

# Quick Take: Decarbonizing Portfolios is Easier with Utilities out of Favor

December 2021

## Presently, utilities disproportionately drive the carbon intensity of global benchmarks.

- Utilities comprise less than 3% of MSCI World's weight but account for nearly 40% of its carbon intensity. (Scope 1+2 Emissions / Revenue; Figure 1)

## Recently, low volatility managers have leaned away from utilities with little performance cost.

- While low volatility equity managers traditionally have overweighted utilities to reduce portfolio risk, staples and less conventional allocations, such as pharma, have been more effective diversifiers since the market selloff in Q1 2020. (Figure 2)
- Over the same period, utilities have also lost appeal to many bottom-up stock pickers. Many investors shunned utilities as they underperformed both in the 2020 sell-off and the long speculative rally that followed. The MSCI World Diversified Multiple-Factor Index, for example, reduced its active exposure to utilities over three rebalances, starting with 2020 H2. (Figure 3)

## Decarbonization will require greater deliberation as the utilities outlook improves.

- Attenuation of utilities' expected betas, more attractive valuations, or strong performance during episodes of risk aversion will likely stimulate investor demand. When this happens, low volatility managers will need to apply more sophisticated methods to balance decarbonization and risk-reward objectives.

Figure 1: Contributions to MSCI World Carbon Intensity

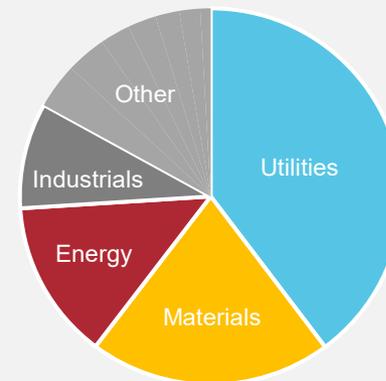
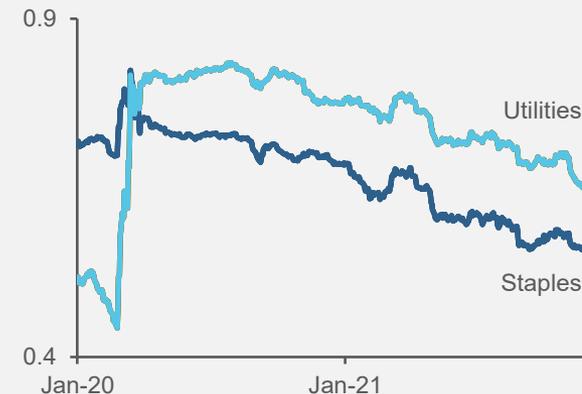


Figure 3: Utilities' Active Weight in MSCI's Diversified Multi-Factor Index



Figure 2: Expected Betas vs. MSCI World



Mark Birmingham, CFA  
SVP, Lead Portfolio Manager  
Managed Volatility  
[mbirmingham@acadian-asset.com](mailto:mbirmingham@acadian-asset.com)



Andy Moniz, Ph.D.  
SVP, Director of  
Responsible Investing  
[amoniz@acadian-asset.com](mailto:amoniz@acadian-asset.com)

# LEGAL DISCLAIMER

Acadian provides this material as a general overview of the firm, our processes and our investment capabilities. It has been provided for informational purposes only. It does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or to purchase, shares, units or other interests in investments that may be referred to herein and must not be construed as investment or financial product advice. Acadian has not considered any reader's financial situation, objective or needs in providing the relevant information.

The value of investments may fall as well as rise and you may not get back your original investment. Past performance is not necessarily a guide to future performance or returns. Acadian has taken all reasonable care to ensure that the information contained in this material is accurate at the time of its distribution, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information.

This material contains privileged and confidential information and is intended only for the recipient/s. Any distribution, reproduction or other use of this presentation by recipients is strictly prohibited. If you are not the intended recipient and this presentation has been sent or passed on to you in error, please contact us immediately. Confidentiality and privilege are not lost by this presentation having been sent or passed on to you in error.

Acadian's quantitative investment process is supported by extensive proprietary computer code. Acadian's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls and their effectiveness are subject to regular internal reviews, at least annual independent review by our SOC1 auditor. However, despite these extensive controls it is possible that errors may occur in coding and within the investment process, as is the case with any complex software or data-driven model, and no guarantee or warranty can be provided that any quantitative investment model is completely free of errors. Any such errors could have a negative impact on investment results. We have in place control systems and processes which are intended to identify in a timely manner any such errors which would have a material impact on the investment process.

Acadian Asset Management LLC has wholly owned affiliates located in London, Singapore, Sydney, and Tokyo. Pursuant to the terms of service level agreements with each affiliate, employees of Acadian Asset Management LLC may provide certain services on behalf of each affiliate and employees of each affiliate may provide certain administrative services, including marketing and client service, on behalf of Acadian Asset Management LLC.

Acadian Asset Management LLC is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration of an investment adviser does not imply any level of skill or training.

Acadian Asset Management (Singapore) Pte Ltd, (Registration Number: 199902125D) is licensed by the Monetary Authority of Singapore.

Acadian Asset Management (Australia) Limited (ABN 41 114 200 127) is the holder of Australian financial services license number 291872 ("AFSL"). Under the terms of its AFSL, Acadian Asset Management (Australia) Limited is limited to providing the financial services under its license to wholesale clients only. This marketing material is not to be provided to retail clients.

Acadian Asset Management (UK) Limited is authorized and regulated by the Financial Conduct Authority ('the FCA') and is a limited liability company incorporated in England and Wales with company number 05644066. Acadian Asset Management (UK) Limited will only make this material available to Professional Clients and Eligible Counterparties as defined by the FCA under the Markets in Financial Instruments Directive.



GLOBAL AFFILIATES

Boston London Singapore Sydney

ACADIAN-ASSET.COM