



MSCI Implied Temperature Rise

Organization
MSCI

Summary

Implied Temperature Rise (ITR) from MSCI Climate Risk Centre is designed to display 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 in alignment with climate goals. 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, to keep within a 2°C warming scenario by 2100.

Using IPCC guidance on carbon budgets, we consider companies' cumulative budgets and calculate companies' projected emissions over the next 50 years based on their emissions track record, stated reduction targets, and other data. The measure estimates the global rise in average temperature by 2100 if the global economy were to behave in the same way as a particular company or portfolio.

Companies with projected emissions below the budget can be said to “undershoot,” while those with projected emissions exceeding the budget “overshoot.”

Climate Focus

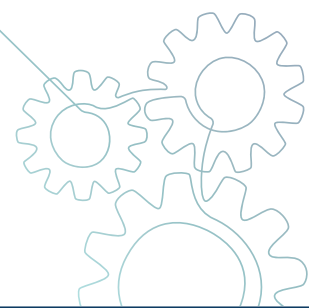


Resource Type



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 preindustrial 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 companies that are aligned with climate targets 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, which also helps them inform their stewardship strategy
WHEN	<p><i>ITR can inform investors’ 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 • Reporting: ITR align with the reporting recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD) and other evolving regulatory disclosure requirements
WHERE	<ul style="list-style-type: none"> • The tool covers an assessment of a large number of invested companies (debt and equity) and is not limited to specific sectors • MSCI currently provides Implied Temperature Rise results on an issuer level for the ACWI IMI universe (~10,000 companies) • The metric can be aggregated to the portfolio level • Further asset coverage (e.g., sovereigns) 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 TCRC (transient climate response to cumulative carbon emissions) factors 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	More information can be found on MSCI’s website . Additional information can be found through MSCI’s blogs