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May 2025

# APAC ESG Ratings Leaders and Upgrades in 2024

APAC corporates’ sustainability performance continues to rise

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# Executive summary

The Asia-Pacific (APAC) region helps shape the global economy through its significant economic scale, dynamic market growth and influence on international trade and investment. Over the sustainable-investment landscape, APAC plays a critical role with its evolving regulatory frameworks and increasing investor interest and engagement.

In this research paper, we reviewed the MSCI ESG Ratings performance of companies across 13 APAC markets.[1] APAC companies have made notable strides in improving their profiles over the past five years and the rating-upgrade momentum continued in 2024. It was driven by a combination of regulatory pressure, investor expectations, value-chain influence, issuer participation and the need to align with global sustainability standards.

**Key takeaways:**

- The percentage of MSCI ESG Ratings leaders among APAC companies has shown a marked increase from 9.1% in 2020 to 17.4% in 2024. The proportion of laggards decreased from 33.2% to 20.9% over the same time.
- APAC has seen a surge in sustainability-focused regulations across all major markets, driving corporate action on sustainable business practice and data disclosure.
- Over the past five years, the interaction rate between rated companies in APAC and MSCI ESG Research has steadily increased, up from 25% in 2020 to 42% in 2024. This indicates APAC companies' rising awareness of sustainability issues and their increased efforts in stakeholder engagement on such topics.
- The ESG Ratings leaders are still concentrated in developed markets, such as Japan and Australia. Emerging markets such as China, Taiwan and South Korea, however, are showing strong momentum in terms of rating upgrades.

[1] We used the MSCI AC Asia Pacific Investable Market Index (IMI) constituents and their domiciled markets as our research universe, with all data as of Dec. 31, 2024. In this research paper, we refer to this group of constituents as APAC companies. For the market-level analysis, our research covers constituents domiciled in each market of the MSCI AC Asia Pacific IMI, except for the Australian market. For Australia, we used the MSCI Australia Listed 300 Index, which is more commonly referenced by investors in Australia and provides a more relevant representation of the local market.

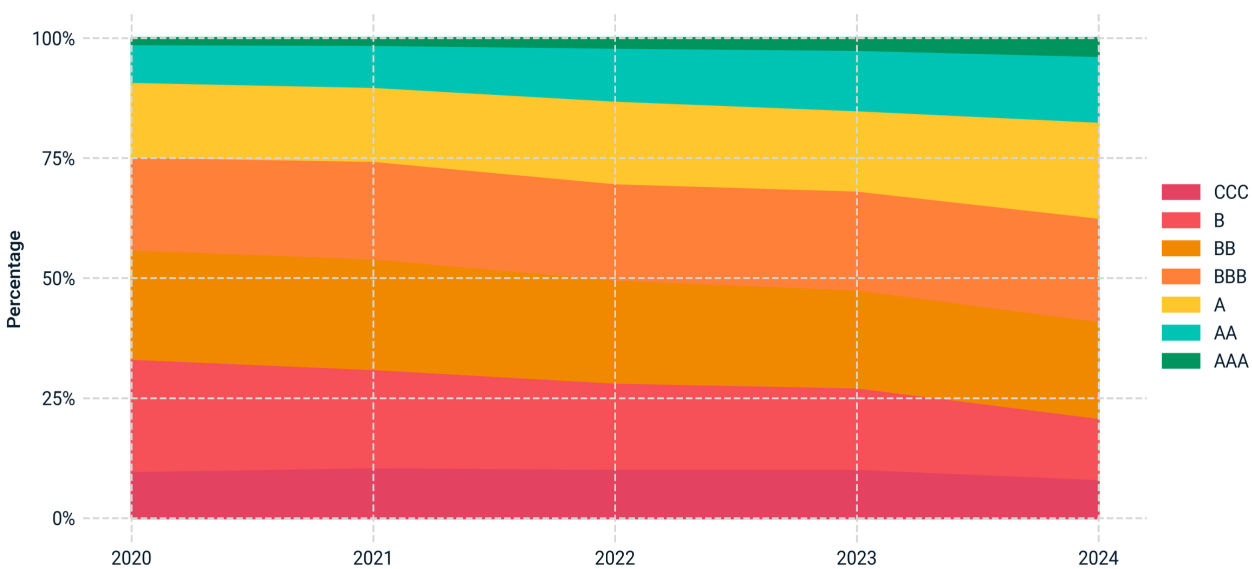
# APAC companies' MSCI ESG Ratings performance overview

MSCI ESG Ratings aim to measure a company's management of financially relevant environmental, social and governance risks and opportunities. The model uses a rules-based methodology to identify industry leaders and laggards according to their exposure to their financially material sustainability risks and how well they manage those risks relative to peers.

Our ratings range from leader (AAA, AA), to average (A, BBB, BB) and laggard (B, CCC). We rate over 9,900 companies (16,800 issuers including subsidiaries) and more than 950,000 equity and fixed-income securities globally (as of December 2023), collecting thousands of data points for each company. These ratings assist investors in identifying companies that are leading or lagging within their industry, particularly when evaluating the financial significance of sustainability factors. MSCI also constantly tracks the changes in ratings to provide the relevant signal to investors in terms of upgrades, downgrades or maintained ratings.

Over the past five years, APAC companies have experienced a significant improvement in their MSCI ESG Ratings. The percentage of leaders in the ratings distribution has shown a marked increase from 9.1% in 2020 to 17.4% in 2024. Concurrently, the proportion of laggards has decreased from 33.2% to 20.9%. This upward trend indicates a growing commitment among APAC companies to sustainable business practices and improved management of sustainability-related risks and opportunities.

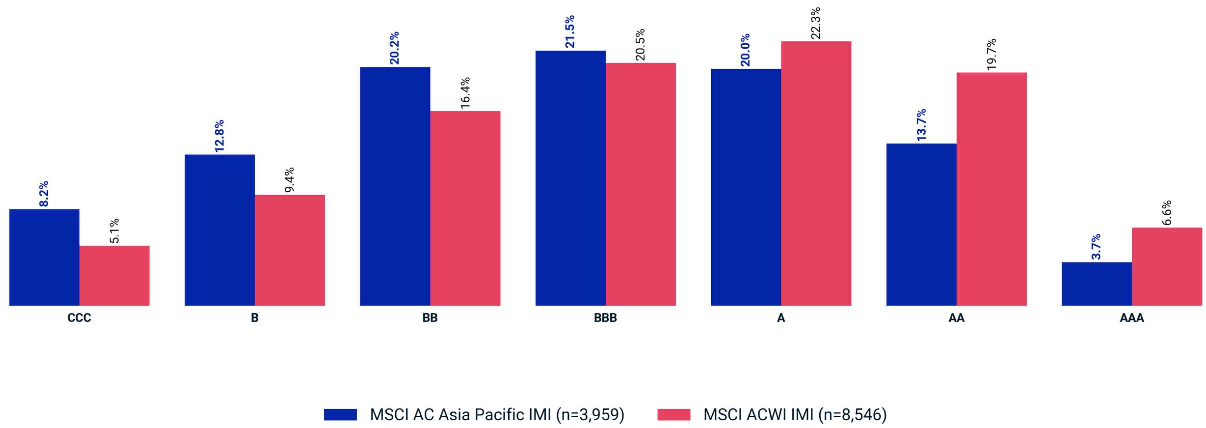
**MSCI ESG Ratings' momentum for APAC companies**




Data as of Dec. 31, 2024, based on the MSCI AC Asia Pacific Investable Market Index (IMI) (n=3,959). Source: MSCI ESG Research

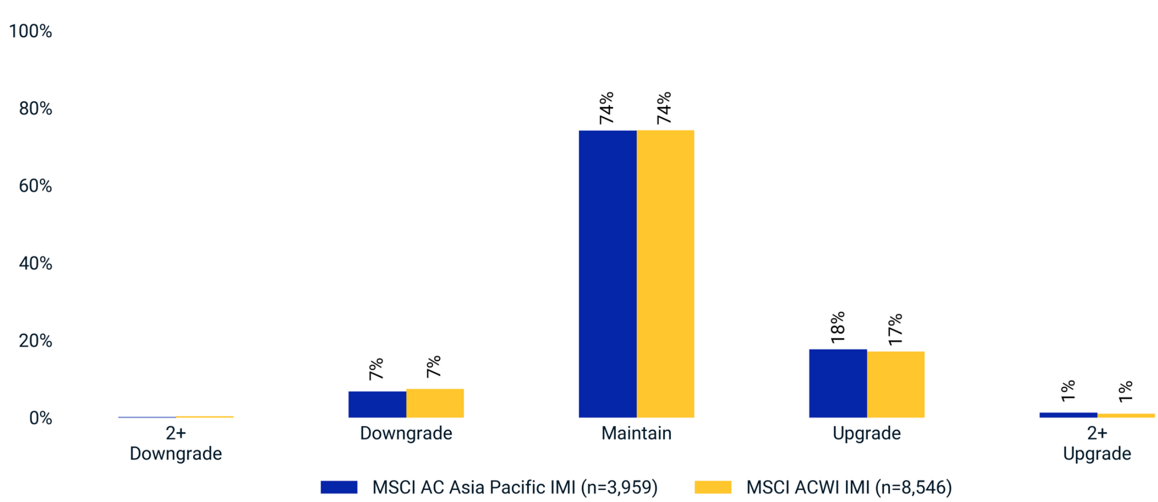
In 2024, APAC companies continued to improve their ratings, with 18% receiving an upgrade and only 7% a downgrade. Compared to the global average, however, APAC companies still had fewer leaders, with only 17.4% of them rated AAA or AA vs. 26.3% of MSCI ACWI Investable Market Index (IMI) constituents. Additionally, APAC companies had a higher proportion of laggards (20.9% vs. 14.5%). This disparity may in part be due to many APAC companies coming from emerging markets, where sustainability-disclosure regulations and corporate awareness of sustainability risks and opportunities are still evolving.

### MSCI ESG Ratings' distribution (APAC vs. global benchmark)




Data as of Dec. 31, 2024. Source: MSCI ESG Research

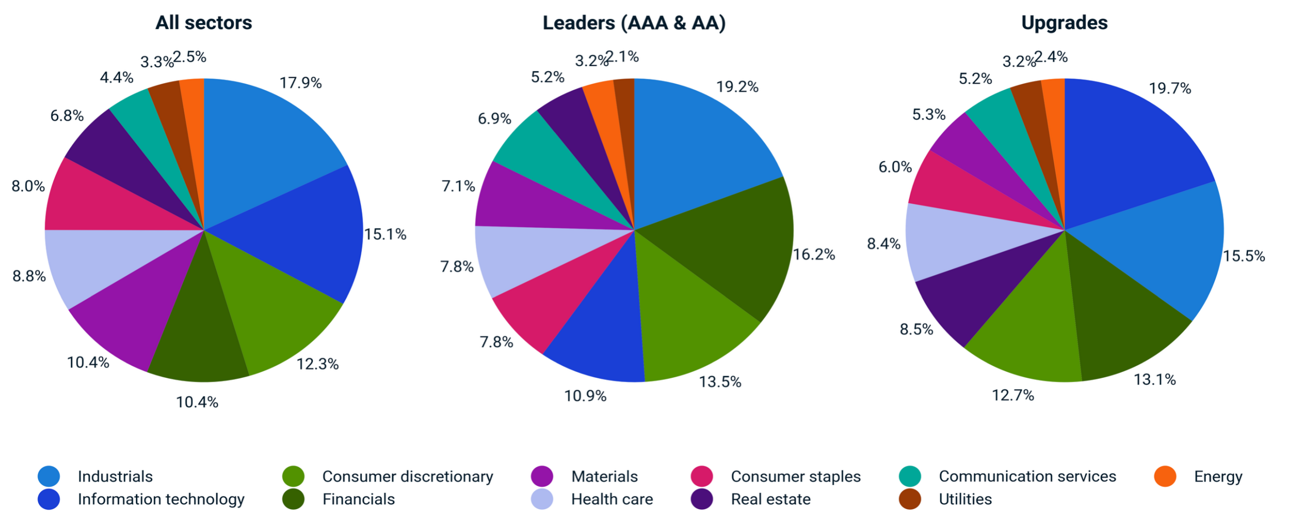
### Change in MSCI ESG Ratings in 2024 (APAC vs. global benchmark)




Data as of Dec. 31, 2024. Source: MSCI ESG Research

A growing number of APAC companies achieved higher MSCI ESG Ratings, particularly in sectors such as information technology, industrials and financials.[2] The industrials sector is the largest in the MSCI AC Asia Pacific IMI by number of constituents (705 out of 3,959 companies). As of December 2024, this sector also boasts the highest proportion of leaders among APAC companies, 108 out of 562 leaders are from the industrials sector (see the chart below). Around 40% of these are based in Japan, where the government committed to decarbonization and companies' governance practices have been improving, backed by the Corporate Governance Code. The upgrade of APAC tech companies is partly driven by improvements in corporate governance and business ethics. Additionally, in tandem with the rise of artificial intelligence (AI), we found APAC tech companies are actively enhancing their talent management and seizing green-transition opportunities. The financials sector typically faces stricter regulatory requirements regarding corporate governance and risk management due to the nature of its business. Additionally, regional governments heavily leverage financial tools to drive low-carbon transitions and bring green finance to the economy. The surge in due diligence policies around green finance and sustainability introduced by APAC regulators targeting industries within the financials sector also enhanced performance.[3]

**Sector breakdown of MSCI ESG Ratings leaders and upgrades in APAC**

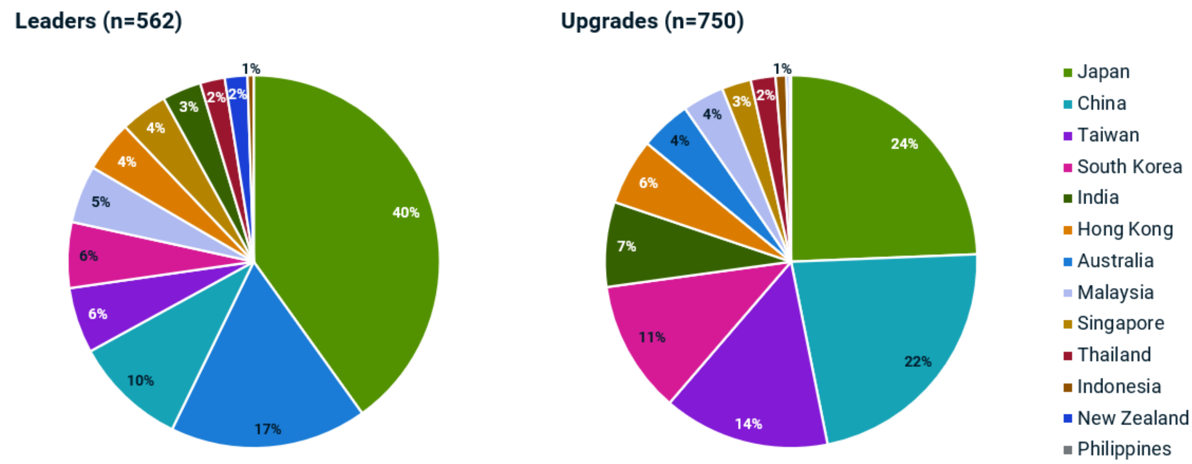



Data as of Dec. 31, 2024. The pie charts indicate the ratio of the number of companies per the GICS sector. Leaders are those with AA and AAA MSCI ESG Ratings. Upgrades are those who have higher MSCI ESG Ratings than in the previous rating period. Source: MSCI ESG Research

[2] Sectors refer to the Global Industry Classification Standard (GICS®) sectors. GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.
[3] Yu Ishihara and Miranda Carr, "APAC ESG Regulations for Institutional Investors," MSCI ESG Research, September 2022 (client access only); Yixiang Zeng, "Asia advances sustainability-related finance taxonomies, disclosure rules and public-private partnerships in ESG," Thomson Reuters, 13 Feb. 2024.

The leaders are still concentrated in developed markets, such as Japan and Australia. Emerging markets such as China, Taiwan and South Korea are, however, catching up quickly and showing strong momentum in terms of ratings upgrades. Governance improvements have been a standout feature in Japan and South Korea, while China is increasingly leading in capturing opportunities in green innovation, particularly in solar energy and battery production (please refer to the Japan, South Korea and China snapshot sections, respectively).

**Market distribution of MSCI ESG Ratings leaders and upgrades in APAC**




Data as of Dec. 31, 2024. The pie charts indicate the ratio of the number of companies per market. Leaders are those with AA and AAA MSCI ESG Ratings. Upgrades are those who have higher MSCI ESG Ratings than in the previous rating period. Source: MSCI ESG Research

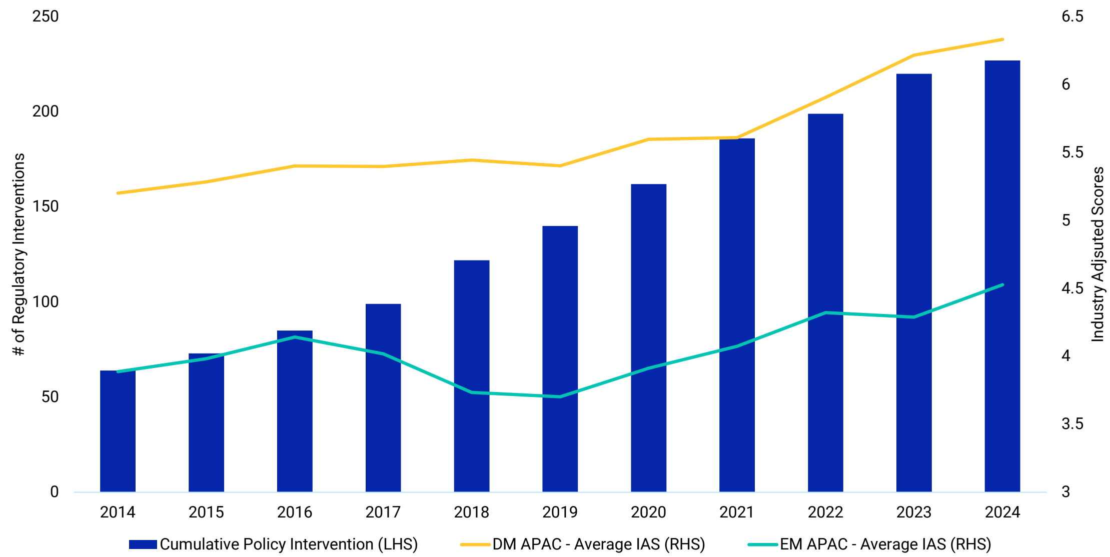
## Regulatory surge driving sustainability commitment and performance

APAC has seen a surge in sustainability-focused regulatory interventions across all major markets, indicating a continued prioritization of sustainability issues in the regulatory agenda. This regulatory push covered a broad spectrum of policies and initiatives, introducing new regulations and requirements and revamping/overhauling existing rules encompassing corporate-disclosure requirements, taxonomies and sustainable-finance regulations for the financial sector.[4]

Such policy interventions are raising awareness and increasing the availability of sustainability information and contributing significantly to the improvement of financially relevant sustainability-risk management, as captured by MSCI ESG Ratings across the region. This improvement is particularly apparent in APAC's developed markets. Several factors are driving this positive trend, including enhanced corporate disclosures resulting from evolving regulatory frameworks and growing investor pressure encouraging companies to prioritize and improve their sustainability profile.

[4] "Principles for Responsible Investment," Regulation Database, accessed Feb. 27, 2025.

**APAC responsible investment policy growth vs. average MSCI ESG Ratings**




According to the UN PRI, policy interventions relate to 868 policy tools and guidance and more than 300 policy revisions that support, encourage or require investors to consider all long-term value drivers, including sustainability factors. Industry-adjusted scores are calculated averages as of the respective year end for the MSCI ACWI IMI. Constituents for DM APAC = companies domiciled in Australia, Hong Kong, Japan, New Zealand and Singapore. EM APAC = companies domiciled in China, India, Indonesia, South Korea, Malaysia, Philippines, Taiwan and Thailand. Source: UN PRI regulation database (accessed Feb. 27, 2025), MSCI ESG Research

Furthermore, the increasing adoption of ISSB-aligned disclosure requirements throughout APAC could lead to significantly improved harmonization of what is currently still a fragmented landscape.[5] Australia, Singapore, Hong Kong SAR,[6] Japan and Malaysia have already adopted new requirements, while other markets such as South Korea, Indonesia or the Philippines are at various stages of considering adoption.[7] Each market will likely customize requirements to fit local needs. By basing requirements on ISSB-aligned disclosures, there could be a significant increase in standardized and comparable data, fostering greater transparency and enabling more meaningful assessments of corporate sustainability performance across the APAC region. By providing a common framework, the ISSB standards will help level the playing field, ensuring that investors and other stakeholders have access to reliable and consistent information. Such information may help drive better understanding of financially relevant sustainability risks throughout APAC.

## Issuer interaction continued to steadily increase

Amid growing demands from capital-market participants, regulators and other stakeholders, we have observed a significant increase in corporate issuers' interest in engaging with MSCI ESG Research. Issuers are seeking to better understand and provide feedback on the assessments of

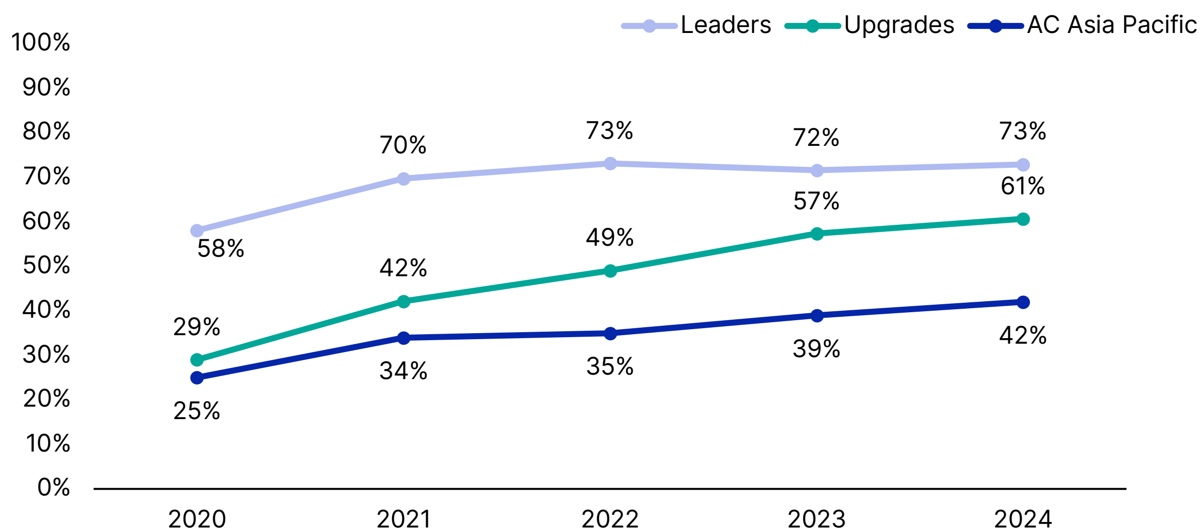
[5] The ISSB is the International Sustainability Standards Board.

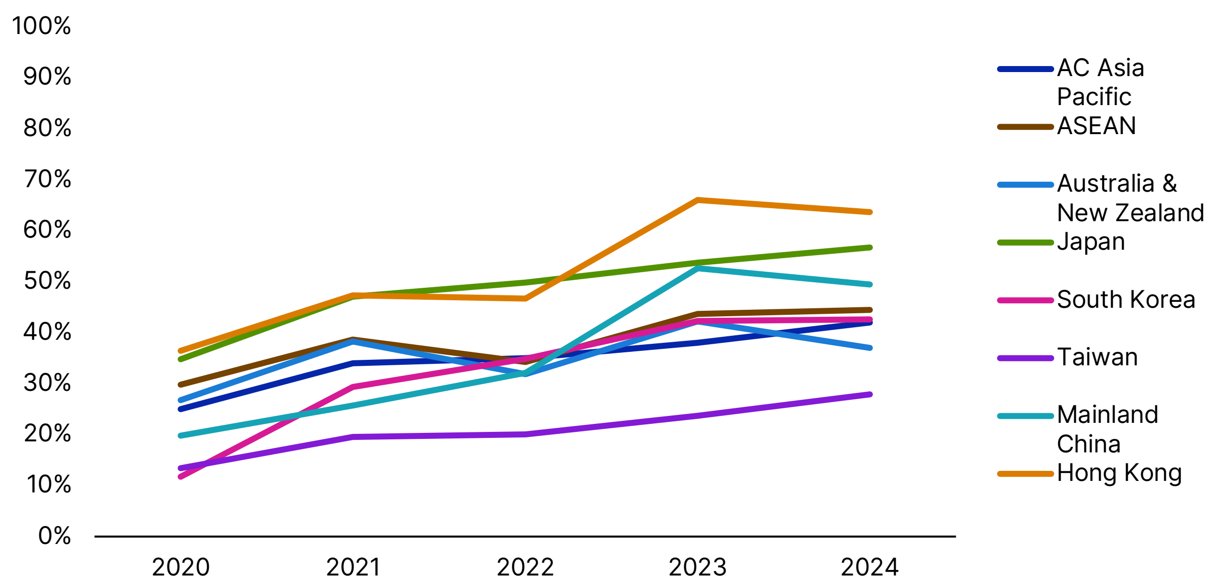
[6] Hong Kong SAR refers to Hong Kong Special Administrative Region – referred to as Hong Kong through the rest of this document.

[7] Deloitte, "ISSB Adoption Tracker," IAS Plus, last updated March 2025.

their companies. MSCI ESG Research has been tracking issuer interactions for over a decade. Over the past five years, we have seen a steady increase in the interaction rate of APAC companies, up from 25% in 2020 to 42% in 2024. For APAC leaders, the numbers were 58% and 73% respectively. Issuers in upgrades categories also had higher interaction rates (61%) compared to those in the broader APAC markets.

**The trend of issuer interaction with MSCI ESG Research**



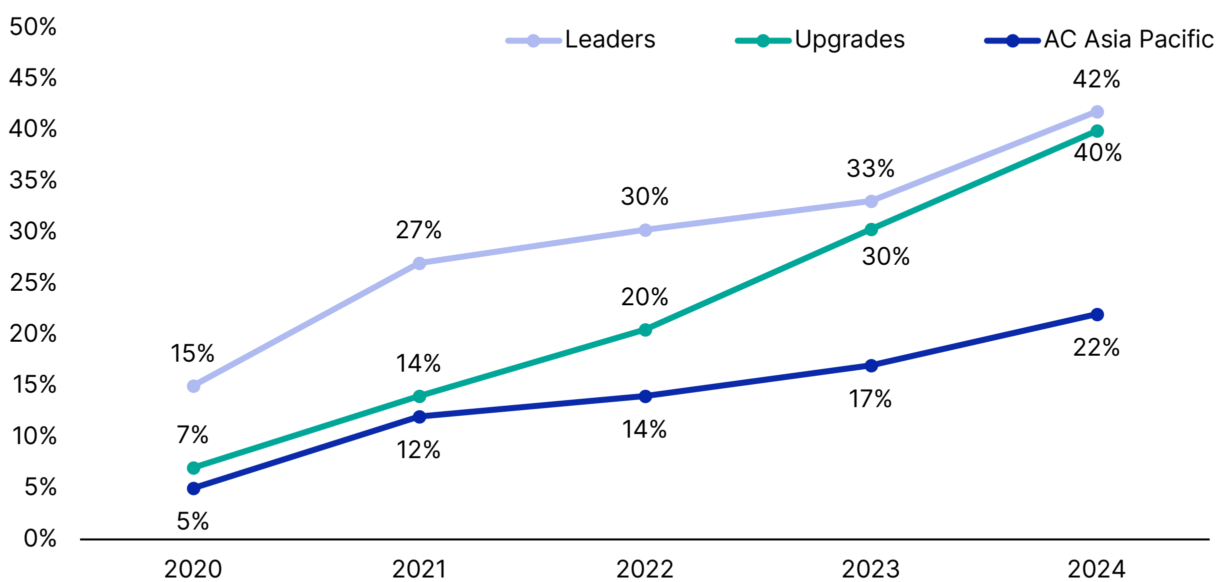




Data as of Dec. 31, 2024. Interaction rate is defined as the percentage of companies in a given coverage universe that have interacted with MSCI ESG Research. This includes all inbound communication to the MSCI ESG Issuer Communications team regarding an issuer's own data and MSCI ESG Research assessments, as well as data submitted directly through our dedicated, online issuer portal. Source: MSCI ESG Research

MSCI ESG Research processes a significant amount of data as part of our in-house research and ratings-generation process. We recognize the importance for corporate issuers to review the data inputs that contribute to our ratings and climate assessments. To facilitate this, MSCI offers a data-verification portal free of charge, allowing issuers to review and provide feedback on the data points MSCI collects from public sources. Through this process, issuers can submit additional information, clarify data points and offer feedback on their assessments. APAC companies increasingly used this data-verification channel, as reflected in the rising data-verification rates across the region.

Higher-rated companies tend to engage with us more than lower-rated companies. This might be because these companies are more aware of sustainability issues or have dedicated resources to manage sustainable-related risks. As a result, they put in more effort and make significant commitments to sustainable practices. This increased awareness and resource allocation often lead to higher ratings. While there is a positive correlation between higher ratings and more frequent interactions or data verification, it's important to note that these interactions or verifications do not directly cause an improvement in a company's MSCI ESG Rating.

**Issuer data-verification trend**



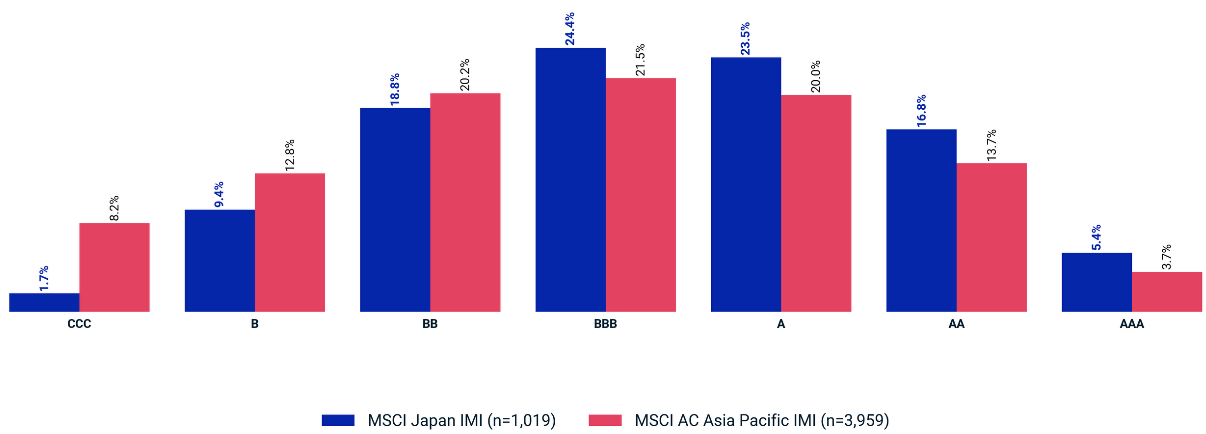

Data as of Dec. 31, 2024. Data-verification rate is defined as the percentage of companies within a given coverage universe that have submitted data feedback to MSCI ESG Research on the online issuer portal. Source: MSCI ESG Research

# Japan snapshot: Leading APAC in MSCI ESG Ratings, upgrades driven by improved governance scores

## Overview of MSCI ESG Ratings

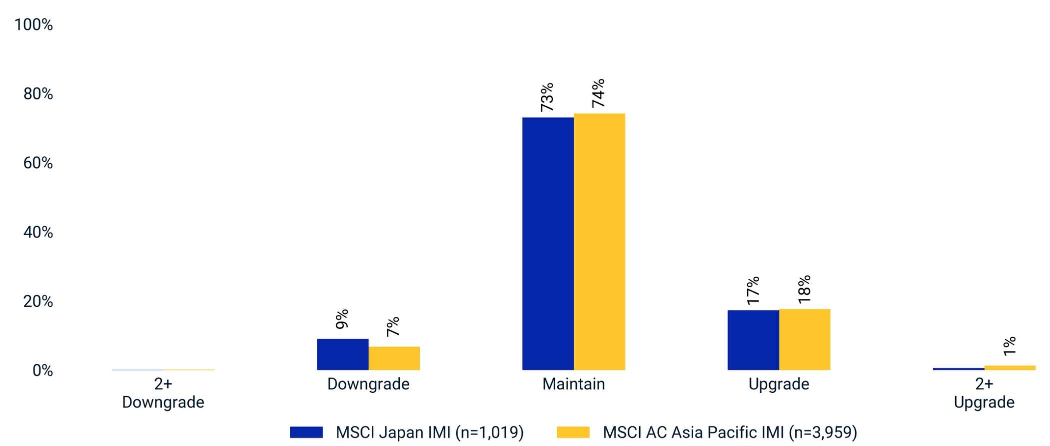
The proportion of leaders in Japan was higher compared to APAC peers, while the percentage of Japanese companies that received upgrades was in line with the rest of the region. The improvement in MSCI ESG Ratings for Japanese companies was primarily driven by their Governance-pillar scores.

**MSCI ESG Ratings' distribution of Japanese companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

**MSCI ESG Ratings' momentum of Japanese companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

## Improvement in governance practices

**Corporate Governance:** Over the past four years (to August 2024), constituents of the MSCI Japan IMI demonstrated greater improvement in industry-adjusted scores (IAS)[8] than constituents of the MSCI Kokusai IMI (the MSCI World IMI excluding the constituents of the MSCI Japan IMI).[9] This improvement was partly driven by the rate of increase in the average Board Key Issue Score among MSCI Japan IMI constituents, while scores for MSCI Kokusai IMI peers remained largely unchanged. Regulatory efforts to enhance governance best practices — along with Japan's robust shareholder rights that enable investors to hold boards accountable for underperformance — likely contributed to the rise in average scores.

**Corporate Behavior:** Strengthened regulations requiring Japanese companies with over 300 employees to implement whistleblower systems may have encouraged the enforcement of oversight of issues around business ethics. In 2022, the Japanese government amended the Whistleblower Protection Act, mandating companies to establish whistleblower systems and protect information that could identify whistleblowers.[10] Moreover, the government plans to further amend the act by imposing penalties on companies that retaliate against whistleblowers.[11]

## MSCI ESG Ratings leaders and upgrades: Consumer discretionary and real estate stand out

The industrials sector accounted for the largest portion of the number of constituents and leaders within the MSCI Japan IMI. The consumer-discretionary sector followed on both counts. Among AAA-rated companies, however, the consumer-discretionary sector represented the largest portion (25.5%), significantly exceeding its share of constituents of the MSCI Japan IMI (15.7%). A few observations of note among the 14 companies rated as AAA in the consumer-discretionary sector:

1. Four companies belong to the automobiles and components industry group: Bridgestone Corp., Nifco Inc., Niterra Co. Ltd. and Yamaha Motor Co. Ltd. These companies exceled in the Labor Management Key Issue, reflecting a low likelihood of workforce unrest in Japan[12]

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[8] IAS are calculated by adjusting the weighted average of underlying environmental, social and governance pillar scores relative to industry peers. For more details, please refer to "ESG Ratings Methodology," MSCI ESG Research, April 2024..

[9] Shibano Yukie, Porter Moeko and Watanabe Kenji, "Market ESG Snapshot 2024 | Japan," MSCI Research, October 2024.

[10] "公益通報者保護法と制度の概要｜消費者庁" (The whistleblower protection act and overview of the regime), Consumer Affairs Agency, Government of Japan, accessed Jan. 29, 2025.

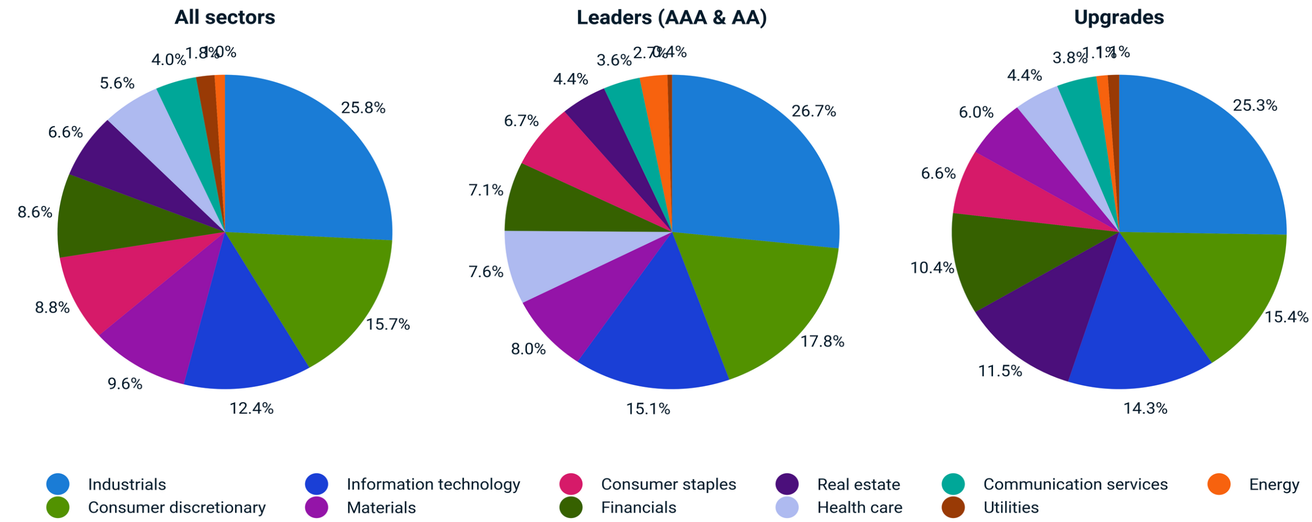
[11] "政府 公益通報者保護法 改正案の骨子 自民に示す ｜ NHK ｜ 国会" (The government shared draft framework of the amendment of the whistleblower protection act to the Liberal Democratic Party), NHK News, Jan. 28, 2025.

[12] For Key Issues that assess risks, the risk-exposure score and risk-management score are combined. A higher level of exposure requires a higher level of demonstrated management capability to achieve the same overall Key Issue Score. To assess the risk-exposure score on the Labor Management Key Issue, we assess the business-segment-exposure score and the company-specific-exposure score, combined with the geographic-exposure score. The geographic-exposure score for Japan is relatively low due to its low likelihood of labor unrest based on historic precedent, driving the risk exposure score in the Labor Management Key Issue for Japan lower, which leads to relatively higher Labor Management Key Issue Scores.

(except for Bridgestone, which has a relatively small portion of its operations in Japan compared to the other three companies).

2. Five companies were upgraded in 2024 all within the consumer discretionary distribution and retail industry group: Isetan Mitsukoshi Holdings Ltd., J. Front Retailing Co. Ltd., Joshin Denki Co. Ltd., JINS Holdings Inc. and ZOZO Inc. For these five companies, upgrades were driven by improvements in the Key Issues of Corporate Behavior and/or Product Carbon Footprint.

**Secor breakdown of MSCI ESG Ratings leaders and upgrades in Japan**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

In upgraded companies, the real-estate sector accounted for a relatively large proportion, significantly exceeding its share of the MSCI Japan IMI constituents (11.5% vs 6.6%). Opportunities in Green Building and Human Capital Development Key Issues, along with Governance Pillar Key Issues drove the overall upgrade. The following is some potential context behind the Key Issues driving the upgrades.

**Opportunities in Green Building:** Strengthening regulation for buildings may have encouraged companies to invest in green buildings. In 2022, the Japanese government amended the Act on Enhancement of Energy Efficiency of Buildings, expanding the scope of buildings that need to meet energy efficiency standards to all new residential and non-residential buildings. This amendment is scheduled to come into force in 2025.[13]

**Human Capital Development:** Japanese companies' average turnover rate was among the lowest at 6% vs. 14% for the MSCI ACWI IMI, as at the end of 2024. While the global percentage of companies disclosing this ratio is not high, it is increasing, including in Japan. For the MSCI ACWI

[13] "住宅：令和４年度改正建築物省エネ法の概要 - 国土交通省," (Overview of the amended act on enhancement of energy efficiency of buildings), Ministry of land, infrastructure, transport and tourism, accessed on Jan. 29, 2025.

IMI, there was a 39% disclosure rate as at the end of 2024 vs. 9% as at the end of 2019. For the MSCI Japan IMI, the figures were 19% and 7%, respectively. More disclosure, combined with the relatively low rate of turnover, has contributed to the upgrades.

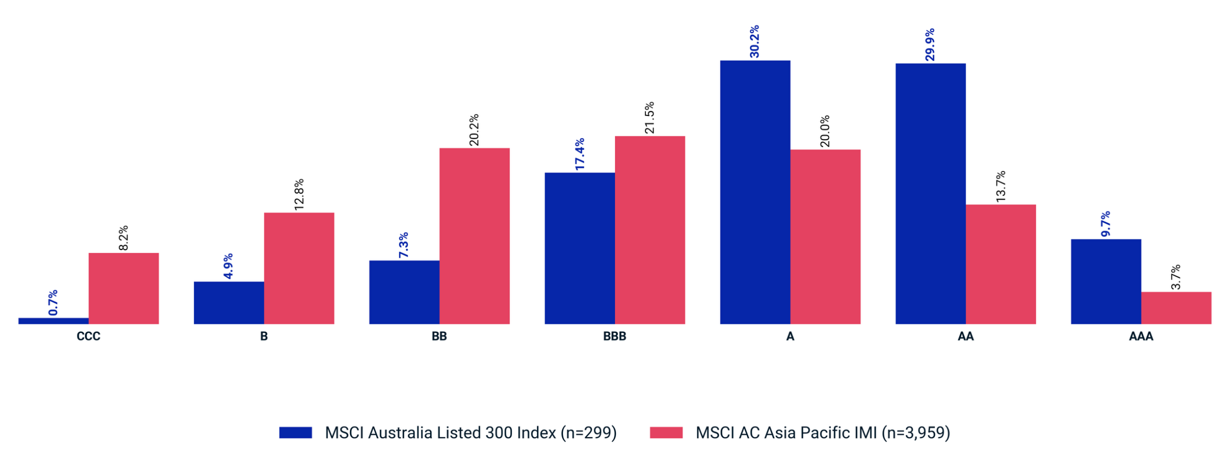
# Australia snapshot: Financials and materials leading the way

## Overview of MSCI ESG Ratings

MSCI ESG Ratings for Australian-listed companies have strengthened, with fewer CCC- and B-rated firms compared to APAC, reflecting stronger social, governance and risk-management practices.[14] Nearly 30% of Australian companies held an AA rating — more than double the APAC average — while the number of AAA-rated firms has also grown. This leadership is evident in financials and materials, where companies have improved human-capital management and climate strategies. Many companies remain in the BBB category, however, particularly in real estate and consumer discretionary, where environmental risks pose a challenge.

As Australia moves toward mandatory climate-related disclosures and investor scrutiny intensifies, these sectors face growing pressure to improve environmental-risk management. The push for better energy efficiency in buildings and stricter supply-chain due-diligence laws (e.g., the Modern Slavery Act) means companies will need to enhance transparency and resilience strategies. Those that fail to adapt may face higher financing costs, reputational risks and regulatory penalties.

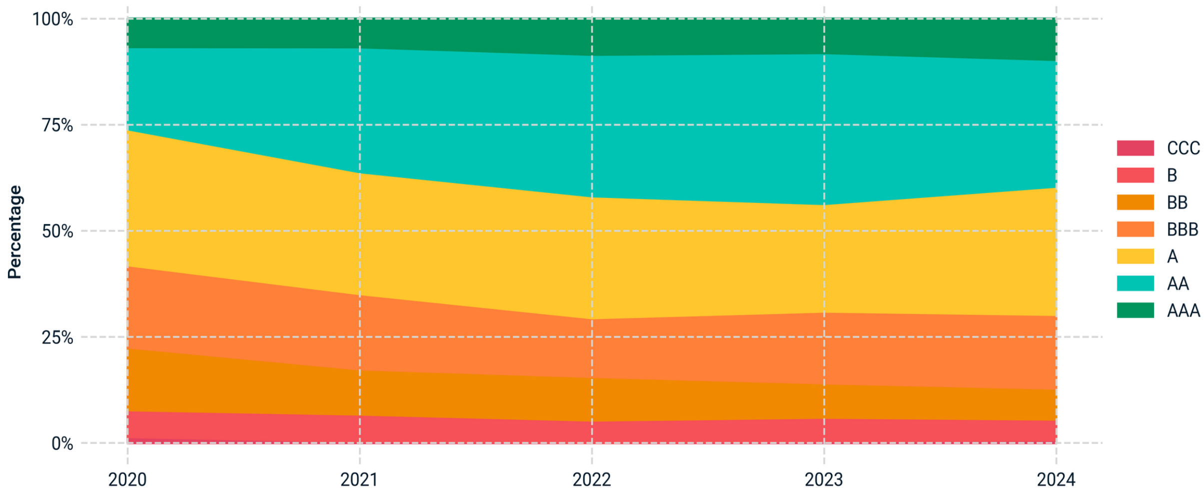
**MSCI ESG Ratings' distribution of Australian companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

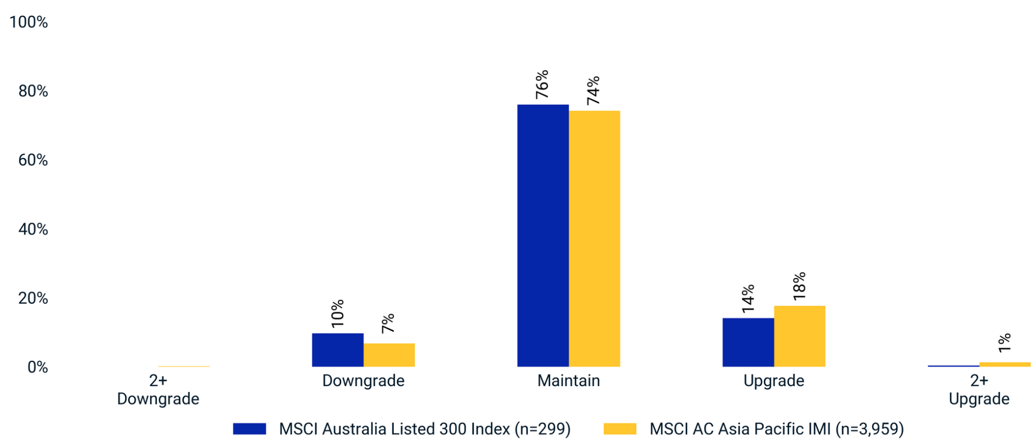
[14] Please note, for Australia, we have not used the MSCI AC Asia Pacific IMI and its market-specific sub-indexes as we have for other regions. Instead, we have used the MSCI Australia Listed 300 Index, which is more commonly referenced by investors in Australia and therefore provides a more relevant representation of the local market.

**MSCI ESG Ratings' momentum of Australian companies**




Data as of Dec. 31, 2024, based on MSCI Australia Listed 300 Index (n=299). Source: MSCI ESG Research

**MSCI ESG Ratings' momentum by the number of companies**

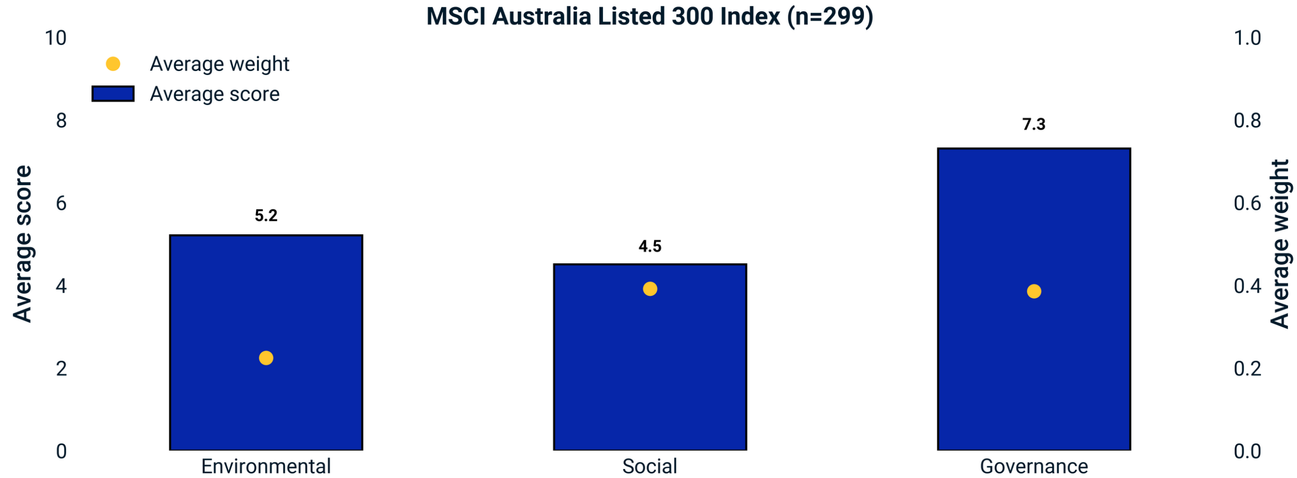



Data as of Dec. 31, 2024. Source: MSCI ESG Research

While 14% of Australian companies received MSCI ESG Ratings upgrades in 2024, compared to 10% downgrades, the broader APAC region saw a slightly higher upgrade rate (18%) and fewer downgrades (7%), suggesting stronger momentum in some regional markets.

Whereas Australia maintains strong management of sustainability risks, APAC markets are showing faster momentum in upgrades, particularly in sectors undergoing regulatory shifts and investor-driven sustainability initiatives. As APAC companies continue to take sustainability issues into account in their operations, Australia will need to sustain its leadership position through continued improvements in corporate governance and proactive environmental-risk management.

**MSCI ESG Ratings' Pillar Scores of Australian companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

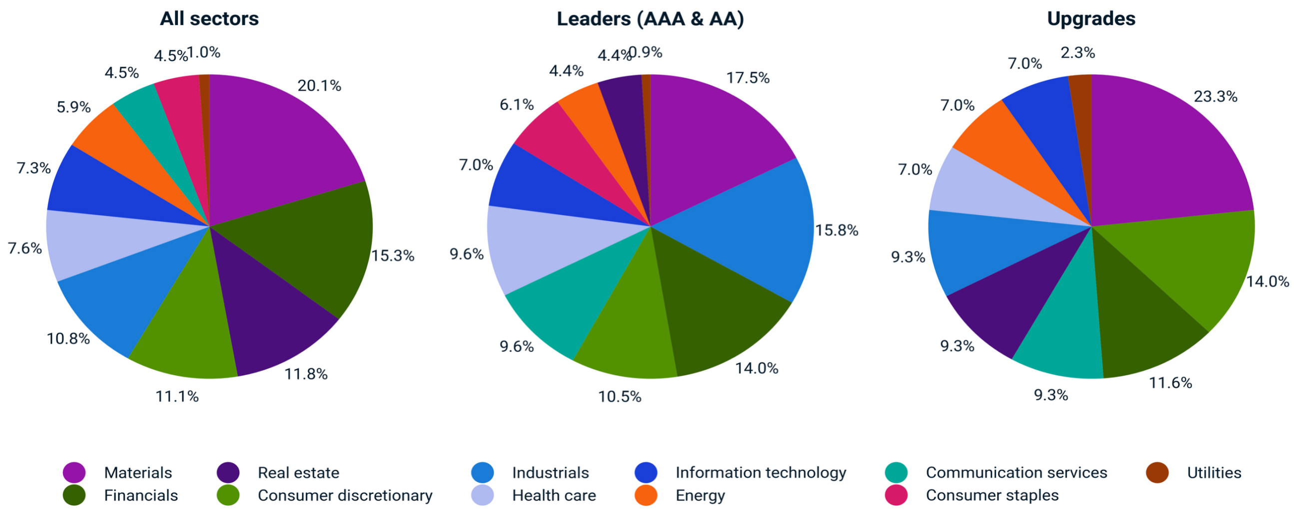
Australian-listed companies outperformed APAC peers on governance, with an average governance score of 7.3 compared to 4.9 in the region overall. This reflects stronger corporate-governance frameworks, including board oversight, shareholder rights and business ethics, which have long been a focus for Australian regulators and institutional investors.

On the Social Pillar, Australia remains broadly in line with APAC, though its sectoral composition — dominated by financials (34%) and materials (19%) — suggests a strong focus on human-capital development, labor management and health and safety. These financially relevant social factors may be a key contributor to how some of Australia's largest sectors manage their sustainability risks.

Australian companies lag, however, in their overall Environmental Pillar performance, indicating weaker management of climate risks and other financially relevant environmental issues, particularly in high-emission industries such as mining, real estate and energy. As regulations on climate-related disclosures tighten, improving climate-risk strategies and resource efficiency will be critical for Australian companies to close the gap with regional peers.

## MSCI ESG Ratings leaders and upgrades

**Sector breakdown of MSCI ESG Ratings leaders and upgrades in Australia**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

The sectoral distribution of leaders and upgrades in constituents of the MSCI Australia Listed 300 Index highlights materials, financials and industrials as key sectors, with a high concentration of AA- and AAA-rated companies.

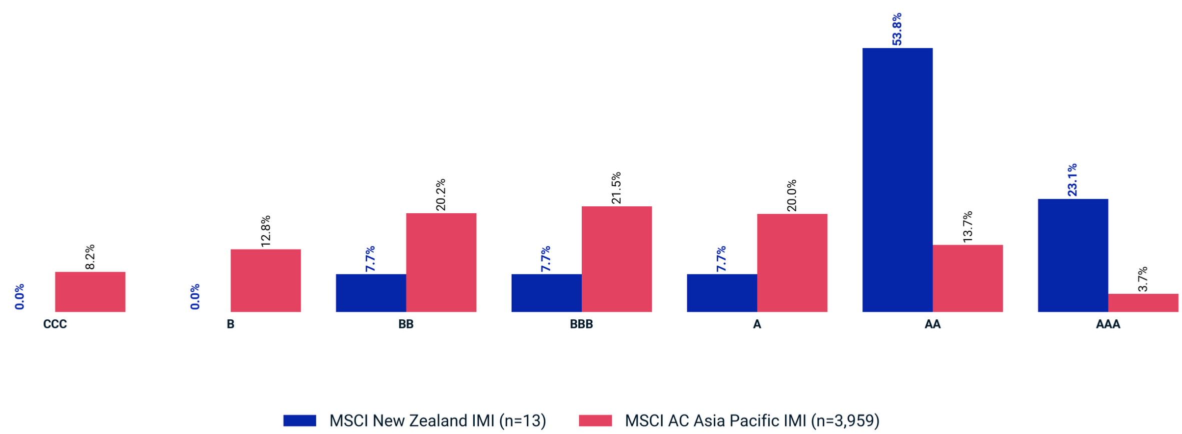
Meanwhile, upgrades in MSCI ESG Ratings have been more widespread, with consumer discretionary, communication services and real estate also showing notable improvements, in addition to financials and materials. Among upgraded companies, the capital-markets industry saw notable year on year (2023–24) improvements in the Human Capital Theme Score (+45%), which reflects stronger workforce development and stakeholder-management practices. Similarly, in the materials sector, the metals and mining industry recorded a 13% increase in the Environmental Pillar Score, driven by improved pollution management and climate-change strategies. Given that financials and materials make up a significant portion of the index, their strong presence among leaders and upgrades suggests that the integration of sustainability is gaining traction within Australia's key industries. At the same time, the broader sectoral spread of upgrades, including consumer discretionary and energy, indicates that ratings improvements are not limited to traditional heavyweights but are expanding across the market.

## New Zealand snapshot: Small market concentrated with leaders

Ten out of 13 companies in New Zealand's MSCI IMI hold an AA rating or higher, highlighting a strong corporate focus on sustainability. This is particularly evident in sectors like utilities, industrials and health care, which dominate the index and have well-established sustainability practices. Over the past five years, MSCI ESG Ratings in New Zealand have steadily improved, with fewer lower-rated companies (only two companies are rated BB and below) and a growing share of AA- and AAA-rated firms.

That said, given the small sample size of 13 companies, comparisons with the broader APAC market should be viewed with caution, as they may not fully reflect broader market trends. Nonetheless, New Zealand's leadership in sustainability performance is evident.

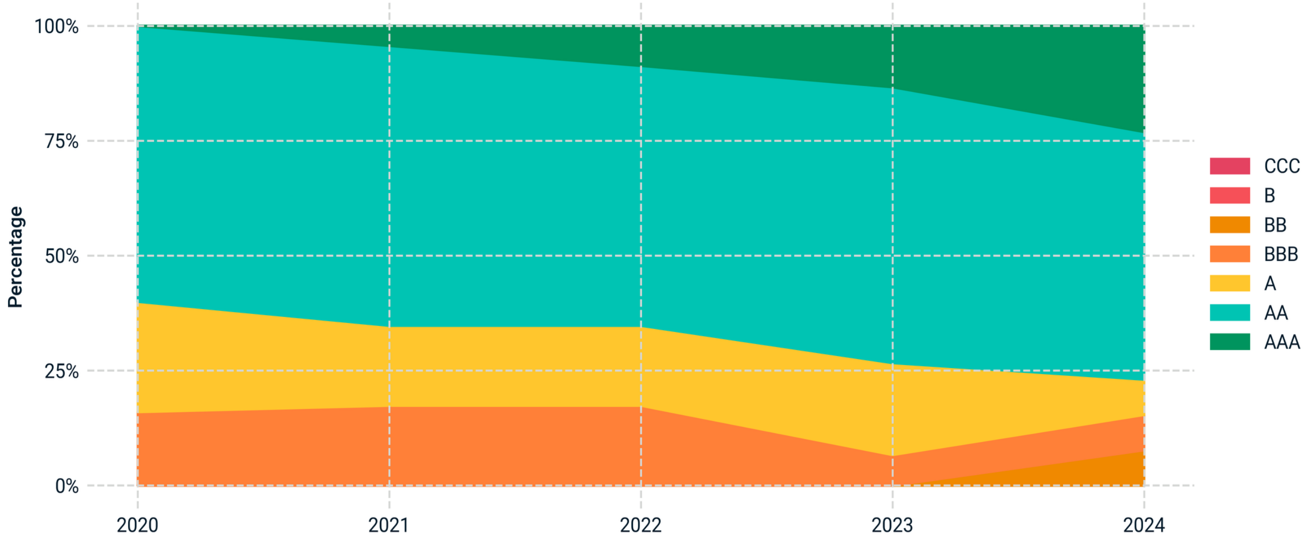
**MSCI ESG Ratings' distribution of New Zealand companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

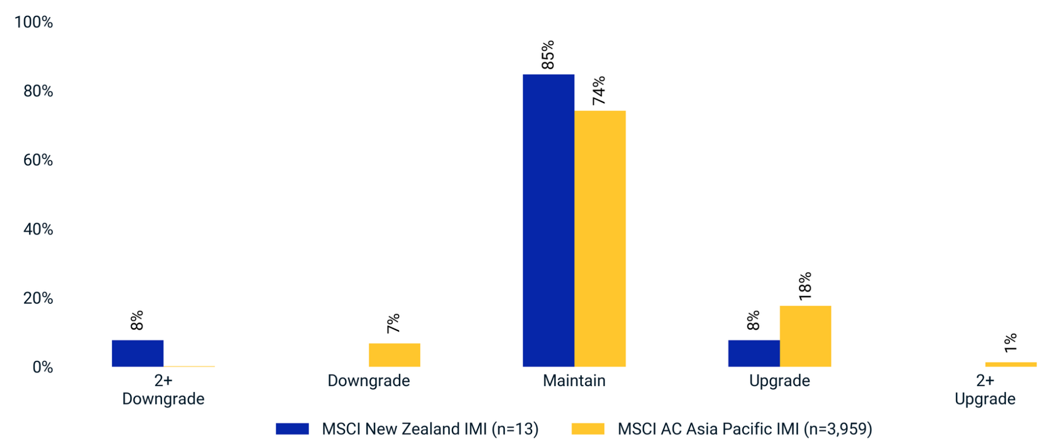
Most New Zealand-listed companies (85%) maintained their MSCI ESG Ratings, a higher proportion than the broader APAC region (74%), reflecting consistent sustainability performance in a small index. Given the small sample size, however, individual company performance can significantly influence overall trends.

### MSCI ESG Ratings' momentum of New Zealand companies




Data as of Dec. 31, 2024, based on MSCI New Zealand IMI (n=13). Source: MSCI ESG Research

### MSCI ESG Ratings' momentum by the number of companies



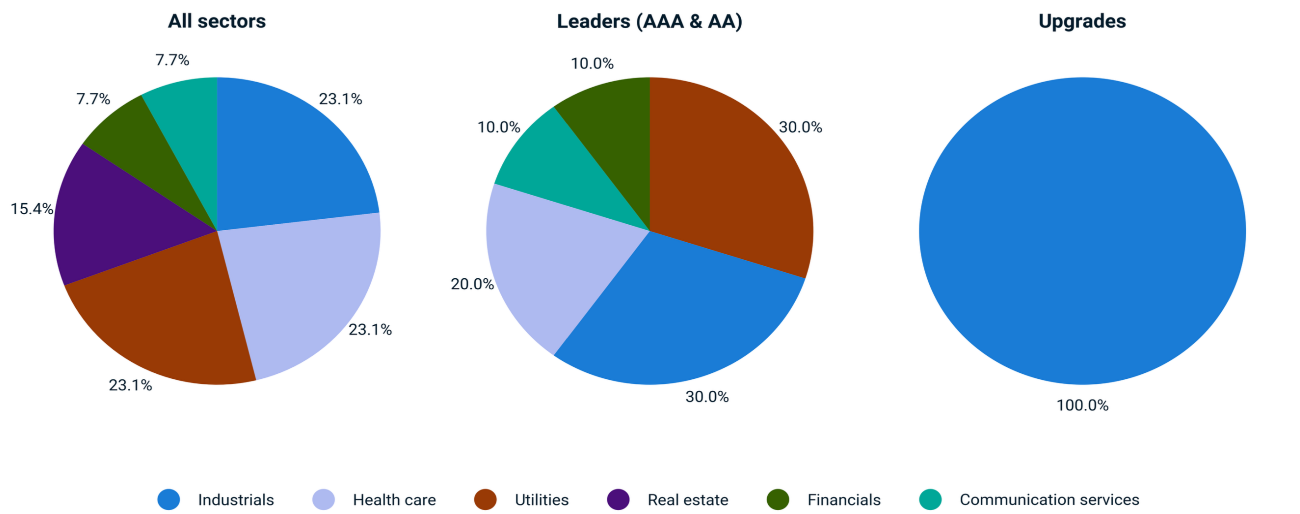

Data as of Dec. 31, 2024. Source: MSCI ESG Research

New Zealand's profile of companies' management of sustainability issues is driven by strong governance and social factors, with higher weightings in these pillars. The higher Governance Pillar Score (6.7 vs. 4.9 in APAC overall) reflects the structural advantages of New Zealand, such as robust regulatory oversight, transparent corporate practices and strong shareholder protections. The Social Pillar Score (5.2 vs. 4.6 in APAC overall) is supported by well-developed labor laws, workplace protections and a strong emphasis on social equity.

### MSCI ESG Ratings' Pillar Scores of New Zealand companies


Data as of Dec. 31, 2024. Source: MSCI ESG Research

### Sector distribution of MSCI ESG Ratings leaders and upgrades in New Zealand




Data as of Dec. 31, 2024. Source: MSCI ESG Research

New Zealand's leaders are concentrated in industrials, health care and utilities, reflecting the strong sustainability focus of key industries like energy, infrastructure and health-care services. These industries benefit from robust environmental policies, social-risk management and governance structures, aligning with New Zealand's national priorities on climate action and corporate transparency.

Only one company within industrials received an upgrade, however, indicating limited upward momentum due to already relatively high MSCI ESG Ratings for constituents of the MSCI New Zealand IMI.

# South Korea snapshot: Large conglomerates driving the sustainability agenda

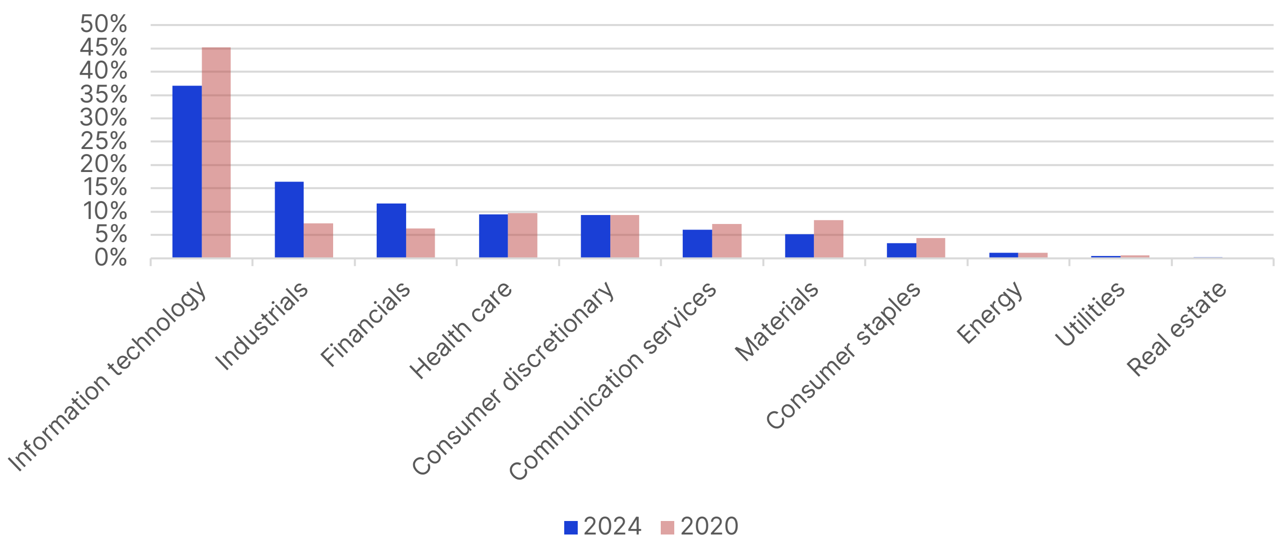
## Overview of the South Korean Market

For decades, the South Korean market has been concentrated in a few large conglomerates such as Samsung Electronics Co. Ltd., SK Corp., Hyundai Motor Group, LG Corp. and POSCO. This may also be one reason they are at the forefront of driving the sustainability agenda — by considering material-related risks in their operations and by engaging with their suppliers in the local market, where they hold strong bargaining power.

This is reflected in the market capitalization of the companies in these umbrella groups in the MSCI Korea IMI. Eight companies[15] accounted for almost 50% of the total market cap, six of which were part of the large conglomerates, as designated by the Korea Fair Trade Commission (KFTC).[16]

While the market cap of the information-technology sector has decreased by 8% in 2024 compared to 2020, mainly driven by Samsung Electronics, it still accounted for 37% of the total market cap (See chart below). On the other hand, industrials and financials increased their presence in the market in 2024 (vs. 2020).

**Market-cap change in the MSCI Korea IMI**




Data as of Jan. 31, 2025. Source: MSCI ESG Research

[15] Samsung Electronics (IT), SK Hynix (IT), KB Financial Group (financials), Celltrion (pharmaceutical), Naver (communication services), Shinhan Financial Group (financials), Kia Corporation (consumer discretionary) and Hyundai Motor Group (consumer discretionary).

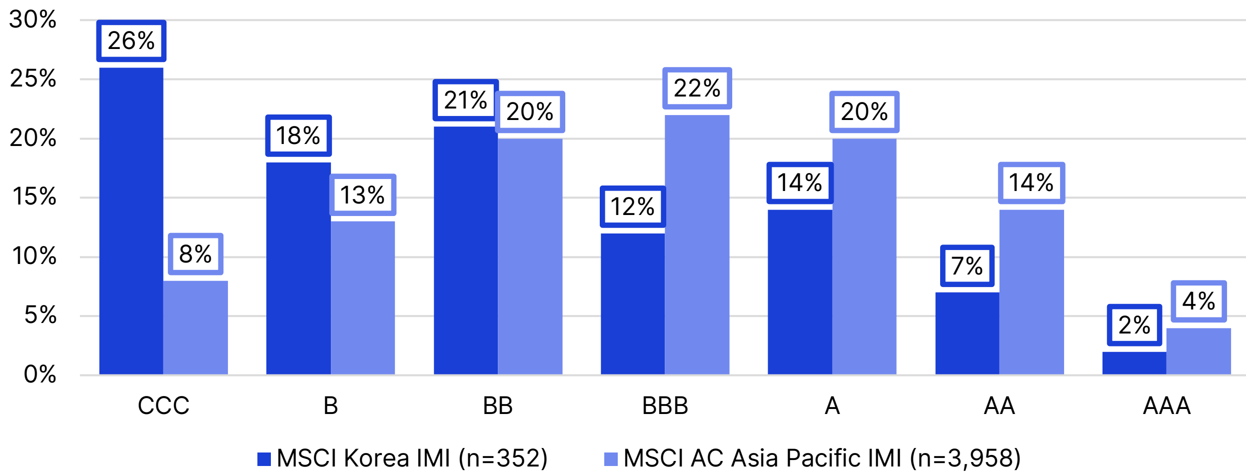
[16] Since 1987, the Korea Fair Trade Commission (KFTC) has selected business groups to be subject to a set of mandatory disclosure and corporate governance rules as defined by Article 2-11 of the Monopoly Regulation and Fair Trade Act (MRFTA). Each year on May 1, the KFTC designates large business groups and their affiliated companies, as well as holding companies of a certain size and their subsidiaries, in accordance with specific criteria. For more information, please visit KFTC website.

## Overview of MSCI ESG Ratings

Almost half (45%) of the companies in the market were in the laggards' band, but there has been clear positive momentum between 2020 and 2024. On average, the Governance Pillar (40%) carried the highest weight for South Korean companies in 2024 followed by the Social Pillar (36%). This is due to industry concentration in sectors with more emphasis on the governance theme than the market average such as industrials, information technology, communication services, real estate and utilities (44% of the weight in Governance Pillar on average). The average Governance Pillar Score for South Korean companies has, however, shown the largest gap compared to APAC peers.

The leaders were mostly in the financials, industrials and communication-services sectors, 30% of which were in financials, an industry that falls under a more stringent corporate-governance rule. Among non-financial-industry peers, we found large conglomerates appeared to drive the sustainability agenda. Companies in the 10 largest conglomerates group umbrellas, as designated by the KFTC, accounted for 45% of the leaders in 2024 (down from 50% in 2020).[17] Companies with positive momentum in ratings over the past year showed improvements in the Governance Pillar. This can be partly attributed to the recent push by regulators to enhance transparency and shareholder returns of listed companies to address a longstanding undervaluation of the market compared to its global peers (see section below for more details).

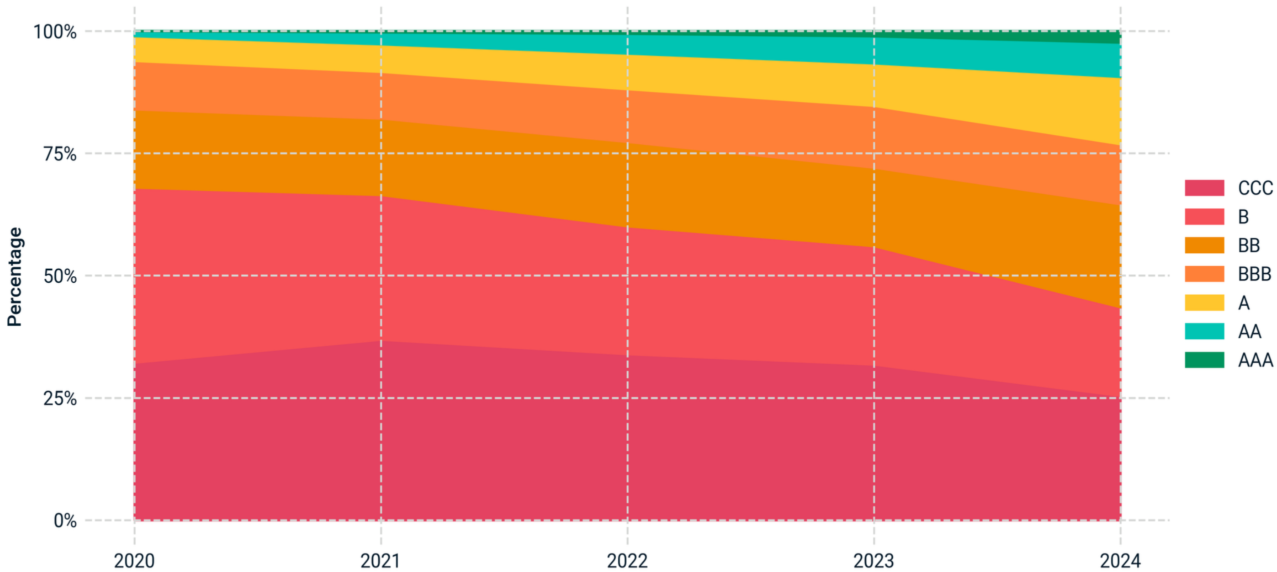
**MSCI ESG Ratings' distribution of South Korean companies**




Data as of Jan. 31. 2025. Source: MSCI ESG Research

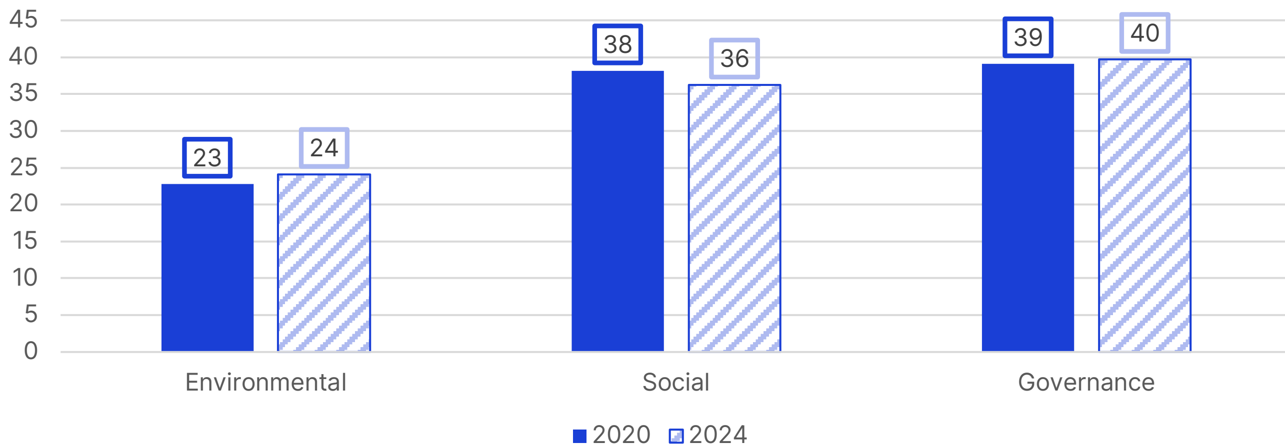
[17] Classification by KFTC (please see footnote 15 for more details). Top10 conglomerates excluded NH Group, a financial company. See the full list of designated large conglomerates by KFTC in 2024 here, accessed on March 11, 2025.

### MSCI ESG Ratings' momentum of South Korean companies



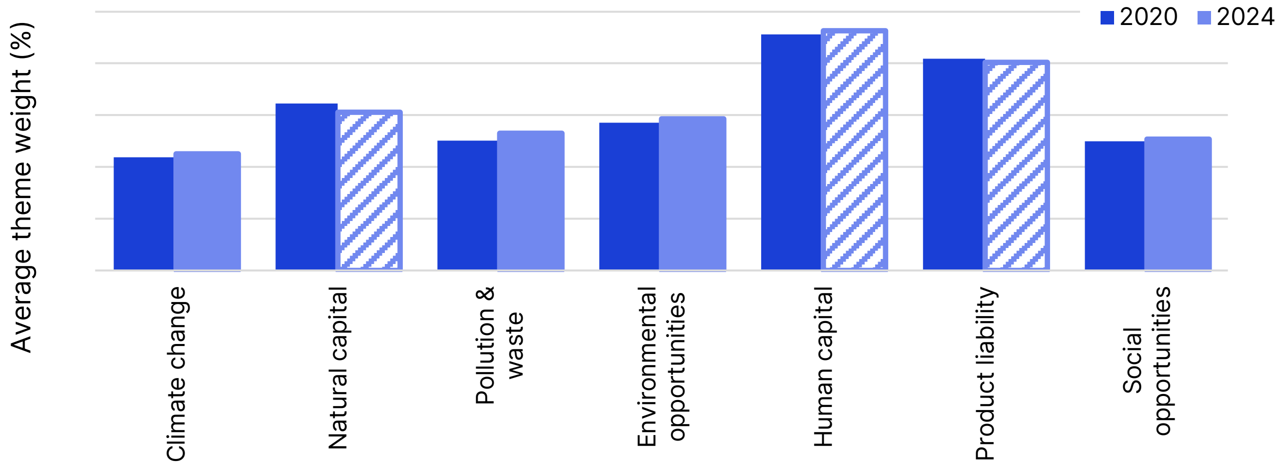

Data as of Dec. 31, 2024, based on MSCI Korea IMI (n=352). Source: MSCI ESG Research

### Governance carried the highest weight on average




Data as of Jan. 31. 2025. Source: MSCI ESG Research

**Human Capital, Product Liability and Natural Capital have been the most prominent Themes**

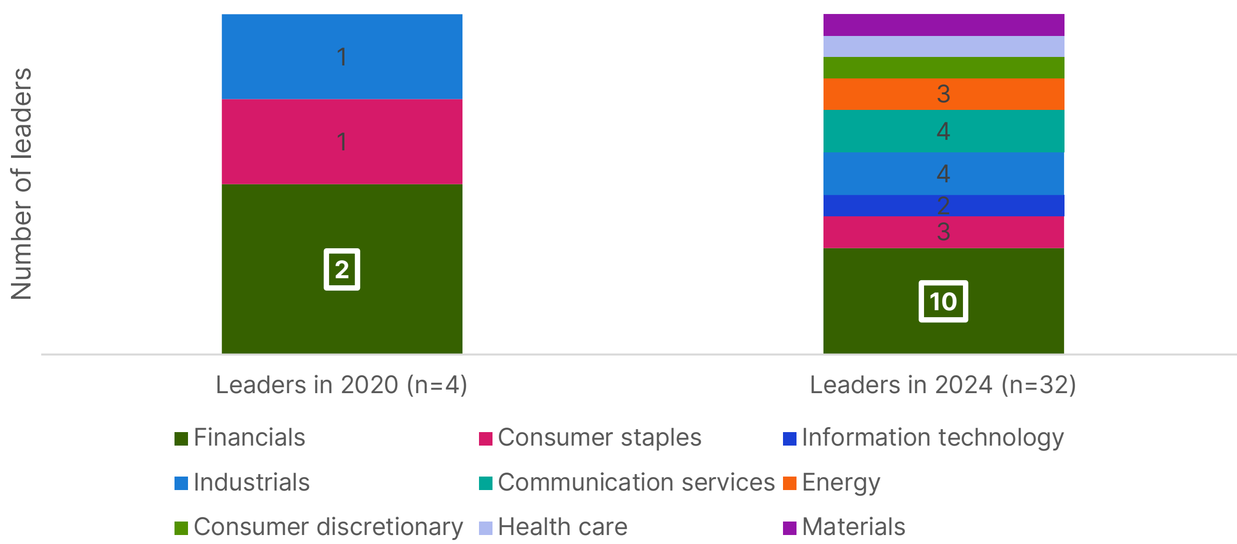



Data as of Jan. 31, 2025. Source: MSCI ESG Research

## MSCI ESG Ratings leaders: Outperformance in Natural Capital, Human Capital and Corporate Governance

There were 32 South Korean companies in the leader's band as of 2024, a significant increase from only four in 2020.[18] The number of companies with the highest rating was eight in 2024, up from zero in 2020.[19]

**Financials leading the pack in 2024**




Data as of Jan. 31, 2025. Source: MSCI ESG Research

[18] Amorepacific Group, DGB Financial Group, Shinhan Financial Group and SK Inc. were rated AA as at the of the end of 2020.
[19] KB Financial Group, Lotte Rental, Shinhan Financial Group, SK Biopharmaceuticals, SK Discovery, SK Gas, SK Inc. and Woori Financial Group were rated AAA as at the end of 2024.

### Key Themes in focus

On average, leaders outperformed domestic peers across all Themes, especially in Natural Capital, Human Capital and Corporate Governance.[20] This reflects the fact that companies in the MSCI Korea IMI may be more exposed to the related risks of using natural resources, managing talents or product liability, as reflected below, where the average weight of the three Themes was the highest within the Environmental and Social Pillars.

**Leaders outperformed in the Natural Capital, Human Capital and Corporate Governance Themes**

| | Environmental | | | | Social | | | Governance | |
|---|---|---|---|---|---|---|---|---|---|
| **Theme** | Climate Change Score | Natural Capital Score | Pollution & Waste Score | Environmental Opportunities Score | Human Capital Score | Product Liability Score | Social Opportunities Score | Corporate Governance Score | Corporate Behavior Score |
| **Leaders (a)** | 7.7 | 6 | 4.9 | 4.3 | 6.2 | 5.8 | 4.4 | 6.8 | 6 |
| **Market average (b)** | 6.3 | 3.6 | 3.5 | 4 | 4.2 | 4.2 | 3.4 | 4.7 | 4.7 |
| **Difference (a-b)** | 1.4 | 2.45 | 1.4 | 0.3 | 2.1 | 1.6 | 0.95 | 2.1 | 1.3 |

Data as of Jan. 31, 2025. Source: MSCI ESG Research

**Natural Capital**: Around 28% of the companies in our model were engaged in businesses related to the use of natural capital, primarily in the chemicals (n=35) and consumer-staples (n=27) sectors.[21] Among the leaders (n=9, evaluated on at least one of the three Key Issues), a key distinguishing factor was their ability to track and monitor environmental risks, including freshwater usage at the supplier level, where applicable.

**Human Capital**: The Human Capital Theme includes employee management and workplace safety. As the South Korean economy has historically been driven by heavy-manufacturing businesses, managing relationships with workers and ensuring workplace safety has been among the key risks.[22]

**Corporate Governance**: In February 2024, the Financial Services Commission (FSC) introduced the Corporate Value-up Program ("the Program") aiming to boost capital-market value in South Korea by encouraging companies to improve shareholder engagement and make better use of capital.[23] The Program was also aimed at addressing investor concerns over the undervaluation of stock

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[20] The 33 ESG-related Key Issues covered in the MSCI ESG Ratings are grouped under 10 Themes. For example, Climate Change and Natural Capital fall under the Environment Pillar, Human Capital and Product Liability under the Social Pillar and Corporate Governance and Corporate Behavior under the Governance Pillar. For further details, please refer to Section 2 of the "MSCI ESG Ratings Methodology," April 2024.
[21] The Key Issues of Raw Material Sourcing, Biodiversity and Land Use and Water Stress.
[22] South Korea is one of the markets with a high frequency of labor unrest or strikes according to the International Labor Organization. Worker safety is also a key factor for regulators, as seen by the recent Major Accidents Punishment Act that came into effect in April 2022.
[23] "Corporate Value-up Program for the advancement of the Korean stock market," Financial Services Commission, Feb. 26, 2024.

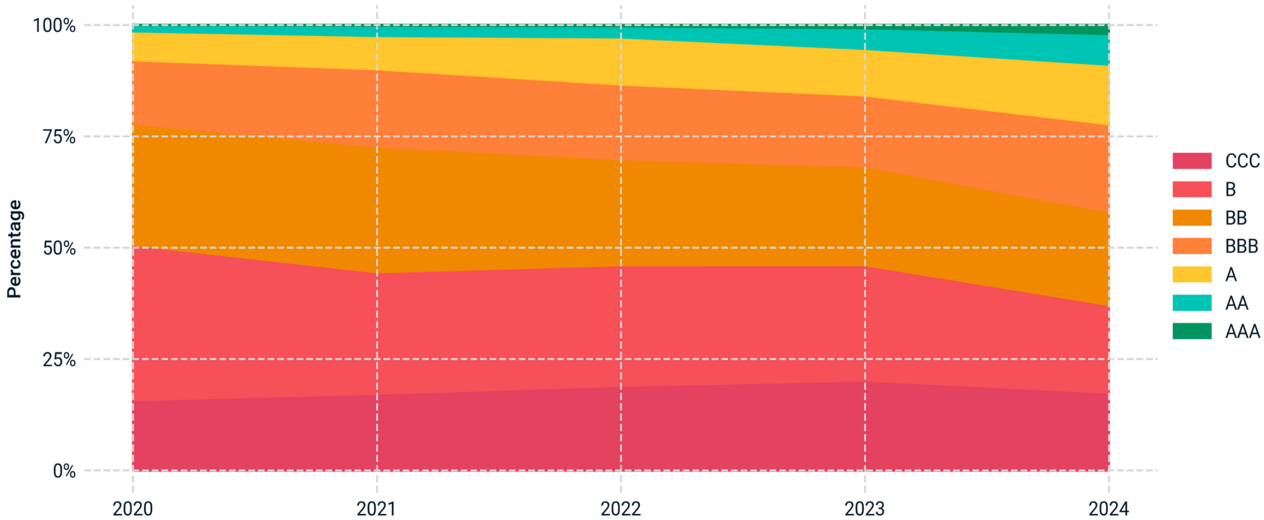
prices, commonly referred to as the "Korea discount." Guidelines have since been released detailing how listed companies can plan, evaluate and disclose progress in improving financial and non-financial indicators. Among the proposed indicators, regulators explicitly stated that the corporate-governance structure was a key reason behind the market's undervaluation.[24]

# China snapshot: Enhanced transparency and seizing opportunities

## Overview of MSCI ESG Ratings

Over the past five years (2020-24), constituents of the MSCI China IMI have demonstrated steady improvements in their MSCI ESG Ratings' performance. The proportion of leaders rose from 1.4% in 2020 to 8.9% in 2024, reflecting a growing emphasis on sustainability and strengthened practices to manage related risks and opportunities. These advancements have been driven by increasingly stringent disclosure requirements around sustainability, evolving value-chain expectations for greater transparency and accountability and a heightened recognition of material sustainability issues — including accounting fraud, product safety concerns and greenhouse gas (GHG) emissions — on long-term financial resilience.

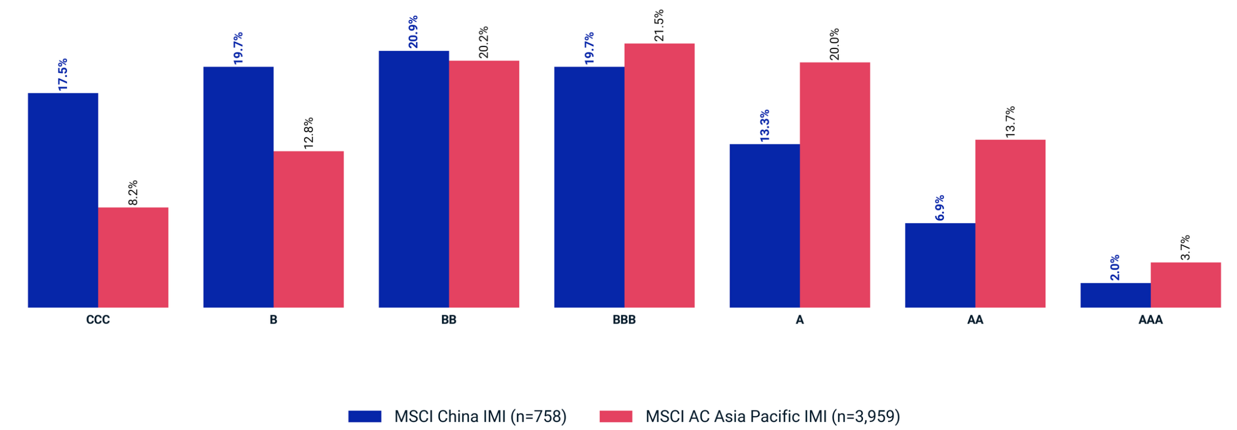
**MSCI ESG Ratings' momentum of Chinese companies**




Data as of Dec. 31, 2024, based on MSCI China IMI (n=758). Source: MSCI ESG Research

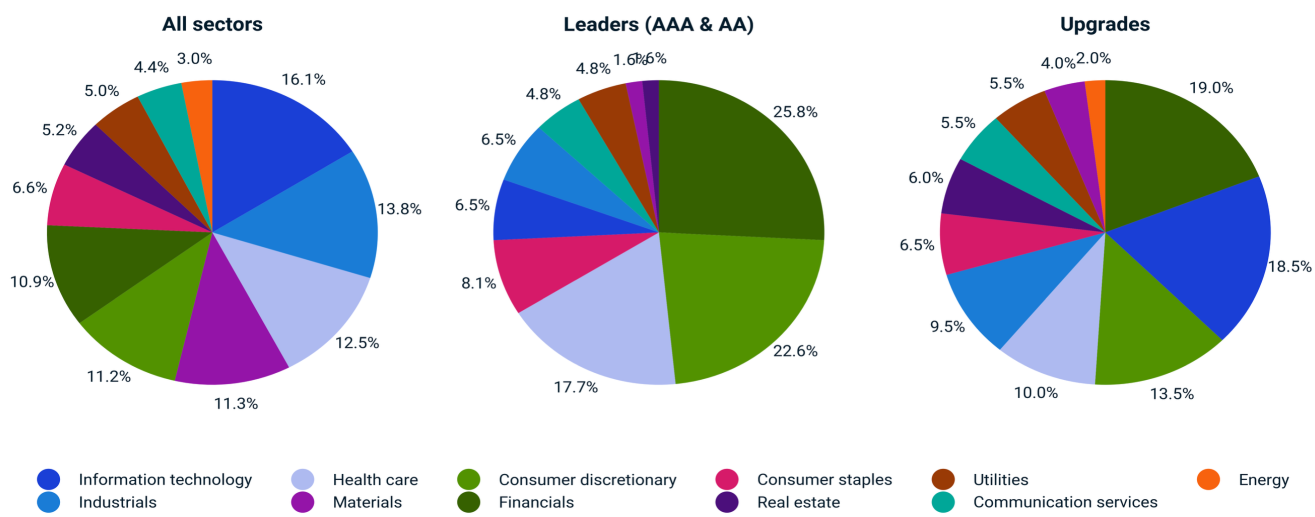
[24] "Guidelines for Corporate Value-up Plan," Korea Exchange, May 2024.

### MSCI ESG Ratings' distribution of Chinese companies




Data as of Dec. 31, 2024. Source: MSCI ESG Research

### Sector breakdown of MSCI ESG Ratings leaders and upgrades in China




Data as of Dec. 31, 2024. Source: MSCI ESG Research

## Banks and tech companies leading the progress

MSCI ESG Ratings in the Chinese market have maintained an upward trajectory, with the number of upgrades consistently exceeding downgrades over the past five years. In 2024, this upward momentum was stronger than in any previous year, with 26% of companies seeing improvements, while only 8% were downgraded. This positive trend aligns with a series of disclosure policies around sustainability introduced in 2024 by key regulatory bodies, including the Ministry of Finance

(MOF),[25] the state-owned Assets Supervision and Administration Commission (SASAC)[26] and stock exchanges.[27] Notably, the information-technology, consumer-discretionary and financials sectors accounted for the highest number of rating upgrades, with a concentration in semiconductors, electronics and banks.

- **Information technology**: Companies in this sector accounted for 18% of all recent upgrades, mainly in semiconductors, application software, electronics and technology hardware. These improvements were largely driven by advancements in the Key Issues of Human Capital Development and Corporate Behavior, reflecting broader efforts to attract and retain top talent in response to rapid innovation in AI and digitalization.
- **Banking**: The implementation of the former China Banking and Insurance Regulatory Commission's (CBIRC) Green Finance Guidelines has driven sustainability-risk management across banks' operations, integrating environmental, social and governance considerations throughout the business process .[28] An increasing number of banks now measure and disclose financed emissions in their loan or investment portfolios.

## Leaders excel in capturing green and social opportunities

The number of companies achieving AA and AAA ratings increased 66% between 2023 and 2024. The consumer-discretionary, financials and health-care sectors held a higher share of leaders, with diversified banks, automobile manufacturers and life-sciences tools and services emerging as standout industries. Chinese companies particularly excel in environmental and social opportunities:

- **Financials**: Financial institutions are developing and expanding services to support micro and small enterprises, as well as underserved rural communities, capitalizing on broader market access.
- **Health care**: Companies here are improving innovation and accessibility to health-care services and medicines, tapping into underserved markets.
- **Electric vehicle (EV) value chain**: Companies in the EV ecosystem are capitalizing on the transition to a low-carbon economy, benefiting from growing market demand.

While these initiatives are creating new growth opportunities, they are also generating measurable environmental and social benefits, aligning with China's strategic policy shifts toward carbon

[25] "Sustainability Disclosure Standard for Corporates — Basic Standard (Trail)," the MOF of the People's Republic of China, Nov. 20, 2024.
[26] "Guidelines on High Standards for Central Enterprises to Fulfill Social Responsibilities in the New Era," SASAC, June 4, 2024.
[27] "Guidelines No. 14 of Shanghai Stock Exchange for Self-Regulation of Listed Companies – Sustainability Report (Trial)," Shanghai Stock Exchange, April 2024; "Self-Regulatory Guidelines No. 17 for Companies Listed on Shenzhen Stock Exchange — Sustainable Development Reporting (Trial)," Shenzhen Stock Exchange, February 2024; "Guideline No. 11 for the Continuous Supervision of Listed Companies on Beijing Stock Exchange – Sustainable Development Report (Trial)," Beijing Stock Exchange, February 2024.

[28] "Green Finance Guidelines for the Banking and Insurance Industries," CBIRC, June 3, 2022.

neutrality, common prosperity and addressing an aging population. They also embody the country's commitment to the double-materiality principle — a dual focus on financial and impact materiality. Specifically in terms of environmental opportunities, China's climate commitments — to peak carbon emissions before 2030 and achieve carbon neutrality by 2060 — are central to its Ecological Civilization Strategy.[29] These commitments are driving companies' innovation and deployment of clean technologies (as defined by MSCI, including alternative energy, energy efficiency, green building, pollution prevention, sustainable water and sustainable agriculture) that bring significant environmental benefits, such as climate-change mitigation and adaptation, and natural-resources conversation. Chinese companies, on average, derive a higher percentage of revenue from clean technologies compared to global peers (5.4% vs. 4.6%). This revenue increase reflects a strategic shift toward sustainable economic reform, reinforcing China's position in the global sustainability landscape.[30]

## Hong Kong snapshot: Leading in APAC with strong regulatory and corporate actions

Constituents of the MSCI Hong Kong IMI have demonstrated steady progress in their MSCI ESG Ratings' performance over the past five years. The proportion of leaders increased from 13.7% in 2020 to 24.3% in 2024, reflecting heightened regulatory pressures, evolving investor expectations and corporate initiatives to strengthen sustainability strategies to align with global best practices.

Overall, these companies have outperformed APAC peers across Environmental, Social and Governance Pillars, with notable improvements in sustainability-information disclosure. In 2012, the Hong Kong Exchanges and Clearing Limited (HKEX) published its ESG Reporting Guidance as a voluntary disclosure recommendation and it has evolved over time.[31] In 2024, the HKEX published the climate-disclosure requirements that are closely aligned with International Financial Reporting Standards S2 (climate-related disclosures) and expected to be implemented in phases starting in 2025.[32] The Hong Kong government also set a climate-action plan to reduce absolute GHG emissions by 26% to 36% by 2030, based on 2005 emissions, and achieve net zero by 2050.[33]

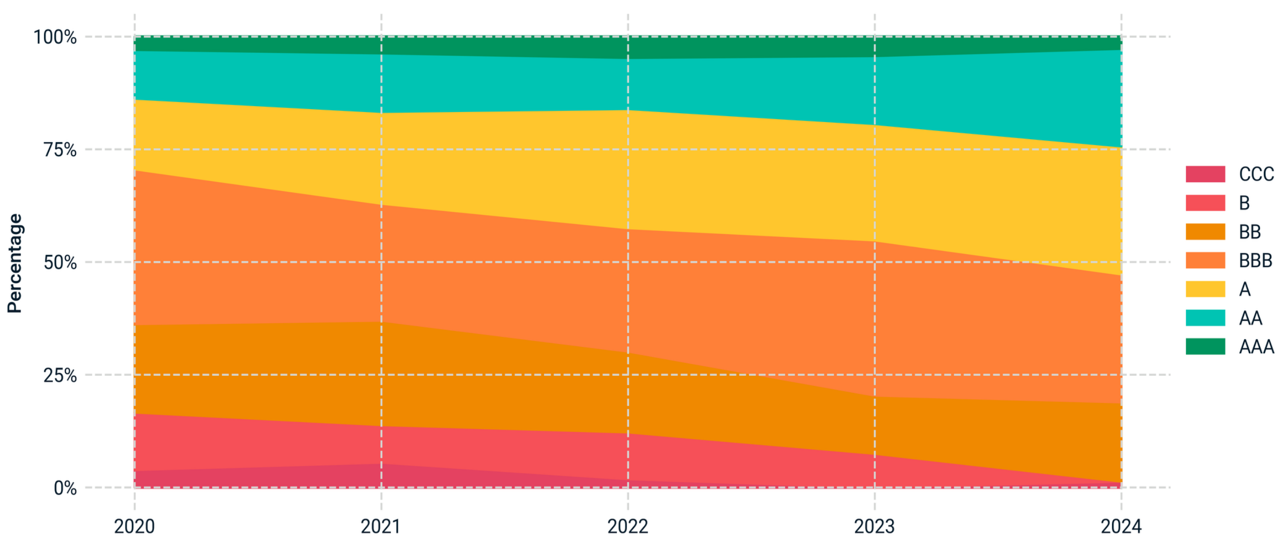
The stepped-up regulatory requirements are also reflected in the rating dynamics for Hong Kong companies. Between FY2023 and FY2024, most MSCI ESG Ratings upgrades occurred in the real-estate, consumer-discretionary and information-technology sectors. Among the 18 upgraded companies, we found the most significant improvement under the Environmental Pillar — a 14%

[29] "Integrate carbon peak and carbon neutrality into the economic and social development and ecological civilization," National Development and Reform Commission of the People's Republic of China, Oct. 29, 2021.
[30] Siping Guo, Cody Dong and Emma Wu, "Nexus of ESG and China's Strategic Policy Shift," MSCI Research Insight, May 6, 2022. (Client access only.)
[31] "The Exchange Publishes Consultation Conclusions on Environmental, Social and Governance Reporting Guide," HKEX, Aug. 31, 2012.
[32] "Exchange Publishes Conclusions on Climate Disclosure Requirements," HKEX, April 19, 2024.
[33] "Hong Kong's Climate Action Plan 2030+," Environment Bureau, January 2017.

increase on the average Pillar Score. As for the leaders, the financials, real-estate, industrials and communication-services sectors had the highest concentration. Leading companies (n=18) demonstrated strong environmental-related risk-management practices as well.

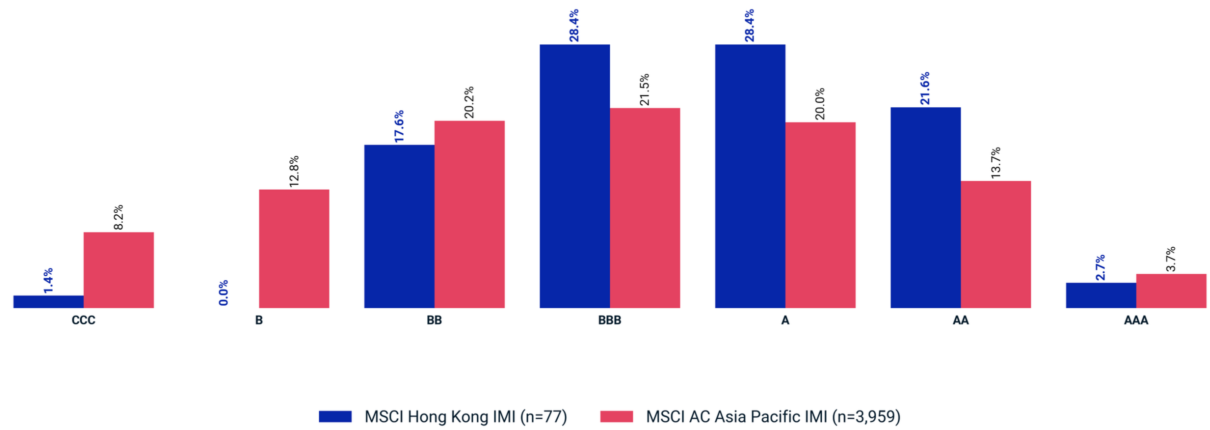
In addition, constituents of the MSCI Hong Kong IMI had a higher issuer-interaction rate than those of the MSCI AC Asia Pacific IMI, 64% vs. 42%. A maturing market with comprehensive disclosure requirements, high awareness of sustainability issues and active engagement practices have put selected Hong Kong companies in a leading position of overall sustainability performance in APAC. Yet continued corporate-governance improvements and social-risk management could be critical for companies to remain competitive in the future.

**MSCI ESG Ratings' momentum of Hong Kong companies**



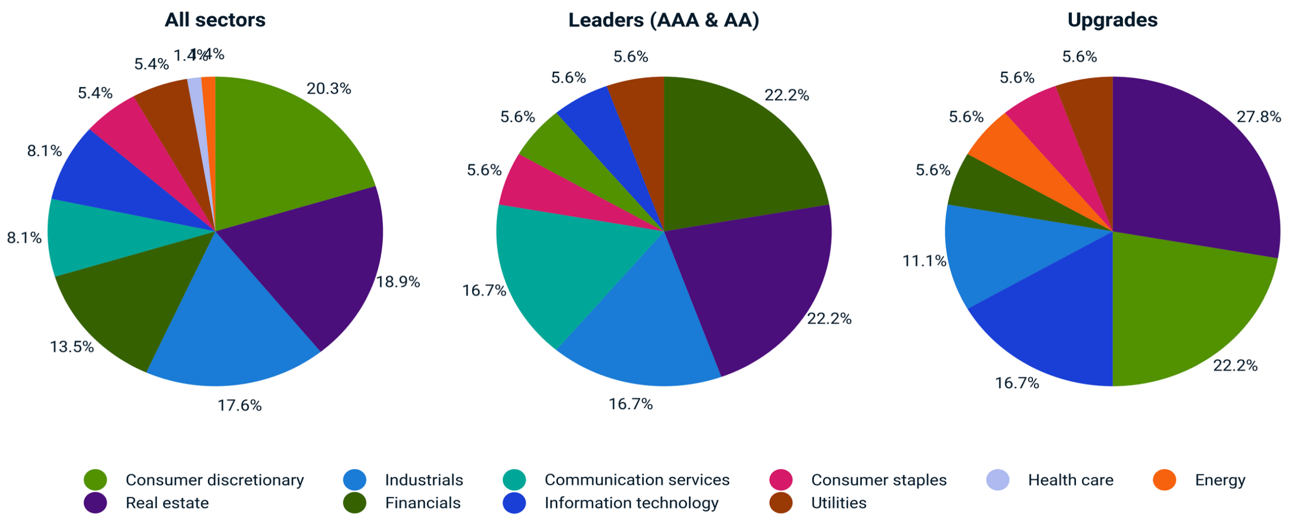

Data as of Dec. 31, 2024, based on MSCI Hong Kong IMI (n=77). Source: MSCI ESG Research

## MSCI ESG Ratings' distribution of Hong Kong companies




Data as of Dec. 31, 2024. Source: MSCI ESG Research

## Sector breakdown of MSCI ESG Ratings leaders and upgrades in Hong Kong




Data as of Dec. 31, 2024. The pie charts indicate the ratio of the number of companies per the GICS sector. Leaders are those with AA and AAA MSCI ESG Ratings. Upgrades are those who have higher MSCI ESG Ratings than in the previous rating period. Source: MSCI ESG Research

## Taiwan snapshot: Strong upward momentum amid strengthened sustainability policies

The Taiwanese market is ramping up its sustainability policies to combat greenwashing, enhance transparency and support the sustainable development of companies.[34] Constituents of the MSCI Taiwan IMI have shown continuous improvement in their MSCI ESG Ratings over the past five years. The proportion of companies with leader ratings increased from 8.6% in 2020 to 11.5% in 2024, while those with laggard ratings declined from 21.6% to 14.4% over the same period.

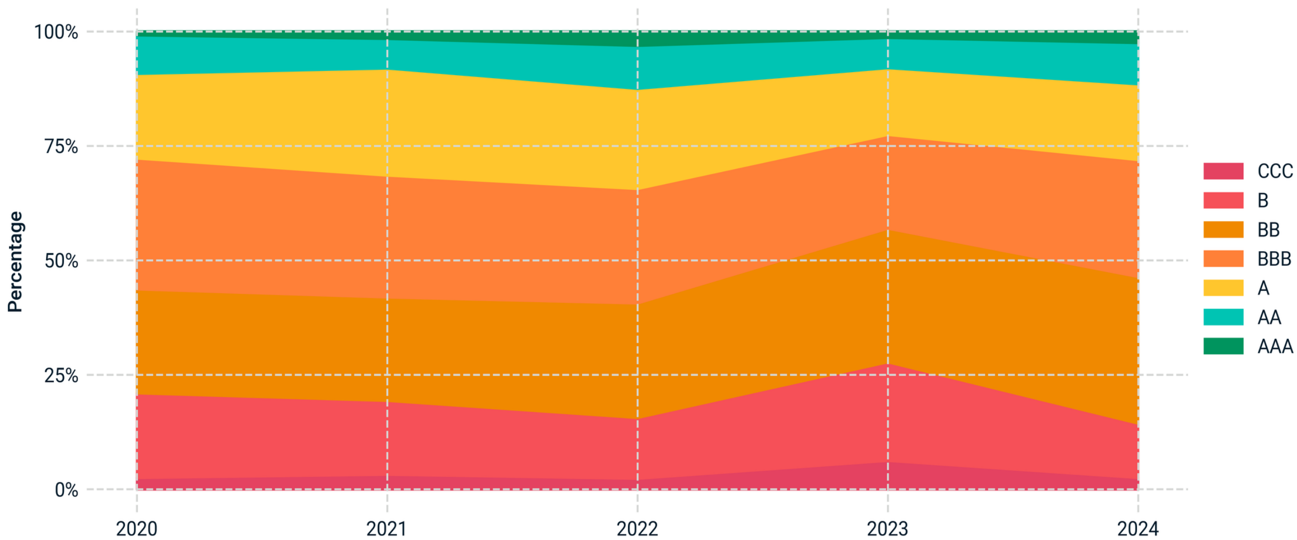
Between 2022 and 2023, the percentage of companies with leader ratings temporarily decreased, while the share of laggards increased. In 2024, however, the number of companies receiving upgrades (23%) significantly outpaced downgrades (4%), marking the strongest upward momentum in the past five years. This was primarily due to the coverage of MSCI ESG Ratings expanding in Taiwan to include small-cap companies for the first time in 2023. The relatively limited sustainability-related disclosures of these newly-rated firms initially led to lower average scores. In their second rating cycle in 2024, however, many of these companies demonstrated notable improvements, indicating a strong catch-up trend among previous laggards. This progress may have been driven by heightened sustainability awareness, regulatory influence and value-chain expectations.

The Themes of Corporate Governance, Corporate Behavior and Climate Change saw the most notable improvements, reflecting policy-driven enhancements in corporate sustainability disclosures and mandatory climate reporting from the Financial Supervisory Commission (FSC).[35] However, scores for pollution and waste, environmental opportunities and social opportunities experienced declines. While climate-related issues remain a focal point, other environmental concerns should not be overlooked. Innovation and deployment in clean tech, renewable energy and green building remain limited, as do efforts in small- and medium-enterprise finance, which may open growth opportunities in fast-growing or under-tapped markets.

Compared to the MSCI AC Asia Pacific IMI, a higher proportion of Taiwan-listed companies fall into the average rating category with fewer companies classified as leaders or laggards.

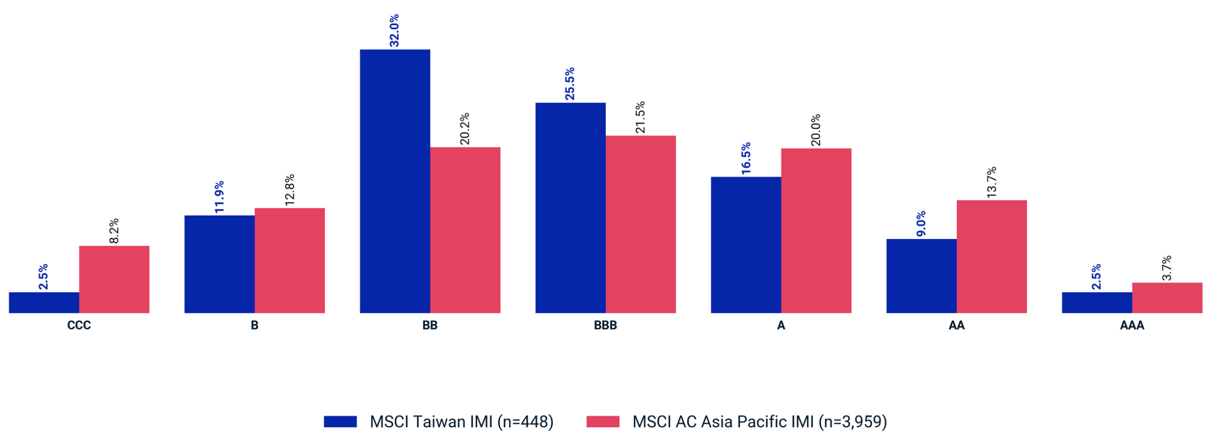
[34] "Transparency and Action: Assessing Taiwan Companies' Climate Journey," MSCI Research Insight, Nov. 24, 2024. (Client access only.)
[35] "Sustainable Development Action Plans for TWSE- and TPEX-Listed Companies (2023)," FSC, March 28, 2023.

### MSCI ESG Ratings’ momentum of Taiwan companies



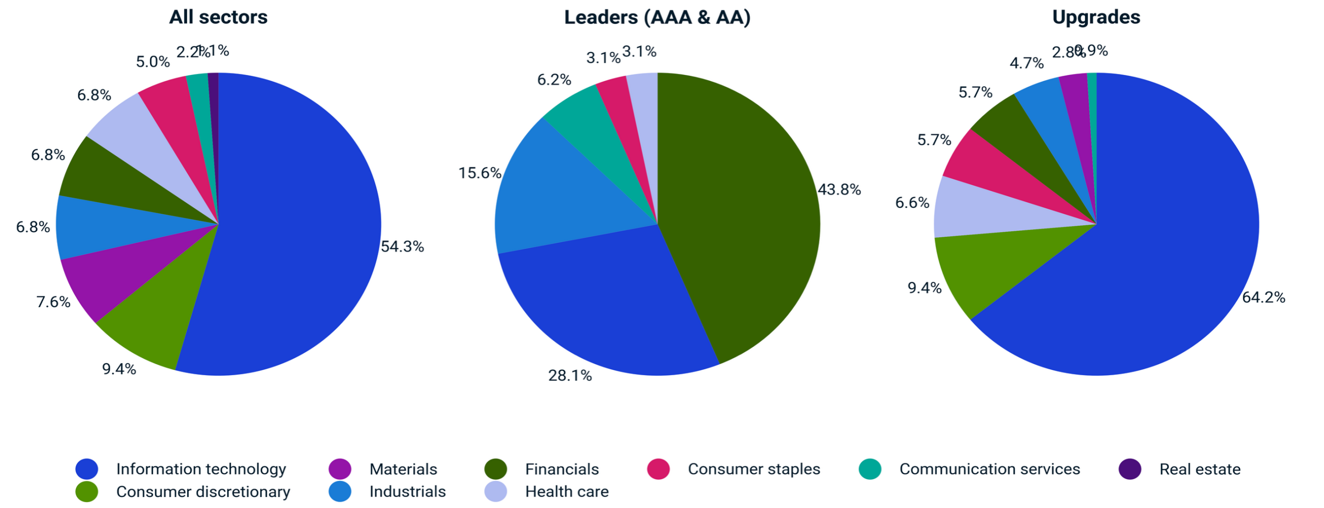

Data as of Dec. 31, 2024, based on the MSCI Taiwan IMI (n=448). Source: MSCI ESG Research

### MSCI ESG Ratings’ distribution of Taiwan companies




Data as of Dec. 31, 2024. Source: MSCI ESG Research

**Sector breakedown of MSCI ESG Ratings leaders and upgrades in Taiwan**




Data as of Dec. 31, 2024. The pie charts indicate the ratio of the number of companies per the GICS sector. Leaders are those with AA and AAA MSCI ESG Ratings. Upgrades are those who have higher MSCI ESG Ratings than in the previous rating period. Source: MSCI ESG Research

## Taiwan's MSCI ESG Ratings leaders

Companies with AAA ratings were concentrated in the financials, information technology and industrials sectors, notably in the banks, insurance, technology-hardware, semiconductors and electrical-equipment industries. Corporate Governance, Corporate Behavior, Human Capital and Stakeholder Opposition were the key Themes that set them apart as leaders.

- **Financials**: Since the launch of Taiwan's green finance action plan 2.0 in 2020 sustainability considerations have become integrated in financial institutions' strategy and practices.[36] These policies emphasize the dual role they have to play (i.e., to enhance their own sustainability and support the sustainable development of the economy). Financial institutions are also at the forefront of pioneering GHG accounting and disclosure. The high scores in climate change reflect Taiwanese companies' efforts to reduce the financed emissions of portfolios and contribute to the net-zero journey.
- **Information technology**: Taiwanese IT companies play a pivotal role in the global technology supply chain and in ensuring supply-chain transparency and accountability. They are subject to rigorous evaluation concerning sustainable disclosures, with an emphasis on supply-chain labor standards, business ethics, net-zero commitments and resource conservation. Competing with global peers for top talent, Taiwanese IT firms are setting high standards in talent acquisition, retention and development to sustain long-term innovation.

[36] "Green Finance Action Plan 3.0," FSC, Sept. 26, 2022.

## Tech companies leading the way in upgrades

Information-technology companies accounted for around two-thirds of all upgrades from FY2023 to FY2024, with a strong concentration in semiconductors, followed by electronics and technology hardware. The sector's upgrades are primarily driven by improvements in the Natural Capital and Corporate Behavior Themes.

These rating improvements reflect laggards catching up and mid-tier or leading companies making further progress. The recent surge in Taiwan's semiconductors and electronics industries has brought more small- and medium-sized tech firms into focus for investors. With policy support and increasing transparency requirements in the global technology value chain, previously weaker disclosers are enhancing their reporting practices.

Pollution & Waste remains a key sustainability Theme, particularly concerning electronic waste, packaging-material waste and toxic emissions. Taiwan's information-technology sector plays a crucial role in the leader and upgrader peer sets, reinforcing the market's position in electronic-waste management. Taiwan's robust regulatory framework for waste management has driven improvements in infrastructure, waste collection and recycling technologies, reflecting a strong commitment to environmental sustainability.

Companies with strong existing sustainability disclosures continue to strengthen their practices and performance, setting new benchmarks. For example, Taiwan faces significant water-stress challenges. Leading companies are ahead of global peers in water-resource management as well as at their water-conservation practices. Many firms have enhanced board-level oversight, set ambitious targets, conducted regular risk analyses and implemented more stringent measures to optimize water reuse and recycle.

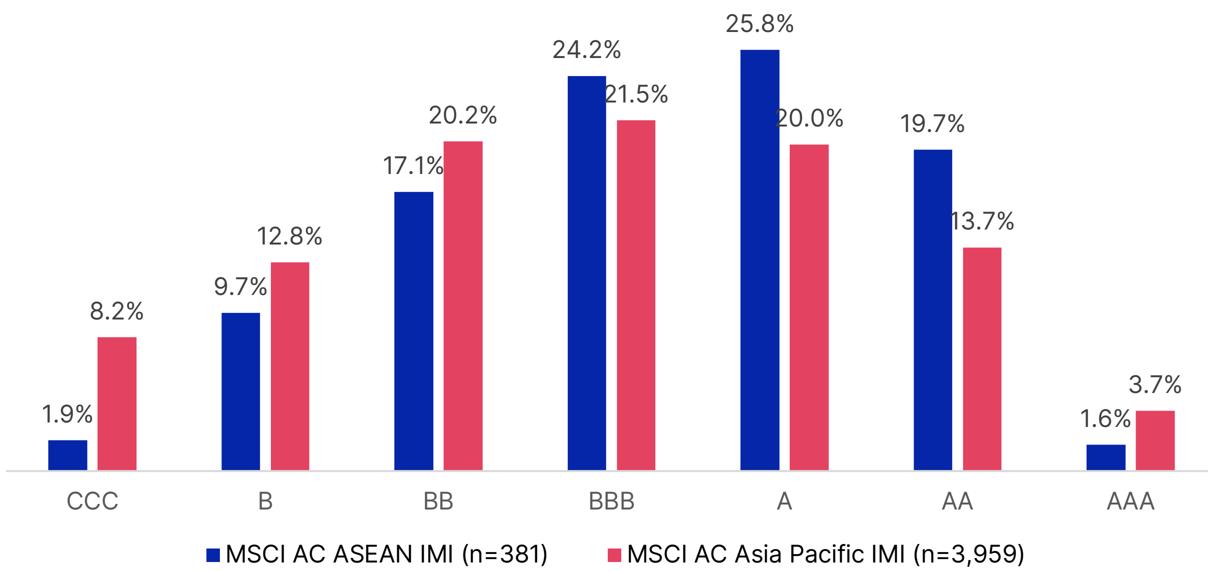
These ongoing efforts highlight Taiwan's evolving sustainability landscape, demonstrating the market's commitment to aligning with global sustainability standards while addressing local environmental and social challenges.

# ASEAN snapshot: Improved MSCI ESG Ratings despite regional disparities

## Overview of MSCI ESG Ratings

Between 2023 and 2024, ASEAN-based companies showed significant improvement in their MSCI ESG Ratings' performance, with 18% receiving upgrades and only 7% experiencing downgrades.[37] As of 2024, 21.3% of the constituents of the MSCI AC ASEAN IMI were rated as leaders, approximately 4% higher than their peers in the MSCI AC APAC IMI, although 11.6% were still rated as laggards. This trend signifies a positive shift toward AA and AAA ratings among ASEAN companies over the past five years.

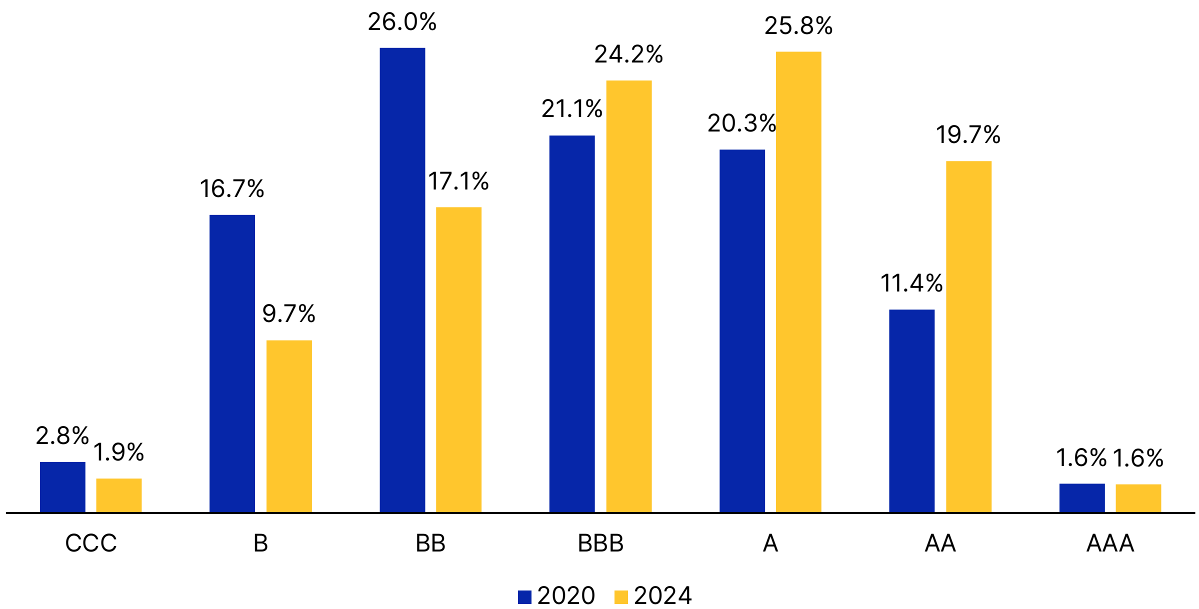
**MSCI ESG Ratings' distribution of ASEAN companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

[37] The MSCI AC ASEAN IMI, n=381, captures large-, mid- and small-cap representation across four emerging markets (Indonesia, n=71, Malaysia, n=103, Thailand, n=109, and Philippines, n=32) and one developed market (Singapore, n=66) country. We further refer to MSCI AC ASEAN IMI as ASEAN.

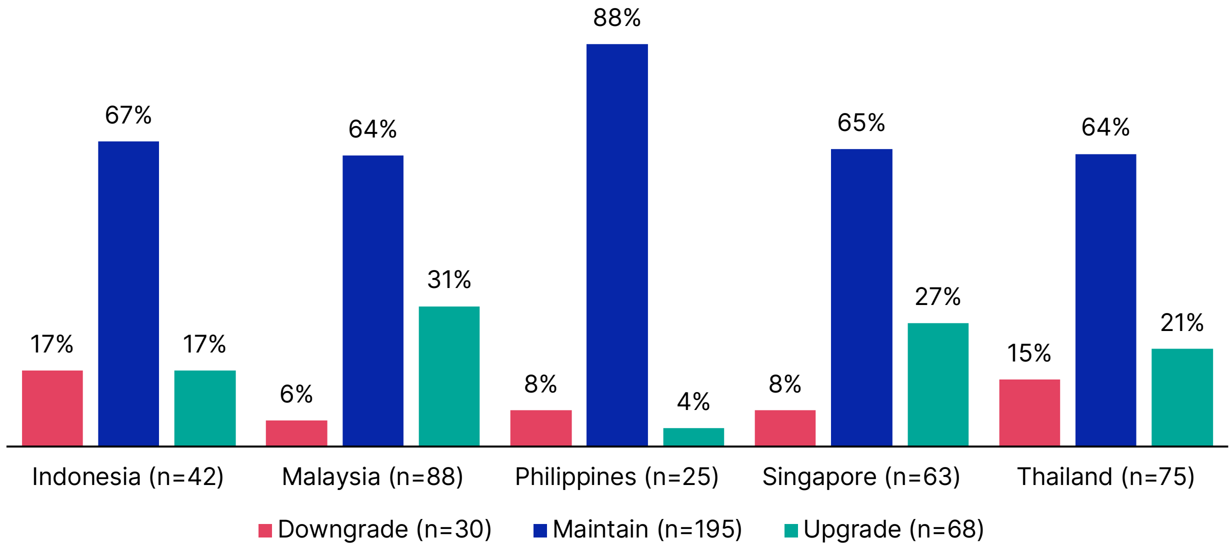
**MSCI ESG Ratings' distribution of the MSCI AC ASEAN IMI**




Data as of Dec. 31, 2024. Source MSCI ESG Research

Notably, constituents of the MSCI AC ASEAN IMI domiciled in Malaysia and Singapore had the highest proportion of upgrades (one-third of companies), followed by Thailand (one-fifth of companies) — see chart below. Although no Malaysian companies achieved a AAA rating, Malaysia had the highest share of leaders among the MSCI AC ASEAN IMI peers as of Jan. 24, 2025.

**MSCI ESG Ratings' momentum of the MSCI AC ASEAN IMI**



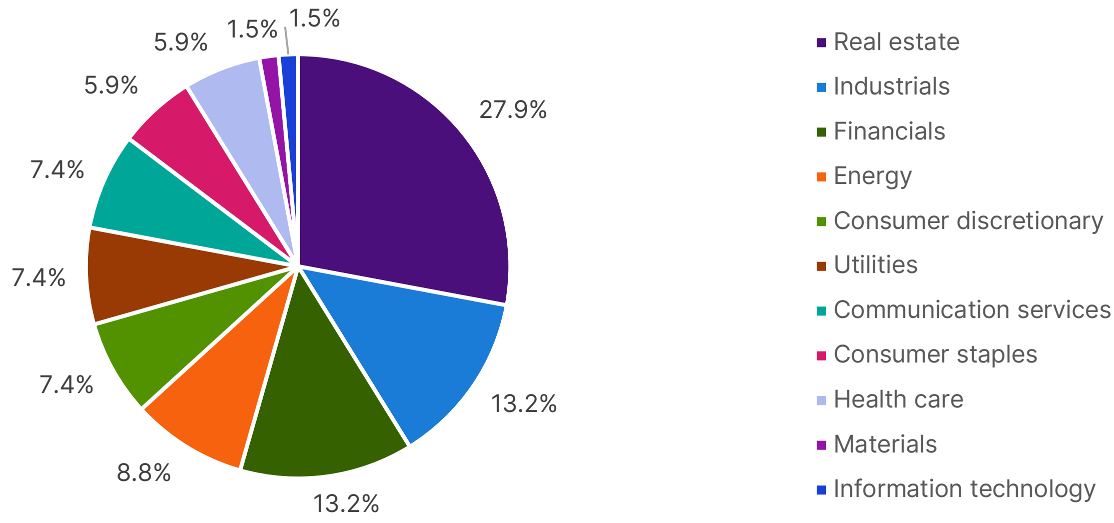

Data as of Dec. 31, 2024. The MSCI AC ASEAN IMI consists of 381 constituents, 294 of which had an MSCI ESG Rating as of Dec. 31, 2024. Please note that companies newly added to our index may not receive a rating immediately at the cutoff date. This rating distribution does not include companies that were classified as initiate (n=10), and re-initiate(n=6). Note that MSCI re-rates companies throughout the year. This ratings distribution reflects companies' ratings at a specific point in time. Source: MSCI ESG Research

It is noteworthy that companies in the Philippines experienced the fewest changes in ratings among their peers. Those that did see changes, however, had more downgrades (8%) than upgrades (4%). In contrast, Indonesia had an equal ratio of downgrades and upgrades (17%) but also had the highest rate of downgrades among its peers, as of Dec. 31, 2024.

In both Philippines and Indonesia, downgrades were primarily driven by changes in the Human Capital and Corporate Governance Theme scores, while ad hoc cases were associated with environmental factors such as increased emission intensity and changes in our assessment of companies' exposure for Packaging Materials & Waste. These downgrades reflect regional disparities in sustainability disclosure and practices, with some geographies advancing more rapidly than others, suggesting challenges in maintaining or improving sustainability performance in these markets.

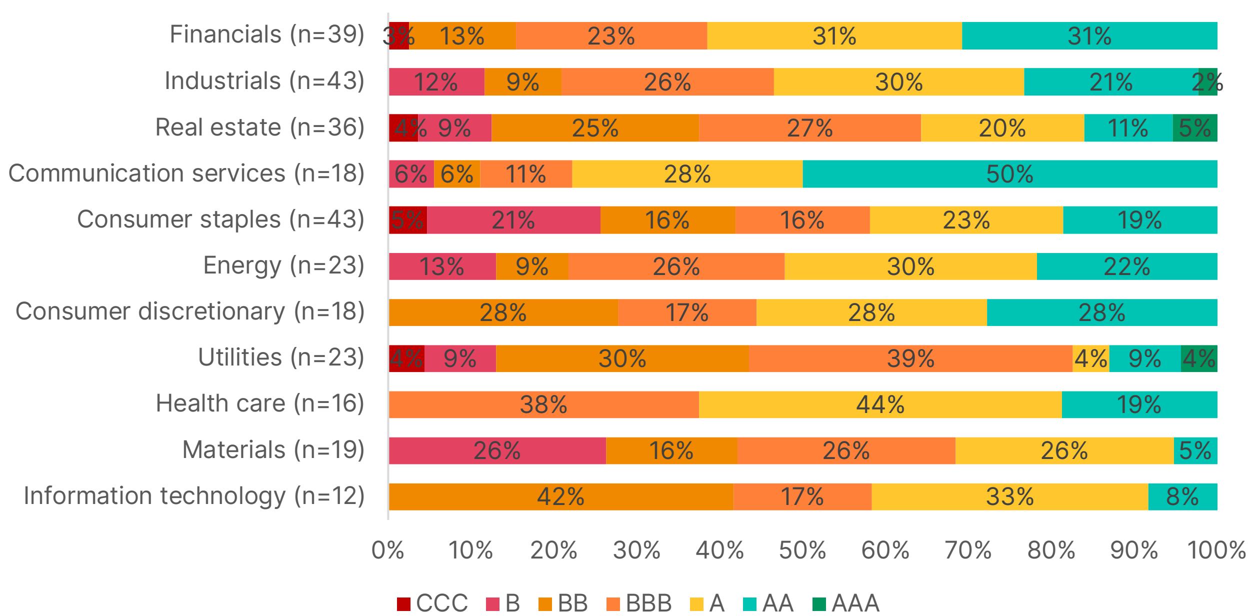
**Sector trends:** Sectors with the highest share of upgrades were real estate (27.9%), industrials (13.2%) and financials (13.2%), see chart below. For Singapore- and Malaysia-domiciled companies, most upgrades were attributed to the real-estate sector, followed by industrials. For Thailand-domiciled companies, most upgrades were also among the constituents of the real-estate sector, followed by financials.

**The real-estate sector dominated the share of ASEAN peer upgrades**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

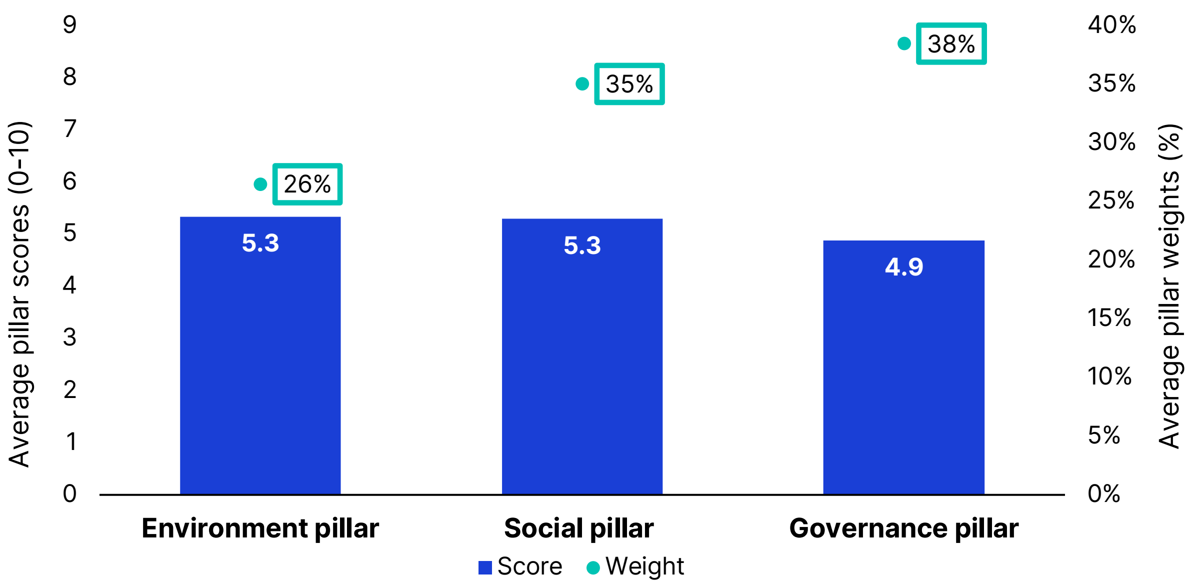
**MSCI ESG Ratings' distribution by sector**




Data as of Dec. 31, 2024. The MSCI AC ASEAN IMI consists of 381 constituents, 310 of which have an MSCI ESG Rating. Please note that companies newly added to our index may not receive a rating immediately at the cutoff date. Source: MSCI ESG Research

When examining the individual pillars, constituents of the MSCI AC ASEAN IMI lagged the most when it came to Governance Pillar Scores. Simultaneously, the major improvements leading to upgrades came from changes in the Governance and Social Pillar Scores. It is worth noting that the adoption of ISSB-aligned disclosure frameworks and the regional harmonization of sustainable-finance taxonomies in Malaysia and Singapore, and to a certain extent in Philippines, is likely contributing to improved disclosures and MSCI ESG Rating scores.[38]

**Distribution of MSCI ESG Pillar Scores for ASEAN companies**




Data as of Dec. 31, 2024. Source: MSCI ESG Research

## Human capital and governance practices driving upgrades

Our analysis of Key Issue Score changes between 2023 and 2024 reveals that upgrades were primarily driven by advancements in the Governance Pillar and the Key Issues of Human Capital Development, Labor Management, Health and Safety, Privacy and Data Security and Carbon Emissions.

**Governance Pillar:** The primary driver for upgrades among companies in Malaysia, Singapore and Thailand were improvements in corporate governance and corporate behavior. Over half of the upgraded companies saw improvements in relation to board independence or pay disclosures. Risks to minority shareholders persist, however, due to the prevalence of controlled ownership[39] (ASEAN 75.0% vs. APAC 53.6%) and control-enhancing mechanisms such as golden shares[40] (4.5% vs. 0.5%), which may lead to conflicts of interest and decision-making biased in favor of dominant owners. Family ownership (43.2% vs. 30.7%) and state ownership (20.8% vs. 12.8%) also remain

[38] Jurgita Balaisyte, Anthony Chan and Yu Ishihara, "ASEAN Sustainability and Climate Snapshot 2024," MSCI ESG Research, September 2024. (Client access only.)
[39] MSCI ESG Research considers a company with one or more shareholders, or a shareholder bloc, holding 30% or more of its voting shares a controlled company.
[40] A golden share provision allows a single shareholder, usually a national government, to override all other shareholder voting rights on certain decisions.

prevalent among ASEAN peers, as of March 3, 2025.[41] Under our corporate-governance methodology, a company classified as a family firm or a state-owned enterprise does not, by itself, lead to a score deduction. Other factors such as unequal voting rights and control mechanisms are taken into consideration to capture risks associated with different ownership structures.

**Social Pillar:** We observed positive changes in scores for Human Capital Development, Labor Management and Health & Safety among roughly one-quarter of ASEAN peers, driving upgrades. In sectors such as utilities and energy, where health and safety risks are prevalent, upgraded companies demonstrated improved performance with fewer reported fatalities and injuries. The rise of AI and data has created opportunities and risks, prompting many companies to enhance their data-security initiatives. A wave of regulations across Southeast Asia, particularly in Malaysia and Thailand, aimed at protecting personal data, has likely contributed to improved disclosures among ASEAN companies.

**Environmental Pillar:** Our analysis reveals that of the three pillars, ASEAN companies have made the least progress in improving scores for the Environmental Pillar. This trend is particularly pronounced in high-impact sectors such as consumer staples, materials and industrials, which showed lower scores in the Natural Capital and Pollution & Waste Themes. ASEAN companies slightly underperformed their MSCI AC APAC IMI peers for Climate Change and Natural Capital Themes but slightly outperformed in Pollution & Waste Management and Environmental Opportunities Themes. Notable improvements in the Environmental Pillar Scores were primarily driven by improved scores for the Carbon Emissions Key Issue in the energy and consumer-staples sectors.

In terms of opportunity Key Issues, significant changes were observed among companies in the utilities and real-estate sectors of the MSCI AC ASEAN IMI. For instance, over half of the buildings owned by Singapore-domiciled real-estate companies were certified to green-building standards, followed by Malaysian companies with a 14% certification rate, as of March 3, 2025.

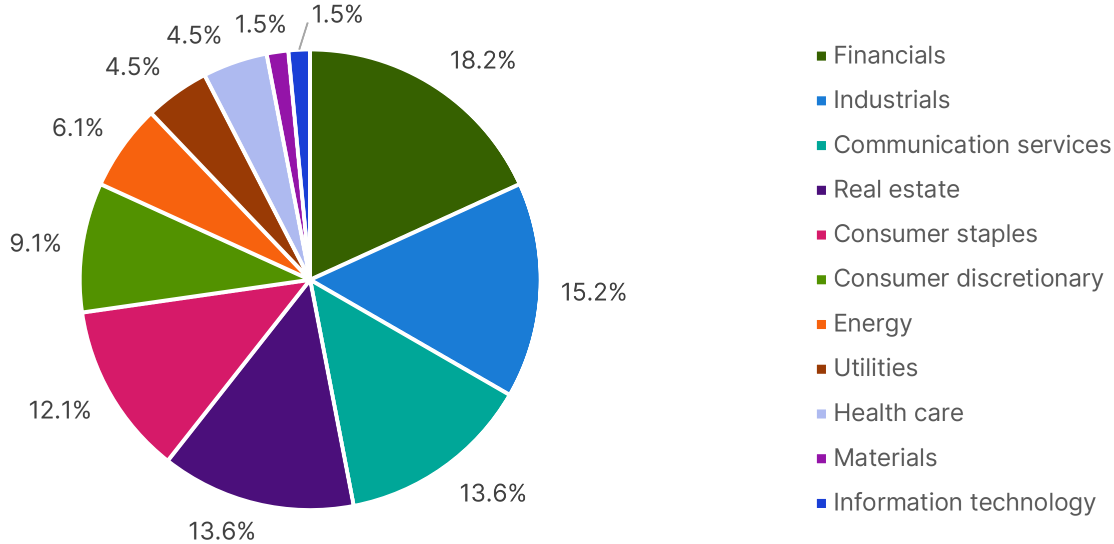
Positive improvements in the Environmental, Social and Governance Pillars underscore ASEAN companies' efforts to enhance corporate practices. Companies with robust governance and social practices may manage risks more effectively. Sustainability-focused investors should, however, remain vigilant about governance risks to minority shareholders due to controlled ownership, which can lead to conflicts of interest. Additionally, key areas for improvement include strengthening policies to reduce land and marine disturbances, increasing biodiversity protection and implementing better measures to manage toxic waste, all of which are critical for mitigating environmental risks.

[41] MSCI ESG Research classifies a company as a family firm when the family holds 10% or more of the voting rights and at least one seat on the board of directors. A state-owned enterprise is defined as a company where a state directly or indirectly holds 10% or more of the total voting rights or where it has rights to directly elect or nominate at least 50% of the board.

## MSCI ESG Ratings leaders in ASEAN

We found that the financials (18.2%), industrials (15.5%), communication-services (13.6%) and real-estate sectors (13.6%) had the largest share of companies rated AA to AAA in the ASEAN markets. There was no clear sector-level trend among leaders, as most sectors had one to two companies upgraded to AA or AAA between 2023 and 2024. The exception was the real-estate sector, which saw three upgrades. The highest share of leaders (n=68) was found among companies domiciled in Malaysia (42%), followed by Singapore (35%) and Thailand (18%).

**Sector breakdown of MSCI ESG Ratings leaders in ASEAN: Financial leading the way**




Data as of Dec. 31, 2024. The constituents of the MSCI AC ASEAN IMI rated as AA or AAA were split as follows: financials (n=12), industrials (n=10), communication services (n=9), real estate (n=9), consumer staples (n=8), consumer discretionary (n=6), energy (n=4), health care (n=3), utilities (n=3), information technology (n=1) and materials (n=1). Source: MSCI ESG Research

Our analysis indicates that leaders outperformed their other ASEAN peers in the Themes of Climate Change, Natural Capital, Pollution & Waste and Corporate Governance. Yet, the differences were less pronounced in Human Capital, Product Liability and Environmental Opportunities. Furthermore, like the broader MSCI AC Asia Pacific IMI, progress in improving environmental practices and disclosure appeared to be the slowest.

In light of strengthening sustainability-related regulation across ASEAN, improvements in sustainability practices and disclosure may have narrowed the gap, particularly in the Social Pillar, between leaders and the broader market.

# Conclusion

Amid the backdrop of geopolitical tensions, supply-chain risks, disruptive technological advancements and environmental challenges, this report highlights the MSCI ESG Ratings leaders and upgrades among APAC companies. In a changing environment, these companies demonstrate better management and resilience in addressing sustainable-development challenges. The report also highlights the positive impact of regulatory frameworks, supply-chain pressures and investor engagement in shaping a more resilient and responsible corporate landscape in APAC.

As the region's governments and regulatory bodies continue to implement stringent sustainability standards and increase the adoption of ISSB-aligned disclosure requirements, this regulatory landscape should act as a key driver to improve the sustainability performance of APAC corporates. Companies are increasingly motivated to integrate sustainability considerations into their core strategies, improve their sustainability disclosure and make long-term investments to capture sustainable-development opportunities.

In our analysis, we also observed different priorities and sectoral practices across the various markets. For instance, in Japan the focus is on corporate-governance reform and corporate behavior to enhance sustainability performance. A few large conglomerates in South Korea are at the forefront of driving the sustainability agenda — by considering material-related risks in their operations and by engaging with their suppliers in the local market. In Australia, the leadership is evident in financials and materials, where companies are improving human-capital management and climate strategies. Meanwhile, in China, regulatory pressure and a push to address environmental challenges and capture green-development opportunities are significant drivers. Additionally, the financials sector across the region is increasingly integrating sustainability criteria into investment decisions, reflecting a broader trend toward sustainable finance.

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