

Net Zero Company Analysis: MSCI ACWI

Surrey Pension Fund

April 2024

Key findings

- This is the second year Mercer has conducted this analysis to identify the projected number of companies targeting net zero at target dates of 2030, 2040 and 2050 within the MSCI AC World Index universe. The intention of this analysis is to investigate whether the opportunity set has increased in the last twelve months.
 - When comparing the 2023 and 2022 analyses on a like-for-like basis, the **key conclusion is that the universe has not materially changed**, albeit there is a positive trend that more companies have set net zero target dates.
- In this year's analysis, due to improvements in data and methodologies, a new universe has been provided in addition to the opportunity set shown in previous analysis. In the first iteration, companies intentions were taken at "face value" that if they had set a net zero target, they would achieve it, and thus be included in the opportunity set universe.
- This year an additional "credibility factor" has been applied to each company's target. This aims to assess whether a company is likely to achieve its net zero target date based on a range of factors. Whilst this "credibility factor" does add some subjectivity to the analysis it does represent an enhancement to the methodology used.
- We recommend Surrey continues to monitor for key changes in these results in order to incorporate findings into an overall net zero target date for the Fund.
- The MSCI ACWI universe of companies projected to achieve net zero at or before 2030 and 2040 remains too small for the Fund to set net zero targets by these dates.

Targeting net zero target dates of 2030 or 2040 would lead to company level concentration (i.e. significant loss of diversification), with a number of sectors not represented at a 2030 net zero target date. Continue to assess broader market decarbonisation efforts as one factor in setting & monitoring credible net zero targets for the Fund.

Previous Methodology

Used in 2022 analysis and again in 2023 for Year-on-Year comparison

- MSCI have updated their Implied Temperature Rise (ITR) methodology and associated metrics since 2023.
- Factors used in the previous analysis were based off 'face-value' targets set by companies, with projected emissions based off these reduction targets.
- The factors used for the previous methodology are still available in MSCI, however we recommend using the updated methodology going forward.
- The below factors were used to match this analysis to the previous one, which takes company climate targets at face value to determine projected emissions

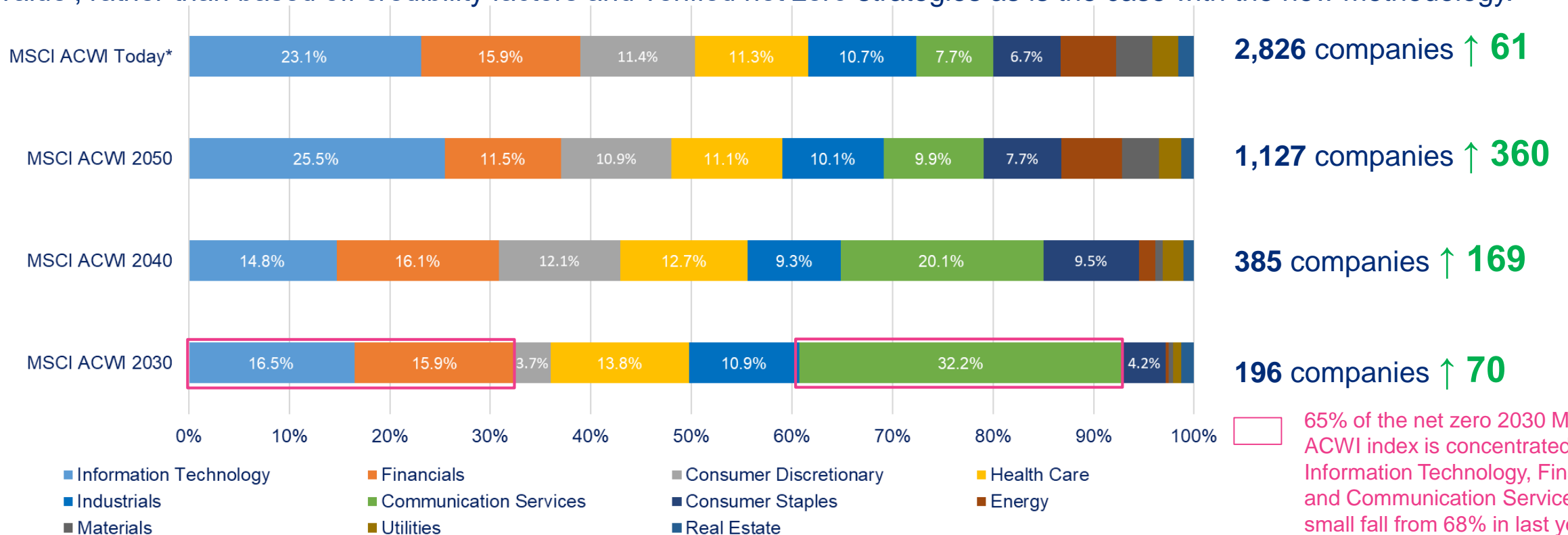
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MSCI ESG Factor	Definition
Annual Projected Scope 1 and 2 Emissions with Targets at Face Value [tCO2e/year] (time series)	A company's projected Scope 1 and 2 greenhouse gas emissions in tCO2e for the specific year, taking any considered climate target at face value. These emissions are projected by taking into account the latest Scope 1 and 2 emissions data (reported, if available or estimated if not) and the company's pledged climate targets to reduce Scope 1 and 2 emissions, if available. This value may be different from that of Annual Projected Scope 1 and 2 Emissions with Target Credibility Assessment, which determines Implied Temperature Rise outputs.
Annual Projected Scope 3 Emissions with Targets at Face Value [tCO2e/year] (time series)	A company's projected Scope 3 greenhouse gas emissions in tCO2e for the specific year, taking any considered climate target at face value. These emissions are projected by taking into account the current estimated Scope 3 emissions and, when available, the company's pledged climate targets to reduce Scope 3 emissions. This value may be different from that of Annual Projected Scope 3 Emissions with Target Credibility Assessment, which determines Implied Temperature Rise outputs.
GICS Sub Industry	GICS Sub-Industry classification, mapped to Sector level in the analysis

Investment Opportunity Set

By projected Net Zero year – Previous MSCI methodology Year-on-Year comparison

The number of companies with net zero dates at 2030, 2040 and 2050 has increased since last year, as shown by the numbers in green which represents absolute change. Consistent with last year's analysis, these dates are taken on 'face value', rather than based off credibility factors and verified net zero strategies as is the case with the new methodology.



As at 31 Dec 2023, only 196 companies from a universe of 2,826 had verified targets of being Net Zero by 2030, representing 7% of the investable universe by number of companies or 13% by market cap

Top 10 global companies with verified 2030 Net Zero targets

Modified 'net zero 2030' MSCI ACWI – Previous MSCI methodology for Year-on-Year comparison

Top 10 companies by market capitalisation within the portfolio

2023 Analysis			2022 Analysis		
COMPANY	SECTOR	PORTFOLIO WEIGHT WITHIN 2030 PORTOFLIO**	COMPANY	SECTOR	PORTFOLIO WEIGHT WITHIN 2030 PORTOFLIO**
ALPHABET INC.	Communication Services	15.4%	ALPHABET INC.	Communication Services	14.1%
META PLATFORMS, INC.	Communication Services	7.7%	JOHNSON & JOHNSON	Health Care	6.7%
ELI LILLY AND COMPANY	Health Care	4.6%	SAMSUNG ELECTRONICS CO., LTD.	Information Technology	6.0%
NOVO NORDISK A/S	Health Care	3.3%	META PLATFORMS, INC.	Communication Services	3.9%
Tencent Holdings Limited	Communication Services	2.5%	TENCENT HOLDINGS LIMITED	Communication Services	3.8%
THE GOLDMAN SACHS GROUP, INC.	Financials	1.2%	NOVO NORDISK A/S	Health Care	3.2%
CITIGROUP INC.	Financials	1.0%	ASML HOLDING N.V.	Information Technology	3.1%
UBS Group AG	Financials	1.0%	ASTRAZENECA PLC	Health Care	3.0%
Banco Santander, S.A.	Financials	0.7%	NOVARTIS AG	Health Care	2.8%
Mizuho Financial Group, Inc.	Financials	0.4%	THE WALT DISNEY COMPANY	Communication Services	2.3%
Total	-	37.8%	Total	-	48.9%

The top 10 companies represent ~40% of the 196 companies in the 'net zero 2030' MSCI ACWI by market capitalisation. The construction process followed only includes scope 1 + 2 emissions; if scope 3 emissions were included, there would be 48 companies in the 'net zero 2030' portfolio*.

*Analysis as at 31 Dec 2023

**Portfolio weight reflected scaled up coverage to 100%

^Company numbers have varied considerably since 2022. We are in dialogue with MSCI to identify these changes before further insights can be extracted. There is no overlap in the top 10 contributors compared to last year as a result of the changes to MSCI's methodology for modelling projected emissions which were previously based off 'face value' company targets and are now based off credibility factors.

Updated Methodology

- The following analysis compares the projected net zero year of companies in the MSCI ACWI index as at 31 December 2023 using target dates of 2050, 2040 and 2030
- The analysis has focused primarily on the Scope 1 and 2 level emissions, but Scope 3 emissions analysis has also been referenced briefly for context
- The following MSCI factors were used to identify the sector and projected net zero year of companies:

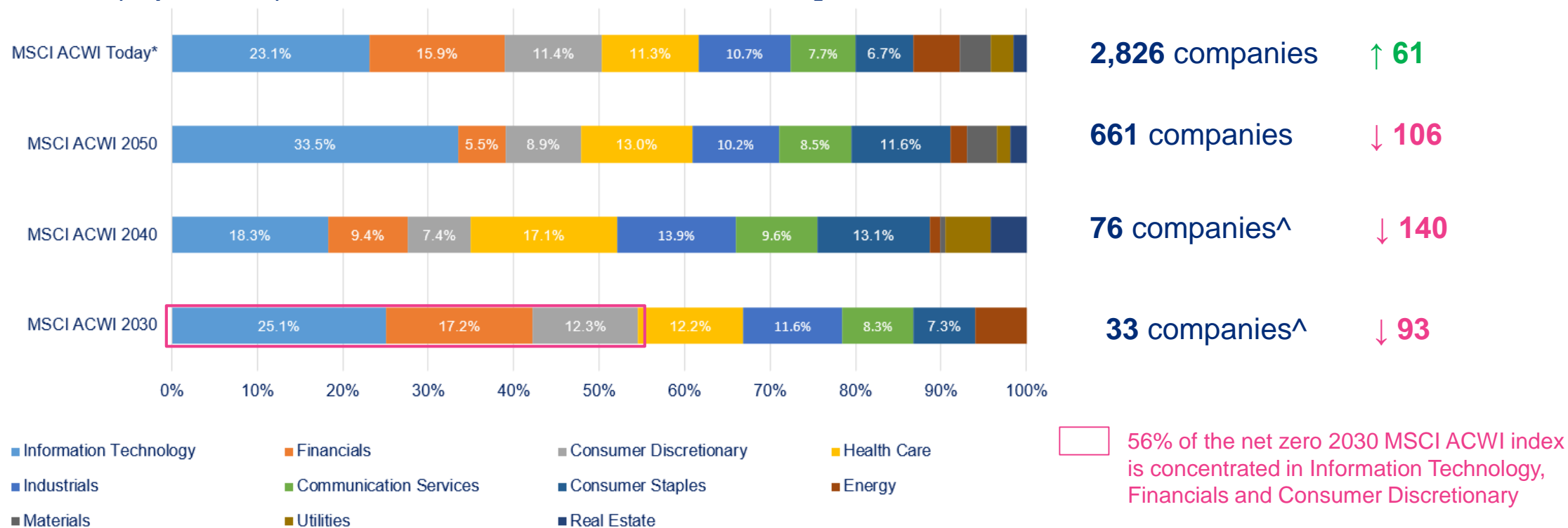
MSCI ESG Factor	Definition
Budget and Emissions Projections Year [time series]	Year of annual projected emissions, carbon budgets and intensity pathways.
Annual Projected Scope 1 and 2 Emissions with Target Credibility Assessment [tCO ₂ e/ year] (time series)	A company's projected Scope 1 and 2 greenhouse gas emissions in tCO ₂ e for the specific year. These emissions are projected by taking into account the latest Scope 1 and 2 emissions data (reported if available, or estimated if not), the company's pledged climate targets (if available), as well as target credibility weights.
Annual Projected Scope 3 Emissions with Target Credibility Assessment [tCO ₂ e/ year] (time series)	A company's projected Scope 3 greenhouse gas emissions in tCO ₂ e for the specific year. These emissions are projected by taking into account the latest estimated Scope 3 emissions, the company's pledged climate targets (if available), as well as target credibility weights.
GICS Sub Industry	GICS Sub-Industry classification, mapped to Sector level in the analysis.

- MSCI's methodology has been updated since last year and projected emissions are based off **more stringent credibility factors** rather than company 'face value' emissions targets
- Companies measured to reach net zero at 2050 are also measured against the Science Based Target initiative's (SBTi) verified targets

Investment Opportunity Set

By projected Net Zero year – Updated, more stringent methodology

This chart compares the total number of companies in the MSCI All Country World Index (ACWI) investment universe to the number of companies with projected scope 1 + 2 emissions consistent with net zero target dates of 2030, 2040, and 2050.



As at 31 Dec 2023, only 33 companies (from a universe of 2,825) had verified credible 2030 Net Zero targets, representing 1.2% of the investable universe by number of companies or 1.4% by market cap.

*Analysis as at 31 Dec 2023

[^]Company numbers have varied considerably since 2022 due to methodology changes in MSCI's ITR modelling. Targets are now based on more stringent credibility factors of company emissions targets. Companies reaching net zero at 2050 remain relatively unchanged as projected emissions are also based on SBTi verified targets.

Top 10 global companies with verified 2030 Net Zero targets

Modified 'net zero 2030' MSCI ACWI – Updated methodology

Top 10 companies by market capitalisation within the portfolio

COMPANY	SECTOR	PORTFOLIO WEIGHT WITHIN 2030 PORTFOLIO**
ACCENTURE PUBLIC LIMITED COMPANY	Information Technology	15.4%
SAP SE	Information Technology	11.3%
S&P GLOBAL INC.	Financials	10.1%
PROLOGIS, INC.	Real Estate	8.6%
Sony Group Corporation	Consumer Discretionary	8.4%
Deutsche Telekom AG	Communication Services	5.5%
GSK PLC	Health Care	5.3%
ABB Ltd	Industrials	5.0%
Aon plc	Financials	4.1%
TRANE TECHNOLOGIES PLC	Industrials	3.9%
Total	-	77.6%

The top 10 companies represent nearly over two thirds of the 'net zero 2030' MSCI ACWI by market capitalisation. The construction process followed only includes scope 1 + 2 emissions; if scope 3 emissions were included, there would be 8 companies in the 'net zero 2030' portfolio*.

*Analysis as at 31 Dec 2023

**Portfolio weight reflected scaled up coverage to 100%

^Company numbers have varied considerably since 2022. We are in dialogue with MSCI to identify these changes before further insights can be extracted. There is no overlap in the top 10 contributors compared to last year as a result of the changes to MSCI's methodology for modelling projected emissions which were previously based off 'face value' company targets and are now based off credibility factors.

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