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Analytics for Climate Transition (ACT)

Committee Summary

The report is not for publication as it contains exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of Schedule 12A of the Local Government Act 1972 and publication is not in the public interest.

Private & Confidential

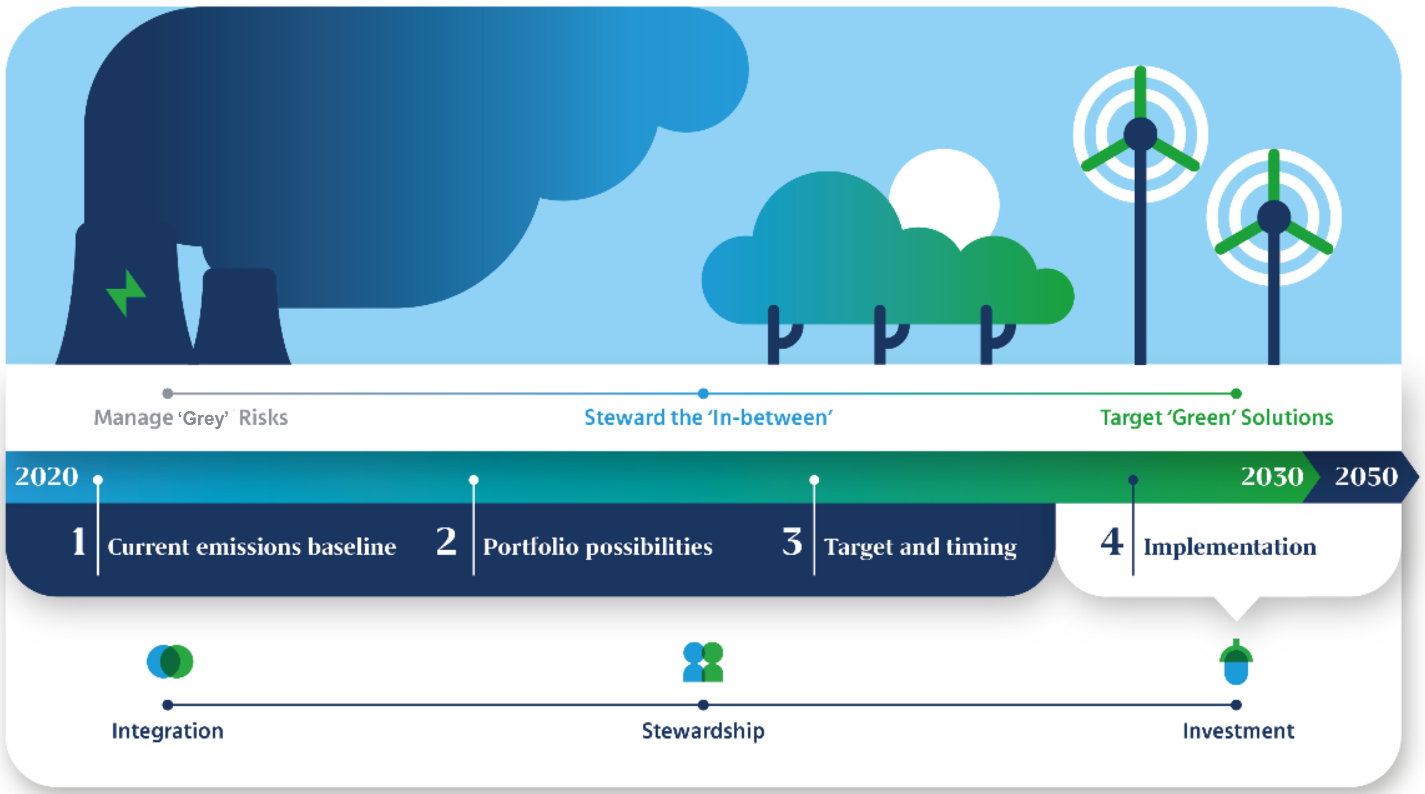
Wiltshire Pension Fund
11 September 2023

A business of Marsh McLennan

Analytics for Climate Transition

The How and What?

Mercer's Analytics for Climate Transition (ACT) follows a step by step approach to align to a net zero* outcome by 2050 or earlier.



The recommendations are in the form of a climate transition plan, including targets, and have confidence in answering the key question:

Can we reduce emissions and set aligned targets while:

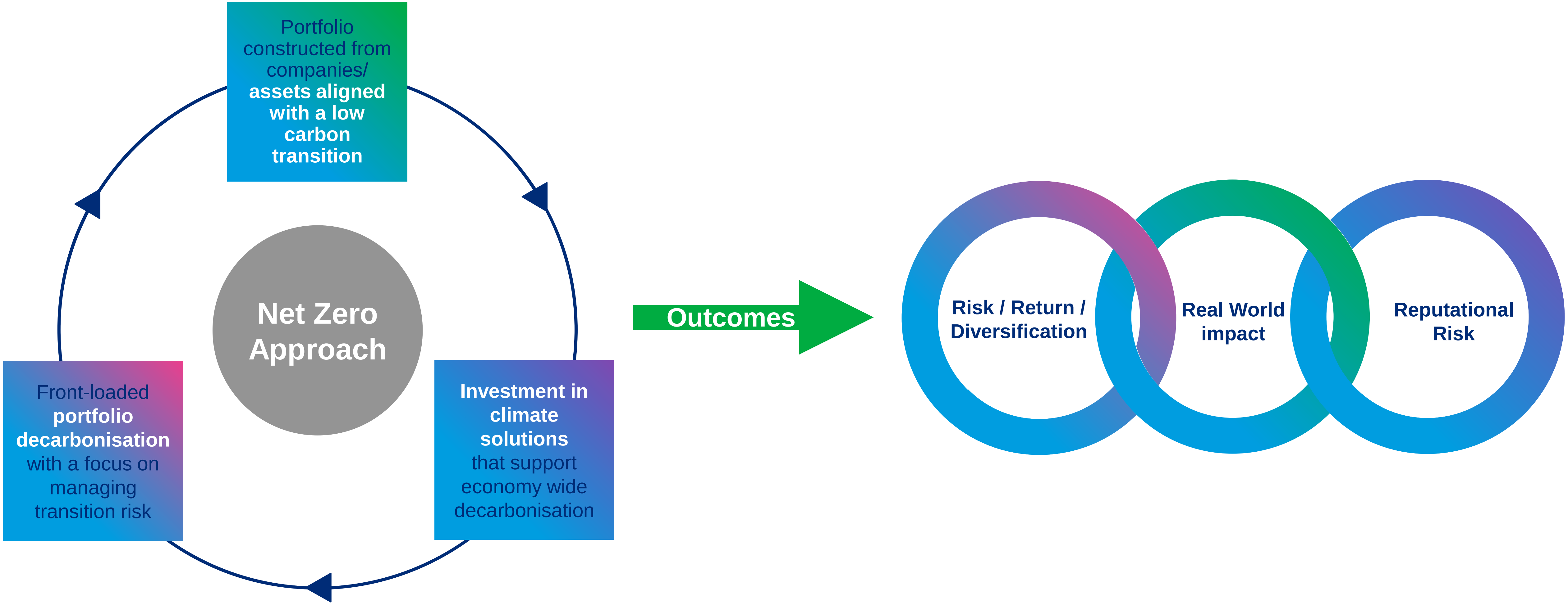
- meeting investment objectives? &
- not just divesting today's high carbon companies (which has limited impact on real world decarbonisation)? And can this be practically implemented and monitored?

The Fund has set a 2050 Net Zero target and interim decarbonisation targets

*'Net zero' means emissions are reduced as far as possible, where there are options to do so, with any remaining emissions offset by absorbing an equivalent amount from the atmosphere e.g. in nature (trees and soils) or via carbon capture and storage or other technologies

Net Zero Approach

To date, targets have been set around decarbonisation & solutions



Too much emphasis being placed on one area of net zero approach can lead to sub-optimal outcomes

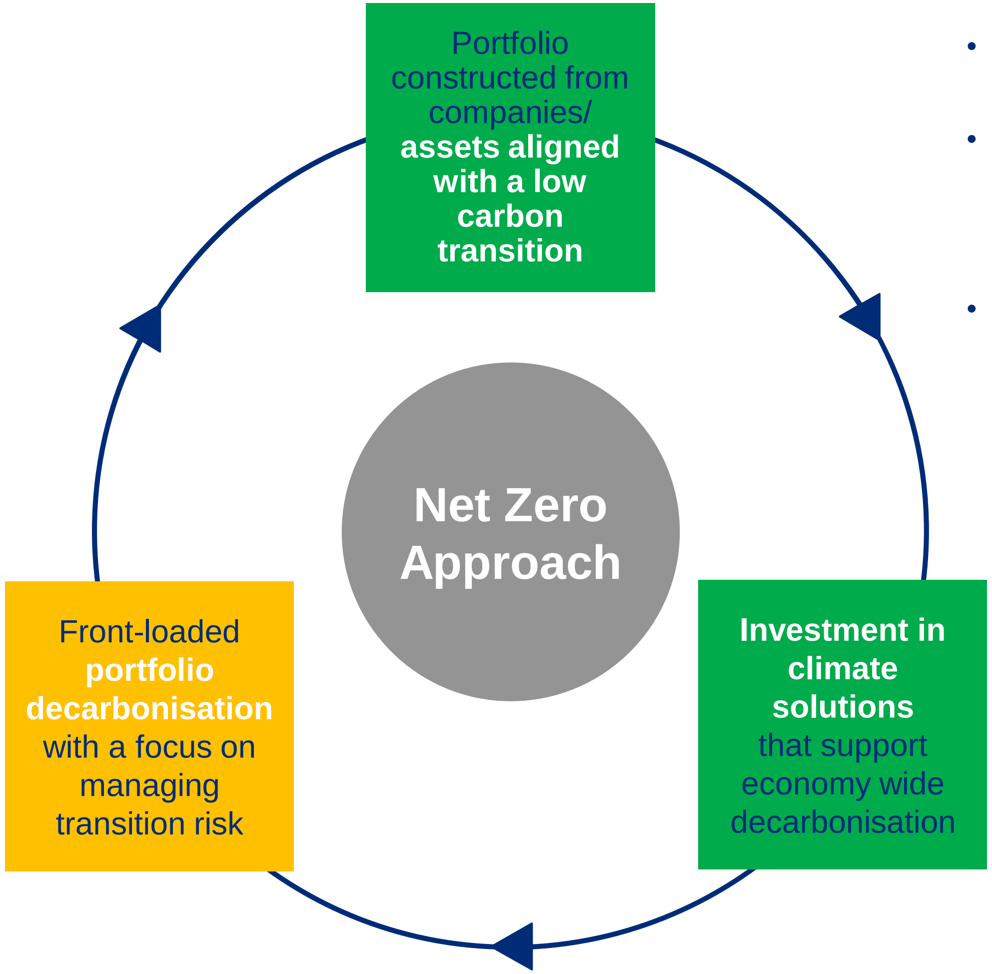
Net Zero Approach

Summary of progress

On Track

Progress Required

- **Low allocations to Grey assets**, concentrated primarily in the Brunel MAC and Magellan mandates
- **Proposed alignment and stewardship targets** for material (high impact) sectors. Definitions, implementation and monitoring of targets need to be further explored
- See slides 10-13



- Carbon footprint has fallen 23% over 2020-2023. **Progress made but behind target** decarbonisation pathway
- These targets are ambitious and should be kept under review, in light of the wider set of targets proposed this year and the need to take a holistic approach to a whole economy transition
- See slide 9

- The Fund has made allocations to the **Brunel Sustainable Equity and Paris Aligned Funds**. The fund has also increased commitments to **renewable infrastructure**, and is targeting a 7% aggregate allocation to Climate Solutions

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*increasing to 90% by June 2027

Progress to Date

How ACT Analysis has been used to date

2021

Set targets:

- Total Fund 2050 Net Zero Target
- Total Fund decarbonisation target of 50% reduction by 2030, versus 2020 baseline position
- Adopted listed equity portfolio carbon reduction targets of 43% by 2025 and 69% by 2030, versus 2020 baseline position
- Committed to increasing the total Fund's sustainable/low carbon allocation target to 30% by 2025 and 35% by 2030.

2022

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets: **On track**

Investment Manager decisions

- Helped inform decision to introduce Brunel Paris Aligned and Sustainable Equity Portfolios

Stewardship & Engagement

- Identified most strategically important companies to engage with from a climate perspective

2023

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets: **Slightly behind target**

Strengthening Targets

- Target 70% of financed emissions in material (high impact) sectors either aligned or under engagement in listed equity.*
- Target 100% of assets in material sectors in developed listed equity net zero/aligned/aligning by 2030.**

Enhanced fossil fuel monitoring

- Enhanced insight into fossil fuels

Next 12-18 Months

Enhance Net Zero Plan

- Revisit suitability of listed equity decarbonisation target
- Set and refine granular plans/targets across:
  - Transition alignment
  - Stewardship
  - Sustainable / climate solutions
- Expand net zero approach beyond listed equity portfolio to property, infrastructure, MAC*** and EMD****.
- Potential connections to biodiversity / natural capital

Support the Responsible Investment strategy and policy approach / Provide insight into transition capacity and monitor progress / Understand consistency with Brunel climate policy

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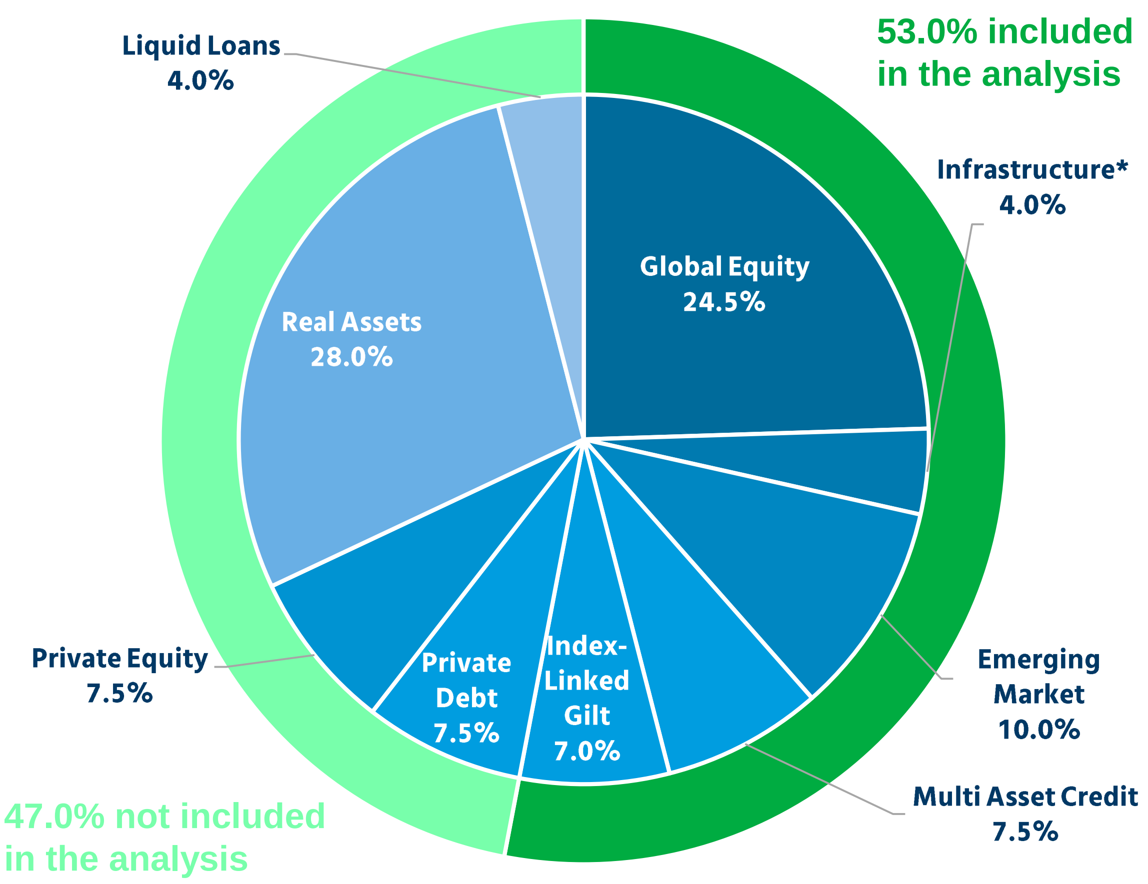
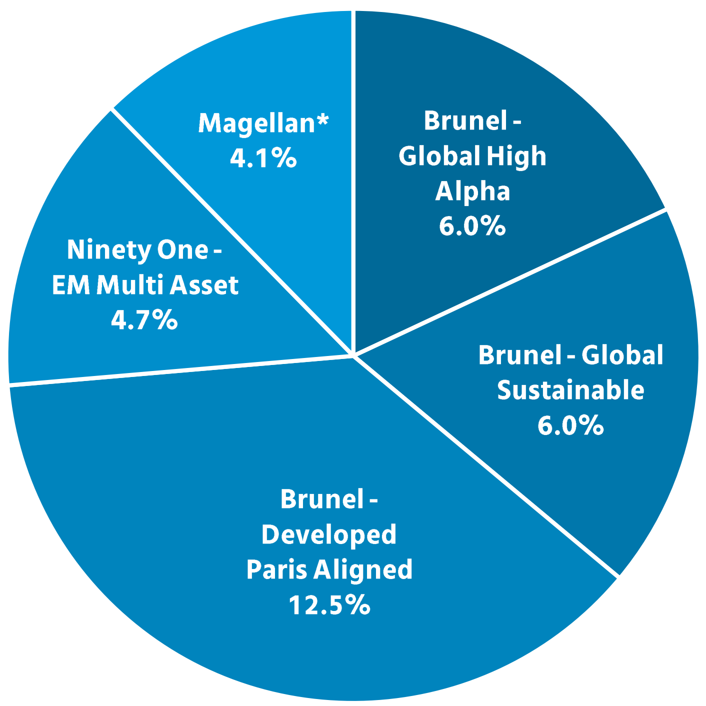
*increasing to 90% by no later than 2030 **extending to developed and emerging markets by 2040 *** Multi Asset Credit **** Emerging Market Debt

Proportion of Holdings Analysed
31 December 2022

Fund strategic asset allocation as at 2023



Equity Allocation by manager as at 2023



*Magellan Absolute Emissions calculation based on actual allocation (4.1%) as at 2023. Magellan sits within the Infrastructure allocation on the left hand side pie chart.
Notes: The data analysed excludes certain assets e.g. cash and derivative allocations within the funds analysed. Where there is partial coverage of a portfolio we scale up climate metrics to estimate coverage for 100% of the mandate.

Current Fund Commitments in Place

On Track   Progress Required

Scope	Current Target	Progress	Progress to date
Total Fund	• Total Fund carbon reduction target of 50% by 2030 and net zero by 2050.	• Listed equities are the initial area of focus with further asset classes being incorporated over time.	
Total Fund	• Allocating 30% of the Fund to sustainable / low carbon green assets by 2025, and 35% by 2030 as measured by the long term strategic asset allocation.	• The Fund has made allocations to sustainable and Paris Aligned equity mandates. • The Fund has expanded the scope and magnitude of the initial 5% allocation to renewable infrastructure to a 7% allocation to climate solutions.	
Total Fund	• Expand specific net zero target setting and monitoring of metrics for other asset classes over 2022*, starting with property and infrastructure. • Scope 3 emissions to be included when data quality and consistency of measurement are sufficient.	• The feasibility of reporting on the Fund's real estate, infrastructure and loan mandates was explored with managers but this is currently not possible due to data constraints. Mercer recommends continuing to engage with managers, on this point, including Brunel who now manage the real estate portfolio. • Brunel MAC, index linked gilts and the Fund's emerging market debt allocations (via the Ninety One EMMA portfolio) have been included in the analysis for the first time.	
Listed Equities	• A listed equities decarbonisation target of net zero by 2050, a 43% reduction by 2025 and a 69% reduction by 2030 versus the 2020 baseline.	• Good progress but slightly behind target decarbonisation pathway (see slide 9). Carbon footprint (ex Magellan) has fallen 23% over 2020-2023. • Magellan decarbonisation has been slower compared to rest of listed equity portfolio.	

*Recommend this target is amended to reference 2023/24 and include MAC and EMD

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Two areas to strengthen targets

Stewardship / Engagement

- Ensure 70% of financed emissions in material sectors are either aligned or subject to direct or collective engagement and stewardship actions for all listed equity by [date TBC], increasing to 90% by [date TBC but no later than 2030].

Alignment

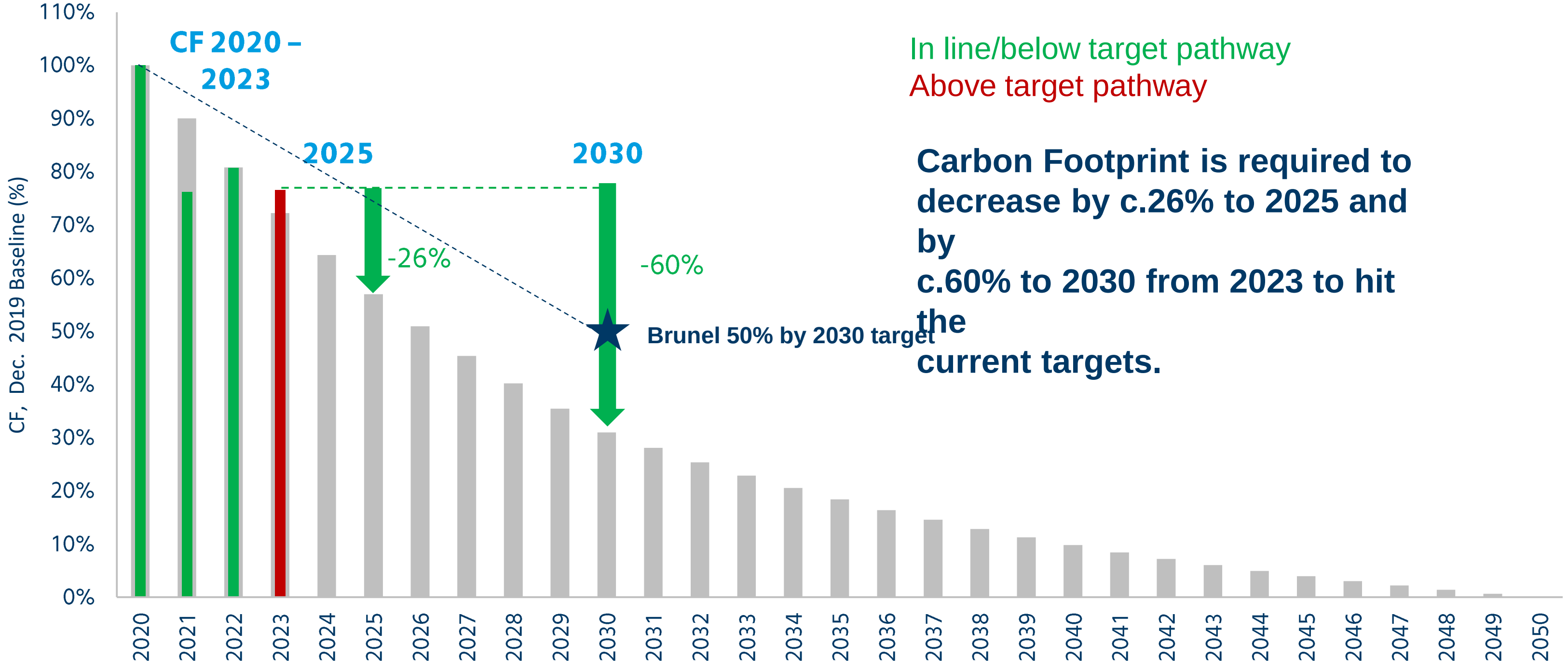
- 100% assets under management (AUM) in material (high impact) sectors in developed listed equities that are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning by 2030, extending to developed and emerging markets by 2040.*

Targets are consistent with IIGCC Net Zero Investment Framework
Definition, implementation and monitoring of targets need to be explored further

*Brunel's ambition is that by 2040 all listed assets are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning.

Decarbonisation Path – 2020 Baseline (Scope 1 & 2)

Transition Leader Curve – Listed Equities (Ex. Magellan) – Carbon Footprint



Carbon Footprint is required to decrease by c.26% to 2025 and by c.60% to 2030 from 2023 to hit the current targets.

Key takeaways:

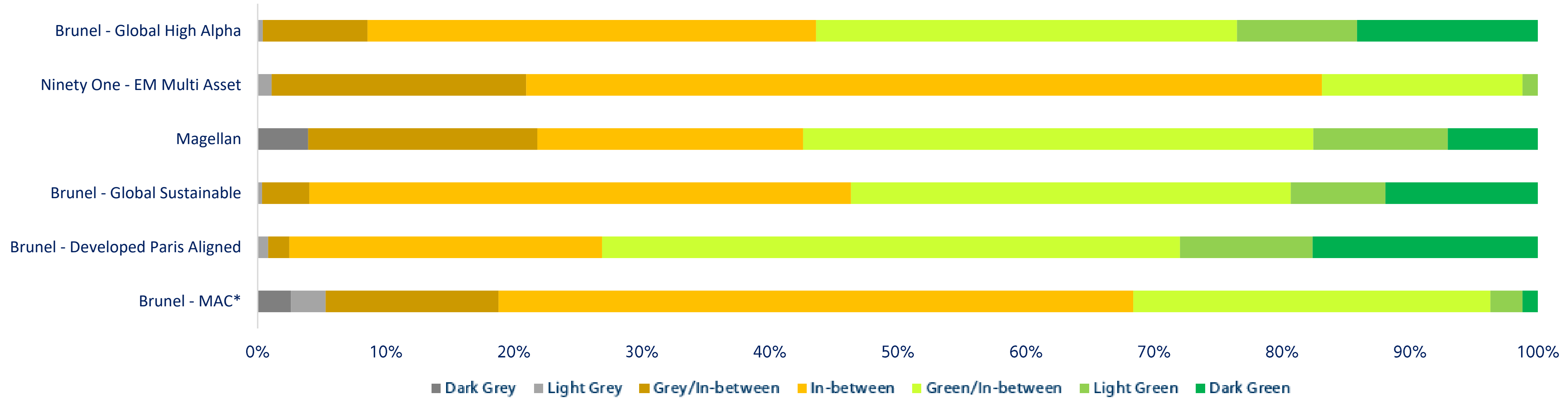
- Listed equity portfolio (ex. Magellan) **more carbon efficient** than wider market and has **seen significant decarbonisation** since 2020 but **slightly behind target**.
- Over the last year Carbon Footprint has decreased by c.5.1%.
- Despite this fall, decarbonisation is behind target mostly as a result of the Brunel Global High Alpha Fund's intensity increasing by 66% over the year*. This was driven by contributions from the Energy sector, largely as a result of two new holdings – Shell and MEG.

Revisit decarbonisation targets next year in light of its level of ambition and wider targets that are being proposed
Need to ensure that transition risks are managed holistically rather than on a narrow emissions-only basis

Notes: The dates in the above chart correspond to the preceding day, e.g., 2030 equates to 31/12/2029. *This Brunel Global High Alpha Fund remains efficient on a carbon intensity basis relative to wider market.

Transition Alignment of the Portfolio

- **We present the transition alignment of the equity portfolio,** to understand exposure to assets that are well aligned ("green"), a mix of intensities and transition capacity ("in between") or not well aligned ("grey") with the low carbon transition as well as the evolution since the first analysis.



Highlights & Questions

✓ Higher allocations to Green across Magellan and Brunel Funds

✓ Retained very low allocations to Grey with exception of Magellan and MAC.

How are Brunel engaging with the most carbon intensive and Grey companies?

*Only the Corporate Bonds portion is considered in the analysis.

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

Engagement targets – Total Equity Portfolio (ex. Magellan)

Top 10 Contributors to Carbon Footprint

	Company Name (redacted)	Sector	Weight	Cont. to Carbon Footprint (Scope 1.2)**	Transition category	SBTi target in place?	TPI Management Quality Score	TPI Carbon Performance***	CA+100
1	**Company 1**	Materials	0.08%	5.29%	***Light Grey***	No	-	-	No
2	**Company 2**	Materials	0.05%	4.26%	***Grey/In-between***	Yes	4	1.5 Degrees	Yes
3	**Company 3**	Materials	0.35%	3.41%	***In-between***	No	4	National Pledges	Yes
4	**Company 4**	Materials	0.27%	3.14%	***Green/In-between***	No	3	1.5 Degrees	No
5	**Company 5**	Utilities	0.22%	3.09%	***In-between***	Yes	4	Below 2 Degrees	Yes
6	**Company 6**	Energy	0.25%	2.87%	***Grey/In-between***	No	1	No/unsuitable disclosure	Yes
7	**Company 7**	Utilities	0.17%	2.83%	***Light Grey***	No	3	Below 2 Degrees	Yes
8	**Company 8**	Energy	0.19%	2.72%	***Grey/In-between***	No	4	Not Aligned	Yes
9	**Company 9**	Energy	0.21%	2.72%	***Grey/In-between***	No	4	1.5 Degrees	Yes
10	**Company 10**	Industrials	0.07%	2.61%	***In-between***	No	4	-	No
Total			**1.86%**	**32.94%**					

Implementing targets with regards to the % of emissions from high emitting sectors under engagement or aligning is a potential next step

*Excludes Magellan.
**Figures are shown as a percentage of Equity, excluding Magellan. These figures are not scaled and reflect data coverage.
***Long-term alignment in 2050, sourced from TPI https://www.transitionpathwayinitiative.org/

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Enhancements and next steps

Item	Enhancements	Next steps
Fund's ambition & Brunel policy	Understanding of consistency with Brunel climate policy.	**Decarbonisation:** Understand Brunel's progress versus their own decarbonisation target Revisit suitability of listed equity decarbonisation target
Listed equity targets	New stewardship target and alignment target for listed equity. Understanding stewardship status / alignment of companies within material sectors.	**Listed equity targets:** Definition, implementation and monitoring of stewardship and alignment targets to be further explored. Understand Brunel's thinking in these areas. **Stewardship:** Use information on financed emissions in material sectors to inform discussions with Brunel and align approaches and meet targets. For example, understand rationale for and engagement on the **dark grey** holdings present in the listed equity portfolio and the rationale for including MEG and Shell in the Brunel Global High Alpha portfolio.
MAC and EMD	MAC and EMD ACT analysis.	**MAC:** Start the conversation with Brunel around underlying manager progress versus pledges (Oaktree), explicit targets to decarbonise 20-25% by 2025 and 60% by 2030 (CQS) and evidence of alignment with Brunel policy (Neuberger Berman). **EMD:** Continue to engage with Ninety One on net zero commitments.
Private markets	Formally explored data availability within the private markets portfolio	**Climate solution commitments:** Build out Climate Solution allocation to achieve revised 7% target. **Target setting in private markets:** Continue to push for improved disclosure and keep under review whether target setting is possible given data availability within private equity, private debt, property and infrastructure.

Appendix

Decarbonisation – Emissions Metrics

Notes on the Analysis

- The analysis focuses on showing contributions to Fund emission metrics. We assess carbon dioxide “equivalent” metrics.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. Where companies do not have data points, companies are assumed to have the same carbon metrics as the average of companies that we do have data points for, therefore we do not assume that companies have zero emissions because we do not have data for them.
- Emissions are likely underestimated as Scope 3 emissions are not included in the metrics presented within. Although we do present an overview of the attribution of Scope 3 emissions by fund and sector as part of our detailed analysis.

Decarbonisation – Emissions Metrics
Understanding the Limitations

- Many of the IPCC's scenarios are reliant on net zero (or net negative) assumptions later this century. This can include the deployment of mitigation technologies, such as carbon capture and storage, as well as ecosystem approaches, such as land and forest conservation and restoration. There has been some scepticism as to whether such technologies and approaches are viable, at the required scale. Mercer will look to integrate further assumptions around net zero emissions in due course, as science and technology evolves.
- The focus of these decarbonisation curves is currently on Scope 1 and Scope 2 emissions. Mercer will however seek to integrate Scope 3 emissions as methodologies improve.
- Given the limitations to all of the Metrics, Mercer advocates for monitoring decarbonisation progress on absolute emissions, WACI and carbon intensity basis.

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