A MORE PRESCRIPTIVE APPROACH TO ENGAGEMENT - ALIGNING INVESTMENTS TO A 1.5°C PATHWAY

Introduction

1. The Pension Fund's Climate Change Policy Implementation Plan included a goal to set targets and measures of success in relation to engagement activity. This document is intended to set out the Pension Fund's Engagement Policy, consistent with the Fund's Climate Change Policy objective of aligning investments with the Paris Agreement goal to limit global temperature increases to 1.5°C. The Policy has been developed based on the principles agreed at the Pension Fund Committee on 3rd December 2021.

2. Ultimately this will feed into the Brunel Climate Policy Stocktake process where the goal is to adopt a Brunel wide approach that has the agreement of all client funds. Where a unanimous position cannot be agreed the Pension Fund would seek to work with other Brunel funds to establish portfolios which align to the Fund's Policy.

Scope

3. The ambition is for the Policy to apply across all the Pension Fund's portfolios but initially the focus will be on listed equities and corporate bonds which make up a large proportion of the Fund's investments and have more established processes and data to enable the Policy to be applied. Passive equities are not in scope as the Fund has already invested all passive equities in a Paris Aligned portfolio with its own rules for company weightings and exclusions.

4. The way the Policy operates for other asset classes will need to be developed in future iterations of the Policy due to the different nature of the investments and climate data sets available. For example, the criteria currently set out in the Policy for equities and bonds would not be appropriate for property investments.

5. The Policy will focus on companies that have the most significant climate impacts by identifying high impact companies. High impact companies will be defined as those companies on the Climate Action 100+ focus list.

Principles

Goals

6. The Policy aims to establish a mechanism for ensuring the Pension Fund's investments are aligned to the Paris goal of limiting temperature rises to 1.5°C within an appropriate timeframe. The Policy will operate in a way that does not conflict with the Pension Fund Committee's fiduciary responsibilities.

Science Based

7. The Policy will be grounded in scientific consensus on climate change, in particular by the work of the Intergovernmental Panel on Climate Change. In addition, the Policy will be informed by outputs from other reputable bodies that produce analysis derived from credible 1.5°C scenarios.

Transparency

8. The operation of the Policy will be transparent: the reasoning for decisions will be predictable, recorded and accessible as far as practicable. The Policy will take every opportunity to signal positive change to the wider market and society to maximize the impact of the Policy.

9. Transparency on the criteria to be assessed is also seen as a key driver in encouraging companies to disclose the information needed to undertake the required analysis and in promoting the development of products and services by providers that links to the Policy criteria.

Data

10. As far as possible the Policy should use objective measures or simple verifiable facts that signal a tangible effect on climate mitigation. Measures should be comparable within sectors and between sectors where possible.

11. Decisions made under the Policy will not be postponed or avoided in the absence of perfect data. Reasonable estimates should be used when actual data is unavailable. The absence of data in itself should be considered as a potential criterion fail where there is a reasonable expectation for a company to make the data available. It is primarily the responsibility of companies to generate verifiable data that can be used to guide policy execution.

12. In making company level assessments full scope 3 emissions should be considered. Unlike portfolio level assessments that include full scope 3 emissions, company level assessments do not suffer from double counting issues.

13. In assessing alignment with 1.5°C scenarios a prudent approach will be adopted where companies place reliance on emissions offsetting and/or carbon capture and storage technologies. Offsetting should not be used by companies operating in sectors where viable decarbonisation technologies exist. Plans should not rely on unproven technologies or adopt timeframes for action that are inconsistent with 1.5°C pathways.

Policy criteria

14. The Pension Fund will primarily seek to achieve portfolio alignment through the decarbonisation of assets, as this this is what is required in order for 1.5°C scenarios to be achieved. However, where decarbonisation at company level is

not taking place at the required level the Pension Fund seeks to have a criteria-based approach to excluding such companies from its portfolios.

15. The Policy seeks to adopt a set of criteria against which companies will be assessed that have a clear link to alignment to 1.5°C temperature scenarios. Where possible the assessment of Paris alignment should be sector specific to take into account the different decarbonisation pathways that have been established for different sectors.

16. The following criteria have been derived from the criteria currently assessed by Climate Action 100+. Within each of the criteria there are several sub-criteria. Details can be found on the Climate Action 100+ Net-Zero Company Benchmark (Net-Zero Company Benchmark | Climate Action 100+).

Assessment Criteria:

1. **Ambition** - Long-term greenhouse gas (GHG) emissions goal consistent with limiting global temperature rises to 1.5°C above pre-industrial levels.
2. **Targets** – Short, medium, and long-term GHG emissions targets (scope 1, 2 and material scope 3) consistent with limiting global temperature rises to 1.5°C.
3. **Emissions Performance** – Currently meeting emissions reduction targets or disclosed emissions are consistent with 1.5°C pathways.
4. **Disclosure** – Reporting 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 long and medium term GHG emissions targets.
6. **Capital Allocation** – The company has explicitly committed to aligning future capital expenditure with the Paris Agreement goal of limiting global temperature rises to 1.5°C. The company discloses the methodology it uses to align its future capital expenditures with its decarbonisation goals, including key assumptions and key performance indicators.
7. **Lobbying** - The company has a Paris-Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities.
8. **Climate Governance** – The company demonstrates clear oversight of climate planning and climate linked executive remuneration targets.
9. **TCFD Reporting** – Company produces reporting under the TCFD framework.
10. **Just Transition** – The company considers the impacts of moving to a lower-carbon business model on its workers and communities.

17. The list of criteria will be kept under review for appropriateness.

18. Companies will be classified into stages of alignment as per the below depending on whether they are high-impact or not:

<u>High-Impact Companies</u>

Not aligned – companies that meet none of the criteria.
Committed to Aligning – companies meeting criteria 1 only.

Aligning - Achieving criteria 1, 2, 4, 5 (partial achievement), 7, 8, and 9
Aligned – Achieving all criteria

Other Companies

Not aligned – companies that meet none of the criteria.
Committed to Aligning – companies meeting criteria 1 only.
Aligning - Achieving criteria 1, 2 and 4
Aligned – Achieving criteria 1, 2, 3, 4, 9 and 10

High Impact Companies

Alignment Stage	**Timeframe (31 December)**
Not aligned	Immediate
Committed to Aligning	2024
Aligning	2026
Aligned	2027

Large-Cap Companies

Alignment Stage	**Timeframe (31 December)**
Not aligned	2024
Committed to Aligning	2025
Aligning	2028
Aligned	2030

All Other Companies

Alignment Stage	**Timeframe (31 December)**
Not aligned	2026
Committed to Aligning	2028
Aligning	2035
Aligned	2040

Policy Operation

19. Companies that have not reached an alignment stage within the required timeframe will be added to a list for potential exclusion. Prior to companies on the list being confirmed for exclusion there will be a qualitative analysis undertaken, including Brunel, client funds, and fund managers as appropriate. The purpose of this analysis is to ensure decisions are made in the best interests of client funds and to take into account the fact that any set of criteria cannot fully capture all elements relevant to an investment decision both in isolation and in terms of portfolio level impacts. The rationale for any decisions taken should be made publicly available as far as possible taking into account any confidentiality constraints.

20. As well as the alignment stage being used to identify companies for potential exclusion it will be used to report the proportion of investments within investment portfolios falling into each stage.

21. Where companies are not meeting all the required criteria but are within the timeframe for exclusion engagement will be utilised targeting those criteria not yet met, with the expectation that consistent progress towards the criteria will be demonstrated. Engagement will follow the existing escalation process where if insufficient progress is being made additional actions will be utilised including collaborative engagement with like-minded institutional investors, speaking at the company's AGM, voting against the chair and other board members, filing or co-filing a shareholder resolution, and raising concerns in the public domain.

22. Engagement will also aim to accelerate improvements in data quality and coverage by engaging with companies to disclose the required information for assessing alignment, as well as data providers to provide products and services that are aligned to the alignment criteria set out in the Framework.