Sustainability-Linked Financing

Using MSCI ESG Ratings to help lower capital costs

The sustainability-linked financing market has grown rapidly as companies have faced increasing pressure to reduce their carbon footprint and boost their environmental, social and governance (ESG)-related performance. The financing incentivizes companies to meet their ESG goals by creating opportunities to minimize their capital costs.

But for companies seeking to borrow money — and banks looking to lend it — successfully tapping into this market hinges on the quality of their ESG data. Without a clear and reliable sustainability assessment, they risk misrepresenting ESG-related progress to stakeholders or issuing loans based on a skewed understanding of those achievements.

With MSCI ESG Ratings, we offer an objective, rules-based methodology to identify a whole range of risks and opportunities associated with sustainability-linked financing.

How does it work?

Sustainability-linked financing 101

The sustainability-linked loan market has expanded rapidly as companies have moved to incorporate ESG factors more broadly into their corporate strategy, including their financing. Here's what happens:

- **Financing —** A company who needs financing chooses to incorporate a sustainability component into a loan.
- **Rating —** The company is rated based on key sustainability criteria.
- **Adjusted Coupon Rate —** The coupon rate is adjusted based on the company's sustainability performance. If the rating goes up, it pays less. If it goes down, it pays more.

What does MSCI offer?

MSCI ESG Research works with over 2,600 clients globally, including most of the world's top asset managers. Investors use our MSCI ESG Ratings to help identify ESG leaders and laggards within each industry to better understand how ESG risks and opportunities are managed.

Issuers can use our ratings to gain insights into how their ESG performance is viewed by investors. With their MSCI ESG industry report, they can also discover how their ratings and assessments compare to their peers.

Our ratings also can play a key role in sustainability-linked financing. MSCI research indicates that companies with high ESG scores have lower capital costs — we believe our ESG ratings can serve as a critical assessment tool for companies and banks who want to ensure they're taking advantage of the opportunities that arise from that correlation.

What do banks and companies gain?

For companies borrowing money:

Companies with highly rated sustainability performance can cut capital costs with less expensive loans.

Higher ESG score

Lower cost of capital

MSCI ESG research showed that companies with higher ESG scores, on average, had lower capital costs than those with poor scores in both developed and emerging markets.[1]

For banks lending money:

MSCI ESG Research showed that companies with higher rated sustainability performance present less risk for lenders, allowing banks to lend more confidently to these organizations and better manage risk within their portfolio.[2]

Ratings play a key role in sustainability assessments

The success of sustainability-linked financing hinges on the quality and reliability of the sustainability assessment. A rating can serve as an external key performance indicator (KPI), and a more transparent, expert and objective means of assessment.

High integrity: With sustainability-linked loans not heavily regulated, third-party validation can help issuers minimize washing accusations — and reassure stakeholders reporting is accurate and material.

Comprehensive view: An independent, third-party rating considers ESG holistically. It's critical for banks to have an insurance-like protection from deteriorating ESG performance and the increased financial risk that results from it. A KPI based on a particular datapoint will not meet this requirement.

Peer comparison: The Sustainability-Linked Loans Principles states borrowers must be able to benchmark their KPIs to gauge the ambition level of their performance targets. MSCI ESG Ratings identify ESG leaders and laggards within an industry, automatically comparing a company's ESG performance to that of its peers.

MSCI Second Party Opinions

MSCI Second-Party Opinions (SPOs) are part of MSCI's growing suite of sustainable corporate financing solutions. SPOs are meant to inform investors whether the financing framework or transaction being assessed aligns with both industry standards (ICMA Green Bond Principles, ICMA Social Bond Principles, LMA Green Loan Principles or LMA Social Loan Principles, as needed) and the relevant MSCI ESG Research methodology.

MSCI ESG leadership and experience

Our history

Over 34 years of experience measuring and modelling ESG performance[3]

MSCI ESG Research was the first ESG provider to assess companies based on industry financial materiality, dating back to 1999[4]

Our coverage

ESG Ratings and Governance Metrics coverage of nearly 14,000 issuers representing more than 680,000 securities[5]

Over 1,500 MSCI equity and fixed income ESG indexes utilizing MSCI ESG Research ratings and data[6]

Our record

Recognized as a "Gold Standard data provider"[7]

MSCI ESG Research Voted 'Best Firm for SRI research and Governance research' since 2015[8]

MSCI Inc. voted 'Best firm for Indices' since 2015[8]

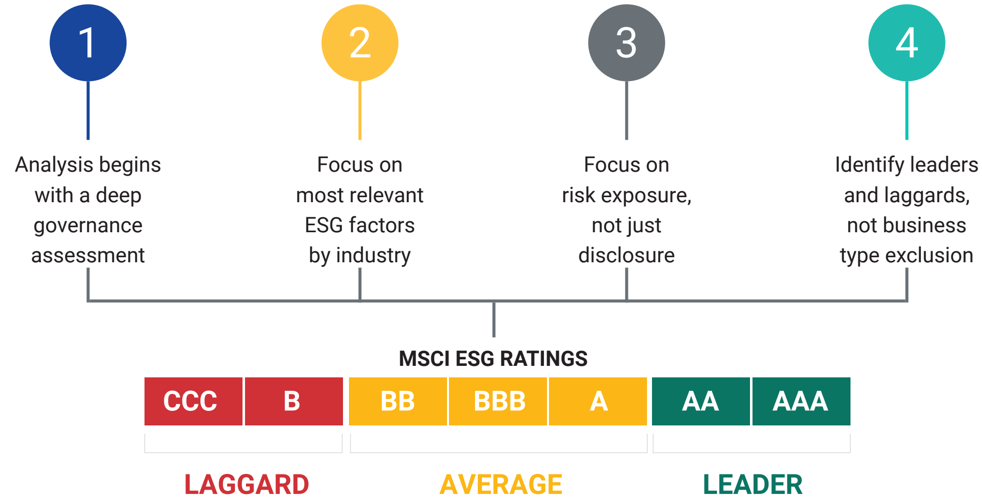
[1] https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589
[2] https://www.msci.com/www/blog-posts/what-esg-ratings-tell-us-about/02186445118
[3] Through MSCI legacy companies KLD, Innovest, IRRC, and GMI Ratings
[4] Origins of MSCI ESG Ratings from 1999. Provided time series data since 2007
[5] Source: MSCI ESG Research as of April 2020, coverage subject to change
[6] 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).
[7] Gold Standard data provider according to the Deep Data Delivery Standards
[8] Independent Research in Responsible Investment (IRRI) Survey, 2015, 2016, 2017, 2018/19

Why use MSCI ESG Ratings as a KPI in ESG-linked financing

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

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), collecting thousands of data points for each company which make up the underlying data of key issues.

Thirty-seven percent of the MSCI ESG Ratings model uses alternative data sources (regulatory databases, NGOs and academia, and news and media sources), deriving information that may not be disclosed by the companies or linked to risks that emerge on a macro level.



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.

For enquiries, contact ESG Client Service **esgclientservice@msci.com.**

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.