

# MSCI ESG Ratings

FOR MEIRA

Jasmine Mehta

26 September 2023



# Agenda

1

## ESG Landscape

MSCI ESG  
Research

2

## MSCI ESG Ratings

Deconstructing  
MSCI ESG Ratings

3

## Issuer Engagement

How does MSCI  
Engage  
Corporates

4

## Call to Action

Read your MSCI  
ESG Ratings  
report

Monitor  
Performance

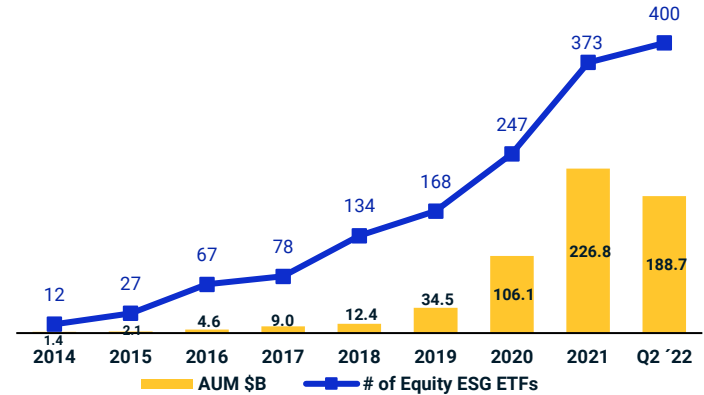
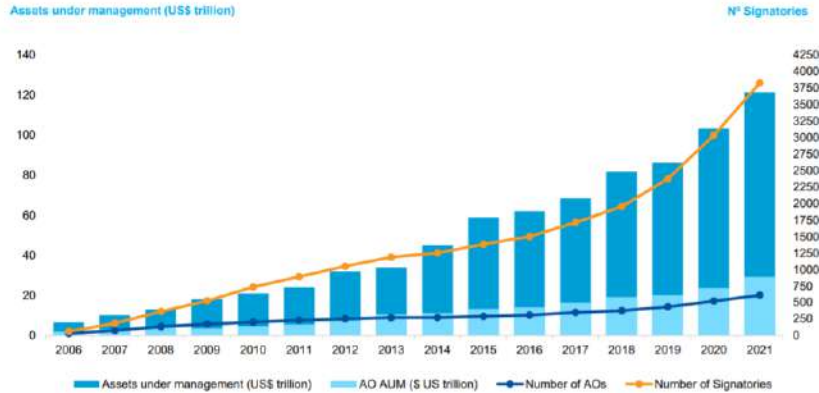
Data Feedback &  
Verification

Reporting

# ESG Investing Is Growing Dramatically

UN PRI\* Has Grown to Over 4,300 signatories in managing over \$121 trillion in AUM

Strong growth in AUM linked to ESG ETFs over the last 7 years



\*Total AUM include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by end of March of that year.

## HERE'S WHY:

**1** A new generation of investors

**2** New regulation and standards

**3** Greater understanding of ESG's influence on risk and return

**4** Technology and ESG Ratings data enhancements



\* - Source <https://www.unpri.org/signatories/signatory-resources/quarterly-signatory-update>

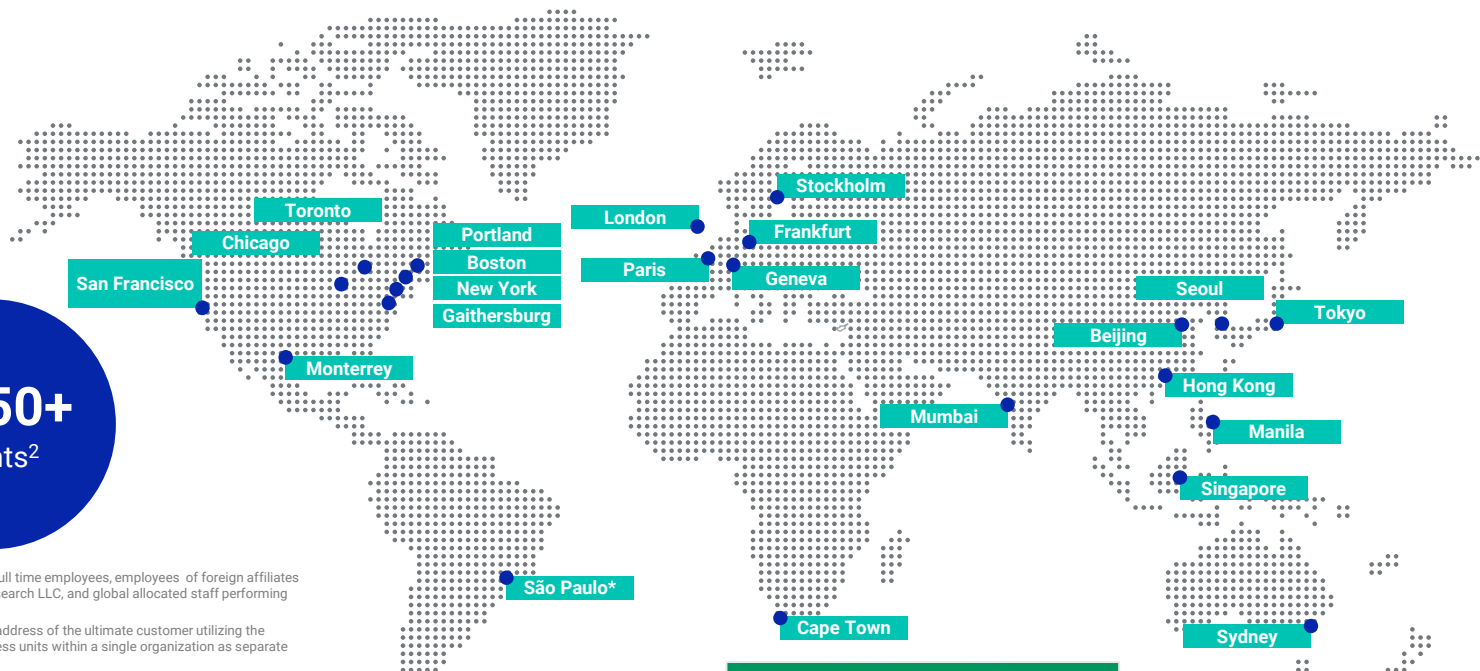
\*\* - As of Q2'22, **15.1%** growth YOY in ETF AUM tracking MSCI ESG indexes (Q2'21 \$164.0B vs Q2'22 \$188.7B)

# Introducing MSCI ESG Research

**400+**  
ESG  
analysts<sup>1</sup>  
(~850 FTE)

**1,500+**  
ESG equity &  
fixed income  
indices use MSCI  
ESG Research  
ratings and  
data\*\*

**2,650+**  
clients<sup>2</sup>



1. Source: MSCI ESG Research as of June 2022. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.
2. To calculate the number of clients, we use the shipping address of the ultimate customer utilizing the product, which counts affiliates, user locations or business units within a single organization as separate clients; As of December 2021.

Representative office for business development.

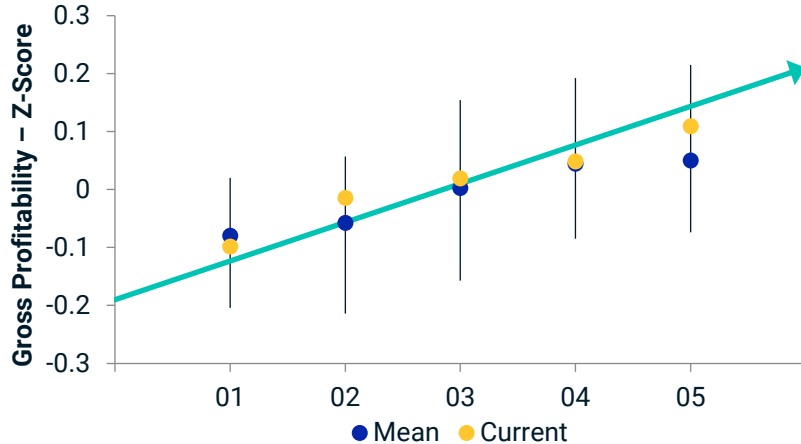
\*\*MSCI ESG Ratings and climate change metrics provided by MSCI ESG Research LLC. MSCI ESG Indexes and MSCI Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Equity Indexes are products of MSCI Inc., and are administered by MSCI Limited (UK).



# Greater understanding of ESG's influence on risk and return

A MSCI ESG Research study<sup>1</sup> found that companies with high ESG Ratings had higher profitability, lower tail risk and lower systematic risk on average based on 10 years of data

Companies with higher MSCI ESG scores had **higher profitability** and were more competitive



MSCI has a broad range of ESG Indexes with significant live history. More than 120 have five or more years of live history, with MSCI KLD 400 having the longest track record (30+ years).

MSCI KLD 400: **30 years** of live history



# Asset Owner Adoption of MSCI ESG & Climate Indexes

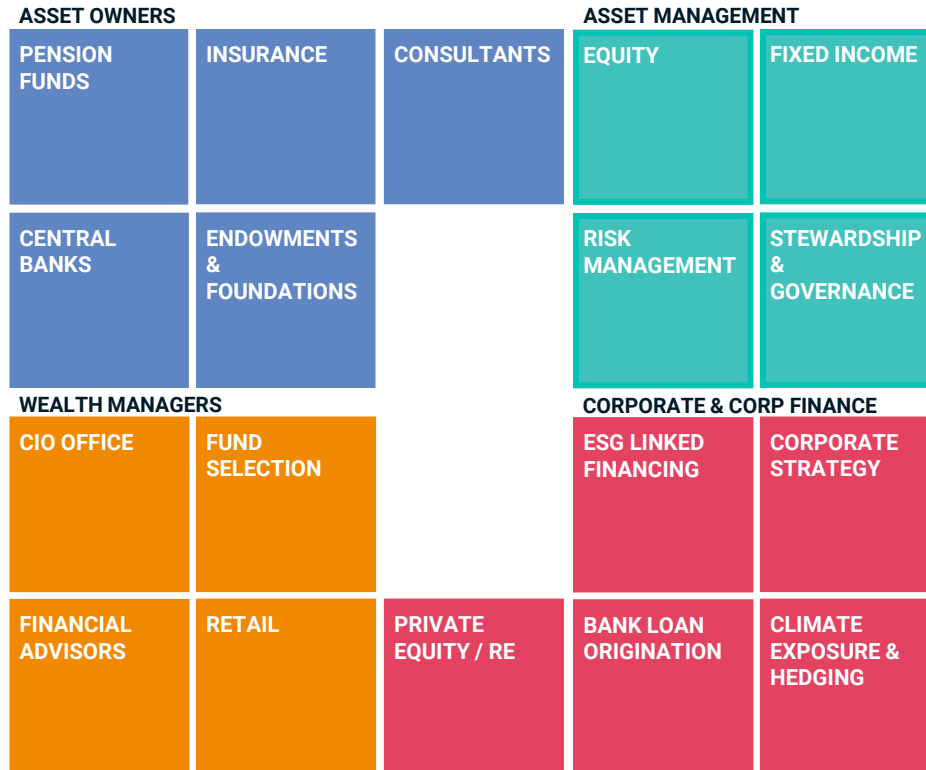
Approximately **\$450 bn** allocated to investments benchmarked to MSCI ESG equity & fixed income indexes since 2014<sup>1</sup>

Region	2014 - 2017	2018	2019	2020	2021	2022	2023	
Americas	<p><b>CalSTRS</b> Committed <b>\$2.5bn</b> to MSCI ACWI Low Carbon Target Index</p>	<p><b>United Nations Pension Fund</b> MSCI ACWI Ex Tobacco Ex Controversial Weapons policy benchmark</p> <p><b>Ontario Teachers Pension Fund</b> MSCI ACWI Ex Canada Ex Tobacco policy benchmark</p>	<p><b>Fonds de Solidarité FTQ</b> announced integration of MSCI World Low Carbon ESG Target Screened Index</p>	<p><b>UC Investments</b> MSCI's ex tobacco ex fossil fuel index</p>	<p><b>MassPRIM</b> <b>\$15bn</b> MSCI custom benchmarks (exclusions)</p> <p><b>University of British Columbia's (UBC) Endowment Fund</b> <b>\$120m</b> MSCI ACWI Climate Paris Aligned Index</p>	<p><b>CalSTRS</b> Adopted a 20% suballocation to the MSCI ACWI Low Carbon Target index within its public equity allocation (<b>\$27Bn</b>)</p>	<p><b>New York State Common Retirement Fund</b> <b>\$1Bn</b> MSCI World ex-USA Climate Change Index</p>	
APAC	<p><b>Taiwan BLF</b> <b>\$2.4bn</b> MSCI ACWI ESG Factor Mix Index</p> <p><b>New Zealand Super</b> <b>40%</b> of passive equity portfolio MSCI custom Low Carbon Index</p>	<p><b>GPIF</b> Commenced with <b>3%</b> of domestic equity</p> <p>MSCI Japan ESG Select Leaders Index + MSCI Japan Empowering Women</p>		<p><b>Dai-ichi Life</b> <b>¥400bn</b> Foreign equity MSCI ACWI ESG Universal Index</p> <p><b>GPIF</b> Passively investing <b>¥1tn</b> MSCI ACWI ESG Universal Index</p> <p><b>Taiwan BLF</b> <b>\$2.3bn</b> Customized Bloomberg Barclays MSCI Global Aggregate Corporate USD ex Controversial Industry</p>	<p><b>Korea Post</b> <b>\$168m</b> MSCI ACWI ESG Universal</p> <p><b>Taiwan's Public Service Pension Fund</b> <b>\$400m</b> MSCI ACWI Quality ESG Target Index</p> <p><b>Dai-ichi Life</b> (AM One) MSCI ACWI Climate Paris Aligned Index</p>	<p><b>Taiwan BLF</b> <b>\$2.3bn</b> MSCI ACWI Climate Paris Aligned Index</p> <p><b>New Zealand Super</b> <b>NZ\$25bn</b> or 40% of its overall investment portfolio MSCI Paris Aligned Indexes</p> <p><b>Accident Compensation Corporation (ACC)</b> <b>NZ\$15bn</b> Global Equities MSCI ACWI Low Carbon Target</p>		
EMEA	<p><b>AMF</b> MSCI ACWI ESG Leaders policy benchmark</p> <p><b>Ilmarinen</b> ESG benchmark indices based on MSCI's sustainability ratings</p> <p><b>UK EAPF</b> <b>\$400m</b> MSCI World Low Carbon Target Index</p> <p><b>VBV</b> Approx. <b>\$0.9bn</b> MSCI World Low Carbon Target</p>	<p><b>Swiss Re</b> <b>\$130bn</b> Active listed equity and credit</p> <p>MSCI ESG Leaders + Bloomberg Barclays MSCI Corporate Sustainability</p> <p><b>AP4</b> Targeting <b>100%</b> of equity portfolio allocation by 2020</p> <p>MSCI Low Carbon indexes</p>	<p><b>Migros</b> <b>\$4.5bn</b> MSCI ACWI ex CH ESG Universal</p> <p><b>Willis Towers Watson</b> <b>\$750m</b> MSCI ACWI ex Thermal Coal Adaptive Capped ESG Universal Index</p> <p><b>London Borough of Hackney</b> MSCI Low Carbon Target index fund</p> <p><b>London Borough of Tower Hamlets</b> MSCI World Low Carbon Target Index benchmark for its Low Carbon Passive Global Equity mandate</p> <p><b>Brunel Pension Partnership</b> MSCI low-carbon target index for passive low-carbon equities</p>	<p><b>Ilmarinen</b> invested <b>\$5bn</b> in ETFs linked to MSCI ESG Leaders</p> <p><b>Shell Pension (SSPF)</b> Moved <b>22.6%</b> of its <b>€30bn</b> portfolio to MSCI's custom ESG benchmark</p>	<p><b>PostNL</b> Sustainable (custom) index - European equity holdings</p> <p><b>Oxford University Endowment Management</b> Custom MSCI World Select Fossil Fuel Screened Index</p> <p><b>Swiss Federal Pension Fund PUBLICA</b> MSCI custom climate efficient index for its equity portfolio. Based on transition risk and physical risk</p> <p><b>PenSam</b> adopts MSCI Climate Index for <b>€4.8bn</b> equities portfolio</p>	<p><b>Zurich UK</b> <b>\$1bn</b> MSCI USA ESG Universal</p> <p><b>Aargauische Pensionskasse</b> Developed market equity MSCI World ex Switzerland Low Carbon Target</p>	<p><b>Migros</b> MSCI Climate Paris Aligned Index</p> <p><b>P+ Bæredygtig</b> MSCI Climate Change Index</p> <p><b>Pensionskasse Basel-Stadt</b> MSCI ESG Leaders</p>	<p><b>Ilmarinen</b> <b>€17Bn</b> MSCI Climate Action Index</p>

# ESG Leaders Have Demonstrated Increased Sophistication Across Their Organizations

Largest consultants are incorporating ESG dimensions into manager selection in reaction to Asset Owner requests

Demand for active and passive ESG Funds across asset classes for total portfolio exposures



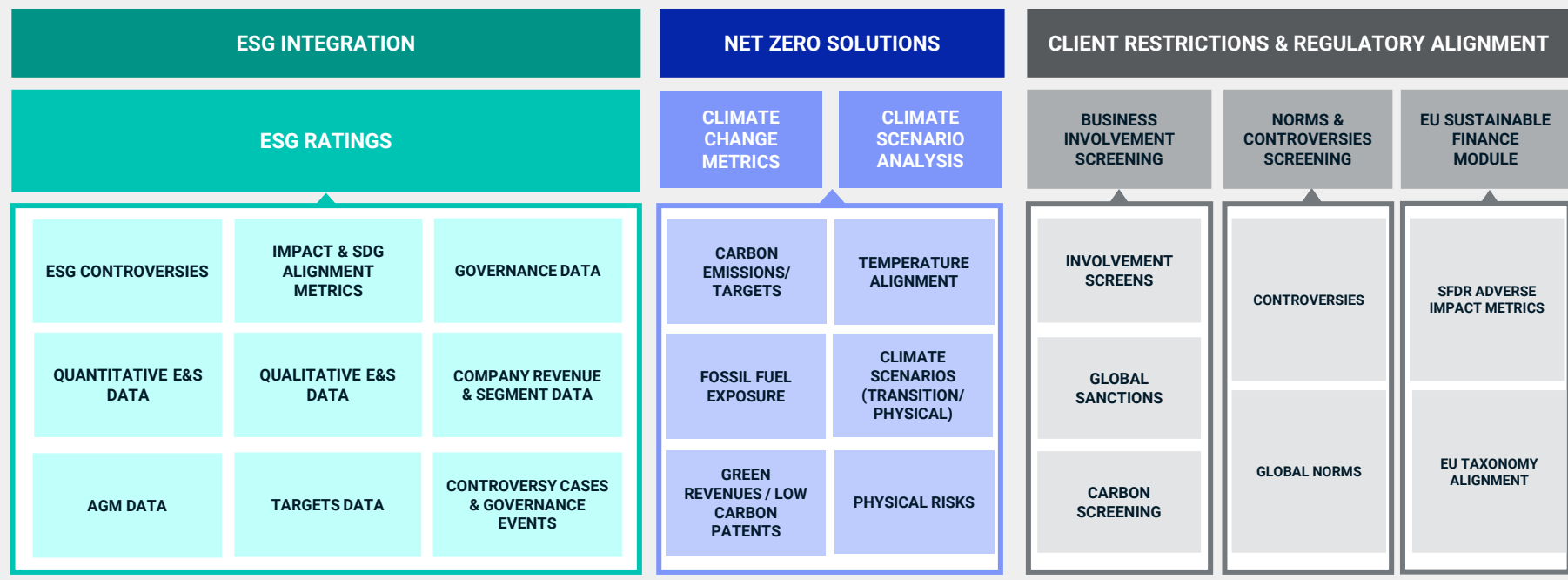
Asset Managers are moving beyond fundamental equity and **integrating ESG into fixed income, private assets, and quantitative** strategies with growing sophistication

Risk teams are increasingly **systematically reporting** on ESG risk

**Engagement** is becoming an important tool for improving company performance and returns

# MSCI ESG Research Offers Holistic ESG And Climate Solutions To Help Investors & Corporates Build A 360° ESG View

MSCI ESG Research rates 10,800+ companies (16,800+ issuers including subsidiaries) and more than 807,300 equity and fixed income securities globally (as of March 2023)





# Introducing MSCI ESG Ratings

MSCI ESG Ratings and datasets offer a comprehensive ESG Integration solution to Investors

## ESG Data

Leverage **over 1,000 datapoints in more than 20 structured datasets** to drill down into our scores, report on different metrics, and integrate ESG across your portfolios.



## ESG Ratings & Scores

Use our **ESG Ratings** and scores to manage potentially financially **material** ESG risks and maximize exposure to ESG opportunities

MSCI ESG Research rates 10,800 companies (16,800 issuers including subsidiaries) and more than 807,300 equity and fixed income securities globally (as of February 2023)



**Forward-looking financial materiality**



**Alternative data & robust models**



**Tech-enabled human insights:** 400+ strong team of analysts + artificial intelligence (AI)

# Key Research Questions

1

## Q: How is the company governed?

How do governance structures impede / enable it to be a long-term steward of capital?

**A:** Analyze ownership structure, board, incentives and behavior.

2



## Q: What risks does the company face?

How exposed is its business model to relevant short-, medium- and long-term ESG risks?

**A:** Map company operations to an extensive proprietary database of ESG risk factors.

3



## Q: What does the company say?

What is its strategy for managing these risks?  
What measures has it put in place?

**A:** Benchmark company disclosures and policies vs. industry peers.

4



## Q: What does the company do?

What evidence do we see that these risks are being managed?  
What is its track record?

**A:** Evaluate alternative data from sources outside the company.

# Governance Assessment for All Companies

## Detailed analysis of:

- Shareholders and management alignment
- Relationship of governance structures, events, and corporate behavior
- Local market standards
- Business ethics policies and corruption risk
- Tax controversies



### Board

Size, director election standards, tenure and gender diversity  
Assessment of financial, industry and risk management expertise



### Pay

Robust data on CEO pay. Analysis of pay for performance link.  
Assessment of compensation committee independence



### Ownership and Control

Ownership structure, shareholder rights and key takeover defenses  
Major owners and insider holdings



### Accounting

Accounting events, fees paid to outside auditors and their tenure



### Business Ethics

Oversight and management of business ethics issues, involvement in business ethics controversies, and exposure to corruption risks



### Tax Transparency

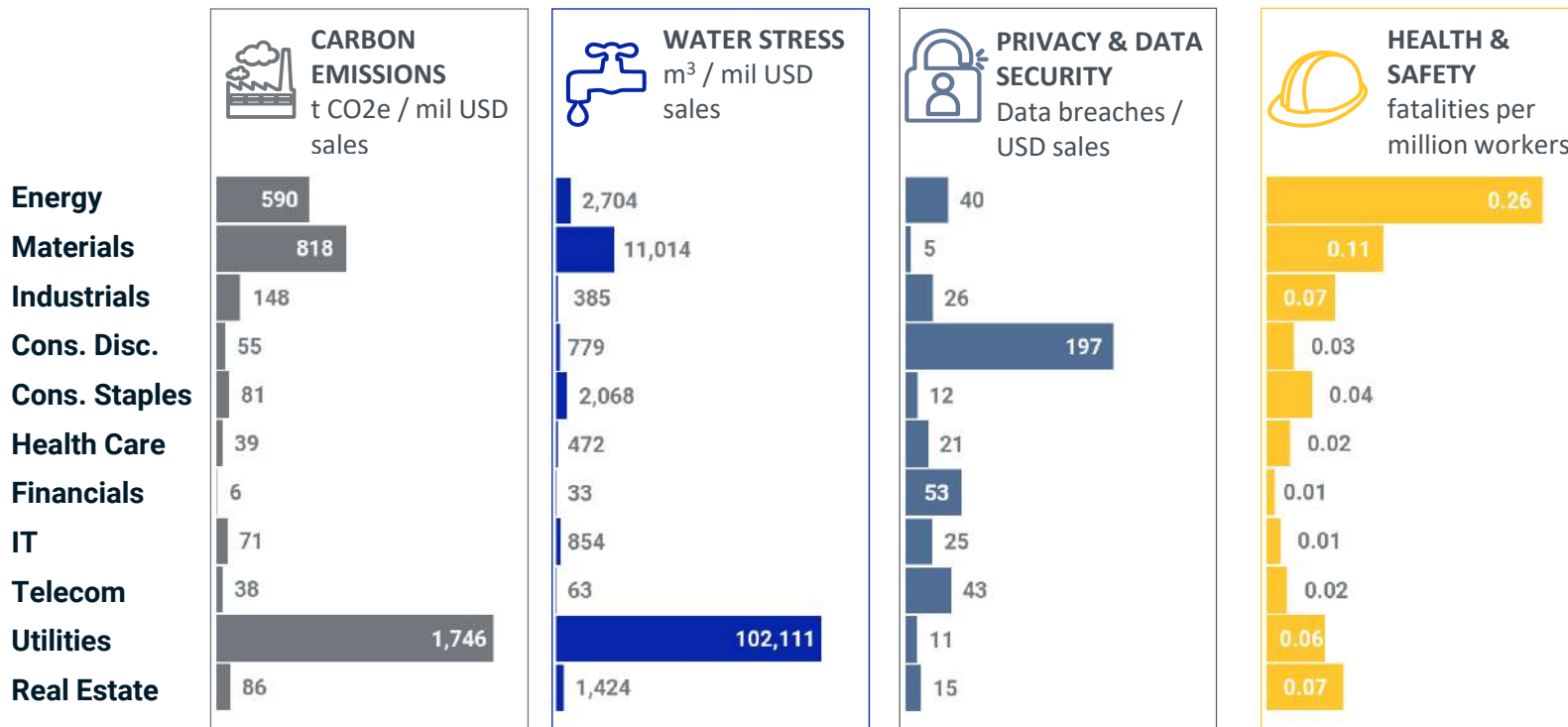
Estimated corporate tax gap and involvement in tax-related controversies

# MSCI ESG Rating Model Key Issues

MSCI ESG Score									
ENVIRONMENT PILLAR				SOCIAL PILLAR				GOVERNANCE PILLAR	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Finance	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Consumer Financial Protection	Community Relations	Access to Health Care	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Privacy & Data Security		Opportunities in Nutrition & Health	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Responsible Investment			Accounting	
					Chemical Safety				

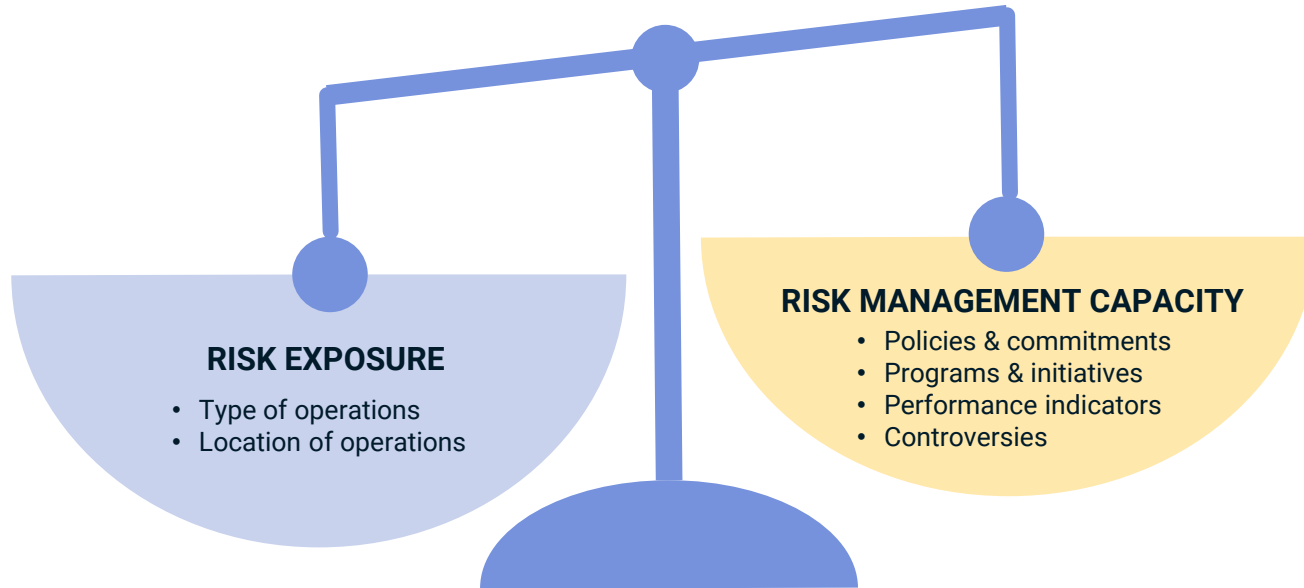
Universal key issues applicable to all industries

# Environmental and Social Risks Are Industry-Specific



Sources: Carbon emissions and freshwater withdrawal intensities based on sample of 3,823 and 1,633 companies, respectively as of March 2, 2020. Percentage of companies with active bribery and ethics controversies is based on the number of companies with ongoing bribery & fraud controversies in the MSCI ACWI Investable Market Index (IMI) as of March 2, 2020. Fatalities per million workers calculated based on three-year average fatality rates from the Census of Occupational Injuries (US Bureau of Labor Statistics). Data breach intensity calculated based on three-year average of the number data breaches by sector (Verizon Data Breach Investigations Report) and business segments for companies in the MSCI ACWI Index as of March 2, 2020.

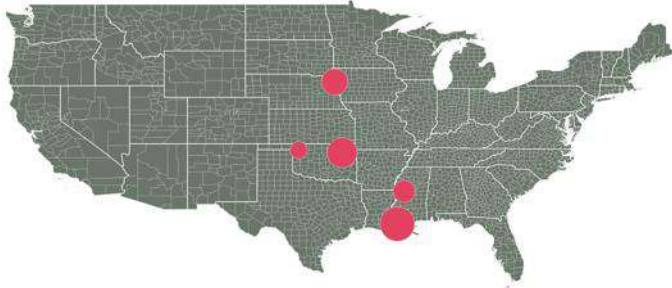
# Measuring ESG Key Issues



**EVALUATE RISK MANAGEMENT STRATEGY  
IN THE CONTEXT OF RISK EXPOSURE**

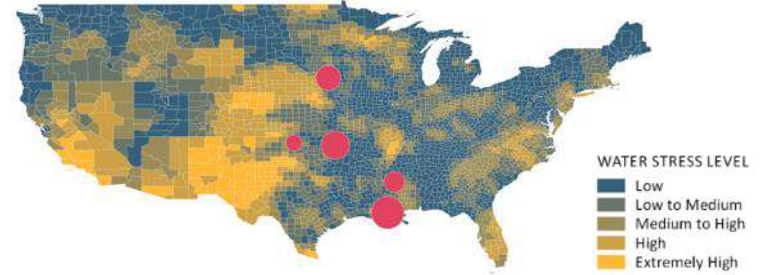
# Granular Risk Exposure Analysis Leveraging Alternative Data

Exposure derived from company disclosure



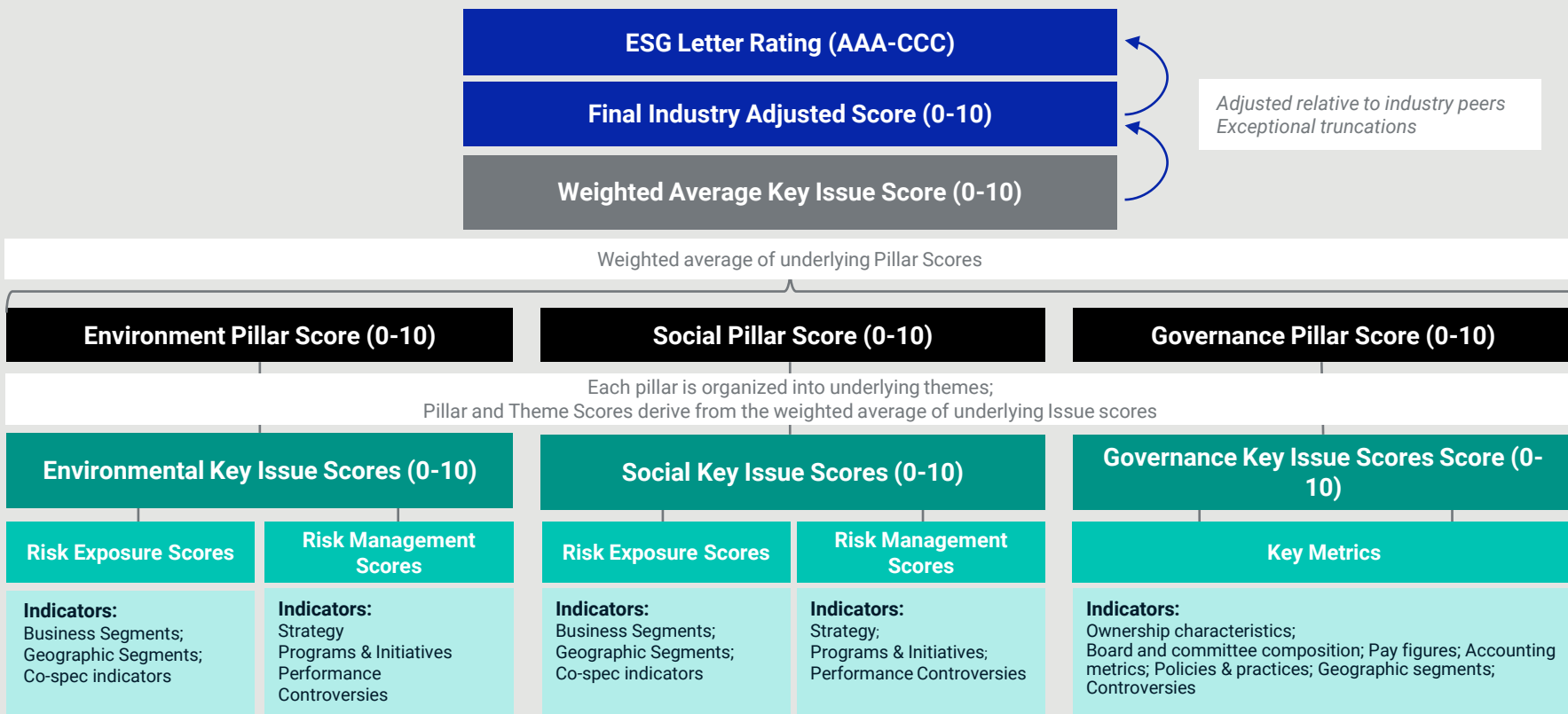
REGION	% OF ASSETS	WATER RISK
USA	85%	MEDIUM
<b>GEOGRAPHIC WATER RISK = 3.7 (MEDIUM)</b>		

Company disclosure complemented with alternative data for insights



FACILITY	STATE	% OF US ASSETS	WATER RISK
DONALDSONVILLE NITROGEN COMPLEX	Louisiana	45%	LOW
YAZOO CITY FACILITY	Mississippi	11%	LOW
PORT NEAL NITROGEN COMPLEX	Iowa	16%	LOW
TERRA INTERNATIONAL	Oklahoma	7%	LOW
VERDIGRIS PLT	Oklahoma	20%	LOW
<b>GEOGRAPHIC WATER RISK = 2.1 (LOW)</b>			

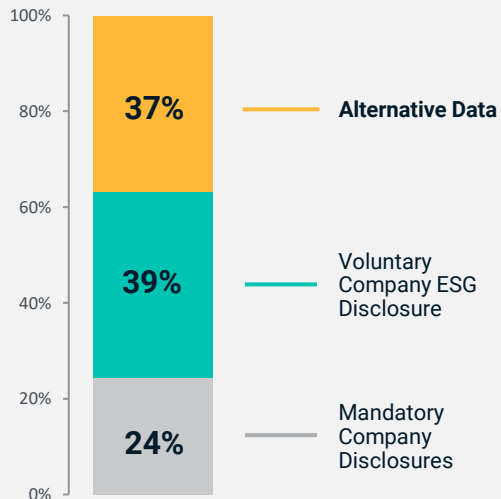
# How The Scores Roll Up to The Final ESG Rating





# Alternative Data Helps Minimize Reliance on Voluntary Disclosure to Deliver Key Insights

Alternative data is a significant input to ESG Ratings model



2,879 constituents of the MSCI ACWI Index as of January 18, 2021  
Source: MSCI ESG Research

**Alternative data sets** are information about a company published by sources outside of the company. We use them to:

- Deliver insight not captured with voluntary company disclosures
- Identify unexplored risks and opportunities
- Create innovative signals



# Data Review, Update, and Quality

## Systematic data verification process incorporating issuer feedback

**A team** of people dedicated to issuer communications, representing **400+** ESG analysts.

**One** portal enabling issuers to download their rating, verify their data and learn about ESG

**Events** to educate issuers on ESG investing including 2 consultations to gather their feedback



## Ongoing monitoring and data updating process

Over **2,300,000** data values updated per month

**On average per week: 180** companies are updated to with **new controversies**, **425** companies are updated to reflect **new governance information**

4,000+ media sources monitored daily (global and local news sources, government, NGO).



## Data quality checks

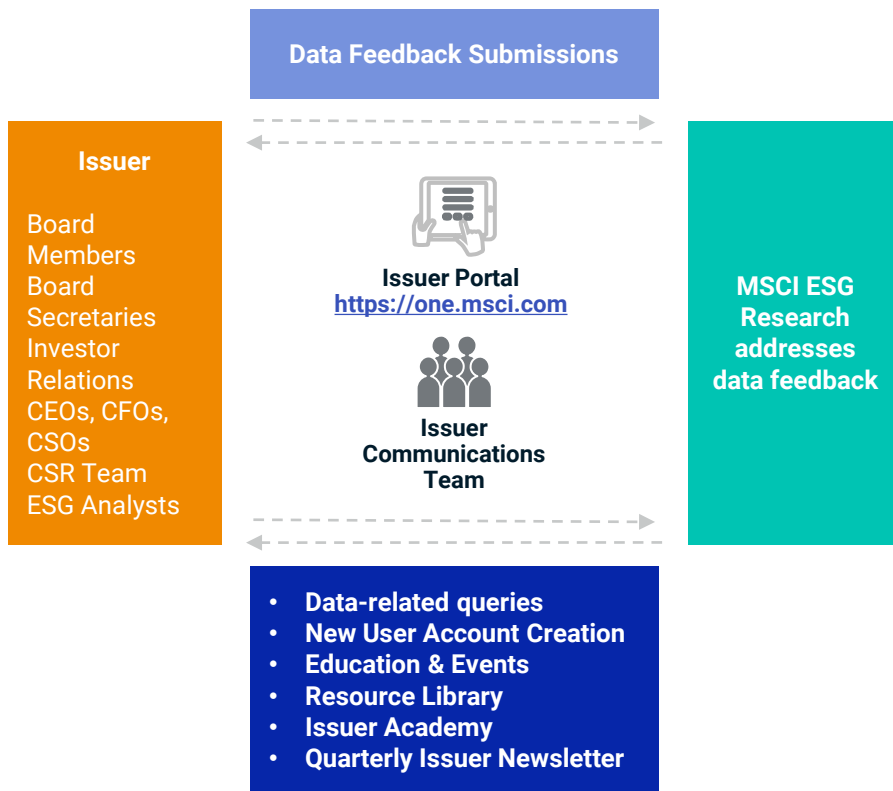
Formal in-depth quality review processes take place at each stage of analysis, including automated and threshold-based quality checks of data



# MSCI's Engagement with Issuers

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# Issuer Engagement Process



## Our ESG Issuer Communications Commitment



### Independence

- No advisory or consulting



### Consistency

- Systematic outreach to issuers
- Standard data review process



### Traceability

- Use of publicly available data
- No confidential information



### Transparency

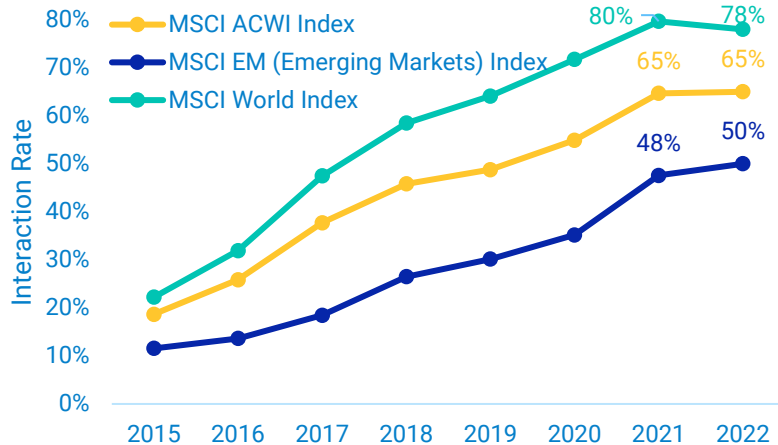
- Issuer access to data and own reports at no cost
- Record of all interactions

# Global Issuer Interaction Rate Continues to Grow

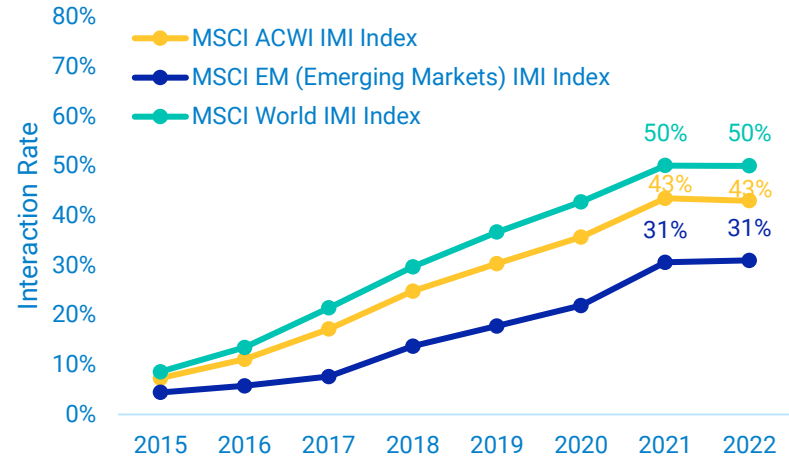
Large and mid-cap Issuers listed in developed markets are the most active, but issuers in emerging markets are catching up fast

- Among the more than 9,200 large, mid and small cap issuer constituents of the **MSCI ACWI Investable Markets Index (IMI)**, the interaction rate with MSCI ESG Research **was 43%** or approximately **4,000 unique issuers in 2022**.
- For the **MSCI ACWI Index**, representing large and mid cap issuer constituents, the interaction rate in 2022 was **65%**.

Issuer interaction rate in **MSCI ACWI Index** universe, covering large- and mid-cap issuers



Issuer interaction rate in **MSCI ACWI IMI Index** universe, covering large-, mid- and small-cap issuers

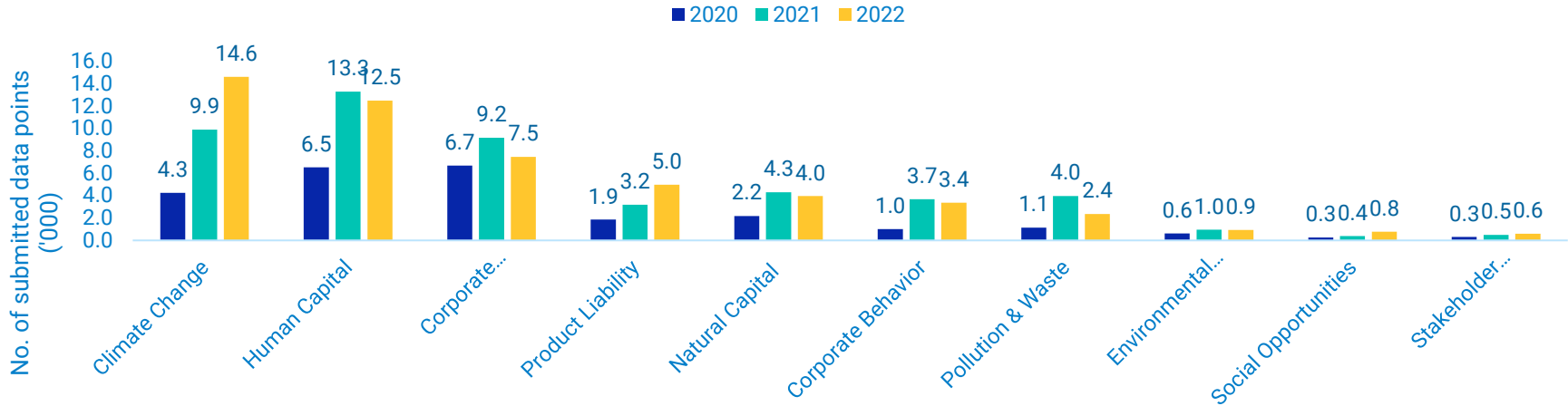


# Issuers Increasingly Paying More Attention to Climate Disclosure

## Significant growth in the No. of climate data points that issuers submitted feedback on in 2022

- **Climate Change, Human Capital** and **Corporate Governance** are the three ESG themes that issuers provided the most data feedback on for over 3 years.
- Companies are increasing their climate-related data disclosures in lock step with institutional investors that are moving towards net-zero and other ESG and climate investing goals.

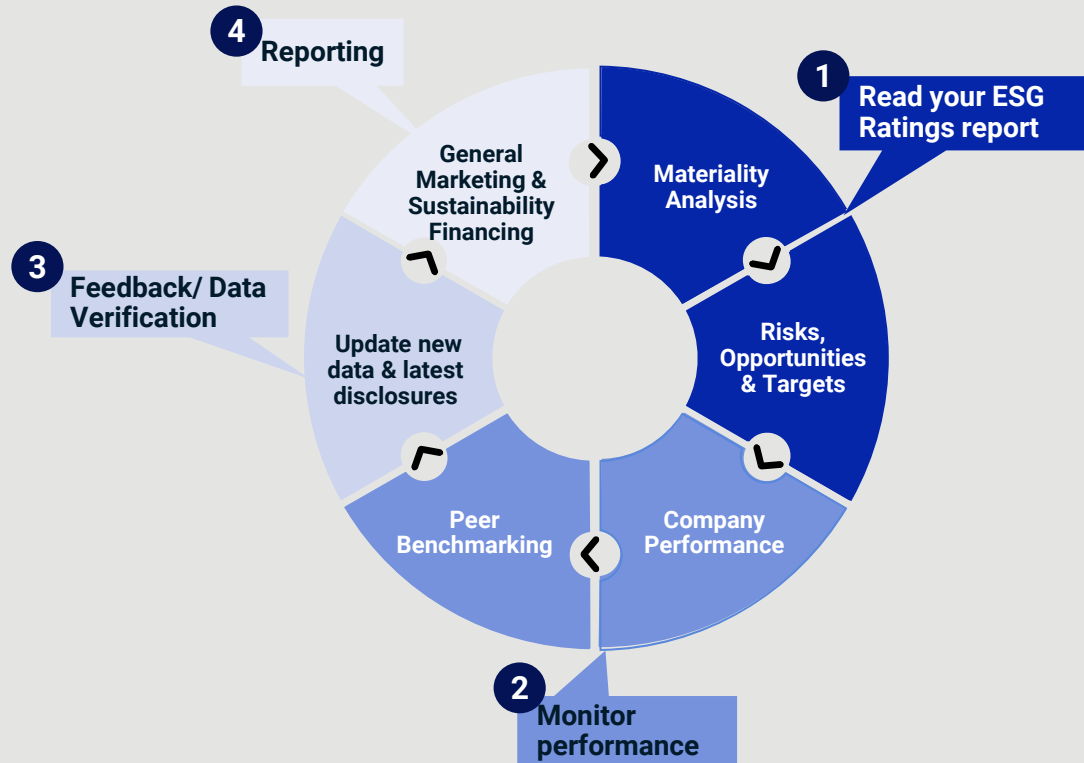
No. of data points submitted by issuers across ten ESG themes, 2020-2022



# Call to Action

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# Taking ownership & building your sustainability journey





# #1 Use MSCI ONE to Explore Your Company Data and Share Your Data Feedback

**MSCI ONE**

Home

Insights

- Index
- Risk
- Performance
- Climate
- Enterprise
- Company**
- ESG
- Company

Design

- Index Builder
- Models
- Developer Community
- Data Explorer

Operate

- Reports
- Job Management
- Data Provisioning
- Climate

### What's New

**For Companies: View your ESG and climate profile**

See your MSCI ESG and climate profile, learn where you are leading or lagging, and benchmark performance against peers.

[ESG for Company](#) [Climate for Company](#)

**Understand portfolio risk with MSCI Insights**

View risks and opportunities across your portfolio explore scenarios over time and deepen insights into performance.

[Learn What's New](#)

### Recent Actions

- Climate
- Climate

### MSCI

[Real-Time Index Data](#) [ESG Ratings](#) [Upcoming Events](#)

Global	Asia Pacific	EMEA	Americas	Factor	
<b>MSCI Index Performance &gt;</b>					
Currency	Last Price	Change	%	YTD%	As of
ACWI → USD	638.94	▲ 0.76	▲ 0.12	▲ 5.54	19:40 *

Access the platform at <https://one.msci.com/home>

You can reach ESG Issuer Communications team at [esgissuercomm@msci.com](mailto:esgissuercomm@msci.com)

# #2 MSCI Corporate Sustainability Insights

**Deepen your understanding** of your key ESG and Climate exposures and **benchmark performance** against industry or global peers



Identify and act on **climate-related disclosure gaps** that may exist for your company, such as on emissions and target-setting data



**Access ESG Ratings reports on peers** as well in-depth annual **research pieces on your industry**



Gain deeper access into **MSCI's leading climate metrics** – MSCI Climate Value-at-Risk and Implied Temperature Rise – to better understand your company's exposures and market positioning



Better **pinpoint the ESG key issues** where your company is leading or lagging against industry peers or other specific companies

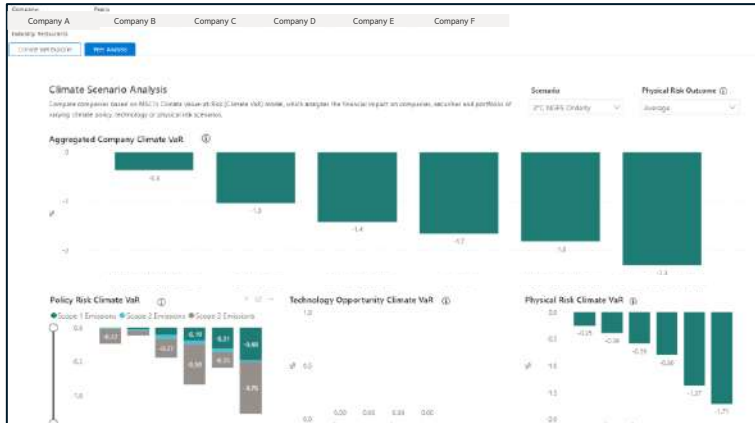
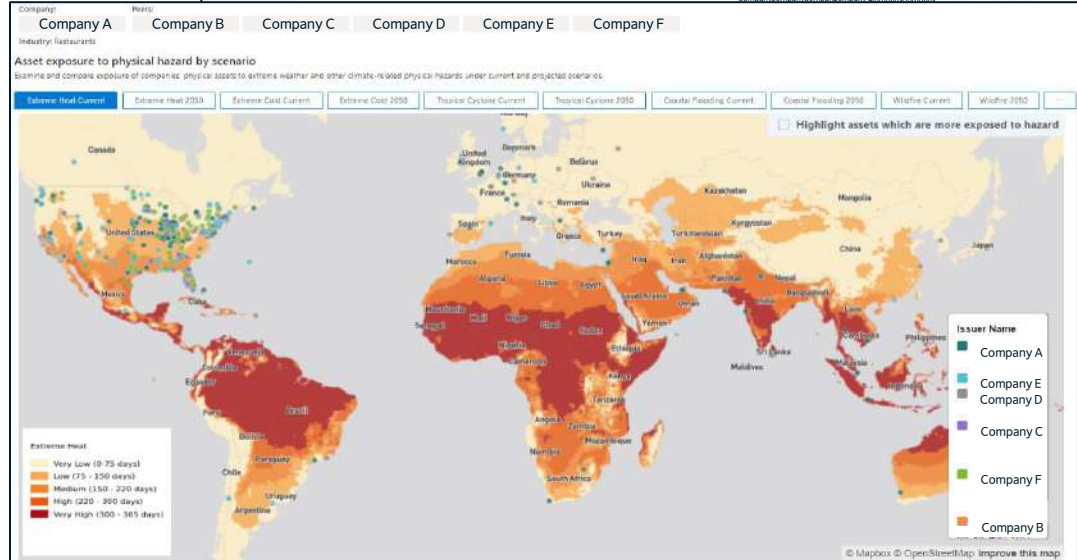


View climate-related risks and opportunities compared with peers, according to the recommendations from the **Task Force on Climate-related Financial Disclosures (TCFD)**



# #2 ESG & Climate benchmarking and gap analysis made easy

- Pinpoint **Disclosure gaps**
- **Compare** company performance against peers
- **Access** easy-to-use data visualizations that provide an engaging overview of peer performance



# #3 Navigate to “Data Provisioning” to Access All Issuer Resources and Share Your Data Feedback

The screenshot shows the MSCI ONE dashboard interface. On the left is a navigation sidebar with categories: Home, Insights, Design, Operate, and Reports. Under 'Insights', 'Data Provisioning' is highlighted with a red box, and its sub-items 'Climate' and 'ICP' are also highlighted. The main content area features 'What's New' cards for ESG and Climate profiles, and a 'Recent Actions' section with a 'Climate' link. At the bottom, there's an 'MSCI' section with tabs for 'Real-Time Index Data', 'ESG Ratings', and 'Upcoming Events'. A table displays 'MSCI Index Performance' for ACWI, showing metrics like Currency (USD), Last Price (638.94), Change (0.76), %, YTD% (5.54), and As of (19:40).

**MSCI ONE**

Home

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- Risk
- Performance
- Climate
- Enterprise
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- ESG
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- Index Builder
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  - Climate
  - ICP

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Recent Actions

- Climate
- Climate

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You can reach ESG Issuer Communications team at [esgissuercomm@msci.com](mailto:esgissuercomm@msci.com)

MSCI

Real-Time Index Data | ESG Ratings | Upcoming Events

Global	Asia Pacific	EMEA	Americas	Factor	
<b>MSCI Index Performance &gt;</b>					
Currency	Last Price	Change	%	YTD%	As of
ACWI → USD	638.94	▲ 0.76	▲ 0.12	▲ 5.54	19:40 *

# #3 Issuers Can More Easily Submit Multiple Updates at Once

...and Can also Submit Multiple Data Points Based on One Source URL

- Issuers can use “New Record” functionality to add data where we don't already have it for a Fiscal Year (FY)
- Click on a row and choose “Provide Feedback” to update or correct existing data
- More efficiently provide feedback on a given area by indicating whether certain items reflect an “Update” or “Correction” per MSCI's definitions
- “Reset to default” to maintain the existing record if you decide not to move forward with new data feedback

Edit Programs or actions to reduce the emissions intensity of core operations ✕

Expand All  Collapse All ↻ Reset to default

**Supporting URL**

Publicly available source URL <sup>*</sup>	Fiscal year <sup>*</sup>	Source date <sup>*</sup>	Issuer comments <sup>*</sup>	Data points <sup>*</sup>
<input type="text" value="Publicly available source URL"/>	<input type="text" value="Fiscal year"/>	<input type="text" value="Source date"/>	<input type="text" value="Issuer comments"/>	<input type="text" value="Data points"/>

[+ Add More Row for source URL \(up to 8\)](#)

<b>Capture GHG emissions</b> ⓘ :	<b>Energy consumption management and operational efficiency enhancements</b> ⓘ ⓘ :	<b>Other initiatives (e.g. carbon offsets)</b> ⓘ :
<input type="text" value="Select Capture GHG emissions"/> <input type="button" value="Update"/>	<input type="text" value="Some efforts"/> <input type="button" value="Update"/>	<input type="text" value="Select Other initiatives (e.g. carbon offsets)"/> <input type="button" value="Update"/>
<b>Reduce future energy consumption (e.g. demand-side management programs)</b> ⓘ :	<b>Use of cleaner sources of energy</b> ⓘ :	<b>CDP disclosure</b> ⓘ ⓘ :
<input type="text" value="Select Reduce future energy consumption (e.g. demand-side)"/> <input type="button" value="Update"/>	<input type="text" value="Limited efforts / information"/> <input type="button" value="Update"/>	<input type="text" value="No"/> <input type="button" value="Update"/>

# #3 Submission History Dashboard Provides Transparency

## Issuer Classification: Update or Correction

- Note that **Issuer Classification** and **MSCI Classification** may differ (e.g., issuer misclassifies an update as a correction which MSCI reclassifies as a correction)

## MSCI action: same 8 categories as today:

- **Accepted** – Data Update – Revision
- **Accepted** – Data Update – Partial Revision
- **Accepted** – Data Update – New Data
- **Accepted** – Technical Issue
- **Not Accepted** – Does Not Meet Methodology Criteria
- **Already Considered** – Information Already Considered in Assessment
- **Not Accepted** – Information Outside Scope
- **Not Accepted** – No Public Disclosure Identified

**Review status:** Submitted, Under Review, Published

Operate / Data Provisioning / Climate / Submission History

Definitions

## Submission History Company A

This page details the status of feedback that has been submitted to MSCI ESG Research by your company. If you've submitted feedback that you don't see reflected here, please contact us at [esgissuercomm@msci.com](mailto:esgissuercomm@msci.com). [Read more](#)

Issuer Classification	MSCI Action	From Date	To Date				
Select an option	Select an option	Select a date...	Select a date...	Apply filter	Clear all		
Submission date	Datapoint name	Issuer email	MSCI value	Issuer value	Category path	Issuer Classification	MSCI Classification
Tuesday, Jan 24, 2023, 9:29 AM	GHG Intensity - Reported		5.8	5.86	GHG Emissions -> GHG Emissions Intensities	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Programs to reduce carbon emis...			Programs to red...	Mitigation -> Practices & Operations	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Company conducts regular ener...			Certifies own op...	Mitigation -> Practices & Operations	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Evidence of ongoing/ future targ...			Yes	Mitigation -> Practices & Operations	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Practices & Operations Assessm...			2021	Mitigation -> Practices & Operations	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Executives responsible for environ...			Board-level com...	Mitigation -> Practices & Operations	Update	
Tuesday, Jan 24, 2023, 9:29 AM	Evidence of low-carbon emission...			Over 50% of ene...	Mitigation -> Practices & Operations	Update	
Monday, Jan 23, 2023, 2:55 PM	Scope 2 Emission type			Location based	GHG Emissions -> Scope 1 and Scope 2 Emissions	Update	
Monday, Jan 23, 2023, 2:55 PM	Reported Scope 1 + 2 Emissions ...			Covers all releva...	GHG Emissions -> Scope 1 and Scope 2 Emissions	Update	

\*Estimate based on historical averages for the five months ending May 31, 2022; actual review times may vary.

\*\* MSCI uses to promote data consistency, defined as a selection for a value sourced from the same disclosure of the same fiscal year that already was reviewed by MSCI ESG Research for that datapoint.



# #4 ESG Rating Reporting for Financing

1

## Sustainability-Linked Loans / Credit Facilities

Right to use issuer's MSCI ESG Rating as a key performance indicator (KPI) for a sustainability-linked loan, credit facility, Schuldschein or sale-leaseback agreement

Requires a license from MSCI ESG Research

Fees based on basis points, transaction size and duration of the financing

	<b>Purpose</b>	Create a time-bound financial link (via the interest rate) between a borrower's ESG target and its achievement.
	<b>Use of proceeds</b>	General-purpose use
	<b>Interest rate</b>	Interest rate changes based on success or failure in achieving ESG-linked target
	<b>Borrower industry</b>	Across industries
	<b>Benefits to issuer/borrower</b>	Potential for lower interest rate if target is achieved
	<b>Benefits to investor/lender</b>	Potential for higher interest rate if borrower does not meet target

2

## Promotion in Debt Offerings

Right to use issuer's MSCI ESG Rating to help promote debt offering (of any kind) in financing, marketing and investor material



3

## Second-Party Opinions

MSCI ESG Research offers Second-Party Opinions for fixed income issuers – including corporate and non-corporate issuers – for **Green, Social, and Sustainability debt financing** (bonds, notes and loans)

Second-Party Opinions are available for:

1. Frameworks (pre-issuance)
2. Frameworks & Issuance
3. Annual Reviews

MSCI ESG Research will assess alignment with both industry standards and the relevant MSCI methodologies:

### Industry standards

- International Capital Market Association (ICMA) Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines
- Loan Market Association (LMA) Green Loan Principles and Social Loan Principles

### MSCI ESG Research standards

- MSCI Green Bond and Green Loan Assessment Methodology
- MSCI Social Bond and Social Loan Assessment Methodology
- MSCI Sustainability Bond and Sustainability Loan Assessment Methodology

- Requires a license from MSCI ESG Research
- Licensing parties: MSCI and Issuer



# Contact Us

1

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**Share feedback on your MSCI assessments**

[esgissuercomm@msci.com](mailto:esgissuercomm@msci.com)

2

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**Pricing for Commercial Solutions**

[jasmine.mehta@msci.com](mailto:jasmine.mehta@msci.com)

3

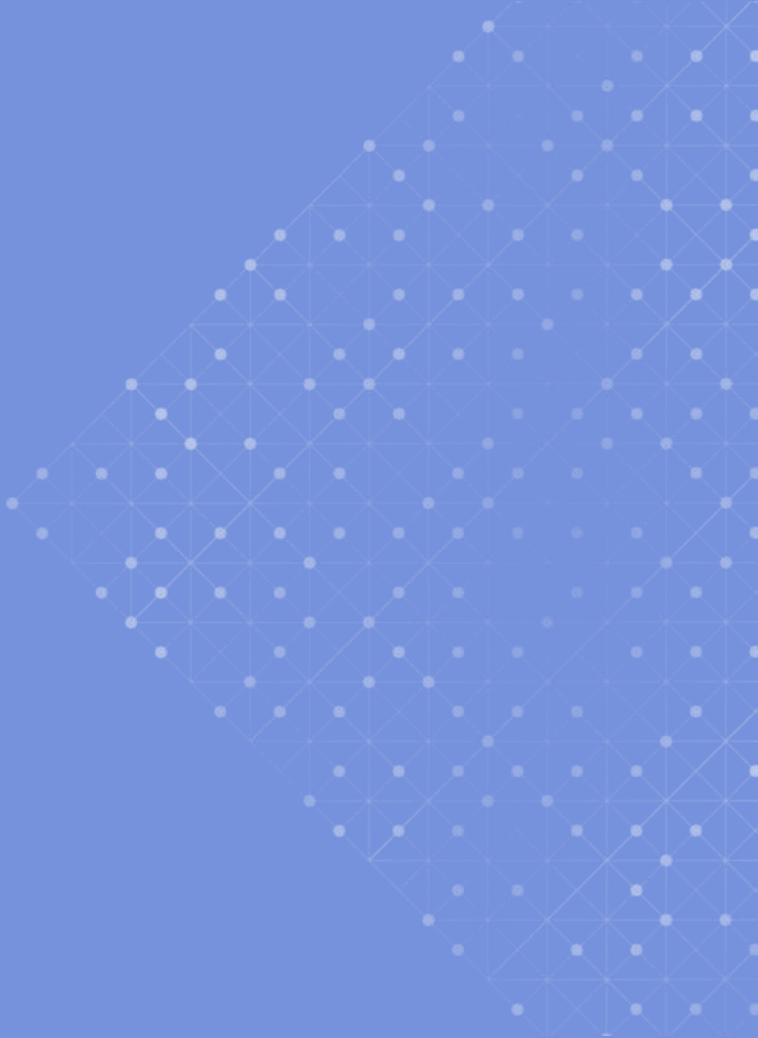
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**Know which MSCI Indexes are you included.**

[clientservice@msci.com](mailto:clientservice@msci.com)



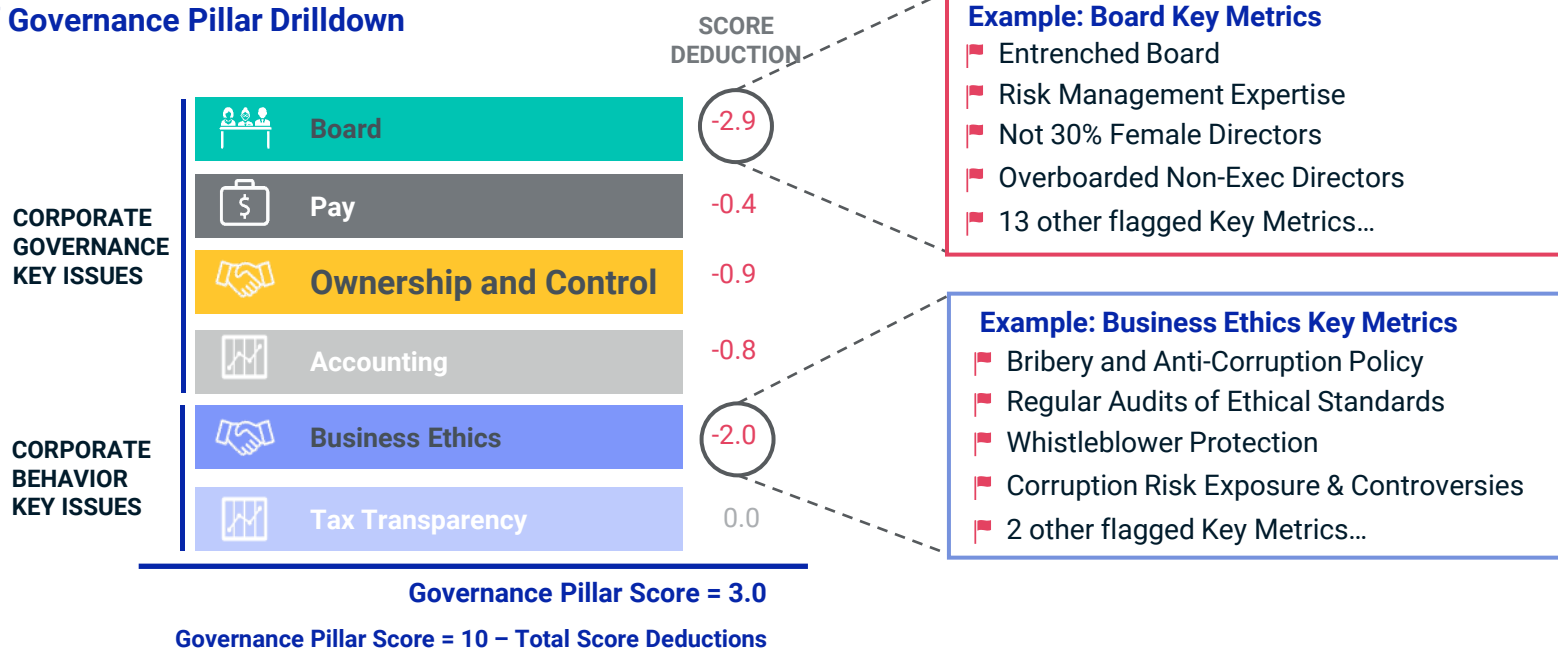
# Q&A



# How is Governance Assessed?

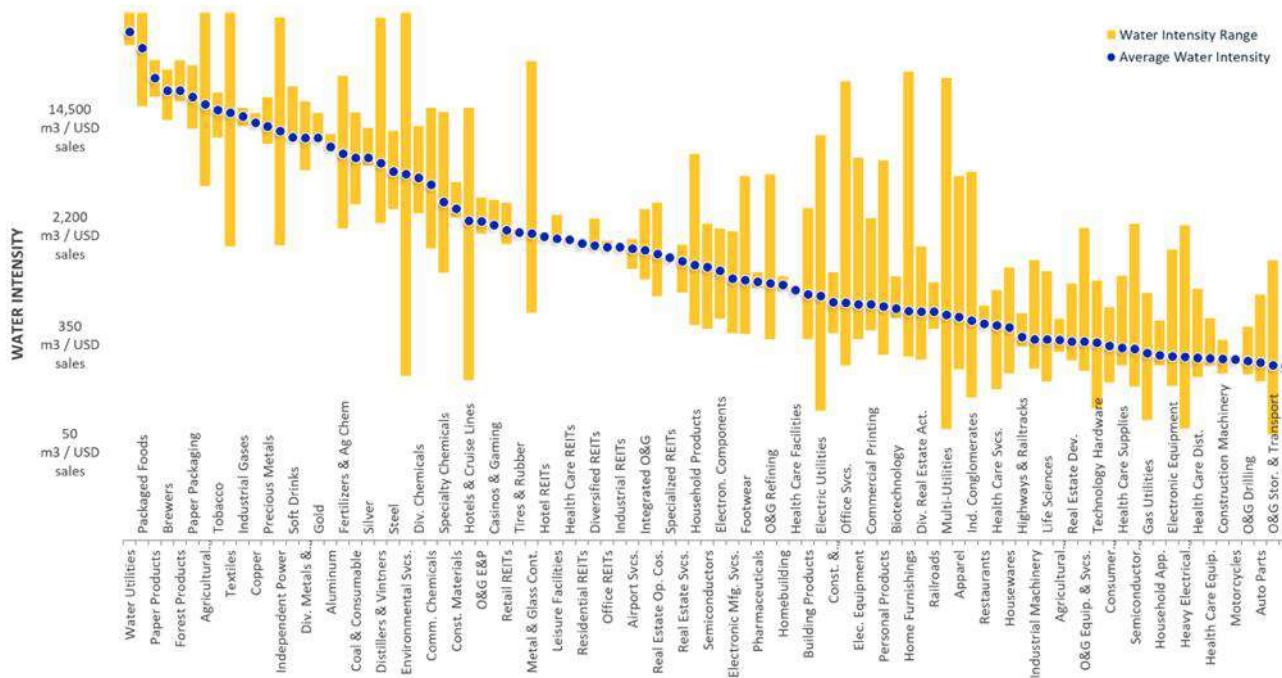
- Corporate Behavior and Corporate Governance are **assessed for all companies**
- **Key Metrics correspond to score deductions** from the Governance Pillar Score

## Example of Governance Pillar Drilldown



# Determining Key Issues

Example: Water Risk by sub-industry

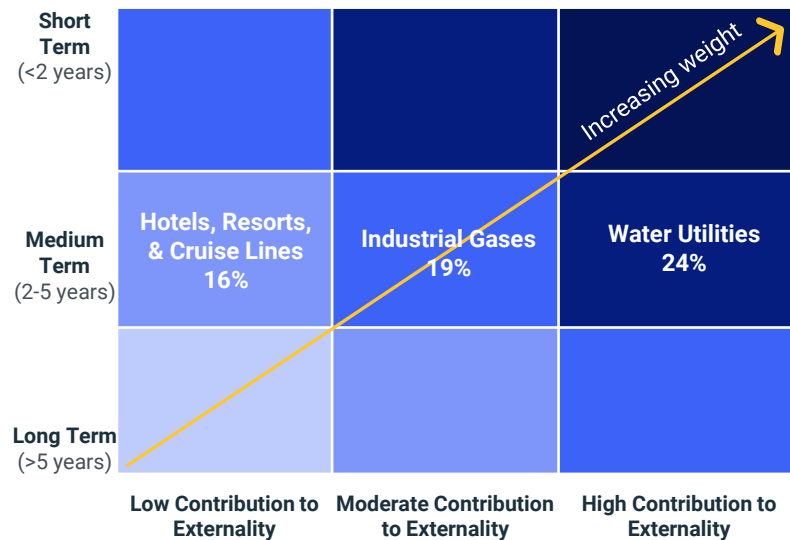


Updated Oct 1 2019. Water intensity data sources: company data from MSCI ESG Research, IERS Comprehensive Environmental Data Archive. Water intensity range calculated as 10th and 90th percentile within each sub-industry.





# Setting Key Issue Weights

## Key issue weights are based on:

- Industry's contribution to externality vs. other industries
- Time horizon of risk factor for that industry
- Number and significance of other issues assessed
- Minimum 33% weight applied to the Governance Pillar, based on standard time horizon and impact for Corporate Behavior and Corporate Governance



# How MSCI ESG Research Assesses Company Risk Management Practices

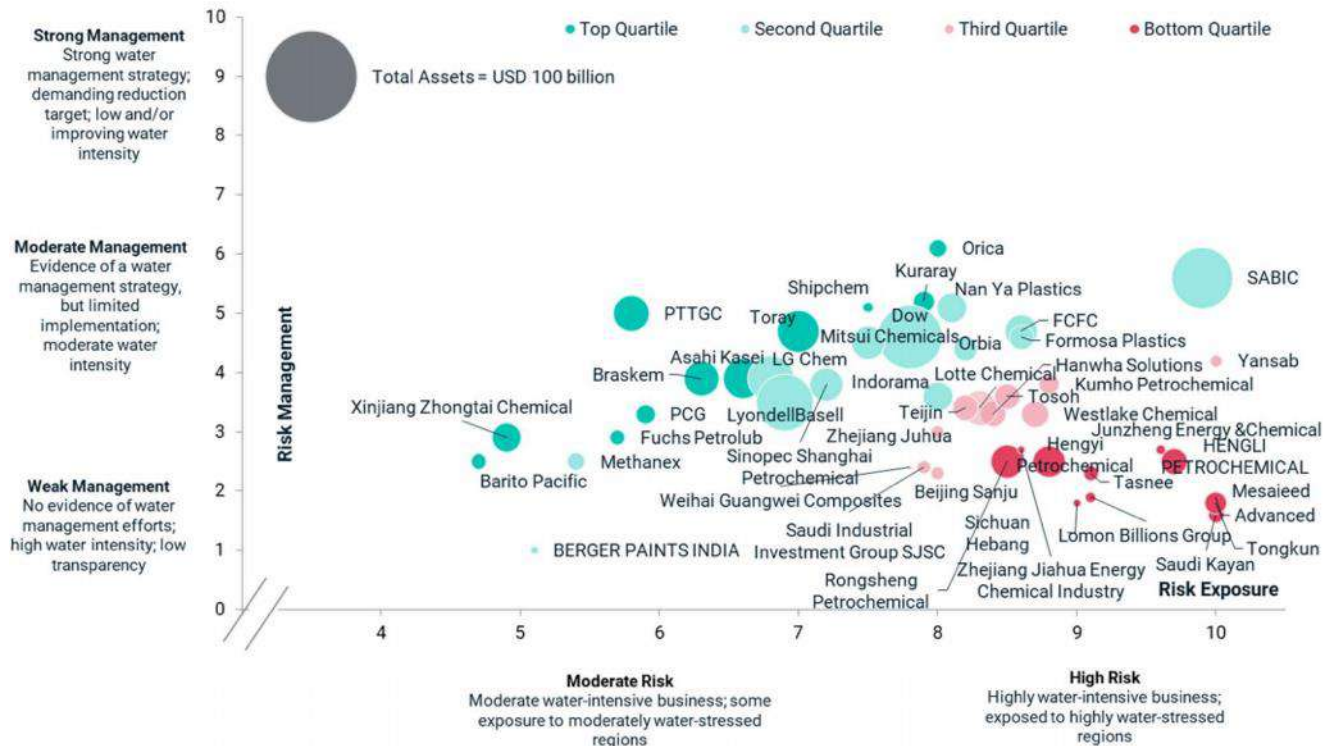
	EXAMPLE METRIC	COMPANY 1	COMPANY 2
PRACTICES	Oversight of Water Management	Board-level Committee BEST PRACTICE 	No evidence of oversight WORST PRACTICE 
	Water Reduction Target	5% annual reduction in water intensity BEST PRACTICE 	No evidence of target WORST PRACTICE 
	<b>Practices Score</b>	<b>8.5/10</b>	<b>2.0/10</b>
PERFORMANCE	Water Intensity vs. Industry Peers	21,450 m3/mil USD sales 2.1x industry average	7,150 m3/mil USD sales 0.7x industry average
	Water Intensity Trend	+2.1% CAGR (2016-2019)	-7.8% CAGR (2016-2019)
	<b>Performance Score</b>	<b>3.5/10</b>	<b>8.0/10</b>
CONTROVERSIES	Severity of Ongoing Controversies	No ongoing controversies	One <b>Severe</b> Controversy
	<b>Controversy Deduction</b>	<b>0.0</b>	<b>-2.5</b>
MANAGEMENT SCORE	<b>Average (Practices, Performance) - Controversies</b>	<b>6.0 / 10</b>	<b>2.5 / 10</b>

How strong are the company's programs and policies?

How effective are its programs and policies?

Do ongoing controversies indicate potential lapses in oversight?

# Balancing Risk Exposure vs. Risk Management



# MSCI ESG & Climate Standardized Data

## Production and Capacity Data

Standardized production and capacity data including fossil fuels, reserves, fuel mix, etc.

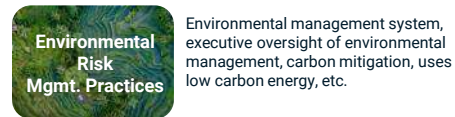


## Company Targets and Commitments Data

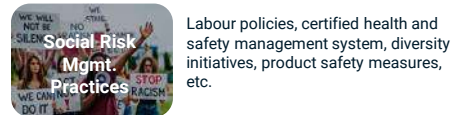
Forward-looking company-reported targets and commitments and companies' progress toward achieving those targets.



## Environmental and Social Qualitative Data



Environmental management system, executive oversight of environmental management, carbon mitigation, uses low carbon energy, etc.



Labour policies, certified health and safety management system, diversity initiatives, product safety measures, etc.

## Company Segment Data

Business and geographic revenue and asset segments mapped to key ESG risk exposures

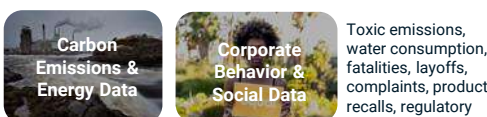


## Governance Data

Company level board, pay, ownership and accounting characteristics



## Environmental and Social Quantitative Data

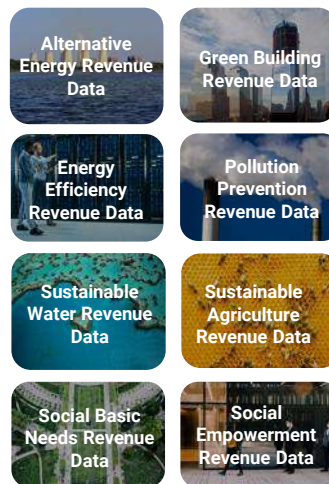


Toxic emissions, water consumption, fatalities, layoffs, complaints, product recalls, regulatory warnings, workforce diversity, etc.



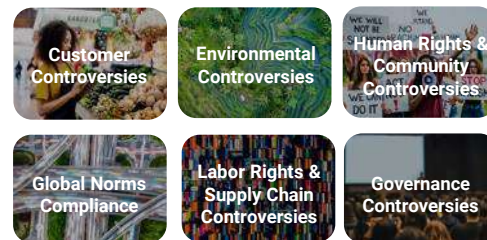
## Sustainable Activity Revenue Data

Revenue from products / services with positive impact on the society and the environment.



## Controversies and Global Norms Data

Controversies involving the impact of company operations, governance practices, and/or products and services.



## Controversial Activity Involvement Data

Involvement in Tobacco, Alcohol, Nuclear Weapons, Cannabis, Abortion etc.



## Global Sanctions Data

Datapoints relating to existing global sanctions – typically measuring involvement









# ESG Controversies

We monitor more than 4,000 sources, identify companies with ESG controversies and then assess the severity to help you manage reputational risk and uncover hidden risks

## **Controversy** / 'käntrə,vərsē/ noun

*“an incident or ongoing situation in which a company faces allegations of negatively impacting stakeholders via some type of wrongdoing”\**

**Recent examples:** Boeing, McDonald’s, Nissan, Thomas Cook, Johnson & Johnson, Capital One, Vale

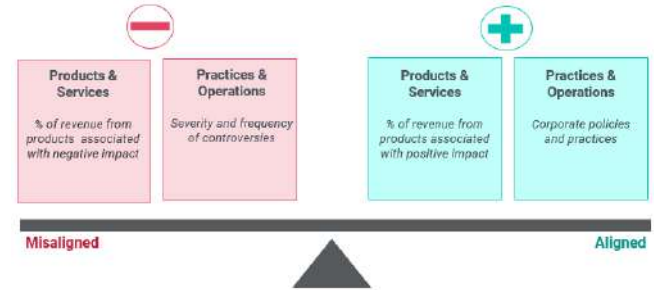
Flag	Description	# of Companies <sup>1</sup>
	<b>Very Severe Controversies</b>	<b>13</b>
	<b>Severe Controversies</b>	<b>316</b>
	<b>Moderate Controversies</b>	<b>795</b>
	<b>Minor Controversies</b>	<b>10,438</b>



# MSCI SDG Alignment approach

## Holistic

- Accounts for both **product** (What products & services does the company offer?) and **operational** (How does the company conduct itself?) elements
- Evaluates whether these elements are **positively or negatively aligned** with the SDGs



## Credible

- Developed following "Institutional Investing for the SDGs," our 2018 joint discussion paper with the OECD
- Alignment assessed for **each of the 17 SDGs**
- Leverages publicly available information, rather than solely relying on companies' self-declared alignment with the goals.



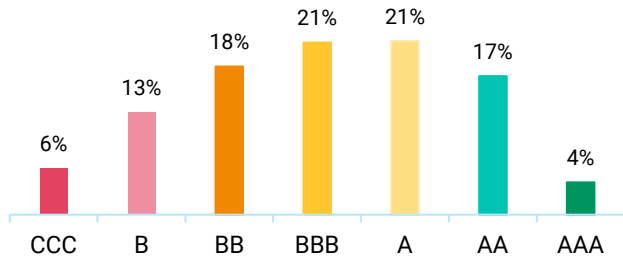
## Solid Foundation

- Powered by established, **quality data inputs** - MSCI ESG Research's core research products, including Sustainable Impact Metrics, ESG Controversies, ESG Ratings and Business Involvement Screening Research underpin the model

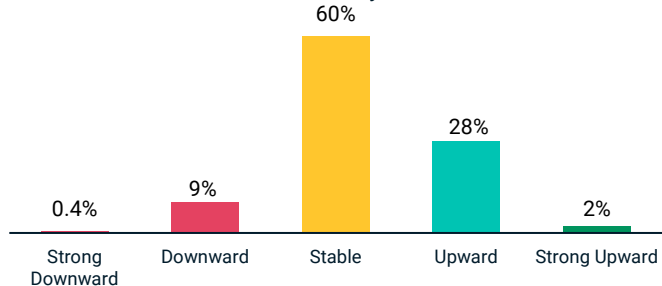


# ESG Ratings Key Statistics: MSCI ACWI IMI Index

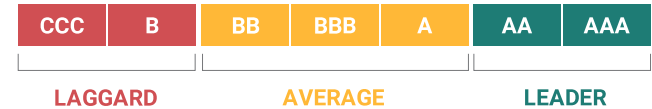
**MSCI ESG Ratings Distribution (%)**  
Constituents of the MSCI ACWI IMI Index as of February 2023



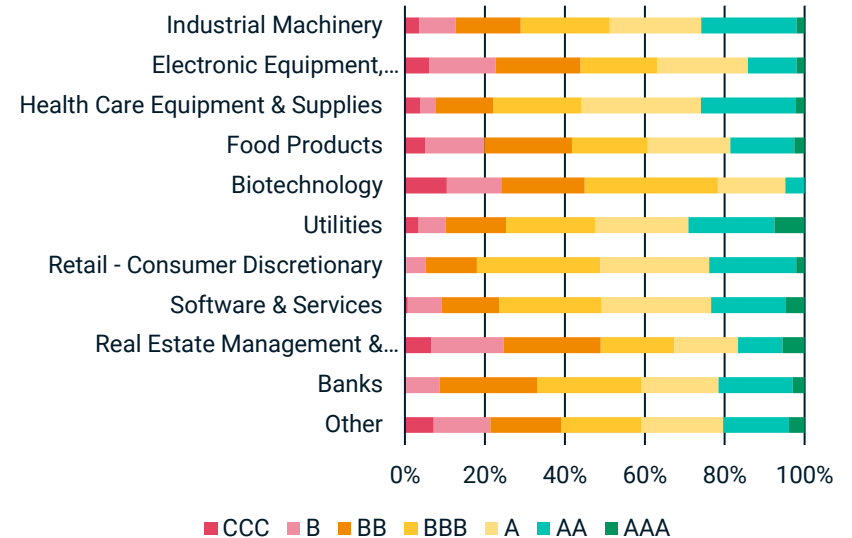
**MSCI ESG Ratings Trend (%)**  
Constituents of the MSCI ACWI IMI Index as of February 2023



## MSCI ESG RATINGS

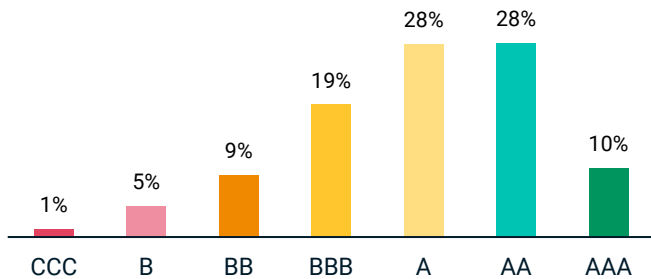


**MSCI ESG RATING DISTRIBUTION BY SECTOR**  
Constituents of the ACWI IMI Index as of February 2023

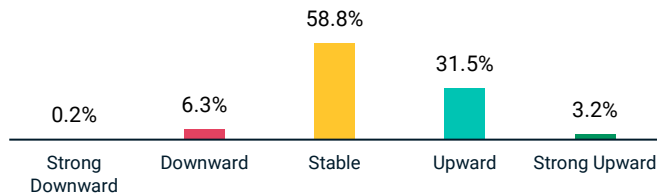


# ESG Ratings Key Statistics: Bloomberg Global Aggregate

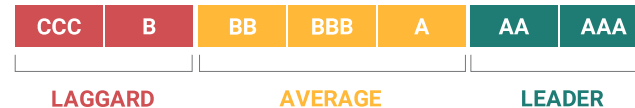
**MSCI ESG Ratings Distribution (%)**  
 Constituents of the Bloomberg Barclays Global Aggregate as of February 2023



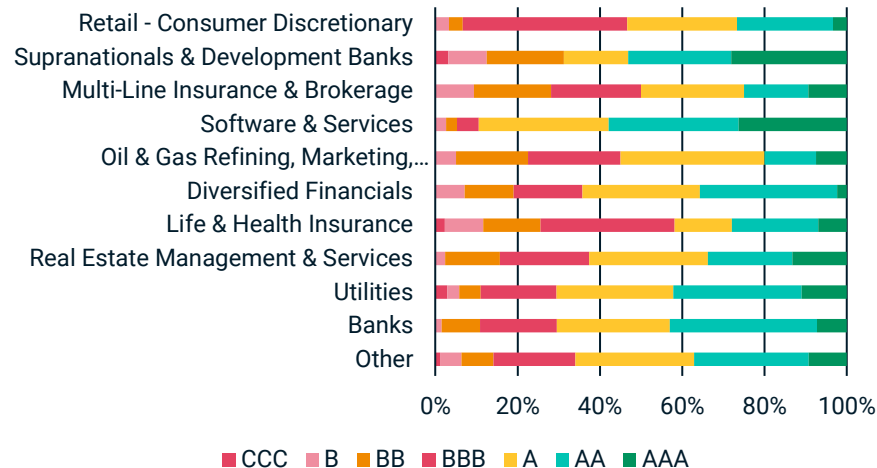
**MSCI ESG Ratings Trend (%)**  
 Constituents of the Bloomberg Barclays Global Aggregate as of February 2023



## MSCI ESG RATINGS



**MSCI ESG RATING DISTRIBUTION BY SECTOR**  
 Constituents of the Bloomberg Barclays Global Aggregate as of February 2023



# Annual rating cycle with more frequent updates to underlying data and scores

Typically, all ratings **pro-actively reviewed in full** every 12-15 months

**1**  
Initiate rating

**2**  
Monitor on ongoing basis

**3**  
Incorporate new information in scores and report on weekly basis

**5**  
Upgrade, downgrade or re-affirm rating

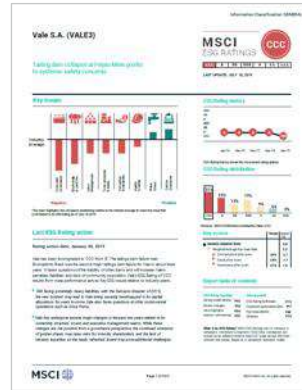
**4.** New or update to Very Severe Controversy may trigger **rating action**

On average per week:

**180** companies are updated to account for new controversies

**425** companies are updated to reflect new governance information

Over **2,300,000** data values updated per month



# About MSCI: ESG

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Atlanta	+ 1 404 551 3212	Frankfurt	+ 49 69 133 859 00	China South	10800 152 1032 *
Boston	+ 1 617 532 0920	Geneva	+ 41 22 817 9777	Hong Kong	+ 852 2844 9333
Chicago	+ 1 312 675 0545	London	+ 44 20 7618 2222	Mumbai	+ 91 22 6784 9160
Monterrey	+ 52 81 1253 4020	Milan	+ 39 02 5849 0415	Seoul	00798 8521 3392 *
New York	+ 1 212 804 3901	Paris	0800 91 59 17 *	Singapore	800 852 3749 *
San Francisco	+ 1 415 836 8800			Sydney	+ 61 2 9033 9333
São Paulo	+ 55 11 3706 1360			Taipei	008 0112 7513 *
Toronto	+ 1 416 628 1007			Thailand	0018 0015 6207 7181 *
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