

ESG Ratings and Research for issuers and their advisors

FROM MSCI ESG RESEARCH LLC

ESG Ratings and peer group benchmarking

MSCI ESG Research works with over 1,400 institutional investors worldwide,¹ many of which use ESG Ratings. MSCI ESG Ratings are used by investors to help identify environmental, social and governance (ESG) risks and opportunities within their portfolios. MSCI ESG Ratings can in turn help issuers better understand how their ESG performance is viewed by investors. Issuers may also leverage their MSCI ESG industry report to gain insights into their ESG Rating and assessment relative to their industry peers.

Why MSCI ESG Research and why now?

- 1. Investors have become less tolerant of corporate ESG incidents in recent years.** With increased transparency and access to information globally, stakeholders today are holding companies accountable for scandals and controversies. This is reflected in cases such as Valeant's 2015 accounting incident which was followed by a 71% drop of the stock price or Volkswagen's stock price drop of 30% following a corporate governance incident in 2015.
- 2. In a recent study, MSCI researchers focused on understanding how ESG characteristics have led to financially significant effects.** Our research showed that ESG affected the valuation and performance of many of the companies in the study through lower costs of capital and higher valuations as well as higher profitability and lower exposures to tail risk.²
- 3. Investors are demonstrating more willingness to act.** Since 2006, the UN Principles for Responsible Investment has grown to more than 3,000 signatories in more than 50 countries, managing over \$100 trillion AUM.³ In addition, asset owners have adopted MSCI ESG Index benchmarks for assets under management totally approximately USD \$277 Billion.⁴
- 4. Companies with low ESG Ratings may not meet the requirements for inclusion in ESG indexes.** As of June 2020, more than USD \$64 billion in assets (a 158% growth year over year) track over 214 ETFs linked to MSCI ESG Indexes.⁵
- 5. MSCI ESG Research is market driven.** MSCI ESG Ratings methodology is reviewed annually based on clients' feedback, including some of the largest institutional investors.

Issuers are taking notice

Issuers are taking notice of investors' ESG considerations. MSCI conducts systematic outreach to all rated companies with the opportunity to review their reports free of charge. In 2019, MSCI serviced over 8,500 inquiries from issuers in 2019, which represents a 20% growth in the response rate from issuers from 2018.

¹ Clients of MSCI ESG Research LLC and its affiliates as of March 2020

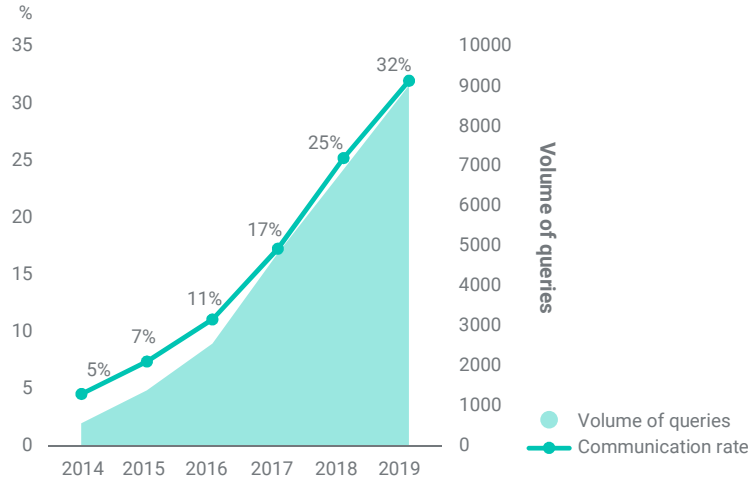
² "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance." Guido Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. 2019. <https://www.msci.com/www/research-paper/foundations-of-esg-investing/0795306949>

³ <https://www.unpri.org/pri/about-the-pri>

⁴ Based on publicly available information or press releases published from 2014 to date. Some of the examples listed have not publicly disclosed allocations and are not included in this total.

⁵ Data based on Refinitiv Universe as of June 2020; only primary listings, and not cross-listings.

Issuer awareness of ESG continues to rise MSCI ACWI IMI



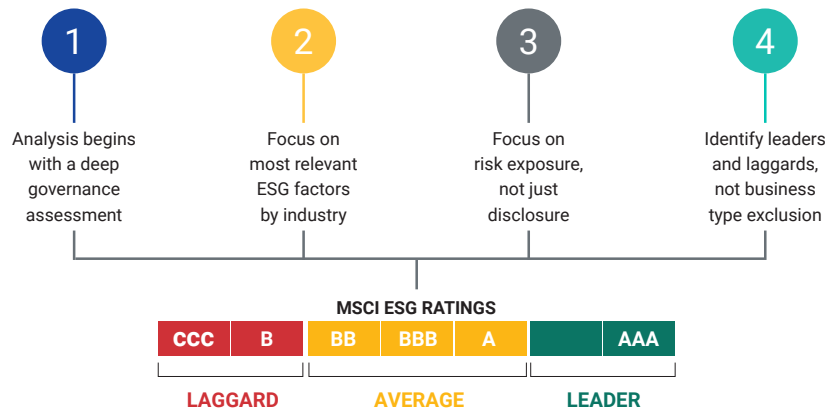
Source: MSCI ESG Research LLC

How do MSCI ESG Ratings work?

We use an objective, rules-based methodology to identify industry leaders and laggards. We rate companies on a 'AAA to CCC' scale according to their exposure to ESG risks and how well they manage those risks relative to peers. We rate 8,500 companies (14,000 issuers including subsidiaries).⁶

We collect thousands of data points for each company which make up the underlying data of key issues. We have determined a handful of key issues to be financially relevant for each industry

MSCI ESG Ratings are designed to help identify ESG risks and opportunities.



Key features and benefits

Free-of-charge

- Access to the MSCI ESG Issuer Communications Portal, where you can review data collected by MSCI ESG Research and access your own MSCI ESG Ratings report
- License to display your MSCI ESG Rating Badge in certain company material

Fee-based solutions – ESG Benchmarking

- Subscription to MSCI ESG Ratings for your own industry, allowing you to:
- Benchmark practices against industry peers using our online platform, ESG Manager
 - Gain market and industry perspective through analyst insights in annual industry reports
 - View your peers' individual company reports for in-depth ESG analysis
 - Monitor industry developments using ESG Manager alerts

Fee-based solutions – Corporate Finance

- License your MSCI ESG Rating to promote bond and equity issuances and to support ESG-linked loans and credit facilities

⁶As of June 2020

Sample industry report⁷

MSCI
Industry Report | Retail - Food & Staples | May 2020
MSCI ESG Research LLC

Shakers & Movers

Rating Distribution

Report content

Key issues modelling:

- Corporate Governance**
 - Risk Exposure Indicators: Board, Pay, Ownership and control, Accounting risk & events
 - Risk Management Indicators: Assessment of company's programs and strategies to improve quality of service, Controversies related to disruptive marketing practices and wrongful recording of information
- Product Safety and Quality**
 - Risk Exposure Indicators: Exposure to participations with precedent for product liability lawsuits, Exposure to link of reputational damage owing to tampering and visibility
 - Risk Management Indicators: Exposure to link of reputational damage owing to tampering and visibility
- Labor Management***
 - Risk Exposure Indicators: Types of Operation, Location of Operations, Size of the Workforce, Business Restructuring Events
 - Risk Management Indicators: Compensation & Benefits, Employee Relations, Labor-related controversies

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MSCI ESG leadership and experience

Our history



Over 40 years of experience measuring and modelling ESG performance⁸

MSCI ESG Research was the first ESG provider to assess companies based on industry financial materiality, dating back to 1999⁹

Our coverage



ESG Ratings and Governance Metrics coverage of nearly 14,000 issuers representing more than 680,000 securities¹⁰

Over 1,500 MSCI equity and fixed income ESG indexes utilizing MSCI ESG Research ratings and data¹¹

Our record



Recognized as a "Gold Standard data provider"¹²

MSCI ESG Research Voted 'Best Firm for SRI research and Governance research' since 2015¹³

MSCI Inc. voted 'Best firm for Indices' since 2015¹³

Learn more at <https://www.msci.com/esg-investing>

⁷ Page 1 and 2 of MSCI ESG Research LLC Retail – Food & Staples Industry Report as of May 2020

⁸ Through MSCI legacy companies KLD, Innovest, IRR, and GMI Ratings

⁹ Origins of MSCI ESG Ratings from 1999. Provided time series data since 2007

¹⁰ Source: MSCI ESG Research as of April 2020, coverage subject to change

¹¹ Source: MSCI Inc. as of April 2020. MSCI ESG Ratings and data are produced by MSCI ESG Research LLC. MSCI ESG Indexes and Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Indexes and Analytics are products of MSCI Inc. MSCI Indexes are administered by MSCI Limited (UK).

¹² Gold Standard data provider according to the Deep Data Delivery Standards

¹³ Independent Research in Responsible Investment (IRRI) Survey, 2015, 2016, 2017, 2018/19

About MSCI ESG Research products and services

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC. is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit www.msci.com.

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