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£30bn Pension Partnership calls finance sector 'not fit for purpose' for addressing climate change

In an ambitious new climate policy, Brunel Pension Partnership commits itself to push for a more climate-aware financial system, and to removing companies and investment managers that fail to perform on climate issues.

Brunel Pension Partnership, one of eight pooled Local Government Pension Scheme funds across the UK, has set out a groundbreaking new approach to managing climate-related financial risk. Its new climate policy, published today, commits Brunel to using its influence to challenge the asset manager industry, which it describes as "not fit for purpose" for addressing climate change.

Brunel's new policy – '*A five-point plan to build a financial system which is fit for a carbon-zero future*' – builds on insights gained in the course of procuring new asset managers for its 10 LGPS clients. Brunel engaged 130 asset managers and reviewed 530 investment strategies from a climate perspective.

Chief Investment Officer Mark Mansley said,

"Climate change is a rapidly escalating investment issue. *We found that the finance sector is part of the problem, when it could and should be part of the solution for addressing climate change. How the sector prices assets, manages risk, and benchmarks performance all need to be challenged."*

Some of the practical implications of the policy state that between now and 2022, Brunel will demand that their material holdings take steps to align their emissions with Paris benchmarks and improve their climate management quality.

Those that fail to do so will face the threat of votes against the re-appointment of Board members, or being removed from Brunel's portfolios when the partnership carries out a stocktake of its policy's effectiveness in 2022.

Equally, Brunel will challenge their investment managers to demonstrate reduced exposure to climate risk and effective corporate engagement that puts companies and portfolios on a trajectory to align with a 2°C economy. Managers that fail to do so face the threat of having their mandates removed.

Chief Executive Officer Laura Chappell said,

"Our clients have high ambitions on climate change, but the finance sector does not currently offer a sufficient range or quality of climate-aware products and expertise across all asset classes to meet their needs. We want to enable our clients to integrate climate change mitigation and adaptation across their investment strategies in a substantive way."

Chief Responsible Investment Officer Faith Ward said,

"We have a climate emergency on our hands and it would be irresponsible of us to accept the status quo. We need to systematically change the investment industry in order to keep temperature rise to well below 2°C."

Specific challenges within the finance sector identified by Brunel include:

- An emphasis on short-term rather than long-term performance, which drives short-term thinking by investors and companies
- An unwillingness by asset managers to invest in the low carbon economy, especially in areas which depend on public support or where technologies are perceived to be unproven
- Backward-looking investment risk models that are inherently flawed at taking future climate risk into account
- Instances of perverse incentives and conflicts of interest throughout the system - not least, the use of conventional market-weighted benchmarks to measure performance, when climate risk is not adequately priced by the market

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

Brunel already conducts carbon footprints of its listed equity portfolios and allocates 35% of client infrastructure portfolio investments to renewable energy funds. Building on these strong foundations, its new policy commits the partnership to taking action as follows**.**

- o **<u>Policy</u>** - Brunel will encourage policymakers to adopt policies such as a meaningful price on carbon and removal of fossil fuel subsidies.
- o **<u>Products</u>** – Brunel will identify product areas where there is client demand for more innovative products, and invest in their development.
- o **<u>Portfolios</u>** - Brunel will stress-test its portfolios under a range of climate scenarios. It will challenge its investment managers to demonstrate reduced exposure to climate risk and effective corporate engagement that puts companies on a trajectory to align with a 2°C future. Managers that fail to do so will be replaced.

- **Positive Impact** – Brunel will report on the proportion of its portfolios invested in the low-carbon transition and on how its portfolios align with the goals of the Paris Agreement.
- **Persuasion** - Brunel will engage with its material holdings to persuade them to improve their climate management quality, using the Transition Pathway Initiative assessment framework. It will ask its material holdings to advance at least one level on the TPI management quality staircase each year, with the aspiration of all material holdings being on TPI Level 4 by 2022. In cases where companies fail to show progress, Brunel will vote against the reappointment of the Chair and other board members.

In the course of developing this policy, Brunel undertook an exhaustive consultation process with its clients and other stakeholders in the local government finance sector. Those clients are now showing their support, with **Wiltshire Pension Fund today announcing that it has allocated approximately 20% of their assets into Brunel's Low Carbon Passive Equity portfolio**.

Emma Howard Boyd, Chair of the Environment Agency – whose pension fund is a Brunel client - said,

"Now is the time for everyone in the finance sector to show leadership in response to the climate emergency. The Environment Agency Pension Fund was one of the first pension funds to recognise the financial risks from climate change. As investors we have a responsibility to our beneficiaries to ensure the assets entrusted to us are resilient to climate risks. I'm delighted to join with partners across the Brunel Partnership in calling for an investment industry fit for a net zero future."

Tony Bartlett, Head of Business Finance & Pensions at Avon Pension Fund, another of Brunel's 10 clients, also voiced support for the policy, saying,

"This groundbreaking policy sets out ambitious expectations for our investment managers and assets, which will enable us to protect our beneficiaries' pensions well into the future. And it demonstrates the power of partnership - within the Brunel pool and beyond - that will be required to respond effectively to the financial risks posed by climate change."

-ENDS-

For more information or to speak with a Brunel spokesperson please contact:

- Conor Quinn, ESG Communications
- T:+44 (0)7444 696214 | e: conor@esgcomms.com

Note: The criteria for decisions to vote against board members, exclude companies or remove mandates from investment managers will be established in partnership with Brunel's clients over the next 12 months.

About Brunel Pension Partnership Limited

Brunel Pension Partnership Limited (Brunel) brings together circa £30 billion investments of 10 likeminded Local Government Pension Scheme funds. We believe in making long-term sustainable investments supported by robust and transparent process. We are here to protect the interests of our clients and

their members. In collaboration with all our stakeholders we are forging better futures by investing for a world worth living in.

Brunel is one of eight national pooled funds and manages the investment of the pension assets for the funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire. www.brunelpensionpartnership.org