

MSCI'S FEEDBACK ON THE CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE'S RESPONSIBLE INVESTMENT CLASSIFICATION PROPOSAL

MSCI ESG Research

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INTRODUCTION

MSCI ESG Research appreciates the opportunity to comment on CIFSC’s Responsible Investment Identification proposal.

About MSCI

MSCI ESG Research

For over 40 years, MSCI ESG Research has measured and modelled Environmental, Social and Governance (ESG) risk¹. MSCI is a leading provider of ESG ratings, indexes and analytical tools. We aim to help investors integrate ESG across their entire investment process; powering better investment decisions.

Our solutions:

*First ESG provider to assess companies based on industry financial materiality, dating back to 1999. Only dataset with live history (12+ years) demonstrating economic relevance². For over 11 years, we have rated companies on their exposure to, and management of, industry-specific ESG risks. We rate nearly 14,000 issuers representing more than 680,000 securities, with 90% of equity and fixed income market value. Our research is used by over 1,700 clients globally. Clients can use ESG ratings to support fundamental and quant analyses, portfolio construction and risk management and thought leadership and engagement.

* MSCI ESG Indexes: MSCI is the world’s largest provider of ESG indexes with over 1,500 ESG equity and fixed Income Indexes leveraging MSCI ESG Research data to support ESG integration, screening and impact approaches. Several global asset owners have selected MSCI ESG Indexes, with over \$180 billion allocated in recent years³. The indexes can also be used as the basis for exchange-traded-funds and other index-based products.

* MSCI ESG Analytics: Our ESG research, data and indexes are available within MSCI’s analytics systems. MSCI Analytics clients can explore ESG exposures on 680,000 securities and 8 million derivatives to support security selection, portfolio construction, stress testing, and risk and performance attribution analysis.

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- 1. Through MSCI ESG Research and its legacy companies KLD, Innovest, IRRC, and GMI Ratings*
- 2. Origins of MSCI ESG Ratings established in 1999. Produced time series data since 2007*
- 3. Based on publicly available information in press releases published from 2014 to date*

Responsible Investment Approach

MSCI ESG Research supports efforts to provide increased transparency around ESG disclosures and we note the importance of standards that are consistent and clearly presented to investors. Different and inconsistent integration, reporting and disclosure obligations across different regions and pieces of legislation, using varying definitions and types of disclosures, has the potential to cause damaging investor and consumer confusion. Overly prescriptive requirements will not allow appropriate flexibility for evolution in the ESG industry and consideration has to be given to ensure sustainability does not overly restrict investability.

It is therefore key that any standard is developed with the help of a diverse expert group and industry consultation process. A good example is the new ESG benchmarks disclosure metrics under the EU benchmark regulation (BMR), which were created with the benefit of a technical expert group through multiple industry consultations. The result is approximately 20 common and available metrics that can be calculated for large diversified equity and fixed income portfolios.

To this point, while MSCI ESG Research does not disagree per se with the categorizations that CIFSC has developed for Responsible Investment Fund classification, we strongly encourage CIFSC to align its framework with the CFA Institute ESG Disclosure Standards for Investment Products. The CFA has gone through a rigorous consultation process which received comments from over 75 investors, data providers, and industry organizations around the world on the proposed definitions, design principles of the standard, and implementation. Should CIFSC promote similar sounding classifications whose definitions do not align with those of the CFA (e.g. ESG Evaluation and Integration vs. ESG Integration), this will likely add to further confusion in the market, detracting from CIFSC's objective to provide clarity.

ESG and Sustainability Scores

MSCI ESG Research supports regulatory efforts to increase corporate disclosure of ESG data, to provide transparency on fund ESG characteristics and to promote best practices for ESG providers. ESG ratings are intuitive,

generally favoured by consumers¹ and provide necessary context for understanding the sustainability characteristics of funds or portfolios. While we recognize that the use of ESG data providers' fund ratings on the CIFSC website can provide transparency to the market, it is worth noting that the scores are developed to measure the funds' ESG integration approach and are not sufficient in of themselves for the evaluation of thematic, exclusionary, or impact investing approaches.

Additionally, we feel that CIFSC's exclusion of MSCI ESG scores (by virtue of not being a CIFSC member) in the RI Fund Identification proposal is an oversight. As the world's largest provider of ESG Ratings, with 1,700 ESG Research clients globally, including numerous Canadian institutional asset managers, CIFSC's use of other data providers' ratings and scores could result in an analysis of the fund that is inconsistent with the managers' core ESG data provider.

Process for New Funds and Fund Review

We note that a fund's mandate, objective, and strategy are three distinct concepts. An investment product may have more than one mandate or objective, while a strategy is how one achieves the mandate or objective. It is unclear from the CIFSC proposal how it intends to classify a fund whose mandate, objective, and strategy are not aligned in terms of responsible investment approaches.

¹ Based on an independent survey commissioned by MSCI ESG Research in August 2020 of over 5,000 consumers located in Germany, France, Italy, Sweden and Belgium where 57% of respondents indicated that an overall sustainability score or rating alone (without additional metrics) was more useful in understanding the sustainability performance of a mutual fund than a set of metrics alone.

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

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