

INTRODUCING THE TRANSITION PATHWAY INITIATIVE

@tp_initiative  transitionpathwayinitiative.org



SUPPORTING THE TRANSITION TO A LOW-CARBON ECONOMY





TRANSITION PATHWAY INITIATIVE



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CONTEXT: CLIMATE CHANGE AND THE INVESTMENT COMMUNITY

Under the 2015 Paris Agreement¹, countries have committed to limiting increases in global average temperature to less than 2°C above pre-industrial levels, and to pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. In November 2016, the Paris Agreement entered into force and, to date, over 160 countries have now made pledges – Nationally Determined Contributions (NDCs) – explaining how they intend to contribute to the Paris Agreement targets.

Policy action on climate change at a national and international level is a source of investment risk and opportunity. The transition to a low-carbon economy may affect company cash flows and profits. It may 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, the fossil fuel-based industries and high greenhouse gas emitting sectors are particularly exposed to this 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 long track records of addressing the impacts that climate change may have on their portfolios. They have adopted climate change policies to guide their investment decision-making, they have invested in low carbon strategies, they have made important contributions to strengthening corporate practice and reporting on climate change, and they have encouraged governments to adopt policy measures that accelerate the transition to a low-carbon economy.

¹ http://unfccc.int/paris_agreement/items/9485.php



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Despite these efforts, to date it has not been clear to investors what the transition to a low-carbon economy looks like for individual companies as well as for sectors. This means that investors face important practical questions such as:

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

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7201.81 v - 23.00 (-0.32%)

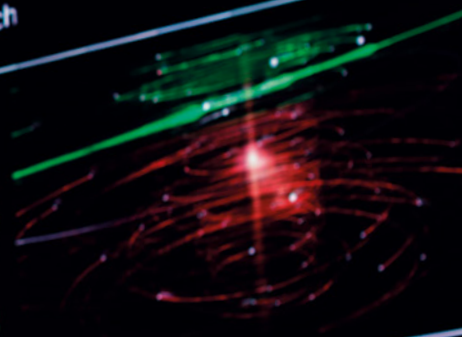
London Stock Exchange welcomes

Transition Pathway Initiative
launch

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INDICES

FTSE 100	7201.81	-23.00 (-0.32%)
FTSE 250	14500.00	+100.00 (+0.70%)
FTSE 100X	10000.00	+50.00 (+0.50%)
FTSE 100Y	10000.00	+50.00 (+0.50%)
FTSE 100Z	10000.00	+50.00 (+0.50%)
FTSE 100W	10000.00	+50.00 (+0.50%)
FTSE 100V	10000.00	+50.00 (+0.50%)
FTSE 100U	10000.00	+50.00 (+0.50%)
FTSE 100T	10000.00	+50.00 (+0.50%)
FTSE 100S	10000.00	+50.00 (+0.50%)
FTSE 100R	10000.00	+50.00 (+0.50%)
FTSE 100Q	10000.00	+50.00 (+0.50%)
FTSE 100P	10000.00	+50.00 (+0.50%)
FTSE 100O	10000.00	+50.00 (+0.50%)
FTSE 100N	10000.00	+50.00 (+0.50%)
FTSE 100M	10000.00	+50.00 (+0.50%)
FTSE 100L	10000.00	+50.00 (+0.50%)
FTSE 100K	10000.00	+50.00 (+0.50%)
FTSE 100J	10000.00	+50.00 (+0.50%)
FTSE 100I	10000.00	+50.00 (+0.50%)
FTSE 100H	10000.00	+50.00 (+0.50%)
FTSE 100G	10000.00	+50.00 (+0.50%)
FTSE 100F	10000.00	+50.00 (+0.50%)
FTSE 100E	10000.00	+50.00 (+0.50%)
FTSE 100D	10000.00	+50.00 (+0.50%)
FTSE 100C	10000.00	+50.00 (+0.50%)
FTSE 100B	10000.00	+50.00 (+0.50%)
FTSE 100A	10000.00	+50.00 (+0.50%)



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THE TRANSITION PATHWAY INITIATIVE (TPI)

The TPI aims to evaluate what the transition to a low carbon economy looks like for companies in high-impact sectors starting with oil and gas, mining, electricity generation, cement, iron and steel and autos. This enables asset owners and other stakeholders to make informed judgements about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low carbon economy.

TPI involves asset owners working together with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE), supported by data from FTSE Russell, to:

- Evaluate the quality of companies' management of the greenhouse gas emissions associated with their business ('Management Quality').

- Evaluate how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement² ('Carbon Performance').
- Report this information publicly through a free online tool hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE).³

TPI encourages investors to use the indicators and the online tool, as they see fit, to inform their investment research, decision-making, company engagement and in time their proxy voting.

² http://unfccc.int/paris_agreement/items/9485.php

³ <http://www.transitionpathwayinitiative.org>

SUPPORTERS

The Transition Pathway Initiative is an asset owner-led initiative. As of Summer 2017, thirteen asset owners and five asset managers with over £2 trillion under management had come together.

Environment Agency
Pension Fund



The Church
Commissioners
for England

THE CHURCH
OF ENGLAND
PENSIONS BOARD



BNP PARIBAS
INVESTMENT PARTNERS

CCLA
for the Church of England

Central Finance Board
of the Methodist Church

AVIVA
INVESTORS

AP
FJÄRDE AP-FONDEN

AP
FÖRSTA
AP-FONDEN

HERMES
INVESTMENT MANAGEMENT

Local Authority
Pension Fund
Forum

LPP
Local Pensions Partnership

West Midlands Pension Fund

PGGM

RPMI
RAILPEN

Standard Life
Investments

AP3 Tredje AP-fonden



Wespath
BENEFITS | INVESTMENTS

TPI is partnering with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE) and FTSE Russell.

TPI is also supported by:

LSE
THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE

Grantham
Research Institute
on Climate Change
and the Environment

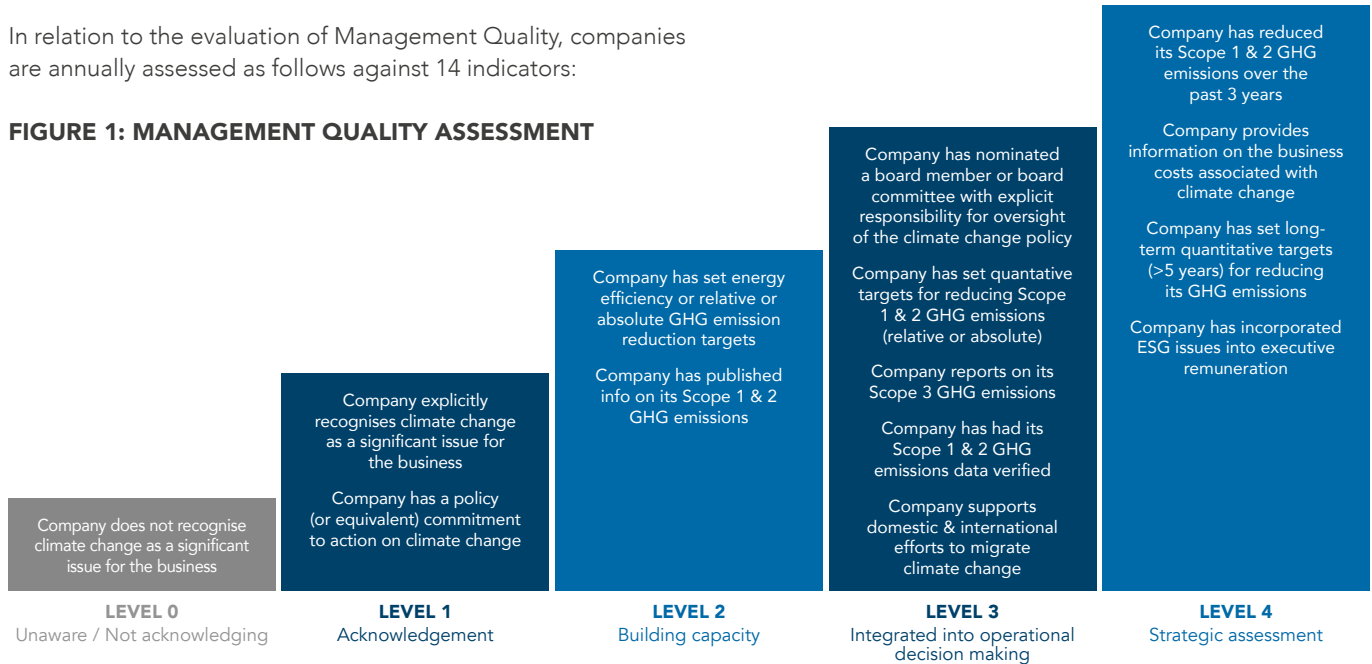
FTSE
Russell

PRI | Principles for
Responsible
Investment

HOW IT WORKS: MANAGEMENT

In relation to the evaluation of Management Quality, companies are annually assessed as follows against 14 indicators:

FIGURE 1: MANAGEMENT QUALITY ASSESSMENT



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

Patricia Espinosa, Executive Secretary of the UN climate convention (UNFCCC)

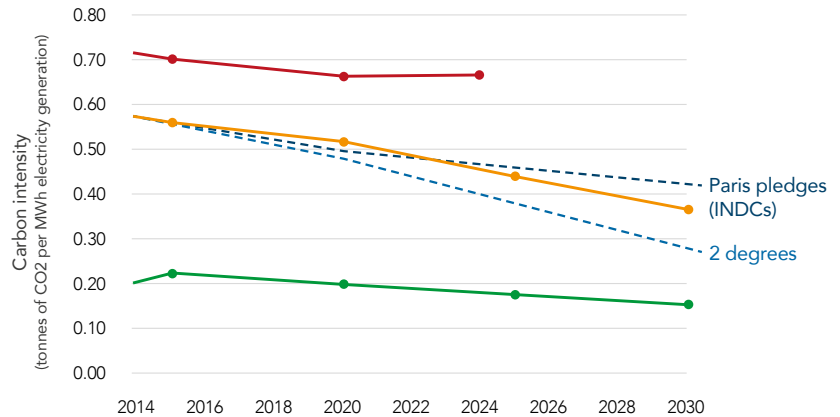


HOW IT WORKS: PERFORMANCE

In relation to the evaluation of Carbon Performance, companies are assessed both against the globally-agreed 2 degrees temperature increase target, 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 figure opposite. 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
- Company B's current carbon intensity is aligned with the Paris pledges or 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 2 degrees



HOW CAN IT BE USED?

Investors can use the Transition Pathway Initiative in a number of different ways. For example, they might use it to help inform their:

- **Investment processes**, for example 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**, for example 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**, for example through setting and monitoring engagement goals for their internal teams or for external service providers and through monitoring company actions.
- **Proxy voting decisions**, for example by informing how you integrate climate into your voting decision-making and those of your managers.

Investors can also encourage other investors to use the online tool, thereby promoting greater consistency about the types of disclosure required from companies relating to low-carbon transition.



“The launch of the TPI highlights the growing momentum among asset owners to consider the economic implications of the transition towards a low-carbon economy into their stewardship and investment processes. FTSE Russell has long been a pioneer in ESG and sustainable investing and we are delighted to have been chosen by the TPI as the data and analytics partner for this exciting initiative.”

Mark Makepeace, CEO of FTSE Russell

DISCLAIMER

1. All information contained on the Transition Pathway Initiative (TPI) website is derived from publically 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 on the website, including information provided by third parties, at any particular time.
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4. The Transition Pathway Initiative is not obliged to update or keep up-to-date the information that is made available on the website.
5. If you are a company referenced on the website and would like further information about the methodology used in our publications, or have any concerns about published information, then please contact tpi@lse.ac.uk An overview of the methodology used is available at <http://www.lse.ac.uk/GranthamInstitute/tpi/methodology>
6. Please read the Terms & Conditions which apply to use of the website at <http://www.lse.ac.uk/aboutThisWebsite/termsOfUse/Home.aspx>



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