

## MSCI COP26 Conversations

*Featuring:*

**Michael Woolley, Director, Sustainability, MSCI**

**Brendan Baker, Climate Specialist, ESG Research, MSCI**

Brendan Baker (00:09):

Hi everyone, my name is Brendan Baker and I'm a climate specialist for MSCI ESG Research in the APAC region, and I'll be running a number of chats with clients throughout APAC, as part of our COP26 Conversation Series. Now with COP26 only a few months away, the momentum for action on climate change feels as strong as ever. From central banks, exchanges, and even hedge funds, we are really starting to see climate action in the finance sector leap forward.

Nevertheless, we're still a long way from where we need to be. For example, according to our new Net-zero Tracker, to limit warming to 1.5 degrees Celsius by 2050, without any changes to current trajectories, listed companies will deplete their remaining admission budgets in less than six years. However, there are positive signals and that's what I'd really like to talk about over the course of this series. With a momentum for increased action on climate clearly increasing, and I think commitments to net-zero is a clear indicator of this.

When looking at the various markets in the APAC region from a climate and net-zero lens, some have been on this journey for some time, whilst others are only just starting, but catching up quickly. Either way, they each face their own challenges and opportunities. So in this series of COP 26 conversations in APAC, we aim to bring out some of the issues facing investors and businesses in each of the sub regions of APAC and have our clients share their experience and insights on tackling climate change and potentially their own race to net-zero.

So to kick things off our first session is going to be on the ASEAN region and I'm lucky enough to have the opportunity to talk to Michael Woolley today, who is an ESG and Climate specialist at Eastspring based out of Singapore, who very coincidentally is Perth born and bred as am I, which is pretty uncommon in these parts! But anyhow, Perth coincidences aside, before jumping into your thoughts on the ASEAN region's climate ambitions and challenges and of course Eastspring's, Michael, could you just introduce yourself for a minute and give us all a bit of background into you.

Michael Woolley (02:06):

Yeah. Thanks Brendan. Again, thanks for the opportunity to speak today. I joined East Spring in 2007 and, I should say my ESG journey started around 2013 when I started to face clients that we are discussing ESG within the Nordics. I think that really kicked off my journey and I've

been transitioning, through my career from being an investment specialist that represents our investment business to being one that's now focused on leading our sustainability efforts at Eastspring.

Brendan Baker (02:43):

Awesome! Thanks Michael. Now before jumping into Eastspring's climate ambitions and actions, I'd like to start at the regional level if that's okay. You have operated in the ASEAN region for quite some time and there are idiosyncrasies about that region, as there are with all APAC regions. For example, there's still a focus on coal generation, even though there's a lot of renewable energy projects and a lot of opportunity in the region. There's also climate guidance and regulations coming up hard and fast and we have a lot of developed markets scope 3 emissions sitting in this region, so does any of that resonate with you and I guess how are you looking at this region.

Michael Woolley (03:22):

Yeah, I think that it does resonate with us. I just want to acknowledge that, as a region, we can even break it down into country by country issues. I think that whilst the ASEAN region can be looked at it in that light, we also need to understand it, it is complex.

So when we talk generally today, I think there are far more complexities that we might not get to today, but transition takes time. And I think we need to acknowledge that, economic development in the region is at a different level, and on a different path for each country. The industry composition, and therefore the economic contributors in each of the countries within the ASEAN is typically more heavy industry. And as you suggest that they're very reliant on fossil fuel and coal-based power generation. And having said that all of that, really the region is very seriously impacted by climate change and extreme weather events. So if you think about places like Myanmar, Philippines, Vietnam, Thailand, they're amongst the 10 most impacted over the last decade in terms of extreme weather events. You think about their geography they're in low lying coastal areas, for example, these things are not only related to climate change, but they can have a significant economic impact. I think we should think about that as well. So things like what we've experienced globally with COVID, supply chain risk is a significant issue whether there are physical risks, like extreme weather events. So thinking about these things, you can also link it back to how do we secure energy production? That is, that is both aligned to climate initiatives like the Paris agreement and also one that's economic.

And I think looking at the ASEAN composition at the moment, they've got a significant reliance on coal capacity and they're looking to develop more coal capacity right now. When you consider that both the economic issues, the first one I want to say is that actually renewable energy sources are now in most parts of the world, more cost effective than, having new coal capacity coming on. And it's estimated within the next couple of years that renewable energy sources will be actually more cost competitive in the ASEAN region as well. So there's actually a big opportunity here to think about whether coal, new coal is important for development. Combine that with potential for stranded asset risks in terms of the

longevity of these coal assets, which could be typically more than 40 years plus. And also think about the issues related to the physical risks from climate change.

If you are reliant and not diverse, don't have a diverse energy source, then you can potentially be more impacted by having singular energy sources, which might be the typical, you know, coal fired power plant. So there's really a significant opportunities here within the region to think about infrastructure investment, diversification of energy sources, and also aligned to more cost effective and sustainable energies.

Brendan Baker (06:20):

Yeah fantastic. So dovetailing into Eastspring then. How do these factors play into your climate strategy? And what I'm really interested in is how you marry investment decisions around these legitimate physical related risks impacting the region with the transition risks, and specifically economic development considerations for this region. Can you unpack a little how you and Eastspring deals with this and, perhaps, how they deal with these sometimes competing pressures?

Michael Woolley (06:51):

That's a great question. And I'll just say that for Eastspring, Eastspring has nine investment offices in the Asian region. So again, what we are about is the journey. We've got to acknowledge that Eastspring is on that same pathway and in terms of our own development, our own understanding, those things also take time and we want to acknowledge this no one single approach to investing in responsible investment in general. So while the transition will take time, I think we've got to acknowledge it's one that we all must embrace.

I think one thing that really, resonates in terms of our journey is our parent is Prudential Plc, so I represent from an asset management perspective, our organization also has an asset owner perspective and an in a life insurance company perspective. And one of the new chapters we had in our journey last year was, developing our own organizational ESG strategy. And I think that's really important from the perspective of setting if you like our own business activities. So it starts to inform our own response. So how do we align to global initiatives, for example, how do we think about collaborating? How do we build capacity? So we've been going through those steps to think about the global initiatives that we could both learn from such as organizations like the Asia Investor Group on Climate Change, or working with other organizations like worldwide fund for nature, but also looking at it, you know, aligning to as a signatory to the PRI for example, being part of engagement programs with climate action 100 plus, and other utilities focused engagements through AIGCC.

Now why it's important to think about global initiatives as it starts to allow us to think about these things in, if you like, a more systematic way. And just more recently in May, our Prudential announced that, our commitment as a group to becoming net zero by 2050, so aligning to the Net-Zero Asset Owner Alliance is a new commitment we've made. And this starts to lead back to your question around how do we think about the ASEAN? So the

strategy for the portfolios Eastspring managed for our parent, we think about how we start to decarbonize our portfolios.

How do we align to the longer term ambition around the Paris Agreement and how do we set our own strategy? For example, the group is looking to reduce its carbon intensity. So reduce carbon by 25% by 2025. So how do we do that? It comes back to different ways. One is to look at potentially where we think there could be stranded assets and perhaps, high carbon intense companies that may not be willing or able to transition in a reasonable timeframe. We think about divestment, for example, as one way, and thinking about that across the region, the most impactful area at the moment are coal-related assets. And so we're from an asset owner parent's perspective, we're looking at companies where revenues exceed 30% and looking at how we might divest over time from those.

But I think more importantly from my perspective is how we engage with companies and that's really bringing a level of awareness. And if you like looking to align with a transition and accelerate the transition, so aligning with initiatives like the Net-Zero Asset Owner Alliance, aligning with other initiatives, like the Asia Investor Group on Climate Change can pull our assets together and have a deeper pool of assets with a stronger voice on companies. We can also have direct conversations with companies. So from our perspective, I think how we think about the region is we think about them company by company, country by country and situation by situation, understand that anything that we do needs to be fair in terms of adjusted transition, understand that economic development is absolutely essential to this region. And we understand that at the moment, these countries are heavily relying on coal. So support the transition and accelerator is really strong key part of our strategy.

Brendan Baker (11:08)

Cool. So just coming back to the overarching theme of this conversation series in APAC being COP 26. We at MSCI are of course watching with a close eye and are involved in many initiatives in the climate space aligned with the overarching themes of the COP, but is this something that is being discussed at Eastspring at the moment, or something you are seeing of interest in the region?

Michael Woolley (11:30)

I think cop 26 is an opportunity for, for example, governments to come together and understand what they can collaborate on, understand where the support lies. and we've seen already evidence of this, where countries can increase their commitment to nationally determined contributions. There are plenty of examples in this region, there are also examples of leadership. More recently you might've seen, the EU drafting potential, EU carbon border tax initiatives now whilst that hasn't yet been put in place that really has potential for an impact on the globe.

So it's all about potentially impacting the competitiveness of companies who export from their country to Europe. And it also is a really strong signal around what we're talking about is

the externalities that companies are generating today and not factoring them into that cost of production. I think this is from an investment perspective and economic impact perspective. Should we move along the path of being able to identify the externalities that companies create and have that cost it into their cost of production or price into the goods and services that they offer?

That will impact the level of competitiveness and it probably will help to transition if you like the mechanism that needs the market mechanism that would potentially allocate capital toward more potentially sustainable ways to generate revenue for these companies. So ways to think about ASEAN, capital allocation, so what kind of, there are significant opportunities for investment into the ASEAN where infrastructure's required, for example, nationally determined contributions to think about the energy transition. I think we all should always should think about the local perspective around economic development. So the concept of just transition, ensuring that any vulnerable parts of the communities in economies that are going through a transition are taken care of. And so that there may be different strategies that should have to come through that. And one really big interesting component that I think is outside of just the industrial change that may be needed.

I think there's a significant opportunity in the ASEAN or nature-based solutions. There was a significant amount of diversity in this region relating to the natural resources that exist currently. And there's a significant potentially positive impact that nature-based solutions can have in this region on the long-term. And this is where governments can start to influence policy development.

Brendan Baker (14:13)

Yeah that's a great call and maybe we'll see things like the TNFD gaining further traction, particularly in this region. Now, in the interest of time I might squeeze in just one more question Michael. And that's to see if you have any final messages for other investors in the region, perhaps initiatives that might be worthwhile jumping on board or supporting or perhaps a personal perspective on what you hope to come out of off COP 26 this year.

Michael Woolley (14:39)

I think from a personal perspective that the concept of alignment I think is critically important. And you can think about that at many different levels, whether that's alignment of government, alignment of, regulatory requirements, building disclosure and transparency, alignment around expectations there. So you're seeing these things coming, where investors can get involved. I think it's really perhaps thinking about the initiatives that encourage that transition and build alignment. So for example, again, the Investor Agenda and the cop 26, the global statement, to governments on climate change, that's something that, as an asset manager Eastspring has signed to. So for example, that represents about 457 investors, and it represents about 41 trillion US dollars of assets under management. So the ask is around governments to commit to a mid-century net zero commitment, think about domestic policies, which help to deliver on targets that they're setting around nationally determined

contributions. So from our perspective, I think whilst there's always potentially limited in influence in some ways I think the deeper the pool has a potential for the louder the voice. I think this is one way to be aligned to encouraging the transition.

Brendan Baker (15:57)

Fantastic. I like it. It's a great, great final message. Thanks so much for joining. I might call it a wrap there. It's been great to chat, really appreciate you coming on and just sharing some of your thoughts about the region, it's really appreciated and best of luck with everything in ESG and climate related for the rest of the year, Michael.

Michael Woolley: (16:18)

It's a pleasure, Brendan, and thanks for the opportunity to get to talk with you today.

## 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](http://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 by 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](http://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](http://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>.