THIRTEEN LEADING INTERNATIONAL ASSET OWNERS LAUNCH MAJOR INITIATIVE TO EMBED CLIMATE CONCERNS IN INVESTMENT DECISIONS

Preliminary results released for oil and gas and electricity utilities sectors

Thirteen leading international asset owners and five asset managers with over £2 trillion under management launched the Transition Pathway Initiative (TPI) today to better understand how the transition to a low-carbon economy affects their investments. The TPI will assess how individual companies are positioning themselves for the transition to a low-carbon economy through a public, transparent online tool. The heads of funds involved launched the Initiative this morning at the opening of the stock market at the London Stock Exchange.

The Initiative has been led by the Church of England’s National Investing Bodies and the Environment Agency Pension Fund in partnership with the Grantham Research Institute at the London School of Economics. Data has been provided by FTSE Russell.

Preliminary assessments released today include the oil and gas and electricity utilities sectors. As part of a phased rollout, management quality and carbon performance assessments of additional sectors and individual companies will follow in the coming months. The tool has been designed to support the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD), individually profiling future projected emissions against the two-degree target and current public policy commitments.

Preliminary assessments have already highlighted key findings, including:

- Almost all companies assessed are at least acknowledging climate change as a business issue (39 out of 40). However, few companies are at the level of strategic assessment (level 4), meaning most can improve.
• Electricity utilities are marginally more advanced than oil and gas producers. 
• The typical company is building capacity (15 out of 40 are at level 2), meaning it explicitly recognises climate change as a significant issue for the business, has a policy commitment to action, has set some form of energy or greenhouse gas emissions target, and discloses its operational greenhouse gas emissions. 
• The majority of companies also have board oversight of the climate change policy (on level 3; 28/40), and incorporate ESG issues into executive remuneration (on level 4; 34/40). 
• The most common factors hindering progress are not having set quantitative targets for reducing operational greenhouse gas emissions (26/40 have not), and not having had operational emissions data verified (22/40 have not).

Adam Matthews, Co-Chair of the Initiative and Head of Engagement for the Church Commissioners and Church of England Pensions Board, said “The Transition Pathway Initiative is a tipping point for the market. The Initiative will identify companies that are aligned with the transition to the low-carbon economy and those most exposed to climate transition risk. There can be no doubt about the seriousness with which asset owners are taking account of this risks and it will be a key feature in the discussions we will be having with companies over the coming years."

Emma Howard Boyd, Chair of the Environment Agency said “Businesses should be able explain to investors how they plan to manage climate change risks, invest and innovate on the way to the zero-carbon economy of the future. With the launch of the Transition Pathway Initiative, asset owners from around the world are sending a strong signal that portfolios will align in the future with companies that are taking the transition to a low carbon economy seriously."

Professor Simon Dietz, Co-Director of the Grantham Research Institute at the London School of Economics, said “The TPI brings transition risk to life for asset owners and asset managers. As well as allowing investors to objectively compare the progress of companies towards a low-carbon economy, the tool highlights the work governments still need to do to align public policy to the two-degree target agreed in Paris."

Mark Makepeace, CEO of FTSE Russell, said “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.”
Frédéric Janbon, CEO of BNP Paribas Investment Partners, said “BNP Paribas Investment Partners is very pleased to be among the asset managers that actively support the Transition Pathway Initiative. It is important for asset managers to partner with asset owners, as by doing so we are able to send a unified message to companies regarding our expectations of them as they position themselves for the transition to a low-carbon economy. It also sends a clear signal to the wider world that we are actively engaging with companies to help them to work towards greater action, as well as disclosure of transition risks, in order that their shareholders can make fully informed investment decisions.”

The online tool developed by the TPI – available at transitionpathwayinitiative.org – tracks a company’s management quality and carbon performance. Management quality assessments will use data from FTSE Russell to assign companies to one of five levels, ranging from level 0 (no recognition of climate change as a significant issue) to level 4 (climate change deeply integrated into a company’s business practices). Performance assessments will compare individual companies with internationally agreed benchmarks made as part of the Paris Agreement. These benchmark emissions pathways will be sector-specific.

ENDS

Notes to editors

Progress in reducing carbon emissions is measured against both the two-degree international target, and against national pledges made at the Paris United Nations Conference of the Parties - the Nationally Determined Contributions (NDCs).

The founding members (AUM of £370bn) are: The Church Commissioners for England, the Church of England Pensions Board, CBF Church of England Funds, the Central Finance Board of the Methodist Church, the Environment Agency Pension Fund, the Local Authority Pension Fund Forum, RPMI Railpen, the Swedish National Pension Funds (AP1, AP3 and AP4), USS, Wespath Benefits and Investments and the West Midlands Pension Fund.

The asset managers who are supporting the initiative (AUM of £1.7tn) are: Aviva Investors, BNP Paribas Investment Partners, Hermes Investment Management, PGGM and Standard Life Investments. HermesEOS will also be using the tool in support of its engagement with investee companies. BNP Paribas Securities Services, a leading global custodian with $9 trillion in assets under custody, also actively supports the initiative.
The Church of England is involved through its National Investing Bodies (NIBs) – the Church Commissioners for England, Church of England Pensions Fund, and CBF Church of England Funds.

Additional quotes from partners

Barbara Boigegrain, CEO and General Secretary of Wespath Benefits and Investments, said “For some years, Wespath Benefits and Investments (pension fund agency of The United Methodist Church) has recognized the transition underway to a low-carbon global economy and the need for us to understand the long-term trends affecting our investments. We will use our leadership position to influence other North American funds and investors to use the TPI in analysing their portfolios.”

Euan Stirling, Head of Stewardship and ESG Investment at Standard Life Investments, said “The Transition Pathway Initiative is an important step forward in the necessary route towards lower carbon intensity. A large gap currently exists between governmental commitments on emissions made in Paris in 2015 and the preparations of companies to help meet those challenges. The TPI will provide a useful tool for us as investors to gauge how effectively companies are addressing the sustainability of their business plans.”

Sir Andreas Whittam Smith, First Church Estates Commissioner of the Church Commissioners for England said “The Transition Pathway Initiative is a significant intervention by church asset owners and others. It will enable us to have a new conversation with companies based on a rigorous understanding of where they sit on the transition to a low-carbon economy, and to follow through on the commitments we have made in our climate change policy.”

Johan Magnusson, Chief Executive of AP1 said "This initiative fills an information gap and will help us and other investors to make more informed investment decisions. We are pleased to be involved at this early stage in the development of TPI, an initiative well in line with the AP1's sustainability strategy."

Elizabeth Fernando, Head of Equities at USS said “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.”

Kieran Quinn, Chair of the Local Authority Pension Fund Forum said: “As a recognised leader in engaging with companies, LAPFF’s participation in the
Transition Pathway Initiative will enhance demonstrating the progress of our engagements on carbon risk with high impact companies on the necessary transition to a low carbon economy.”

Bruce Duguid, Director, EOS, Hermes Investment Management said “The Transition Pathway Initiative [or TPI] provides a useful framework for setting stretching but feasible corporate engagement objectives on climate change. We have already piloted this approach in our engagement with coal-exposed companies.”

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

Stephanie Pfeifer, CEO of the Institutional Investors Group on Climate Change said “IIGCC welcomes the launch of the Transition Pathway Initiative. As investors seek to help drive the changes required to implement the Paris Agreement, it is great to see new tools emerging that asset owners and managers can employ to assess climate transition risk through benchmarking corporate climate disclosure and evaluating how well a company is positioning itself as part of the low carbon transition. “

Erik Solheim, Head of UN Environment said "Climate change poses an unprecedented risk to investments. For the sake of portfolios - and the planet - it is important that asset owners take action now. That’s why we at UN Environment welcome the Transition Pathway Initiative and the leadership of the asset owners backing it. Building on Paris commitments, it is another step on the transition to a low-carbon economy."