

The Glasgow Diaries

Featuring:

Linda-Eling Lee, Head of ESG Research, MSCI

Meggin Thwing Eastman, ESG Research Editorial Director, MSCI

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. Today is November 11th, 2021. On today's program, COP26, the UN's global conference on climate change, and the need for global action from, well, everyone, including investors.

Adam Bass (00:31):

The stakes cannot be higher. With each passing year, the urgency grows, as does the need for actions to match words, and for the world to pull together. It's a sentiment we've heard on this program all year. In a sense, all climate conversations have led us to these two weeks in Glasgow, whether it was from Chris Ailman, CIO of CalPERS...

Chris Ailman (00:54):

I guess I've been on Wall Street too long. Talk is cheap, actions speak louder than the words. Countries can make bold efforts, but they're not going to mean anything if they become start and stop, start and stop.

Adam Bass (01:08):

Matthew Lightwood, Director of Risk Solutions at Conning...

Matt Lightwood (01:12):

Much will depend on exactly what concrete plans are agreed, and on what timeline those things are going to happen. Is it going to be action, or is it just going to be more words? I think it wouldn't surprise me to see COP26 as a pivot point where we start to see some much more significant repricing of assets based on climate risks. It'll be very interesting to see how that unfolds.

Adam Bass (01:39):

Or our conversation on the most recent episode, as we looked ahead to COP26 with high-level climate champion Gonzalo Munoz.

Gonzalo Munoz (01:48):

In this almost three years that I've been in the role, I learned to value and understand the role of these conversations, how much they help us to build the right narrative, the right metrics, the process, the methodology, that is needed to deal with one of the most challenging crises of human history. Even the trajectory they have to follow will be probably the most epic challenge that we will ever face,

because it's not about a few smart, talented people, whatever, reaching the moon. In this case, will require all of us.

Adam Bass (02:22):

Radical collaboration. It's not something we citizens of the planet Earth have excelled at. Though, if there is a bright side to the COVID 19 pandemic, it's that we've seen we are capable of rising to the occasion. What has it been like to be at a COP, to be at this particular COP, which seems to have so much riding on it? Was it actually different?

Linda-Eling Lee (02:47):

One thing, being a COP newbie, is that I didn't realize just how different this COP is in terms of just the sheer number of people coming from private finance and from businesses, and so forth.

Adam Bass (03:04):

That's MSCI's Head of ESG Research, Linda-Eling Lee. We checked in with Linda throughout her time in Glasgow, to get a sense of reaction on the ground as it happened.

Linda-Eling Lee (03:14):

Actually, last night, I was at a dinner with someone, for whom this is now her 13th COP. So they definitely have a totally different take on what's going on. My understanding is that with this one, there is also a lot more front-loading of announcements, and accomplishments, and commitments, rather than a lot of the negotiations happening for over the two weeks, and then most of the commitments coming at the end.

Adam Bass (03:44):

As you might imagine, Linda found that those dinners, the cocktail events, and basically all of the non-formal COP session conversations, they play a very large role in moving things forward. They always do, but they also represented another reason that this particular COP felt different.

Linda-Eling Lee (04:06):

Well, I think this is clearly a very exciting time, not just for the world, but I think for a lot of people personally, because this is probably their first in-person conference post the pandemic.

Linda-Eling Lee (04:17):

I am surprised in some ways at how many people have made the trip to Glasgow, and into the UK from elsewhere. I think that there is a sense that showing up actually in person and physically does send a big message, often, for many of the institutions that want to be contributing to solving the climate crisis.

Linda-Eling Lee (04:40):

I think that sending senior people of the various financial institutions has been a really important part of what some of the Glasgow Financial Alliance for Net Zero, so GFANZ, has been working on, is to

actually get that kind of show of commitment. I think that's been really important, just alongside the world leaders who are here.

Adam Bass (04:59):

All these world leaders and leaders of finance, they did release a lot of announcements, so many that we won't be able to cover them all today. Today, we'll focus on the role that private finance played at the conference, and the inherent friction between developed and emerging parts of the world.

Adam Bass (05:17):

We'll also talk about commitments to reduce methane emissions, the link between biodiversity and climate change, and one announcement that was actually made before the conference even started. Though, it did set up the kind of push-pull I mentioned earlier between talk and action, as well as expectations for COP.

Adam Bass (05:40):

I'm talking about the commitment from the G20, that call to end financial support for new coal-fired plants in emerging markets. Though, not to end the use of coal inside the borders of the G20 themselves. At COP, there was also a pledge to actually transition away from coal, though notably, neither China or the US were among the signers.

Linda-Eling Lee (06:06):

I think that the coal announcement is completely emblematic of how people are feeling coming into this, because on the one hand, that's absolutely an important step, to have committed to not fund coal power plants outside of your country.

Linda-Eling Lee (06:22):

But on the other hand, some of the major countries, of course, that are reliant on coal, have not made any kind of move to actually take coal out of their energy mix in the near term, than what they've already said. I think that coming into COP26 on the backs of G20, I think the expectations were a little mixed and maybe even trended a little bit negative.

Linda-Eling Lee (06:46):

In part, because I think that none of the countries really came out with anything big and ambitious in terms of new targets for country reduction. I think that in particular, I think there's been a focus on China sticking with their announcement of being net zero in 2060. I think that there was a little bit of expectation that perhaps they would announce something more ambitious.

Meggin Thwing Eastman (07:10):

You got the 40 or so countries that agreed to actually phase out coal domestically, albeit not that fast.

Adam Bass (07:17):

That's Meggin Thwing Eastman, Research Editorial Director at MSCI.

Meggin Thwing Eastman (07:22):

There were some key players in there, like Poland, but then you were missing the US, India, China, Australia, and Russia, which together are three-quarters of the world's coal consumption. So that poses an interesting dilemma for investors, because you've got a lot of investors with net zero commitments.

Meggin Thwing Eastman (07:44):

There were a bunch more of those that came out of the COP meetings, and leading up to COP. Yet, you've got these big economies with lots of publicly traded companies and lots of bonds in utilities that are coal-fired. So, what do you do then? Do you think about divesting those?

Meggin Thwing Eastman (08:03):

That's probably the easiest way to getting your portfolio closer to net zero, but it doesn't actually change what's happening in the real world. If these countries don't actually phase out coal and do it fairly quickly, we're not going to get to 1.5.

Meggin Thwing Eastman (08:17):

All the commitments that were made at this COP did help bring down temperature projections of increase, if everybody follows through on the things they committed to do, which is a big "if". But without phasing out coal from these big economies, we're not going to get to one and a half.

Meggin Thwing Eastman (08:33):

Then, in a country like China, it's actually a huge portion of the fuel stock. So phasing it out, even if they don't build any more new coal, phasing it out is going to take a lot of work. If we don't address that, then at the end of the day, we're all subject to higher risk, and [inaudible 00:08:51] include the investors trying to protect their own numbers and their own portfolios.

Adam Bass (08:56):

So while the coal agreement coming out of the G20 may have said an apt, though ambivalent tone, as Linda finally got to her hotel around midnight, she was heartened by one thing. That was the fact that she could turn on the TV.

Linda-Eling Lee (09:12):

This is really the first thing I do when I get to the UK, because I really love BBC News. I just think that the discussions are so much more nuanced. Generally, the reporting and the angles are just less facile than what we're used to in the US. Anyway, I just wanted to say something, I heart BBC.

Adam Bass (09:32):

I had to know more.

Linda-Eling Lee (09:36):

I think they just ask harder questions of their interviewees. So, when they have experts on to talk about, for example, this methane rule that came out, or this commitment to eliminate methane, I think

that that's the sort of thing where I think that most people in the public don't really understand what methane is, and how that compares with carbon emissions, and what you're supposed to do about it and what the commitment actually is. I feel like they really dug into it, in terms of just a little bit more of the science behind it, and why it's important, and why I think it's actually a very doable goal.

Adam Bass (10:15):

Challenge accepted. Let's talk about the pledge that calls for reducing methane emissions 30% by the year 2030. Now, to Linda's point, the public debate has stayed simple. It's tended to focus on carbon emissions, but cutting methane emissions is also critical.

Meggin Thwing Eastman (10:36):

The reason methane is so important is that it's many times more potent of a greenhouse gas than carbon dioxide. So a ton of CO₂ and a ton of methane are going to have a really different impact on the warming of the planet. I think the new pledge is encouraging because, okay, it's harder to control methane from cattle, as long as you continue to eat meat.

Meggin Thwing Eastman (11:01):

But if we talk about methane from gas extraction and processing, a lot of what's going into the atmosphere is just leaks, and the fixes are actually not that difficult or even that expensive. It's just a matter of having the right incentive to do something about it. So, I actually feel really encouraged by the new methane pledge that's come out of COP26, with a load of countries responsible for a lot of methane getting on board to cut it.

Adam Bass (11:31):

The pledges and announcements were streaming out of Scotland. Linda's first day on the ground happened to be Finance Day.

Linda-Eling Lee (11:39):

Finance Day was definitely a big bang. I think there was a lot of excitement. Obviously, it's partly because the people that we talked to in the investment space are excited about finance, and so forth. But definitely, yesterday, it was a huge amount of excitement, with all the business leaders and investment leaders, and of course Mark Carney's launch of the Glasgow Financial Alliance for Net Zero.

Linda-Eling Lee (12:07):

So the big headline was the \$130 trillion that have committed to align with net zero. Then of course, very quickly followed by a lot of skepticism. There was a lot of questioning of that number. So there's a lot of conversations around, what does that mean? Is it additional money? If it's not additional money, what's actually shifting? Is there some sort of double counting? Is it inflated?

Linda-Eling Lee (12:31):

But the truth is that, I think that as we talked about yesterday, I think intentions do matter. I do think that there are a lot of large institutions that have decided to show up in person to demonstrate that they're committed to making this happen.

Linda-Eling Lee (12:44):

So whether or not you want to call it \$130 trillion or some other number, we are talking about large institutions, financial institutions, that are making commitments, and they're public commitments. We'll just have to see whether or not everyone does their part to deliver.

Joe Collevocchio (13:00):

You sound a lot more optimistic today than you did yesterday, frankly.

Linda-Eling Lee (13:02):

You think so?

Adam Bass (13:06):

The other voice you heard there was Perspectives Co-Producer Joe Collevocchio, and he was right. Linda, a self-described cynic, seemed to have packed her rose-colored glasses. Though in true cynic form, she had her own spin on what was actually behind her view.

Linda-Eling Lee (13:24):

What's actually been kind of remarkable, everyone says, is that I've been in Glasgow for two days and it's been totally sunny. Everyone says, "This is extremely unusual." Maybe I won't sound quite as positive tomorrow, once it starts raining.

Adam Bass (13:39):

It is true that weather can have a huge effect on people's moods, but there was a bit more to this story, which we learned as Linda spoke with some people at the dinner that followed Finance Day.

Linda-Eling Lee (13:52):

Interestingly, I think that the people I was at dinner with were more policy types who have been doing this for a while, and I think that they're certainly excited just because they've been looking at climate finance for a long time. These are the sort of people who are very focused on that \$100-billion pledge that developed countries are supposed to be... have already delivered, and haven't yet.

Linda-Eling Lee (14:17):

But I think that they're starting to feel like that's going to move. Their optimism, I feel like, gave me a little bit more hope, since they've been around the block many more times. I also met with some clients who had signed up for alliances of various types. I think that there's a general feeling of urgency, and really needing to come up with some way to deliver on their commitments.

Linda-Eling Lee (14:45):

So we spend a lot of time talking about various climate-related analytics that can help investors really better identify, and start to map out a roadmap of how it is that they're going to deliver on their commitments, which will all be coming up quite soon.

Linda-Eling Lee (15:03):

There are these interim targets of 2030, 2025. So I think that the fact that many of these institutions are starting to think about this, so immediately after the commitments that were being made earlier this week, I do feel a sense of optimism that this isn't really just empty words.

Adam Bass (15:23):

The reactions to the financial commitments, and the amounts and speed of money moving from the world's richer to the poorer nations, well, they weren't all so sunny. From articles in the press to protests in the streets, people were making their dissatisfaction known, and this was a storyline that wouldn't go away throughout the conference. It remained front and center as the week progressed, and as it culminated with Friday's sessions, which were interestingly enough centered around the theme of youth empowerment.

Linda-Eling Lee (15:55):

Today was the youth and empowerment day. I did manage to get into the Blue Zone finally, and many of the formal programs really were showcasing youth from around the world, in terms of best practices, and the need for education and communication. Those were interesting, but I didn't really attend a lot of the formal program because I wanted to have a chance to wander around some of the booths.

Linda-Eling Lee (16:18):

It is set up like a big trade show, where many of the countries and many NGOs actually have their own booth, and they host site events that are educational. They are sometimes paneled, there're sometimes presentations. Probably the most interesting one I wandered into was one that was trying to get a project off the ground to plant mangroves.

Linda-Eling Lee (16:41):

This is part of, in the Congo Basin. That would be a project that could act as a carbon sink, essentially. They weren't really far along yet to be able to talk about the particulars of whether it could be converted into voluntary carbon credits, and to what extent, but that was really the goal. It was very interesting to see it at its early stages, and the kind of questions that a lot of the attendees had for them.

Adam Bass (17:10):

Then it got even more interesting.

Linda-Eling Lee (17:12):

On the way out, I had to run to a meeting, and it was not my best moment in terms of navigation. Google Maps took me straight into a protest. It really, literally, I got caught up in the middle of a protest. This was a relatively large protest. I thought that there would be a lot of high-schoolers, and college students, and postgraduates, and generally the angry youth that you've been seeing on television.

Linda-Eling Lee (17:41):

But actually, there were quite a diversity of age and demographics. In fact, there were a lot of families with small kids, with their signs. It reminded me quite a lot of the climate protests that we've had also in New York City and in Washington DC, where I had also taken my children. It was quite a good atmosphere. In general, it was really quite a positive atmosphere of really just asking, asking the world's policymakers to do more.

Adam Bass (18:10):

Then Friday turned to Saturday, Nature Day at the conference. It was a day Linda was looking forward to, as it focused on another overlooked part of the climate change effort, preservation of the natural world and maintaining biodiversity. We asked Meggin to talk about this connection.

Meggin Thwing Eastman (18:29):

There's actually no way to prevent the kind of climate change that we're talking about without preserving nature as a carbon sink, but also because there's this really complex interrelationship between the climate and nature. So you look, for example, at deforestation, which of course removes trees' ability to absorb carbon, but it also affects the regional climate, rainfall, and soil health, and that sort of thing.

Meggin Thwing Eastman (18:55):

So biodiversity, and the health of nature, and climate change, are really closely intertwined. Climate change can make biodiversity loss worse by harming habitats. Loss of biodiversity, loss of nature, deforestation, all those things, can also exacerbate climate change. Protecting that has been seen, maybe up until now in a lot of circles, as a separate issue somehow from climate change.

Meggin Thwing Eastman (19:24):

But I've noticed in the discussions that are happening at the policy level, but also amongst our clients in the investment world and the corporate world, that they're increasingly being talked to, talked about, as not one of the same, but inseparable. The way that they're going to impact investments as well as the way they impact the larger world, is also inseparable.

Meggin Thwing Eastman (19:48):

We've talked about biodiversity and land use in the investment context for a long time, years and years at MSCI, for the industries that have a lot of impact on these things. Like mining and extractives, where it's really kind of easy to see, you dig a mine, or you put in a dam and inundate an entire valley somewhere, that that's going to have an impact on the ecosystem.

Meggin Thwing Eastman (20:16):

But we're increasingly talking about things like food and agriculture, which impact ecosystems, but also are incredibly at risk in the future from these losses. Because there're so dependent on healthy environments, pollinators, soil health, rainfall, all of that stuff, to be able to produce these things that we all need.

Adam Bass (20:38):

Getting back to Glasgow, though, Saturday there was not only Nature Day. Saturday was also the day of what was billed as The Big Protest.

Linda-Eling Lee (20:51):

There's supposed to be about 100,000 people who are going to be in central Glasgow. So that is going to be a very big challenge for me logistically, because I'm staying outside of town. I am supposed to get into town today for an event that's hosted by the UK Department for Environment, Food and Rural Affairs. It's called DEFRA.

Linda-Eling Lee (21:11):

The event is meant to showcase companies that have joined a coalition in support of Nature Positive 2030. This is the global goal to halt and reverse the catastrophic loss of nature worldwide. Getting to the event was, in itself, interesting. I was having a lot of trouble getting a car to take me to at least the train station, but I finally did get a taxi driver to get me closer to Glasgow.

Adam Bass (21:41):

This cab driver, like many of his brethren worldwide, he had some opinions.

Linda-Eling Lee (21:48):

This taxi driver was really angry about all of the jet-setters coming to COP while drivers like him, who are locals, are not actually allowed to benefit from the business, because they can't even go and pick up passengers to take them into Glasgow. He told me that there were over 70 private jets that had landed in Glasgow Airport earlier this week. These are people who are coming and telling people like him that they should change their behavior in the name of climate protection. So I think he was not super-impressed by COP26, let's put it that way.

Adam Bass (22:23):

When Linda arrived at the event, she was instantly rewarded, because she got to hear Al Gore speak. This is someone, she has said before, she views as being ahead of his time in terms of climate change. Mr. Gore was talking this time about the synergies and the mutual dependence of nature to businesses. Specifically, a number of programs where different companies like Sainsbury's, the UK supermarket, as well as water companies such as Severn Trent, that they've been working on ways to become what's known as nature-positive. As for the rest of the event...

Linda-Eling Lee (22:59):

Someone called it kind of a speed-dating on nature projects with a number of companies, many of them are sort of UK-based companies. My side conversations were with a number of attendees that are involved in trying to design metrics that can be useful for companies and for investors, when it comes to measuring their impact on nature.

Linda-Eling Lee (23:23):

That's just a really particularly challenging area, even though it's also a very exciting one at the moment. Because we don't really currently know how to measure nature and the impact on nature,

which is actually far more challenging than carbon and measuring emissions, because there's not a common unit.

Linda-Eling Lee (23:38):

At least with emissions, you're talking about a unit that can be common across lots of different business activities. One of the mantra here is that a tree is not just a tree. Everyone kept talking about the right tree in the right place is actually what we should be shooting for, because the value of a tree, whether it's to climate mitigation or to climate adaptation, as well as to other co-benefits such as increased biodiversity and soil quality, et cetera, those are simply not comparable.

Linda-Eling Lee (24:12):

This is something that members of MSCI's research team have also been working on. We have also been contributing to the work of the Taskforce on Nature-related Financial Disclosures, which is an initiative that is trying to model itself after the Task Force for Climate-related Financial Disclosures, which has been so helpful in getting, setting, some sort of a globally consistent guideline for companies to disclose on climate risk.

Linda-Eling Lee (24:40):

In this case, of course, it would be for impact on nature, and biodiversity risk. There are really a number of leading companies that are trying very hard to put this on their business agenda, put this on their business strategy, but I think measuring it, and being able to track progress, and really be able to communicate that to stakeholders, and build it into their business case, that is really, I think, an area that we're all going to have to work on in the next couple of years.

Adam Bass (25:11):

So much of the conversation around investors and climate change comes down to the ability to gather parts, and interpret good data, and questions of whether it is nobler to engage with the so-called dirtier parts of your portfolio, or simply divest and walk away. This even came up earlier in this program, when Meggin was talking about the coal question, and it came up for Linda at an MSCI event that was held at the Blair Estate, a stunning 900-year-old Scottish castle.

Linda-Eling Lee (25:45):

We hosted a number of panels, and along with other institutions. We really looked at a number of different topics around the net zero alignment. My panel was really looking at the role of capital in the net zero revolution, and it was supposed to be really looking more at what are different approaches to aligning, in the portfolio, with net zero.

Linda-Eling Lee (26:10):

Then it turned into a little bit of a debate around implied temperature rise. There is this trade-off one makes between having a consistent measure across a portfolio, versus maybe if the danger of people interpreting it too simplistically in saying that anything above a certain temperature should be divested.

Linda-Eling Lee (26:33):

That's certainly not the equivalent. I think that when we put out a temperature measure, the implied temperature rise for a company or a portfolio, it's really, it's an informational tool, right? To be able to look at your portfolio and understand where that alignment is. It was a really rich and interesting debate.

Adam Bass (26:51):

So then, are people there at the conference, they seem more focused, like you're saying, on divestment versus engagement, is that accurate or is there talk about the engagement portion as well?

Linda-Eling Lee (27:04):

I think people are focused on engagement, and maybe they're a little frustrated by the fact that the engagement story or the transitioning story gets lost, because it's so much less compelling as a story, in a way. Right? I think that a lot of the investors and asset owners are concerned that there is a little bit more of a rush to exclude or divest, rather than trying to do that harder work of engaging and transitioning, and so forth, and actually really applying the pressure of the capital to transition these companies.

Adam Bass (27:47):

How successful was COP26? That's not something we can answer here, for two reasons. First of all, it's still happening as I record. Secondly, we just don't know how much of the talk, the pledges and commitments, how much they will translate into action. We may not really know the answer to that question until we get a lot closer to the year 2030, which will be here before we know it.

Adam Bass (28:16):

But as Linda reported over her week in Glasgow, it does seem that the right conversations are happening. We're having conversations around moving away from coal, reducing methane emissions, and deforestation. We're recognizing the link between biodiversity and climate change, and last but certainly not least, the vital role that investors can play in all this. We'll give Meggin the last word.

Meggin Thwing Eastman (28:42):

Maybe the thing I feel most optimistic about, coming out of this, is how present the investment industry was and is, at the COP. Yes, there has been criticism on the math of how much assets under management are committed to net zero, and what those net zero commitments really mean, and can they be executed and all of that.

Meggin Thwing Eastman (29:08):

But we're seeing mobilization of private capital in a way that we haven't seen before. That does give me hope that even when we've got things like these big coal economies not agreeing to phase it out, that maybe the investors will drive it anyway.

Adam Bass (29:29):

That's all for this week. Our thanks to Linda and Meggin, and to all of you for listening. Next up on Perspectives, we'll let a little bit of time pass after the end of COP, so that folks can digest everything

that's happened the last couple of weeks. Then we'll ask a couple of them on to share what they think it all may really mean, and where the investment industry is focused as we approach the end of 2021. Until then, I'm your host, Adam Bass, and this is MSCI Perspectives. Stay safe.

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