



Climate Change Policy 2023 - 2030

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



Item 9 - Appendix 1

Brunel 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.

Brunel was formed in July 2017 and manages the investment of the pension assets (around £35bn) of ten Local Government Pension Scheme funds in the UK. We generally use the name 'Brunel' to refer to the FCA-authorized and regulated company.

Our clients retain responsibility for their asset allocation and investment strategy, and ultimately their exposure to climate risk. We see our role as helping them to understand and manage these risks, while also helping to address the climate challenge.

There are three ways in which we have a particular contribution to make:

- (a) significant direct influence over the investment managers we appoint
- (b) broader influence in the investment industry and with policy makers
- (c) influence over company practice and performance, particularly in conjunction with our client funds

We would like to acknowledge the significant support and contribution of our clients in the development of this policy. Our mutual commitment to building a financial system which is fit for a low-carbon future is pivotal to driving change. This policy was approved by the Board of Brunel Pension Partnership Limited on 6 February 2023.



Climate change is an issue for us and for our clients

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.

Limiting the temperature increase to 1.5°C is now more critical than ever and achieving it is under peril. The world is already at approximately 1.1°C of warming above pre-industrial levels and current policies in place globally put the world on track for a central estimate of around 2.7°C¹ warming by 2100, assuming all country targets are met. This means that 4°C of warming could still be a reality if targets are not met in time.

Research from the Intergovernmental Panel on Climate Change (IPCC) and other authoritative bodies, suggest that global temperature rises of 2°C or even 1.5°C above pre-industrial levels of warming are likely to have catastrophic impacts for society and the environment - more extreme weather events and significant meteorological changes, including to rainfall and sea levels. Future climate risk is much larger if global warming exceeds 1.5°C, before then returning to that level by 2100, than if global warming gradually stabilizes at 1.5°C. The difference is particularly pronounced if the peak temperature is high (2°C). In such a case, a lot of the impacts will be long-lasting and irreversible, such as the loss of ecosystems.

Governments and all sectors of society (individuals, companies and investors, among others) will need to do much more if the global temperature rise this century is to be limited to 1.5°C above pre-industrial levels. The transition to the low carbon economy calls for significant change in the shape and structure of our economy, and requires us to eliminate most or all fossil fuel use and achieve a Net Zero carbon economy by 2050.

What is the role of investors?

The financial services industry's understanding of the nature of climate change has developed significantly over the last few years, with most participants regarding it as a foreseeable and materially significant financial risk. Investors are exposed to the risks and opportunities presented by climate change adaptation and mitigation - managing these impacts is an essential component of an investor's fiduciary duty.

Investors are also part of the solution and have a critical role to play if we are to successfully transition to the low carbon economy and to ensure that we adapt effectively to the physical impacts of climate change. The COP27 Implementation Plan set out both the scale of the challenge and, for the first time, the role of the institutional investor:

UNFCCC COP27 Sharm el-Sheikh Implementation Plan 2022

"Highlights that about USD 4 trillion per year needs to be invested in renewable energy up until 2030 to be able to reach net zero emissions by 2050,² and that, furthermore, a global transformation to a low-carbon economy is expected to require investment of at least USD 4–6 trillion per year;³

Also highlights that delivering such funding will require a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors"

An investment opportunity is created through the provision of the capital required for mitigation and for adaptation. We can also engage with the companies we invest in so they are resilient to regulatory and other changes that will result from climate change. We can support policy makers in taking action to enable the low carbon transition and effective adaptation.

1 www.climateactiontracker.org

2 IEA 2022 [World Energy Outlook, 2022](#)

3 United Nations Environment Programme. 2022. [Emissions Gap Report 2022: The Closing Window – Climate crisis calls for rapid transformation of societies](#). Nairobi: United Nations



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.

If we do not have a financial system that is fit for purpose, we will not be able to respond effectively to climate change. We can take some specific actions, mitigating risk at the margin, but the impact will be limited without wider change.

Our priority must be to catalyse change in the financial system at scale, not only through our own efforts but in partnership with others, and through enabling our clients to be agents of change in their own right.

Whilst Brunel's commitments and targets use 2030 and 2050 respectively, we acknowledge the scientific evidence that in terms of decarbonisation - sooner is better from a planetary perspective⁴ - each fraction of a degree of warming will increase the frequency and severity of climate impacts⁵ and corresponding financial impacts.

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. By that, we mean taking climate action in the context of other environmental and social objectives. 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 (including deforestation, the protection and restoration of water, marine and other eco-systems)
- Equity, Diversity and Inclusion (specifically acknowledging gender equity as a critical component of climate action)
- Human rights and social issues (with a focus on a Just Transition)
- Circular economy and supply chain management

We use the UN Sustainable Development Goals as a useful framework for addressing these wider issues, and they assist us in evaluating investment opportunities that impact positively across a range of issues.



4 IPCC, UNFCCC, Scientist Warning Europe

5 IPCC

The state of play in the financial system

The case for urgent action on climate change is clear. 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 centre⁶** 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 of carbon.

Working with investment managers

One area of focus will be on driving real and substantial change in how investment managers invest. We expect them to think deeply about all aspects of how they invest and how they engage with the companies and other entities in which they invest. We will challenge them to provide investment products that deliver on both our investment and climate change objectives.

We will press them to think carefully and critically about the companies and other entities they invest in, and to justify their investments in companies with higher greenhouse gas emissions. We will not issue exclusion lists as this means abdicating responsibility and accountability. We expect our managers to materially reduce climate exposures and to be able to justify any climate controversial holding. Our expectations are set out in Portfolio Monitoring expectations.

Taking stock

Our Climate Change Policy will guide our work on climate change for the remainder of the decade, but we will regularly monitor its implementation and publicly report on its effectiveness annually.

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.

⁶ [UK Government, November 2021](#)

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.

Our clients (as administering authorities) retain responsibility for strategic asset allocation and setting their investment strategies, and ultimately their exposure to climate risk. As such, our beliefs and approach are collegiately developed with our clients. We seek to be representative of their collective view whilst enabling each to have their own specific approach that delivers on their fiduciary duty to act in the best long-term interests of their members.

In relation to climate change, our approach is guided by the belief that:

- Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our clients, their beneficiaries and all portfolios
- Investing to support the Paris goals that deliver a below-2°C temperature increase, and pursuing efforts to limit the temperature increase to 1.5°C, is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our clients
- For society to achieve a Net Zero carbon future by 2050 (or before) requires systemic change in the investment industry, and equipping and empowering our clients (and other investors) is central to this change

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.

Brunel Pension Partnership Investment Principles

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

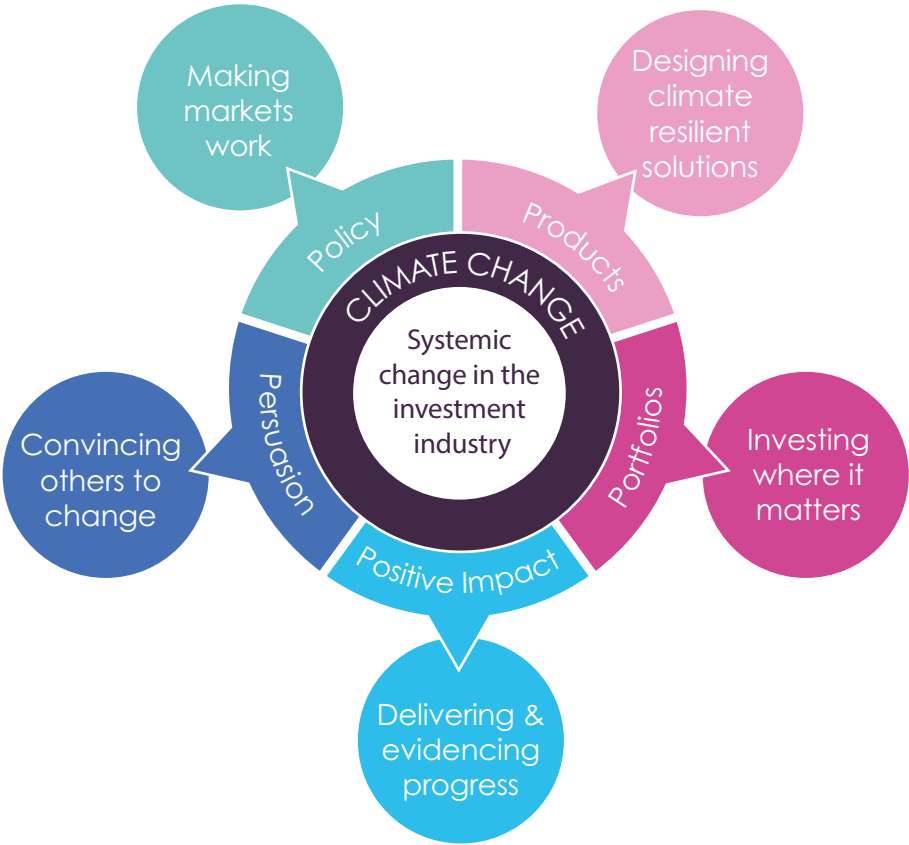
A five-point plan to build a financial system which is fit for a low carbon future

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.

These and the associated actions identified in our Climate Change Policy are intended to ensure that our investment portfolios are aligned with the goals of the Paris Agreement on Climate Change.

Since then, we have taken action to meet the commitments in that policy on the five priority areas. 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.

During the 2022 Stocktake, we assessed the effectiveness of the Policy and the five-point plan. Clients were clear in their support for Brunel's main policy objective and the 5-point plan approach. In updating the policy, we reflected more specific client asks under one of five areas



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 asset 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.**

Engage¹ 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

Policy

We want policymakers 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.

State of play

Public policy – regulation, economic incentives, disclosure expectations – establishes the rules of engagement for companies and for investors. Whilst we have seen a significant step-up in policy commitments, with over 140 of the 196 parties to the Paris Agreement announcing or considering Net Zero targets, covering close to 90% of global emissions,⁷ they are yet to be translated into tangible policy actions underpinned by clear plans. There is a clear dependency on public policy for Brunel and its clients to deliver on our climate commitments.

Brunel reported on [Reviewing the effectiveness of Brunel policy advocacy](#) in 2022 and we regularly update our website with letters, consultation details, and other evidence of action.

Brunel engages directly with policymakers and through collaborative forums such as the [Institutional Investors Group on Climate Change \(IIGCC\)](#) and the [Principles for Responsible Investment \(PRI\)](#). Brunel contributes directly to the formation of global standards and UK policy through its appointment to advisory groups, most notably;

- [International Standards Sustainability Board \(ISSB\)](#) – Investor Advisory Group
- Green Technical Advisory Group – UK Green Taxonomy for UK Treasury
- [Transition Plan Taskforce](#) Delivery Group – UK Treasury

Our analysis of the policy landscape is that, despite progress, much more is needed before we can consider there to be a comprehensive climate change policy framework in place. In the short to medium term, we believe that there are five priority areas for action that can be summarised as plans, incentives, pricing, people, and disclosure

Actions: We will

- Demand **Net Zero commitments** are translated into clear plans of action that are implemented. Direct engagement will primarily focus on the UK, with the EU, US and rest of world through collaborative forums such as the IIGCC and support for the [Global Investor Statement to Governments on the Climate Crisis](#)
- Promote development of **policy instruments, taxonomies, product and sector standards** that limit high carbon technologies and support investment in low carbon, nature-based and adaptation solutions
- Challenge regulatory barriers to climate action and advocate for **meaningful carbon pricing** and cessation of perverse financial structures e.g. **fossil fuel subsidies**. Carbon pricing is an essential element to stimulate mitigation strategies. 46 countries, or 30% of emissions,⁸ are currently covered by emissions trading, carbon tax mechanisms but more is needed, not least coordination across countries. Linked to this objective is support for the development of robust and effective **voluntary carbon markets**
- Seek to ensure that climate change policy is **socially sustainable and takes due account of workers' rights and community interests** (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate
- Advocate for expanding **mandatory reporting on climate change**, including specific calls for more rapid phase-in of **Scope 3 emissions** disclosure requirements. To ensure the quality, comparability and usefulness of such data, we support the development of **skills, knowledge and professional standards** of those intermediaries who are critical influencers in the actions of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

⁷ Climate Action Tracker (as at, November 2022)

⁸ IMF, 2022

We will also actively participate in and, where appropriate, provide leadership for investor collaboration initiatives, in particular the [Transition Pathway Initiative \(TPI\)](#), [Institutional Investors Group on Climate Change \(IIGCC\)](#), and the [Principles for Responsible Investment \(PRI\)](#). In the UK, we support the work of the [Green Finance Institute \(GFI\)](#) and the [Sustainable Investment and Finance Association \(UKSIF\)](#).

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

One size does not fit all

We have seen a significant step-up in policy commitments, with over 140 of the 196 parties to the Paris Agreement announcing or considering Net Zero targets, covering close to 90% of global emissions.⁹ However, implementation in different parts of the world is moving at very different speeds. Different parts of the world also have different starting points, reflecting different stages of industrialisation. For example, the UK's carbon emissions peaked in 1973¹⁰ and whilst the US is still the second largest emitter in absolute terms, its emissions peaked in the early 2000s. In contrast, the emissions in many emerging market economies are yet to peak; their emissions intensity will go up before it comes down.

Yet investing in these economies is vital from both an economic and climate perspective – “*Emerging and developing economies currently account for two-thirds of the world's population, but only one-fifth of global investment in clean energy, and one-tenth of global financial wealth*”.¹¹

As a global investor, this means we cannot adopt a one-size-fits-all strategy and must ensure our strategy delivers a real world – real economy – transition, if we are to reduce risk. We recognise that the path to net zero will be bumpy and that even at 1.5°C there are physical impacts to be managed. As a starting point, we have differentiated developed from emerging economy targets, and will work with other asset owners to increase the availability of sector and region-specific data against which to assess progress and mitigation and adaptation risk.

9 Climate Action Tracker (as at, November 2022)

10 Carbon Brief, 2019

11 IEA, 2021, Financing clean energy transitions in emerging and developing economies

Products

We want there to be a range of climate resilient products 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.

State of play

One of the key challenges we face is that there is a limited supply of investment products that meet our climate change objectives (e.g. Paris Aligned, Net Zero, impactful, socially responsible) and our investment requirements (e.g. appropriate risk-return characteristics). There is a clear need to encourage innovation in product development and build the supply of climate-oriented products.

Since 2020, Brunel has successfully developed and launched four listed low-carbon products: three passive portfolios that track Paris-aligned benchmarks (all for listed equities), and a multi-asset credit portfolio. Focusing on solutions, Brunel has also invested significant proportions of its infrastructure portfolios in renewables and climate solutions (including nature-based solutions). We are also supporting clients in meeting their local investment targets, which include both social and environmental priorities through place-based investing.

Climate change mitigation is integrated into all manager selection exercises and fully embedded into product governance and manager monitoring.

Our own fiduciary obligations mean there is a clear dependency on our ability to develop, launch and maintain Paris-aligned products on a supporting policy and regulatory environment. All 5 points in our plan are interrelated and we will be transparent when we feel our actions and or ability to deliver a target have been constrained by policy, regulation, or market environment and the steps we are taking to overcome barriers to progress.

We acknowledge that the physical risks of climate change and focus on adaptation and resilience have not had the attention required by companies or investors and form an essential part of fiduciary duty. Brunel seeks to prioritise climate resilience and will support the IIGCC on the continued development and implementation of its Climate Resilience Investment Framework, using it to shape our risk assessment and engagement.

Actions: We will

- **Establish clients' climate change objectives and outcomes**, and their climate change-related risk tolerances. We will also offer a range of products that meet these objectives and expectations
- **Ensure all listed portfolios consider and disclose progress against both mitigation and adaptation metrics** (focusing on those required for TCFD, see reporting section)– and we will explain how we manage the investment-related risks and opportunities associated with these issues
- **Prioritise the evidencing of alignment of our private market portfolios** through enhanced reporting and disclosure.
- **Analyse** the risk data relating to our active holdings **and conduct** a specific **Adaption and Climate Resilience Engagement** project linked to our most vulnerable holdings
- **Disclose the level of Paris Alignment** of all products over time and, in consultation with clients, evolve those where the specification inhibits transition
- **Explore the role of investment benchmarks** in driving investment decisions and in constraining our ability to invest in areas that make a meaningful contribution to climate change mitigation and adaptation

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*

Alignment versus decarbonisation

The UNEP Gap Report (2019) states that global GHG emissions need to fall by 7.6% annually between 2020 and 2030 to remain in line with a 1.5°C scenario. The estimate as to the 2030 emissions is consistent with a least-cost pathway towards limiting global warming to specific temperatures ceilings. These are calculated from the scenarios that were compiled as part of the mitigation pathway assessment of the Intergovernmental Panel on Climate Change Special Report on Global Warming of 1.5°C (IPCC SR1.5)

This broad decarbonisation trajectory relates to the whole economy. However, across that spectrum, individual countries, sectors, companies, and other assets will each have their own decarbonisation pathway that enables alignment. Alignment pathways or targets set by countries, sectors and companies that are in line with climate science and meet the goals of the Paris Agreement are deemed to be science-based. (The Paris Agreement limits global warming to well-below 2°C while actively pursuing 1.5°C. above pre-industrial levels.)

Brunel's portfolios will always be a subset of the economy and our primary focus will be on the level of alignment, as this will be a more accurate reflection of the climate risk of the portfolio than its emission intensity – see target hierarchy.

Net Zero Investment Framework - Paris Aligned Investment Initiative (2021)

Assessing the alignment of asset:

A Net Zero Transition Plan:

1. **Ambition:** A long term 2050 goal consistent with achieving global net zero
2. **Targets:** Short- and medium-term emissions reduction targets (scope 1, 2 and material scope 3)
3. **Emissions performance:** Current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets
4. **Disclosure:** Disclosure of scope 1, 2 and material scope 3 emissions
5. **Decarbonisation Strategy:** A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and, where relevant, increases in green revenues
6. **Capital Allocation Alignment:** A clear demonstration that the capital expenditure of the company is consistent with achieving Net Zero emissions by 2050

Additional criteria that are part of a company's overall net zero transition plan that should be incorporated where feasible, as data availability increases, include:

7. **Climate Policy Engagement:** The company has a Paris-Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities
8. **Climate Governance:** Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition
9. **Just Transition:** The company considers the impacts from transitioning to a lower carbon business model on its workers and communities
10. **Climate risk and accounts:** The company provides disclosures on risks associated with the transition through TCFD Reporting and incorporates such risks into its financial accounts

Net Zero Investment Framework definitions of alignment maturity

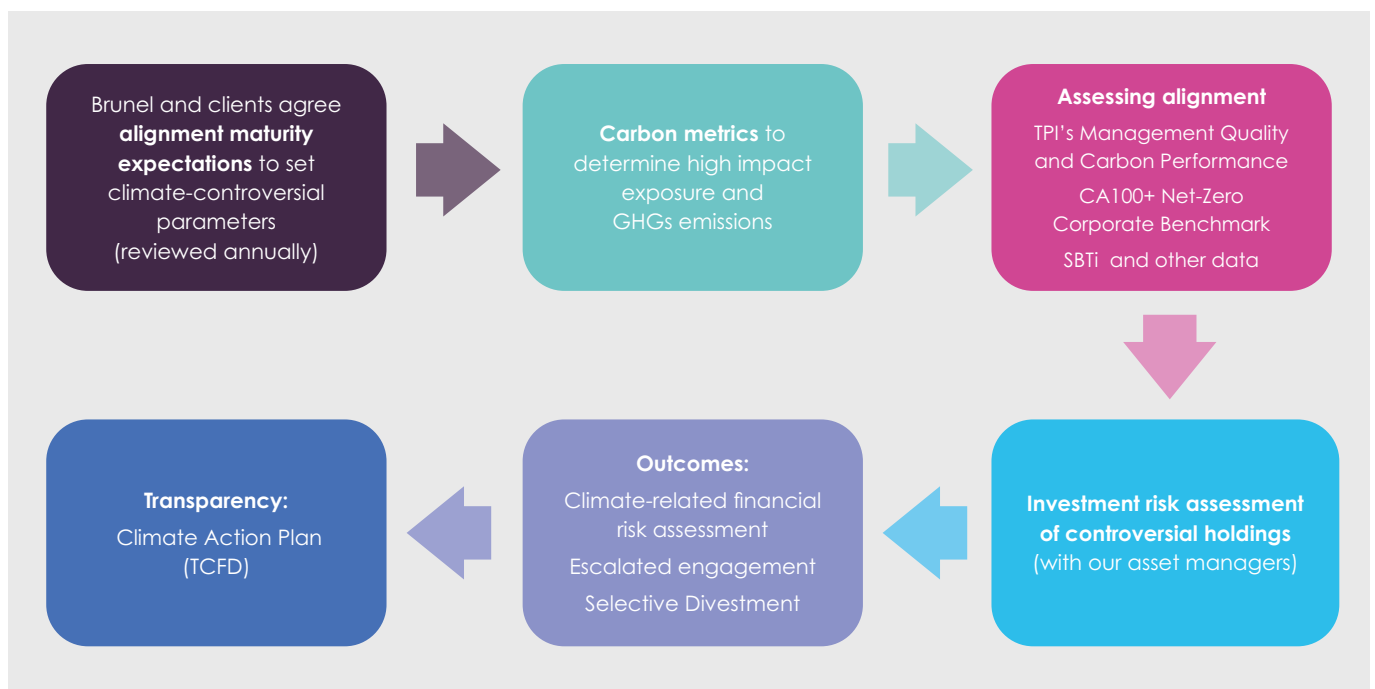
- **Achieving net zero**, defined as: companies that have current emissions intensity performance at, or close to, net zero emissions with an investment plan or business model expected to continue to achieve that goal over time
- **Aligned to a net zero pathway**, defined as: Meeting criteria 1-6 (or 2, 3 and 4 for lower impact companies): Adequate performance over time in relation to criterion 3, in line with targets set.
- **Aligning towards a net zero pathway**, defined as: Have set a short or medium-term target (criteria 2): Disclosure of scope 1, 2 and material scope 3 emissions data (criteria 4): A plan relating to how the company will achieve these targets (partial criteria 5)
- **Committed to Aligning**, defined as: A company that has complied with criteria 1 by setting a clear goal to achieve net zero emissions by 2050
- **Not aligned** – all other companies

* In-scope for Brunel are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with Transition Pathway Initiative sectors including banks. We do not own direct real estate.

Assessing alignment for action

Corporates globally are making commitments, setting targets and laying out plans to transition their business to align with the objectives of the Paris Agreement. Our ability to assess the adequacy of the corporates' response is currently limited to using the TPI and CA100+ benchmark but also data from SBTI¹² and other sources. Noting that these tools are still evolving to provide more nuanced data for investment decision making. Whilst acknowledging the limits of assessment methodologies we have; we will use these to engage with managers to challenge the investment case of controversial holdings. We will incrementally increase our expectations on companies, agreeing this with our clients annually. We strongly believe in engaging with perseverance, but selective divestment does and will continue to be part of the tool kit. Our process is illustrated below.

We expect managers to support our work to raise the standards of climate risk management, disclosure, and alignment. The ability to support our Climate Policy is a core component of manager monitoring and we will change mandates and managers who are not aligned with our clients' needs.



Portfolios

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

State of play

We recognise that climate change is a dynamic issue from an investment perspective. Our understanding of the science, of the policy goals and of the financial implications is constantly changing. We need to ensure that we and our investment managers are aware of and are acting on these changes. This requires us to assertively, consistently and rigorously challenge our investment managers on all aspects of their investment processes and expect them to explain and justify the investment decisions that they are making. Climate risk mitigation is firmly embedded in Brunel's manager appointment, monitoring and risk processes, supported by quarterly reporting of key metrics.

Brunel has been instrumental in the development of the [Net Zero Investment Framework](#), which itself will continue to evolve updating existing best practice and new methodologies for asset classes or specific areas of investment.

- **Rigorously, assertively and continuously challenge** our investment managers on their analysis and assessment of change-related risks in their investment practices and processes
- **Encourage** managers to commit to achieving Paris Alignment across their products and operations and work collaboratively to develop methodologies and metrics to demonstrate progress
- **Require managers to escalate engagement and justify holdings** in controversial holdings, including those failing to disclose how they are meeting alignment expectations over time (see below).

- **Expect managers to** avoid or explain investments in companies that are in breach **UN Global Compact** or **OECD guidelines**
- Expect them to **continually improve practices and processes**, use climate risk stress-testing and risk management of our mandates, on both mitigation and adaptation. We will develop metrics to disclose on progress and outcomes from this work and start reporting on these in 2024
- **Continue to contribute** to the development of the **Net Zero Investment Framework**. We will use these methodologies as a basis for setting portfolio targets and reporting progress

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 reduction¹**, 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**.

We use the **Transition Pathway Initiative** analysis on carbon performance to evaluate current state of corporate alignment. The TPI Management Quality score (a proxy for climate governance) can assist in evaluating the probability the company will take the necessary steps toward to transition and ultimately achieve alignment.



The TPI Tool

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

Management quality

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

Carbon performance

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

Companies' management quality is assessed annually across 19 indicators.

Companies are placed on one of five levels:

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

Level 1 – Acknowledging climate change as a business issue

Level 2 – Building capacity

Level 3 – Integrated into operational decision-making

Level 4 – Strategic assessment

For more information see

www.transitionpathwayinitiative.org

The Climate Action 100+ Benchmark was launched in March 2021 to assess the performance of focus companies against the initiative's three [high-level goals](#): emissions reduction, governance, and disclosure.

The Benchmark presents a key measure of the corporate progress of those 159 companies¹³ considered the most material globally on climate transition and the move to achieve Net Zero emissions by 2050 or sooner. We use the CA100+ benchmark indicators to complement the TPI carbon performance data to define controversial holdings with respect to climate transition.

Initially, controversial companies will be defined as those failing all indicators, but the number of indicators needing to be satisfied will increase over time in line with the NZIF guidance (see assessing alignment) see page 14.



¹³ This is the current number of CA100+ focus companies, taking into account the paused active engagement 5 Russian companies, and mergers and acquisitions (October 2022)

Positive Impact

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

State of play

We recognise that we can directly support the low carbon transition and adaptation, through investing in opportunities in areas such as renewable energy, energy efficiency, adaptation and resilience. We also recognise that, through sharing our experiences and our successes, we can encourage others to increase their investments in these areas.

Brunel clients each set their strategic asset allocation and so, whilst Brunel cannot set overall climate solution targets, it does commit to providing investment opportunities across asset classes to contribute to Brunel's own alignment, and it allows clients to set and fulfil climate solutions targets.

We have made considerable investments to date and have evidenced this through the provision of an extensive set of case studies in our public reporting. These investments have gone beyond support for the low carbon transition, and also contributed to a wider commitment to invest for positive impact in support of the **United Nations Sustainable Development Goals (SDGs)**.

Actions: We will

- **Continue to make significant investment** in diverse opportunities that directly contribute to energy and climate transition (see Targets)
- **Enhance our disclosure of positive impact**, initially focused on establishing levels of green revenues and private markets sustainable investment exposure but aspire to progress reporting of real-world impacts
- **Undertake our own operational carbon footprint** and report on actions and progress as part of our Climate Action Plan

Positive investment opportunities through Brunel portfolios

Global Sustainable equity portfolio

The Sustainable Equities portfolio (c.£3bn) uses a broader strategy consideration of environmental and social sustainability to identify companies and investment themes able to succeed long-term through contributing to society. It builds on but goes beyond most "Responsible Investment" approaches and includes strategies focusing on the climate and energy transitions.

Green, climate and SDG bonds

Brunel advocates for improvements in rules and processes around 'labelled bonds' to provide greater assurance as to their efficacy and value for money. In this context, the Brunel Sterling Corporate Bonds portfolio invests in labelled bonds but has no defined target. The policy focus for the portfolio is on the overall environmental, social and governance risk management, alignment, and stewardship (see targets above). Details of labelled bonds are shared with clients every quarter and periodically in Brunel's external reports (annually at minimum).

Infrastructure

Brunel's Infrastructure portfolios have strong ESG credentials, limiting exposure to high climate impact areas, and have strategy targets for renewable and other climate solutions, including nature-based solutions (see targets below). 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

100% of both Brunel's International and UK Real Estate model portfolios¹⁴ are badged with Green Stars by the Global Real Estate Sustainability Benchmark (GRESB). Furthermore, **100%** of the UK model portfolio managers have set **fund level Net Zero targets**.

Cycle 1 and Cycle 2 Secured Income portfolios have strong ESG and climate credentials. The two long-lease property funds are designated Green Star (GRESB) funds and the third fund component is Greencoat Renewable Income which, as the name implies, seeks to generate contracted income from a diversified portfolio of assets with a focus on solar photovoltaic, offshore wind, bioenergy from waste and, as opportunities arise, assets in other renewable infrastructure areas.

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

Whilst our direct operational impacts are not as material, we believe in leading by example and take steps to reduce our own climate impacts. We will do this through our procurement of goods and services, travel choices and use of technology. Where impacts cannot be mitigated, we will consider the use of offsets. We will report on our principal impacts and the steps we have taken to reduce them as part of our wider corporate disclosures and commitment to be operationally Net Zero by 2030.

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.**

¹⁴ International model portfolio represents around 50% of AUM, and the UK Model Portfolio over 80% of AUM, and Green star assessment excludes new investments in pre-reporting stage.

Persuasion

We want the companies and other entities we invest in 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.

State of play

Joining the 140 countries' Net Zero commitments are initiatives covering 8,307 companies, 595 financial institutions, 1,136 cities, 52 states and regions, 1,125 educational institutions and 65 healthcare institutions through the Race to Zero campaign¹⁵; Brunel is one of those financial institutions.

We have three main strategies to persuade companies and other entities to act on climate change, namely: (1) engagement via its investment managers. (2) collaborative engagement, in particular through Climate Action 100+ (CA100+), and (3) direct engagement, including voting our shareholdings.

In addition, we will continue to support client engagement with companies e.g. through facilitating their attendance at AGMs, through facilitating their participation in collective engagement with us and with other institutional investors.

In relation to company engagement, Brunel has supported the development of guidance for private [sector climate transition plans](#) and sector expectations, for example '[Investor Expectations for the banking sector](#)', with the expectation that companies will publish their climate transition action plan, and annually disclose emissions and progress against their commitments and targets.

A focus on physical risk, based on analysis of our own holdings, will add to our continued commitment to use the CA100+ benchmark and the guidance relating to transition planning as the basis for our listed markets engagement. These expectations will be reflected in our escalation (see diagram below) and actions in line with the specifics set out in our [Voting Policy and Voting Guidelines](#).

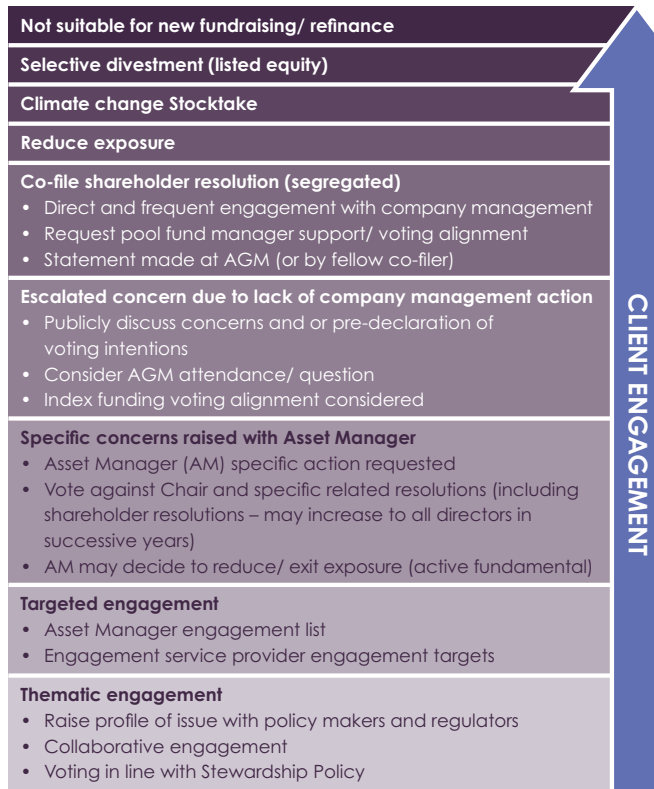
Actions

For listed equity and debt, we will:

- **Expect** focus companies to progress reporting against the requirements of the **CA100+ Benchmark**, linked to our portfolio assessment above
- **Ensure engagement** across **all high-impact sectors** as a priority, but also **promote** disclosure from all companies in relation to **transition planning**. We specifically **expect** material and high impact sectors to report against the sector-neutral and (where available) sector-specific climate transition action plans
- **Focus direct engagement** with **banks** and participate in the IIGCC Banking Engagement
- **Shape the mining and minerals sector** through the establishment and operation of a **Global Commission on Mining (Mining 2030)**
- **Undertake a biodiversity footprint exercise** and, from that, engage with those companies in our selected portfolios who are either a) causing most impact, or b) most at risk from deteriorating eco-system services
- **Target water companies** in collaboration with our UK sterling bond manager (including relevant equity exposure) looking at biodiversity, social issues, lobbying and climate resilience, including storm water releases, wastewater discharge and shortages.

¹⁵ Race to Zero – as at of September 2022

Brunel's approach to stewardship escalation



Stewardship in corporate bonds

Brunel's engagement with companies, primarily through its asset manager, extend to cover the issuance of corporate bonds (see water companies above). In terms of stewardship escalation (illustrated above) Brunel's approach includes capacity for the identification of companies and assets unsuitable (due to climate related financial risk) for new fundraising or refinance. The term 'denial of debt' is often used to capture the essence of this when applied to corporate bonds. We have not explicitly used debt denial at this point as the idea is in its early stages of development. We are committed to working with clients, our asset managers, and the wider industry to develop thinking on how to operationalise this part of the tool kit in a way that delivers real economy net-zero transition.

Persuasion Target – Portfolio stewardship

Ensure **70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement 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 partners¹** on measuring emissions, disclosure levels and setting targets for decarbonisation and alignment **by June 2024**

Engage¹ 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.**

1. 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.

Private markets

Engagement impact can be even stronger in private markets, working with our general partners to support private companies, real estate, infrastructure projects and other entities in managing their impacts on climate change and the impacts of climate change on them.

The primary focus of our engagement in private markets is to enhance disclosure and to evidence the alignment and impact of outcomes. This is captured under our product governance, portfolio monitoring and positive impact objectives above.

Reporting on progress

We will report annually on our progress against the commitments set out in this policy and other related action plans.

State of play

Brunel already uses the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) to report on our approach to managing climate risk. This report is summarised in our Annual Report and Financial Statements and complemented by additional portfolio-by-portfolio carbon metrics reporting. Brunel is also committed, in principle, to make disclosures consistent with requirements of the Taskforce on Nature-related Financial Disclosures (TNFD).

Our Responsible Investment & Stewardship Outcomes Report provides further transparency and assurance relating to stewardship and voting outcomes.

Brunel is a strong advocate for global mandatory disclosure. Brunel has supported the work of the UK government in improving climate risk disclosures, culminating in the commitment to making TCFD mandatory across the economy by 2025.

Brunel is embarking on a pilot with S&P Trucost to develop biodiversity footprinting, which will further enhance our analysis and disclosures.

Actions: We will

- Enhance current disclosures required by TCFD for both clients and Brunel
- Enhance metrics on private markets portfolios, biodiversity, physical risk and other environmental issues
- Progress our work and commitment to TNFD
- Work collaboratively to establish effective mechanisms to enhance reporting on real world impacts

We will use our website as the primary route for providing additional information and further insights into our approach.

Listed markets carbon metrics – for each portfolio

- Absolute carbon emissions
- Carbon emission per million pounds invested (carbon footprint)
- Carbon intensity (weighted average carbon intensity)
- Disclosure rates
- Fossil fuel revenue exposure
- Fossil fuel future emissions from reserves

For 2023

- Green revenues (weighted average exposure)
- Management quality scores based on TPI methodology

Planning

- Company physical risk
- Portfolio alignment

Brunel stresses the need to look at companies and assets across multiple metrics, as no one metric will be useful in isolation.

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**.

Climate risk has been identified as a principal (level 1) strategic risk to Brunel. As such, the risk is owned by the **Chief Executive Officer**, with oversight from **Brunel's Audit, Risk and Compliance Committee** forming part of Brunel's overall strategic risk framework.

The **Chief Investment Officer** is responsible for ensuring the integration of climate change into portfolio construction, implementation and overall investment decision-making. All members of the investment team have explicit responsibility for the implementation of our Responsible Investment (RI) principles, including but not limited to climate risk, within their respective roles. As such, any training needs are identified through our standard appraisal and personal objective-setting processes.

The Climate Change Policy has been developed in conjunction with key stakeholders, including the **Brunel Oversight Board**, **Brunel Client Group**, and the **Client Responsible Investment Sub-group**, membership of which includes representatives from the administering authorities it serves, and Brunel staff.

This policy relates to and interacts with other Brunel policies, including but not limited to: policies across Responsible Investment, Stewardship, Risk Management, Product Governance, Manager Selection and Manager Monitoring.

It is expected that the policy will develop over time, given the fast-changing nature of the climate debate and improvements in climate data. Relatively minor changes to the policy, including clarifications and more specific targets or updates to reflect market developments, can be approved by the Brunel Investment Committee. More substantive changes will require approval by the whole Board, after client consultation if appropriate.

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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
