Transition Pathway Initiative (TPI) Annual State of Transition Report, 2020

In partnership with:

Thank you to our Research Funding Partners for their ongoing support for our work:

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Agenda

Welcome from Chair and Hosts

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Reflections and Questions

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Questions

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About the Transition Pathway Initiative

Transition Pathway Initiative

About TPI

TPI is **a global initiative led by Asset Owners** and supported by Asset Managers

70 supporters with over $18 trillion of combined Assets Under Management and Advice*

Using **publicly disclosed data**, TPI **assesses the progress** companies are making **on the transition to a low-carbon economy**:

- **In line** with the recommendations of **TCFD**;
- **Providing data** for the **Climate Action 100+** initiative

All TPI data is published via an **open-access online tool**: www.transitionpathwayinitiative.org.

- now incorporating data on **332 companies** across **16 sectors** with a high impact on climate change

* As of February 2020

TPI strategic relationships

The TPI's academic partner is the **Grantham Research Institute on Climate Change and the Environment**, a research centre at the London School of Economics and Political Science (LSE). It develops the assessment frameworks, provides company assessments and hosts the online tool

TPI's data partner is **FTSE Russell**, a leading global provider of benchmarking, analytics solutions and indices

Secretariat services and TPI supporter coordination are managed by the **Principles for Responsible Investment (PRI)**, an international investor network implementing the six Principles for Responsible Investment

TPI Governance

TPI Co-Chairs:

THE CHURCH OF ENGLAND PENSIONS BOARD

Environment Agency Pension Fund

TPI Steering Committee:

FJÄRDE AP-FONDEN

AP7

BRUNEL Pension Partnership

The Church Commissioners for England

HESTA An Industry SuperFund

CCLA for the Church of England

THE CHURCH OF ENGLAND PENSIONS BOARD

Environment Agency Pension Fund

LGPS Central Limited

NZSUPERFUND Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

LPP Local Pensions Partnership

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Research Funding Partners

Aberdeen Standard Investments

BNP PARIBAS ASSET MANAGEMENT

Legal & General INVESTMENT MANAGEMENT

NEUBERGER BERMAN

ROBECO The Investment Engineers

We would like to thank these organisations for their ongoing support of the TPI and for enabling the research behind our reports.

Transition Pathway Initiative

Overview of the TPI methodology and tool

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Overview of the TPI Tool

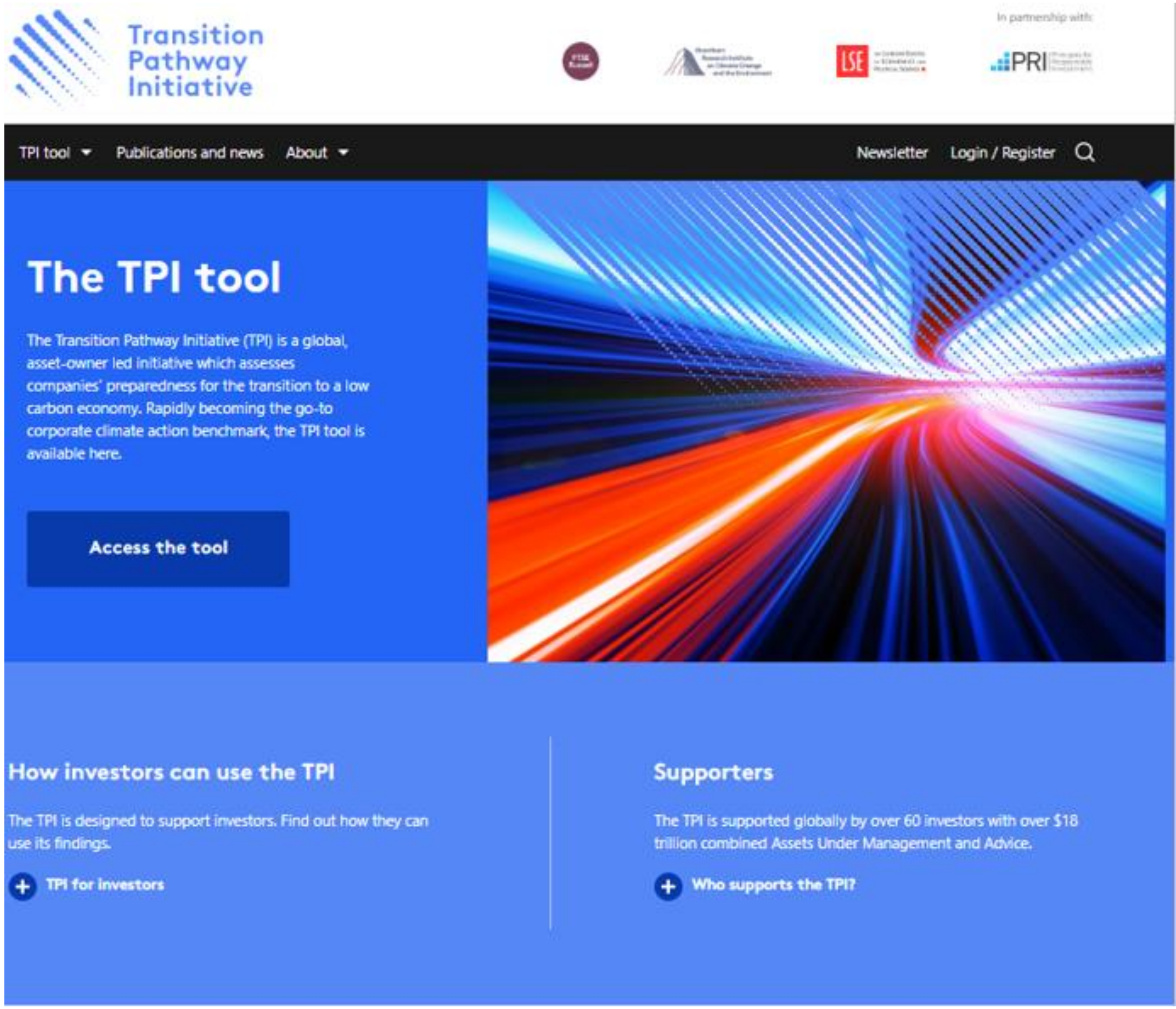
TPI assesses companies in two ways:

1. **Management Quality**, i.e. companies' governance and management of their carbon emissions and of risks and opportunities related to the low-carbon transition

2. **Carbon Performance**, i.e. quantitative benchmarking of companies' emissions pathways against the 2015 Paris Agreement goals

We now cover **332** corporations worldwide in **16** business sectors, comprising:

- 141 energy companies (coal mining, electricity utilities, and oil and gas)
- 119 industrials/materials companies (incl. aluminium, cement, chemicals, paper, steel, etc.)
- 57 transportation companies (autos, airlines and international shipping)
- 15 consumer goods and services companies



Management Quality

FTSE Russell

L0. Unaware of (or not acknowledging) climate change as a business issue.

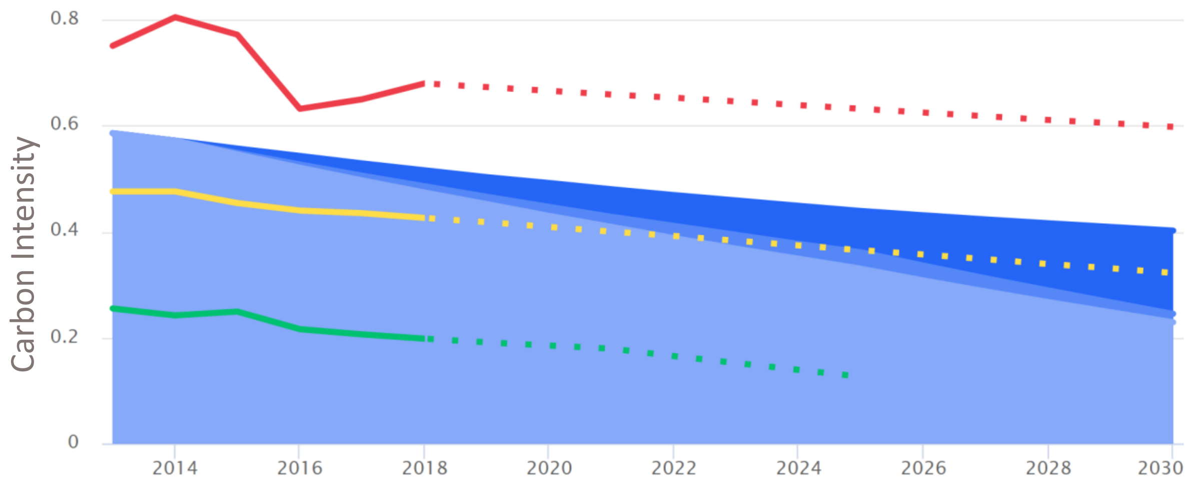
L1. Acknowledging climate change as a business issue: The company acknowledges that climate change presents business risks and/or opportunities, and that the company has a responsibility to manage its greenhouse gas emissions. This is the point at which companies adopt a climate change policy.

L2. Building capacity: The company develops its basic capacity, its management systems and its processes, and starts to report on practice and performance.

L3. Integrating into operational decision-making: The company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures on its carbon practices and performance.

L4. Strategic assessment: The company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy decisions.

Carbon Performance



Company A is not aligned with any of the benchmarks

Company B is eventually aligned with the Paris Pledges, but neither 2C/ nor Below 2C

Company C is aligned with all Paris benchmarks, including Below 2C

The State of Transition 2020

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Management Quality level

Level 0	Level 1	Level 2	Level 3	Level 4
Unaware	Awareness	Building capacity	Integrated into operational decision-making	Strategic assessment
10 companies: 3%	**64** companies: 19%	**54** companies: 16%	**92** companies: 28%	**112** companies: 34%
2 Transport	**14** Transport	**8** Transport	**15** Transport	**18** Transport
3 Industrials/materials	**25** Industrials/materials	**19** Industrials/materials	**34** Industrials/materials	**38** Industrials/materials
4 Energy	**25** Energy	**27** Energy	**40** Energy	**45** Energy
1 Consumer goods and services	**0** Consumer goods and services	**0** Consumer goods and services	**3** Consumer goods and services	**11** Consumer goods and services

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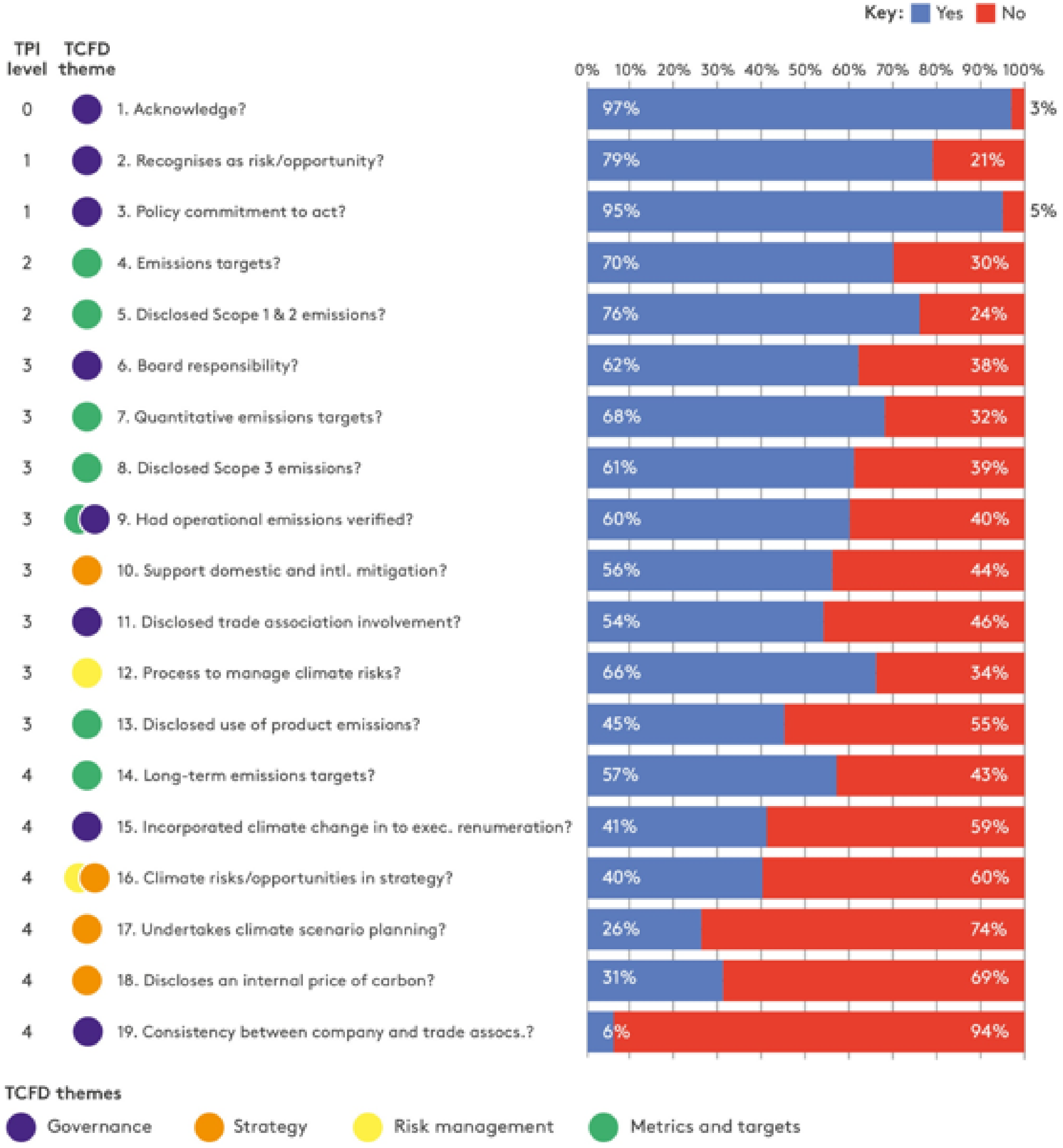
Management Quality, indicator by indicator

Most companies implement basic carbon management practices

Fewer companies disclose the more advanced carbon management practices

We have added two new indicators of corporate climate lobbying (Q11 and Q19) – barely any companies have measures to ensure consistency between company and trade association positions on climate change (Q19)



Trends in Management Quality

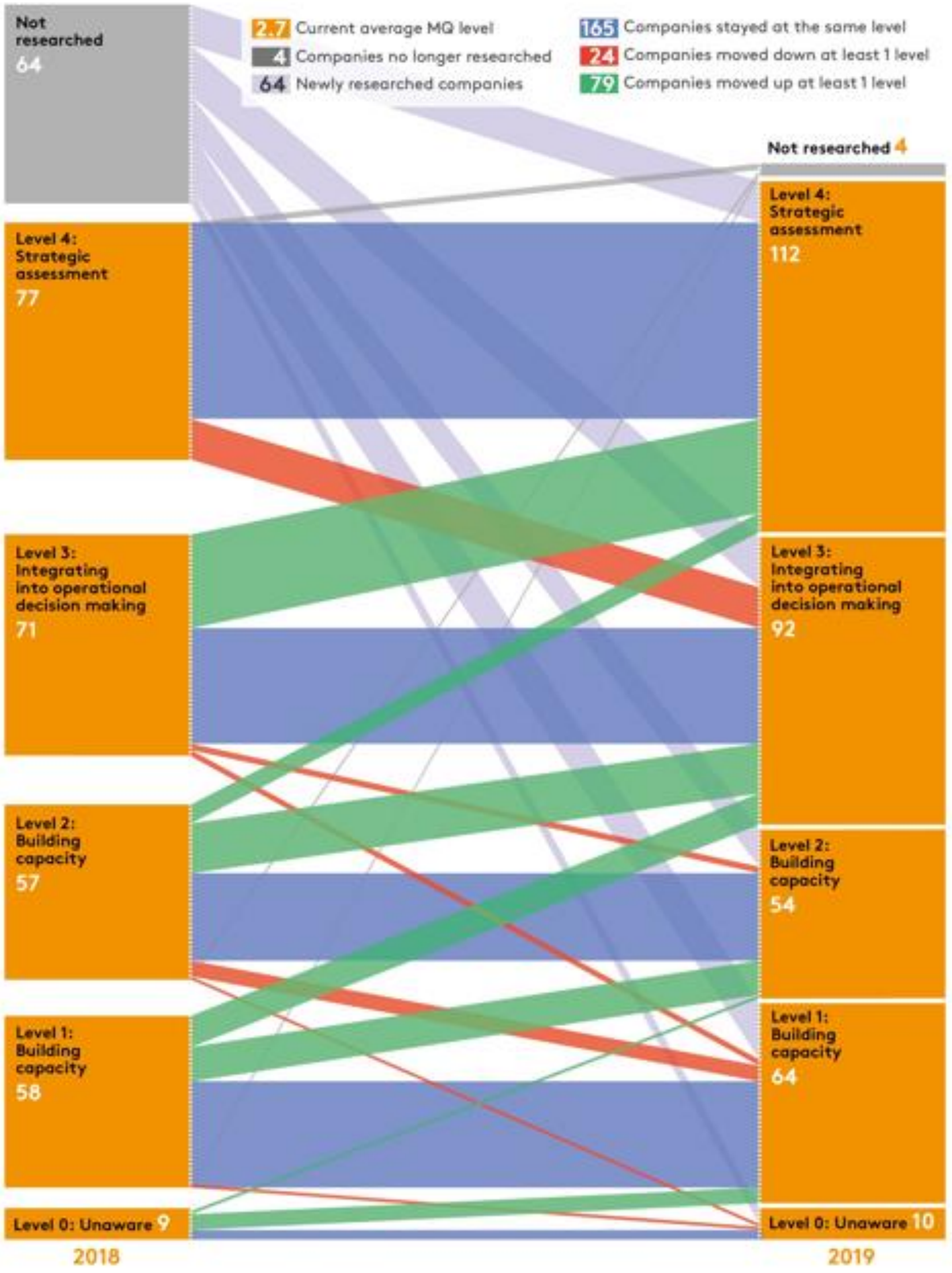
We have trend data on 268 companies. Of those:

- 165 (62%) have stayed on the same level as their last assessment
- 79 (29%) have moved up at least one level
- 24 (9%) have moved down at least one level

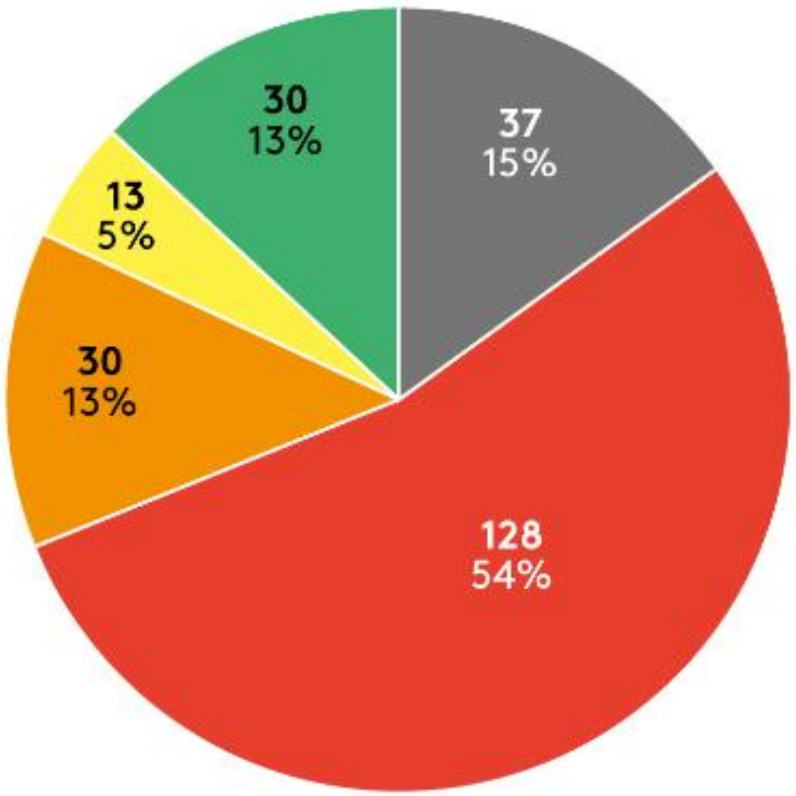
Adding 64 new companies, and removing 4, average Management Quality nudges up from 2.5 to 2.7

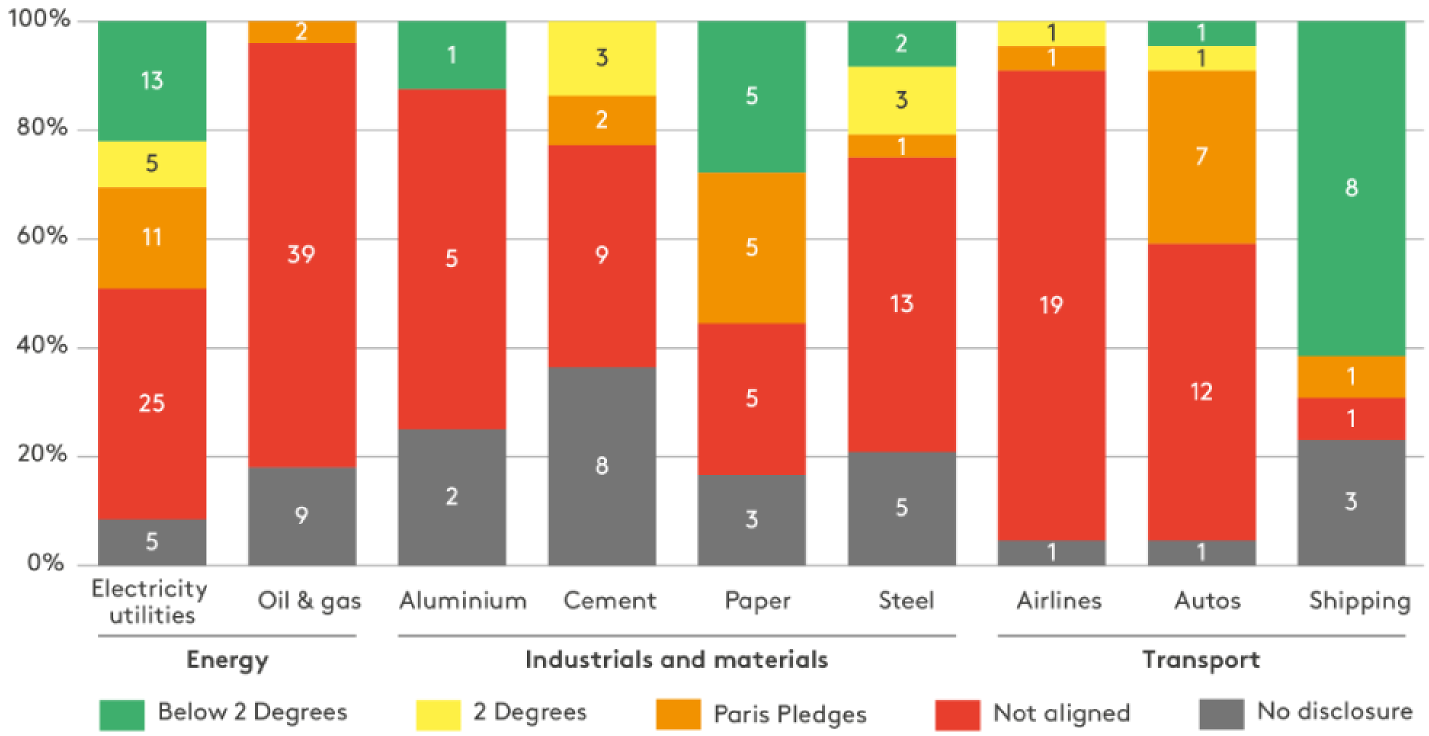
One of the most common reasons for moving up is nominating a board member/committee with explicit responsibility for climate change (Level 3 → 4)

The new lobbying questions have contributed to companies losing 4* status and moving from Level 4 to 3



Alignment with the Paris Agreement benchmarks





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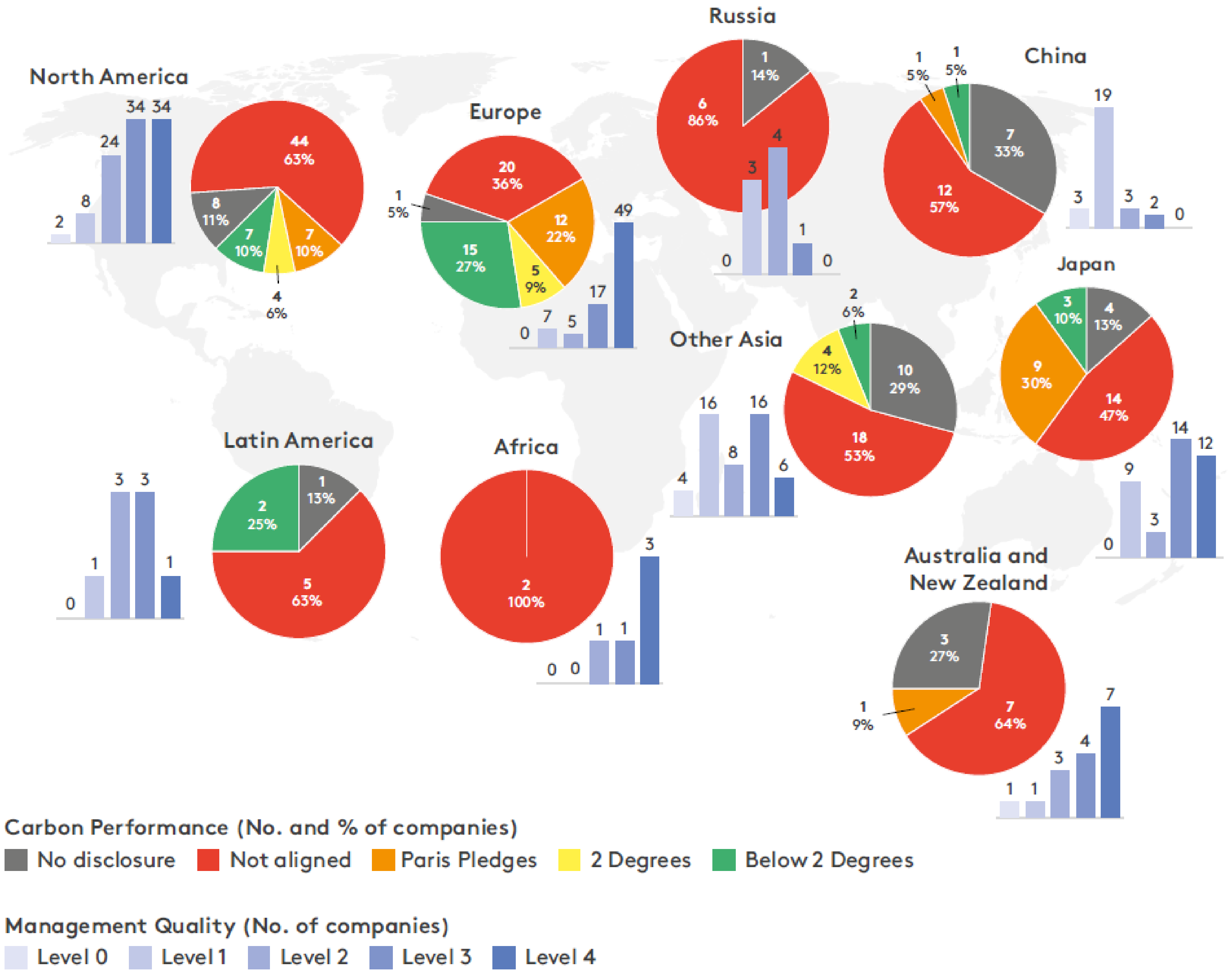
Management Quality and Carbon Performance by geography



Emerging issues: corporate net zero targets and offsetting

Over the last year, a number of companies have set net zero emissions targets, including 21 TPI companies in the energy sector

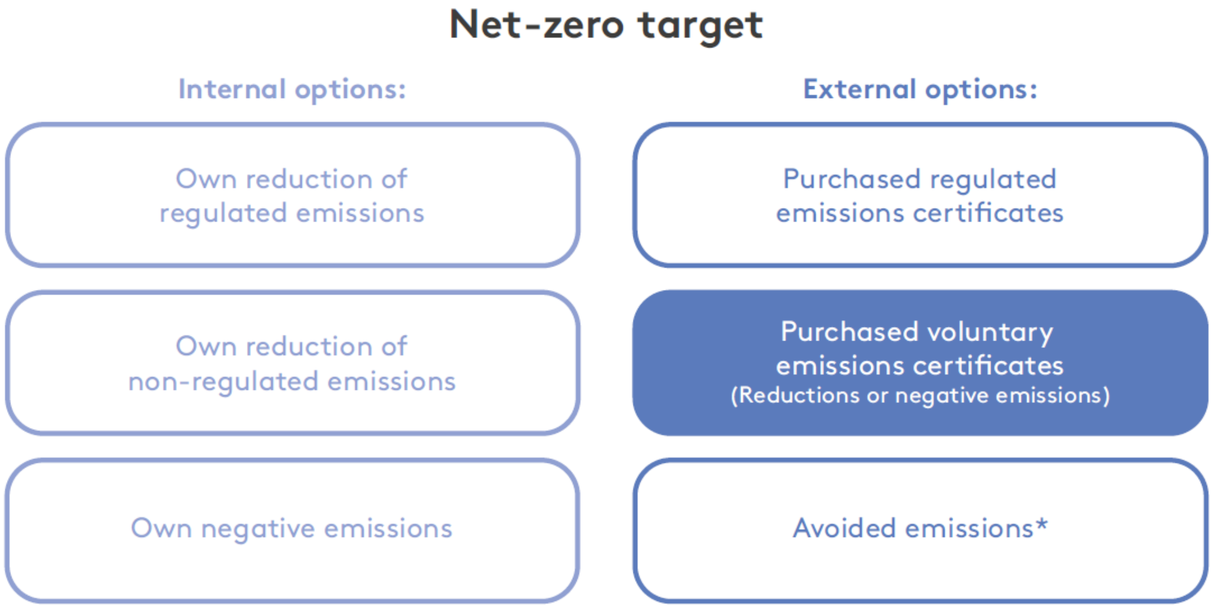
With net zero targets comes a reliance, to a greater or lesser extent, on offsetting

In principle, offsetting is a cost-effective strategy to meet the Paris Agreement goals

Investors should ask what the costs and risks of offsets are compared with companies' own emissions reductions

Many offsets are purchased on the voluntary carbon market, where prices and quality vary hugely, but prices are generally low

Companies face price and reputational risks. These need managing.



*Note: Avoided emissions are defined as "emission reductions that occur outside of a product's life cycle or value chain, but as a result of the use of that product".[7]

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Key sectoral opportunities for improvement

Investors' leading engagement priorities: based on analysis of Management Quality and Carbon Performance in each sector

- Engage car makers to set long-term emissions targets, showing how innovation/investment strategies translate into alignment with the Paris temperature goals
- Engage more oil and gas companies to disclose long-term targets, which cover emissions from use of sold products
- Engage laggard coal mining companies to start taking climate change seriously
- Ensure all cement producers disclose their emissions intensity according to the Cement Sustainability Initiative
- Engage paper producers to increase verification of operational emissions in the sector
- Engage airlines to provide more disclosure on proposed use of offsets to meet net emissions targets
- Engage shipping companies to assign boardroom responsibility for climate change
- Lobby governments outside the EU to set more ambitious climate goals for their electricity sectors
- Engage steel makers to accelerate carbon intensity improvements
- Engage aluminium producers to fully integrate climate change into operational decision-making
- Engage the chemical sector to disclose useful measures of Carbon Performance

Summary of results

Nearly 40% of companies are demonstrably unprepared for the transition to a low-carbon economy (by virtue of being on Management Quality Levels 0-2)

Average Management Quality continues to slowly improve, from 2.5 to 2.7

Few companies are implementing more strategic and long-term carbon management practices: investors should engage on this. There is a particular lack of consistency between company and trade association positions on climate change.

On Carbon Performance, more than 80% of companies remain off-track for a 2C world

Only electricity and paper companies are currently on track to meet their targets; in other sectors, companies will need to ramp up their efforts

New net zero announcements imply the use of offsetting, which presents risks that need managing

Thank you

transitionpathwayinitiative.org

Contact: tpi@unpri.org

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