BRUNEL
Pension Partnership

Developing a target hierarchy for real world decarbonisation: Brunel Pension Partnership

This case study, authored and provided by Brunel Pension partnership, outlines Brunel's approach to net zero targets and how they are an integral part of the organisation's net zero strategy.

Background

Brunel Pension Partnership (Brunel), with around £35bn in AUM, is one of eight national Local Government Pension Scheme (LGPS) pools in the United Kingdom and is widely recognised as a global leader on Responsible Investment.

Brunel was established to consolidate the investment of pension assets from several LGPS funds, with the aim of achieving cost savings, enhancing investment opportunities, and improving risk management. The partnership invests in equities, fixed income, and alternative assets guided by our climate policy.

Overview of Brunel's net zero targets and strategy

Our 2023 Climate Change Policy identifies specific targets related to five priority areas which are intended to ensure that Brunel's investment portfolios are aligned with the goals of the Paris Agreement.

Overall Strategy

We committed to be net zero by 2050, with the goal of limiting global temperature rise to 1.5ºC and achieving net zero in Brunel's 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). Brunel was and continues to be involved in the development of PAII's Net Zero Investment Framework, which has been used to support the development of Brunel's net zero targets and strategy.

85% of Brunel's total AUM (which is 92% of in scope assets) will be covered by an Alignment Target by June 2024, with the ambition being 100%[1] by June 2025.

Brunel has made several commitments, show in the table below:

1 In scope assets – excludes cash, overlays and assets held in bespoke risk matching products which are not Brunel portfolios.

Target type	Overview of Brunel's commitment	Status
Product Governance Target – Portfolio alignment	100% AUM in material (high impact) sectors in **developed listed equities and sterling corporate bonds** 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.[2]	In progress
	No less than 50% AUM in **real estate and infrastructure assets** are i) achieving Net Zero or ii) meeting a criterion considered to be aligned by 2030 and 100% by 2040.	New Target
	100% AUM in **Secured Income and the Cornwall Local Impact Portfolio** is i) achieving Net Zero or ii) meeting a criterion considered to be aligned by 2030.	New target
	100% of the **portfolio's corporates and quasi-sovereign** exposure to be considered as 'achieving net-zero' or 'aligned to net-zero'[3] by 2040, achieving 50% progress by 2030.	New target
	100% of directly held **Sovereign debt (UK Gilts)** is covered by engagement to achieve Net Zero by 2050.	Achieved & maintain
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.	Achieved & maintain
	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 100% of **carbon-based energy and transport infrastructure assets** as part of collective or direct engagement, or management interventions.	
Portfolios – Decarbonisation	Reduce **portfolio emissions** by 50% by 2030, with an implied trajectory of at least 7% per annum reduction.	Achieved & maintain
	Decarbonisation targets to cover **Scope 3:** ▪ 100% of directly held high impact and banks to disclose their own material Scope 3 emissions by 2030. ▪ 100% of AUM in largest directly held IT companies to disclose their own upstream and downstream Scope 3 emissions by 2030.	New Target/s
Public Policy Target – Sovereign debt	100%[4] of **UK sovereign issuance** to be subject to direct or collective engagement.	Achieved & maintain
Positive Impact – Climate solutions	**Global Sustainable equity portfolio** (reporting green revenues) 14.2% of the GSE Portfolio is exposed to Green Revenues on a Weighted Average basis. This equates to **£485,122,253** of the portfolio being exposed (as at 31/12/2023)	Achieved & need to be maintained
	Green, Climate and SDG bonds (report % AUM and £m) 7.3% (c **£185, 969,495**) in labelled bonds (as at 31/12/2023)	
	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 solution 83% of total infrastructure committed capital **£914,731,697** (as at 30/09/2023) – using FTSE Green revenues classification (Tier 1 & 2)	

2 Currently in scope are listed companies on the Climate Action 100+ focus list and companies in high impact sectors consistent with Transition Pathway Initiative sectors including banks.
3 Where methodologies to assess alignment still do not exist by 2040, and the investments are not obviously contrarian to the net-zero objectives, they will be assumed to be compatible.
4 100% of Brunel direct sovereign debt exposure is UK Gilts.

Why Brunel's targets were chosen & target hierarchy

Brunel's Policy commits their investment portfolios to net zero emissions by 2050 and sets out the near-term actions they must take to achieve their target, including engaging with investment managers and companies; collaborating with peers; engaging policymakers; and investing in climate solutions.

This is an extension to ESG integration, where, in addition to individual company ESG risks, the approach considers climate change as a systemic risk. It also considers the role Brunel can play in their portfolios and in the wider economy to address climate change with real-world decarbonisation outcomes.

Pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of Brunel's clients. For society to achieve a net zero carbon future by 2050 (or before), it requires systemic change in the investment industry. Brunel believes equipping and empowering their clients (and other investors) is central to this change.

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. Brunel also stresses 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

The broad decarbonisation trajectory from the UNEP Gap Report (2019) that stated global GHG emissions need to fall by 7.6% annually between 2020 and 2030 to remain in line with a 1.5°C scenario 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.

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.

Embedding the targets into Brunel's net zero strategy

Examples of actions Brunel has undertaken in pursuit of their net zero strategy include:

Policy Advocacy: Promoted 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 – thus Brunel advocated for expanded mandatory reporting on climate change.

Asset allocation: Prioritised the evidencing of alignment of their private market portfolios through enhanced reporting and disclosure to meet portfolio goals. Investment in energy and climate transition solutions.

Stewardship: Analysed the risk data relating to their active holdings and conducted a specific Adaption and Climate Resilience Engagement project linked to their most vulnerable holdings. Engaged with 100% of investment managers on emissions, disclosure levels, and decarbonisation targets. Undertaken biodiversity footprinting at portfolio-level (in progress) and targeted engagement with specific sectors.

Current progress against targets

We have taken action to meet the commitments in our climate change policy on the five priority areas and are currently on track to meet these targets.