



DEEP DIVE: DEVELOPING NEW PARIS ALIGNED BENCHMARKS

BRUNEL PENSION PARTNERSHIP

Brunel believes asset owners and asset managers need to act with added urgency to ensure finance can be part of the solution to climate change. A major element of the action needed is transitioning passive funds to Paris-aligned benchmarks. Globally, passive investments rose above \$15 trillion in 2020.

In November 2021, Brunel Pension Partnership opened the London Stock Exchange to mark its transition of what is now £4 billion to the new FTSE Russell Paris aligned benchmark series that it developed in coordination with FTSE Russell, the index, data and analytics provider.

The benchmarks form a core element of Brunel’s partnership’s collective commitment and journey to net zero. Legal & General Investment Management (LGIM) manages the Brunel passive equity funds now adopting the new benchmarks; the Brunel transition is one of the largest passive fund launches (by AUM) in LGIM history.

FTSE Russell’s two EU Climate Benchmarks Index Series not only meet the carbon emission 10-year reduction targets of the Paris-aligned benchmark criteria (50%) and Climate-transition benchmark criteria (30%), respectively, but go a step further by integrating forward-looking metrics and governance protections from the Transition Pathway Initiative (TPI). TPI provides assessments of how the world’s largest and most carbon exposed companies are managing the climate transition.

Exposure to any given index constituent rises or falls according to several exposure objectives, covering fossil fuel reserves, carbon reserves and green revenues, as well as forward-looking alignment with Paris goals, as shown in Figure 7. The indices also set a limit on the active weighting of banking sector constituents, given that funding of large carbon emitters is a significant factor in climate change, but is poorly reported. Crucially, the indices are also designed flexibly, in order to enable them to evolve as data improves, in line with research developments.

Figure 7. Climate exposure objectives within Brunel’s benchmark series

	Fossil fuel reserves	Underweight companies with fossil fuel reserves
	Carbon emissions	Over or underweight companies according to their carbon intensity
	Net Zero pathways	Apply annual decarbonisation (carbon emissions reduction) target - to reach 'Net Zero' by c.2050
	Green revenues	Overweight companies engaged in the transition to a green company
	TPI Management quality	Over or underweight companies according to their climate governance activities
	TPI Carbon performance	Over or underweight companies according to their carbon reduction commitments