

# Perspectives Podcast

## “Sustainability: From Narrative to Fundamentals”

Transcript, 5 February, 2026

Adam Bass (00:03):

This is MSCI Perspectives. I'm your host, Adam Bass, and today is February 5th, 2026. The sustainability landscape is undergoing a real transformation right now. It's noisier, more politicized, and more contested than it was even just a few years ago. But when you look past the headlines and into the real economy, the picture, well, it can look very different. It's that gap between narrative and fundamentals that was one of the major themes in sustainability and climate in focus trends to watch for 2026 that we put out last month. And it's also what we're digging into in this episode. In fact, this week, I'm handing over the reins to Lauren Nishikawa. She's head of emerging risks, research and development at MSCI as she leads a discussion with Jenn-Hui Tan, Chief Sustainability Officer at Fidelity International. Here's that conversation.

Laura Nishikawa (01:08):

Welcome to MSCI Perspectives. I'm Laura Nishakawa, head of emerging risks research at MSCI. I'm here joined today with Jenn-Hui Tan, the chief sustainability officer at Fidelity International. So Jenn, thank you so much for joining today. When you think about sustainability heading into this year, we're already in February, but what feels most different to you compared to a few years ago in this space?

Jenn-Hui Tan (01:35):

Well, thank you for having me, Laura, and it's great to be here. I think there's obviously been a mark shift, and I think there's two ways you can think about that shift. So the first way is to think about it in terms of the underlying driver of sustainability. So some people will say what it's done is moved from being a societal and a moral imperative to being an economic and a commercial one. And that explains the renewed emphasis on having a proper business case for sustainability, what some people would call a sustainability ROI, proving that it's a better, more competitive, more economic way of operating. And I think there are some people in the industry that welcome that shift and they see that as being evidence of a more pragmatic approach to sustainability, one that is grounded in business realities. And there are others that will say that it won't create the kind of response that we need to rise to the scale of the planetary challenges that we face. My own view is that both of those two things could easily be true.

(02:40):

I think though that in some ways that is a oversimplification of what's happened. If I think about it from an investor perspective and looking back historically, there was a view in 2020, 2021, say, that the policy response and that the direction of travel on many sustainability topics was inevitable. So what you were doing as a company was investing your business or your operations for the future. And examples of that would include some DEI practices and mitigating climate change more broadly. And so with that kind of mindset, the absence of past data isn't a hurdle for new projects because the future that you're expecting is necessarily going to be different from the past that you experienced. And these initiatives are aligning yourself with broader stakeholder expectations and with developing trends. And so what I really think has changed is that sense of inevitability. I don't think that means that the whole sustainability space has lost momentum, but I think it explains why there is now a growing focus on near term outcomes and investing around greater areas of policy certainty. And that's why certain areas like the energy transition continue to see strong interest because their project economics and their investment ROIs continue to be favorable.

(04:09):

And the final point I'd make here is that we see that shift as well in the development banks. So the drive now to mobilize private finance tense is now occurring more through traditional vehicles, so i.e. ones that don't have any blended or concessionary financing element to it because inherent in that assumption is that the projects that you're financing need to be bankable or stand on the economic merits alone.

Laura Nishikawa (04:34):

That's super interesting. So the weakened feeling of inevitability has made sustainability practice be a bit more pragmatic, I think is what I'm hearing you say or maybe a bit more near term focused. I'm curious because you've talked about the gap between the sustainability narrative and the underlying economics, and also that there are areas where there are strong economic fundamentals coming through in terms of sustainable investment areas. So could you elaborate a bit on that? Where do you see those economics really driving potential sustainability investments?

Jenn-Hui Tan (05:09):

So I think it's definitely true that the narratives that we tell ourselves around sustainability have shifted. It's become tougher, it's more politicized. And to my mind, that's the result of the inevitable trade-offs becoming more apparent. So those trade-offs across different time horizons, across different stakeholder groups and so on. And so you can see that tension manifest in different policy responses around the world, which each respond to different underlying conditions in those markets. And that creates a policy divergence for what used to be quite a strong tailwind for this space. But I think the point that we've observed, and I think reflected in your research as well, is that the underlying economics are telling us a different story. They're telling us a story of new technologies and new cost curves that are driving scale. And I think you can see this most clearly in the energy transition or what some people would call the energy addition, depending on how you want to characterize these things.

(06:06):

And so if you take a little bit of a step back, globally, the proportion of final energy demand from electricity is around 20%, give or take. So the scope of growth, I think, can be quite significant, particularly if you think about the background of rising energy demand from AI and continued development and so on and so forth. But then if you look at the components of that energy transition, and you rewind, say 10 years ago, every individual component had to be subsidized or supported in some way by governments because they weren't economic technologies, but that I think is what has changed. Now, on a functional level, these technologies represent the best way, the most economic way to produce energy. So even when paired with battery costs, renewables represent, I think, the most efficient way of generating that kind of electricity.

(07:02):

So if you think that economic fundamentals will eventually out, and that is my own view, then I actually think this is a pretty positive time for sustainability. We tend to think that inflection points happen around new technologies, but actually I think that they happen when cost curves come down to a level which enable mass adoption, which then creates a whole swathe of new business models. And I think this is the inflection point that we're at. So an interesting study that I saw published just a few days ago by Bloomberg NEF noted that investment in the energy transition in 2025 total 2.3 trillion US dollars, which is now the second consecutive year that it has outpaced investment in traditional fossil fuels, and that gap is growing now.

(07:55):

And I think the final observation that I would have here is that the narratives that we have tend to be quite DM dominated, particularly US and EU narratives. China is well on its way to becoming the world's first electro state. It has manufacturing dominance in key solar, wind, and battery technologies, and it is well underway in the electrification of its industrial strategy. Last year, China added more than 400 gigawatts of new renewable capacity, and that is a staggering amount. That is more than the wind and solar fleet of many advanced economies combined.

Laura Nishikawa (08:35):

So the energy transition is a clear example of an area where we see strong economic fundamentals coming through. Are there others where you see the economics really playing an important role in sustainability?

Jenn-Hui Tan (08:51):

So at its broadest level, I think there's the question on whether financially material ESG factors are themselves being priced into today's financial markets. And I think a lot of that has to do with the ESG data itself. We're all familiar with those challenges. It's backward looking, it's treated like compliance, it's reported inconsistently. It's generally disconnected from financial fundamentals. But economic fundamentals is not only about business models that lean into future growth segments, it's also about managing your business efficiently and prudently, and dare I say it, sustainably. So it's about having management teams that are aligned to the outcomes of shareholders. It's about employees that are productive and motivated. It's about using natural resources in a way that preserves those resources for future use and consumption. And I think despite the acres of ESG data that we have out there, I think we still struggle as an industry to find ways to measure and report on those factors that are financially meaningful.

(10:01):

And what all of that means, I think, is that companies with meaningful sustainability advantages relative to their peers are being undervalued relative to that true value. And I think that is both a risk, but that is also an opportunity for those that have the time and the patience to go and find what those factors mean and how those factors could deliver that financial performance.

Laura Nishikawa (10:25):

So Jenn, let's talk a little bit about regulation. If regulation is no longer a reliable tailwind as it was in 2020 or 2021, what does that change about the role of markets and investors?

Jenn-Hui Tan (10:37):

So I think what we've seen is a multi-decade long decline in shareholder rights, and I think that's been driven by a number of different factors, even leaving aside the more near term events of 2025, you've had this long-term trend of protectionism in certain markets and in other markets, competition for new listings or to retain existing funds. To my mind, the trend that sits behind that is the long-term de equitization of public markets, which is itself a combination of a lot of different things. But I think one of the key factors here is a low interest rate environment that enabled companies to attract sufficient scale up capital from private equity and essentially taking away that need to go public or doing it at a much later stage of their growth trajectory when PE exits. And so you have an environment where policymakers have an interest in keeping the listings going for various reasons, not least of which is support for a local financial services ecosystem, and that gives companies, particularly high growth companies, a strong position to insist on concessions. So whether it's in the form of enhanced voting rights or founders, or whether it's a removal of preemption rights, or whether it's removal of shareholder votes on class one transactions in the UK or so-and-so forth.

(12:00):

And generally, what swings the pendulum back in this type of environment is a major governance or a corporate failure, and that event creating a breakdown in trust in capital markets and threatens capital flight. So if you look back at history, many of the major advancements we've seen in corporate governance have tended to come after a major event. So the Cadbury Report in the wake of Robert Maxwell, Sarbanes-Oxley after the global financial crisis, audit reform after Carillion and so on. So to my mind, this current environment means that investors need to take more responsibility for managing our own governance risk and not relying on regulation to protect us. And that makes our stewardship work and our corporate engagement with our investee companies more important, not less. So an example of that is a letter that we sent to 120 of our UK holdings at the end of last year, the companies in which we have a significant stake, where we highlighted our expectations for shareholder consultations on major M&A, the role in the accountability of boards, management incentives, and much more. And ultimately what we're getting at here is that governance is not just about rules and compliance, it's also about norms and engagement and culture.

Laura Nishikawa (13:23):

I want to shift gears a little bit back to climate risk. We talked about transition and transition opportunities really being driven by the real economy. We've talked about a shift from, I guess, some of the more alignment goals of 2020, 2021, where there was a clearer global path towards net-zero. A clear consequence of all of that is also a growing focus on the physical risks associated with climate change and not necessarily the policy risks. We see a lot more talk about physical risk from our side, but we still see markets really struggling to fully price that risk in. And I wondered if you had a take on that.

Jenn-Hui Tan (14:04):

Let me start with some positives. Markets, I think, are beginning to price in this kind of risk, not consistently, but in certain sectors and for certain companies. So just to give an example, US utilities now routinely include adaptation in their CapEx plans and their base rates and investor perceptions around their climate risk readiness can impact their valuations. And there's also an increasing amount of geolocation data, which is being overlaid with hazard mapping that helps investment managers to look at this risk from a top down portfolio perspective, much in the same way that we look at climate scenario analysis these days. The other positive, I think, is that more intangibly when we engage with companies on this topic, I think we're finding more and more that companies are aware and taking action. So whether it's around taking risk assessments, identifying what the risks they face are, how they're mitigating it, integrating plans into business continuity, improving the operational resilience and so on and so forth. So I think there is a growing awareness that over the next decade, this is going to be a thing that will impact business operations more and more.

(15:24):

That said, I think from the disclosures we see and the conversations we have, there are still some challenges. So the first is that companies' assets generally are considered in isolation and they don't tend to account for the upstream and downstream supply chains. They also don't tend to account for the broader context around the use of shared infrastructure. So I'll just give you one example of we're looking at recently, a transportation company considered only its logistics centers. It didn't consider the roads that are needed for its trucks to travel to and from those centers to delivery points. The types of hazards that you consider can, I think, very significantly influence what industries you consider to be high risk. So there is understandably a focus more on acute risk at this point in time, one because it dominates the headlines and because you can price it better with insurance and so on. But there's a lot of research, I think, including MSCI's own research that suggests that actually the bulk of physical climate risk is going to come from chronic events. So loss of productivity from extreme heat or changes in rainfall patterns or DCs migration or so-and-so forth. And that can influence the types of businesses that you think to be more vulnerable, whether they're asset heavy industries or whether they're labor-intensive industries.

(16:55):

And then finally, I think there is the almost philosophical challenge of how do you price the unknown. If we are entering into a world where these physical risks have never happened before, not at the scale at which the scientists are telling us, then you're essentially trying to estimate how these could potentially play through. And I think that's a very difficult challenge for a lot of people.

Laura Nishikawa (17:22):

Yeah. I tend to agree with that. I think the fact that we don't have a clear historical precedent makes it harder, I think for investors to grasp the potential urgency of this. And we've seen in response some investors moving to shorter and shorter horizons, at least as a starting point. But really useful thoughts there. Maybe on the flip side, because we've talked a lot about risk, you mentioned adaptation and adaptation being a focus, at least in some of the capital intensive industries that you engage with. Is there a potential investment opportunity in an adaptation and why are we not seeing more adaptation finance really taking off? Any perspectives you have on what's holding markets back?

Jenn-Hui Tan (18:07):

So I think there are some adaptation investment opportunities, most obviously around cooling, water management, building and infrastructure, resilience and these have been getting more and more attention recently. I think the broader challenge in this space is that a lot of adaptation spend is going to be about avoiding loss. So inherently, that spend is going to be less monetizable. That doesn't mean that the ROI on that spend is going to be any less because that loss that you're avoiding could be quite significant. But it does mean that it's harder in general to attract the kind of financing for because there aren't readily associated income streams that you can attach to that type of spending. And I think there's also a perception challenge perhaps that a lot of adaptation spend is public good spend. It's born by governments. There's potentially a bit of moral hazard risk in there, a view that the public sector will pick it up eventually. As though I think there is a bit of a mismatch between what the private sector can and should spend on to make their own businesses and their operations more resilient versus what can be done more broadly at a community level or at a national level to ensure that assets are climate resilient.

Laura Nishikawa (19:37):

So something that's very much on my mind, and you've talked a lot about how sustainability and sustainable investing has evolved in the last couple of years and where it's heading to. Another factor that comes up a lot when I talk to investors is that they're juggling very immediate risks alongside much longer termed ones, geopolitics, policy risk, trade wars, et cetera, come to mind. How do you see sustainability and climate fitting into that balance between short-term pressure and long-term risk? Are they at odds? Are they complimentary? How do you fit this together in the current moment that we're in?

Jenn-Hui Tan (20:17):

Yeah. So look, I'd agree. I think the short-term environment feels currently quite noisy, but I think probably if you look back, short-term environments always feel quite noisy. And I think it's important to bear in mind that this is not a new phenomenon. Investors have always had to balance short-term and long-term considerations. And I think this is where that Benjamin Graham quote, I think is particularly apt. "In the short-term markets are a voting machine, in the long-term, they're a weighing machine." Ultimately, those fundamentals will out.

(20:51):

In terms of the interplay of climate and the shorter term risks, there's two ways that I think about that. I think the first is to say that climate risk is not necessarily long-term anymore, and I think we've discussed how those effects are currently already being felt and how pricing is starting to shift to reflect either risks from higher carbon prices or disruption from physical climate impacts, even as clean electrification becomes cost competitive with fossil fuels.

(21:22):

The second, I think, is that some of the shorter term events that we're starting to see are being driven by expectations around the longer term implications of climate change. So one obvious example is Greenland, which is currently being discussed because climate change is expected to open up Arctic sea routes through that part of the world and increase the opportunities to extract rare earths. And so I think to my mind, these are not separate or different topics that neatly fit into long-term versus short-term buckets or climate and sustainable risks versus geopolitical and economic and fundamental risks. To my mind, these are intertwined and they interact with each other to create both short-term and long-term effects.

Laura Nishikawa (22:16):

All right. Thank you, Jenn. This has been a great conversation. One last question. Is there anything you want to leave the investors listening to this podcast with? Any final takeaways from your side?

Jenn-Hui Tan (22:28):

So sustainability, I think this is part of how you consider investment risk and return, and those considerations are woven into how we think about the decisions that we make. An environment which offers less policy certainty requires greater judgment in which to decide what are the things that truly matter. The narratives that we tell ourselves certainly do matter very much in terms of how they affect markets, but ultimately, over the long-term, fundamentals and economics will prevail and that investors need to act without perfect data, which is what markets do every day.

Adam Bass (23:09):

That's all for this episode. A huge thanks to Laura Nishikawa for stepping into the host seat this week and doing a bit too good of a job, I have to say. And of course to Jenn-Hui Tan from Fidelity International for a very thought-provoking conversation. Next up on the program, we're turning to a different kind of uncertainty. We'll be digging into scenario analysis and stress testing, why investors are using it more than ever, how these scenarios are actually built, and what they can really tell us when markets don't behave the way that models expect. Until then, I'm your host, Adam Bass, and this is MSCI Perspectives. Thanks for listening.

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