

FTSE TPI Climate Transition Index

Capturing companies' readiness for the low-carbon economy



About the customer

Profile

The Church of England Pensions Board manages over £2.8B in assets and serves over 40,000 beneficiaries.*

The Pensions Board is an active owner and is committed to ethical and responsible investment.

The Church of England Pensions Board is a co-founder of and continues to co-Chair the Transition Pathway Initiative (TPI), which helps assess companies' preparedness for the low-carbon economy.

The TPI is supported globally by 71 investors with over \$19T** in assets under management as of January 2020.

* Church of England website, February 2020

** [Transition Pathway Initiative](#) website, January 2020

Objectives

- Respond to the financial risk of climate change to protect the interests of future retirees.
- Integrate the insights of the TPI into the Pensions Board's passive equity portfolio.
- Reward and incentivise companies whose public targets are aligned with the 2015 Paris Climate Change Agreement.
- Significantly underweight or remove those companies whose public targets are not aligned with 2°C/Below 2°C outcomes, and those with insufficient climate-related disclosure.
- Support the Pensions Board's climate engagement goals for net zero through initiatives such as Climate Action 100+.

Index criteria

- FTSE Russell has launched the FTSE TPI Climate Transition Index Series.
- The index captures companies' exposure to five climate change parameters (fossil fuel reserves, carbon emissions, green revenues, management quality, carbon performance).
- Under the new index, the Church of England's Pensions Board portfolio will have a c.50% lower carbon intensity than its current passive allocation.
- The FTSE TPI Climate Transition Index will form the basis of a £600M passive (index-tracking) portfolio run on behalf of the Church of England Pensions Board.

The need

In 2018, the Church of England Pensions Board made a commitment to the Church's General Synod that it would disinvest by 2023 from those companies that have not set themselves on a path to alignment with the landmark Paris Climate Agreement ("COP21"), reached in December 2015.

Under COP21, signatories agreed to limit global warming to a maximum of 2°C during the current century and to reach carbon neutrality (net zero emissions of greenhouse gases) by the end of the century.

Recently, the Church of England Pensions Board has also signed up to the United Nations' supported Net-Zero Asset Owner Alliance, whose members are committed to align their portfolios to become net zero by 2050. The Board is also a leading member of the global engagement initiative Climate Action 100+, where the Board co-leads the negotiations with Royal Dutch Shell.



The Pensions Board has stated that it has made these commitments to ensure that its beneficiaries' funds are managed in a way that delivers the necessary returns and mitigates the financial risk posed by the transition. The Board is committed to supporting the transition and recognises that companies are able to put in place strategies to do so with publicly verifiable targets.

A key tool in supporting the Board's understanding of climate transition risk has been the Transition Pathway Initiative (TPI), which it Co-Chair's with the Environment Agency Pension Fund. To help meet its stated goals, during the last 18 months the Church of England Pensions Board worked closely in an innovative partnership with FTSE Russell and TPI to integrate TPI's insights into its passive investments.

As a sign of its commitment to supporting the climate transition, in January 2020 the Pensions Board announced it was making a £600 million allocation (January 2020) to a portfolio tracking the new FTSE TPI Climate Transition Index. This represents all of the fund's developed market passive equity assets.






The index solution

FTSE Russell has launched the FTSE TPI Climate Transition Index, which will form the basis of a £600M passive (index-tracking) portfolio run on behalf of the Church of England Pensions Board.

The index is a collaborative effort: it has been developed jointly by FTSE Russell, the Church of England Pensions Board and the TPI. The index has 4 objectives:

1. To form the basis of a DM equity passive allocation (i.e. deliver global equity beta)
2. To explicitly incorporate the TPI's company assessments
3. To deliver significantly improved "climate characteristics" vs. the market cap benchmark
4. To provide a tool for investors to reinforce climate engagement objectives, through initiatives such as Climate Action 100+, seeking commitments from companies to align to the "Paris goals"

It incorporates analysis by both FTSE Russell and TPI on companies' exposure to five climate change parameters: green revenues, fossil fuel reserves, carbon emissions, management quality and carbon performance (see the chart below).

	Fossil fuel reserves	– Underweight companies with fossil fuel reserves
	Carbon emissions	– Over or underweight companies according to their GHG emissions – Sector neutrality
	Green revenues	– Overweight companies engaged in the transition to a green economy
	Management quality	– Over or underweight companies according to their management quality ("climate governance") score – Regional industry neutrality
	Carbon performance	– Over or underweight companies according to their carbon performance ("2DC pathway") assessment

1

¹ Non-corporate issuers are not screened for fossil fuel reserves

The Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners.

It assesses how individual companies are positioning themselves for the transition to a low-carbon economy.

The TPI is backed by 71 funds with over \$19T of combined assets under management or advice as of March 2020.

The TPI was co-founded and is co-chaired by the Church of England Pensions Board and the Environment Agency Pension Fund, in partnership with the Grantham Research Institute at the London School of Economics and supported by the UN backed Principles for Responsible Investment (PRI).

FTSE Russell is the TPI's data partner.

“Our beneficiaries need to retire into a world that isn’t impacted by the extremes of climate change. We need to manage their funds in a way that ensures we continue to deliver a return whilst mitigating climate risk and supporting the transition to a low-carbon economy. This will ultimately shape the world that our future beneficiaries retire into.”

Adam Matthews, Director (Ethics and Engagement), Investment Team, The Church of England Pensions Board

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit seq.com/ftse-russell; email info@ftrussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

Asia-Pacific

North America +1 877 503 6437

Hong Kong +852 2164 3333

Tokyo +81 3 6441 1430

Sydney +61 (0) 2 7228 5659

Disclaimer

© 2023 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) The Yield Book Inc ("YB") and (7) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "The Yield Book®", "Beyond Ratings®" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly, or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating, or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

The information contained in this report should not be considered "research" as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council ("MiFID II") and is provided for no fee.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance.

Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of the LSE Group nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.



**FTSE
RUSSELL**
An LSEG Business