JPMorgan ESG Workshop Panel: Investing within planetary boundaries-pursuing Paris-Alignment through Carbon Analytics

Moderator: Lydia Harvey, Senior ESG Specialist, J.P. Morgan Global Index Research Group.
Panelists:

- Hasan Cerhozi, Head of Product Development - Methods and Innovation, Vigeo Eiris (V.E.)
- Francis Condon, Sustainable Investment Team – Fixed Income Specialist, UBS Asset Management Switzerland AG
- William Perry, Head of Global High Yield & Emerging Markets Corporates, Co-Head of ESG Committee, Stone Harbor
- Rupert Rink, ESG Specialist, J.P. Morgan Global Index Research

Background:
Role that the investment industry can play in tackling climate crisis through the integration of various financial products and methodologies. There is a sustained and urgent drive to address issues of climate change from regulators, investors, politicians etc. While Green House Gas Emission Data is available, challenges exist: in a poll conducted by JPMorgan, investors proclaimed environment/climate was the most difficult pillar to integrate (particularly for Sovereigns). Corporate ESG reporting in general: difficult to understand scope and time horizon. Hence, reliance on third-party assessment is paramount.

JPM launched an RFP looking at carbon data of corporates (only available to JPMorgan clients) to find a "best in class" vendor. They surveyed 10 third party data providers.

Key findings/lessons learned for a "best in class" third party vendor:

- method of valuing data emission
- quality assurance processes
- roadmap of coverage
- transparency of data (disclosed:sources? or estimated)
- frequency of updates

Benefits:

- Client demand growing
- ESG indicators valuable and offer valuable insights into country and company fundamentals
- Incorporate as key component of credit analysis and integral to fiduciary duty
- Areas of FI where there is good/quality data (large-cap, developed issuers).

Challenges identified by various panelist:

- Climate most under-represented pillar: now looking at carbon footprint and weighted average carbon intensity for portfolios
- backward looking/ stale/ infrequently updated. In some cases, some funds have portfolio managers and analysts add forwarding looking views on ESG (qualitative)

- Incorporate third party vendor to come up with a combined ESG score: one solution is to incorporate third vendor and then adapt to individual firm's analysts
- Managing carbon data is like driving a car using the rearview mirror: backwards looking. Carbon foot printing is useful up to a point: compares to a benchmark
- Challenges of data gaps abound: temp alignment and reduction:
  - lack of targets
  - type of target
  - time horizon (particularly long term)
  - boundary

How can you create a robust index when you feel you are only getting 80% of the picture?
- More data: satellite monitoring
- Regulation: depends where (Europe could do the trick; other countries may not the case)
- Engagement and investors pushing disclosure

Create financial products that meet all the above criteria/targets and meets client needs:
- eg labeled bonds, sustainability linked bonds (Chile)
- Needs to make sense from return criteria but if incremental opt from climate perspective, will give extra look even for regular portfolios. I.e. meet client return objectives and climate agreement goal