



Transition  
Pathway  
Initiative

# The Transition Pathway Initiative (TPI)

Supporting the global transition to a low-carbon economy

In partnership with:





## Contents

The Transition Pathway Initiative (TPI) at a glance	04
Supporting the transition to a low-carbon economy	07
Climate change and the investment community	09
About the TPI	12
How the TPI works: Management Quality	15
How the TPI works: Carbon Performance	16
How investors can use the TPI	17
Sharing research findings	18
Support for the TPI	20

# The Transition Pathway Initiative (TPI) at a glance

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

- 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)
- 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.





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

## 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](http://www.transitionpathwayinitiative.org) for the TPI analytical tool and downloadable reports on previously analysed sectors.





“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

## Climate change and the investment community

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

**Under the 2015 Paris Agreement<sup>1</sup>, 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.

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.



## Climate change and the investment community (cont'd)

**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

**TPI enables investors to assess companies' preparedness for the transition to a low carbon economy.**

**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).



"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)



Companies are assessed in two ways, including *Management Quality*.

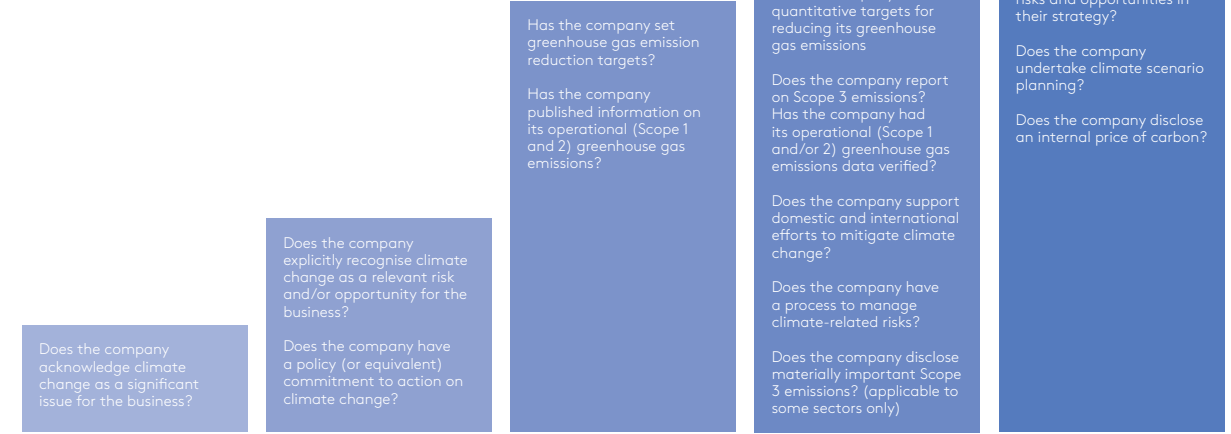


## How the TPI works: *Management Quality*

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

**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):





## How the TPI works: Carbon Performance

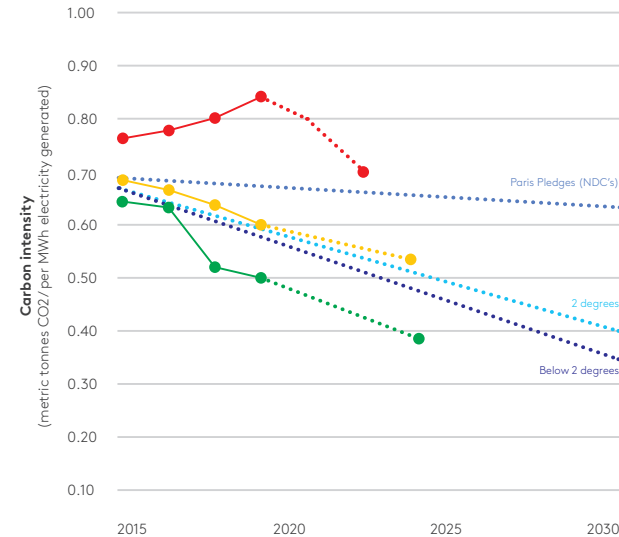
Companies are also assessed on Carbon Performance.

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.

Figure 2: Carbon performance assessment

- Company A's current carbon intensity and future targets are not aligned with the Paris pledges or 2 degrees or below 2 degrees
- Company B's current carbon intensity is aligned with the Paris pledges and 2 degrees, but its future target is only aligned with the Paris pledges.
- Company C's current carbon intensity and future targets are aligned with the Paris pledges, 2 degrees and below 2 degrees scenarios



The TPI was designed with investors in mind and supports them in several ways.

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.

# Sharing research findings

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

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.

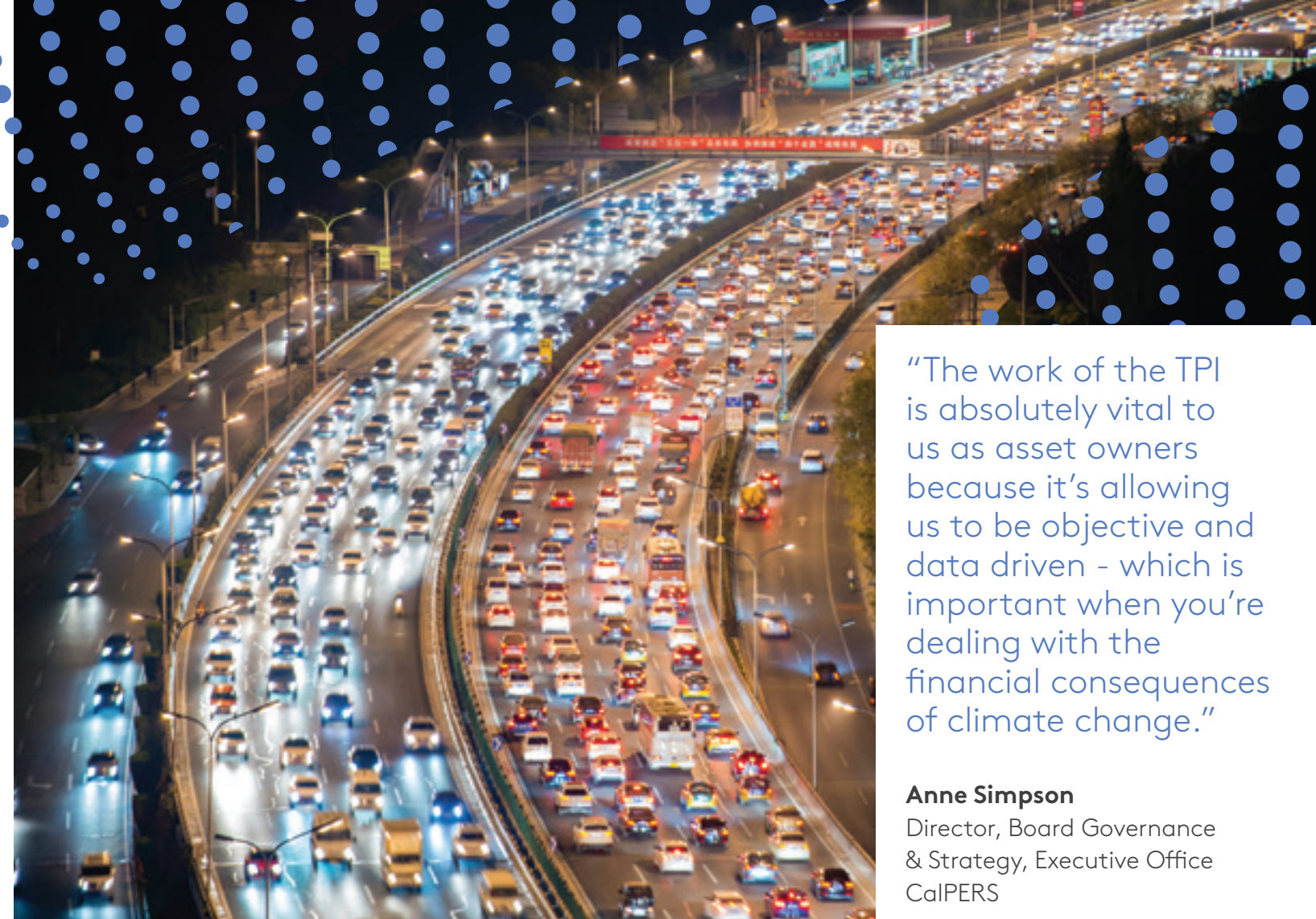
TPI's Research Funding Partners are:



“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

A full list of TPI supporters can be found online.

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
- AP1
- AP3
- AP5
- Generation Investment Management
- Greater Manchester Pension Fund
- Hermes Investment Management
- La Francaise
- Legal & General Investment Management
- LGPS Central
- Local Authority Pension Fund Forum
- Local Pensions Partnership (LPP)
- NEST
- Norges Bank Investment Management (NBIM)
- Northern Pool
- Minerva
- OPTrust
- Ownership Capital
- Pinebridge
- Pension Projection Fund
- PGGM
- RPMI Railpen
- Robeco
- Ruffer
- Sarisin and Partners
- Schroders
- UBS
- Union Investment
- USS
- Wellington Management
- WestPath
- West Midlands Pension Fund
- Willis Towers Watson

\*as of June 2019

# Contact

For further information please contact: [tpi@unpri.org](mailto:tpi@unpri.org)

## CHAIRS



**Adam C.T. Matthews**

Co-Chair  
Transition Pathway Initiative



**Faith Ward**

Co-Chair  
Transition Pathway Initiative



**Nadine Viel Lamare**

Director  
Transition Pathway Initiative

# Disclaimer

1. All information contained in this brochure is derived from publicly available sources and is for general information use only. Information can change without notice and The Transition Pathway Initiative does not guarantee the accuracy of information in this brochure, including information provided by third parties, at any particular time.
2. This brochure does not provide investment advice and nothing contained within it should be construed as being personalised investment advice for your particular circumstances. This brochure does not take account of individual investment objectives or the financial position or specific needs of individual users. You must not rely on this brochure to make a financial or investment decision. Before making any financial or investment decisions, we recommend you consult a financial planner to take into account your personal investment objectives, financial situation and individual needs.
3. This brochure contains information derived from publicly available third party websites. It is the responsibility of these respective third parties to ensure this information is reliable and accurate. The Transition Pathway Initiative does not warrant or represent that the data or other information provided in this brochure is accurate, complete or up-to-date, and make no warranties and representations as to the quality or availability of this data or other information.
4. The Transition Pathway Initiative is not obliged to update or keep up-to-date the information that is made available in this brochure.
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.



