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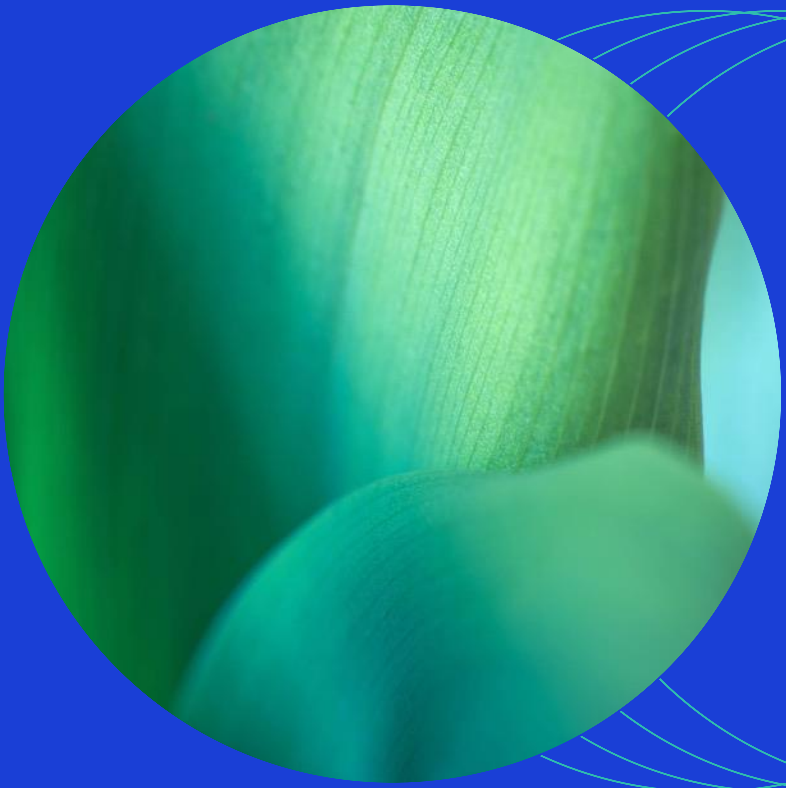
Webinar recap: Sustainability and Climate Indexes in Focus – APAC Edition



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Saurabh Katiyar

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Q: The investing landscape around climate risk has shifted significantly. How are investors evolving their strategies?

Saurabh Katiyar:

Institutional investors globally increasingly view climate risk management as a fiduciary responsibility. Previously, many favoured a portfolio decarbonisation approach, reducing exposure to high emitters. However, the pace of real-world decarbonisation has been slower and more uneven than expected, prompting a shift in thinking. Consequently, investors are also considering a transition-focused approach—remaining invested in high-emitting companies actively pursuing credible decarbonisation pathways.

Our Climate Action Indexes align with the transition-oriented mindset. Rather than simply excluding high emitters, we assess companies on four key metrics: emissions intensity, green revenues, robust climate-risk management practices, and the presence of credible science-based targets. Companies scoring well within their sectors are included, with the aim of ensuring fair representation even among carbon-intensive industries—energy, utilities, materials—provided they're genuinely committed to transition. This approach results in balanced sector exposure and low tracking error.

Bhavna Mohan:

Today six futures contracts tracking MSCI Climate Action Indexes are listed on SGX. We initially launched five contracts covering World, US, Europe, Japan, and Asia ex-Japan in June 2023, and subsequently added Emerging Markets earlier this year. Derivatives are essential for investors seeking flexibility in cash management and risk control. Our climate derivatives closely track underlying indexes, with daily correlation around 95%. At expiry, they precisely match MSCI's official closing index values, ensuring perfect correlation.

Sunita Subramoniam:

Investor appetite for climate and sustainability strategies is robust. Last year, BlackRock has surpassed USD 1 trillion in sustainable assets, a phenomenal 850% growth over five years. About 45% of our sustainable assets are managed in indexed portfolios across ETFs, index mutual funds, and segregated mandates.

Our clients want to meet sustainable outcomes alongside their portfolio objectives and this has driven growth in our sustainable and transition products. Our largest product range tracking Climate

Transition Benchmarks is now about USD 40 billion in size and our Climate Action suite has crossed USD 4 billion. Beyond ETFs, you will see asset owners are steadily allocating more assets to transition. E.g. the recent news from Taiwan’s largest pension fund.

Across APAC, asset owners exhibit diverse and distinct needs. Priorities can vary considerably from Southeast Asia and North Asia to Australia and New Zealand. It’s critical that we maintain a flexible mindset, offering tailored solutions that not only support investors’ climate transition goals but also clearly align with their broader portfolio objectives.

Q: What are you seeing in terms of Climate Action Index performance and investor adoption of derivatives?

Saurabh Katiyar:

Generally across regions, MSCI Climate Action Indexes have outperformed the broad market or parent indexes. For MSCI World Climate Action Index, excess returns were 60 basis points annually between November 2018 and December 2023, jumping to 93 basis points on an annualized basis between December 2023 and May 2025. For emerging markets, we saw 20 basis points excess returns in the longer period between November 2018 and December 2023, increasing to 56 basis points recently between December 2023 and May 2025 on an annualized basis.

Using MSCI risk models, we found the bulk of outperformance for MSCI World Climate Action Index came from stock-specific contribution, not from sectors or country bets. We also found that most outperformance came from overweight positions of included securities, while excluded securities didn't detract from returns.

On climate metrics, emission intensity for MSCI World Climate Action Index is roughly 40% lower, while emerging markets show 50% reduction. Other regions demonstrate 30-50% reduction in emission intensity.

We also see faster organic decarbonization for MSCI World Climate Action Index compared to MSCI World Index. Attribution analysis shows that a meaningful share of this reduction comes from faster emissions cuts by companies, not just from portfolio rebalancing or market effects.

Bhavna Mohan:

While the total open interest of USD 3 billion as end of June 2025 is modest compared to the broader derivatives market, this represents significant growth—more than doubling in just two-and-a-half years. This growth has occurred amid a challenging environment for climate mandates, reinforcing the strength of investor interest.

The landscape for climate derivatives is still evolving. Currently, portfolio managers often aren't explicitly required by regulators or asset owners to align derivatives use with their climate mandates. However, we are seeing some managers proactively making this switch, and we anticipate that regulators and asset owners will soon require such alignment.

Derivatives offer significant value, supporting risk and cash management, portfolio rebalancing, replication, and efficient transition into climate-aligned strategies.

Our recent pricing studies show banks pricing MSCI Climate Action derivatives competitively—very close to traditional derivatives tracking parent indexes. Listed derivatives also offer advantages over OTC swaps, including higher capital efficiency and SGX's strong Aa2 credit rating. Over time, structured products might increasingly utilize climate derivatives to capture potential outperformance.

Q: How do regional differences and new data shape the future of climate investing?

Sunita Subramoniam:

I wouldn't say one region is more ambitious than another—Europe itself is diverse in adoption approaches and regulatory frameworks. In APAC, what's notable is the sheer variety of sustainable investing use cases. Investors here differ widely in terms of their preferred vehicles, appetite for active risk – fundamental, systematic, index, and these preferences can further vary according to asset class.

Within equities alone, strategies diverge significantly between developed and emerging markets, and equity approaches often differ from fixed income. Many allocations occur through highly customized segregated mandates, which aren't always publicly visible.

For instance, asset owners in some regions prefer Paris-aligned benchmarks and may be more comfortable divesting from energy, whereas South East and North Asian asset owners often favor transition-oriented indexes such as climate action or EU climate transition benchmarks so that they can remain invested in the energy sector. We're also seeing increased adoption of green bond indexes due to their clear sustainability impact. Overall, APAC's diversity of approaches signals significant momentum and ambition in climate investing.


Saurabh Katiyar:

Climate data can sometimes feel overwhelming—like navigating through a jungle. At MSCI, our goal is to help investors cut through this complexity by prioritising metrics that are decision-useful, financially material, and forward-looking. Our clients frequently ask which metrics best predict real-world, organic decarbonisation. Our research shows that green revenues, green CapEx, science-based targets (SBTi-approved), and robust climate governance are among the most reliable indicators of companies achieving faster decarbonisation.[1]

Building on this research, we've developed the MSCI Energy Transition Framework assessing companies' preparedness over a 5-7 year horizon, evaluating both transition pressure—like regulatory shifts or technological disruption—and transition readiness, including targets, governance, business model alignment, and innovation. This data set is now available and we're exploring ways to integrate this in the evolution of our climate indexes.

[1] Financing the Climate Transition, June 10, 2024

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