BRUNEL
Pension Partnership

Climate Change Policy 2023-30
Summary

A five-point plan to build a financial system which is fit for a low-carbon future

Dorset County Pension Fund administered by Dorset Council
Somerset County Council
Gloucestershire County Council
Avon Pension Fund
Cornwall Pension Fund
Buckinghamshire Council est. 2020
Environment Agency Pension Fund
Wiltshire Pension Fund
Devon County Council
Oxfordshire Pension Fund www.oxfordshire.gov.uk/pensions

Our role in driving change

Brunel's experience and expertise in managing climate change-related risks and opportunities; our scale; our influence; and the strength and support of our clients, provides us with a unique position in the investment industry.

In March 2021, Brunel committed to be Net Zero by 2050, with the goal of limiting the global temperature rise to 1.5°C through the Paris Aligned Investment Initiative (PAII) Net-Zero Asset Owner Commitment, aka Paris Aligned Asset Owners. This requires signatories to set a direction and portfolio structure for alignment through governance structures, strategy, target and objective setting, and strategic asset allocation; it means shifting the alignment of assets to meet portfolio goals; and it means influencing the environment to facilitate alignment through policy advocacy and market engagement.

It is critical that our approach supports real economy changes and is compatible with being a responsible investor as well as the objectives of the 2015 Paris Agreement. We specifically acknowledge other systemic risks and stresses that interconnect with climate action and are part of Brunel's wider approach to Responsible Investment, including:

- Biodiversity and nature-based solutions
- Equity, Diversity and Inclusion
- Human rights and social issues (notably Just Transition)
- Circular economy and supply chain management

We use the UN Sustainable Development Goals as a framework for addressing these issues.

Our climate change beliefs in light of our strategic objectives and investment principles

Our Investment Principles are designed to capture the ambitions of how the partnership will operate on a day-to-day basis, to clearly demonstrate compliance with relevant regulations and policies, to support our investment strategy, and to be commensurate with the expectations of an organisation of our size.

1. Long-term investors
2. Responsible investors
3. Best practice governance
4. Decisions informed through experts and knowledgeable officers and committees
5. Evidence and research at heart of investments
6. Leadership and innovation
7. Right risk for right return
8. Full risk evaluation
9. Responsible stewardship
10. Cost-effective solutions
11. Transparent and accountable
12. Collaborate

Given our strengths and our position in the market, we therefore believe that the key objective of our Climate Change Policy is to systematically change the investment industry so that it is fit for purpose for a world where temperature rise needs to be kept to well below 2°C, while and pursuing efforts to limit the temperature increase to 1.5°C, compared to pre-industrial levels.

Executive summary

Brunel Pension Partnership aims 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.

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

How we navigate these risks is critical and therefore a strategic investment priority. In 2020 we designed a five-point plan as part of our Climate Change Policy – to guide our work over the next three years. Our new Policy carries forward that five-point plan to 2030, as we cleave to our aim to change the broader financial system.

The state of play in the financial system

Global average temperatures are already 1.1°C above pre-industrial levels; the rate at which capital is being invested in low-carbon infrastructure is approximately half of that required; and the pace at which regulators and policymakers are acting is far too slow.

We support the UK government's commitment to make the UK the world's first Net Zero-aligned financial centre as the nature of the investment system, and financial markets more generally, contributes to the challenge of addressing climate change, rather than supporting change.

Challenges we have identified include a focus on the short-term; an unwillingness to invest in the transition (at a scale and pace); a lack of products across all asset classes and markets; and risk models and benchmarks that don't reflect climate risk, aggravated by the lack of a meaningful price on carbon.

Taking Stock

In 2022, we undertook the first of our climate stocktakes, whereby we sought to do a deeper dive to assess: what we had delivered; stakeholder views of our progress to date; our priorities going forward together; and what updates to the scientific advice and investment best practice were relevant to shape the policy. We have reported publicly on the outcome of our Climate Stocktake and we commit to repeating the exercise in 2025 to ensure our approach is fit for purpose and, specifically, reflects client needs

Five-point plan

We published our first Climate Change policy in January 2020 and identified five priority areas: Policy Advocacy; Product Governance; Portfolio Management; Persuasion; and Positive Impact.

Since then, we have taken action to meet the commitments across the five priority areas. Our regular reporting provides insight through our annual Responsible Investment & Stewardship Outcomes Report; our Climate Action Plan (incorporating TCFD); and our annual Carbon Metrics Report.

We have kept those original five priority areas, but have slightly updated the language.

Policy

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

Products

Ensure a range of climate resilient products are available to our clients and the wider investment market that deliver substantial climate change benefits and are Paris-aligned. These investment solutions must help clients also meet their future investment goals.

Portfolios

Ensure our investment portfolios are resilient under a range of climate change scenarios (both mitigation and adaptation) by adopting best practices on climate risk management and working with our managers to further improve and develop our processes.

Positive Impact

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

Persuasion

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

Our Targets

Overall Strategy Target

We commit to be Net Zero on financed emissions by 2050, with the goal of limiting global temperature rise to 1.5°C, and Net Zero on our own operations (scope 1 and 2) by 2030.

This commitment is made through the Paris Aligned Asset Owners, part of the Paris Aligned Investment Initiative (PAII).

Product Governance Target – Portfolio alignment

100% AUM in material (high impact) sectors* In developed listed equities that are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning by 2030**, extending to **all markets by 2040.**

Brunel's ambition is that **by 2040 all listed assets are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning**.**

By June 2024, Brunel commits to setting alignment targets for corporate bonds, infrastructure, real estate and secured income consistent with the NZIF and a timeline for target setting in other assets classes.

* Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with Transition Pathway Initiative sectors including banks.

** Note that, for a product to be on track for meeting its target, at least 80% of assets must fall into in the first and second categories

Persuasion Target – Portfolio stewardship

Ensure **70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement and stewardship actions** for all listed equity and corporate bonds by June 2024, increasing to **90% by June 2027.**

Engage with **100% of investment managers and general partners*** on measuring emissions, disclosure levels and setting targets for decarbonisation and alignment **by June 2024.**

Engage[1] 100% of carbon-based energy and transport infrastructure assets as part of collective or direct engagement, or management interventions. Brunel Infrastructure portfolios have limited exposure to such assets and, where they do, it is often part of a wider programme of energy transition and/or efficiency.

With regard to our private markets' portfolios more broadly, we will sequentially focus on our infrastructure, secured income, real estate, private equity and private debt portfolios, with the ambition of **setting targets for the first three of these by June 2024.**

* Real estate scope is limited to the model portfolios and engagements in private markets will be a combination of direct and via our strategic partners.

Portfolios - Decarbonisation

Brunel Target: Reduce emission carbon intensity (scope 1&2) for all Brunel's listed equity and corporate bond portfolios **by 50% by 2030, using a trajectory of at least 7% per annum reduction**, from baseline of investable universe as at 31/12/2019 (or appropriate subsequent date).

Brunel also commits to set additional decarbonisation targets to cover separate **Scope 3** targets to incorporate material sectors and other activities that will assist in achieving our overall goal **no later than June 2024.**

Public Policy Target – Sovereign Debt

100% of UK sovereign issuance to be subject to direct or collective engagement.

Brunel's **sovereign debt exposure** is almost all UK-based* and designed for the primary purpose of liability matching and therefore falls outside of the scope of the NZIF requirements. However, Brunel's policy work continues to focus on the UK government's Net Zero commitments and we actively participate in supporting implementation.

* our multi-asset portfolio can hold EM sovereign debt. Our collaborative work on EM strategically seeks to address engagement on those assets.

Positive Impact - Climate solutions

We commit to providing investment opportunities across asset classes to contribute to Brunel's own alignment, which in-turn allows clients to meet their climate solutions targets.

- **Global Sustainable equity portfolio** (reporting green revenues)
- **Green, Climate and SDG bonds** (report % AUM and £m)
- **Infrastructure**

  Brunel's Infrastructure portfolios have strong ESG credentials, limiting exposure to high climate impact areas and have strategy targets including;

  - Cycle 1: **>35%** in renewable energy
  - Cycle 2: **50%** in renewable and climate solutions
  - Cycle 3: **70%** minimum target for Sustainable Infrastructure, of which at least **40%** (i.e. most of the SI allocation) will be in climate solutions

  Brunel will provide annual updates as to the sustainable exposure, including climate solutions, of its infrastructure portfolios from 2023 onwards.

- **Real Estate and Secured Income** (impact and renewables exposure – reporting metrics to be developed)

We feature numerous case studies of investments that specifically target climate solutions through decarbonisation and energy efficiency as well as climate adaptation and resilience, in our annual reporting. **We plan to expand our reporting through developing metrics to assist with assessing the portfolios and to set targets in June 2024.**

Note on targets: Brunel has adopted a clear hierarchy of its targets to prioritise real economy changes that will support the net-zero transition. **Priority is given to alignment**, although current data availability limits scope of assessment. We also stress the need to look at performance across multiple metrics, as no one metric will be useful in isolation. The prioritisation below solely relates to the targets – not the ambition or actions more broadly.

1. Product Governance - portfolio alignment
2. Persuasion – stewardship
3. Policy
4. Positive Impact - climate solutions investment
5. Portfolio decarbonisation

Our governance of climate change

The Brunel Board approves and is collectively accountable for Brunel's Climate Change Strategy and Policy. Day-to-day operational accountability sits with the Chief Responsible Investment Officer, with oversight from the Brunel Investment Committee and Brunel's Board.

The Climate Change Policy has been developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, the Client Responsible Investment Sub-group, and Brunel staff.

We would like to acknowledge the significant support and contribution of our clients in the development of our Climate Change Policy 2023-30. Our mutual commitment to building a financial system which is fit for a low carbon future is pivotal to driving change together.

Our regular reporting provides insight in these areas through our annual Responsible Investment & Stewardship Outcomes Report, which considers our performance on meeting our Responsible Investment goals, including on climate change. Further detail is provided in our Climate Action Plan (incorporating TCFD) and our annual Carbon Metrics Report showcases key carbon metrics by portfolio.

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Getting in touch

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

Fund managers with general enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), should contact us at info@brunelpp.org