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

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
Agenda

Welcome from Chair and Hosts

About the TPI

The State of Transition Report

Reflections and Questions

Using TPI: Two User Case Studies

Questions

Closing Remarks
About the 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:

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

Research Funding Partners
Overview of the TPI methodology and tool
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

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
Management Quality level

Level 0
Unaware

10 companies: 3%
2 Transport
3 Industrials/materials
4 Energy
1 Consumer goods and services

Level 1
Awareness

64 companies: 19%
14 Transport
25 Industrials/materials
25 Energy
0 Consumer goods and services

Level 2
Building capacity

54 companies: 16%
8 Transport
19 Industrials/materials
27 Energy
0 Consumer goods and services

Level 3
Integrated into operational decision-making

92 companies: 28%
15 Transport
34 Industrials/materials
40 Energy
0 Consumer goods and services

Level 4
Strategic assessment

112 companies: 34%
18 Transport
38 Industrials/materials
45 Energy
11 Consumer goods and services

Transition Pathway Initiative
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

- 128 (54%)
- 37 (15%)
- 30 (13%)
- 13 (5%)

Pie chart:

- 30 (13%)
- 37 (15%)
- 13 (5%)

Bar chart:

- **Energy**
  - Electricity utilities: 25
  - Oil & gas: 9
  - Aluminium: 11
  - Cement: 5
  - Paper: 5
  - Steel: 5

- **Industrials and materials**
  - Energy: 5
  - Oil & gas: 2
  - Cement: 8
  - Paper: 3
  - Steel: 5

- **Transport**
  - Airlines: 19
  - Autos: 12
  - Shipping: 8

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

[Transition Pathway Initiative]
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.
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
- Engage aluminium producers to fully integrate climate change into operational decision-making
- Engage cement producers to 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 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
1. All information contained in this report and on the TPI website is derived from publicly available sources and is for general information use only. Information can change without notice and The Transition Pathway Initiative does not guarantee the accuracy of information in this report or on the TPI website, including information provided by third parties, at any particular time.

2. Neither this report nor the TPI website provides investment advice and nothing in the report or on the site should be construed as being personalised investment advice for your particular circumstances. Neither this report nor the TPI website takes account of individual investment objectives or the financial position or specific needs of individual users. You must not rely on this report or the TPI website to make a financial or investment decision. Before making any financial or investment decisions, we recommend you consult a financial planner to take into account your personal investment objectives, financial situation and individual needs.

3. This report and the TPI website contain information derived from publicly available third party websites. It is the responsibility of these respective third parties to ensure this information is reliable and accurate. The Transition Pathway Initiative does not warrant or represent that the data or other information provided in this report or on the TPI website is accurate, complete or up-to-date, and make no warranties and representations as to the quality or availability of this data or other information.

4. The Transition Pathway Initiative is not obliged to update or keep up-to-date the information that is made available in this report or on its website.

5. If you are a company referenced in this report or on the TPI website and would like further information about the methodology used in our publications, or have any concerns about published information, then please contact us. An overview of the methodology used is available on our website.

6. Please read the Terms and Conditions which apply to use of the website.