



Transition
Pathway
Initiative

State of Transition 2021

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About the Transition Pathway Initiative and this report

About TPI

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

100 supporters with almost \$25 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

* As of 26th March 2021

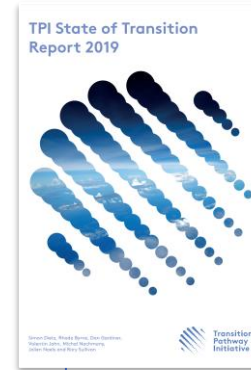


The State of Transition Report



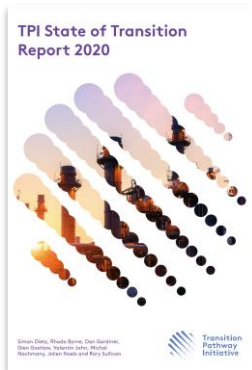
State of Transition 2018

- 105 companies in 3 sectors



State of Transition 2019

- 274 companies in 14 sectors



State of Transition 2020

- 332 companies in 16 sectors



State of Transition 2021

- 401 companies in 16 sectors

An overview of the TPI methodology and tool

Overview of the TPI Tool

TPI's company assessments are divided into 2 parts:

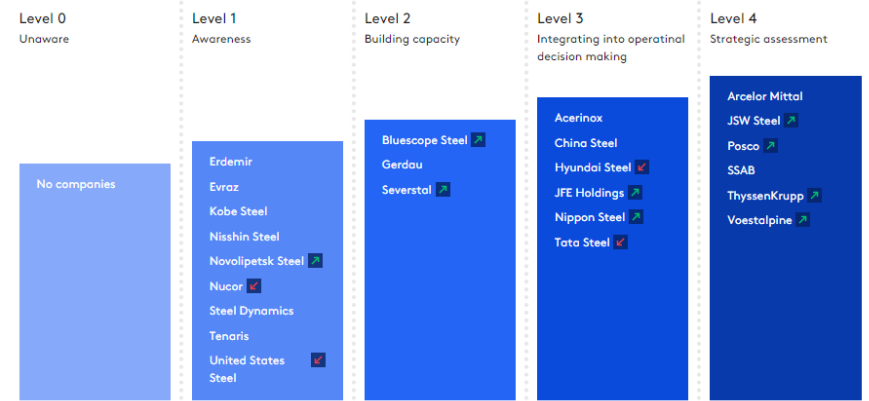
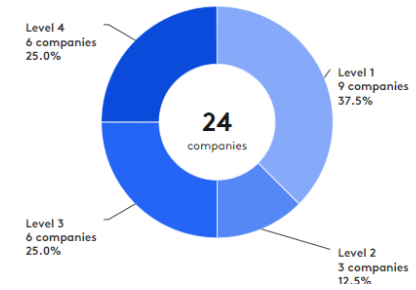
Management Quality covers companies' management/governance of greenhouse gas emissions and the risks and opportunities arising from the low-carbon transition

Carbon Performance assessment involves quantitative benchmarking of companies' emissions pathways against the international targets and national pledges made as part of the 2015 UN Paris Agreement, for example limiting global warming to below 2°C

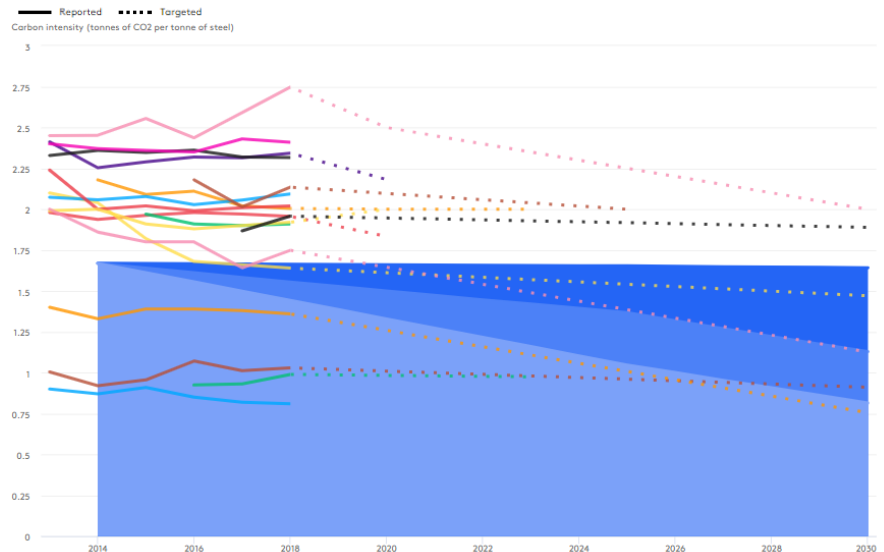
Both of these assessments are based on company disclosures

Management Quality: Steel

Distribution of companies in the Steel sector according to the management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.



Carbon Performance: Steel



Management Quality



Level 0

Unaware

Level 1

Awareness

Level 2

Building capacity

Level 3

Integrating into operational decision making

Level 4

Strategic assessment

TPI's Management Quality framework is based on 19 indicators, each of which tests whether a company has implemented a particular carbon management practice. These 19 indicators are used to map companies on to 5 levels/steps. The data are provided by FTSE Russell.

Company does not recognise climate change as a significant issue for the business

Company recognises climate change as a relevant risk/opportunity for the business

Company has a policy (or equivalent) commitment to action on climate change

Company has set GHG emission reduction targets

Company has published info. on its operational GHG emissions

Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy

Company has set quantitative targets for reducing its GHG emissions

Company reports on its Scope 3 GHG emissions

Company has had its operational GHG emissions data verified

Company supports domestic & international efforts to mitigate climate change

Company discloses membership and involvement in trade associations engaged on climate

Company has a process to manage climate-related risks

Company discloses Scope 3 GHG emissions from use of sold products (selected sectors only)

Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions

Company has incorporated climate change performance into executive remuneration

Company has incorporated climate change risks and opportunities in its strategy

Company undertakes climate scenario planning

Company discloses an internal carbon price

Company ensures consistency between its climate change policy and position of trade associations of which it is a member

Carbon Performance

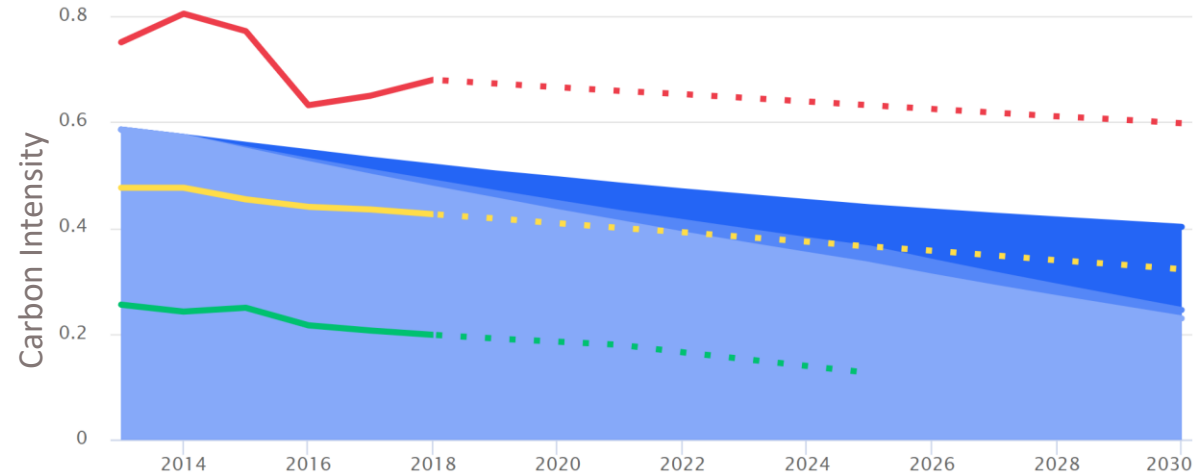
TPI's Carbon Performance assessment tests the alignment of company emissions/targets with the UN Paris Agreement goals*. We mostly use 3 benchmark scenarios:

- 2015 Paris Pledges
- 2°C
- Below 2°C

We take a sector-by-sector approach, as different sectors face different challenges in making the low-carbon transition, including where emissions are concentrated in the value chain and how costly it is to reduce emissions

We mostly use IEA's low-carbon scenarios for our benchmarks, augmented with other sources where necessary (e.g., ICCT for autos)

*We use the Sectoral Decarbonization approach (SDA), which was created by CDP, WWF & WRI in 2015 & is also used by the Science Based Targets Initiative.



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 2021

Management Quality level

Level 0
Unaware

Level 1
Awareness

Level 2
Building capacity

Level 3
Integrated into operational decision-making

Level 4
Strategic assessment

The average Management Quality level of all companies in the TPI database is now **2.6**

13 companies: **3%**

- 2 Transport
- 7 Industrials/materials
- 3 Energy
- 1 Consumer goods and services

74 companies: **18%**

- 16 Transport
- 32 Industrials/materials
- 26 Energy
- 0 Consumer goods and services

64 companies: **16%**

- 5 Transport
- 26 Industrials/materials
- 34 Energy
- 0 Consumer goods and services

144 companies: **36%**

- 25 Transport
- 61 Industrials/materials
- 51 Energy
- 10 Consumer goods and services

106 companies: **26%**

- 14 Transport
- 43 Industrials/materials
- 50 Energy
- 4 Consumer goods and services

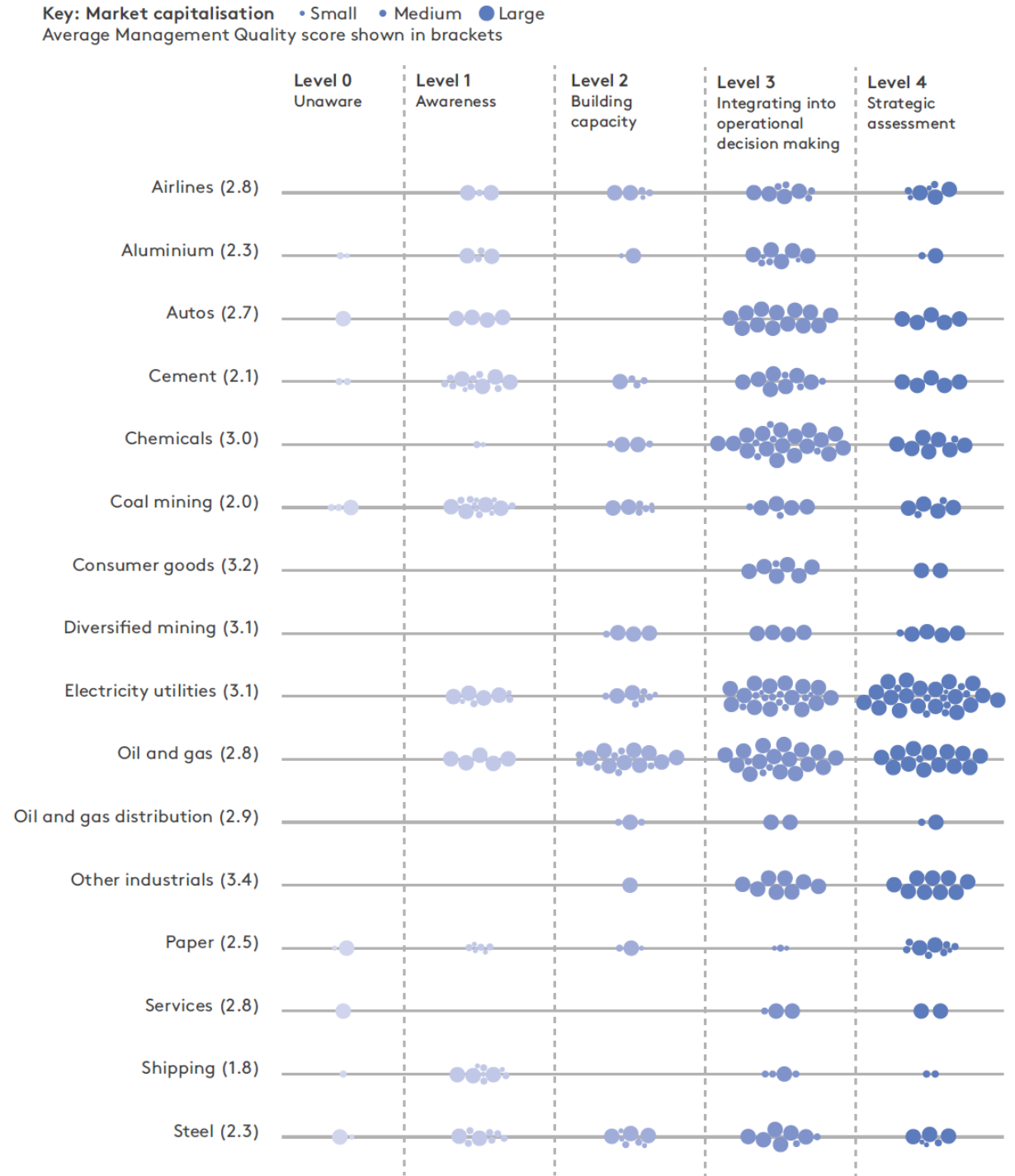
Note: 10 companies appear in two sectors and two companies appear in three sectors

Management Quality by sector

Of the core TPI sectors:

Electricity utilities and diversified miners perform the best, followed by chemicals companies

Shipping and coal mining are the worst performing sectors



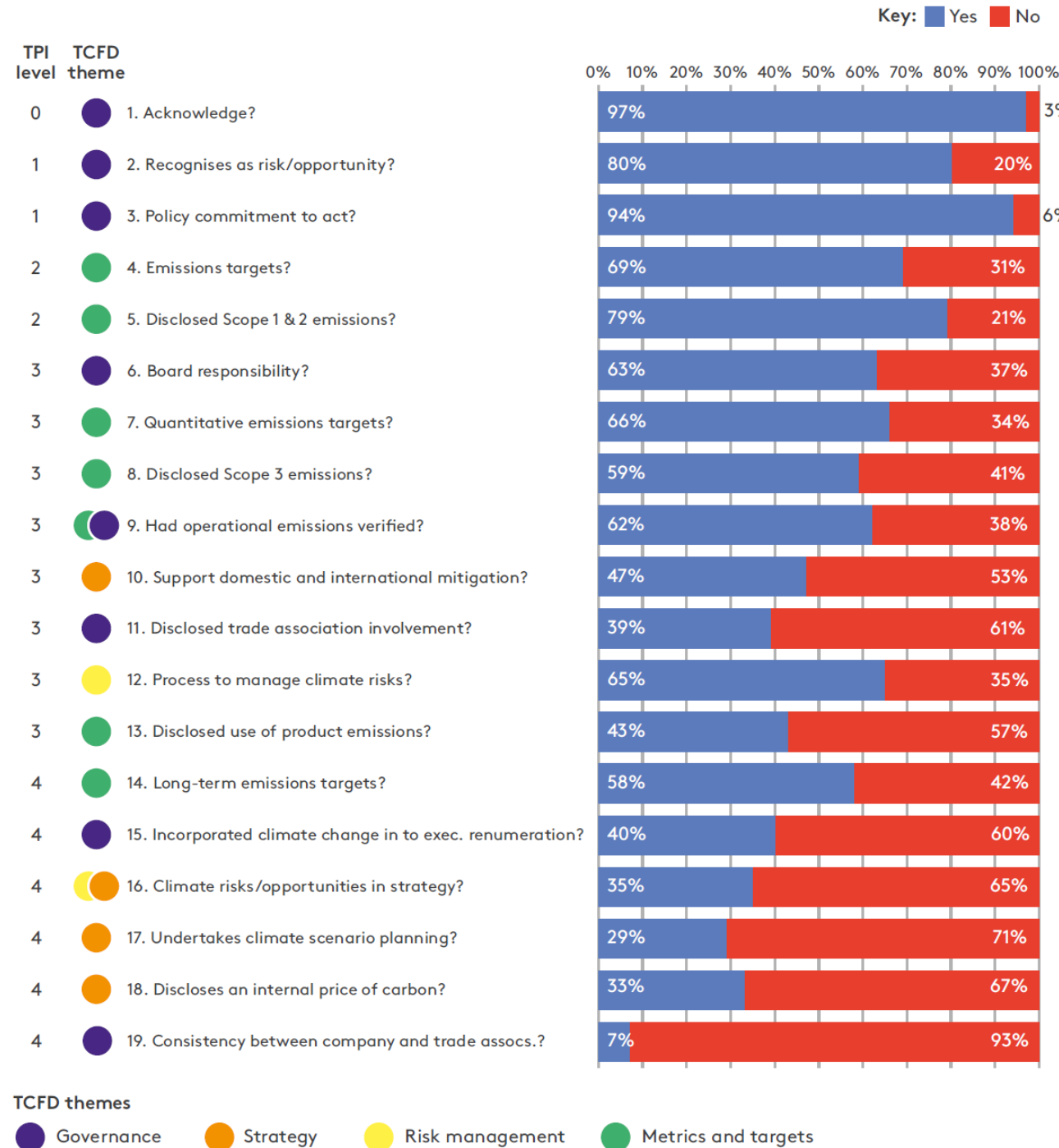
Management Quality, indicator by indicator

Companies tend to have implemented the basic carbon management practices but are less likely to have implemented strategic practices

Among the more advanced indicators, **companies perform well on having climate risk management processes (Q12) and setting long-term emissions targets (Q14)**

But companies struggle on key indicators at the corporate-policy interface:

- Q10. Demonstrating support for domestic and international mitigation efforts
- Q11. Disclosing membership and involvement in trade associations engaged in climate issues
- Q19. Managing inconsistencies between company positions on climate issues and those of these trade associations



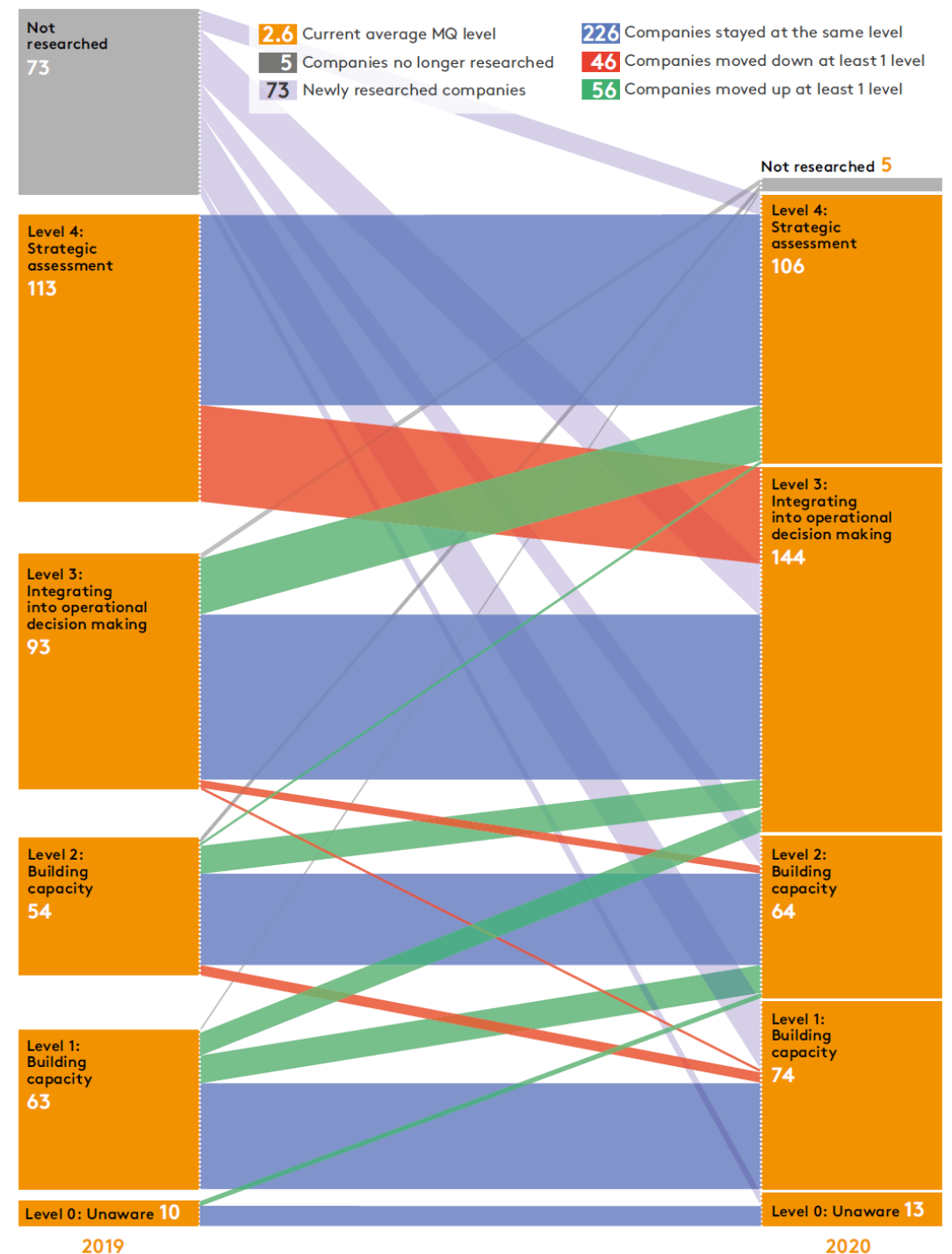
Trends in Management Quality

We have trend data on 328 companies:

- **69%** have stayed on the same level as last year's assessment
- **17%** have moved up at least one level
- **14%** have moved down at least one level

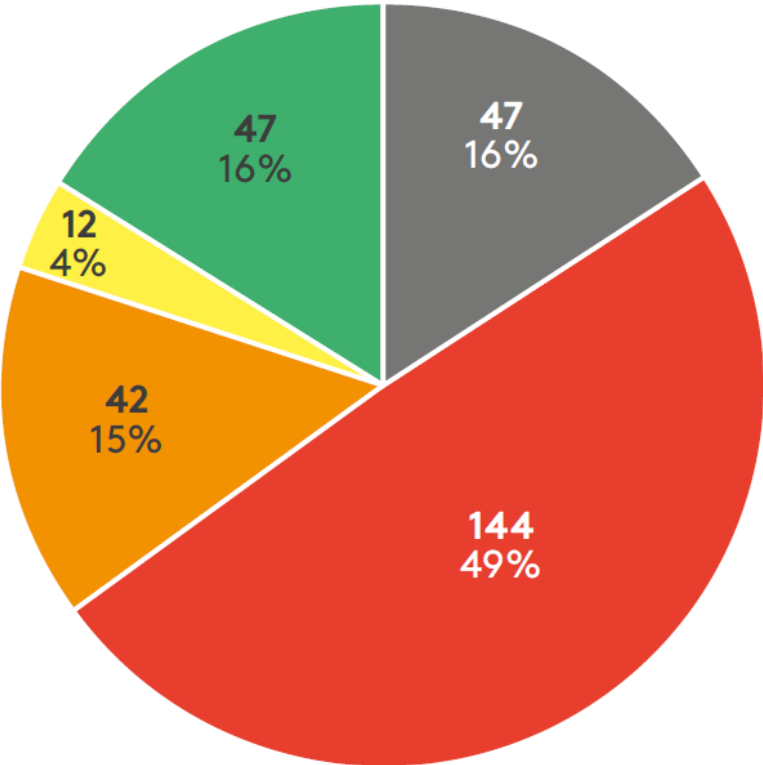
Most movement this year is between Levels 3 and 4 and it goes both ways. Just a few indicators are responsible for most of this movement, notably Q10 and Q11 on the corporate-policy interface.

The addition of 73 new companies to the TPI universe since 2020's State of Transition Report has **reduced average Management Quality from 2.7 to 2.6**. Relative size, and geography, could explain why newly added companies tend to start from a lower base.

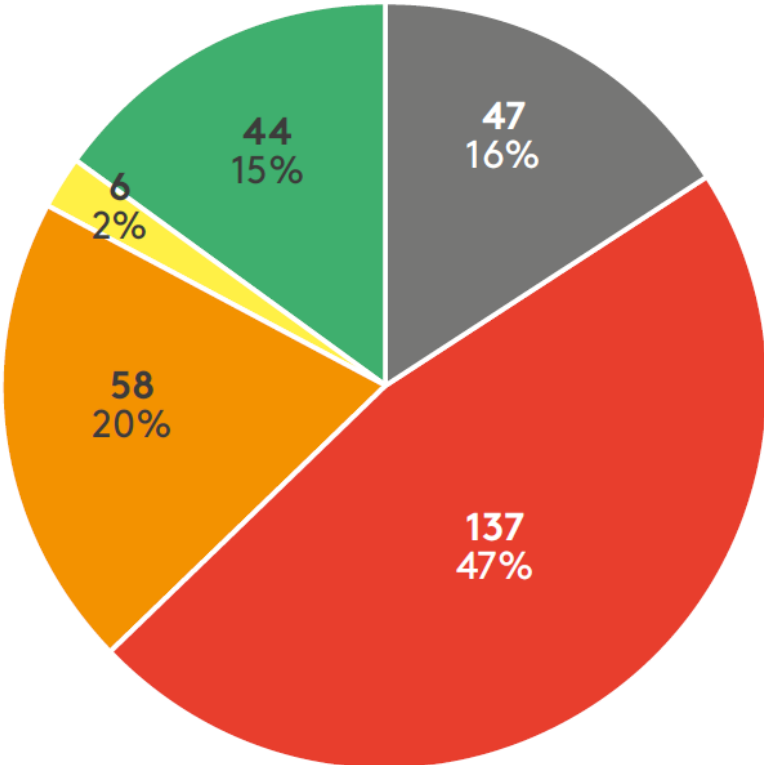


Carbon Performance: alignment with the Paris Agreement benchmarks

2030 alignment

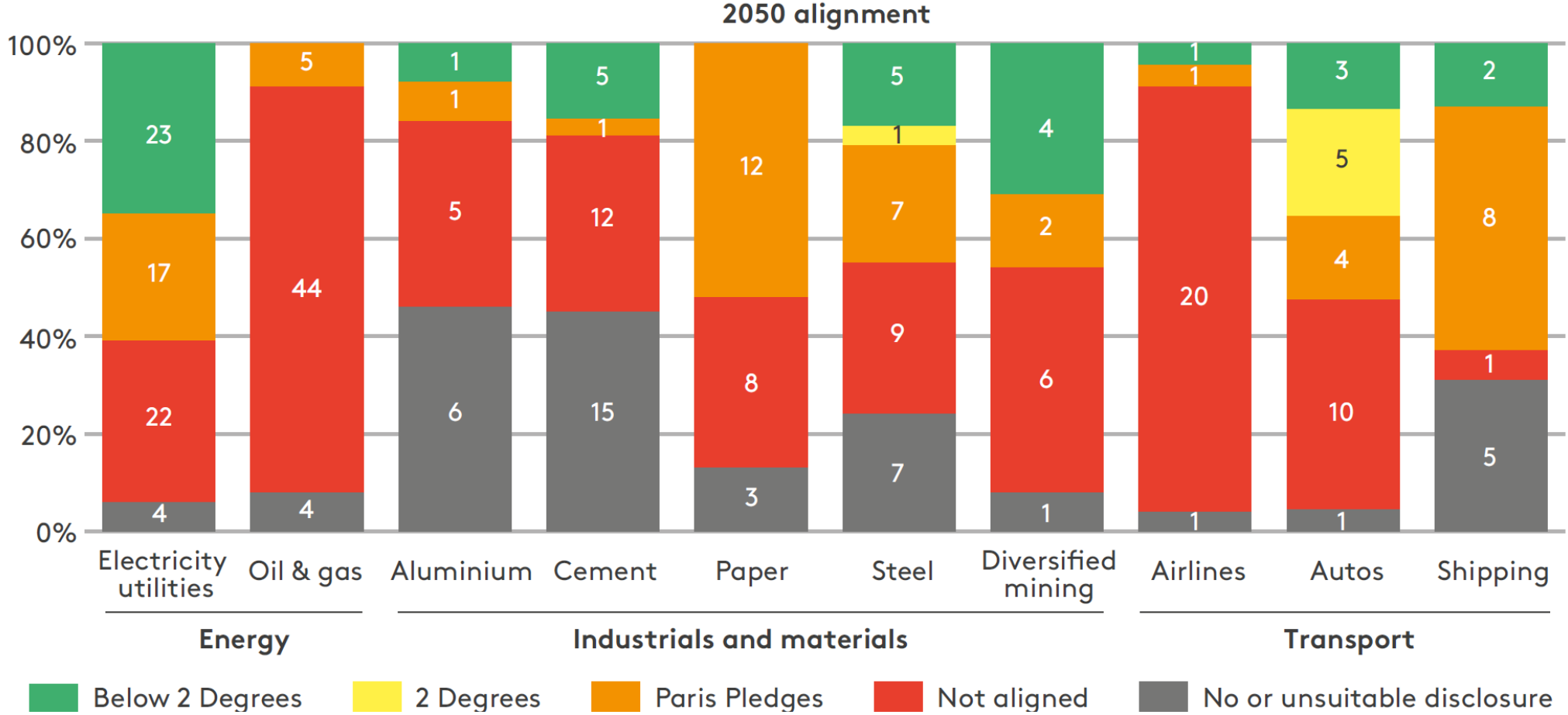


2050 alignment



- No or unsuitable disclosure
- Not aligned
- Paris Pledges
- 2 Degrees
- Below 2 Degrees

Carbon Performance: alignment with the Paris Agreement benchmarks by sector



Analysis of corporate emissions targets

How ambitious are company targets?

Most companies' emissions targets are not ambitious enough. Using the results of our Carbon Performance assessment, we find that only 30% of companies with emissions targets are aligned with Below 2°C.

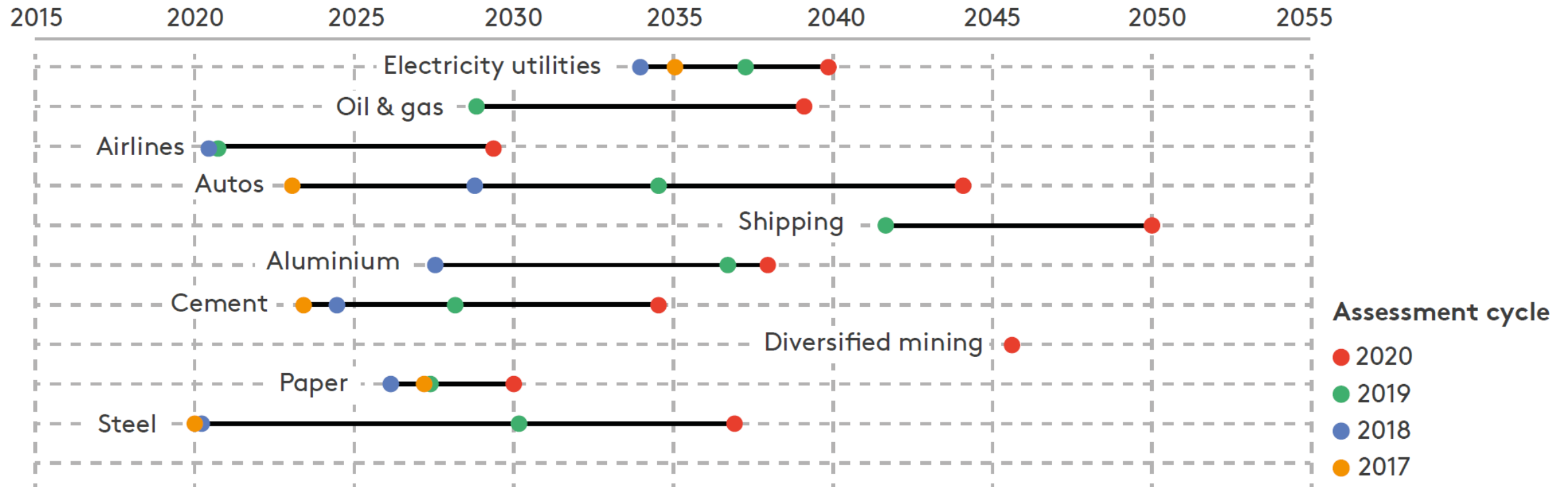
We see an encouraging momentum behind 'genuine' net zero targets. A year ago, 14 companies had genuine net zero targets covering their most material emissions. One year later, this number has more than doubled to 35 companies.

Many more companies have set net zero targets, but they often cover a limited scope of lifecycle emissions (e.g., in autos, and oil and gas). **A net zero target does not necessarily mean that a company's material emissions reach net zero. Investors should pay close attention to target coverage.**



Company targets are becoming increasingly long-term

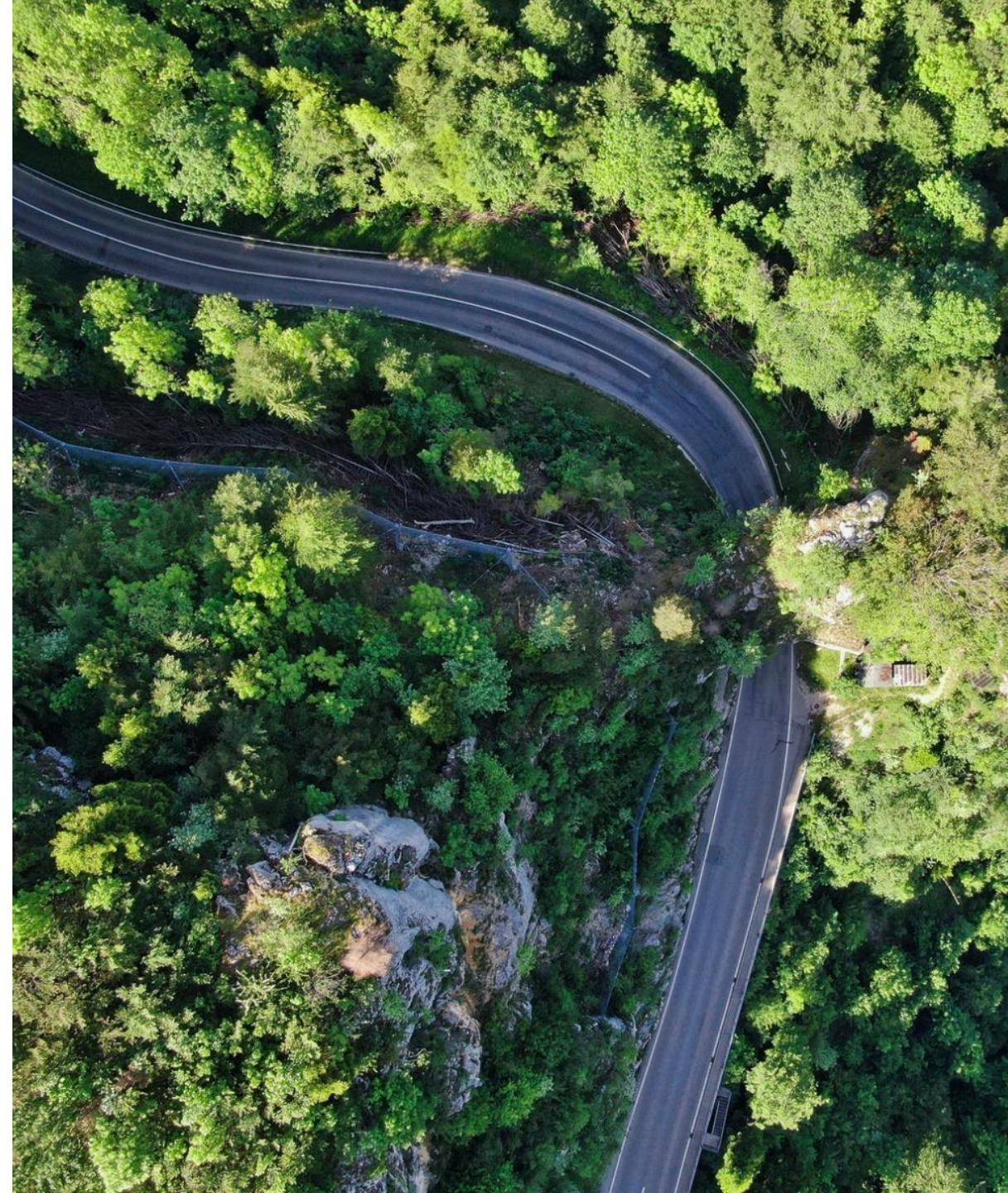
Average target year assessment cycle



Are ambitious long-term targets underpinned by intermediate targets?

Out of the 42 companies that have set targets aligned with Below 2°C, 19 (45%) have not set any intermediate targets. This suggests that these companies are yet to define a precise roadmap from now until their target year, which tends to be relatively far off (their average target year is 2047). This absence of information makes it more difficult for investors to hold companies accountable for their commitments.

The remaining 23 companies have all set at least one interim target, seven have set two interim targets and two companies have set three.



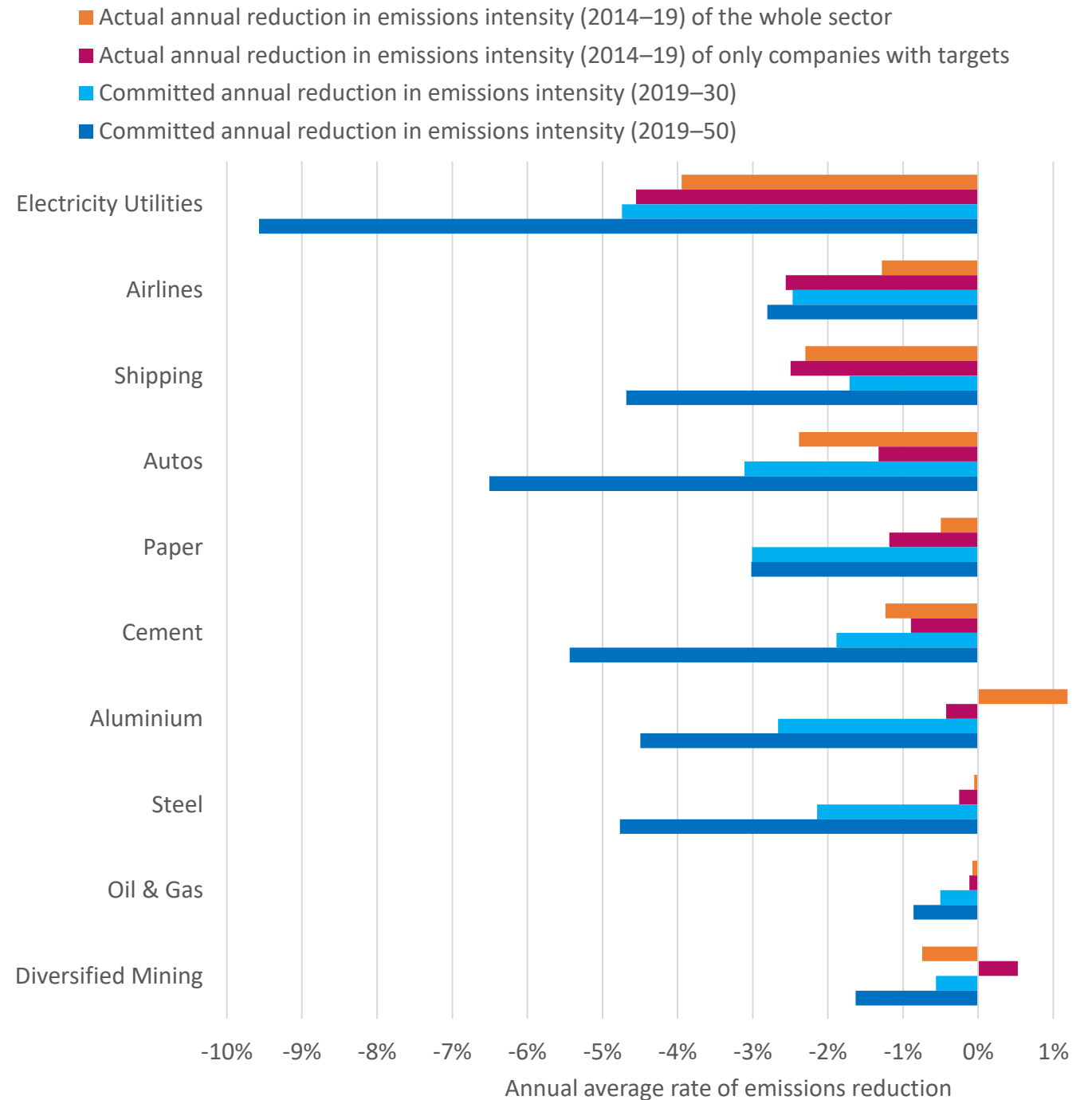
Are companies on track to hit their targets?

In most sectors, companies are not reducing emissions fast enough to hit their 2030 targets.

In no sector do we see companies reducing emissions fast enough to meet their 2050 targets.

Companies with targets have reduced emissions slightly faster than companies without targets.

Among all companies assessed by TPI on Carbon Performance, the average annual reduction rate was 1.6% between 2014 and 2019, while the reduction rate for those with targets was 1.9%.



Summary

Summary of results

Our 4th annual State of Transition Report covers 401 companies from 16 business sectors.

Most companies now have basic carbon management practices in place, but most companies are still not taking a truly strategic approach to the issue.

Average Management Quality is marginally lower than last year when it was 2.7. This is partly attributable to the addition of new companies, but we also see limited progress among companies scored previously by TPI.

On Carbon Performance, 15% of companies now align with Below 2°C in 2050, 2% align with 2°C, but 47% do not align with any of the benchmarks and 16% provide insufficient disclosure. The pattern of alignment in 2030 is similar.

Companies are not yet reducing their emissions fast enough to meet their targets.

Although Carbon Performance remains weak, we see some promising signs:

- Slightly more companies aligned with Below 2°C in 2030, slightly fewer companies providing insufficient disclosure
- Companies' emissions targets are becoming longer-term
- More 'genuine' net zero targets (but watch out for net zero targets that do not cover companies' most significant emissions sources)

Other parts of the report

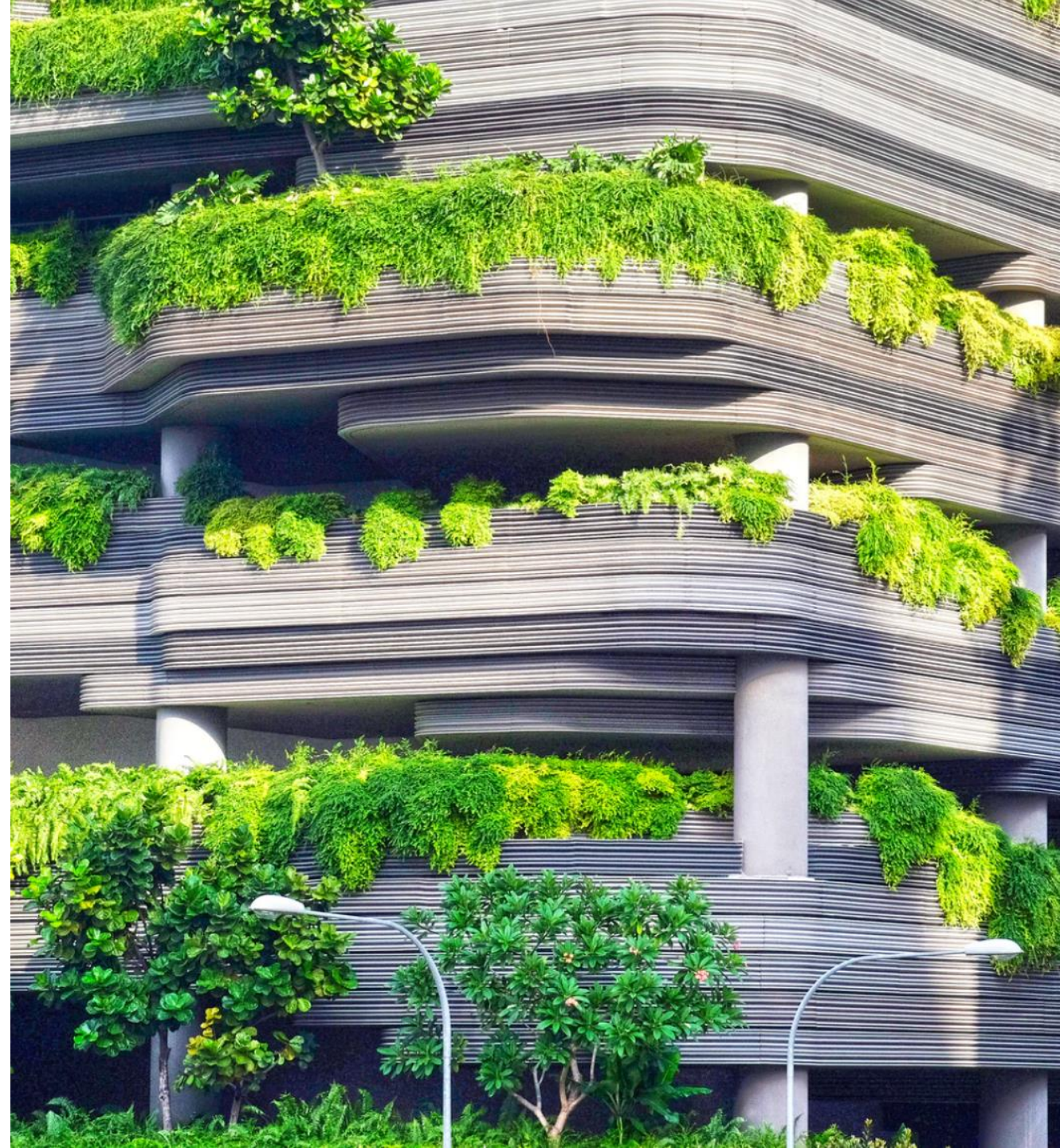
Management Quality and Carbon Performance by geography

The link between Management Quality and Carbon Performance:

- Are Management Quality and Carbon Performance correlated?
- Does past Management Quality level correlate with subsequent emissions reductions?

Sector focus: Diversified mining

Explainer: Interpreting emissions scenarios and benchmarks



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