



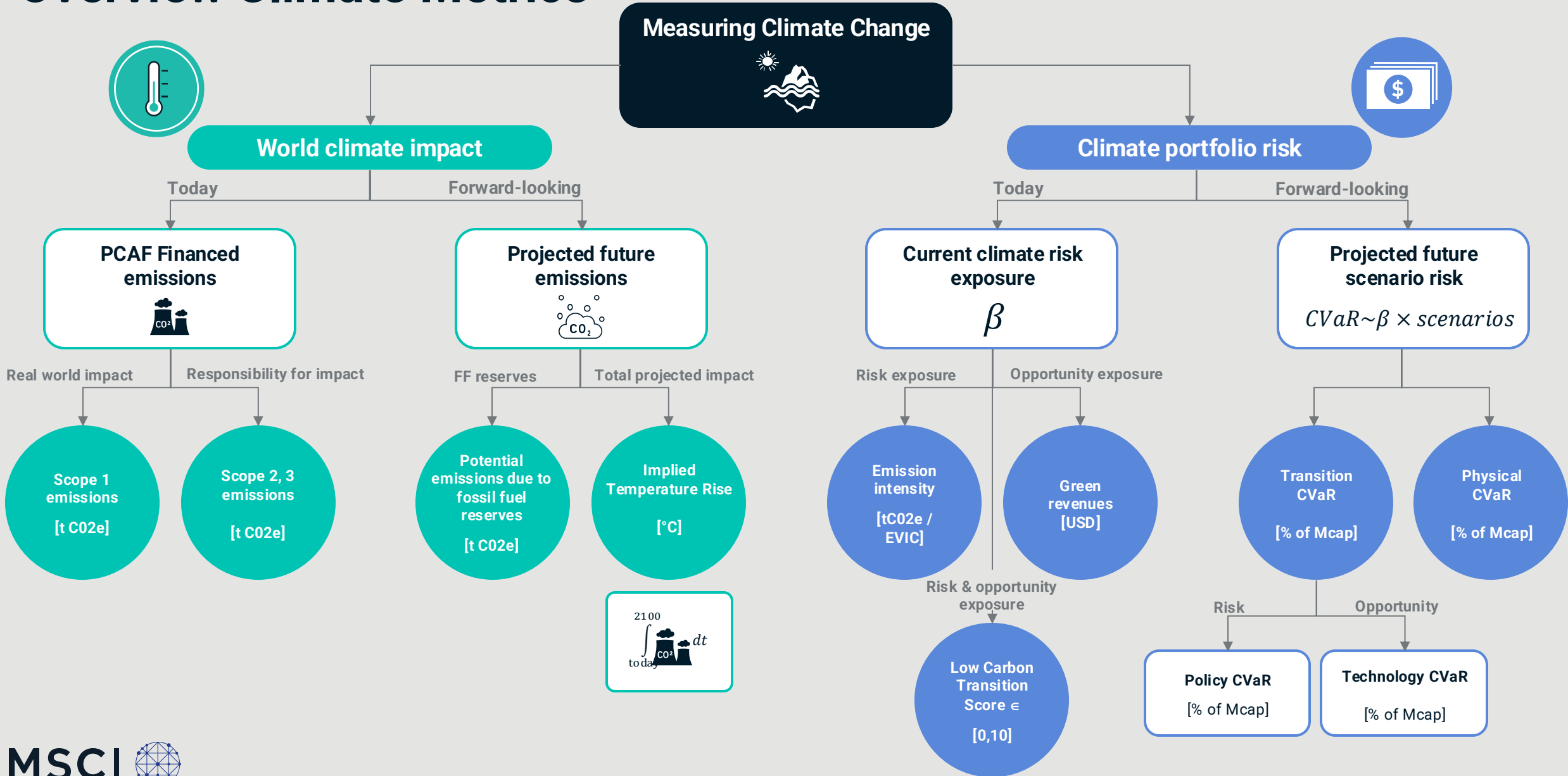
# MSCI's Net-Zero Alignment Solutions

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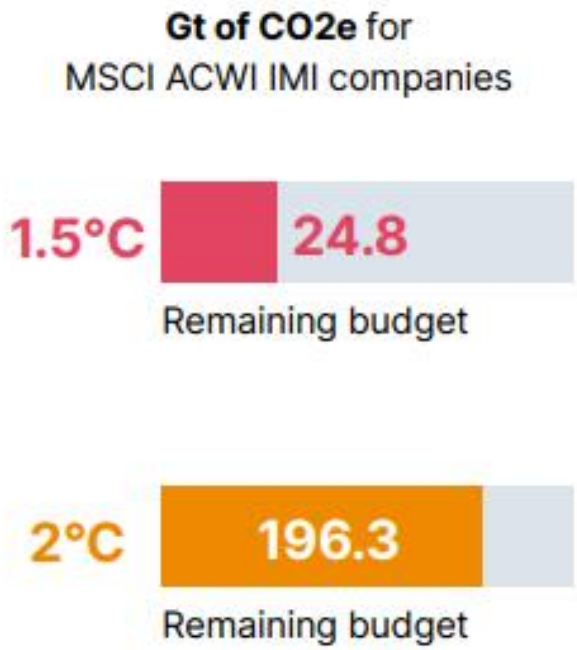
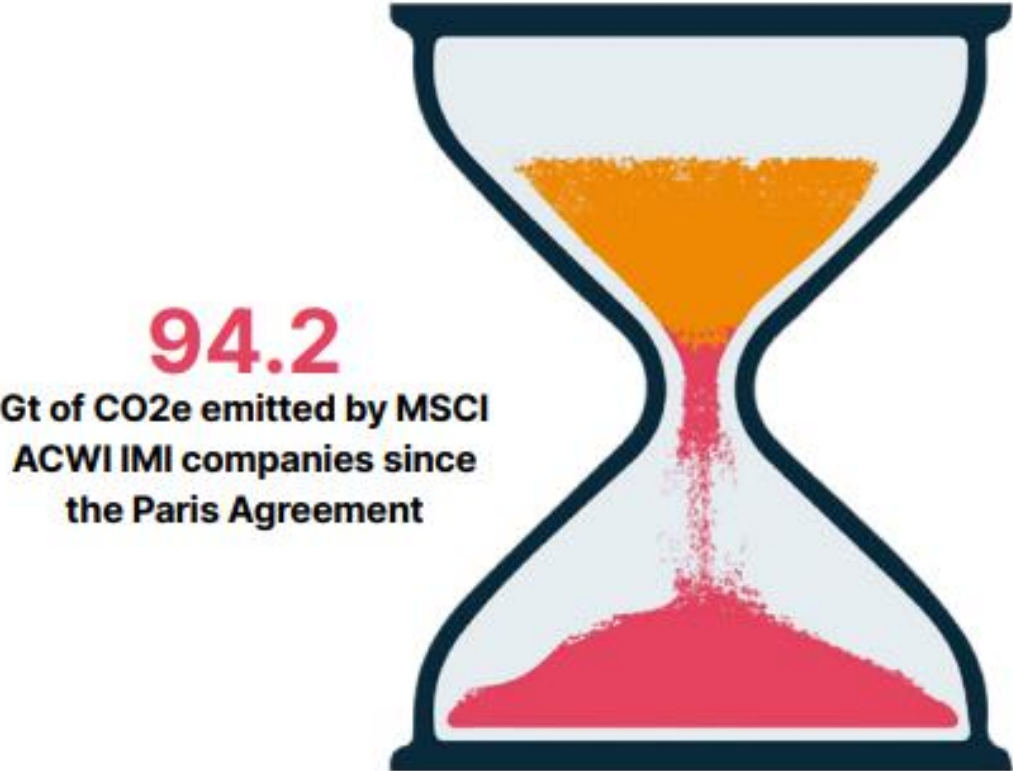


CLARITY DRIVES ACTION

# Overview Climate Metrics



# Time remaining to rein in the impacts of a warming climate



months left to limit warming to **1.5°C**



months left to limit warming to **2°C**

# Progress investment world vs. progress real economy

Although targets and commitments are being made – there is yet to be a significant reduction in real world emissions as shown by the MSCI Net-Zero Tracker

## Net-Zero Commitments by investors

### Net Zero Asset Managers Initiative<sup>1</sup>

- ▶ Reach net zero by 2050
- ▶ Set 2030 interim target in line with net-zero by 2050
- ▶ Review interim target at least every 5 years to increase percentage of AUM covered until 100% is achieved

### Net Zero Asset Owner Alliance<sup>2</sup>

- ▶ Reach net zero by 2050
- ▶ Set interim targets to include 22-32% emissions reduction by 2025 and 40-60% by 2030.

### Net Zero Investment Framework

- ▶ Align investment portfolios with the goals of the Paris agreement

## Global and listed-company GHG emissions

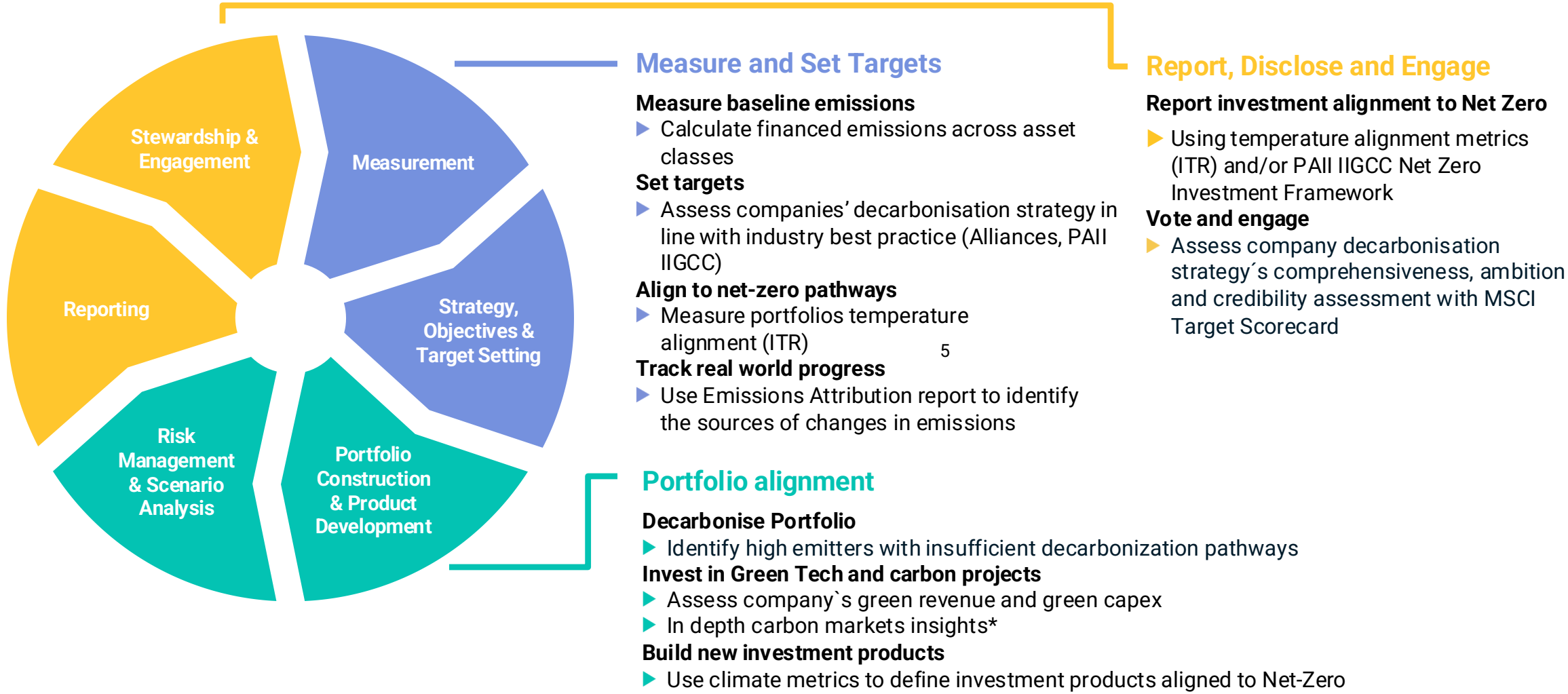
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (estimated)
Global GHG emissions*	51.7	51.8	51.9	53.5	55.3	59.1	54.6	55.9	56.3	57.1	-
MSCI ACWI IMI Scope 1**	10.4	10.2	9.6	10.2	11.4	11.4	10.4	11.6	11.3	11.1	11.0

Source: MSCI ESG Research, data as of Aug. 31, 2024

### Net-Zero Banking Alliance

- ▶ Transition the operational and attributable greenhouse gas (GHG) emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.
- ▶ Set targets for 2030 or sooner and for 2050
- ▶ 2030 targets to focus on priority sectors – most GHG intensive sectors – with additional sector targets to be set within 36 months
- ▶ Publish annual absolute and emission intensity within a year of setting targets

# Steps financial institutions can take to transition to Net-Zero: How MSCI can help



## Measure and Set Targets

- Measure baseline emissions**
  - ▶ Calculate financed emissions across asset classes
- Set targets**
  - ▶ Assess companies' decarbonisation strategy in line with industry best practice (Alliances, PAII IIGCC)
- Align to net-zero pathways**
  - ▶ Measure portfolios temperature alignment (ITR) <sup>5</sup>
- Track real world progress**
  - ▶ Use Emissions Attribution report to identify the sources of changes in emissions

## Portfolio alignment

- Decarbonise Portfolio**
  - ▶ Identify high emitters with insufficient decarbonization pathways
- Invest in Green Tech and carbon projects**
  - ▶ Assess company's green revenue and green capex
  - ▶ In depth carbon markets insights\*
- Build new investment products**
  - ▶ Use climate metrics to define investment products aligned to Net-Zero

## Report, Disclose and Engage

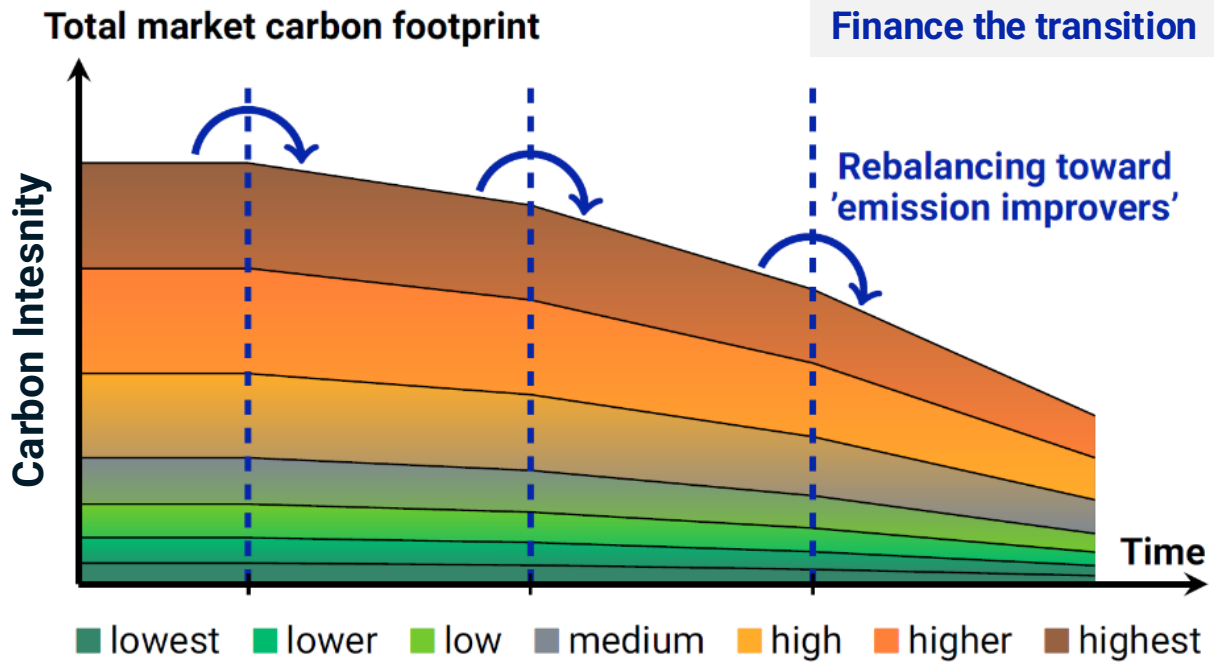
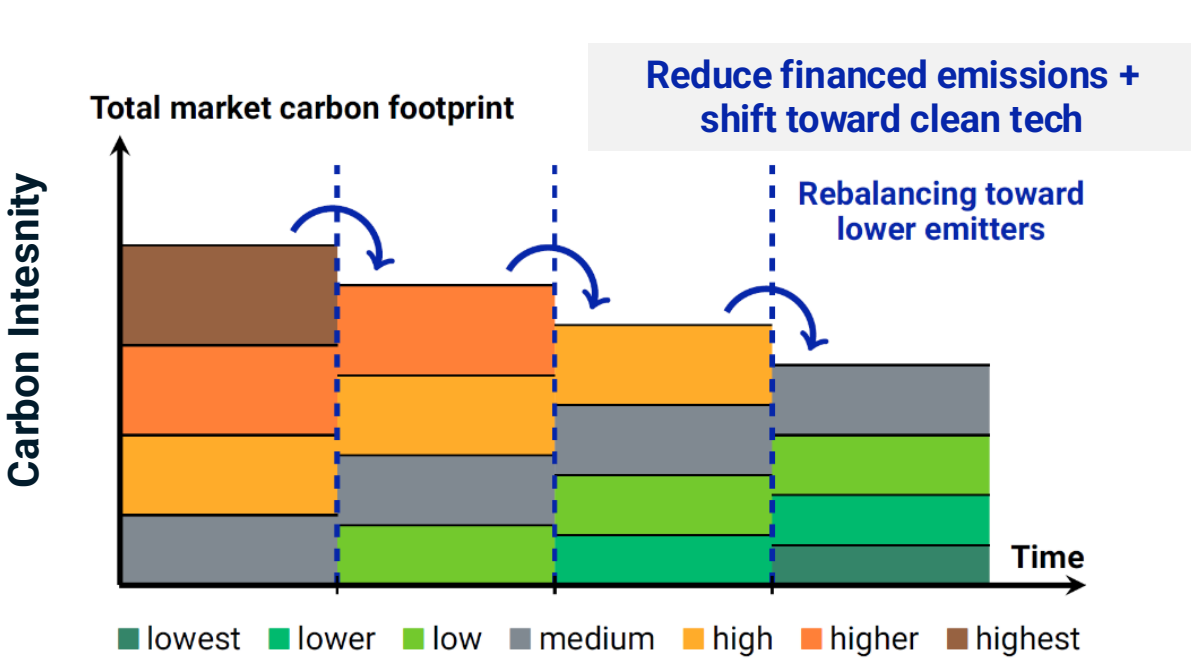
- Report investment alignment to Net Zero**
  - ▶ Using temperature alignment metrics (ITR) and/or PAII IIGCC Net Zero Investment Framework
- Vote and engage**
  - ▶ Assess company decarbonisation strategy's comprehensiveness, ambition and credibility assessment with MSCI Target Scorecard



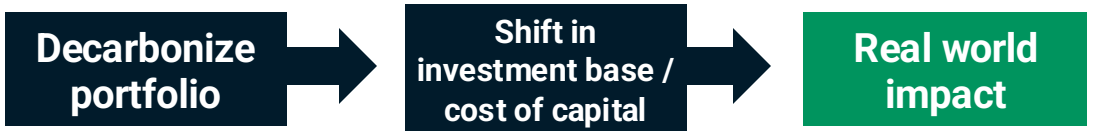
\* Via MSCI Carbon Markets subscription

# Strategic Approaches: Decarbonization vs. Finance Transition

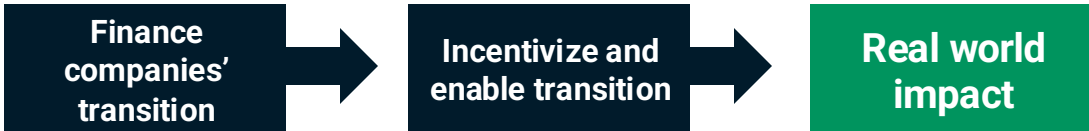
Two main approaches: 1) Restructure the portfolio and shift capital to greener stocks and sectors or (2) Finance the transition, change the profile of companies in the portfolio towards those with potential to lead



**Economic transmission channel:**



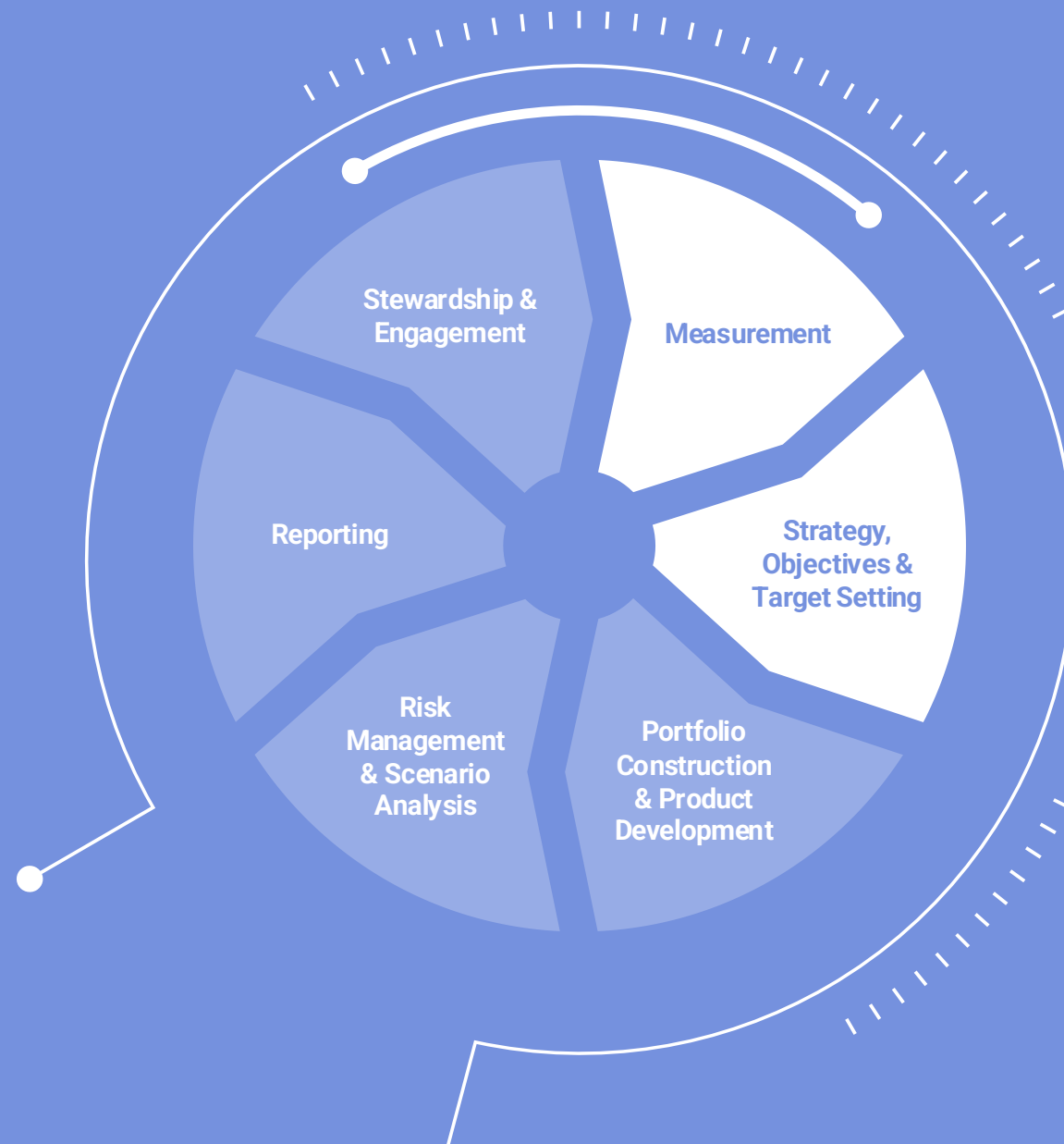
**Economic transmission channel:**



MSCI ESG Research "Financing the Climate Transition: Investment rationale and implementation approaches" – June 2024

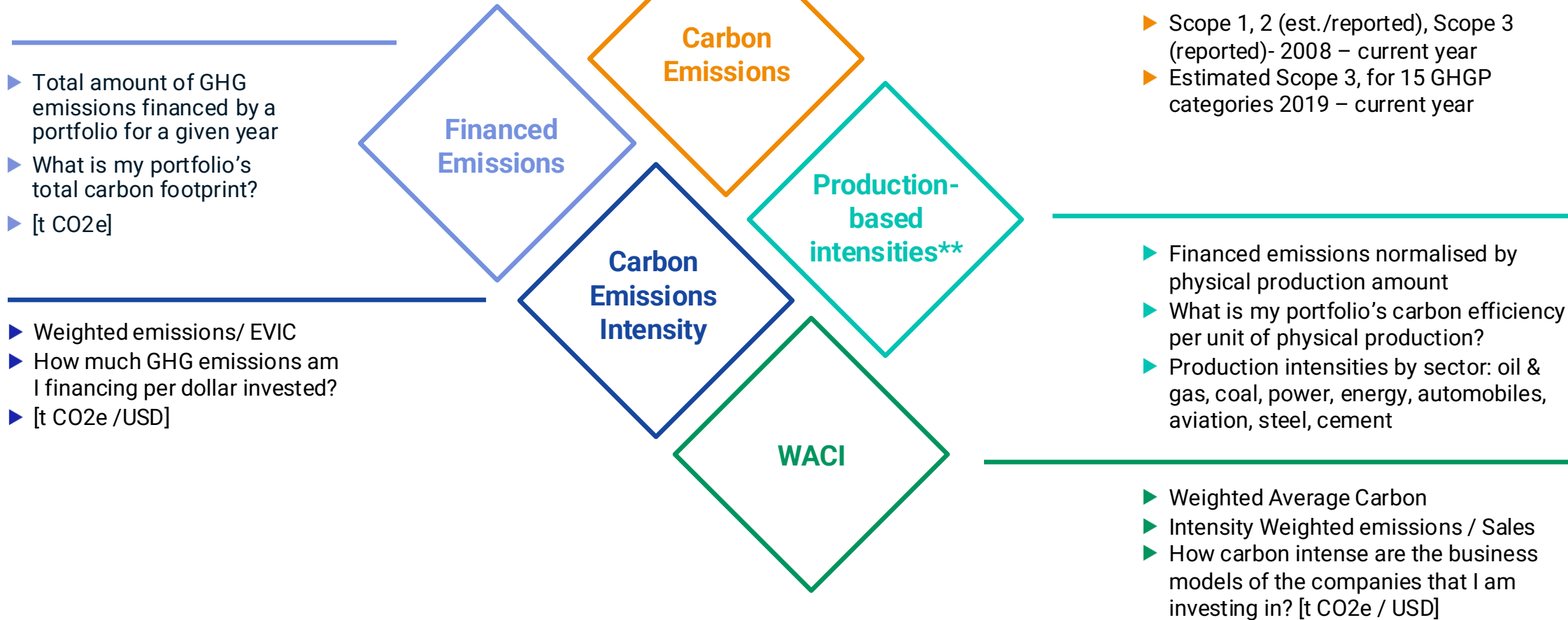
# Measure and Set Targets

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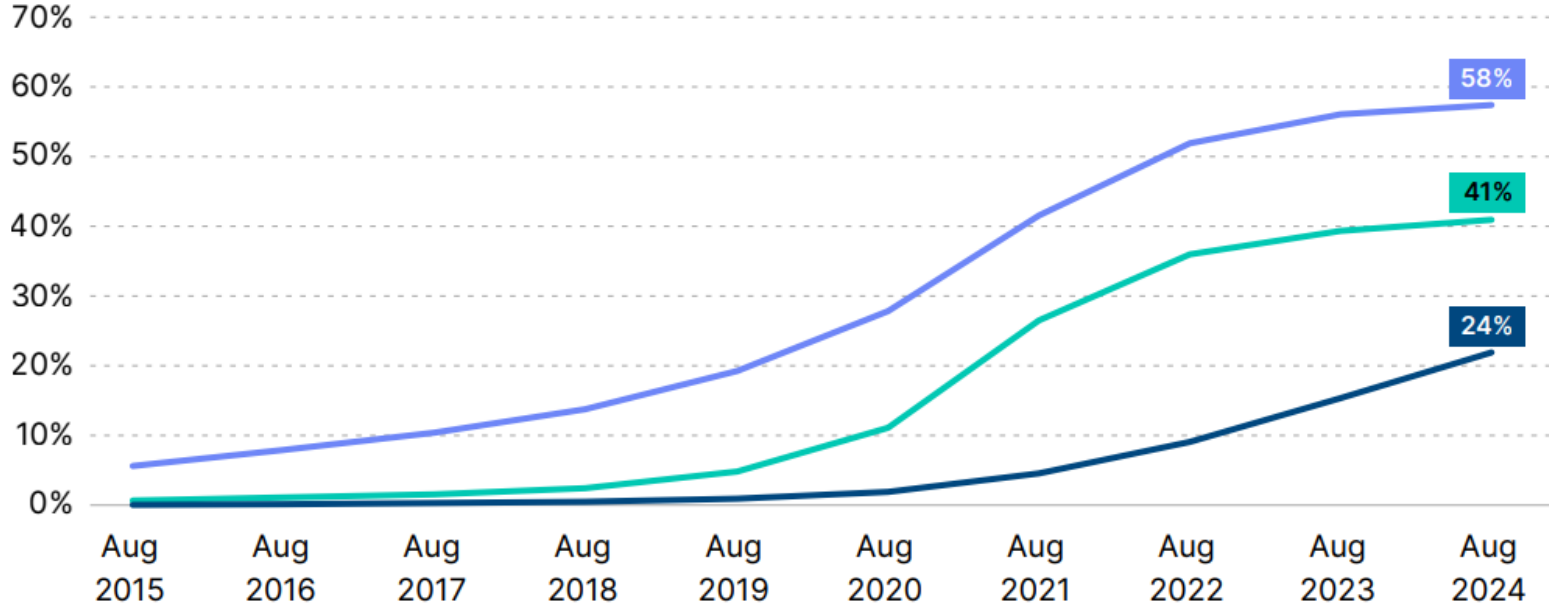
# What climate metrics shall I use to track my carbon footprint?

Each climate metric answers different questions

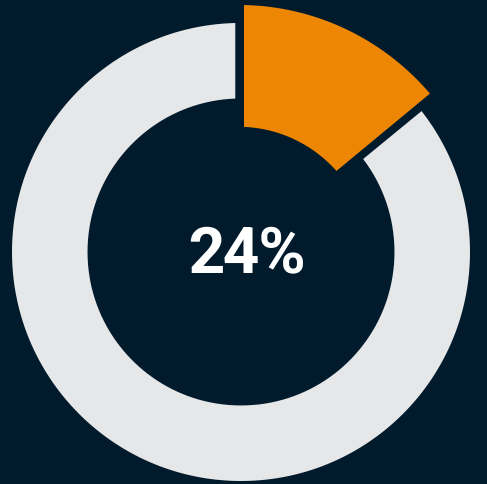




# How can I track climate and net-zero targets?



- Percent of companies with climate targets for 2024 and beyond
- Percent of companies with self-declared net-zero targets, including SBTi-approved net-zero targets
- Percent of companies with science-based targets



Share of listed companies that have set science-based climate targets

# How do I track transition plans using the MSCI Climate Target Scorecard?

- ▶ **Normalize** and **compare** corporate climate targets, including SBTi
- ▶ Assess the **credibility** of companies' **transition plans to net-zero** across the various emission scopes

## Portfolio Example:

### \* Companies' Transition Plans

	Portfolio	Benchmark	Active
Companies with GHG emission reduction targets	54.5%	94.4%	-39.8%
Companies with targets across all scopes	27.3%	80.6%	-53.3%
Companies with SBTi approved targets	20.5%	58.3%	-37.9%
Companies with top quartile carbon management score	18.2%	69.2%	-51.0%

Portfolio: Equity Portfolio Example  
 Benchmark: MSCI ACWI IMI Europe

### Drivers of Carbon Emissions

Mega tons of CO2e	
Scope 1 (Reported, 2020)	63.00
Scope 2 (Reported, 2020)	9.00
Scope 3 (Estimated, 2020)	656.58
Scope 3 (Reported, 2020)	1.34K
Est. Ratio of Reported vs Total Estimated Emissions*	194%

Target Scorecard	
<b>COMPREHENSIVENESS</b>	<b>AMBITION</b>
100.00%	-3.23% p.a.
% of company footprint covered by target	Projected reduction per year to meet stated target**

Comprehensiveness	
Type	ABSOLUTE, INTENSITY
Unit	tCO2e, tCO2e/megajoules (MJ)
Target Scopes	1 2 3
Scope 3 upstream categories	1 2 3 4 5 6 7 8
Scope 3 downstream categories	9 10 11 12 13 14 15
% of Company footprint covered by target	100%

Ambition	
Target Calculation date (YYYYMMDD)	20220815
Intention to use carbon offsets	Yes
Projected change per year to meet stated target**	-3.23% p.a.
Target Year	2050

Feasibility	
Track record of meeting historical targets	Met some targets
Progress towards active targets	On track with some targets

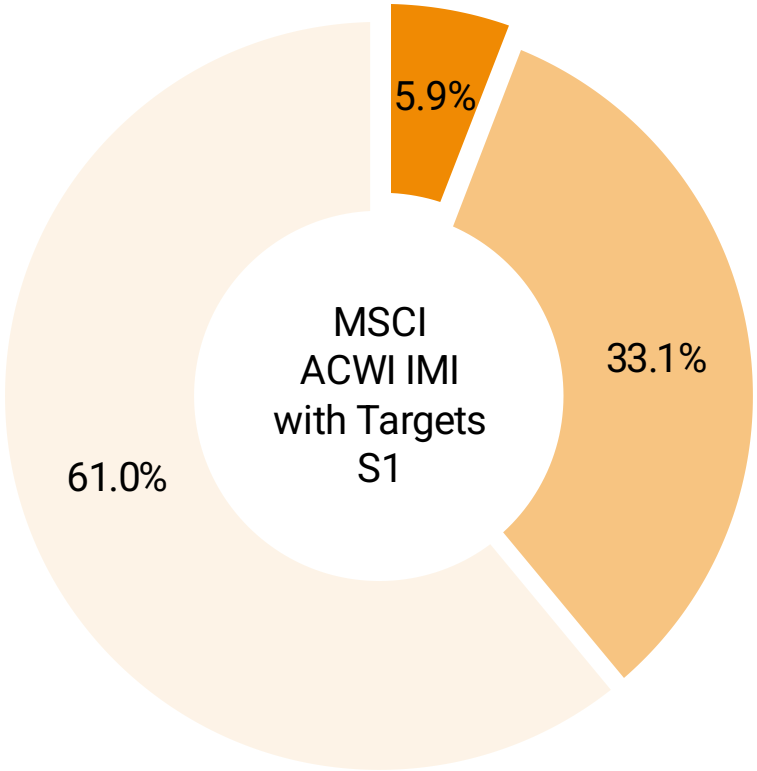
SBTi Commitments	
Does the company have at least one SBTi Target approved	
Has the company committed to setting a SBTi target	



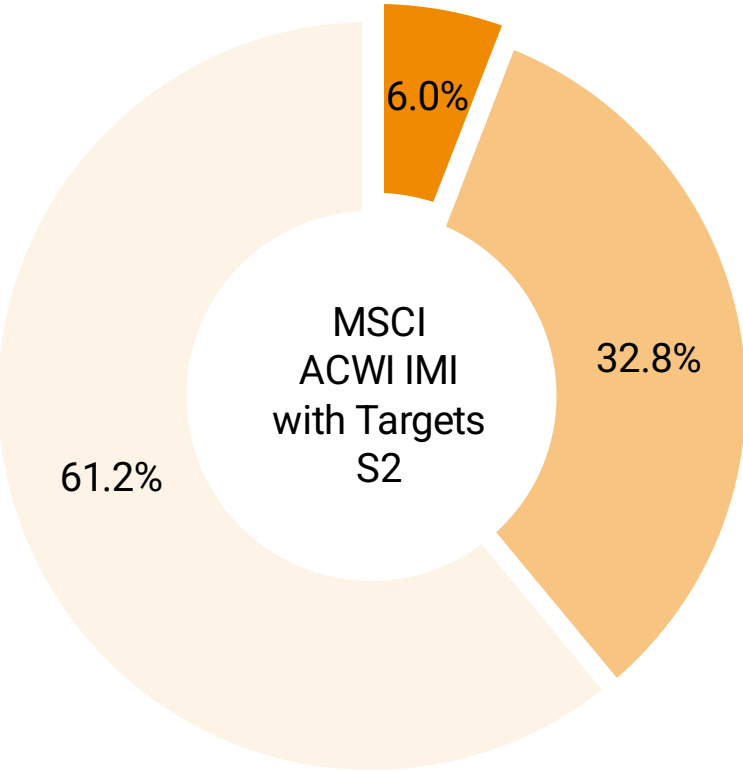
# How credible are companies targets across all emission scopes?

Within eligible companies in MSCI ACWI Investable Market Index (IMI), a minority manage to get a full credibility weight of 100% for a given scope.

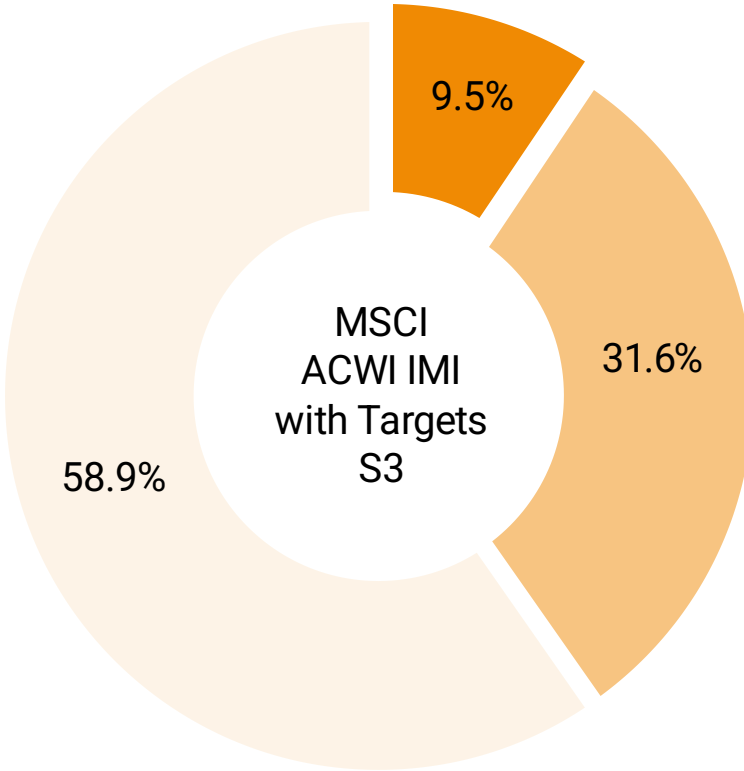
**Total scope 1 credibility weight**



**Total scope 2 credibility weight**



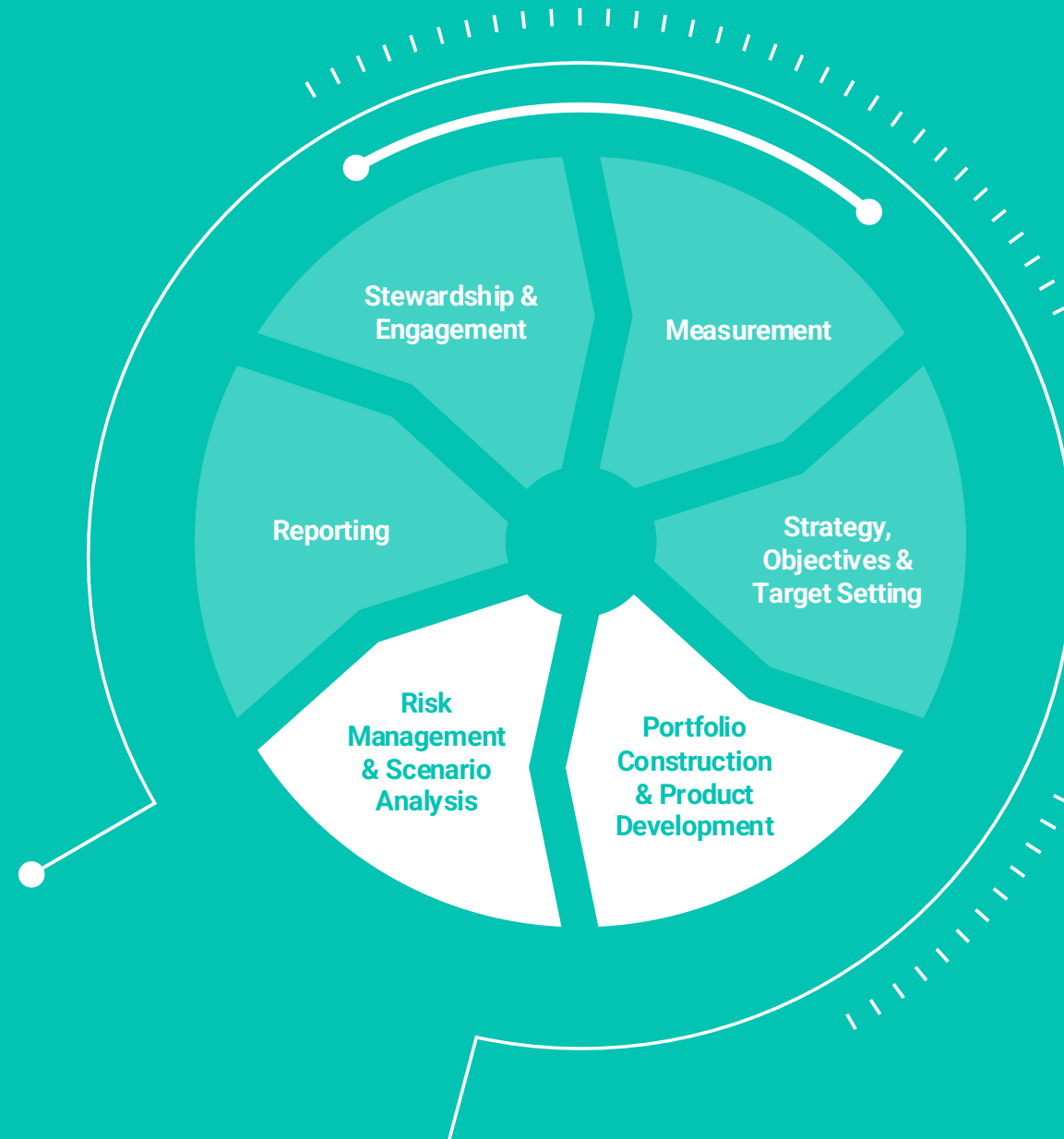
**Total scope 3 credibility weight**



- Credibility = 100%
- 50% ≤ Credibility < 100%
- Credibility < 50%

# Portfolio Alignment

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# How can I measure Net Zero alignment with MSCI Implied Temperature Rise (ITR)?

## What does it measure?

- ▶ Estimates how companies and investment portfolios align with international goals to limit global warming
- ▶ The measure, expressed in °C, estimates the global rise in average temperature by 2100 and later if the global economy were to overshoot (or undershoot) its remaining carbon budget to the same extent as the company or portfolio in question
- ▶ based on a science-based 1.5 °C decarbonization pathway, aligned to GFANZ best practice guidance

## COMPANY A

MSCI IMPLIED TEMPERATURE RISE

3.4°C



STRONGLY MISALIGNED

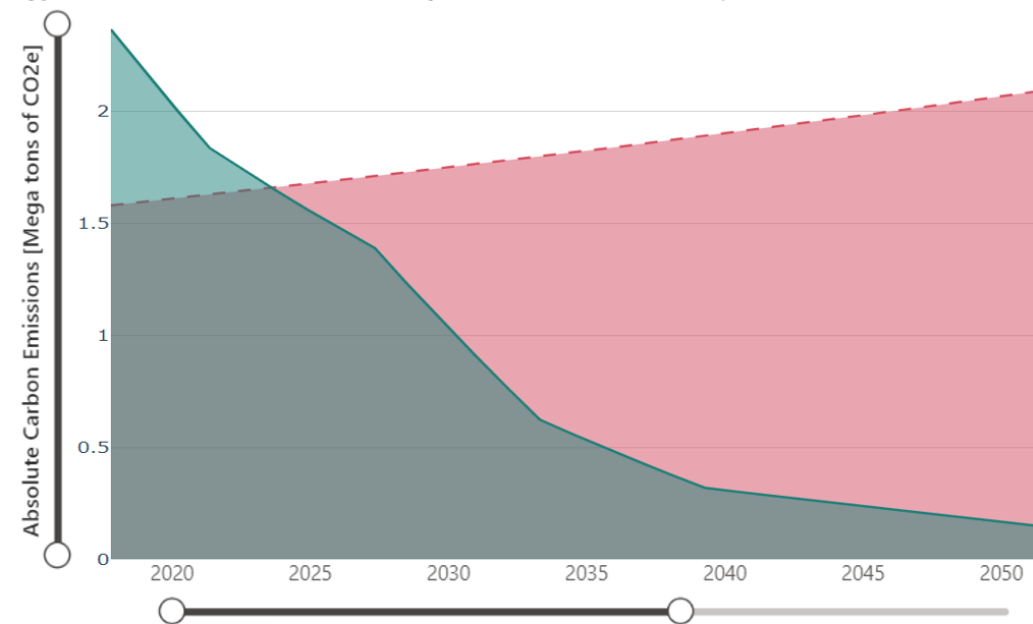
MISALIGNED

2°C ALIGNED

1.5°C ALIGNED

NGFS 2050 NZ Trajectory ⓘ

Type — 1.5C Trajectory — Projected Carbon Emissions (Scope 1, 2 and 3)

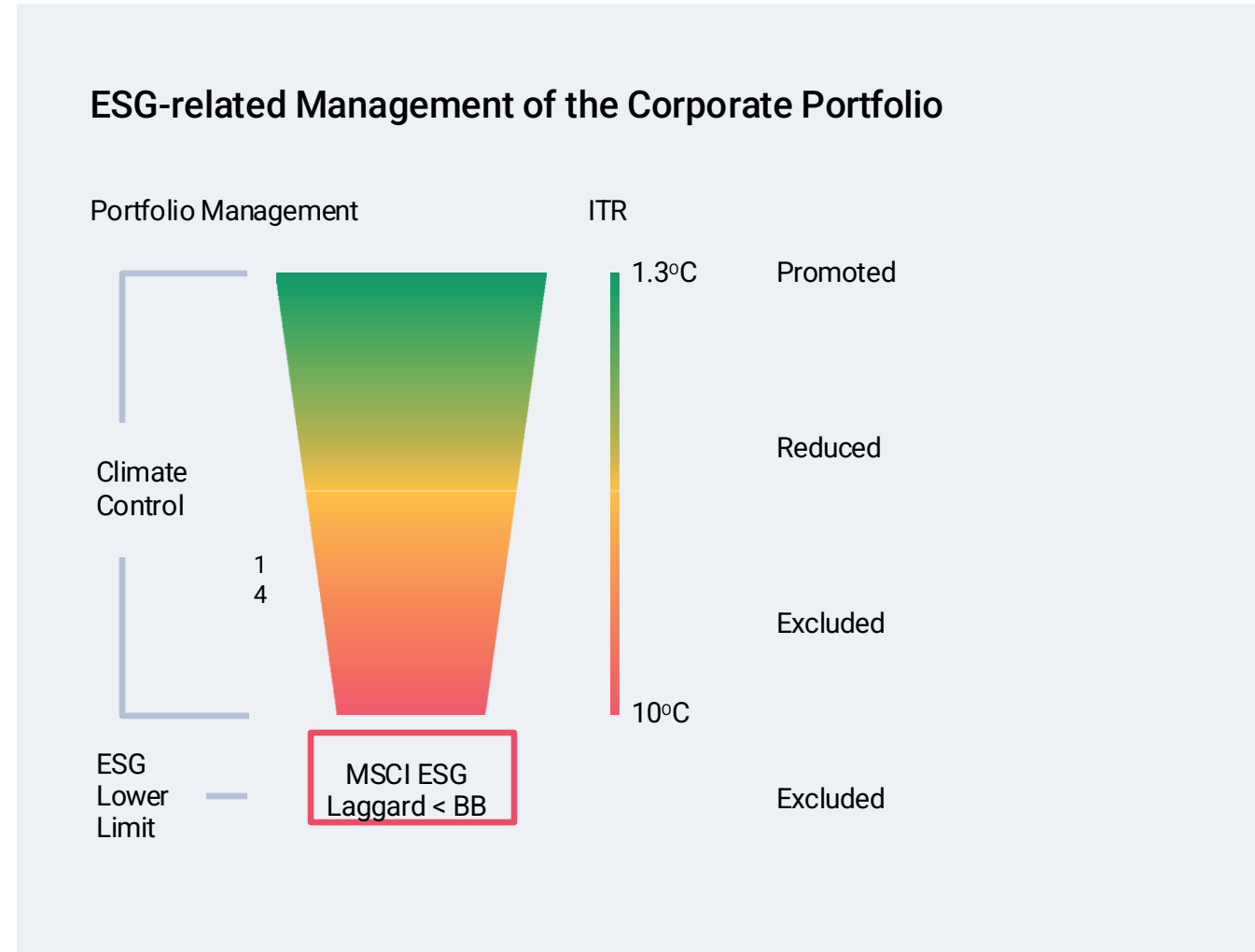


Implied Temperature Rise Calculation date (YYYYMMDD)

20230130

# Portfolio Managers taking into account the Implied Temperature Rise (ITR)

- ▶ The Implied Temperature Rise (ITR) is a key component in the consideration of transformation opportunities/risks
- ▶ Measures the alignment to Paris climate goals:
  - Utilizing the ITR parameter facilitates setting interim targets and making necessary adjustments to achieve desired management outcomes.
  - The initial interim operational target is to enhance the ITR management parameter of the corporate portfolio by approximately 0.5°C by 2026.

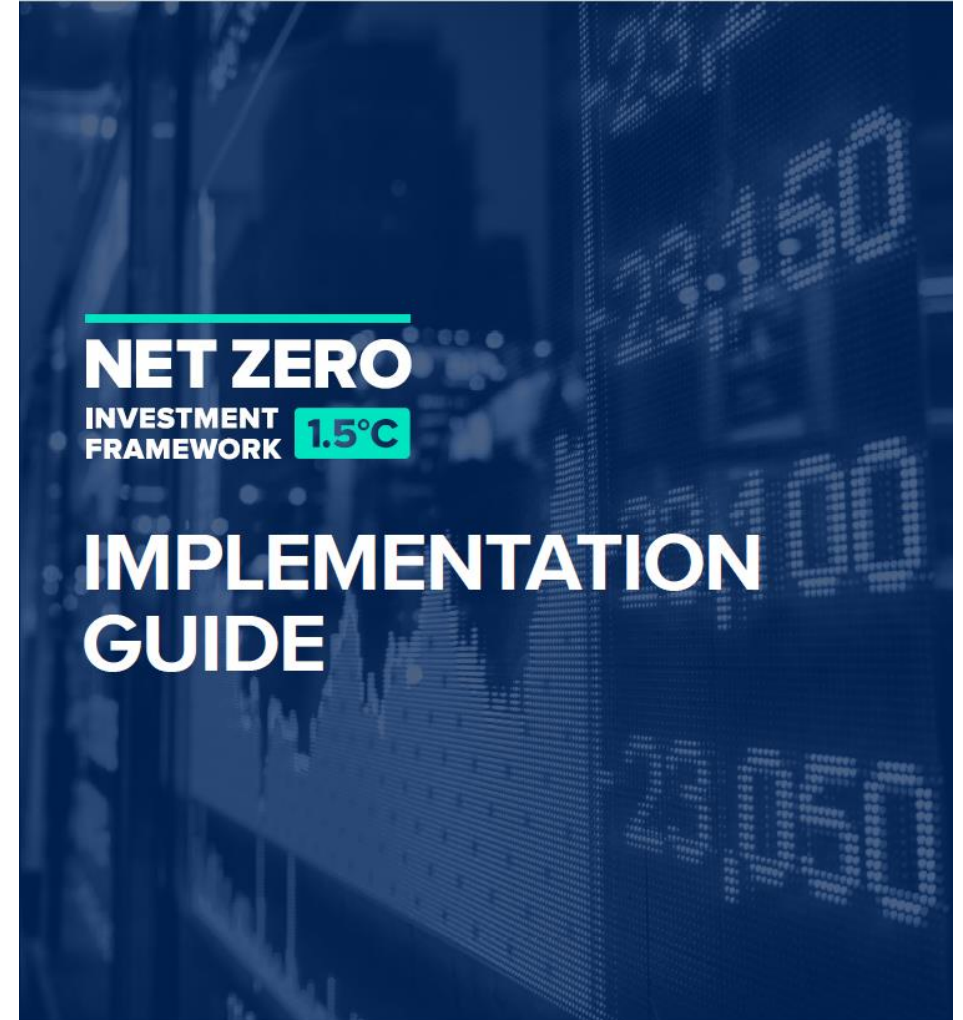


# Overview



## What is this product about?

- ESGM indicative mapping of the Net Zero Investment Framework (NZIF), which was developed by and for Paris Aligned Investment Initiative (PAII) members: IIGCC, Ceres, Asia Investment Group on Climate Change, Investor Group on Climate Change.
- Mapping across 12,000+ listed companies (Climate Universe Metrics), to frequently be updated biweekly with new input data (e.g., disclosure data).
- This is a type of maturity scale, i.e., a grouping of portfolio companies into alignment categories based on certain criteria. It is a way of measuring portfolio 1.5°C alignment, like Implied Temperature Rise (ITR).
- Interpretation of the NZIF text was discussed with the secretariat of the Institutional Investors Group on Climate Change (IIGCC).



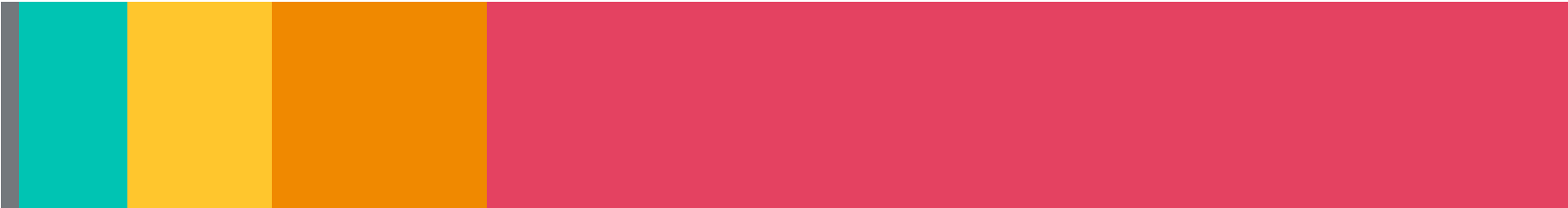
# Expected use case of the NZIF maturity scale

1. Assess alignment of assets



Baseline

2. Establish baseline



Baseline + 5 years

3. Set 5-year targets



Source: IIGCC: Net Zero Investment Framework: Implementation Guide (Version 1.0 March 2021)



# PAII NZIF maturity scale: six criteria

Criteria for lower impact companies

Asset alignment criteria						
Criteria	Descriptions	Net-zero	Aligned	Aligning	Committed	Not aligned
Net-zero criteria	Achieving the emissions intensity required by the 2050 pathway and an investment plan that will maintain it.					
1. Ambition	A long-term 2050 goal consistent with achieving global net-zero					
2. Targets	Short- and medium-term emissions reduction targets (Scope 1, 2 material Scope 3)					
3. Emissions performance	Current emissions intensity (Scope 1, 2 material Scope 3) performance relative to targets					
4. Disclosure	Disclosure of Scope 1, 2 material Scope 3 emissions					
5. Decarbonization strategy	A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and where relevant increases in green revenues					
6. Capital allocation alignment	A clear demonstration that the capital expenditures of the company are consistent with achieving net-zero emissions by 2050					

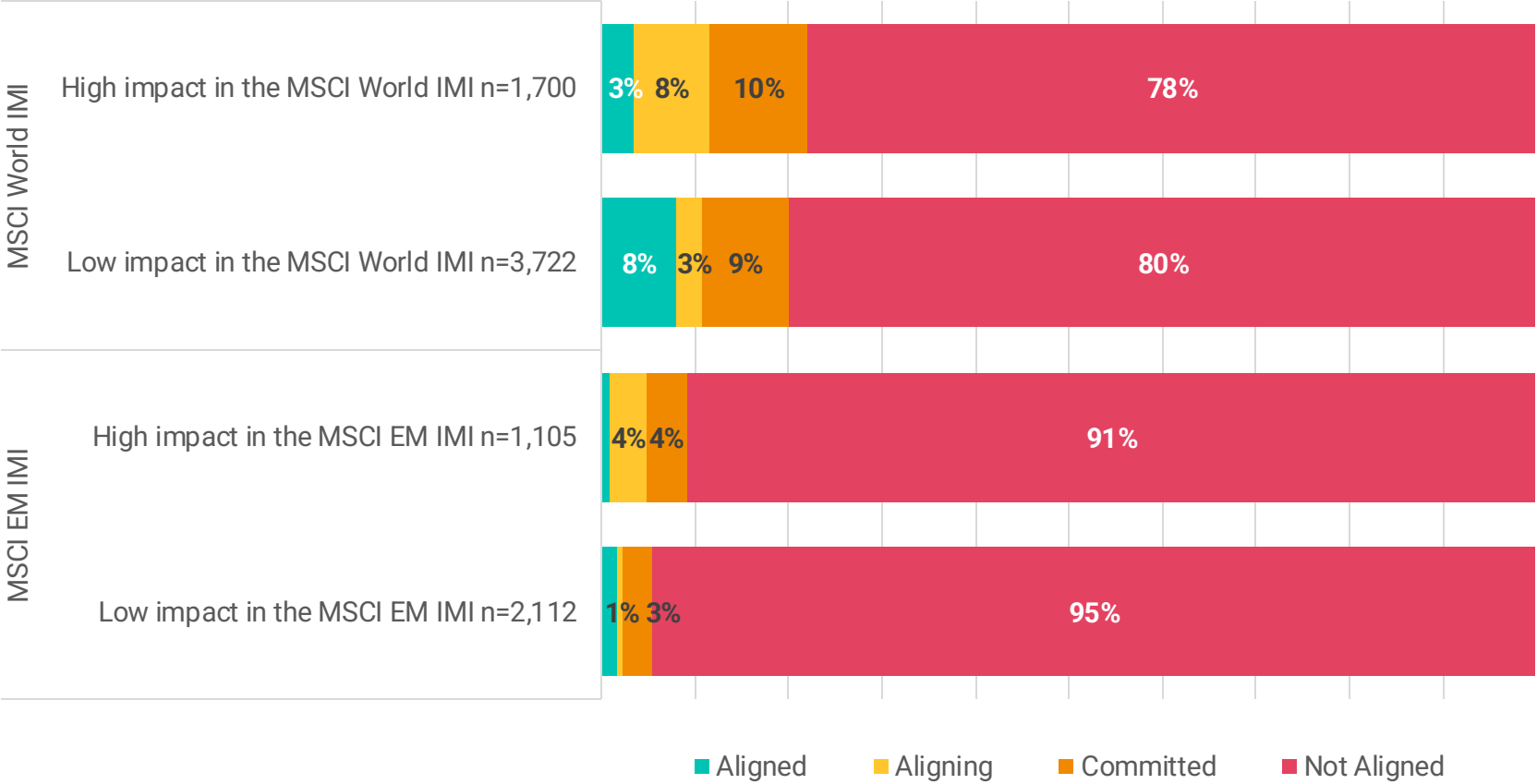


Source: IIGCC: Net Zero Investment Framework: Implementation Guide (Version 1.0 March 2021)

Information Classification: GENERAL

# Market trends: Regulations driving differences in NZIF maturity scales

Distribution of NZIF maturity scale by market and sector



**Key observations: Regulations matter**

- We found that a higher proportion of companies in developed markets (represented by the MSCI World IMI constituents) met the NZIF categories of **aligned, aligning and committed** vs. companies in emerging markets (represented by the MSCI EM IMI constituents)
- A larger proportion of companies in the high-impact sectors met at least one of the criteria and more likely fall into the maturity scale categories of **aligning** or **committed** than companies in low-impact sectors. Companies in high impact sectors are traditionally facing stronger regulatory pressures to disclose emissions and set targets.
- Stronger requirements for high impact sector companies under the NZIF framework have driven them to either **aligning** or **committed** categories. The NZIF framework has required high impact companies not just to disclose emissions and targets but also to reduce emissions per the targets.



Source: MSCI ESG Research as of April 23, 2024.

# Report, Disclose, Engage

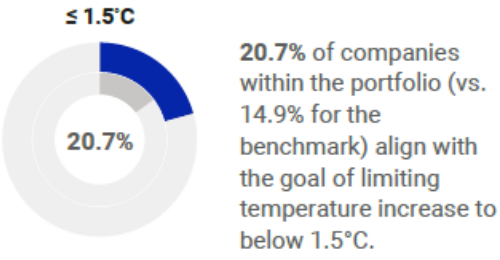
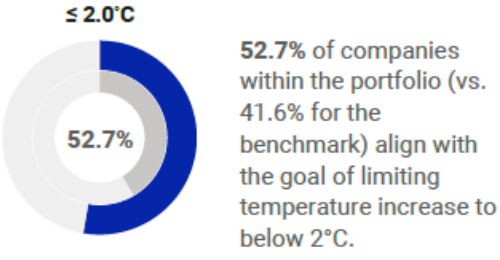
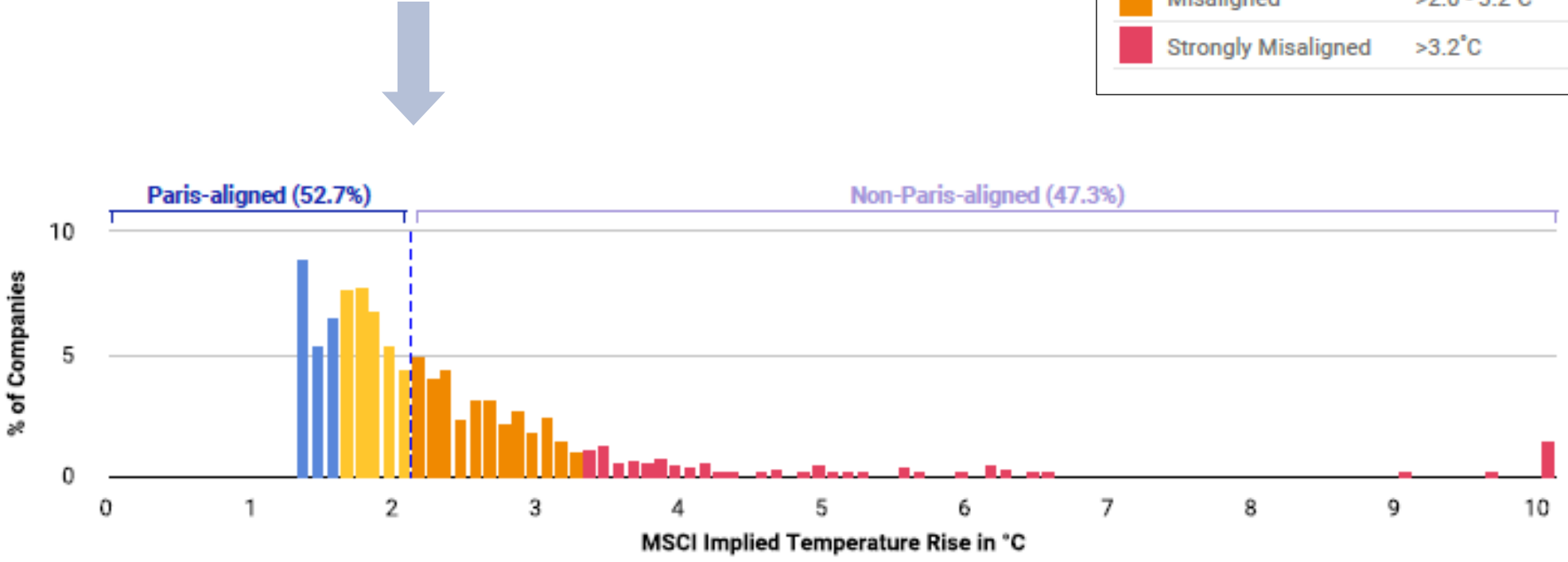
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# Can I use ITR to identify listed companies aligned to the Paris Agreement?



Implied Temperature Rise Categories		% of companies in category
1.5°C Aligned	<= 1.5°C	20.7%
2°C Aligned	> 1.5°C - 2 °C	32.0%
Misaligned	>2.0 - 3.2°C	33.8%
Strongly Misaligned	>3.2°C	13.5%



# Compare the Implied Temperature Rise (ITR) of different companies

## TESLA, INC.

(TSLA)

Industry: Automobiles

Country/Region: United States of Am

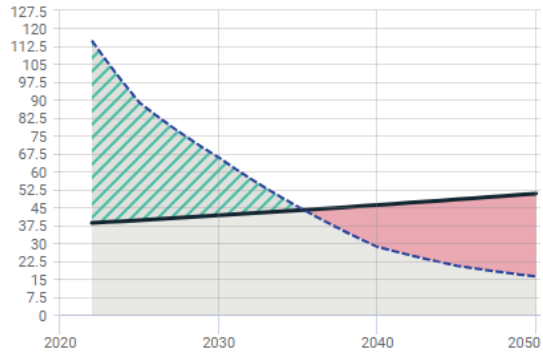


1.5°C

1.5° Aligned

Net-Zero 2050 Alignment

Absolute emissions [Megatons CO2e]



## ENI S.P.A.

(ENI)

Industry: Integrated Oil & Gas

Country/Region: Italy

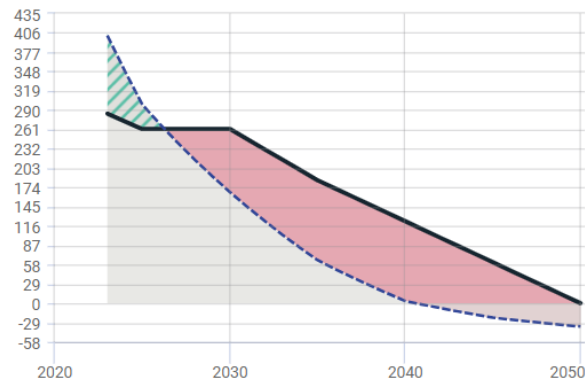


1.9°C

2° Aligned

Net-Zero 2050 Alignment

Absolute emissions [Megatons CO2e]



## DANONE SA

(BN)

Industry: Food Products

Country/Region: France

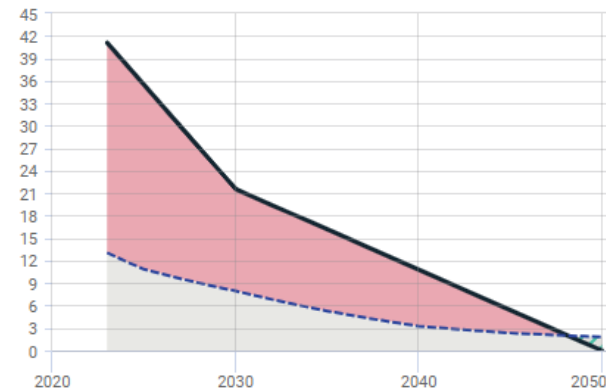


2.4°C

Misaligned

Net-Zero 2050 Alignment

Absolute emissions [Megatons CO2e]



## EXXON MOBIL CORPORATION

(XOM)

Industry: Integrated Oil & Gas

Country/Region: United States of America

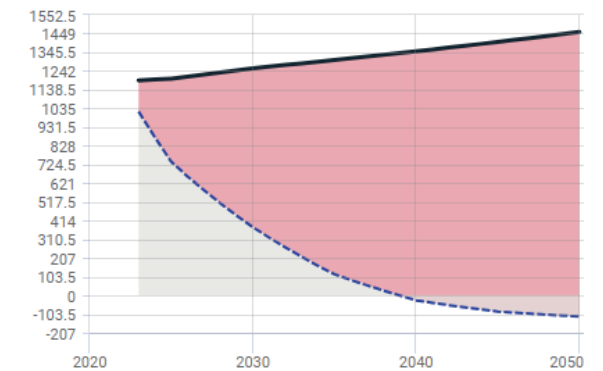


over 3.2°C

Strongly Misaligned

Net-Zero 2050 Alignment

Absolute emissions [Megatons CO2e]



Decarbonization data as of February 12, 2024\*



\*It may take up to four to six weeks for Implied Temperature Rise calculations to reflect newly issued or updated corporate targets, new emissions figures, estimates, or sales/business segment information. Review times are estimated based on historical averages; actual review times may vary in accordance with the applicable methodology and subject to the volume of feedback we receive at any given time throughout the year. Please see here for more detailed information: [Information Classification: GENERAL](#)

- Annual Projected Carbon Emissions
- - - MSCI Net-Zero 2050 Alignment (Annual Budget)
- Absolute Carbon Budget Overshoot
- ▨ Absolute Carbon Budget Undershoot

# Our Reporting Solutions are Designed to Help You With...

## Single integrated platform

For access to all current and future MSCI ESG and Climate reports - Regulatory and Standard, Issuer, Fund, Portfolio and Index

## Batch reporting

Generate reports using a streamlined and intuitive workflow that includes advanced reporting capabilities such as batch portfolio loading

## Enhanced Data Coverage

Extensive data coverage across public and private asset classes for a more complete representation of your portfolios

## Regulatory specific reporting

Continually expanding regulatory library, starting with currently available SFDR, EU Taxonomy, Swiss Climate Scores

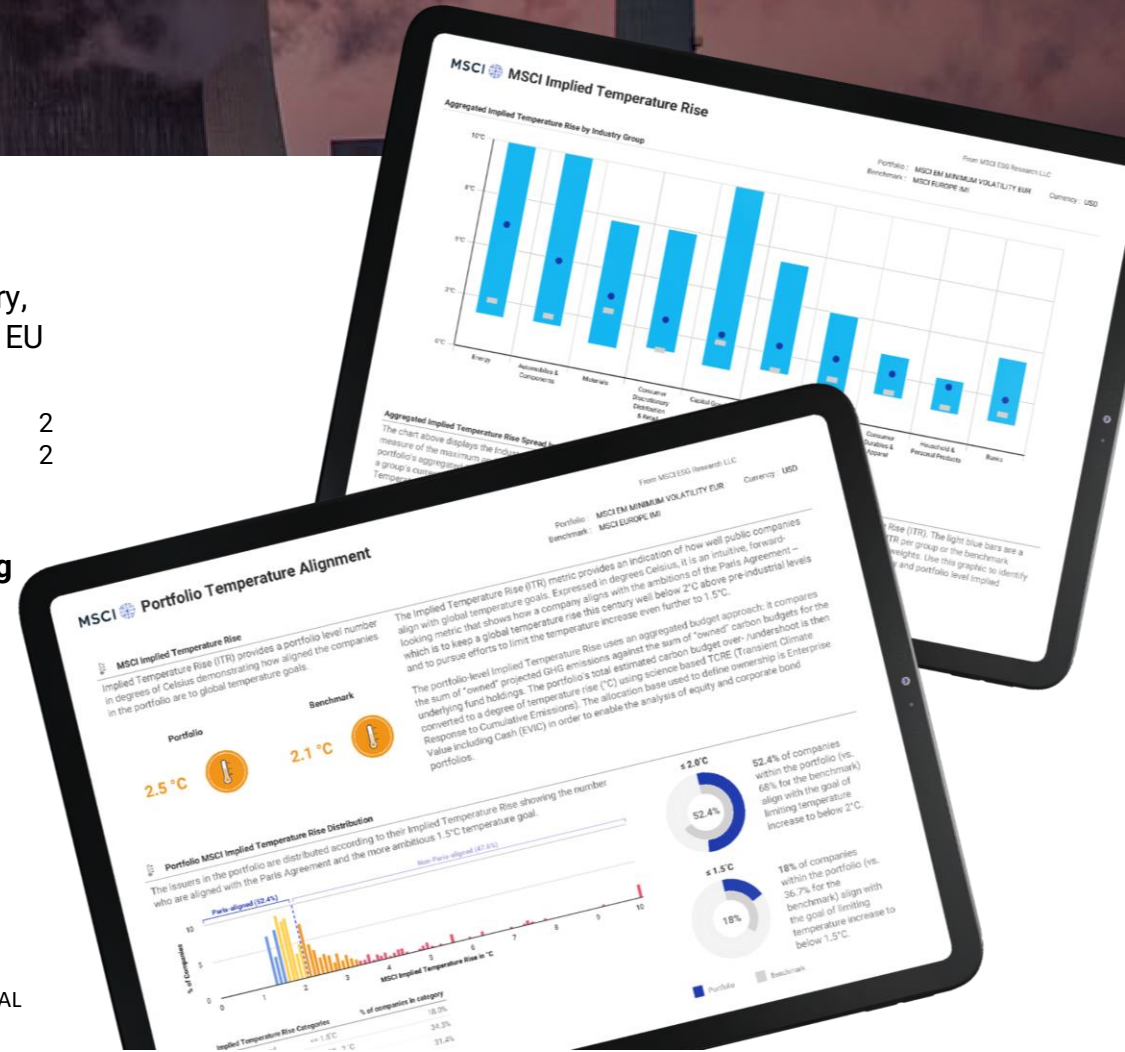
## Point in time analysis

'As of' date functionality

## Standard and Customizable Reporting

On Demand, Managed Service, and customizable reporting

2  
2



# Outlook

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# Transition readiness vs pressure

External drivers provide context for company-specific readiness

## Transition Readiness

Company-Specific

### ► Company readiness

**Transition readiness compared to industry peers?**

- Emissions and targets profile
- Clean tech and innovation positioning
- Financing capacity

**Outcome:** The more prepared a company is to transition – or the farther along it is in its transition – the better positioned it is to avoid costs, preserve market share, or capitalize on growth opportunities.

## Transition Pressure

External

### ► Policy pressures

**Where are policies strongest to pressure industries to decarbonize or support decarbonizing technologies?**

**Outcome:** The stronger the policy pressures, the higher the pressure to transition.

### ► Technology pressures

**What is the option set of decarbonization technologies and their level of commercial adoptability in the next five years?**

**Outcome:** The more options for a company, the higher the pressure to transition.



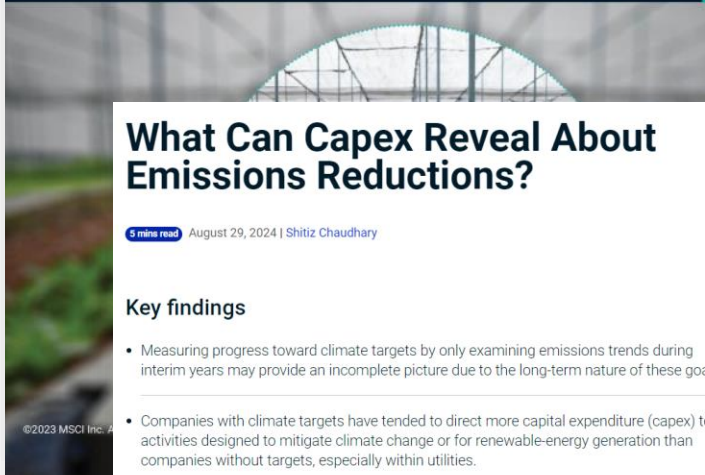
# Other MSCI Transition resources

MSCI  MSCI ESG RESEARCH LLC

## The Climate Transition Is Increasingly About Opportunity

The cost competitiveness of green technologies adds to reasons for investors to act

May 2023



## What Can Capex Reveal About Emissions Reductions?

5 mins read August 29, 2024 | Shitiz Chaudhary

### Key findings

- Measuring progress toward climate targets by only examining emissions trends during interim years may provide an incomplete picture due to the long-term nature of these goals.
- Companies with climate targets have tended to direct more capital expenditure (capex) to activities designed to mitigate climate change or for renewable-energy generation than companies without targets, especially within utilities.
- Investors assessing the transition readiness of portfolio companies through capex data should consider sectoral and regional variations to more effectively apply investment and engagement strategies.

## Managing Climate-Transition Risk in Credit Portfolios

Jan 31, 2022



- A portfolio's climate-transition risk, a major element of overall climate-change risk, is associated with the portfolio's emission footprint.
- We investigate two approaches to reduce credit portfolios' exposure to climate-transition risk: using either a decarbonization target as a constraint or a weighting scheme based on the securities' climate profiles.
- Tractability, turnover and trading cost related to each method are crucial factors that may impact the performance of a portfolio and can help in deciding the approach to managing climate-transition risk.



## Olive Is the New Black: The Rise of Transition Funds

6 mins read September 12, 2024 | Rumi Mahmood, Xinxin Wang, Shuang Guo

MSCI  RESEARCH INSIGHT

## Financing the Climate Transition

Investment rationale and implementation approaches

June 2024



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RESEARCH INSIGHTS  
MSCI ESG RESEARCH LLC



## Tools to Track Transition

A fixed income study of sixteen firms in four sectors

Michael Ridley, Anett Husi, Meghna Mehta

June 2024

# Appendix

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# Higher impact companies (defined by NZIF): about **35%** of companies in MSCI ACWI IMI universe

**Coverage:** Climate Action 100+ companies + Real estate GICS sector + Banks GICS industry group + GICS sub-industries below:

High impact sector (GICS® Subindustry)	GICSSI Code	High impact sector (GICS® Subindustry)	GICSSI Code
Electricity utilities Energy Integrated Oil & Gas	10102010	Aluminum Materials Aluminum	15104010
Electric Utilities	55101010	Diversified Metals & Mining	15104020
Utilities Independent Power Producers & Energy Traders	55105010	Industrials Trading Companies & Distributors	20107010
Multi-Utilities	55103010	Cement Materials Construction Materials	15102010
Oil & gas Energy Integrated Oil & Gas	10102010	Pulp & paper Materials Paper Packaging	15103020
Oil & Gas Refining & Marketing	10102030	Paper Products	15105020
Oil & Gas Exploration & Production	10102020	Steel Materials Steel	15104050
Oil & Gas Storage & Transportation	10102040	Chemicals Materials Commodity Chemicals	15101010
Diversified Chemicals	15101020	Diversified Chemicals	15101020
Oil & gas distribution Energy Oil & Gas Storage & Transportation	10102040	Fertilizers & Agricultural Chemicals	15101030
Oil & Gas Exploration & Production	10102020	Industrial Gases	15101040
Materials Diversified Chemicals	15101020	Specialty Chemicals	15101050
Coal mining Energy Coal & Consumable Fuels	10102050	Diversified mining Materials Diversified Metals & Mining	15104020
Oil & Gas Refining & Marketing	10102030	Copper	15104025
Consumer discretionary Automobile Manufacturers	25102010	Steel	15104050
Industrials Industrial Conglomerates	20105010	Other industrials Information technology Electronic Equipment & Instruments	45203010
Trading Companies & Distributors	20107010	Technology Hardware, Storage & Peripherals	45202030
Materials Diversified Metals & Mining	15104020	Industrials Aerospace & Defense	20101010
Steel	15104050	Construction Machinery & Heavy Trucks	20106010
Autos Consumer discretionary Automobile Manufacturers	25102010	Heavy Electrical Equipment	20104020
Airlines Industrials Airlines	20302010	Electrical Components & Equipment	20104010
Shipping Energy Oil & Gas Storage & Transportation	10102040	Consumer discretionary Consumer Electronics	25201010
Industrials Marine	20303010	Materials Construction Materials	15102010



Source: IIGCC: Net Zero Investment Framework: Implementation Guide (Version 1.0 March 2021)

Notes: The Global Industry Classification Standard (GICS) is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

# Percentages of companies that met NZIF maturity scale criteria by impact categories and markets

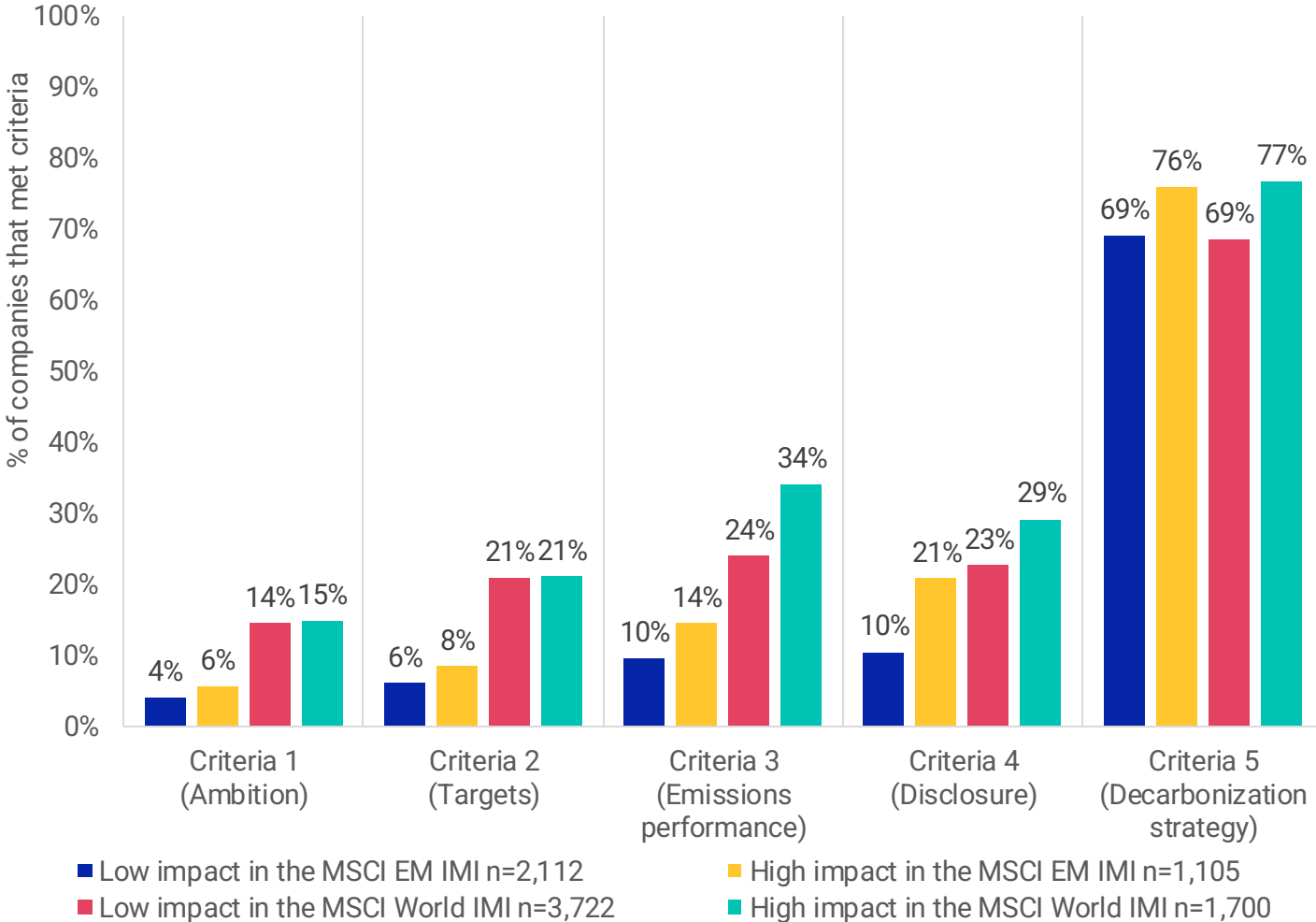
### Disclosure-action gap

- Across both the MSCI World IMI and MSCI EM IMI universe, criteria 1, 2, 3 and 4 appeared harder for companies to meet than criterion 5.
- Our NZIF alignment datapoint indicated a large portion of issuers have set some type of decarbonization strategy (criterion 5)

### Target-performance gap

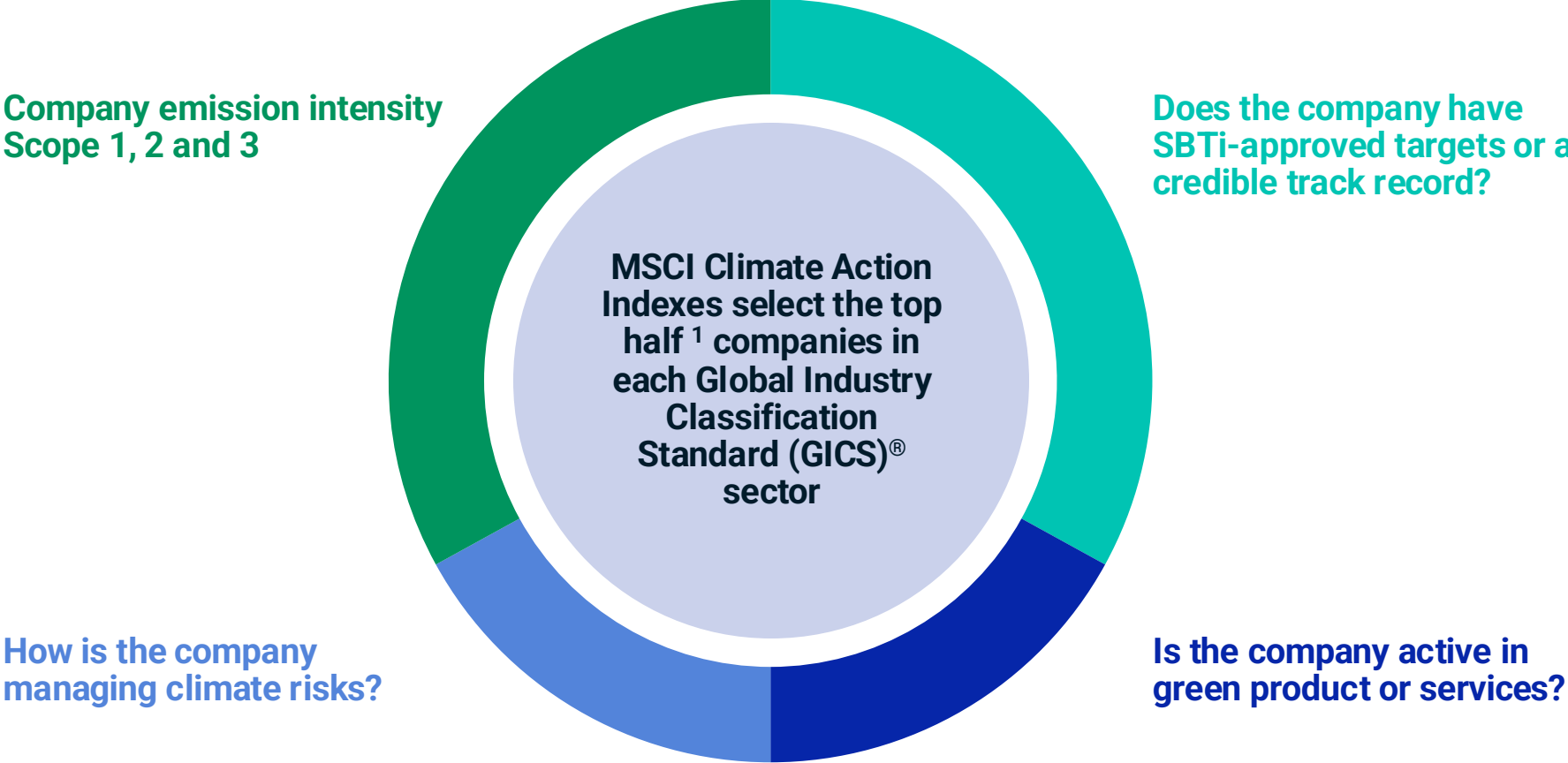
- Across all markets and sectors, criterion 3 (emissions performance) had a higher pass rate than criteria 1 (ambition), 2 (short-term targets).
- These companies had not necessarily set both short-term and medium-term targets nor committed to ambitious long-term net-zero targets.

**Percentages of companies that met maturity scale criteria by impact categories and markets**



Source: MSCI ESG Research as of April 23, 2024.

# Product development: How do I identify climate transition leaders/laggards?



# MSCI Contacts – Italy

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