

ESG AND SUSTAINABILITY: THE INTERNATIONAL POLICIES AND REPORTING FRAMEWORKS THAT INVESTORS CANNOT IGNORE

Presenters:

Mary Leung, CFA, Head, Advocacy, Asia-Pacific, CFA Institute

Chitra Hepburn, Managing Director and Head of ESG, APAC, MSCI



PRESENTATION

Chitra Hepburn

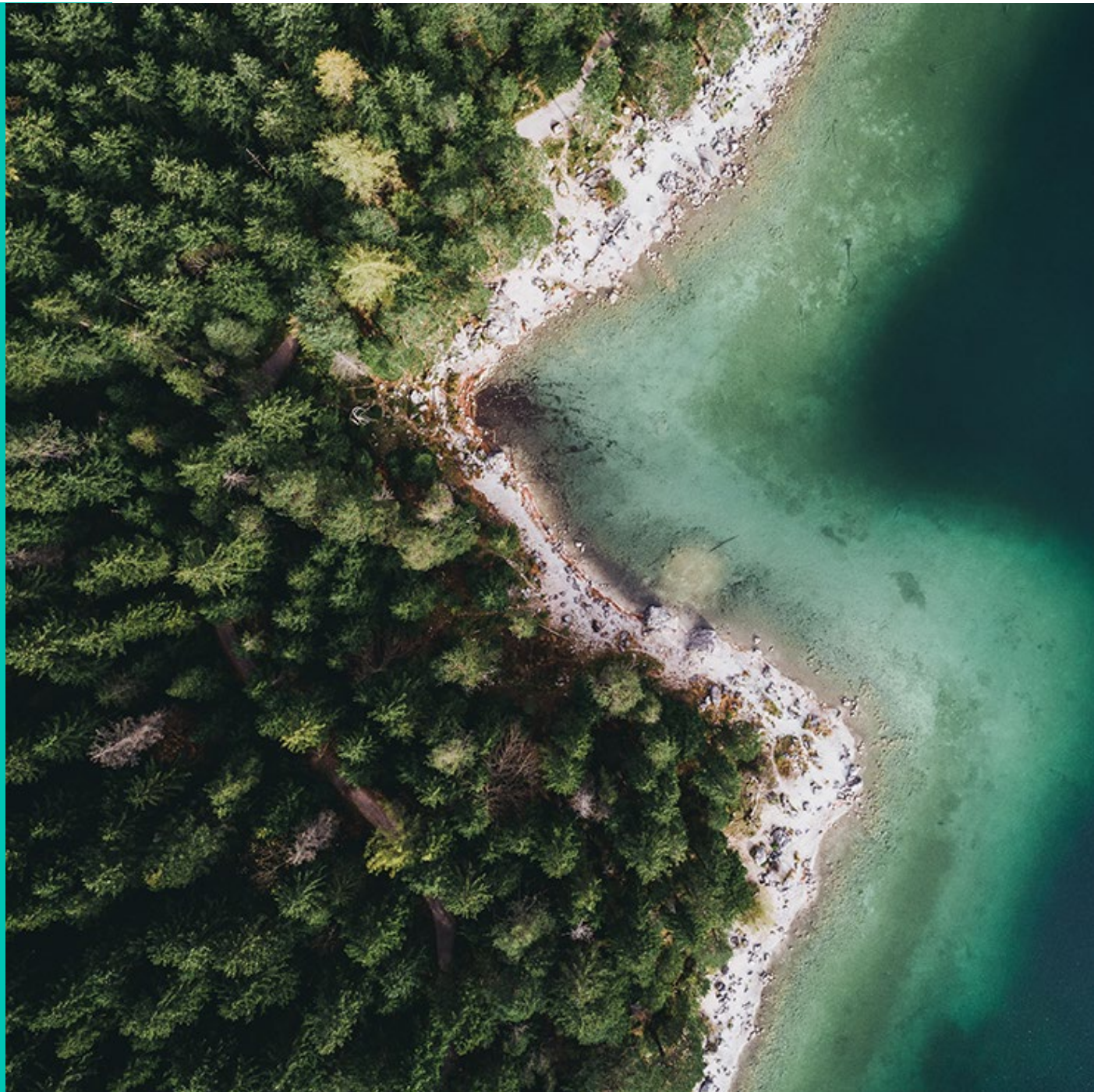
Managing Director and Head of ESG,
APAC,
MSCI



TCFD-based Reporting

Chitra Hepburn

Head of ESG, APAC, MSCI



MSCI call to action: The role of capital in the Net-Zero Revolution

- At MSCI, we believe that addressing the impacts of climate change will require the largest reconstruction of the global economy since the Industrial Revolution.¹
- MSCI ACWI IMI² will be scarcely greener in 2050 than in 2020, with an estimated 80% of companies exceeding the emissions budget needed to be well below 2.0°C
- **Capital markets are an essential and critical force to drive the transition to net-zero with concerted action from all participants,**
 - ranging from a reallocation of capital by asset owners,
 - to effective channeling of funds by asset managers and banks to greener investments and innovation,
 - alongside the commitment of companies

The MSCI ACWI IMI net-zero tracker

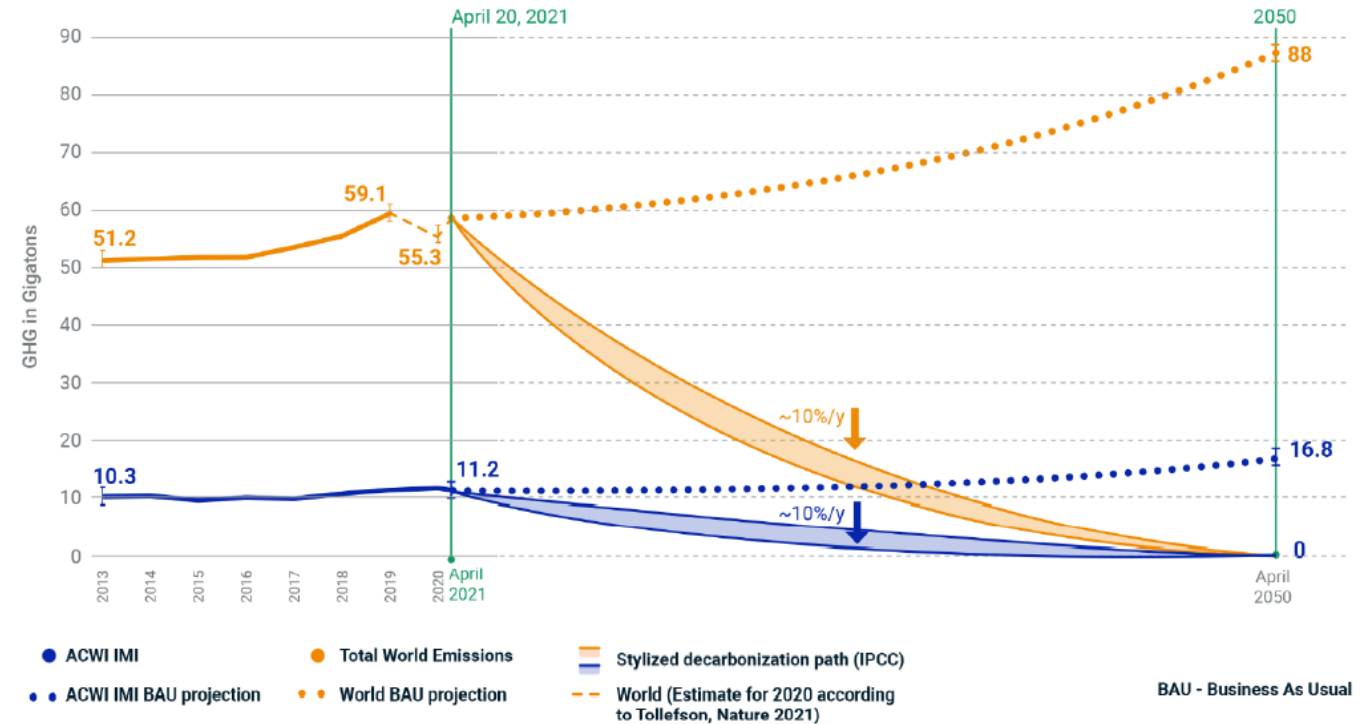


Chart shows the historical and potential future trajectories of the world's total greenhouse gas emissions.

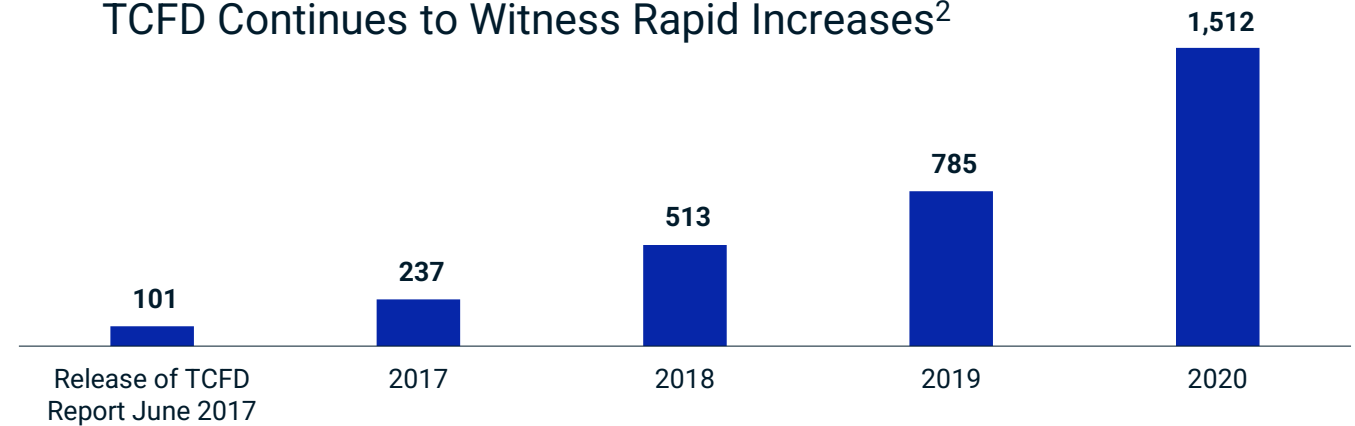
TCFD is becoming the standard for climate risk reporting

The TCFD recommendations are the standard framework on climate reporting by the G20 countries

The Task Force on Climate-related Financial Disclosure (TCFD) is a **voluntary** disclosure platform designed to:

- provide a framework for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes” and
- support more informed investment, credit, and insurance underwriting decisions”

TCFD Continues to Witness Rapid Increases²



GOVERNANCE

- Boards oversight
- Management's role

STRATEGY

- Identify climate risk
- Quantify climate risk
- Strategy for resilience

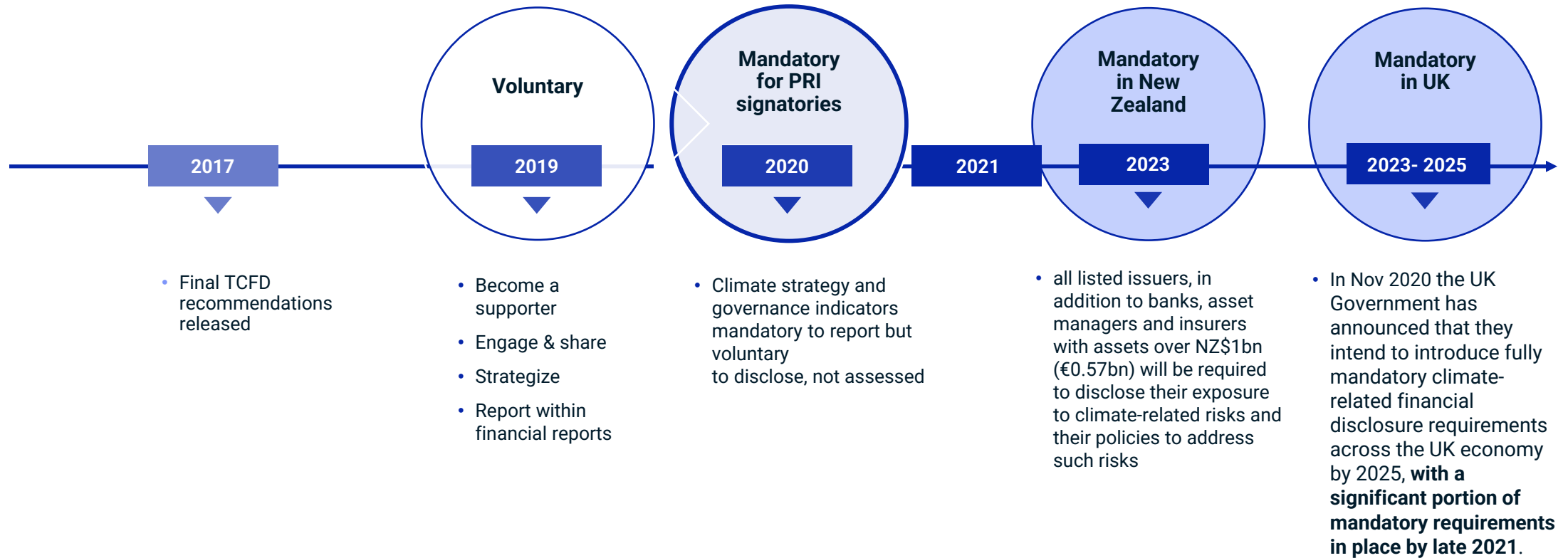
RISK MANAGEMENT

- Process for climate risk identification and monitoring
- Procedures for climate risk mitigation
- Integration within overall management

METRICS & TARGETS

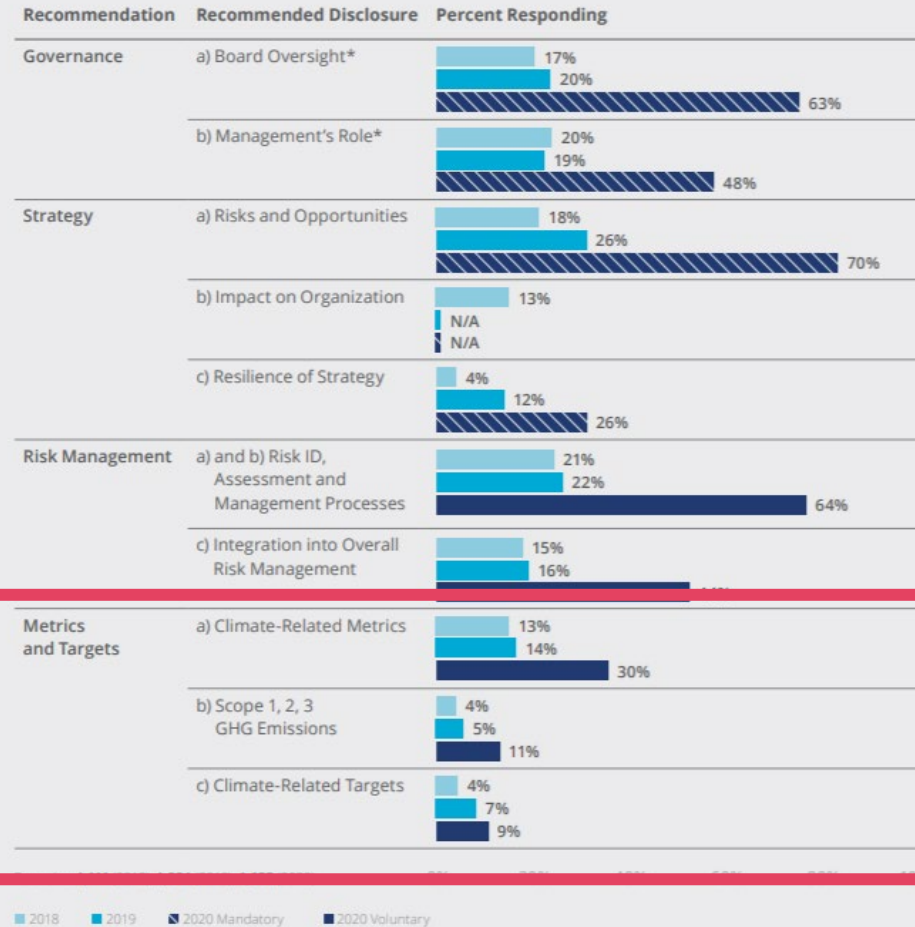
- Risks and opportunities indicators
- Carbon emissions
- Performance monitoring
- Targets

TCFD-aligned reporting for investors

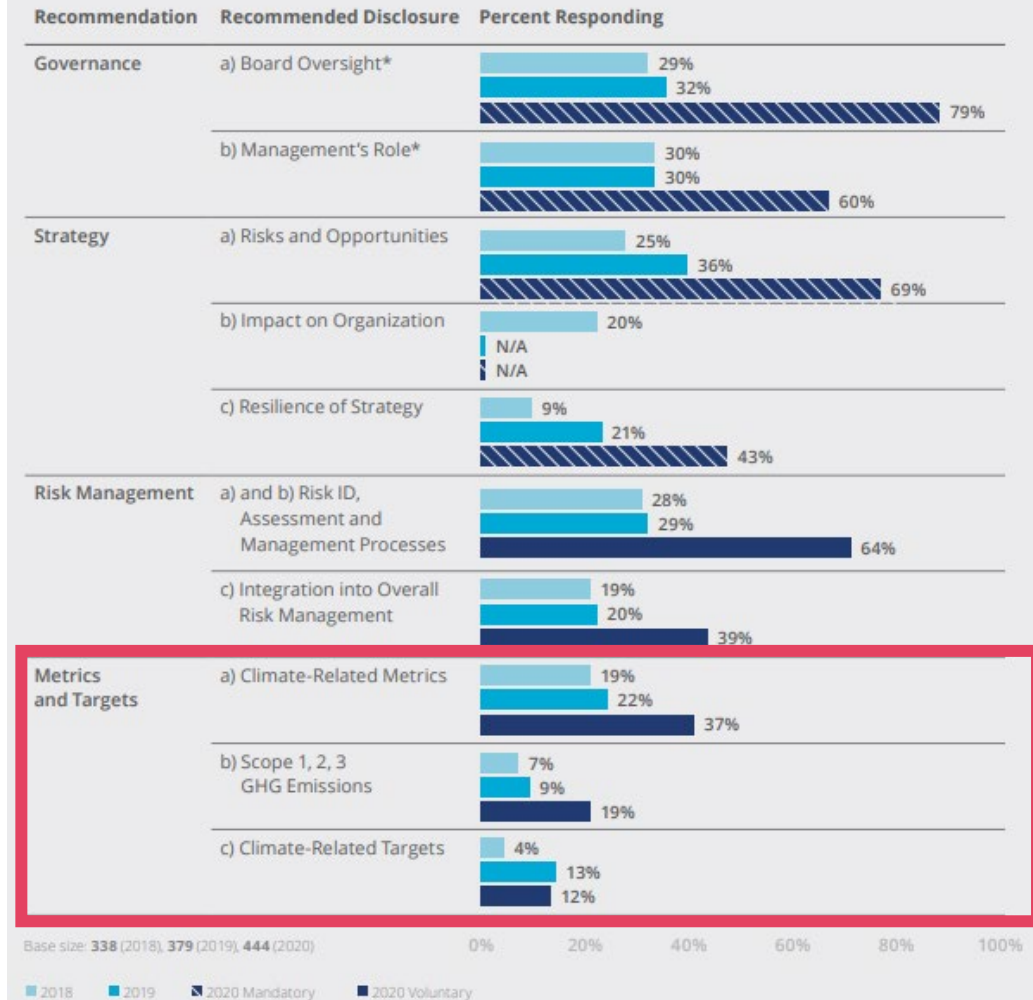


Current state of TCFD-aligned reporting by AMs and AOs

Asset Managers' TCFD-Aligned Reporting to PRI



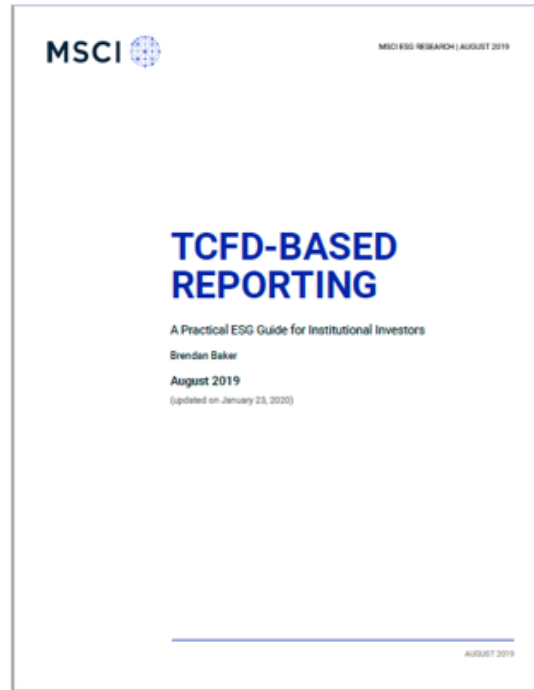
Asset Owners' TCFD-Aligned Reporting to PRI



TCFD recommendations

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Developing a climate change strategy – Common approaches



**TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURE (TCFD)**



Force on Climate-related Financial Disclosure (TCFD)

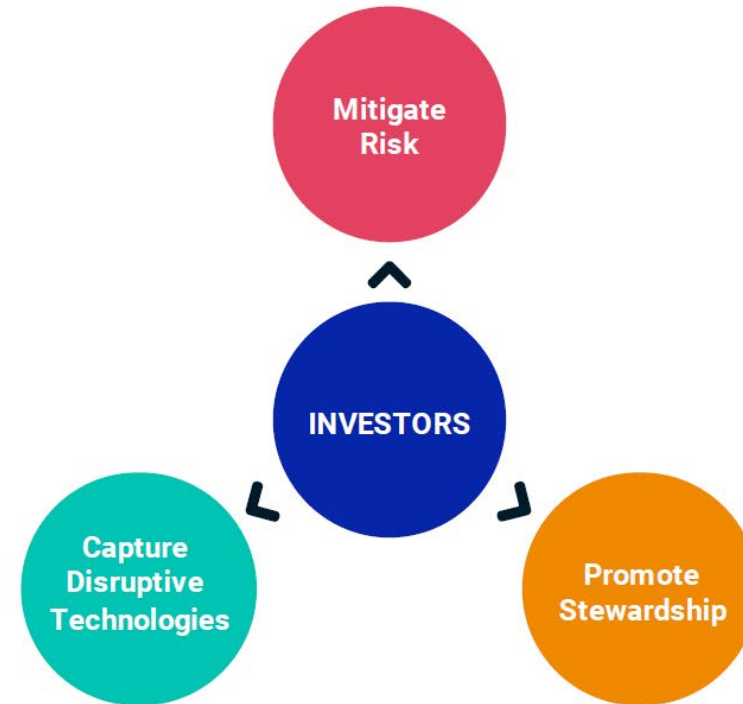
What is my climate change objective?



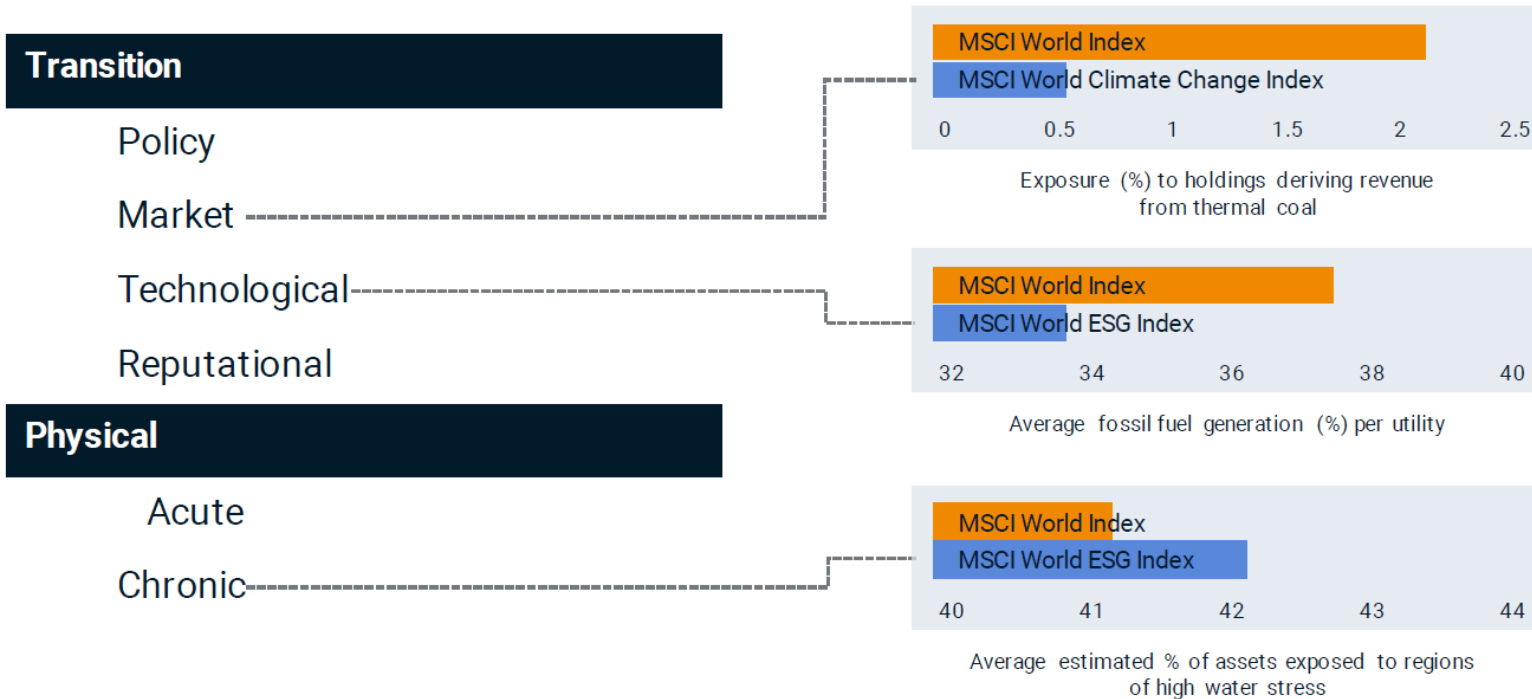
Building a more resilient world?



Building a more resilient portfolio?



What risks and opportunities do my portfolios face?



How exposed are my portfolios to these risks and opportunities



What % of my portfolio faces high risks from **carbon regulation**?

What % of my portfolio faces high risks from **physical** risks?

What % of my portfolio has the potential to benefit from **growing demand** for low carbon products?

What % of my portfolio is well positioned to **adapt** to a low carbon economy?

Climate Risk Dashboard

PORTFOLIO:
Sample Portfolio

BENCHMARK:
Sample Benchmark

MSCI Climate Value at Risk

Page 1

	Portfolio	Benchmark	Active
Aggregate 2°C Climate VaR	+0.46%	-0.04%	0.51%
Policy 2°C Climate VaR	-1.58%	-2.78%	1.20%
Technology Opportunities 2°C Climate VaR	+2.67%	+3.51%	-0.84%
Physical Risk Climate VaR	-6.63%	-0.77%	0.14%

Fossil Fuel & Green Revenue Exposure

Page 14

	Portfolio	Benchmark	Active
Net fossil fuel minus green revenue exposure	4.09%	0.92%	3.17%
Green revenue Exposure	33.68%	26.19%	7.49%
Fossil fuel revenue exposure	2.5%	5.65%	-3.15%
Thermal Coal Extraction	0.60%	2.18%	0.60%
Unconventional O&G	0.90%	5.27%	0.90%
Conventional O&G	1.40%	6.70%	1.40%
Generation of Thermal Coal	2.03%	3.36%	2.03%

Carbon Footprint

Page 19

	Portfolio	Benchmark	Active
Carbon Emissions (tCO2e / \$M Invested)	62.20	123.00	-49.40%
Carbon Intensity (tCO2e / \$M Sales)	107.70	193.50	-44.30%
Weighted Average Carbon Intensity (S1+2) (tCO2e / \$M Sales)	93.80	178.60	-48.40%
Weighted Average (S3) downstream intensity	##.##	##.##	##.##%

Low Carbon Transition Risk

Page 5

	Portfolio	Benchmark	Active
Exposure to companies classified as:			
Low Carbon Solutions	8.90%	3.40%	5.50%
Low Carbon Transition Risk	7.40%	10.20%	-2.80%

Energy sector & power generation exposure

Page 18

	Portfolio	Benchmark	Active
Potential emissions from fossil fuel reserves (tCO2e / \$m invested)	450,000	1,800,000	-66.11%
Thermal coal exposure (Any Tie)	2.81%	4.92%	-2.11%
Oil & Gas exposure (Any Tie)	2.81%	4.92%	-2.11%
Exposure to Power Generation			
Thermal Coal (apportioned fuel mix, % of generation)	23.20%	27.00%	-3.80%
Renewables (apportioned fuel mix, % of generation)	10.20%	7.00%	3.20%

Adaptive Capacity to Climate Change

Page 23

	Portfolio	Benchmark	Active
Companies with GHG emissions reduction targets	25.10%	5.00%	20.00%
Executive oversight of environmental strategy and performance	33.00%	9.00%	24.00%
Companies with top quartile carbon management score	32.00%	5.00%	27.00%

MSCI

SAMPLE ONLY (DUMMY DATA)

CLIMATE CHANGE REPORT | 4

What is my Carbon Footprint?

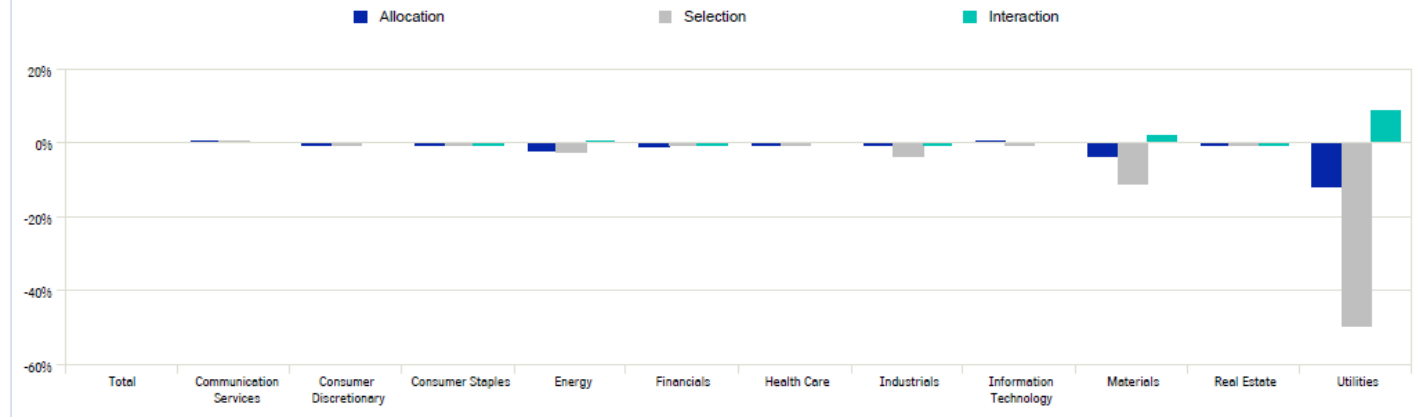


Carbon Footprint

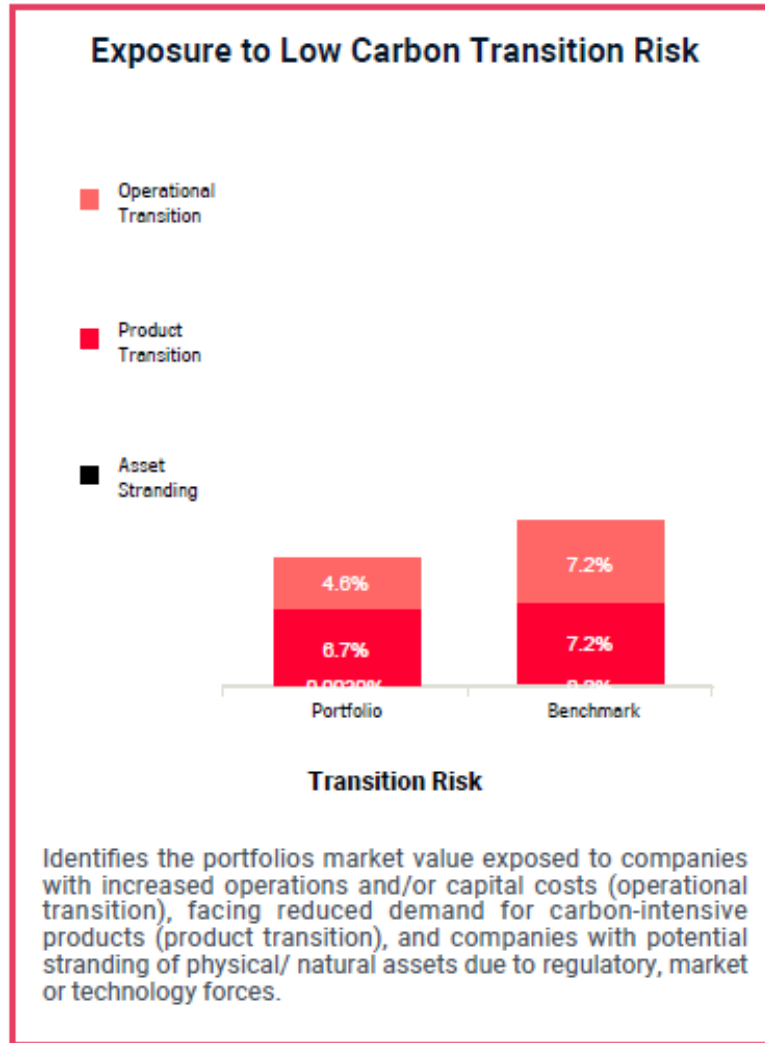
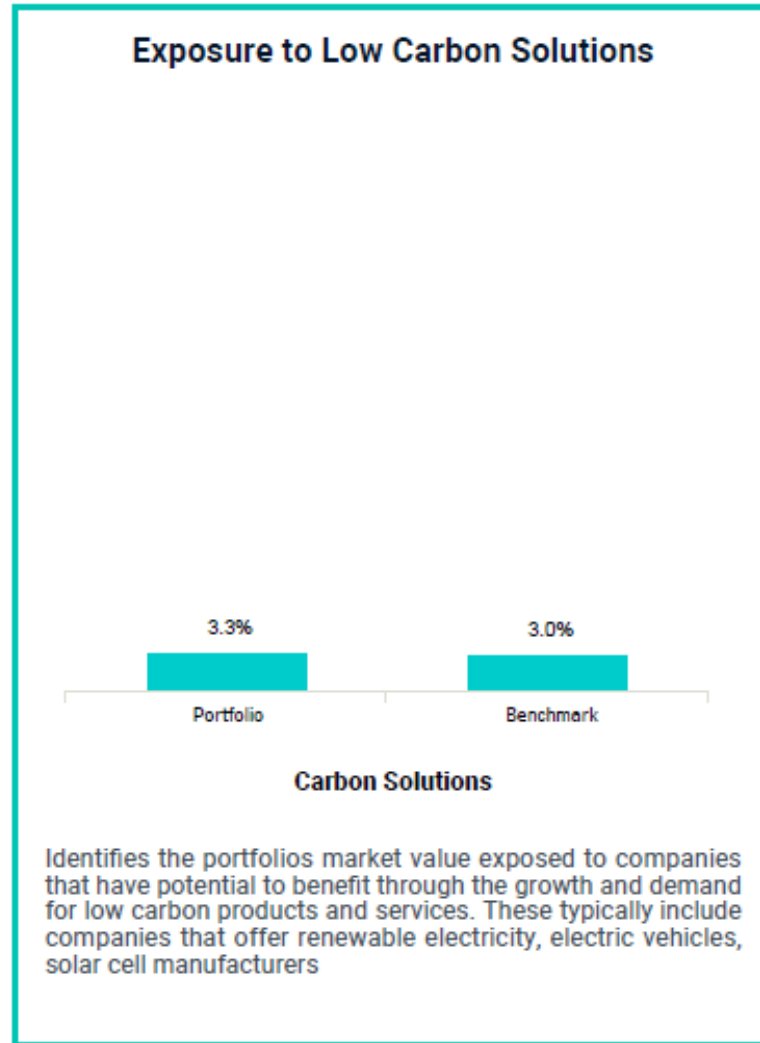
Page 4

	Portfolio	Benchmark	Active
Carbon Emissions (S1+S2 t CO2e / \$M Invested)	30.4	106.1	-71.4%
Carbon Intensity (S1+S2 t CO2e / \$M Sales)	55.4	180.0	-69.2%
Weighted Average Carbon Intensity (S1+S2 t CO2e / \$M Sales)	72.7	150.3	-51.6%
Weighted Average S3 Downstream Intensity	1.8	1.8	2.7%
Carbon Footprint Coverage	99.5%	99.5%	0.0%

Weighted Average Carbon Intensity (S1+S2 tCO2 / \$M sales) - Attribution Analysis



What is my portfolio's overall transition risk exposure?



What is the vulnerability or resilience of my investment strategy?



What is the potential **financial** sensitivity to these risks and opportunities?

What would be the potential **financial** impact of different climate scenarios?

Climate Scenario Analysis: Climate Value at Risk

CLIMATE SCENARIO ANALYSIS

PORTFOLIO: SAMPLE PORTFOLIO
BENCHMARK: SAMPLE BENCHMARK

ANALYSIS DATE: December 07, 2020

Climate Value at Risk

Selected Scenario ▼

Selection of transition scenarios

	2°C AIM CGE			1.5°C MID-RANGE AIM CGE			2°C LOW RISK IMAGE SSP1			2°C HIGH RISK AIM CGE Late Action Scenario			3°C MID-RANGE AIM CGE		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Policy Climate VaR (Scope 1)	-3.0%	-5.3%	-2.3%	-4.6%	-7.8%	-3.2%	-0.6%	-1.2%	-0.7%	-5.1%	-8.6%	-3.5%	-0.6%	-1.2%	-0.7%
Technology Opportunities Climate VaR	1.8%	1.6%	-0.1%	3.3%	3.1%	-0.1%	0.3%	0.3%	-0.0%	3.1%	3.1%	-0.1%	0.3%	0.2%	-0.0%
Physical Climate VaR -Aggressive	-4.6%	-4.6%	-0.0%	-4.6%	-4.6%	-0.0%	-4.6%	-4.6%	-0.0%	-4.6%	-4.6%	-0.0%	-4.6%	-4.6%	-0.0%
Aggregated Climate VaR	-5.8%	-8.2%	-2.4%	-5.9%	-9.2%	-3.3%	-4.9%	-5.5%	-0.7%	-6.5%	-10.1%	-3.6%	-4.9%	-5.6%	-0.7%

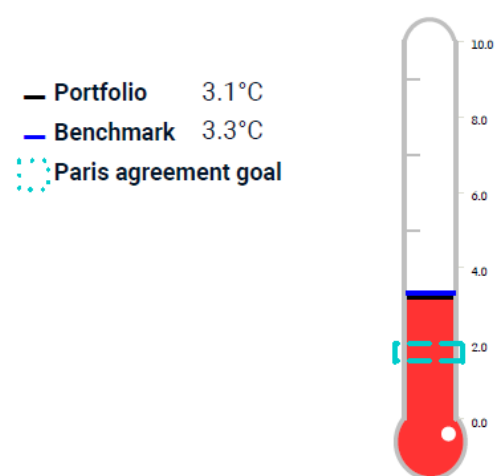
Physical Climate Value at Risk Detail

Selected Scenario ▼

Selection of transition scenarios

	Aggressive			Average		
	Portfolio	Benchmark	Active	Portfolio	Benchmark	Active
Coastal Flooding	-3.1%	-3.2%	-0.0%	-1.8%	-1.9%	-0.1%
Extreme Cold	0.2%	0.2%	-0.0%	0.2%	0.2%	-0.0%
Extreme Heat	-1.5%	-1.4%	0.0%	-1.4%	-1.4%	0.0%
Extreme Precipitation	0.1%	0.1%	-0.0%	0.1%	0.1%	-0.0%
Extreme Wind	-0.0%	-0.0%	0.0%	-0.0%	-0.0%	0.0%
Heavy Snowfall	-0.0%	-0.0%	0.0%	0.0%	0.0%	-0.0%
Tropical Cyclone	-0.4%	-0.4%	0.0%	-0.1%	-0.1%	0.0%
Aggregate Physical Climate VaR	-4.6%	-4.6%	-0.0%	-3.0%	-3.1%	-0.1%

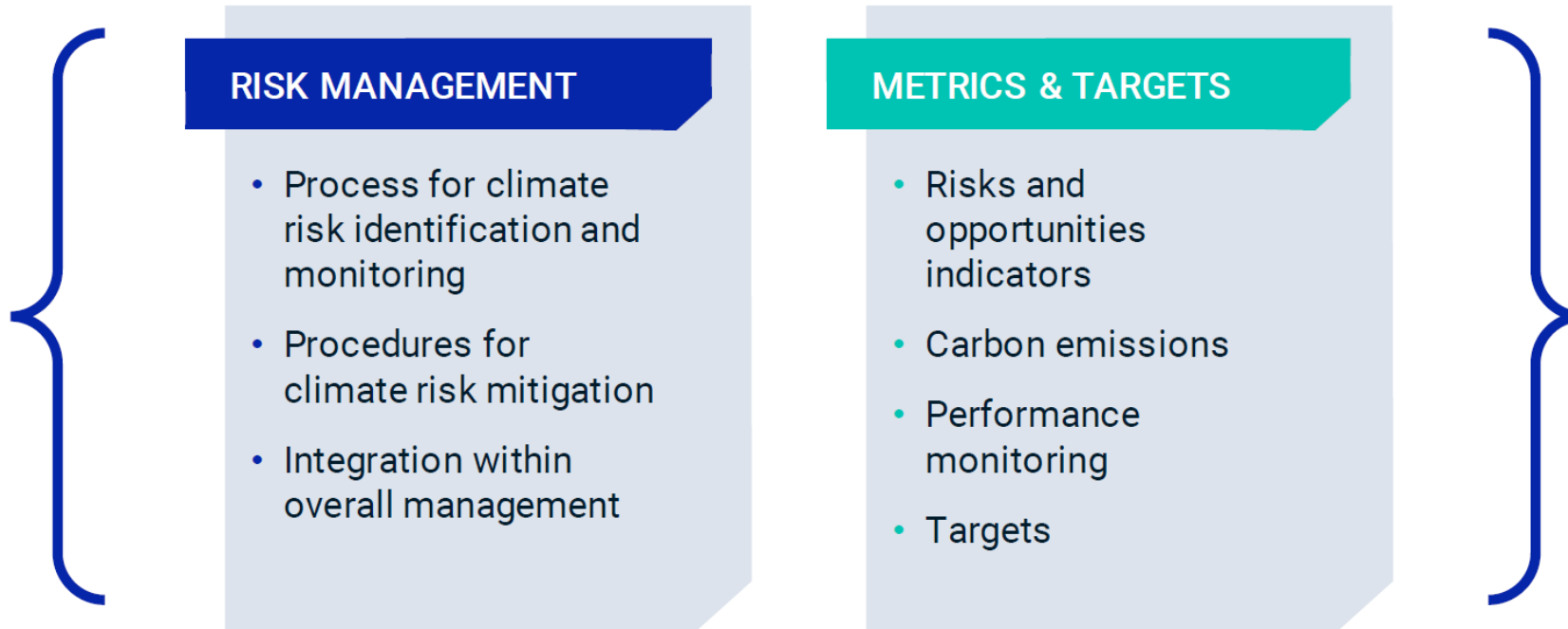
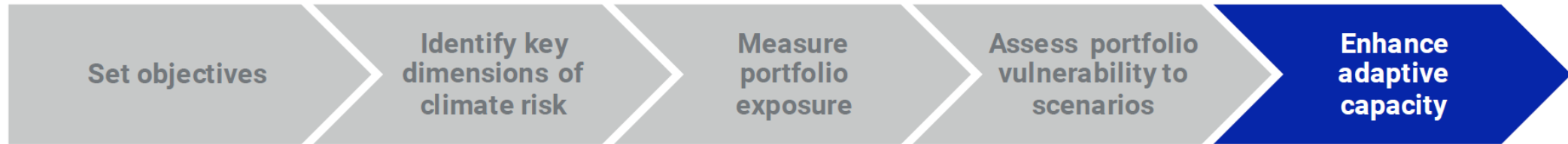
Aggregated Warming Potential



Climate VaR Portfolio Coverage Summary

	Portfolio	Benchmark	Active
Policy Climate VaR	99.5%	99.5%	-0.0%
Technology Opportunities Climate VAR	99.5%	99.5%	-0.0%
Physical Climate VAR	96.2%	96.8%	-0.6%
Warming Potential	99.5%	99.5%	-0.0%

From strategy to adaptive capacity



► About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 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.

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PRESENTATION

Mary Leung, CFA

Head,
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CFA Institute



Global ESG regulations

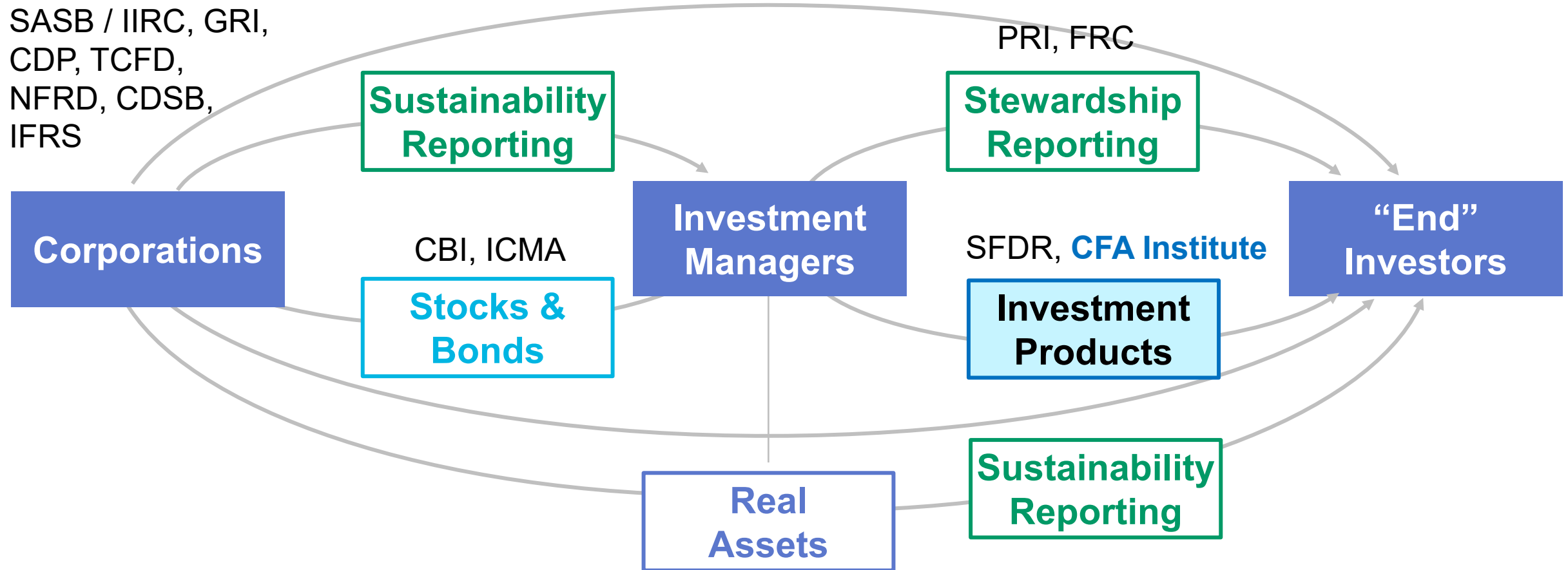
June 2021

Mary Leung, CFA

Head, Advocacy, Asia Pacific

CFA Institute

••• A wide range of initiatives across the eco-system

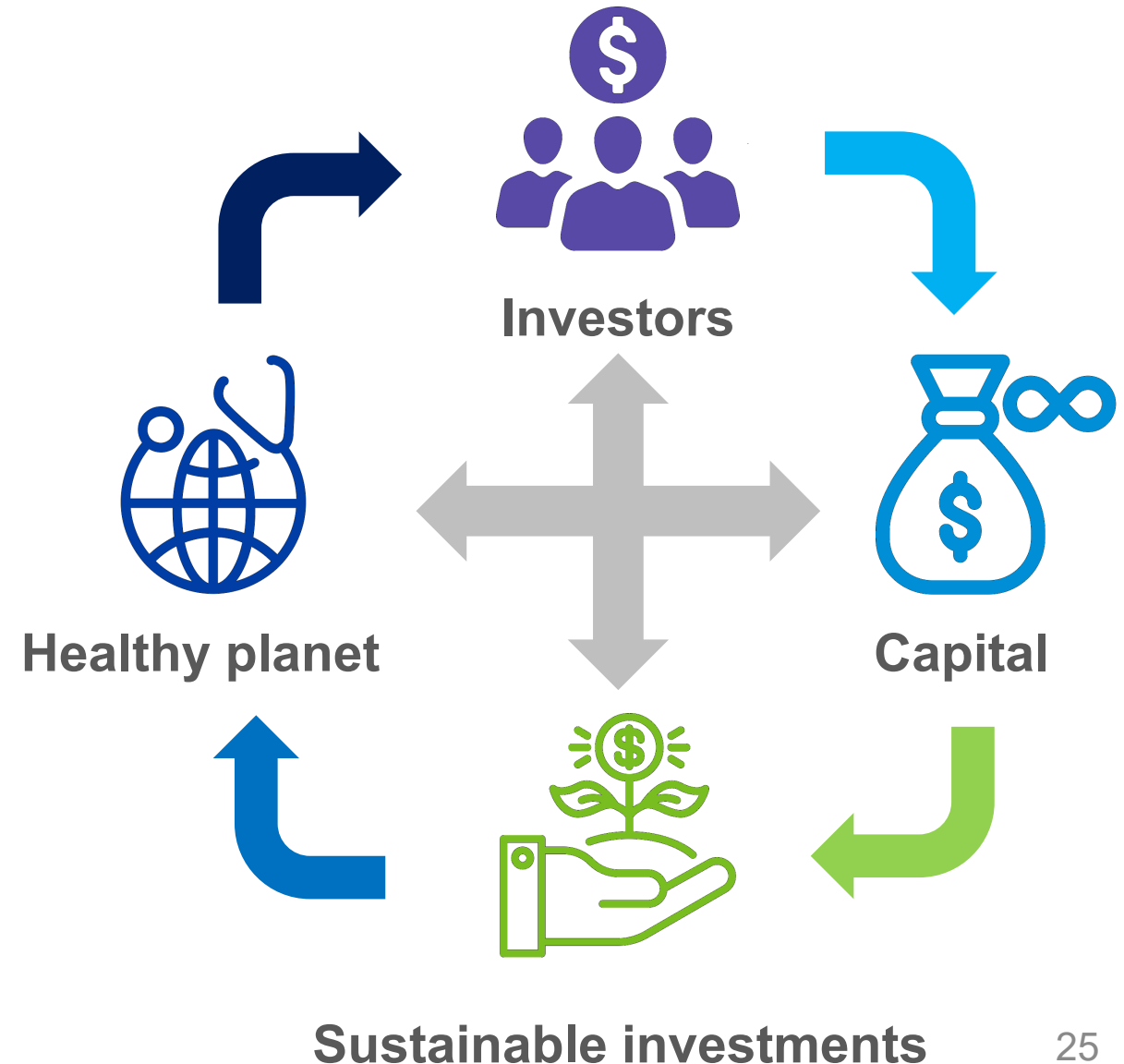


EU ESG regulations

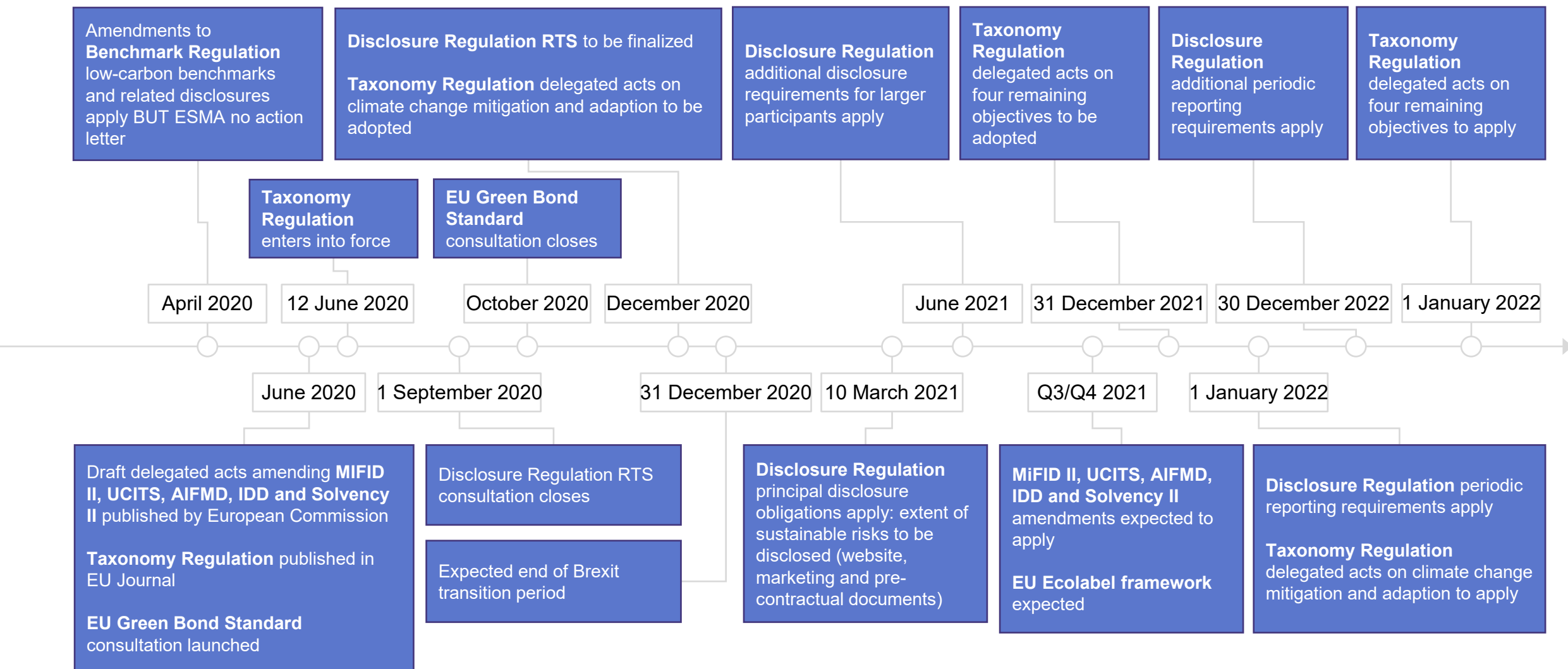
EU's Sustainable Finance Action Plan

Three broad objectives

- Reorient capital flow towards sustainable investment
- Mainstream sustainability into risk management
- Foster transparency and long-termism in financial and economic activities

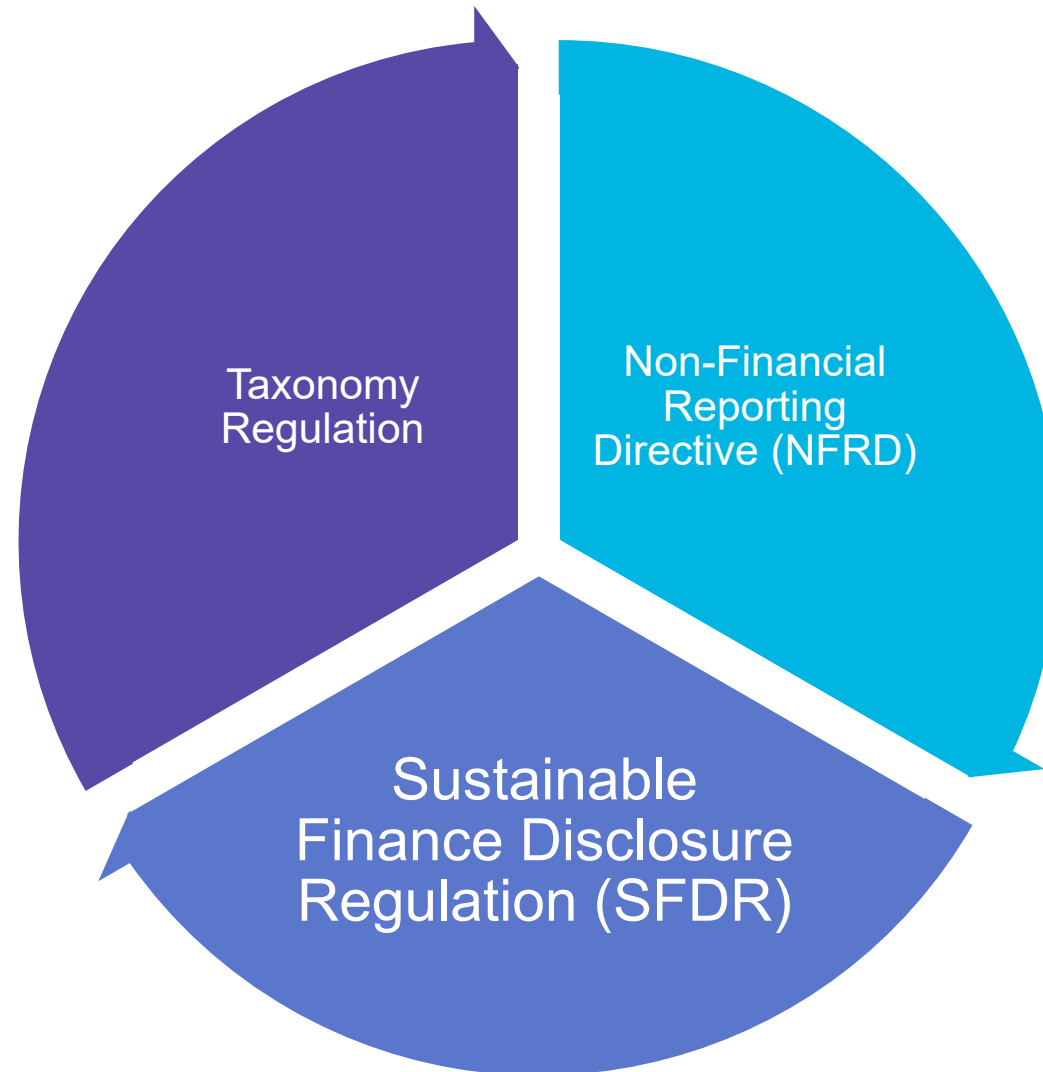


EU ESG regulations: key dates



EU ESG regulation

A simplified view





Environment is a key focus

EU environmental objectives

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

Definition of a sustainable investment

An investment is an environmentally sustainable one if it:

- Contributes substantially to one of the six objectives
- Does not significantly harm any of the six objectives
- Is in compliance with international standards and follows good governance practices
- Is in compliance with the technical screening criteria



Issuer disclosures

Non-Financial Reporting Directive (NFRD)

Requirements

- Environmental protection
- Social responsibility
- Respect for human rights
- Anti-corruption
- Board diversity

New!

Corporate Sustainability Reporting Directive (CSRD)

Additional requirements

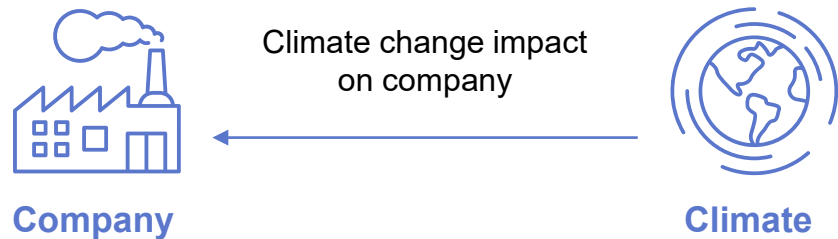
- Double materiality
- Sustainability targets and performance against such targets
- Third party assurance of sustainability information
- Reporting to be aligned with SFDR and taxonomy
- Applicable to all large EU companies and all EU listed companies



Double materiality

Financial Materiality

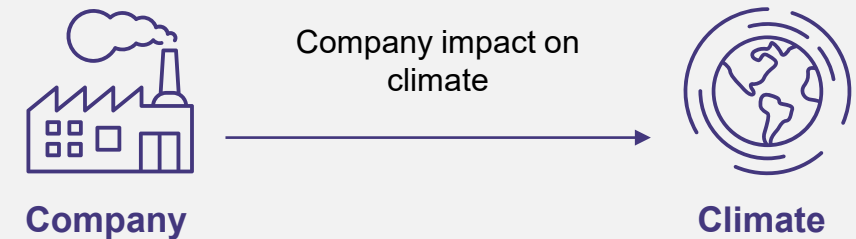
To the extent necessary for an understanding of the company's development, performance and position...



Primary Audience:
Investors

Environmental and Social Materiality

... and impact of its activities



Primary Audience:
Consumers, Civil Society, Employees, Investors

Company impact on climate can be financially material

Recommendations of the TCFD

Non-financial reporting directive

*Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements



SFDR: legal entity disclosures

Sustainability risk policies

- Publish information on websites and pre-contractual disclosures

Principal adverse impacts (PAIs)

- Consider PAIs of its investment decisions on sustainability factors
- Statement on due diligence policies for firms that choose to comply
- Statement on why they do not consider sustainability adverse impacts for firms that choose to “explain”

Remuneration policy

- Publish information on how remuneration policies are consistent with the integration of sustainability risks



SFDR: product disclosure requirements

Article 9: dark green

- All holdings in this category of products must be **sustainable investments**

Article 8: light green

- Products promoting **environmental or social characteristics**
- Funds have the discretion to invest a portion of their portfolio in sustainable investments

Article 6: other products

- All other products, including those that do not integrate sustainability

2



Rest of the world

Regulation in the US – it will come – eventually



Asia Pacific: a diverse landscape





CFA Institute ESG Disclosure Standards for Investment Products

What are they?

Global, voluntary disclosure standards for investment products with ESG-related features

What do they apply to?

Disclosure of an investment product's strategy, regardless of

- Product type / vehicle
- ESG / SRI strategy
- Asset class
- Geography

What is the purpose?

Our objective is to **raise transparency** and consistency in ESG-related disclosures, resulting in clearer communications regarding the ESG-related features of investment products

Exposure Draft

Released on 19 May 2021 with the goal of eliciting feedback on the proposed principles, requirements, and recommendations





Q&A

ESG AND SUSTAINABILITY: THE INTERNATIONAL POLICIES AND REPORTING FRAMEWORKS THAT INVESTORS CANNOT IGNORE

Panel Discussion



Mary Leung, CFA
Head,
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Chitra Hepburn,
Managing Director
and Head of ESG,
APAC,
MSCI



ESG INVESTING AT A GLANCE

From the global leader in investment management, CFA Institute now offers a valuable new certificate: the **Certificate in ESG Investing**.

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THANK YOU

