CT/21/08
Devon Pension Board
22 January 2021

INVESTMENT STRATEGY STATEMENT

Report of the County Treasurer

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

Recommendation: that the Board endorses the revised Investment Strategy Statement set out in Appendix 1 to this report, and submits any comments to the Investment and Pension Fund Committee for consideration.

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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, non-selection, 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. Any comments by the Pension Board will be taken to
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the Investment and Pension Fund Committee on 26th February, when the revised ISS is presented for approval.

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. Other Changes to the Investment Strategy Statement

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 has been stated in reporting on the Fund's carbon footprint in the Annual report, so the ISS has been amended to be consistent. 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.

3.2 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.

4. Conclusion

4.2 The Pension Board is asked to endorse the revised Investment Strategy Statement set out in Appendix 1 to this report, and consider whether there are any issues that they wish to raise for the Investment and Pension Fund to consider.

Mary Davis
County Treasurer

Electoral Divisions: All

Local Government Act 1972:
List of Background Papers: Nil
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Appendix 1

Devon County Council Pension Fund Investment Strategy Statement

Draft Revision Presented to the Devon Pension Board
22nd January 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.

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 2021/2022	Medium-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 shares of domestic and overseas companies; indirect links to inflation. The Fund invests in a range of actively and passively managed equity strategies to gain diversified exposure to global markets, using active managers and non-market cap indexation where appropriate and in the expectation that these will add value. 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).
Global Active	5%	5%	
Emerging Markets Active	5%	5%	
Low Volatility	7%	9%	
Global Small Cap	5%	5%	
Sustainable	3%	5%	
Fixed Interest	**15%**	**15%**	
Global Bonds	7%	-	The Fund invests in a number of global bond investments, to provide 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 on domestic sovereign bonds ("gilts"). Within these holdings, the Fund uses active management, and permits its fund managers a degree of flexibility to switch between asset classes and credit qualities to enhance expected returns.
Sterling Bonds including corporate and inflation-linked	-	7%	
Multi-Sector Credit	7%	7%	
Cash	1%	1%	

Asset Class	Target 2021/2022	Medium-Term Target	Role(s) within the Strategy
Alternatives/Other	**27%**	**27%**	
Diversifying 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 property markets, whilst providing some diversification away from equities and bonds.
International Property	2%	2%	
Infrastructure	5-8%	10%	The Fund invests in a diversified portfolio of infrastructure investments, to gain exposure to attractive returns and investments with a degree of inflation linkage in the income stream generated. In the medium to long term, the Fund intends to increase exposure to private markets (equity and credit) to benefit from diversified sources of return (including illiquidity and complexity premia).
Private Debt	3%	3%	
Private Equity	1%	3%	
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.

3. Risk measurement and management

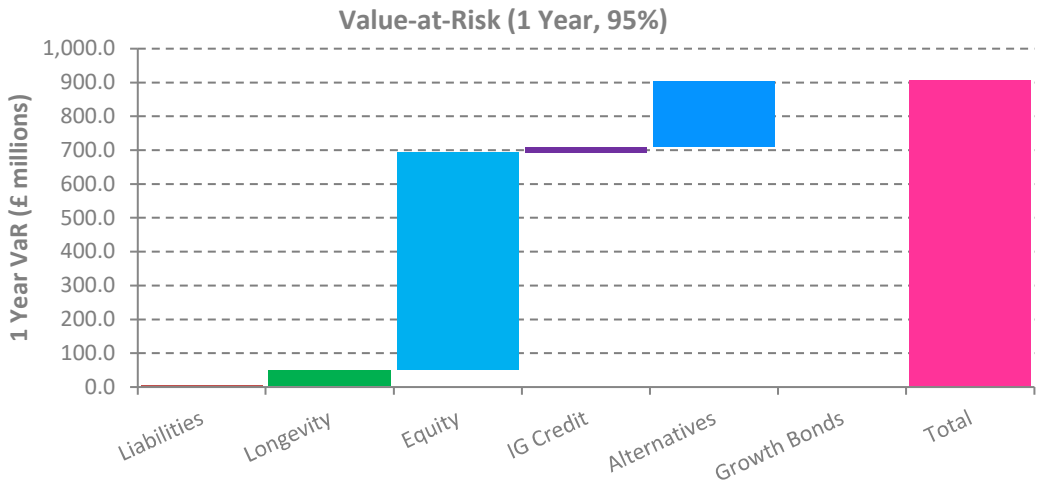
Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to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

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

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

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: https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/

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, 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: https://www.brunelpensionpartnership.org/climate-change/

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.

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

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) Transparency and Collaboration

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?CId=416&MId=2487&Ver=4&info=1

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 https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf.

(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.

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.

- **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: https://www.brunelpensionpartnership.org/voting_guidelines/

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

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.

Protection of Shareholder and Bondholder Rights

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

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

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 risk-adjusted 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.

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.

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.

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.

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.

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.

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: https://www.peninsulapensions.org.uk/members/local-government/your-pension-scheme/pension-fund-investments/devon/important-documents/,

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.

Annex 2 – Current Managers and Mandates

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

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

Appendix 2

BRUNEL
Pension Partnership

Brunel Pension Partnership Ltd

Stewardship policy

Approved by the Board of Brunel Pension Partnership Ltd.

Last updated 01 12 2020

Contents

BRUNEL
Pension Partnership

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 long-term **sustainable investments** supported by robust and transparent processes

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

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

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 No. 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 decision-making
- Monitoring assets and service providers
- Collaborating with others
- Advancing Policy through advocacy

[1] https://www.unpri.org/download?ac=9721

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.

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Pension Partnership

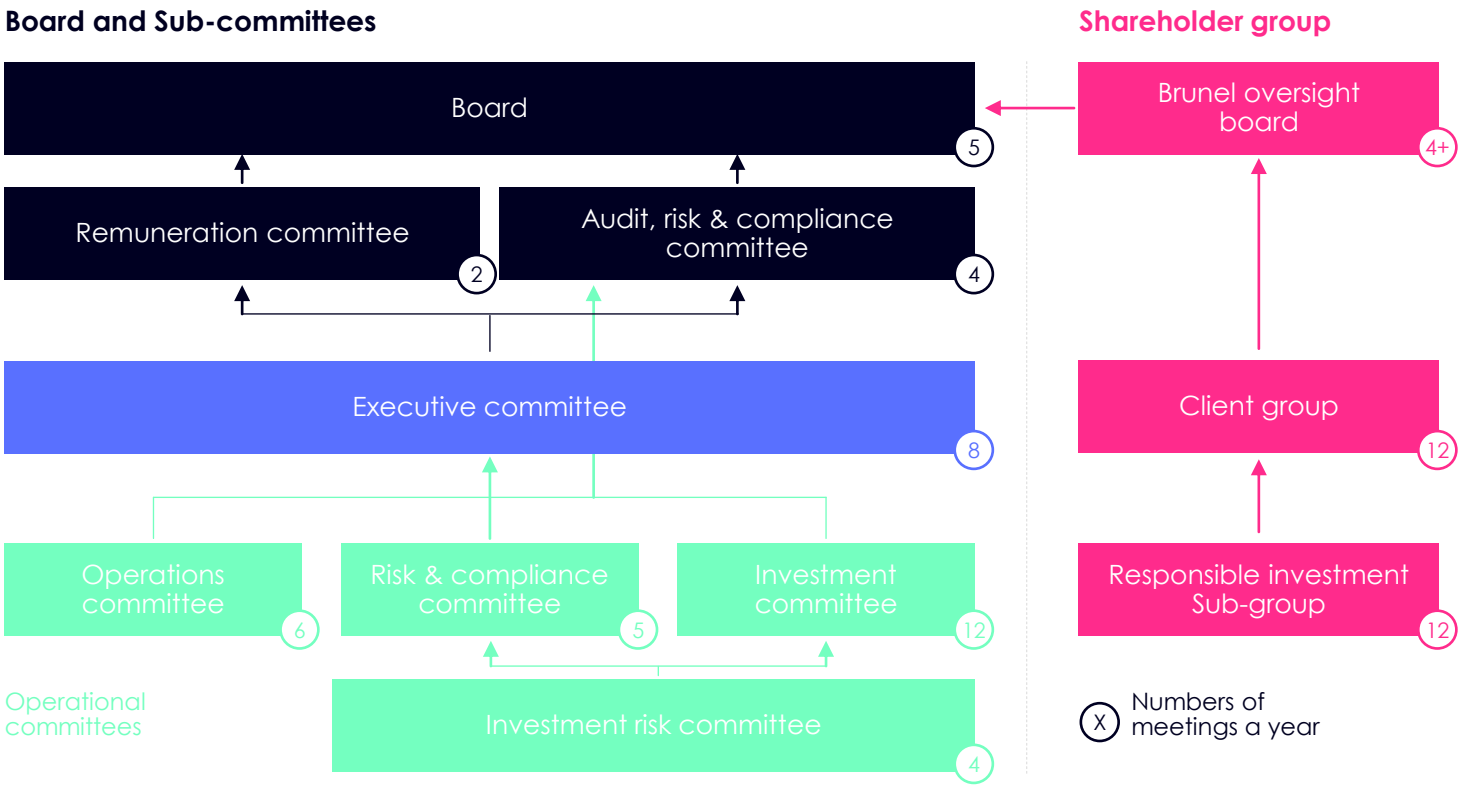
Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group 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



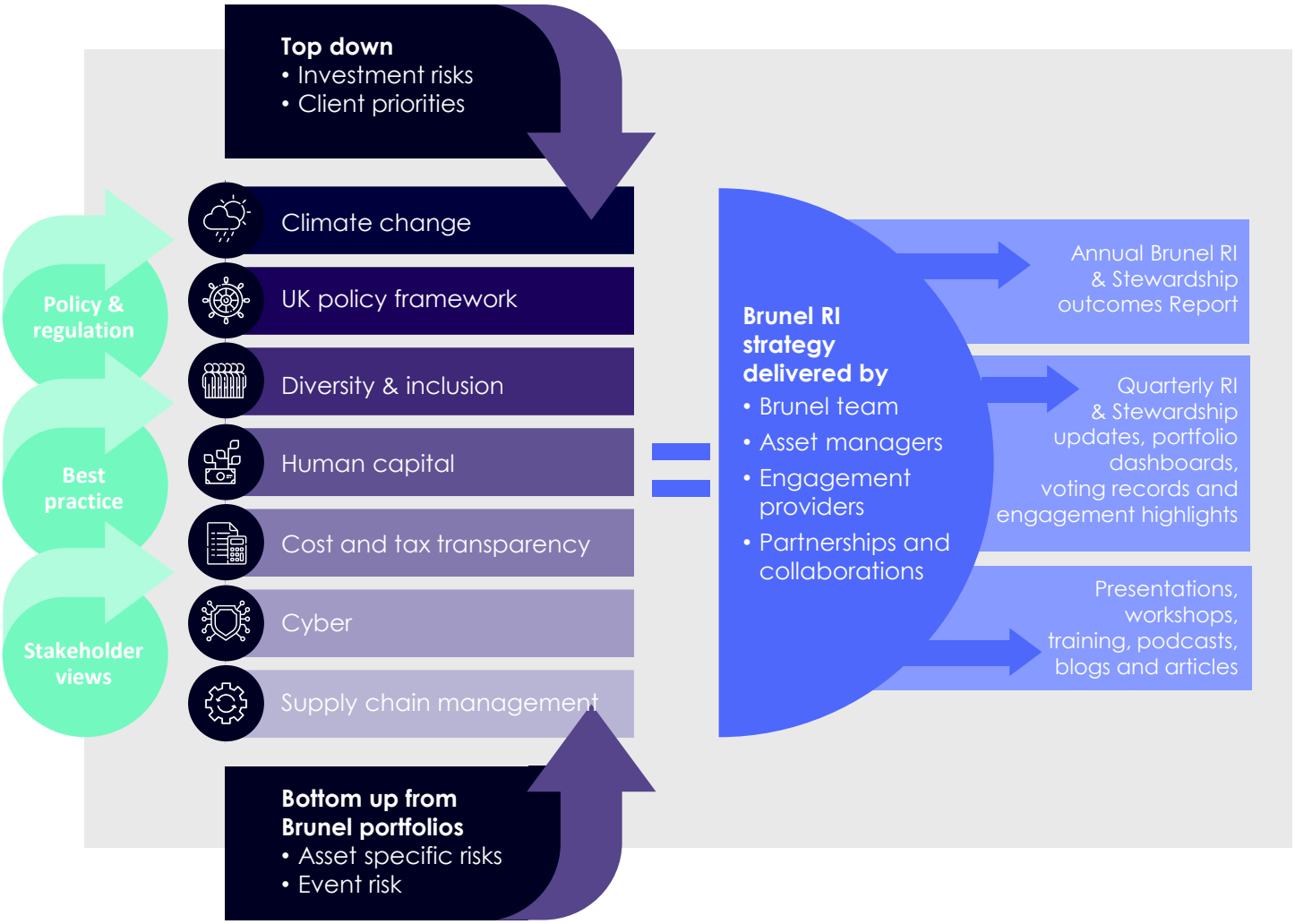
Identifying and Prioritising Engagements

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 S172 (Duty to promote the success of the company). Indeed, S172 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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Pension Partnership

Conflicts of Interest

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 Labs	TruValue labs uses artificial intelligence to bring together news and media information and integrates the Sustainability Accounting Standards Board's (SASB) materiality framework. A variety of scores are produced to indicate ESG performance 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 pathway initiative	The Transition Pathway Initiative (TPI) is a global, asset owner-led 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.

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.

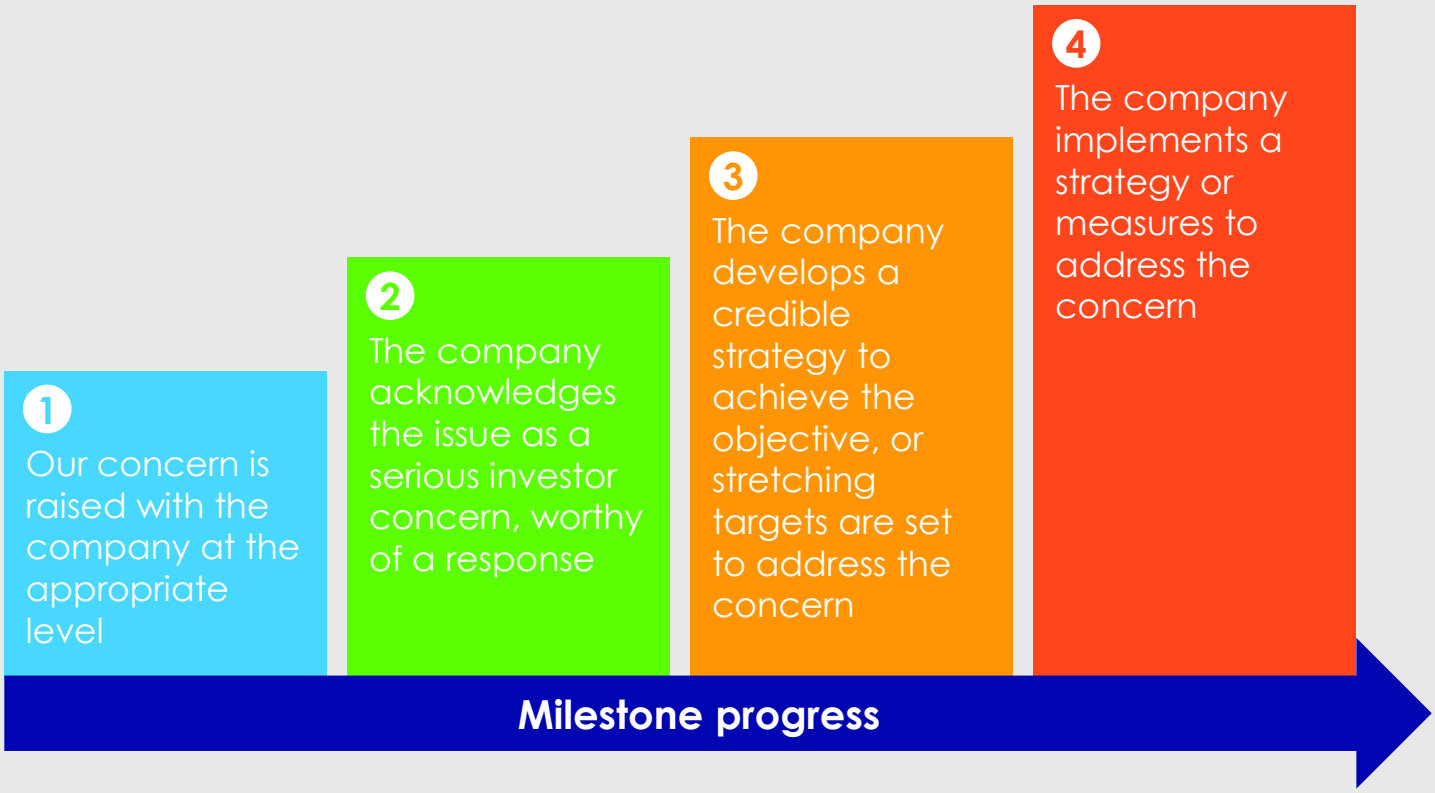
Engagement Plan and Approach

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



EOS 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.

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Pension Partnership

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 long-term 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 well-governed 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 diligence 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 on-going 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.

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

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

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

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

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 guidelines** 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.

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 Medicine 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 Benchmark on Farm Animal 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 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 Disclosure 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 Benchmarking 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 world on a set of human rights indicators.	www.worldbenchmarkingalliance.org

Annex B

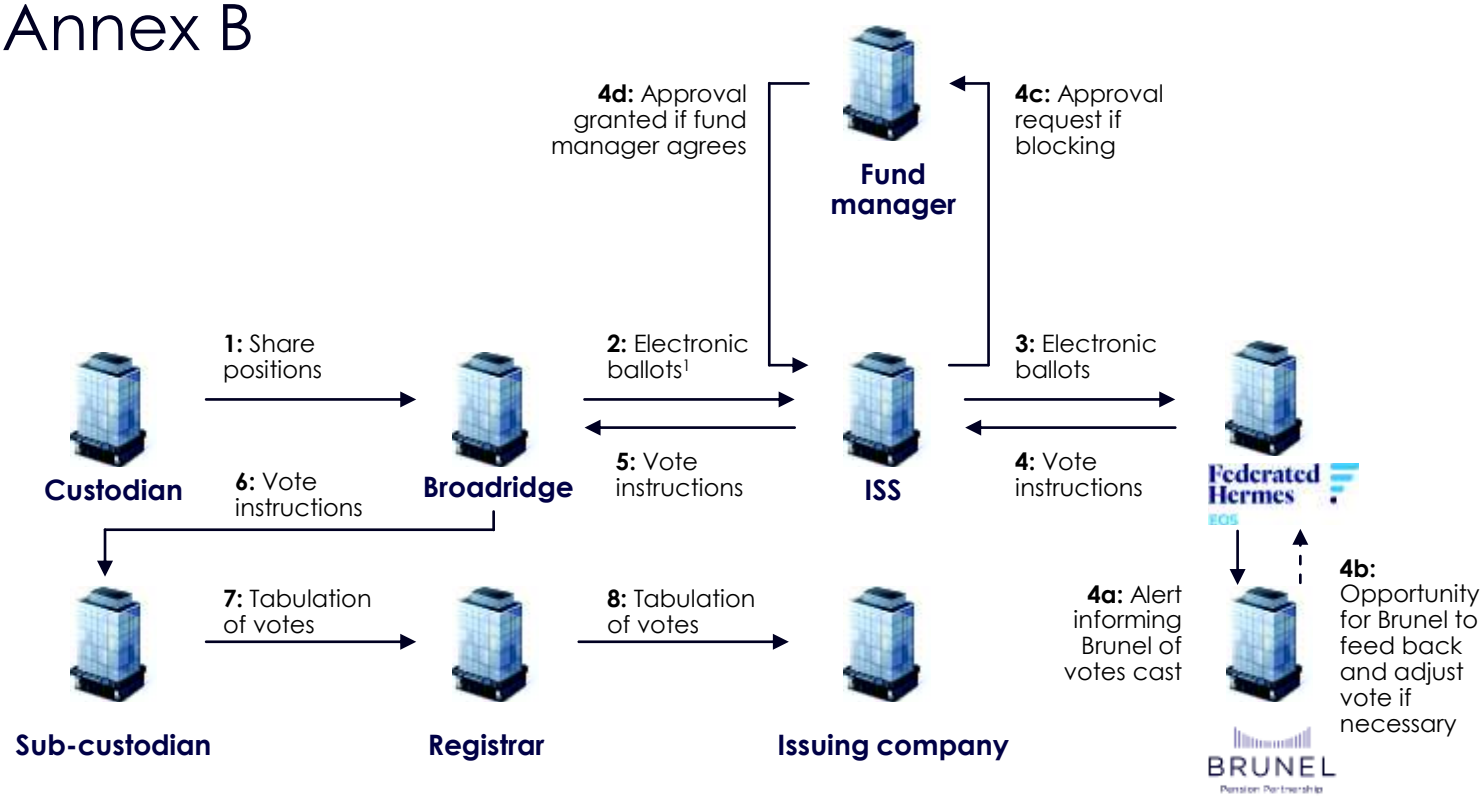
Executing voting instructions - segregated active equities and fixed income

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:

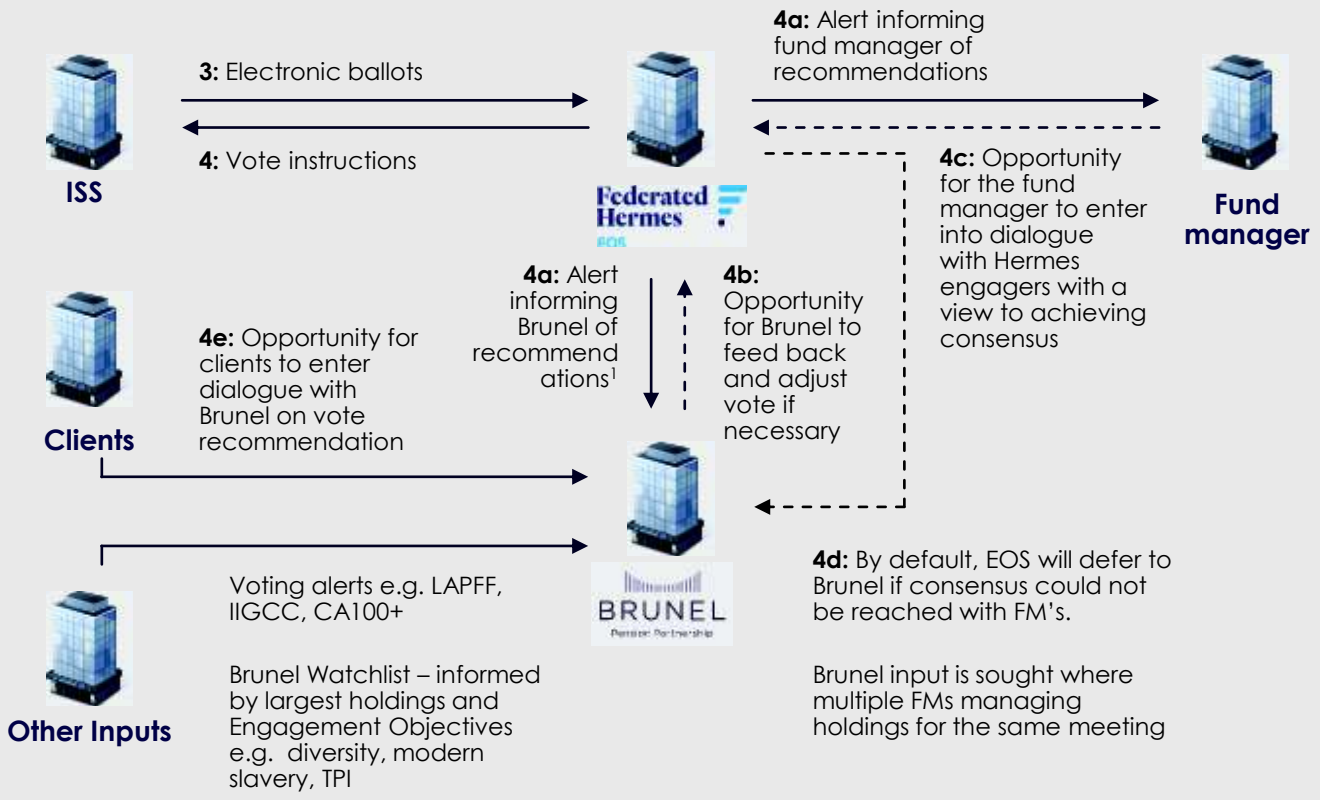
1. Notification of an AGM/EGM is sent to Brunel's Custodian, State Street
2. State Street will generate the share positions using its digital voting platform, Broadridge
3. Broadridge will issue electronic ballots* to the designated proxy voting provider, ISS
4. ISS will share the electronic ballots 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

Annex B



[1] 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.



BRUNEL
Pension Partnership

Getting in touch with the team

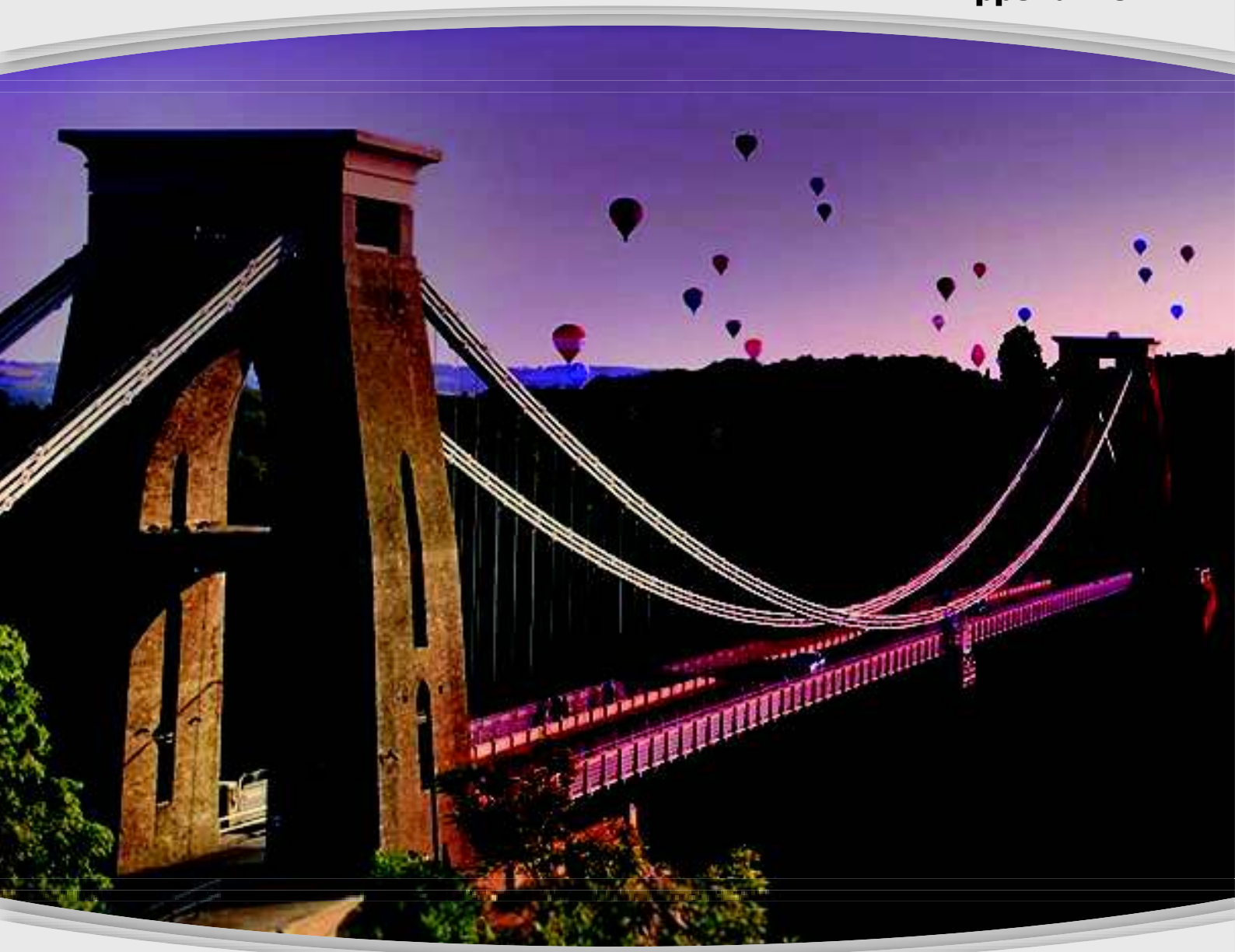
If you have any questions or comments about this policy, please email Helen Price, Stewardship Manager at RI.Brunel@brunelpp.org.

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

Disclaimer

Appendix 3



Voting Guidelines

This policy should be read in conjunction with our Stewardship Policy 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

BRUNEL
Pension Partnership

Voting Guidelines

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 Responsible Investment Policy sets out our engagement themes, which are used to focus our engagement programme. Our Climate Change Policy 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

Voting Guidelines

- **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.

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.

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 Disclosures (TCFD). 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 Climate change policy. 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
Tax	
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: • 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.	We will engage with companies on tax transparency.

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 will be engaging with companies to improve transparency and disclosure.
We are supportive of companies who provide disclosure on their workforce and follow the Transparency in supply chains guide 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 consider voting against the annual report and accounts of FTSE 100 companies who have failed to publish an adequate annual modern

Principle	Outcome/Voting Guideline
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.	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-election of directors where we feel business conduct is poor, or against election where the director had a history of poor conduct at a prior 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 over-committed 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 Hampton Alexander, McGregor-Smith and Parker, 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 re-election 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 Women on Boards: 5 year summary by Lord Davies. As members of the 30% Club and supporters of the Diversity Project, 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	Outcome/Voting Guideline
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.	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 30% Club and The Diversity Project to promote diversity on boards and within the pipeline.
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.	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.
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.	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

Principle	Outcome/Voting Guideline
reporting to shareholders on the main findings and the steps needed to address any issues. To preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote.	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 re-election 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.

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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 Living Wage Foundation. 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 living hours 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.

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.

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 years.
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.

Principle	Outcome/Voting Guideline
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	We will only support the waiver of pre-emption rights in limited circumstances.
• 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 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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