



FORWARD-LOOKING CLIMATE DATA: DOES IT EXIST?

Impact Cubed's climate-focused luncheon roundtable on [28 April 2022](#) focused on forward-looking climate data, a hot topic for responsible investors. Investors clearly want forward looking climate data, but does it exist and can it be relied on for capital allocation?

Global Greenhouse Gas Emissions Continue to Rise

With forward-looking data on the agenda, a natural starting point was the Intergovernmental Panel on Climate Change's (IPCC) recent [report](#). The projections contained in the report, which focus primarily on the mitigation of climate change, were dismal.

According to the IPCC:

- The existing greenhouse gas emissions trajectory will result in 3.2°C of temperature rise by 2100.
- Global greenhouse gas emissions must peak by 2025 and fall 43% by 2030 in order for the world to limit a rise of 1.5°C - the goal set out in the Paris Agreement on climate change.

Corporate emissions are seemingly a microcosm of the global economy. Impact Cubed's forward-looking carbon trend data paints a similar picture if global businesses do not cut their carbon emissions.

Forward Looking Carbon Reduction Targets: Low Disclosure, Ambitious Intent, Dubious Outcomes

When it comes to corporate data, the roundtable noted organisations such as the [Science Based Targets](#) initiative review and validate carbon emission reduction targets that companies submit to them. However, on a global level there are very few publicly listed companies that have published carbon reduction targets, and most don't disclose their detailed plans or investments needed to get to net zero. Will these 25-year carbon reduction plans hold water in the face of economic and geo-political shocks?

At a portfolio level, investors will be found wanting if they expect every stock to have disclosed its carbon reduction target. In fact, company disclosures surrounding a host of sustainability topics are generally lacking, in what we call the [disclosure cliff](#).

Forward Looking Climate Alignment Based on Company Revenues

Investors can use company business revenue - the products and services - as another lens to evaluate securities when there are no climate-related disclosures. Impact Cubed recognised that most impact data models aren't refined enough for this purpose so, we [split the global economy](#) into 2,300 business activities boosted by a regional revenue overlay.

This industry-leading categorization adds a level of detail missing in most ESG data vendors' models, which means that investors can form a more meaningful forward-looking assessment of a company's climate alignment.

For example, an investor can question whether a company is involved in a production process that harms the environment or one that is working to innovate to combat global warming. This is an example of reliable, forward-looking data that shows how aligned a company's business model is to a future low carbon economy.

Forward Looking Physical Climate Risks

Another way of looking to the future discussed at the roundtable is physical climate risk. This involves assessing how likely it is that an acute climate event - a hurricane or wildfire, for example - would occur.

This is, by nature, a forward-looking measure, but one that requires additional information to make it relevant for investors. Knowing the specific location of a company's office or manufacturing facility- right down to its coordinates - is needed to show how vulnerable a business is to the impact of flooding or other localized climate effects.

Impact Cubed categorizes country-level revenues for companies, which further serves to identify where there may be risks caused by the physical impact of climate change. For example, if a company has offices in India, Bangladesh and London, it may have a different risk profile to one that has a presence in Paris and Berlin.

Would you like to receive invitations to our luncheon roundtables which are held in London and New York, please send a note to info@impact-cubed.com.

ABOUT IMPACT CUBED

Impact Cubed provides ESG analytics and investment solutions for building more sustainable portfolios with greater impact. It combines an award-winning approach to integrating impact into risk and return with technology-enhanced portfolio design and management. The outcome is a seamless approach to customised sustainable investing.

You can find out more about our data and portfolio models at www.impact-cubed.com and if you would like to contact us at info@impact-cubed.com we would be happy to hear from you.

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