Helping Brunel Pension Partnership in risk management and developing frameworks aligned to net zero

At **Brunel Pension Partnership (Brunel)**, we are an asset owner widely recognised as a global leader on Responsible Investment. With around £35bn in AUM, we are one of eight national Local Government Pension Scheme (LGPS) pools in the United Kingdom. We invest in equities, fixed income, and alternative assets, guided by our climate policy. Brunel was established to consolidate the investment of pension assets from ten LGPS funds with the aim of achieving cost savings, enhancing investment opportunities, and improving risk management.

Supporting sustainable economic growth and a thriving society

We aim to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system.

We take a long-term view of our fiduciary duty, as do our clients, and believe that the integration of environmental, social and governance (ESG) risks is most likely to deliver successful long-term performance.

We consider a wide range of impacts, risks and interdependencies, many outside the traditional purview of financial analysis, but believe them to be financially material when properly assessed and understood.

We use TPI data because they are grounded in publicly available disclosures, which are subject to independent, academically rigorous, and transparent analysis. This ensures the data's reliability and credibility. TPI provides a view of companies' approaches to the low-carbon transition, evaluating both Management Quality and Carbon Performance. These two interconnected assessments offer insights into both a company's historical actions and, crucially, its future trajectory in reducing carbon emissions, providing us with more accuracy on transition risk in our portfolios.

Real world use

- **FTSE Russell Paris-aligned benchmark series:** developed in coordination with FTSE Russell, the benchmark series not only meets the minimum requirements of the EU's Paris-aligned benchmark criteria by achieving a 50% reduction in carbon emissions over a ten-year period but goes a step further by integrating forward-looking metrics and governance protections from TPI.

- **Voting guidelines:** we will selectively engage and vote against relevant company directors that are in the broader TPI universe if they are a material contributor to our financed emissions, have not at least reached Level 3 of the TPI framework, their strategy is not aligned to net zero ambitions, or they are not progressing against any of the alignment indicators. Companies in the oil and gas, coal mining, electric utilities, diversified mining or automotive sectors, and/or European, UK, Australian or New Zealand companies scoring below Level 4 will also be flagged.

- **Risk reporting:** we incorporate TPI's Management Quality Scores and Net Zero Alignment criteria into our quarterly risk reporting on listed equities and corporate bonds to identify and manage areas of risk. Assets identified as risks are typically challenged directly with investment managers, with the TPI data being used as a reference point.

- **Net zero frameworks:** we work with investment managers on developing net zero/alignment frameworks. The TPI data/framework is a useful reference point to share with investment managers. The factors considered in the TPI data commonly form part of investment managers proprietary alignment indicators.

In our quarterly risk reporting, we have developed RYAG Criteria to identify where risk lies within our portfolio, leveraging TPI Management Quality Scores and Net Zero Alignment assessments.

Management Quality: at the portfolio level, we assess the portfolio's coverage in relation to Management Quality to provide context for the metric. The Management Quality levels are categorised into distinct RYAG criteria, enabling us to build a meaningful view of how companies are distributed within each portfolio. This helps portfolio managers track changes in distribution over time and identify any increasing concentrations of management risk.

Net zero alignment: for most sectors, TPI uses standardised sectoral benchmark pathways and scenarios, which we have classified into various RYAG Criteria. The Net Zero Alignment metric gives us a coverage percentage for alignment by 2035 and 2050, categorised into different RYAG groups. This metric provides portfolio managers with a clear indication of medium- and long-term alignment, showing how alignment is expected to evolve. Any shifts in distribution or concentrations of misalignment offer a basis for portfolio managers to engage with the relevant asset manager.

Benefits gained from using TPI data

The outputs from the TPI data act as a starting point for discussions with our investment managers. Companies with low Management Quality Scores (generally below Level 3, with Levels 0 to 1 scores prioritised) are queried directly with investment managers. The key here is to understand why the manager believes the company has potential to align in future and determine actions needed to achieve this. It is very common to see investment managers targeting the low scoring names for engagement, with specific sub-factors in management quality cited. A portfolio manager at Brunel will use the query responses to make a judgement on whether transition risk is being adequately managed at a broader portfolio level. The outcome is then formally debated at our quarterly risk committee. In practice, there are very few companies that are subject to this process, due to the fact the many managers utilise the TPI data already and are already aware of issues flagged on the Management Quality Scores.

Similar outcomes are conducted on the Net Zero alignment data from TPI. A key difference here is that portfolio managers at Brunel prioritise the 2035 outputs as these represent more pressing issues in portfolios. Names that flag as not aligned with no/unsuitable disclosure are queried with investment managers to understand why the name has potential to align along with required actions to achieve this. Portfolio managers at Brunel also use the 2050 alignment data and are required to review all unaligned names, but these have a lower preference. Like the low Management Quality Scores, Brunel's portfolios typically have very little AUM in unaligned assets by 2035.

Looking forward, we expect the use of this data to rise, given the impending increase in company coverage. This will no doubt result in more discussions with investment managers and provide us with more accuracy on transition risk in our portfolios.