ESG
The Overwhelming World of Data Providers, Raters and Rankers

Speakers:
Nicole Bouquet, Head of Sustainability Advisory, ISS Corporate Solutions
Eric Fernald, Director of Issuer Relations, Sustainalytics

Moderator:
Pamela Styles, Principal and Founder, Next Level Investor Relations LLC
Introductions

Nicole Bouquet
ISS Corporate Solutions

Eric Fernald
Sustainalytics Issuer Relations

Pam Styles
Next Level Investor Relations
(Moderator)
ESG Ecosystem: Reporting, Rating, Ranking, Data
(partial list)
Accelerated Developments & Participation

Raters and Rankings Trends & ESG Disclosure Convergence

Frameworks, Ratings & Rankings

- GRESB participation grown to cover ESG performance of > 1,500 real estate & infrastructure funds, companies & assets
- Barron’s 100 Most Sustainable Annual Ranking (est)
- Morningstar acquired 40% stake in Sustainalytics
- Morningstar launch of Sustainability ratings for 20,000 funds
- Task Force on Climate-related Financial Disclosures (TCFD) (est)
- Glass Lewis proxy research & vote platform partnership with Sustainalytics
- Moody’s credit rating ESG inclusion
- ISS E&S Quality Score
- S&P credit rating ESG inclusion
- Fitch credit rating ESG inclusion
- TCFD Climate-based reporting to become mandatory for PRI Signatories by 2020

1 TCFD set up after the G20 pointed out that the current failure to price climate change into financial markets represents somewhat of a risk in terms of global financial stability
2 GRESB is an investor driven benchmark for real assets

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<th>Environmental Issues</th>
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Source: Principals for Responsible Investments (unpri.org)
# Reporting & Analytical Frameworks

(partial list)

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<th>Reporting Frameworks</th>
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<td>SASB</td>
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<td>CDP</td>
<td>MSCI</td>
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<td>TCFD</td>
<td>DJSI</td>
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<td>PRI</td>
<td>UN Global Compact</td>
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<td>Bloomberg</td>
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<td>Refinitiv*</td>
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Priority Considerations:
- ✓ Existing Reporting vs Build, Reference vs In Accordance, Materiality Matrix, Mapping, Third Party Assurance
- ✓ Myriad proprietary analytical frameworks, surveys, questionnaires, data provider scoring

*Thomson Reuters Financial and Risk Business renamed to Refinitiv 7/27/18 and subsequently sold to the London Stock Exchange (LSE) 8/1/19 for $27bn*
Common Issues Navigating ESG

5 Common Issues IR Professionals Have to Confront:
1) Multiple frameworks, formats and emphasis
2) Unique positioning, materiality and ROI characteristics
3) KPI data/detail verification and conformity
4) Surveys and questionnaires overload
5) Priority for IR or PR (HR, Customer, Supply Chain, etc.)
ISS – Proxy Advisor & ESG Rater

Nicole Bouquet
ISS Corporate Solutions
### ISS and ICS: Organizational Structure

<table>
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<th>Clients</th>
<th>Products</th>
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<tr>
<td>Institutional investors</td>
<td>Proxy voting recommendations</td>
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<td>Governance ratings</td>
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<td>Data and voting solutions</td>
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<td>ISS Analytics</td>
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<tr>
<th>Clients</th>
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<tr>
<td>Companies, Corporate advisors</td>
<td>Data, analytics, and advice on:</td>
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<td>Corporate governance</td>
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<td>Executive compensation</td>
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<td>Environmental &amp; social issues</td>
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ISS: RECENT KEY ACQUISITIONS IN ESG

Building E&S capabilities through strategic acquisitions and internal expertise.

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**2014**

Iss E&S data unit separated in 2014

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**2015**

Ethix acquisition provided 15+ years of industry-leading expertise on SRI issues environmental, human rights, labor standards, corruption and controversial weapons.

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**2017**

1H IW Financial acquisition added 15+ years expertise in ESG ratings and custom solutions.

2H Acquisition of the Investment Climate Data division of South Pole Group which delivers climate change solutions to the financial industry.

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**2018**

Oekom acquisition of provided 25+ years of industry-leading expertise on ESG research and ratings.

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**2019**

1H Acquisition of caer
ISS: DATA. ANALYTICS. INSIGHT.
Discrete but complementary data across ESG & Corporate Governance

SCREENINGS & CONTROVERSIES
- Norm-Based Research
- Controversial Weapons
- Energy & Extractive Screening
- Ethical Screening
- Global Sanctions Screening

RATINGS
- Corporate & Country Rating
- Sustainability Bond Rating
- E&S Disclosure QualityScore
- Governance QualityScore

CLIMATE
- Scope 1&2 and Scope 3 Emissions
- Emissions Intensity
- Potential Avoided Emissions
- Acute & Chronic Physical Risk Exposure
- 2°C alignment
- Carbon Risk Rating

IMPACT & SDGs
- Sustainability Solutions Assessments (UN SDGs)
- Impact Assessment Data

GOVERNANCE DATA
- Director / Board Data
- Director Skills & Bios
- Director Pay Data
- Executive Compensation Data & Profiles
Why Focus on Disclosure?

Corporate disclosure is often a leading indicator of underlying corporate behavior.

- The investment community wants transparent data
- It’s easier to make peer-to-peer comparisons
- E&S QualityScore framework and methodology aligns with global sustainability initiatives
Key Facts about ISS E&S QualityScore

Disclosure & Depth of Disclosure

1-10 Rating System
› 1 = Lowest Concern
› 10 = Highest Concern

Issuer data verification
› Companies can verify their own data year-round and make changes at any time
› Typically, they will see changes reflected in the data within 5 business days

Scoring is relative within your industry
› As Sustainability factors vary by industry, E&S QualityScore is based on industry groups, not regions or indices. It takes a global view of the industry.

Scoring is dynamic
› Changes to your company’s data can improve or worsen your E&S QualityScore rating anytime during the year
› And because it’s a relative scoring system, changes made by other companies in your industry can improve or worsen your rating at any time

E&S QualityScores will be prominently featured in ISS proxy advisory reports
### ISS: Methodology and Data Collection

Scores are calculated daily, and indicate decile rank relative to industry peers. Data verification is available year-round.

<table>
<thead>
<tr>
<th>Annual update of E&amp;S questions</th>
<th>Annual review of company publications for new questions</th>
<th>Issuer data verification</th>
<th>Companies are scored</th>
<th>Companies are ranked for final QualityScore</th>
</tr>
</thead>
</table>

- Data is collected from public materials, and quality assurance conducted by a separate analyst who reprofiles the company.
- Methodology is updated annually, incorporating new factors. Raw scoring is set by answer, by question, and by industry.
- Scores are calculated daily, and indicate decile rank relative to industry peers.
Overview – Conversations with Investors

- ESG is being adopted among investors of all shapes and sizes – no longer just specialty funds
- Global investors have their own ESG funds now
- Investors are asking for disclosure
- Some investors have integrated ESG factors into risk management systems not specifically labeled “ESG”
- There are many different shapes and sizes of ESG by different types of institutional investors
How Investors Use ESG Data

1. **Exclusionary Approach**
   - Ex. A boutique SRI shop with $10B in assets primarily managing institutional or ultra-high net-worth/high net-worth money.

2. Impact Focus

3. **Divestment**
   - Ex. Mainstream large asset manager who has a specialty ESG fund. Company had been held, but was sold due to ESG concerns.

4. Risk Mitigation

5. Momentum

6. Quantitative Focus

7. **Engagement**
   - Ex. Hedge fund – long term value, understanding the company and ensuring the company knows what is important to the underlying investors.

8. Value Approach

9. Proprietary Custom Ratings

10. **Combined Approach**
    - Ex. Pension fund – Active ownership through engagement. Universe reduction based on business type, products, services, and ESG scores.
Environmental and Social Prevailing Themes

ENVIRONMENTAL
- Carbon reduction/Decarbonizing the economy – TCFD compliance, ghg emissions
- Water use – water crisis, clean drinking water, water contamination, waste water

SOCIAL
- Security – data protection and security
- Diversity & Inclusion – diversity on boards, executive suite and upper management
Sustainalytics – Rater & Data Supplier

Eric Fernald
Sustainalytics Issuer Relations
Sustainalytics: Who We Are

- The largest pure-play investment research and ratings firm dedicated to responsible investment and ESG research
- Over 25 years experience in the fields of ESG and corporate governance research
- 16 offices worldwide
- Over 550 professional staff with more than half engaged in research
- Owned by: Senior management, Morningstar, PGGM, ABN AMRO MeesPierson, Renewal Partners.
Sustainalytics: What We Do

We help investors integrate ESG and Corporate Governance factors into their investment processes by providing data, ratings and research to enable more informed investment decisions.

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<tr>
<th>Financial Institutions Solutions</th>
<th>Compliance &amp; Screening</th>
<th>Portfolio Analysis</th>
<th>Index Services</th>
<th>Sustainable Finance Solutions</th>
<th>Civil Society &amp; Academia</th>
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<tr>
<td>» ESG Risk Ratings</td>
<td>» Global Compact Compliance Services</td>
<td>» Portfolio Screening</td>
<td>» Index Research Services</td>
<td>» Green &amp; Social Bond Services</td>
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<td>» Corporate Governance Research &amp; Ratings</td>
<td>» Product Involvement</td>
<td>» ESG Portfolio Analytics</td>
<td>» Supported Indexes</td>
<td>» ESG-Linked Loans</td>
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<tr>
<td>» Carbon Risk Rating</td>
<td>» Controversies Research</td>
<td>» Carbon Portfolio Analytics</td>
<td>» ESG Signals</td>
<td>» Benchmarking</td>
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<tr>
<td>» Country Risk Research &amp; Ratings</td>
<td>» Weapons Research (Controversial Weapons Radar, Arms Trade Research)</td>
<td>» Portfolio Monitoring (Controversy Alerts, Corporate Governance Insights)</td>
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<td>» Historical Scores</td>
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<td>» Sustainable Development Analytics</td>
<td>» Sanctions Research</td>
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<td>» Sustainable Products Research</td>
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Sustainalytics: Our Clients

We serve over 600 of the world’s leading institutional investors
Sustainalytics: Our Partnerships

- Over 35,000 fund ratings provided by Morningstar, using company-level ESG ratings from Sustainalytics.
- In July 2017, Morningstar took a significant minority stake in Sustainalytics.

- Partnership announced in February 2016.
- Top-level Sustainalytics ESG research available in Glass Lewis’ proxy research.
- Will be integrated in vote management platform.

- HBR publishes the “100 Best Performing CEOs” report, including a measurement of each company’s ESG performance based on Sustainalytics Company ESG Rating.
Innovative New Products and Partnerships
Growing with the market

Launched:
- Corporate Governance Research & Ratings
- Carbon Solutions

2015
- Morningstar launches Sustainability Rating for funds (based on Sustainalytics’ research)
- Glass Lewis features Sustainalytics’ research in E&S Advisory Papers

2016
- Yahoo Finance makes Sustainalytics’ research available to retail investors
- Glass Lewis integrates Sustainalytics’ research into Proxy Research Reports and Voting Platform

2017
- ESG Risk Rating Framework
- Carbon Risk Rating
- Human Rights Radar
- Sustainable Products Research

Integration:
- Full integration with FactSet

2018
- Morningstar launches Portfolio Carbon Risk Scores, based on Sustainalytics’ Carbon Risk Ratings
- Sustainalytics strengthens its emerging markets research capacity by acquiring some of Solaron’s assets

2019
- ESG Risk Rating Framework
- Carbon Risk Rating
- Human Rights Radar
- Sustainable Products Research

In Development:
- Sustainable Development Research
- Government Ratings – to support fixed income investors

Growing with the market
- FTSE Russell and Sustainalytics partner to create new ESG index family
- Sustainalytics acquires GES, to include ESG engagement services in our product suite
## Sustainalytics: Access to Research

Investors use different platforms

<table>
<thead>
<tr>
<th>Global Access</th>
<th>FactSet</th>
<th>Bloomberg</th>
<th>Data Feeds &amp; API</th>
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<tbody>
<tr>
<td>• Sustainalytics’</td>
<td>• Sustainalytics’ data integrated</td>
<td>• Top-level data available to</td>
<td>• Quarterly or</td>
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<td>online research portal</td>
<td>in the portal</td>
<td>all terminal users</td>
<td>monthly feeds</td>
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<td>• Search and filtering</td>
<td>• Numerical and text</td>
<td>• Excel plug-in to integrate</td>
<td>• Numerical and</td>
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<td>functions</td>
<td>• Accessible via FactSet’s suite</td>
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<td>• Upload portfolios,</td>
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FactSet and Bloomberg are integrated into the Sustainalytics online research portal, offering search and filtering functions, uploading portfolios, downloading reports in Excel or PDF, and numerical and text data accessible via FactSet’s suite of tools including Portfolio Analysis. Bloomberg provides top-level data available to all terminal users, accessible via Excel plug-in to integrate customised dataset. Data Feeds & API offer quarterly or monthly feeds, numerical and text data.
Sustainable Investing

Sustainable investing is an investment approach that considers how a company manages environmental, social and corporate governance (ESG) factors.

**Avoiding Exposure**

- **Values**
  - Includes strategies that often appeal to the values of certain investors.
  - Faith Based screening
  - Ex-Tobacco screening
  - Ex-Gaming screening

- **ESG Integration & Risk Management**
  - Includes strategies that typically integrate ESG factors for the purposes of alpha generation and risk mitigation.
  - ESG overlay on a broader universe
  - Optimized to capture broad-benchmark exposure
  - Sustainability of company operations
  - Exposure to reputational risk and impact on stakeholders

**Targeting Outcomes**

- **Thematic / Impact**
  - Includes strategies that capture companies involved with a specific impact either through revenues or focused activities.
  - Clean Energy
  - Clean Tech
  - Low Carbon
  - Water
  - Gender Diversity
  - Workplace Conditions
Sustainalytics: ESG Risk Rating
Measuring unmanaged ESG risks

Sustainalytics’ ESG Risk Ratings measure companies’ exposure to and management of material ESG issues.

The rating measures and adds up the unmanaged risks of a company vis-à-vis a set of ESG issues that are considered material from a financial perspective.

Companies are exposed to different ESG issues to different degrees. Their exposure is driven by sub-industry and company-specific factors.

An ESG issue is considered material, if the company is sufficiently exposed to this issue. Corporate Governance is considered to be material for all companies.

Companies are allocated across five risk rating categories (negligible, low, medium, high, and severe risk).
Sustainalytics: Risk Rating Research Process

Document reviews, analysis, company feedback and quality management systems

- Annual review of company reporting: annual reports, CSR reports, publicly available policies, etc.
- Daily monitoring of 55,000+ news and media sources
- Analysis by 170+ experienced analysts with sector expertise
- Structural review by senior analysts
- Company feedback always included in the ESG research process
- Detailed and stringent Quality Management System
- Events Oversight Committee conducts additional review of any severe controversies
Q&A

Panelists & Moderator

Nicole Bouquet  Head of Sustainability Advisory, ISS Corporate Solutions
Contact Nicole directly at Nicole.Bouquet@isscorporatesolutions.com

Eric Fernald  Director of Issuer Relations, Sustainalytics
Contact Eric directly at Eric.Fernald@Sustainalytics.com

Pam Styles  Principal, Next Level Investor Relations, LLC (Moderator)
Contact Pam directly at p.styles@nextlevelinvestorrelations.com
Speaker Bios

Nicole Bouquet, Head of Sustainability Advisory, ISS Corporate Solutions
Nicole has been a fixture in the ESG space for more than a decade. In her most recent role, she is Head of Sustainability Advisory for ISS Corporate Solutions. This team of advisors work with corporate issuers to improve disclosures related to sustainability and social risks and consult on the formation of internal programs to manage these risks. Prior to joining the team earlier this year, she held a role in the ISS Institutional business as a product specialist team lead supporting the investor use case for ESG data and research. Nicole has held many positions across client service and sales for other ESG research providers prior to joining ISS and has helped many of the largest, U.S.-based investment management firms design and implement programs for integrating ESG into the investment process. For more about ISS – https://www.issgovernance.com/

Eric Fernald, Director of Issuer Relations at Sustainalytics
Eric is responsible for Sustainalytics’ Corporate Issuer Relations. He joined Sustainalytics in January 2018. Prior to Sustainalytics, Eric worked for MSCI ESG Research as head of ESG corporate communications. From 1995 to 2009, Eric worked at the pioneer ESG research firm - KLD Research & Analytics - where he was Research Director from 2004-2009. Eric is a graduate of Williams College. For more about Sustainalytics – https://www.sustainalytics.com/

Pam Styles, Principal and founder of Next Level Investor Relations LLC
Pam is a senior IR practitioner, with a background in finance and strategy. In addition to traditional IR consulting, she actively consults and writes on the rapidly evolving field of ESG/Sustainability, as applicable to corporate positioning and stakeholder relations. Previously, she was head of IR and corporate communications for Crane Co. and director of IR for Starwood Hotels & Resorts and RJR Nabisco. Pam is a Fellow with the Governance & Accountability Institute and an active member of NRI, SRI-CONNECT, and the Independent SRI Consultants Network; she currently serves on the board of the NRI Capital Area Chapter and NRI Senior Roundtable Steering Committee. Pam is a graduate of the University of Michigan and the University of Chicago Booth School of Business. For more about Next Level Investor Relations - http://www.nextlevelinvestorrelations.com/
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