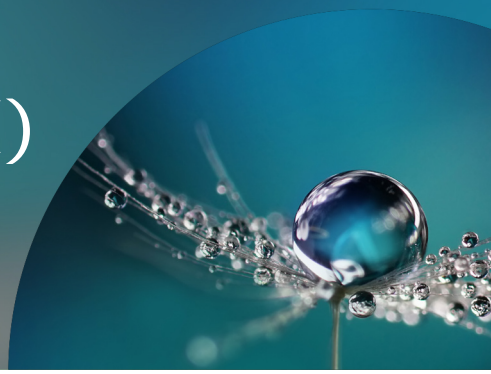
SOLUTION OVERVIEW

Transition Pathway Initiative (TPI) Management Quality

Quantifying climate governance



Overview

There is a growing awareness of the potential value of incorporating climate metrics into investment decision making and stewardship. FTSE Russell's TPI Management Quality (MQ) data analyses and tracks the quality of companies' governance/management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.

Companies tend to implement their carbon management systems and processes in a relatively staged and structured manner. They often start by publicly acknowledging the relevance of climate change to their business and developing a high-level policy or statement. They then tend to set some relatively short-term, process-oriented targets, before progressively extending the duration and stringency of their targets, and defining these in a more precise, quantitative way.

Benefits

Partnership with TPI: Transition Pathway Initiative partners with FTSE Russell and the Grantham Research Institute at the London School of Economics to assess companies' preparedness for the transition to a low-carbon economy. FTSE Russell provides the data that underpins the management quality assessment, and is a member of the TPI's Technical Advisory Group.

Robust scoring framework: It tracks the progress of companies' climate governance through 5 levels and assign a score 0-5 to an individual company based on 19 specific indicators/questions.

TCFD aligned: The 19 TPI MQ indicators are mapped against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, facilitating TCFD aligned reporting.

Features

Comprehensive coverage - The data model covers approximately 8,000 public securities comprising the constituents of the FTSE All-World Index, FTSE All-Share Index and Russell 1000® Index, with historical data going back to 2018.

Transparent methodology - The TPI Management Quality methodology has clearly defined rules for scoring companies and provides clarity on the assessment framework. The underlying indicators are drawn from FTSE Russell's ESG Scores data model.

Strong governance - The TPI methodology is overseen by the TPI's Technical Advisory Group comprising of experts from academia, asset management, and other relevant fields.

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SUSTAINABLE GROWTH

Transition Pathway Initiative

TPI's Management Quality framework tracks the progress of companies through the following five levels:

Level 0	**Unaware of (or not Acknowledging) Climate Change as a Business Issue (Score 0)**
Level 1	**Acknowledging Climate Change as a Business Issue (Score 1)**: the company acknowledges that climate change presents business risks and/or opportunities, and that the company has a responsibility to manage its greenhouse gas emissions. This is often the point where companies adopt a climate change policy
Level 2	**Building Capacity (Score 2)**: the company develops its basic capacity, its management systems and processes, and starts to report on practice and performance
Level 3	**Integrating into Operational Decision-Making (Score 3)**: the company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures on its carbon practices and performance
Level 4	**Strategic Assessment (Score 4)**: the company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy and capital expenditure decisions
Four Star	**"Four star" companies (Score 5)**: the company meets all the TPI indicators – i.e. that returns a perfect Management Quality score

Up to 19 specific Management Quality indicators/questions are used to map companies on to these five levels. With the exception of Level 0, companies need to be assessed as Yes on all of the questions pertaining to a level, before they can advance to the next level. It also recognises companies that meet all the TPI indicators – i.e. that return a perfect Management Quality score – as 'Four star' companies.

Using TPI Management Quality data in practice

Some examples of how investors use TPI data include:

ESG integration and portfolio analysis

Many investors want to understand whether their holdings align with the pathways set by the Paris Agreement, so build TPI data into their portfolio construction, stock selection or risk management processes.

Active ownership

Investors use TPI's robust data as a foundation for a broad engagement strategy or for individual corporate engagements (often with laggards on this issue).

Product creation

Investors use it to create climate-sensitive financial products that can drive more climate aware company behaviours such as the FTSE TPI Climate Transition Index.

Voting

Investors use it to shape approaches to proxy voting.

Exclusions

Investors use it to shape a sophisticated exclusion policy.

Due diligence

Investors use it as part of investee due diligence procedures or to vet potential clients.

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