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.

FTSE RUSSELL
An LSEG Business

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[2] 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[1] 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

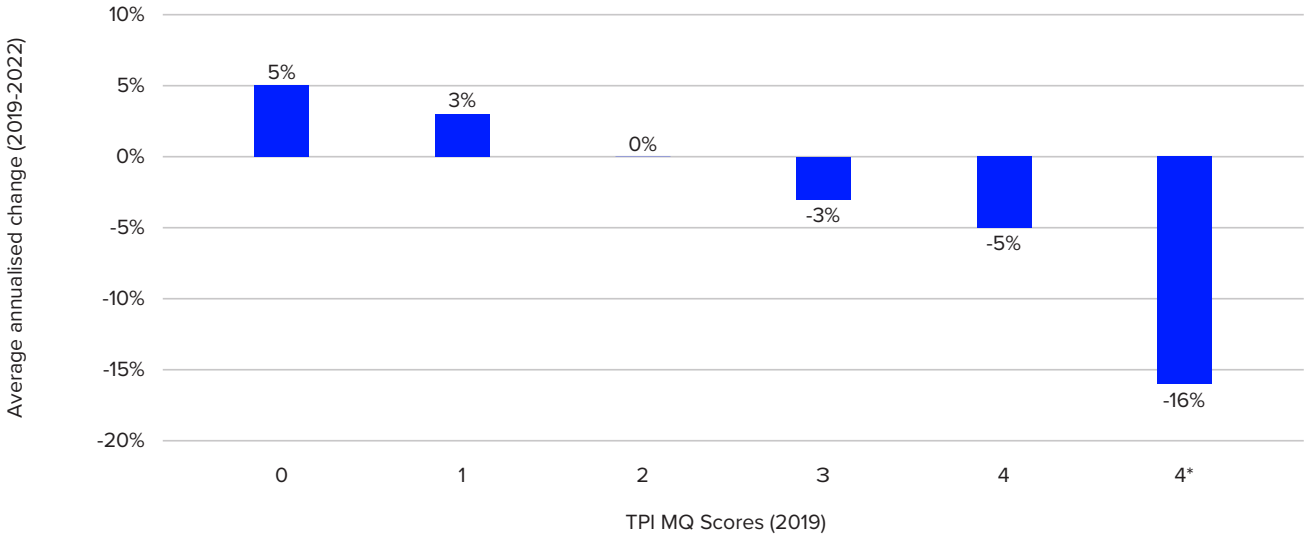
	Climate parameter	Adjustment
	Fossil fuel reserves	– Underweight companies with fossil fuel reserves
	Carbon emissions (Scope 1 & 2)	– Over or underweight companies according to their GHG emissions – Sector neutrality
	Green revenues	– Overweight companies engaged in the transition to a green economy
	TPI Management quality	– Over or underweight companies according to their Management Quality ("climate governance") score – Regional industry neutrality
	TPI Carbon performance	– Over or underweight companies according to their carbon performance ("1.5°C/Below 2°C pathways") assessment.

FTSE TPI Climate Transition Index Series | LSEG

1 www.transitionpathwayinitiative.org as of May 2025

2 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[3] 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

3 Measuring transition intent with TPI MQ scores | LSEG

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.

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

EMEA +44 (0) 20 7866 1810

North America +1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 (3) 6441 1430

Sydney +61 (0)2 7228 5659

Disclaimer

© 2025 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 indices, 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. Indices 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