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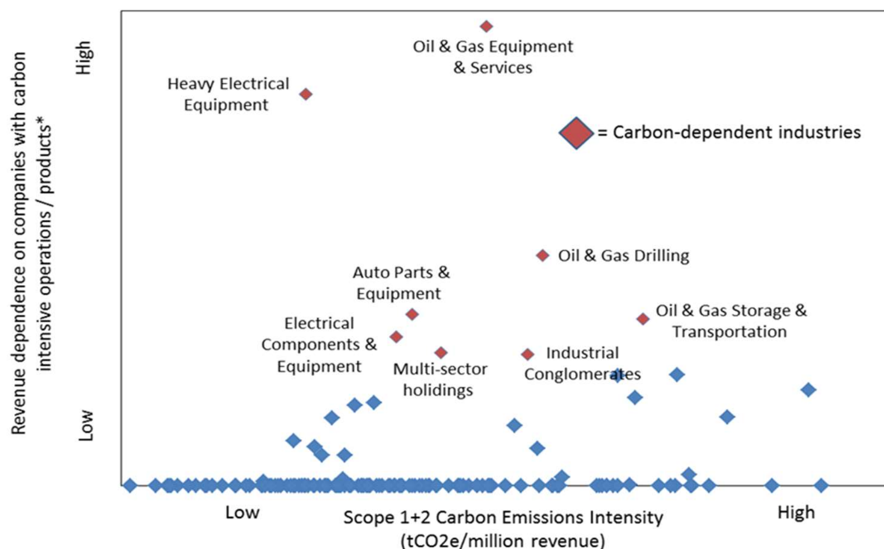
PRESS RELEASE

Institutional investors could be overlooking the climate change risk of 'cleaner' industries

London, December 10, 2018 – Institutional investors could be at risk of not fully assessing the climate change risk of companies in supposed 'cleaner' industries, according to research by MSCI Inc. (NYSE: MSCI), a leading provider of indexes, portfolio construction and risk management tools, and services for global investors.

Historically, institutional investors' attention has been on traditional carbon intensive industries which are directly affected by low carbon transition e.g. fossil fuel-based power generation, coal mining and oil and gas production[1]. However, MSCI research suggests there are many companies in 'overlooked' industries which were indirectly affected by the transitional risk of climate change during the study period.

MSCI defines these 'overlooked' carbon-dependent industries as those which have low direct carbon emissions, but high revenue dependence on companies with carbon intensive operations and/or products. These industries include oil & gas equipment and services, heavy electrical equipment e.g. steam turbine manufacturers, and auto-parts and equipment.



*This chart highlights average Scope 1+2 carbon emissions intensity for all GICS Sub-industries and their revenue dependence on companies with carbon intensive operations and /or products. It includes revenue a company derives from following business activities: oil & gas equipment & services, oil & gas trading, thermal power plant turbine manufacturing, auto-components such as carburator, piston, piston rings, valves, & electrical equipment for internal combustion engines. Values on both horizontal and vertical axis are plotted on logarithmic scale.

Remy Briand, Head of ESG, MSCI comments: "Institutional investors may wish to consider both direct and indirect risks when constructing a portfolio to address potential consequences associated with the low carbon transition. Our research suggests that companies in these overlooked industries

[1] United Nations Principles for Responsible Investment (UNPRI), *"How to invest in the low-carbon economy"*, June 13, 2018, https://www.unpri.org/climate-change/low-carbon-investing-and-listed-equity-funds/3286.article

could pose an equally high risk to investors than those from the more traditional high carbon industries.

"The leaders and laggards in transition risk are not necessarily what investors would expect, as climate change risk is no longer simply determined by assessing historical carbon footprints. That is why we have created a set of estimates of climate change risk to help investors thoroughly review their holdings and engage with companies on their approach to change."

MSCI seeks to equip investors with the data and research to allow them to reconsider the risk associated with these industries, by assessing the strength of associated risk management efforts and to ensure their portfolios really are being accurately and appropriately positioned while being aligned with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

The Low Carbon Transition Score, developed by MSCI ESG Research, provides institutional investors with a zero-10 score, which is designed to consistently measure a company's exposure to economically relevant risks and opportunities related to Low Carbon Transition. It covers 8,700+ companies and 95% of the market value of investable equities and bonds[2]. The Low Carbon Transition Score is part of MSCI's suite of climate change solutions including a broad climate change dataset integrated into risk management and stress testing tools, portfolio-level reporting tools and indexes.

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[2] As of 31 October 2018

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