

SUMMER IN THE CITY



3RD ANNUAL CSR INVESTING SUMMIT

Uncovering Portfolio Risk with ESG Metrics

FROM MSCI ESG RESEARCH INC.

UNCOVERING PORTFOLIO RISK WITH ESG METRICS

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July 22, 2015

ABOUT MSCI ESG RESEARCH

Over **125** asset owners with **\$4.4 trillion** in assets depend on MSCI ESG Research
Over **900** clients with **\$15 trillion** in AUM globally

MSCI ESG Research

Winner of 2014 IIRRI Award for
Most Innovative Research and Reports
Best Corporate Governance Research &
Best Fixed Income Research
Eitel-IIRRI Survey

- ✓ ESG Research produced entirely in-house
- ✓ Over 210 global staff, including 150+ ESG analysts
- ✓ Over 40 years experience



THE WORLD IS CHANGING

ASSET OWNERS ARE ASKING DIFFERENT QUESTIONS

1260

SIGNATORIES:
ASSET OWNERS,
INVESTMENT
MANAGERS
AND SERVICE
PROVIDERS



45

US\$ TRILLION:
ASSETS UNDER
MANAGEMENT



 **PRI** | Principles for
Responsible
Investment

WHAT INVESTORS WANT TO KNOW

LIMIT SURPRISES FROM
IDIOSYNCRATIC EVENT RISKS

LIMIT EXPOSURE TO
SYSTEMATIC RISK FACTORS

CAPITALIZE ON BUSINESS GROWTH
OPPORTUNITIES



ACCIDENTS



SHUTDOWNS



FRAUD



STRIKES



WEATHER
PATTERNS



WATER
SCARCITY



DATA
SECURITY



SKILLS
SHORTAGES



PRODUCTS



MARKETS



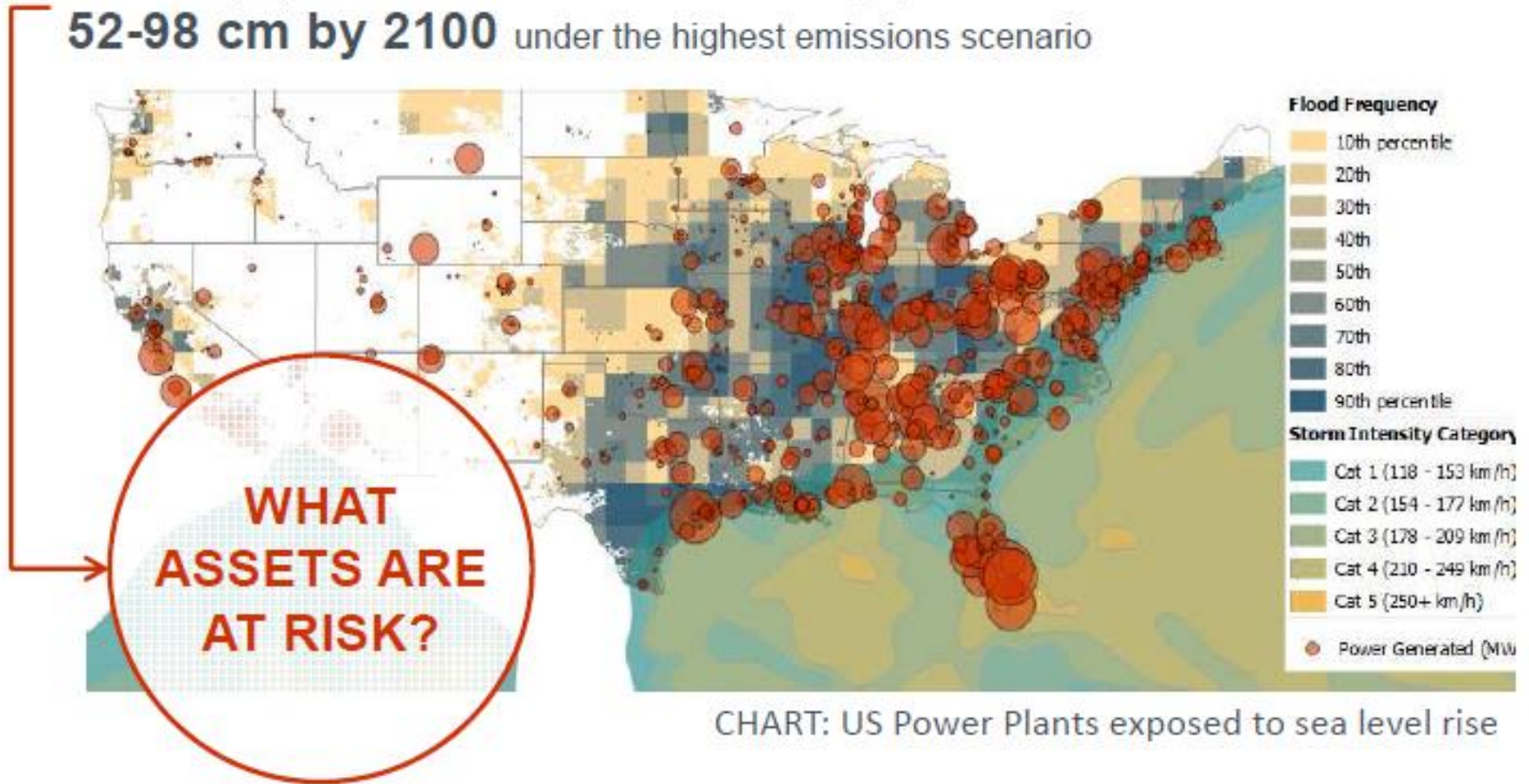
USERS



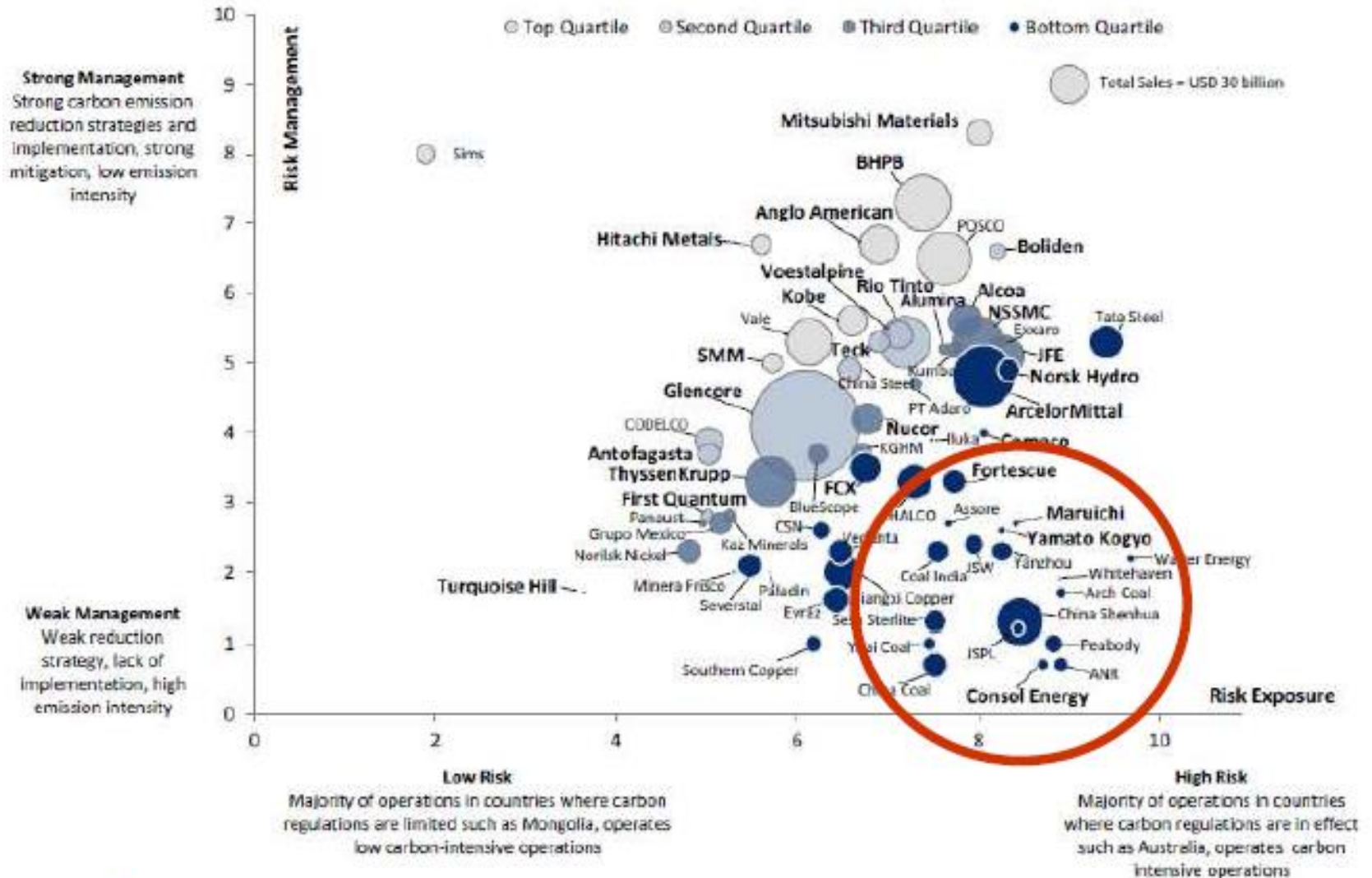
PROCESSES

UNDERSTANDING THE RISK: CARBON RISK BEYOND CARBON

The IPCC projects that mean sea level could rise by up to **52-98 cm by 2100** under the highest emissions scenario



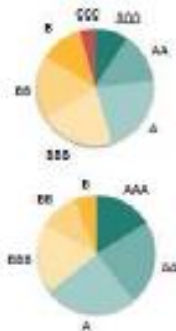
IDENTIFY THE OUTLIERS: UNMITIGATED RISK



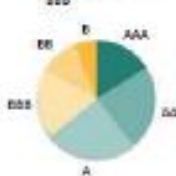
MEET CLIENTS' OBJECTIVES: PORTFOLIO ANALYTICS

- ✓ Robust analysis of ESG risk exposure and risk management
- ✓ Comparison to both standard and ESG enhanced benchmarks

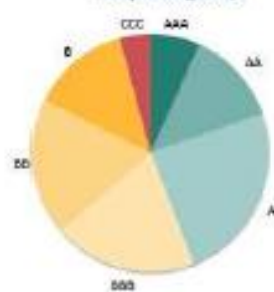
MSCI World



MSCI World ESG



Sample Large Cap



Sector Breakdown		ESG Portfolio Snapshot Large Cap Core									
	Weight	ESG	AAA	AA	A	BBB	BB	B	CCC	Not Rated	
Consumer Services	8.3	45.0%	0.0%	0.0%	0.0%	0.0%	17.0%	83.0%	0.0%	0.0%	0.0%
Consumer Goods	9.9	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Energy	3.5	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Healthcare	2.4	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Industrials	11.8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Information Technology	21.4	40.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Materials	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Real Estate	18.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Utilities	19.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total	100%	100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

Summary

ESG Portfolio Snapshot Large Cap Core

Portfolio Scores: **4.0** (ESG), **4.8** (ESG), **3.6** (ESG), **4.6** (ESG)

ESG Rating Distribution

ESG Rating Breakdown

Rating Distribution within Sectors

ESG Risk Level	Weight	ESG	AAA	AA	A	BBB	BB	B	CCC	Not Rated
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Not Rated	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%



DEVELOP SPECIALIZED TOOLS: CARBON RISK TOOLKIT

UNDERSTAND, MEASURE &
MANAGE CLIMATE RISK

COMMUNICATE YOUR
CLIMATE IMPACT

IDENTIFY INVESTMENT
OPPORTUNITIES



**Carbon
Metrics**

Select from fossil fuel reserves, carbon metrics and screening tools



**Low
Carbon
Indexes**

Choose from a range of environmental and thematic indexes



**Carbon
Portfolio
Analytics**

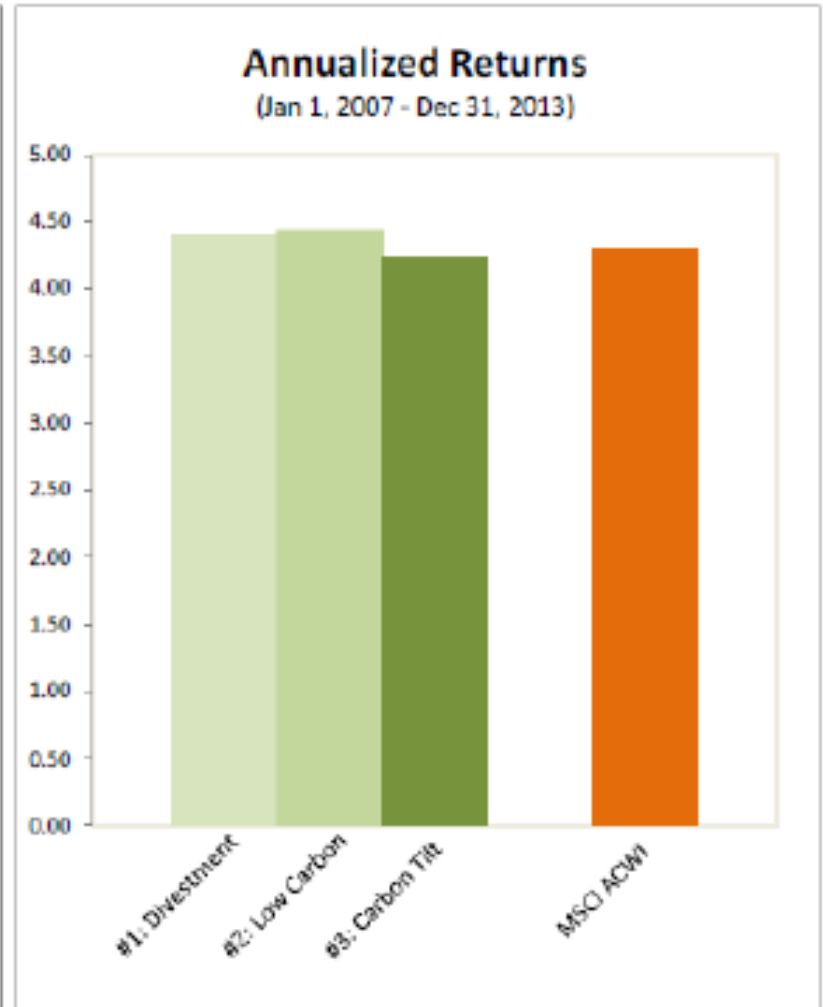
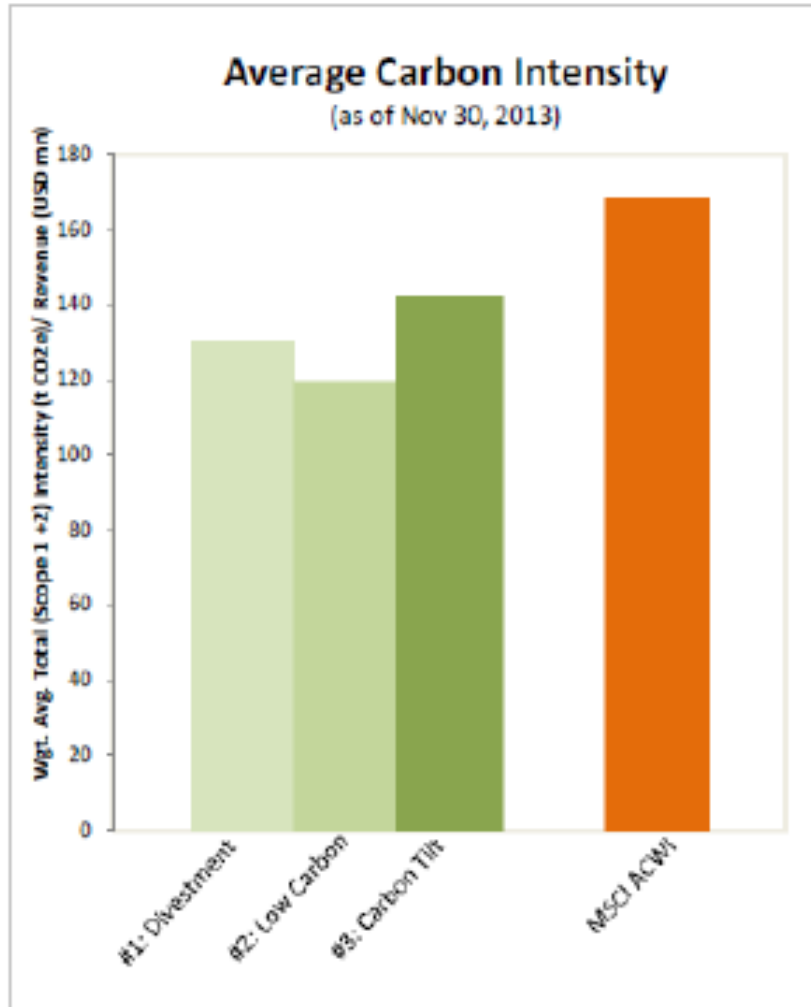
Measure the carbon footprint of your portfolio



**Clean
Tech
Solutions**

Identify clean tech and environmental solutions companies

IMPROVED HISTORIC PERFORMANCE: RISK ~~OR~~ AND RETURN



MSCI LOW CARBON TARGET INDEX

MSCI ACWI Low Carbon Target Index vs MSCI ACWI Index Net Returns and Key Metrics Nov 2010 – Feb 2015



Active Return: 0.4%

Tracking Error: 0.4%

Information Ratio: 0.95

**77% Reduction in
Current CO₂ Emissions
(Scope 1+2)**

**94% Reduction in
Future CO₂ Emissions
from Reserves**

Source: MSCI. Example only. Past performance is not indicative of future results.

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