The Transition Pathway Initiative (TPI)
Supporting the global transition to a low-carbon economy
The Transition Pathway Initiative (TPI) at a glance

- A global initiative led by asset owners and aimed at investors
- Provides an open access analytical tool and publicly available research findings
- Partners:
  - Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE)
  - FTSE Russell
  - Principles for Responsible Investment (PRI)

TPI is rapidly becoming the go-to corporate climate action benchmark.

- Source data provided by FTSE Russell and the LSE
- Aligning with TCFD recommendations
- Research reports published on high impact sectors, including autos, cement, oil and gas, coal, electric utilities, paper, aluminium, aviation, shipping, chemical and steel sectors
- Supported globally by major asset owners and asset managers.
Supporting the transition to a low-carbon economy

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. It is rapidly becoming the go-to corporate climate action benchmark. Aimed at investors, the TPI assesses companies’ preparedness for the transition to a low-carbon economy, with a focus on high impact sectors, and supports efforts to address climate change. Open access and academically robust, the TPI enables investors to make more informed decisions and can shape their engagement activities and approach to proxy voting.

Visit www.transitionpathwayinitiative.org for the TPI analytical tool and downloadable reports on previously analysed sectors.

Supporting the transition to a low-carbon economy

TPI supports efforts to get companies to align themselves with the transition to a low-carbon economy.

transitionpathwayinitiative.org
Climate change and the investment community

Under the 2015 Paris Agreement, countries have committed to limiting increases in global average temperature to below 2°C above pre-industrial levels, and to pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels.

In November 2016, the Paris Agreement came into force. To date, over 175 countries have now made pledges – Nationally Determined Contributions (NDCs) – detailing how they intend to contribute to the Paris Agreement targets.

National and international level policy action on climate change is a source of investment opportunity and risk. For example, transition to a low-carbon economy may affect company cash flows and profits. It may also result in ‘stranded assets’, where the value of certain assets is significantly reduced because they are rendered obsolete or non-performing from a financial perspective.

Climate change poses both a risk and an opportunity for investors.

Energy intensive sectors, fossil fuel-based industries and high greenhouse gas emitting sectors are particularly exposed, including in the areas of litigation and regulatory-related risk.

Delivering emissions reductions of the magnitude envisaged by the Paris Agreement will require considerable capital investment, by the public and the private sector. Many institutional investors already have established track records of addressing the impacts climate change may have on their portfolios. They have adopted policies to guide their investment decision-making, invested in low carbon strategies, made important contributions to strengthening corporate practice and reporting on climate change, and encouraged governments to adopt measures that accelerate the transition to a low-carbon economy.

“As a long-term investor USS wants to be able to assess how companies are managing climate change and the risk it poses to their business. The TPI provides a tool for us to do this and as a result will allow us to make better informed investment decisions improving financial returns for our members and beneficiaries.”

Elizabeth Fernando, Head of Equities at USS
Despite these efforts, to date it has been unclear to investors what the transition to a low-carbon economy looks like for individual companies and for sectors, raising many important practical questions, such as:

- How can investors know if company strategies sufficiently address the very real climate risks embedded in business models?
- How can investors know whether companies are positioning themselves appropriately for a low carbon economy and to meet the Paris Agreement goals?
- How can investors demonstrate – to beneficiaries, clients and stakeholders – that their interventions are making a meaningful contribution to the goals of the Paris Agreement?
- How can investors demonstrate – to beneficiaries, clients and stakeholders – that they are effectively managing the risks and opportunities presented by the transition to a low-carbon economy?

“As a global investor, NBIM relies on sustainable economic growth across the globe to achieve long-term return. Climate change has the potential to have a significant impact on economies and markets over time. We support the TPI’s efforts to encourage material climate disclosure from companies, which helps us assess how companies are positioning themselves for the transition to a low carbon economy.”

Norges Bank Investment Management (NBIM)
About the TPI

Developed with investors in mind, TPI enables asset owners to understand how companies with the biggest impact on climate change are adapting their business models for a low carbon economy.

It was initiated by the Church of England National Investing Bodies (Church of England Pensions Board, the Church Commissioners and CBF Funds) and the Environment Agency Pension Fund, working with asset owners from Europe and the US.

These organisations collaborated with the Grantham Research Institute on Climate Change and the Environment at the LSE and FTSE Russell (the data provider) to create a tool which:

• Evaluates the quality of companies’ management of the greenhouse gas emissions associated with their business (“Management Quality”)
• Evaluates how companies planned or expected future carbon performance compare to international targets and national pledges made as part of the Paris Agreement (“Carbon Performance”), as well as to the goals of the Paris Agreement and more ambitious targets
• Publicly reports this information through a free online tool hosted by the Grantham Research Institute at the LSE.

Investors are encouraged to use the TPI’s indicators and online tool, as they see fit, to inform their investment research and enable better-informed investment processes, engagement activities and proxy voting decisions.

The TPI complements existing initiatives and frameworks by aligning with prevailing disclosure initiatives, including the requirements of the Task Force on Climate-related Financial Disclosures (TCFD).
How the TPI works: Management Quality

Companies are assessed in two ways, including Management Quality.

Figure 1: Management quality assessment

In relation to Management quality evaluation, companies are annually assessed against 17 indicators - some of which are shown in the below diagram (visit the TPI website for all indicators):

- Level 0: Unaware
- Level 1: Awareness
- Level 2: Building capacity
- Level 3: Integrating into operational decision making
- Level 4: Strategic assessment

"I applaud the Transition Pathway Initiative and its founding members. It represents another powerful way of aligning global investments with the urgency of meeting the goals, aims and aspiration of the Paris Climate Change Agreement."

Patricia Espinosa, Executive Secretary of the UN climate convention (UNFCCC)
How the TPI works: Carbon Performance

In relation to Carbon Performance evaluation, companies are assessed against both the globally-agreed 2 degrees temperature increase target, (against a below-2-degrees-scenario), and against national pledges for emissions reductions made at, or subsequent to, the Paris Agreement.

These Carbon Performance assessments are conducted on a sector-by-sector basis, taking account of the relative amount of decarbonisation that will be required from different sectors to limit temperature increases. This enables investors to evaluate how companies are aligning their business models with the emission reduction targets being set by national governments, illustrated in the accompanying figure. These assessments are based on the International Energy Agency (IEA) Energy Technologies Report.

Investors can use the TPI to help inform:

- Investment processes – e.g. by strengthening the emphasis on how climate change and transition risk affects their investment principles and strategy and providing questions that can be asked in investment manager review meetings.
- Investment decision-making – e.g. as an assessment of companies’ exposure to low-carbon transition risks and opportunities and as an assessment of companies’ quality of management and performance.
- Engagement activities – e.g. through setting and monitoring engagement goals for internal teams or for external service providers and through monitoring company actions.
- Proxy voting decisions – e.g. by informing how climate change factors are integrated into voting decision-making including by investment managers.

By encouraging other investors to use the online tool, the investment community can also enable greater consistency regarding the types of disclosure required from companies relating to low-carbon transition.

Companies are also assessed on Carbon Performance.
Sharing research findings

The Grantham Research Institute at the LSE is the TPI’s academic partner. It is responsible for the analysis behind and production of the initiative’s research publications, supported by FTSE Russell data.

FTSE Russell draws from international standards to analyse the ESG ratings of over 4,100 companies, identifying companies with strong or weak ESG practices relating to climate change and corporate governance. The following sectors have been analysed, or soon will be, and each sector will be subsequently analysed at least once a year using newly released data:

- Aluminium
- Autos
- Aviation
- Cement
- Chemicals
- Coal
- Electric utilities
- Oil and gas
- Paper
- Shipping
- Steel

The TPI’s findings are publicly released as online reports and through an e-newsletter (which can be subscribed to on the website). The results are often profiled in the mainstream and responsible investment Media.

TPI’s Research Funding Partners are:

TPI releases robust, in-depth analytical reports on high impact sectors.

“The work of the TPI is absolutely vital to us as asset owners because it’s allowing us to be objective and data driven - which is important when you’re dealing with the financial consequences of climate change.”

Anne Simpson
Director, Board Governance & Strategy, Executive Office CalPERS
Support for the TPI

The asset owners below have pledged their support for the TPI to-date*, and further organisations from around the world are coming on board all the time. Visit the TPI website for a full list of supporters.

- Aberdeen Standard Investments
- Allianz
- Aviva Investors
- BNP Paribas Asset Management
- BMO Global Asset Management
- Brunel Pension Partnership
- CalPERS
- CCLA
- Central Finance Board of the Methodist Church
- The Church Commissioners for England
- The Church of England Pension Board
- Representative Church Body of the Church of Ireland
- The Church in Wales
- Electron Capital Partners
- Environment Agency Pension Fund
- LGPS Central
- Local Authority Pension Fund Forum
- Local Pensions Partnership (LPP)
- NEST
- Norges Bank Investment Management (NBIM)
- Northern Pools
- Minervus
- OPTrust
- Ownership Capital
- Pinebridge
- Pension Projection Fund
- PGGM
- RPMi Railpen
- Rebeca
- Saison and Partners
- Schroders
- UBS
- Union Investment
- USS
- Wellington Management
- WestPath
- West Midlands Pension Fund
- Willis Towers Watson

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5. If you are a company referenced in this brochure and would like further information about the methodology used in our publications, or have any concerns about published information, then please contact us. An overview of the methodology used is available on our website.

6. Please read the Terms and Conditions which apply to use of the TPI website.