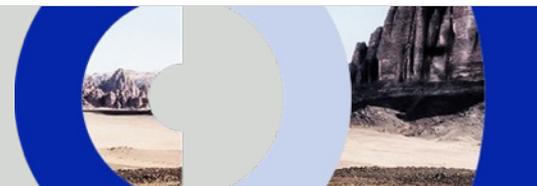


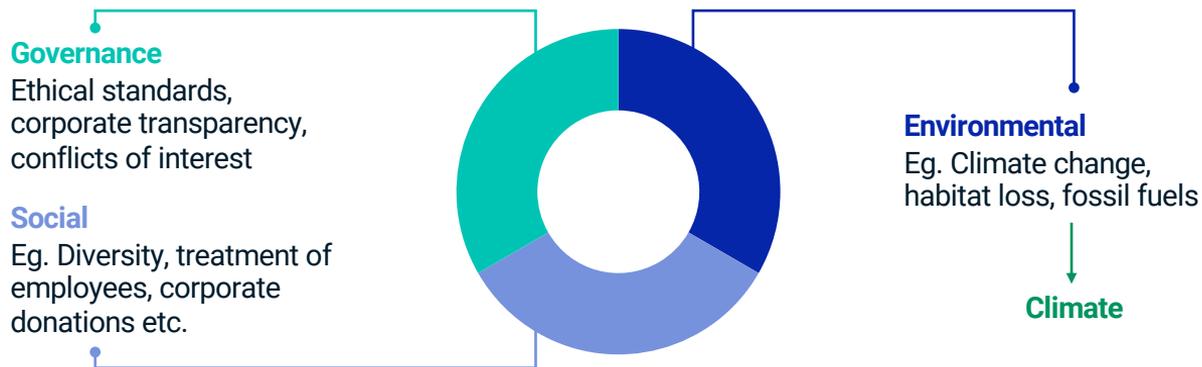
# 1 Understanding ESG & Climate Investing



# Defining Key Factors



While the term ESG – Environmental-Social-Governance – was commonly used shorthand for seeking to screen out or add in companies and investments with certain characteristics, today there is far more sophistication and depth to the conversation.



## Tools and Resources

- [ESG 101: Explore the fundamentals](#)
- [Why ESG Investing?](#)
- [Principles of Sustainable Investing](#)
- [What is an ESG rating?](#)
- [Fact Check: The Truth Behind 5 ESG Myths](#)
- [ESG Investing: Finding Your Motivation](#)
- [War and ESG](#)

In one sense a subset of the E in ESG, climate issues have emerged as a specific and important focus for investors. Climate-focused investing can be viewed as its own category and has unique measurements and criteria.

# An Evolving Global Framework Fuels Progress: Key Terms

<b>Net-Zero:</b>	<b>COP26:</b>	<b>The Paris Agreement:</b>	<b>UN's Principles for Responsible Investment (PRI):</b>	<b>Greenwashing:</b>	<table border="1"> <caption>Number of PRI Signatories</caption> <thead> <tr> <th>Year</th> <th>Number of Signatories</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>3028</td> </tr> <tr> <td>2021</td> <td>3830</td> </tr> <tr> <td>2022</td> <td>4900</td> </tr> </tbody> </table> <p>4900+ PRI Signatories USD 121 trillion in assets*</p>	Year	Number of Signatories	2020	3028	2021	3830	2022	4900
Year	Number of Signatories												
2020	3028												
2021	3830												
2022	4900												
<p>Setting a Net-Zero target means reducing carbon emissions to the greatest extent possible, and compensating for the remaining emissions via removal.</p>	<p>The 26th United Nations Climate Change conference was held in Glasgow in late 2021. The conference was the 26th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change. (UNFCCC.)</p>	<p>A legally binding treaty on climate change, at COP 21 and entered into on November 4th, 2016. The agreement seeks to limit global warming to below two degrees Celcius by reducing greenhouse gas emissions.</p>	<p>The Principles for Responsible Investment (PRI) call on investors to incorporate environmental, social and governance factors into their investment practices.</p>	<p>The term refers to companies falsely claiming to be doing more for the environment than they actually are - a misalignment of public statements, marketing or product labelling being with quantitative ESG data and ratings.</p>									

## Tools and resources



[MSCI Net-Zero Knowledge Hub:](#)  
An interactive guide for professional investors

[Net-Zero Tracker:](#)  
quarterly gauge of progress by the world's public companies toward curbing climate risk



[SEC Climate Disclosure: Target Standardization](#)



[Steps to Net-Zero:](#)  
Considerations for companies and investors (infographic)



[ESG Now Podcast:](#)  
Hosts Mike Disabato and Bentley Kaplan discuss pressing ESG news

# An Evolving Global Framework: ESG, Climate and Impact



## ESG INTEGRATION



“Incorporating ESG may improve our investment results.”

Invest in companies **better positioned to manage their most financially relevant ESG risks** vs. industry peers.



## CLIMATE INVESTING



“We want to invest in companies 1) aligning their products & services with their climate impact and 2) minimizing their contribution to global warming.”

Invest in **alternative energy, energy efficiency, green building, pollution prevention, sustainable agriculture, & sustainable water** companies.

Invest in companies **better positioned to operationally withstand risks from global warming** by actively working to lower emissions, that have less enterprise value at risk from global warming.



## IMPACT INVESTING



“We want investment opportunities that achieve a **double bottom line** – an attractive return and a positive impact.”

Spanning all major asset classes, invest to simultaneously achieve positive social/environmental outcomes and financial gain.

Separate from ESG ratings, Impact is typically measured in accordance with the UN’s 17 Sustainable Development Goals (SDGs.)

### Tools and Resources

 [Climate Matters:](#)  
What an ESG Rating is and is Not

 [Intro to Climate Solutions](#)

[Impact Solutions](#)

 [UN Sustainable Development Goals:](#)  
How do companies stack up?

# Climate Change is Impacting The Environment and The World's Economies

The warming of Earth's atmosphere caused by human-generated emissions of carbon dioxide and other greenhouse gases is causing sea levels to rise and endangering human health, biodiversity and property.

Averting a climate catastrophe will require the largest reconstruction of the global economy since the Industrial Revolution. Capital markets participants, including asset owners, companies, and asset managers will all be part of the solution.

## The financial risks

### \$900 billion:

Or roughly one-third of the value of big oil and gas companies that estimates suggest would disappear if governments move to restrict the rise in global temperatures to 1.5° C above pre-industrial levels for the rest of this century<sup>1</sup>.

### Two to three:

The number of notches the sovereign credit rating of an oil-exporting nation could fall by 2050 absent steps to diversify its economy<sup>2</sup>.

### 90%:

The share of global energy generation that is projected to come from renewable sources by 2050 according to a pathway to net-zero put forward by the International Energy Agency<sup>3</sup>.

### \$1.5 trillion:

The value of new revenue opportunities from low-carbon goods and services, according to European companies in their 2019 disclosures to CDP<sup>4</sup>.

## The financial opportunities

### Tools and Resources

 [Climate 101](#): Aligning your portfolio with a net-zero economy

[MSCI Net-Zero Knowledge Hub](#): An interactive guide for professional investors

 [The Role of Capital in the Net-Zero Revolution](#)

[Foundations of Climate Investing](#)

 [The Paris Agreement and Your Portfolio](#)

[Global Progress Towards the Paris Agreement](#)

1. UNDERSTANDING ESG AND CLIMATE INVESTING

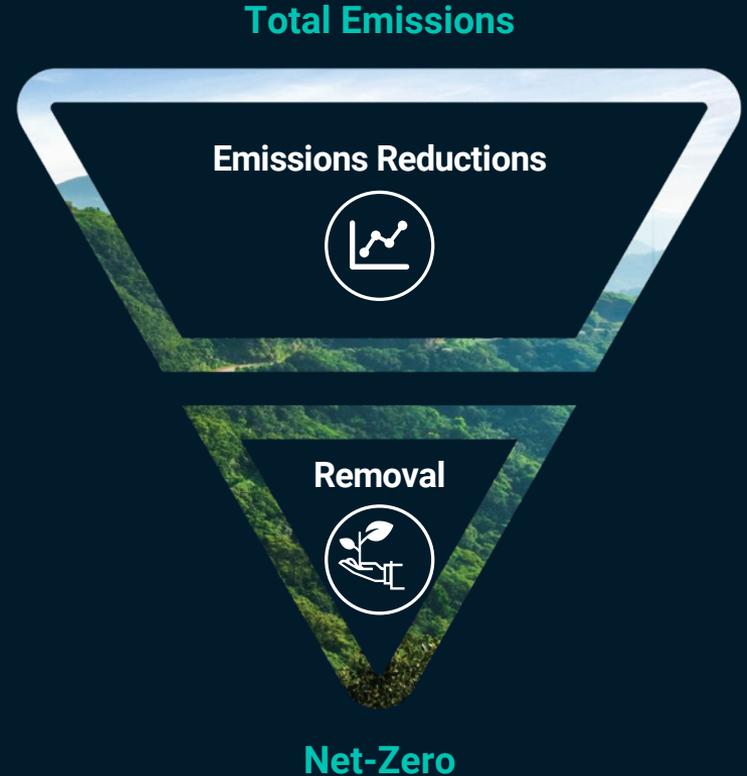
# The Path to Net-Zero

To prevent the worst effects of climate change, we need to drive carbon emissions down to Net-Zero by 2050.

## Net-Zero Investing

means aligning with the Paris Agreement goal of limiting global warming to well below 2°C, preferably no more than 1.5°C, above pre-industrial levels by 2100.

It means investing in companies with ambitious carbon reduction goals and compensating for remaining emissions that cannot be mitigated using carbon removal technologies.

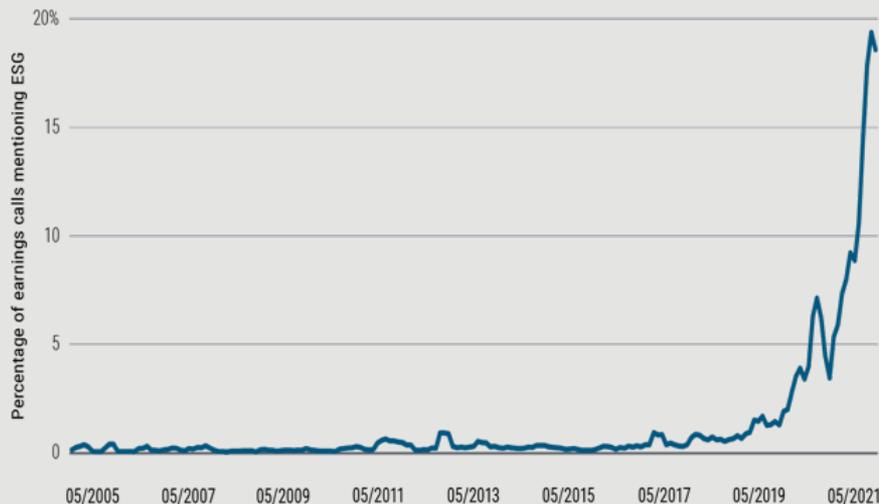


# Investor Demand for Transparency and Action is Accelerating Rapidly

**ESG is being integrated into all facets of the investment industry, and the rate of change is increasing.**

- \$30 trillion wealth transfer from baby boomers to 90 million millennials to take place over the next few decades<sup>1</sup>
- 67% of millennials believe investments “are a way to express social, political, and environmental value” versus 36% of baby boomers<sup>2</sup>
- 89% of millennials want to grow their allocation to responsible investments in the next five years<sup>3</sup>

**Rapidly Increasing Mentions of ESG on earnings calls<sup>4</sup>**



**Tools and Resources**

 [The Sustainable ETF Universe](#)

<sup>1</sup>Source: Accenture, “The Greater Wealth Transfer – Capitalizing on the Intergenerational Shift in Wealth,” 2012

<sup>2</sup>Source: US Trust’s “Insights on Wealth and Worth,” 2014

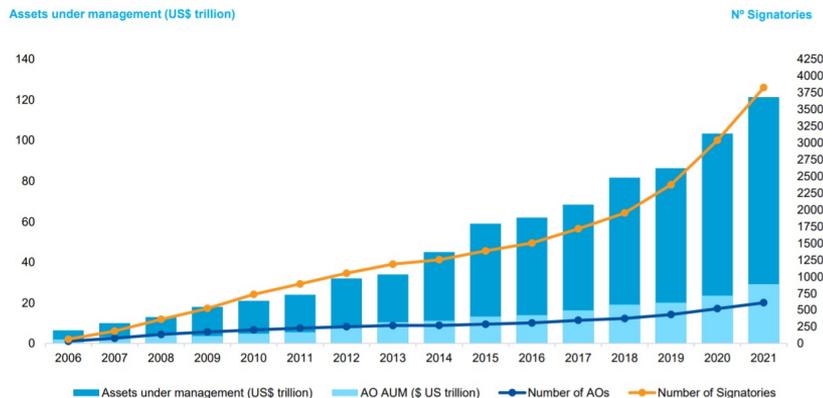
<sup>3</sup>Source: FactSet’s “HNW’s Vision for the Wealth Management Industry in the Information Age”

<sup>4</sup>Source: PIMCO, July 2021

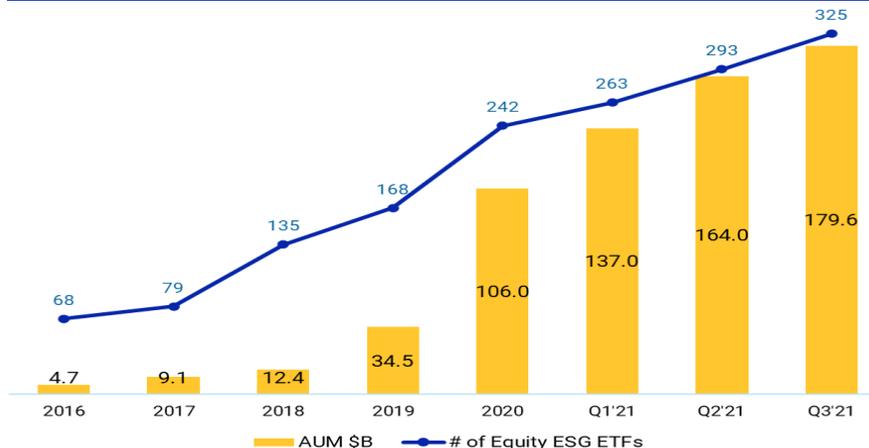
# ESG and Climate Investing is Growing Dramatically

UN PRI\* Has Grown to Over 4,902 signatories in managing over \$121 trillion in AUM

#1 in no. of ETFs and ETF assets linked to ESG Equity Indexes\*\*



\*Total AUM include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by end of March of that year.



## In the next 10 years we think:

Every **company** will have a climate strategy with explicit objectives and targets for emission reduction, with **pathway to net-zero**

TCFD reporting will be mandatory in most European countries, and the norm globally

Company **climate disclosure** around **emissions and targets** will be required by regulation, audited and standardized

Engagement with companies will focus on climate strategy with emphasis on targets for **emission reduction**

# Climate Investing Delivers Real World Change



## Climate investors face two scenarios.

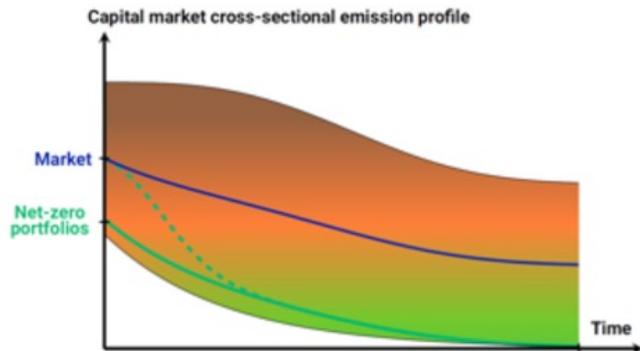
1

The divergence scenario - focus on net zero portfolios comprising of low greenhouse gas emitters, with periodic rebalancing. Net zero portfolios and the market portfolio diverge.

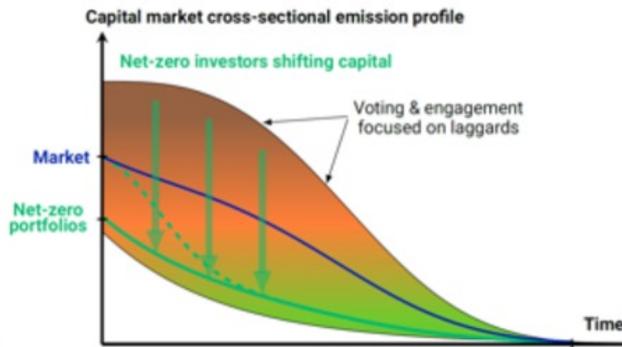
2

The convergence scenario – tilt investments towards “emissions improvers.” These companies may have high emissions now but also have ambitious and reachable targets to decarbonize. Their operations over time. This net zero portfolio converges with the market portfolio.

**Divergence scenario scenario**



**Convergence**



### Tools and Resources

[Using MSCI Climate Solutions](#)

[Constructing Net-Zero Portfolios: Three Approaches](#)

# The Climate and Net-zero Revolution is an Opportunity to Seize for Companies and Investors



Low carbon transition (LCT) CATEGORY		EXAMPLES
	<b>Asset Stranding</b>	Coal mining & coal-based power generation; Oil sands exploration/production
	<b>Product Transition</b>	Oil & gas exploration & production; Petrol/diesel-based automobile manufacturers, thermal power plant turbine manufacturers etc.
	<b>Operational Transition</b>	Fossil fuel-based power generation cement, steel etc.
	<b>Low Impact</b>	Consumer staples, healthcare, etc.
	<b>Solutions</b>	Renewable electricity, electric vehicles, solar cell manufacturers etc.

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