Climate Transition Plan Analysis Framework

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Introduction

The IPCC has emphasized the importance of reducing greenhouse gas emissions to limit global warming to 1.5°C. In this context, many companies worldwide have committed to achieving carbon neutrality in the coming decades.

At Lazard Frères Gestion, we believe that these commitments must be accompanied by a credible strategy. Therefore, we have developed a proprietary model for Climate Transition Plan Analysis, enabling us to assess the strengths and weaknesses of corporate climate strategies and engage in targeted dialogues.

This approach also aligns with the requirements of the French SRI Label, which mandates an analysis of the Transition Plans of companies held in SRI funds. For issuers in « high vigilance » sectors, 15% must have a credible Transition Plan.

Our proprietary Transition Plan Analysis model enables Lazard Frères Gestion to gain a clear understanding of the strengths and weaknesses of companies' climate strategies and engage in targeted dialogues.

Additionally, this tool meets the growing demand from investors, particularly institutional ones, who want to understand how asset management companies approach the risks and opportunities posed by climate change for businesses.

This methodology is specifically tailored for companies in the Oil and Gas sector, with indicators adapted to their unique characteristics. It allows for a detailed and consistent evaluation of these actors' transition plans, providing a critical basis for comparing their ambitions.

By adopting a rigorous framework for analyzing Transition Plans, Lazard Frères Gestion strengthens the credibility of its climate commitments while supporting its clients in achieving their responsible investment objectives.

A quantitative, qualitative, dynamic and flexible evaluation system

Our evaluation system assigns points to each analyzed indicator, allowing for the calculation of an overall indicative score.

Bonus points can be awarded for specific initiatives where we do not wish to penalize companies that do not undertake them. Penalties can be assigned for indicators we deem essential to the credibility of a transition plan. With four or more penalties, it is no longer possible for a company to have its transition plan validated as credible.

The overall score leads to a recommended assessment of the transition plan, which serves as a reference for the ESG specialist and the analyst-manager responsible for the sector to issue a final opinion based on quantitative and qualitative elements. Together, they issue a final opinion on the credibility of the company's transition plan. The analysis is reviewed on an annual basis.

This flexibility is essential for integrating macroeconomic context, such as temporary variations in emissions due to specific events. For example, industrial gas companies may have seen their emissions increase during the COVID-19 year due to a rise in demand for certain products. This methodology allows for the quantification of corporate performance in climate transition while giving the analyst the ability to provide a final qualitative assessment.

Contents

Scoring system

Each company's transition plan is scored out of a total of 100 points. The score includes bonus points and also considers the number of penalties. ESG specialists and analyst-managers together form an opinion on the plan, which can be judged « limited », « initiated », « partial », « advanced », or « aligned ».

The score determines a recommendation, which the ESG specialists and analyst managers are free to follow. The assessment scale is as follows:

		Score (/100)
CREDIBLE	ALIGNED	80 - 100
	ADVANCED	60 - 79
	PARTIAL	40 - 59
	INITIATED	20 - 39
	LIMITED	0 - 19

Transition plans are considered credible if they achieve a « partial », « advanced », or « aligned » rating.

Impact of penalties on the final score

If the company receives one to three penalties:
Negatively impacts the score by a few points, potentially lowering the rating level.

If the company receives four or more penalties:
The plan will be judged « initiated » at best by default.

If the company receives five or more penalties (maximum):
The plan will be judged « limited » by default.

Pillar 1 · Trajectory and objectives

This first section focuses on three key aspects to evaluate the robustness of the company's carbon emissions trajectory and the targets set.

1. Carbon data

This sub-part examines the transparency and performance of data related to the company's Scope 1+2 and Scope 1+2+3 carbon emissions, in both absolute and intensity terms.

All carbon emissions data are analyzed over three years to account for company progress. We assess the company's ability to comply with a 7% annualized reduction, in line with the IEA's trajectory mentioned in the *Paris-Aligned Benchmark regulation*.

KPI*

- Annualized reduction of Scope 1+2+3 carbon emissions (in tons of CO_2e) over 3 years.
- Annualized reduction of carbon intensity (in tons of CO_2e per million € of Revenue), Scope 1+2+3 over 3 years.

Why evaluate the variation in both absolute and intensity terms?

According to the IPCC, to achieve the goals of the Paris Agreement (limiting warming to well below 2°C and pursuing efforts to limit it to 1.5°C), it is necessary to significantly reduce absolute global GHG emissions.

Reducing emissions intensity means improving energy efficiency and reducing emissions per unit of production. This can be achieved through cleaner technologies, better energy efficiency, and improved industrial practices.

Why evaluate the carbon intensity variation in millions of € of Revenue rather than millions of € of EVIC?

Revenue is a simple and widely used indicator that is more readily available in public financial reports, which facilitates comparisons between companies and sectors.

* This section provides examples of indicators used in the analysis, but is not intended to be exhaustive.

2. Target definition

Next, the carbon emissions reduction targets set by the company are verified, and the horizon, scope, and form of these targets are evaluated. For the horizon, for example, companies are expected to set short, medium, and long-term emissions reduction targets.

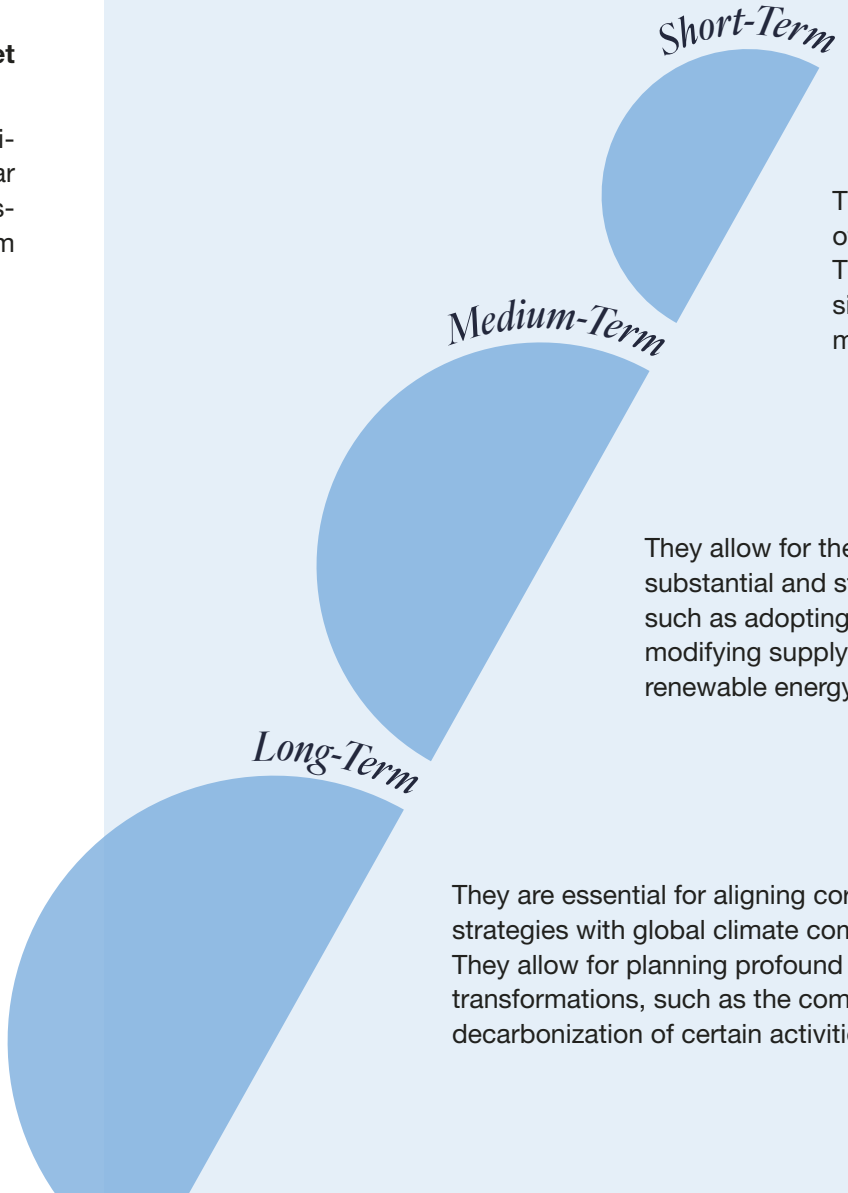
The absence of a carbon emissions reduction target results in a penalty.

Given the difficulty posed by value chains and obtaining precise data, Lazard Frères Gestion pays particular attention to Scope 3. If a company can convincingly justify the absence of a Scope 3 target, it is exempt from the penalty.

KPI

- Existence of short, medium, and long term targets.
- The targets cover the most significant emissions (Yes/No).

Why is it important to evaluate emission reduction targets over three horizons (ST, MT, LT)?



They allow for the implementation of immediate and tangible actions. They serve as first steps towards more significant changes and can include measures like improving energy efficiency.

They allow for the integration of more substantial and structured changes, such as adopting new technologies, modifying supply chains, or using renewable energy sources.

They are essential for aligning corporate strategies with global climate commitments. They allow for planning profound transformations, such as the complete decarbonization of certain activities or sectors.

3. Ambition of the plan

As part of its mission statement, Lazard Frères Gestion is committed to relying on solid scientific knowledge for its analysis and investment choices.

Thus, evaluating whether the company refers to recognized climate scenarios is an important step in our analysis. These scenarios must be aligned with the objectives of the Paris Agreement, which aim to limit the global temperature increase to well below 2°C and to pursue efforts to contain it to 1.5°C.

Therefore, measures such as evaluating the company's ITR (Implied Temperature Rise) or the validation of trajectories by SBTi are taken into account.

KPI

- SBTi commitment status
  (Targets Set 1.5°C / well-below 2°C / 2°C).
- Implied temperature Rise.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Why does a company's SBTi status help judge the ambition of its Transition Plan?

Created by the CDP, the UN Global Compact, the World Resources Institute, and the WWF, the Science-Based Targets initiative (SBTi) is based on a rigorous validation process, ensuring the credibility and transparency of corporate commitments. Targets validated by SBTi are aligned with the latest climate science, guaranteeing emission reductions consistent with the goals of the Paris Agreement.

Pillar 2 · Means implemented

In this second part, the analysis focuses on the means implemented by the company to achieve its climate transition objectives. The management of climate-related risks is evaluated, as are the opportunities presented by the transition. The financial and human resources allocated are at the heart of the analysis, as is the use of carbon credits and the management of the value chain.

1. Climate risk

Companies must consider the direct potential impact of climate change on their operations to minimize the material consequences it could cause. Furthermore, companies must anticipate transition risks and integrate them into their strategy, workforce, missions, and value chain.

It is expected that the company identifies, evaluates, and prioritizes these risks. Impact analyses under « Paris-Aligned », « business-as-usual », and « worst-case » scenarios are valued, as is the integration of other types of risks (e.g., water, biodiversity, social).

KPI

- The company analyzes its risks according to different scenarios (Paris-Aligned / Business-as-usual / worst-case).
- ISS Score for Disclosure of climate change risks and mitigation strategy.

2. Transition-related opportunities (*bonus*)

This section is a bonus. It aims to reward companies that, through their products and services, enable the economy to decarbonize, without discriminating against companies that do not operate in a sector eligible for the development of these activities.

The alignment of Revenue with the European Taxonomy is the determining factor in obtaining this bonus.

3. Financial resources deployed

A clear financing plan makes it possible to analyze whether the financial means implemented by the company are sufficient, well-distributed over time, and thus make its Transition Plan credible. A company's Transition financing plan must demonstrate that it has and deploys the means to implement the announced measures, taking into account its cash flow forecasts.

It is essential to evaluate both Taxonomy-aligned investments and « green » investments for several reasons.

For companies *eligible to the Taxonomy*, alignment provides a standardized and transparent regulatory framework. For non-eligible companies, green investments serve as an alternative measure to assess their commitment to Transition.

Conversely, for companies *ineligible to the Taxonomy*, green investments serve as an alternative measure to assess their commitment to the Transition. Although these investments are not standardized like those in the Taxonomy, when published, they demonstrate companies' commitment to the Transition, despite the absence of specific, recognized criteria.

KPI

- Share of Capex/Opex aligned with the Taxonomy (in %).
- Green Capex vert relative to the total Capex (in %).

4. Use of carbon credits

The analysis of carbon credit use has become an important topic within strategies to achieve carbon neutrality. Although purchasing carbon credits should not be considered the primary solution for reducing GHG emissions, it is recognized that some industrial sectors may have no other alternatives to achieve a net-zero balance.

Which sectors are allowed to use carbon credits and why?

Certain heavy industries and complex processes, known as « hard-to-abate », face technical and economic challenges that make direct emissions reduction extremely difficult. In this context, carbon credits can play a complementary role by allowing these sectors to offset their residual emissions while continuing to invest in cleaner technologies and sustainable practices.

The targeted sectors are listed in Annex 1 of the European Commission's communication 2020/C 317/04.

Why the 2050 horizon for carbon credits?

The IEA and the IPCC have both emphasized that carbon credits should be used as a complement to direct greenhouse gas emission reduction efforts. According to the IEA, carbon credits play an important but limited role in the 2050 carbon neutrality scenario, primarily serving to offset residual emissions after direct reductions have been maximized. The IPCC, on the other hand, stresses the importance of immediate and drastic emission reductions and warns against excessive reliance on carbon credits, which could delay decarbonization efforts. Both organizations highlight the need for a robust regulatory framework to ensure the quality, verifiability, and effectiveness of carbon credits.

Why set a 10% limit on emissions covered by carbon credits?

The 10% limit on the use of carbon credits is not a directive imposed by any specific organization, but rather stems from risk management and environmental integrity practices adopted by many companies and regulators. This limit encourages companies to focus primarily on direct reductions of their greenhouse gas emissions, ensuring that reductions are real, measurable, and permanent. By limiting the use of carbon credits, the risks associated with potentially ineffective credits are minimized. Furthermore, this approach aligns with the recommendations of several stakeholders (SBTi, CDP) that aim to ensure significant and sustainable emissions reductions.

5. Value chain management

It is necessary to examine how the company engages with its value chain to ensure that its partners and suppliers do not compromise its CO_2 reduction objectives. Indirect emission sources from the value chain, if not properly managed, could hinder the company's overall efforts.

KPI

- ISS Score – Environmental Supplier Standard.
- Share of suppliers covered by an engagement approach (significant/moderate/negligible).

6. Just Transition

To effectively analyze a company's transition plan, it is essential to ensure that it has the necessary skills and resources while integrating social and human dimensions.

The concept of a Just Transition is fundamental in this context, as it guarantees that the transformation takes place in a fair and inclusive manner, minimizing negative social impacts. This involves supporting employees and stakeholders throughout the process, promoting ethical and human rights-respecting work practices.

Topics such as employee training, social dialogue, staff turnover, respect for human rights, and responsible restructuring measures are essential to the Just Transition pillar and are central to our analysis of companies' climate transition plans.

KPI

- Annualized variation in staff turnover rate over 3 years (in %).
- Annualized variation in the number of training hours per employee over 3 years (in %).
- Critical controversies on human rights and labor law issues.

Pillar 3 · Governance of climate performance

The third part of the analysis of Transition Plans at Lazard Frères Gestion focuses on the governance of corporate climate performance. In this section, the company must demonstrate the commitment of its governing bodies to managing and monitoring climate objectives, as well as how its governance structures integrate climate issues and ensure rigorous supervision to guarantee the success of the transition to a low-carbon economy.

1. Quality of governance

Before evaluating the integration of climate issues into the company's strategy, it is important to incorporate our overall opinion on the company's governance practices. At Lazard Frères Gestion, we have strong convictions about Governance. The « G » pillar is, in fact, overweighted in our internal ESG score.

KPI

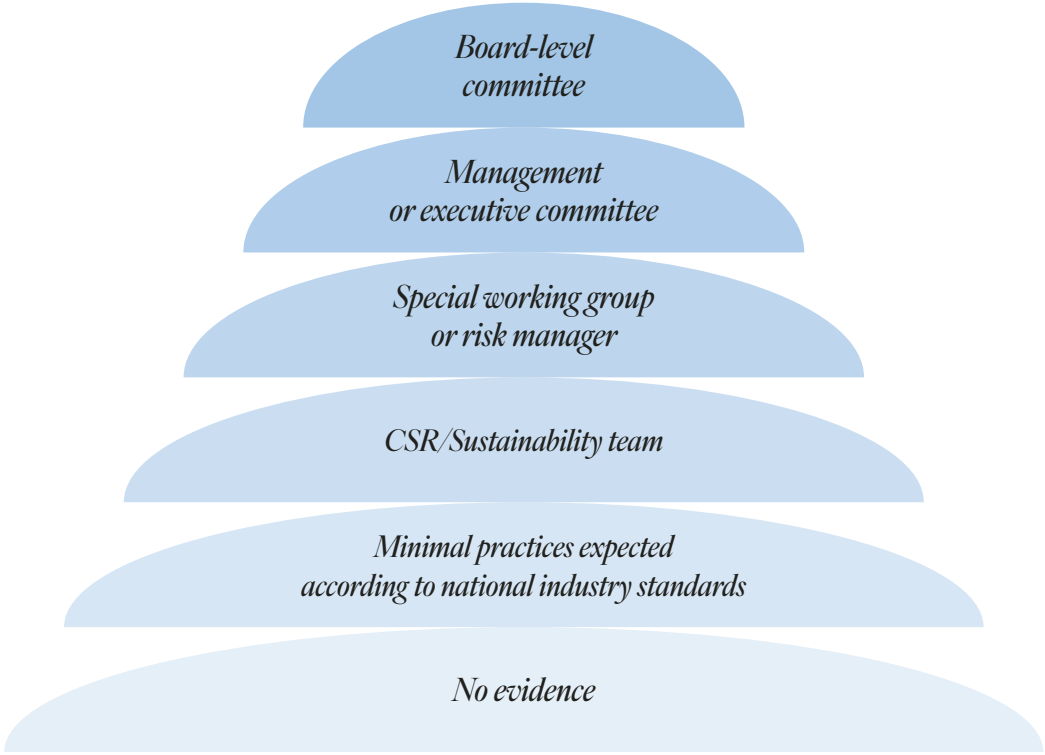
- Governance Score assigned by Lazard Frères Gestion.

2. Organization of governance

In this section, the reporting level for sustainability topics is analyzed.

The company's transition must be managed at high hierarchical levels to ensure rapid and effective decisions and to align these initiatives with the company's overall vision and objectives. Senior executives have better access to necessary resources and can ensure broader organizational support. Their involvement also strengthens their influence on the corporate culture, thereby motivating the entire organization.

We evaluate the level at which environmental topics are managed.
Among the possible options, from best to worst:



3. Climate-related incentive mechanisms

Aligning executive compensation criteria with their climate transition objectives incentivizes the achievement of emission reduction goals, strengthens accountability and commitment at the highest level, and ensures the integration of climate efforts into the company's overall strategy.

Here, variable compensation and transparency regarding remuneration are evaluated.

- Variable compensation incorporating ESG performance objectives (Yes/No).

4. Trajectory management and monitoring

It is essential that companies are transparent about the management of their transition plan. This provides us, as investors, with the necessary tools to ensure they are on the right track to achieve their climate transition objectives

Submitting a « Say on Climate » proposal for a vote at a defined frequency is a valued practice in this section. It allows the company to report on its decarbonization objectives and its progress. Shareholders are then invited to vote on the robustness of the transition plan.

- The company has submitted a « Say on Climate » to its shareholders (Yes/No).

5. Environmental lobbying

The company's support for policies or practices contrary to its climate transition objectives severely undermines the credibility of its strategy. Coherence between its public positions and its actual commitments thus strengthens stakeholder confidence.

- The company's lobbying practices are aligned with its climate commitments (Yes/No).

Appendix

Adaptation of the Transition Plan analysis model for companies in the Oil & Gas sector

The oil and gas sector is one of the most exposed to the challenges of the energy transition. Due to the very nature of their activities, these companies face complex challenges.

In response to these specificities, our Transition Plan Analysis methodology has been adapted to address the unique issues of this sector. It integrates dedicated indicators that allow us to evaluate not only the climate ambitions of these companies but also their ability to adopt business models compatible with decarbonization objectives.

This targeted analysis directly influences our investment decisions.

For companies where more than 5% of production comes from hydraulic fracturing (fracking) , we apply a strict criterion: they must have a credible transition plan. In the absence of such commitments, these companies are excluded from our investments.

Companies with more than 5% of production from coal bed methane, oil sands, oil shale, and extra-heavy oil are strictly excluded.

Companies with more than 10% of their revenue from conventional fossil fuels are all subject to an analysis of their climate transition plan. If the plan is not credible, Lazard Frères Gestion initiates an engagement process with the company to help it address the identified weaknesses.

The following elements supplement our proprietary model:

1. Trajectory and objectives · Methane data

Methane, a particularly potent greenhouse gas, is a key issue.

We assess the targets for eliminating flaring and reducing methane emissions by 2030, applying a penalty in the absence of any commitment. The analysis also covers emissions from flaring, venting, and fugitive leaks.

2. Means implemented · Project management

The management of industrial projects is a significant lever for limiting the environmental and social impacts of companies in this sector. Our methodology integrates specific indicators, such as waste and water management, leak prevention, transparency on chemical additives, and policies for the electrification of processes. These criteria allow for the evaluation of companies' operational practices and their alignment with sustainability objectives.

3. Means implemented · Health & safety

Health and safety issues are particularly critical in the oil and gas sector, where risks to employees and local communities are high. To include this dimension, we have added the MSCI Health & Safety Score, which allows us to assess the ability of companies to mitigate these risks.

* Tight oil and gas, as well as shale oil and gas, can only be extracted through hydraulic fracturing.

Table of methodology sources

Institution	Link to the document	Relevant section
International Energy Agency	World Energy Outlook 2023	Source for reference trajectories
IPCC	AR6 Scenario Explorer	Source for reference trajectories
ADEME - ACT Methodology	Méthodologie ACT - Avril 2021	Target definition Carbon data Financial resources for Transition Value chain management Transition opportunities
Climate Action 100+	Climate Action 100+ Net Zero Company Benchmark V1.2 oct 2022 Climate Action 100+ Net Zero Company Benchmark PDF	Target definition Transition opportunities Financial resources for Transition Climate performance governance Lobbying activities Just Transition Climate governance organization Executive incentive mechanisms
TPI	TPI's Management Quality methodology	Target definition Carbon data Lobbying activities Executive incentive mechanisms Climate risks
CDP	Are companies developing credible climate Transition plans?	Climate performance governance Climate risks Financial resources for Transition Supply chain management Lobbying activities Ambition of the plan Target definition Carbon data
TCFD	TCFD financial disclosures	Climate risks
CSRD	https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32022L2464	Transition plans (ESRS E1-1) Carbon credits (ESRS E1-4 and E1-7) Ecarbonization targets and plan ambition (E1-4 and E1-6) Executive incentive mechanisms (E1-13)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