

Asset owner's adoption of climate transition index to align US passive allocations with low carbon goals



New York State Common Retirement Fund

With approximately \$254.8 billion in assets, as of March 31, 2021, the New York State Common Retirement Fund (the Fund) is the United States' third largest Public Pension Fund. The Fund holds and invests the assets of the New York State and Local Retirement System on behalf of more than one million state and local government employees and retirees and their beneficiaries.

About the client

Profile

The New York State Common Retirement Fund holds and invests the assets (approximately \$254.8 billion) of the New York State and Local Retirement System on behalf of more than one million state and local government employees and retirees and their beneficiaries.

Investment objectives

Develop an investment tool that incorporates a robust data-driven approach to invest in corporations that are ensuring their businesses are ready for the low-carbon transition and stand to perform well in the years ahead.

Overweight, underweight or exclude companies based on their transition readiness.

Plan of action

Allocate to an index-tracked fund which aligns with the Fund's net zero commitment using five key criteria to evaluate corporate efforts to transition to the emerging net-zero economy (fossil fuel reserves, carbon emissions, green revenues, management quality, carbon performance).

Form part of the Comptroller's Climate Action Plan announced in 2019 and the Comptroller's goal for the Fund of net-zero greenhouse gas emissions by 2040.

Objective: Transitioning US equity investment portfolios towards net zero

The Fund's ultimate goal is net zero alignment, and its near-term objective is to invest in US corporations that are ensuring their businesses are ready for the climate transition and stand to perform well in the years ahead. FTSE Russell's TPI Climate Transition indices, which utilises the Transition Pathway Initiative's (TPI) forward-looking frameworks, allow for continued growth and adaptation as the landscape, regulatory environment, and data availability/coverage change.








Solution: Russell 1000 TPI Climate Transition Index

For more than seven years, FTSE Russell has strived to be a trusted advisor to the Fund, helping Comptroller DiNapoli deliver on his goals to meet the retirement needs of state and local government employees, retirees, and their beneficiaries. In 2019, State Comptroller Thomas P. DiNapoli released a Climate Action Plan; a multi-faceted strategy to invest in sustainable companies, pursue climate solution investments, and apply minimum standards to portfolio companies to inform engagements, investments, and potential divestment decisions.

In 2021, the Fund became the first Public Pension fund to adopt the climate transition TPI index in the US. The Fund announced it will initially allocate US\$2 billion within its internally managed public equity portfolio to a passive (index-tracking) fund utilising the Russell 1000 TPI Climate Transition Index (“the Index”) in connection with the Fund’s Sustainable Investment & Climate Solutions (SICS) program.

The Index is designed to reflect the performance of large-cap companies in the US, where constituent weights vary to account for risks and opportunities associated with the transition to a low carbon economy. Constituent weights are based on five key climate considerations: company exposure to green revenues, fossil fuel reserves and carbon emissions; as well as companies’ climate governance activities (aligned with the Taskforce on Climate-related Financial Disclosures’ recommendations) and forward-looking commitments to carbon emission pathways (aligned to the Paris Agreement and 2°C/below 2°C warming scenarios). The indices combine data and analysis from FTSE Russell and the Transition Pathway Initiative.

	Climate parameter	Adjustment
	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 (“2°C/Below 2°C pathways”) assessment

What is the Transition Pathway Initiative?

The Transition Pathway Initiative (TPI) is an asset owner-led initiative (currently supported by asset owners and funds with over \$22.5 trillion, as of October 29, 2020, assets under management and advice), in partnership with FTSE Russell and the Grantham Research Institute at the London School of Economics that assesses companies’ preparedness for the transition to a low-carbon economy. TPI assesses the quality of companies’ management of climate change-related risks and opportunities, and their carbon performance. FTSE Russell provides the data that underpins the management quality assessment, and is a member of the TPI’s Technical Advisory Group.

Additional information

Learn more about [FTSE TPI Climate Transition Index Series](#)

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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.

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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.

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