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## **MSCI ESG Investing**

Better investments  
for a better world





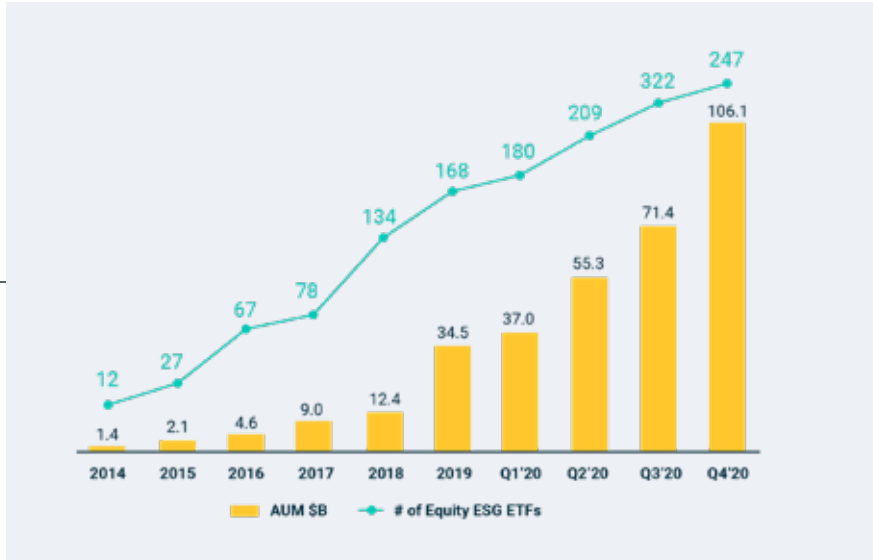
# What's driving the growth?



## MSCI ESG Investing Powering better investment decisions

ESG Investing is growing exponentially as more investors and issuers utilize ESG and Climate data and tools to support their financial decision making.

Over the past three years, assets in sustainable investment funds have grown from \$496bn (Q3 2017) to over \$1 trillion (Q2 2020).<sup>1</sup> As of December 2020, we have seen a 208% year-on-year growth in ETFs AUM tracking MSCI ESG indexes.<sup>2</sup>



### The world is changing, creating new and emergent risks

Climate risks, regulatory pressures, social and demographic shifts as well as privacy and data security concerns are examples of new or increasing risks for investors. Companies face rising complexities and greater scrutiny if they are not adequately managing these risks. The financial constraints posed by the COVID-19 pandemic have exacerbated the challenges for some industries. Today's investors are less tolerant of ESG incidents or controversies and may re-evaluate their investment approaches if these are not managed.

### A new generation of investors asking more of their investments

Over the next two to three decades, the millennial generation is expected to direct between \$15 trillion and \$20 trillion into U.S.-domiciled ESG investments, roughly doubling the size of the U.S. equity market.<sup>3</sup> A growing body of research suggests that millennials are more conscious of the impact of their investments on society and the environment and are asking more of them.

### Advances in technology and data extraction driving more meaningful insights

Artificial intelligence (AI) technology and alternative data extraction techniques help minimize our reliance on voluntary disclosure from companies. Machine learning and natural language processing help us increase the timeliness and precision of data collection, validation and analysis to deliver dynamic content and financially relevant ESG insights.

## Why work with MSCI and MSCI ESG Research?<sup>4</sup>

Unique insights to power better investment decisions

- MSCI's ESG origins date back to 1972.<sup>5</sup>
- Our first ESG index was launched in 1990.<sup>6</sup>
- We have been rating companies based on industry material ESG risks since 1999.<sup>7</sup>
- We're proud to support the ESG strategies of over 1,700 clients<sup>8</sup> worldwide including leading pension funds, asset managers, consultants, advisers, banks and insurers.

<sup>3</sup> Bank of America Corporation (2016) 'Environmental, Social & Governance Report', pg.3  
<sup>4</sup> ESG data, research and ratings are produced by MSCI ESG Research LLC. MSCI ESG Indexes and Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Indexes and Analytics are products of MSCI Inc. MSCI Indexes are administered by MSCI Limited (UK).  
<sup>5</sup> Through our legacy companies KLD, Innovent, IRRIC, and GMI Ratings  
<sup>6</sup> The MSCI KLD 400 Social Index was launched on May 01, 1990. Learn more about our 30+ years of ESG indexes [msci.com/esg/30-years-of-esg](https://www.msci.com/esg/30-years-of-esg)  
<sup>7</sup> Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007.  
<sup>8</sup> MSCI ESG Research clients as of November 2020

When it comes to ESG and climate integration, we understand that no-one-size-fits-all, but there are core ingredients which are important to you and that we strive to be the global leader in:

### 1. Transparent, consistent, robust and up-to-date data that provides meaningful insights beyond corporate disclosure



Tech-enabled human insights: our analysts are aided by AI and other technologies to increase the timeliness and precision of data collection and analysis, and to review and validate the quality of the data and sources



Alternative data helps minimize reliance on voluntary corporate disclosure: on average 45%<sup>9</sup> of the data to determine a company's ESG Rating is derived from alternative sources e.g., regulatory or government reports, reputable media sources and customer feedback



Dynamic, transparent rules-based model: our model, which is publicly available via our ESG industry materiality map<sup>10</sup>, is frequently recalibrated to capture new and emerging risks most relevant to a company's core business model. The methodology is reviewed annually as part of a formal client consultation



Dedicated issuer communications: our issuer team and our issuer communication portal ensure there is regular dialogue with companies to oversee data verification and educate companies on our methodology, to encourage greater transparency, disclosure and standardized reporting practices

### 2. Industry material ESG insights which may impact financial performance



We're a pioneer in modelling corporate ESG performance. We have rated companies based on industry material ESG risks since 1999.<sup>11</sup> Our live time-series data dates back to 2007 and has been used in various studies to examine the links between ESG and performance



Empirical-based research: MSCI's Foundations of ESG Investing study (published in the Journal of Portfolio Management, July 2019) found companies with high MSCI ESG Ratings had higher profitability, lower tail risk and lower systematic risk, on average, based on 10 years of data. The study also found companies with the lowest MSCI ESG Ratings were three times more likely to have experienced drawdowns over the same period

#### A selection of peer reviewed journal articles and client research:

- ▶ [Harvard Business School 2021: Stock Price Reactions to ESG News: The Role of ESG Ratings and Disagreement](#)
- ▶ [MSCI 2019: Foundations of ESG Investing Parts 2 & 3: The Journal of Index Investing](#)
- ▶ [JP Morgan 2019: Does an ESG tilt improve corporate bond portfolio outcomes?](#)
- ▶ [Barclays 2018 & 2016: The positive impact of ESG investing on bond performance](#)
- ▶ [JP Morgan 2018: Systematically investing in ESG themes within the USD high yield corporate bond market](#)
- ▶ [OECD 2020: ESG Investing - Practices, Progress and Challenges](#)
- ▶ [MSCI 2020: Deconstructing ESG Ratings Performance: Risk and Return for E, S and G by Time Horizon, Sector and Weighting](#)
- ▶ [MSCI 2019: Foundations of ESG Investing Part 1: Journal of Portfolio Management](#)

<sup>9</sup> MSCI ESG Research: 2,434 constituents of the MSCI ACWI Index as of November 30, 2017.  
<sup>10</sup> MSCI ESG Industry Materiality Map  
<sup>11</sup> Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007.

### 3. Broad coverage and time-series data across regions, industries and asset classes<sup>12</sup>



ESG Ratings coverage for over 14,000 issuers (8,500 companies) linked to over 680,000 equity and fixed income securities



Climate metrics for over 10,000 corporate and sovereign issuers, which is the equivalent to over 95% of the market value of equities and fixed income markets<sup>13</sup>



Impact alignment metrics for over 8,600 equity and fixed income issuers, examining net contributions (positive, neutral, or adverse) towards addressing each of the 17 UN Sustainable Development Goals (SDGs)



Over 1,500 equity and fixed income indexes covering developed and emerging markets designed to represent the performance of the most common ESG investment approaches by including re-weighting or excluding companies based on ESG and Climate criteria

### 4. Solutions to support all aspects of the investment decision making process



We're one of the only providers to offer in-house ESG data, ratings, analytical tools, indexes and real assets solutions to provide seamless integration of ESG to support your portfolio construction, risk management and active and passive strategies



ESG across your investment process: as we elaborate on page 10-11 our solutions are designed to work in sync to support your ESG policy and benchmark development, portfolio construction and asset allocation, company analysis, risk management, reporting and engagement requirements

### 5. Solutions to support regulatory, disclosure and reporting requirements



We have been actively involved in, and providing expertise to several Sustainable Finance initiatives, including the EU Sustainable Finance package committees and working groups<sup>14</sup>



We were a pioneer in launching ESG transparency tools, making public ESG and Climate metrics for tens of thousands of funds, companies and indexes, helping to drive awareness, educate the market and raise ESG disclosure standards<sup>15</sup>



Our flexible reporting solutions allow you to choose off-the-shelf or customizable reports. We provide self-service or a managed reporting service

### 6. Data, technology and flexible solutions to customize your offering



We are creating open architecture systems and modularization so you can customize your MSCI ESG and Climate Solutions and combine them with other platforms and providers



Our ESG, Climate, SDGs and Sustainable Finance Disclosure Regulation (SFDR) data can be delivered in granular form so you can create your own signal or combine datapoints with other sources

# Our ESG solutions

MSCI and MSCI ESG Research<sup>16</sup> bring transparency to ESG and Climate risks and opportunities for our clients worldwide.

MSCI delivers ESG indexes, analytics and real estate solutions, and MSCI ESG Research provides data, ratings, research and tools to help investors navigate increasing regulation, meet new client demands and assess industry material ESG risks and opportunities.

Our 34-year legacy measuring and modelling corporate ESG performance has helped to develop our solutions and technology today and shapes our research and innovations for tomorrow.

Remy Briand, Head of ESG

## ESG solutions to enable you to build better portfolios

MSCI ESG Research AI-enhanced ESG and Climate data and ratings are integrated across MSCI Indexes, Analytics Systems and Real Estate Solutions

### MSCI ESG Research

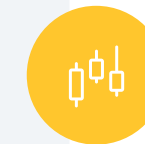
Strong integration across all MSCI Products



**MSCI ESG Research** provides ratings of companies and mutual funds to provide greater transparency and scrutiny of corporate practices for institutional investors seeking to avoid controversies and mitigate risk.

- **ESG and Climate metrics for over 14,000** issuers to provide forward-looking assessment of ESG risks and opportunities

Learn more about [MSCI ESG Ratings](#) and [MSCI Climate Solutions](#).



**MSCI ESG Indexes** are designed for use by investors seeking to reduce exposure to systematic and stock-specific risks, and set benchmarks for integrating ESG into active and passive portfolios.

- **Over 1,500 equity and fixed income ESG and Climate Indexes** designed to help institutional investors more effectively benchmark ESG and Climate investment performance and manage, measure and report on ESG mandates

Learn more about [MSCI ESG Indexes](#) and [MSCI Climate Indexes](#).



**MSCI ESG & Analytics** enables investors to gain deeper insight beyond traditional financial factors that may affect long-term value creation. Investors can interrogate ESG data and indexes in MSCI's Analytics Systems to support portfolio construction, risk and performance attribution, and monitoring and reporting. Integrate ESG and Climate insights into your portfolio construction and risk management using **industry leading multi-asset class risk and performance analytics systems**.

Learn more about [MSCI ESG & Analytics](#).



**MSCI's Real Estate service** is designed to deliver analytical solutions, objective indexes and benchmarks and highly relevant research, to help you make better decisions throughout the investment process. MSCI Real Estate Climate Value-at-Risk (Climate VaR) provides a forward-looking and return-based valuation assessment of climate risk for individual assets and portfolios across commercial and private real estate.

Learn more about [MSCI Climate Real Estate Solutions](#).

# ESG across your investment process

MSCI and MSCI ESG Research products and services<sup>17</sup> are designed to help you in these areas:

Growing demand for transparency is driving ESG and Climate integration across the investment process. MSCI ESG Research aims to help you integrate ESG and Climate in a way that suits your investment approach and strategic objectives, while aligning with the demands of your clients.

Our global client service team is available 24/5 to support you at each step of the investment process.



## Defining policy & benchmarks

Differentiated ratings and data<sup>18</sup> to help you:

- ▶ Define your investment, ESG and Climate objectives
- ▶ Set targets and strategies to enhance the ESG profile of your investments
- ▶ Develop your investment policy
- ▶ Select ESG or Climate policy or performance benchmarks

## Actionable solutions: integrating ESG

Flexible technology to enable you to:

- ▶ Use ESG and Climate data and ratings to inform asset allocation
- ▶ Identify ESG and Climate leaders and laggards for portfolio construction purposes
- ▶ Develop active and index-linked ESG and Climate products

## Company analysis

- ▶ Identify stocks impacting your portfolio's ESG and Climate profile
- ▶ Evaluate the ESG and Climate scores of your portfolio by sector, region and asset class
- ▶ Examine ESG and Climate performance alongside financial performance or other traditional factors

## Risk management, reporting & engagement

Access ESG and Climate factors in our analytical systems to:

- ▶ Provide greater transparency of key ESG and Climate risks across multi-asset class portfolios
- ▶ Support stress testing, and risk and performance attribution analysis
- ▶ Make forward-looking assessments to identify ESG and reputational risks
- ▶ Conduct TCFD stress testing to support Climate goals
- ▶ Support corporate dialogue and engagement

<sup>10</sup> <sup>17</sup> MSCI ESG Indexes and MSCI Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Equity Indexes are products of MSCI Inc. and are administered by MSCI UK Limited. ESG Indexes provided by MSCI Inc. <sup>18</sup> Ratings, research and metrics provided MSCI ESG Research LLC.

# Our value: working with clients

Asset owners, asset managers, wealth managers and banks integrate our ESG and Climate Solutions into their investment strategy processes and stakeholder reporting in multiple ways:



## Risk manager

### Client use case

A multinational investment bank and financial services company analyzed carbon footprinting and climate risk management across all portfolios to inform quantitative portfolio construction and client reporting

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Ratings
- ▶ MSCI Fund Ratings
- ▶ MSCI Climate Solutions

## Global asset manager

### Client use case

Incorporated ESG criteria across its entire investment process with the aim of enhancing long-term returns and managing financial ESG risks for their clients

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Ratings
- ▶ MSCI ESG Leaders Index (as a performance benchmark)

## US wealth manager

### Client use case

Integrated ESG into its online investment, brokerage and advice platform to provide ESG transparency to millions of its retail clients for assessing the ESG performance of their portfolio

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Ratings
- ▶ MSCI Fund Ratings
- ▶ MSCI Sustainable Impact

## Asset management arm of an insurance firm

### Client use case

Used ESG ratings, controversies and Climate solutions to manage risks and identify opportunities across its \$500bn+ portfolio. The parent company uses ESG Ratings for underwriting and due-diligence

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Ratings
- ▶ MSCI Fund Ratings
- ▶ MSCI Climate Solutions

## Consultant

### Client use case

Incorporated ESG factors to advance their manager evaluation processes in response to greater asset owner demand and created a default retirement fund

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Universal Indexes
- ▶ MSCI ESG Ratings

## European insurance company

### Client use case

Switched its actively managed global equity and credit portfolios to ESG benchmarks

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Leaders Index
- ▶ Bloomberg Barclays MSCI ESG Corporate Sustainability Indexes

## National pension manager

### Client use case

Adopted MSCI ESG Indexes to support engagement with corporates and managers to encourage ESG best practices and raise market standards

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Select Leaders Index
- ▶ MSCI Empowering Women Index

## Product development team

### Client use case

A leading ETF provider adopted a range of MSCI ESG Indexes to create its ESG ETF suite and used ESG research to publish the ESG characteristics of its range of ETFs globally

#### ESG solutions used<sup>19</sup>

- ▶ MSCI ESG Focus Indexes
- ▶ MSCI ESG Screened Indexes
- ▶ MSCI SRI Indexes
- ▶ MSCI ESG Fund Ratings

# 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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