to encourage board consideration of putting climate transition plans to shareholders for approval. **Achieved:** Cllr Chapman, LAPFF vice-chair, met with Aditya Mittal, ArcelorMittal's Finance Director and

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Bruno Lafont, the lead independent director, together with representatives from the other two lead Climate Action 100+ (CA100+) investors. It was a productive discussion with Aditya Mittal committing to look at providing appropriate hybrid arrangements for investors to participate in the annual meeting and for his presentation to the meeting to include detail on the zero-carbon transition with time being allowed for discussion on this. He also spoke about exploring partnerships with other companies to work towards using renewable power in manufacturing green steel. The company's progress in the use of hydrogen in steel-making to decarbonise the process, has been the issue raised most consistently in meetings with company representatives. In the 'Climate Action in Europe' report produced during the year, it was notable that this technology was separated out from the other 'smart carbon' technologies with the company announcing this quarter that they will produce the first steel using hydrogen from renewables

At National Grid, LAPFF has long



#### LAPFF HOLDS WEBINAR SERIES TO REPLACE THE ANNUAL CONFERENCE

Presentations at the webinars included an overview from David Enrich, New York Times business investigations editor of his new book Dark Towers. Also expert speakers presented on the Opioid Crisis, Managing climate change in a pension fund portfolio, Just Transition, Financial Reporting on climate, an update from the communities affected by the Tailing Dam disasters, the COVID crisis and workers and Workforce Engagement.

The Chair and Vice Chair also presented the LAPFF 2020 Annual report to the membership and detailed engagements undertaken on behalf of LAPFF.

#### COMPANY ENGAGEMENT

been pushing for group-wide net zero targets to be set. Although the company has been signed up to the science-based target initiative for some time, no scope 3 targets for the group had been set. At an ESG investor event, the company announced that it has set an interim target of 20% reduction in scope 3 emissions by 2030. LAPFF asked the chair if he would consider putting the net zero transition plan to vote at the next AGM. The answer was not in the affirmative, but will be something to pursue with Paula Rasput Reynolds who will replace Sir Peter Gershon as chair in 2021. After this event, Cllr Chapman met with Sir Peter and followed up on the possibility of the board putting a climate transition plan to shareholders at the AGM. In Progress: Discussions continued with both ArcelorMittal and National Grid on the CA100+ benchmarking process. Some of the issues raised will be addressed in ArcelorMittal's second group climate report which seems likely to be issued in January 2021. Discussions with National Grid referred to the company's proposed Responsible Business Review to be published annually and how elements of the CA100+ benchmarking process might map into this and investors' ability to measure progress towards net zero.

#### LAPFF Approaches HSBC to Discuss Upcoming Climate Resolution

**Objective:** As was the case with the Barclays resolution this year, ShareAction has again approached LAPFF about co-filing a shareholder resolution with a UK bank. This time, HSBC is the target. The resolution calls on HSBC to 'reduce financed emissions from [its] portfolio of customers to net zero by 2050 or sooner. The Company should report on progress against its targets and strategy in its annual report on an annual basis, starting from 2021 onwards, including a summary of the framework, methodology, timescales and core assumptions used.' **Achieved:** LAPFF's policy is to engage with companies prior to taking a view on whether or not to support a resolution, so a meeting with HSBC was requested in December to discuss the issue. In Progress: This meeting will be pursued again in the new year.



#### LAPFF Engages Standard Chartered on Climate Finance

**Objectives:** LAPFF met with Standard Chartered to seek evidence of progress in the period to 2030 against the company's net zero targets and request the 2021 AGM be opened up to virtual attendance Achieved: A virtual 'ESG' meeting provided access to the chairs of all board committees as well as the chair, José Viñals. Mr Viñals was responsive to both LAPFF questions. On progress to 2030, Standard Chartered has committed to net-zero emissions across its global properties by 2030 by sourcing energy from renewable sources and pursuing energy efficiency measures. For scope 3, he explained how the company is working with clients to measure, monitor and reduce emissions in order to ensure alignment of the portfolio with Paris goals. There are clear standards for non-compliance set but the bank has also committed to providing funding, with significant amounts for renewables and clean-tech projects over the next five years. **In Progress:** In response to the question about running a 'hybrid' AGM, by allow-

In Progress: In response to the question about running a 'hybrid' AGM, by allowing virtual attendance, Mr Viñals noted that the 2020 AGM had prepared for this by asking for a change in the articles of association. The board is reflecting on how this would work, including reflecting on the virtual ESG meeting itself and would 'try to do something that makes sense'.

## LAPFF engages auto industry on climate

Objective: During 2020, LAPFF called on the UK government to ban sales of all new petrol, diesel and hybrid cars by 2025. Since then, the Government has confirmed that it will ban the sale of all new petrol and diesel cars by 2030, representing a significant 'real world' outcome in terms of carbon reduction impact. LAPFF has sought to engage with the auto industry to ascertain how car makers will be approaching the challenges of electrifying their fleets and what their plans are to reduce carbon emissions.

Achieved: So far, LAPFF has written to six vehicle manufacturers regarding these issues, and the Forum recently met with BMW. BMW has openly set science based targets for its Scope 1 & 2 emissions but has yet to set such targets for Scope 3 emissions. The company assured LAPFF that it is ready to meet a rise in demand for electric vehicles and that its own operations will be carbon neutral by next year by offsetting its carbon emissions in a number of ways. They have also ensured that all of their battery cell suppliers use green energy and are looking at all aspects of supply to reduce CO2 emissions.

In Progress: LAPFF has meetings organised for early 2020 with two other vehicle manufacturers to discuss these issues. LAPFF hopes to get manufacturers that haven't already, to set science based targets for their scope 3 emissions and also wants to ensure that these companies are set up sufficiently to deal with the electrification of their fleets.

#### COMPANY ENGAGEMENT



Protesters demonstrate outside the Grosvenor House Hotel whilst arms dealers, MPS, and military personnel hold a black tie dinner.

#### **LAPFF Attends BAE Briefing**

**Objective:** About a year and a half ago, the Forum began an engagement with widely held defence contractors to discuss their arms policies given the use of their weapons for the war in Yemen. One of the companies engaged was BAE. The company had intended to hold an investor meeting just as the Covid pandemic broke, so decided to hold a webinar later in the year in lieu of a physical meeting. Cllr McMurdo attended to see if there were any updates on the initial meeting from August 2019.

Achieved: When Cllr McMurdo met with BAE, he raised the question of engagement with human rights. However, the company appears to continue to focus on staff issues as its primary indicator of performance on the 'S' element of ESG. While it is understandable that the company is in a difficult position with government arms contracts, it is worrying that it appears to barely acknowledge the human rights implications of its arms contracts.

In Progress: In the first instance, it seems that raising awareness within the industry of investor concerns about human rights is necessary. Perhaps further progress can be made once this has been done. Post-Covid, the Forum will also explore whether it might be fruitful to engage with government on this issue.

## Israeli-Palestinian engagements underway

**Objective:** A number of LAPFF funds

were approached by both pro-Israeli and

pro-Palestinian groups about investments

in the Israeli-Palestinian territories. Consequently, the Forum cross-referenced the companies of concern with a UN list of companies raising concerns based on their operations in this area to determine a preliminary list of companies with which to engage on this issue. **Achieved:** The first engagements have taken place with three of the seventeen companies approached on this issue. So far, there has been pushback on two fronts from all three companies. Motorola, which the Forum has approached in the past, merely provided its standard annual report text in response to a meeting request and has not yet granted a meeting of any sort. Altice, a French telecommunications company, and Israeli Discount Bank have both pushed back on LAPFF's request for human rights impact assessments in respect of their operations in the territories on the grounds that the UN list is political and it would do no good to undertake these assessments because existing legal requirements ensure human rights compliance in any case. Altice did engage through a meeting,

submitted only a written response. In progress: Forum members continue to be approached on this seemingly intransigent issue, and LAPFF will continue to engage with the companies approached. Although the Forum is not likely to solve this political problem, it is hoped that the companies engaged will come to understand the importance of conducting human rights impact assessments both for their own operations and in order to provide more helpful investment information to shareholders.

## LAPFF IOPA Engagement Continues

**Objective:** LAPFF originally joined the Investors for Opioid and Pharmaceutical Accountability (IOPA) to combat the opioid epidemic in the US. However, since the Covid pandemic arose, the investor coalition has also engaged with pharmaceutical companies on their approaches to Covid vaccines. Achieved: IOPA's Meredith Miller spoke at the LAPFF webinar series in early December and noted the dire situation on opioids in the US. Forum representatives also regularly attend IOPA meetings and have flagged shareholder resolutions stemming from the initiative. In Progress: LAPFF will continue to notify

In Progress: LAPFF will continue to notify members of co-filing opportunities as they arise.

#### COMPANY ENGAGEMENT

#### **CONSULTATION RESPONSES**

A letter on climate change was sent to the International Energy Authority (IEA) expressing LAPFF's concerns about carbon capture and storage (CCS). The letter points out the unproven record and technical lack of viability of CCS, coupled with the drastically reduced price of renewables in the last couple of years in questioning the IEA's position in support of CCS.

The CCS issue is of growing concern as company reporting in many of the hardto-abate sectors appears to promote the technology and a meeting in December with the Global CCS Institute (GCCSI) revealed the extent of unsubstantiated and misleading material being shared with investors.

#### MEDIA COVERAGE

#### **SAY ON CLIMATE:**

**Reuters** UK local government pension group seeks mandatory climate votes The Independent Why companies should give their investors a say on climate as well as bosses pay Nasdaq UK local government pension group seeks mandatory climate votes LSE (London South East) UK local government pension group seeks mandatory climate votes

IPE Ethos includes say on climate vote in guidelines

#### OTHER:

**Telegraph** Pension funds say accounting watchdog is compromised

Reuters Rio Tinto Names Sausholm as CEO in surprise pick after cave destruction

#### **NETWORKS AND EVENTS**

#### **LAPFF Webinars**

In addition to these end of year webinars, the Forum also held webinars with community members affected by mine operations in the US, Brazil, and Mongolia.



Once the world's fourth largest lake, the Aral has shrunk so much that it has now split into two separate bodies of water. [The United Nations Development Programme (UNDP) has been running an Aral Sea Programme since 1995, focusing mainly on water resources management, small business development, humanitarian assistance and a social and health programme as the ecological disaster of the dying sea has brought



#### VALUING WATER TASK FORCE

As a founding member of the Valuing Water Task Force, LAPFF attended the second task force meeting at the end of November. The purpose of the meeting was to provide feedback on the global impact assessment currently being undertaken by a team at the University of Saskatchewan. Task Force members discussed the importance of highlighting the link between water resources and climate change as well as the need for a solution-orientated approach. Members also discussed how best to encourage asset allocation to the future of water security. Part of the allocation discussion focussed on the potential scope and methods for harmonizing water risks and financial materiality. Ultimately, the methodologies of both the cost of inaction and the shadow price on water were identified as a potentially meaningful way of undertaking financial materiality assessments.

#### **LGIM Stakeholder Webinar**

A Forum representative also attended Legal and General Investment Management's annual stakeholder forum, held this year via video conference. The idea behind the event is to highlight upcoming issues for LGIM to consider in its voting and investing activities. This year, topics covered included antimicrobial resistance, climate, and human capital management.

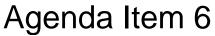
#### **CHRB and Covid Webinars**

Forum representatives also attended a number of human rights-related webinars, including one on the impact of Covid on human rights and the launch of this year's Corporate Human Rights Benchmark (CHRB). This year's Page 30

benchmark covers the auto industry for the first time with auto companies performing very poorly.

#### **IIGCC Weekly Meetings**

LAPFF continues to be represented in weekly meetings co-ordinated by IIGCC around the shareholder resolution filing process for CA100+. Information sharing at this group helps in engagements with chairs and joint-CA100+ leads on putting net zero transition plans to shareholders. A meeting was also held with JustShare, a south African NGO, who has had a proposed shareholder resolution on climate refused by the energy and chemicals company Sasol, despite other listed South African companies having tabled similar resolutions over the previous 15 vears.



# **COMPANY PROGRESS REPORT**

145 companies engaged over the quarter during 172 engagements

\*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

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| BASE SYSTEMS PLC         Meeting         Governance (General)         Dialogue         Chairperson         GSR           BANK HAPOALIM B M         Sent Correspondence         Human Rights         Dialogue         Chairperson         ISR           BANK LEUMI LE-ISRAEL BM         Sent Correspondence         Human Rights         Awaiting Response         Chairperson         ISR           BARRICK GOLD CORPORATION         Sent Correspondence         Human Rights         Dialogue         Exec Director or CEO         CAN           BAYERISCHE MOTOREN WERKE AG         Meeting         Environmental Risk         Change in Process         Specialist Staff         DEU           BAYERISCHE MOTOREN WERKE AG         Meeting         Environmental Risk         Awaiting Response         Chairperson         ISR           BEZEG THE ISRAELI         Sent Correspondence         Human Rights         Dialogue         Exec Director or CEO         AUS           BHP GROUP PLC         Meeting         Human Rights         Dialogue         Exec Director or CEO         AUS           BHP GROUP PLC         Meeting         Human Rights         Dialogue         Exec Director or CEO         AUS           BHP GROUP PLC         Meeting         Human Rights         Dialogue         Exec Director or CEO         SWE           BOUKING                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                |                         |                      | Response          |                      |          |
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| BAYERISCHE MOTOREN WERKE AG Meeting Environmental Risk Change in Process Specialist Staff DEU BEZEQ THE ISRAELI Sent Correspondence Human Rights Awaiting Response Chairperson ISR TELECOMMUNICATION CORP LTD  BHP Sent Correspondence Human Rights Dialogue Specialist Staff GBR BHP GROUP PLC Meeting Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Human Rights Awaiting Response Chairperson USA BP PLC Sent Correspondence Climate Change Dialogue Non-Exec Director GBR CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD.  CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Climate Change Dialogue Non-Exec Director or CEO CHN COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director DEU COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Environmental Risk Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDES AS Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDES AS Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDES AS Sent Correspondence Clim | BARRICK GOLD CORPORATION       | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | CAN      |
| BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD BHP Sent Correspondence Human Rights Dialogue Exec Director or CEO AUS BHP GROUP PLC Meeting Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Human Rights Dialogue Exec Director or CEO GBR BP PLC Sent Correspondence Climate Change Dialogue Exec Director or CEO CHN CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CTITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN COMPAGNIE DE SAINT GOBAIN Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-E | BASF SE                        | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | DEU      |
| TELECOMMUNICATION CORP LTD BHP Sent Correspondence Human Rights Dialogue Exec Director or CEO AUS BHP GROUP PLC Meeting Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Climate Change Dialogue Non-Exec Director GBR BP PLC Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CTIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director FRA DIXONS CARPHONE PLC Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FR | BAYERISCHE MOTOREN WERKE AG    | Meeting                 | Environmental Risk   | Change in Process | Specialist Staff     | DEU      |
| BHP GROUP PLC Meeting Human Rights Dialogue Exec Director or CEO AUS BHP GROUP PLC Meeting Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Human Rights Awaiting Response Chairperson USA BP PLC Sent Correspondence Climate Change Dialogue Exec Director or CEO CHN CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CEO CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Environmental Risk Dialogue Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Specialist Staff DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialog | BEZEQ THE ISRAELI              | Sent Correspondence     | Human Rights         | Awaiting Response | Chairperson          | ISR      |
| BHP GROUP PLC Meeting Human Rights Dialogue Specialist Staff GBR BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Human Rights Awaiting Response Chairperson USA BP PLC Sent Correspondence Climate Change Dialogue Non-Exec Director GBR CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director IRL DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Environmental Risk Dialogue Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Specialist Staff DEU EDF [ELECTRICITE DE FRANCE] SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                    | TELECOMMUNICATION CORP LTD     |                         |                      |                   |                      |          |
| BOLIDEN AB Sent Correspondence Human Rights Dialogue Exec Director or CEO SWE BOOKING HOLDINGS INC. Sent Correspondence Human Rights Awaiting Response Chairperson USA BP PLC Sent Correspondence Climate Change Dialogue Non-Exec Director GBR CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN COLITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELLEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELLEK GROUP LTD Sent Correspondence Environmental Risk Dialogue Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                               | ВНР                            | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | AUS      |
| BOOKING HOLDINGS INC. Sent Correspondence Human Rights Awaiting Response Chairperson USA BP PLC Sent Correspondence Climate Change Dialogue Non-Exec Director GBR CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Specialist Staff DEU E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director DEU EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                          | BHP GROUP PLC                  | Meeting                 | Human Rights         | Dialogue          | Specialist Staff     | GBR      |
| BP PLC Sent Correspondence Climate Change Dialogue Non-Exec Director GBR CHINA MOLYBDENUM CO., LTD. Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD. CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA Sant Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                                 | BOLIDEN AB                     | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | SWE      |
| CHINA MOLYBDENUM CO., LTD.  Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD.  CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Exec Director or CEO IND COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                        | BOOKING HOLDINGS INC.          | Sent Correspondence     | Human Rights         | Awaiting Response | Chairperson          | USA      |
| CHINA NORTHERN RARE EARTH Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN HIGH-TECH CO., LTD.  CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | BP PLC                         | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | GBR      |
| HIGH-TECH CO., LTD.  CHINA SHENHUA ENERGY CO LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO CHN  CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA  COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND  COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE  CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR  DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR  E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | CHINA MOLYBDENUM CO., LTD.     | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | CHN      |
| CHINA SHENHUA ENERGY CO LTD  Sent Correspondence Human Rights Dialogue Chairperson USA  COAL INDIA LTD Sent Correspondence Human Rights Dialogue Chairperson USA  COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND  COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE  CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR  DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR  E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU  EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | CHINA NORTHERN RARE EARTH      | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | CHN      |
| CITIGROUP INC. Resolution Filed Climate Change Dialogue Chairperson USA COAL INDIA LTD Sent Correspondence Human Rights Dialogue Exec Director or CEO IND COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director CHE CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | HIGH-TECH CO., LTD.            |                         |                      |                   |                      |          |
| COAL INDIA LTD  Sent Correspondence Human Rights Dialogue Exec Director or CEO IND  COMPAGNIE DE SAINT GOBAIN Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL  DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR  DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR  E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU  EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director FSP  ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | CHINA SHENHUA ENERGY CO LTD    | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | CHN      |
| COMPAGNIE DE SAINT GOBAIN  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  CHE  CONTINENTAL AG  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  DEU  CRH PLC  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  IRL  DAIMLER AG  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  DEU  DELEK GROUP LTD  Sent Correspondence  Human Rights  Awaiting Response  Chairperson  ISR  DIXONS CARPHONE PLC  Sent Correspondence  Environmental Risk  Dialogue  Chairperson  GBR  E.ON SE  Received Correspondence  Climate Change  Dialogue  Specialist Staff  DEU  EDF (ELECTRICITE DE FRANCE) SA  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  FRA  ENDESA SA  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  ESP  ENEL SPA  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  ITA  ENGIE SA.  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  FRA  ENI SPA  Sent Correspondence  Climate Change  Dialogue  Non-Exec Director  ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | CITIGROUP INC.                 | Resolution Filed        | Climate Change       | Dialogue          | Chairperson          | USA      |
| CONTINENTAL AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | COAL INDIA LTD                 | Sent Correspondence     | Human Rights         | Dialogue          | Exec Director or CEO | IND      |
| CRH PLC Sent Correspondence Climate Change Dialogue Non-Exec Director IRL  DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR  DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR  E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU  EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP  ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | COMPAGNIE DE SAINT GOBAIN      | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | CHE      |
| DAIMLER AG Sent Correspondence Climate Change Dialogue Non-Exec Director DEU  DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR  DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR  E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU  EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP  ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | CONTINENTAL AG                 | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | DEU      |
| DELEK GROUP LTD Sent Correspondence Human Rights Awaiting Response Chairperson ISR DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | CRH PLC                        | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | IRL      |
| DIXONS CARPHONE PLC Sent Correspondence Environmental Risk Dialogue Chairperson GBR E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | DAIMLER AG                     | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | DEU      |
| E.ON SE Received Correspondence Climate Change Dialogue Specialist Staff DEU  EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP  ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA  ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA  ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | DELEK GROUP LTD                | Sent Correspondence     | Human Rights         | Awaiting Response | Chairperson          | ISR      |
| EDF (ELECTRICITE DE FRANCE) SA Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENDESA SA Sent Correspondence Climate Change Dialogue Non-Exec Director ESP ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | DIXONS CARPHONE PLC            | Sent Correspondence     | Environmental Risk   | Dialogue          | Chairperson          | GBR      |
| ENDESA SA       Sent Correspondence       Climate Change       Dialogue       Non-Exec Director       ESP         ENEL SPA       Sent Correspondence       Climate Change       Dialogue       Non-Exec Director       ITA         ENGIE SA.       Sent Correspondence       Climate Change       Dialogue       Non-Exec Director       FRA         ENI SPA       Sent Correspondence       Climate Change       Dialogue       Non-Exec Director       ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | E.ON SE                        | Received Correspondence | Climate Change       | Dialogue          | Specialist Staff     | DEU      |
| ENEL SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | EDF (ELECTRICITE DE FRANCE) SA | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | FRA      |
| ENGIE SA. Sent Correspondence Climate Change Dialogue Non-Exec Director FRA ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | ENDESA SA                      | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | ESP      |
| ENI SPA Sent Correspondence Climate Change Dialogue Non-Exec Director ITA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | ENEL SPA                       | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | ITA      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | ENGIE SA.                      | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | FRA      |
| EQUINOR ASA Sent Correspondence Climate Change Dialogue Non-Exec Director NOR                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | ENI SPA                        | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | ITA      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | EQUINOR ASA                    | Sent Correspondence     | Climate Change       | Dialogue          | Non-Exec Director    | NOR      |

# Agenda Item 6 8 LAPFF QUARTERLY ENGAGEMENT REPORT | OCTOBER-DECEMBER 2020

# **COMPANY PROGRESS REPORT**

| EVOLUTION MINING LTD               | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
|------------------------------------|-----------------------------------------|----------------------|--------------------|----------------------|------|
| EVRAZ PLC                          | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | GBR  |
| EXPEDIA GROUP INC                  | Sent Correspondence                     | Human Rights         | Awaiting Response  | Chairperson          | USA  |
| EXXON MOBIL CORPORATION            | Received Correspondence                 | Climate Change       | Dialogue           | Specialist Staff     | USA  |
| FIAT CHRYSLER AUTOMOBILES N.V.     | Sent Correspondence                     | Climate Change       | Dialogue           | Non-Exec Director    | NLD  |
| FIRST INTERNATIONAL BANK OF ISRAEL | _ Sent Correspondence                   | Human Rights         | Awaiting Response  | Chairperson          | ISR  |
| FIRST QUANTUM MINERALS LTD         | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| FORD MOTOR COMPANY                 | Sent Correspondence                     | Climate Change       | Awaiting Response  | Chairperson          | USA  |
| FORTESCUE METALS GROUP LTD         | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| FREEPORT MCMORAN INC               | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | USA  |
| GANFENG LITHIUM CO., LTD.          | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CHN  |
| GENERAL MILLS INC                  | Sent Correspondence                     | Human Rights         | Dialogue           | Chairperson          | USA  |
| GENERAL MOTORS COMPANY             | Sent Correspondence                     | Climate Change       | Dialogue           | Chairperson          | USA  |
| GLENCORE INTERNATIONAL AG          | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CHN  |
| GLENCORE PLC                       | Meeting                                 | Governance (General) | Small Improvement  | Chairperson          | JEY  |
| GOLD FIELDS LTD                    | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | ZAF  |
| GRUPO MEXICO SERVICIOS SA DE CV    | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | MEX  |
| HAIER ELECTRONICS GP CO LTD        | Sent Correspondence                     | Environmental Risk   | Awaiting Response  | Chairperson          | HKG  |
| HSBC HOLDINGS PLC                  | Sent Correspondence                     | Climate Change       | Dialogue           | Chairperson          | GBR  |
| IBERDROLA SA                       | ·                                       |                      | •                  | Non-Exec Director    | ESP  |
| ILUKA RESOURCES LTD                | Sent Correspondence Sent Correspondence | Climate Change       | Dialogue           | Exec Director or CEO | AUS  |
|                                    | '                                       | Human Rights         | Dialogue           |                      |      |
| IMPALA PLATINUM HOLDINGS LTD       | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | ZAF  |
| INCITEC PIVOT LIMITED              | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| INDEPENDENCE GROUP                 | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| INDORAMA VENTURES PCL              | Sent Correspondence                     | Human Rights         | Awaiting Response  | Chairperson          | THA  |
| INDUSTRIAS PENOLES, S.A.B. DE C.V  | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | MEX  |
| ISRAEL DISCOUNT BANK LTD           | Sent Correspondence                     | Human Rights         | Awaiting Response  | Chairperson          | ISR  |
| JIANGXI COPPER COMPANY LIMITED     | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| KGHM POLSKA MIEDZ                  | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | POL  |
| KINROSS GOLD CORP                  | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| KIRKLAND LAKE GOLD                 | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| KUMBA IRON ORE LTD                 | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | ZAF  |
| LAFARGEHOLCIM LTD                  | Received Correspondence                 | Climate Change       | Small Improvement  | Non-Exec Director    | CHE  |
| LINDE PLC                          | Sent Correspondence                     | Climate Change       | Dialogue           | Non-Exec Director    | IRL  |
| LUFTHANSA AG                       | Sent Correspondence                     | Climate Change       | Dialogue           | Non-Exec Director    | DEU  |
| LYNAS CORP LTD                     | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| MINERAL RESOURCES LTD              | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| MITSUBISHI MATERIALS CORPORATION   | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | JPN  |
| MIZRAHI TEFAHOT BANK LTD           | Sent Correspondence                     | Human Rights         | Awaiting Response  | Chairperson          | ISR  |
| MMC NORILSK NICKEL PJSC            | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | RUS  |
| MMG LIMITED                        | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| MOTOROLA SOLUTIONS INC.            | Sent Correspondence                     | Human Rights         | Dialogue           | Chairperson          | USA  |
| NATIONAL GRID PLC                  | Meeting                                 | Climate Change       | Moderate Improveme | ntSpecialist Staff   | GBR  |
| NEWCREST MINING LTD                | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| NEWMONT MINING CORP                | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | USA  |
| NEXTERA ENERGY INC                 | Sent Correspondence                     | Climate Change       | Dialogue           | Chairperson          | USA  |
| NISSAN MOTOR CO LTD                | Sent Correspondence                     | Climate Change       | Awaiting Response  | Chairperson          | JPN  |
| NORTHERN STAR RESOURCES LTD        | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| NOVOLIPETSK STEEL PJSC             | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | RUS  |
| NUTRIEN LTD.                       | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| OMV AG                             | Sent Correspondence                     | Climate Change       | Dialogue           | Non-Exec Director    | AUT  |
| OROCOBRE LTD                       | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| OZ MINERALS LTD                    | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | AUS  |
| PAN AMERICAN SILVER CORP           | Sent Correspondence                     | Human Rights         | Dialogue           | Exec Director or CEO | CAN  |
| PAZ OIL CO LTD                     | Sent Correspondence                     | Human Rights         | Awaiting Response  | Chairperson          | ISR  |
| PEUGEOT SA                         | Sent Correspondence                     | Climate Change       | Dialogue Dialogue  | Non-Exec Director    | FRA  |
| PILBARA MINERALS LTD               |                                         | -                    | Dialogue           | Exec Director or CEO | AUS  |
| T.ES, W. CHINELO ELD               | 23.10 301 1 C3portueritee               | Page 32              | Diatogue           | Exceptional of old   | ,103 |

# **COMPANY PROGRESS REPORT**

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| POLYMETAL INTERNATIONAL PLC       | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CYP |
|-----------------------------------|-------------------------|----------------------|--------------------|------------------------|-----|
| POLYUS MC                         | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | RUS |
| REGIS RESOURCES LTD               | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| RENAULT SA                        | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | FRA |
| REPSOL SA                         | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | ESP |
| RESOLUTE MINING LTD               | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| RIO TINTO GROUP (GBP)             | Sent Correspondence     | Climate Change       | Change in Process  | Non-Exec Director      | GBR |
| ROYAL DUTCH SHELL PLC             | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | NLD |
| SAINSBURY (J) PLC                 | Sent Correspondence     | Environmental Risk   | Awaiting Response  | Chairperson            | GBR |
| SANDFIRE RESOURCES                | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| SARACEN MINERAL HOLDINGS LTD      | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| SAUDI ARABIAN MINING COMPANY SJS0 | C Sent Correspondence   | Human Rights         | Dialogue           | Exec Director or CEO   | SAU |
| SEVERSTAL PJSC                    | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | RUS |
| SHAANXI COAL INDUSTRY             | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CHN |
| COMPANY LIMITED                   |                         |                      |                    |                        |     |
| SHANDONG GOLD MINING CO., LTD.    | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CHN |
| SIBANYE STILLWATER LTD            | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | ZAF |
| SILVER LAKE RESOURCES             | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| SOUTH32                           | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| SOUTHERN COPPER CORP              | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | USA |
| ST BARBARA LTD                    | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| STANDARD CHARTERED PLC            | Meeting                 | Climate Change       | Small Improvement  | Chairperson            | GBR |
| SUMITOMO METAL MINING CO LTD      | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | JPN |
| SUMITOMO MITSUI FINANCIAL GROUP   | Sent Correspondence     | Governance (General) | Dialogue           | Chairperson            | JPN |
| TECK RESOURCES LTD                | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CAN |
| TESLA INC                         | Sent Correspondence     | Climate Change       | Awaiting Response  | Chairperson            | USA |
| THE MOSAIC COMPANY                | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | USA |
| THYSSENKRUPP AG                   | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | DEU |
| TOTAL SE                          | Received Correspondence | Climate Change       | Moderate Improveme | ntExec Director or CEO | FRA |
| TRIPADVISOR INC.                  | Sent Correspondence     | Human Rights         | Awaiting Response  | Chairperson            | USA |
| UNIPER SE                         | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | USA |
| UNITED TRACTORS                   | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | IND |
| VALE SA                           | Meeting                 | Human Rights         | Dialogue           | Chairperson            | BRA |
| VEDANTA LIMITED                   | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | IND |
| VOLKSWAGEN AG                     | Sent Correspondence     | Climate Change       | Dialogue           | Non-Exec Director      | DEU |
| WESTERN AREAS LTD                 | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | AUS |
| YARA INTERNATIONAL                | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | NOR |
| YES BANK                          | Meeting                 | Audit Practices      | Awaiting Response  | Chairperson            | IND |
| ZHEJIANG HUAYOU COBALT            | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CHN |
| ZHONGJIN GOLD CORP., LTD.         | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CHN |
| ZIJIN MINING GROUP CO LTD         | Sent Correspondence     | Human Rights         | Dialogue           | Exec Director or CEO   | CHN |

## **ENGAGEMENT DATA**

# Other Audit Practices Environmental Risk Governance (General) Climate Change

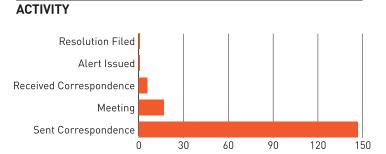
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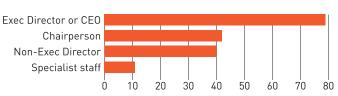
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### **POSITION ENGAGED**

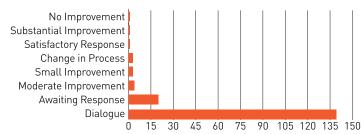
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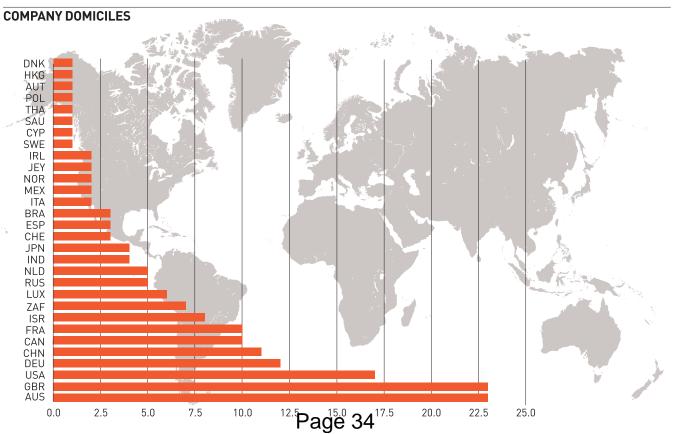
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### **MEETING ENGAGEMENT OUTCOMES**

Human Rights





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lapfforum.org

### LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

### Individual Member Funds

Avon Pension Fund Barking and Dagenham Pension Fund Barnet Pension Fund Bedfordshire Pension Fund Bexley Pension Fund Brent Pension Fund Cambridgeshire Pension Fund Camden Pension Fund Cardiff & Glamorgan Pension Fund Cheshire Pension Fund City of London Corporation Pension Fund Clwyd Pension Fund (Flintshire CC) Cornwall Pension Fund Croydon Pension Fund Cumbria Pension Fund Derbyshire Pension Fund Devon Pension Fund Dorset Pension Fund **Durham Pension Fund** Dyfed Pension Fund Ealing Pension Fund East Riding Pension Fund

Enfield Pension Fund **Environment Agency Pension Fund** Essex Pension Fund Falkirk Pension Fund Gloucestershire Pension Fund Greater Gwent Pension Fund Greater Manchester Pension Fund Greenwich Pension Fund Gwynedd Pension Fund Hackney Pension Fund Hammersmith and Fulham Pension Fund Haringey Pension Fund Harrow Pension Fund Havering Pension Fund Hertfordshire Pension Fund Hounslow Pension Fund Islington Pension Fund Kingston upon Thames Pension Fund Lambeth Pension Fund Lancashire County Pension Fund Leicestershire Pension Fund Lewisham Pension Fund

East Sussex Pension Fund

Lincolnshire Pension Fund London Pension Fund Authority Lothian Pension Fund Merseyside Pension Fund Merton Pension Fund Newham Pension Fund Norfolk Pension Fund North East Scotland Pension Fund North Yorkshire Pension Fund Northamptonshire Pension Fund Nottinghamshire Pension Fund Oxfordshire Pension Fund Powys Pension Fund Redbridge Pension Fund Rhondda Cynon Taf Pension Fund Shropshire Pension Fund Somerset Pension Fund South Yorkshire Pension Authority Southwark Pension Fund Staffordshire Pension Fund Strathclyde Pension Fund Suffolk Pension Fund Surrey Pension Fund

Sutton Pension Fund Swansea Pension Fund Teesside Pension Fund Tower Hamlets Pension Fund Tyne and Wear Pension Fund Waltham Forest Pension Fund Wandsworth Borough Council Pension Fund Warwickshire Pension Fund West Midlands Pension Fund West Yorkshire Pension Fund Westminster Pension Fund Wiltshire Pension Fund Worcestershire Pension Fund **Pool Company Members** Border to Coast Pensions Partnership Brunel Pensions Partnership LGPS Central Northern LGPS London CIV

Wales Pension Partnership

CT/21/22 Corporate Infrastructure & Regulatory Services Scrutiny Committee 26 February 2021

### TREASURY MANAGEMENT STRATEGY 2021-22

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee adopts the Treasury Management Strategy

for 2021/22 as set out in Appendix 1.

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### 1. Introduction

- 1.1 In February 2018 the Pension Fund, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a revised Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2021/22.
- 1.2 The policy requires the Investment and Pension Fund to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year.

### 2. Treasury Management Strategy – Key Points

- 2.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 1. It sets out the current treasury position, cash investments, prospects for interest rates and the investment strategy.
- 2.2 The strategy is broadly consistent to that agreed for 2020/21. Pension Fund cash balances are kept at a low level with the main purpose being to provide the required level of liquidity, and do not therefore benefit from the higher rates on offer for longer term deposits. With the current low interest rates, it is therefore difficult to envisage how the Fund can securely invest its cash balances and achieve much above 0% in the coming year.

### 3. Conclusion

The Committee is asked to approve the adoption of the Treasury Management Strategy for 2021/22 as set out in Appendix 1.

Mary Davis County Treasurer

**Electoral Divisions: All** 

Local Government Act 1972: List of Background Papers: Nil Contact for Enquiries: **Mark Gayler** Tel No: **01392 383621** Room: **G97** 

### **Treasury Management Strategy 2021/22**

### Introduction

The Treasury Management Strategy sets out the Devon County Council Pension Fund's policies in relation to the management of the Fund's cashflows, its banking, money market and capital market transactions and investment strategies.

The Pension Fund has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2017, and a revised Treasury Management Policy Statement and a statement of 'Treasury Management Practices' (TMPs) were agreed by the Investment and Pension Fund Committee in February 2018. No changes are proposed to these policies for 2021/22.

This Treasury Management Strategy document sets out:

- The current treasury position, debt and investments;
- Prospects for interest rates; and
- The investment strategy.

### Schedule of Investments

The following schedule shows the Pension Fund's fixed and variable rate investments as at 31 March 2020 and as at 31 December 2020 (current).

Table A - Schedule of Investments

	Actual 31.03.20	Interest Rate	Current 31.12.20	Interest Rate
Maturing in:	£'m	%	£'m	%
GBP Deposits				
Variable Rate				
Call Accounts	0.90	0.65	30.35	0.06
Money Market Funds (MMFs)	27.40	0.47	4.26	0.00
All GBP Investments	28.30	0.48	34.61	0.06
USD Deposits	\$'m	%	\$'m	%
Variable Rate				
Money Market Funds (MMFs)	3.99	0.81	1.77	0.00
All USD Investments	3.99	0.81	1.77	0.00

The Pension Fund's cash balance is kept at a low level sufficient to support cashflow, to ensure that pension payments are met and to fund investment commitments when required. The Fund's Investment Strategy Statement has a target 1% allocation in cash to meet these requirements. The remainder of the Pension Fund's investments

are allocated to other asset classes beyond the scope of this treasury management strategy.

The recent investment performance of the Pension Fund's cash has been affected by the coronavirus pandemic which led the Bank of England to reduce its base rate firstly to 0.25% and then to 0.1% during March 2020.

The returns on the Pension Fund's cash investments are therefore forecast to remain at low levels for the foreseeable future; however, the Treasury Management Strategy will continue to ensure a prudent and secure approach.

### **Prospects for Interest Rates**

Forecasting future interest rate movements even one year ahead is always difficult. The factors affecting interest rate movements are clearly outside the Council's control. Whilst short term rates are influenced by the Bank of England's Base Rate, long term rates are determined by other factors, e.g. the market in Gilts. Rates from overseas banks will be influenced by their national economic circumstances. The County Council retains an external advisor, Link Asset Services, who forecast future rates several years forward. Similar information is received from a number of other sources.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it has left Bank Rate unchanged at its subsequent meetings to the end of 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the following forecast table, no increase in Bank Rate is expected in the foreseeable future as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields had already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. It will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period.

Table B - Base Rate Forecasts

Base Rate	Dec (act) 2020	March 2021	June 2021	Sep 2021	Dec 2021	March 2022
Capita	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%

### Investment Strategy 2021/22 – 2023/24

The Devon Pension Fund continues to adopt a very prudent approach to counterparties to whom the Fund is willing to lend. As a result, only a small number of selected UK banks and building societies, money market funds and overseas banks in highly rated countries are being used, subject to strict criteria and the prudent management of deposits with them. The lending policy is kept under constant review with reference to strict criteria for inclusion in the counterparty list.

The Treasury Management Strategy will continue to be set to ensure a prudent and secure approach.

The Investment and Pension Fund Committee is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Pension Fund's strategy continue to be to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

# The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

The outlook for cash investment remains challenging. Whereas in the past there has been a perception that Governments would not allow banks to fail, the current regulatory environment puts more emphasis on the requirement for investors to take a hit by funding a "bail-in". A bail-in is where the bank's creditors, including local authorities depositing money with them, bear some of the burden by having part of the debt they are owed written off. The balance of risk has therefore changed, and as a result the Council has considered alternative forms of investment in order to diversify its risk.

Under the Markets in Financial Instruments (MiFID II) directive, local authorities are now classed as retail clients by the Financial Conduct Authority (FCA). This has implications for the range of investments that are available to local authorities. While bank and building society deposits are unaffected by the new regulations, some banks have determined that they will only take term deposits from professional clients, and a range of alternative forms of investments are only available to professional clients. However, if the local authority meets criteria set by the FCA, then it can apply to the financial institutions with which it wishes to invest to request that the institution concerned "opts up" the local authority to elective professional client status. The Pension Fund has made applications and been opted up to elective professional client status where required.

Those counterparties who have confirmed that they will treat the Council as a professional client under the MiFID II regulations are set out in Table C below.

Table C – Counterparties that have "opted up" the Council to elective professional client status

Counterparty	Counterparty Type
Blackrock Aberdeen Standard	Money Market Fund Money Market Fund
Insight	Money Market Fund

In addition, brokers Tradition, Tullett Prebon and Imperial Treasury, and our treasury advisors, Capita, have opted up the Council to professional client status. The majority of bank and building society deposits are unaffected by the MiFID II regulations. This list only includes those counterparties relevant to the Pension Fund's treasury management strategy and the management of cash. The Pension Fund has also opted up to elective professional client status with the external investment managers it uses as part of its wider investment strategy.

Subject to the MiFID II regulations, a variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Pension Fund to invest through its treasury management strategy, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Pension Fund to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down.

The Pension Fund has considered these alternatives but, given the wider investments of the Fund and the need for liquidity with respect to the Fund's cash, has concluded that these less liquid forms of investment should not form part of the Fund's treasury management strategy.

Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Banks are expected to have a high credit rating. The Council uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody's and Standard & Poor's, made available to the Council through its external Treasury Advisors. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. Where the counterparty is only rated by two of the major ratings agencies the lowest rating published by either of the two is used. This rating also determines the maximum amount which can be loaned to an individual counterparty. Non-Eurozone overseas banks that meet the criteria are included from countries with a high Sovereign rating.

The time length of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Council's external advisors.

### Appendix 1

Money Market Funds have a portfolio comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Following the financial crisis these funds were seen as higher risk and were therefore not used by the Council. However, the new regulatory environment around the concept of "bail-in" means that many money market funds are now regarded as a more secure form of investment than bank deposits, as they diversify their investments across a range of financial institutions to spread the risk, and will therefore be used where appropriate.

Money market funds must have an 'AAA' rating to be included on the counterparty list. They may be CNAV (Constant Net Asset Value), LVNAV (Low Volatility Net Asset Value) or VNAV (Variable Net Asset Value). Yields and prices will be monitored on a daily basis to ensure that there is minimal risk of loss of capital.

The Pension Fund will also make use of the US Dollar money market fund used by the Fund custodian. Cash will only be held in US Dollars where distributions are received from investments denominated in the currency and pending drawdown of commitments to US Dollar denominated funds.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

Table D below summarises the current 'Approved List' criteria.

Table D – Counterparty Approved List Summary

Counterparty	Туре	Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks wit	th >30% UK Go	vernment o	wnership		
	not below	A- & F1	A3 & P-1	A- & A-1	£50 million
Other UK Bar	nks				
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building S	Societies				
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Overseas Bar	nks				
Sov	ereign Rating of	AAA	Aaa	AAA	
а	and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
а	and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bo	dies				
Central Gove	rnment				
– De	ebt Management	Office			Unlimited
Local Govern	ment				
	ounty Councils				£10 million
	etropolitan Autho	rities			£10 million
	ondon Boroughs				£10 million
	nglish Unitaries				£10 million
	cottish Authoritie:	S			£10 million
	nglish Districts				£5 million
	elsh Authorities				£5 million
Fire & Police	Authorities				£5 million
Money Marke	t Funds	AAA	Aaa	AAA	£30 million

Where the short term rating of a counterparty is one notch below the stated criteria, but the counterparty meets the long term rating criteria, they may still be used subject to the advice of our external advisors (Capita) who will take into account a range of other metrics in arriving at their advice.

### Appendix 1

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes, and this will be a consideration in determining the period over which the investment will be made.

The counterparty limits shown in the table also apply at a banking group level. This ensures that the Pension Fund is not exposed to the risk of having maximum sums invested in multiple institutions owned by a group that encounters financial difficulties.

### Borrowing Strategy 2021/22 - 2023/24

The Pension Fund will not normally need to undertake borrowing. There may, however, on an exceptional basis be a requirement for short term borrowing to aid cashflow. If short-term borrowing is required, this will be targeted at an average rate of **0.1%**.

CT/21/23 Investment and Pension Fund Committee 26 February 2021

### INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: (1) that the Committee approves the revised Investment

Strategy Statement set out at Appendix 1 to this report.

(2) that the Committee signs up to the Commitment to achieve

net zero portfolios by 2050.

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### 1. Introduction

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each LGPS administering authority to have in place an Investment Strategy Statement. The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.
- 1.2 The Investment Strategy Statement required by the regulations must include:-
  - (a) A requirement to invest money in a wide variety of investments;
  - (b) The authority's assessment of the suitability of particular investments and types of investments;
  - (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services:
  - (e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, nonselection, retention and realisation of investments; and
  - (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 1.3 This report presents a draft update of the Investment Strategy Statement (ISS), which is attached at Appendix 1. The main change is an update of the stewardship section which has been revised to reflect the updated UK Stewardship Code and new policy documents published by the Brunel Pension Partnership. The draft revised ISS was endorsed by the Pension Board at its meeting on 22 January, subject to comments on the carbon reduction target referred to later in this report.

### 2. Brunel Stewardship Policy and Voting Guidelines

- 2.1 In December the Brunel Pension Partnership published new documents outlining their stewardship policies and voting guidelines. These have been developed with the support of the Brunel Client Group, including Devon, and are a comprehensive statement of how their policies align with the new UK Stewardship Code and best practice. The documents are set out as Appendices 2 and 3 of this report.
- 2.2 The policies set out should be read in conjunction with Brunel's Responsible Investment (RI) Policy and Climate Change Policy. Brunel's' Responsible Investment Policy sets out the broader overarching principles that guide everything that Brunel does. The Climate Change Policy delves deeper into the most systemic risk. The Stewardship Policy and Voting Guidelines then sets out how Brunel operationalise these policies.
- 2.3 It is considered that the policies outlined in Brunel's Stewardship and Voting Guidelines fully satisfy the stewardship policies previously set out in the Devon Fund's ISS. In addition, they have been strengthened to match Brunel's aspirations on responsible investment and the new UK Stewardship Code.
- 2.4 Given that the Devon Fund was designated as a tier 1 signatory to the previous UK Stewardship Code and would wish to align itself with best practice, it makes sense to review the policies contained in the Devon Fund's ISS and to update them in line with Brunel's policies. Therefore, section 6 of the ISS has been re-written to strengthen the Devon Fund's policies in line with the new UK Stewardship Code and the policies set out by Brunel. The revised ISS states that the Devon Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Devon Fund policy should be seen as fully consistent in all aspects.

### 3. Climate Change

- 3.1 The Climate Change policy set out in section 5 has been amended to include the target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, with a view to achieving net zero carbon emissions by 2050. Previously the policy has committed the Fund to working with Brunel to decarbonise investments, but without stating a particular target. The 7% target is consistent with Brunel's targets and has been stated in reporting on the Fund's carbon footprint in the Annual report, so the ISS has been amended to be consistent.
- 3.2 The Pension Board queried whether this was 7% of a base figure or 7% each year of the previous year's figure. This has been clarified in the statement as being measured from a base position of the December 2019 WACI. Given that the Fund had achieved a 21% reduction from the March 2019 figure this is an ambitious target. The target will be reviewed with Brunel as part of their climate change stocktake in 2022. The long term target of net zero by 2050 is consistent with Brunel's objectives and wider objectives in respect of the Paris Agreement on Climate Change. Climate change has also been added as a risk in section 3 on Risk measurement and management.

3.3 Further to the above, the Devon Fund has been invited by the Institutional Investors Group on Climate Change (IIGCC), of which we are a member, to sign up to a commitment to achieve net zero portfolios by 2050. The commitment includes setting interim targets and publishing a climate action plan. This is consistent with the Investment Strategy Statement changes proposed, with Brunel's policies and with the fiduciary duty to manage climate risk to achieve the required investment returns to meet pension liabilities. The commitment aims to target real economy emissions reductions, that is it is not just about exiting high emitting companies, but about promoting emissions reductions at the companies invested in.

### 4. Other Changes to the Investment Strategy Statement

- 4.1 A number of other mostly minor updates have been made to the ISS where required. These include:
  - (a) The asset allocation targets set out in section 2 have been revised for 2021/22 to reflect changes agreed by the Investment and Pension Fund Committee during the last year.
  - (b) A revised Annex 2, to reflect where assets have been transitioned to Brunel portfolios since the ISS was last reviewed.
  - (c) Amended text where references to the set-up of Brunel are out of date, given that Brunel is now fully operational and the majority of the Devon Fund's investment assets have now transitioned.

### 5. Conclusion

- 5.1 It is now two years since the last independent review of the Fund's ISS, undertaken by Mercer. It would be good practice for a further review to be commissioned next year in line with the LGPS Investment Regulations, and a further report will be brought to a future meeting of the Committee with regard to such a review.
- 5.2 The Committee is asked to approve the revised Investment Strategy Statement set out in Appendix 1 to this report.
- 5.3 The Committee is recommended to sign up to the IIGCC Commitment to achieve net zero portfolios by 2050.

Mary Davis County Treasurer

Electoral Divisions: All

Local Government Act 1972: List of Background Papers: Nil Contact for Enquiries: **Mark Gayler** Tel No: **01392 383621** Room: **G97** 



Draft Revision Presented to the Investment and Pension Fund Committee 26<sup>th</sup> February 2021



### 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The administering authority must invest, in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund.

The regulations provide a new prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Devon Fund as well as providing transparency in relation to how Fund investments are managed.

The Devon Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

We are long term investors: we implement our strategies through investments in productive assets that contribute to economic activity, such as equities, bonds and real assets. We diversify our investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- (a) The Devon Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- (b) The Devon Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- (c) The Devon Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- (d) The Devon Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Devon Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Investment and Pension Fund Committee at least triennially, or more frequently should any significant change occur.

# **Devon County Council Pension Fund Investment Strategy Statement**



# 2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The Funding Strategy Statement can be found on the Fund's website at:

https://www.peninsulapensions.org.uk/pension-fund-investments/devon-county-council-investments/devon-fund-key-documents/

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the Fund. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling
  is expected to help reduce costs over the long-term, whilst providing more choice of
  investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.



The Fund's current investment strategy, along with an overview of the role each asset plays is set out in the table below:

| Asset Class                                             | Target<br>2021/2022 | Medium-<br>Term Target | Role(s) within the Strategy                                                                                                                                                                                            |
|---------------------------------------------------------|---------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equities                                                | 58%                 | 58%                    |                                                                                                                                                                                                                        |
| Global Passive                                          | 33%                 | 29%                    | Generate returns through capital gains and income through exposure to the                                                                                                                                              |
| Global Active                                           | 5%                  | 5%                     | shares of domestic and overseas companies; indirect links to inflation.                                                                                                                                                |
| Emerging<br>Markets Active                              | 5%                  | 5%                     | The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure                                                                                                           |
| Low Volatility                                          | 7%                  | 9%                     | to global markets, using active<br>managers and non-market cap<br>indexation where appropriate and in                                                                                                                  |
| Global Small Cap                                        | 5%                  | 5%                     | the expectation that these will add value.                                                                                                                                                                             |
| Sustainable                                             | 3%                  | 5%                     | Within this allocation are holdings in a number of different equity portfolios to gain exposure to a diverse range of return drivers (including small cap equities, sustainable equities and low volatility equities). |
| Fixed Interest                                          | 15%                 | 15%                    |                                                                                                                                                                                                                        |
| Global Bonds                                            | 7%                  | -                      | The Fund invests in a number of global bond investments, to provide                                                                                                                                                    |
| Sterling Bonds including corporate and inflation-linked | -                   | 7%                     | diversified exposure to sovereign and corporate bond markets. These are expected to generate less volatile returns than equities, but also to generate returns above those available                                   |
| Multi-Sector<br>Credit                                  | 7%                  | 7%                     | on domestic sovereign bonds ("gilts").  Within these holdings, the Fund uses active management, and permits its                                                                                                        |
| Cash                                                    | 1%                  | 1%                     | fund managers a degree of flexibility to switch between asset classes and credit qualities to enhance expected returns.                                                                                                |

# **Devon County Council Pension Fund Investment Strategy Statement**



| Asset Class                   | Target<br>2021/2022 | Medium-Term<br>Target | Role(s) within the Strategy                                                                                                                                                                                                         |
|-------------------------------|---------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Alternatives/Other            | 27%                 | 27%                   |                                                                                                                                                                                                                                     |
| Diversifying<br>Returns Funds | 7-9%                | 1%                    | Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress; opportunity for dynamic asset allocation. |
| UK Property                   | 8%                  | 8%                    | Generate inflation linked returns through income and capital appreciation via investment in global                                                                                                                                  |
| International<br>Property     | 2%                  | 2%                    | property markets, whilst providing some diversification away from equities and bonds.                                                                                                                                               |
| Infrastructure                | 5-8%                | 10%                   | The Fund invests in a diversified portfolio of infrastructure investments, to gain exposure to                                                                                                                                      |
| Private Debt                  | 3%                  | 3%                    | attractive returns and investments with a degree of inflation linkage in the income stream generated.  In the medium to long term, the Fund                                                                                         |
| Private Equity                | 1%                  | 3%                    | intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).                                                                    |
| TOTAL                         | 100%                | 100%                  |                                                                                                                                                                                                                                     |

Full details of the current investment managers and their respective performance benchmarks are included in Annex 2.

Asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly, and if the allocations move more than 2.5% away from the target consideration is given to rebalancing the assets taking into account market conditions and other relevant factors.

The Investment and Pension Fund Committee is responsible for the Fund's asset allocation which is determined via strategy reviews undertaken as part of the valuation process. The last review of the investment strategy was in 2018/2019 and was both qualitative and quantitative



in nature, and was undertaken by the Committee in conjunction with officers and independent advisers. The review considered:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due.
- An analysis of the order of magnitude of the various risks facing the Fund, including consideration of different economic and market scenarios.
- The requirement to meet future benefit cash flows.
- The desire for diversification across asset class, region, sector, and type of security.

Following the latest investment strategy review, the Committee agreed to a number of revisions to the long term investment strategy. These changes include increasing diversification within the equity and fixed income holdings, and also implementing an allocation to private market investments in order to generate returns in excess of inflation, through exposure to companies that are not publicly traded and which therefore provide an "illiquidity premium" whilst providing some diversification away from listed equities and bonds.

The review set out a long-term plan, with a phased implementation over a 3-5 year period, with interim steps. The phased approach:

- Is designed to ensure that significant changes are not made at the wrong time in the economic cycle, with negative implications for investment returns.
- Is linked with the transition timetable to Brunel and the availability of Brunel portfolios.
- Recognises the commitment and drawdown cycle within private markets that means that commitments made are only drawn down over an elongated timeframe.

Details of allocations for 2021/22 are shown in the table above, together with the agreed medium-term target allocations, as per the long-term plan. It should be noted that progress in reaching the targets for infrastructure, private debt and private equity, and the consequent decrease in the allocation to Diversifying Returns Funds (DRFs) will be dependent upon the progress of the Brunel Pension Partnership in identifying suitable commitments, and on the pace of the subsequent draw down of commitments. It is difficult to forecast how quickly this will be achieved. Therefore the 2021/22 allocations shown to infrastructure and DRFs are shown as a range.

The long-term plan will be regularly reviewed by the Committee in conjunction with officers and the Fund's Independent Investment Advisor.

In accordance with the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Investment Strategy will not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Authority within the meaning given by applicable legislation.

# **Devon County Council Pension Fund Investment Strategy Statement**



### 3. Risk measurement and management

Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the funding position, as measured using a 1 year Value at Risk measure at the 5% level.



Note: "IG Credit" risk represents investment grade credit risks within Fund's fixed income mandates.

The key investment risks that the Fund is exposed to are:

 The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.



- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.
- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by the investment managers appointed on behalf of the Fund by the Brunel Pension Partnership.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark. The Fund can monitor this risk and impose limits.

The Fund is also exposed to operational risk; this is mitigated through:

- A strong employer covenant.
- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Principles seek to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The Fund also recognises the following (predominantly non-investment) risks:

**Longevity risk:** this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

**Sponsor Covenant risk:** the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

**Liquidity risk:** the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

# **Devon County Council Pension Fund Investment Strategy Statement**



**Regulatory and political risk:** across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

**Exchange rate risk:** this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place, hedging up to 100% of its exposure to currency risk on passive equity holdings. For other asset classes, currency hedging is reviewed on a case-by-case basis.

**Climate change risk**: climate change is a systemic investment risk that may have an impact on investee companies as a result of both the consequences of climate change and the transition to a low carbon economy. The Fund's approach to climate change is included in section 5 of the Investment Strategy Statement, and the Fund will expect Brunel and other fund managers to have policies in place to manage the risk.

**Cashflow risk:** the Fund is cashflow negative, in that income and disinvestments are required from the Fund's investments to meet benefit outgoes. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

**Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.



### 4. Approach to asset pooling

The Devon Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Devon Pension Fund, through the Investment and Pension Fund Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Devon fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Devon Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan for transitioning assets to the portfolios. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. The Client Group will monitor Brunel's performance and service delivery for each of the established Brunel portfolios. The Devon Investment and

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Pension Fund Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

The proposed arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool should proceed as set out in the proposals made.

Devon County Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Devon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.

Following the completion of the transition plan, it is intended that all of the Devon Pension Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned.



### 5. Social, environmental and corporate governance policy

### **Overarching Principles**

The Devon Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Devon Pension Fund is also mindful of its responsibilities as a long term shareholder, and the Investment and Pension Fund Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Devon Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:-

- (a) The Devon Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- (b) Social, environmental and ethical concerns will not inhibit the delivery of the Devon Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Devon Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- (c) The Devon Pension Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing and diversifying their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- (d) Where social, environmental and ethical issues arise on the agendas of company Annual General Meetings, the Brunel Pension Partnership, and its external investment managers are expected to vote in alignment with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.
- (e) The Devon Pension Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its external fund managers to monitor and manage the associated risks. The Devon Fund will work with its partners in the Brunel pool and the Brunel

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Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

(f) More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at: <a href="https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/">https://www.brunelpensionpartnership.org/responsible-investment-policy/</a>

### **Climate Change**

The Devon Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments, unless action is taken to mitigate these risks.

- (a) We recognise that climate change will have impacts across our portfolios. This means we look to the Brunel Pension Partnership and all our asset managers to identify and manage climate-related financial risks as part of day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.
- (b) The Devon Fund does not consider a top-down approach to disinvestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. Where investee companies fail to engage with climate change issues, selective disinvestment may be appropriate based on investment risk.
- (c) We are committed to working with Brunel to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time.
- (d) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint on an annual basis. In line with (c) above we would expect the carbon footprint to reduce over time as part of a transition to a low carbon economy. The Fund has set a target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, based on the December 2019 calculation of the WACI, with a view to achieving net zero carbon emissions by 2050.
- (e) Within the Fund's infrastructure investments, we would expect a significant proportion to be invested in renewable energy assets.



(f) The Devon Pension Fund adopts the Brunel Pension Partnership's climate change policy, found at the following link: <a href="https://www.brunelpensionpartnership.org/climate-change/">https://www.brunelpensionpartnership.org/climate-change/</a>

The Devon Fund views the Brunel policy as being representative of the climate change objectives of the Fund and in support of the wider objectives of Devon County Council.

### **Accountability**

The Pension Board regularly reviews all the Fund's statutory statements. Their views will be taken into account in setting the Devon Fund's environmental, social and governance policies. The Fund also holds an annual consultative meeting with fund members which provides the opportunity for discussion of investment strategy and consideration of non-financial factors.

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### 6. Stewardship Policy

The Devon Pension Fund is committed to responsible stewardship and believe that through stewardship it can contribute to the care, and ultimately long-term success, of all the assets within our remit.

The Fund supports and applies 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."

The Devon Pension Fund works with or through the Brunel Pension Partnership, the Local Authority Pension Fund Forum and/or other partners to pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues. From a bottom up perspective, this includes:

- Engaging with companies and holding them to account on material issues.
- Exercising rights and responsibilities, such as voting.
- Integrating environmental, social and governance factors into investment decision making.
- Monitoring assets and service providers.
- Collaborating with others.
- Advancing Policy through advocacy.

The Devon Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Devon Fund policy should be seen as fully consistent in all aspects. The full Brunel policy can be found at:

https://www.brunelpensionpartnership.org/stewardship\_report/

The following section sets out in detail the Fund's policies on stewardship, including its policy on the exercise of rights, including voting rights, attached to investments:

### (a) Governance and Oversight

The Investment and Pension Fund Committee approves and is collectively accountable for the Devon Fund's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Assistant County Treasurer, Investments, who is supported by the Investment Manager to ensure high levels of coordination and implementation. The Devon Fund requires the Brunel Pension Partnership to provide a suite of public reports on their stewardship activities, and environmental, social and governance metrics to empower the Devon Pension Fund's stewardship activities and to enable oversight.

The Fund believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with that of the Brunel Pension Partnership, which in turn has been developed in collaboration with key stakeholders, including the Brunel Oversight



Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of Brunel's clients and meets monthly, it provides an opportunity for clients to:

- Raise stewardship interests.
- Share best practice with Brunel and amongst partner funds.
- Provide insights on concerns, issues, and member perspectives.
- Shape priorities of Brunel and Equity Ownership Services (EOS) at Federated Hermes.
- Review reporting outputs.
- Knowledge share and receive a deeper dive into topics of interest.
- Access expertise.
- Consult on policy design and development.

### (b) Identifying and Prioritising Engagement

The Fund will expect Brunel to identify engagement objectives in four ways.

- Firstly, top down, to identify thematic areas of risk and opportunity.
- Secondly, bottom up, to review exposure to individual companies and to specific ESG risks and opportunities. Companies should be identified through asset managers, collaborative engagement forums, external research, and Brunel's own internal ESG risk analysis.
- Thirdly, reactively to events, for example, after a specific, usually significant, incident. The companies that Brunel actively engage with should be prioritised based on our level of exposure and the probability of successful outcome.
- Fourthly, Brunel should be responsive to client concerns. Where the Devon Fund raises specific issues, which could be as a result of Fund member concerns or points raised by Investment and Pension Fund Committee or Pension Board members, Brunel will be expected to engage with companies to address the concerns raised.

The Devon Pension Fund is a global investor and seeks to apply the principles of good stewardship globally. It is a strong advocate of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aims to adopt best practice. 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.

The Fund is committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. The Fund publishes an annual review of its stewardship and engagement activities in its Annual Report which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support the Fund's compliance with the Shareholder Rights Directive II. The Fund is a strong

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supporter of the UK Corporate Governance Code and the application of the Companies Act S172 (Duty to promote the success of the company). It believes that corporate behaviour in line with the spirit of the Act more broadly is essential to the Fund's objective of contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Fund encourages companies either to comply with such codes or to fully explain their reasons for noncompliance. However, it is also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

### (c) <u>Transparency and Collaboration</u>

Good stewardship requires a good understanding of the assets that the Fund invests in. This is done in collaboration with Brunel, who do it directly, through EOS at Federated Hermes, their asset managers, and other initiatives. Working closely with company boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. It is also acknowledged that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions.

The Fund publishes regular updates on its stewardship activities, including quarterly engagement and voting activity analysis presented to the Investment and Pension Fund Committee, and the annual review included in the Fund's Annual Report.

The Fund believes that working collaboratively is essential to delivering its objectives as the scope and scale of investments means that we need to draw on the expertise of others, including Brunel, the Local Authority Pension Fund Forum (LAPFF), and not least the asset managers employed by both Brunel and directly by the Fund. In addition to managers and specialist advisors, the Fund supports a number of organisations and initiatives that enable its ability to work collaboratively – for example this includes membership of LAPFF and the Institutional Investors Group on Climate Change (IIGCC). The Fund's reporting will evidence its activities.

### (d) Conflicts of Interest

Devon County Council has a robust Code of Conduct and Conflicts of Interest policy, which all members of the Investment and Pension Fund Committee (whether Devon County Councillors or not) are required to adhere to. The policies can be found at:

http://democracy.devon.gov.uk/ieListDocuments.aspx?Cld=416&Mld=2487&Ver =4&info=1

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Investment and Pension Fund Committee members are required to make declarations of interest prior to committee meetings in line with the Council's code of conduct and interest rules. This would ensure that if committee members had any personal interests in any company that the Fund invests in that may have an impact on stewardship activity then those interests would be declared and managed.

The management of conflicts is important in building long-term relationships with the companies the Fund invests in and with its partnerships. In particular, the Fund expects Brunel to have a robust approach to conflicts of interest. This includes having comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of the Devon Fund and other clients, including the Fund's members and employers.

The effective management of potential Conflicts of Interest is a key component of Brunel's due diligence on all asset managers and service providers, as well as ongoing contract management. Conflict of interest clauses are included in investment management agreements. Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, Brunel's appointed engagement voting provider, approach conflicts of interest are available on their website at <a href="https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf">https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf</a>.

#### (e) Data and Information.

The Fund recognises that ESG data is a developing discipline and is a strong advocate for improved disclosure from companies and assets in which it invests. The Fund will use a variety of data sources to analyse the ESG risks of its investments and asset allocation strategy. It expects Brunel to use its own analysis and that of its asset managers to inform its stewardship activity and risk ESG management, as well as media and company reports and a variety of third party proprietary and public data sources.

Given the lack of standardisation and transparency across ESG data, differing methodologies can lead to different outputs and biases. On behalf of the Fund and other clients, Brunel use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in Brunel's Responsible Investment Policy and Climate Change Policy.

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These sources of data are embedded into quarterly reports reviewed by Brunel at quarterly Brunel Investment Risk Committee meetings and are included in the reports provided to the Devon Investment and Pension Fund Committee.

The Fund recognises that data provision is a continuously evolving area. The Fund supports Brunel's policy of reviewing their use of providers annually and providing feedback where developments could be made. Brunel seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure the availability of robust, independent and effective data to work collegiately with external asset managers on the management of the whole spectrum of investment risks.

#### (f) Voting

Responsibility for the exercise of voting rights has been delegated to the Brunel Pension Partnership. For the Brunel passive portfolios, Brunel have further delegated voting to Legal and General Investment Management, but have retained the right to direct split voting on significant issues. The below link provides information on Legal and General Investment Management's approach to active ownership.

#### https://www.lgim.com/uk/en/capabilities/corporate-governance/

Brunel have adopted voting guidelines, following extensive consultation with their client funds, which can be found on their website.

The Devon Fund requires that Brunel will always seek to exercise its rights as shareholders through voting. This means seeking to vote 100% of available ballots. However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified.

Votes should be cast applying the following principles:

- Consistency: Brunel should vote consistently on issues, in line with their Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. This should include consideration of engagement with companies when voting.
- No abstention: Brunel should aim to always vote either in favour or against a
  resolution and only to abstain in exceptional circumstances or for technical
  reasons, such as where a vote is conflicted, a resolution is to be withdrawn,
  or there is insufficient information upon which to base a decision.
- **Supportive**: Brunel should aim to be knowledgeable about companies with whom they engage and to always be constructive. Brunel should aim to support boards and management where their actions are consistent with protecting long-term shareholder value.
- **Long-term**: Brunel should seek to protect and optimise long-term value for shareholders, stakeholders and society.

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- **Engagement**: Brunel should support aligning voting decisions with company engagement, and escalate the vote if concerns have been raised and not addressed in the prior year.
- **Transparency**: The Devon Fund expects Brunel to be transparent and publish voting activity no less than twice per year.

The Devon Fund expects that companies will conduct themselves as follows:

- Accountability: The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders.
- **Transparency**: We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance.
- One Share, One Vote: We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal.
- Informed votes: We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting.
- **Development**: We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion)

The Devon Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF also conducts significant engagement with companies on behalf of their member funds, and where there is a significant issue to be voted on at a company AGM they will issue a voting alert, with a recommendation to member funds on how to vote.

Where a voting alert has been issued by LAPFF, the Devon Fund expects that Brunel (and Legal and General Investment Management) should give consideration to LAPFF's recommendation when deciding how to vote. Brunel should report back to the Fund on how they have voted and the rationale for their vote, especially where they vote differently to the LAPFF recommendation.

In exceptional circumstances, the Devon Fund may direct a split vote where the Fund has a specific investment policy commitment. Brunel has made provisions to allow clients, by exception, to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM.

The following issues are of particular concern to the Devon Fund in determining how shares should be voted. The Fund's policies on these issues align with Brunel's voting guidelines, which are not repeated in full here, but more details can be found at: <a href="https://www.brunelpensionpartnership.org/voting\_guidelines/">https://www.brunelpensionpartnership.org/voting\_guidelines/</a>

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#### Sustainability

Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability.

A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.

#### **Human and Natural Capital**

Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity.

Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks. Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve longterm returns.

#### Company Boards - Conduct and Culture

Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct.

#### **Board Composition and Effectiveness**

The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The Devon Fund believes that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background. Robust succession planning at the Board and senior management level is vital to

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safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

#### **Executive Remuneration**

Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

- Simplicity: pay schemes should be clear and understandable for investors as well as executives.
- Shareholding: the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success.
- Alignment and quantum: pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership.
- Accountability: remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company.
- Stewardship: companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration.
- Behaviour: the most senior executives should willingly embrace the approach described. If they do not, boards should consider the implications.

#### Audit

The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

#### <u>Protection of Shareholder and Bondholder Rights</u>

The rights of shareholders and bondholders should be protected, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder

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meetings. We also support adherence to the highest possible standards on listed stock exchanges.

#### (g) Stock Lending and Share Recall

The Fund permits holdings in its segregated portfolios to be lent out to market participants. Stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing. The stock lending programme is managed by Brunel, and the Devon Fund adopts Brunel's policies on stock lending and share recall.

Voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence. Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. The Devon Fund expects Brunel to undertake a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- An approved borrowers list.
- Retention of 5% of any one stock.
- On average, stock will be lent no longer than 21 days.
- Restrictions on acceptable collateral.

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where Brunel decides not to stock lend, for example where they have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend is a collective decision made by Brunel's clients and is supported by the Devon Fund. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Brunel's approach to responsible stock lending is outlined in further detail in a separate policy.

#### (h) Fixed Interest and Diversifying Returns Funds

Fixed interest instruments are debt instruments and therefore do not usually confer voting rights. However, in relation to corporate bonds, the Devon Fund

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believes that well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment.

Where voting rights are not attached and where opportunity to engage is limited, stewardship focuses on the managers' investment decision-making. The Devon Fund expects Brunel to integrate Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, the Devon Fund, via Brunel, will have the opportunity to vote at company meetings (AGM/EGMs). The Fund would look to Brunel to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

Diversified returns funds incorporate a wide range of investment strategies and multi asset funds providing diversification. Investors own units in these funds rather than owning the underlying holdings directly. Stewardship focuses on the managers investment decision-making.

#### (i) Private Markets

Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and longterm nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners(LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, the Devon Fund would expect Brunel to pay particular attention to ESG and sustainability throughout the selection process. We believe that well governed investments and those with strong ESG and sustainability characteristics will offer better long-term riskadjusted returns.

Managers should have firm ESG and climate change policies in place, and these should be considered across the value chain, from investment due diligence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence Brunel examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. The Devon Fund and Brunel will support managers on their journey and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

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Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of the investment, position in the capital structure and the influence that does or does not permit.

Stewardship actions across private markets include;

- Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets.
- Assessing the manager's approach to diversity and inclusion and where possible tracking metrics to substantiate claims.
- Assessing the manager's knowledge and commitment to Responsible Investment and climate change mitigation and avoidance.
- Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.
- Supporting the manager's ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)
- Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework
- Assessing the awareness, training, capacity and track record on Responsible Investment issues
- Working with managers to improve transparency and quality of the manager's ESG approach and reporting.

Further details of Brunel's approach to private markets are included in the Brunel Stewardship Policy.

#### (j) Reporting

The Investment and Pension Fund Committee will monitor Brunel's engagement with the companies they have invested in, through the regular reporting arrangements in place. Brunel and LGIM's voting records will be reported to Committee on a quarterly basis. The engagement activity undertaken by Brunel and LAPFF will also be reported to Committee on a quarterly basis, together with a record of voting alerts issued by LAPFF, how Brunel and LGIM have voted on the proposals concerned and the outcome of the votes.

The Devon Pension Fund Annual Report each year includes a report focusing on stewardship and voting activity. This will include details of investment manager activity, voting analysis, LAPFF alert analysis, engagement, case studies and collaboration. A summary of Brunel's stewardship activities is also included.

# **Devon County Council Pension Fund Investment Strategy Statement**



#### 7. Advice Taken

This Investment Strategy Statement has been put together by Devon County Council's professional investment officers, supported by the Fund's Independent Investment Advisor, and with advice from Mercer LLC investment advisors, who have conducted a review of the Fund's investment strategy and asset allocation. Mercer were selected to undertake the investment review following a procurement exercise through the South West LGPS Framework for the Supply of Actuarial, Benefits and Investment Advisory Services, administered by the Environment Agency.

The Devon Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from both Brunel and the Brunel Client Officer Group project team has also been taken into account in shaping the Devon response to the pooling initiative and building an investment strategy that can be implemented via Brunel.

The key people who have been consulted and who have provided advice in drawing up the Investment Strategy Statement are:

#### The Investment and Pension Fund Committee

This County Council Committee, which includes Unitary and District Council and other employer representatives and those of the contributors and the pensioners, carries out the role of the Administering Authority. It has full delegated authority to make decisions on Pension Fund matters. In particular it:

- · decides the Investment Principles;
- determines the fund management structure;
- reviews investment performance;

#### The Devon Pension Board

While not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. Members of the Pension Board were included in a consultation workshop on the investment strategy, and regularly review the Fund's statutory statements.

#### County Treasurer: Mary Davis BA (Hons), CPFA

The County Treasurer advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee's decisions. Mary Davis is a CIPFA qualified accountant and has been the County Treasurer and Section 151 Officer for Devon County Council since 2008. Mary has responsibility for Devon County Council's finances, including responsibility for the Devon Pension Fund. Mary has a BA (Hons) degree in Economics.

## Agenda Item 8

# **Devon County Council Pension Fund Investment Strategy Statement**



#### Assistant County Treasurer Investments: Mark Gayler ACMA, IMC

Mark Gayler has been Assistant County Treasurer, Investments and Treasury Management at Devon County Council since 2013. Mark heads up the investment team responsible for overseeing the Devon Pension Fund, as well as undertaking treasury management for the council. Mark is a CIMA qualified accountant and holds the CFA Level 4 Certificate in Investment Management. Mark has 30 years of experience within local government, and first moved to the Investment Team in 2010, initially as Deputy Investment Manager.

#### **Investment Manager: Charlotte Thompson APMI**

Charlotte Thompson has worked as Investment Manager in the Investment Team since June 2018, having transferred from her previous role as Head of Peninsula Pensions. She has over 22 years' experience in the Pensions Industry. Prior to joining Devon County Council, Charlotte worked for Friends Provident, managing a portfolio of defined benefit schemes. She is an associate of the Pensions Management Institute, and is also currently studying for the Investment Management Certificate.

#### Independent Investment Advisor: Anthony Fletcher, MJ Hudson Allenbridge

Anthony is the independent adviser to the Devon County Council Investment and Pension Fund Committee. He also acts as advisor to the Derbyshire, Surrey and Wiltshire pension funds. He has over 30 years' investment experience, and has had FCA Approved Person status throughout his career: - currently FCA CF30 Investment Advice. His last full-time role was with Aberdeen Asset Management, where he was a Fixed Income Portfolio Manager and was responsible for twenty four pan-European and global fixed income institutional client portfolios. This included insurance company assets and charitable foundations; UK corporate and local authority DB and DC pension funds and sovereign wealth funds, with a combined AUM of £3.6 billion, and four pooled funds with assets of a further £460 million.

#### **Mercer LLC Investment Consultants:**

#### Tessa Page, Principal

Tess is a Partner at Mercer and an LGPS strategy specialist, with over 15 years' pensions and investments experience. Tess joined Mercer in 2011, having previously worked at JLT (formerly HSBC Actuaries and Consultants). She has a Masters in Biochemistry from the University of Oxford and is a Fellow of the Institute and Faculty of Actuaries.

#### Sandy Dickson, Associate

Sandy is an Associate within Mercer's investment business, with over 5 years' experience working with predominantly public sector pension schemes on all aspects of investment strategy, implementation and monitoring. Sandy has a Masters in Chemistry from the University of Durham and is a CFA Charterholder.

# **Devon County Council Pension Fund Investment Strategy Statement**



#### **Brunel Pension Partnership**

The Brunel Pension Partnership now manages the majority of the Fund's investment mandates. Brunel provides specifications for each of its portfolios operational, agreed across its client funds, and these specifications enable the Fund to determine how each portfolio fits into the Fund's investment strategy. The Brunel Responsible Investment Team has also provided significant advice and support on the development of the Fund's approach to stewardship and climate change.

#### **Brunel Client Officer Group**

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset Council, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

## Agenda Item 8

# **Devon County Council Pension Fund Investment Strategy Statement**



### Annex 1 – Compliance with the Myners Principles

The Committee has considered the 6 Myners Principles and is of the view that the Fund currently complies with the spirit of these recommendations. Further details are given below on each of the 6 principles.

#### 1. Effective Decision Making

The County Council has a designated Committee whose terms of reference are to discharge the duties of the Council as the Administering Authority. There is a training programme for Committee members. They also have external and internal advisers and are supported by an experienced in-house team to oversee the day to day running of the Fund. Representatives of the Fund's contributors and pensioners, who have one collective vote, advise the Committee on the views of their members. The Administering Authority is supported by a Pension Board, whose role is to assist them in securing compliance with legislation and regulation and the effective and efficient governance of the Fund.

#### 2. Clear Objectives

This document sets out clear objectives in relation to the split of assets between Equities and Bonds, investment in Diversified Growth Funds, and other assets such as Property.

The Committee is aware of the Fund's current deficit and its investment policy is designed to gradually improve solvency whilst keeping employers' contribution rates as constant as possible. A key objective of the Fund's strategy is to manage the fund to ensure a healthy cash-flow for the foreseeable future.

#### 3. Risk and Liabilities

The Committee has considered the mix of assets that it should adopt and the level of risk (volatility of returns) it is prepared to accept. This document sets out current policy, which is designed to improve the Fund's solvency while only accepting moderate risk.

The Committee will regularly review the benefits of using the full range of asset classes.

#### 4. Performance Assessment

In the award of mandates to individual investment managers the Investment and Pension Fund Committee has set benchmarks for each asset class, as set out in Annex 2. The total fund is measured against a bespoke benchmark based on the Fund's strategic asset allocation.

The Fund uses the services of its custodian bank to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks.

The Investment and Pension Fund Committee receive quarterly performance reports and are therefore able to consider the performance of all asset classes and managers on a regular basis, focusing on the longer term. These considerations form the basis of decision making.

# **Devon County Council Pension Fund Investment Strategy Statement**



#### 5. Responsible Ownership

Section 6 of this document, on the Policy of the exercise of rights (including voting rights) attaching to investments, sets out the Fund's commitment to responsible ownership. The services agreement with the Brunel Pension Partnership includes provision for them to engage with companies in compliance with the terms of the Combined Code and the Council's voting policy as set out in this document. Brunel have published their stewardship and voting policies which are referenced in section 6 of this document. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). This document sets out the Council's policy on voting.

#### 6. Transparency and Reporting

This Investment Strategy Statement is available to any interested party on request. The latest version is available on the Peninsula Pensions website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at: <a href="https://www.peninsulapensions.org.uk/members/local-government/your-pension-scheme/pension-fund-investments/devon/important-documents/">https://www.peninsulapensions.org.uk/members/local-government/your-pension-scheme/pension-fund-investments/devon/important-documents/</a>,

which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop the Peninsula Pensions website, which it considers to be its primary communications channel.

# Agenda Item 8

# Devon County Council Pension Fund Investment Strategy Statement



## **Annex 2 – Current Managers and Mandates**

| Manager                                                                                                                                           | Mandate                              | Target                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Brunel Pension Partnership (underlying manager: Legal                                                                                             | Passive UK Equities                  | Performance in line with the FTSE<br>All Share TR Index                                                                                    |
| and General Investment<br>Management)                                                                                                             | Passive Global<br>Developed Equities | Performance in line with the FTSE<br>World Developed TR Index                                                                              |
|                                                                                                                                                   | Passive Smart Beta<br>Equities       | Performance in line with the SciBeta Multifactor Composite Index                                                                           |
| Brunel Pension Partnership<br>(underlying managers:<br>Alliance Bernstein, Baillie<br>Gifford, Fiera Capital, Harris<br>Associates, Royal London) | Global High Alpha<br>Equities        | Outperform MSCI World TR Index<br>by 2-3% per annum over a rolling 3-<br>5 year period                                                     |
| Brunel Pension Partnership<br>(underlying managers:<br>Genesis, Wellington,<br>Invesco)                                                           | Emerging Markets<br>Equities         | Outperform MSCI Emerging<br>Markets TR Index by 2-3% per<br>annum over a rolling 3-5 year<br>period                                        |
| Brunel Pension Partnership<br>(underlying managers:<br>Robeco, Quonium)                                                                           | Low Volatility<br>Equities           | Outperform the MSCI All Countries<br>World TR Index (longer term) but<br>with lower volatility than the<br>underlying market (80% or less) |
| Brunel Pension Partnership<br>(underlying managers:<br>Montanaro, Kempen,<br>American Century)                                                    | Global Smaller<br>Company Equities   | To outperform the MSCI World<br>Small Cap Index TR by 2% per<br>annum over a rolling 3-5 year<br>period                                    |
| Brunel Pension Partnership<br>(underlying managers:<br>Ownership Capital, Nordea,<br>RBC Global Asset<br>Management)                              | Sustainable<br>Equities              | Outperform the MSCI All Country<br>World Index (ACWI) TR Index by 2%<br>per annum over the medium to<br>longer term (3-5 years)            |
| RWC Partners                                                                                                                                      | European Activism<br>Fund            | Outperform the MSCI Europe TR Index                                                                                                        |

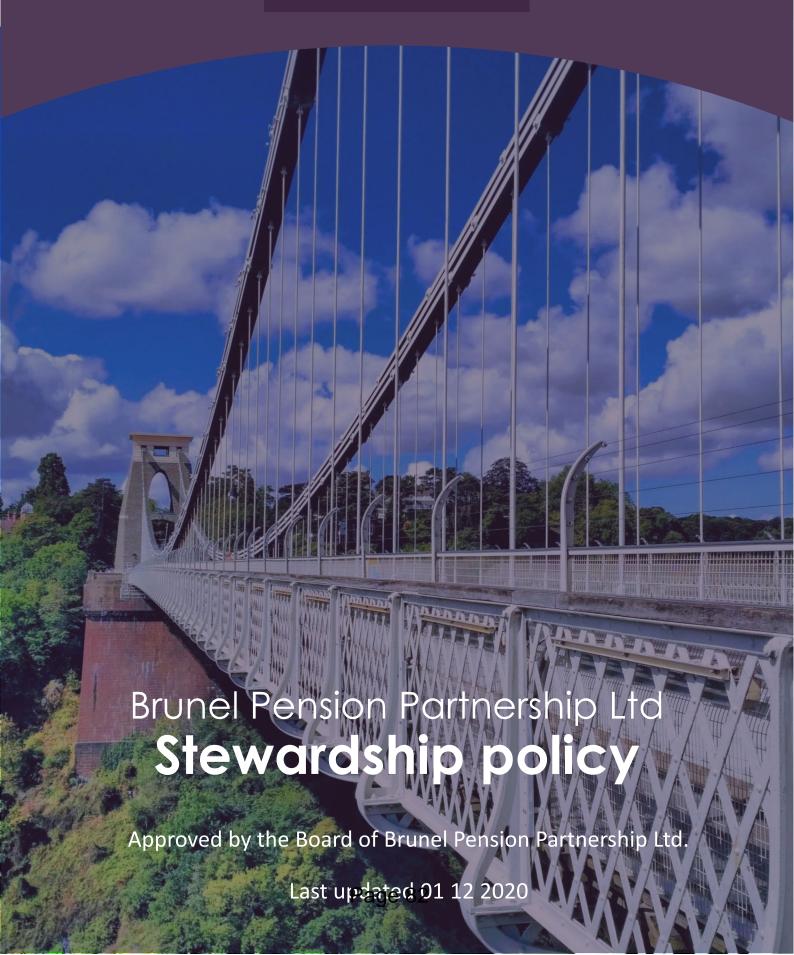
# Devon County Council Pension Fund Investment Strategy Statement



| Manager                                                                                                 | Mandate                      | Target                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lazard Asset Management LLC                                                                             | Global Fixed<br>Interest     | Outperform Barclays Capital Global<br>Aggregate Bond Index by 1% per<br>annum                                                                                                                 |
| Wellington Management<br>International Ltd                                                              | Multi Sector Credit          | Outperform composite of 1/3 Bank<br>of America Merrill Lynch Global<br>High Yield Constrained Index, 1/3 JP<br>Morgan Emerging Markets Bond<br>Index Plus, and 1/3 CS Leveraged<br>Loan Index |
| Brunel Pension Partnership<br>(Underlying managers: JP<br>Morgan, William Blair,<br>Lombard Odier, UBS) | Diversifying<br>Returns Fund | Outperform GBP SONIA by 3-5% per annum over a rolling 5-7 year period                                                                                                                         |
| Brunel Pension Partnership                                                                              | UK Property                  | Outperform the MSCI/AREF UK<br>Quarterly Property Fund Index by<br>0.5% p.a. over a rolling 5 - 7 year<br>period.                                                                             |
| Brunel Pension Partnership                                                                              | International<br>Property    | Outperform the MSCI Global<br>Quarterly Property Fund Index by<br>0.5% p.a. over a rolling 5 - 7 year<br>period.                                                                              |
| Bluebay Asset Management                                                                                | Private Debt                 | Outperform GBP 7 Day LIBID + 5%                                                                                                                                                               |
| Golub Capital Partners                                                                                  | Private Debt                 | Outperform GBP 7 Day LIBID + 5%                                                                                                                                                               |
| DCC Investment Team                                                                                     | Infrastructure<br>Funds      | Outperform GBP 7 Day LIBID + 5%                                                                                                                                                               |
| Brunel Pension Partnership                                                                              | Infrastructure<br>Funds      | Outperform CPI + 4%                                                                                                                                                                           |
| DCC Investment Team                                                                                     | Cash                         | Outperform GBP 7 Day LIBID                                                                                                                                                                    |

Appendix 2

Pension Partnership



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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.

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## Who we are

Brunel Pension Partnership Limited (Brunel) is one of eight national Local Government Pension Scheme (LGPS) Pools, bringing together circa £30 billion investments of ten 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 Responsible Investment and stewardship underpinning our mutual commitment to investing for a world worth living in.



We believe in making longterm 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



Brunel is authorised and regulated by the Financial Conduct authority as a full-service MiFID firm. We use the name 'Brunel' to refer to the FCA- authorised and regulated company.

Company registration number 10429110 Authorised and regulated by the Financial Conduct Authority Na 790168.



We aim to deliver 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.

**Stewardship** is essential if Brunel is to deliver on these aims.

## What is Stewardship?

We are committed to responsible stewardship and believe that through stewardship we can contribute to the care, and ultimately 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."

Top down Brunel undertakes stewardship of its capital in the design, construction and monitoring of its portfolios. We support clients in undertaking responsible allocation when reviewing strategic asset allocation in setting their investment strategy. Through amongst other things, we provide training, workshops, detailed briefing papers and analytics, including ESG (environmental, social and governance) and carbon metrics.

At Brunel we strive towards continuous development. We support the United Nations Principles for Responsible Investment (UNPRI) Active Ownership 2.0, which seeks to elevate Stewardship to the next level, from just voting and engagement. In this was we pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues.

From a bottom up perspective, we focus on:

- Engaging with companies and holding them to account on material issues
- Exercising rights and responsibilities, such as voting
- Integrating environmental, social and governance factors into investment decisionmaking
- Monitoring assets and service providers
- Collaborating with others
- Advancing Policy through advocacy



### Stewardship policy

This policy should be read in conjunction with the Responsible Investment (RI) Policy, the Climate Change Policy and the Voting Guidelines. Brunel's' Responsible Investment Policy sets out the broader 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 sets out how we operationalise these policies.

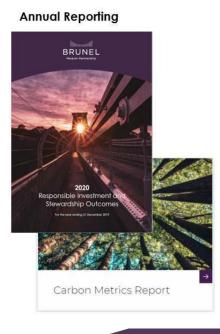
The policy has been developed to meet a range of stakeholders, public policy, and regulatory requirements. We have attempted to put everything in one easy place to aid in transparency and to meet the needs of our different stakeholders. As a result, the content is quite extensive. The policy should be used more as a reference manual rather than a traditional policy.

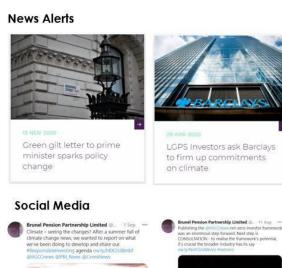
### **Governance and Oversight**

The Brunel Board approves and is collectively accountable for the broader suite of Brunel's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

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









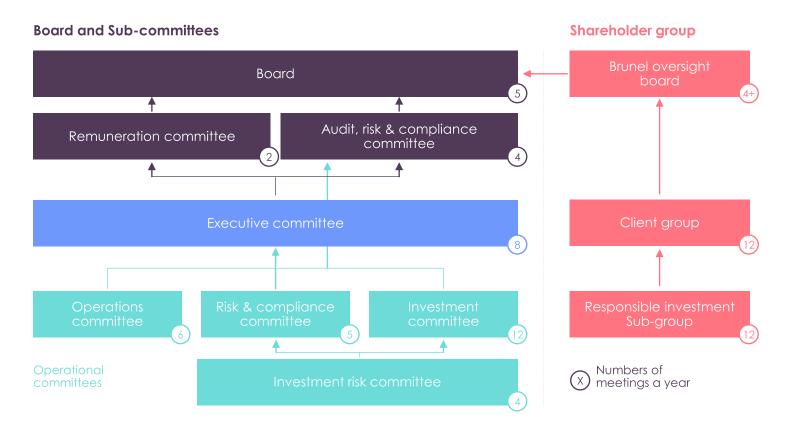
Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of the client base and meets monthly, it provides an opportunity for clients to:

- Raise stewardship interests
- Share best practice with Brunel and amongst partner funds
- Provide insights on concerns, issues, and member perspectives
- Shape priorities of Brunel and EOS at Federated Hermes
- Review reporting outputs
- Knowledge share and receive a deeper dive into topics of interest
- Access expertise
- Consult on policy design and development

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.

### Our governance structure





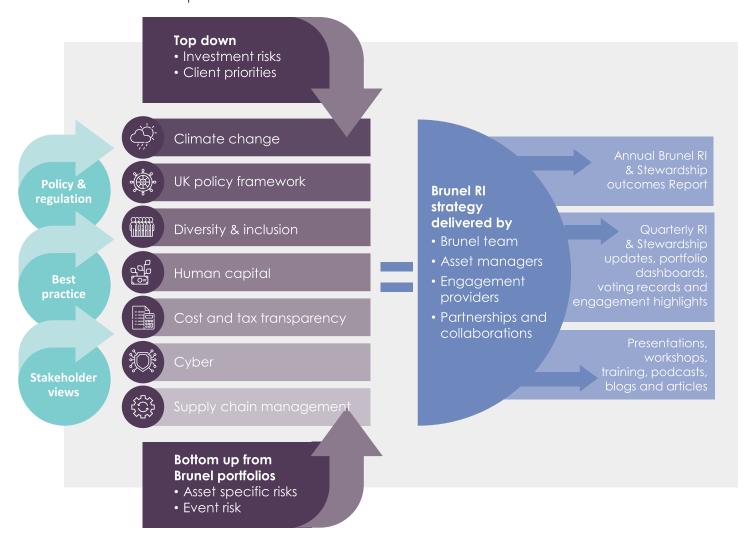
## Identifying and Prioritising Engagements

Engagement objectives for Brunel are identified in three ways.

- Firstly, top down, we identify thematic areas of risk and opportunity.
- Secondly, bottom up, we review our exposure to individual companies and to specific ESG
  risks and opportunities. Companies will be identified through asset managers, collaborative
  engagement forums, external research, and Brunel's own internal ESG risk analysis.
- Thirdly, reactively to events, for example, after a specific, usually significant, incident. The companies that we actively engage with will be prioritised based on our level of exposure and the probability of successful outcome.

#### The thematic priorities as identified in our RI policy are:

Brunel RI & Stewardship Priorities



When undertaking collaborative engagement, Brunel will assess alignment to our priorities and check for any potential conflicts of interest.

Brunel evaluates market-wide systemic risks such as interest rates and geopolitical issues during monthly Investment Committee meetings. We identify thought pieces and projects to take a deeper dive on specific issues as required.



### Public Policy, UK and Global Codes of Best Practice

We are global investors and apply our principles of good stewardship globally. We are strong advocates of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aim to adopt best practice. 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 the codes and supporting guidance. We publicly disclose all our consultation responses on our website: stewardship/policy-advocacy.

Brunel publishes an annual Responsible **Investment and Stewardship Outcomes** Report which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support Brunel's compliance with the Shareholder Rights Directive II.

We are strong supporters of the UK Corporate Governance Code and the application of the Companies Act \$172 (Duty to promote the success of the company). Indeed, \$172 shapes our engagement with companies. We believe corporate behaviour in line with the spirit of the Act more broadly is essential to our objective of contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

We encourage companies either to comply with such codes or to fully explain their reasons for noncompliance. However, we are also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

Brunel is a signatory of the UN-backed Principles for Responsible Investment (PRI) and we align our practices and processes to their six principles. We support the belief that stewardship is the most powerful tool investors have at their disposal to align our economy and society with the interests of beneficiaries and wider stakeholders.





### **Transparency**

Good stewardship requires a good understanding of the assets we invest in. We do this directly, through EOS at Federated Hermes, our asset managers, and other initiatives. Working closely with company Boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. We also acknowledge that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions. Being pragmatic to ensure we focus on the outcomes of active ownership does not diminish Brunel's commitment to transparency.

We publish regular updates on our stewardship activities, including an annual summary of our engagement plan, quarterly engagement and voting activity analysis, voting records at least twice a year, and our annual PRI Transparency report.

We publish an Annual Responsible Investment and Stewardship Outcomes report which shows the progress we are making on our RI and Responsible Stewardship activities.

#### Collaboration

We believe working collaboratively is essential to delivering our objectives as the scope and scale of our investments means that we need to draw on the expertise of others, not least the asset managers we employ. In addition to managers and specialist advisors, we are supporters of a number of organisations and initiatives that enable our ability to work collaboratively – the key ones are outlined in our RI Policy. Our reporting will evidence our activities.



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The management of conflicts is important in building long-term relationships with the companies we invest in and with our partnerships. Brunel has a robust approach to conflicts of interest, with comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of clients, as well as the clients' members and their administering authorities. 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 agreements.

More details of Brunel's approach are available on our website.

Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, our appointed engagement voting provider, approaches conflicts of interest is available on their website



# Informing Stewardship – Use of Data Providers

Brunel utilises a variety of data sources to inform our stewardship. 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. In addition to our own and our asset managers' analysis of ESG risks within our portfolios, and media and company reports, we also use a variety of third party proprietary and public data sources.

Data sources utilised by Brunel are detailed in Annex A. Our primary data sources are:

| Provider                            | Description                                                                                                                                                                                                                                                                  | Link                                |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| TruValue<br>Labs                    | TruValue labs uses artificial intelligence to bring together news<br>and media information and integrates the Sustainability<br>Accounting Standards Board's (SASB) materiality framework. A<br>variety of scores are produced to indicate ESG performance<br>and trajectory | www.truvaluelabs.com                |
| RepRisk                             | RepRisks' suite of powerful risk management and compliance tools helps to reduce blind spots and shed light on potential business conduct risks that may lead to reputational, compliance, and financial loss. Their data provides coverage of private market investments.   | www.reprisk.com                     |
| S&P Trucost                         | Trucost, part of S&P Global, provides data for carbon emissions, coal power production, and fossil fuel reserves, as well as other environmental data, such as water use and pollution.                                                                                      | www.trucost.com                     |
| Sustainalytics                      | Sustainalytics controversies research identifies companies involved in incidents that may negatively impact stakeholders, the environment, or the company's operations.                                                                                                      | www.sustainalytics.com              |
| Transition<br>pathway<br>initiative | The Transition Pathway Initiative (TPI) is a global, asset ownerled initiative which assesses companies' preparedness for the transition to a low carbon economy.                                                                                                            | www.transitionpathwayinitiative.org |

There is a lack of standardisation and transparency across ESG data. Differing methodologies can lead to different outputs and biases. We use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in our Responsible Investment Policy and Climate Change Policy.

These sources of data are embedded into quarterly reports reviewed at quarterly Brunel Investment Risk Committee meetings;

the data is reported alongside qualitative stewardship insights. The data sources are also utilised in everyday monitoring and embedded into quarterly public reports, empowering stewardship, and oversight of our clients.

We recognise that data provision is a continuously evolving area. We review our use of providers annually and provide feedback where developments could be made. We seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure we have robust, independent and effective data to work collegiately with our external asset managers on the management of the whole spectrum of investment risks.

BRUNEL
Pension Partnership

## Stewardship Implementation across asset classes

Stewardship responsibilities extend to all asset classes held by Brunel. Our approach has to be appropriate for each asset class and style of investment we choose. Further detail on our approach for each of the areas we hold is detailed in this section of the policy, these areas include:

- ✓ Listed equites (passive and active)
- ✓ Private markets (property, infrastructure, secured income, private debt and private equity)
- √ Fixed income
- ✓ Liquid alternatives

Publicly listed equities account for nearly half of the assets that Brunel manages and is the most developed area of active ownership in the investment industry. We recognise the approach needs to be tailored to each type of investment (asset class), take account of the level and legal structure of ownership, regulatory expectations, and limitations, and be mindful of differences across geographies.

More information as to the definitions and objectives of these asset classes is outlined in Our Portfolios on our website.

### **Asset managers**

Listed below are some of the key issues we address when appointing managers across all asset classes. These key issues form part of ongoing manager monitoring. Manager stewardship is risk assessed on a quarterly basis and given a rating. This is reviewed by the Brunel Investment Risk Committee. Further detail will be included in our Responsible Investment Policy.

Managers provide a range of reporting to Brunel on a monthly and quarterly basis.

The shift towards outcomes and milestones in stewardship reporting is relatively new and not everyone is at the same starting point. We will work with our managers to navigate the best way of communicating on our behalf. We want to avoid being overly prescriptive and develop an approach that works for managers and their investment approach whilst delivering consistency in reporting.

| 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 |                |



# Listed Equities

A listed equity is one where you own a part or 'share' of a company that is publicly listed. In other words, anyone can buy it. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs).

We believe well-governed companies are critical to the creation of long-term value for shareholders, other stakeholders, society and the environment.

We expect companies to comply with regulation and other company law in the countries in which they operate, as well as with any relevant regional or international requirements.

To support and sustain the development of well-governed companies, our active ownership focuses on two interrelated activities: engagement and voting. We have included an extract from the **Principles of Responsible Investment** guide to active ownership, which explains some of the key concepts and terms used in the policy.



# Defining engagement and voting practices

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

Shareholder engagement captures any interactions between the investor and current or potential investee companies on ESG issues and relevant strategies, with the goal of improving (or identifying the need to influence) ESG practices and/or improving ESG disclosure. It involves a structured process that includes dialogue and continuously monitoring companies. These interactions might be conducted individually or jointly with other investors.

Collaborative engagements include groups of investors working together, with or without the involvement of a formal investor network or other membership organisation.

Voting refers to the exercise of voting rights on management and/or shareholder resolutions to formally express approval (or disapproval) on relevant matters. In practice, this includes taking responsibility for the way votes are cast on topics raised by management, as well as submitting resolutions as a shareholder for other shareholders to vote on (in jurisdictions where this is possible). Voting can be done in person, during an Annual General Meeting (AGM), or by proxy.

Ballot items are not always closely related to environmental and social issues and cover financial performance, risk management, strategy and corporate governance matters.

Voting and engagement practices are interrelated and feed into each other; one can be the initiator or the complementary tool of the other.

Source: PRI, Introduction to active ownership in listed equity, February 2018.



## Engagement

Engagement is implemented through three avenues. Firstly, engagement is undertaken by our asset managers. Secondly, our specialist provider EOS at Federated Hermes (EOS) provides additional coverage of our active equity portfolios and corporate fixed income. Lastly, engagement is undertaken via collaborative forums. However, Brunel will seek to undertake direct engagement where we feel that this will add value.

We also undertake thematic engagement or engagement within the wider supply chain. In some instances this means engagement will take place with companies not in the portfolio.

Brunel has a dedicated Stewardship Manager who oversees the engagement undertaken by managers and provides input into the quarterly manager stewardship review.

Our stewardship manager also plays a pivotal role in overseeing our engagement and voting provider, identifying collaborative initiatives, and direct engagement opportunities. All engagement opportunities are reviewed against our Responsible Investment Priorities and the engagement already being undertaken to avoid duplicated efforts and to maximise impact.

### **Engagement by Brunel's** managers, Brunel and via collaborative forums

On an annual basis Brunel publishes its Responsible Investment and Stewardship Outcomes report. This includes examples of engagements undertaken by our managers, via collective forums, or by Brunel. The report will also detail progress made against key performance indicators (KPI's), milestones and the next steps we aim to take. Objectives are outlined in our Climate Change Policy and Responsible Investment Policy.

## **Engagement and Voting Provider**

Brunel also utilises the services of an engagement and voting provider. This supplements quantitative investment strategies, where engagement is less prominent, and enables us to maximise coverage. The utilisation of this service enables wider coverage of assets and provides access to further expertise across different engagement themes. Additionally, the team's languages, connections, and cultural understanding greater enhances the ability to create and maintain constructive relationships with company boards. As a long-term institutional investor, the service provides a continuity to engagement with a long-term focus.



### Selection, Monitoring and Feedback

Brunel selected EOS as our appointed engagement and voting services provider following competitive tender and a comprehensive due diligence process. Coverage includes segregated active equity portfolios and corporate fixed income. In line with any procurement of third-party services, there is a monitoring process in place to ensure delivery of service meets expectations, and in this instance that there is continued alignment of engagement and voting priorities and practices. Brunel is in regular contact with Hermes throughout the year. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

Brunel's engagement priorities are communicated to EOS. There are multiple and distinct touchpoints throughout the year that we utilise to provide feedback on the engagement plan, as well as on an ongoing basis through our dedicated relationship manager.





### **Engagement Plan and Approach**

EOS' engagement plan, which Brunel and its clients feed into, is available on our website. Engagement focuses on the greatest potential for long-term positive outcomes for investors and their beneficiaries. The plan covers a three-year period and is reviewed annually.

Brunel aims to tackle difficult and interconnected priorities that could materially impact the value of clients' assets. It can therefore take a long time to see change, and 'success' can be difficult to measure as it is often reflected in the overall market value. 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.

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

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



EOS supports Climate Action 100+, a collaborative investor initiative. EOS are the engagement lead for a considerable number of the top systemically important emitting companies. EOS also engages with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate, to be more sustainable.



## Reporting

Brunel and its clients receive comprehensive reporting on the engagement and voting being undertaken. Summary reports are publicly available on our website.

Stewardship/engagement-records

Stewardship/voting-records





Brunel also has access to more detailed engagement info via the EOSi portal on a confidential basis.



### **Engagement escalation**

Brunel's investments cover thousands of companies; we need to take a pragmatic approach to escalation. Brunel operates a clear process of engagement escalation. Through the Brunel Investment Risk Committee (BIRC) and the Brunel Investment Committee we may identify escalation to our investment managers. We seek updates on the company's managers are engaging with, what they are engaging on, how they assess the risk, and what level of escalation they are undertaking. In parallel we may look at the engagement EOS are undertaking, their engagement targets and escalation. We may use collaborative engagement and reach out to other investors to elevate areas of concern to companies.

Voting is an intrinsic part of the escalation process. Brunel, supported by EOS, executes thousands of votes annually. It is conceivable that a large proportion of votes executed against management will not reach thresholds to pass a resolution, particularly where voting principles are more progressive. This does not indicate a failure; companies may be required to publicly respond to shareholder concerns and at times will adopt resolutions where abstention levels exceed 20%. It can take time for voting recommendations to be adopted across the investment industry and for resolutions to receive higher levels of abstention. Prior to considering escalation, Brunel reviews its voting record and voting principles annually to ensure that objectives remain appropriate and progressive.

On a case by case basis we may "pre-declare" or publicly announce our voting intentions for resolution, address AGMs or consider co-filing

of shareholder resolutions. On such occasions there will have been prior extensive engagement, a clear risk to shareholder value, and the objective will be to raise awareness with other investors of the risks represented. This type of action will be used sparingly as it is generally used when other attempts at active ownership have not proved successful. Brunel also shares details of engagement opportunities with clients and facilitates client attendance to company AGMs, where clients have the opportunity to escalate any concerns and pose questions directly to the company.

The nature of the investment system, and financial markets more generally, contribute to the challenges of addressing certain risks. Systemic risks require elevation of engagement to an industry level, policy advocacy and consultation. If we believe the risk to long-term shareholder value is being undermined, and that all other avenues have been exhausted, we will then undertake product development and benchmark reviews with clients, outside of normal reviews.

Similar principles apply in identifying any concerns or issues and escalating with the manager in other asset classes. The range of tools available vary subject to different regulatory and contractual requirements. Business as usual manager monitoring and product governance provide the primary governance framework across other asset classes where voting frameworks are not available.



#### **Fixed income**

Fixed Income securities are debt instruments that pay a fixed amount of interest or dividend payment until its maturity date, when the principle amount invested is returned.

### Listed corporate debt

We believe well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment. Brunel integrates Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs). We look to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

We also recognise improvements required to data availability, which is lacking for some markets but also inherently geared towards equities, where the integration differs. Through our data providers, we provide feedback where we identify improvements that can be made.

### Other fixed income

Other fixed income might be included in our multi asset credit portfolio and could include sovereign bonds, and other debt instruments where voting rights are not attached and where opportunity to engage is limited. Stewardship focuses on the managers Investment decision-making.

## Liquid alternatives

Stewardship is limited by the nature of these products. Diversified returns funds and hedge funds incorporate a wide range of investment strategies and multi asset funds providing diversification. Investors own units in these funds rather than owning the underlying holdings directly. Stewardship focuses on the managers Investment decision-making.



#### **Private Markets**

Private markets are those that are not available through public markets, such as an exchange, and include asset classes such as infrastructure, real estate, private equity, and private debt. Private markets are an attractive means to diversify portfolios and enhance long-term returns.

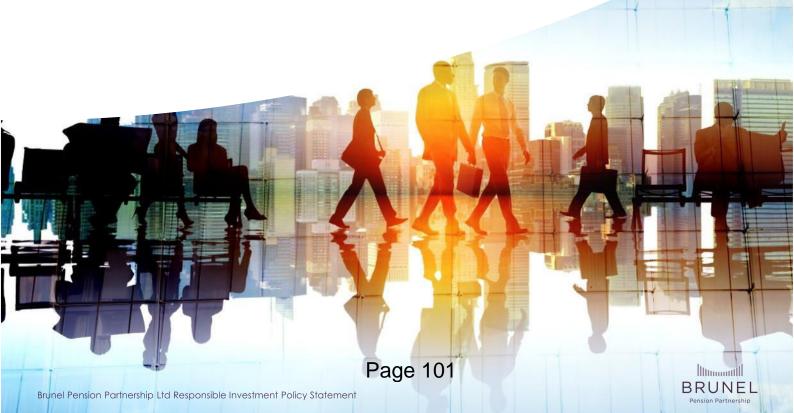
Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and longterm nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners (LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, we pay particular attention to ESG and sustainability throughout the selection process. We believe that wellgoverned investments and those with strong ESG and sustainability characteristics will offer better long-term risk-adjusted returns. Prior to launching a new Brunel Portfolio, the Brunel team produce a scoping document that

states key requirements and portfolio specifications, with a significant focus on ESG risk and sustainability.

We expect managers to have firm ESG and climate change policies in place, and for these to be considered across the value chain, from investment due diliaence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence we examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. We will support managers on their journey and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of our investment, our position in the capital structure and the influence that does or does not permit.



### Brunel's Stewardship actions across private markets include;



Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets



Assessing the manager's approach to diversity and inclusion and where possible tracking metrics to substantiate claims



Assessing the manager's knowledge and commitment to Responsible Investment and climate change mitigation and avoidance



Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.



Supporting the manager's ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)



Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework



Assessing the awareness, training, capacity and track record on Responsible Investment issues



Working with managers to improve transparency and quality of the manager's ESG approach and reporting



In addition to the criteria above, our due diligence involves asset class specific analysis that we detail below.

Once a private markets manager is appointed or an investment selected, they are subject to extensive ongoing monitoring. The private markets team reviews a fund risk dashboard on a weekly basis covering the capital raising, deployment, key person, limit breaches, concentration, reporting, accounting, key data providers and regulatory factors. Managers are rated across these factors as 'good', 'minor concerns', 'on watch' and 'unacceptable' with commentary supporting each factor rating. Significant changes are discussed within the team and with the manager and escalated as appropriate.

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### Infrastructure

Assessing ESG and broader Responsible Investment factors allows us to identify risks and opportunities associated with each asset class. For example, we do not assume that, just because assets are within the renewable infrastructure space, they automatically have strong ESG credentials.

Whilst wind, solar, hydro and bio-energy generation are very much part of the solution to tackle climate change and move to a low carbon future, these investments are not without issues. As with all real assets, they are at risk during the transition phase.

#### Specific stewardship considerations in infrastructure include:



Assessing how managers have incorporated both transition and physical climate change risks into their due diligence, for example challenging managers to stress their base case assumptions and to factor in resilience to flood, drought and extreme weather events into capex and cash flows of financial models.



How managers have considered the full life cycle of assets, including which Original Equipment Manufacturer (OEMs) they use and their approach to decommissioning and what will happen to the equipment at the end of the life cycle. For example, we have engaged with our managers on how they are recycling the components and blades from wind farm assets, batteries and solar panels, and how they are working to make this more sustainable going forwards



Evaluate and encourage further positive engagement with communities and the approach that managers take to protecting the environment and biodiversity, both during construction and operation and in the decommissioning stage.



The use of tools, such as the Global Real Estate Sustainability Benchmark, to provide a consistent evaluation framework of current performance and opportunities for engagement and further development

As part of our enhanced due diligence for infrastructure, we use a third party global private markets firm, Stepstone; to manage dedicated investment vehicles for Brunel's clients. This includes the search and selection of infrastructure manager primary funds, secondary market opportunities and direct co-investments.

Stepstone provides us with details of any managers it wishes to research in more detail, which allows Brunel to decline an investment proposal if we have concerns, including but not limited to concerns over climate change.



### Real Estate

We treat ESG, climate change and sustainability as key considerations when we are assessing and monitoring our real estate managers.

Assessing the managers' approach in considering and modelling physical climate change risks, and how these are fully integrated into their due diligence and ongoing property management

Supporting the adoption of ESG or 'green leases' where appropriate, which can demonstrate a commitment to sustainability

Using tools, such as the Global Real Estate Sustainability Benchmark to evaluate current performance and opportunities for engagement and further development

Assessing and monitoring

Evaluating the approach and effectiveness of tenant engagement around issues such as energy and waste management and, where properties are tenant managed, to improve the reporting of these metrics

Assessing the approach that managers take to improving the sustainability credentials of assets through refurbishments and green retrofits, as well as how ESG has been incorporated throughout supply chains

Endeavouring to improve the reporting of ESG issues, including carbon reporting and climate specific metrics within our real estate portfolios and are actively working with managers to increase transparency and reporting of these areas

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Brunel Pension Partnership Ltd Responsible Investment Policy Statement

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### Private Equity

Private equity lends itself well to Responsible Investment due to its strong emphasis on stewardship and the value creation stemming from improving ESG standards and practices, within both primary and secondary private equity funds.

#### Our stewardship approach includes:



Assessing and monitoring private equity managers' policies and investment practices, and whether a systematic and repeatable process is in place for incorporating ESG risks and opportunities



Evaluating how the General Partners identify ESG issues as part of initial screening and, if appropriate, on-going monitoring



Considering, re we are assessing private market secondary funds, the extent to which the manager is undertaking bottom-up due diligence on the underlying companies.





Our due diligence extends to how General Partners create portfolio company value by improving ESG standards, including the use of 100-day plans and how ESG is fully integrated into the ongoing investment process



Considering the approach that managers have around human capital and diversity and inclusion as companies themselves but also for the workforce of portfolio companies and encourage on-going engagement, where appropriate and practical to do so



#### **Private Debt**

When assessing ESG within private debt we do not take a generalised approach due to the heterogenous nature of the asset class. As well as considering many of the aforementioned criteria, we undertake due diligence on private debt by assessing the type of private debt strategy and its underlying characteristics.

- Where a fund is classified as 'thematic' or 'impact', our due diligence extends to the manager's criteria for inclusion into the fund. We challenge the manager's approach to defining impact and any associated screening.
- ✓ Understand how managers undertake positive impact reporting
- ✓ The inclusion of any ESG terms in covenants



### Exercising shareholder rights

### Voting in listed equities

The vast majority of voting is undertaken within listed equities. However there are occasions in other classes where voting may be available. Our approach to private markets and listed alternatives is detailed at the end of this section.



#### Brunel aims to vote 100% of all available ballots.

However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified. Brunel has in place appropriate mechanisms to monitor voting execution.

#### Voting is guided by a single voting policy for all assets managed by Brunel in segregated accounts.

A segregated account is one in which the 'shares' are held separately from other investors and we are able to instruct the voting directly.

Voting will also be undertaken in the pooled listed equity funds in which Brunel invests. A pooled fund is one which has multiple investors in the same account. Pooled funds are used by pension funds as they are a very cost-effective way to get exposure to a large, diverse universe of companies.

#### Passive pooled

The most significant pooled funds are our passive or index pooled funds. As with most pooled funds, our provider is not bound by our specific voting guidelines. However, stewardship capability and implementation are important to the selection of our pooled index provider.

The below link provides information on our appointed provider, Legal and General Investment Management's, approach to active ownership.

We have a mechanism with our passive pooled provider that on a limited number of occasions we will be able to direct voting for our pooled holdings so that it is aligned with our active segregated holdings. By working closely with our pooled index provider on engagement and voting, we will aim for greater alignment so that the mechanism may not be necessary in the future.



### Exercising shareholder rights

#### Other pooled instruments

For our other pooled funds managers are not bound by our specific voting guidelines, however stewardship capability and implementation were important elements of the selection process. Quarterly voting reports are provided to Brunel; voting implementation is an element of ongoing manager monitoring.

#### **Split Voting**

In the spirit of pooling Brunel strives to operate with a single voice but is also committed to ensuring it meets the needs of clients. We have made provisions to allow clients, by exception (where they have a specific investment policy commitment), to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM. Our voting procedure outlines the process in more detail

#### **Share Blocking**

Share blocking is a mechanism used in some markets and results in shares being frozen, meaning that they may not be traded for a specified period prior to a shareholders' meeting. Where share blocking operates, a pending trade may fail if it settles during the blocked period. Brunel will default to the manager's approach to shareblocking to ensure that trading is not disrupted. Our voting procedure includes approval requests from managers if blocking is operating to enable voting to be executed where possible.



### Voting process



Implementation of the Voting Policy for segregated active accounts is supported by EOS at Federated Hermes (EOS), our appointed engagement and voting services provider. Our voting quidelines will inform their recommendations alongside other country and region-specific guidelines.

Voting decisions will be informed by investment considerations, consultation with portfolio managers, clients, other institutional investors and our engagement with companies Another consideration is our work with collaborative forums and partners, for example, the Local Authority Pension Fund Forum (LAPFF), which acts as a collaborative forum for LGPS issues and voting. Brunel will be mindful of LAPFF voting alerts or other collaborative group recommendations but not bound by them. We will support shareholder resolutions and consider co-filing where we feel this is the appropriate course of action, and usually where there has been prior engagement. We will not support shareholder resolutions where they are overly prescriptive and subvert the role of the board.

Where a decision is made not to support the Board's recommendation on a resolution at a company, we aim to engage with the company prior to our vote. This will generally be at companies with whom we already have an engagement relationship, at other larger companies where we hold a material stake of the share capital or where there is a material concern. We will also seek to inform such companies of any recommended votes against management together with the reasons why. Where there is not prior engagement, we will inform companies on a best efforts' basis.

Further details on how we execute voting instructions for our segregated active equities and fixed income portfolios are provided in Annex B.

#### **Mergers and Acquisitions**

The process for voting on 'standard' corporate actions will follow the same process as above, but managers will be required to ensure their corporate actions team are notified of the recommendation. For mergers and acquisitions the same process will apply except for contentious activity. For a contentious merger or acquisition, Brunel will direct the voting.



### Voting in other asset classes

#### Private markets

Most of our private market investments for private equity and infrastructure are through Limited Partnership arrangements which do not have automatic voting rights, except where we are part of the Limited Partnership Advisory Committee (LPAC). Where this is the case, we have approval rights for items such as changing contract terms (e.g. extensions or restrictions) and approving members of committees. Brunel seeks LPAC seats where possible in order to exert our influence, and we have this for the majority of our private equity and infrastructure investments. We work closely with our appointed managers to support their Responsible Investment and ESG efforts, improve standards and encourage best practice.

For property investments, we have voting rights for Collective Investment Schemes, either via forms or the Broadridge online platform. Voting decisions for all private market asset classes are sent to our Private Markets Team, who along with our legal team negotiate side letters that align with Brunel's ESG and wider governance requirements.

#### Liquid alternatives

Most of our liquid alternatives include instruments or are through investment vehicles with no attached voting rights. We do ,however, have voting rights for the investment funds. Where this is the case Brunel retains full voting rights. Notifications are sent directly to Brunel from Broadridge. Voting is informed by our voting policy and input is sought from the Brunel portfolio manager.



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### Stock lending and share recall

We believe that stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing.

The voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence.

Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. Brunel has undertaken a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- an approved borrowers list
- Retention of 5% of any one stock
- On average, stock will be lent no longer than 21 days
- Restrictions on acceptable collateral

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where we decide not to stock lend, for example where we have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend resides with our clients and could be considered to be an investment decision in its own right. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Our approach to responsible stock lending is outlined in further detail in a separate policy.



#### Recall process

Brunel selected Minerva Analytics Ltd (Minerva) to provide a stock lending ESG monitoring service. The appointment enables identification of relevant situations where recall may be required in order to discharge our responsible stewardship. Minerva will provide a timely monitoring and notification system highlighting meetings with shareholder resolutions, contentious resolutions and against-custom voting policy indicators.

In addition, Minerva's comprehensive governance, sustainability and remuneration due diligence reports offer relevant information on ESG issues to inform the recall decision. The reports serve a dual purpose in providing additional input into the vote decision process. Minerva will produce an annual stock lending report.



### Annex A

| Provider                                                   | Description                                                                                                                                                                                                                                                                                                                                                                                                           | Link                               |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Access to<br>Medicine<br>Foundation                        | Produces three indices, Access to Medicine, Access to Vaccines and Antimicrobial Resistance (AMR). The Indices report how pharmaceutical companies make medicines, vaccines, and diagnostics more accessible for people in low- and middle-income countries, how they are bringing AMR under control and ensuring children can be immunised including in the poorest and most remote communities.                     | www.accesstomedicinefoundation.org |
| Business<br>Benchmark on<br>Farm Animal<br>welfare (BBFAW) | BBFAW is the leading global measure of company performance on farm animal welfare. Since its inception in 2012 BBFAW has established itself as a catalyst for change in corporate practices on animal welfare management and reporting.                                                                                                                                                                               | www.bbfaw.com                      |
| Gender Pay Gap                                             | UK Employers with 250 or more employees must publish and report specific figures about their gender pay gap. These are then published by the UK Government.                                                                                                                                                                                                                                                           | www.gender-pay-gap.service.gov.uk  |
| Know the Chain                                             | Know the Chain evaluates companies' efforts to address forced labour in their supply chains. Sector coverage includes, Food and Beverage, Information & Communications Technology, and Apparel & Footwear.                                                                                                                                                                                                            | www.knowthechain.org               |
| Ranking Digital<br>Rights                                  | The Ranking Digital Rights Corporate Accountability Index evaluates the world's most powerful internet, mobile, and telecommunications companies on their disclosed commitments and policies affecting freedom of expression and privacy.                                                                                                                                                                             | www.rankingdigitalrights.org       |
| Workforce<br>Disclosure<br>Initiative                      | The Workforce Disclosure Initiative (WDI) aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide.                                                                                                                                                               | www.shareaction.org/wdi            |
| World<br>Benchmarking<br>Alliance (WBA)                    | WBA has set out to develop transformative benchmarks that will compare companies' performance on the sustainable development goals (SDGs). The benchmarks will be backed by the best available science, while leveraging existing international norms and standards.  The first benchmark launched under WBA is The Corporate Human Rights Benchmark (CHRB). CHRB assesses 230 of the largest global companies in the | www.worldbenchmarkingalliance.org  |
|                                                            | world on a set of human rights indicators.                                                                                                                                                                                                                                                                                                                                                                            |                                    |



### Annex B

### Executing voting instructions - segregated active equities and fixed income

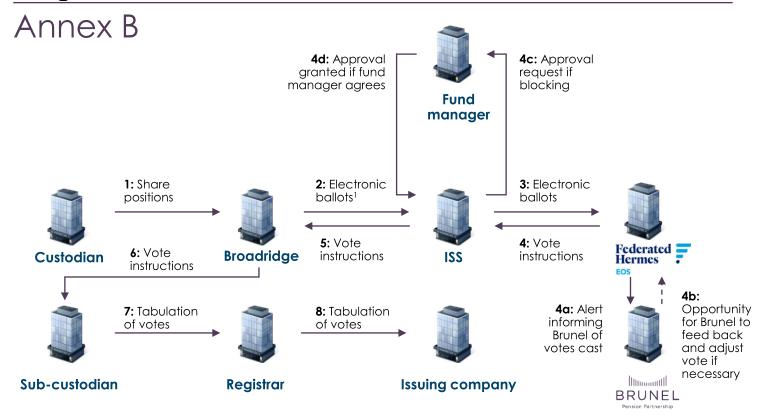
The industry process for executing votes, the 'voting infrastructure', is unhelpfully complicated. While there will be exceptions for some markets, the process will follow this path:

- 1. Notification of an AGM/EGM is sent to Brunel's Custodian, State Street
- 2. State Street will generate the share positions using its digital voting platform, Broadridge
- 3. Broadridge will issue electronic ballots\* to the designated proxy voting provider, ISS
- 4. ISS will share the electronic ballots and research with our appointed advisor, EOS
- 5. EOS, with reference to our voting guidelines, will issue a recommendation 'alert' to Brunel and the asset manager/s who hold that company
  - Where Brunel does not agree with an EOS recommendation, Brunel will discuss with EOS and the recommendation will be updated accordingly
  - Where the asset manager identifies a different approach to the EOS recommendation they are asked to report quarterly to Brunel. In exceptional circumstances where asset managers do not agree with EOS recommendation, the manager will contact EOS to discuss with the analyst

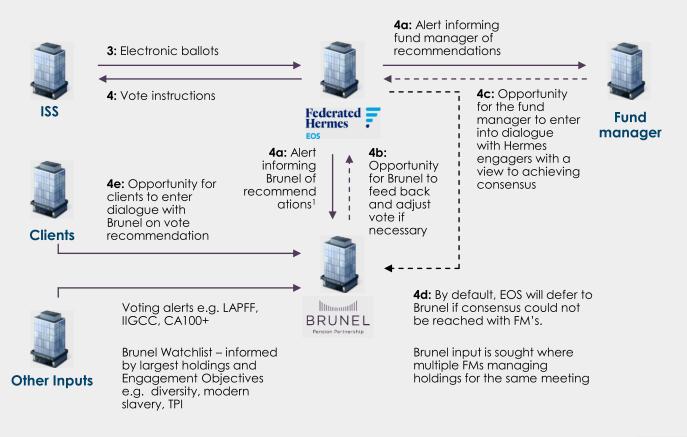
- If a consensus is reached, the voting instruction will reflect that view and Brunel will be informed if there has been a change
- Where consensus is not reached, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
- 6. Where there are multiple asset managers who hold a stock and one or more manager does not agree with the recommendation, Brunel, after taking feedback from EOS and the asset managers, will direct the voting recommendation
- 7. Recommendations become vote instructions and are issued via the ISS and Broadridge platforms to sub custodians, the registrar, and the issuing company where the vote is tabulated
- 8. Analytics of voting activity and voting records are generated every quarter for each Brunel client and loaded onto the Client Portal
- 9. Brunel voting records are published not less than twice a year on Brunel's website

\*where Broadridge does not generate an electronic ballot, ISS will use its own systems or undertake manually, based on the information sourced directly





<sup>1</sup> Electronic ballots are generated by Broadridge in the vast majority of cases. In other cases, ISS either generates ballots using their Global Proxy Distribution (GPD) service based on share positions sourced from the custodian, or manually based on share positions sourced directly from clients. The approach taken depends on the custodian and their chosen method of supporting proxy voting.







### Getting in touch with the team

If you have any questions or comments about this policy, please email Helen Price, Stewardship Manager 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

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Past performance is not a guide to future performance.

Authorised and regulated by the Financial Conduct Authority No. 790168



# Voting Guidelines

This policy should be read in conjunction with our <u>Stewardship Policy</u> which details the implementation of our voting guidelines and the review process.

Approved by the Board of Brunel Pension Partnership Ltd

Last updated 01 12 2020

Company registration number 10429110 Authorised and regulated by the Financial Conduct Authority No. 790168





The voting policy provides broad guidelines, within which voting decisions are assessed and implemented on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific market, company, and meeting circumstances.

Below, we set out a range of principles on key topics, which express our expectations of companies and their boards and management. Failure to meet any of these will be factored into the assessment of whether to support a relevant resolution proposed by management or by shareholders at a company's annual or extraordinary general meeting, or otherwise in writing.

Our <u>Responsible Investment Policy</u> sets out our engagement themes, which are used to focus our engagement programme. Our <u>Climate Change Policy</u> provides further detail on our engagement programme. Some engagement themes do not have a directly related voteable action – for these areas, it can be more effective to communicate views via engagement with companies. We have included our engagement outcomes below, to demonstrate how engagement and voting is linked, and to indicate how we will engage and/or vote on each principle. Where we feel that companies are consistently unreceptive to engagement, we will consider voting to oppose relevant board members or resolutions. Omission of an issue in the voting policy does not preclude a vote against a particular resolution.



### **Brunel Voting Principles**

#### What companies can expect from Brunel

- Voting: We will always seek to exercise our rights as shareholders through voting
- **Consistency**: We aim to vote consistently on issues, in line with our Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. We will consider our engagement with companies when voting
- **No abstention**: We aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision





- **Supportive**: We aim to be knowledgeable about companies with whom we engage and to always be constructive. We aim to support boards and management where their actions are consistent with protecting long-term shareholder value
- **Long-term**: We seek to protect and optimise long-term value for shareholders, stakeholders and society
- **Engagement**: We support aligning our voting decisions with company engagement. We will escalate the vote if concerns have been raised and not addressed in the prior year
- **Transparency**: We will be transparent and publish our voting activity no less than twice per year

#### What Brunel expects of companies

- **Accountability**: The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders
- **Transparency**: We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance
- One Share, One Vote: We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal
- **Informed votes**: We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting
- **Development**: We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion)







### **Voting Guidelines**

We have set out our voting guidelines in the sequence that reflects the level of individual direct control that the company has in managing the topic. For example, climate change is a risk that a company, despite its individual action, in and of itself has no direct control over – it can, however, control its response to that risk. In contrast, appointments to the board, remuneration policy and systems of internal control are wholly within an organisation's sphere of influence. We believe that taxation and the availability and use of human and natural capital sit between these two extremes. By structuring our guidelines in this order, we are highlighting the need for companies to respond to high level global risks; these are often not a focus of attention but failure to manage them can have significant financial consequences. The ordering of the voting principles does not indicate their level of importance.



Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability.

A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.



#### Principle Outcome/Voting Guideline

#### **Sustainable Development Goals**

We encourage companies to demonstrate their commitment to the disclosure of sustainability information and data. Companies should assess the relevance of each UN Sustainable Development Goal (SDG) to their business and incorporate those which are material into their strategies. We encourage companies to report on how they support the SDGs and to engage with civil society on how best to respond to them. We also encourage companies to evaluate their fitness for the future, through benchmarks such as Future Fit.

We will engage with companies on developing their reporting on material sustainably-related financial disclosures and support the use of the SDGs as a framework for companies to articulate their approach.

#### **Climate Change**

We expect companies to effectively identify and manage the financial material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business model.

We expect each company to put in place specific policies and actions, both in its own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial <u>Disclosures (TCFD)</u>. This should include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. We will be holdings companies to account on the quality of their climate plans. We encourage companies to publish their climate transition action plan, to annually disclose emissions and provide the opportunity for shareholders to provide feedback. Companies will be measured against the Transition Pathway Initiative (TPI) criteria.

We expect companies to disclose information on their climate and energy policy lobbying and expenditure, to give shareholders the opportunity to assess whether these lobbying activities are in line with the goals of the Paris Accord.

Climate change is a strategic priority for Brunel and we have outlined our approach in our <u>Climate change policy</u>. Voting is aligned with our engagement, and our expectations will increase over time.

We engage actively on the identification and management of physical and adaptation risks, with a focus on those companies/ sectors that are most financially exposed. We will use our vote to reinforce this engagement.

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. Any changes to scores resulting from a methodological change will be considered in light of other information such as carbon performance.

We may use our vote to reinforce engagement with specific companies in relation to climate disclosure with reference to TCFD.



| Principle | Outcome/Voting Guideline |
|-----------|--------------------------|
| Тах       |                          |

Tax is complex, but it is also the way corporations contribute to the economies in which they operate. We believe openness about the approach taken is a key step to building understanding and trust. Aggressive tax strategies, even if structured legally, can pose potentially significant reputational and commercial risk for companies. We expect companies to: We will engage with companies on tax transparency.

- 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 in which they have a presence
- Disclose the taxes paid by or collected by them in each country
- Provide country-by-country reporting in order to demonstrate that taxes are paid where economic value is generated
- Have an approach to tax policy that is sustainable and transparent

We take a negative view of aggressive tax practices, particularly legally deployed tax practices when a company has relied on government support and aid during turbulent times.



### **Human and Natural Capital**

Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity.

Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks.

Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve long-term returns.

#### Principle Outcome/Voting Guideline

#### **Human Capital Management**

Employees are a vital asset for companies. Boards should oversee the development of human capital management strategies and accompanying objectives that seek to develop the potential of their employees, contributing to a positively engaged, committed and talented workforce. We expect companies to provide qualitative contextual information describing their approach, as well as annual disclosure of the key performance indicators.

We will be engaging on implementation of the relevant updates to the UK Corporate Governance code.

#### **Human Rights**

Companies should 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.

We are supportive of companies who provide disclosure on their workforce and follow the <u>Transparency in supply chains guide</u> issued by the Home Office, and encourage companies to adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chain management. In

We will be engaging with companies to improve transparency and disclosure.

We will consider voting against the annual report and accounts of FTSE 100 companies who have failed to publish an adequate annual modern



#### **Principle**

#### addition, we support the Employer Pays Principle. Policies should also apply to suppliers and sub-contractors.

We support The Global Industry Standard on Tailings Management to achieve the ultimate goal of zero harm to people and the environment with zero tolerance for human fatalities. We also encourage companies to engage with and respect indigenous communities, which, if mishandled, can carry significant reputational risk and severely impact a company's social licence to operate.

#### **Outcome/Voting Guideline**

slavery statement and provided insufficient explanation.

We support resolutions asking for companies to implement policies and management systems addressing human rights.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

#### **Natural Resource Efficiency**

We expect companies to value and appropriately limit their use of scarce and finite natural resources. This will include, where relevant, an assessment of the impact of water use in areas of water stress, opportunities to improve waste management such as reducing single use plastic and boosting resource efficiency by reducing demand, re-using products, recycling materials or otherwise recovering value prior to safe disposal, and explaining what steps the company is taking to help build a more circular economy.

We will engage with specific companies and sectors where we identify a principal risk.

We generally support resolutions requiring a regular review of business policies and procedures in relation to natural resource efficiency.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

#### **Pollution**

We expect companies to avoid and to seek to reduce and mitigate the pollution of the air, water and soil by detrimental toxic or non-toxic materials through their operations, supply chain or products, whether in their usage or following disposal.

We will be engaging with companies to build a circular economy and control pollution to below harmful levels.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

#### Other Social and Environmental Issues

Social and environmental issues are wide-ranging. We maintain more detailed guidance to support issues including but not limited to discriminatory practices, operating in controversial countries, forestry product certification standards, sustainable palm oil, forestry, and GMOs.

Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors in charge of those risks.

## **Company Boards**

#### **Conduct and Culture**

Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct..

| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Outcome/Voting Guideline                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Corporate Culture                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                               |
| Companies should maintain the highest standards of conduct towards all stakeholders, including employees, customers, suppliers, government, regulators and the wider public across all markets. Companies should cultivate a culture that ensures the highest standards of integrity and a respect for others, promotes ethical behaviour and guards against sexual harassment and bribery and corruption, including through robust policies and processes. | We will consider voting against the re-<br>election of directors where we feel<br>business conduct is poor, or against<br>election where the director had a<br>history of poor conduct at a prior<br>company. |

#### **Board Composition and Effectiveness**

The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

#### Principle Outcome/Voting Guideline

#### **Board Committees**

Depending on the size and complexity of a company, we expect to see separate committees for key functions of the board, including but not limited to audit, remuneration and director nomination and succession.

Independent directors should always be in the majority (if not comprise the whole board), in line with local governance codes. For example, in the UK:

- The nomination committee must comprise a majority of independent non-executive directors, including the Senior Independent Director (for larger companies)
- The remuneration committee must consist entirely of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. The chair can only be a member if they were independent on appointment and do not chair the committee
- The audit committee must consist exclusively of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. At least one member should have recent and relevant financial expertise and all members should have competence relevant to the sector in which the company operates

We will generally vote against the election or re-election of individual directors whose presence would cause a board committee to fail to meet local governance guidelines on composition.

#### **Director Attendance and Commitment**

A director should be able to allocate sufficient time to the company to discharge their duties, alongside other commitments, with attendance at board and committee meetings a requirement. The number of board, committee and other meetings attended by each director should be disclosed routinely in annual reporting, with instances of less-than-full attendance explained.

Whether a Board director is over-committed depends on a range of factors, including the number of roles, the size and complexity of a company, travel requirements and any additional responsibilities such as that of a committee chair.

In the absence of a suitable explanation and disclosure to investors, directors should have attended no less than 75% of Board and committee meetings held. We will vote against the re-election of a director where disclosure of attendance is insufficient and there is no valid explanation.

We will consider recommending voting against a director who appears overcommitted to other duties, with the guideline of having no more than five directorships. When considering this issue, we take into account a number of factors, including the size and complexity of roles. Certain industries, such as banking (given its business model and regulatory complexity) and multi-site operating companies such as international mining (due to the need for site visits) require more time commitment. As a broad guideline, we consider a chair role equivalent to two directorships and an executive role



| Principle | Outcome/Voting Guideline                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           | equivalent to four directorships. A chair should not hold another executive role and an executive should hold no more than one non-executive role, except for cases where serving as a shareholder representative on boards is an explicit part of an executive's responsibilities. A significant post at a civil society organisation or in public life would normally also count as equivalent to a directorship, whether executive, non-executive or a chair role. |

#### **Diversity and Succession Planning**

We believe that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background.

We expect companies to be transparent about their diversity policies and encourage disclosure broken down by board directors, executive directors, managers and employees by geography and skill set beyond gender reporting to encompass diversity in its broadest sense.

We support reviews such as <u>Hampton Alexander, McGregor-Smith</u> and <u>Parker</u>, which set goals for the representation of women and people of colour on UK Boards, executive teams and senior management.

In the UK, we advocate for continued development and endorse recommendations made in the Business, Energy and Industrial Strategy Committee report on gender pay gap reporting. Globally, more progressive Gender Pay Gap reporting includes a requirement for companies to disclose the initiatives they have in place and the action they are taking in order to close any stated gap. Reporting requirements also extend to companies with above 50 employees to report. We encourage companies to consider adopting global best practice.

We will engage with companies to continue to improve disclosure on diversity, including gender diversity.

We may vote against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity or may escalate this to withdraw support for the chair's reelection

In the UK, we will vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap, where required to report by government.

Across all markets, we will engage with companies to seek progress on gender diversity at board and executive team level, as well as promoting gender diversity throughout the organisation.

We strongly believe that UK Boards should now have achieved at least 33% female representation on FTSE 350 Boards, the 2020 target set out in the report <u>Women on Boards: 5 year summary</u> by Lord Davies. As members of the <u>30% Club</u> and supporters of the <u>Diversity Project</u>, we support

In the UK, in 2021, we will vote against the election of the chair of the nomination committee of FTSE 350 companies where women or men comprise less than 33% of the Board, and against the chair of smaller companies with no female or no male board representation. We will vote against the chair of FTSE 100 businesses with materially less than 20% female

#### **Principle**

### the view that this should be viewed as the floor and not the ceiling.

We also support the findings of the Hampton-Alexander review, which proposed that, by 2020, at least 33% of the members of executive teams at FTSE 100 companies should be women.

We look favourably on companies who seek to improve diversity across all executive committee functions, expanding beyond common support functions where diversity currently tends to be higher, such as HR, communications, marketing and treasury.

A board capable of drawing on a range of thought, experience & expertise is a board that can engage with an increasingly diverse range of stakeholders.

Nomination committees of all FTSE 100 and FTSE 250 companies should require their human resources teams or search firms (as applicable) to identify and present qualified people of colour to be considered for board appointment when vacancies occur.

We support the recommendations of Sir John Parker that, from 2021, FTSE 100 Boards should have at least one director of colour and, by 2024, FTSE 250 Boards should have at least one director of colour.

We expect to see disclosure from companies on how they consider and promote ethnic diversity. We encourage companies to disclose the ethnic make up of their board, and consider reporting more specifically on executive directors, managers, and employees.

Robust succession planning at the Board and senior management level is vital to safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.

Succession plans should seek to build a diverse pipeline of candidates from within the organisation, with appropriate consideration given to promoting diversity and inclusion, including across race, gender, skills and backgrounds.

#### **Outcome/Voting Guideline**

representation in the combined population of the executive committee and its direct reports.

Consideration may be given where a credible plan is in place to rectify low levels of gender diversity or where a company is faced with exceptional mitigating circumstances such as a sudden departure. Fewer exceptions will be made for 2021.

We will be working closely with the <u>30%</u> <u>Club</u> and <u>The Diversity Project</u> to promote diversity on boards and within the pipeline.

We will be expanding engagement with companies during 2021 to improve disclosure and diversity of ethnicity.

We will consider voting against the chair of FTSE 100 companies that did not disclose information to the Parker Review and does not make a firm commitment to do so in the future.

In 2022 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 has no credible plan to rapidly achieve this.

Where there are concerns over the quality of reporting we will consider voting against the election of the chair of the nomination committee.

We may vote against the chair of the nominations committee, or other relevant resolutions, if there is insufficient evidence of robust succession planning.

#### Effectiveness, Evaluation & Election Process

Companies should continually assess the effectiveness of their boards to ensure they are operating optimally, with the right governance structures. This should include independent evaluation at regular intervals, with honest and transparent In markets where companies are not required to put all directors up for annual re-election (as in the UK), we will vote for a



elected on an annual basis by majority vote.

| Principle                                                                                                                                                                        | Outcome/Voting Guideline                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| reporting to shareholders on the main findings and the steps<br>needed to address any issues. To preserve the board's<br>accountability to shareholders, directors should be re- | resolution to institute annual elections for all directors. |

#### Independence

Boards should have a balance of executive and independent non-executive directors to ensure that no single individual or small group dominates the board's decision-making. In the UK, FTSE 350 company where independent non-executive directors should account for at least half the board, excluding the Chair.

There should be a clear division of responsibilities between leadership of the board and executive leadership of the business.

Factors which may compromise the independence of individual directors include:

- Long tenure: a director's ability to act independently can be eroded by long tenure, for example, above 10 years
- Significant shareholdings or share options in a company or being a representative of a significant shareholder
- Other direct or indirect material relationships with the company, other directors or its executives

We will generally vote against the election or re-election of individual directors whose presence would cause a board or its committees to fail to meet local governance guidelines on composition.

We will generally vote against the reelection of a combined CEO and chair, the promotion of a former CEO to chair, or the election of a chair who is not independent on appointment. We will generally support resolutions to institute a separate CEO and chair.



### **Executive Remuneration**

Our principles for executive remuneration are aligned with Federated Hermes' published Remuneration Principles. The most recent iteration was published in November 2016.

Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

**Simplicity:** pay schemes should be clear and understandable for investors as well as executives. Pay structures should be much simpler and less leveraged than they are at present, for example taking the form of a single incentive scheme and lower variable and total possible pay. Remuneration reports must explain how alignment with long-term shareholders is achieved.

**Shareholding:** the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success. Significant shareholding requirements for directors should remain in place for a specific period of time following departure from the company, with no share sales allowed for at least one year.

Alignment and quantum: pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership. Pay is often too high and pay schemes often seem to pay out significant sums which conflict with many shareholders' and other stakeholders' views of performance. Boards should be able to justify to investors, the workforce and the public the rationale for the pay level of the CEO and members of senior management, taking account of the pay of the wider workforce. If they are not able to do so, directors should use their discretion to adjust actual or potential pay downwards. The rules of pay schemes should support this.

**Accountability:** remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company. Remuneration committees should take a more robust view on pay, using their judgement and being accountable for their decisions. They should avoid paying more than is necessary and not place too much reliance on existing practice and benchmarking which help to perpetuate many of the problems that we seek to address. The potential outcomes of a pay policy should be rigorously scenario-tested, with a cap set on the total possible pay published in advance, to help reduce the risk of unintended consequences.

**Stewardship:** companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration. Executives should be encouraged to achieve strategic goals, rather than focus attention on total shareholder return or stock price appreciation. They should take account of the company's effect on key stakeholders.

**Behaviour**: the most senior executives should willingly embrace the approach we have described. If they do not, boards should consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.

**Behaviour:** the most senior executives should willingly embrace the approach we have described. If they do not, boards should consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.



#### Principle Outcome/Voting Guideline

#### Clawback/Malus

Companies should include provisions and specify the circumstances in which the committee would consider it appropriate to recover sums paid or to withhold payment of any sum.

Recoupment should be sought for inappropriate financial reporting, deceptive business practices and from any senior executive whose behaviour caused direct financial harm to shareholders, reputational risk to the company or resulted in criminal investigation.

We will vote against the remuneration report and policy where there is not a provision for clawback and malus or where these are deemed insufficient.

#### Fixed vs Variable Pay

To reduce risk-taking, increase transparency and reduce excessive levels of pay in any one year, we wish to see a lower variable pay opportunity relative to fixed pay. We will therefore look carefully at the ratio of variable to fixed pay.

Variable pay of more than four times base salary is concerning and may result in engagement. Variable pay of more than six times is considered excessive and will likely result in a vote against the remuneration policy and subsequent remuneration reports.

#### **Living Wage**

We are supportive of encouraging adoption of a living wage or pay packages of equivalent value in driving stability and productivity of the workforce. Where appropriate – for example, where existing reward packages, including benefits like pension contributions, do not meet or exceed the value of the living wage – we encourage companies to become accredited by the <u>Living Wage Foundation</u>. We would not expect adoption to be at the detriment of existing benefits to staff and to result in a worse position overall.

We are also supportive of the <u>living hours</u> initiative which supports the living wage in driving stability and productivity in the workforce by providing workers with appropriate notice periods for shifts and with the right to a contract that reflects accurate hours worked.

We will be engaging with companies on the living wage, living hours and precarious work practices during as part of the Good Work Coalition and the Workforce Disclosure Initiative.

We may consider voting against the remuneration reports of companies where, through our engagement, we identify risks relating to workforce pay levels and precarious work practices.

#### **Measurements**

Pay should be aligned to the long-term strategy and the desired corporate culture throughout the organisation. The remuneration committee should consider strategic, financial, and non-financial measurements. Companies should exclude the potential short-term effects of share buybacks on reward outcomes.

Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Targets for mitigating and managing material E&S risks and impacts should also be considered in the

We may vote against remuneration policies and reports which have an over-reliance on metrics that do not reflect long-term sustainable growth, or which over-emphasise shareholder returns.



#### Principle Outcome/Voting Guideline

assessment of annual bonuses to prevent short term financial gains from impacting longer term targets and the sustainability of the company. Targets should be meaningful and not perverse e.g. reserves replacement ratios.

#### **Pay Ratio**

Disclosure of CEO-to-employee pay ratios is an important section of the annual remuneration report. We encourage companies' use of 'Option A' for calculating the ratios, whereby companies determine the full-time equivalent total remuneration for all UK employees and identify the 75th, 50th and 25th percentile employees, rather than using other indicative data such as gender pay gap data.

We will consider voting against the remuneration report where companies fail to meet the mandatory requirement to disclose.

#### **Remuneration Reporting**

We expect clarity in the reporting of remuneration structures and practices. This includes disclosure of targets under incentive schemes either in advance or within a year following the end of the relevant reporting period, with full justification for any lack of disclosure, which is usually only acceptable for a time-limited period, typically of one year. We endorse the guidance provided by the GC100 and Investor Group and the principles and provisions of the Code.

We will be engaging with companies to improve disclosure. Where disclosure against a metric is deemed commercially sensitive, we expect a full explanation of why it hasn't been published.

#### **Remuneration Committee**

Remuneration committees should ensure that remuneration structures and practices are relevant to their businesses, appropriate in the context of policies and practices for wider workforce pay and incentives, aligned to the company's purpose and values, and support the delivery of its long-term strategy and the creation of sustainable value.

We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.

We may vote against the election of the chair of the remuneration committee where we believe they have failed to exercise their responsibilities, including where remuneration practices materially fail to meet our expectations.

#### **Shareholding Requirements**

It is desirable for shareholding requirements to increase to a minimum of:

- 500% of salary for FTSE 100
- 300% for FTSE 250
- 200% for all other companies

We also encourage incentive structures that increase employee shareholding and cascade ownership and alignment through an organisation. We expect to see remuneration committees develop formal policies for post-employment shareholding We will vote against policies where requirements are not at least 300% (FTSE 100) or 200% (FTSE 250).



#### Principle Outcome/Voting Guideline

requirements, encompassing vested and unvested shares, for a reasonable period of time. We would suggest this is no less than three years.

#### Structure and Fairness

Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

Base salary should not increase significantly without clear, compelling and exceptional justification.

We do not believe that a bonus should be paid where a department is directly linked to a catastrophic incident. We are not supportive of pay-outs which do not support the long-term success of the company.

The remuneration committee should be mindful of potential windfall gains resulting from significant market volatility and take evasive action to remedy excessive unintended gains.

We may vote against the election of the remuneration committee chair and members accountable for questionable pay policies or inappropriate outcomes.

We may vote against the remuneration report where excessive windfall gains have not been adequately addressed by the remuneration committee.

#### Quantum

Boards should be able to justify to the workforce and the public the rationale for pay awards to management and, if they are not able to do so convincingly, should use their discretion to make adjustments. We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.

We will review on a case-by-case basis whether executive pay outcomes are considered excessive and unjustifiable.





The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

#### Principle Outcome/Voting Guideline

#### **Audit Committees**

Audit committees play a critical role in overseeing the audit process and ensuring the quality of reporting to investors. They should describe to investors the key aspects of their work, including descriptions of the following:

- The significant issues considered and how they were addressed
- How the audit committee assessed the effectiveness of the internal and external audit process and how it sought to remedy any concerns
- The committee's approach to the appointment and reappointment of the auditor, including an explanation of how auditor objectivity and independence are safeguarded
- Audited accounts should show a true and fair view of profit or loss and assets or liabilities, including but not limited to climate-related liabilities.

We expect to see improvements in the quality of auditor reports with a view to voting against inadequate reports in the future.

We will vote against the annual report and accounts where transparency is lacking and there is insufficient explanation. We may vote against the chair of the audit committee if a viability statement does not cover a period of at least three

#### **Auditor Fees**

Fees for external audit should be disclosed in the annual reporting. In general, non-audit fees should not exceed 50% of the audit fees.

We will vote against the chair of the audit committee for companies that fail to meet minimum audit rotation guidelines, or where we have material concerns about audit independence.

#### **Auditor Independence**

If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders and resignation letters should be posted on the company's website

We see compliance with the Audit Directive as a minimum standard. In the UK, this requires mandatory auditor retendering at 10 years and mandatory rotation after 20 years for major companies. We expect companies to exceed this minimum expectation, and to put the role of We will vote against the chair of the audit committee for companies that fail to meet minimum audit rotation guidelines, or where we have material concerns about audit independence.



#### Principle Outcome/Voting Guideline

the external auditor to tender on a regular basis, ideally every 7 years, with rotation every 15 years.

Where the audit firm is rotated, the personnel who assume responsibility for conducting the audit should not be the same personnel (for example, situations could arise where an audit partner moves firms) and the incoming partner should be named in the Audit Committee report.

There should be a period of at least five years before an audit firm can be re-appointed. There should be no "Big four only" restrictions implemented in audit firm tenders, where smaller firms have the scope to audit, and companies should resist the imposition of such requirements by lenders or others.

#### **Bribery and Corruption**

Boards should ensure that companies have best practice anti-bribery and corruption policies and processes in place. There should be robust compliance mechanisms to enforce them. Boards should oversee the bribery and corruption controls and set the right tone to ensure the highest ethical standards and adherence to their company values.

We will vote against financial statements and statutory reports where there are concerns of fraud or material misstatement.

#### **Cyber Security**

Risks relating to data security and privacy have increased substantially and are increasingly important to investors, companies and regulators. We support research and initiatives to promote corporate awareness and action on cyber security. Boards must take the right steps to protect the company, particularly in high risk sectors. We support boards that take a proactive stance on cyber-security internally and through the supply chain. Cyber security should be a regular Board discussion agenda item. Where there is an incident, we expect this to be disclosed to the market and customers in a timely manner.

We will be engaging with companies on their approach to cyber security and support boards that take a proactive stance

We support attainment of the Cyber Essentials Badge.

#### **Internal Control**

The Board's internal control statement should provide shareholders with a clear understanding of the company's internal control and risk management processes.

We will vote against the report and accounts where internal controls do not include substantial explanation and level of detail.

#### Whistleblowing

The ability for a person to disclose any kind of information or activity that is deemed illegal, unethical, or not correct within an organisation, that is either public or private, is in the interest of both the public and investors. We expect companies to have a whistleblowing policy that aims to safeguard any whistleblower's identity. Staff should be made aware of the policy, which should be publicly disclosed and open to third-party use.

We will consider voting against the audit committee chair where there are concerns over the deficiency in risk oversight on whistleblowing.





# Protection of Shareholder and Bondholder Rights

We seek the protection of shareholder and bondholder rights, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder meetings. We also support adherence to the highest possible standards on listed stock exchanges.

#### Mergers & Acquisitions/ Commercial Transactions/ Joint Ventures

When voting on a commercial transaction, we will consider the following:

- Governance: this includes the extent to which due process is followed and information is made available to shareholders
- Consistency with strategy: whether the transaction is consistent with the prior stated strategic aims of the company
- Risks: the key risks to the business from the transaction and the extent to which these appear to have been managed
- Conflicts of interest: any conflicts of interest which may affect the alignment of the interests of directors or particular shareholders with those of long-term shareholders, including the following:
  - Whether the proposal is a related party transaction and, if so, whether appropriate disclosures or other steps to protect the interests of long-term shareholders have been made
  - Whether the transaction erodes any shareholder rights, which may occur under anti-takeover provisions
  - Any potential conflict of interest concerning the directors' duty to act in the interests of shareholders, particularly where these arise from either existing or newly applicable remuneration arrangements.

Please refer to our Mergers & Acquisitions section above for further detail on our approach to voting.

#### **Responsiveness to Shareholders**

Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions,

We may vote against the election of a director, when



#### Principle Outcome/Voting Guideline

and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.

When 20 per cent or more of votes have been cast against the Bbard recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. We believe that, for some resolutions, lower levels of dissent would be an indication of concern and a response by management would still be wholly warranted. Engagement between companies and shareholders can provide a constructive forum to discuss points of contention and development before they come to a vote. We generally believe companies should be responsive to shareholder concerns.

We will consider our own experience with asset managers when voting on resolutions.

that director is poor at responding to shareholders.

#### **Share Capital Management**

We support measures to protect the value of each share issued to shareholders, including on the following matters:

- Pre-emption rights: we believe the rights of existing shareholders should be protected against the erosion of value or control without their prior approval. We will therefore only support the waiver of pre-emption rights in limited circumstances. General authority to issue shares should be limited to two-thirds, with any issuance over one third applying pre-emption rights. Any request to increase the authorised share capital without pre-emption rights should be limited to 5%. A max of 10% is supported where the additional 5% is for the purpose of financing an acquisition or a specified capital investment
- Share buybacks: we encourage companies to provide explicit assurance to shareholders that share buybacks are only conducted in the best interests of all shareholders. Buybacks should be limited to 15% of the issued share capital in any given year. Companies should exclude the potential short-term effects of share buybacks on executive remuneration. Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Where a buyback triggers Rule 9 of the takeover code and there is a significant shareholder, companies should ensure that a buyback does not result in a significant shareholder's holding increasing. We generally would not support a dispensation to Rule 9 under these circumstances.

We will only support the waiver of pre-emption rights in limited circumstances.

We will generally vote against Rule 9 waivers.

#### **Share Class Structures**

We advocate for 'one share, one vote' share class structures, and generally do not support the dilution of minority rights through multiple class shares.

We will vote against resolutions which reduce this right and vote for resolutions which introduce this right.



#### Principle Outcome/Voting Guideline

#### **Share Dilution**

Dilution of shareholders through the issuing of shares to employees can represent a significant transfer of value. Dilution limits are an important shareholder protection and should be respected. The rules of a scheme must provide that commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the company's other schemes, must not exceed 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period.

Remuneration Committees should ensure that appropriate policies regarding flowrates exist in order to spread the potential issue of new shares over the life of relevant schemes in order to ensure the limit is not breached. Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10-year period.

We will generally vote against the remuneration report where dilution limits are not adhered with.

#### **Shareholder Resolutions**

We support the selective use of shareholder resolutions as a useful tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to, or escalation of, direct engagement with companies.

When considering whether or not to support resolutions, we look at factors like whether the proposal promotes long-term shareholders' interests; what the company is already doing or has committed to do; the nature and motivations of the filers, if known; and what potential impacts – positive and negative – the proposal could have on the company.

We consider such resolutions on a case-by-case basis.

#### **Political & Trade Association Donations**

We do not support direct political donations to political parties or individual political candidates by companies. As contextualised by the PLSA, a blanket ban on donations, due to the legal definition of this term, could prevent donations to charities and educational causes, and would also preclude all party parliamentary groups.

Companies should fully disclose all political contributions along with an explanation on how it benefits the company.

There should be increased transparency around memberships of and monies paid to trade associations and lobbying groups and direct lobbying activity and indirect via trade associations. Transparency should include:

- Clear explanations of how each association, contribution and action etc. benefit the causes of the company
- A public statement from the company outlining where it disagrees with the associations of which it is a member on a particular issue, and the reasons why it believes it to be beneficial to remain a member

We will consider voting against the authority to make political donations, on a case-by-case basis, particularly where there is no cap on the level of donations and/or disclosure is not adequate.



#### Principle Outcome/Voting Guideline

#### Virtual/Electronic General Meetings

Physical shareholder meetings are fundamentally important to the exercise of shareholder rights and for publicly holding boards accountable to all their shareholders.

We see the benefit technology can play in increasing investor participation at general meetings as an extension of the physical meeting. We believe that such technology should be used in conjunction with physical meetings. A permanent move towards virtual-only meetings is not favoured due to potential reduced levels of engagement. There may be instances where a virtual-only AGM is required; in this instance, companies should seek to maintain shareholder engagement and transparency by providing an appropriate platform to ask questions openly so that it does not appear as though companies are attempting to select the questions they prefer to address.

We encourage companies to explore the use of technology such as blockchain to improve voting and confirmation.

We will generally vote against proposals allowing for the conveying of virtual-only shareholder meetings where provisions have not been made to maintain shareholder rights.

We will consider supporting temporary legislation changes to accommodate exceptional circumstances that restrict the ability to hold a meeting in person.

Where virtual-only meetings are held and companies have not protected shareholder rights, or where physical meetings are held in obscure locations, we may consider voting against the company chair.

#### **Transparency**

Companies should adopt an open approach to the public disclosure of information, within the limits of what can be disclosed, in a way that allows investors to understand the main risks that the board has identified in the business, and how the company manages and mitigates them. Improved transparency fosters informed voting and engagement. It allows for better integration of ESG into investment, particularly where companies might not currently comply with best practice.

We will be engaging with companies and policy makers to improve transparency.



# Getting in touch

If you have any questions or comments about this policy, please email Helen Price, Stewardship Manager at RI.Brunel@brunelpp.org

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

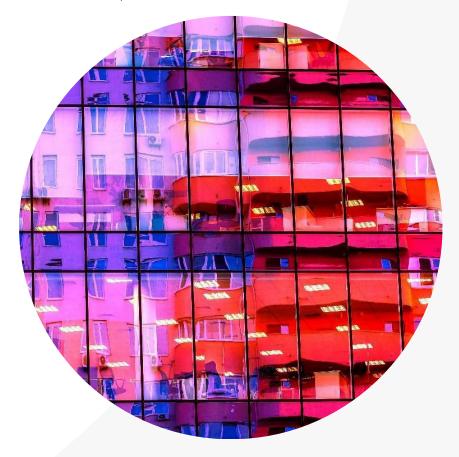
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CT/21/24 Investment and Pension Fund Committee 26 February 2021

#### PRIVATE MARKETS INVESTMENTS

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

- Recommendation: (1) That the Committee is asked to note the progress made to date by the Brunel Pension Partnership in investing the Devon Fund's private markets commitments.
  - (2) That the Committee support the ongoing work with the Brunel Pension Partnership to bring the Fund's allocation to Property back up to the 10% target.
  - (3) That the Committee approves an additional £60 million top up commitment to the Infrastructure Portfolio (Cycle 2).

#### 1. Introduction

- 1.1 Private markets comprise investments not traded on a public exchange or market. They are an important part of the Devon Pension Fund's portfolio as:
  - They are expected to generate higher returns as a result of the illiquidity premium available to producers of long term capital.
  - They provide diversification of returns.
  - They provide access to investment opportunities not usually accessible through public markets.
  - They provide greater potential for outperformance through active, hands-on management.
- 1.2 The Fund's Investment Strategy Statement shows a medium term target allocation to private markets of 26% However, the nature of private markets means that it can take time to build up investments to the desired level, as commitments need to be made to suitable funds, which are then drawn down as the funds identify suitable assets to purchase. The current progress towards achieving the target allocations is summarised in the following table:

#### **Private Markets Allocations**

| Asset Class          | Medium Term Target Allocation | Current Allocation as at 31 Dec 2020 |
|----------------------|-------------------------------|--------------------------------------|
| Property/Real Estate | 10%                           | 8.1%                                 |
| Infrastructure       | 10%                           | 4.1%                                 |
| Private Debt         | 3%                            | 2.2%                                 |
| Private Equity       | 3%                            | 0.0%                                 |

1.3 This report provides the Committee with further details on the individual private market portfolios, and the current position on the commitments made.

#### 2. Property

- 2.1 The Fund has had a longstanding target allocation of 10% to Property. This was gradually built up from around 6% when Aviva were appointed to manage the property allocation in 2012.
- 2.2 Given that a significant proportion of the return from property comes from the income yield, and this has been retained by the Fund to support cashflow, the capital value has not grown in line with other asset classes where income has been reinvested. This had reduced the allocation to around 8.2% of the Fund as at December 2019, and the Committee subsequently resolved to use upfront deficit contributions to add to the property investment to bring it up to 10%. While this did not happen immediately due to the pandemic, additional investments have subsequently been made by Brunel to UK Property funds and £25 million was invested during October.
- 2.3 However, given the significant increase in the total fund value since 31 March 2020 as markets recovered, the property allocation still stands at only just over 8%. It is anticipated that a further £20 million of committed funding will be invested in UK Property over the next couple of months, but this will still leave the allocation short of target.
- 2.4 When Brunel took on the property mandate, they decided to manage UK Property and International Property as two separate portfolios, and the Fund agreed a target 80/20 split between UK and International. Around half of the underweight to the total 10% target is related to the international property allocation. Brunel have been looking to identify opportunities, but their advice has been to hold off on making new international property investments at the present time due to the ongoing pandemic.
- 2.5 Officers will continue to work with Brunel to identify suitable opportunities to invest additional funds in both UK and International Property in order to bring the allocation back up to the 10% target. This is likely to mean both adding to the current investment in some underlying property fund holdings and the identification of new funds that Brunel will be looking to invest in on behalf of all their clients. As part of the pooling agenda Brunel will be looking to rationalise the property holdings of all their clients, so that all clients are invested in Brunel's model portfolio, but this will need to be done over the longer term to avoid significant trading costs.

#### 3. Infrastructure

- 3.1 Infrastructure funds are long term funds, typically with a life of 15-20 years. Before the set-up of Brunel, the Devon Fund had invested in five infrastructure funds, and will remain invested in those funds until they reach the end of their fund lives and have sold off all their assets. In addition, the Fund committed £175 million to Brunel's first infrastructure cycle and a further £250 million to Brunel's second infrastructure cycle.
- 3.2 Brunel's infrastructure, private debt and private equity portfolios operate on the basis of a two year cycle, and client funds are required to make commitments at the beginning of the two year cycle, with the opportunity to "top-up" their commitment one year later. No additional commitments are permitted between these dates. Cycle 1 was launched in 2018, and cycle 2 in 2020. Cycle 3 will be launched in April 2022.
- 3.3 The Devon Fund's total current commitments are set out in the following table. It should be noted that for the pre-Brunel funds, the commitment and investment figures are shown to be the same, as those funds are fully drawn down, although the original commitment would have been different.

#### Infrastructure Commitments as at 31 December 2020

| initiastractare committanents as at or becomes received |            |             |            |  |
|---------------------------------------------------------|------------|-------------|------------|--|
|                                                         | Total      | Underlying  | Current    |  |
|                                                         | Commitment | Commitments | Investment |  |
|                                                         | £'000      | £'000       | £'000      |  |
| Pre-Brunel Investments                                  |            |             |            |  |
| Archmore (UBS) IIF                                      | 16,285     | 16,285      | 16,285     |  |
| First Sentier European DIF                              | 50,605     | 50,605      | 50,605     |  |
| Hermes IF                                               | 48,684     | 48,684      | 48,684     |  |
| Aviva IIF                                               | 17,242     | 17,242      | 17,242     |  |
| Aviva Ground Rents Fund                                 | 18,302     | 18,302      | 18,302     |  |
|                                                         | 151,118    | 151,118     | 151,118    |  |
| Brunel Infrastructure Portfolio                         |            |             |            |  |
| Capital Dynamics CEI VIII                               | 20,000     | 20,000      | 9,533      |  |
| Capital Dynamics CEI VII-A                              | 12,712     | 12,712      | 5,790      |  |
| Vauban CIF II (fka Mirova)                              | 10,280     | 10,280      | 10,504     |  |
| NTR                                                     | 8,970      | 8,970       | 3,157      |  |
| Stepstone Brunel Fund I                                 | 122,942    | 62,780      | 10,927     |  |
| Stepstone Brunel Fund II General                        | 125,000    | -           | 136        |  |
| Stepstone Brunel Fund II Renewables                     | 125,000    | 41,502      | 12,573     |  |
|                                                         | 424,904    | 156,244     | 52,620     |  |
| TOTAL                                                   | 576,022    | 307,362     | 203,738    |  |

3.4 Of the five pre-Brunel funds, the Archmore Fund managed by UBS was due to end in 2022. However, an extension to 2024 has now been agreed, to ensure that they can gain good value for the sale of the current investments held by the fund. At the same time, they are marking available an optional liquidity offering which aims to provide investors the opportunity to sell part or all of their holdings in the Fund on the secondary market. Securing full value for the investment assets when they are sold as the fund winds down is a key

risk for closed-end infrastructure funds. Therefore, officers will closely monitor the activity in relation to the liquidity option to ensure we secure maximum value for our investment as the fund winds down.

- 3.5 The First Sentier Fund (previously First State) is also due to end in 2024. As the Archmore and First Sentier investments are fully redeemed it will reduce the Devon Fund's infrastructure allocation and this will need to be offset by the growing Brunel investment. The Hermes fund has an end date of 2029, while the Aviva funds have no specific end date.
- £175 million was allocated to Brunel's first cycle infrastructure portfolio, which was launched in 2018. The Brunel Private Markets team identified four individual funds and made commitments to those funds (Capital Dynamics Funds VII and VIII, NTR Capital and the Vauban fund (previously known as Mirova). It was then decided to deploy the remaining committed capital by setting up a fund in partnership with Stepstone Group, which would then invest in underlying funds. Therefore, just under £123 million was committed to the Stepstone Brunel Fund I, but the investment of that commitment is dependent on the identification of suitable underlying funds. To date around £63 million of underlying commitments have been made split between five different funds.
- 3.7 A further £250 million was then committed to Brunel's second cycle infrastructure portfolio, as agreed by the Committee in November 2019. This has again been committed to funds set up in partnership with Stepstone, and split 50/50 between a generalist infrastructure fund and a renewables fund which will be committed to funds that only invest in renewable energy assets. To date, £42 million of the renewables allocation has been committed to three underlying funds.
- 3.8 The medium term target for infrastructure is an allocation of 10% of the Fund. With a current fund value of £4.9 billion, this would equate to an investment of around £490 million to £500 million. As can be seen from the above table, while commitments have been made, there is still some way to go to achieve that level of investment. Given that the drawdown of commitments is a slow process and we are expecting a return of capital from two of the existing investments over the next 2-3 years, it would be recommended that we should over-commit by around 25-30% in order to be able to get to the desired 10% allocation.
- 3.9 It is therefore proposed that an additional £60 million should be committed in the top-up window provided by Brunel in April 2021. The default option would be for this to be split 50/50 between the General Fund and the Renewables Fund, but it would also be possible to allocate a higher proportion to the Renewables Fund.

#### 4. Private Debt

4.1 Private debt funds work in a similar way to infrastructure, with commitments being made and then drawn down thereafter. However, they generally operate over a shorter timeframe, with a 2-3 year investment period, and total fund life of 6-8 years. The funds provide loans to individual companies,

- deriving investment income which is paid out to investors, and returning capital as loans are repaid.
- 4.2 The Fund has a target allocation of 3% to Private Debt. In June 2017, before Brunel was operational, the Fund committed £150 million to two private debt funds. This equated to a commitment of 3.75% of the total fund value at the time with a view to over-committing to achieve the 3% target. The current investment stands at 2.4%, with both the current investments nearing the end of their investment periods, after which capital values are likely to reduce as loans are repaid and capital is returned.
- 4.3 The Investment and Pension Fund Committee therefore agreed in November 2019 to allocate a further £100 million to the Brunel Private Debt Portfolio cycle 2 which launched in April 2020. The current position is set out in the table below.

| Private Debt Commitments as at 31 December 2020 |            |            |  |
|-------------------------------------------------|------------|------------|--|
|                                                 | Total      | Current    |  |
|                                                 | Commitment | Investment |  |
|                                                 | £'000      | £'000      |  |
| Pre-Brunel Investments                          |            |            |  |
| Arcmont Senior Debt Fund I                      | 90,000     | 90,000     |  |
| Golub Capital International Fund 11             | 60,000     | 60,000     |  |
|                                                 | 150,000    | 150,000    |  |
| Brunel Private Debt Portfolio                   |            |            |  |
| Cycle 2 Uncommitted                             | 100,000    |            |  |
|                                                 | 100,000    | -          |  |
|                                                 |            |            |  |
| TOTAL                                           | 250,000    | 150,000    |  |

- 4.4 Brunel's private debt portfolio has been delayed as a result of the pandemic and the resignation of the private debt lead person within the Brunel Private Markets team. As a result, no commitments have yet been made. A new appointment has now been made and a similar arrangement to that with Stepstone on infrastructure has been agreed with Aksia LLC to source private debt opportunities. It is hoped that fund commitments will be made in the near future.
- 4.5 While the current investment is below the 3% target, the Devon Fund is already over-committed to private debt, and it is not therefore proposed to make any top-up commitments in April 2021.

#### 5. Private Equity

5.1 In November 2019, the Committee agreed the Fund's first commitment to private equity, totalling £125 million. The current position is set out in the following table:

Private Equity Commitments as at 31 December 2020

|                                           | Total      | Current    |
|-------------------------------------------|------------|------------|
|                                           | Commitment | Investment |
|                                           | £'000      | £'000      |
| Brunel Private Equity Portfolio (Cycle 2) |            |            |
| LGT Crown Global Secondaries              | 15,725     | 827        |
| AlpInvest Colnvestment Fund VIII          | 18,950     | -          |
| Montana ("MCP") Opportunity Seconda       | 9,072      | -          |
| New Mountain Capital Partners VI          | 7,862      | -          |
| Uncommitted                               | 73,391     | -          |
|                                           | 125,000    | 827        |
| TOTAL                                     | 125,000    | 827        |

- 5.2 As with infrastructure and private debt, it will take a while for commitments to be drawn down, and only a very small amount has been invested to date. It could therefore take some time to reach the 3% medium term target. However, a key risk with private equity investments is vintage risk. This is the risk that if the investment is made at the wrong point in the economic cycle then it may not achieve the desired outcome. Therefore, private equity investments should be spread over different vintage years in order to diversify the risk.
- 5.3 For this reason, it is not proposed to make any further commitment in the April 2021 top-up window, but to accept that the private equity investment will take time to build up to the target. A further commitment should be made to cycle 3 when it is launched in April 2022, with the aim of making a regular commitment to each subsequent Brunel cycle, which will then balance investments between different vintages.

#### 6. Conclusion

- 6.1 The Committee is asked to note the progress made to date by the Brunel Pension Partnership in investing the Devon Fund's private markets commitments.
- 6.2 The Committee is asked to support the ongoing work with Brunel to bring the allocation to Property back up to the 10% target.
- 6.3 The Committee is also asked to approve an additional £60 million top up commitment in the Infrastructure Portfolio (Cycle 2).

Mary Davis County Treasurer

**Electoral Divisions: All** 

Local Government Act 1972: List of Background Papers: Nil Contact for Enquiries: Mark Gayler Tel No: 01392 383621 Room: G97

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