

CLIMATE TRANSITION ASSESSMENT AND TRANSITION READINESS FRAMEWORK METHODOLOGY

Objective

The objective of the Climate Transition Assessment (CTA) is to provide a comprehensive, data-driven assessment of an issuer's climate transition readiness by evaluating the credibility and feasibility of issuers' decarbonisation strategies and transition pathways. The CTA helps to identify financially material climate-related risks and opportunities. The CTA provides the analytical foundation for the Transition Readiness Framework (TRF), described later in this document, which uses the CTA scores to categorise issuers into alignment buckets.

Scope

The assessment is designed to enhance fundamental investment analysis of corporate issuers by integrating climate transition insights into portfolio construction and investment decision-making where appropriate. This methodology is primarily an environmental assessment which focuses on climate transition risks and opportunities. Governance indicators are also included where they are directly material to climate transition oversight and execution.

Rating Methodology: Climate Transition Assessment (including the Transition Readiness Framework)

Overview

The CTA evaluates issuers across four strategic dimensions, our '4-As' framework, each designed to capture a critical aspect of climate transition credibility.

The 4-As Framework



The four assessment dimensions are as follows:

Ambitions – Evaluates the scope and timescale of the issuer’s announced climate targets, combined with an assessment of third-party verifications of decarbonisation commitments.

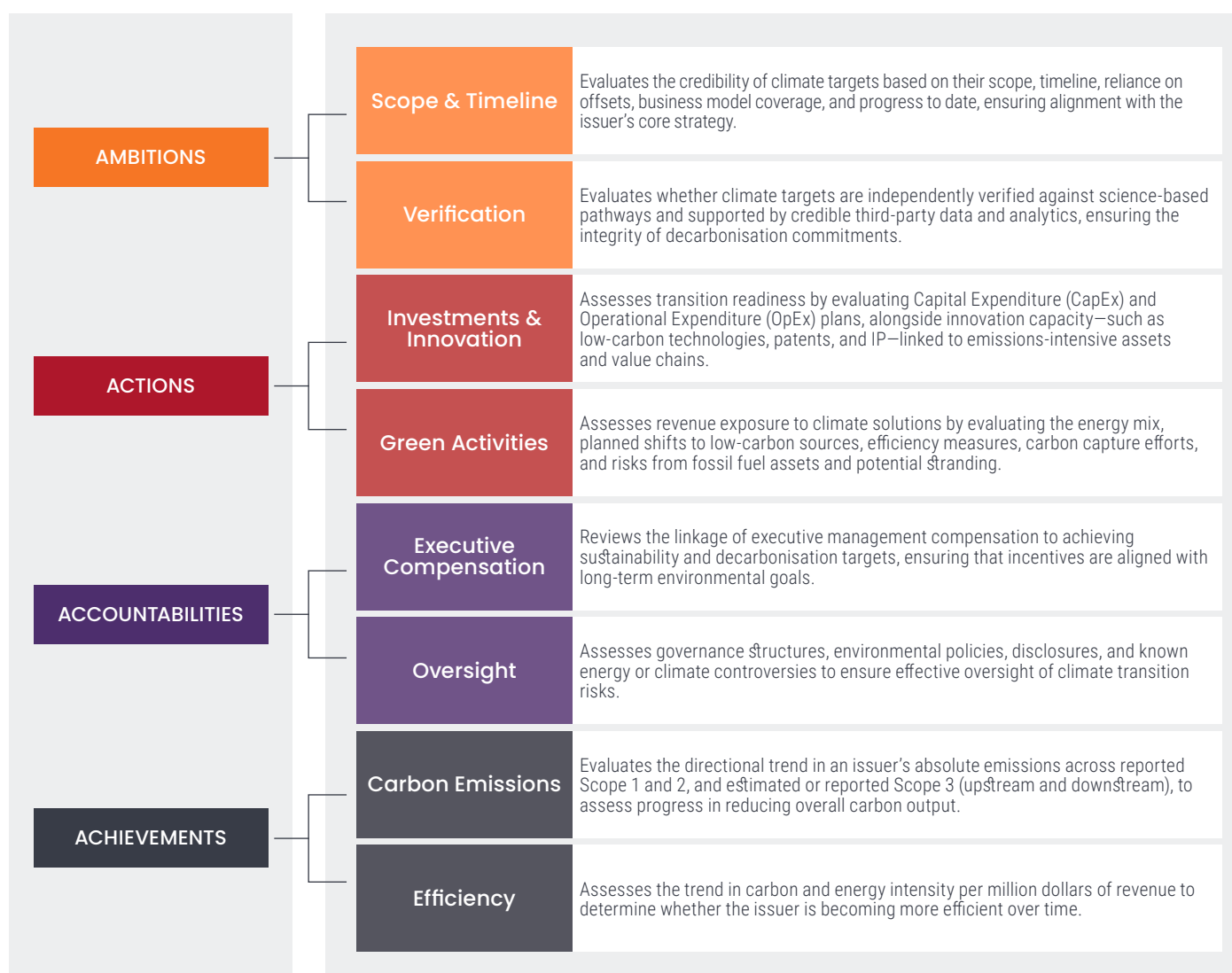
Actions – Assesses opportunities stemming from the issuer’s capital investments, research and development spending, and announced decarbonisation activities, combined with current revenue exposure, energy consumption, and policy positioning.

Accountability – Reviews executive management compensation linked to achieving decarbonisation targets and the governance oversight structures in place.

Achievements – Evaluates trends in past carbon reduction performance in both Evaluates trends in past carbon reduction performance both in terms of absolute carbon emissions and carbon intensity.

Each of the four dimensions is then supported by two strategic pillars, which leverage data points from leading ESG (Environment, Social, Governance) and financial data providers, designed to capture the material strategic, operational, and financial data around which management typically structure credible climate transition and decarbonisation plans:

The 8 Strategic Pillars Explained



Source: JHI Research

This methodology incorporates both backward-looking and forward-looking elements. Backward-looking indicators include historical emissions trends, energy efficiency metrics, and track records against previously announced targets. Forward-looking indicators include the ambition and scope of announced climate targets, capital expenditure plans, and third-party assessments of transition pathway alignment. This combination is designed to produce an assessment that reflects both current performance and potential future positioning.

Topics Covered

The CTA assesses a range of climate transition topics across the four dimensions of the 4-As framework and the underlying strategic pillars, including the ambition, scope, and credibility of climate targets and their alignment with science-based pathways; capital expenditure and revenue exposure to climate transition activities; governance oversight and executive accountability for climate strategy; and historical and forward-looking emissions performance. These climate related topics are embedded throughout the assessment and reflect key areas of climate transition credibility, including the ambition of climate targets, implementation through capital allocation and operational activity, governance and accountability mechanisms, and demonstrated progress over time.

Weighting of Categories

The CTA's scoring methodology evaluates each metric on a scale from zero to three, where zero reflects weak or missing data and three indicates the highest quality and financial materiality, representing the information most critical for management to navigate transition risks. The overall scores for each of the eight pillars are then equally weighted, ensuring that no single dimension disproportionately influences the overall assessment. This equal weighting reflects our view that a credible climate transition strategy requires strength across all dimensions.

Expression of the Rating

After weighting, the rating is expressed as a percentage score (0–100%). Each pillar score is also broken down to provide transparency into the underlying drivers—whether due to strong performance, weak disclosure, or data gaps. These insights help investors identify areas for deeper analysis and prioritise engagement topics.

Higher scores indicate stronger climate transition positioning. It is important to note that a high or low CTA score is not a buy or sell signal; rather, it serves as a structured input into the investment process, helping to identify strengths, weaknesses, and areas for improvement in an issuer's climate transition strategy. This information can be utilised in upcoming investor engagement meetings with the issuer.

Transition Readiness Framework

For investors committed to aligning their portfolios with decarbonisation objectives, our Transition Readiness Framework (TRF) can be used to categorise issuers into alignment buckets based on their CTA score. The TRF is closely aligned to the Net Zero Investment Framework¹ and is designed to provide a forward-looking, fundamentals-based view of each issuer's transition readiness.

CTA scores can be used to assign issuers to the following Transition Readiness categories:

TRF - 'Bucketing'



No Data: No third-party data available (0%); not necessarily no strategy, but limited transparency.

Not Aligned: Weak disclosure and performance (0–33%); high transition risk.

Committed: Some disclosure and ambitions (33–60%), but limited execution.

Aligning: Stronger disclosure and credible targets (60–80%); progressing but needs monitoring.

Aligned: Robust disclosure, targets, and strategy (80–100%); well-positioned for transition.

Achieving: Fully implemented strategy (100%); operating at/near net zero (aspirational).

Data Sources and Processes

The CTA leverages third-party data. CTA scores and TRF categories are integrated at both issuer and portfolio level via our proprietary ESG Explore (ESGX) platform. The platform enables investment teams to assess climate transition readiness supporting consistent and scalable analysis. We conduct ongoing oversight of our data providers, including engagement on data coverage, methodology, and key data points where necessary, to support data quality and relevance.

¹The NZIF 2.0 guidance was developed by the Paris Aligned Investment Initiative (PAII), an investor-led forum established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC), the Asia Investor Group on Climate Change, the Investor Group on Climate Change and the Ceres.

Limitations in Data Sources and Methodology

Third-party data dependency: The CTA relies on ESG data sourced primarily from third-party providers. The quality, timeliness and accuracy of scores are therefore partly dependent on the quality of the underlying third-party data.

Coverage gaps: Not all issuers are covered by third-party data providers. Private equity-owned companies, private credit issuers and securitised assets frequently lack publicly available climate data. Issuers without data are assigned to the 'No Data' TRF category and are prioritised for engagement.

Data lag: There is often a time lag between an issuers' disclosures and their reflection in third-party data. New targets, revised strategies or improved reporting may not be immediately captured in the CTA score.

Governance

Any material changes to the methodology are subject to formal governance and approval processes and are escalated to the ESG Oversight Committee (ESGOC) for review and approval.

Disclaimers

Industry classification - The methodology does not rely on an external industry classification framework.

Use of artificial intelligence - Artificial intelligence tools are not used in any process of this methodology.

Methodological approach and scientific basis - The assessment is based on a combination of quantitative data analysis and structured methodologies designed to evaluate climate transition readiness. While the approach draws on recognised frameworks, data sources and market practices, it is not designed to constitute a scientific model and involves the application of structured methodologies and analytical judgement.

Paris Agreement Alignment - Many of the principles underpinning the Agreement are embedded within our responsible investment, stewardship and reporting practices. Our approach is designed to be practical, research-driven and forward-looking, integrating climate-related risks and opportunities into investment analysis. It is supported by proprietary data, tools, and transparency such as our Climate Transition Assessment Methodology. This is complemented by active engagement and stewardship, as well as the development of client-led investment solutions.

Glossary

Climate transition - the economic and systemic shift required to reduce greenhouse gas emissions and align with climate targets, involving changes in energy use, business models, technologies, and investment decisions.

Decarbonisation strategies - The actions and plans a company, sector, or investor implements to reduce greenhouse gas emissions over time, such as improving energy efficiency, switching to renewables, and investing in low-carbon technologies, in line with net zero or science-based targets.

Transition pathways - The specific trajectories a company, sector, or economy follows to move from current emissions levels to a low-carbon future, setting out interim milestones and key actions needed to align with climate goals.

Capital expenditure (CapEx) - CapEx represents major, long-term investments in physical or intangible assets (e.g., buying equipment).

Operational expenditure (OpEx) - OpEx refers to the recurring, day-to-day costs required to run a business (e.g., rent, utilities).

Scope 1 - Scope 1 refers to direct greenhouse gas (GHG) emissions that occur from sources owned or controlled by the reporting issuer, such as those generated by company facilities and vehicles.

Scope 2 - Scope 2 refers to indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling which an issuer consumes.

Scope 3 - Scope 3 refers to all other indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting issuer.

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Important information

The value of an investment and the income from it can fall as well as rise and investors may not get back the amount originally invested. Nothing in this material should be construed as advice or a recommendation to buy or sell.

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