



MSCI Implied Temperature Rise

Organization
MSCI

Summary

Implied Temperature Rise (ITR) from MSCI ESG Research is designed to show the temperature alignment of companies, portfolios, funds, and indexes with global climate targets. With its forward-looking estimate of company or portfolio emissions, investors can use ITR to set decarbonization targets and support engagement on climate risk.

Key to understanding ITR is the concept of a carbon budget: how much the world can emit and, by extension, how much a company can emit and remain within a 2°C warming scenario by 2100. Using Intergovernmental Panel on Climate Change (IPCC) guidance on carbon budgets, we calculate companies' projected emissions over the next 50 years based on their emissions track record, stated reduction targets, and other data. A company with projected emissions below the budget can be said to “undershoot” while those with projected emissions exceeding the budget “overshoot.” The ITR, expressed in degrees Celsius (°C), estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over/undershoot level as the company (or portfolio) in question.

Climate Focus

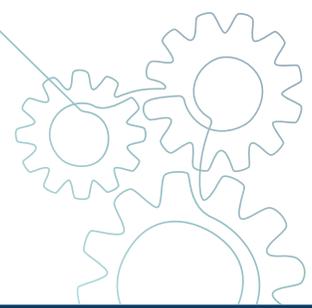


Resource Type



Intended Users





MSCI Implied Temperature Rise	
WHO	Financial institutions, including banks, asset owners, asset managers, insurers, and central banks.
WHAT	<ul style="list-style-type: none"> • The Implied Temperature Rise metric provides an indication of how companies and investment portfolios align to global climate targets. It allows institutional investors to understand if their portfolios are 2°C aligned, referring to the IPCC goal of limiting the global temperature increase in the year 2100, compared with pre-industrial levels, to 2°C. • As the metric is forward-looking and takes into account companies' projected emissions as well as stated reduction targets, it can inform investors' portfolio construction and asset allocation processes allowing them to tilt toward climate target-aligned companies and those that have set ambitious emissions reduction targets for themselves. • The tool allows investors to quickly identify the leaders and laggards in terms of temperature alignment within their portfolios, also helping them inform their stewardship strategy.
WHEN	<p><i>ITR can inform investor's climate strategy in the following ways:</i></p> <ul style="list-style-type: none"> • Path to net-zero emissions: assess progress of companies, portfolios, funds, and benchmarks toward driving down GHG emissions to net zero. • Target setting and climate risk management: inform climate risk management, set evidence-based decarbonization targets, and optimize portfolios. • Engagement: support dialogue with companies on climate risk. • Client Communication: show clients how investment portfolios align with global climate goals. • Facilitates reporting: aligns with the reporting recommendations by the Task Force on Climate-related Financial Disclosures and other evolving (regulatory) disclosure requirements.
WHERE	The tool is not limited to specific sectors but has very broad coverage. MSCI currently provides Implied Temperature Rise results on an issuer level for the ACWI IMI universe (~10,000 companies). It can be aggregated to the portfolio-level (equity and debt portfolios for now, further extension to sovereign and other asset classes is planned).
WHY	<ul style="list-style-type: none"> • The ITR aims to create a standardized metric, following the TCFD recommendations, to be used for reporting, TCFD-aligned disclosure, portfolio construction, and (net-zero) target tracking. • The ITR methodology is a science-based approach, sourcing guidance on carbon budgets and the TCRE factor directly from the IPCC report. • It can improve communication with both internal and external stakeholders, and improves transparency, confidence, and ability to project future trends through its forward-looking approach.
HOW	<ul style="list-style-type: none"> • More information can be found on MSCI's website. • Additional information can be found through MSCI's blogs.