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 approach to achieving this aim, 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.

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.

4. The Policy will focus on companies that have the most significant climate impacts. The Pension Fund expects there to be a mechanism for identifying high impact companies. This could be sector based, company based, or a mixture of the two. For high impact companies, additional criteria should be applied under the Policy.

Principles

Goals

5. 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

6. 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

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

8. 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.

Timeframe

9. 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. The timeframe for exclusion must be reasonable, consider the period that has already passed since the Paris Agreement was adopted in 2015, and recognise the urgency of climate action including the fact that emissions must reduce significantly by 2030 in order to be on track with current 1.5°C pathways.

10. Once the criteria for exclusion have been met the Pension Fund would expect this to be applied to its portfolios without undue delay.

Data

11. 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.

12. 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.

13. 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.

14. 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. Plans should not rely on unproven

technologies or adopt timeframes for action that are inconsistent with 1.5°C pathways.

Policy criteria

15. The Policy should adopt a set of criteria against which companies will be assessed that have a clear link to alignment to 1.5°C temperature scenarios. Additional criteria are expected to be required of companies identified as high impact.

16. The Pension Fund views the adoption of a credible Paris-aligned business plan as a key criterion that must form part of any assessment. 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. Alongside this the Fund would expect other criteria to be used such as the following:

- Capital expenditure consistent with a 1.5°C scenario
- Emissions performance consistent with targets
- Paris-agreement-aligned lobbying position
- Climate governance – clear oversight of climate planning and climate linked executive remuneration targets

17. Where companies are not meeting all the required criteria but are within the timeframe for exclusion conventional engagement will be utilised targeting those criteria not yet met, with the expectation that consistent progress towards the criteria will be demonstrated.

Sample Criteria and Policy Operation

	Member of Trade Organisations Conducting Anti-Climate Lobbying	Spending Aligned with 1.6-2°C Scenario (% of capex)	Construction of new fossil fuel infrastructure	Exploration for new reserves	Credible Paris-Aligned Pathway (e.g. CO_2 Intensity Alignment and Science-Based Targets)		Lowered oil price forecasts and significant write-down of assets	Paris-aligned executive		
					2degC	1.5degC		Reserve Growth Targets	Production Growth	Green Targets
H1 - Year 1	3	20	Yes	Moratorium	Under discussion	No	No	No	No	No
H2 - Year 1	1	50	Cessation being discussed	Divest	Divest	Under discussion	No	Divest	Under discussion	Under discussion
H1 - Year 2	Divest	80	Divest			Divest	Under discussion		Divest	Under discussion
H2 - Year 2		Divest					Under discussion			Divest
H1 - Year 3							Divest			
H2 - Year 3										