

ESG Ratings and Research for issuers and their advisors

▶ ESG Ratings and peer group benchmarking

MSCI ESG Research works with over 2,650 clients globally, 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 further insights into their ESG Rating and assessment relative to their industry peers.

Why MSCI ESG Research and why now?

- 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.
- In a recent study, MSCI researchers focused on understanding how ESG characteristics have led to financially significant effects.** Companies with high ESG scores, on average, experienced lower costs of capital compared to companies with poor ESG scores in both developed and emerging markets during a four-year study period. The cost of equity and debt followed the same relationship.²
- Investors are demonstrating more willingness to act.** Since 2006, the UN Principles for Responsible Investment has grown to more than 4,900 signatories in more than 50 countries, managing over \$120 trillion AUM.³ In addition, asset owners have adopted MSCI ESG Index benchmarks for assets under management totally approximately USD \$579 Billion.⁴

- Companies with low ESG Ratings may not meet the requirements for inclusion in ESG indexes.** As of September 2021, more than USD \$176.6 billion in assets (a 152% growth year over year) track over 325 ETFs linked to MSCI ESG Indexes.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.



¹ To calculate the number of clients, we use the shipping address of the ultimate customer utilizing the product, which counts affiliates, user locations or business units within a single organization as separate clients; as of December 2021.

² "ESG and the cost of capital" Ashish Lodh, 2020. <https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589>

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

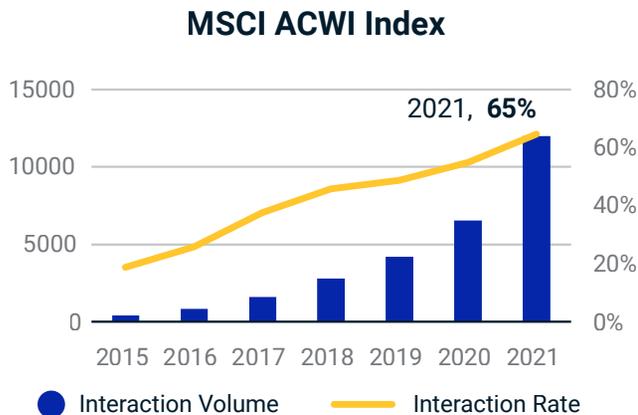
⁴ Based on publicly available information or press releases published from 2014 to date. Some of the examples listed have not publicly disclosed allocations and are not included in this total.

⁵ Data based on Refinitiv Universe as of September 2021; only primary listings, and not cross-listings.

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 2021, 43% of ACWI IMI Index issuers engaged with us. Engagement increased 24% from 2020 and 548% from 2015.

Issuer awareness of ESG continues to rise MSCI ACWI IMI



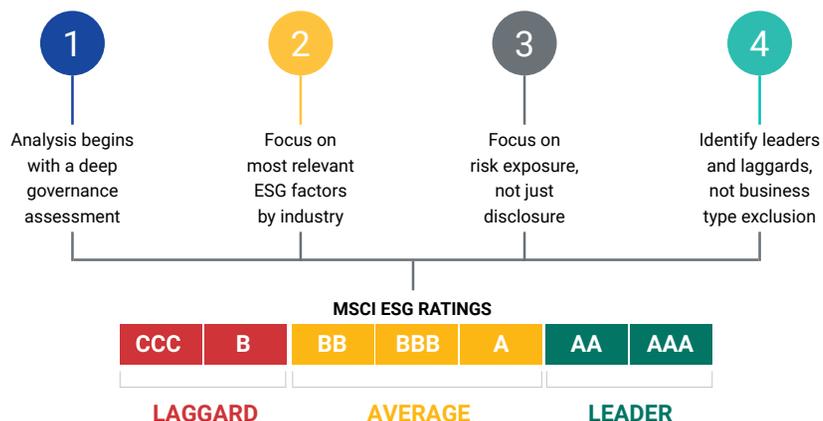
Source: MSCI ESG Research LLC

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 over 10,000 companies (17,500 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 and the raw data that underpins the scores 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 January 2021

Sample industry report⁷

MSCI
Key issues modelling:

Corporate Governance

Product Safety and Quality

RISK EXPOSURE INDICATORS

- We do not measure exposure on this key issue
- Exposure to judgments with product liability lawsuits
- Exposure to risk of reputation, owing to brand image and value

RISK MANAGEMENT INDICATORS

- Board
- Pay
- Ownership and control
- Accounting risk & events
- Assessment of company's strategies to improve quality
- Controversies related to deep practices and wrongful record information

Exhibit 1: Retailers lack strong privacy and data protection as online sales increases

Strength of privacy and data protection

% online sales of the total

Source: Company disclosures, Market Digital Commerce '20, MSCI ESG Research LLC, April 20, 2020
Note: Top 10 grocery retailers with disclosure on percentage online sales were selected based 2018/2019 sales. Where 2019 percentage online sales disclosure information was not available, 2018 data was used.

⁷ The Retail - Food & Staples Industry peer set include companies 55 companies, 48 of them are constituents of MSCI ACWI Index as of April 02, 2020. Source: MSCI ESG Research LLC. See page 11-15 for further details.

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

Contact us for more information

[msci.com/contact-us](https://www.msci.com/contact-us)

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, IRRC, 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

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 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.

MSCI ESG leadership and experience

Our history



Over 34 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

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