MSCI ESG Ratings

Providing institutional investors with a more robust ESG integration tool designed to support ESG risk mitigation and long term value creation.
Integrating MSCI ESG Ratings into investment decision making can help identify risks and opportunities that may not be captured by conventional financial analysis.

Eric Moen
Managing Director, MSCI ESG Research

MSCI ESG Ratings


MSCI ESG Ratings uses a rules-based methodology designed to measure a company’s resilience to long-term, industry material environmental, social and governance (ESG) risks. Leveraging Artificial Intelligence (AI), machine learning and natural language processing augmented with our 200+ strong team of analysts, we research and rate companies on a ‘AAA’ to ‘CCC’ scale according to their exposure to industry-material ESG risks and their ability to manage those risks relative to peers.

Overview
We have over 40 years of experience through our legacy companies collecting, cleaning, standardizing and modelling ESG data from thousands of sources to create a precision tool for a clear signal of ESG performance.

MSCI research has identified that the ESG factor in MSCI ESG Indexes, such as the ACWI ESG Leaders Index shown below, has contributed to outperformance¹

MSCI ACWI ESG Leaders Index

ESG Analysts
(Over 350 FTE)¹
1,500
ESG Equity and Fixed Income Indexes³
1,700
ESG Research Clients Worldwide

2 Source: MSCI ESG Research as of October 2020. Includes full-time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.
3 MSCI ESG Indexes and MSCI Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Indexes are products of MSCI Inc. and are administered by MSCI Limited.
Key features and benefits

- **Dynamic model to capture new and emerging risks**
  Frequent model recalibration to review industry Key Issues and weights based on the latest data and research as well as input from our annual client consultations.

- **Market leading corporate governance insights**
  For each company, we examine key metrics that look at board, pay, ownership and control, and accounting practices.

- **Industry material ESG risks**
  Over 13 years of live MSCI ESG Ratings data has helped refine our industry-specific Key Issues and weight setting methodology to select the ESG risks most material to an industry.

- **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.

- **Tech-enabled human insights**
  We leverage AI to increase the timeliness and precision of data collection and analysis, and to check and validate data.

- **Unique alternative data**
  Alternative data helps minimize reliance on voluntary corporate disclosure to uncover potential risks and opportunities.

- **Extensive coverage**
  8,500 companies (14,000 total issuers, including subsidiaries) and more than 680,000 equity and fixed income securities globally.

- **Daily updates**
  Continuous evaluation of ESG risks, including daily monitoring of 3,400 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 best way to integrate ESG into their investment processes.

- **Gold standard data provider**
  MSCI ESG Research has been recognized as a ‘Gold Standard data provider’ by the Deep Data Delivery Standard.

- **MSCI ESG Ratings and ESG Indexes**
  MSCI ESG Ratings forms the foundation of many of the 1,500 MSCI ESG Indexes. Visit msci.com/esg-indexes

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MSCI ESG Ratings as seen on the MSCI ESG Manager platform

**IRRI Awards Survey: MSCI ESG Research voted**
**Best provider for research and data 2015, 2016, 2017 and 2018/19**

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MSCI ESG Ratings

**Methodology**

ESG Rating of 8,500 companies (14,000 issuers, including subsidiaries) and more than 680,000 equity and fixed income securities globally

### Our approach

**Data**
- No questionnaires
- We collect and standardize public data:
  - Alternative data including government, regulatory and NGO datasets
  - Company disclosure documents
  - 3,400 media sources

**Metrics**
- Standardized methodology to assess company Risk Exposure and Risk Management relative to industry peers
- MSCI’s ESG issuer communications team engages with companies for data verification
- Daily monitoring and weekly update of controversies and events

**Evaluation**
- Industry-specific Key Issues are scored (0-10) using a rules-based methodology

**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

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**Outputs**

Company, Industry & Thematic Reports
- Company reports
- Industry reports

Portfolio Analytics
- Thematic reports
- Analyst calls and webinars

Data Feeds
- Available on: Aladdin, Archer, Barra, Barclays POINT, Barra PortfolioManager, Bloomberg, Caissa, Clearwater, Crux, FactSet, MSCI Barra, Novus, Rimes, RiskMetrics, RiskManager, StyleResearch, MSCI ESG Manager or integrated into client platforms

**Indexes**

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MSCI ESG Indexes and MSCI Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Equity Indexes are products of MSCI Inc. and are administered by MSCI Limited.

Source MSCI ESG Research November 2020

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The making of an MSCI ESG Rating

MSCI ESG Ratings is designed to provide more data with more context to support more informed decisions for the modern institutional investor.

1,000 data points
100,000 director profiles
20 years of shareholder meeting results

Exposure scores
Management scores

80 business segment and geographic exposure metrics
270 policies, programs, performance and governance metrics

Key issue scores & weights
35 governance risks and industry-specific key issues weighted based on impact and the time horizon of risk or opportunity

MSCI ESG RATINGS

combine Key Issues and weights and normalize relative to industry peers to derive the ESG Rating

How our clients use MSCI ESG Ratings

Fundamental / Quant Analyses
Portfolio construction / Risk management
Engagement & thought leadership
Benchmarking / Index-based product development

MSCI ESG Research Experience & Leadership

MSCI ESG Research is a pioneer in measuring forward-looking ESG risk and utilizing alternative data and AI technology, with deep history and 40+ years of experience in objectively measuring and modelling ESG performance.

First ESG provider to assess companies based on industry materiality, dating back to 1999. Only dataset with live history (13+ years) demonstrating economic relevance.

Objective rules based ESG ratings, with an average 45% of data coming from alternative data sources (not disclosed by the rated entity), utilizing AI tech to extract and verify unstructured data.

First ESG ratings provider to measure and embed companies’ ESG risk exposure.

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6 Through our legacy companies KLD, Innovest, IRRC, and GMI Ratings
8 Source: MSCI ESG Research 2,434 constituents of the MSCI ACWI Index as of November 30, 2017.
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.

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About MSCI Inc.

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/esg-investing.