

MSCI ESG Ratings

ASX ISSUER METHODOLOGY WEBINAR

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September 2021



Introducing MSCI ESG Research

First ESG provider to assess companies based on industry financial materiality¹

270+
ESG
analysts²
(400+ FTE)

14,000
issuers in
ESG Ratings
coverage

1,500+
ESG equity &
fixed income
indexes use MSCI
ESG Research
ratings and data

1,700+
clients



¹ Through our legacy companies KLD, Innovest, IRRG, and GMI Ratings. ESG Ratings dating back to 1999.

² Source: MSCI ESG Research as of March 2021. 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.

* Representative office for business development.



MSCI



The Independent Research
in Responsible Investment Survey

MSCI voted Best Firm for SRI Research,
Corporate Governance and Sustainability Indexes
for the fourth consecutive year

2019
2018
2017
2016/15

WINNER

MSCI

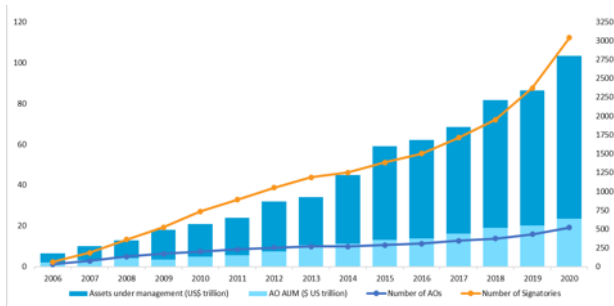
2020 ESG Trends
project: What are the
big challenges for the
new decade?



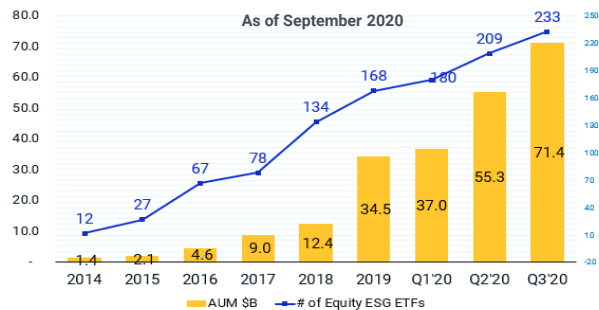
Why ESG?

ESG investing is growing dramatically...why now?

UN PRI* Has Grown to Over 3,000 signatories in managing over \$100 trillion in AUM



99% CAGR in ETF AUM Tracking MSCI ESG Indexes since 2013



HERE'S WHY:

1 Investors have become less tolerant of corporate ESG incidents

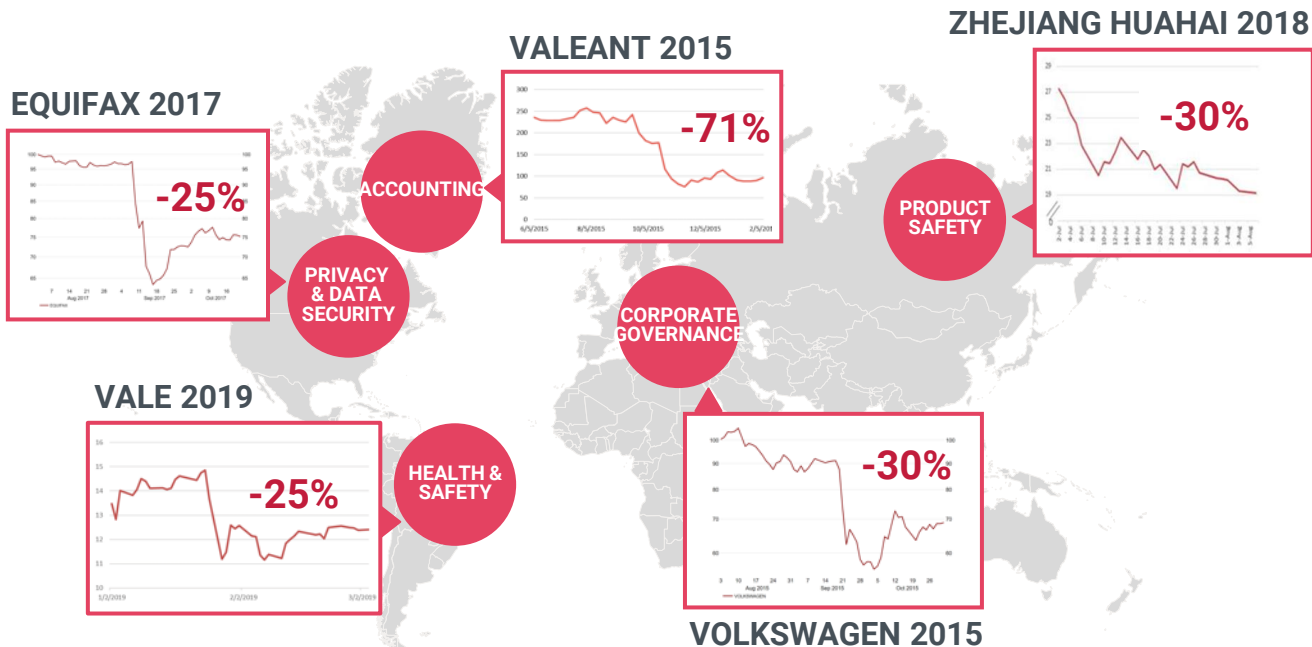
2 Investors demonstrating willingness to act

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

4 Technology and ESG Ratings data enhancements

ESG incidents and stock price movements

30 years ago, Exxon's stock price barely moved when Exxon Valdez spilled 11mm gallons of oil on the Alaskan shore.* Today, with social media allowing for immediate, global communication of issues, investors are making companies accountable for their actions.



ESG leaders have demonstrated increased sophistication across their organizations

Asset owners

PENSION FUNDS

INSURANCE

CIO OFFICE

FINANCIAL ADVISORS

CONSULTANTS

ENDOWMENTS & FOUNDATIONS

FUND SELECTION

RETAIL

Asset management

FUNDAMENTAL EQUITY

EMERGING

FUNDAMENTAL FIXED INCOME

ESG SPECIALIST

RISK MANAGEMENT

ACTIVE FUND

QUANT

STEWARDSHIP & GOVERNANCE

COMPLIANCE

PASSIVE FUND & ETP

Other / product

Risk management

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

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

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

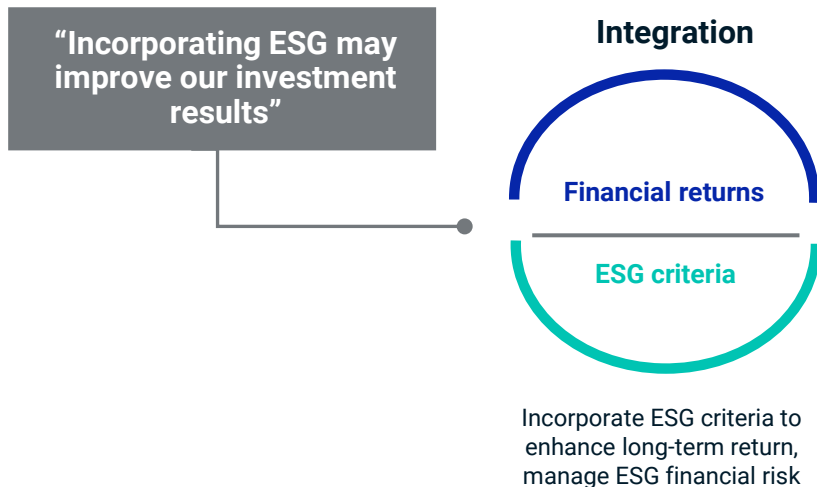
Risk teams are increasingly **systematically reporting** on ESG risk

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

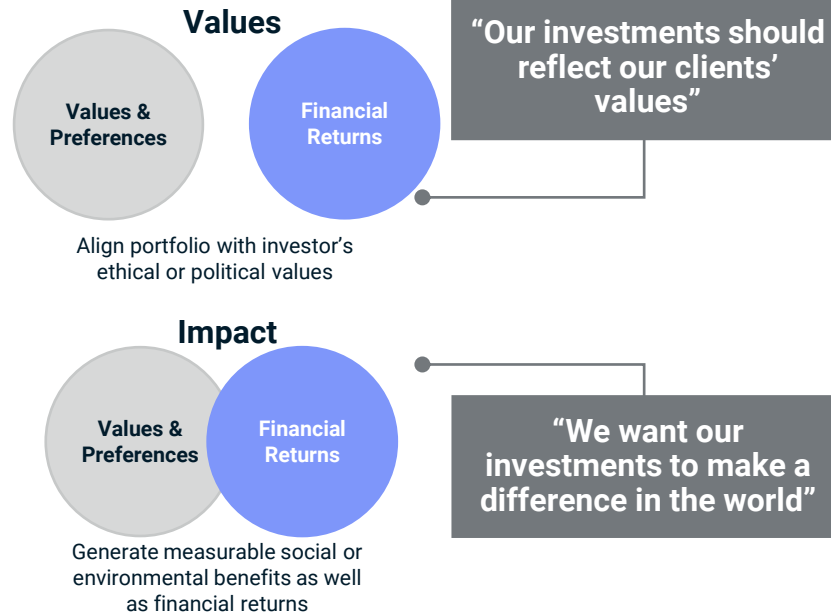
Understanding the most common ESG objectives

Incorporating ESG into investment strategy or creating products typically starts with understanding client objectives, which may combine elements of managing long-term risk, reflecting values and positive impact.

Investment Objectives



Individual Objectives



What are MSCI ESG Ratings?

What are ESG Ratings?

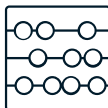
MSCI ESG Ratings aim to measure a company's **resilience to long-term, financially relevant ESG risks**

To do this we measure:

Robustness of governance controls, the foundation of good risk management



BOARD



ACCOUNTING



OWNERSHIP
AND CONTROL



EXECUTIVE
PAY

Exposure to **long-term systematic risk** factors



CLIMATE
CHANGE



WATER
SCARCITY



DATA
SECURITY



DEMOGRAPHIC
SHIFTS

Management quality & ability to limit surprised and **event risks**



ACCIDENTS



FRAUD



SHUTDOWNS



STRIKES

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

Audit committee structure and fees paid to outside auditors. Transparency metrics tied to revenue, expense recognition, asset-liability valuation



Business Ethics

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



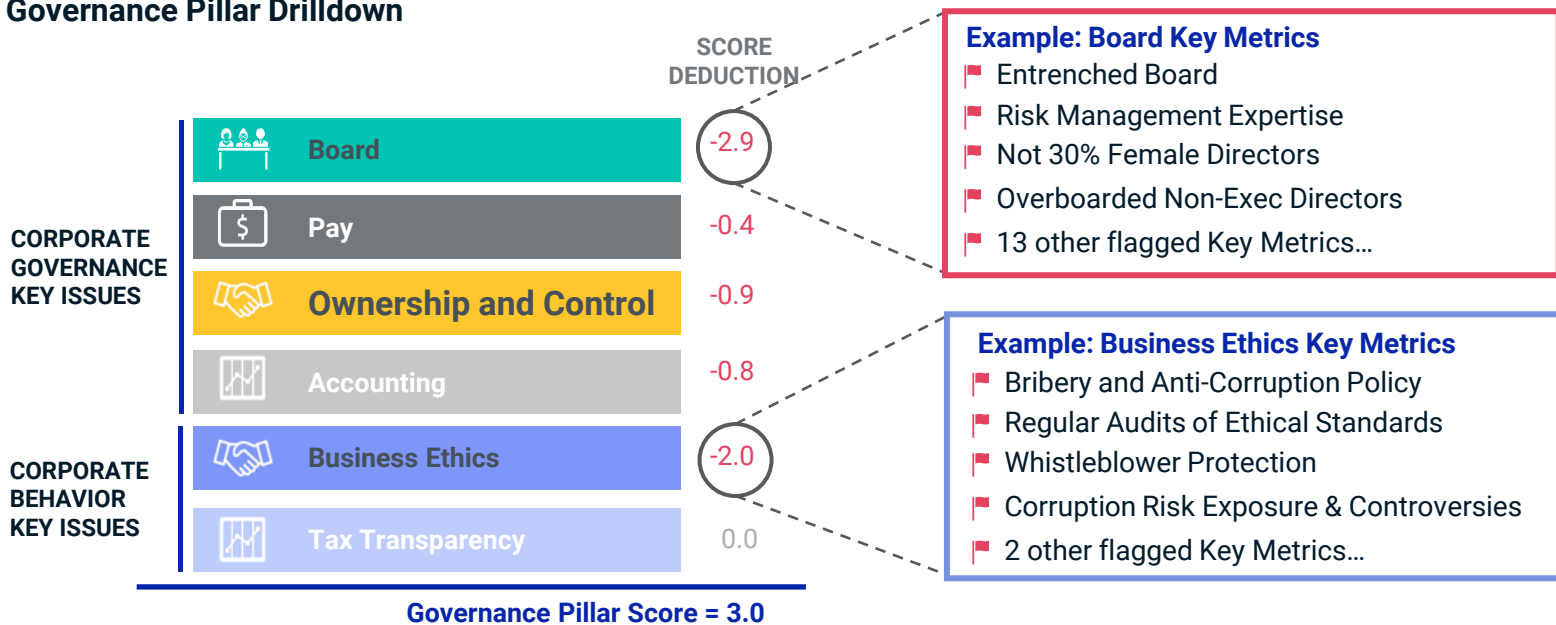
Tax Transparency

Estimated corporate tax gap and involvement in tax-related controversies

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



MSCI ESG Rating model key issues

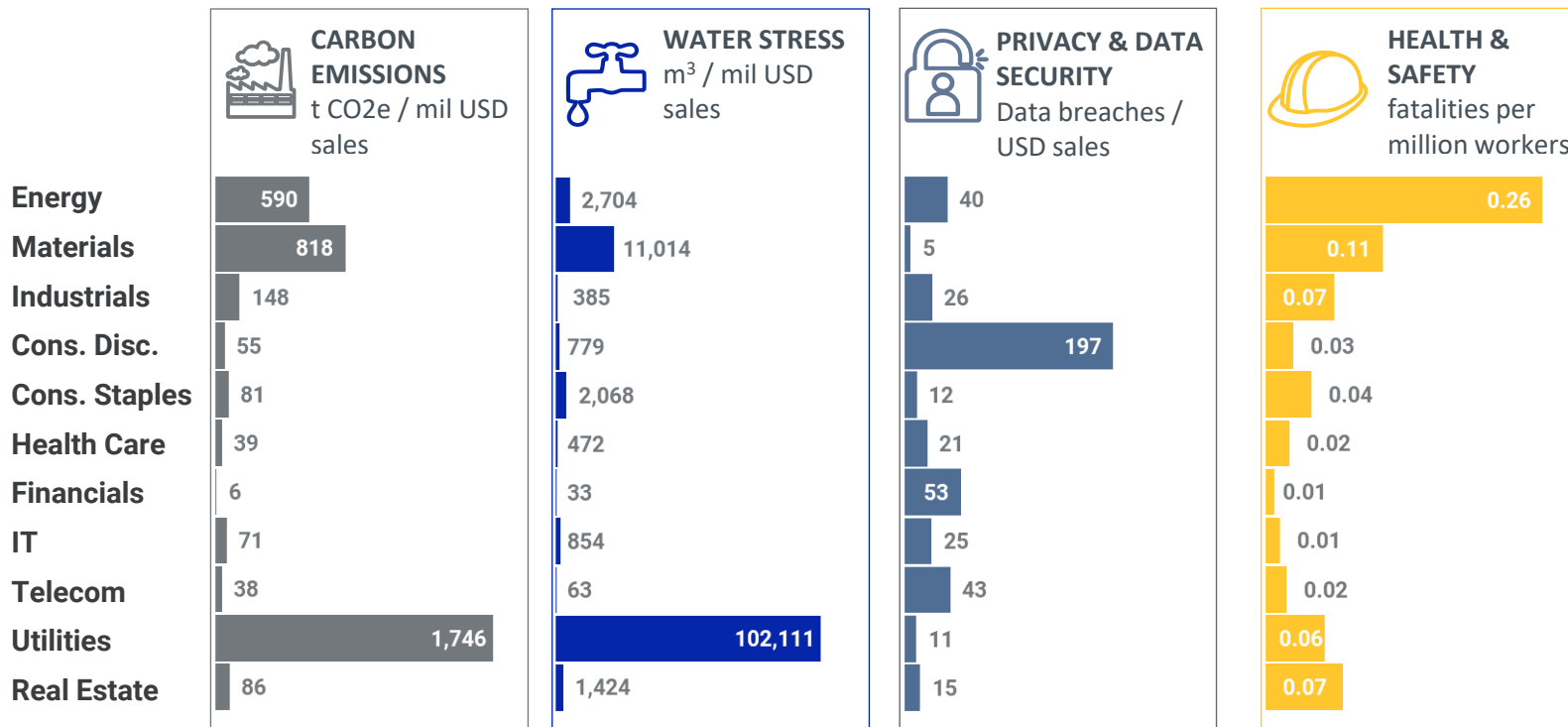
Example: Soft Drinks Sub-Industry

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 Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Consumer Financial Protection	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Privacy & Data Security		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Responsible Investment		Opportunities in Nutrition & Health	Accounting	
					Insuring Health & Demographic Risk				
					Chemical Safety				

 **Soft Drink Sub-Industry: e.g. Coca-Cola**

 **Universal key issues applicable to all industries**

Environmental and social risks are industry-specific



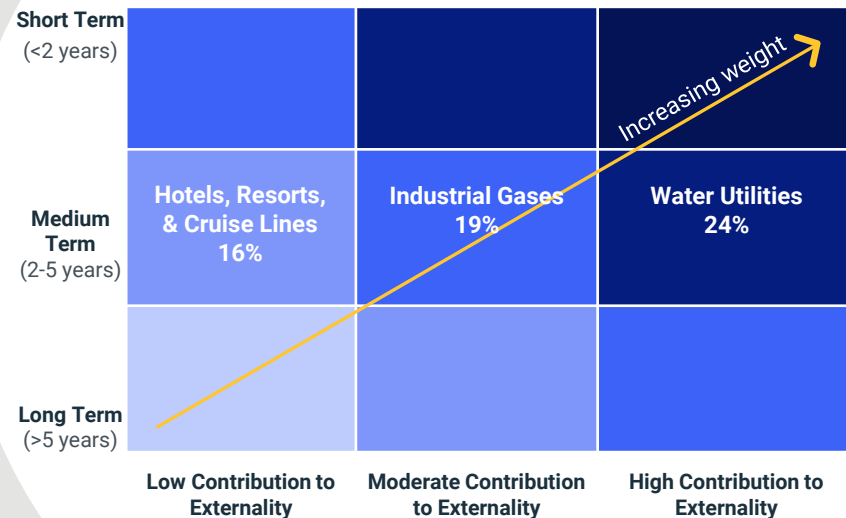
Sources: Carbon emissions and freshwater withdrawal intensities based on sample of 3,823 and 1,633 companies, respectively as of March 2, 2020. Percentage of companies with active bribery and ethics controversies is based on the number of companies with ongoing bribery & fraud controversies in the MSCI 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.

Information Classification: GENERAL

Setting key issue weights

Key issue weights are based on:

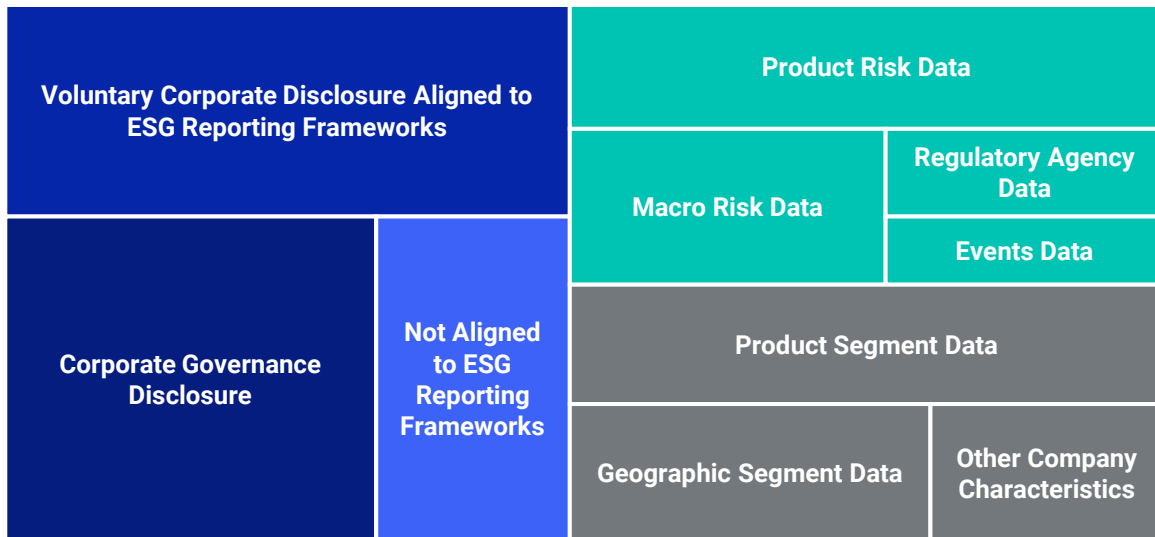
- Industry's contribution to externality vs. other industries
- Time horizon of risk factor for that industry
- Number and significance of other issues assessed
- Minimum 33% weight applied to the Governance Pillar, based on standard time horizon and impact for Corporate Behavior and Corporate Governance



Source of data inputs into MSCI ESG Ratings, sized by % of contribution

● Company-reported ESG information ● Information from other sources ● Company characteristics

Most standardized Least standardized



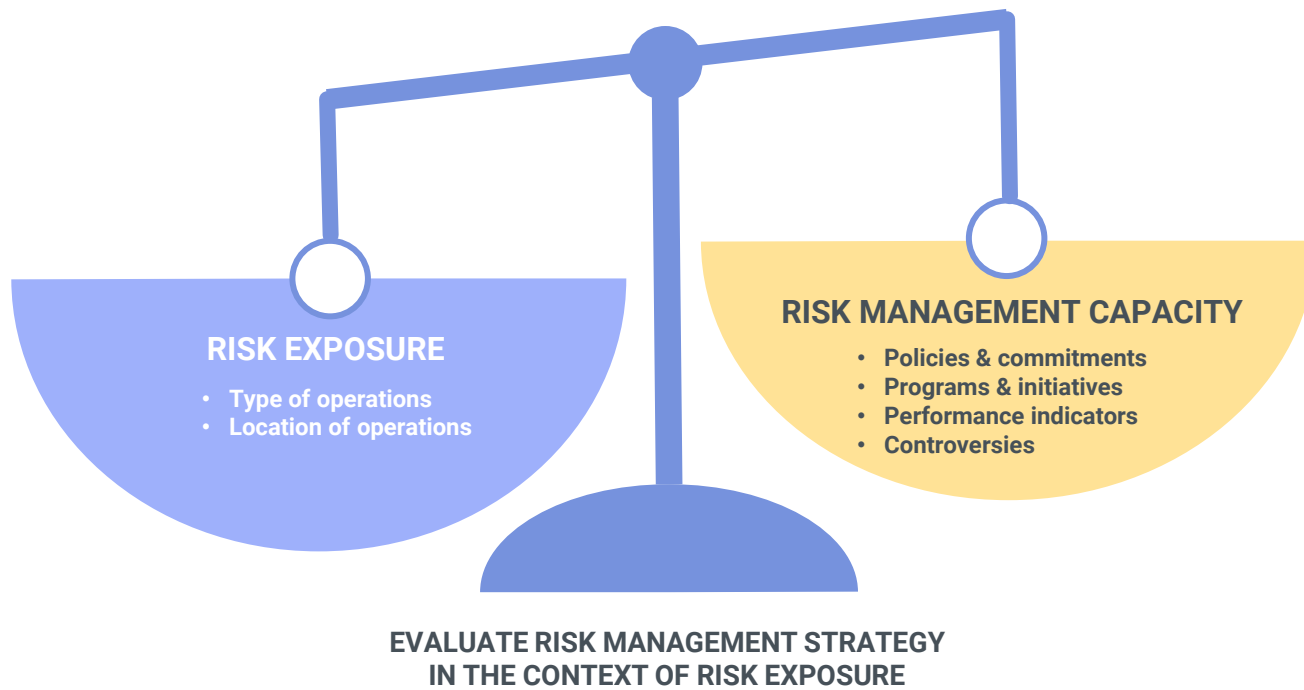
Data Processing

- ▶ Acquire data
- ▶ Fill data gaps with proxies and estimates
- ▶ Standardize data





Modelling

- ▶ Convert to quantifiable assessment
- ▶ Aggregate model components
- ▶ Apply weights

Measuring ESG risk exposure



How MSCI ESG Research assesses company risk management practices

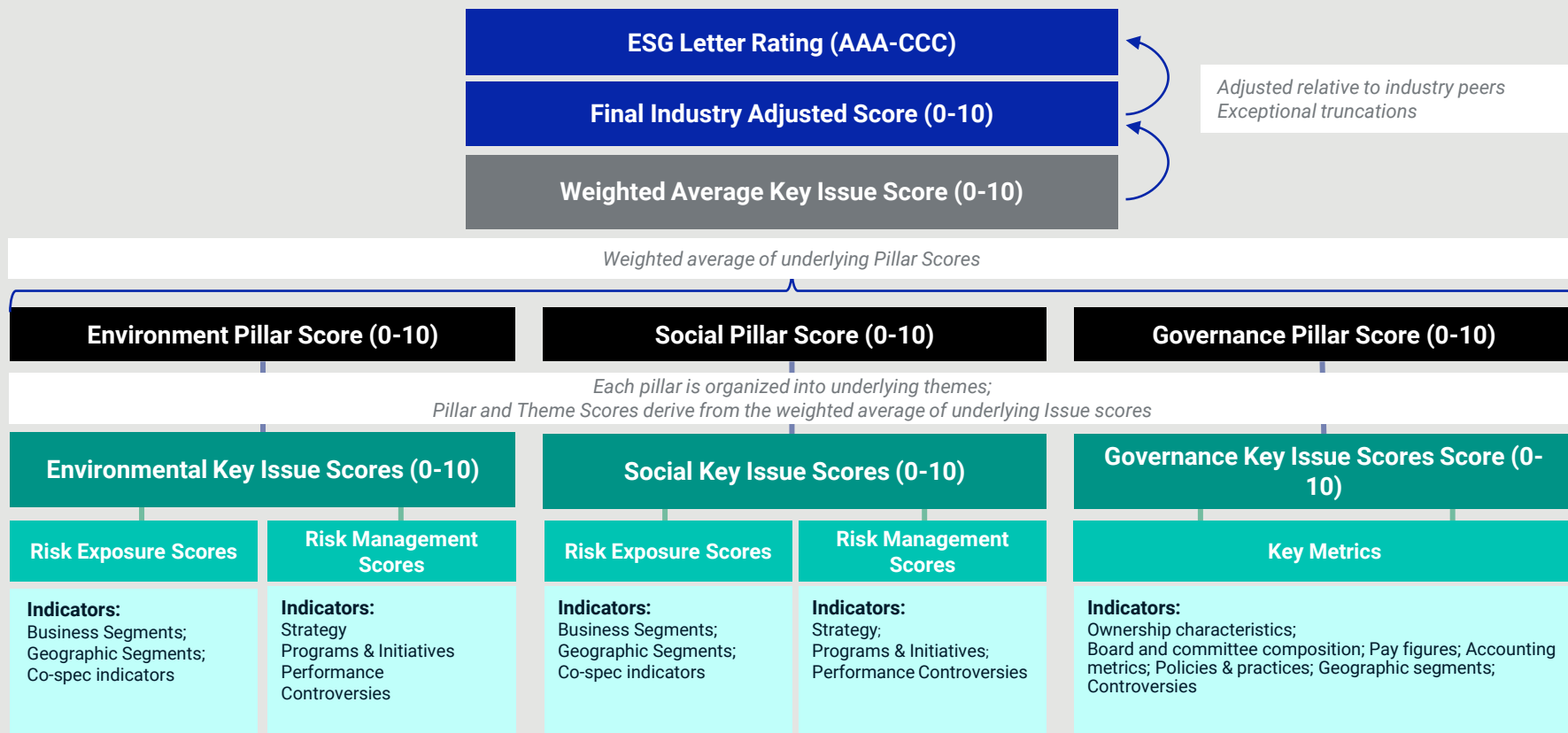
	EXAMPLE METRIC	COMPANY 1	COMPANY 2
PRACTICES	Oversight of Water Management	Board-level Committee BEST PRACTICE 	No evidence of oversight WORST PRACTICE 
	Water Reduction Target	5% annual reduction in water intensity BEST PRACTICE 	No evidence of target WORST PRACTICE 
	Practices Score	8.5/10	2.0/10
PERFORMANCE	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)
	Performance Score	3.5/10	8.0/10
CONTROVERSIES	Severity of Ongoing Controversies	No ongoing controversies	One Severe Controversy
	Controversy Deduction	0.0	-2.5
MANAGEMENT SCORE	Average (Practices, Performance) - Controversies	6.0 / 10	2.5 / 10

How strong are the company's programs and policies?

How effective are its programs and policies?

Do ongoing controversies indicate potential lapses in oversight?

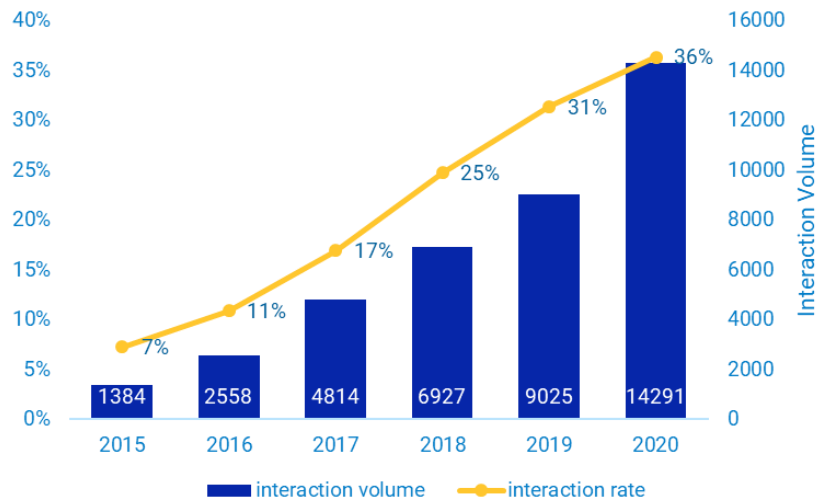
How the scores roll up to the final ESG Rating



How to Interact with MSCI

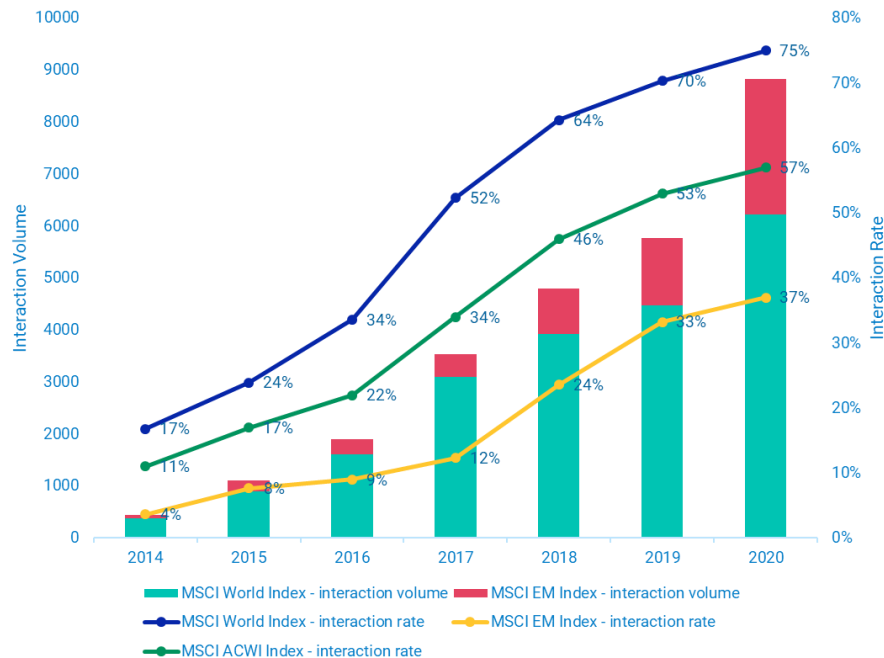
Issuer Awareness of ESG Continues to Rise

MSCI ACWI Investible Markets Index



Source: MSCI ESG Research LLC

MSCI World Index vs. MSCI EM Index



Australia Issuer Interactions

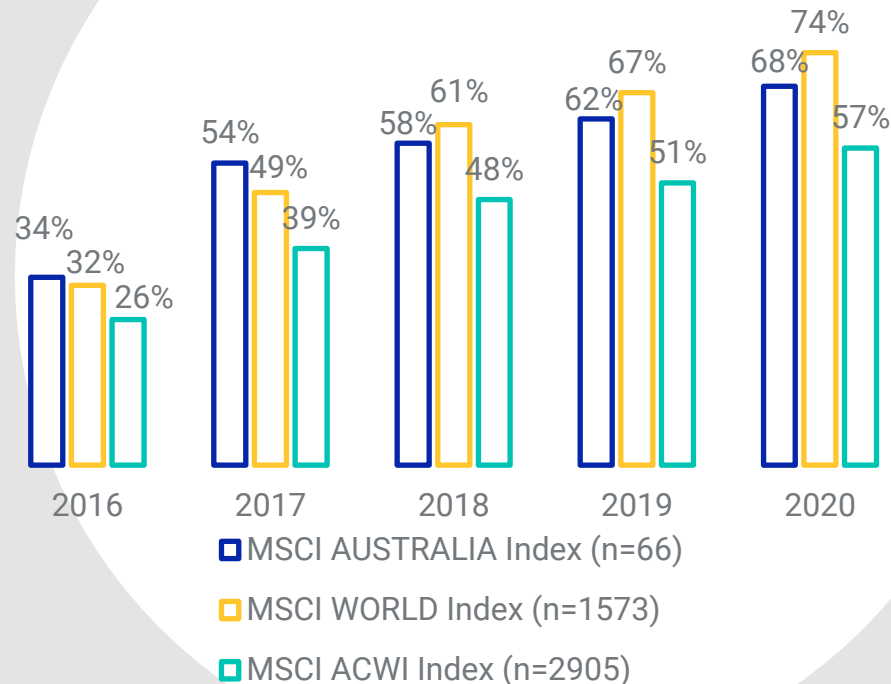
Insights: Australian issuers, part of the MSCI Australia Index have been steadily increasing interactions with MSCI.

Australia issued legislations¹ on mandatory disclosure of social and environmental information back in 2001, and energy and emissions reporting² in 2007 (amendments to this act are made annually). Australian Securities Exchange issued rules³ that require disclosure on corporate governance since 2003.

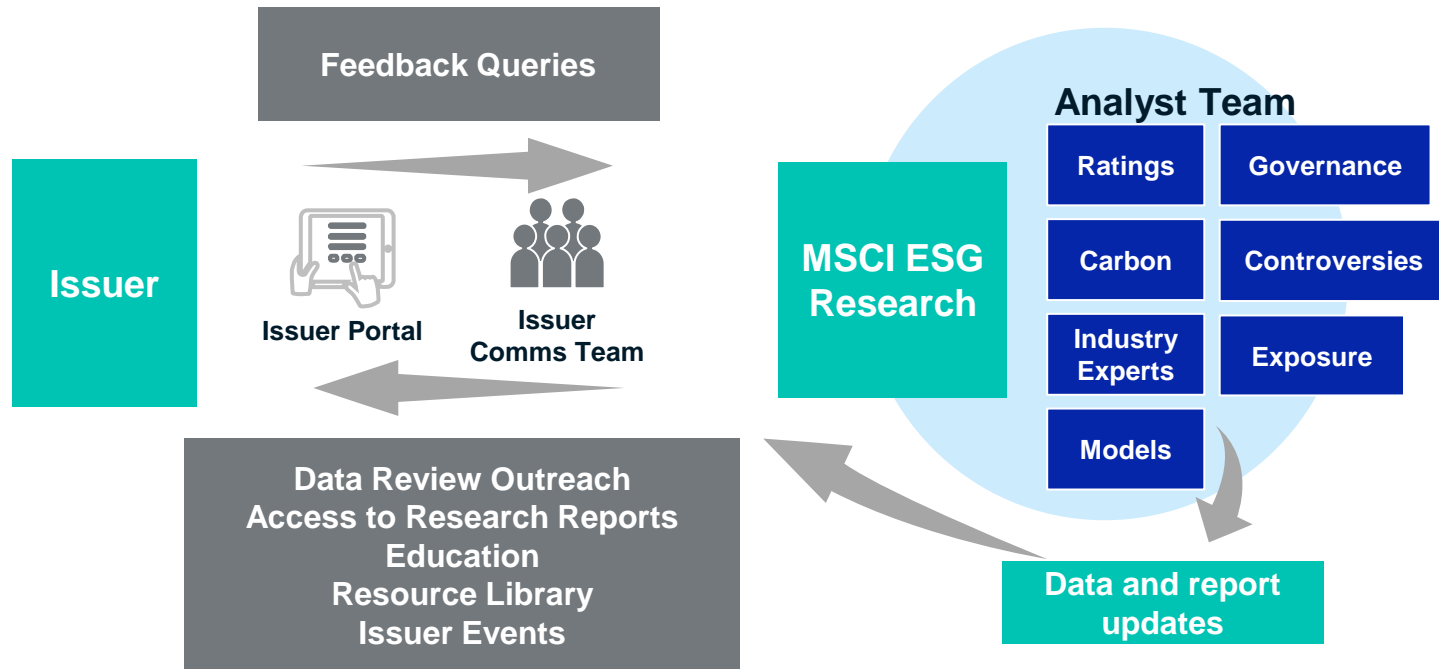
Most Active Issuers in recent two years

Issuer	Number of Interactions
Evolution Mining	34
Medibank Private	23
Origin	21
AGL	19
QBE	17
BHP	14
CBA	12
Rio Tinto	11
Mirvac	10
Scentre	10

Issuer interaction trend



Typical Issuer Interaction



Engage With Us Through Our Dedicated Issuer Portal

Our [ESG Issuer portal](#) allows companies to access their ESG Research reports at any time and make changes to their designated contact.

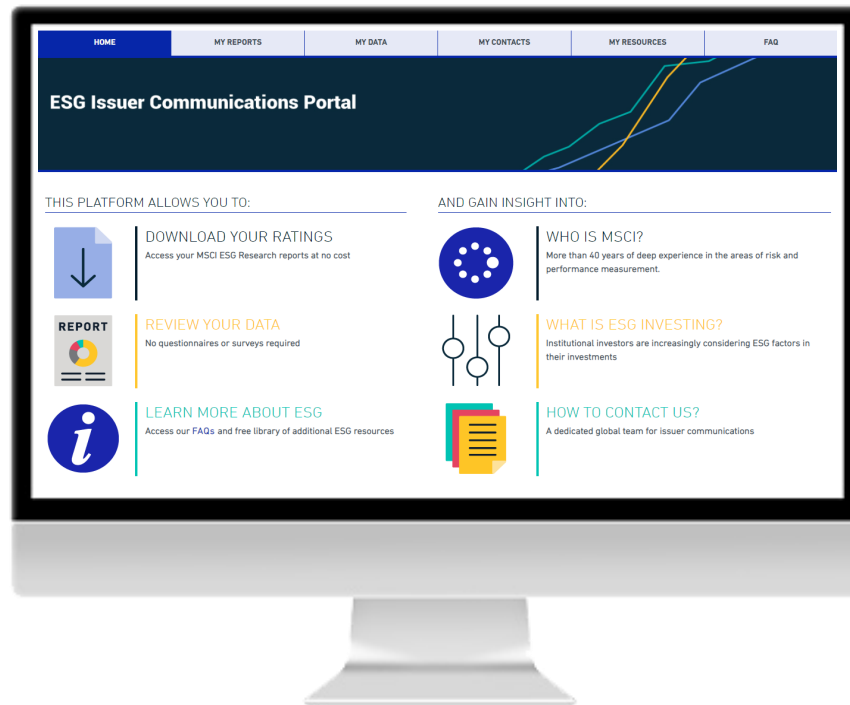
This is also where you submit feedback **at any time**.

Additional resources

- [Issuer Portal User Guide](#)
- www.msci.com/resources-for-issuers
- [Apply to use your ESG Ratings badge](#)

Contact us

- esgissuercomm@msci.com



Engage with us through the Issuer Communications Portal



Login to the ICP

<https://esgicp.msci.com/>

Navigation Tab

ESG Issuer Communications Portal

THIS PLATFORM ALLOWS YOU TO: GAIN INSIGHT INTO:

DOWNLOAD YOUR RATINGS

WHO IS MSC?

LOG OUT

MSCI

HOME MY REPORTS MY DATA MY CONTACTS MY RESOURCES FAQ

HELP GUIDE DATA VERIFICATION FORM - ()

ESG Ratings

Carbon	ESG Controversies	Exposure	Governance Metrics	Screening Research	Racial Diversity	SFDR	
Water Stress	Opportunities in Clean Tech	Labor Management	Human Capital Development	Privacy & Data Security	Corruption & Instability	Other Labor Metrics	Corporate Behavior

Weight

Practices

Performance

Submit

IMPORTANT: Please ensure that you have reviewed all relevant data prior to submitting comments. While we welcome feedback at any time. In order to avoid any confusion while processing your feedback, we kindly request that you refrain from providing additional comments until all previous submissions have been reviewed and resolved.

Digital Data Verification Form

Data Review Efficiency

- Standardized and consistent feedback format
- Includes only company-verifiable data
- Data pre-filled; not a survey!

Extent of certification to a widely accepted product safety / quality standard (e.g. HACCP, ISO 9001, or equivalent)

MSCI Value
Most (over 80%) owned facilities are certified to widely accepted standards

Issuer Value

Most (over 80%) owned facilities are certified to widely accepted standards

Most (over 80%) owned facilities are certified to widely accepted standards

Some (over 20% and below 80%) owned facilities are certified to widely accepted standards

There is some evidence of certification

Few (less than 20%) owned facilities are certified to widely accepted standards

Company intends to pursue widely accepted certification of owned facilities

No evidence

Practices

Supply chain and sourcing

Membership in recognized industry-wide partnership(s) on supply chain/contractor risk evaluation and mitigation Not disclosed

Conducts supplier training on quality assurance

Frequency of supplier training Training is on an ad hoc as-needed basis or

Scope of supplier training Some suppliers

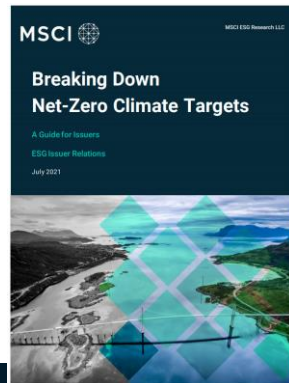
Metric Transparency

- Better understand MSCI ESG Research assessment criteria
- Submit feedback with public evidence

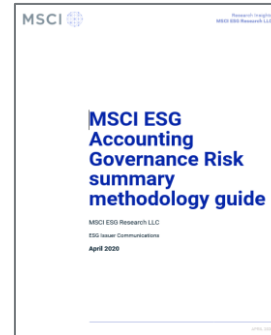
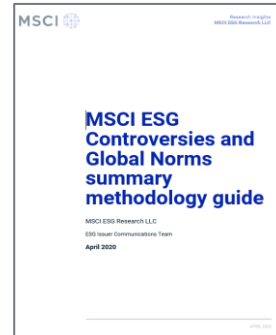
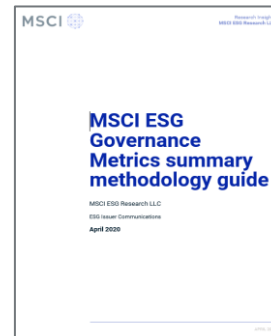
Additional resources available through the portal

- Visit the “My Resources” tab for access to on-demand webinars, methodology and more

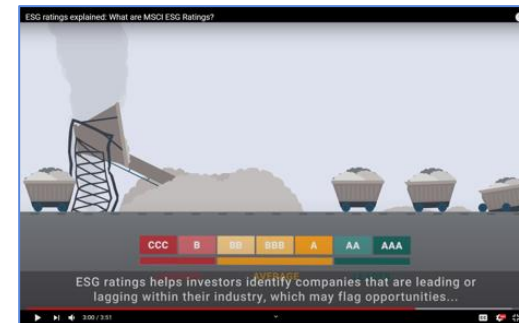
FAQs and ‘How To’ Guides



Summary Methodology Guides



What goes into an ESG Rating?



Watch the MSCI ESG Ratings video

ALSO:

- Webinar recordings
- Relevant ESG thought leadership content from MSCI ESG Research
- And more!

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



For all inquiries related to your company's ESG data and assessments, the ESG Issuer Communication team is your main point of contact.

Get in touch:

esgissuercomm@msci.com

Q&A

About MSCI: ESG

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