

Transition  
Pathway  
Initiative

# 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:



Please follow us on Twitter and tweet today using: [@tp\\_initiative](#) – [#StateOfTransition](#) – [#ClimateChangeRisk](#) – [#carbontransition](#)

# Case-study: Using the Transition Pathway Initiative to support the implementation of our Climate Change Policy

**Mark Mansley, Chief Investment Officer**



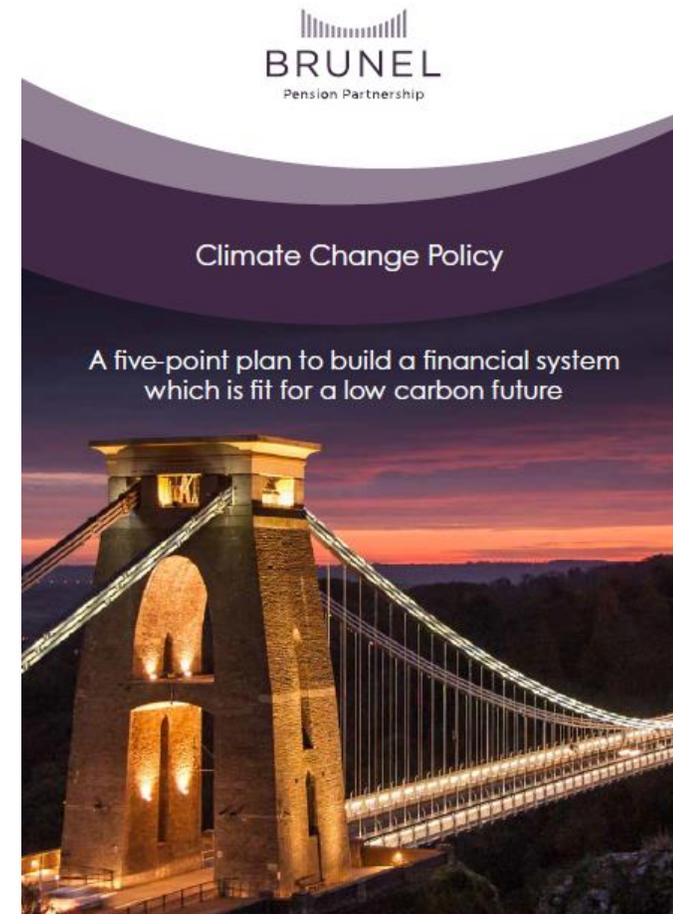
# About Us



# Our Climate Change Policy

**Our Objective:** To systematically change the investment industry so that it is fit for purpose for a world where temperature rise needs to be kept to well below 2°C compared to pre-industrial levels.

[www.brunelpensionpartnership.org/climate-change/](http://www.brunelpensionpartnership.org/climate-change/)



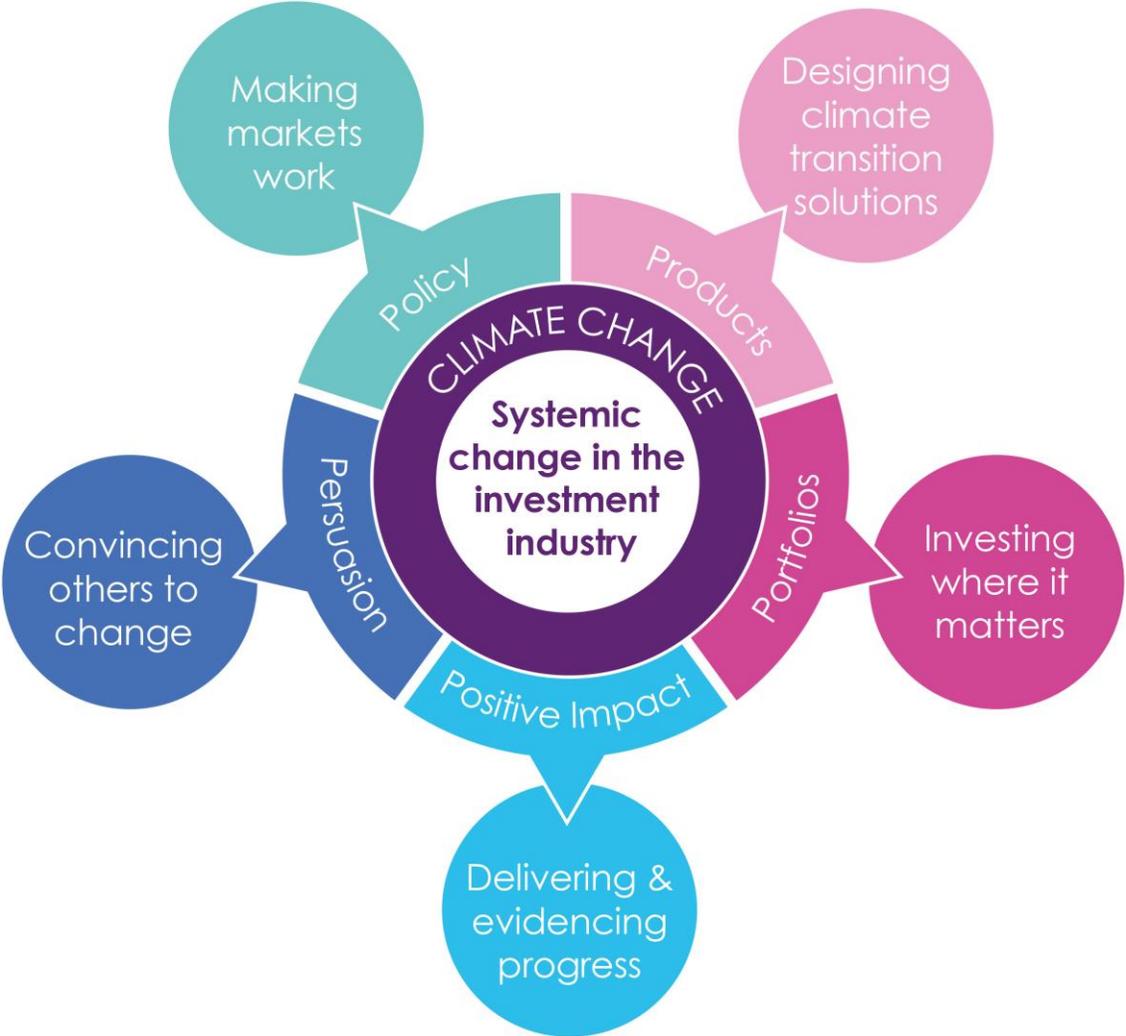
# Our Beliefs

---

We believe that:

- Climate change presents a **systemic and material risk** to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our Clients, their beneficiaries and **all portfolios holdings**.
- Investing to support the **Paris goals that deliver a below 2C°** temperature increase is entirely consistent with **securing long-term financial returns** and is aligned with the best long-term interests of our clients.
- For society to achieve a net-zero carbon future by 2050 (or before) requires **systemic change in the investment industry**, and **equipping and empowering our Clients** (and other investors) is central to this change.

# Our 5P Approach



# Policy Advocacy

---

**Aim:** Policy makers to establish comprehensive and robust climate change policy frameworks that (a) significantly reduce greenhouse gas emissions, (b) accelerate progress towards the low carbon economy, and (c) enable effective adaptation to the unavoidable impacts of climate change.

## **We use TPI to:**

- **Assess the gap between national policy commitments (NDCs) and the goals of the Paris Agreement.**
- **Assess whether individual companies are aligning with national policy commitments or with the goals of the Paris Agreement.**
- **Assess the quality of corporate disclosures by country/region.**

# Product Governance

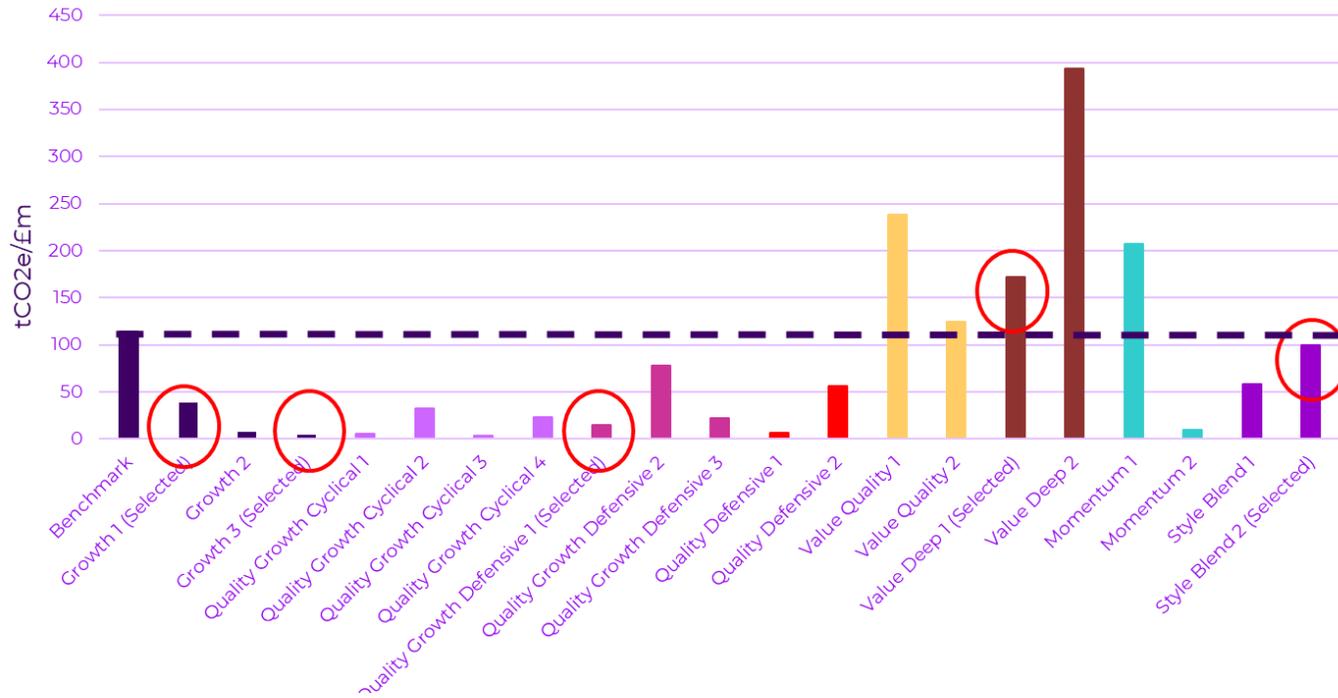
---

**Aim:** Increase the number and range of products available to our Clients and the wider investment market that deliver substantial climate change benefits.

## We use TPI to:

- **Ensure that we do not launch products with excessive negative climate impact.**
- **Support carbon smart portfolio construction.**
- **Look forward - identify holdings that are on a pathway to transition.**

# Case-study: Due Diligence



- Due diligence for a new global equity managers
- Balance all risks, including 'value factor' in portfolio construction
- Proposed value manager has higher than benchmark footprint – but (a) the carbon intense company was at TPI level 4, (b) targets aligned with 2°C.

# Portfolio Management

**Aim:** Investment portfolios resilient under a range of climate change scenarios.

## Case-Study: Due diligence for new equity mandate.

- Holdings in two companies exposed to extractive related revenues - refining: similar financial profiles but very different climate strategies, **confirmed by TPI analysis**.
- Following discussion, manager strengthened climate change sensitivity of the investment process, and concluded that one company no longer fitted the investment thesis.

## We use TPI to:

- **Analyse the risks in our portfolios**
- **Challenge our investment managers**

# Positive Impact

**Aim:** Invest in activities that support the low carbon transition and/or enable effective adaptation to unavoidable impacts of climate change.

<b>Progress on TPI Management Quality Indicators (year-on-year)</b>	<b>No</b>
Up at least one level	17
Level 4 or 4* all categories (except up)	29
Level 3 or below new/unchanged	21
Down	2
<b>Brunel Active Equity Holdings covered by TPI - Total</b>	<b>69</b>

## We use TPI to:

- **Assess and report progress to our Clients and their beneficiaries**

# Persuasion

**Aim:** Companies to support the transition to the low carbon economy, and to be resilient to the unavoidable impacts of climate change.



**We use TPI to assess whether companies are:**

- **Aligned with keeping global temperature increase to well below 2°C.**
- **Adapting their business models to net-zero.**
- **Lobbying transparently and in line with the goals of the Paris Agreement.**
- **Reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD).**

# Persuasion: Our Voting

- We vote against the re-election of the company chair where a company has not at least reached Level 2 of the TPI framework, reached level 3 of the TPI framework for the energy sector, or where the TPI score has fallen below level 4.
- **In 2020 – 18 companies flagged for voting action\***

**\* Unless reporting shortcomings resolved**



# Disclaimer

---

*This content is produced by the Brunel Pension Partnership Limited. It is for the exclusive use of the recipient and is neither directed to, nor intended for distribution or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where distribution, publication, availability or use of this document would be contrary to law or regulation.*

*This content is provided for information purposes only and is Brunel's current view, which may be subject to change. This document does not constitute an offer or a recommendation to buy, or sell securities or financial instruments, it is designed for the use of professional investors and their advisers. It is also not intended to be a substitute for professional financial advice, specific advice should be taken when dealing with specific situations.*

*Past performance is not a guide to future performance.*

*Authorised and regulated by the Financial Conduct Authority No. 790168*