



PENSIONS FOR PURPOSE
Paris Alignment Forum



All-stakeholder event

The Transition Pathway Initiative – Stephen Barrie

23 June 2021

This blog by Mike Rogers is part of a weekly series from the Pensions for Purpose team.



Paris Alignment Forum All-Stakeholder Events

The Paris Alignment Forum runs quarterly events which are open to all members. We were delighted to welcome 70 attendees to the second All-Stakeholder event in June. Attendees included representatives of pension funds, independent trustees, consultants, asset managers, government and climate specialists. The keynote address was given by Stephen Barrie from the Transition Pathway Initiative, and breakout room discussions moderated by the Paris Alignment Forum Sponsors Invesco and Redington.

Keynote address – The Transition Pathway Initiative *Stephen Barrie, TPI*

We were delighted to welcome Stephen Barrie to speak. Stephen Barrie is Deputy Director of the Church of England Pensions Board which was one of the founders of the Transition Pathway Initiative (TPI). The TPI is a global initiative led by asset owners and supported by asset managers which launched in 2017. It is governed by a Steering Group with representatives from assets owners including the Church of England Pensions Board who currently Chair the Group.

Steven's presentation outlined the work of the TPI and how its analysis can be used in practice. A recording of the presentation can be found [here](#). Some of the key areas covered are summarised below.

The TPI was established due to concerns around implementing the goals of the Paris Agreement. It is a robust analytical tool using public data to assess companies' transition alignment. It has around 100 supporters representing \$26tn AUM.



"IT IS ONE THING TO HAVE A HIGH-LEVEL COMMITMENT, QUITE ANOTHER TO IMPLEMENT"

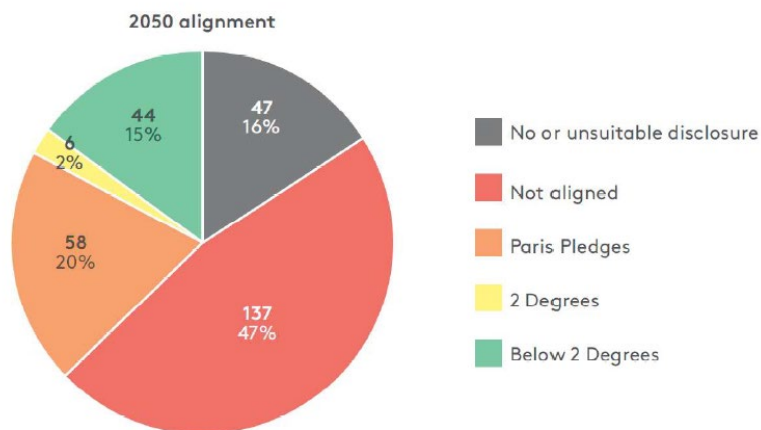
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TPI data is open-access and available online, free to all.

There are two key areas of coverage, Management Quality and Carbon Performance.

- **Management Quality** ranks organisations from Level 0 (unaware) to Level 4 using 19 indicators to test whether a company has established particular carbon practices. It is a key tool for engagement and voting.
- **Carbon Performance** tests the alignment of a company's targets against the Paris Agreement Goals. Crucially it is forward-looking rather than a simple snapshot. This enables investors to distinguish between companies which have improving trajectories and those that do not. As shown by the chart opposite, there is a long way to go.



How is TPI data used?

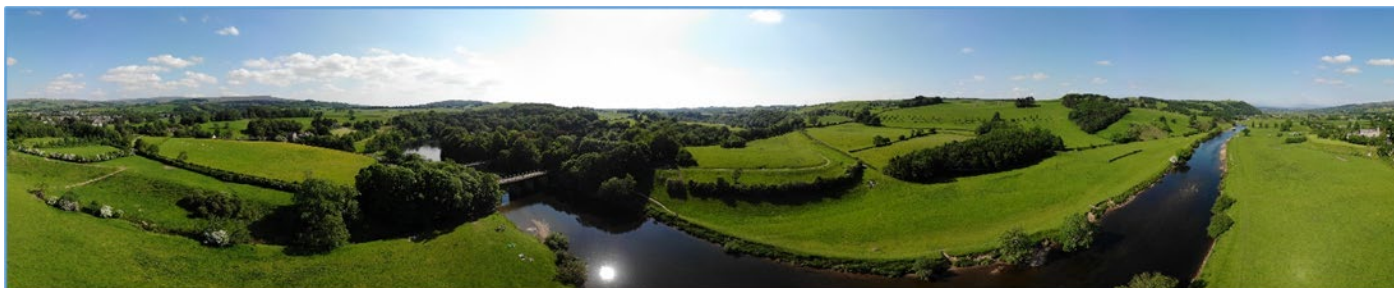
TPI data is used by many organisations including Climate Action 100+ (CA100+) who use the data for their engagement and lobbying activity. The data is also used by pension funds and other asset owners for example:

- To understand climate transition risk
- Informing investment decision-making including exclusions
- Index construction
- Engagement
- Voting decisions (e.g. whether to vote against the chair and or auditors of companies with poor management quality)
- Investment manager monitoring
- Ad-hoc Q&A (e.g. during an investment committee meeting or manager research meeting)

***"IF ENGAGEMENT IS TO
SUCCEED IT WILL BE
THROUGH COALITIONS
LIKE CA100+
REPRESENTING \$54TN OF
ASSETS"***

Active owners within passive mandates

Stephen summarised how the Church of England Pensions Board has used TPI for implementing the Paris Goals. One important area was the use of TPI data to design the FTSE TPI Climate Transition Index which was used for the entire passive investment mandate. This index weights according to carbon emissions, transition, management quality and carbon performance.



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Q&A Session – Transition Pathway Initiative

The Q&A session picked up on questions that were raised in the “chat” as Stephen was speaking. Key themes were:

- **Speed of improvement in management quality:** 50% currently don't disclose so there is lots of scope for improvement and some optimism that engagement works as a mechanism for improving disclosure.
- **Questions around credibility of emissions plans:** there was a degree of scepticism around published plans and an acknowledgement that publishing plans is just the start of the journey.
- **It is relatively easy to “clean up a portfolio”:** portfolio-level climate alignment is very different from real world climate-alignment.
- Flexibility of the framework to deal with new information.
- **Broadening out the framework:** The TPI started with the highest emitting sectors; Stephen outlined plans to look at other sectors and develop the framework to other asset classes.
- **Target for emissions reduction:** Stephen outlined a framework based around a 7% per annum reduction in emissions; equivalent to 35% reduction by 2025 and 55% 2030.

Breakout room discussions – Transition Pathway Initiative

The breakout discussions included asset owners, consultants and asset manager representatives and provided a great opportunity to share experience. Discussions focussed round three questions:



1. How can pension funds assess whether their holdings align with the pathways set by the Paris Agreement? What are the challenges of doing this?

Participants noted the importance of setting objectives, for example, is the objective to reduce climate risk in the pension scheme or to influence the real economy as well.

There needs to be some line of sight on how to achieve the objectives, for example, tackling “low hanging fruit”, while accepting that we do not yet have complete visibility on solutions. In a similar vein, objectives need to be tangible, for example, tangible interim targets are helpful when setting a 2050 objective.

Having set objectives, challenges remain around data discussed below. Interpretation of climate scenarios and application to pension governance and strategy is new to many pension funds and the Institute and Faculty of Actuaries have produced papers on the use of [Climate Scenario Analysis for Pension Schemes](#) to help with this.

It was also noted that analysis needs to focus on three aspects: assets; liabilities and sponsor covenant – each requiring different skills.



2. What are the pros and cons of the different approaches below, that pension funds are using to move towards net zero? Which of these do you think will be most effective?

For those asset owners seeking to influence the real economy and to manage their own climate risk, engagement was seen as the primary way to make a difference. There was a strong view that acting collectively is necessary to achieve change and that divestment or exclusion is a tool to be used to promote engagement and



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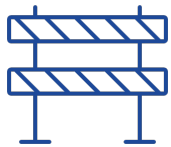


BLOG: Paris Alignment Forum: *All-Stakeholder Event*
exercised as a last resort if engagement fails. This theme was developed further with some participants expressing the view that early exclusion might be seen as a “quick win” but questioning whether there was much real-world impact given the loss of influence once an asset is sold.

Some participants noted that engagement is hard to measure and attribute, making target setting challenging. Furthermore, engagement might be more

challenging for holders of non-voting securities such as corporate bonds.

The other way to make real world change is to allocate capital to climate solutions, many participants said. Such solutions might include, for example clean energy, infrastructure, and research into solutions such as carbon capture. A challenge remains around consistently measuring the impact of climate solutions for target setting and measurement.



3. What hurdles do you anticipate being faced by the pension fund(s) with whom you are involved, as these funds try to roll out Paris-Aligned investment strategies?

Participants felt that the key hurdles were around various aspects of data and modelling. Consistency (between asset managers and data providers) and coverage (for different asset classes) were common themes. While data is a challenge for current emissions data, it is all-the-more challenging for emissions pathways and for implied temperature rise analysis.

The challenge of keeping pace with fast-developing modelling techniques was acknowledged, particularly for emissions pathways and implied temperature rise. Linked to this is the need for everyone in each part of the investment chain (e.g., trustees, in-house teams, consultants, asset managers and data providers) to continuously “upskill” and invest in developing knowledge.

Would you like to join future events?

The Paris Alignment Forum hosts a number of events each quarter including asset-owner-only events; training; afternoon teas. If you would like to join future events, please join the Paris Alignment Forum (membership is free for affiliates) by completing the application form [here](#). If you would like to receive information about future Paris Alignment Forum events or you would like to consider sponsorship, please e-mail [Mike Rogers](#).

Mike Rogers

1 July 2021

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