Climate Investing with Paris-Aligned Benchmarks

“Brunel considers environmental, social and governance risks as part of our fiduciary responsibilities. We look at our fiduciary duty in a very holistic way; we strongly believe that long-term financial returns are best achieved by investing sustainably.”

– FAITH WARD, CHIEF RESPONSIBLE INVESTMENT OFFICER, BRUNEL PP, 2021

ABOUT THE CLIENT

**Profile**
The client, Brunel Pension Partnership, wished to integrate climate risks and opportunities into its portfolios and align them with the climate goals of the Paris Agreement.

**Objectives**
To meet the minimum carbon emission reductions of the EU’s Paris-aligned benchmarks, as well as building in forward-looking metrics and governance protections.

**Solution**
Brunel PP chose FTSE Russell’s Paris-aligned benchmark series as the basis for a new, £3bn-plus passive fund allocation.
Supporting sustainable growth

Brunel Pension Partnership (PP) is one of the UK’s eight national local government pension scheme pools. It combines the investments of ten like-minded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, the Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

Brunel’s stated goal is to deliver stronger investment returns over the long term, as well as protecting its clients’ interests by contributing to a more sustainable and resilient financial system. In turn, this will support sustainable economic growth and a thriving society.

Brunel’s responsible investment approach rests on three pillars: to integrate sustainability criteria into its operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in its activities.

In 2020, Brunel adopted a climate change policy, committing to decarbonize its investment portfolios, manage climate risk and achieve a net-zero objective by 2050. However, at the time Brunel recognized that the lack of suitable benchmarks was an impediment to achieving these goals. It therefore sought to take an active role in helping develop such benchmarks.

The role of climate benchmarks

Under the 2015 Paris Climate Change agreement, 197 countries committed to cap the rise in global temperatures at a maximum of 2°C above pre-industrial levels, and to pursue efforts to limit the increase to 1.5°C.

To help achieve this goal, in 2019 the European Union’s Technical Expert Group on Sustainable Finance published minimum standards for so-called Paris-aligned and Climate Transition benchmarks (‘PAB’ and ‘CTB’, respectively).

Both types of benchmarks require a minimum annual reduction in greenhouse gas emissions of 7 percent until 2050. PAB also have a relative decarbonization goal of -50 percent relative to a market index, while CTB have a -30 percent relative reduction goal.

Climate benchmarks serve users in a number of ways: as an underlying target for passive investment strategies, in performance measurement for active strategies, as an engagement tool and as a policy benchmark to help guide investors’ strategic asset allocation.

Brunel worked closely with FTSE Russell to support the launch of the Paris-aligned benchmark series in 2021, with the intention of transitioning more than £3bn of its equity portfolio to index funds tracking benchmarks from this series.

“We are interested in what is in the long-term interest of our funds’ beneficiaries, recognizing the economic and social realities of the world in which those beneficiaries will retire. It’s not just about the monetary value of the pension – it’s about investing for a world worth living in.”

FAITH WARD, CHIEF RESPONSIBLE INVESTMENT OFFICER, BRUNEL PP, 2021
The FTSE EU Climate Benchmarks series

The FTSE EU Climate Benchmarks Index Series is designed to reflect the performance of global, regional and domestic equity markets, where the weights of index constituents vary to account for the risks and opportunities associated with the transition to a low carbon economy.

The climate benchmarks are constructed using FTSE Russell’s Target Exposure framework. Under this framework, the weight of index constituents are ‘tilted’ up or down according to one or more exposure objectives. The indexes combine data and analysis from FTSE Russell and the Transition Pathway Initiative (TPI).

The indexes’ methodology is aligned with the EU’s standards for low-carbon benchmarks. In this way, it supports investors’ decarbonization or net-zero strategies. However, FTSE’s benchmarks also exceed the minimum requirements of the EU regulation:

- The benchmarks have increased exposure to companies with green revenues, high climate governance and emission reductions that are in line with the goals of the Paris Agreement;
- They exclude ‘pure play’ (>50% revenues) oil sands, thermal coal extraction and thermal coal power generation companies;
- They limit the weights of companies within the banking sector.

The FTSE EU Climate Benchmarks Index Series integrates forward-looking metrics and governance protections from the Transition Pathway Initiative. TPI provides assessments of how the world’s largest and most carbon-exposed companies are managing the climate transition.

A powerful signal on addressing climate risk

Brunel’s decision to reallocate over £3bn to funds tracking FTSE Russell’s Paris-aligned benchmarks sends a powerful signal to the market that major asset owners are taking action to decarbonize their portfolios. Investors are increasingly recognizing that innovative passive strategies represent an effective way to mitigate climate risk, while also capitalizing on the investment opportunities offered by the growing green economy.
About FTSE Russell

FTSE Russell is a leading global provider of benchmarks, analytics and data solutions with multi-asset capabilities, offering a precise view of the markets relevant to any investment process. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for performance benchmarking, asset allocation, investment strategy analysis and risk management.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office

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</tr>
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