

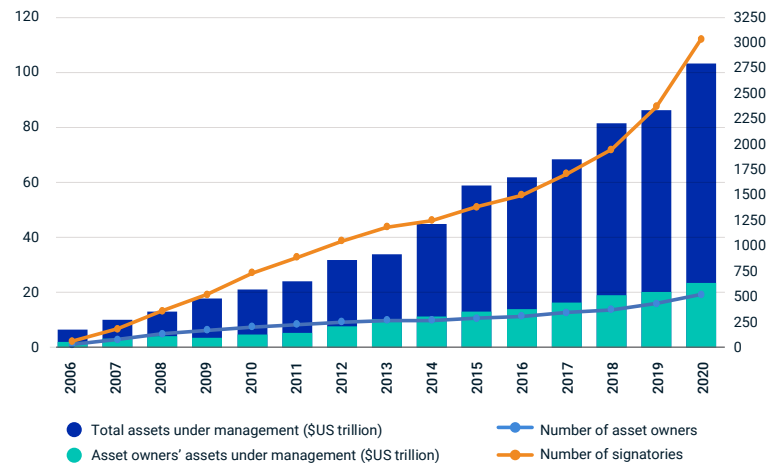
# MSCI ESG Research Toolkit for Hedge Funds

FROM MSCI ESG RESEARCH LLC

Hedge Funds are placing increased importance on ESG

Asset owners and allocators are increasingly requiring their external managers to incorporate Environmental, Social, and Governance factors into the investment decision making process. Investment consultants and investors are evaluating hedge funds commitment to ESG and the ESG quality and characteristics of hedge funds through the MSCI RiskMetrics HedgePlatform. In response, hedge funds are integrating ESG into the investment process to mitigate risk, enhance the investment process and develop ESG hedge fund strategies that have been attracting assets<sup>1</sup>.

Over 521 Asset Owners with \$23.5 Trillion in AUM have committed to integrating ESG firm wide\*



Source: United Nations Principles for Responsible Investment<sup>2</sup>

## Common approaches by strategy

### Fundamental

- Understand companies' exposure to and management of ESG risks and opportunities
- Integrate MSCI ESG Ratings into the investment process to help identify companies that may be affected by ESG risks and opportunities

### Quantitative

- Evaluate the relationship between ESG and risk and return, leveraging ESG data as a new data set
- Backtest MSCI ESG Research's ESG Historical Data to find new quantitative signals to improve risk adjusted return

### Activist

- Understand governance quality compared to industry peers
- Use MSCI ESG Ratings and Governance Metrics to identify potential campaign targets

<sup>1</sup> Source: Institutional Investor. Hedge Funds Expect Large Jump in ESG Assets. July 24, 2019. <https://www.institutionalinvestor.com/article/b1gf3xsxmt31qp/Hedge-Funds-Expect-Large-Jump-in-ESG-Assets>

<sup>2</sup> Source: United Nations Principles for Responsible Investment. Signatories. <https://www.unpri.org/signatories>

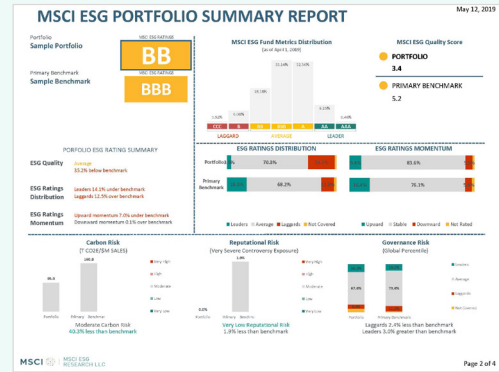
\* These AOs have signed the United Nations Principles for Responsible Investment and therefore committed to integrating ESG firmwide

## Portfolio Reporting



- Report the ESG characteristics of portfolios to allocators, clients, potential clients, and investment consultants.
- Measure alignment with client requirements, portfolio carbon footprint, overall ESG quality, meeting PRI and TCFD reporting requirements.
- Available on the MSCI ESG Manager platform or through a turnkey solution on MSCI RiskMetrics HedgePlatform.

## MSCI ESG Portfolio Reporting Tools



## Portfolio Construction and Risk Management

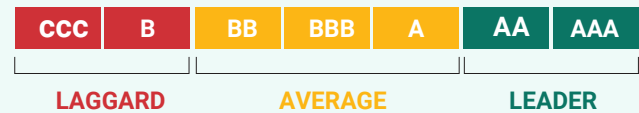


- Use MSCI ESG Ratings & Climate Metrics to integrate ESG factors into investment and risk management processes
- Manage client-specific ESG mandates & criteria
- Leverage historical MSCI ESG Research data for quantitative back testing and model enhancement

## MSCI ESG Ratings and Climate Metrics\*

MSCI ESG Ratings provides insights into ESG risks and opportunities within multi-asset class portfolios

- ESG Ratings & Scores for issuers and funds
- ESG Data Sets
- Industry Research
- Extensive Time Series

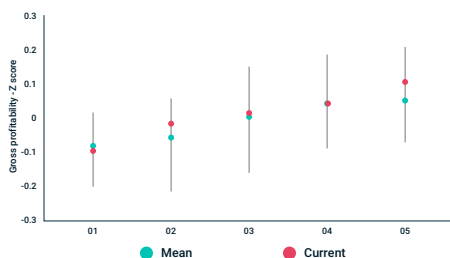


\*MSCI ESG Ratings are provided by MSCI ESG Research LLC.

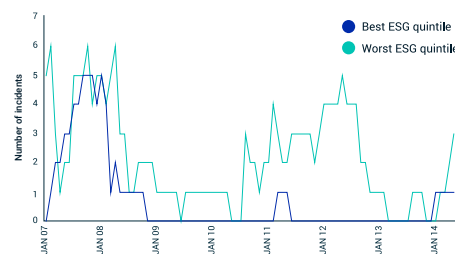
## How has ESG historically affected equity valuation, risk and performance?

A range of papers have evaluated the financial implications of ESG integration. Some found that companies with high ESG Ratings had higher profitability and lower risk and volatility. The MSCI four-part report, “Foundations of ESG Investing,” found that in many instances, companies with higher MSCI ESG Ratings had higher profitability, lower tail risk and lower systematic risk on average based on 10 years of data.<sup>3</sup>

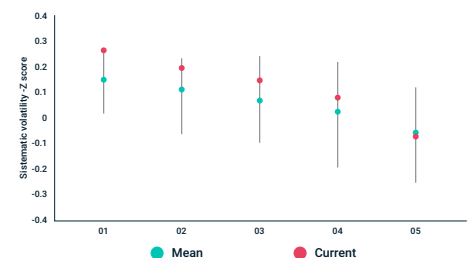
### Higher Profitability



### Lower Tail Risk



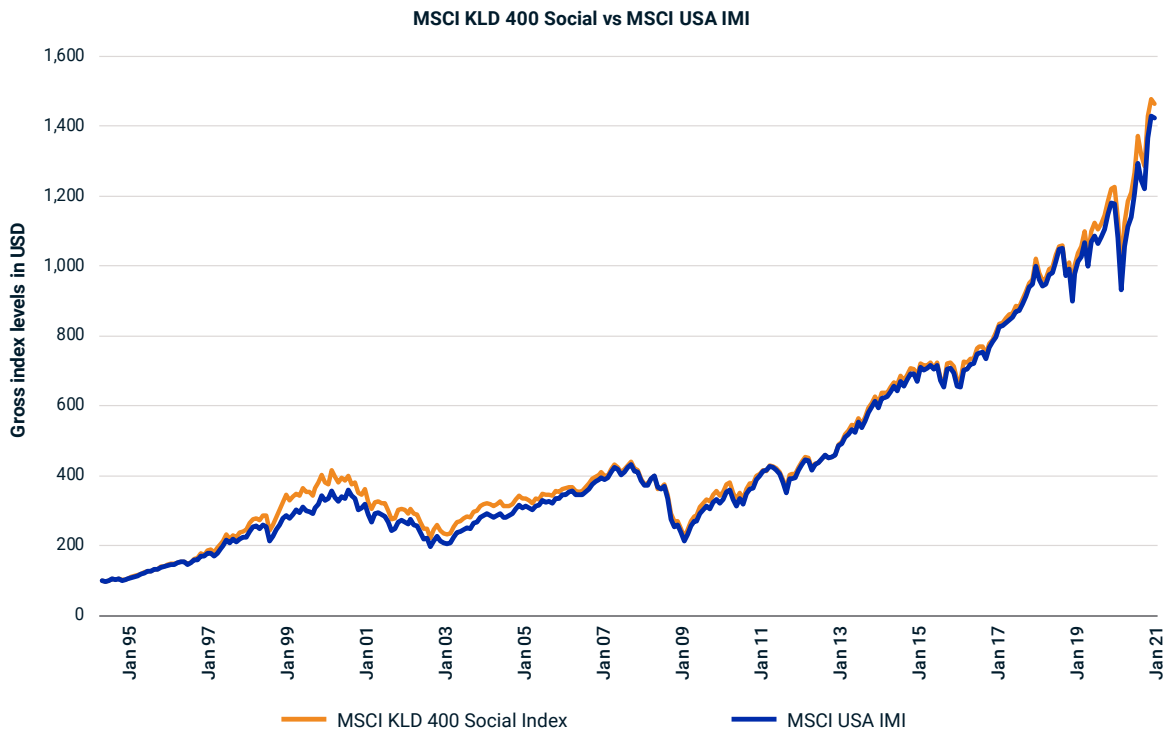
### Lower Systematic Risk



<sup>3</sup> Source: MSCI. ESG 101. Link: <https://www.msci.com/zh/esg-foundations>. These reports may contain analysis of historical data, which may include hypothetical, backtested or simulated performance results. There are frequently material differences between backtested or simulated performance results and actual results subsequently achieved by any investment strategy. The analysis and observations in this report are limited solely to the period of the relevant historical data, backtest or simulation. Past performance – whether actual, backtested or simulated – is no indication or guarantee of future performance. None of the information or analysis herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision or asset allocation and should not be relied on as such.

MSCI has a broad range of ESG Indexes with significant live history. More than 120 have five or more years of live history, with MSCI KLD 400 having the longest track record (30+ years).

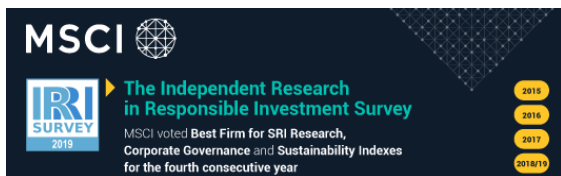
### MSCI KLD 400: 30+ years of live history



Source: MSCI, as of October 15, 2019. The MSCI KLD 400 Social Index was launched on May 01, 1990. Data prior to the launch date is back-tested data (i.e. calculations of how the index might have performed over that time period had the index existed). There are frequently material differences between back-tested performance and actual results. Past performance -- whether actual or back-tested -- is no indication or guarantee of future performance.

### Why MSCI ESG Research?

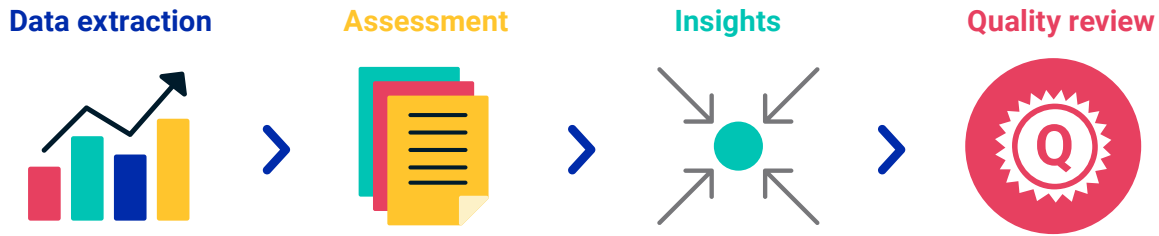
- Capitalize on the strength of an ESG pioneer and market leader
  - Leading MSCI ESG Ratings & research by MSCI ESG Research LLC<sup>4</sup>
  - Recognized as a “Gold Standard data provider”<sup>5</sup>
- MSCI ESG Research Voted ‘Best Firm for SRI research and Governance research’ since 2015<sup>6</sup>
- MSCI Inc. voted ‘Best firm for Indices’ since 2015<sup>6</sup>



4 Ratings, research and metrics provided MSCI ESG Research LLC.  
 5 Gold Standard data provider according to the Deep Data Delivery Standard  
 6 The Independent Research in Responsible Investment (IRRI) Survey 2015, 2016, 2017, 2018/19

## Tech-enabled human insights:

We use artificial intelligence (AI) and other technologies to increase the timeliness and precision of data collection and analysis, and to check and validate data. Our 250+ strong team of analysts review, validate and transform the data into meaningful insights.



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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 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.

For more information on Carbon Delta, visit [www.carbon-delta.com](http://www.carbon-delta.com).

For enquiries, contact ESG Client Service [esgclientservice@msci.com](mailto:esgclientservice@msci.com).

## About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 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.

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