

# MEET THE RATERS - MSCI ESG RESEARCH –

April 2019- SEC –PSE conference on building a sustainable business  
community

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# WELCOME AND INTRODUCTION



# AGENDA

- **Welcome and Introduction**
- **MSCI ESG Research Overview**
- **MSCI ESG Ratings Methodology**
- **ESG Analytical Model Today**
- **ESG Issuer Communications**

# INTRODUCING MSCI ESG RESEARCH

**185+**

ESG analysts<sup>1</sup>  
(325+ FTE<sup>2</sup>)

**1200+**

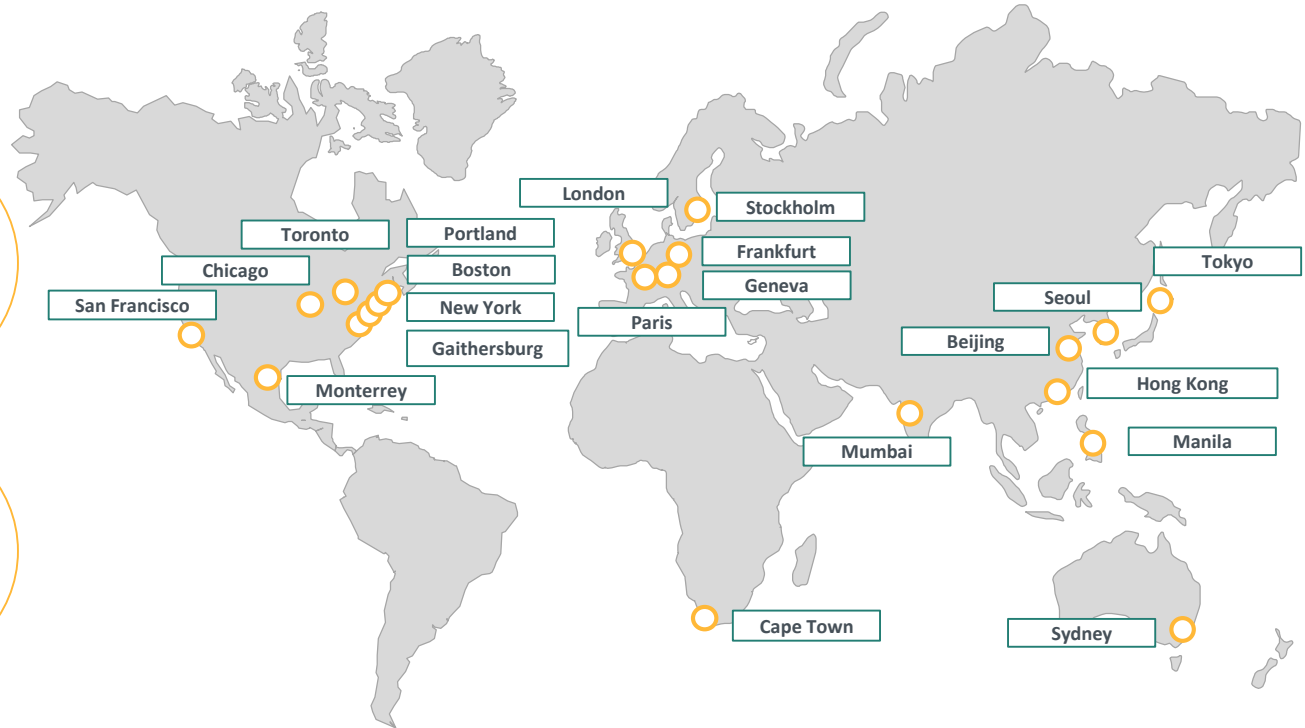
clients

**46** <sup>TOP</sup> <sub>of 50</sub>

Global asset  
managers<sup>3</sup>

**900+**

ESG equity & fixed  
income indexes use  
MSCI ESG Research  
ratings and data



**INDEPENDENT RESEARCH  
IN RESPONSIBLE  
INVESTMENT (IRRI) SURVEY**

MSCI voted **Best firm for SRI Research,  
Corporate Governance Research and  
Indexes for the third consecutive year**

**1st** IRRI AWARDS 2015  
**1st** IRRI AWARDS 2016  
**1st** IRRI AWARDS 2017

**IRRI SURVEY**

**EXTel** | **SRI CONNECT**



0110 0100  
0110 0001  
0111 0100  
0110 0001

**DeepData**  
DeliveryStandard

Gold Standard [www.deepdata.ai](http://www.deepdata.ai)



<sup>1</sup> Direct and allocated FTEs. Source: MSCI ESG Research as of April 2018  
<sup>2</sup> Includes full time employees and allocated staff performing non-investment advisory tasks  
<sup>3</sup> Based on latest P&I AUM data and MSCI clients as of December 2017

# WHY ESG? WHY NOW?

## DRIVERS OF ESG INVESTMENT

### THE WORLD IS CHANGING

macro sustainability challenges, rising complexity, accelerating pace of change, rising business standards

### INVESTORS ARE CHANGING

shifting investor preferences, demographic change, rising investor expectations

### DATA & ANALYTICS ARE EVOLVING

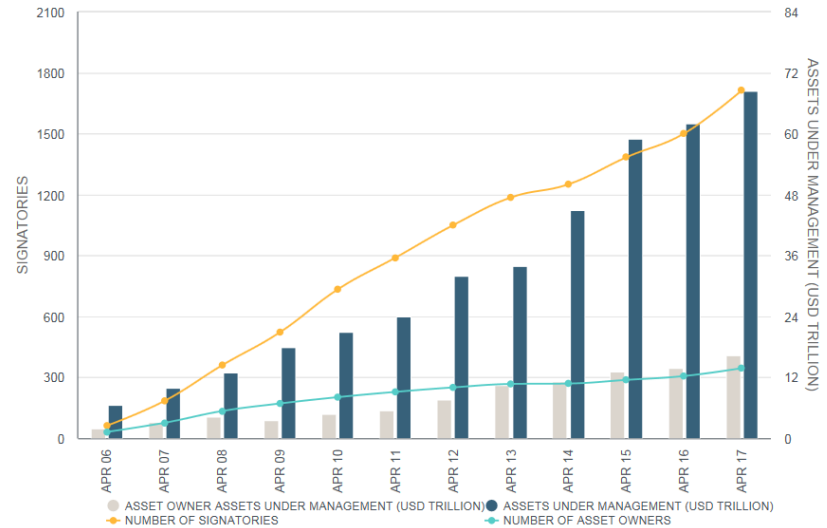
possible to measure what was previously unmeasurable

# ESG INVESTING LANDSCAPE

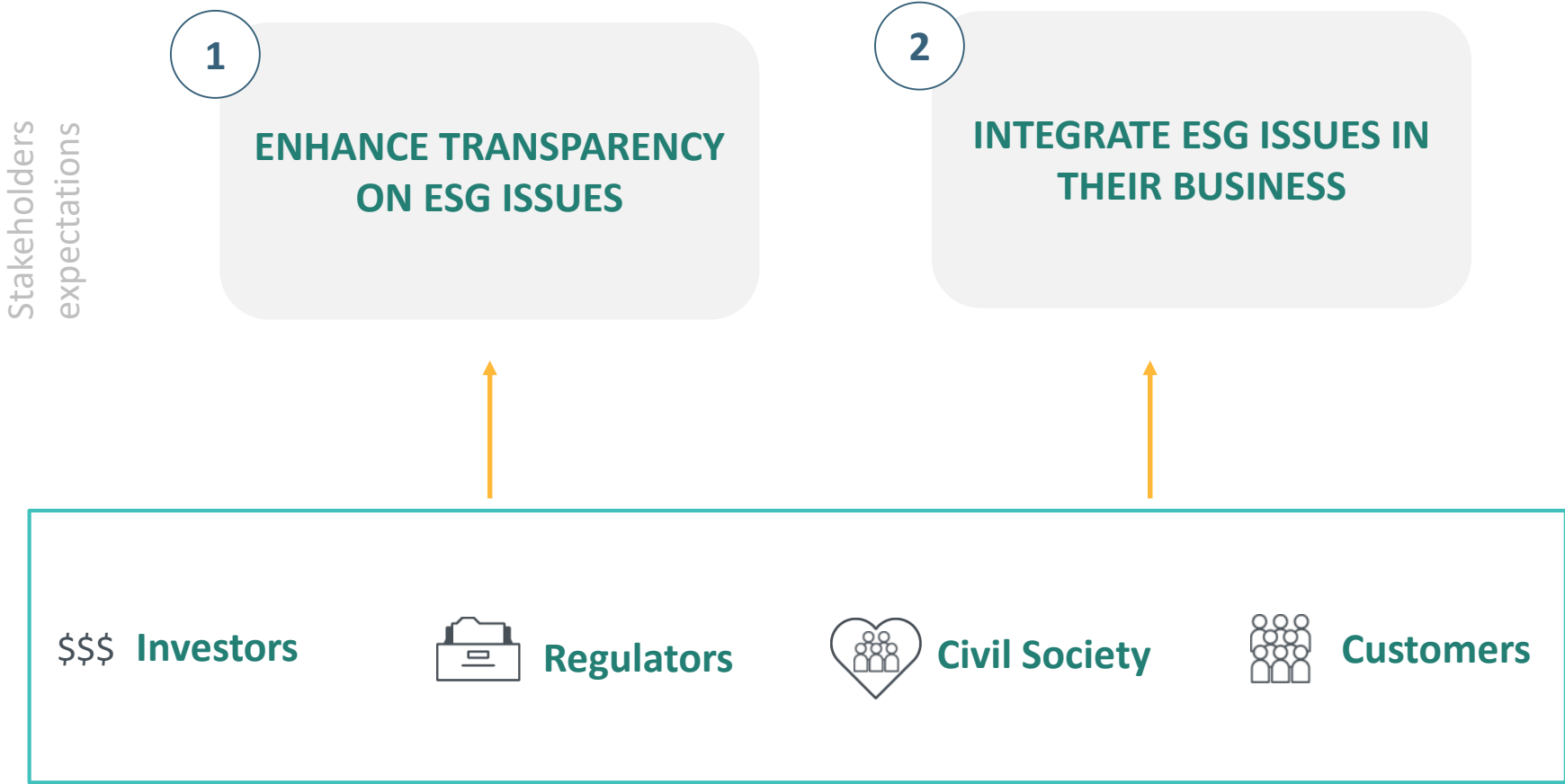
## INCREASED PRESSURE TO INTEGRATE



## INSTITUTIONAL DEMAND IS GROWING



# ISSUERS ARE BEING ASKED TO ADDRESS ESG BY THEIR STAKEHOLDERS



# MSCI ESG RESEARCH OVERVIEW





# DEFINING TYPICAL ESG OBJECTIVES

## FINANCIAL OBJECTIVES

Incorporating ESG may improve our investment results.

### INTEGRATION



Incorporate ESG criteria to enhance long term return, manage ESG financial risk

## NON-FINANCIAL OBJECTIVES

### VALUES



Our investments should reflect our values.

Align portfolio with investor's ethical or political values

### IMPACT



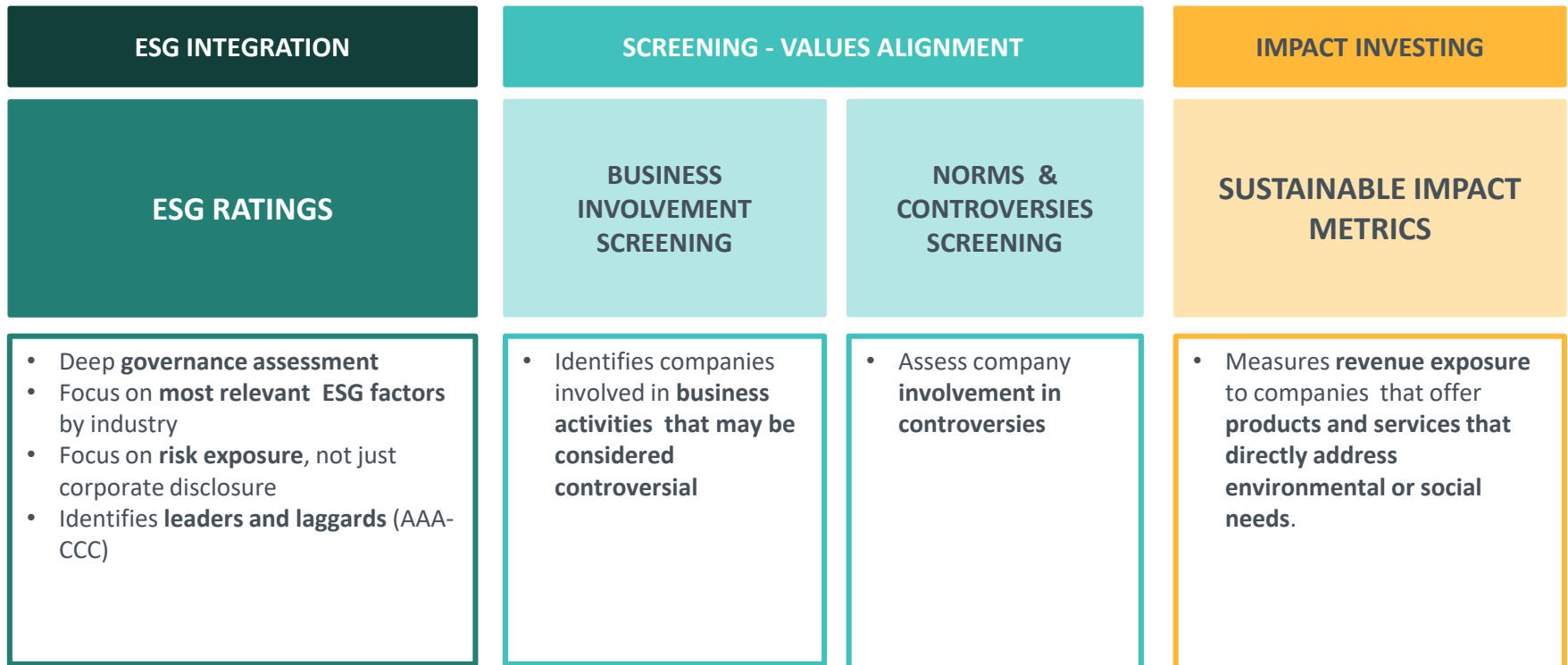
We want our investments to make a difference in the world.

Generate measurable social or environmental benefits as well as financial returns

# ESG INVESTMENT OBJECTIVES DRIVE INVESTORS' ESG DATA NEEDS

ESG investment toolbox is varied in order to address the full spectrum of investor needs

## MSCI ESG RESEARCH



# MSCI ESG RATINGS METHODOLOGY



# ESG

## AS A RISK FACTOR

UNDERSTAND EXPOSURE TO LONG-TERM  
**SYSTEMATIC RISK FACTORS**



WEATHER  
PATTERNS



WATER  
SCARCITY



DATA  
SECURITY



DEMOGRAPHIC  
SHIFTS

ASSESS **MANAGEMENT QUALITY &**  
LIMIT SURPRISES AND **EVENT RISKS**



ACCIDENTS



SHUTDOWNS



FRAUD



STRIKES

**CORPORATE GOVERNANCE: FOUNDATION OF RISK MANAGEMENT**



BOARD



PAY



OWNERSHIP & CONTROL



ACCOUNTING

# MSCI ESG RATING APPROACH



Analysis begins with a **deep governance assessment**



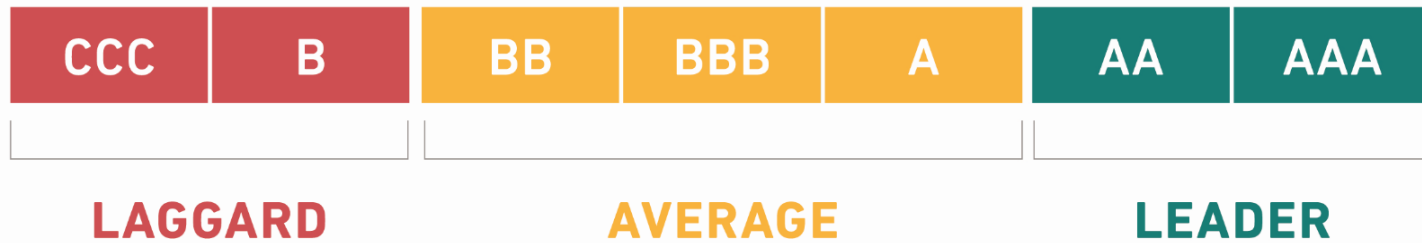
Focus on **most relevant ESG factors** by industry



Focus on **risk exposure** not just disclosure



Identify **leaders and laggards**, not business type exclusion





# ESG ANALYTICAL MODEL TODAY

# 185+ ANALYSTS PROVIDING COMPANY AND SECTOR INPUTS & INSIGHTS

Specialized Subject Teams provide inputs into Rating model:

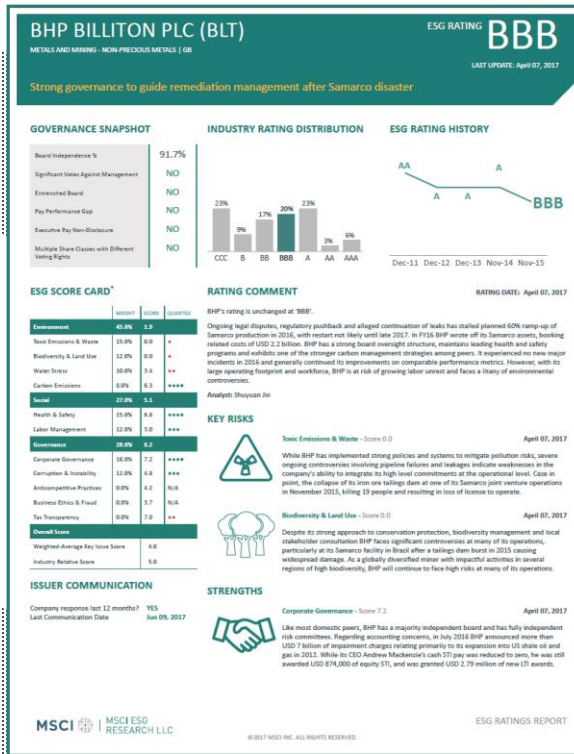
 Exposure specialists **10**

 Carbon specialists **10**

 Governance specialists **29**

 Controversies specialists **25**

 Business segment specialists **25**



**70** ESG Sector Analysts add **Industry, Country and Company** expertise, providing insights on key risks and opportunities

**6** On average, analysts will contribute to the rating and report of any given company

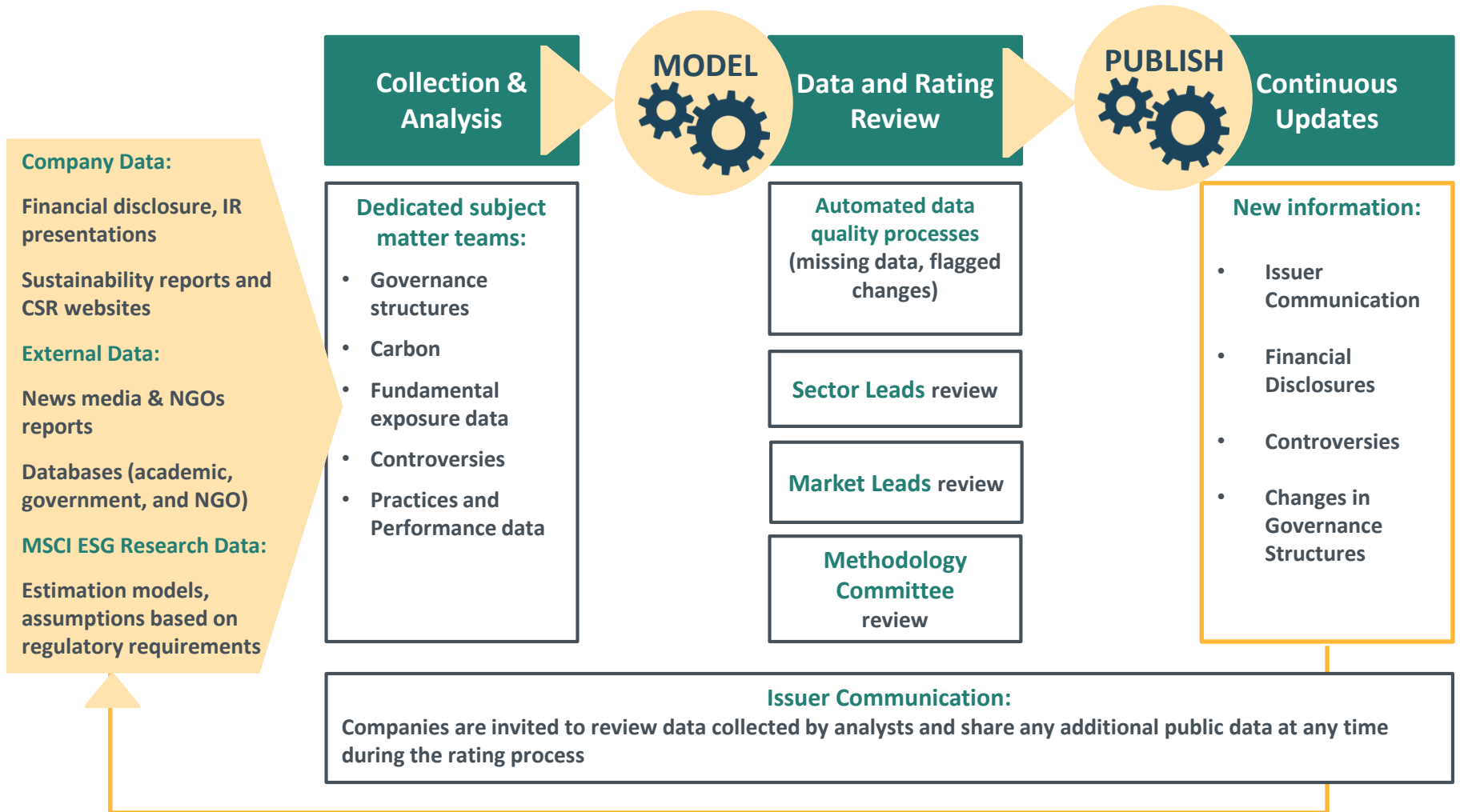
Diverse professional backgrounds ranging from former **portfolio managers** and **policy specialists** to **supply chain auditors** and **energy engineers**

**25** languages

**>50%** Advanced degrees

**10yrs** Average professional experience

# MSCI ESG RATING PUBLICATION PROCESS





# DATA SOURCES: COMMITMENT TO PUBLIC DATA



Only use publicly available information.  
No confidential data.



Traceability of information is highly important.



No stock questionnaires.  
No general interviews.

## MSCI ESG DATA SOURCES:

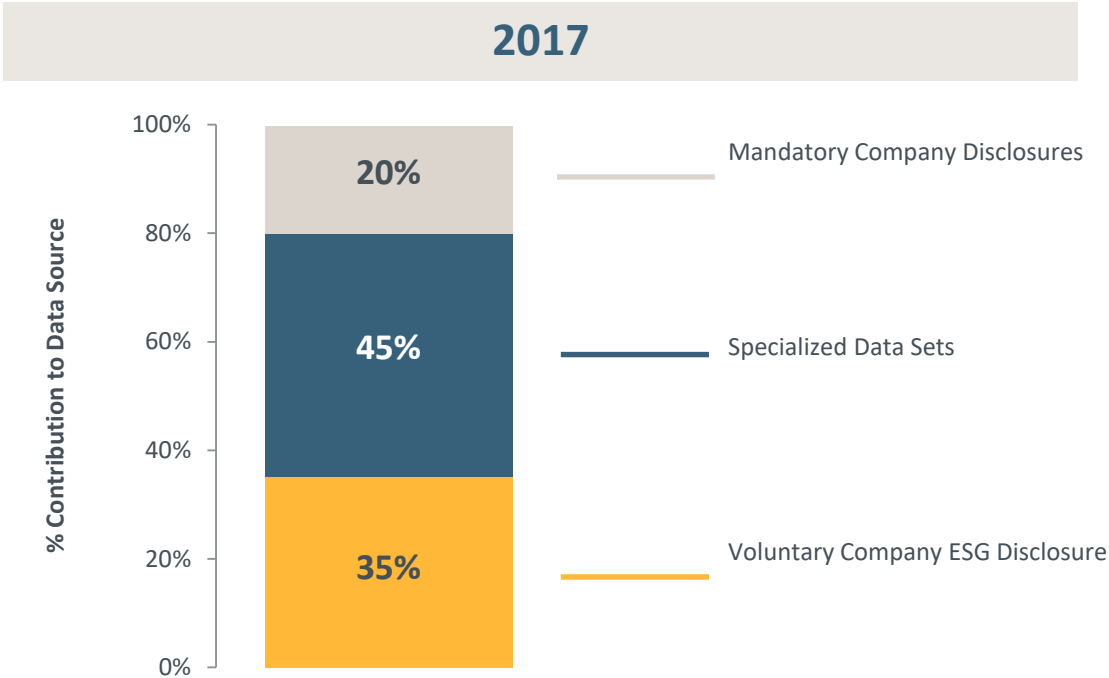
**100 + specialized datasets** [government, NGO, proprietary models]

**Company disclosure** [10-K, sustainability report, proxy report]

**1,600+** global and local media sources monitored daily

# CONTRIBUTION OF COMPANY DISCLOSURE TO ESG RATINGS

## Contribution of Alternative Data to ESG Scores

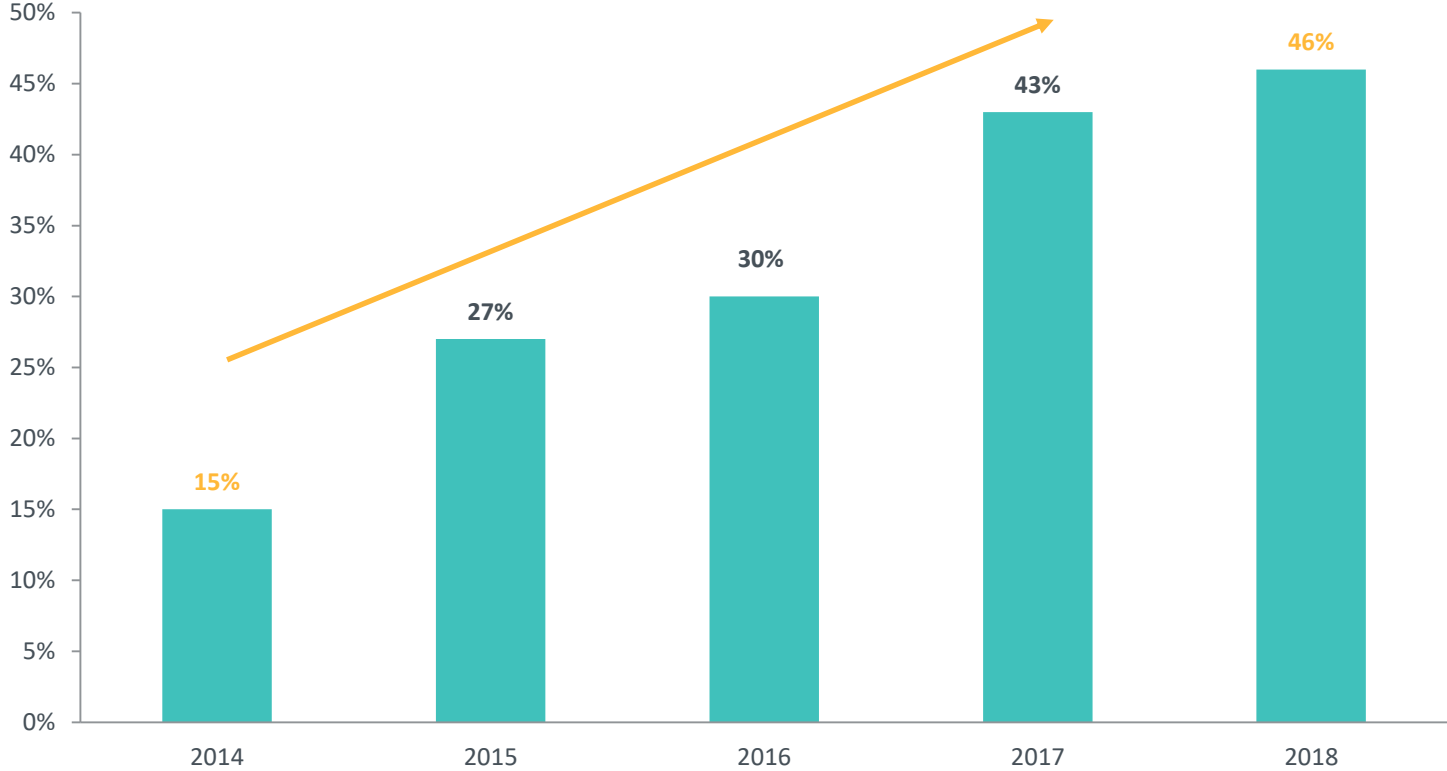


# ESG ISSUER COMMUNICATIONS



# RESPONSE RATE: MSCI ESG RESEARCH FOOTPRINT GROWING AMONG ISSUERS

### MSCI ACWI Index - Overall Inbound Communication Rate



Source: MSCI ESG Research  
\*\* 2018 data as of Oct. 2018  
\*\*\* Note that MSCI ESG Research's coverage of the MSCI ACWI Index universe expanded in 2018 from approx. 2,400 to roughly 2,700 securities.

# BENEFITS OF MSCI ISSUER COMMUNICATIONS MODEL

## INDEPENDENT

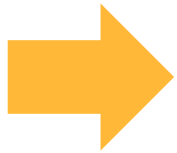
- No solicited ESG Rating
- Dedicated team focusing solely on issuers' communications

## CONSISTENT

- Systematic outreach to all companies
- Standard data review process

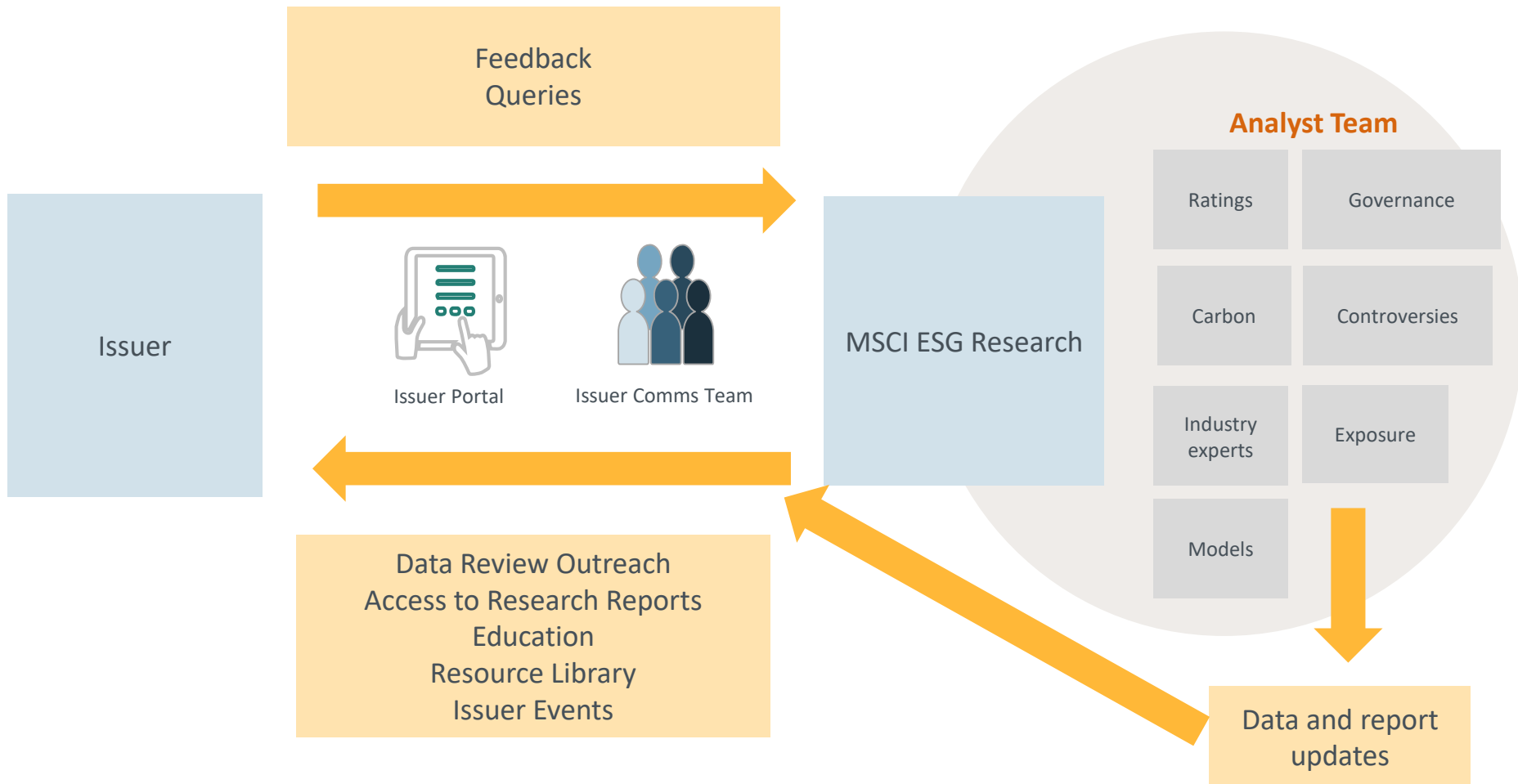
## TRANSPARENT

- Logging of all interactions with issuers
- Availability of MSCI ESG Research assessment and underlying data to companies at no cost



**SUPPORT INVESTORS IN INTEGRATING ESG ISSUES IN THEIR INVESTMENT PROCESS THROUGH ISSUER COMMUNICATIONS DUE DILLIGENCE EFFORTS**

# TYPICAL ISSUER INTERACTION



# STANDARD ESG RATINGS DATA VERIFICATION PROCESS

## ALERT FOR PENDING ESG RATINGS UPDATE



- Companies are alerted via email to the upcoming ESG Ratings update; ~6-8 weeks prior to scheduled update.

## PRE-UPDATE COMMUNICATION PERIOD



- Companies are invited to share comments and data updates while analysts are actively updated the ESG Ratings assessment. A deadline to provide feedback will be communicated. We do not share draft reports.

## ESG RATINGS UPDATE NOTIFICATION



- Companies are notified via email that the ESG Ratings update is complete.

## POST-ESG RATINGS UPDATE COMMUNICATION PERIOD

- Companies are welcomed to communicate with MSCI ESG Research at any time during the year to submit queries or update relevant data.

# ISSUER COMMUNICATION PLATFORM

MSCI ESG Research is developing an online platform fully dedicated to issuers:

- Phase 1: Dedicated website for issuers to access their own report and information on ESG (Live)
- Phase 2: Dedicated platform for issuers allowing for interaction with MSCI ESG Research (2019)

<https://esgicp.msci.com>

THIS PLATFORM ALLOWS YOU TO:



## DOWNLOAD YOUR RATINGS

Access your MSCI ESG Research reports at no cost



## REVIEW YOUR DATA

No questionnaires or surveys required



## LEARN MORE ABOUT ESG

Access our **FAQs** and free library of additional ESG resources

AND GAIN INSIGHT INTO:



## WHO IS MSCI?

More than USD 13.9<sup>1</sup> trillion in equity assets benchmarked to MSCI Indexes



## WHAT IS ESG INVESTING?

Institutional investors are increasingly considering ESG factors into their investments



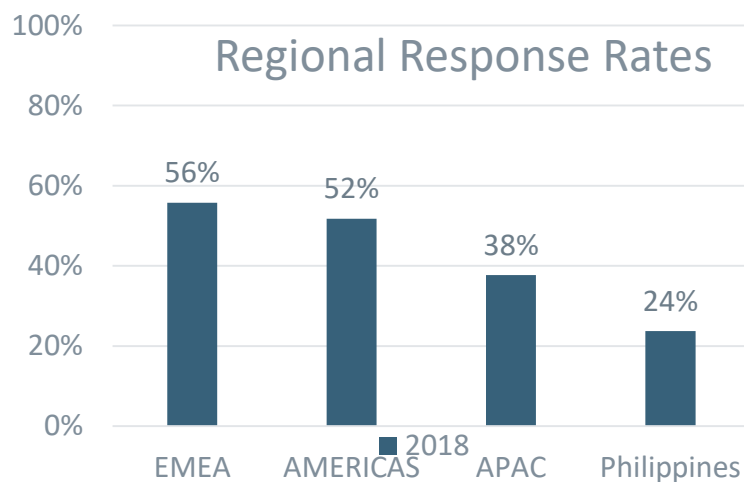
## HOW TO CONTACT US?

A dedicated global team for issuer communications

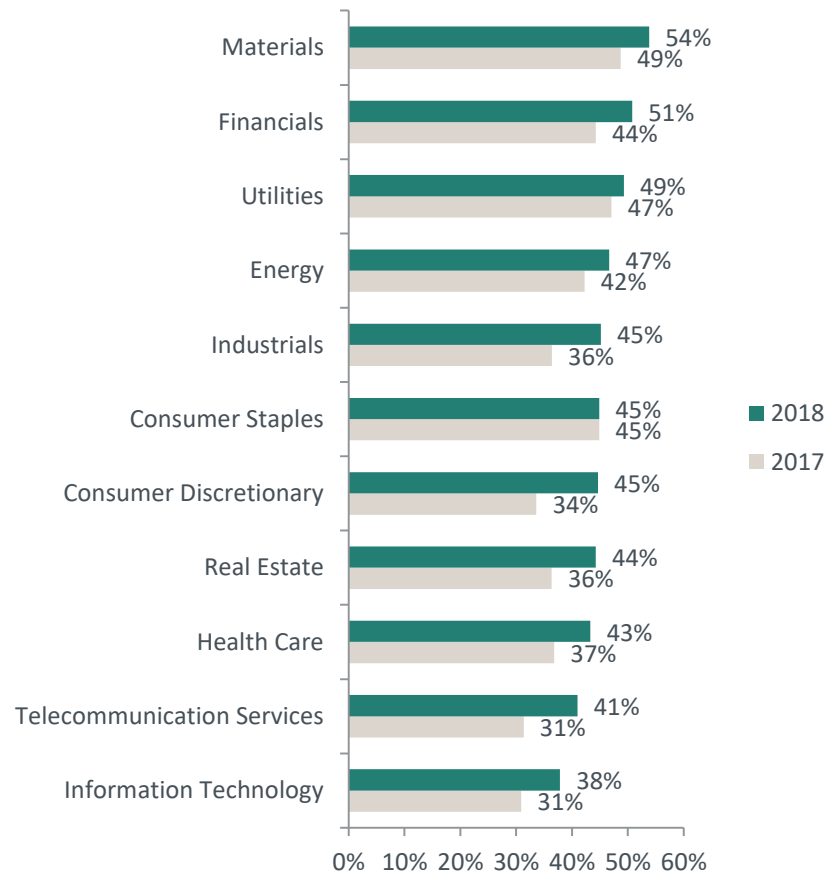
<sup>1</sup>As of December 31, 2017, as reported on March 31, 2018 by eVestment, Morningstar and Bloomberg.



# REGIONAL AND SECTOR RESPONSE RATES



## GICS Sector Response Rates



Source: MSCI ESG Research

\*Reflects response rates of MSCI ACWI Index constituents

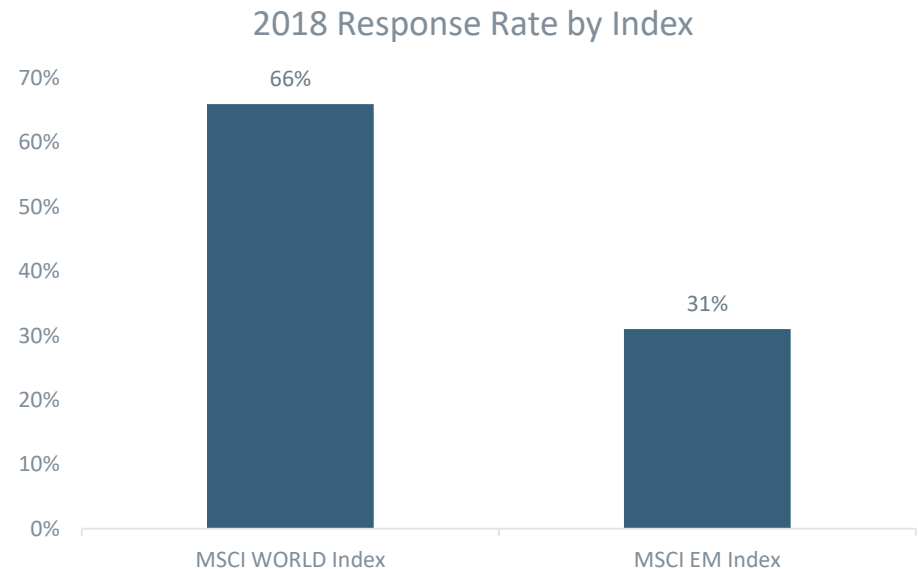
\*\* 2018 data as of Oct. 2018

\*\*\*For Regional and Sector rates, 2017 figures are based on current 2018 coverage count in those areas.

# RESPONSE RATE BY COUNTRY AND INDEX CONSTITUENCY

## Countries with >50% Response Rate - 2018

Japan	78%
Germany	76%
Spain	76%
Netherlands	73%
France	71%
Ireland	71%
United Kingdom	69%
Switzerland	67%
Australia	65%
Singapore	62%
United States of America	61%
Brazil	59%
Sweden	59%
Canada	57%
Russia	55%



Source: MSCI ESG Research

\*Reflects response rates of MSCI ACWI Index constituents

# Q & A



# APPENDIX

# HOW OUR CLIENTS USE MSCI ESG RATINGS



COMPANY, INDUSTRY,  
AND THEMATIC  
REPORTS



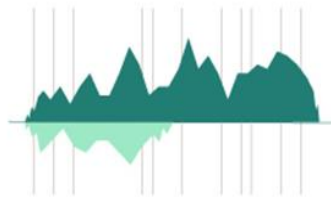
RATINGS, SCORES AND DATA



PORTFOLIO  
ANALYTICS & ESG  
INDEXES



Fundamental /  
Quant Analyses



Portfolio Construction /  
Risk Management



Engagement &  
Thought Leadership



Benchmarking /  
Index-based Product  
Development

# CONTROVERSY CASE ASSESSMENT: SEVERITY

**Nature of Impact**  
(How bad?)



**Scale of Impact**  
(How big?)



**SEVERITY**



E.g. Procedural failings; potential injury or rights violation; potential denial of opportunity; little or no actual damage

E.g. Death or serious injury; habitat destruction; destruction of traditional livelihood; long duration multi-country ethics violations; etc.



E.g. Fewer than 10 people; highly localized environmental impact; locally investigated ethics violations; etc.

E.g. More than 1000 people; wildlife species globally; whole watershed or river system; etc.

	Very Serious	Serious	Medium	Minimal
Extr. widespread	Very Severe	Very Severe	Severe	Moderate
Extensive	Very Severe	Severe	Moderate	Moderate
Limited	Severe	Moderate	Minor	Minor
Low	Moderate	Moderate	Minor	Minor

# QUALITY REVIEW PROCESS



## Peer Review

- 7 Leads
- Peer edit all Severe and Moderate cases



## Analyst-Sub Committee

- 6 Senior Leads & Head of QA meets weekly
- Approves all new Severe cases
- Maintain documentation



## Controversies Methodology Committee

- 5 Senior Members + 2 Analyst members
- Meets weekly to review all changes to Red flags
- Reviews all Severe cases
- Review and approve methodology changes



## ESG Ratings Review Committee

- **Committee Members**
  - Head of Research
  - Head of New Product Development, Index
  - Head of Index Research
  - Head of ESG Ratings & Research
  - Head of ESG Corporate Relations
  - Head of ESG Methodologies
  - Head of ESG Fixed Income
- **Review and approve**
  - ESG Controversies Red Flags
  - Major Methodology Changes



# REVIEW AND UPGRADE PROCESSES

## Very Severe Controversies



Reviewed on an semi-annual basis



Assessment is upgraded or maintained



Requires Committee approval

## Severe Controversies



Reviewed on an annual basis



Assessment is upgraded or maintained



Requires Subcommittee approval

## Moderate Controversies



Reviewed when updated



Archived if no updates found after 3 years

## Minor Controversies



Archived after one year



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