

Net-Zero Now: Chapter Two

Oliver Marchand

The Paris Agreement is a landmark international UN-based treaty that has been ratified by all 197 UN countries. Now, that's rare, we don't have very many of such agreements. And in the agreement, the countries have said that they want to limit global warming to well below two degrees, or if possible 1.5 degrees of warming compared to pre-industrial temperature levels. Scientists are very concerned that once we cross that threshold, self-amplifying effects will take place, which might make the planet uninhabitable. We are currently on a path, a so-called business as usual path of 3.8 degrees of warming. And to limit warming as laid out in the Paris agreement, we need to bring down all of our emissions by the year 2050. And that is a huge challenge, but it is still possible.

Marco Tedesco

Imagine that we are trying to push a boulder uphill, and the hill becomes steeper and steeper and the boulder becomes heavier and heavier. That's what's gonna happen to us if we try to push climate change issues if we do nothing. So, the effect that we're having today of climate change, they're clearly manifested in many ways. One aspect that is very important is that the world is not warming up equally in the same way, the sea level is not rising equally everywhere, some places will be more exposed to more sea level rise than others. But in terms of temperature, we were to think that that's a global average world temperature. Places like the Arctic, they are now warming up at a pace that is double the rest of the world. We're already starting to see big changes in the Arctic, and the consequences of this warm up. And some moles project the Arctic to be warming up to six, seven degrees Celsius with respect to the current or historical observations. There is a very strong divergence in terms of estimates of how much climate change is gonna cost in the future. Some people talk about \$300 billion in the next 20 years. Some others talk about 10s of trillions of dollars for the next decades. One thing is for sure, our society relies on the economy to progress and to move forward. And the economy is not something is independent from climate change.

Sagarika Chatterjee

There are many ways that investors and companies can get started on the path to net-zero. So, a year ago now, the United Nations launched a new campaign, the Race to Zero campaign. And that encourages business cities, states, investors, insurance banks, and many more to set the net-zero target, as we're in a race against time and a race against ourselves. So, what's interesting about the campaign is that you can't just say, "Yeah, and then I support net-zero," you actually have to commit to setting a net-zero target and pledge that you're going to do it. There're criteria in the Race to Zero campaign about the scope of that commitment. And you also have to plan for action and disclose and publish how exactly you're gonna implement that net zero-target. And the way you can participate in Race to Zero is by joining an initiative that meets this criteria. And there's a couple of different options for ambassadors already today. One example is the UN Net Zero Acetone Alliance that's joined the Race to Zero for over a year. There's also a net-zero asset managers initiative, and that has 80 asset managers in it, including some of the largest US asset managers in the world.

Oliver Marchand

The Paris Agreement aligned asset base currently is very low. But what's important is that the number of funds and indices and climate related financial products is growing by the day.

Remy Briand

The investors can play a critical role in the transition to net zero by doing two things. The first is the reallocation of capital. This would entail moving away from the fossil industry, towards the green economy and towards green solution. For example, supporting companies with achievable net-zero targets. The other element is that investors, as shareholders of companies, have immense influence over the direction companies are going but why should investors care about net-zero?

Henry Fernandez

Investors all over the world to care about climate change because their portfolios are a reflection of economic activity in the world. To the extent that climate change creates havoc on major sections of that economic activity, many of the companies, many of the bonds, many of the real estate that they invest in will be severely affected. There will be areas of major opportunities, but there will also be major areas of significant negative impact. And this is not something that is gonna wait 10, 20, 30 years to happen. The repricing of financial assets, the reallocation of capital, it's already happening.

Remy Briand

There are four dimensions for investors to consider. The first is that you want to minimize your transition risk. So, ensuring that the companies you own are well positioned. The second is to maximize green opportunities. So, making sure you focus on companies that will benefit from this industrial revolution. The third element is the reduction of physical risk. So, appreciating your exposure to the various climate hazards, and having a strategy to deal with them. Finally, is tracking and ensuring that the companies in your portfolio are aligned with a 1.5, or two-degree trajectory. So, this is really assessing the target for carbon emission reduction that each company would have. And then, if they don't have a strategy to manage climate change, exerting pressure to make sure this happens.

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. To learn more, please visit www.msci.com.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.