

MSCI ESG Ratings Methodology: Human Capital Development Key Issue

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Contents

- Introduction..... 3
- Risks and opportunities associated with this Key Issue..... 4
- Human Capital Development Key Issue Score..... 4
- Human Capital Development Management Score..... 4
 - Management Score category: Strategy 5
 - Management Score category: Programs & initiatives 5
 - Management Score category: Performance 5
- Controversies..... 5
- Human Capital Development Exposure Score 6
 - Business Segment Exposure Score..... 6
 - Company-Specific Exposure Score..... 6

Introduction

This document provides information on the components of the Human Capital Development Key Issue. Human Capital Development is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Companies are evaluated on their workforce talent requirements and their ability to attract, retain and develop a highly skilled workforce.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of “ESG Ratings Methodology.”

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	Climate Change	Carbon Emissions	
		Climate Change Vulnerability	
		Financing Environmental Impact	
		Product Carbon Footprint	
	Natural Capital	Biodiversity & Land Use	
		Raw Material Sourcing	
		Water Stress	
	Pollution & Waste	Electronic Waste	
		Packaging Material & Waste	
		Toxic Emissions & Waste	
		Opportunities in Clean Tech	
	Environmental Opportunities	Opportunities in Green Building	
		Opportunities in Renewable Energy	
Health & Safety			
Human Capital Development			
Social	Human Capital	Labor Management	
		Supply Chain Labor Standards	
	Product Liability	Chemical Safety	
		Consumer Financial Protection	
		Insuring Health & Demographic Risk	
		Privacy & Data Security	
		Product Safety & Quality	
		Responsible Investment	
		Community Relations	
	Stakeholder Opposition	Controversial Sourcing	
		Access to Communications	
	Social Opportunities	Access to Finance	
		Access to Health Care	
		Opportunities in Nutrition & Health	
	Governance	Corporate Governance	Board

3 Pillars	10 Themes	35 ESG Key Issues
		Pay
		Ownership & Control
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

Risks and opportunities associated with this Key Issue

- Inability to attract skilled talent to fill role requirements, loss of competitiveness
- Loss of intellectual and human capital through attrition, key-person risk
- Increased costs associated with high employee turnover (e.g., recruitment, training)
- Low workforce productivity

Human Capital Development Key Issue Score

The overall Key Issue Score is based on the Exposure Score and the Management Score using the formula below. The Exposure Score and the Management Score are combined such that a higher level of exposure requires a higher level of demonstrated management capability in order to achieve the same overall Key Issue Score.

$$\text{Key Issue Score} = 7 - (\max(\text{Exposure Score}, 2) - \text{Management Score})$$

Human Capital Development Management Score

The Management Score on this Key Issue is based on an average of the scores associated with each of the categories listed below, modified by Controversies. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing Risk Management, of “ESG Ratings Methodology” for additional details. The data points listed below are used in the Management Score calculation:

Management Score category: Strategy

- Talent pipeline development strategy
- Formal grievance reporting or escalation procedures
- Company monitors employee satisfaction on a regular basis

Management Score category: Programs & initiatives

- Employee stock ownership plan (ESOP) or employee stock purchase plan (ESPP)
- Variable component to pay
- Non-compensation benefits and work/life balance
- Regular performance appraisals and feedback processes
- Job-specific development training programs
- Leadership training and talent management programs

Management Score category: Performance

- Percentage annual employee turnover
- External recognition as employer of choice (last three years)

(Sources: Company disclosures)

Controversies

A controversy deduction ranging from 0 to 5 points is subtracted from the overall Management Score, based on the severity and type of controversies facing the company on this Key Issue. The following categories of controversies are used in the assessment.

- Labor management controversies
- Collective bargaining controversies
- Discrimination and workforce diversity controversies

For more details on how controversies are included in the MSCI ESG Ratings model, refer to Section 3.3.2, Controversies cases, of “ESG Ratings Methodology.”

Human Capital Development Exposure Score

The Exposure Score on this Key Issue is based on the Business Segment Exposure Score plus the Company-Specific Exposure Score. The Business Segment Exposure Score is scored on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing Risk Exposure, of “ESG Ratings Methodology” for additional details. The following data sources and methodologies are used in the Exposure Score calculation:

Business Segment Exposure Score

The Business Segment Exposure Score is a weighted average of the Human Capital Development risk exposure scores of a company’s business segments. Scores are weighted by the proportion of a company’s total assets in each business segment. The following sources are used to determine this 0-10 score:

- **Type of Operations:** Percentage of operations in business segments with high/moderate/low levels of employee specialization, education and qualification needs; Percentage of operations in business segments with high/moderate/low levels of compensation per employee

(Sources: Employment Projections Program, Bureau of Labor Statistics; Occupational Employment Statistics, Bureau of Labor Statistics; MSCI ESG Research; Refinitiv; company disclosures)

Company-Specific Exposure Score

The following sources are used to determine this 0-2 Company-Specific Exposure Score:

- Incidence of layoffs in the last three years that affect more than 10% of workforce or more than 1,000 employees
- Incidence of major M&A activity in the last three years that affect more than 10% of workforce or more than 1,000 employees

(Sources: MSCI ESG Research, Refinitiv, company disclosures)

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