New funds join the Transition Pathway Initiative

The Transition Pathway Initiative (TPI), backed by Funds with over £3 trillion in assets under management, today launched its assessment of the carbon performance of the world's 20 largest electricity utilities by market capitalisation. http://www.lse.ac.uk/GranthamInstitute/tpi/

This assessment complements TPI's earlier assessment of the management quality of these same 20 companies and will be used by the Funds to inform their assessment of climate transition risk. The results reveal:

- While some companies - e.g. Enel, Entergy, Iberdrola and SSE- have set targets to reduce their emissions below 2 degrees, meeting the ambitions of the United Nations Paris Agreement, the greenhouse gas emissions from many others will not fall quickly enough to meet the overall aim of the Paris Agreement and thereby avoid dangerous climate change.
- The three European utilities are significantly less carbon-intensive than the 14 US utilities. This result is consistent with the relatively stronger national and regional climate change policies and legislation within the European Union.
- Companies with better management systems and processes do not necessarily have better performance, as measured in terms of their greenhouse gas emissions per unit of electricity produced. This suggests that corporate management practices are not sufficiently focused on carbon emissions reductions.
- Governments have a critical role to play in setting the legislation and policy that drive corporate performance; European utilities are significantly less carbon-intensive than their North American counterparts. National and regional (in the case of the European Union) policy is a key influence on corporate carbon performance.

Commenting on the study, Professor Simon Dietz, Co-Director of the London School of Economics Grantham Research Institute said: "Today's study tells us that the average carbon intensity of the companies studied is below the global 2 Degrees and Paris Pledges benchmarks. It also tells us that utility companies will need to significantly reorient their strategies and their capital expenditure plans if the sector is to remain below the global 2 Degrees benchmark."

Adam Matthews, Co-Chair of the Transition Pathway Initiative and Head of Engagement for the Church Commissioners and Church of England Pensions Board commented: "The results clearly show if we are to understand the risks and opportunities presented by the transition to a low carbon economy then investors need to focus on the future carbon performance of companies.

"It is encouraging that European utilities seem better placed to manage the transition. However, the message to policy makers remains clear that businesses need strong enabling regulatory environments to manage the transition. The gap between what governments agreed in Paris in 2015 and the 2 degree pathway remains significant. More needs to be done by governments to close that gap if we are to avoid dangerous climate change."

Helena Viñes Fiestas, Head of Sustainability Research, BNP Paribas Asset Management commented that: "The latest TPI results tell us that we must pay close attention to current and future greenhouse gas emissions in our company engagement; we can see that good management practices and disclosures alone do not inevitably lead to superior performance."

The Transition Pathway Initiative is also delighted to announce that new funds had joined the 13 founding members. Joining the asset managers supporting TPI Legal and General Investment Management (LGIM), and Inflection Point Capital Management (IPCM) and their sister company La Francaise Inflection Point (LFIP). The AUM of funds supporting the initiative is now over £3 trillion / $3.8 trillion.

Meryam Omi, Head of Sustainability at LGIM said: "We are delighted to support the Transition Pathway Initiative ('TPI'), which allows a common tool to be utilised by asset owners in their assessment of climate and energy transition risks in their portfolios. We are pleased to continue to collaborate with the Church of England through our joint engagement activities, which are very much aligned with our work and commitments to the LGIM Climate Impact Pledge."

Matthew Kiernan from IPCM said: "IPCM and LFIP applaud and support The Transition Pathway Initiative. We welcome the TPI for its rigor and transparency. IPCM and LFIP have long held the belief that to uncover a company's true management quality, you need to systematically take into account various non-traditional factors, including environmental sustainability, and how those factors impact the company's risk management and value drivers going forward."

The Transition Pathway Initiative

The TPI is a global, asset owner-led initiative, supported by asset owners and managers with over £3 trillion of assets under management. The initiative assesses how companies are preparing for the transition to a low-carbon economy. The analysis is in two parts:

- Management Quality: TPI evaluates and tracks the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition. Companies are assigned to one of five levels, from level 0 ("Unaware of, or not Acknowledging, Climate Change as a Business Issue") to level 4 ("Strategic Assessment"), based on how they perform against 14 criteria.
- Carbon Performance: TPI also evaluates how companies' recent and future carbon performance might compare to the international targets and national pledges made as part of the Paris Agreement. It is the results of this part of the analysis that we cover in this report.

TPI publishes the results of its analysis through an open online tool hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE).

TPI was launched in January 2017 with management quality assessments of the global top 20 companies by market capitalisation in each of the electricity utilities, and oil and gas, sectors (i.e. a total of 40 companies). This report therefore marks the addition of carbon performance data for the 20 electricity utilities. Further sectors and companies will be added over the course of 2017 and beyond.

The funds supporting TPI have committed to use the results in a number of different ways, including informing their investment decision-making, engagement with companies, and dialogue with fund managers and policy makers.
