

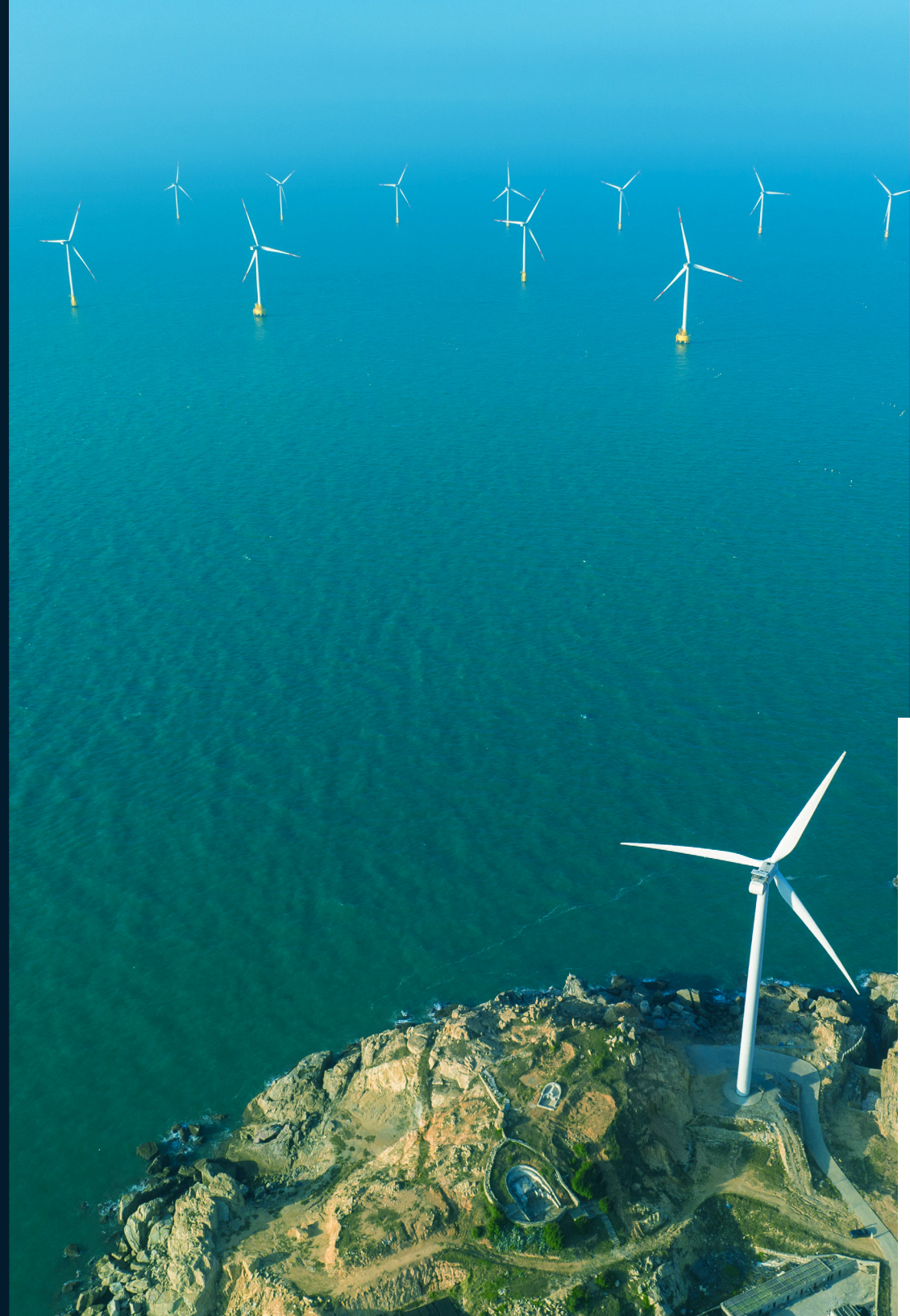


How **MSCI Climate Tools** Can Help **Drive Corporate** **Sustainability Goals**



Overview

- » At MSCI, we leveraged a suite of our climate change data and analytics to map our own pathway to net-zero carbon emissions by 2040, demonstrating the role that comprehensive metrics and advanced forecasting tools can play in helping companies assess risk and achieve sustainability goals.
- » The MSCI ESG Research data, designed to help clients meet industry reporting standards, was incorporated into our Task Force on Climate-related Financial Disclosures (TCFD) reports, providing visibility into our support for environmental sustainability while serving as another platform for us to help drive momentum behind the global transition to a low-carbon economy.
- » **Our Climate Targets and Commitments Dataset**, along with our **Climate Value at Risk** (Climate VaR) and **Implied Temperature Rise** metrics, can serve as a critical starting point for chief sustainability officers (CSOs) and others seeking to launch or accelerate their company's transition — enabling them to strategize and gauge their standing against peers as they work to maximize valuations, minimize risk, detect opportunities, and optimize performance.



Challenge

MSCI is a leading provider of environmental, social and governance (ESG) and climate solutions with more than 50 years of experience in delivering research, data and technology. As a firm subject to the same investor demands as the more than 18,000 public companies and subsidiaries whose carbon emissions data we track, we continually seek ways to maximize progress toward our sustainability goals.

We have made it our mission to build market infrastructure to help owners and managers of assets, banks and companies meet sustainability goals. Our clients, including CSOs, rely on our data to quantify climate-related uncertainty, build sustainability-linked products, and align investments with a low-carbon future.

We have called on capital markets participants to help drive the low-carbon transition and speed the world's move toward a new era of sustainable growth. But we aim to hold ourselves to the same standard we set for others — by setting ambitious climate goals for our own firm.

With this objective, we asked: **How can we set an aggressive net-zero target for MSCI and map out the strategy to achieve it?**

The cost of a low-carbon world

The expected transition to a lower-carbon economy is estimated to require a staggering level of investment. Specifically, the International Energy Agency reports that the **annual clean energy investment will need to more than triple globally by 2030 to roughly \$4 trillion to achieve net-zero emissions by 2050.**

Action

Here's what we used to support our net-zero decision-making:

Our solutions are built to help companies adopt sustainable practices — aligning with global temperature goals, while detecting climate-related risks and opportunities that could affect valuations.

At MSCI, we relied on our climate data and forward-looking tools to set a baseline and chart the steps to achieve our goals. Using our **Climate Targets and Commitments Dataset**, which enables companies to evaluate other companies' pledges to decarbonize, we were able to compare our targets to those of our peers.

Understanding the carbon footprint embedded in company supply chains can be a murky endeavor. But with our dataset, we were able to gain a clearer picture of which of our suppliers are sustainable.

We further quantified our status with data from our **Implied Temperature Rise** metric, which is designed to indicate how well public companies align with global temperature goals. It estimates the global rise in average temperature this century if the global economy were to undershoot or overshoot its remaining carbon budget to the same extent as the company.

We also applied our **Climate VaR** model, designed to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities. We used the metric to help gauge our exposure to future climate-related transition and physical risks — analyzing how scenarios involving extreme weather or regulatory change, for example, might impact our finances or operations.

Both **Implied Temperature Rise** and **Climate VaR** provide insight based on specific [scenarios such as those established by the Paris Agreement](#), which aims to limit the rise in average temperatures to well below 2°C, preferably to no more than 1.5°C, above preindustrial levels.

MSCI ESG Research's Implied Temperature Rise was named "**Most Innovative ESG Product**" at the ESG Investment Awards 2023.

Impact

With our analysis, we committed to reaching net-zero emissions by 2040, and our near-term, long-term and net-zero targets have been validated by the Science Based Targets initiative (SBTi), a global body enabling businesses to set ambitious emissions reductions targets in line with the latest climate science.

Setting a net-zero target date is a complex process. It is imperative to understand the range of risks companies can face — from biodiversity loss and tropical cyclones to reputational fallout and shareholder litigation — and to understand the drivers behind each of them, as well as all the variables that can alter their course.

To achieve our target, we concluded we needed to drive down emissions in our supply chain. With an analysis from our **Climate Targets and Commitments Dataset**, we consequently intensified efforts to reduce emissions within our supply chain — the source of 78% of our greenhouse gas emissions in 2021.

MSCI milestones to achieve in 2025

Demonstrating progress toward our 2030 near-term targets*

- Source 100% renewable electricity
- Reduce absolute Scope 1 and 2 CO₂e emissions by 60%
- Increase to 60% by spend our suppliers with science-based targets

*In each case, from a 2019 base year

“We know from our own net-zero journey how daunting this transition can be — navigating a complex labyrinth of risk variables under mounting pressure from investors, regulators, vendors, suppliers and employees to increase transparency. We recognize the **critical need for your company to detect new risks and opportunities**, and to set targets aligned with your own path to sustainability. Our suite of proprietary forecasting tools is designed to ease this transformation as much as possible by equipping you with climate-related data, delivered in the language your stakeholders understand.”

Tia Counts

MSCI Chief Responsibility
and Diversity Officer

We did that by developing a sustainable supplier management program to fully integrate climate considerations into our supplier selection and prioritize our spend with suppliers aligned with our climate goals. Ultimately, the dataset provided additional insights which enable us to sharpen our dialogue with suppliers on this critical topic.

While our data indicates our climate-transition risks related to increased costs of raw materials are low, we still regularly look for ways to reduce the potential impact of supply-chain disruptions, identifying multiple sources of critical services wherever possible.

Additionally, according to our **Implied Temperature Rise** analysis, our net-zero target and future emissions pathway are aimed to align with a

temperature rise of 1.3°C above preindustrial levels — below the 1.5° cap preferred by the Paris Agreement.

The **Climate VaR** analysis indicated our projected emissions levels were far below our internal threshold for carbon emissions, unsurprising for a company in the financial services sector, typically associated with a lower carbon footprint.

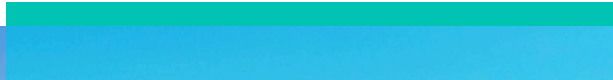
But the model provided further insights on the [adverse effects that climate change may have on our business operations](#). Tropical cyclones, for example, have an aggregated potential impact of roughly USD 183 million between 2021 and 2100, based on an assessment of transition and physical risks as well as opportunities.

As part of our near-term target, we committed to reducing our absolute Scope 1 and 2 CO₂e¹ emissions by 80% and our absolute Scope 3 CO₂e emissions by 50%, in each case by 2030 and from a 2019 base year.

The data validated our decision to open a new office in the highly-elevated Pune, India, rather than expand our current office in Mumbai, which is more prone to flooding risk.

Our business continuity planning team uses the analysis to continually assess the severity, probability and scale of extreme weather events in locations where we operate.

¹ CO₂e is a unit used to express the global warming potential of different greenhouse gases as a single figure, namely the equivalent amount or concentration of carbon dioxide

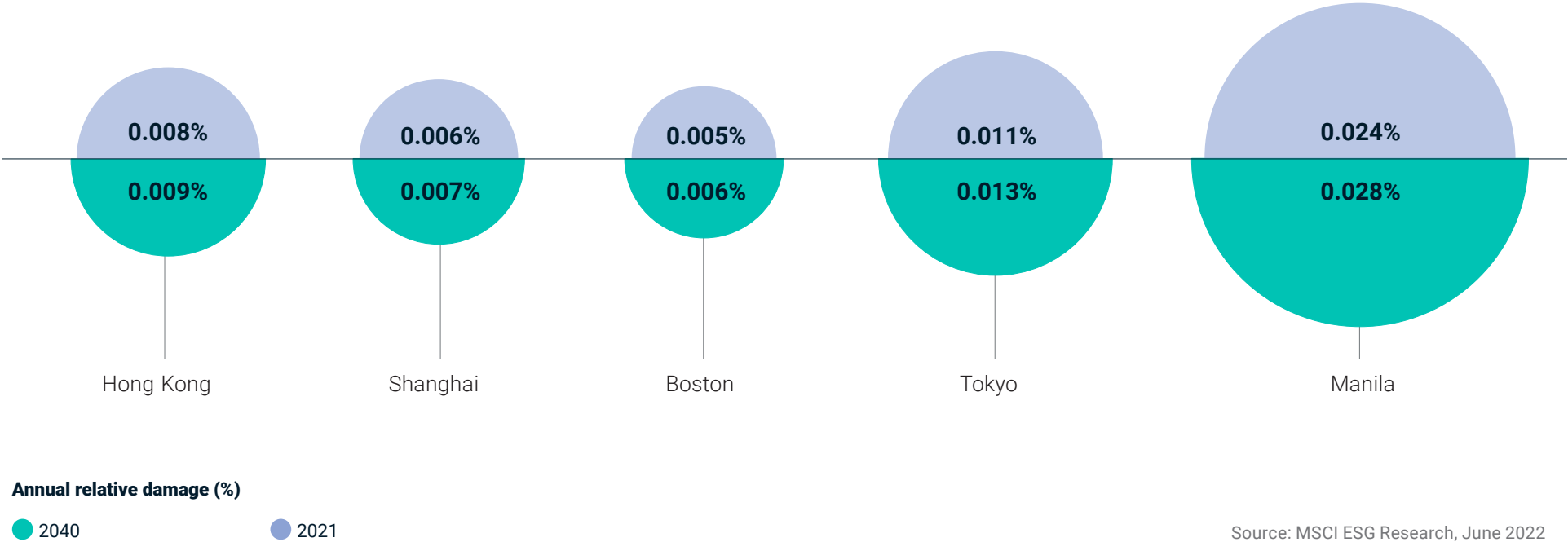


While the model served to validate assumptions for MSCI, it could reveal more critical exposures for companies in carbon-intensive sectors such as energy that may be unaware of the true impacts of policy change, related to degrees of carbon pricing, for example, on their valuation.

The metrics enabled us to easily quantify the extent of our exposure in widely adopted disclosure frameworks for investors evaluating portfolio performance. Our metrics are specifically designed to support the Financial Stability Board’s TCFD reporting. We conducted scenario analyses, assessed both physical and transition risk, and then used the data to [enhance the transparency of our second TCFD report](#).

With the tools, we were able to better report our progress toward achieving our goal of net-zero emissions across our value chain before 2040, responding to the TCFD’s call for increased transparency. We also used the data for our [CDP climate change questionnaire](#) as well as for our [Climate Transition Plan](#), an action plan that an increasing number of companies have begun to publish.

Data from MSCI’s 2022 TCFD Report



Conclusion

Our solutions support companies who seek to better contextualize their carbon emissions while incorporating industry shifts, environmental change and investor demands into their risk and opportunity management strategies.

But we view this process through the eyes of institutional investors seeking to untangle company commitments as they make asset allocation decisions, looking for a more comprehensive view of these risks and their relationship to global warming trajectories. They often rely on a slate of advanced forecasting tools to help determine the rationality of targets and viability of net-zero strategies.

Ultimately, our proprietary climate data and analytics are built to serve as powerful tools intended to meet industry reporting standards with detailed scenario, physical and transition risk analysis. They are designed to enable companies to deliver data that speaks to investors in a clear, standardized format, with a simplified lens that allows for efficient comparisons across sectors.

**Interested in quantifying climate risks
and opportunities for your firm?**

[Learn more](#)





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

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