

TPI in practice

Case studies from global investors
on how TPI data is being used to
enhance their investment
decision-making

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About TPI

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. We provide robust, independent research which empowers investors to assess the alignment of their portfolios with the goals of the Paris Agreement and to drive real world emission reductions through our actions.

Launched in 2017, it is rapidly becoming the 'go-to' corporate climate action benchmark and was named ESG Assessment Tool of the Year in 2020.

TPI also wants to thank and acknowledge the support of its Research Funding Partners: Aberdeen Standard Investments, BNP-Paribas Asset Management, Legal & General Investment Management, Robeco, Neuberger Berman.

TPI is also grateful for the groundbreaking work of our research partners at the **Grantham Research Institute on Climate Change and the Environment**, and our data partner **FTSE Russell**



Disclaimer: The content in this booklet is for informational purposes only. TPI does not recommend or endorse any investment decisions and does not provide financial advice.

Introduction

TPI's mission is to empower investors to drive the low-carbon transition by providing independent, open-access data showing whether the world's largest high-emitting companies are adapting their strategies to align with international climate goals.

TPI prides itself on the quality and academic rigour of its research, carried out by the Grantham Research Institute at the London School of Economics, with our data partner FTSE Russell, and in 2020 was named ESG assessment tool of the year. But it will all be for nothing unless TPI supporters drive change by acting on the data.

To date over 80 supporters managing approximately \$21 trillion of assets have signed up to use TPI's Management Quality and Carbon Performance data. But what do they actually do with all that information? The following pages offer some answers.

There is a wide diversity of investors in this booklet, spreading from New York to the Netherlands, and featuring both asset owners and asset managers of varying sizes. And it is clear that each investor uses TPI data in different ways.

For some it is about integrating climate into their risk management and for others it is about shaping engagements or approaches to proxy voting. In this booklet for example, we hear how TPI data helped encourage two European car-makers to set time-bound net-zero emissions targets, how it is being used in valuation processes and how it is helping form new approaches to exclusions and index creation to use those mechanisms as drivers of more climate-aware company behaviours.

We are nearly five years on from the Paris Agreement, and if we are to succeed in restricting global temperature rise to well below 2°C, investors face a pressing challenge to align their portfolios. TPI helps them to understand how their holdings align with the pathways set by the Paris Agreement, and provides the robust data required to engage with laggards on this issue.

I hope many investors can read these case studies and learn from these leaders in the field.

Adam Matthews and Faith Ward
Co-Chairs, Transition Pathway Initiative



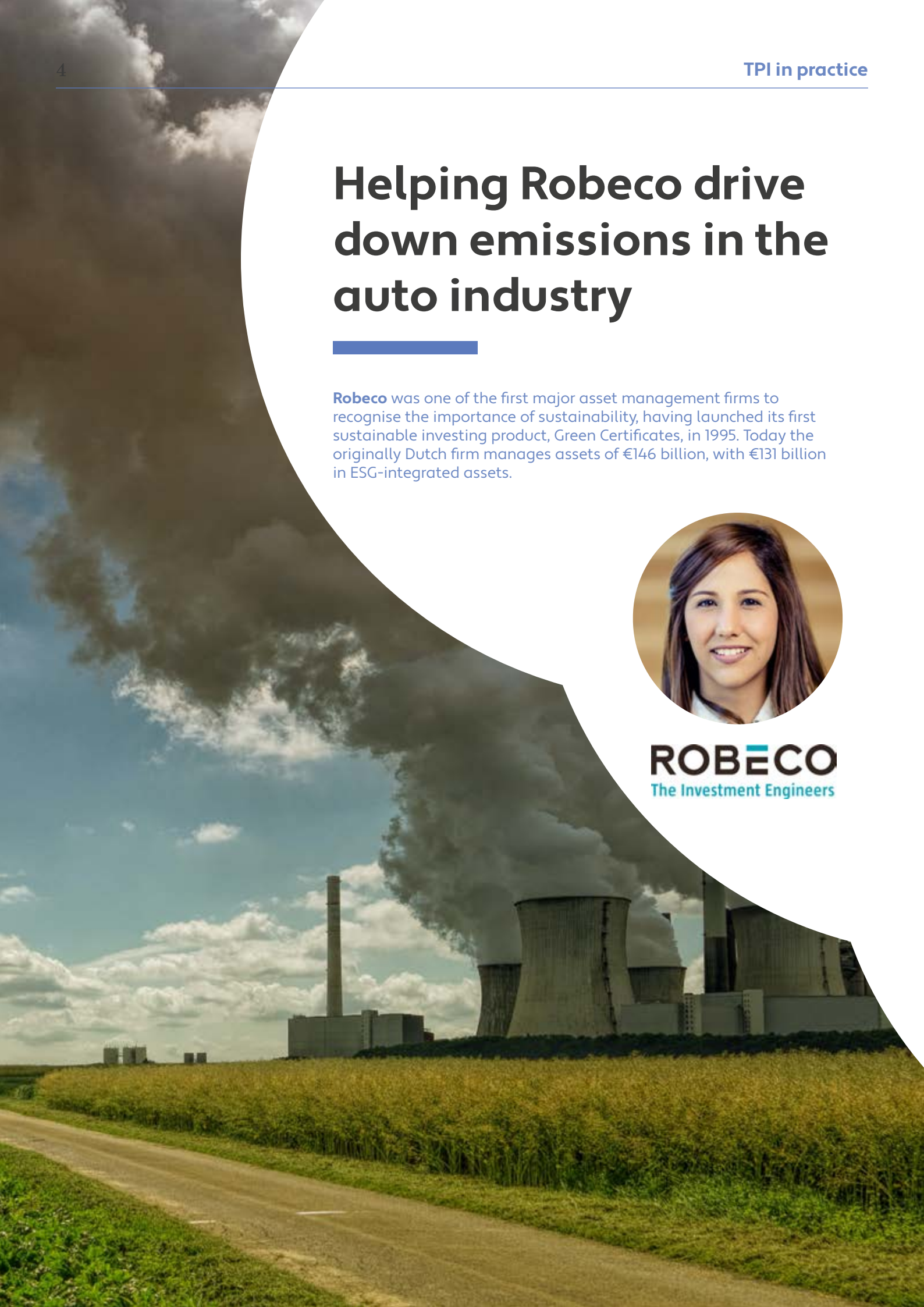
“ **There is a wide diversity of investors in this booklet... and it is clear that each investor uses TPI data in different ways** ”

Helping Robeco drive down emissions in the auto industry

Robeco was one of the first major asset management firms to recognise the importance of sustainability, having launched its first sustainable investing product, Green Certificates, in 1995. Today the originally Dutch firm manages assets of €146 billion, with €131 billion in ESG-integrated assets.



ROBECO
The Investment Engineers



The firm has been awarded the top A+ score in several areas of responsible investment by the UN-supported Principles for Responsible Investment (PRI) and was ranked first place in ShareAction's Asset Owners Disclosure Project. Robeco is a research funding partner of TPI.

Consistency is key

Robeco use TPI data to guide their extensive engagements on climate change. In 2019 Robeco's Active Ownership team's analysts voted at a record 5,926 shareholders meetings and had 229 companies under engagement. In particular, Robeco has contributed to the development of the engagement strategy with European automakers under the Institutional Investors Group on Climate Change and Climate Action 100+.

TPI data is a critical ingredient in these engagements, according to Robeco's Engagement Specialist Cristina Cedillo Torres, with TPI's Management Quality scores indicating which companies are putting in place the necessary governance and strategy reforms to address climate change.

She explains, *"With so much conflicting information out there, one of the benefits of using TPI assessments is the consistency of data. By tracking the same indicators each year, using the same scenario assumptions, we can see real change over time – or identify where it's not happening."*

In particular, Ms Torres praises TPI's Carbon Performance indicator as *"one of a kind"*.

"Before it was extremely difficult to compare company ambitions on climate change, because different firms used different benchmarks, metrics and timeframes. TPI's methodology makes it much easier to compare the level of ambition across companies."

While Robeco carries out its own proprietary research to inform its engagement questions, there is a high degree of overlap with TPI's metrics. For example, both Robeco and TPI have increased their focus on ensuring consistency between companies' stated positions on climate change and their lobbying through trade associations in the last year.

Robeco's engagements, in collaboration with other investors under the Climate Action 100+ initiative, have already yielded positive results, with two European carmakers setting time-bound net-zero emissions targets.

Looking ahead, Robeco is beginning to use TPI management quality scores in its voting policy. This year it will begin voting against certain board proposals at companies with a low management quality score, and there are plans to integrate this data with voting policies further in future.



For more information see:
robeco.com/uk/key-strengths/sustainable-investing/

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TPI's methodology makes it much easier to compare the level of ambition across companies.
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Helping Brunel raise climate standards across the finance industry

Brunel Pension Partnership was formed in 2017 as one of eight Local Government Pension Scheme (LGPS) pools in the UK, bringing together c.£30 billion in investments from 10 LGPS clients. Since then, it has become renowned as a leading figure in the UK's responsible investing scene.

Brunel was the first LGPS pool to sign up to the UN Principles for Responsible Investment. It is an active member of the Institutional Investors Group on Climate Change (IIGCC) and of Climate Action 100+, while Faith Ward, Brunel's Chief Responsible Investment Officer, co-chairs the Transition Pathway Initiative on behalf of the Environment Agency Pension Fund.

In January 2020 Brunel launched an ambitious Climate Policy, setting out a five-point plan to build a financial system fit for a low-carbon future. The policy commits Brunel to using its influence to change the behaviour of asset managers and companies, using TPI data as a key benchmark.



Influencing companies

Brunel set an ambition to have all its material holding companies reach TPI level 4 for management quality by 2022 and is engaging with low-ranking companies to persuade them to advance at least one level each year. Brunel carried out 867 engagements with companies in 2019, with climate change a key priority.

Brunel has also aligned its AGM voting with its engagement policies and will now vote against the re-election of the Chair of companies ranked below Level 2 by TPI. For the energy sector, this minimum is raised to Level 3. In 2020, 18 companies were flagged for voting action on these criteria.

Influencing asset managers

Brunel also uses its leverage with asset managers to drive climate awareness in portfolio construction. Last year it engaged with over 130 asset managers and reviewed 530 investment strategies from a climate perspective.

Brunel policy requires managers to demonstrate materially-reduced climate exposures and effective engagement that puts companies on a trajectory to align with the goal of limiting climate change to 2°C. Brunel uses TPI's carbon performance data and carbon footprinting as key tools in reviewing the effectiveness of these strategies and engagements.

Engaging with fund managers on carbon-intensive holdings

To give one example, Brunel identified that one of its global equity portfolios had holdings in two companies exposed to extractive revenues. But using TPI data, it discovered that the two companies were very different in their strategic approaches to climate change. Company 1 was ranked at Level 4 by TPI, having reported all of its Scope 1, 2 and 3 emissions, and set targets on reductions. Company 2 was ranked at Level 2, and had not yet reported on its Scope 2 greenhouse gas emissions. Brunel thus engaged with the investment manager, who concluded that Company 2 no longer fell within their investment thesis and would be removed from the proposed portfolio.

TPI data also helped Brunel to shape portfolio construction in its Global High Alpha strategy. The carbon footprint of one prospective manager for this strategy seemed high. However Brunel found that 70% of that carbon intensity was attributable to a single holding – LafargeHolcim, a cement producer. TPI data shows Lafarge to be at Level 4 and therefore aware of climate risks. Brunel report the data was extremely helpful for making manager selection decisions.

Brunel's approach of data-led engagement is clearly bearing fruit. All of its active portfolios now have a carbon intensity at least 7% lower than their respective benchmark, with many substantially lower. Moreover, 70% of the market value of Brunel's Active Equity Portfolios is derived from companies rated TPI Level 4 or above for management quality.

At the Sustainable Investment Awards 2020, Brunel was named **Pension fund** of the year and won **ESG initiative** of the year for the partnership it formed to help create its Climate Policy.



For more information see:
brunelpensionpartnership.org

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Helping PineBridge fill the gap between issuers' long-term commitments and near-term behaviours – July 2020

PineBridge Investments is a private, global asset manager with approximately US \$96 billion of assets under management across global asset classes as of 31 March 2020. The business has a long history of integrating ESG dimensions in investment decision making, having developed from an insurance background. It joined the Transition Pathway Initiative (TPI) in 2018.

The Developed Markets Fixed Income team uses TPI data in both ESG integration activities and to prioritize due diligence of investment holdings.



Closing the data gap on climate targets

“The first point to make about TPI data,” explains Alessia Falsarone, Managing Director and Head of Sustainable Investing, “is that we know we can trust its alignment with the UN PRI roadmap for active ownership. It comes from an authoritative source and has the credibility of being referenced by many asset owners around the world.”

TPI data is perhaps most effective in helping fill a critical gap between the long-term Intergovernmental Panel on Climate Change (IPCC) targets for 2050 and corporate targets, which tend to be shorter-term. Ms. Falsarone explains, *“By giving us a better understanding of how near-term operational behaviours match up with longer-term corporate commitments on climate, the TPI framework supports our in-house evaluation of green assets and ultimately the willingness-to-pay for transition risk.”*

In the case of green bonds, PineBridge have added a TPI indicator to its portfolio risk framework. *“We use it as a momentum indicator to price in reputational risks arising from the misalignment of stated environmental pathways versus company-level carbon information as reported,”* says Ms. Falsarone.

TPI’s data on both climate governance and carbon performance also help PineBridge to *“translate European climate attitudes and ambitions into a dialogue on climate transitions beyond EU borders,”* according to Ms. Falsarone. It is also used by the firm in dialogues with asset owner clients to address timing of investment; for example, in companies which, having moved from TPI level 1 to level 3 (in a range from 0 to 4), might show tangible efforts to align their business with a low-carbon transition.

Prioritizing due diligence in fixed income

PineBridge’s heritage is in active investing, having grown out of the third-party institutional investing arm of American International Group (AIG) – the first American insurer to issue a statement on the relevance of climate change and establish a dedicated Office of the Environment and Climate Change in 2006¹.

Ms. Falsarone adds, *“We see tremendous value in the dialogue that TPI carries out in our due diligence efforts by leveraging TPI data.”* She points out that clients are often more prepared to discuss physical climate risks but not the magnitude of transition risks, and TPI is extremely useful in raising awareness of potential actions to mitigate these risks.

In this sense, TPI data and sector updates help to connect ESG integration and establish due diligence priorities as feasible for bondholders. The TPI framework provides valuable insights when evaluating internal carbon pricing assumptions, assessing credit risk, and gauging broader transition risk exposures of sectors. It also highlights key issues for proactive dialogue with companies to identify where improvements are most likely to strengthen a company’s financial and societal footing.

Ms. Falsarone says, *“We believe that enhanced research into the performance of climate mitigation plans – specifically, how issuers’ organizational readiness compares to their climate ambitions – should translate into portfolios that, over time, have stronger environmental performance and reduced idiosyncratic risk.”*



For more information see: pinebridge.com/insights/responsible-investing

1 Data as of 31 March 2020

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¹ Source: 2007 American International Group Corporate Responsibility Report

Helping Länsförsäkringar define companies in transition

Länsförsäkringar AB and its subsidiaries are owned by 23 local and customer-owned regional insurance companies across Sweden. Together, they form the Länsförsäkringar Alliance. Länsförsäkringar Liv AB and its Asset Management form the asset owner wing of Länsförsäkringar AB, managing life and non-life insurance assets. Together with Länsförsäkringar's mutual fund company, the two entities have combined assets under management of \$32bn. Länsförsäkringar is an active signatory of the UN-supported Principles of Responsible Investment (PRI), and began using TPI data in its investment activity in 2019.

Länsförsäkringar AB's Responsible Investment (RI) team, led by Kristofer Dreiman, use TPI data primarily as an ESG integration tool to inform both its exclusion and climate transition lists, which are updated on a quarterly basis by the RI team and approved by the investment committee.



The company has a comprehensive screening policy, based on global standards including the UN Global Compact, OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, and excludes sectors such as controversial weapons, tobacco and online gambling.

In terms of climate-related exclusions, Länsförsäkringar screens out selected mining and fossil fuel energy companies which derive more than 5% of revenue from thermal coal or from oil sands. For coal, this bar was initially set at 50% in 2016 but was subsequently lowered to 20% in 2017 and to 5% in 2019, making it one of the most ambitious climate exclusion policies of any comparable asset owner. Companies with significant oil reserves and production, where the prospects for meaningful active ownership are deemed to be insufficient, can also be excluded. During the summer of 2020, Länsförsäkringar also started to implement new climate-related exclusion criteria for conventional oil and gas companies.

Second chance rule

TPI data is used to inform Länsförsäkringar's definition of "companies in transition", which are exempted from the climate-related exclusion policies. This "second chance" criteria apply only to energy companies, not to companies whose business model is based on the extraction of fossil fuels.

Kristofer Dreiman explained the logic of this distinction thus: *"We want to encourage energy producers and utility companies that have started to move away from fossil fuels, and made a commitment to transition."*

Länsförsäkringar may therefore consider retaining companies with between 5-20% of revenue from thermal coal power generation where TPI's 'carbon performance' metric shows them to be aligned with the Paris Agreement's 2°C benchmark. For example, US utility company **Entergy Corp** derives more than 5% of its revenue from coal, but has been assessed by TPI to be on a pathway to align with the 2°C benchmark, and is thus exempted from Länsförsäkringar's exclusion policy.

Mr. Dreiman explained. *"We strive towards implementing more sophisticated exclusion policies and we realised that a static exclusion list based on current performance failed to distinguish between companies which are on a journey towards better climate performance and those which are not. Using TPI data allows us to support those companies which are on this journey."*

Looking ahead, Länsförsäkringar AB has recently taken a board level decision to align its portfolio with the Paris Agreement's most ambitious benchmark. The 'climate smart' vision aims to harmonise its portfolios with a trajectory equivalent to limiting climate change to 1.5° by 2030. It is currently exploring how a broader use of TPI data may help them achieve this goal, for example by using TPI Management Quality data to internally over or underweight particular companies and sectors.

Mr. Dreiman noted that *"The range of companies we are exposed to is wider than the range TPI currently assesses, so we welcome TPI's expansion to cover more companies and sectors. We look forward to integrating this expanded coverage into our investment activity in some form in the near future."*



For more information see:
[lansforsakringar.se/
ansvarsfullainvesteringar](https://lansforsakringar.se/ansvarsfullainvesteringar)

TPI data is used to inform Länsförsäkringar's definition of "companies in transition", which are exempted from the climate-related exclusion policies.

Helping USS vote on climate management

The **Universities Superannuation Scheme (USS)** is one of the largest occupational pension schemes in the UK, managing around £68bn (\$86bn) in assets under management. USS founded the Institutional Investors Group on Climate Change (IIGCC), was a founding signatory to the UN-supported Principles for Responsible Investment and one of thirteen pension funds to co-found the Transition Pathway Initiative in 2017.



USS

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Voted

The scheme's investment mandate commits it to integrate material environmental, social and governance (ESG) considerations such as climate risk into their investment processes and to apply them across all asset classes. As a long-term investor their team of five responsible investment professionals are, amongst other ESG activities, tasked with assessing corporate climate performance. David Russell, the USS Head of Responsible Investment, says that TPI's research is a tool that helps them identify those companies lagging in their management of the climate transition, helping manage this risk and thus potentially improving financial returns for their members and beneficiaries.



For more information see:
uss.co.uk

Voting matters

The USS UK Voting Policy was updated in 2019 to integrate TPI data into voting decisions.

“We find TPI data especially helpful in our voting and engagement activities” explains Russell, “And we updated our UK Voting Policy in 2019 to integrate TPI data into voting decisions”. In practice this means that TPI's Management Quality scores have been adopted by USS as a standard by which to judge the quality of climate governance for investee companies across the world.

Russell elaborates, *“We encourage portfolio companies with weak performance to enhance their corporate disclosure by responding to TPI's information requests. And from this year (2020) we have started to vote against or abstain on the resolution to receive the report and accounts where companies have the poorest management quality score, as assessed by the TPI. We also plan to ratchet this up in following years”.*

Russell adds that the pension scheme also reserves the right to escalate the vote against the Chairman of the Board, and/or the Chair of any appropriate committees, in case there is no resolution to receive the accounts.

There have been several practical examples of how USS has engaged with companies using TPI data in the last year. For example, both Formosa Plastics, a Taiwanese chemical company, and US Utility Company Duke Energy were ranked as TPI Level 2 (Building Capacity) in 2019. This was a factor in the USS team deciding to request additional up-to-date environmental and social reporting from those companies in a voting and engagement letter.

Similarly, TPI Management Quality data helped USS to engage with Anhui Conch a cement company based in Wuhu, China that ranked as TPI Level 1 (Acknowledging Climate Change as a Business Issue). *“In the case of Anhui, the company operates in emerging markets and TPI analysis helped us assess the extent of the gap in disclosure between the company and its developed market peers.”* explains Russell.

Helping Church of England Pensions Board create the next generation of climate index



 THE CHURCH
OF ENGLAND
PENSIONS BOARD

The 'FTSE TPI Climate Transition Index' aims to be the next generation of climate index. It is thought to be the first passive product that can embed forward-looking data and support stewardship objectives that drive real-world change in corporate performance. It has been developed jointly by **FTSE Russell** and the **Church of England Pensions Board**.

Launched in January 2020 the Index has an allocation of over \$750 million from the Church of England Pensions Board, which manages approximately \$3.7 billion of assets and is a founder and co-Chair of TPI. The Index has been deliberately designed as a series and therefore will also be open to other passive investors beyond the Church of England Pensions Board.

The 'FTSE TPI Climate Transition Index' uses both FTSE Russell and TPI data to make it the first global index to embed forward looking carbon performance, and is designed to reward those companies with public targets aligned to the Paris Agreement, whilst significantly underweighting or excluding those that do not.

In the Oil & Gas sector, for example, the Index includes Shell and Repsol, which are assessed by TPI to be aligning with Paris pathways (at time of writing), whilst ExxonMobil and Chevron do not make the Index. Were the latter companies to set Paris aligned targets they would become eligible for inclusion in the Index.

The Index gives the Pensions Board portfolio a 49% lower carbon intensity than its current passive allocation. The index methodology results in the following improvements in relation to climate relevant metrics:

- Exposure to green revenues increases by 35%
- Exposure to Fossil Fuel Reserves is reduced by 69%
- Exposure to operational CO2 emissions is reduced by 36%

At the launch the Archbishop of Canterbury commented that the Index, "demonstrates that it is possible to act, to take leadership and in doing so challenge the market".

It also shows that a third generation of climate indexes, that can genuinely drive climate action, are now possible. The Pensions Board have issued an open invitation for other pension funds to consider this approach.

Perhaps most importantly, the Index shows that being invested passively does not mean an institution has to be passive in exercising the climate and stewardship responsibilities that beneficiaries expect.



For more information see:
ftserussell.com/index/spotlight/ftse-tpi-climate-transition-index

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The 'FTSE TPI Climate Transition Index' uses TPI data to make it the first global index to embed forward looking carbon performance...
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