MSCI

PRESS RELEASE

MSCI launches solution enabling investors to assess exposure to climate risk

- **Tool measures impact of climate change on company valuations**

NEW YORK, February 5, 2020 – MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, has today launched a solution to help investors assess their exposure to climate related risks and opportunities.

The MSCI Climate Value-At-Risk (Climate VaR), provided by MSCI ESG Research LLC, provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations. It provides financial institutions – including investment managers, banks, asset owners and insurers – with the means to identify assets that may be at risk from the worst effects resulting from climate change, while helping to identify innovative low carbon investment opportunities, through security specific modelling.

The tool provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate-related costs into potential valuation impacts. The tool covers more than 10,000 companies, assessing all their associated equities and corporate bonds within the analysis.

The framework is closely aligned to the G20's Financial Stability Board's Taskforce on Climate-Related Disclosures (TCFD), helping investors seeking to enhance their reporting in a time of increasing regulatory requirements.

Remy Briand, Head of ESG, at MSCI, commented, "The world's attitude to climate change is rapidly evolving due to dramatic environmental, social and governance shifts driving a move to a low-carbon economy. As we reach this inflection point, investors are now publicly expressing a desire to take action and address the urgent reality of climate change themselves, and they are also urging others in the investment industry to do so too. As a result, managing climate risk has become an increasingly important tenet of the investment process along with the ability to measure the impact of climate change and build portfolios resilient to climate risk.

"Until now, investors did not have the tools to measure the potential impact of transitional or physical risks or the economic impact of climate change on their portfolios. The launch of the MSCI Climate VaR is the result of MSCI's commitment to create solutions to support investors in the critical quest to integrate ESG considerations in their portfolios. We acquired Carbon Delta in 2019 and MSCI Climate VaR combines MSCI ESG Research's industry leading capabilities in ESG risk management and Carbon Delta's expertise in climate change scenario analysis."

Navigating all aspects of climate related risk

The MSCI Climate VaR has four main applications for investors:

- **Policy transition scenarios:** The policy scenarios aggregate future policy costs based on an end of the century time horizon. By overlaying climate policy outlooks and future emission reduction price estimates onto company data, MSCI's model provides insights into how current and forthcoming climate policies will affect companies
- **Innovation transition scenarios:** The low carbon technology scenario is based on company specific patent data, providing insight into the strategic investments companies are making to help the transition to a low-carbon economy

[1]ESG data provided by MSCI ESG Research LLC.

- **Portfolio warming potential:** the warming potential methodology computes the contribution of a company's activities towards climate change, delivering an exact temperature value that signifies what future temperature a company's activities are currently aligned with
- **Physical risks and opportunities:** The physical scenarios evaluate the impact and financial risk relating to several extreme weather hazards, such as extreme heat and cold and flood risk.

Actionable insights for investors

The MSCI Climate VaR provides a range of insights into the physical risks associated with severe weather hazards such as flooding.

Drawing on MSCI's asset location database, which comprises more than 600,000 geo-referenced assets, and through financial modelling, MSCI ESG Research can assess the associated financial risks related to asset damage and business interruption. This enables the attribution of costs to individual enterprises and feeds into the calculation of MSCI's Climate VaR metric.

Analysis reveals that nearly 7% of global facilities owned by MSCI ACWI Index constituents are threatened by coastal flooding risk and nearly 62% of index constituents had at least one facility in a flood-prone area, underlining the importance for investors in considering these risks and integrating this information into their investment decision making.

Furthermore, Asia had the highest exposure to coastal flooding risk, in terms of the number of facilities and the level of potential damage at company sites with 6,257 facilities at risk in Asia, with USD 2.25 trillion of revenue at risk1 between now and 2050.

The European Union had the second-highest number of facilities at risk from coastal flooding (2,270), while the U.S. had USD 541 billion revenue at risk. Without significant investment in coastal protection and adaptation, over half of the global assets at risk could become untenable by 2050, according to MSCI Climate VaR.

Oliver Marchand, Head of Climate Risk Research & Development, continues, "The flood risk analysis is just one example of the powerful insights the Climate VaR can provide, contributing to the identification and integration of climate change risk in the investment decision making process."

The MSCI Climate VaR was developed from MSCI's Climate Risk Center in Zurich, the focal point for the development of climate change risk analytics and tools. The aim of the center is to develop strong partnerships with leading academic and research institutions around the world to advance the use of climate science for financial risk analysis, building on the relationships already forged by Carbon Delta

MSCI announced it had acquired Carbon Delta in October 2019. For more information, please visit msci.com.

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About MSCI ESG Research Products and Services

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to

[1] We define revenue at risk as the share of current company revenue attributable to facilities affected by specific extreme weather events or gradual climate shifts. To allocate revenue, we use the global breakdown by country and map country revenue to asset locations.
[1]ESG data provided by MSCI ESG Research LLC.

companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

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[1]ESG data provided by MSCI ESG Research LLC.