

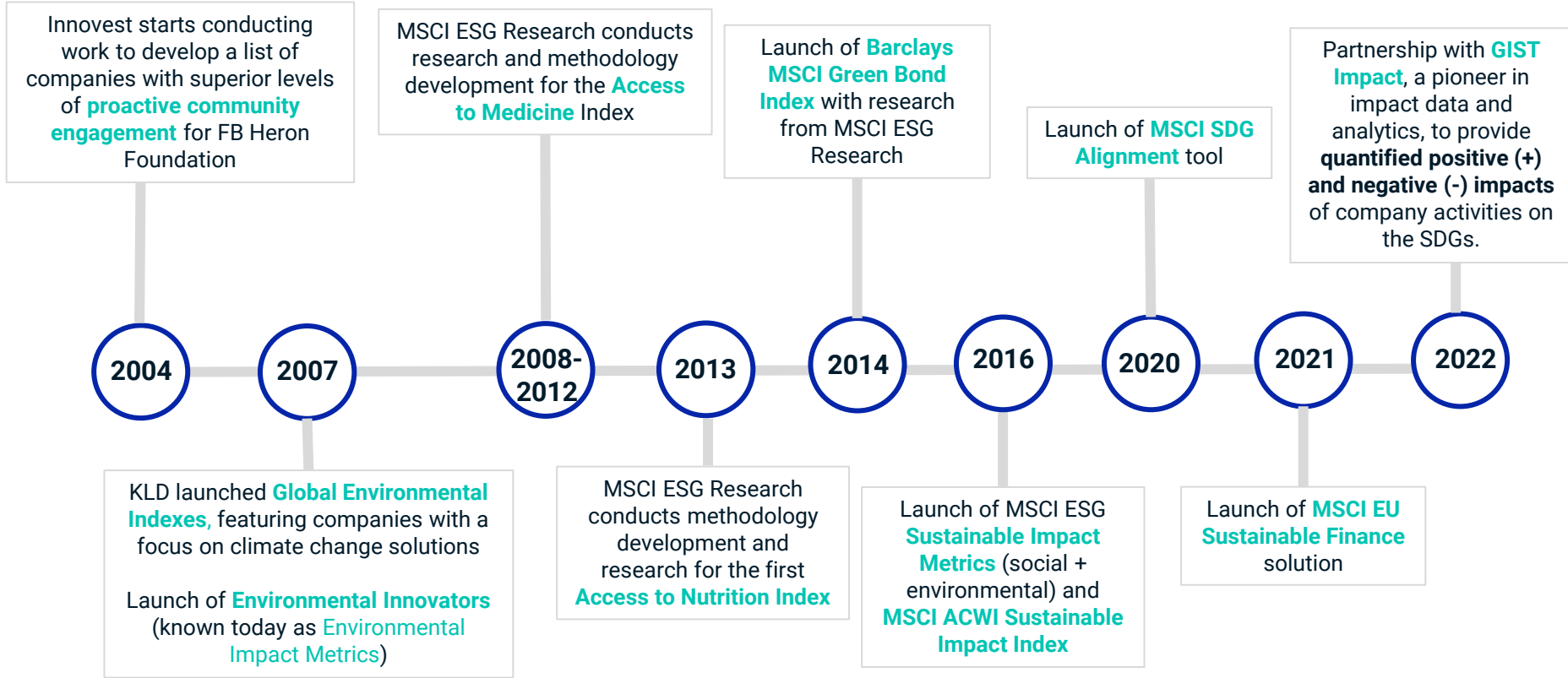
MSCI Impact Solutions

Integrating impact into the investment process

May 2023



MSCI - A Pioneer In Impact Solutions



Align Investor Objectives With Investment Design

Investment Objectives



Individual Objectives

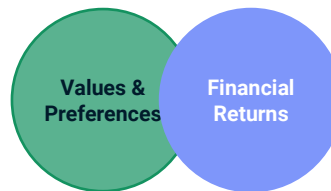
Values



Align portfolio with investor's ethical or political values

“Our investments should reflect our clients' values”

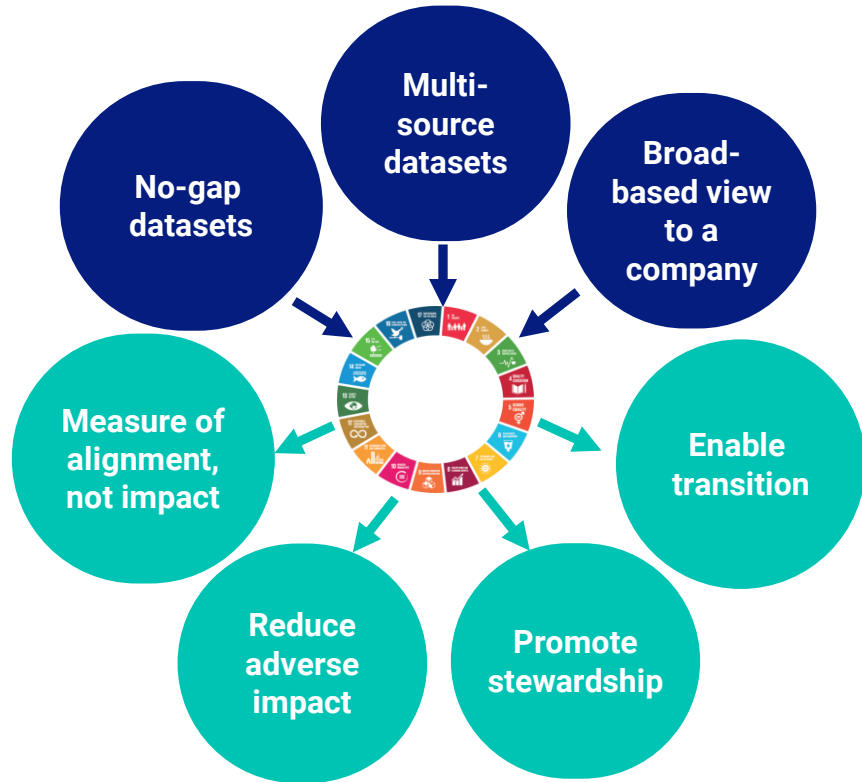
Impact



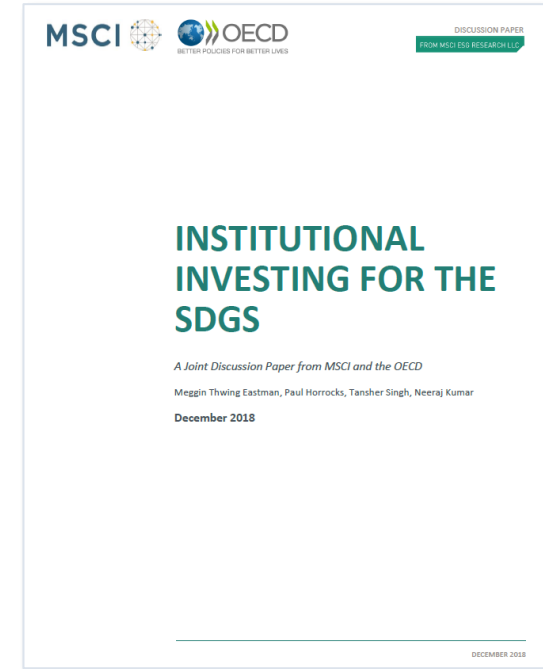
Generate measurable social or environmental benefits as well as financial returns

“We want our investments to make a **difference** in the world”

Essential considerations for MSCI SDG Alignment model



In 2018 MSCI and the Organization for Economic Co-operation and Development (OECD) published a [joint discussion paper](#)



DECADE OF >>> ACTION

Ten years to transform our world



The 17 UN Sustainable Development Goals (SDGs) were agreed to by 193 countries in 2015 with a target date for delivery of 2030. The SDGs aim to foster collaboration within and between international private and public stakeholders to address critical global challenges such as poverty, inequality, climate change, environmental degradation, peace and justice¹.

MSCI Sustainable Impact Metrics and SDG Alignment Tool

Sustainable Investing at Scale



Sustainable Impact Metrics

- **Designed to identify companies that derive revenue from products or services with positive impact on the society and the environment.**
 - Coverage of ~10,000 issuers
- **Assess the extent companies' products and services address at least one of the major social and environmental challenges, as defined, for example, by the UN Sustainable Development Goals (UN SDGs)**
- **Assessing alignment with other recognized frameworks, such as the EU Taxonomy for Sustainable Activities**

Pillar	Themes	Categories
Environmental Impact	Climate Change	Alternative energy Energy efficiency Green building
	Natural Capital	Sustainable water Pollution prevention and control Sustainable agriculture
Social Impact	Basic needs	Nutrition Major disease treatments Sanitation Affordable real estate
	Empowerment	SME finance Education Connectivity - Digital divide

Challenges of SDG-aligned investing



“We saved one million lives!”

How to assess and compare companies’ fairly if all of them claim to have positive impact but do not use consistent impact measurement metrics?














“We delivered 30MWh of green energy!”

How to assess companies fairly if reporting is focused only on positive contribution?

MSCI Sustainable Impact Metrics

MSCI Sustainable Impact Metrics are designed to estimate the **portion of revenue** from products and services with positive impact on society or the environment.

BASIC NEEDS				EMPOWERMENT		
 Nutrition	 Major Diseases Treatment	 Sanitation	 Affordable Real Estate	 SME Finance	 Education	 Connectivity - Digital Divide
CLIMATE CHANGE				NATURAL CAPITAL		
 Alternative Energy	 Carbon & Energy Efficiency	 Green Building	 Sustainable Water	 Pollution Prevention	 Sustainable Agriculture	

► Sustainable Impact revenue figures

INITIAL REVIEW OF DATA SOURCES

10K, Annual/Quarterly Reports, Investor presentations, corporate websites, data providers (Thomson, Reuters), government datasets, news sources, industry associations, and external reports

QUALITY OF THE DATA DISCLOSURE

HIGH LEVEL OF DETAIL:

Disclosed revenue breakdown, explicit levels of involvement, nutritional value, 'affordability' criteria, etc.

MEDIUM LEVEL OF DETAIL:

Disclosed product mix, explicit statement of involvement.

LOW LEVEL OF DETAIL:

Some evidence or indication of involvement

SUSTAINABLE IMPACT METRICS REVENUE

Percentage is provided based on the company's disclosed revenue from eligible activities

Percentage is provided based on MSCI ESG Research estimation of the portion of product portfolio

Evidence of involvement is noted as a small percentage of revenue (0.05%) allocation to eligible categories

Evolving Views on Net Impact

Three key dimensions may be considered when developing an impact investment strategy:



Enable Positive Transformation =
shifting capital towards companies providing products & services that serve needs defined by the SDGs.

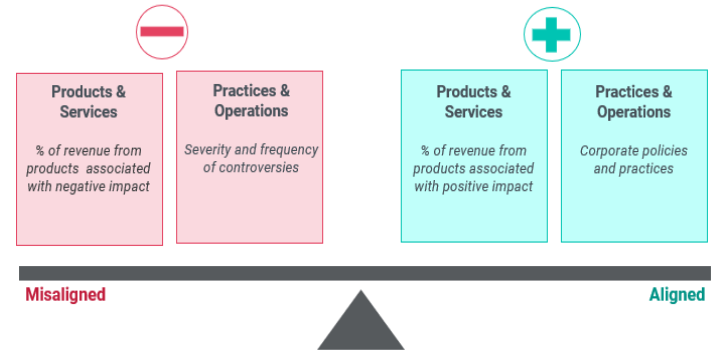
Promote Improvement =
shifting capital towards companies that improve operations, develop long term strategy and are transparent on progress

Reduce Exposure =
avoid controversial companies, stranded assets, companies that are not aligned with SDGs.

SDG Net Alignment Model Overview

Holistic

- Accounts for both **product** (What products & services does the company offer?) and **operational** (How does the company conduct itself) elements
- Evaluates whether these elements are **positively or negatively aligned** with the SDGs



Solid Foundation

- Powered by **quality, tested data inputs** - MSCI ESG Research's core research products, including:
 - MSCI Sustainable Impact Metrics**
 - MSCI ESG Controversies, ESG Ratings and ESG Metrics
 - MSCI Business Involvement Screening



MSCI SDG Alignment model: technical overview

SDG Net Alignment (qualitative category and score)

Product Alignment

(qualitative and score, capped (-10 to 10))

Operational Alignment

(qualitative and score, capped (-10 to 10))

Negative Impact of Products & Services

0<5% revenue -1
5<10% rev -3
10 <25% rev -5
25<50% rev -7
>50% rev -10 *

Positive Impact of Products & Services

0<5% revenue 1
5<10% rev 3
10 <25% rev 5
25<50% rev 7
>50% rev 10

Negative Impact of Operations

Adverse impact from operation (-1 each)

Involvement in controversies (-10* - 0) based on the number of cases and severity

Positive Impact of Operations

Policies and good practices, +1 each

Performance

Improving = 2 Stable = 0 Worsening = -2

Building blocks for designing SDG related indexes

Business Involvement Screening

Controversial Weapons
Nuclear Weapons
Conventional Weapons
Civilian Firearms
Tobacco
Thermal Coal Mining
Thermal Coal-based Power Generation
Oil Sands Extraction

ESG Ratings and Controversies

UN Global Compact Violations
ESG Controversies Score
ESG Ratings

SDG Net Alignment

SDG Net Alignment – Strongly Misaligned and Misaligned

Country Filters

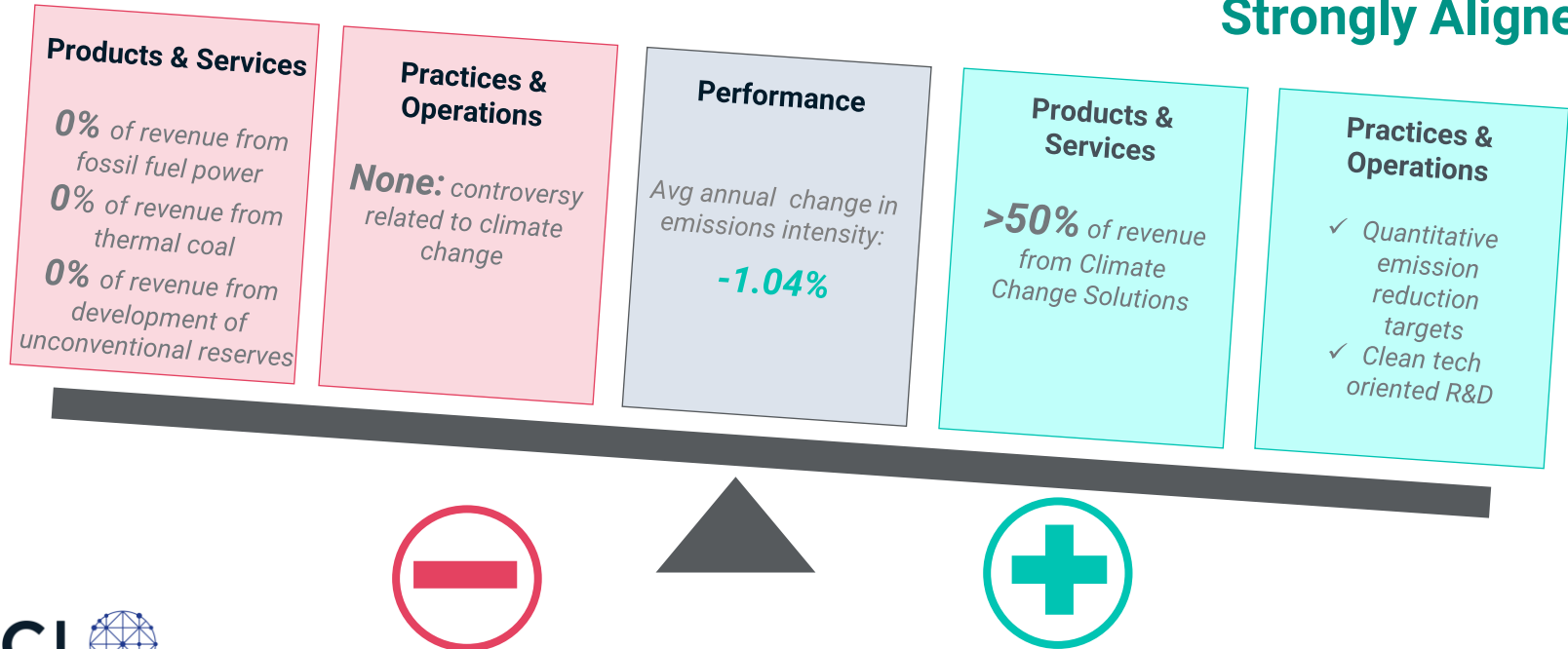
Country Exclusions

Measuring SDG Alignment at the Goal level - Example



An electric utility company

Assessment:
Strongly Aligned

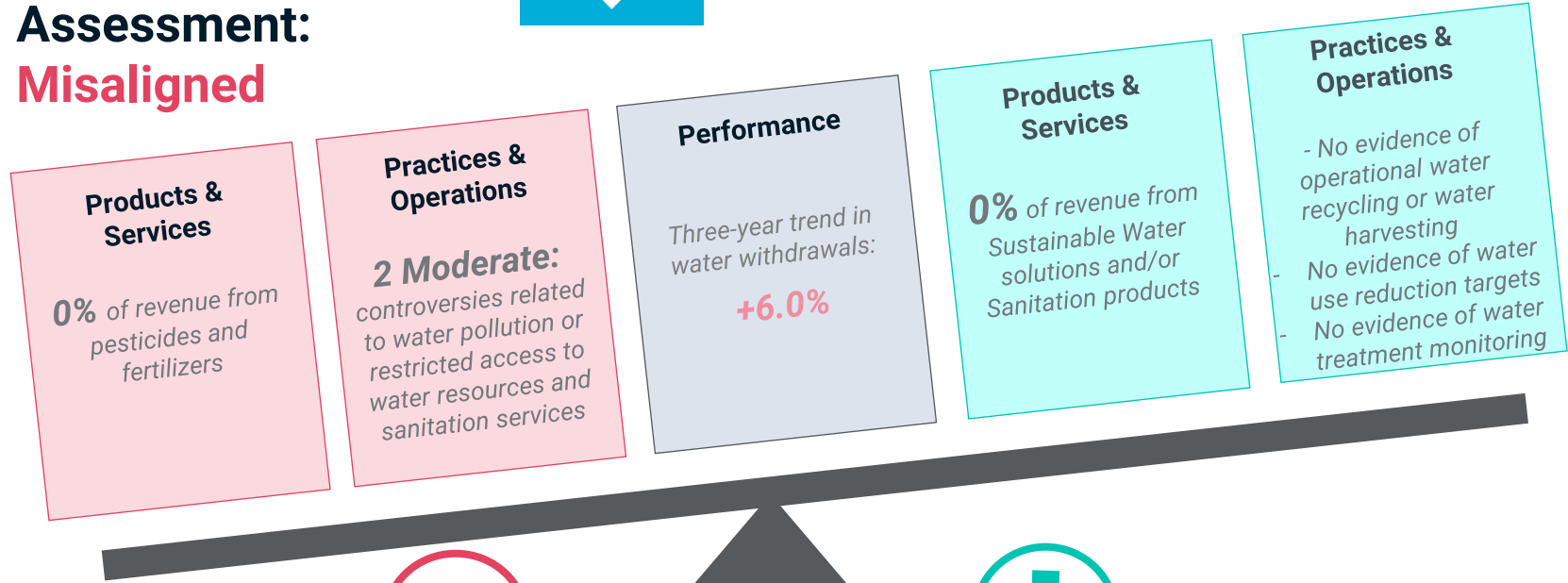


Measuring SDG Alignment at the Goal level - Example



An agricultural producer

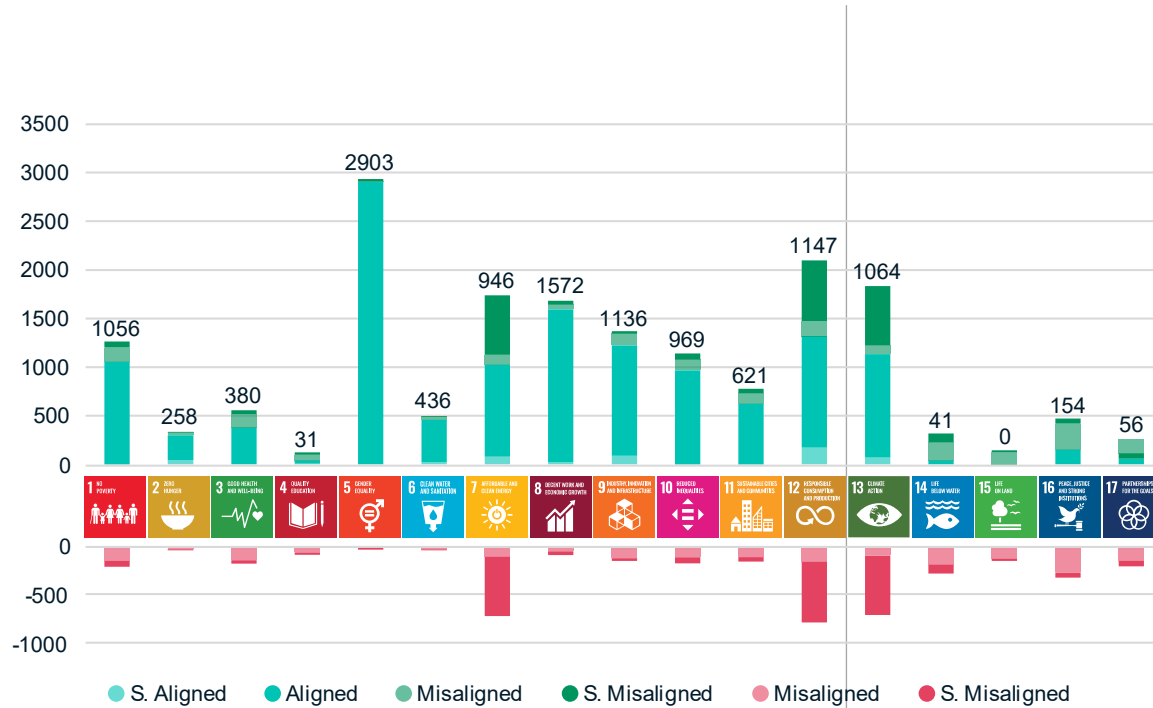
Assessment:
Misaligned



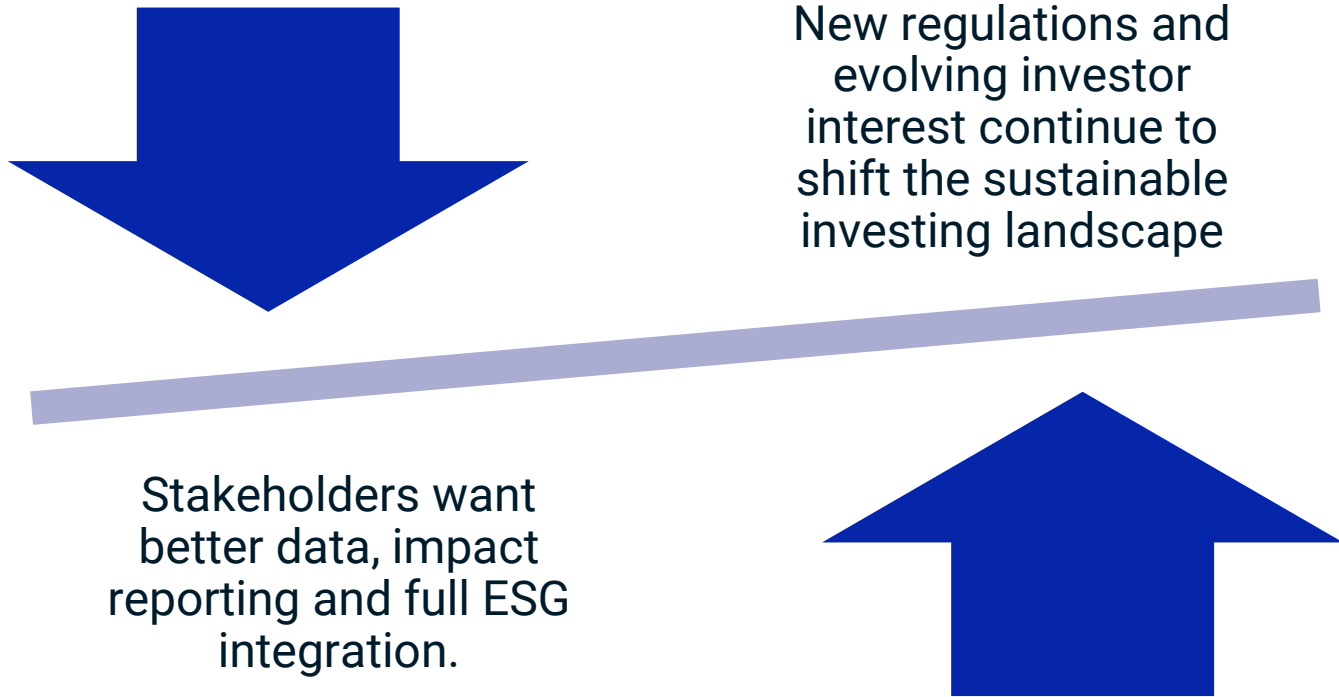
Measuring SDG Alignment at the Company Level



Measuring SDG Alignment for a Global Equity Universe



Regulatory Landscape and Impact Reporting



Trends and Challenges – Direction of Travel

- Rapidly increasing number of Taxonomies and Regulations
- Investors are increasingly questioning the “real world impact” of their investments
- The focus of climate investing has been shifting from reducing climate transition risk by decarbonization toward financing the transition of the real economy
- Therefore, investors need to be able to
 - Identify transition leaders in fossil fuel intense industries
 - Identify Green Tech leaders that build technology to decarbonize the economy

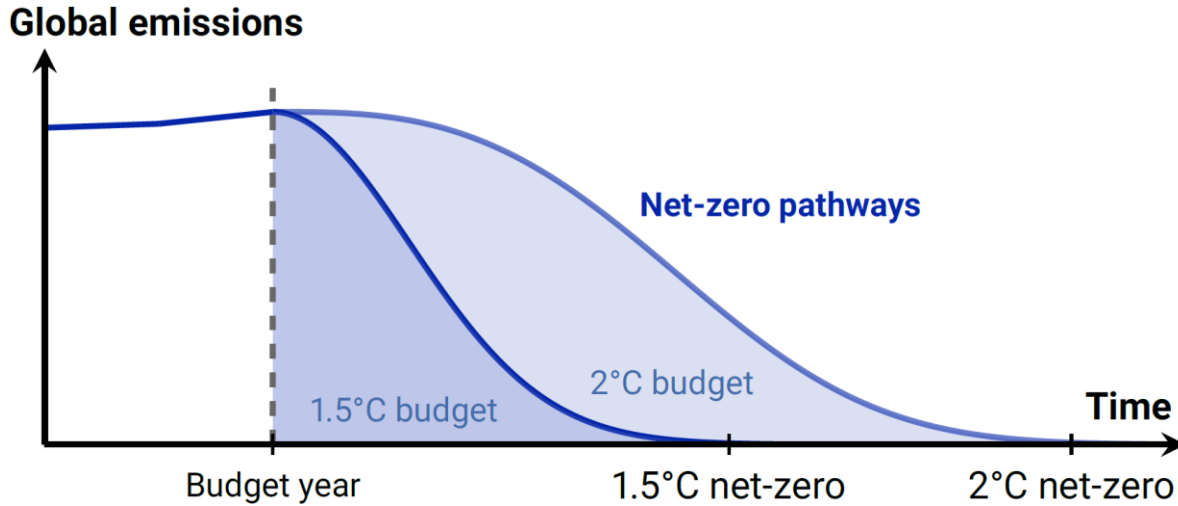
Trends in climate investing: From portfolio decarbonization to financing the real economy transition



What Is Net-Zero Investing?

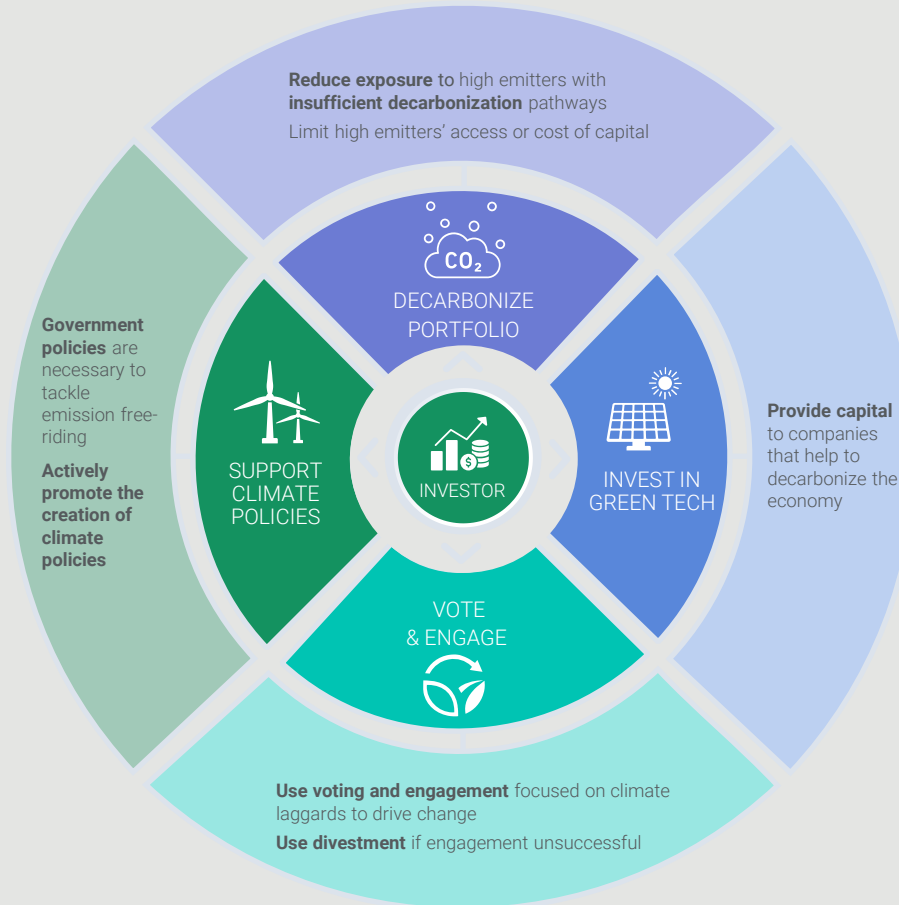
The world needs to follow an emission reduction pathway which

1. Reaches net-zero emissions
2. Stays within remaining emissions budgets defined by the expected temperature rise



Net-zero investing means to implement a portfolio level emission reduction pathway that stays within the portfolio's share of the remaining emission budget.

How Can Investors Drive Companies' Net-Zero Alignment?

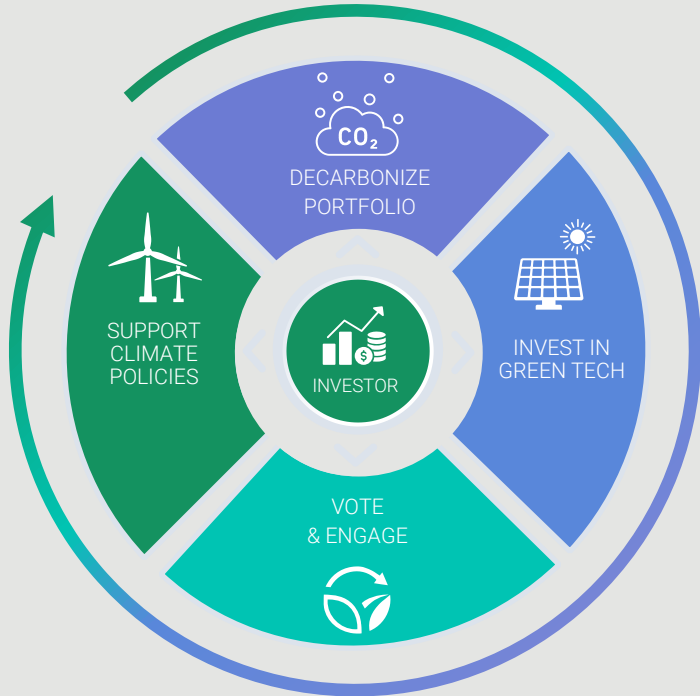


Investment world

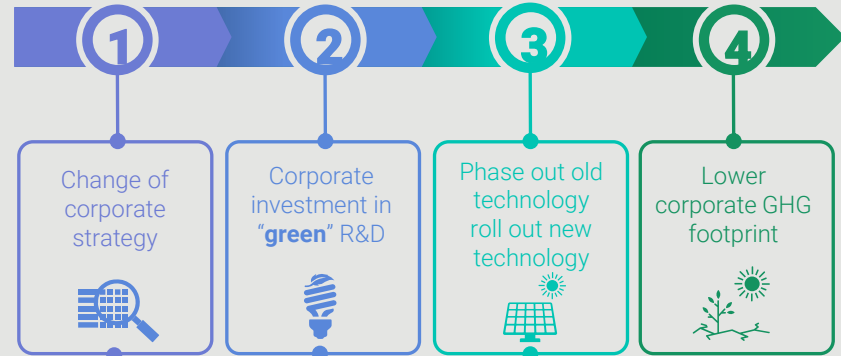


Real economy

CHANGING PORTFOLIO



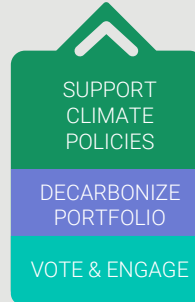
CHANGING THE REAL ECONOMY



DRIVE CHANGE

FINANCE TRANSITION

NO DIRECT IMPACT



▶ GIST's Quantified SDG Impacts

Measuring the size of positive and
negative impacts on the SDGs



Quantified impacts on the SDGs: Overview

How much are my investments contributing towards (or subtracting from) the achievement of the SDGs?

MSCI has partnered with **GIST Impact**, a pioneer in impact data and analytics, to provide **quantified positive (+) and negative (-) impacts** of company activities on the SDGs.

This data reflects company *actions* rather than *intentions* and provides a much-required quantitative lens to measure and report on impact.



Based on sound science and economics: GIST uses rigorous science for detailed causality modelling and robust economics to estimate the *economic value* of the impacts of a company's activities (in \$ terms).



Location-specific: GIST calculates impacts at the company and location level, providing a granular and context-specific picture of impacts.



Cross-comparable: GIST applies a consistent and universal methodology to calculate impacts so investors can understand and compare impacts within and across sectors.

From Capitals to SDGs



Natural Capital



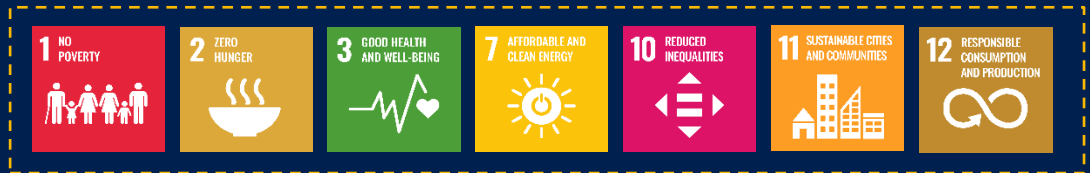
Human Capital



Financial Value Added



- Natural Capital impacts are typically **negative** i.e., adverse effect on the environment, which show negative contribution to the corresponding SDGs
- Human and Financial Capital impacts are typically **positive** and therefore show positive contributions to the corresponding SDGs



*Additional Sector-specific /
Region-specific Mapping*

Default Mapping

MSCI + GIST Impact: 360° View

MSCI SDG Alignment

Objective of an activity

Relatable SDG targets

Qualitative categories and scores assessing degree of Net Alignment for each of the 17 SDGs on approximately 8,600 companies

Captures the expected effects

Predict and Invest

GIST Impact SDG Mapping

Objective of an activity

Impact of an activity

Relatable SDG targets

“Effect” is mapped to SDGs for 13,000 companies, so that when the status quo has changed there is a change in economic value

Verifies the positive and negative effects generated by an activity – both planned and unplanned

Verify and Rebalance

Appendix

MSCI ESG & Climate Data – Governance

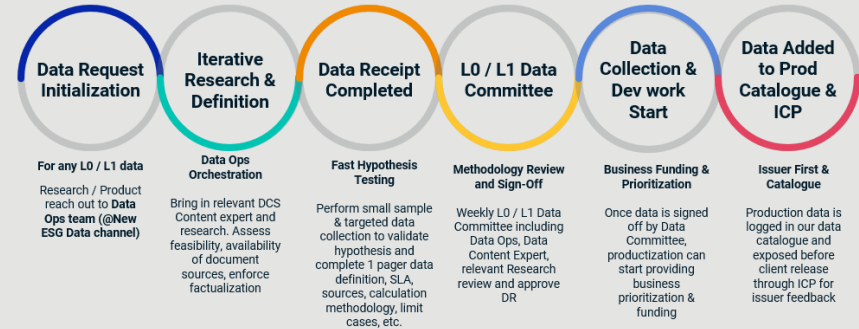
- We have robust **governance processes around Research activities**, including various committees reviewing methodologies, client consultations and editorial board.
- We are also rolling out more stringent **governance processes around raw data and derived**, including various committees reviewing data methodologies, QAs, and managing our Data Catalogue.

Research Governance



Data Governance Model

Data Mgmt. is the gateway for any data added to production, for raw and derived data. Data Mgmt is also responsible for the data catalogue.



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