Sustainalytics ESG Ratings Methodology

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Client Relations
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Who We Are

- Sustainalytics is the largest pure-play investment research and ratings provider dedicated to RI and ESG research

- Over 25 years of experience in the fields of ESG & corporate governance research & analysis

- Over 350 professional staff with more than half engaged in research

- Offices around the globe, providing local market knowledge
What We Do

We help clients turn vast quantities of ESG and corporate governance information into effective analysis to enable more informed investment decisions.

- Named Overall Best ESG Research House by IPE & TBLI in 2010.
- **The Farsight Award:** Best research piece integrating financial analysis with long-term ESG factors for The Future of Fish in 2012. Sustainalytics’ report *Banks – like a phoenix from the ashes?* Was highly commended in 2015.
Sustainalytics Methodology
Our Approach to Measuring ESG

Analytical Structure

Stage 1
Exposure mapping and analysis

Stage 2
Identify key ESG issues

Stage 3
Materiality assessment

Stage 4
Determine indicators, assign weights, then evaluate indicators

Stage 5
Assess controversies

Stage 6
Generate ESG Rating

Stage 7
Develop the Analyst View
### ESG Ratings
What drives a company’s ESG score

<table>
<thead>
<tr>
<th>Conceptual Pillars</th>
<th>Units of Measurement</th>
<th>Components Assessed</th>
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<tbody>
<tr>
<td>Preparedness</td>
<td>Preparedness Indicators</td>
<td>Policies</td>
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<td>Disclosure</td>
<td>Public reporting</td>
<td>Programmes and Management Systems</td>
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<tr>
<td>Performance</td>
<td>Qualitative Indicators</td>
<td>GRI, CDP, Self-Reporting</td>
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<tr>
<td></td>
<td>Quantitative Indicators</td>
<td>Controversies</td>
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<td>Example: Carbon Intensity</td>
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Rating Structure
Two Main Signals to Investors

Company ESG Ratings
- Overall ESG Score (0–100)
- Environmental Score
- Social Score
- Governance Score

Company Controversy Assessments
- Based on 10 issue areas
- Scored from 1 (low) – 5 (severe)
- Outlook
Our Approach to Measuring ESG

Company ESG Reports

- **Overall ESG Score**
  - Measures a company’s management of industry-relevant sustainability-related risks and impacts
  - Between 0 (minimum) and 100 (maximum)

- **Qualitative Performance - Controversy scores**
  - Assesses the notoriety, severity and accountability of a company’s involvement in controversial incidents
  - Between 0 (minimum) and 5 (maximum) per controversy area

- **Analyst Views and Analysis**
  - Analyst commentary provides our analyst’s take on the company’s level of exposure to key ESG issues relative to its business model and any external factors
  - Benchmarking of company performance against leading practice on key ESG issues
  - Analysis of controversy involvement, including a 12-month outlook
ESG indicators are the **smallest assessment unit** that are evaluated based on standardized criteria.

**Core and sector-specific indicators** allow comparability across the universe and within industries.

Weights are assigned to each indicator based on the **relevance of the indicator to the key ESG issue** it tracks.
# Controversy Ratings

**Measure of Performance**

<table>
<thead>
<tr>
<th>Impact and Risk Score</th>
<th>Low</th>
<th>Moderate</th>
<th>Significant</th>
<th>High</th>
<th>Severe</th>
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<tr>
<td>Qualitative Assessment</td>
<td>The controversy has a low impact on the environment and society, posing negligible risks to the company.</td>
<td>The controversy has a moderate impact on the environment and society, posing minimal risks to the company.</td>
<td>The controversy has a significant impact on the environment and society, posing significant risks to the company.</td>
<td>The controversy has a high impact on the environment and society, posing high risks to the company. This category often reflects structural problems in the company.</td>
<td>The controversy has a severe impact on the environment and society, posing serious risks to the company. This category represents the most severe corporate conduct.</td>
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</table>

- Controversies are presented as indicators with higher weights assigned.
- Controversy weighted scores roll up to the ESG Rating.
Controversy Ratings
Assessment Framework

Assessment at Incident level

- SEVERITY
- ACCOUNTABILITY
- EXCEPTIONALITY
- NOTORIETY
- REPUTATIONAL EXPOSURE

STAKEHOLDER IMPACT

REPUTATIONAL RISK

Analysis at Event level

- IMPACT
  - Severity
  - Accountability
  - Exceptionality

- RISK
  - Operational
  - Business
  - Legal
  - Reputational

- MANAGEMENT
  - Policy/Programs
  - Management
  - Response
  - Trend

Controversy Rating + Outlook

Category 5 Severe
Outlook Neutral

- Analysis of key impacts, the quality of the company’s management, and risks to the company.
- Forward looking statement referring to the event development we expect over the next 24 months.
Product Involvement

- Abortion
- Arctic Oil & Gas Exploration
- Adult Entertainment
- Alcoholic Beverages
- Animal Testing
- Contraceptives
- Controversial Weapons
- Small Arms
- Fur and Specialty Leather
- Gambling
- Genetically Modified Plants and Seeds
- Military Contracting
- Nuclear
- Oil Sands
- Pesticides
- Predatory Lending
- Palm Oil
- Pork Products
- Human Embryonic Stem Cell and Fetal Tissue
- Thermal Coal
- Tobacco Products
Research Process
Update Cycle

A. Full Company Report
- Company Feedback
- Quality and Peer Review
- Analysis
- Media and NGO Information
- Company Data
- Publication of ESG Rating Report

B. Controversy Research: Two-Week Cycle
- Daily News Screening
- Daily Incident Creation
- Bi-weekly Event Updates
- Bi-weekly Controversy Rating Update

Research Process Publication of ESG Rating Report
### Historical Data

- **Data from August 2009 – 2018**
- **Archived on a monthly basis**
- **Overall scores and indicator level data**
  - Raw scores, weights, and weighted scores

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</table>
Thank you

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