Just Transition Criteria

Our proposal for aligning investments with a Just Transition

Contents

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About this document

This document has been produced by the Impact Investing Institute ("the Institute") for consultation. We seek feedback from a broad range of stakeholders, including asset managers, asset owners, other financial market actors as well as civil society organisations and experts with an interest in the Just Transition. Key questions for feedback are highlighted at the end of each section to facilitate review. Appendix IV provides a list of all questions.

The document contains a proposed set of Just Transition Criteria ("the Criteria") aimed primarily for use by investors to help them align products and investments to finance a Just Transition to Net Zero.

Rather than putting forward a new framework, the Criteria build upon the existing frameworks, standards, labels, and initiatives against which institutions are already reporting. Nevertheless, we believe that, taken together, the proposed Criteria represent leading practice for demonstrating alignment with the three critical Elements of a Just Transition – climate and environmental action; socio-economic distribution and equity; and community voice – identified by the G7-backed Impact Taskforce.

Following this public consultation, the Criteria will be revised and further iterated. We aim to release the first version of the Criteria for public use in mid-2023.

The current momentum moving capital towards impact needs to be accelerated. A concerted and urgent effort by all actors is required to move funding – using relevant instruments and vehicles – into the SDGs and transition to a Net Zero world in which no one is left behind.

- G7 Impact Taskforce

Mobilising Institutional Capital Towards the SDGs and a Just Transition

Acknowledgments

This consultation document has been developed with input from financial institutions, foundations, academia, professional services, civil society organisations, NGOs and other experts. The Institute would like to thank all the organisations and individuals who contributed to this work and are listed below. We are also grateful for feedback received on an earlier version of this document from organisations with specific experience in engaging with local communities.

Just Transition Finance Challenge Founding Participants:

Knowledge Partner:

Criteria developed in association with:

Foreword

At the Impact Investing Institute, we believe it is imperative that financial markets create positive outcomes for people and the planet. We must rapidly mobilise capital towards having a positive impact if we are to meet the targets outlined by the Paris Agreement and prevent the collapse of natural systems. This was the call for action of the Impact Taskforce, mandated by the UK Government under its presidency of the G7 in 2021. The Taskforce, co-led by the Impact Investing Institute and the Global Steering Group for Impact Investment, was asked to provide recommendations for the development of scalable financial vehicles that direct capital towards achieving the Sustainable Development Goals (SDGs).

The 170 finance, policy and thought leaders who contributed to the Impact Taskforce recognised that capital is increasingly tilted towards climate action. But they also found that an increased focus on wider environmental, socio-economic and community impacts was needed for the transition to Net Zero. A Just Transition, which puts the needs of people and communities at its heart, is vital in ensuring no one gets marginalised or left behind by the move to Net Zero. This approach is necessary not just because it is equitable and inclusive, but because, without it, public backlash against climate action will delay or even stop necessary action. In short, the transition to Net Zero will not be successful if it is not just.

The Impact Taskforce's report, *Mobilising institutional capital towards the SDGs and a Just Transition*, provided a blueprint for how to design Just Transition finance vehicle, as defined by three critical Elements:

1. **Advancing climate and environmental action;** *and*
2. **Improving socio-economic development and equity;** *and*
3. **Increasing community voice.**

The Just Transition Criteria in this document build upon this work, providing a means for investors to align their financial products/solutions in a consistent and substantive way with the Just Transition Elements. To the extent possible, we have designed the Criteria to be universally applicable across asset classes, sectors, and geographies. The Criteria have been developed through desk research, interviews and roundtables with the institutions listed on page 3 as well as a wide range of other relevant stakeholders. We are grateful for the generosity of all contributors in sharing their insights and experiences. We would also like to thank Deloitte LLP for their support.

We hope that the Criteria encourage investors to deploy increasing amounts of capital into Just Transition investments. Recognising that the development of a common understanding will be iterative and require thinking beyond usual silos, we now seek feedback from a broad a range of stakeholders.

The Impact Investing Institute

1. Introduction

The climate and nature crises are the defining challenges of our time. Their effects are increasingly visible and the impacts on people ever more prevalent. The call to action is clear: we must mobilise more capital rapidly and at scale to finance a Just Transition.

What to expect from this document

This document contains the proposed Just Transition Criteria ("the Criteria") for aligning investment products and solutions with the Elements of a Just Transition as defined by the Impact Taskforce (summarised in **Section 2**). Our intention is for financial actors, primarily public and private asset managers and owners, to use the Criteria to create new or align existing products, solutions and investment mandates, in order to direct more capital towards financing a transition to a Net Zero in a manner that is inclusive and equitable.

The Criteria themselves (**Section 3**) form the core of this document. While the Criteria are intended to be used independently by financial actors, **Section 4** outlines a proposal for a potential Just Transition Label recognising compliant products/solutions. **Appendices I and II** should be read in parallel to Section 3 and provide an indicative list of disclosures and indicators, drawn from existing frameworks, that may be used for implementing the Criteria. **Appendix III** provides guidance on considerations in applying the Criteria to major asset classes. **Appendix IV** is a complete list of the questions asked throughout this consultation document.

The need for a Just Transition

The climate action agenda has tended to focus on a climate transition to Net Zero, and the changes needed to move to a low-carbon and resource-efficient global economy. While necessary, this narrow approach has led to growing concerns about the potential negative effects of climate actions on society, the global economy and the natural world. Concomitantly, it also neglects the huge opportunities for people and communities that the transition presents.

The Just Transition concept stems from the understanding that a singular focus on reducing carbon emissions is not sufficient and that a shift in perspective to include socio-economic impacts is integral to the transition's eventual success. A holistic approach, paying attention to our planet, its people and their communities, is needed to address climate change and its effects on society in a fair and inclusive way, and to secure necessary public support.

Governments, investors, businesses, and communities across the globe have recognised the need for, and benefits of, a Just Transition approach. The 2015 Paris Agreement highlighted the importance of a Just Transition, acknowledging that decarbonising objectives need to be combined with attention to affected workers in a shift to a resilient economy. Most recently, the Sharm el-Sheikh Implementation Plan, agreed at COP27 in November 2022, put the imperative of a Just Transition at the core of the global climate agenda by recognising that "effective climate action should be implemented in a manner that is just and inclusive while minimizing negative social or economic impacts that may arise from climate action".

Ambition and impact

Interest in the Just Transition has been rising among financial market actors, including asset managers, asset owners and intermediaries. But the application of a Just Transition approach remains limited in financial markets. We believe this is largely due to the lack of a common understanding of what “good” looks like when it comes to adopting a Just Transition lens in investment activities. The Impact Taskforce laid the groundwork for this common understanding, by identifying the three Elements of the Just Transition (Advancing climate and environmental action; Improving socio-economic development and equity; and Increasing community voice – see Section 2). The Criteria build on the work of the Impact Taskforce and consolidate innovative good practice in Just Transition financing and thinking.

The Just Transition Criteria proposed in this document reflect the level of ambition and urgency that is required to achieve a global Just Transition to Net Zero. The ambition of the Criteria is high: to catalyse the mobilisation of capital towards a global Just Transition at scale. Yet, we have sought to ensure the Criteria are practically attainable to reflect the urgency for financial market participants to act now. They have been designed to enable the adoption of a Just Transition approach throughout investment strategies currently on the market and in development, thereby increasing the quality and quantity of products and solutions that materially contribute to advancing a Just Transition.

The Criteria are intended to become a free, public good providing a common set of principles for market actors and broader stakeholders to implement a Just Transition approach in investments. In addition, as detailed in Section 4, we are assessing interest in a Just Transition label. The label would recognise financial products and solutions that apply the Criteria and constitute best practice in supporting a Just Transition.

Approach to Criteria selection

The Criteria, outlined in Section 3, have been developed through engagement with multiple financial institutions, from impact investors and asset managers to pension funds and development finance institutions. They have benefitted from input from civil society organisations, NGOs, academia, and experts, including foundations and organisations that work with communities that will be most affected by the transition to Net Zero. The Criteria are rooted in the universal principles found in initiatives, frameworks and standards such as the UN Global Compact (UNGC), the UN Principles for Responsible Investing (UNPRI), the Global Reporting Initiative (GRI) and the Sustainable Development Goals (SDGs), among others.

The Criteria should not be considered new contenders in the expansive landscape of standards and frameworks. To encourage their wide and rapid adoption, the Criteria have been designed to build on and be interoperable with existing frameworks, labels, and standards, covering Environmental, Social and Governance (ESG) and impact management, monitoring and reporting (IMMR). We believe this approach will help financial institutions leverage their existing ESG and IMMR processes to facilitate the launch of vehicles that deliver Just Transition outcomes. The augmentation of existing processes through a thematic lens is timely and forward-looking in light of global efforts to standardise sustainability disclosures and reporting.

We are aware of the rapid regulatory and industry evolution related to reporting, disclosures, and labelling, and have coordinated with key initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), the International Sustainability Standards Board (ISSB), the Taskforce for Climate-Related Financial Disclosures (TCFD) and regulators in major jurisdictions. We believe our proposed approach is flexible enough to be adaptable to a fast-changing context while maintaining integrity, and we intend to regularly review and iterate the Criteria to ensure this remains the case.

Criteria applicability

The Just Transition Criteria are designed to be universal and asset class agnostic, with the ambition to provide a common frame of reference that is sufficiently clear and flexible to apply across a wide range of investment strategies. In developing the Criteria, we have engaged extensively with financial actors and broader stakeholders representing expertise across assets in both private and public markets and across geographies, including in developed, emerging and frontier markets. We are confident that the Criteria are applicable to the range of strategies that are required to achieve a global, whole-of-economy Just Transition.

Based on this engagement, we have provided further guidance on considerations in applying the Criteria to major asset classes in Appendix III of this document. We also intend to develop more specific asset-class application guidance and compendia of examples based on best practice in using the Criteria.

The Criteria have been designed to apply both to products (pooled investment vehicles) and solutions (bespoke investment vehicles created for individual institutional investors). For the purpose of this document, references to “products” denote both products and solutions.

Who can use the Criteria?

The Just Transition Criteria have been created for use by all financial actors who can take action to align investments and products with the Just Transition. We hope this results in participation by a wide range of institutions globally, so that investments that advance a Just Transition can attract funding at scale and pace. Actions taken by each institution will have an impact; together, there can be a significant multiplier effect. The Just Transition Criteria can be used by:

- Asset managers
- Asset owners, including pension funds and charitable endowments
- Impact investors
- Development finance institutions and multinational development banks
- Other financial market actors, including financial advisors and consultants
- Civil society organisations and foundations

While all the above are encouraged to use the Criteria, they have been developed with an emphasis on financial actors designing investment products, namely asset managers and advisors (referred hereafter to as asset managers). Such actors are pivotal in deploying and stewarding capital into investments that are aligned to a Just Transition. Asset managers are encouraged to adopt the Criteria and apply them across new or existing investment products delivering on the Just Transition Elements.

The Criteria are also of particular relevance to asset owners. Asset owners can provide much of the financial capital that is needed to finance a Just Transition. They also play an important role as influencers of the asset management community. Asset owners can use the Criteria as a basis for integrating environmental and social objectives into their investment mandates and encouraging prospective and mandated asset managers to develop products based on the Criteria. The Criteria provide a useful framework against which to assess multiple products during mandate searches, and for use in engaging with asset managers to ensure their alignment with Just Transition objectives.

2. Three Elements for a Just Transition

This section gives an overview of the **three Just Transition Elements** identified by the Impact Taskforce, which form the backbone of the Just Transition Criteria proposed in this document.

Three integrated and universal Elements adaptable to local needs

The Just Transition Elements were identified by the Impact Taskforce, in conjunction with 170 global stakeholders, to provide a common frame of reference for market actors seeking to advance a Just Transition. The Elements have been developed to be applicable across geographies and to form a basis for the determination of Just Transition priorities based on local needs. All three Elements are interlinked and equally important and must be present to ensure alignment with a Just Transition:

1. *Advance* Climate and environmental action

Moving the world to Net Zero can be achieved through two complementary investment areas: climate mitigation or reduction action, and carbon removal. To reduce net emissions to zero, focus is needed on both pathways: those that accelerate the reduction of emissions of harmful greenhouse gases (GHGs) and accelerate the development of new solutions that capture or remove those gases, and also those that protect and restore natural capital, including biodiversity.

Figure 1: The Just Transition and its three Elements

2. Improve socio-economic distribution and equity

Positive climate and environmental outcomes must be complemented with those that support the needs of people. Products must ensure that the investments they make do not unfairly distribute wealth creation or exclude local communities from fair opportunities and jobs. They must also ensure that the goods and services they produce are affordable, and that any costs are globally and regionally distributed evenly.

3. *Increase* Community voice

The third Element, Community Voice, should incorporate a spectrum of components that help to improve social dialogue and agency, from local engagement to participation in decision making. It is paramount that financial actors ensure stakeholders – workers, communities, and consumers, in particular those affected by transition action and those from marginalised and indigenous communities – are heard, and that their views and needs are responded to in any financing transaction purporting to contribute to a Just Transition.

Examples of Just Transition investment strategies

The Just Transition Elements constitute a common frame of action for all actors who are instrumental in mobilising capital for a global Just Transition. For financial actors specifically, the Impact Taskforce provided an indicative list of ten investment strategies that contribute to the delivery of the three Elements and therefore constitute priority areas for Just Transition finance.

a. Climate and environmental action

1. Greenhouse gas emission mitigation, reduction, and removal
2. Adaptation and resilience
3. Biodiversity and natural capital – climate and environmental effects
4. Reduction of pollution or degradation of natural environments

b. Socio-economic distribution and equity

5. Fair distribution of climate change costs and benefits between developed and developing countries and between regions and communities within countries, based on a place-based lens
6. Inclusive opportunities for decent jobs (including re-skilling where jobs are lost), delivering fair income, security in the workplace and social protection for families
7. Accessibility and affordability of products and services
8. Livelihood enhancement and social justice for all, across regions, communities, and individuals, including marginalised and underserved groups
9. Biodiversity and natural capital – socio-economic effects

c. Community voice

10. Social dialogue and stakeholder engagement through a participatory voice and inclusion in decision making for those affected and those frequently excluded and/or marginalised, including communities and people

An overarching principle of the Elements is that, regardless the primary area of priority of the chosen strategy, all three Elements must be present to qualify as a Just Transition investment.

3. Proposed Just Transition Criteria

This section lays out the proposed set of Just Transition Criteria that help to design products aligned with Just Transition outcomes.

Understanding and using the Criteria

As illustrated in Figure 2, the Just Transition Criteria are built around a three-layer structure that captures and articulates the contribution of the product and its underlying investments to Just Transition outcomes. Each of the three criteria must be met for a product to be considered as aligned with the Criteria.

Each criterion is presented in the section below as a set of minimum expectations for its fulfilment supplemented by further considerations for implementation and illustrated by an example. Users wishing to implement the Criteria within products are encouraged to look at the Criteria in order, as the product-level commitments under Criterion 1 should drive the implementation of the other two criteria.

The Criteria should be read in parallel with Appendices I and II of this document. The appendices provide an indicative list of disclosures and indicators, based on major frameworks, that can be used as a starting point to demonstrate fulfilment of the Criteria. We will continue to iterate the Criteria in line with developments within industry and major regulatory changes to ensure their relevance and encourage their broad adoption.

Specific considerations for use by asset managers

Assets managers are the primary intended users of the Criteria. For each of the Criteria below, the document provides further considerations for implementation by asset managers. Asset managers are invited to make use of the Criteria as part of:

- **Designing new products** aligned with a Just Transition
- **Adapting existing products** to deliver Just Transition outcomes (for example by augmenting the social impact considerations of climate-related products)

The Just Transition Criteria are intended to be used independently, in line with the principle of self-assessment. Nevertheless, the Criteria also provide a useful framework that asset managers can use to embed Just Transition considerations into:

- **Formalised communications** with distributors and investors regarding the Just Transition alignment of their products
- **Reporting** in relation to the positive (and potential negative) outcomes of investments

When using the Criteria for such purposes, the exact form of disclosures against the Criteria is left to the appreciation of users. Users may, for example, provide self-contained disclosures focusing on Just Transition characteristics of their products. They may, alternatively, integrate reporting against the Criteria in existing product disclosures, including for example against TCFD or jurisdictional requirements.[1]

We are, in addition, exploring the possible launch of a Just Transition Label, as further detailed in Section 4, subject to the identification of market need, as well as resource availability. The Just Transition Label would recognise products that can demonstrate fulfilment of the Criteria, supported by independent verification. We welcome feedback on the proposal for a Just Transition Label.

Specific considerations for use by asset owners

While this document has been developed primarily for use by asset managers, asset owners are also encouraged to make use of the Criteria. In particular, asset owners can use the Criteria as part of:

- **Investing** into Just Transition aligned products wherever possible (for externally managed allocations)
- **Manager selection**, by requiring Just Transition considerations in the investment mandates they put out to tender, encouraging asset managers to adopt the Criteria and use them wherever possible to design or adapt the products in which the asset owners invest
- **Due diligence**, by assessing (alone or alongside investment consultants) how Just Transition considerations, as captured by the Criteria, are implemented by asset managers when conducting due diligence of externally managed products
- **Engagement,** with their appointed asset managers, advisors, or consultants, requiring disclosure of how they take account of Just Transition considerations, as captured by the Criteria, within their investment processes and investment strategies. Asset owners will, in this way, signal that this is an important consideration for both investors and investees to begin assessing, measuring and managing.

Asset owners can additionally publish/enhance their existing climate strategies with specific reference to Just Transition principles, in terms of how they integrate objectives relating to the Just Transition Elements into their investment philosophy, due diligence, procurement and appointment of external asset managers. Similarly, the Criteria may be used to augment existing disclosures (e.g. under TCFD or jurisdictional requirements) with Just Transition characteristics.

Questions

Q1: Do you agree with the ways in which it is envisaged that asset managers and asset owners, respectively, use the Just Transition Criteria? Is there anything you would amend or add to the envisaged use to support asset managers and asset owners in implementing the Criteria?

[1] For example, reporting against the Criteria could be integrated into existing reporting against the TCFD's four pillars of Governance, Strategy, Risk Management and Metrics & Targets, against which the Criteria can be mapped.

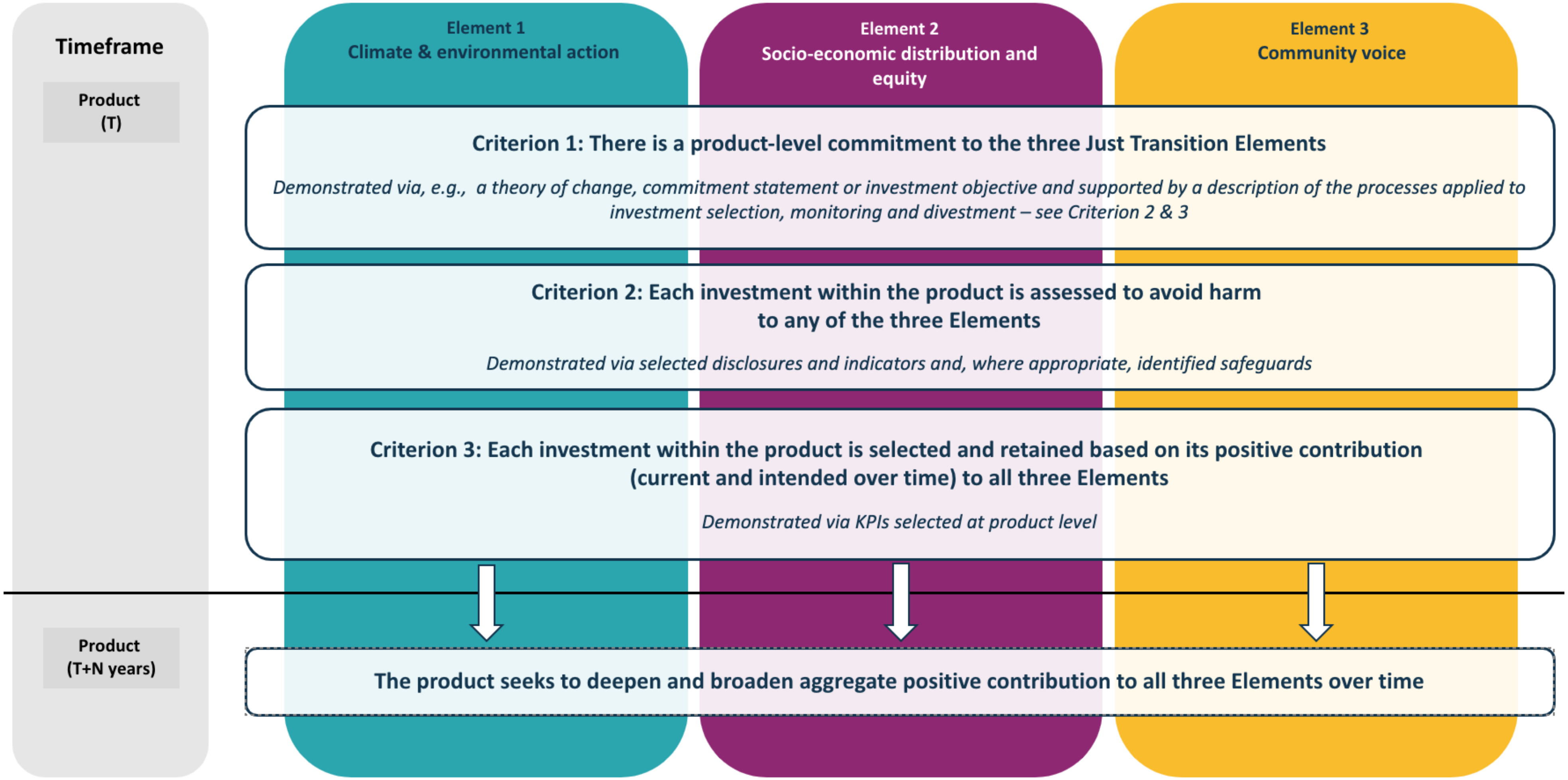

Figure 2: Proposed architecture for the Just Transition Criteria

Criterion 1: There is a product-level commitment to the three Just Transition Elements

Criterion 1 is fulfilled through a product-level commitment to contributing towards the three Just Transition Elements and detail about how the overall investment strategy (the defined principles by which an investor selects investments based on risk, return and contribution to their desired objective) and investment process facilitate the achievement of targeted Just Transition outcomes. In the spirit of a Just Transition, asset managers (referred to as "managers" from here on) are expected to embed Community Voice in the investment strategy and process, as relevant to the specific product.[2]

At a minimum, this commitment should explicitly and plausibly:

a. Identify the issue that the product is aiming to address and how it is relevant to a Just Transition
b. Articulate how the product's strategy contributes to addressing the issue through a theory of change or similar (e.g. narrative) means of demonstration. This should cover:
    - the expected outcomes the product aims to achieve
    - the respective contributions of the investor on the one hand, and investee companies and/or projects (as applicable) on the other hand
    - the steps required to make the respective contributions possible
c. Specify the safeguards for avoiding negative impacts, and the KPIs for assessing positive impacts (see Criteria 2 and 3, respectively), and articulate how these contribute to the achievement of the product's expected Just Transition outcomes
d. Specify a time horizon and targets for progress against expected outcomes, including a current baseline (T) and change at T+1, 2…n
e. Outline the product's investment process, including the selection and monitoring of assets, considering the safeguards (Criterion 2) and the KPIs (Criterion 3)
f. State the product's mitigation and escalation strategies for when intended outcomes are not achieved in line with targets, which may include engagement, voting and divestment
g. Articulate how the product will embed Element 3 (Community Voice) within the investment strategy and process, both initially when setting the commitment and on an ongoing basis. This should form a constant feedback loop in regards to measurement and management of outcomes across all three Elements (for example, by identifying local social needs and opportunities that can then be used to advance the positive contribution to Element 2).

Further considerations for implementation

Managers are expected to pay particular attention to the coherence of selected safeguards and KPIs (see Criteria 2 and 3) with the product-level Just Transition commitment, to ensure the link between product commitment and chosen metrics is plausible and demonstrable.

[2] Resources to identify best community voice mechanisms include a compendium of good practices collected by the Impact Taskforce - Mobilising institutional capital towards the SDGs and a Just Transition (pg 181); Asset Based Community development; the Ladder of Participation; Involve.

Managers can, where appropriate, leverage and build upon existing disclosures in fulfilling the expectations above. For example, they may augment their TCFD disclosures by incorporating considerations relating to social and community impact.[3]

In line with emerging industry best practice and, increasingly, regulatory expectations[4], a theory of change is the suggested means of meeting component b) of the commitment outlined above. A theory of change is a conceptual model used to describe and map how specific inputs and activities lead to positive change, measured in terms of 'outputs' and 'outcomes'. This includes a comprehensive description and illustration of how and why a desired change is expected to occur in a particular context (see Figure 3).

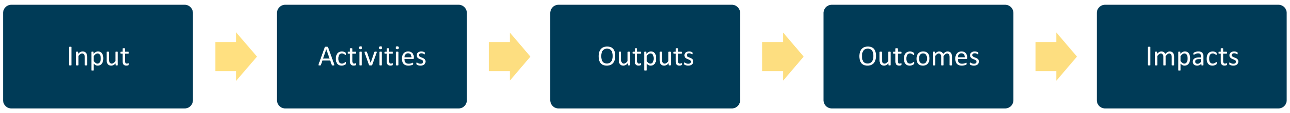

Figure 3: Example of theory of change (adapted from GIIN, 2022)

Example of product-level commitment for illustrative Clean Energy Just Transition equity product

Investment Objective: The fund aims to provide capital growth by investing in companies worldwide that are involved in the provision or development of low-carbon ("clean") energy while encouraging a Just Transition.

Investment Policy: The fund is actively managed and invests at least [X]% of its assets in companies that generate at least [X]% of their revenue from activities that contribute to the provision of low-carbon energy, including through energy production, distribution, storage, transport, supply chains or technologies, and that actively engage and seek to support material stakeholder groups through a just and equitable transition to Net Zero.

Just Transition ambition: The fund aims to achieve profit with purpose by combining market rate financial returns with intentional positive environmental, social and community impact through offering appropriate, affordable, high quality clean energy to households, businesses, and the grid in low-income regions. The fund places a specific focus on identifying companies that seek to engage and benefit local communities in their activities.

Statement: The fund aims to achieve the above ambition through the following activities in relation to the three Just Transition Elements:

[3] For illustrative purposes, an approach using TCFD's four pillars could consider under 1) Governance – processes, controls and procedures used to monitor and manage climate/social/community-related risks and opportunities; 2) Strategy – the actual and potential impacts of climate/social/community-related risks and opportunities on the activities, strategy and financial planning; 3) Risk Management - the process(es) by which climate/social/community-related risks and opportunities are identified, assessed and managed; and 4) Metrics & Targets – how identified climate, social and community risks and opportunities are measured, monitored and managed, in order to assess performance progress towards its targets.

[4] For instance, the Financial Conduct Authority's Consultation Paper on Sustainability Disclosure Requirements (SDR) and investment labels lists the use of a theory of change as a requirement for obtention of a "Sustainable Impact" label.

- **Element 1:** financing the expansion and adoption of clean energy sources through providing affordable and accessible clean energy products to a range of consumers
- **Element 2:** improving accessibility to essential energy services of underserved and vulnerable consumers who would otherwise struggle to access reliable equivalent services due to identified market failures, while prioritising a local supply chain and living wage employment
- **Element 3:** supporting customer-centric companies that design products/services around the essential needs of the targeted low-income customer segment, incorporating customer feedback and, where possible, engaging with local communities to identify needs and opportunities related to their activities.

Considerations for avoiding potential negative impacts:

- The fund adheres to the following frameworks: UN Global Compact, UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multi-National Enterprises.
- In addition, the fund will make use of various disclosures and indicators deemed relevant by the Manager across each of the Elements in answering key questions around how the investee companies consider their environmental, social and community impacts.
- Data for the disclosures/indicators and adherence to frameworks will be sourced primarily from direct company research, local/national government, stakeholder surveys and third-party data providers.

Considerations for demonstrating positive contribution:

- The fund adopts a proprietary methodology to assess positive and negative contribution to the UN SDGs and the targets underlying these. The methodology comprises assigning KPIs to relevant environmental, social and community targets, against which the potential investment universe is scored to identify those companies who are most positively contributing across the three Just Transition Elements.

Just Transition in the investment process, including Community Voice:

- All potential investments are reviewed from both a financial/investment committee perspective as well as an impact committee perspective, requiring approval from both to be eligible for the portfolio.
- Local research teams in the target region(s) conduct due diligence with prospective/current investments to understand existing community and stakeholder engagements. The Manager will establish a baseline at point of investment with respect to KPI performance, with the intention to engage and improve company performance against set KPIs over a defined timeframe. Where relevant, the Manager will support the relevant companies in furthering their contribution to the three Elements, including by supporting customer and community engagement.

Theory of change:

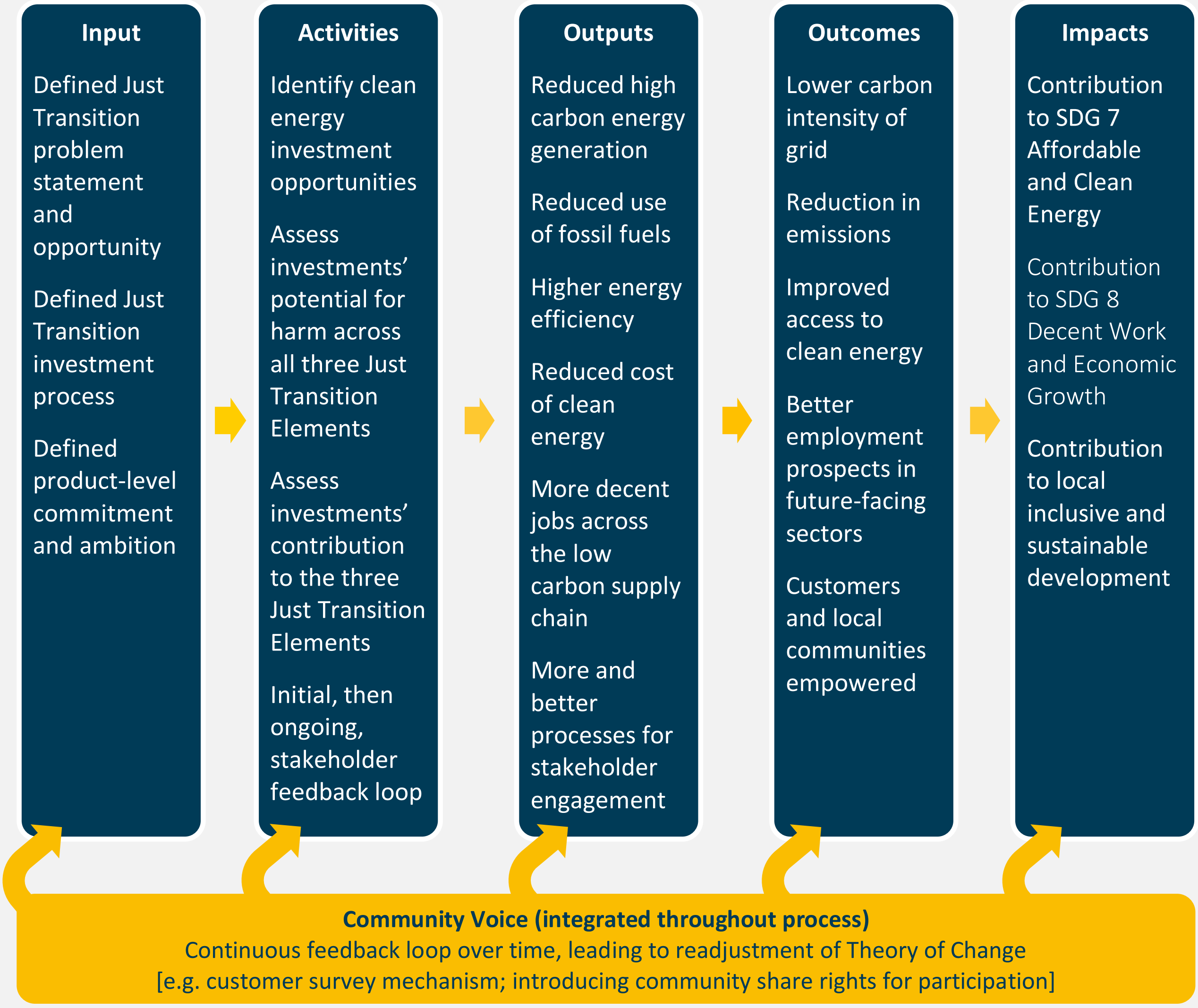

Figure 4: Example theory of change for illustrative Clean Energy Just Transition equity product

Questions

Q2.a: Are the requirements of the Criterion practicable? To what extent do they align with your investment processes? For example: does it make sense to set KPIs at product level? Would you expect your theory of change (or equivalent) to drive asset selection and monitoring? How would you demonstrate that your KPIs interlink and support all three Elements and your theory of change?

Q2.b: Do you have any other comments on this Criterion?

Criterion 2: Each investment within the product is assessed to avoid harm to any of the three Elements

Criterion 2 is demonstrated through a commitment to avoid and, where necessary, mitigate negative impacts or harmful consequences to any of the Just Transition Elements that might arise through investment activities. This is to avoid a situation where, for example, a product makes an overall positive contribution to all three Elements, while (inadvertently or otherwise) holding investments that also have a significant negative impact on one or more of the Elements. It is expected that, should an investment fail to pass the thresholds set below, it would not be selected if at investment selection stage, or, in the case of an existing investment, would be subject to the mitigation and escalation process outlined as part of Criterion 1.

To fulfil Criterion 2, managers should, at a minimum:

a. Provide a statement of adherence to relevant high-level frameworks, such as the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the International Finance Corporation’s Performance Standards and others listed in Appendix I
b. State the processes in place to assess and monitor actual and potential material negative impacts and harmful consequences of investments to any of the three Just Transition Elements, using the list of disclosures and indicators provided in Appendix I (to the extent possible – see below). Such processes should both cover the initial investment selection and due diligence stage and be carried-out on an ongoing basis throughout the lifespan of the product.
c. State the specific environmental, social, and community-related safeguards put in place for investments within the product, be they qualitative or quantitative, and how these are monitored.

Further considerations for implementation

In fulfilling the requirements above, managers are expected to be as specific as possible regarding the methodologies, processes, disclosures, and indicators which they use in monitoring and preventing potential negative impacts and harmful consequences of investments. Recognising the number of existing and upcoming approaches available, we encourage managers to build upon existing processes where available. Managers can use existing reporting to demonstrate fulfilment of the expectations above. For example, reporting against the Sustainable Finance Disclosure Regulation (SFDR) “Do No Significant Harm” requirements may be used in support of the above. Similarly, managers may refer to corporate disclosures on climate-related risks – extending these to include social and community considerations – against the TCFD’s four pillars.

We have provided an indicative list of disclosures and indicators in Appendix I to support the identification of key risks of negative impact to a product’s Just Transition objectives. Disclosures and indicators are classified by the Just Transition Element for which they are the most material. Managers are expected to conduct due diligence against these disclosures (including, where relevant, through engagement with the management team/boards of underlying investments), to avoid and/or mitigate potential harmful consequences resulting from their investments. Due diligence approaches will be specific to each manager, strategy, and product – an illustrative example is provided below.

Specific consideration should be given to the respective abilities of companies of different sizes in different geographies, noting that expectations of formal disclosure requirements may be adapted in the context of companies based in, for example, emerging and frontier markets. In such instances, it may be appropriate to use alternatives to formal disclosures and indicators; for example, evidence of company-level practice or credible intent to adopt or improve practices in line with the respective Element, in place of policies.

We have crowdsourced the disclosures and indicators in Appendix I from real-life examples of investment products provided by Just Transition Finance Challenge participants. The list aims to promote convergence and comparability between different Just Transition products. Managers are therefore encouraged to make use of the list to the largest extent possible to assess the key risks of negative impact to their Just Transition objectives. Nevertheless, we recognise that some products may use different disclosures and indicators. In such instances, we would expect managers to provide a short explanation of why alternative disclosures and indicators are required. We aim to iterate the list in response to suggestions from users of the Criteria and wider interested parties, as well as other key initiatives and market or regulatory developments.

Example of assessment for potential negative impacts or harmful consequences for illustrative Clean Energy Just Transition equity product

The below disclosures and indicators are used as part of the investment process to ensure that all investments meet the minimum requirements across the Just Transition Elements. For disclosures, in addition to Net Zero transition plans (Element 1), there is a requirement for investable companies to have and publish documentation/reporting, for example, health and safety policies (Element 2) and social dialogue or stakeholder engagement policies or equivalent (Element 3). For indicators, these are identified along with a minimum expectation (or safeguard) that investable companies must meet and maintain, for example, annual reduction of carbon intensity (Element 1), local employment (Element 2) and evidence of engagement with stakeholders (Element 3). As the fund invests in companies located in emerging markets, it exercises a degree of flexibility in expecting formal disclosures from all companies. However, the manager clearly signals its expectations regarding each of the three Elements to all companies and engages to the extent possible to support companies in improving relevant disclosures, while monitoring any evidence of negative impact on any of the three Elements.

	Element 1 Climate & environmental action	Element 2 Socio-economic distribution & equity	Element 3 Community voice
Investment strategy	**GHG emissions mitigation, reduction and removal**	**Fair distribution of climate change costs;** **Inclusive opportunities for decent jobs**	**Social dialogue and stakeholder engagement**
Disclosures	• Company transition plan for reaching net zero emissions using credible methodologies (SBTi, CA100+, TCFD…) • Proprietary climate risk assessment scorecard	• Human rights policy • Health and safety policy • Transition plan including consideration of social impacts • Employment policy	• Social dialogue policy • Stakeholder and/or community engagement policy
Indicators	• Carbon intensity (tCO_2e) (against targets set out in company transition plan)	• Minimum % of local employment • No violations of UNGC/UNGP/OECD MNE Guidelines	• Evidence of stakeholder feedback and resulting decision-making, as relevant • Incidents of violations involving rights of Indigenous peoples (GRI)

Figure 5: Example disclosures and indicators used to fulfil Criterion 2 for illustrative Clean Energy Just Transition equity product

Example of strategy-specific due diligence approach

The below questions are part of the due diligence approach pursued by the manager of the Clean Energy equity product when selecting investments. The proprietary Just Transition risk assessment scorecard considers both general and strategy specific questions drawn from a range of industry best practice, for example, Global Reporting Initiative (GRI) 3 – Material Topics.

Level 1 questions (general):

- Who are the key stakeholder groups that are relevant to this investment/issuer?
- What are the potential and actual negative impacts created by this investment/issuer?
- Materiality assessment – who is impacted most materially? Is this by direct operations or through supply chain / business relationships?
- What actions have been identified/taken to monitor, manage and mitigate these impacts?

Level 2 questions (strategy specific):

- Does the investment/issuer acknowledge the social risks and opportunities arising from the climate transition?
- What are the potential negative social consequences of the investment's/issuer's planned climate transition? How is this captured and addressed?
- How does the investment's/issuer's board and other governance fora engage on social issues related to climate change?
- Has the investment/issuer identified operations or jobs within its business or value chain at risk in this transition? How have they identified impacted stakeholders?
- What steps has the investment/issuer taken to engage with its stakeholders, including local government, labour unions and local communities, in the development of its climate strategy? How has this feedback been incorporated?
- How are accessibility and affordability of the investment's/issuer's products/services considered given their target population?
- In the divestment or decommissioning of any assets, e.g., an industrial site, how are potential negative social and environmental consequences mitigated and remediated?

Questions

Q3a: Is the approach to identifying and mitigating potential negative impacts or harmful consequences outlined in Criterion 2 practicable? For example: does it leave sufficient flexibility for different investment approaches and strategies? Is it sufficiently robust? If not, please suggest other processes that managers could carry out to fulfil the aims of Criterion 2.

Q3b: Regarding Appendix I (Illustrative list of disclosures and indicators for preventing potential negative impacts or harmful consequences of investments), do you have any comments on this list? Are there any other disclosures or indicators that you believe should be included? We are particularly interested in building out the list of disclosures and indicators for Community Voice.

Criterion 3: Each investment within the product is selected and retained based on its positive contribution (current and intended over time) to all three Elements

Criterion 3 ensures that the product contributes, over time, to all three of the Just Transition Elements. From the onset, managers are expected to demonstrate that the following statement is met by any investment within a product aligned with the Just Transition Criteria:

The investment makes a demonstrable and positive contribution to…

1. advancing climate and environmental action

   and

2. improving socio-economic distribution and equity

   or

3. increasing community voice

…evidenced through appropriate, credible KPIs, drawing from the indicative list provided in Appendix II.

In addition, at an overall product-level, there should be a positive contribution to all three Just Transition Elements, based on the aggregate contribution of each of the underlying investments to Element 1 and 2 and/or 3.

Over time, there should be evidence of progress against the selected KPIs at regular (usually annual) intervals, in line with the product-level commitments outlined in Criterion 1. The contribution to the Just Transition Elements is expected to broaden and deepen over time at a product-level. It is also expected that, through increasing disclosures or changes in business practices at the level of each investment (potentially because of manager engagement), investments can – over time – contribute to all three Elements. Figure 6 illustrates this process.

Further considerations for implementation

The guiding principle behind Criterion 3 is that, in order to claim a demonstrable positive contribution to the Just Transition Elements, managers need to be able to measure and report that their products put more into the environment, society and the global economy than they take out. Typical examples of such measurements include a net reduction in overall GHG emissions, the restoration and protection of additional natural ecosystems and a net gain in the number of jobs created within a community.

In specific instances (for example, in the case of transitioning assets or companies that cannot immediately provide selected KPIs), it may be acceptable for an investment not to contribute positively to any one of the Elements on a temporary and time-bound basis, provided it remains aligned the requirement of Criteria 1 and 2. In such an instance, managers are expected to provide an explanation and evidence of attempts to remedy the issue (for example, the investment has a robust transition plan in place, or the manager is engaging with the investment on disclosures), with clear timelines and escalation processes in line with the commitment statement under Criterion 1.

An indicative list of KPIs that can be used to demonstrate positive contribution against each of the Just Transition Elements is provided in Appendix II. Managers are expected to identify a set of KPIs from this list that are the most relevant for their product's Just Transition commitment statement, objectives, and investment strategy, as outlined in Criterion 1; and select, for each investment, the most relevant KPIs from this set. The number of KPIs a manager identifies at product level, and selects at investment level, is at their discretion, depending on factors such as strategy relevance and the availability of investee-level disclosures.

As with the disclosures and indicators in Appendix I, we have crowdsourced the KPIs in Appendix II from real-life examples of investment products provided by Just Transition Finance Challenge participants. The list aims to promote convergence and comparability between different Just Transition products. Managers are therefore encouraged to make use of the list to the largest extent possible to assess the Just Transition contribution of their investments. Nevertheless, we recognise that some products may use different KPIs. In such instances, we would expect managers to provide a short explanation of why alternative KPIs are required. We aim to iterate the list in response to suggestions from users of the Criteria and wider interested parties, and in partnership with key initiatives.

Both the contribution of the individual investments and the manager should be reported on a regular basis:

- Individual investments are expected to make positive progress against their KPIs for the relevant Element(s). For example, if Emissions Intensity is a defined KPI for Element 1, the expectation over time is that this Emissions Intensity reduces according to specified targets.
- Managers are expected to report their contribution at an aggregate level across the set of KPIs selected for the product, as per the product-level commitment outlined in Criterion 1. Where possible, managers should disclose the percentage of alignment with each of the Elements by investments held in the portfolio. Managers are also invited to highlight specific interventions (for example investment, engagement, or exit) that had a material impact on progress towards the product-level commitment.

Questions

Q4.a: In ensuring that the transition to net zero is central to Just Transition products, do you agree that, at the onset, each individual investment needs to make a positive contribution to Climate and the Environment **and at least one of the other two Elements** (Socio-economic Distribution and Equity or Community Voice)? If not, can you propose an alternative approach that better facilitates the ambition?

Q4.b: Do you think there needs to be a product-level maximum threshold for investments that don't contribute positively to any of the Just Transition Elements? If so, what threshold would you suggest, and how would it work, for example, on a time-bound basis?

Q4.c: Regarding Appendix II (Illustrative list of KPIs for positive contribution towards Just Transition objectives), do you have any comments on this list? Are there other KPIs that you believe should be included? We are particularly interested in building out the list of KPIs for Community Voice.

Example of positive contribution across example Key Performance Indicators, per Element and over time

Element 1 — **Climate & environmental action**

Element 2 — **Socio-economic distribution & equity**

Element 3 — **Community voice**

Objective: "The fund aims to provide capital growth by investing in companies worldwide who are involved in the provision or development of Clean Energy while encouraging a Just Transition"

Policy: "The fund is actively managed and invests at least [X]% of its assets in companies that generate at least [X]% of their revenue from activities that contribute to the provision of low-carbon energy, including through energy production, distribution, storage, transport, supply chains or technologies, and that actively engage and seek to support material stakeholder groups through a just and equitable transition to Net Zero."

Example KPIs	% Revenue from Renewable Energy	# Patents in clean energy	Carbon intensity (reducing)	CO2 avoided p.a.	Transitional job programmes	% of employees paid living wage	% of women in senior leadership	Gender pay gap below [x]	% goods and services targeting underserved	Engagement programme with affected communities	# of community reps in decision making forums	Periodic survey on service satisfaction /affordability
Investment A	Y	Y			Y			Y			Y	
Investment B			Y				Y			Y		
Investment C		Y			Y	Y			Y			Y

Now

T+N years

Figure 6: Example of positive contribution across example Key Performance Indicators, per Element and over time

The Just Transition is a necessary agenda for investors to work on, one that is fully consistent with the fiduciary commitment to responsible investment and the integration of environmental, social and governance (ESG) dimensions in all decision-making.

- Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science

Climate Change and the Just Transition: A Guide for Investor Action

4. Potential for developing a Just Transition Label

A Just Transition Label could provide a means to recognise asset owners and managers that have aligned their investment activities and vehicles with the objectives of a Just Transition, as captured by the Criteria. This section provides a summary of how a label could work. As part of the public consultation on the Criteria, we invite feedback on interest in and need for the proposed Label.

Purpose of a label

We are exploring whether there is interest in and need for a Just Transition Label. Under this approach, financial actors that have implemented the Just Transition Criteria would apply for, and upon assessment be granted, the label – to recognise those demonstrating leadership and best practice in taking a Just Transition approach in their investments. The label would serve to encourage more financial actors to integrate Just Transition principles into their investment strategies. For asset managers, it would provide opportunities for market differentiation and access to investment by asset owners recognising the label. For asset owners, it would provide more visibility and comparability between products intending to deliver a Just Transition.

Principles of a label

Through initial market research, including an assessment of existing labelling regimes, we have identified some key principles for a Just Transition Finance Label, should it be launched:

- **Self-assessment** – asset managers would nominate a product for application of the label, based on use and fulfilment of the Just Transition Criteria.
- **Transparency** – asset managers would publish their assessment against the Criteria, including their Just Transition commitment, objectives and target outcomes, investment horizon, and investment strategy; their selected disclosures and indicators for identifying, monitoring and preventing potential negative impacts and harmful consequences of investments; and their selected KPIs for identifying and monitoring positive contribution towards their Just Transition objectives. Manager would also disclose their progress towards the alignment of the portfolio with the Just Transition Elements and its Just Transition objectives, including a possible percentage estimate of alignment with the Elements.
- **Periodicity** – asset managers would publish a disclosure statement assessing progress against the Criteria on a periodic basis (e.g. annually).
- **Third party verification** – asset managers would be encouraged to seek third party verification of their self-assessment.
- **Independence** – a governance body and secretariat or other supporting resource would be established to check applications for the label, conduct assessments against the Criteria, and award the label, as well as maintain the Criteria, including gathering and reflecting feedback on trends and indicative lists of accepted disclosures and indicators.

Additional resources

If a Just Transition Label was established, we envisage providing a body of resources to support its adoption. This could include, for example, free and impartial advisory services to support applications for the Just Transition Label, case studies, guidance, and workshops and peer-learning opportunities.

Questions

Q5a: Would you welcome, or believe there is a need for, and interest in, a Just Transition Label for eligible products?

Q5b: Do you have any comments on how the label would operate, based on the proposed principles? Do you have any other thoughts, for example, on how it should align with other labels in the market?

Appendix

I. List of disclosures and indicators for fulfilment of Criterion 2: preventing potential negative impacts and harmful consequences of investments

The disclosures and indicators listed below provide the means of demonstrating fulfilment of Criterion 2. To fulfil this Criterion, managers should, at a minimum:

a. Provide a statement of adherence to relevant high-level frameworks, such as the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the International Finance Corporation's Performance Standards and others listed in Appendix I
b. State the processes in place to assess and monitor actual and potential material negative impacts and harmful consequences of investments to any of the three Just Transition Elements, using the list of disclosures and indicators provided in Appendix I (to the extent possible – see further considerations for implementation). Such processes should both cover the initial investment selection and due diligence stage and be carried-out on an ongoing basis throughout the lifespan of the product.
c. State the specific environmental, social, and community-related safeguards put in place for investments within the product, be they qualitative or quantitative, and how these are monitored.

The list of disclosures and indicators for Criterion 2, below has been crowdsourced from the organisations on page 3 and draw from the following frameworks:

- Organisation for Economic Co-operation Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- International Finance Corporation's Performance Standards
- International Labour Organization Guidelines for a Just Transition
- Sustainable Finance Disclosure Regulation, including PAIs
- UN Global Compact

Element 1: Advance climate & environmental action		
GHG Emission mitigation, reduction, and removal	**Example Disclosures** • Robust Net Zero transition plan or equivalent: a demonstration of ambition to align with Net Zero and acting to reduce emissions (e.g., public Net Zero ambition statement, evidence of implemented interventions)	**Example Indicators** *(summarised GHG-related indicators – please see Appendix II for detailed list)* • GHG emissions (carbon footprint, intensity, exposure to fossil fuels) • Exposure to energy inefficient assets (e.g. for real estate)

Element 1: Advance climate & environmental action		
	• Impact/risk assessments, written disclosures against reporting frameworks	
Adaptation and resilience	**Example Disclosures** • Robust Net Zero transition plan or equivalent: a demonstration of ambition to align with Net Zero and acting to reduce emissions (e.g., public Net Zero ambition statement, evidence of implemented interventions) • Robust climate adaptation plan or equivalent • Impact/risk assessments, written disclosures against reporting frameworks	**Example Indicators** • Exposure to temperature, wind, water & land related damage/disruption • Training/planning/expenditure for adaptation or resilience purposes (#; $)
Biodiversity and natural capital-climate and environmental effects	**Example Disclosures** • Policy documents on approach to impact on biodiversity and natural capital • Biodiversity-linked risk assessments • Evidence of due diligence in respect of impacts on biodiversity and natural capital • Policy on deforestation/protected areas • Natural capital disclosures	**Example Indicators** • Exposure to/activities negatively affecting biodiversity-sensitive areas • Exposure to habitat loss/degradation • Exposure to species loss • Exposure to soil/water contamination
Reduction of pollution or degradation of the natural environment	**Example Disclosures** • Policy documents on approach to impact on pollution and natural environment • Biodiversity-linked risk assessments • Evidence of due diligence in respect of impacts on biodiversity and natural capital • Policy on deforestation/protected areas • Natural capital disclosures	**Example Indicators** • Exposure to polluting activities • Exposure to habitat loss/degradation • Exposure to species loss • Exposure to soil/water contamination • Emissions to water • Hazardous/radioactive waste ratio

Element 2: Improve socio-economic distribution & equity		
Fair distribution of climate change costs and benefits between developed/developing countries and between regions	**Example disclosures** • Taxes paid in operating jurisdiction	**Example Indicators**

Element 2: Improve socio-economic distribution & equity		
and communities within countries based on a place-based lens	• Remediation policy (for loss and damage)	• Violations of UNGC, UNGP, OECD MNE Guidelines or other international frameworks • Exposure to controversial industries, e.g. weapons • Rate of accidents • Human rights score • Female and minority employees • Percentage of local employees • Percentage of local suppliers in supply chain • Lowest wage paid to a direct employee • Risk to human health; food security (as a result of environmental damage)
Inclusive opportunities for decent jobs (including reskilling where jobs are lost), delivering fair income, security in the workplace and social protection for families	**Example disclosures** • Gender equality and diversity policies / targets • Human rights policies • Human trafficking policies • Health & safety policies, practices, and strategies • Procurement policies • Employment policies • Skill and training policies • Workforce transition programmes • Alignment to UNGC, UNGP on Human Rights, OECD MNE Guidelines • Alignment to international treaties/conventions/laws	
Accessibility and affordability of products and services	**Example Disclosures** • Distribution model recognises underserved population segments/markets • Pricing policy considers local market nuances, GDP per capita	
Livelihood enhancement and social justice and regions, communities and individuals, including marginalised and underserved groups	**Example Disclosures** • Transition plan considers identified operations and/or jobs at risk • Transition plan considers remediation in respect of social concerns	
Biodiversity and natural capital – socio-economic effects	**Example Disclosures** Social considerations reflected in: • Policy documents on approach to impact on biodiversity and natural capital • Biodiversity-linked risk assessments • Evidence of due diligence in respect of impacts on biodiversity and natural capital • Policy on deforestation/protected areas • Natural capital disclosures	

Element 3: Increase community voice		
Social dialogue and stakeholder engagement through a participatory voice and inclusion in decision making for those affected and those frequently excluded and/or marginalised, including communities and people	**Example Disclosures** • Stakeholder mapping • Stakeholder feedback/communication mechanisms • Impact assessments for harm to native historic sites, cultural heritage, and rights of indigenous communities • Free, Prior and Informed Consent (FPIC) policy • Employee participation in trade organisations	**Example Indicators** • # / effectiveness of worker feedback forums • # / effectiveness of consumer feedback forums • Stakeholder consultations on new projects/developments • Mechanisms for social dialogue • Incidents of violations involving rights of Indigenous peoples

II. List of KPIs for fulfilment of Criterion 3: positive contribution towards Just Transition objectives

The KPIs listed below provide the means of demonstrating fulfilment of Criterion 3. To fulfil this Criterion, from the onset, managers are expected to demonstrate that the following statement is met by any investment within a product aligned with the Just Transition Criteria:

The investment makes a demonstrable and positive contribution to…

4. advancing climate and environmental action,

   and

5. improving socio-economic distribution and equity

   or

6. increasing community voice

…evidenced through appropriate, credible KPIs, drawing from the indicative list provided in Appendix II.

In addition, at an overall product-level, there should be a positive contribution to all three Just Transition Elements, based on the aggregate contribution of each of the underlying investments to Element 1 and 2 and/or 3.

Over time, there should be evidence of progress against the selected KPIs at regular (usually annual) intervals, in line with the product-level commitments outlined in Criterion 1. The contribution to the Just Transition elements is expected to broaden and deepen over time at a product-level. It is also expected that, through increasing disclosures or changes in business practices at the level of each investment (potentially because of manager engagement), investments can – over time – contribute to all three Elements. Figure 6 illustrates this process.

The list of KPIs for Criterion 3 has been crowdsourced from founding participants and draws from the following frameworks:

- 2015 Paris Agreement
- 2X Challenge Criteria
- Carbon Disclosure Project
- EU Taxonomy
- European Bank for Reconstruction and Development Just Transition Initiative
- Febelfin
- FNG Siegel
- Global Reporting Initiative
- Greenfin
- IFRS Sustainability Disclosure Standard
- International Labour Organization

- G7 Impact Taskforce
- LuxFLAG
- Nordic Swan Ecolabel
- Science-based Targets Guidelines
- Socially Responsible Investment Label
- South Africa Just Transition Framework
- Sustainable Finance Disclosure Regulation
- Taskforce on Climate-related Financial Disclosures
- The Science Based Targets initiative
- UK Stewardship Code
- UN Principles for Responsible Investment
- UNICEF Quality Standards for Community Engagement

Element 1: Advance climate & environmental action	
GHG Emission mitigation, reduction, and removal	**Example KPIs** • Tons GHG emissions reduced p.a. (tCO2e) • Tons GHG emissions captured and/or stored p.a. (tCO2e) • Reduction in carbon intensity (CO2 tn/$revenue) • CO2 avoided p.a. (CO2e) • % revenue from renewable energy • Renewable energy installed capacity (MW p.a.) • Renewable energy generated p.a. (MWh) • Capital expenditure on sustainable energy projects ($) • Households/businesses provided with access to clean energy (#) • Patents in clean energy (#) • Battery storage capacity created (MWh)
Adaptation and resilience	**Example KPIs** • Areas protected from flooding (km) • Areas made more resilient (km) • $ value of assets made more resilient • People experiencing reduction in vulnerability (#) • Share of revenue from products which increase resilience (%) • Additional water availability (m3 p.a.) • Water saving (m3 p.a.)
Biodiversity and natural capital-climate and environmental effects	**Example KPIs** • Preserved terrestrial/marine habitats (km2) • Maintenance/safeguarding/increase of natural landscape, indigenous species, flora, fauna etc. • # forestry conservation personnel trained • % products sourced in accordance with NDPE (No Deforestation, No Peat, No Exploitation) practices
Reduction of pollution or degradation of the natural environment	**Example KPIs** • Land conservation area or activities • Net GHG emissions across activities • Amount of non-recycled waste (tonnes of waste per $)

Element 2: Improve socio-economic distribution & equity	
Fair distribution of climate change costs and benefits between developed/developing countries and between	**Example KPIs** • Cost reductions achieved for small businesses • Increased # people with access to climate change opportunities (e.g., through ClimateTech) • Increased # people with access to climate resilience products/services

Element 2: Improve socio-economic distribution & equity	
regions and communities within countries based on a place-based lens	
Inclusive opportunities for decent jobs (including reskilling where jobs are lost), delivering fair income, security in the workplace and social protection for families	**Example KPIs** • % employees provided with living wage (or equivalent) • % women in workforce • % women in senior leadership/on Board • Transitional job programmes/employees reskilled (#) • Retention targets and objectives • Educational training provided (# students, # hours) • Partnerships with educational establishments (#) • Evidence of intentional, ongoing, and meaningful engagement with workforce (# successful consultations with workers) • % workforce covered under collective bargaining arrangements • Grievance mechanism (# incidents / # successfully resolved) • Supply/value chain engagements (#)
Accessibility and affordability of products and services	**Example KPIs** • % goods/services targeting underserved segments • # consumers benefiting from affordability programmes and plans • Local/regionally calibrated assessment of affordability for essential/basic goods or services (% average GDP per capita) • Evidence of intentional, ongoing, and meaningful engagement with consumers (# successful consultations with consumers)
Livelihood enhancement and social justice and regions, communities and individuals, including marginalised and underserved groups	**Example KPIs** • School/educational enrolment (# students) • Goods/services provided to underserved segments (i.e., women/minorities) ($m) • Gender pay gap (%) • Workdays lost due to injuries/accidents/illness (#) • Reported incidents of discrimination (#) • Incidents of violations involving rights of Indigenous peoples (#) • Local employees in total workforce (%) • Jobs created (#) • Employees reskilled (#)
Biodiversity and natural capital – socio-economic effects	**Example KPIs** • Area restored or protected (km2) • Compensatory measures in place (#) • Compensation paid to affected groups (£)

Element 3: Increase community voice	
Social dialogue and stakeholder engagement through a participatory voice and inclusion in	**Example KPIs** • Evidence of intentional, ongoing, and meaningful engagement with stakeholder groups (# successful consultations)

decision making for those affected and those frequently excluded and/or marginalised, including communities and people	• Objectives on social dialogue and stakeholder engagement within the community • Stakeholder representation on board and/or advisory group of company or project • Stakeholder meetings at early project development phase (#) • Evidence of involvement in affected communities involvement in capital, product/service design, decision making and deployment • Staff engagement initiatives/surveys • Expenditure on locally sourced goods/services ($) • Pulse consumer / community surveys • Communications with impacted communities (#) • Feedback data throughout lifecycle of investment • Participation and co-determination rights, including complaints mechanisms • Compensation arrangements for rebuilding livelihoods • Representatives in decision making conversations (#) • Community/employee ownership schemes

III. Asset class specific guidance

While the Just Transition Criteria are designed to be universal and asset-class agnostic, we expect to develop asset-class specific guidance in future iterations of the Criteria. This section provides high-level guidance on integration of the Criteria in specific asset classes, which we will develop in partnership with industry participants.

Listed asset classes	
Equities	**Ambition** - Universal; no additional specificity **Investment strategy** - Clear focus on how the investment strategy seeks to deliver on the stated ambition through targeted investments. - Description of manager methodology for avoiding negative impacts and assessing positive contribution (i.e., revenue mapping, operating/capital expenditure) **Outcomes** - Include an explicit assessment of community engagement with respect to needs assessment, supply-chain considerations and how these have been met **Structure** - Pricing linked to delivery of environmental and social outcomes as well as expected financial returns **Governance** - For global/regional strategies, the selection of a representative voice will contribute a relevant perspective but cannot be expected to represent all relevant communities **Operations** - The manager pursues stewardship in its role as shareholder, including the use of voting, particularly in the case of significant minority or majority holdings
Corporate / Sovereign / Supranational bonds *(Note: Non-labelled sovereign and supranational bonds are not in scope for the Criteria)*	**Ambition** - Universal; no additional specificity **Investment strategy** - In the case of corporate labelled bonds, includes both project-specific due diligence as well as environmental, social and community assessment of the issuer - For non-labelled corporate bonds, the above should be done at issuer-level - Consideration of the: o Mix of developed and emerging markets bonds, targeting specific issuers, considering average portfolio rating, reputation etc. o Usage of different labelled bonds/use of proceeds bonds across different standards (e.g., International Capital Market Association (ICMA)) o Managers may consider an issuer's position on global treaties/conventions i.e., Paris Agreement, based on national policies, targets or Nationally Defined Contributions

	Outcomes - Framework includes an assessment of underlying use of proceeds and issuer **Structure** - Vehicle duration, depending on the targeted underlying bond maturities, liquidity etc. - Pricing linked to delivery of environmental and social outcomes as well as expected financial returns **Governance** - For global/regional strategies, the selection of a representative voice will contribute a relevant perspective but cannot be expected to represent all relevant communities **Operations** - Use of proceeds/issuers are scrutinised not only at time of disbursement but over the life of the vehicle

Unlisted/Private asset classes	
Private Equity	**Ambition** - Universal; no additional specificity **Investment strategy** - The investment strategy ensures accessibility and affordability of equity terms and fair investment valuations - The manager considers through its investment selection, the opportunity to build in continuity of the Just Transition Elements upon exit of the investment - Consideration of the: o Type of equity (growth, VC) o Profile and type of target investees (including growth, maturity) o Sector considerations (maturity, risk profile) o Exit strategy **Outcomes** - Universal, no additional specificity **Structure** - Consideration of the: o Vehicle life, capping equity investment hold periods, appropriateness of typical vehicle tenor o Management fees or incentive structure appropriate for the strategy o Target vehicle internal rate of return (IRR) driving underlying terms to investees, including fair valuation considerations **Governance** - Consideration of appropriate decision-making governance bodies (including community aspect), as compared with traditional manager-led model **Operations** - The manager pursues stewardship in its role as shareholder, including the usage of voting, particularly in the case of significant minority or majority holdings - The manager considers successive ownership and continuity of Just Transition objectives in the event of its exit

Private Debt	**Ambition** - Universal; no additional specificity **Investment strategy** - The investment strategy ensures that debt servicing (interest rate, repayment structure etc.) is fair and not overly burdensome, leading to availability, access and affordability of credit This should also include consideration of local market building and attracting other investors. - Consideration of the: o Type of debt (senior, subordinated, mezzanine) o Amount, predictability and stability of expected cashflow o Security provided o Profile and type of target investees (including cashflow profile) o Sector considerations (maturity, risk profile) **Outcomes** Universal; no additional specificity **Structure** - Consideration of the: o Vehicle life, capping underlying loan maturities o Investor regulatory requirements e.g., Solvency II and the impacts of ratings o Investor yields, driving accessible and affordable terms to investees o Interest rates linked to outcomes delivery (e.g., possible rate reduction to the underlying investees based on environmental and social outcomes) o Local currency loans, de-risking loans for investees **Governance** - Universal; no additional specificity **Operations** - The manager pursues stewardship in its role as bondholder, such as undertakings to increase services to underserved communities or decrease emissions footprint
Real Estate	**Ambition** - Projects include a clear articulation of local community aspects, and, ideally, the local supply chain - Clarity is provided on the targeted socio-economic population segment, depending on the project type, for example, workers, consumers, or tenants - Local needs assessment is integrated into each project due diligence/design and procurement processes include local community considerations **Investment strategy** - Clarity is provided on the impacted groups of the project, both short term (construction) and long term (operation), due to the long-term nature of projects - The inclusion of green aspects is specific, including, for example, materials, water usage or energy efficiency, including the supply chain where possible. Green building certifications may be used where appropriate

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- The investment strategy is clear on the local market gaps and needs (for example, housing) and how the targeted real estate investments support the closing of a gap
- Consideration of the:
  o Type of instrument (equity, debt (senior, subordinated, mezzanine))
  o Profile and type of target projects
  o Sub-sector considerations (maturity, risk profile, tenants, and leases)
  o Inflation protection
  o Exit strategy (in the case of equity investment)
Outcomes
  o Environmental considerations (e.g. energy efficiency up to recent standards)
  o Specific focus on the targeted demographic group (tenants, workers, consumers etc.) including, where relevant, underserved or marginalised clients or consumers
  o Explicit assessment of community engagement with respect to needs assessment, procurement, and supply-chain considerations
Governance
- Effective governance structures and policies are particularly important given association of many projects with local/government entities
- Governance setup includes active community and stakeholder engagement (which is traditionally built into the planning process) ensuring community relevance and support as well as feedback and local recommendations
Operations
- The manager pursues stewardship (depending on investment instrument)
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<tr><td>Infrastructure/ Project finance</td><td>
Ambition
- Projects include a clear articulation of local community aspects, and, ideally, the local supply chain
- Clarity is provided on the targeted socio-economic population segment, depending on the project type, for example, workers, consumers, or tenants
- Local needs assessment is integrated into each project due diligence/design and procurement processes include local community considerations
Investment strategy
- Clarity is provided on the impacted groups of the project, both short term (construction) and long term (operation), due to the long-term nature of projects.
- The inclusion of green aspects is specific, including, for example, materials, water usage or energy efficiency, including the supply chain where possible; where relevant, an in-depth environmental assessment (EIA) is conducted.
- The investment strategy ensures that debt servicing (interest rate, repayment structure etc.) is fair and not overly burdensome, leading to availability, access, and affordability of credit. This should also
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	include consideration of local market building and attracting other investors.
	- Consideration of the:
	  ○ Type of instrument (equity, debt (senior, subordinated, mezzanine))
	  ○ Type of strategy (core, core+ etc.)
	  ○ Profile and type of target projects (including contractor and other counterparties (such as offtakes))
	  ○ Sub-sector considerations (maturity, risk profile)
	  ○ Exit strategy (in the case of equity investment)
	Outcomes
	- Include an explicit assessment of community engagement with respect to needs assessment, procurement, and supply-chain considerations
	Structure
	- Vehicle-level return expectations, driving underlying terms and access/affordability of the project
	- Vehicle life and related timeframe considerations (development and operational periods)
	- Structure considers the inclusion of community support and engagement given the essential services nature of many infrastructure projects and direct impact on local communities
	Governance
	- Effective governance structures and policies are particularly important given association of many projects with local/government entities
	- Governance setup includes active community and stakeholder engagement (which is traditionally built into the planning process) ensuring community relevance and support as well as feedback and local recommendations
	Operations
	- The manager pursues stewardship (depending on investment instrument)

Questions

Q6: Do you have any comments on the asset class specific guidance provided? For example: would you amend or add anything to the guidance? Are there any major asset classes missing?

IV. Guiding questions for feedback

Responses to the below questions can be submitted through this online form or by email to consultations@impactinvest.org.uk. We ask that you kindly send feedback by Friday, 31 March 2023.

Section 3: Proposed Just Transition criteria

Q1: Do you agree with the ways in which it is envisaged that asset managers and asset owners, respectively, use the Just Transition Criteria? Is there anything you would amend or add to the envisaged use to support asset managers and asset owners in implementing the Criteria?

Criterion 1

Q2a: Are the requirements of the Criterion practicable? To what extent do they align with your investment processes? For example: does it make sense to set KPIs at product level? Would you expect your theory of change (or equivalent) to drive asset selection and monitoring? How would you demonstrate that your KPIs interlink and support all three Elements and your theory of change?

Q2b: Do you have any other comments on this Criterion?

Criterion 2

Q3a: Is the approach to identifying and mitigating potential negative impacts or harmful consequences outlined in Criterion 2 practicable? For example: does it leave sufficient flexibility for different investment approaches and strategies? Is it sufficiently robust? If not, please suggest other processes that managers could carry out to fulfil the aims of Criterion 2?

Q3b: Regarding Appendix I (Illustrative list of disclosures and indicators for preventing potential negative impacts or harmful consequences of investments) do you have any comments on this list? Are there any other disclosures or indicators that you believe should be included? We are particularly interested in building out the list of disclosures and indicators for Community Voice.

Criterion 3

Q4.a: In ensuring that the transition to net zero is central to Just Transition products, do you agree that, at the onset, each individual investment needs to make a positive contribution to Climate and the Environment **and at least one of the other two Elements** (Socio-economic Distribution and Equity or Community Voice)? If not, can you propose an alternative approach that better facilitates the ambition?

Q4b: Do you think there needs to be a product-level maximum threshold for investments that don't contribute positively to any of the Just Transition Elements? If so, what threshold would you suggest, and how would it work, for example, on a time-bound basis?

Q4c: Regarding Appendix II (Illustrative list of KPIs for positive contribution towards Just Transition objectives), do you have any comments on this list? Are there other KPIs that you believe should be included? We are particularly interested in building out the list of KPIs for Community Voice.

Section 4: Potential for developing a Just Transition finance Label

Q5a: Would you welcome, or believe there is a market need for, and interest in, a Just Transition finance label for eligible products?

Q5b: Do you have any comments on how the label would operate, based on the proposed principles? Do you have any thoughts, for example, on how it should align with other labels in the market?

Appendix III: Asset class specific guidance

Q6: Do you have any comments on the asset class specific guidance provided? For example: would you amend or add anything to the guidance? Are there any major asset classes missing?

Additional questions

Q7: We are seeking to test the Criteria with actual or in-development financial products. If you are interested in working with us on this please provide your email address.

Q8: Please provide your name

Q9: Please provide your organisation

Q10: Which of the below best describes your role, or that of your organisation?

- Asset Manager
- Asset owner
- Civil society organisation
- Consultant and other professional services
- Development finance institution and Multilateral development bank
- Financial advisor
- Foundation and/or Charitable endowment
- Policy maker
- Researcher or academic
- Other

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