impact investing institute

JUST TRANSITION FINANCE CHALLENGE

Just Transition Criteria

How to align investments
with a just transition

> 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

Contents

About this document

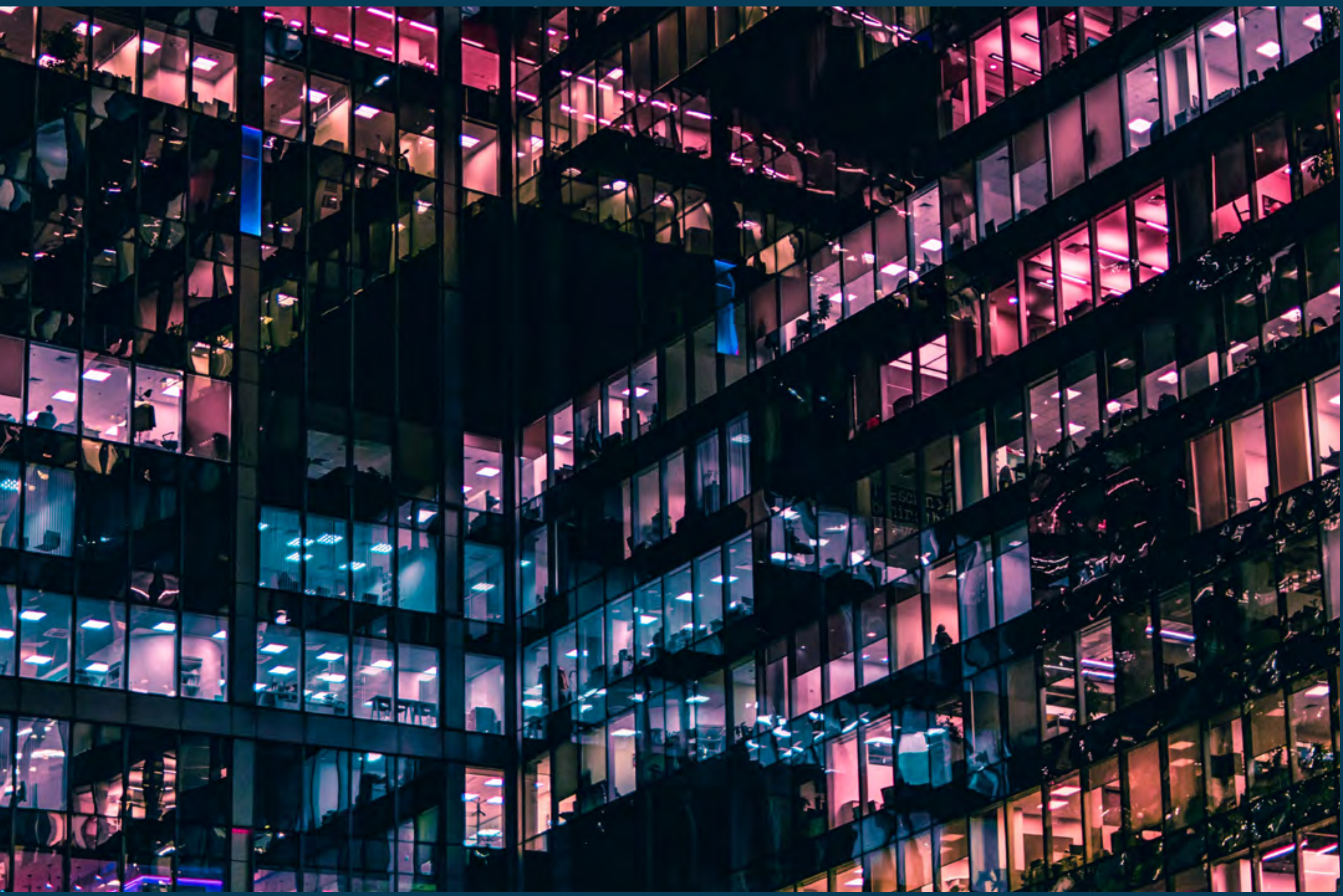
This document has been produced by the Impact Investing Institute in partnership with investors and other stakeholders committed to delivering a just transition.

The document contains a set of Just Transition Criteria that can be used by investors to align products (such as investment funds) and solutions to support the achievement of a just transition to net zero.

Rather than putting forward a new framework, the Just Transition Criteria build upon the existing frameworks, standards, labels, and initiatives that financial actors are already using. Nevertheless, the Just Transition Criteria are designed to fill a gap in the market for improving and demonstrating alignment with the three critical elements of a just transition, as identified by the G7-backed Impact Taskforce: climate and environmental action, socio-economic distribution and equity, and community voice.

The development of the Just Transition Criteria is an iterative process. We intend to revise them regularly, in line with the evolution of market practice and the regulatory landscape.

To receive updates on future versions of the Just Transition Criteria, **please sign up here.**



Acknowledgments

We are grateful for the commitment of the founding participants of our Just Transition Finance Challenge, listed below, who spearheaded the development of the Just Transition Criteria.

We would also like to thank the organisations and individuals representing financial institutions, foundations, academia, professional services, civil society organisations and NGOs who contributed to this work, including by providing feedback on an earlier version of this document during a period of public consultation that ran from January to March 2023.

Just Transition Finance Challenge founding participants:

Knowledge partner:

With the support of:

Foreword

We believe it is imperative that financial markets create positive outcomes for people and the planet.

The world is facing two great challenges – the transition to a low carbon economy and rising social inequality. Neither can be solved without addressing the other. Capital markets have a major role to play in being part of the answer, but many investors that can deploy capital at scale are not clear on the steps they need to take to tackle both of these issues.

At the Impact Investing Institute, we connect investors with opportunities that can address social and environmental challenges while securing a financial return. The Just Transition Criteria are a practical tool that has the power to unlock trillions of pounds of investment for a transition to a net zero world that prioritises the needs of the planet and the people living on it.

The Criteria will make it easier for fund managers to design financial products that can help deliver on the three critical elements of a just transition, as defined by the G7-backed Impact Taskforce:

- **Advancing climate and environmental action** – including greenhouse gas emission mitigation, reduction and removal
- **Improving socio-economic distribution and equity** – through, for example, inclusive opportunities for decent jobs
- **Increasing community voice** – through, for example, engagement and dialogue with affected communities that are often excluded and marginalised

Globally, £2.2 trillion are invested in climate-focused funds. Within the next five years, we would like to see over half of these investments adopt a just transition approach, combining climate action with creating and securing opportunities for people and communities to thrive in a transformed global economy.

The Criteria have been co-created and tested in collaboration with the 21 asset owners and asset managers participating in our Just Transition Finance Challenge, representing over £ 4 trillion of assets and assets under management. We are also grateful to our knowledge partner, the London School of Economics' Grantham Research Institute, and to Deloitte LLP and Oliver Wyman for their support.

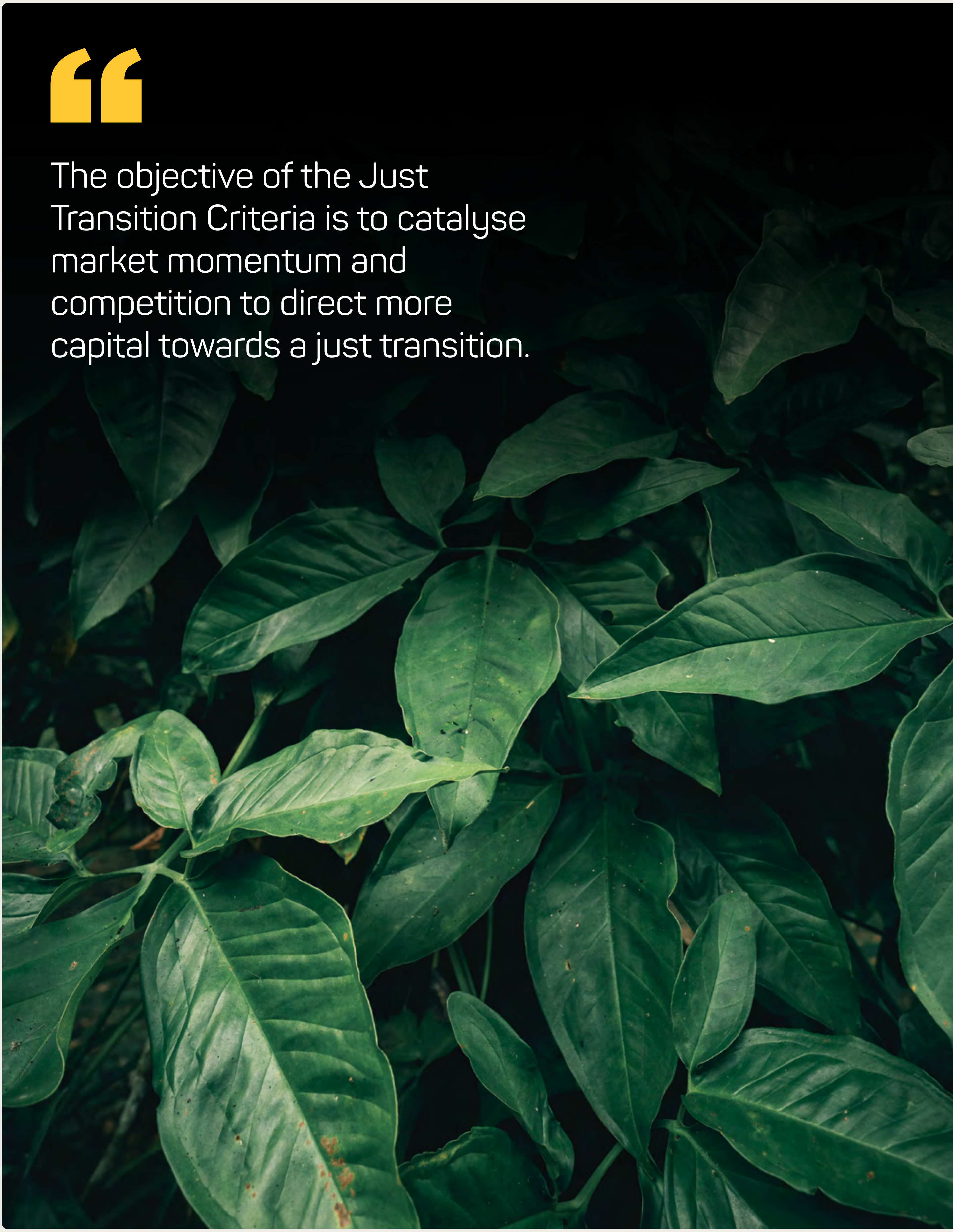
As part of a public consultation, the Institute worked with a wide range of NGOs and social investors to reflect their views on how the Criteria can be most impactful. We are grateful to these organisations who helped to make the Criteria as meaningful and practical as possible.

Going forward, we will continue to work on practical ways of connecting capital to impact. Research by the UK Financial Conduct Authority shows that 81% of adults would like their investments to do good as well as provide a financial return. While it is positive to see that demand is translating into investor action, there is no time to lose in securing the just transition. It is our great hope that the Criteria will give investors a practical tool that accelerates the deployment of capital for a transition to a low carbon world where people and communities prosper.

Kieron Boyle
Chief Executive

impact investing institute

JUST TRANSITION FINANCE CHALLENGE



> “The objective of the Just Transition Criteria is to catalyse market momentum and competition to direct more capital towards a just transition.

1. Introduction

The climate and nature crises are the defining challenges of our time. Their effects are 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 Just Transition Criteria ("the Criteria") for aligning investment products and solutions with the elements of a just transition as defined by the G7-backed Impact Taskforce (summarised in **Section 2**). Our aim 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. The goal is 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. Whilst 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 and 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 in implementing the Criteria. **Appendix III** provides guidance on considerations in applying the Criteria to major asset classes. **Appendix IV** provides a mapping of Just Transition Criteria against two major sustainable finance regimes: the UK's proposed Sustainable Disclosure Requirements (SDR) and the European Union's Sustainable Finance Disclosure Regulation (SFDR).

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. Whilst 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. It also neglects the huge opportunities for people and communities that the transition presents.

A singular focus on reducing carbon emissions is not sufficient - a shift in perspective to include socio-economic impacts is integral to the transition's success.

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 and participation.

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".

The Impact Taskforce further recognised that the consensus on the need for a just transition creates an opening to increase coordination across different actors who are increasingly aware of their responsibility to contribute to this transition. Given the scale of the interventions and financing required to achieve a whole-of-the-economy, global just transition, such coordination is vital. The common recognition of the need for a just transition creates opportunities to reduce – and work across – silos, be they sectoral (for example, between governments, public and private investors, and businesses), geographic (between and across the Global North and the Global South) and thematic (for example, between investors focusing on social impact and the much larger pool of investors seeking environmental impact).

Ambition and impact

The Criteria were developed in response to the need for and opportunities related to financing the just transition, as outlined above, with a focus on engaging financial market actors including asset managers, asset owners, and intermediaries. Our focus on these actors stems from the fact that, whilst interest in the just transition has risen, the application of a just transition approach remains limited in financial markets.

As identified by the global contributors to the Impact Taskforce, one key reason for limited action is 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 a common understanding, by identifying the three elements of a 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 Criteria 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 applicable to reflect the urgency for financial market participants to act now. They have been designed to enable the adoption of a just transition approach by 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.

Governments, investors, businesses, and communities across the globe have recognised the need for, and benefits of, a just transition approach.

The Criteria are intended to be a free, public good providing a common set of principles for market actors and broader stakeholders to align their investments with just transition objectives. The Criteria also provide a frame of reference that can be used by different types of actors to demonstrate or assess claims of alignment with the just transition. The Impact Investing Institute does not hold any regulatory power and, as such, the adoption, use of, and reporting against the Criteria is voluntary.

As detailed in Section 4, we are exploring the launch of a just transition label. The label would recognise best practice in advancing a just transition amongst financial products and solutions that apply the Criteria. We welcome feedback and expressions of interest on the proposal for a just transition label.

Approach to Criteria development

The Criteria, outlined in Section 3, have been developed through engagement with multiple financial institutions, from impact investors and more mainstream asset managers to pension funds and development finance institutions (DFIs). They have benefitted from input by civil society organisations, foundations, NGOs, academia, and other experts, including organisations that work with the communities most affected by the transition to net zero.

The Criteria should not be considered new contenders in the expansive landscape of standards and frameworks. They 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.

Further, 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 leading environmental, social and governance (ESG) and impact management, monitoring and reporting (IMMR) processes. 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 International Sustainability Standards Board (ISSB), the Taskforce for Climate-Related Financial Disclosures (TCFD), the Glasgow Financial Alliance for Net Zero (GFANZ), and regulators

The Just Transition Criteria are designed to be applicable to investments in all major asset classes

in major jurisdictions. We believe our proposed approach is flexible enough to be adaptable to a fast-changing context whilst maintaining integrity, and we intend to review and iterate the Criteria regularly to ensure this remains the case.

Criteria applicability

The Just Transition Criteria are designed to be applicable to investments in all major asset classes. In developing the Criteria, we have engaged with financial actors and broader stakeholders representing expertise across assets in private and public markets and across geographies, including in developed, emerging and frontier markets. We are confident that the Criteria can therefore provide a common frame of reference that is sufficiently clear and flexible to be useable in the range of strategies that are required to achieve a global, whole-of-economy just transition.

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

The Criteria have specifically been designed to be used in the context of 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.

Whilst we encourage users to

adopt the Criteria across their investment products and portfolio, we acknowledge both that progress towards aligning investments with a just transition will be incremental and that alignment across all products / a portfolio will not be appropriate in many instances.

Who can use the Criteria?

The Criteria have been created for use by all financial actors who can take action to align products and investments 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. We also encourage cooperation between these different groups of actors, acknowledging their respective roles in a just transition, and between different types of investors working across different strategies and regions. 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**

Whilst 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 to hereafter as asset managers). Such actors are pivotal in deploying and stewarding capital into investments that are aligned with a just transition. Asset managers are encouraged to use the Criteria across new or existing investment products so that they deliver on the elements of a just transition.

Additionally, the Criteria also provide a framework against which organisations not directly designing products (such as asset owners, DFIs, and multilateral development banks (MDBs)) can review the just transition credentials of their investments, either in products or solutions, or, with required adjustments, to direct investments. In particular, 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.

Three integrated and universal elements adaptable to local needs

The Impact Taskforce, backed by the UK presidency of the G7 in 2021, brought together 170 global stakeholders to **mobilise capital** towards a just transition. The Taskforce identified three Just Transition Elements ("the Elements") to provide a common frame of reference for financial market actors seeking to advance a just transition. The Elements are applicable across geographies and can be used to determine local just transition priorities. The three Elements are interlinked and equally important. They must all be present to ensure alignment with a just transition.

Figure 1: The just transition and its three Elements

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. Other investment areas that are critical to the achievement of this Element include those that protect and restore natural capital, including biodiversity, and those that support adaptation and resilience to the effects of climate change.

2 *Improve* **socio-economic distribution and equity**

Positive climate and environmental outcomes must be complemented with those that support the needs of people. Investments should not entrench or exacerbate existing burdens for vulnerable or marginalised groups. Products should be accessible and local communities should be included in fair opportunities and jobs. They must also ensure that the goods and services they produce are affordable, and that costs and profits are evenly distributed, globally and regionally.

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 are heard, and that their views and needs are responded to in any financing transaction purporting to contribute to a just transition. These stakeholders include workers, communities, and consumers – in particular, those affected by transition action and those from marginalised and indigenous communities.

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. 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.

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.

1 Climate and environmental action

- Greenhouse gas emission mitigation, reduction, and removal
- Adaptation and resilience
- Biodiversity and natural capital – climate and environmental effects
- Reduction of pollution or degradation of natural environments

2 Socio-economic distribution and equity

- 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 [1]
- Inclusive opportunities for decent jobs (including re-skilling where jobs are lost), delivering fair income, security in the workplace and social protection for families
- Accessibility and affordability of products and services
- Livelihood enhancement and social justice for all, across regions, communities, and individuals, including marginalised and underserved groups
- Biodiversity and natural capital – socio-economic effects

3 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

[1] See the Impact Investing Institute's website for an explanation of place-based impact investing

3. The Just Transition Criteria

This section lays out the 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 underlying criteria must be met for a product to be considered as aligned with the overall 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 intend 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).
- **Identifying and engaging with underlying investments** according to their contribution to just transition outcomes.

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 alignment of their products with just transition outcomes.
- **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 users. Whilst we would encourage the provision of self-contained disclosures focusing on the just transition characteristics of their products, investors may alternatively integrate reporting against the Criteria in existing product disclosures, for example against TCFD, jurisdictional requirements, or in wider impact reporting.[2]

We are, in addition, exploring the possible launch of a just transition label, as further detailed in Section 4. The just transition label would recognise products that can demonstrate fulfilment of the Criteria, supported by a common disclosure process and independent verification. We welcome feedback and expressions of interest on the proposal for a just transition label.

Specific considerations for use by asset owners and other allocators

Whilst 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 a tool to support:

- **Investing** in just transition-aligned products (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. By doing so, asset owners signal that this is an important consideration for both investors and investees to begin assessing, measuring, and managing.
- **Monitoring** where transition risk is deemed material – the Criteria can provide relevant indicators against which to assess performance over time.

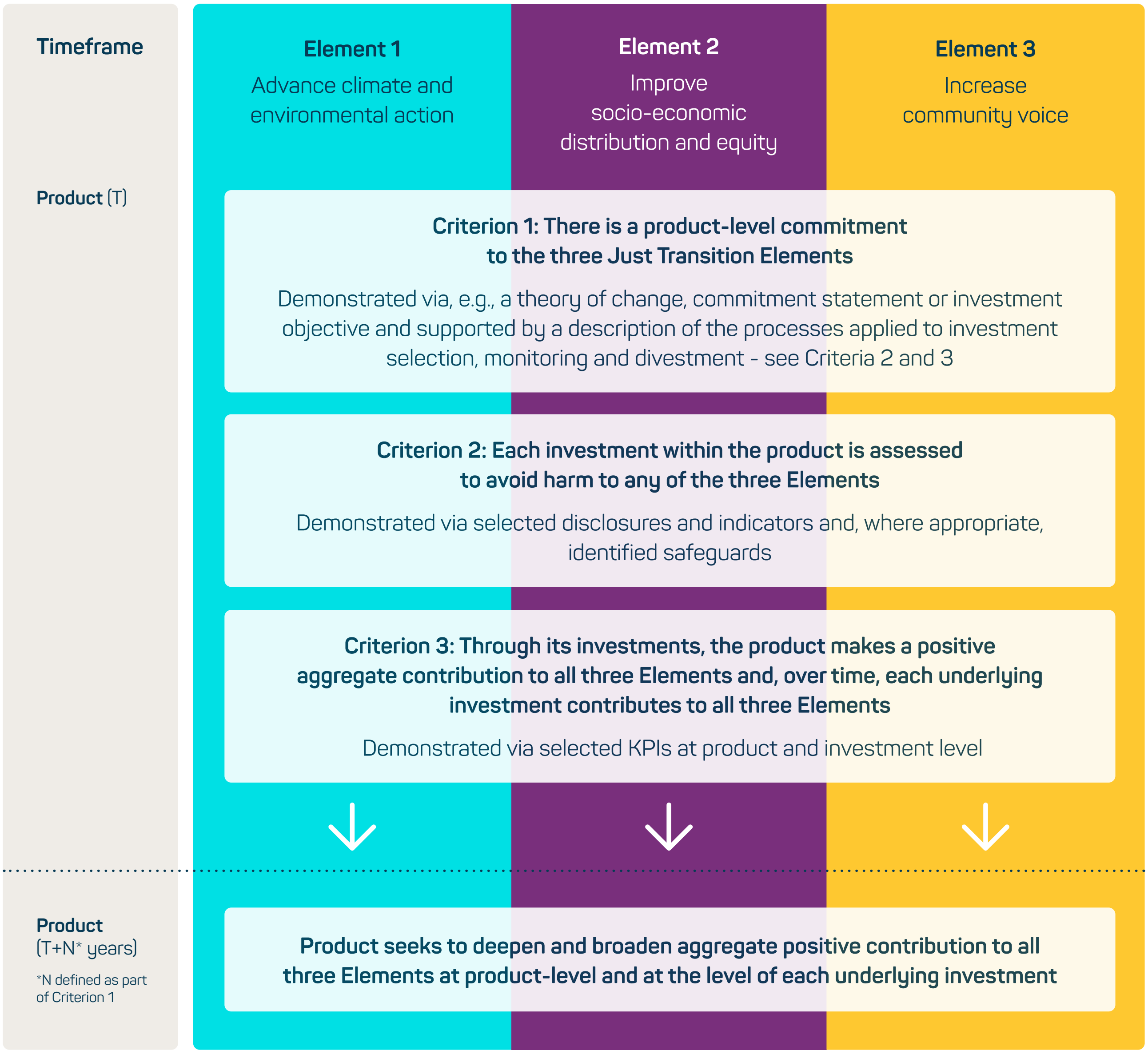
Whilst this document has been developed primarily for use by asset managers, asset owners are also encouraged to make use of the Criteria.

Asset owners can additionally enhance their existing climate strategies with specific reference to just transition principles, in terms of how they integrate objectives relating to the 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.

Acknowledging their critical role in financing a just transition, particularly in the Global South, other allocators (such as DFIs and MDBs) are invited to make use of the Criteria in the ways described above that are most relevant for their specific activities. For example, the Criteria may provide a useful tool against which to assess the alignment of their respective portfolios against just transition outcomes. They might also be helpful in evaluating the contribution of proposed investments to local just transition needs. Finally, they might be helpful in the context of blended finance or technical assistance activities, by providing a common frame of reference for the different types of stakeholders involved (for example, concessional and commercial investors, fund managers, advisors) to align on just transition objectives.

[2] 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 and Targets, against which the Criteria can be mapped.

Figure 2: Overall architecture of 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 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 the community voice element in the investment strategy and process, as relevant to the specific product.[3]

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 means of demonstration (e.g., impact narrative). 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 and mitigating negative impacts, and the key performance indicators (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 changes at T+1, 2…n that need to happen to fulfil the positive contribution to all three Elements over time (see Criterion 3)

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 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. It is expected that there should be an ongoing feedback loop so that community voice informs measurement and management of outcomes across the whole theory of change [4]

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.

Managers can, where appropriate, leverage and build upon existing disclosures in fulfilling the expectations above. They may, for example, outline product-level commitments to the just transition in relevant pre-contractual materials or augment their TCFD disclosures by incorporating considerations relating to social and community impact.

To reflect the needs of specific geographies, managers are encouraged, where possible, to make use of relevant frameworks and roadmaps that may exist at a regional, national, or sub-national level. For example, some geographies might have identified just transition priorities, which should provide a basis for assessing the relevance of specific investments (and opportunities for engagement) from a just transition perspective. If formal just transition priorities are not publicly available, some indication may be found in frameworks such as Nationally Determined Contributions (NDCs) to the Paris Agreement or National Sustainable Development Strategies (NSDS) towards the SDGs.

In line with emerging industry practice and, increasingly, regulatory expectations , 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).

[3] 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 (p. 181); Asset Based Community development; the Ladder of Participation; Involve.

[4] For example, community engagement activities may help to identify local social needs and opportunities that can then be used to refine the intended positive contribution to Element 2. To facilitate this, community voice should be sought throughout the lifecycle of the product, feeding into pre-investment (e.g., due diligence) and during ownership of the related asset.

[5] 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 and Targets – how identified climate, social and community risks and opportunities are measured, monitored and managed, in order to assess performance progress towards its targets.

[6] 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 of the proposed "Sustainable Impact" label.

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

Input → Activities → Outputs → Outcomes → Impacts

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 towards 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:

- **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 or local equivalent.
- **Element 3:** supporting customer-centric companies that design products/services around the essential needs of the targeted underserved and vulnerable customer segments, incorporating customer feedback and 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, OECD Guidelines for Multinational Enterprises and ILO Declaration of Principles concerning Multinational

Enterprises and Social Policy.

- 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. The fund may use, where relevant, specialist community engagement services such as 60 Decibels and IIX Values to inform and verify contribution to Element 3.

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:

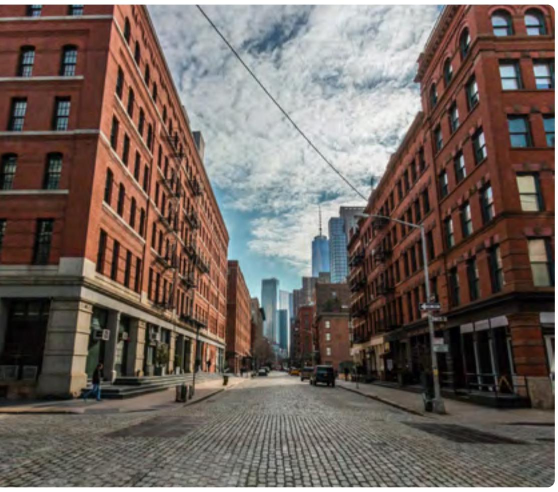
Input	Activities	Outputs	Outcomes	Impacts
Defined just transition problem statement and opportunity Defined just transition investment process Defined product-level commitment and ambition	Identify clean energy investment opportunities Assess investments' potential for harm across all three Just Transition Elements Assess investments' contribution to the three Just Transition Elements Initial, then ongoing, stakeholder feedback loop	Reduced high carbon energy generation Reduced use of fossil fuels Higher energy efficiency Reduced cost of clean energy More decent jobs across the low carbon supply chain More and better processes for stakeholder engagement	Lower carbon intensity of grid Reduction in emissions Improved access to clean energy Better employment prospects in future-facing sectors Customers and local communities empowered	Contribution to SDG 7 Affordable and Clean Energy Contribution to SDG 8 Decent Work and Economic Growth Contribution to local inclusive and sustainable development

Community Voice (integrated throughout process)

Continuous feedback loop over time, leading to adjustment of theory of change (e.g., customer survey mechanism; introducing community share rights for participation)

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 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, whilst (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, monitor and engage to improve (where relevant) actual and potential material negative impacts and harmful consequences of investments to any of the three Elements, using the relevant disclosures and indicators from the list provided in Appendix I (to the extent possible – see below). Materiality thresholds may be established, for example, with consideration to local sector average. 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, preventing, and engaging to improve potential negative impacts and harmful consequences of investments. Recognising the number of existing and upcoming approaches available, we encourage managers to use and build upon their existing processes where possible. For example, 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, based on existing disclosures frameworks that managers are likely to be

Specific consideration should be given to the abilities of certain companies to meet the requested disclosures and indictors

using already. Disclosures and indicators are classified by the 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 abilities of certain companies to meet the requested disclosures and indictors, e.g., depending on their size or location. For example, for listed or larger companies based in advanced markets, it can be reasonably expected that safeguards around stakeholder engagement, availability of grievance mechanisms, gender-based violence and harassment are in place. Similarly, for industries with potential exposure to conflict minerals or forced labour, a supplier code of conduct and supply chain due diligence would constitute best practice. For companies that are smaller or based in, for example, emerging and frontier markets, expectations of formal disclosure requirements, or their periodicity, may be adapted to the context. 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 and other investors. 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 intend to iterate the list in response to further suggestions from users of the Criteria and wider interested parties. We will also monitor other key reporting initiatives and market or regulatory developments for evidence of evolving good practice in reporting on factors that are material to the Elements.

The disclosures and indicators used have been crowdsourced from real-life examples of investment products provided by Just Transition Finance Challenge participants and other investors

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 on, for example, health and safety (Element 2) and social dialogue or stakeholder engagement (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 and key outcomes 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.

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

	Element 1 Climate and environmental action	**Element 2** Socio-economic distribution and 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 (tCO2e) (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)

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 Just Transition 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 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?
- 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?

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?
- 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?

Criterion 3: Through its investments, the product makes a positive aggregate contribution to all three Elements and, over time, each underlying investment contributes to all three Elements

Criterion 3 ensures that the product contributes positively to all three of the Just Transition Elements. To fulfil this Criterion, managers should demonstrate that there is:

a. From the onset (i.e., when Criteria are first applied), a positive contribution to all three Elements at a **product level**, based on the aggregation of the positive contribution of each of the underlying investment; and

b. Over time (i.e., in line with the timelines specified as part of Criterion 1), a positive contribution to all three Elements by **each underlying investment**, through the progressive alignment of the portfolio with just transition objectives.

The above positive contribution should be evidenced through appropriate, credible KPIs, drawing from the indicative list provided in Appendix II (to the extent possible – see below). 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 expectation is that, over time, each underlying investment contributes to all three Elements

Further considerations for implementation

The guiding principle behind Criterion 3 is that, in order to claim a demonstrable positive contribution to the Elements, a manager needs to be able to measure and report that their product and, over time, its underlying investments, put more into the environment, society and the global economy than they take out. Typical examples of such a contribution across the three Elements can include a net reduction in overall GHG emissions, the restoration and protection of additional natural ecosystems, a net gain in the number of decent jobs created within a community, and the adoption of mechanisms for community engagement in business activities.

An indicative list of KPIs that can be used to demonstrate positive contribution against each of the 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, the availability of investee-level disclosures, and feasibility of periodic reporting.

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 select from the list the most relevant KPIs 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.

In the requirements to fulfil Criterion 3, a distinction has been made between a product level, aggregate contribution to all three Elements,

Figure 6: Qualitative and quantitative breakdown of positive contribution to be demonstrated

Contribution	Qualitative	Quantitative
Product level	Positive contribution to all three Elements (from the onset, aggregated)	Progress against selected KPIs for all three Elements (over time, aggregated)
Underlying investment	Positive contribution to all three Elements (over time, investment-specific)	Progress against selected KPIs for all three Elements (over time, investment-specific)

which should be the case from the onset, and the contribution of each underlying investment to the three Elements, which can be achieved over time. This distinction accommodates different starting points, for example, a climate-first or social-first strategy, and recognises the opportunity for furthering the contribution to a just transition across investments held in the product through mechanisms for investor contribution (detailed below). At the same time, the uniqueness and integrity of the just transition approach is maintained, as there should always be a demonstrable contribution to all three Elements at a product level and, over time, by each underlying investment.

The positive contribution at product level and at the level of **underlying investments** can be demonstrated across both a qualitative and quantitative dimension, as summarised in figure 6.

At a product level, the positive contribution should be an aggregate of the positive contribution by each underlying investment as per the product-level commitment outlined in Criterion 1.

From a qualitative perspective, a positive contribution should be made to all three Elements. Whilst this may, in practice, qualify a product in which individual underlying investments are only contributing to one or two Elements at the onset, the requirement to expand and deepen the contribution of each underlying investment over time ensures this remains only a temporary state.[7] Managers are expected to specify which investments contribute to each Element.

From a quantitative perspective, it is expected that there is positive progress towards the product-level commitment made and the set of KPIs selected as part of Criterion 1. For example, if emissions intensity is a defined KPI for Element 1, this should be reported on, and the expectation over time is that emissions intensity reduces according to specified targets across the product.

At the level of underlying investments, managers should monitor and demonstrate the contribution of each investment to each of the three Elements over time.

The qualitative expectation is that, over time, each underlying investment contributes to all three Elements. As a baseline, it is expected that each investment, from the onset, contributes to at least one Element, as it would be otherwise difficult to justify their inclusion in a just transition aligned product. A likely situation is that the underlying investment can make a demonstrable contribution to one or two but not all three of the Elements. In specific situations, typically in the case of transitioning assets or companies that cannot immediately provide selected KPIs, it may be that an investment does not demonstrably contribute to any Element. Both situations are acceptable as a starting point, provided that the following conditions are met:

- There is a clear identification of any investment that does not yet contribute to all three Elements as part of disclosures against Criterion 3;
- The investment remains aligned with the requirements of Criteria 1 and 2 (including the requirement to do no significant harm to any of the Elements and associated mitigation and escalation policies); and
- There is a stated commitment by the manager to drive the contribution of the investment towards all three Elements, for example, through increasing disclosures or supporting changes in business practices at the level of the investment, so that, over time, it contributes to all three Elements.

From a quantitative perspective, the measurement of progress against the selected KPIs at the level of each investment is left to the discretion of the manager using their existing IMMR tools and processes.

Managers are invited to highlight specific interventions (for example, investment, engagement, or exit) that had a material impact on progress towards the product-level commitment

The manager should evidence their effort to increase the qualitative and quantitative contribution of each underlying investment to the three Elements in line with the commitment statement under Criterion 1. They may wish to highlight specific interventions (for example, investment, engagement, or exit) that had a material impact on progress towards the product-level commitment. Mechanisms to improve the contribution of each investment to the three Elements are left to the discretion of the manager, who is encouraged to incorporate available good practice most relevant to the strategy.[8] Timelines for the alignment of each investment with all three Elements are also left to determination of the manager, again following the most relevant good practice. The exceptions are investments which do not contribute to any Element, where a positive contribution to at least one Element should be achieved within a year or otherwise divested. Figure 7 illustrates this process.

[7] This also reflects the current state opportunity for improvement on disclosures and engagement on the three Elements, in particular community voice, which the Criteria aim to improve.

[8] These might include, for example, mechanisms identified by the Impact Management Project (IMP), the Operating Principles for Impact Management (OPIM) or the GIIN's Guidance for Pursuing Impact in Listed Equities and equivalents in other asset classes.

Figure 7: Example of positive contribution across example key performance indicators, per Element and over time

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"

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 towards a just and equitable transition to net zero."

Element 1: Advance climate and environmental action

Product KPIs	% Revenue from renewable energy	# Patents in clean energy	Carbon intensity (reducing)	CO2 avoided p.a.
Investment A	Y	Y	Y	
Investment B			Y	Y
Investment C		Y	Y	Y

Element 2: Improve socio-economic distribution and equity

Product KPIs	Transitional job programmes	% of employees paid living wage	% of women in senior leadership	Gender pay gap below (X)
Investment A	Y	Y		Y
Investment B		Y	Y	
Investment C	Y	Y		

Element 3: Increase community voice

Product KPIs	Engagement programme with affected communities	# of community representatives in decision making forums	Periodic survey on service satisfaction and affordability
Investment A	Y	Y	
Investment B	Y		
Investment C	Y		Y

At onset | T+ 1 year | T+ 2 years

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. Towards a just transition label?

To recognise financial actors who have aligned their investments with a just transition, we are exploring the launch of a dedicated just transition label. This section provides a summary of how such a label could work.

Purpose of a label

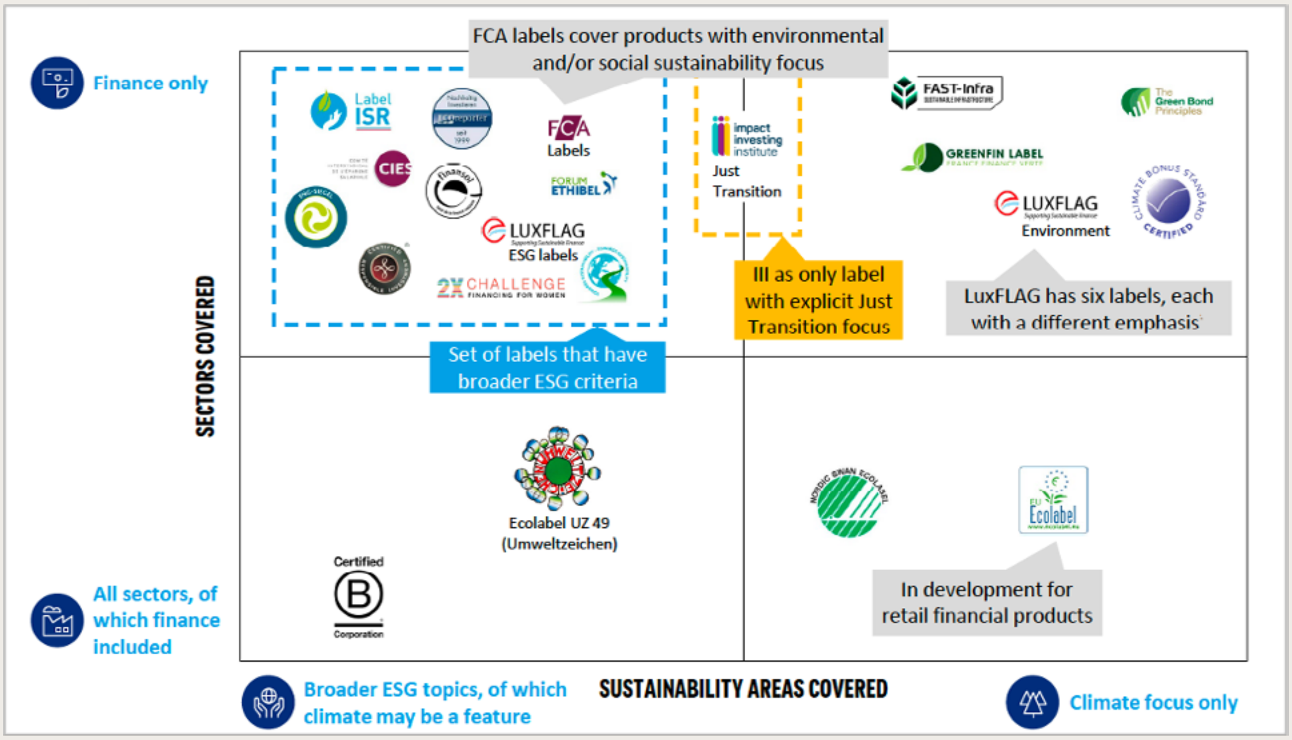
Should a label be launched, financial actors that have implemented the Criteria could apply for and, upon assessment, be granted a just transition label recognising their leadership and good practice in adopting a just transition approach in their investments.

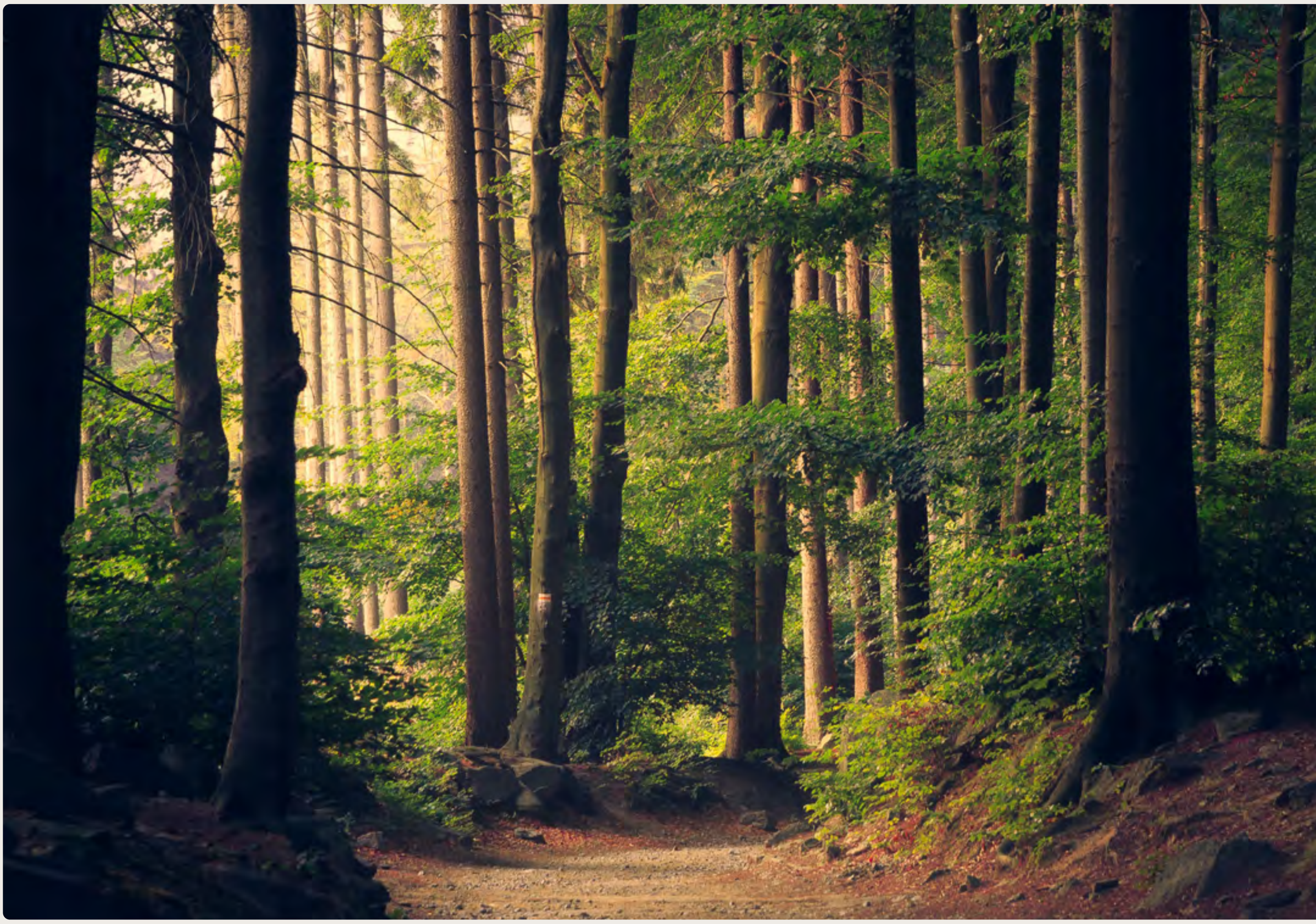
In addition to the Criteria, which would remain publicly available, a label could further serve to catalyse financial actors to integrate just transition principles into their investment strategies. For asset managers, it would provide opportunities for market differentiation and access to investment by asset owners recognising the label. For asset owners, it would provide more visibility and comparability between products intending to deliver a just transition, by validating such products' application of the Criteria.

Positioning and additionality of a just transition label

There is a range of sustainability labels currently available on the market, which are either voluntary or derive from regulatory requirements. As figure 8 illustrates, sustainability labels differ both in their coverage of sectors (financial vs. non-financial)

Figure 8: Indicative mapping of sustainability labels and positioning of a potential just transition label (source: Oliver Wyman research)





A just transition label would further catalyse financial actors to integrate just transition principles into their investment strategies.

and sustainability areas (climate focus vs. broader ESG topics); there is currently no label with an explicit just transition focus.

A just transition label would remain voluntary and be designed to be compatible, to the extent possible, with current labels, whilst rewarding the integration of environmental-, social- and communities-related outcomes. By reflecting the three-tier structure of the Criteria, including an emphasis on positive contribution (and not solely avoidance of harm), it would also reflect evolving good practice in the market.

Next steps towards a label

We are further assessing the fund labelling landscape, gauging market interest, and analysing regulatory developments, such as the UK Sustainability Disclosure Requirements (SDR) and related investment labelling regime, and progress towards the EU's proposed Ecolabel, to ensure the additionality and interoperability of any potential just transition label.

In parallel, we are also exploring operational models for a label, building on observed market best practice, looking particularly at possible certification approaches and governance and organisational set-ups.

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 further peer-learning opportunities.

We welcome all expressions of interest in a potential just transition label, particularly from asset managers, asset owners, other users of the Criteria and potential delivery partners. **Please register your interest here**.

Appendix

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

The disclosures and indicators listed below provide examples means of demonstrating fulfilment of Criterion 2. Disclosures and indicators have been crowdsourced from the organisations and individuals who participated in the development of the Criteria and draw predominantly from the following frameworks:

- Organisation for Economic Co-operation Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- International Labour Organization Declaration of Principles concerning Multinational Enterprises and Social Policy
- International Finance Corporation's Performance Standards on Environmental and Social Sustainability
- International Labour Organization Guidelines for a Just Transition
- Sustainable Finance Disclosure Regulation, including principle adverse impacts (PAIs)
- UN Global Compact
- Asian Development Bank's Safeguards Policy, including Environment Safeguards, Involuntary Resettlement and Indigenous Peoples
- World Bank's Environmental and Social Framework

To promote convergence and comparability between different just transition products, managers are encouraged to select the disclosures and indicators most relevant to their investment strategy from the list below. We recognise that some products may use different disclosures and indicators. In such instances, we expect managers to provide a short explanation of why alternative disclosures and indicators are required.

We intend to iterate the list in response to further suggestions from users of the Criteria and wider interested parties, as well as evolution in the disclosure and regulatory landscape. Users are also encouraged to refer to good practice for specific types of investment and geographies to guide their selection of disclosures and indicators.[9]

[9] See, for example, the European Investment Bank's Joint Methodology for Tracking Climate Change Adaptation Finance and BII's Transition Finance for Africa Accelerating Decarbonisation Efforts in Sectors Critical to Economic Development: Guidance.

Element 1: Advance climate and 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) • Impact/risk assessments, written disclosures against reporting frameworks	**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)
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) • Impact/risk assessments, written disclosures against reporting frameworks	**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)
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
GHG Emission mitigation, reduction, and removal	**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 and equity		
Fair distribution of climate change costs and benefits between developed/developing countries and between regions and communities within countries based on a place-based lens	**Example Disclosures** • Taxes paid in operating jurisdiction • Remediation policy (for loss and damage)	**Example Indicators** • 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 • Lowest wage paid to a contractor • 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** • 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) • Impact/risk assessments, written disclosures against reporting frameworks	
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 • Transition plan considers avoidance of displacement of people • Presence of community benefit agreements, project labour agreements or similar	
Biodiversity and natural capital – socio-economic 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	

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** • 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 • Code of conduct • Grievance mechanism	**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 • Inclusive engagement (with minority / vulnerable groups)

II. List of example 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. The list has been crowdsourced from founding participants and draws primarily from the following frameworks and resources:

- 2015 Paris Agreement
- 2X Challenge Criteria
- 60 Decibels surveys
- Carbon Disclosure Project
- EU Taxonomy
- European Bank for Reconstruction and Development Just Transition Initiative
- Febelfin
- FNG Siegel
- GEF-8 Core Indicators
- Global Reporting Initiative
- Greenfin
- GRESB Standards
- Green Climate Fund's Integrated Results Management Framework
- IFRS Sustainability Disclosure Standard
- Impact Investment Exchange Values
- 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
- SASB industry Standards
- UN SDGs
- UNICEF Quality Standards for Community Engagement

As with the disclosures and indicators in Appendix I, managers are encouraged to select the KPIs most relevant to their investment strategy from this list below. 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, as well as evolution in the disclosure and regulatory landscape.

Element 1: Advance climate and environmental action	
	• 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 and equity	
Fair distribution of climate change costs and benefits between developed/ developing countries and between regions and communities within countries based on a place-based lens	**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
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) ($m) • Gender / ethnicity pay gap (%) • Workdays lost due to injuries/accidents/illness (#) • Reported incidents of discrimination (#) • Incidents of violations involving rights of Indigenous peoples (#) • Local employees in total workforce (%) • Decent jobs created (#) • Employees reskilled (#) • Employee stock ownership plans
Biodiversity and natural capital – socio-economic effects	**Example KPIs** • Area restored or protected (km2) • Compensatory measures in place (#) or evidence of displacement avoided • Compensation paid to affected groups ($) or evidence of livelihood restoration programmes effectively implemented • Use of nature based solutions in design and offsetting

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 KPIs** • Evidence of intentional, ongoing, and meaningful engagement with stakeholder groups (# successful consultations) • Objectives on social dialogue and stakeholder engagement within the community • Stakeholder representation on board and/or advisory group of company or project, or other relevant mechanisms such as grievance, community development and/or indigenous community committees • 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 and evidence of resulting actions taken (for example case studies) • 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 ownership schemes • Use of funding instruments that provide returns to assets owned by or on behalf of a community

III. Asset class specific guidance

The Just Transition Criteria are designed to be useable across asset classes and strategies. This appendix provides high-level guidance on integration of the Criteria in major asset classes, based on input from leading industry participants. As part of the Just Transition Finance Challenge, we aim to develop more specific guidance for application of the Criteria, including other types of investments or strategies (e.g., real assets such as farmland, timber and commodities) where good practice on the application of the just transition approach is emerging.

This asset class guidance is complemented by an evolving portal of case studies of just transition-aligned financial products available on the Institute's website.

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.
- Use of specialised screening tools such as Paris Aligned Benchmarks to identify investment universe
- 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:
  - Mix of developed and emerging markets bonds, targeting specific issuers, considering average portfolio rating, reputation etc.
  - Usage of different labelled bonds/use of proceeds bonds across different standards (e.g., International Capital Market Association (ICMA))
  - 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 Elements upon exit of the investment
- Consideration of the:
  - Type of equity (growth, VC)
  - Profile and type of target investees (including growth, maturity)
  - Sector considerations (maturity, risk profile)
  - Exit strategy

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

- The manager pursues stewardship in its role as shareholder, including the use of voting, particularly in the case of significant minority or majority holdings

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

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:
  - Type of debt (senior, subordinated, mezzanine)
  - Amount, predictability and stability of expected cashflow
  - Security provided
  - Profile and type of target investees (including cashflow profile)
  - Sector considerations (maturity, risk profile)

Outcomes

- Universal; no additional specificity

Structure

- Consideration of the:
  - Vehicle life, capping underlying loan maturities
  - Investor regulatory requirements e.g., Solvency II and the impacts of ratings
  - Investor yields, driving accessible and affordable terms to investees
  - Interest rates linked to outcomes delivery (e.g., possible rate reduction to the underlying investees based on environmental and social outcomes)
  - 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

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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
- 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:
  - Type of instrument (equity, debt (senior, subordinated, mezzanine))
  - Profile and type of target projects
  - Sub-sector considerations (maturity, risk profile, tenants, and leases)
  - Inflation protection
  - Exit strategy (in the case of equity investment)

Outcomes

- Environmental considerations (e.g. energy efficiency up to recent standards)
- Specific focus on the targeted demographic group (tenants, workers, consumers etc.) including, where relevant, underserved or marginalised clients or consumers
- Explicit assessment of community engagement with respect to needs assessment, procurement, and supply-chain considerations

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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

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Operations

- The manager pursues stewardship (depending on investment instrument)

Infrastructure / Project finance

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 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)

IV. Mapping of Just Transition Criteria to major sustainability regimes (UK SDR and EU SFDR)

Mapping to FCA SDR

The below table provides an indicative mapping of the alignment between the requirements of the Just Transition Criteria and those of the UK Financial Conduct Authority's proposed Sustainable Disclosure Requirements (SDR), based on the latest publicly available information (contained in FCA Consultation Paper 22/20) as of May 2023.

Degree of alignment

Weak	Moderate	Strong

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

FCA proposed labelling regime

FCA general criteria (apply to all labels)	Sustainable Improver	Sustainable Focus	Sustainable Impact
P1[10]: Firm must ensure the product's sustainability objective has a plausible, purposeful, and credible link to an environmental and/or social outcome	P1: Sustainability objective aligns with requirements and invests in assets that have the potential to become more environmentally and/or socially sustainable over time	P1: Sustainability objective states that >70% of assets in product meet credible standard for environment or social sustainability, or align with an environmental or social theme	P1: [Product-level] sustainability objective must be to achieve a positive, measurable real-world environmental and/ or social outcome P2: Firm must specify theory of change

Commentary

- FCA labels focus on "environmental" and "social sustainability" only; no mention of "community voice" as a key element
- FCA definition of "sustainability objective" is different for Impact label vs Improver and Focus
- Impact label requires theory of change

[10] P1, P2, P3 correspond to principles 1,2 and 3 out of 5 put forward in the FCA CP22/20.

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

FCA proposed labelling regime

FCA general criteria (apply to all labels)	Sustainable Improver	Sustainable Focus	Sustainable Impact
Firm must identify any of a product's investments that a reasonable investor may argue conflict with the sustainability objective, investment policy and/or product strategy	No criteria specified	No criteria specified	No criteria specified

Commentary

- FCA criteria states all labels should identify contentious investments that may produce negative impacts
- Community voice not strictly required

Criterion 3: Through its investments, the product makes a positive aggregate contribution to all three Elements and, over time, each underlying investment contributes to all three Elements

FCA proposed labelling regime

FCA general criteria (apply to all labels)	Sustainable Improver	Sustainable Focus	Sustainable Impact
P2: Firm must develop and implement investment policy and strategy aligned with product sustainability objective P2: Firm must have appropriately designed policies and procedures to determine, ensure, monitor, evaluate and report environmental and/ or social sustainability profile of assets to investors on an ongoing basis P3: Firm must use specific KPIs and measure product performance	P2: Firm must ensure product is invested in assets that have the potential to become more environmentally and/or socially sustainable over time P3: Long-term sustainability profile of a product's underlying assets should be taken into consideration projected out over a period greater than 1 year	P2: Firms must ensure at least 70% of product's assets meet standard for environmental or social sustainability P3: Firm ensures that their KPI metrics demonstrate ongoing alignment of product assets with target environmental and/or social sustainability profile	P2: Firm must specify robust method to measure and demonstrate that its investment activities have had a positive environmental and/ or social sustainability impact P3: Firms apply enhanced impact measurement and reporting based on industry best practice

Commentary

- FCA requires firms to disclose detailed information on products and underlying assets (investments)
- However, FCA definition of "positive contribution" is less stringent than Just Transition Criteria (across all labels). Sustainable impact can be environmental or social. Community voice not strictly required
- FCA criteria state that environmental and/or social sustainability profiles should be considered at the asset level

Mapping to EU SFDR

The below table provides an indicative mapping of the alignment between the requirements of the Just Transition Criteria and those of the European Union's Sustainable Finance Disclosure Regulation (SFDR), based on the latest publicly available information (EU Regulation 2019/2088 and subsequent clarifications) as of May 2023.

Degree of alignment

Weak	Moderate	Strong

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

EU SFDR classification

Article 6	Article 8	Article 9
Article 6 is a default classification and covers products that do not integrate ESG considerations into the investment decision-making process	Financial products promoting environmental and/or social characteristics must disclose: • Information on how those characteristics are met • If an index is used as a reference benchmark, information on whether and how this index is consistent with those characteristics	Financial products promoting environmental and/or social characteristics must disclose: • Information on how the designated index is aligned with that objective • An explanation as to why and how the designated index aligned with that objective differs from a broad market index; OR • If carbon emissions are their objective, how they will achieve the objectives of the Paris Agreement

Commentary

- Sustainable investment is not the objective of **Article 8** products, which must only promote investments or projects with positive environmental and social characteristics[11]. Products may be designated the category without investing in any sustainable investments
e.g. by adopting mandatory Principal Adverse Indicators (PAIs).
- **Article 9** products have an explicit objective of sustainable investment, complying with the 'do no significant harm' principle in relation to the EU Taxonomy objectives[12]. There is a focus on the whole portfolio being sustainable (outside of practical considerations e.g., hedging)
- Just transition labelled products would likely fall under Article 9. However, requirements for the just transition label are substantially more stringent than those to classify as Article 9, so not all Article 9 products would qualify as just transition. Article 9 funds also lack an explicit requirement to cover the community voice Element.

[11] Characteristics can be measured against mandatory adverse indicators e.g., greenhouse gas emissions, biodiversity, social and employee matters

[12] Climate change mitigation, Climate change adaptation, Sustainable use and protection of water & marine resources, Transition to a circular economy, Pollution prevention & control, Protection & restoration of biodiversity & ecosystem

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

EU SFDR classification

Article 6	Article 8 and 9
Article 6 is a default classification and covers products that do not integrate ESG considerations into the investment decision-making process	Per Articles 7 and 11, Article 8/9 firms should disclose: • A clear and reasoned explanation of whether a financial product considers principal adverse impacts on sustainability factors and, if so, how • Information on principal adverse impacts on sustainability factors (if there are any)

Criterion 3: Through its investments, the product makes a positive aggregate contribution to all three Elements and, over time, each underlying investment contributes to all three Elements

EU SFDR classification

Article 6	Article 8	Article 9
Article 6 is a default classification and covers products that do not integrate ESG considerations into the investment decision-making process	Article 8 classification requirements aren't particularly stringent, only requiring that the fund promotes environmental/social characteristics	Whole portfolio should be made up of sustainable investments (outside of hedging/liquidity requirements), with the additional requirement that investments are exclusively classified as sustainable

Source: Oliver Wyman research.

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