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TRANSCRIPT

Is Fossil-Fuel Divestment the Answer to Climate Change?

Featuring:

Henry Fernandez, Chairman and CEO, MSCI

Chris Ailman, CIO, CalSTRS

Adam Bass (00:03):

This is MSCI Perspectives, your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host, Adam Bass. And today is October 14th, 2021. On today's program. We can continue on our path to COP26 with a look at climate change through the lens of action. What can investors do to turn their portfolios a darker shade of green? Is divestment the answer, or has engagement proven a more powerful tool. For answers to these questions, we mind some highlights from a recent conversation. A few weeks ago, Henry Fernandez, MSCI's chairman and chief executive officer sat down with Chris Aman, the chief investment officer at the California State Teachers' Retirement System, better known as CalSTRS. Chris has held this position for 21 years this month, and he oversees a portfolio that as of the end of August, was valued at more than $318 billion. We begin our eaves dropping with a topic we know is near and dear to Henry's heart. The vital role that capital can play when it comes to addressing climate change.

Henry Fernandez (01:21):

So, Chris, in the context of that, many leaders and many members of our society around the world point to government officials, regulators, the energy industry, technology companies, renewable energy companies as the solution to the climate change problem. But seldom do they talk about the role of capital and the role of investors in creating that solution? So what can you say to them as to the important role of capital and what it plays in the transformation of the economy?

Chris Ailman (01:58):

Well, and Henry it's interesting, it's sort of the chicken and the egg, which comes first. Is a film analogy of build it and they will come. I have been told many times that if we build it, then everybody will follow as an investor, though, we typically follow the trends. We need government regulation without question around the world, not in the USA alone, but around the world. And so the government leaders need to lead out, but industry needs to lead and make the change. Investors have a huge role because you're talking about trillions of dollars that's needed in this, I'll call it, overall energy transition. Some of that will be to new technologies and things we're not even talking about today, but they'll be huge opportunities. So the world's a wash with capital. I mean, you see it with not just pension plans, but mostly the sovereign wealth funds.

Chris Ailman (02:51):

There's plenty of capital chasing good ideas. And I think investors will be eager to take up and invest in cutting edge areas where there's a lot of risk that they'll want return, but then especially at some of the longer returning lower returning infrastructure type things that will need to be put into place to transition to a smarter grid, better energy, better transportation options, [inaudible 00:03:19] funds and pension plan have a huge appetite for long term stable returns. So we're perfect for financing that kind of thing. And I think it's just a matter of creating opportunity, getting the regulations right. And then I think that capital will come in, in huge ways.

Henry Fernandez (03:35):

So I have often said that the investment industry needs to play a role equal to, or perhaps more important than the role of the energy industry in the transformation to a net zero world. Do you think that's an exaggeration or you think that these two industries have that equal amount of influence in the transformation that needs to take place?

Chris Ailman (04:02):

You're right. In some ways, I think we have the capital to fund new ideas, to fund projects that banks might not frankly be willing to. And let's face it, in that middle debt market, the banks have really had to step away. So we do have of it really critical play. Now I think the other side though, is the energy companies are absolutely huge. And let's face it, the vast majority of energy is privately held by, well, not privately, but by countries. And so we need the few publicly traded energy companies to really be the ones that lead this transition. And they may be part of the solution because there's no question we're going to need carbon capture of some sort. And then we're going to find a place to put it, which is not dumping it in the sea, but probably pumping it back underground.

Chris Ailman (04:55):

So I think they're huge because they can, on one hand, block this process and slow it down, sadly, as they have done. Or they can wake up and then actually lead the transition. Investors will play a critical role in getting the companies to do that, but then also financing that new future.

Adam Bass (05:16):

I'm sure no one is shocked to hear Chris is referenced to energy companies right now. That's not the last time we'll hear about this sector today. And that's not just because we're talking about climate change, CalSTRS lent their support to Engine No.1 and impact investment group earlier this year. Specifically Engine No.1's Efforts, successful efforts at the ExxonMobil shareholder meeting this year, they put forward an alternate slate of directors for Exxon's board. But as I said, more on that later, let's return to the conversation, picking it up with pooled investments.

Henry Fernandez (05:56):

A lot of our investment institutional clients point to the pool nature of their investments as an impediment for them to affect change in their portfolios as it relates to the climate threat. This is especially true with the governments because they tend to invest much more in pool vehicles than sometimes the pension funds, which have a lot of separately managed accounts. So is that an excuse? And secondly is what are some of your thoughts as to how pension funds like CalSTRS are able to influence those managers do sell those pool vehicles, to be able to engage in a transition to net zero?

Chris Ailman (06:41):

Henry, a twofold answer to that, as direct owners of assets, you obviously have a lot more pool and you have much more ability to influence change and make the owners of a company, the board of a company or a physical asset pay attention. But it's not an excuse because it's a pooled vehicle because good grief, we're seeing pooled vehicles in every kinds of shape and size and index. You alone produce a zillion indexes. So if somebody wants a pooled vehicle that is paying attention to climate change or reduced carbon exposure or focuses in on one change opportunity, they can take advantage of it. The endowment world does a lot of direct investing with in venture capital and private equity. And while right now, most of that's been focused in on tech and these great unicorns. I think we're going to need tremendous technology change coming up in the future.

Chris Ailman (07:37):

And that's going to bring some unique opportunities for them to invest in smarter grids, better energy sources. Wind and solar are great and can fuel us, but they're intermittent. And so you need some kind of a consistent substitute for oil and natural gas, particularly in the energy grid. Maybe that's hydrogen, maybe that's something else, but those would be the kind of technology investments that would be pooled in a partnership, but they could easily make those kinds of investments. So I think people have to really look at their pooled investments and they get to choose which pool and what's their benchmark, and they can make some changes in that. So it's not an excuse, it's just a different vehicle and a different structure say that it's harder for them to engage, no question about it, when they're in a pool.

Henry Fernandez (08:28):

Yeah. So a lot of our advice and counsel, especially the endowments is that we recognize that the best managers can be very selective as to who they want to take as their investors. But that should not be an excuse not to bring up the topic about the carbonization of the portfolio that they're invested in, because at the end of the day, it is the investor that is going to be holding the bag if those portfolios don't do well. It's just a question of how you approach the topic. So turning our attention to banks, I recently spoke at a group of senior bankers from one of the largest banks in the world.

Henry Fernandez (09:06):

And I was telling them that they should refuse to take a company public or do a bond offering if company hasn't yet made a pledge to net zero. Or they should refuse to engage in certain other lending activities that will lead to a highly carbonizing outcome. It's very challenging for them because their answer is, if we don't do it, somebody else will do it, right. That's the usual answer. But anyhow, what advice will you give those banks as to how they should go about managing that exposure?

Chris Ailman (09:41):

Be very loud and clear is that we're an equity owner in all those banks. And we want them to have a cleaner book of business. They don't want to be stuck with legacy assets that might have very volatile pricing or be regulated out of use. So they have to pay attention to it. And some of them are willing to take bold stands, because they realize their brand and their client want it that way. So we're going to be loud as equity owners in those banks. We're also going to compete with them in terms of the loans and the direct loans. And I think they have to recognize, again, this is a mega trend. This is going to happen over at least 15 to 20 years, I'm not going to go out to the 30, it's got to be almost finished by the time we get out to say 20, 25 years from now.

Chris Ailman (10:25):

While they look at it now as somebody else will take the business, I would not be surprised within five years that their attitude would change to, oh, let them take the business. We don't want that kind of business because it's not good for our company, not good for our book. We want to be focused in and other areas that have better legs.

Adam Bass (10:43):

Five years is not a very long time in the investment world generally. But when it comes to climate change, that can feel like forever. So Henry and Chris, next turn to the subject of the two main paths that are available to investors today, divestment and engagement.

Henry Fernandez (11:01):

You have been very vocal and a strong critic of using divestment as a tool in the investment industry, thinking you even tweeted back in December, something like divestment has not solved a social problem in 25 years. So what do you say to those climate activists, for example, some other investment organizations that are using divestment as a strategy?

Chris Ailman (11:32):

It's been a hot debate. That comment is one of the many that pushed me off Twitter. Henry, I would say divestment's isn't investment decision, you just means you're going to sell. If you really believe something's not going to do well, then short it, it's an investment decision, don't even sell it? It's the issue that people think divestment, it brings about social change, that you can starve a company or an industry of capital. And I said earlier, the world's a wash with capital, people will chase all kinds of transactions. And I've had really good debates with people going back to South Africa. So let's go all the way back to 1986, CalSTRS divests of banks and businesses doing business in South Africa. Not until 1991 in early 92, there's a apartheid end and we all agreed that's a good outcome, a great outcome, but in between there's sports boycotts there's banking boycotts, the whole world gangs up on South Africa.

Chris Ailman (12:29):

And that was huge. Is divestment the causation or just a common event that links it. We don't reinvest into South Africa until 1994, 95. Well, after apartheid ended when their needing capital. And even if that was a material impact back then, that was for the 1980s. This is the 2020s where we suddenly have massive sovereign wealth funds that are 10 times our size. So, frankly, if divestment would solve climate change, I'd be all over it. That would be great, what a simple solution. The problem is if you don't like US and public oil companies, you're going to hand the world over to Iran, Venezuela, Russia, the sovereign countries that have tons of oil, the Middle East, and they're not going to care as much. So it needs a comprehensive solution.

Chris Ailman (13:25):

This is a giant problem. CalSTRS, I'm sad to say is kind of the poster child at divestment. We divested from six different areas. We're now at the point where we broken even on two of them, but otherwise we had lost money in everyone. And part of the challenge has been, none of them brought about any social change because they weren't a social decision, they were an investment decision. And, Henry, when I've seen and we'll talk about firearms, a really passionate area for our teachers and for our board, we had engaged sporting goods for years on firearms. But when the students at Stoneman majority started tweeting and personally went after the CEO, its social change that really has brought about attention. That CEO paid attention right away and made a bull old decision.

Chris Ailman (14:16):

And I think it's much better for the company because of it. So it's a question of, I'm all for social change, what's the best tool to bring it about. If there were better financial tools, I'd be all in favor, but I'm a trust fund. I have to make investment decisions. The rules are pretty clear, we have to care about return, we're not about trying to bring about social change. I got to earn 7%, if it brings about social change, that's a side benefit, that's great. But I just haven't seen it.

Henry Fernandez (14:46):

Yeah. And in this world, as you mentioned before, of abundant capital from all sources in the world, from all walks of life, it's hard to believe that if one entity divest, somebody else is not going to go in and fill their shoes in that investment. And also in this highly interconnected, highly interdependent world, it's no longer that if something happens in South Africa, which is divesting from, and there's no impact in the rest of the world, there is impact now all over, countries are much closer together. And so I'm like you, I don't think divestment is a choice, it is not going to bring about change.

Chris Ailman (15:29):

Henry, I often use an analogy, you know I love analogies. And I tell the teachers, if you don't like the school board and your school district and their curriculum, you're going to write letters. You're going to go to the school board meetings and complain. You might even go so far as to run against the school board and to try to bring about change, and you'll get their attention. If you're mad and you sell your house and you move to another school district, you're going to sell your house at the market. You're going to sell to somebody else who may not even care about that board. And the school board doesn't care at all because you're gone. Did you solve a problem? You made an investment decision, but did you solve a problem? So I tried to share that sometimes it resonates with the teachers and others to understand there's a big difference between the capital markets and trying to affect social change.

Henry Fernandez (16:21):

Well, that's a good segue into engagement. So if it's not divestment, it's engagement. And let's talk about it some more.

Chris Ailman (16:30):

I told you we'd get there.

Henry Fernandez (16:32):

So back in December you made an announcement that you were going to support the slate of independent directors proposed by Engine No.1 to the Exxon board. And in the spring, three of those four members were installed at ExxonMobil. So can you share with us little bit about that process and what were some of the surprises, where were some of the negatives that came out of that?

Chris Ailman (17:03):

It was a great experience, I have to say. We've been at corporate governance since the late 80s, we have been a steady, but fairly quiet. We've only done a couple of very say public or taken on a company and confronted them. We prefer to talk offline outside the boardroom and have a dialogue as long term owners. And we've talked to many CEOs and help explain who we are. But this was the first time we were willing to really step up to what I'll call active shareholder, to be activism. So not an activist manager, but because we're going to own this company for a long, long time. And I had kind of thrown in the towel on Exxon. I was so disgusted with their board and their CEO over the past couple of years, the way they have just been obviously sub diffusing climate change and pushing out misinformation.

Chris Ailman (17:54):

It was very frustrating. So I was eager to see when our staff brought the opportunity to team up with somebody, to take them on. And we really debated whether to join them or to just team up with them. And the decision was team up with them, let them go first. And it was the new firm, so that was a big risk. And believe me, there was a lot of hand ringing going on, not just within the staff, but within the board, and lots of dialogue. The hill looked giant in front of us. I have to admit one of my analogies with the staff was, I said, "Hey, we've been climbing the local hill for years and we're really good at that, but now you want to take mountaineering and the first hill you want to climb or mountain you want to climb is Everest."

Chris Ailman (18:33):

I remember, I think it was in about March getting a chance to be on CNBC and David Favor just blew us off. Like, well, that's never going to happen. And I was able to cut him off and say, "Oh, just wait and see, just watch, don't throw us out yet." And I said, the lessons learned was really good discussions with institutional investors. The bottom line is any public company in America, it's going to be the big three, BlackRock, SSGA and Vanguard. And really having a good dialogue with them. With two of them have long deep relationships, we know their staff personally. The corporate governance world isn't that big. A lot of the investor relations people know the corporate governance people and everybody talks, and they've been in the business a long time. So that was really fun to have those long dialogues about why we were supporting it.

Chris Ailman (19:28):

What was our view? We weren't proxy solicitors. We were just expressing our point of view. But on the other hand, I would say a really interesting lesson learned was how Engine No.1 really went after some of this technology standpoint, a huge voting block with the Exxon retirees. And they really figured out actually how to approach them through technology and not just do sidebar ads on different pages. But I'm told that in technology, if you get in and close above a half a percent to 1% click through, that's huge. They were up in the seven, eight percent where retirees were listening to their message and paying attention to the change.

Chris Ailman (20:10):

So yes, we were surprised to be so successful. Our phones went crazy when Exxon suddenly froze didn't end, but froze the general meeting, the annual meeting. And it was clear they were calling institutional investors, begging them to change their vote, which outraged many people. But then finally toward the end of the day it finally came out that we had one and then two, and then later when the count went through, we had three board members. And you look at the dialogue of ExxonMobil from that date to now, and it's completely changed, just dramatic what they're talking about and where they're going.

Chris Ailman (20:51):

So now the hard work begins. Now that board really does need to change that company from the top down, because it's sure clear to us that from the bottom up in that company, it was just drill baby drill and we don't care and we're going to push everybody out. They got to completely change that attitude and look at this differently and that's going to be hard, but we think it's absolutely critical. They're the leading us oil and gas firm, they've got to lead the change to tall shell, shell, BP, Chevron, they've all got to change what they do. They have to be our solution, not our problem.

Henry Fernandez (21:27):

So we cannot commend you enough for that leadership. And it was about time that somebody would step up. And as you said, try to climb on Everest, opposed to the local Hills. And climb you did, it was enormous achievement. So the question now that you have put the whole corporate world on notice that something like this could happen, what is next? Is this a one-off or you think that this is the beginning of a series of activist campaigns in which selectively CalSTRS will be involved in?

Chris Ailman (22:05):

It's not a one-off. I think what we proved, Henry, is that that being an activist shareholder as a tool in your toolkit is important and it works. And like you said, it put corporate CEOs on notice of like, hey, to me, the biggest message was, start listening to your shareholders, let some of your board members talk to the shareholders, listen to what they want. You yourself have had to deal with an activist investor. And the most important thing is all those long term stable investors listening to you and management of what's the vision because suddenly somebody else comes in and proposes new ideas. Is that really good for the long term? I tell CEOs we're going to own their company as long as they're public school teachers in California, that's a long time we're going to outlive most CEOs.

Chris Ailman (22:50):

So it really, I think for us is not that there's another one right away. We're going to use this as a tool in the future. We're not afraid to take it on. And we showed other institutional investors that when we team up, we can be a powerful way for change, but it's got to be... And there are companies that don't use their capital allocation, they waste their earnings and CEOs who just don't think long term. Those are the companies that are at risk, because we want them to change the way they operate and they think long term. And so they're not immune. That hopefully that's the message.

Adam Bass (23:27):

As Chris mentioned earlier, CalSTRS is a trust fund, and he has to consider return for his constituents first, period. This is a pressure that pension funds must contend with in ways that some other types of funds just don't as Henry points out.

Henry Fernandez (23:44):

We had a client that we advised him in the transition to a fossil fuel free portfolio. And this client managed a pension funds and an endowment. So they started with the endowment and everyone was cheering that they were doing that. Then they went to the pension fund and therefore their pensioners said, "Wait a minute, it's fine for you to go into this fossil fuel free thing in the endowment, not with my money, not with my pension." So they started having a lot of resistance. So I imagine you faced this question quite often among the school teachers that you got the pension for, which is, I don't want you be going out there changing the world. I don't want you being a social agent. I just want you making my highest return possible. So what are you doing? Engaging in all of this. So you probably answered that question and the prior discussion, but what else can you tell those people?

Chris Ailman (24:41):

Great question. And talking to other CIOs, they're seeing those kind of pressure points too. The sad reality, Henry, is we don't hear from enough. We hear from, we have a million numbers we hear from maybe a hundred, literally, maybe a hundred. And I'm sure like other public pension plans you hear from the retirees. I don't hear from the vast majority of my working teachers. It's neat that we're a teacher only fund, I really enjoy that facet. You have to think about that for a minute. 72% of my membership is women. They're all college educated, everybody in the plan, but their passion is teaching and being in the classroom and with the kids. And they think future oriented, which is great, but they're so focused in on students and things, they're not really very generally, they're not super financial.

Chris Ailman (25:30):

So we don't hear from them. We have a hard time getting a teacher's attention in their 20s and 30s. By their 50s, they want to talk to us. So I hear from just a really small group and that's what's hard, we're a trust fund. We have to earn 7% and it has to be filled focused on the investment decision. I don't want to hand a retiree a cheque in 2050 and have the earth scorched where the cheque isn't... Life is too expensive to live and it's worthless. So I care about that future, because I want a sustainable return into the future. So I'm adding that into the equation. But I still need to earn that return. I've had a discussion with the board and they've said, if we solved climate change all by ourselves, we'd win a nail bail prize.

Chris Ailman (26:18):

But if we didn't earn 7%, we'd be fired. But I think you really have to approach it from that perspective. Your responsibility is a fiduciary to a trust fund, even in endowment is going to be written in those documents. And you got to focus in on that. In my case, it's written in the California constitution. I mean it's written in stone. So the law is pretty clear. This isn't my money. If it's my money, I would do something completely different. It's other people's money and we have to follow the rules that we've been given. So social pressure totally understand it. I live in a giant fishbowl. I've joked with you, Henry, that's why I used to have hair, but I've rubbed it so much, it's all gone. So I understand stress and that pressure, but you got to focus in on the main goal.

Adam Bass (27:03):

But as other guests on Perspectives have noted, climate change is not all about risk. There are also potential opportunities. Chris had some thoughts about that as well.

Chris Ailman (27:14):

The number one thing I would say to the audience and to my peers is risk and return. You got to start with that when you look at any investment, there are some of the climate change opportunities are going to be very high return, but also very high risk. When you think about some of the venture opportunities, some of the technology, new energy opportunities. And believe me, because we've made money and we've lost money in some of those ventures. But there's also on the other side of spectrum, there's going to be fairly low risk and stable return opportunities with some of the infrastructure, some of the stuff that could be really boring and not very exciting. So it depends on where you want to put this in your portfolio. So we have a sustainable investment team. So instead of competing with the asset classes, it teams up with the traditional asset classes to help build this out.

Chris Ailman (28:03):

Hopefully eventually it won't be a separate unit. It will be just the way we manage money. But what we recognize is there are some cutting edge technology opportunities. Well, those are going to be venture in that portfolio. There are some infrastructure opportunities, those are going to be the lower return, just like green bonds fit in the portfolio, but also, what we would call sustainable active managers fit in the portfolio. So I'm trying to look at it from a holistic portfolio standpoint, recognize there's a spectrum of opportunities in climate change, risk and return. It always comes back to that, Henry.

Henry Fernandez (28:40):

So when you examine a lot of what you're doing and you talk to others in the industry, what strikes you as the most underappreciated aspects of these opportunities?

Chris Ailman (28:56):

I'm not going to give away my secrets, Henry, come on. I think one of the areas, and I don't know, there's a lot of return opportunity yet. I really believe there will be, is in the boring area of retooling. It sounds silly, but some of the massive gains we've had on energy efficiency have come from simple technologies. The shift from incandescent light bulbs to LEDs. When I look at homes, the lack of energy efficiency in any home built before, say 1990, you're not going to tear them down and rebuild them. But the energy efficiency of a new built home is just mind blowing. But a few simple retooling things would actually make that very viable. So you're talking about millions and millions of homes. And so there could be a large grand scale, very stable return because people aren't going to do massive improvements to their home and pay it in cash.

Chris Ailman (29:54):

They're going to want to finance. It changes to the electricity grid. Clearly we have a problem where we have a lot of high electric power in Canada and in the north. How do you store that and transfer that? We already have a really volatile electrical system. Energy in California. Electricity goes negative in price, not just got drops to zero, but goes negative in the middle of the day because the winds up and the sun's up. And so they're generating more electricity than you than they need. But then the price spikes at about 8 o'clock when the sun goes down and everybody plugs in. So finding a way, and that might be chemical that might be physical to store that energy and even out the grid. And there's a lot of really bright companies working on that. Again, I don't know that these retooling efforts will be an individual trade, but I think they're going to be an interesting theme that some of the big players are going to capitalize on and jump all over to make money from it.

Chris Ailman (30:55):

I have no doubt that the way we live our life, the way we move things around now, will look radically different by 2035. Henry, let me share this example with people. So when I say 2035, a lot of people working today are like, that's so far out there. Let me put it this way. I have a grandson who was born this year, before he gets out of high school. The world's going to be look radically different. The gas stations today are not going to come completely disappear, but they're going to be fewer and less needed. The charging stations are going to be everywhere. Life will look radically different than we are today. And those are in invest in opportunities. Some are going to succeed, some will fail. So it's always going to take a lot to due diligence to get there.

Chris Ailman (31:40):

But think about that. And all I can is, my generation saw the birth of computers, gen X, for them, they saw the birth of cell phones and look how ubiquitous those are and how we wouldn't be able to work remote without computers and wireless technologies. So life changes pretty quickly.

Henry Fernandez (32:01):

So that frame of reference, actually, has been something that I focus on, I have actually started giving up talking about 2050, 2040, 2035, 2030. I have began to talk about 10 years from now, 15 years from now, 20 years from now. Because for some reason, when you talk about 2035 or 2030 people think it's a very long time. When you talk about 10 years, it feels like a lot shorter. Yeah, the financial crisis as we know happened, what 13 years ago or so nine 11 happened 20 years ago. So is a frame of mine, it's a frame of reference that would help a great deal.

Chris Ailman (32:47):

It's interesting as humans, how, when we look back, it seems like yesterday. When we look forward, it's like, wait, that's way too far out there. So, time isn't even continuum, and you hit it right on the head. When you look back, change is massive and a massive change is coming in 10 years, I like that phrase.

Adam Bass (33:07):

I have to tell you, if this conversation had taken place even six months ago, that exchange between Henry and Chris, right there, that's your ending, it's profound and a succinct summary that gets right to the heart of the discussion. But this climate change discussion is not over and there is no tidy ending in any respect to this. So we have an epilogue of sorts today. As I mentioned at the top of the show, we are just a few weeks away from the start of COP26, the Annual UN Climate Conference. And as Henry points out.

Henry Fernandez (33:44):

It's a very pivotal year as you know, well, because this happens every year, but every five years, this case six, because of the pandemic, the countries need to replay the near zero. And hopefully we can get the world to start competing. We can get countries start competing as to who's going to provide the lowest net zero pledges or path to them. But anyhow, when you look at that conference and you look at the agenda, what are the things that excite you the most? What are the things that you like to see happen? Your expectations will be overblown if they happen that will help us achieve more success coming out of that conference.

Chris Ailman (34:30):

Tough question, Henry, because for me, I guess I've been on wall street too long, talk is cheap actions speak louder than the words. I think we'll be excited to see the play. I'm excited about the sheer number of countries that are coming. You need India and China and the USA at the table. And so that's exciting is to see the world come together. I would not be surprised, as I said earlier, that if I see them shorten that 2050 to 2045 or somewhere in the 2040s, based on the most recent scientific information. And I'm sure we're going to hear wonderful pledges, wonderful commitments in 2030, 2040. What's so sad to me is you look at the USA of stepping up to a commitment and COP in 2016 and then completely turning its back on it and ignoring it. Countries can make bold efforts, but they're not going to mean anything if they become start and stop, start and stop.

Chris Ailman (35:32):

And that's why I'm concerned is this has to be a slow, steady transition. If it's too harsh, then people are going to overthrow their government and revolt and go back the other way and then come back to their senses a couple years later. So I think we're going to hear some really challenging information. I'm pleased to see the level of seriousness that Ronald Hanley at State Street, Brian Monahan, it's got their attention at the highest levels and they're serious about it, which is great. And so I'm optimistic from that standpoint. But what I want to see is that follow through and that consistency, not that we have a come together, exciting moment, make massive commitments and then go away and not do anything.

Adam Bass (36:18):

That's all for this week. Our thanks to Henry and Chris and to all of you for listening. To hear and watch more of Henry and Chris's conversation, visit msci.com/iic. And next up on Perspectives, we'll continue our look ahead to what we might expect from COP26. We'll speak with cop veteran Gonzalo Munoz, high level climate champion from Chile at COP25. Until then, I'm your host, Adam Bass, and this is MSCI Perspectives. Stay safe.

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