

MSCI COP2 Conversations

Featuring:

Eric Nietsch, Senior Investment Strategist, New Zealand Superannuation Fund

Brendan Baker, Climate Specialist, ESG Research, MSCI

Brendan Baker (00:15):

Hi everyone and welcome back to another session on COP26 Conversations in Asia Pacific where we discussed some of the ins and outs of climate change from an investor lens by talking to some of our clients in each APAC region.

Now today I'm pleased to be sitting down and talking with Eric Nietsch, who is the Head of ESG in Asia at Manulife Investment Management. Now, before we jump into what's happening in the region and at Manulife, Eric, around climate change and COP26, can you just provide a quick overview of who you are and what you get up to at the company?

Eric Nietsch (00:51):

Sure, thanks Brendan. I'm Eric Nietsch. I'm based in Singapore, and I lead the ESG research and integration team for Manulife in Asia. So, in that role, I have a few internal and external responsibilities. So, working on the ESG integration across all of our portfolios, with the investment teams both credit and equity. And then also designing new thematic sustainable funds.

And we tend to be active, long-only managers and so we take a very active ownership stance towards the things that we invest in. So, working with companies through engagements, actively voting our proxies and then also bringing all that into our portfolios and there's a lot that we do ourselves, but then there's a number of things where we also try to work with other investors and industry groups so actively participating in things like the Asian Investor Group on Climate Change, The Asian Corporate Governance Association and the Cambridge Institute of Sustainability Leadership.

Brendan Baker (01:43):

Yeah, perfect Eric. So, taking that just a little bit further, what are you seeing across the APAC region from a climate change front? Any key changes you see coming or already in motion?

Eric Nietsch (02:13):

Yeah, absolutely and I think in the past year there's so much that's changed across the region, so really starting about a year ago we started to get these net-zero commitments from China, Japan, South Korea, also New Zealand and all the states in Australia. Similar commitments from companies, things like the moratorium on coal and the Philippines.

What is happening more recently is now that we have all these big commitments thinking about what does it really mean in practice, what are the implications and how does it play out more near term.

With that I think two other themes related to all of this that's going on, are increasing disclosure and regulation so there's a need for both companies and investors to be more transparent about what they're doing and so that leads to voluntary disclosure, as well as more disclosure that's required. And regulatory changes, not just for companies, but for investors also around fund labeling requirements and what does it mean to have a sustainable fund.

Brendan Baker (04:42):

Awesome. So, in saying all of that, what would that mean for a company like Manulife or other asset managers who are tackling these climate related issues head on?

Eric Nietsch (04:59):

In terms of what we're doing, the first thing is really we try to get off the sidelines and get involved, whether that's working in a regulatory working group, you know, responding to the regulatory consultations.

We're actively participating in shaping the taxonomy for what defines you know what is green or sustainable in Singapore and in Japan. we also try to bring a lot of this into our portfolios.

As part of that we're also looking for opportunities. So as companies are responding to changing energy system, you know where is that driving value where's that creating investment opportunities.

And then investors needs are changing so investors are adding climate objectives or sustainability objectives to the financial objectives that they might have. And so as asset managers we're trying to design strategies and solutions that help clients meet their changing objectives.

Brendan Baker (07:46)

yeah great. Now I want to dig a little deeper here as particularly in APAC, we're often playing a bit of a balancing act between necessary development opportunities for society and an increasing need to mitigate some of these climate externalities. You know, hence the technology is often seen as one of these necessities from an improvement and deployment perspective and it's likely crucial in this region. Yet a lot can ride on this and may not always materialize and this also dictates a lot of the climate scenario analyses and pathways that we use. So how are you approaching some of these often conflicting demands?

Eric Nietsch (08:09)

Just to kind of set the scene. You know more than 50% of emissions already come from Asia. If you look at the rates of development and growth, it's very reasonable to expect that the vast majority of emissions between now and 2050 when it really matters are going to come from the region. So it's absolutely critical to address the region's emissions if you're thinking about

a plan towards mitigating climate change. But you know within that there, there are very you know distinct differences. So what are the decarbonization pathways for different countries and different sectors.

There's also kind of two common approaches to sustainability issues, so people will either say if we continue to do what we're doing, we are going to do serious harm to the planet, and so we have to stop what stop these activities. But it's very different from the other response that we need better technology to solve these problems. it's really finding the middle ground or being realistic about what activities really need to stop.

And then you know, on the other side it's thinking you're being realistic about you know what technology, we might have at reasonable economics over the timeframe that we need.

I think that all of this shouldn't be a distraction from what can be done today so before you get into any of the technology or you know lowering production or anything like that, there's still a lot of low hanging fruit, with just energy efficiency. And a lot of emissions that can be improved, through you know electrification you know what can be electrified through renewables so green electricity and then just process improvements, so I think there's a lot that we can focus on with those over the next five years, but at the same time we've got to be thinking about longer term emerging technologies.

The two main technologies that you know could play a big part that we don't have today are our carbon capture and hydrogen. Hydrogen seems to be a pretty promising technology that pricing isn't there yet, there needs to be further improvements to bring the pricing down so it's comparable with fossil fuel processes.

In cement, I think we probably need more transformative technologies, because the profit for a ton of cement is pretty low, and so even if you're talking about technology that's a few dollars per ton, it's going to have a huge impact on the on the margins and cash flow.

Another real risk is that if you come up with a climate plan or climate strategy and it's dependent on technology that doesn't exist. What happens if that technology is never developed so you know with a company, you can have a conversation about what's the backup plan if this doesn't ever end up happening, you know what else can you do, or what else should you be preparing for.

Brendan Baker (09:23)

Yeah, thanks Eric. Not an easy task, and I think this deep sectoral understanding and realistic risk-based approach to potential technology advances with backup plans would yield both sound financial and environmental outcomes from an investor lens so thanks for sharing that. That was great.

Now coming back to a slightly higher-level kind of asset class question we're spending a lot of time at MSCI discussing and supporting investors on multi-asset class climate change strategies. And I believe Manulife has been working on this space for quite some time as well, so be great to hear what you know what you're working on in that space and how you've been approaching climate related matters at a bit more of a multi-asset class perspective.

Eric Nietsch (08:09)

So, I guess there're three things that that I would mention, you know one is the growth of the sustainable debt markets, so green social sustainable bonds. In terms of something you know to come, I think that huge potential in the region for a transition bond market, but it does have to be done credibly. You know the green bond market especially has grown tremendously over the past few years in Asia. I think it's almost one in every five bonds that comes to market now is sustainable debt in some capacity.

You know, dedicated green bond funds to us that's not necessarily what makes a sustainable fund, but where in a portfolio where we're looking at delivering on say climate objectives, how can we use green bonds as one of the tools to achieve that objective. And so an example is in our Sustainable Asian Bond Fund, we have a dedicated allocation to green bonds.

With so many you know companies coming to market and with so much new issuance we find that we do have to be careful that we're actively reviewing those that we agree with the label and that something that's labeled as sustainable is really what the company is doing is backing that up. And so there are a number of issues that we have avoided, for that reason, in the fund. But the growth in the market has been great. And that's you know something that we really want to encourage.

The transition bond market is having a lot of opportunity. For everything that we spoke about you know with the transition challenge in the region. I think it could be an especially important market to develop for the region. But with the uncertainty around pathways and the questions around greenwashing I think it's really important that it develops in a way that is upholding a high standard.

I'm excited about a group that's just kicked off with the climate bonds initiative so we're working on defining what those pathways look like and what should be the standard for credible transition bonds.

In addition to using sustainable debt as a tool in our portfolios. We think that engagement is another thing that that is you know historically been maybe more associated with equity investors but is very appropriate very worthwhile for fixed income for investors to participate in. In many cases the company's capital structure, fixed income might represent a much larger portion of that. You know I think we also see opportunities to get involved in companies that might have public debt, but private equity. Especially important in the region where you have state-owned companies and family-owned companies. And so you know in engagement, it very much applies to both our fixed income and equity strategies.

Brendan Baker (09:23)

Yeah perfect some great insights and initiatives there Eric thanks. Look, finally, as COP26 is nearly upon us, I thought i'd finished with a bit of a question on you know what to look out for in COP26 and and what you're hoping to see come out of it, you know, particularly for the APAC region.

Eric Nietsch: (09:35)

In terms of other things that could come out of 26 or what we're kind of watching going into COP26, a big one would be more detail from China and India – the two biggest countries and economies in the region. China has come out with this 3060 plan in terms of peaking

emissions by 2030 and then getting to neutrality by 2060. The IEA report which was commissioned by the invitation from the Chinese Government has indicated that they could peak by 2025 and it kind of opens the door for net-zero before 2060.

Similarly, India has not made a mid-century net-zero commitment, and so I think there's a lot of conversations happening around you know what's their position going to be at COP.

Going back to some other things that we've talked about earlier in the conversation, these long term targets are great but you know what maybe even more important is what are we doing now, or what action can actually be taken today and so you know the UK as the host of COP has invited countries to also provide more detail on what they hope to accomplish by 2030 and so I think the detail around that will also be hugely informative for what these pathways could look like and how they play out the market.

Brendan Baker (09:23)

Yeah fantastic. Thanks Eric, it's been great to chat. I really enjoyed it and I'm sure our listeners will get a lot out of this session as well, so really appreciate you coming on and talking to us and best of luck with everything climate related for the rest of the year and beyond. Cheers.

Eric Nietsch: (09:35)

Thank you.

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