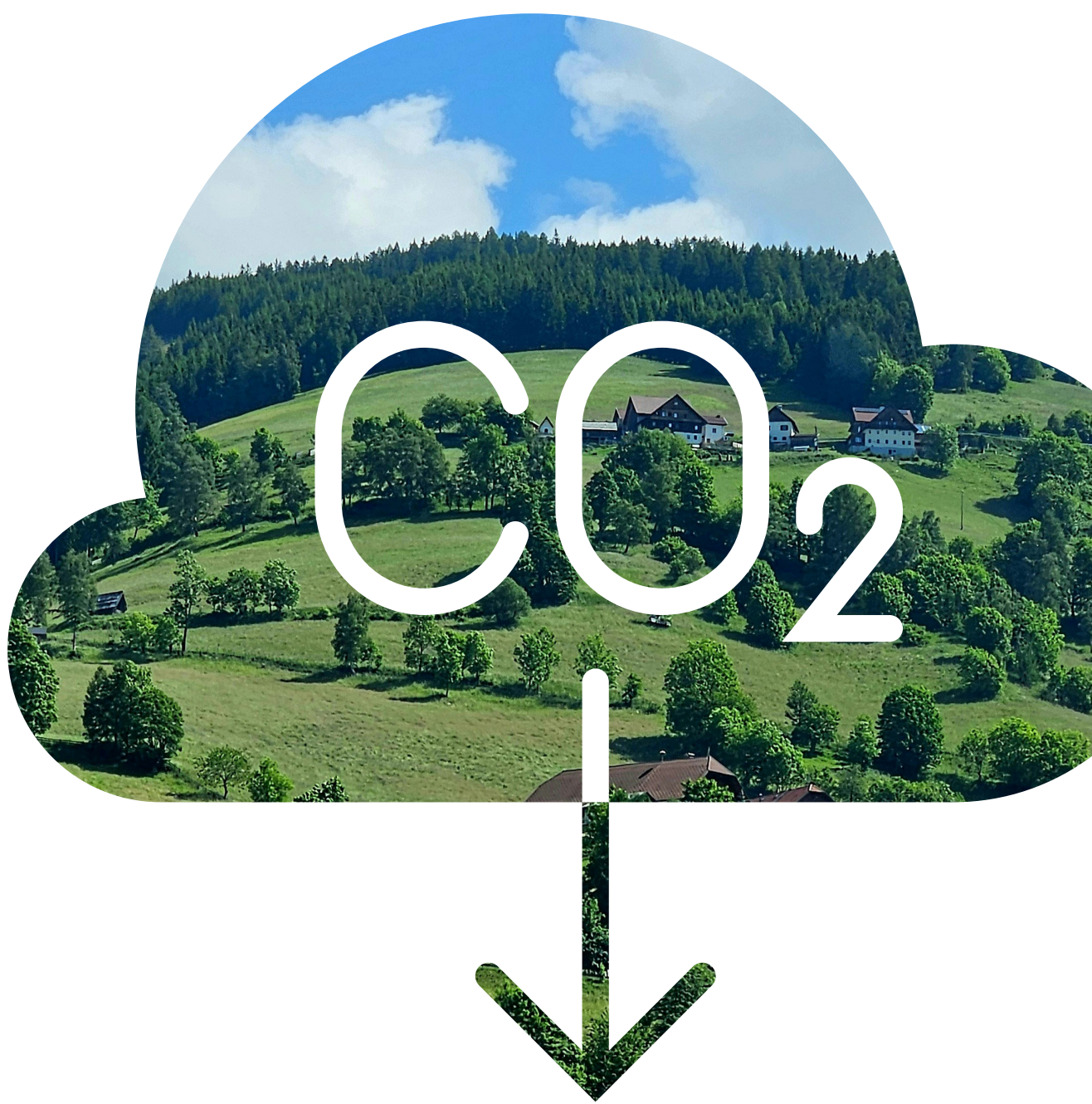


# Decarbonization in Emerging Markets

## Three Key Steps for Investors to Help Decarbonize the Real Economy

Decarbonizing the real economy and addressing systemic climate risks is a complex, long-term process that requires concrete action. Achieving global climate goals will be impossible without financing critical transition strategies to decarbonize energy-intensive sectors. Read on to learn about some of the strategies that asset owners and managers can employ to help decarbonize the real economy.



### Step One: Identify Outperformers

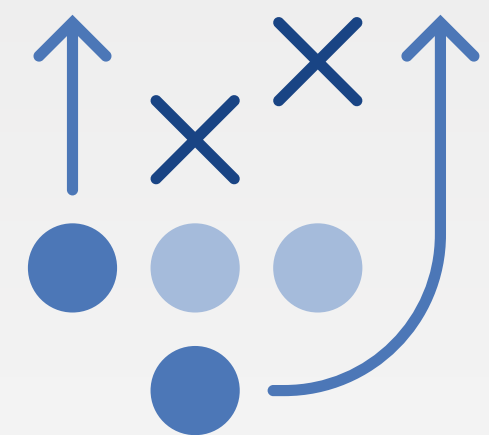


Emerging markets are expected to be the source of future emissions growth. Investors can focus on these markets to identify companies outperforming their sector peers in their commitment to climate action.

Sustainability-themed indexes like the Morningstar Emerging Markets Low Carbon Transition Leaders (EM LCTL) Index can provide diversified, broad market exposure to outperforming companies.

The EM LCTL Index provides roughly 13% more exposure to strong performers in terms of transition readiness, compared to its broad market parent index.

### Step Two: Choose the Appropriate Strategy



#### Best-in-Class Selection

Allocate capital to industry leaders demonstrating climate action in hard-to-abate sectors.

This strategy is often employed by investors actively transitioning towards Paris Agreement goals.

It helps set a benchmark to create competitive pressure and incentivize peer companies.

#### Engagement

Prioritize engagement activities. Effective stewardship could allow investors to have a real-economy impact.

This is especially true with carbon-intensive companies that are:

- Slow to make progress or
- At the early stages of transition readiness

#### Direct Financing

Provide direct financing support to climate transition projects, by:

- Evaluating corporate bond issuances
- Prioritizing sector-specific approaches
- Financing projects in private markets

This can fund scalable, high-impact climate projects and the implementation of decarbonization technologies.

### Step Three: Evaluate Transition Readiness



Companies demonstrating strong performance in managing climate risks and reducing their emissions trajectory often follow several best practices.

Morningstar Sustainalytics evaluates company disclosures to determine how transition-ready an entity is.

This includes looking at **strategic ambition, implementation strategies, metrics and targets, and governance.**



Download **Opportunities to Finance Reduced Emissions in Emerging Markets** to learn how we can help asset owners identify climate outperformers, support decarbonization strategies, and assess companies' climate transition readiness.

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