

Climate Exposure and Its Impact on a Client's Portfolio

Featuring:

Sarah Greenberg, Managing director, MSCI

[Jenna Dagenhart] Everyone's talking about ESG.

And it's up to wealth managers and advisors to cut through this noise

and understand how they can integrate climate considerations into their clients' portfolios.

I'm here now with Sarah Greenberg, managing director MSCI to talk about how to put this into practice.

Sarah, could you share a little bit more about MSCI's role within the industry?

[Sarah Greenberg] Jenna, thanks so much for having me on.

MSCI is the largest ESG & Climate research and index provider globally.

We have more than 2,600 clients that we support in building ESG & Climate capabilities.

And our team has more than 580 ESG experts and technologists.

We produce research on over 17,000 issuers and 750,000 securities globally, and also produce more than 1500 ESG & Climate equity and fixed income indexes.

[Jenna Dagenhart] Wow, you have quite an extensive client list.

[Sarah Greenberg] We sure do. Our clients will range in different types of segments.

We work with global pension funds, foundations and endowments, also, with traditional asset managers, wealth managers, hedge funds and banks.

[Jenna Dagenhart] And yet you're getting this insight climate just continues to grow in importance and be top of mind for investors across the globe.

[Sarah Greenberg] That's right. Climate is the single greatest challenge facing humankind.

And there's a recognition that due to the climate risks that we see every day from floods to wildfires to droughts that the time to act on climate is now we at MSCI have noted that the transition to a low carbon economy is going to require the greatest reconstruction of our economy since the Industrial Revolution.

And we're seeing that both policymakers and capital market participants are acting.

We've seen in Europe, the EU, UK and Canada have made commitments to cut emissions and reach net-zero by 2050.

And the US has pledged to cut our emissions in half by 2030.

As a result, there's so much action from various capital market participants.

So, we saw a group of central banks and financial supervisors established something called the network for greening the financial system.

We've seen the net-zero asset owners Alliance, the net-zero asset manager initiative, Net Zero insurance Alliance, and MSCI is a founding member of the net-zero service providers Alliance.

And our mission is really to help capital market participants build climate risk capabilities.

[Jenna Dagenhart] And you mentioned your work with wealth managers and advisors.

How is MSCI working with them to help make sense of their clients' portfolios when it comes to climate?

[Sarah Greenberg] It it's a great question.

So MSCI offers really extensive climate data, we cover more than 10,000 issuers, and we provide 700 climate related data points from carbon emissions to an assessment of a company's transition policies to their physical risk.

If as we look across wealth managers and how we're supporting them building climate capabilities, there's really three core things that we're helping them do. So, the first is build out.

Due Diligence processes, so where they're already looking at fund managers, and looking at evaluating climate related strategies and funds, we're offering them data that they can use to supplement their traditional due diligence process.

So, if you have a fund manager that's offering a climate strategy, the wealth manager can assess if they're actually delivering the climate benefit that they that they say they are.

We're also supporting wealth managers to build climate investment solutions.

And we see this both in terms of single stock portfolio construction, there's a huge focus on personalization.

And we're supporting wealth managers that are using either the climate data or climate indexes separately or together to build personalized portfolios, or in building model portfolios.

We published a really great piece called Climate first model portfolios, which looked at how wealth managers could build multi asset class portfolios that have a same kind of risk and return profile as a traditional market cap balanced benchmark, but deliver improved climate outcomes.

And we actually saw that in this climate first model portfolio, you can achieve almost a 40% reduction in carbon emissions have a great almost eight times as much exposure to clean energy solutions and maintain the same risk return characteristics of that of that traditional market cap exposure.

So, some really exciting work.

The other thing that I would mention is that in addition to the portfolio construction and due diligence, there's a really heavy emphasis on reporting and transparency.

And we're supporting both asset managers like iShares, who's now publishing our implied temperature rise metric on their public website for their ETFs.

To offer transparency into investors in their fund, we're also supporting wealth managers who are integrating climate data into the reporting and transparency they provide their clients.

Some, like Merrill Edge are publishing that through their digital platforms for companies' funds and client portfolios, and others are integrating it right into the investor statements into investment proposals to show their clients how their portfolios are positioned on climate risk.

[Jenna Dagenhart] You mentioned implied temperature rise is one of the tools that can be used to understand climate impact.

Sarah, could you tell us a little bit more about what this metric illustrates?

[Sarah Greenberg] Sure, we're really excited about this new metric.

It takes a two degree warming budget and assesses across 10,000 Companies looking at their current and future greenhouse gas emissions, considering the emissions reduction targets that they've made, and delivers a degree warming to which they're aligned.

And we do that both for these 10,000 companies, but we also aggregate aggregated it for a family of 65,000 funds, including mutual funds and ETFs.

What we found is that in our fund universe, there's only 10% of funds that are aligned to under a two degree warming outcome, and over 80% of funds fall within the two to four degree Celsius warming. So as you can see, there's still quite a bit of work to do.

[Jenna Dagenhart] And now, how do these tools align with increasing regulatory requirements, Sarah?

[Sarah Greenberg] Well, there is a huge focus on regulators across the globe on cutting through greenwashing.

Here in the US, we saw that President Biden issued an executive order last May, in May of 2021, which outlined a range of climate related policies.

We've seen the SEC just last month in March issued guidance that's going to require companies to start disclosing climate related information.

And a lot of these global efforts are focused on something called the Task Force on climate related financial disclosure.

So TCFD, and it essentially is looking at how companies and how institutions like financial institutions are prepared for different warming scenarios.

So, in the US, companies are going to have to start disclosing scope one, scope two, and in some cases, scope, three emissions, and really follow that TCFD framework of understanding their climate risk under different warming scenarios.

Our tools enable clients to institutional investors to evaluate companies and use that information to construct portfolios that are aligned with these regulatory frameworks.

[Jenna Dagenhart] Finally, Sarah, how can advisors integrate climate in practice management?

[Sarah Greenberg] Great question. leading institutions are already building climate capabilities into portfolio construction and the reporting and transparency that they provide to their clients.

For advisors who are looking to take the first step, I'd recommend going to our website and looking up a company that you hold in a client portfolio, and using our research to have that first conversation.

How is that one company positioned on climate risk?

If they're interested in learning more, you can dive into our net-zero hub, which is a website we've produced for clients that has tons of information about integrating climate into portfolio construction, the changing regulatory frameworks and how you can use climate as a differentiator.

[Jenna Dagenhart] Well, Sarah, thank you so much for joining us.

[Sarah Greenberg] Jenna, thanks so much for having me on. I really appreciate it.

[Jenna Dagenhart] And thank you to everyone out there watching.

Once again, that was Sarah Greenberg, managing director MSCI I'm Jenna Dagenhart with Asset TV.

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