sycomore am

December 2025

Climate data everywhere: Is it enough for true Alignment Assessment ?

#Note4

Written by

Erwan Crehalet
Sustainability Analyst,
Climate Lead

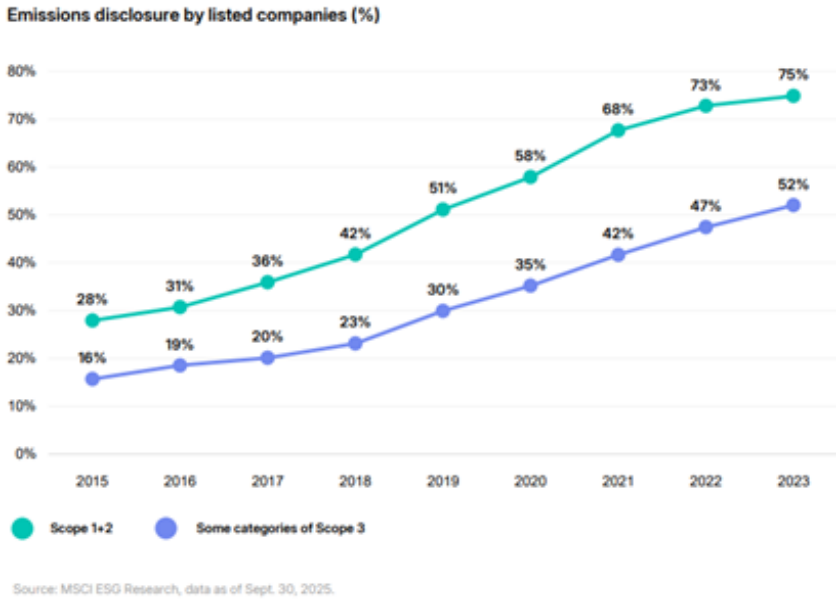
EXECUTIVE SUMMARY

Climate change remains a defining challenge for investors. With the COP30 in the rear mirror and the 10-year anniversary of the Paris Agreement in sight, we discuss the remarkable growth in the availability of climate-related data and ratings and how they can be used by investors to identify and support corporates that are the most engaged in the transition towards the global net zero goal.

Key message #1 : Benchmark equity indices are now much better covered by climate-related data

At the time of the Montreal Carbon Pledge more than 10 years ago, investors that had pledged to **measure and disclose the carbon footprint of their portfolio** had **to fill wide gaps in corporate reporting by third-party estimates**. This carbon data gap **has narrowed considerably since then**.

- MSCI ESG Research data reveals that **75% of listed companies now report on their operational emissions, compared to only 28% back in 2015**. Companies now **also better report** on the carbon emissions that occur throughout their value chain, so called **scope 3 emissions**, allowing investors to better understand their carbon footprint beyond their sole scope of operations. More than half of listed companies reported at least one category of their scope 3 emissions in 2023 versus only 16% back in 2015 according to a MSCI ESG Research.



- **Green taxonomies** have also brought **standardisation on how corporates report their exposure to green activities**. We estimate that about 2/3rd of the constituents of the Stoxx 600 and MSCI Europe indices must report their green exposure based on the EU Taxonomy.

- A **growing number of corporates have set climate targets. Initiatives such as the SBTi or Transition Pathway Initiative**, building on the modelling work made by other institutions such as the International Energy Agency (IEA), **have allowed to compare the level of ambition of these targets** with emissions pathways consistent with the climate change mitigation objectives set by the Paris Agreement.

- **24,000+ companies now report to CDP Climate questionnaire**. This is four times more than in 2015, now covering about two-third of the global market capitalisation, and even reaching 90% of the European market capitalisation.

- Finally, the **work done by NGOs focusing on transparency and developing open source databases has allowed investors to deploy negative screening on wide portfolios** and exclude companies with fossil fuel exposure seen incompatible with the goal of the Paris Agreement.

The list could be long of how climate-related data have become more available and better standardised.

Key message #2 : Data-driven transition strategies still face key limitations

Despite the encouraging summary made above, and for investors willing to support the low-carbon transition, we believe that these data points are not mature enough to alone inform a sensitive selection of companies in equity or corporate bond portfolios. And strategies such as EU Climate Benchmark **will increasingly show their inherent limits** when it comes to directing investments towards companies contributing the most to the global transition towards net zero.

Some of these limitations may be well-known but are always worth being reminded of.

Firstly, **CO_2 data reported by corporates are not fully standardised and comparable**:

- Many companies **do not yet report on all scope 3 categories**, **creating comparability biases** and **significant year-on-year changes** when they start reporting on the most material scope 3 emissions such as those related to the use of their products.

- Companies can take **different approaches and assumptions when estimating scope 3 emissions, leading to significant discrepancies**. As an example, ABB, a global leader in electrification and automation technologies, reported two different numbers for its scope 3 emissions with one more than 5 times higher than the other, based on two different assumptions.

- Many companies also report on their **scope 2 emissions on two different approaches**. For investors, selecting **a common approach is required to ensure comparability.**

Secondly, **CO_2-intensity per revenue, often use to screen low carbon investment, doesn't always imply CO_2-efficiency.** Here is a simple example to illustrate this: let's assume a cement producer with a CO_2-effiency of 600kgCO2/t cement, 10% better than a peer displaying a CO_2-efficiency of 667kgCO2/t cement. If cement prices for the former are 20% lower than for the latter due to local market conditions, the one with the poorer CO_2-efficiency will screen better on a CO_2-intensity basis.

When it comes to the **EU Taxonomy reporting, as it is still subject to interpretations and assumptions, corporate reporting can also vary greatly due to interpretations and assumptions**: some companies decide to take a conservative approach on DNSH test and prefer reporting 0% of aligned turnover, letting some peers having less of their turnover passing the green performance criteria reporting higher alignment figures. In addition, **some activities with positive contribution**, such as sustainable agriculture practices, **may not yet be integrated in the green taxonomy**.

In short, **further standardisation is needed in our view to ensure strong comparability**. At this stage, we warn that **relying blindly on data could lead to excluding from portfolios companies that are, in fact, more engaged in the transition**.

We would also note that while **SBTi certification** is an interesting addition allowing **to signal the level of ambition of corporate decarbonisation plans**, it **has almost become a non-discriminatory factor among listed European companies. Assessing corporates' progress** against their science-based target has become a **key more differentiating element**.

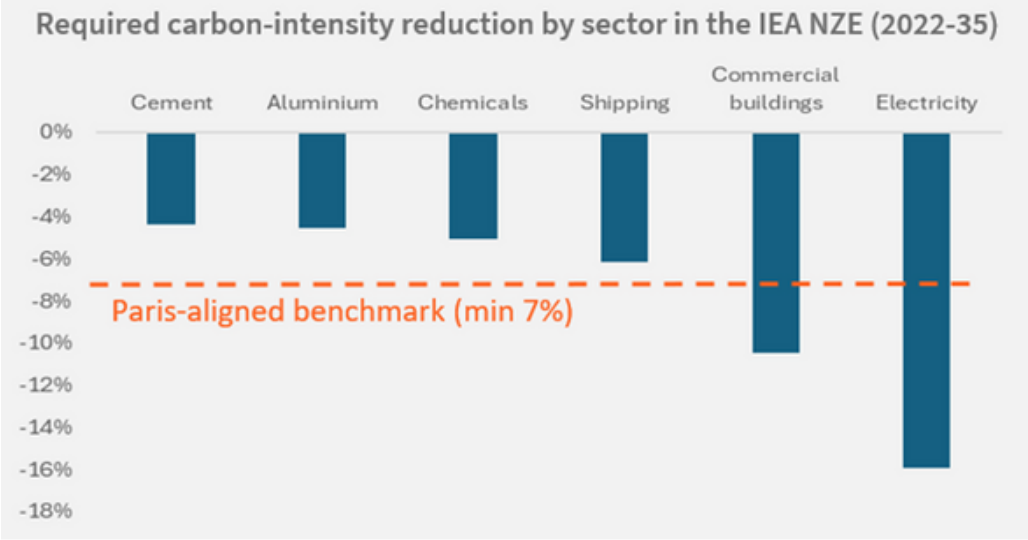
Key message #3 : Portfolio decarbonisation strategies disconnect from hard-to-abate sectors

CO_2 data availability has supported the **development of portfolio decarbonisation targets** and the creation of EU Climate Benchmarks have supported the **creation of index-based solutions** helping investors to reach these targets. We estimate that EUR66bn are invested on these strategies[1], a +60% increase in two years.

As EU Climate Benchmarks command a 7% annual reduction in the index carbon footprint, **the risk of these strategies is to gradually oust entire high emitting "hard-to-abate" industries that are nevertheless key to the transition**, and by doing so to **increase their tracking error with unconstrained parent indexes**.

While the 7% threshold has been established for the global economy, sectors such as the cement industry or chemicals production or shipping do not have the potential to cut their carbon-intensity at this pace: the required rate of decarbonisation for the cement industry in the IEA Net Zero scenario is closer to 4%. **It is just a matter of time for such a highly carbon-intensive sector to fully exit such passive strategies**, irrespective of whether all or a few players decarbonise in line with what can be reasonably expected from them in 1.5°C scenarios.

[1] Based on Morningstar data and Sycomore AM's listing of ETFs linked to CTB or PAB indices



Source : Sycomore AM based on IEA

By screening out entire sectors, these strategies will increasingly display a growing tracking error compared to parent indices signalling a departure disconnect from the real economy.

Early signals are already visible as we found that:

- A Paris-Aligned Benchmark index on a Euro investment universe showed a 160bps increase in its tracking error with its parent index in just one year, with +/-9% over(under)weight displayed on some sectors.
- A Paris-Aligned Benchmark index on a global investment universe display +5%/-4% over(under)weight on some sectors.

These effects will only accentuate. A recent Stoxx research note showed that **tracking error becomes exponential from a 60% reduction in index carbon-intensity**.
"What happens at 60% to 70% WACI reduction? At this level, one or more of the high-emissions sectors becomes completely depleted" (STOXX, 2024)
With a growing tracking error and the exit from economic sectors that are nonetheless essential to the transition, **such strategies may ultimately deviate from investors' initial expectations** set for core strategies in support of transitioning companies.

We therefore believe that **research-based approaches supporting active portfolio management can be better suited to identify and select companies with credible transition plans.**

Key message #4 : Sycomore AM has significantly strengthened its framework to assess corporate transition plans

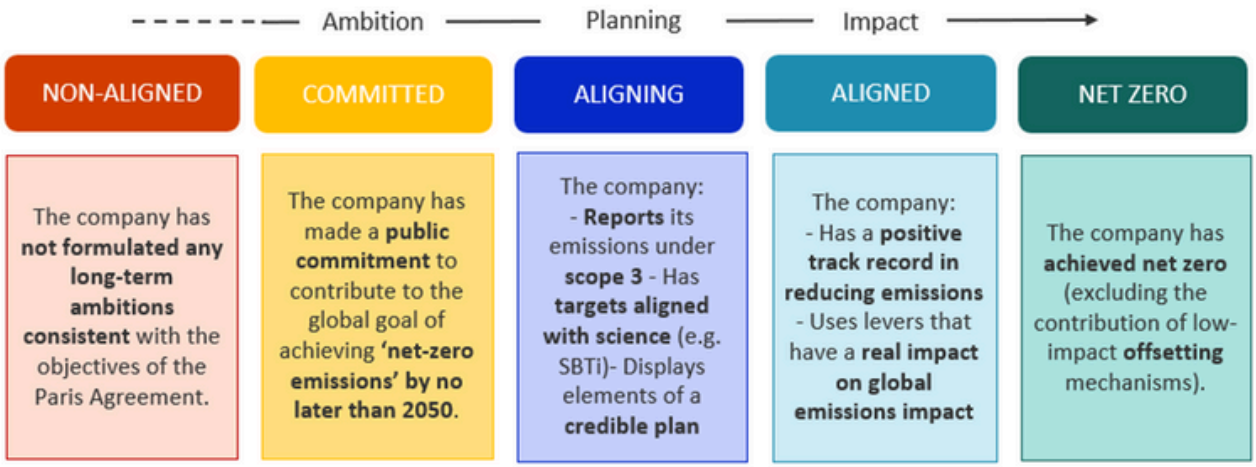
Over the past year, **Sycomore AM has significantly enhanced its climate transition assessment framework**, ranking companies' transition plans based on their level of **ambition, credibility, and impact.**

To ensure **opposability and comparability**, we have set a **rule-based approach** that builds on the five climate transition categories of the **IIGCC Net Zero Investment Framework (NZIF)** and its minimum criteria associated to each category. These criteria are tested thanks to publicly available data that we have selected for their **quality, comparability and robustness**. This includes, among other, data from CDP, the Transition Pathway Initiative, or Net Zero Tracker.

The assessment is **supplemented by the work of our ESG analysts** that check the **consistency of external data** and **further assess the more qualitative aspects of the credibility of transition plans** such as the integration in remuneration policies and lobbying practices. On the latter, we consider that a company seeking to water down relevant climate change mitigation policies cannot be deemed being aligning with the goal of the Paris Agreement.

Finally, because corporates operate in different sectors and geographies, **we believe that there is not one-fits-all metric and that sector specific approaches are needed**. For financials notably, we

rely on sector specific data reflecting the stringency of their fossil fuel policies and financing of green activities. The IEA Net Zero Roadmap serves as a key reference for our understanding of sectoral decarbonisation pathways and levers. For instance, whereas the global net zero deadline is set for 2050, it has to be no later than 2045 for power generation, and even earlier in developed markets.



Source : Sycomore AM

This updated and refined framework has been allowing us to:

- **Enhance our assessment of low-carbon transition risks** and opportunities for each corporate as part of our SPICE[1] methodology,
- **Support our climate engagement with corporates** with more targeted expectations to encourage them reinforcing the ambition or execution of their transition plan to move towards the 'Net Zero' category.
- **Enrich our fund environmental reporting**, starting with funds under the French SRI label.
- **Launch a new strategy** relying on this climate alignment assessment for stock eligibility and selection.

[1] SPICE is our ESG proprietary model which follows a stakeholder's approach. It stands for Society&Suppliers, People, Investors, Clients and Environment.

Conclusion

Although the availability of climate-related data has greatly improved over the past years and now cover large parts of main equity indices, **research-based approaches are still needed to bridge persisting limitations associated with these data**. In our view, as a rule-based approach supplemented by expert analysis of qualitative aspects of transition plans, **our enhanced climate alignment assessment methodology builds on the best of the two worlds**.