



Avon Pension Fund (“The Fund”)

# Analytics for Climate Transition (ACT)

## Summary Progress Update

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June 2022

welcome to brighter

# Summary

- This report provides the Committee with a summary update on the Fund's progress against its climate goals as at 31 December 2021, using Mercer's Analytics for Climate Transition (ACT) tool.
- It is the second year of this analysis, which is designed to be consistent with the IIGCC Net Zero Framework (which the Fund supports).
- The purpose of the ACT analysis is to:
  - **Monitor progress** against the Fund's listed equity portfolio decarbonisation targets.
  - Understand the **transition capacity** of the Fund's listed equity portfolio.
  - Present a **high level implementation plan** for the listed assets and timetable for incorporating further asset classes over time.
- The Panel has also been considering the case for more granular targets.
- In line with the latest IIGCC guidance, it has been agreed that the baseline year for measuring the Fund's progress against climate goals will be amended from 2020 to 2019. Further analysis will be taken to the Officers and Investment Panel in this regard.
- Further details are available in the report presented to the Investment Panel on 27 May.
- In summary, the Fund is currently on track with meeting its climate goals

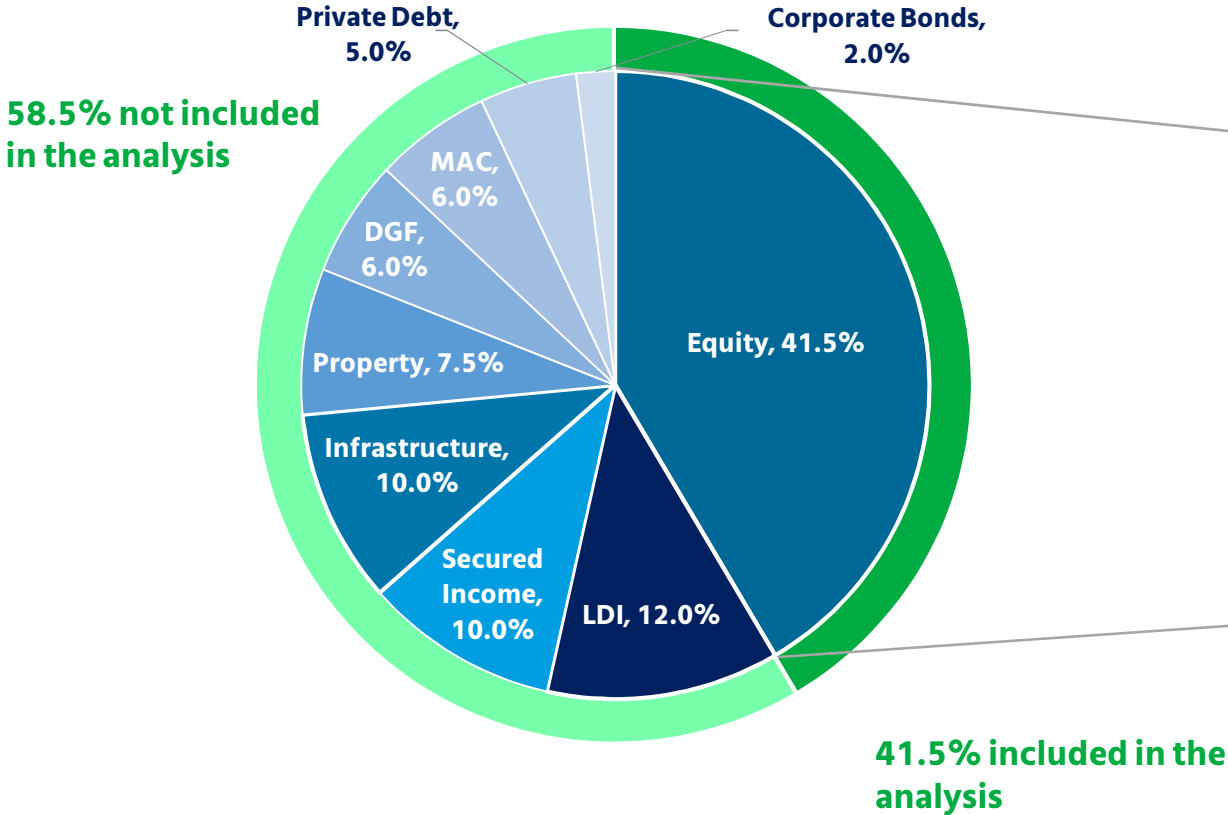
**The Fund is currently on track to meet its climate goals**

# Targets and progress

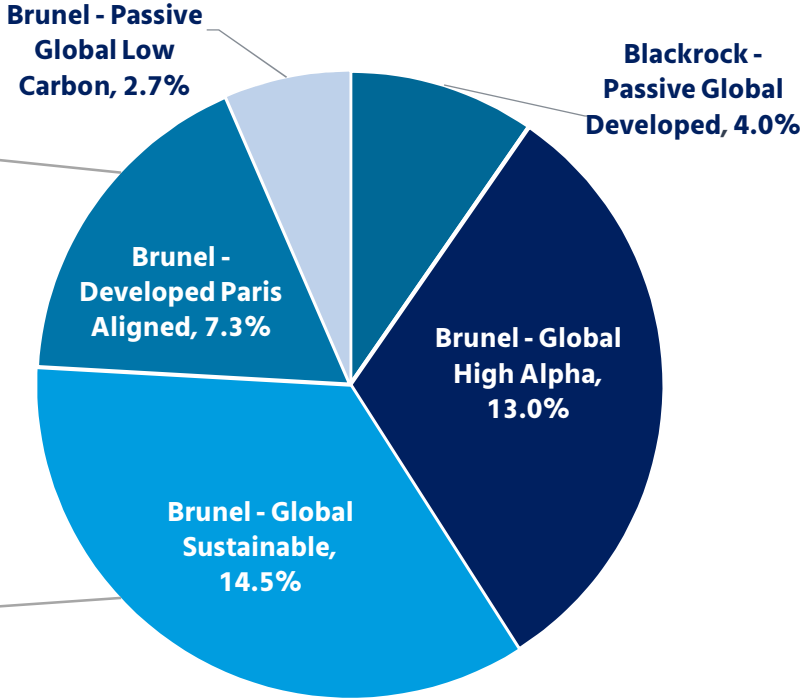
Scope	Target	Progress
Total Fund	<ul style="list-style-type: none"> <li>2050 net zero</li> </ul>	<ul style="list-style-type: none"> <li>✓ Listed equities are the initial area of focus (41.5% of the Fund) – see next row for details on progress.</li> <li>✓ Scope to consider other asset classes over time</li> </ul>
Listed equities	<ul style="list-style-type: none"> <li>Decarbonisation target of net zero by 2050, underpinned by interim targets of:               <ul style="list-style-type: none"> <li>43% reduction by 2025 (vs 2020 baseline)</li> <li>69% reduction by 2030 (vs 2020 baseline)</li> </ul> </li> <li>For listed equities to be 30% less carbon intensive than the benchmark.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The equity portfolio has shown improvement on both an absolute emissions and a carbon intensity basis versus the 2020 baseline, and is broadly on target. Most of the improvement is due to the removal of the Emerging Markets equity allocation.</li> <li>✓ To remain on target, emissions should reduce by:               <ul style="list-style-type: none"> <li>39% to 2025 (vs 2021 baseline)</li> <li>67% to 2030 (vs 2021 baseline)</li> <li>Note: targets are to be reset to 2019 baseline in line with latest IICGG guidance</li> </ul> </li> <li>✓ Listed equity intensity target versus benchmark achieved.</li> </ul>
Total Fund + renewable energy infrastructure	<ul style="list-style-type: none"> <li>Invest at least 30% of total assets in sustainable and transition aligned investments by 2025.</li> <li>Invest 5% of total assets in renewable energy infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>✓ 24.5% of total assets (over 50% of listed equity portfolio) is invested in Sustainable Equity and Paris Aligned funds. 20.5% of equity assets are transition aligned.</li> <li>✓ £380m (c.6.5% of total assets) committed to green infrastructure.</li> </ul>

# Proportion of holdings analysed

Fund strategic asset allocation as at 31 December 2021



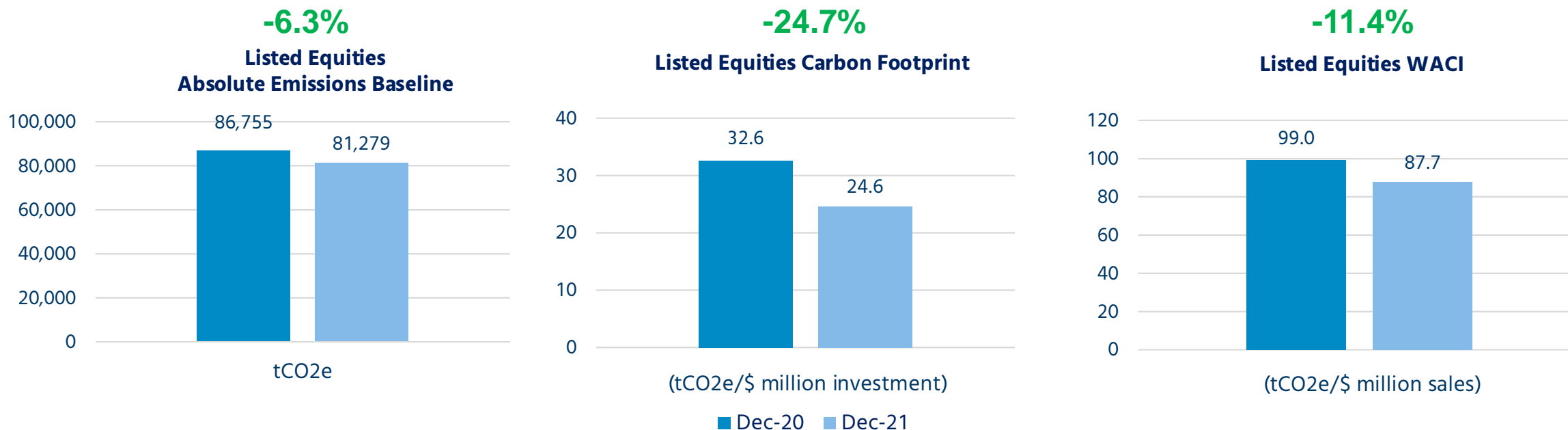
Equity allocation by manager as at 31 December 2021



Notes: The data analysed excludes e.g. cash and derivative allocations within the funds analysed. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. The Brunel Passive Low Carbon fund was in the process of being terminated at the analysis date with proceeds invested in the Brunel Paris Aligned fund.

# Decarbonisation progress versus the baseline

## Listed Equities



- The equity portfolio has decarbonised across all metrics shown. This was driven by the disinvestment from the Brunel Emerging Markets equity mandate.
- The Fund's listed equity portfolio has decarbonised by c.6.3% on an absolute emissions basis, from December 2020 to December 2021. This is despite the SAA increasing from 37.5% to 41.5% over the period.
- On a carbon footprint basis the equity portfolio saw a 24.7% reduction in intensity – this measure isn't impacted by the change in SAA covered and represents how much the portfolio has decarbonised per \$ million invested. A different measure of carbon intensity, Weighted Average Carbon Intensity (WACI), saw an 11.4% decrease.

Notes: Figures may not sum due to rounding. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

# Engagement targets

## Top 10 contributors to absolute emissions (31 Dec 2021)

Company	Sector	Equity Portfolio Weight	Cont. to absolute emissions (scope 1.2)	SBTi	Transition Pathway Initiative (TPI*) Management Quality Score	TPI * Carbon Performance	CA+100	Mandates held in
Company 1	Materials	0.07%	6.60%	Yes	4	1.5 Degrees	Yes	BlackRock, Brunel Global High Alpha Equity
Company 2	Industrials	0.39%	5.46%	Yes	-	-	-	BlackRock, Brunel Global Sustainable Equity, Brunel Developed Equity Paris Aligned
Company 3	Utilities	0.10%	4.22%	No	2	Not Aligned	No	Brunel Global Sustainable Equity
Company 4	Materials	0.40%	3.83%	No	4	-	No	BlackRock, Brunel Global Sustainable Equity, Brunel Developed Equity Paris Aligned, Brunel Passive Global Low Carbon
Company 5	Materials	0.29%	3.55%	No	4	-	Yes	BlackRock, Brunel Global Sustainable Equity
Company 6	Materials	0.13%	2.83%	Yes	3	Paris Pledges	Yes	BlackRock, Brunel Global Sustainable Equity
Company 7	Industrials	0.34%	2.75%	No	-	-	-	BlackRock, Brunel Global Sustainable Equity, Brunel Developed Equity Paris Aligned
Company 8	Materials	0.22%	2.68%	No	2	1.5 Degrees	No	BlackRock, Brunel Global High Alpha Equity, Brunel Developed Equity Paris Aligned
Company 9	Energy	0.12%	2.44%	No	4	Not Aligned	Yes	BlackRock, Brunel Global High Alpha Equity
Company 10	Materials	0.24%	2.43%	No	4	National Pledges	Yes	BlackRock, Brunel Global High Alpha Equity
Total		2.30%	36.81%					

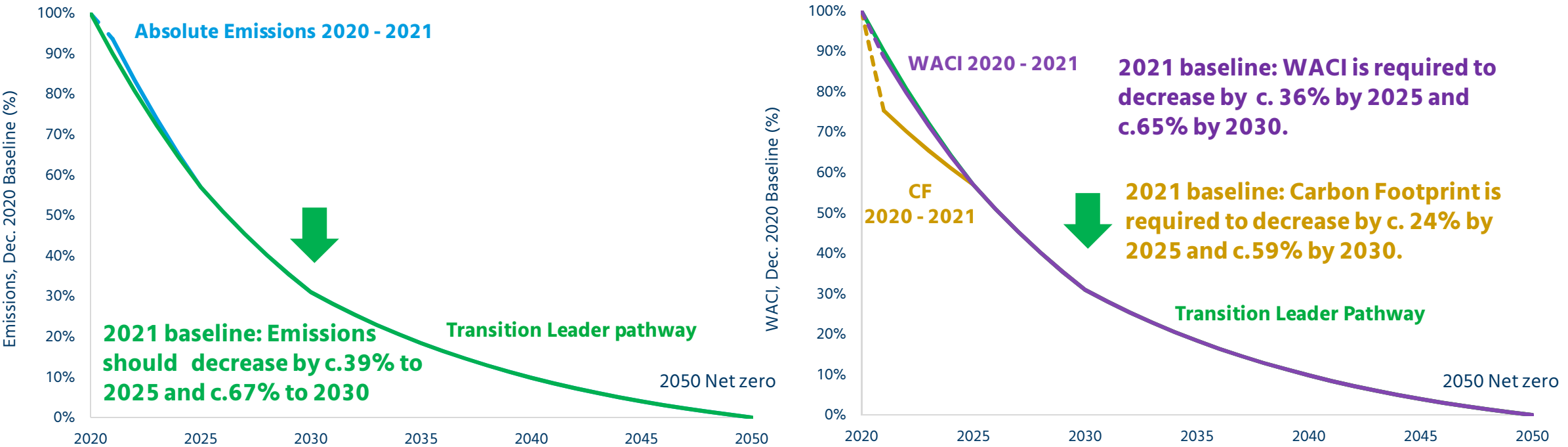
\*The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. With a focus on high impact sectors, it is rapidly becoming one of the most recognized corporate climate action benchmarks. Companies' **Management Quality** are assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration. Companies' **Carbon Performance** are assessed using the modelling conducted by the **International Energy Agency (IEA)** for its biennial Energy Technology Perspectives report.

# Appendix

# Decarbonisation path – 2020 baseline (scope 1 & 2)

## Listed equities

	2025	2030
Decarbonisation target (2020 baseline)	43%	69%



The charts above shown the progress of the Funds’ listed equity portfolio versus the agreed decarbonisation pathway - the Transition Leader Pathway. The Transition Leader Pathway is bespoke to the Fund and represents a bespoke net zero target for the listed equities which is broadly consistent with the scenarios set out in the IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels (we note the IPCC pathways have a 2010 baseline making this comparison imperfect).

**The Fund is broadly in line with (or ahead of) the decarbonisation pathway across all metrics**



# Emissions based metrics

Metric type	Formula	Description
Absolute GHG emissions	Tons of greenhouse gas (GHG) emissions or tons of CO2 equivalent (tCO2e)	Calculates an investor's share of the total emissions for each company/holding.
Emissions intensity	Carbon Footprint (in tCO2e / £m invested)	Total GHG Emissions figure weighted to take account of the <b>size of the investment made in the company</b> . It seeks to answer how carbon intensive the portfolio is.
Emissions intensity	Weighted Average Carbon Intensity (WACI) (in tCO2e / £m revenue)	Portfolio's exposure to carbon-intensive companies with attribution of emissions based on their <b>weightings in the portfolio</b> , rather than the ownership approach. It seeks to answer how carbon intensive the companies in the portfolio are.

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