PENSION COMMITTEE
12th DECEMBER 2025

Corporate Governance and Socially Responsible Investment

Report by Executive Director or Resources & Section 151 Officer

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the contents of the report.**

Executive Summary

2. This report includes sections outlining the approach taken by the Pension Fund and our pooling partner Brunel in three key areas of Responsible Investment:

I. Managing human rights risks in Conflict Affected High Risk Areas (CAHRAs) including specific reference to the Occupied Palestinian Territories (OPT) and the Gaza conflict. This outlines how risk is managed through a combination of portfolio restrictions on investments, integration in to risk process and manager monitoring, and stewardship.

II. Delivering against our Climate Change policy through the monitoring, assessment and engagement with those companies that are the highest emitters in our listed equity portfolios. Specifically, through Brunel's policy cycle assessing the Climate Maturity Alignment of the companies the Fund invests into that are in the Climate Action 100+ group of companies.

III. The extent to which engagement activity and proxy voting has been enacted by Brunel and its engagement advisors in support of the engagement activities carried out by the Local Authority Pension Fund Form (LAPFF).

Managing human rights risks in Conflict Affected High Risk Areas (CAHRAs)

3. Brunel manages risks in conflict-affected regions through a combination of portfolio restrictions on investments, integration in to risk process and manager monitoring, and stewardship:

4. By aligning with globally recognised norms: Brunel restricts investment in companies that breach UN Global Compact Principles as well as operating specific exclusions of companies producing controversial weapons or their key components where breaches have occurred. The Fund requires its managers to 'avoid or explain' for continued investment in any non-compliant or high-risk

investments. **Lockheed Martin Corporation** and **RTX Corporation** have been excluded from the Fund's active holdings following the implementation of this exclusion in relation to controversial weapons (cluster munitions).

5. Brunel integrates human rights risks into investment decision making, particularly in conflict-affected and high-risk regions:

   Expectations of asset managers:
   Brunel asks companies doing business in high-risk regions to act consistently with the UN Guiding Principles on Business and Human Rights, which include:

   I. to conduct enhanced human rights due diligence in high-risk regions
   II. to engage with those stakeholders impacted by business operations, including from vulnerable and marginalised populations
   III. to demonstrate that the business is appropriately using its influence to promote positive human rights outcomes, including for vulnerable and marginalized populations

6. Ongoing monitoring and engagement:
   Brunel engages with companies that are subject to human rights risks and operate in conflict-affected or high-risk contexts
   I. Hermes EOS (Brunel's engagement advice provider) and the Fund's managers engage with CAHRA exposed companies to test the robustness of their human rights due diligence, disclosure of outcomes, and responsiveness to affected stakeholders
   II. There is a dedicated CAHRA engagement program where EOS engages with companies on the Fund's behalf, collectively representing Brunel and other asset owners. These engagements take place privately rather than in the public domain, and under Brunel's contractual arrangements are confidential.

7. Brunel continues to engage public policy makers in support of international treaties and ensuring appropriate guardrails for the defence industry are effective.

Specific activity related to the Occupied Palestinian Territories (OPT)

8. Brunel continues to assess portfolio exposure to the OPT using the widely referenced sources including but not limited to the UN Human Rights Office database. Brunel carried out an analysis in September which identified 32 companies in its equity portfolios, or around 1.3% of the listed holdings. While the direct exposure is low, the associated reputational, legal and systemic risks remain significant.

9. All investment risk levers are applied, including active oversight of exposures and associated manager dialogues, selective divestment (e.g. UNGC, manager dialogue), and engagements requiring enhanced human rights due diligence by underlying companies, this may lead to companies choosing to divest from projects in the region.

Munition Provisions to Israel

10. Government positions on arms transfers to Israel are evolving but remain inconsistent across jurisdictions. Brunel focused its analysis on 11 companies named by a panel of UN Special Rapporteurs and independent human rights. These firms were prioritised due to concerns regarding direct or indirect involvement in supplying weaponry used by Israel in the Gaza conflict.

11. Brunel's holdings review found that in active strategies, exposure to companies providing arms to Israel was limited to two UK-listed companies. Both companies with exposure in the active portfolio were sent an engagement letter regarding the UN statement, with a request for a meeting asking to:

    I. Indicate financially material impacts of the conflict to its business, and report on whether any employees are present in the region
    II. Describe what heightened due diligence has been performed and disclose information on any stakeholder engagement that has occurred
    III. Discuss any leverage that can be used to influence the cessation of human rights harms and clarify whether it has established any areas where it will not engage in business.

12. The Fund has asked Brunel to update officers on any follow up or escalation of these engagements. Given the sensitive nature of these engagements any information from Brunel on these engagements will need to be treated as confidential

Banks

13. Financial institutions have been described as "enablers" of the occupation of the OPT by providing the infrastructure and funding channels that support settlement activity. Brunel uses publicly available lists of banks that are being flagged as causing concern. Brunel continues to monitor these banks closely considering the heightened financial, reputational and legal risks associated with their potential complicity in human rights violations.

14. Overall Brunel will continue to apply the levers listed above with the aim of lowering investment and reputational risks for partner funds, including Oxfordshire. The thresholds and emphasis of these levers is being kept under active review. The Fund also welcomes the forming of a working group of investors set up to develop a set of principles for responsible defence investment and looks forward to the publication of the principles in 2026.

Climate Maturity Alignment 2025 Cycle

15. The companies in the Climate Action 100+ universe are the most climate-impactful companies in the Fund's listed market equity portfolios. As such they are a priority when it comes to delivering the Fund's climate change policy. Brunel have created a stringent process that allows the Fund to identify companies not aligned with our expectations around climate change and act accordingly

16. Each year a set of criteria based upon the annual Climate Action 100+ assessments are set by Brunel in consultation with the partner funds. Those companies failing these initial criteria are classified as ‘At Risk’. If the company is still misaligned after 12 months of engagement, they become “Climate Controversial.” This classification may trigger actions such as selective divestment or stewardship escalation. For the 2025 cycle, clients had requested a significant tightening of the process to raise expectations further.

17. Using the new tighter criteria for 2025 has resulted in 129 out of the 164 Climate Action 100+ companies failing (around 80%). Brunel holds 32 Climate Action 100+ companies with 27 companies failing the assessment using the new criteria. Of that 27; 10 are classified as ‘At Risk’ as they were newly added to the portfolios this year; 4 go into an enhanced engagement pathway because they managed to achieve the highest level of Management Quality assessment by the Transition Pathway Initiative; 13 are classified as ‘Climate Controversial’.

18. The 13 ‘Climate Controversial’ companies will now enter a period of enhanced monitoring, with the asset managers which hold those stocks asked to explain what, if any, mitigating circumstances may apply. These asset manager engagements will be assessed in February 2026 and then reported back in March 2026. At this point in time a selective divestment process will be initiated for those companies that fail to meet Brunel’s climate maturity alignment expectations.

19. The tightening of the criteria used for 2025 has led to a significant increase in the number of Climate Action 100+ companies that fail the assessment to around 80%. Given this significant increase, Brunel have made a recommendation that there is no further tightening of the criteria in 2026, and that instead the focus is on engaging with those companies that fail the current criteria to try and drive improved performance. There is also likely to be an update to the criteria that Climate Action 100+ use for their assessments, the impact of which will need to be understood. Officers felt this to be a reasonable approach and have supported this recommendation, which will now go to the Brunel Investment Committee.

LAPFF voting alignment

20. In the period January 2025 to June 2025 there have been 57 voting recommendation alerts by LAPFF at companies that are also held by the Fund. Of these recommendations Brunel voted in alignment with LAPFF on 44 of the votes.

21. Where there was a variance in voting there were a variety of reasons, including disagreement on the requirement for a vote but also because voting escalation took place elsewhere on the ballot or the company is not on the 2025 Watchlist of companies identified for potential voting escalation.

Corporate Policies and Priorities

22. The overall priorities of the Pension Fund are summarised as:

- To fulfil our fiduciary duty to all key stakeholders
- To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensions Regulator
- To maintain a funding level above 100%
- To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
- To maintain as near stable and affordable employer contribution rates as possible

Staff Implications

23. There are no direct staff implications arising from this report

Equality & Inclusion Implications

24. [The report There are no direct equality and inclusion implications arising from this report.

Sustainability Implications

25. [Pl There are no direct sustainability implications arising from this report.

Risk Management

26. There are The Local Pension Board provides scrutiny and support to the Pension Fund Committee, in relation to their responsibility to ensure there is effective risk management over the Pension Fund operations.

Consultations

27. See references within report.

Annex: Annex 1 - Report

Background papers: Nil

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November 2025