

# Climate Quantified™ Transition Analytics:

Clarity for asset managers



Around the world, the impacts of climate change are already being felt. In response, policymakers continue to press for rapid decarbonisation to help mitigate the worst effects of rising temperatures.

As a result, the transition to net zero is already underway and will require structural changes right across the economy. Investors are increasingly at the forefront of these changes as they allocate capital to support the transition. Asset managers and the portfolios they manage for their clients are key to this global economic transformation.

However, there isn't one single transition pathway to global net zero. The speed and impact of the transition will differ across regions and sectors. Deep and rapid decarbonisation will be required in some sectors, while others might require significant capital investments in new technologies. Some companies will cease operating unless they can adapt their business models, while others may flourish, or entirely new industries may emerge.

Even as regulators increase requirements for investors to report emissions and disclose climate-related risks, asset managers often lack access to robust data and metrics to help them decarbonise portfolios in a way that reduces global emissions, while meeting their fiduciary duty to clients to help manage financial risk and seek to capture the opportunities of the climate transition.

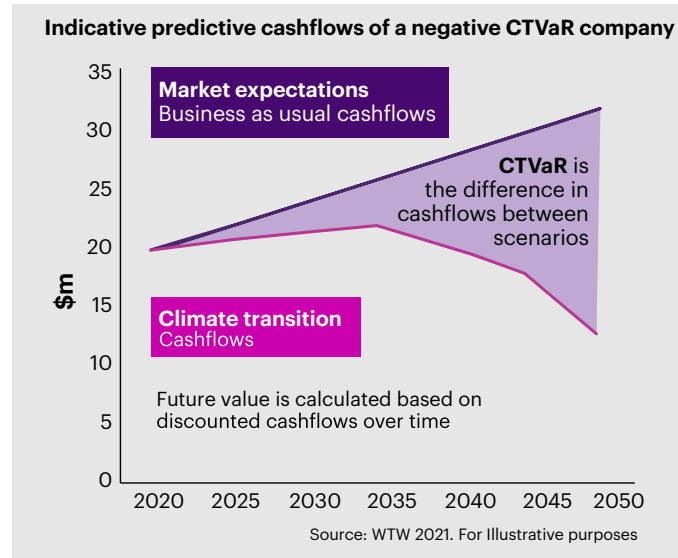
**Climate Quantified™ Transition is used by the world's leading companies, organisations and governments to help make informed decisions about climate, environmental, and other emerging risks that capture value and build resilience.**

## Insightful analytics

At the heart of our climate transition analytics is a standard financial metric based on future cashflows. We believe our approach is more insightful than other metrics because we calculate Climate Transition Value at Risk for each operating asset or line of business, enabling investors to identify the opportunities of the net zero transition.

## Coverage & credibility

Our models are subject to rigorous quality control and have been developed over more than a decade to cover the financial impacts of transition in all regions across 30 commodities and 500 products, services and sectors outside of commodities. Corporates, countries and investors are already using CTVaR to help assess their exposure to transition risk and identify opportunities.



## Overview of CTVaR-based products

### Transition risk data

Provision of CTVaR data set available for CTVaR enterprise & equity valuation for more than 6,500 companies.

Market data refreshed daily; research inputs frequently updated.

For: Portfolio managers and ESG, risk management & equity research professionals

#### Potential benefits:

- Prevents pitfalls of singular focus on carbon intensity metrics
- Informs fundamental stock picking with a systematic risk metric
- Avoids conflating climate risk with other portfolio risk factors

### Bespoke solutions

Creation of scenarios and analytical tools designed with and for the client.

For: Mid-size asset managers / data providers, corporates and life insurers

#### Potential benefits:

- Custom built solution that can integrate into a client's existing architecture to provide bespoke research directly to existing technology
- Access to WTW's in-house specialist tech resources for financial services

### Active management research

Access to the Butterwire climate risk analytics tool, including automatic updating, portfolio construction and evaluation tools, and access to fixed income analysis.

For: Active equity & fixed income fund managers and research, ESG & engagement teams

#### Potential benefits:

- Advanced security selection & portfolio simulation that integrates climate risk
- Supports climate risk reduction whilst seeking to maximise return/risk/style profile
- Research input that complements traditional sell-side offering

### Consulting services

Development of research and analysis for the client on specific climate investment issues at the country, industry, commodity, or portfolio level.

For: Asset owners & managers looking to refine or set strategy; corporates with high risk

#### Potential benefits:

- In-depth research / analysis on climate issues that are most material to an entity
- Expert analysis on fundamental drivers of the transition, its risks & opportunities
- Hundreds of hours of research done by specialists & regularly refreshed

### Implementing CTVaR in equities



Last year, WTW launched its first CTVaR-based product with partners Qontigo. The Climate Transition Index (CTI) seeks to reduce the negative financial impact to investors from

declining valuations of companies adversely exposed to the climate transition, while capturing upside exposure from companies that are positioned to benefit from the transition.

Asset owners play a critical role in allocating capital to support the transition to net zero, as they now control \$175trn in AUM. Equities still comprise the majority of asset allocations<sup>1</sup>.

The CTI can help asset owners reduce risk and enhance return potential on passive equity portfolios, either by:

1. Use a passive tax efficient vehicle to track the index seeking to reduce risk in portfolios (AMX by Carne)
2. Licence the index directly and manage risk in portfolios accordingly
3. Use the data underlying the CTI to help make better informed portfolio management decisions

**Asset managers** may also like to use the CTI as a benchmark for an active equity management strategy.

- Use the CTI index to help allocate capital away from risks and towards opportunities
- CTI can easily fit into an equity allocation without changing the risk profile of the overall plan
- Underlying methodology covers Scope 3

#### Added value

Investing in the CTI can enable asset owners to decarbonise their portfolios while aligning with global net zero targets. Investing in the CTI can reduce the carbon intensity of your investment by more than 50%<sup>2</sup>.

**With CTVaR, investors are better able to manage their financial risk while reducing the emissions of their portfolios and allocating capital to the industries and companies that accelerate the transition.**

| Metric <sup>2</sup>                                 | World CTI    | MSCI World   |
|---|--------------|--------------|
| <b>CTVaR</b>  | <b>-0.1%</b> | <b>-3.6%</b> |
| Scope 1+2 Emissions/\$m invested                    | 32.7         | 66.8         |
| Scope 3 Emissions/\$m invested                      | 230.1        | 398.1        |
| Weighted Average Scope 1+2 Emissions EVIC Intensity | 20.0         | 44.9         |
| Weighted Average Scope 3 Emissions EVIC Intensity   | 148.9        | 311.4        |

Source: WTW, STOXX, MSCI as of 30 June 2022. ESG data sourced from MSCI

<sup>1</sup> [https://www.thinkingaheadinstitute.org/content/uploads/2022/02/GPAS\\_2022.pdf](https://www.thinkingaheadinstitute.org/content/uploads/2022/02/GPAS_2022.pdf) <sup>2</sup> Past performance is not a reliable indicator of future results.

## Climate Transition Value at Risk: a new way to measure climate risk

WTW's Climate Transition Value at Risk (CTVaR) methodology quantifies climate transition risk by integrating forward-looking company assessments with traditional risk and return models. With our bottom-up granular approach we're able to determine the climate transition risk that companies face and help identify risks and potential opportunities.

WTW's measurement of transition risk uses financial modelling to assess the impact of climate transition on the value of companies, assets and portfolios. CTVaR is the difference between current market expectations of future cash flows and those under

different climate transition scenarios. Assessments can be made under various climate transition scenarios, ie different assumptions as to the extent and speed of reductions in carbon emissions.

With CTVaR, investors are better able to manage their financial risk while reducing the emissions of their portfolios and allocating capital to the industries and companies that accelerate the transition.

Our methodology doesn't just look at carbon emissions, but is a forward-looking financial metric to help companies, investors and countries understand the impact the transition to a low-carbon economy will have on them.

## About the Climate & Resilience Hub

WTW's Climate & Resilience Hub is home to leading edge analytics and advisory as part of its brand, Climate Quantified™. The CRH's expertise covers all three pillars of climate risk - physical, transition and liability - while our resilience & ecosystem practice is a world leader in risk transfer innovation that makes people and nature more resilient.

The CRH's climate transition risk analytics expertise is covered by a team of around 30 specialists with experience across investment and consulting, economics, academia, energy, and ratings agencies. The CTA team use CTVaR for various applications, of which the Climate Transition Index is one. They work with governments, corporates and investors to help identify and mitigate their transition risk at a company, asset or portfolio level.

### Disclaimer

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We incorporate sustainable investment considerations, including sustainability risks, into our investment research, due diligence and manager assessments. We believe that sustainability risks and wider sustainability considerations can influence investment outcomes from a risk and return perspective. Where sustainability risks and other sustainability considerations are most likely to influence investment risk and return, we encourage and expect fund managers to have a demonstrable process in place that identifies and assesses material sustainability risks and the impact on their investment strategy and end portfolio.

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### About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://wtwco.com).

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