Taskforce on Climate-related Financial Disclosures (TCFD) Report

Avon Pension Fund
November 2021

Bath & North East Somerset Council

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AVON PENSION FUND

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The Task Force on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB), a body set-up by the G20 to monitor and make recommendations about the global financial system. Following a review into how the financial sector can take account of climate-related issues and the need for better information to support informed investment, in December 2015 the TCFD was created.

Following a consultation, in 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets and Avon Pension Fund has now adopted this guidance and set out its own disclosures below.

Although not yet compulsory for Local Government pension funds, the Fund is a strong supporter of these disclosures. This critical framework not only helps us to deliver on our own climate change objectives but is also a way of signalling to investee companies, managers, partners and pension fund members how important climate risk transparency is if the Fund is to achieve real world emission reductions.

This is the first time the Fund has reported against these standards and reporting has been completed to the fullest extent we are able. While data is not always available in the quantity or quality desired, through lack of scope 3 emission information or due to the difficulty of reporting against certain asset classes, this should become more readily available over time. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory.

Governance

a. Describe the organization's governance around climate-related risks and opportunities.

Our beliefs and approach to climate change are clearly set out within our Investment Strategy Statement (ISS) and Responsible Investment (RI) Policy. Overall responsibility for the Fund's investment strategy and RI policy, which recognises climate change as a long-term financial risk, rests with the Avon Pension Fund Committee (the Committee), who regularly meet to discuss such matters.

Climate change considerations are initially discussed by Officers and consultants with the Avon Pension Fund Investment Panel (the Panel), a sub-committee which includes a number of external investment experts. This then feeds through into the Committee where discussions are reviewed, and formal decisions are made.

Our approach to RI continuously evolves and our Policy is revised and updated, due to both changing landscapes and broader industry developments, as part of our 3-year strategic reviews of investment objectives and risk management. At the last strategic review, the Committee agreed a series of climate change objectives that are kept under review as we move toward our 2050 Net Zero goal. Implementation of policy and objectives is monitored by the Committee. Policy advocacy work, carbon emissions metrics, examples of material and/or successful engagement outcomes and key initiatives that the Fund has committed to, either in its own right or through one of its strategic partnerships, form the basis of climate change reporting. The Committee is also responsible for ratifying the annual RI Reports, while Officers and external experts convey further climate change information and developments to Committee to maintain knowledge levels, with further training being provided in specific areas as required.

Aggregate voting and engagement statistics for the Fund's listed equity portfolios is also monitored in terms of votes cast and number of engagements in the period according to each sub-theme included in the Fund's engagement plan which is co-developed with the Fund's pooling provider, Brunel Pensions Partnership (Brunel) and their appointed voting and engagement provider, EOS at Federated Hermes (EOS). The engagement service provided by EOS is complementary to the engagement activity undertaken by underlying investment managers within Brunel's pooled portfolios. The engagement plan itself is developed collaboratively between the Fund, Brunel and EOS.

Brunel now directly manages 60% of the Fund's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 20% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements. Brunel are committed to managing climate change risk and opportunities, dedicating significant resources to this area. A comprehensive guide to their climate change policy can be found here and this policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon zero future". Brunel expects companies and fund managers to effectively identify and manage the financially material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business models. They have an expectation that companies should:

- Put in place specific policies and actions, both in their own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C.
- Disclose climate related risks and actions to mitigate these in line with latest best practice guidelines e.g., TCFD disclosures.
- Include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. As part of its manager selection and ongoing monitoring Brunel use data from the Transition Pathway Initiative (TPI) and carbon foot printing. Both these tools greatly inform portfolio construction and design.

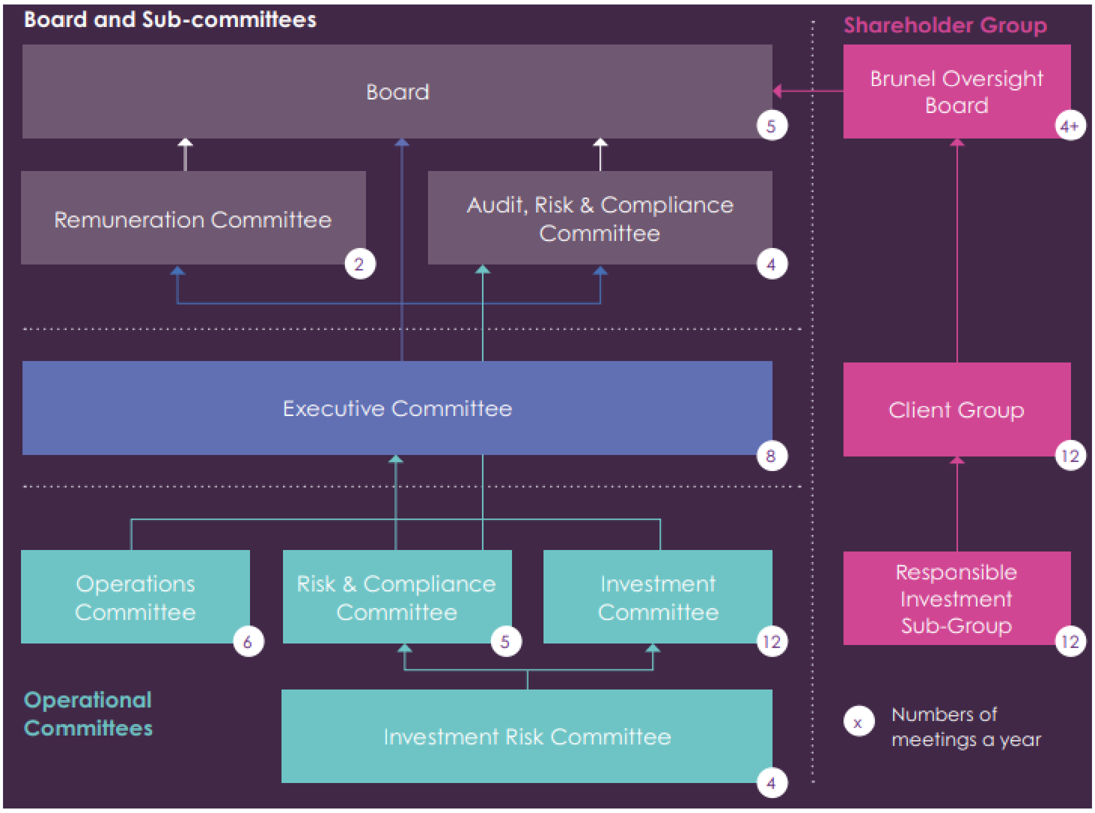
With our support, Brunel aims to be a catalyst for change in the financial system and is in a unique position to make this happen given their position as a recognised industry leader in responsible investment, Climate and ESG globally.

b. Describe management's role in assessing and managing climate-related risks and opportunities.

Day-to-day responsibility for integrating how climate change risks and opportunities are managed by the Fund is held by the Service Director, Financial Control and Pensions, with support from Officers and consultants. Climate change is a key part of our approach to responsible investing and Officers factor this into the decision-making process. Significant resources and budget have been set aside for this aim, including a new Investment Officer post with explicit responsibility for ESG, membership of wider industry-groups and the financing of carbon foot-printing and emission analysis. However, as our assets are primarily managed by Brunel, the implementation of much of the management of climate-related risk is delegated onwards to Brunel.

Brunel are monitored on a regular basis by Client Group. This group comprises senior officers from the local authority (partner) funds that are shareholders in Brunel and provides oversight through monthly updates, while acting as a forum to discuss their Committees' strategic priorities and emerging issues. It is used to discuss and approve changes to Brunel's investment products or services, providing input and adjustments where necessary. A dedicated RI sub-group, also comprising partner-fund representatives, meets monthly to focus on RI specifically. This group also acts as a forum for updates from the pool and other funds, sharing ideas and best practice from the industry and feeding in suggestions to the main Client Group. Discussion topics at these meetings can include stewardship interests, accessing expertise and consulting on policy design and development.

Brunel Pension Partnership Governance and Oversight Structure



Brunel 2021 Climate Change Action Plan Report

Strategy

a. *Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.*

The Fund was early to recognise the significance of climate change, reporting it as a long-term financial risk as far back as 2016, while analysing and publishing details of our carbon footprint since 2017. This same year we began investing in specific Low Carbon funds, alongside setting environmental targets that we continue to monitor and update.

In 2020, and again in 2021, we undertook a review of our investment strategy and dedicated significant time to looking at the risks and opportunities of climate change, both in terms of the risks and opportunities a transition to a low carbon economy presents and the physical risks posed by climate change. Our approach to climate change is two pronged; to assess both risks and opportunities. We look to positively align our assets with the transition to a low carbon economy with the objective of reducing transition risk, and to invest directly in renewable and sustainable assets to access the return opportunities. The latter is also expected to have wider positive impacts on managing the physical risks of climate change over time.

The Fund has used a range of approaches to identify climate change risks and opportunities. One approach has been the use of climate change scenario modelling to understand the key transition and physical risks facing the Fund. This has helped the Fund understand keys risks over the short (1-5 years, medium (5-10+ years) and long term (10-20+years). Risks range from short-term market adjustments on the back of regulatory change (for example the introduction of carbon pricing to certain markets), to wider movements in public policy, up to over the longer-term, the need to re-assess the operating viability of real assets such as infrastructure under extreme climate conditions.

Over the medium-term transition risks, both in terms of technology and policy, are expected to be material. Over the long-term physical risks are expected to dominate. Climate risks therefore are a major focus of the investment portfolios managed by Brunel and are key considerations in their manager selection process. Once appointed, regular monitoring by Brunel's portfolio managers and Responsible Investment team takes place and, while strict exclusion policies are not applied, managers must be able to justify a holding's inclusion. If managers cannot credibly explain how climate-risk has been accounted for and effectively integrated, then they are considered for replacement. Engagement with managers can often lead to positive outcomes that may not have been possible through simple dissociation. One such example is BlackRock. Having previously faced criticism around a lack of climate change policies, rather than simply switching manager, Brunel extensively engaged with BlackRock, including holding a one-to-one meeting with their CEO, Larry Fink, leading to the company agreeing to prioritise sustainability through their investment and stewardship approach. BlackRock also then joined Climate Action 100+, an investor group requiring its members to put pressure on companies to align themselves with the Paris Agreement, alongside disclosing the financial risks of climate change and assigning board accountability.

One new portfolio where environmental considerations are particularly prevalent is in Multi Asset Credit, which invests in an array of different debt instruments. Here, a comprehensive responsible investment policy is key as the managers are directly lending to organisations that can either be aligned or not to the transition, and debt holders do not have the same ability to influence corporate boards as shareholders have. Prospective managers were assessed on how integrated responsible investment practices were in their business model and if they could adopt Brunel's Climate Change Policy. Those managers that stood out understood the goal of achieving Net Zero, knew which assets were 2°C aligned and showed thought leadership in this area.

Bondholders are often faced with more resistance when approaching companies through traditional channels as investors financing companies through loans typically do not possess the same voting rights as shareholders, which often leads to a less impactful dialogue between lender and borrower. To overcome this, Brunel have been working with their underlying managers within the Private Debt portfolio, to which we have a 5% strategic allocation, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis.

Positive opportunities also exist for companies prepared for the low carbon transition and those actively involved in producing green revenues. For the Fund, through Brunel, examples include a new multi-fuel facility set up in Slough which uses waste as an energy source. Now connected to the grid, it will provide electricity to power around 100,000 homes and over its lifetime this will save around 5.2 million tonnes of CO_2, equivalent to removing 700,000 cars from the roads. We've also invested in the world's first ever low-carbon greenhouse in East Anglia. These greenhouses are warmed by heat pumps using water from recycling centres while rainwater is also captured to ensure zero wastage. Not only does this provide environmental benefits, such as a 75% lower carbon footprint, it also created 137 permanent new jobs and an additional 117 seasonal jobs.

b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Our climate change objectives are designed to maximise the impact we can have as a relatively small investor in the global context. Success will only be achieved if our actions make real reductions in global carbon emissions and if companies and governments implement changes to ensure the transition to a low carbon economy is delivered as soon as possible.

The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio, adopting a flexible approach to managing the investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective. When setting the investment strategy and objectives, the analysis includes the impact of ESG issues such as climate change on each asset class, the materiality of these risks and whether there are any strategic opportunities that would generate value. This analysis led to the Fund being a seed investor in a global sustainable equity fund launched by Jupiter Asset Management and being one of the first pension funds to invest in passively managed low carbon equities.

Asset allocation remains one of the Fund's primary tools to help meet our ambition to become a net zero investor, and the Fund now holds £1.4bn in low carbon and sustainable listed equities. It has also committed a further £377m to renewable infrastructure projects across a number of portfolios, covering wind and solar energy generation as well as emerging technologies including bioenergy and energy storage solutions. Since the end of the year, the Fund has also made strides to integrate climate risks and opportunities into its Multi Asset Credit portfolio, benefitting from Brunel's robust due diligence and manager selection process as outlined earlier.

Engagement forms a critical part of the Fund's approach to climate risk. This year we were pleased to see significant progress in the Oil & Gas sectors with several large companies not just setting Net Zero targets but more importantly, publishing details of how they intend to achieve those targets. As reported by Climate Action 100+, of which we are a supporter, this included BP aiming to be a net-zero emitter by 2050, while cutting production by 40% by 2030, and Royal Dutch Shell aiming to reduce the carbon footprint of its energy products by 65% by 2050 while pivoting towards serving customers aligned to its own Net Zero goal. Equally we have seen significant progress in the Financial sector. As the leading contributor to downstream scope 3 emissions the provision of loans and other forms of direct fossil fuel financing is fundamentally inconsistent with our ambition to reach carbon neutrality by 2050. Increased shareholder pressure has led to a number of concessions at major European Banks around their lending activities, such as HSBC's pledge to phase out the financing of coal-fired power and thermal coal mining by 2030 within the OECD.

In 2021 our Investment Consultants, Mercer, analysed our equity portfolios using their Analytics for Climate Transition (ACT) tool and the risks identified were fed back into our overall climate strategy. The result of this analysis, which showed the then current equity portfolio was on a +3.2°C temperature pathway on a weighted average basis, based on MSCI's Aggregate Warming Potential (AWP) metric, directly influenced investment policy and was a key driver to increase our positioning with products and strategies that are Paris-aligned. Here, Paris-aligned refers to those products and strategies aligned to the climate goals of the 2015 Paris Agreement to limit global warming to well below 2°C, and preferably to 1.5°C. This analysis was also a factor in changes in asset allocation away from emerging market equities and an increase in sustainable equity exposure. The outcome for the Fund is an increase in resilience to temperature changes while also helping push companies towards the Paris goals and hence steering the world away from more extreme climate outcomes (See Metrics & Targets for more information on the features of our Paris-Aligned product).

Later in 2021 MSCI developed a new Implied Temperature Rise (ITR) metric designed to replace AWP[1]. The new ITR metric uses forward-looking estimates to better take into account new regulatory guidance as well as the TCFD's modelling design principles. Subsequently, Mercer reassessed the temperature pathway analysis on our equity portfolio using the ITR metric, which showed our equity portfolio was aligned to a +2.2°C pathway (from +3.2°C previously). While still 'misaligned' under MSCI terminology, this updated analysis puts the Fund much closer to being 2°C or below, aligned. This second analysis will act as a benchmark to chart further alignment progress over the coming years.

This ACT tool, as well as periodic scenario analysis and other science-based metrics, will continue to be utilised in future reporting periods and will shape ongoing investment policy decisions.

Operational considerations

Environmental decisions also factor into the Fund's daily operations. While day-to-day considerations such as access to offices could be disrupted by physical climate change risk and severe weather events like flooding, the ability of staff to work remotely and the provision of the necessary technology aids business continuity and helps minimise risk to service delivery.

Bath & North East Somerset Council, who administer the Fund, are working towards their own Net Zero goal by 2030 and this desire to reduce emissions is reflected in staff policy, from hybrid working arrangements allowing some meetings to be held remotely to, where an office presence or travelling is required, encouraging public transport use, and providing bike storage. Separately the pension fund has an ongoing digitalisation programme to improve IT infrastructure, reduce the use of printed/posted material and increase electronic communication with members and employers. Whilst all employers and many members are set up for electronic communication, we recognise that not all members wish to communicate with the Fund electronically or by self-service access.

c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We believe that investing to support the Paris goals that deliver a below 2°C temperature increase is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries.

We have undertaken climate change scenario analysis in 2020 and again in 2021 to help us understand the impact on the Fund of different temperature increases. In 2020 Mercer, using evidence-based modelling of our then current portfolio to form the baseline for the analysis, compared the returns to two alternative portfolios with increased allocations to sustainable equities and low carbon real assets under three climate change scenarios: a +2°C, +3°C and +4°C average increase on preindustrial levels, over three timeframes: 2030, 2050 and 2100. As our Responsible Investing Annual Report shows, a portfolio with increased allocations to sustainable assets has the potential to improve returns under all but the most extreme scenario (+4°C). It is clear, too, that under a 4°C scenario asset allocation becomes less important as all model portfolios suffer from lower expected returns as the physical risks of climate change are realised. In addition, the analysis

[1] The new ITR metric moves away from AWP's carbon intensity-based emission metric to one calculating cumulative emissions across the next century against a 2°C benchmark trajectory, determining whether the projected trajectory is over or under the budget, and then converting that over- or undershoot into a degree of warming. More detail on ITR's methodology can be found in the MSCI research report here.

identified the potential to capture a 'low carbon transition premium' by investing over the medium term to 2030 in sustainable and transition aligned assets.

The analysis helped support the decision of the Fund to increase its allocation to Global Sustainable Equity from 3.5% to 10% of total assets, alongside committing to our Renewable Infrastructure portfolio.

Our 2021 analysis of the equity assets was completed using Mercer's ACT tool. This analysis, recognising the inherent challenges in managing the financial risk of climate change in emerging markets, was a factor in the decision to reduce the allocation to emerging market equities. Instead, the assets will be invested in more climate-aware strategies such as a global sustainable equity portfolio which improves the Fund's transition capacity and increases its exposure to green revenues. In addition, our engagement efforts will focus on developed markets where most of our capital is allocated and where we can exert a greater influence on policymakers, regulators, and industry to effect change. This action by itself is expected to reduce overall emissions in the portfolio by around 25%. However, the Fund recognises the importance of supporting emerging markets to transition to a low carbon future and retains indirect exposure to these markets.

The results of our scenario analysis continue to heavily impact on our investment decision making process as we seek to ensure our portfolio is below 2°C aligned and to do our part in ensuring the world avoids the most extreme scenarios.

Risk Management

a. Describe the organization's processes for identifying and assessing climate-related risks &
b. Describe the organization's processes for managing climate-related risks.

The Fund's Risk Register identifies the governance, operational, funding and investment risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk. There is a process in place to identify, evaluate and implement processes or controls to mitigate risks and record them on the risk register. The register is reviewed regularly by the management team and is reported quarterly to the Committee. Climate change was identified as a 'Top 10' material risk in 2019.

The Fund's Investment Strategy Statement (ISS) evaluates the material financial and operational risks that may impact the investment strategy and expected future returns, alongside actions needed to mitigate those risks. Principal risks covered include Liquidity Risk (the inability to convert assets to cash), Counterparty Risk (the possibility that counterparties default and cannot meet obligations), and Climate Change. The ISS includes measures utilised by the Fund to manage the financial risk presented by climate change, and wider ESG risks, such as active policy development (which drives asset allocation decisions), a monitoring and review framework which includes full Strategic Investment Reviews every three years and modelling designed to quantify the risk climate change presents to the Fund's assets.

The Fund's processes for identifying and managing climate-related risks include the following:

- Climate change scenario analysis - Scenario analysis is used to assess what impact climate change may have on the asset portfolio at each strategic review. Further, working with Brunel and the Institutional Investors Group on Climate Change (IIGCC), the Fund provided data to the Paris Aligned Investment Initiative (PAII) to test the proposed investment framework, which provides the first practical blueprint for investors to achieve net zero targets. This modelling showed that the Fund's then current portfolio and a hypothetically Paris-Aligned portfolio both performed best under the scenario of a ~1.9°C temperature rise from disruptive policy action and emissions policies that are likely to be in place (rather than what ought to happen), compared to alternatives such as sticking with current policies. This reporting also showed that all investors would benefit from moving to a Paris Aligned portfolio.

IIGCC, Paris Aligned Investment Initiative

- Carbon footprint analysis - The Fund monitors its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives
- Engagement activity - The Fund adopts a pragmatic approach to engagement, recognising companies need time to successfully adapt their business models to manage climate risk in the context of generating long-term shareholder value and real reductions in carbon emissions. Equally, those companies that are intentionally failing to take account of climate transition risk and adapt their business models accordingly should be candidates for divestment, due to the financial risk they pose. The Fund is keen to ensure that all companies make progress in tackling climate change and selective divestment will be considered as an option where companies have made insufficient progress following the Paris Stocktake. Please also see Just Transition information in Metrics & Targets.
- Private Markets - Climate risk, in terms of both transition and physical risk, is fully embedded into the approach of the Fund's investments in private markets. For instance, the investment in Brunel's Secured Income portfolio comprises a 30% allocation to the Greencoat Renewable Income Fund which invests in a diversified portfolio of UK renewable infrastructure assets with a focus on solar, wind and biomass, with selected other green infrastructure opportunities such as renewable heat.
- Property – our Real Estate/Property portfolio is given a sustainability scores by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio may be compared to its peers and hence its potential climate change resilience. Our 2020 portfolio results showed that we exceeded the benchmark average in overall ESG performance. Contributors to this score included a development in Leicester making use of heat pumps, LED lighting and heat recovery ventilation and a self-storage centre in Wokingham that undertook a whole-life carbon assessment and energy review that led it to implementing recommendations that go beyond Net Zero benchmarks and could lead to it becoming carbon-positive on a net basis.

As a significant proportion of the Fund's assets are now managed through Brunel, they, alongside the fund managers they appoint to each portfolio, are expected to help the Committee in the identification and assessment of climate-related risks. The Fund's legacy fund managers (i.e. those that are not accessed via Brunel) are monitored on a regular basis to review the integration of climate risks into their portfolios and to understand their engagement activities.

In addition, the Fund independently participates in investor led initiatives such as Climate Action 100+, Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC) to increase pressure on companies and governments to align with the Paris goals and lobby for further climate change progress. Recent actions by the Fund included becoming an initial signatory of the '2021 Global Investor Statement to Governments on the Climate Crisis', coordinated by IIGCC, which called on governments to step up their activities in meeting the Paris Agreement ahead of COP26 by making stronger national commitments and ensuring the COVID-19 recovery enhances resilience and supports a net zero goal.

Climate risk is also taken into account when the Fund sets its funding strategy, as the funding basis to value the liabilities reflects the expected real return of the investment portfolio. Therefore, the more climate risk is actively managed via the investment strategy, the less impact it has on the funding strategy. In the future we expect to include more climate scenario analysis when determining our funding strategy and the actuarial assumptions underpinning the strategy.

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Climate change is fully integrated into our, and Brunel's, investment decision making process and is included alongside other material risks in our ISS. The Fund considers ESG issues, such as climate change, when setting its investment principles and objectives and these issues are also considered when setting the Fund's strategic asset allocation. The Fund actively seeks to identify positive environmental (and Social/Governance) related opportunities across all asset classes in line with our investment return objective.

For instance, we have improved the environmental credentials of our Risk Management strategy by investing cash held within the portfolio in a fund that lends to companies and financial institutions with above average environmental practices, while placing exclusion criteria around areas such as fossil fuels and thermal coal. Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, including a more environmentally aware benchmark and weighing the potential to build its exposure to green gilts in a cost-effective way as issuance increases.

Metrics & Targets

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund receives an annual Carbon Metrics Report for its listed equity portfolios detailing the Weighted Average Carbon Intensity (WACI)[2], fossil fuel related revenues, reserves exposure and the disclosure rates among companies within those portfolios.

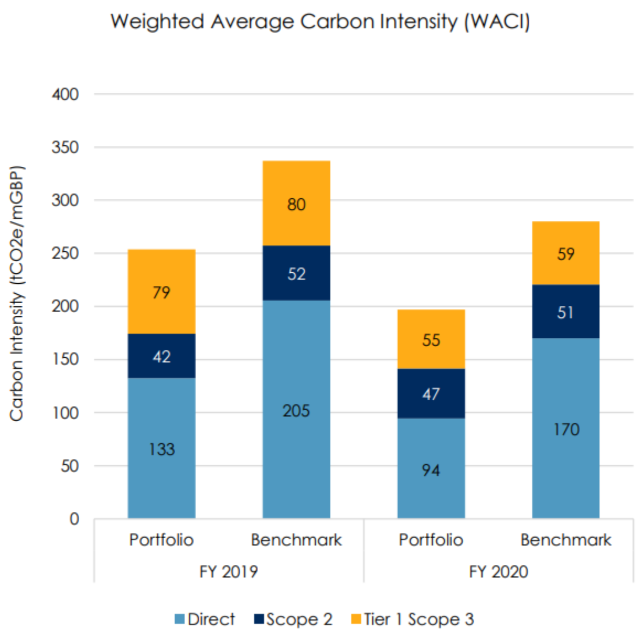
[2] Weighted Average carbon Intensity or 'WACI' quantifies a portfolio's exposure to carbon intensive companies. The metric takes the carbon intensity (total carbon emissions divided by total revenue) of a company and multiplies it by its weight in the portfolio.

Along with providing scenario analysis and figures on absolute emissions, Mercer's ACT analysis also categorises the holdings within our listed equity portfolios from 'Grey' to 'Green' on a scale of likely 'losers' to potential 'winners' in a low carbon transition. This is formulated using data on areas such as carbon emissions intensity and fossil fuel reserves combined with any transition commitments made and green revenues the company produces. This helps us identify the portfolios, and investment sectors, where more engagement may be needed, and pressure applied. Alternatively, it could have the potential to identify areas unable to successfully transition and hence our continued investment may need to be re-assessed.

b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks

This year's Carbon Metrics report showed that all the active equity portfolios that the Fund invests in exhibited a lower WACI than their respective benchmarks. In total, the aggregate portfolio's carbon intensity fell by 22% in 2020 alone and, relative to its benchmark, was 30% more efficient (or less carbon intensive).

This analysis covers Scope 1, Scope 2 and (Tier 1) Scope 3 emissions and because carbon-intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, it is a useful indicator of potential exposure to transition risks, such as policy intervention and changing consumer behaviour.



This same report also showed that the portfolio is less exposed to both fossil fuel revenues (0.79% vs 1.76%) and future emissions from reserves (1.6 MtCO2 vs 5.1 MtCO2) than its benchmark. Fossil fuel reserves help determine our 'stranded asset' risk. This data can be used to model downstream Scope 3 emissions (i.e. emissions generated by usage of end-products by consumers); however, it is well recognised that corporate reporting on downstream Scope 3 emissions remains incomplete and inconsistent. Work on standardising Scope 3 methodologies and reliable accounting for downstream emissions is ongoing through a number of bodies including the IIGCC's Paris Aligned Investment Initiative (PAII). This Initiative recognises the challenges presented by the lack of Scope 3 disclosures and the risk that portfolio level emissions reporting is often subject to double-counting (where the Fund holds shares in two companies and where Company A's Scope 3 emissions are equivalent to Company B's Scope 1 emissions). Notwithstanding these challenges, and as data becomes more reliable, the Fund will factor in downstream emissions when setting interim and long-term climate change targets to the extent possible

The proportion of companies in the Fund's listed equity portfolios which fully disclose carbon data was 58% (carbon weighted method) and 55% (investment weighted method), based on scope 1 emissions. The 2020 rates for full disclosure of carbon data were lower than in 2019, using an investment-weighted measure. This outcome is attributed to the increased exposure the Fund has to small-cap companies within the sustainable equity portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. Regardless, these scores indicate scope for improved reporting among investee companies.

Mercer analysis to the year ending December 2020 calculated that the absolute Scope 1 and 2 emissions for the Fund's listed equity portfolios were 85,775 tCO_2e. While carbon intensity gives valuable risk and decarbonisation information, absolute emissions must be lowered to enact real-world change. As this is the first year Mercer have calculated our absolute emissions, this 2020 data will be used as a valuable baseline to measure further reductions in subsequent years. In future years we will look to include more asset classes in this analysis as the relevant data becomes available.

Beyond the metrics listed above, Brunel utilise TPI management quality scores to assess the transparency of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low carbon transition. They are also in the process of developing the ability to report on 'positive contributions' on our equity portfolios by reporting against the UN's Sustainable Development Goals (SDGs).

c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Our overarching goal is to achieve net zero emissions alignment by 2050 or earlier. This year, with Brunel, we have been actively involved in the development of the Paris Aligned Investment Initiative Net Zero framework, created by the IIGCC. This is the first investment framework worldwide that enables investors to assess whether their portfolios align with the Paris Agreement or not, and what changes they can make to achieve better alignment.

The actions needed to reach our goal are already well underway and we've made significant progress on our carbon reduction journey. As can be seen in our latest Carbon Metrics report, our goal of becoming 30% less carbon intensive than our benchmark by 2022 has been met, which means we have achieved one of our key interim climate goals two years ahead of plan. We have also worked with Brunel to develop the next generation of climate indices that go beyond existing narrowly defined low carbon aims while incorporating more positive criteria; one such index meets the requirements of the EU's Paris-Aligned benchmark standards by achieving a 50% reduction in carbon emissions over a ten-year period (and ongoing 7% year-on-year reductions), as well as committing to the phasing-in of Scope 3 emissions. At launch, we transitioned our 10% (c. £575m) strategic allocation to low carbon passive equities into this new Paris Aligned Benchmark. Not only will this help achieve our own Net Zero goal, but it also helps provide a path forward for the wider investment industry.

To help our progress towards Net Zero and in recognition of the need to accelerate our trajectory towards this goal over the next 10 years, the Fund has set new targets to reduce the absolute emissions in our equity portfolio by 43% by 2025 and 69% by 2030 compared to its 2020 levels. As part of our commitment to the IIGCC framework, we will be setting further dedicated 'climate solutions' targets across different asset classes that build on the allocation decisions we have already made. These will sit alongside existing climate targets set out in our ISS.

We fully support the idea of a 'Just Transition' and a key goal for the Fund is to use its power as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy. A 'Just Transition' has particular importance when investing globally as many required changes will disproportionately affect developing nations and societies. We are very aware of the need to consider our investment decisions from a global, societal perspective. One example is Semen Indonesia, a cement company we held through Brunel's Emerging Markets Portfolio. While cement is not environmentally friendly to produce, it is still essential for development in lower-income countries in order to help provide basic facilities such as hospitals and housing and so cannot be completely disregarded. By working with such companies any negative effects can be minimised. Engagement has already seen positive results, with Semen reducing its environmental impact by switching to local renewable energy sources while being encouraged to effectively communicate and set clear reduction targets around areas such as carbon emissions and wastewater management. In this case, the investment manager, Genesis, are pressing for Semen to complete their own TCFD disclosures and participate in assessments run by the CDP (formally the Carbon Disclosure Project).