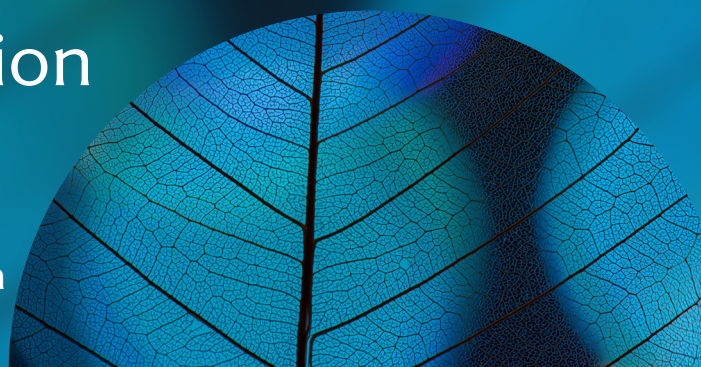


## SOLUTION OVERVIEW

# FTSE TPI Climate Transition Indices

Incorporating the risks and opportunities associated with the transition to a lower carbon economy into index design across asset classes



### Overview

As the transition to a lower carbon economy progresses, investor approaches to integrating climate considerations into investment strategy are increasing in sophistication. Whilst companies' preparedness and progress in transitioning their business is becoming an important element in their investment decisions and engagement activities.

#### Measuring transition preparedness & progress

FTSE Russell has collaborated with the Transition Pathway Initiative (TPI) since its launch in 2017. As Data Partner to the TPI we supported the development of the TPI Management Quality (MQ) score. TPI MQ scores offer investors forward-looking analysis of how the world's largest and most carbon exposed/intensive public companies are managing climate transition. These scores are also now available for a large global universe (c.15,000 companies) via an LSEG standalone dataset.

#### Aligning an index with climate transition

Meeting investor demand requires indices that go beyond a narrow focus on reducing carbon emissions and/or fossil fuel reserves exposure to integrate company activity within the green economy.

In addition, an index aligned with climate transition needs to capture company commitments to the Task Force on Climate-related Financial Disclosures (TCFD), along with emissions pathways – in particular for the most carbon-intensive companies globally – that are aligned with international (e.g., 2°C warming) targets.

FTSE Russell has combined TPI data and analysis with other innovative datasets - including FTSE Green Revenues data - with its index expertise to design and develop climate indices that meet market demands. Incorporating these requirements into both equity and fixed income benchmarks also provides investors with an expanded toolkit, for use in their investment strategies.

### FTSE TPI index series

#### Key Features

**The FTSE TPI Climate Transition Index Series**  
—13 equity indices that:

- Have a methodology designed to reflect the performance of a global and diversified basket of securities where their weights are varied to account for risks and opportunities associated with the transition to a low carbon economy
- Simultaneously adjust constituent weights based on five key climate considerations
- Follow the FTSE Global Factor Index Series transparent, rules-based methodology to address concerns about liquidity, capacity, diversification and turnover.

**FTSE TPI Fixed Income—two new index series, launched in September 2024:**

**The FTSE Fixed Income TPI Climate Transition Index Series**

- Support investor's climate commitments by mitigating carbon risk, capturing green revenues and incorporating forward-looking metrics
- Methodology designed to reflect the performance of global and regional fixed income markets, where index constituent weights are varied to account for the risks and opportunities associated with the transition to a low-carbon economy.

**FTSE Fixed Income Corporate TPI Focused Glidepath Index Series: Key features**

- Developed to serve as a benchmark for investors wishing to implement a low-turnover, low-tracking error decarbonisation investment strategy
- Methodology supports engagement with fixed income issuers rather than immediate divestment from climate laggards, generating a steady reduction in carbon emissions and intensity over time by comparison with a market-weighted corporate bond index.



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The FTSE TPI Climate Transition and Glidepath Index Series'

The first FTSE Russell index incorporating TPI data and analysis was launched in 2020.

The FTSE Developed TPI Climate Transition Index was created in collaboration with the Church of England Pensions Board. This index was recognised by the PRI, winning the ESG Incorporation Initiative of the Year for 2020.

Indices incorporating TPI data have expanded and evolved significantly since then. Equity investors now have access to 13 indices via the **FTSE TPI Climate Transition Index Series**. These indices cover core markets such as the US, Japan, and Australia, as well as a global core infrastructure index. In 2024, the TPI Index Series was extended to include corporate fixed income benchmarks with two new families, including the **TPI Glidepath Index Series** which provides fixed income investors with a low turnover, low-tracking error decarbonisation investment strategy.






Benefits of the FTSE TPI indices

- Provide a clear picture of company alignment with climate transition based on multiple climate parameters (see Figure 1)
- Combine market-leading insights and data from FTSE Russell and the TPI
- Our research indicates TPI MQ scores (which utilise data from FTSE Russell) can help to identify companies likely to show more rapid decarbonisation (see Figure 2.)
- Deliver significant improvements across all climate parameters – carbon, green revenues<sup>2</sup> and ‘Paris alignment’ – while managing tracking error vs. the benchmark
- Transparent index construction – using FTSE Russell’s tilt-based multifactor methodology – supports investor stewardship and corporate engagement activities, with company progress on emissions reductions and disclosures reflected in the index through increased weights via improved TPI score

What is the Transition Pathway Initiative (TPI)?

- The TPI is an asset owner-led initiative currently supported by asset owners and funds representing around US\$80 trillion<sup>1</sup> combined AUM and Advice. The TPI works in partnership with FTSE Russell and the Grantham Research Institute at the London School of Economics on data and research methodologies, respectively.
- It aims to evaluate what the transition to a low carbon economy looks like for companies with a high impact on climate change. It also aims to assess how prepared these companies are for the low carbon transition.

Figure 1. Climate change parameter

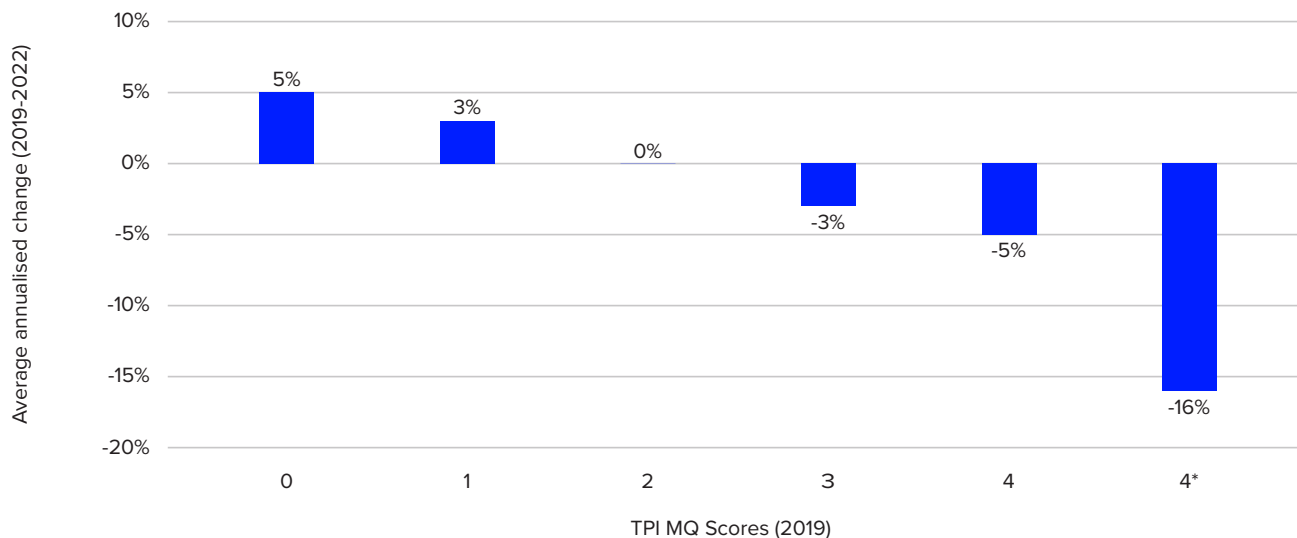
Climate parameter		Adjustment
	Fossil fuel reserves	<ul style="list-style-type: none"><li>- Underweight companies with fossil fuel reserves</li></ul>
	Carbon emissions (Scope 1 & 2)	<ul style="list-style-type: none"><li>- Over or underweight companies according to their GHG emissions</li><li>- Sector neutrality</li></ul>
	Green revenues	<ul style="list-style-type: none"><li>- Overweight companies engaged in the transition to a green economy</li></ul>
	TPI Management quality	<ul style="list-style-type: none"><li>- Over or underweight companies according to their Management Quality (“climate governance”) score</li><li>- Regional industry neutrality</li></ul>
	TPI Carbon performance	<ul style="list-style-type: none"><li>- Over or underweight companies according to their carbon performance (“1.5°C/Below 2°C pathways”) assessment.</li></ul>

[FTSE TPI Climate Transition Index Series | LSEG](#)

<sup>1</sup> [www.transitionpathwayinitiative.org](http://www.transitionpathwayinitiative.org) as of May 2025

<sup>2</sup> The FTSE Fixed Income TPI Focused Glidepath Indices do not apply Green Revenues tilts

**Figure 2. Average annualised change in Scope 1 and Scope 2 carbon emissions by TPI MQ score (for FTSE All-World Index members)**



Source: FTSE Russell, June 2023.

**Our analysis<sup>3</sup> indicates that companies with high TPI MQ scores:**

- Are more likely to reduce their emissions in the future, and
- On average deliver larger emissions reductions than those with low TPI MQ scores (see chart)
- TPI MQ scores could be a useful leading indicator of corporate decarbonisation in an investment context

**Ground Rules**

[FTSE TPI Climate Transition Index Series Ground Rules](#)

[FTSE Fixed Income Corporate TPI Focused Glidepath Index Series Ground Rules](#)

<sup>3</sup> [Measuring transition intent with TPI MQ scores | LSEG](#)

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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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