

# MSCI ESG RATINGS

FROM MSCI ESG RESEARCH LLC

MORE DATA. MORE CONTEXT. MORE INFORMED DECISIONS.

MSCI ESG Ratings helps investors identify environmental, social and governance (ESG) risks and opportunities within their portfolio. We research and rate companies on a 'AAA' to 'CCC' scale according to their exposure to industry specific ESG risks and their ability to manage those risks relative to peers.

## KEY FEATURES AND BENEFITS:

### Risk Exposure, Not Disclosure

Risk management efforts assessed in the context of a granular breakdown of widely reported business and geographic exposure to ESG risks. Emphasis on performance, not disclosure.

### Robust Data on Boards and Directors

Data on board size, tenure and director election standards; director age and gender diversity; plus financial, industry and risk management expertise on key board committees.

### Precision Approach to Identify Industry Outliers

156 industry model variants to focus on the key issues that pose the most significant risk to a company relative to its industry peers.

### Market Leading Corporate Governance Insights

For each company, 96 unique corporate governance metrics that look at board, pay, ownership and control, and accounting practices.

### Extensive Coverage

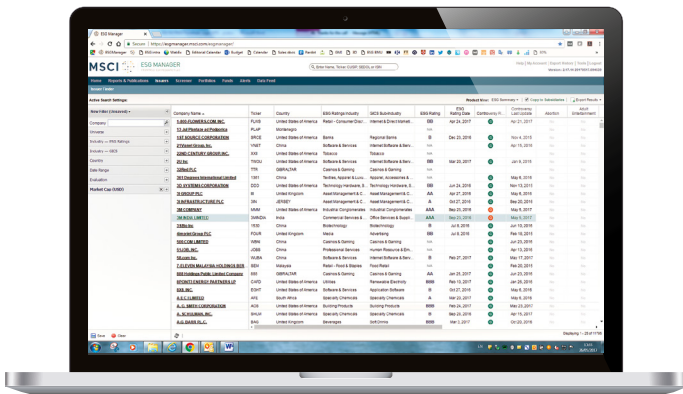
6,400 companies (11,800 total issuers, including subsidiaries) and more than 400,000 equity and fixed income securities globally.

### Daily Updates

Continuous evaluation of ESG risks, including daily monitoring of 2,100 media publications and regular updates of public documents and third-party data sets.

### Global In-House Team

Global, multilingual team of analysts and client service professionals providing around the clock expertise and support to help clients find the most effective ways to integrate ESG into their investment processes.



MSCI ESG Ratings as seen on the MSCI ESG Manager Platform

Volkswagen AG (VWAG)
ESG RATING **CCC**

AUTOMOBILES | US | LAST UPDATES: April 08, 2017

Dieselgate continues to pose substantial business risks

#### GOVERNANCE SNAPSHOT

- Board Independence %: 51.7%
- Significant Votes Against Management: NO
- Remuneration Board: NO
- Pay-Related Matters: NO
- Executive Pay Non-Executive: NO
- Multiple Share Classes with Different Voting Rights: YES

#### INDUSTRY RATING DISTRIBUTION

#### ESG RATING HISTORY

#### ESG SCORE CARD

Category	Score	Grade
Environment	54.0%	BB
Social	50.0%	BB
Product Safety & Quality	10.0%	BB
Labour Management	12.0%	BB
Health & Safety	6.0%	BB
Overall	34.0%	CCC

#### RATING COMMENT

Volkswagen's rating is unchanged at CCC.

VW's management of diesel vehicle emissions continues to significantly impact the company's business and future strategy. The Dieselgate scandal has created serious concerns over the company's business ethics and governance practices. In June 2015, Volkswagen agreed to pay USD 35 billion to settle consumer lawsuits and government allegations in the US. Investors, analysts and other regulatory investigations are ongoing. The company has not made full US\$ 3 billion in consumer settlements. The case has eroded the company's strategy to become the market leader in terms of sales and sustainability in the auto industry.

In light of the scandal, Volkswagen announced to strengthen its clean tech strategy and to develop 30 new battery electric car models by 2025. VW is to achieve average ESG exposure to score of 34.0% by the end of 2016. Further potential credit-related by the emissions investigations could impact its outlook. In addition, with a highly unionized workforce and general fears over the company's high labor costs, VW's long-term results in manufacturing activities including health, in September 2016, investigations revealed that VW employees and executives at the company's individual level have allegedly been regularly involved in the emissions manipulation case.

#### KEY RISKS

- Business Ethics & Fraud:** CCC (Jul 16, 2016) - Volkswagen's emissions manipulation test case raises questions over the company's business ethics and corporate governance practices. Its response is shown to be largely ineffective and unconvincing to date. Although the quality management is in line with industry standards, VW's emissions manipulation shows a systemic disregard for its customers. VW's 2016 recall rate as of vehicle sales is expected to exceed 100%.
- Product Safety & Quality:** CCC (Jul 16, 2016) - Volkswagen's emissions manipulation test case raises questions over the company's business ethics and corporate governance practices. Its response is shown to be largely ineffective and unconvincing to date. Although the quality management is in line with industry standards, VW's emissions manipulation shows a systemic disregard for its customers. VW's 2016 recall rate as of vehicle sales is expected to exceed 100%.

#### ISSUER COMMUNICATION

Company response last 12 months? YES (May 17, 2017)
 Last Communication Date: May 17, 2017

Tear sheets designed to highlight the key material risks and opportunities driving the ESG Rating

# OUR APPROACH

## DATA

- No questionnaires
- We collect and standardize public data:
- Government and NGO datasets
  - Company disclosure documents
  - 2,100 media sources

## METRICS

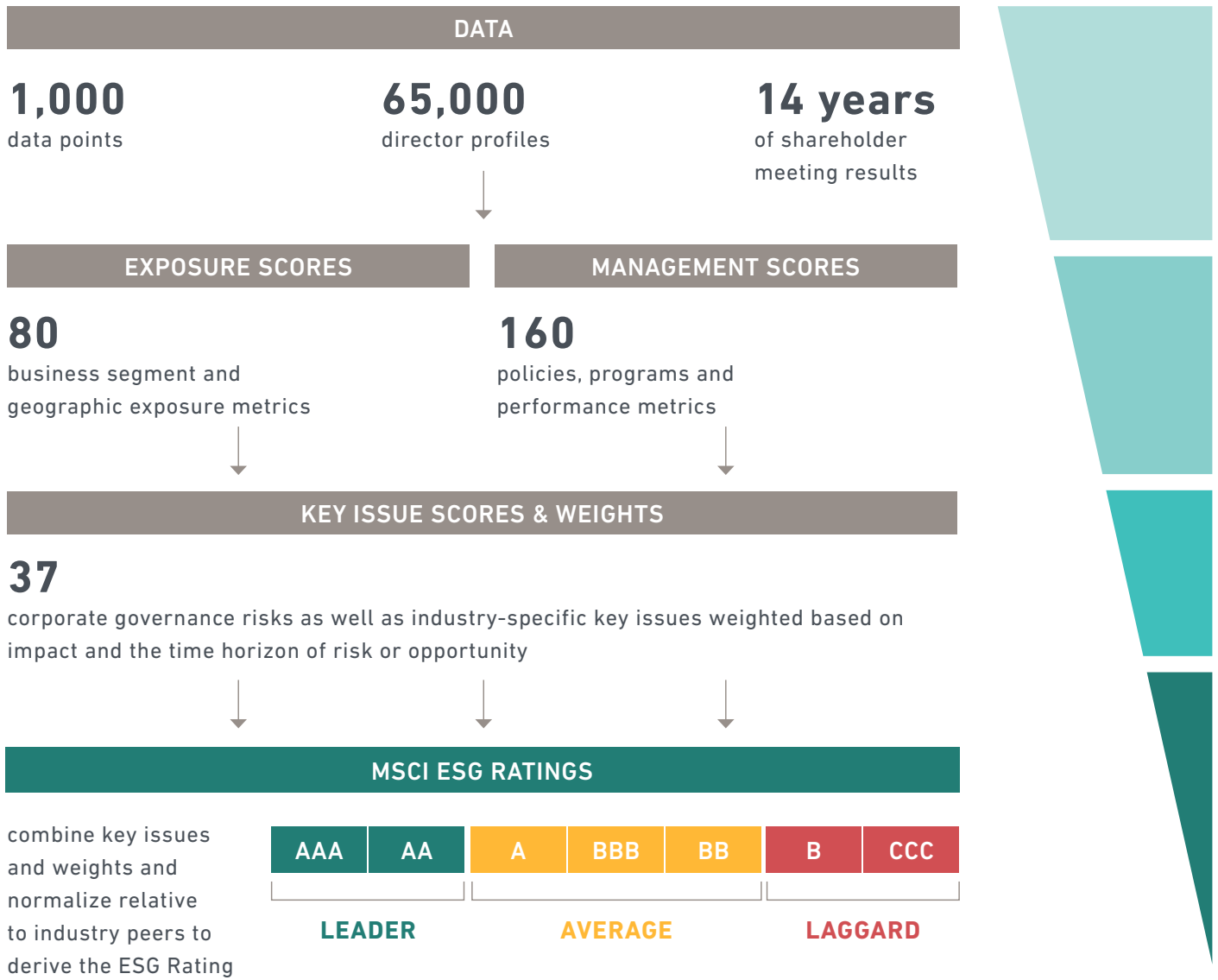
- Standardized methodology to assess company Risk Exposure and Risk Management relative to industry peers
- MSCI's ESG corporate communications team engages with companies for verification and data quality control

## EVALUATION

- Industry-specific Key Issues are scored (0-10) using a rules-based methodology
- Daily monitoring and weekly update of controversies and events

## RATING

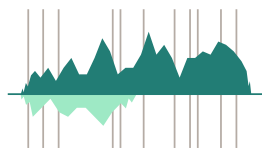
- Key ESG Issue scores and weights combine to create an overall ESG rating (AAA – CCC) relative to industry peers
- Ratings are subject to industry and market-led checks and formal committee review



## HOW OUR CLIENTS USE MSCI ESG RATINGS



Fundamental /  
Quant Analyses



Portfolio Construction /  
Risk Management



Engagement &  
Thought Leadership



Benchmarking /  
Index-based Product  
Development

For more information, visit [msci.com/esg-ratings](https://www.msci.com/esg-ratings) or contact [esgclientservice@msci.com](mailto:esgclientservice@msci.com)

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