

MSCI ESG RESEARCH: FAQ FOR CORPORATE ISSUERS

ESG Issuer Communications Team

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1 INTRODUCTION

This document aims to address the most frequently asked questions from corporate issuers about MSCI ESG Research, its various research reports, and processes on interacting with companies under our ESG research coverage. For more information and answers to MSCI ESG Research’s Governance research reports and assessment, refer to the Governance FAQ for corporate issuers. We plan to update these documents periodically.

2 GENERAL QUESTIONS

2.1 WHO IS MSCI ESG RESEARCH?

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. Our research is designed to provide critical insights that can help institutional investors identify risks and opportunities that traditional investment research may overlook.

For more information, please visit our website: <https://www.msci.com/esg-integration>

2.2 WHO ARE MSCI ESG RESEARCH’S CLIENTS?

MSCI ESG Research is the largest provider of ESG data and analysis, with 1,300+ clients worldwide, including 46 of the top 50 global asset managers.¹ Clients use our research to help implement their responsible investment objectives.

2.3 WHAT ARE THE MAIN RESEARCH REPORTS THAT MSCI ESG RESEARCH ISSUES ON MY COMPANY?

MSCI ESG Research collects and issues a variety of company research and data as it relates to ESG issues. The primary ESG company reports include:

MSCI ESG Ratings report: Designed to help investors identify 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.

¹ As of March 2018.

MSCI ESG Controversies report: Allows institutional investors to analyze a company’s significant social, environmental, and governance impacts by identifying company involvement in major ESG controversies, and assessing company adherence and performance with respect to international norms and principles.

MSCI ESG Governance Metrics report: MSCI ESG Governance Metrics provides corporate governance research and data on over 8,000 public companies worldwide. The assessment model is based on 96 unique metrics organized into four individual scoring pillars (board, pay, ownership & control, and accounting).

MSCI ESG Research Business Involvement Screening Research (BISR) is a screening service which allows investors to identify all global publicly-traded companies involved in activities such as the production of controversial weapons, tobacco products, or those that violate religious screening mandates such as Catholic or Islamic Values.

2.1 WHAT ARE THE PRIMARY USE CASES FOR MSCI ESG RESEARCH’S DATA AND ANALYSIS?

The use cases for MSCI ESG Research’s data and analysis are varied and dependent on institutional investors, their investment style and or strategy/mandate. In general, some common use cases include performance benchmarking, portfolio analysis, company engagement on low performance areas and controversies. Investors also seek to align investments with political and ethical values through screening or excluding companies that don’t comply, alternately invest through a positive impact lens to address a social or environmental need. Some investors may have an investment threshold/exclusion (that varies from investor to investor) based on the rating, and some may incorporate the ratings and scores into traditional financial models (e.g. DCF models).

2.2 HOW DO MSCI ESG RESEARCH CLIENTS ACCESS COMPANY RESEARCH REPORTS/DATA?

MSCI ESG Research clients can access research reports and MSCI ESG Research data via our proprietary platform – ESG Manager – via subscription services, and through data feeds and various third party distributors.

2.3 HOW CAN COMPANIES ACCESS THEIR MSCI ESG RESEARCH REPORTS? IS THERE AN ASSOCIATED COST?

Companies can login to our newly launched [Issuer portal](#) to access reports at any time. In case of any login issues, reach out to ESG Issuer Communications

(esgissuercomm@msci.com) at any time. There is no cost to receive a company’s own reports (a pdf version). However, peer and industry reports are only available via subscription. If your company is interested in subscribing, please contact our client service team at esgclientservice@msci.com.

2.4 MSCI ESG RESEARCH IS NEW TO ME. I WOULD LIKE TO SPEAK TO THE RELEVANT PERSON(S) ABOUT MY COMPANY’S ESG REPORTS, FAMILIARIZE MYSELF WITH THE PROCESS IN A BROAD SENSE, AND INTRODUCE WHAT MY COMPANY IS DOING ON MANAGING ESG ISSUES. HOW CAN WE ARRANGE A CALL/MEETING TO START THIS DIALOGUE?

We welcome issuer interest in MSCI ESG Research at any time, and ESG Issuer Communications is the primary point of contact for all companies in our coverage universe to submit questions about their ESG reports and the data verification/review process (esgissuercomm@msci.com).

We strive to ensure that our communications about our methodology and process are shared in scalable way, that is both efficient and fair to all issuers that we research and rate. As such, **we are generally unable to host general introductory calls/meetings with companies**. Instead, we encourage companies to review this FAQ document and the other materials available, login to our newly launched [Issuer portal](#), dedicated for corporate issuers, and send any specific questions or concerns to us in writing, at least in the first instance.

In 2019, we are working to further increase the resources available to companies and more proactively reach out to the issuer community at scale – via investment in technology, workshops, and webinars.

Please see Section 3 for more guidance on requests to engage our analyst team, and Appendix 1 for what we do and do not discuss with issuers.

2.5 WHAT IS MSCI ESG RESEARCH’S POSITION ON TCFD, SASB, GRI AND OTHER REPORTING FRAMEWORKS? DOES MSCI USE ONE PARTICULAR FRAMEWORK IN ITS ANALYSIS AND RATINGS MODEL?

MSCI ESG Research supports information and data in the public domain on ESG issues. We welcome initiatives that encourage companies to make better and more meaningful ESG disclosures. Over the past few years, MSCI has been working with reporting initiatives by sharing the views expressed by our ratings methodologies globally. For example MSCI ESG analysts have provided feedback on the SASB reporting framework

as well as shared their expertise on climate risks to the TCFD. In addition, MSCI’s representatives have participated in various industry events in collaboration with reporting initiatives.

However, we do not use or place emphasis on one framework over another, although there may be broad overlap in our metrics with one or more of these initiatives (e.g. our carbon emissions key issue does cover many of the aspects of the TCFD reporting framework). Reporting initiatives such as SASB, TCFD, GRI and CDP provide useful guidance to companies on metrics that are relevant to their stakeholders. By comparison, with more than 40 years of experience in ESG, MSCI ESG Research provides ratings and research to institutional investors globally to help them identify key ESG risks and opportunities in their portfolio.

It is important to note that MSCI and its subsidiaries does not advise or consult with companies on what to disclose or how to report certain ESG information.

3 MSCI ESG RESEARCH PROCESS QUESTIONS

3.1 WHAT ARE THE DATA SOURCES THAT MSCI ESG RESEARCH USES? IS THE ASSESSMENT ONLY BASED ON COMPANY DISCLOSURE?

MSCI ESG Research collects data from a variety of sources. These include, but are not limited to:

- Specialized academic, government, and NGO datasets
- Company disclosures (e.g. sustainability reports, proxy reports)
- Global and local media and news sources

The ESG Ratings are not a disclosure-only assessment. On average, voluntary company ESG disclosure accounts for about 35% of a company’s ESG rating. While greater transparency of meaningful data is still needed and desired for the most accurate evaluation of a company’s ESG performance, we have found that voluntary reporting on its own is not sufficient for investors to assess companies’ potential ESG risks and opportunities. Alternative datasets are used to corroborate and balance the views presented by voluntary disclosure, and provide institutional investors an objective view of a company’s ESG risk profile. For more information about the breakdown of the ESG Rating by dataset, please see our 2018 ESG Trends to Watch, accessible [here](#).

It is important to emphasize that MSCI ESG Research only uses public data. Please see FAQ 3.10 for more information.

3.2 WHEN DOES MSCI ESG RESEARCH UPDATE COMPANY RESEARCH?

MSCI ESG Research collects various company ESG data and publishes a number of company ESG reports. The timing of updates can vary. However, the flagship **MSCI ESG Ratings** is updated on an **annual basis**. While the schedule is still determined internally, beginning in 2019, MSCI ESG Research is evolving its ESG Ratings updates to better adapt to a company’s filings schedule (Annual reports, CSR and Sustainability reports filing), as opposed to the industry-based schedule adopted for the past many years. The goal is to reflect more timely information in our underlying data, content and analyses. We are currently in a period of transition with regards to the scheduled updates. If you have any questions about the timing of the annual ESG Rating of your company, please contact the Issuer Communications team at esgissuercomm@msci.com.

Some underlying data *may* be updated more frequently – this includes new developments in controversies, significant governance updates or data corrections based on company feedback; if any of these changes trigger a change in overall rating, we will re-rate the company per our methodology and internal policies and processes.

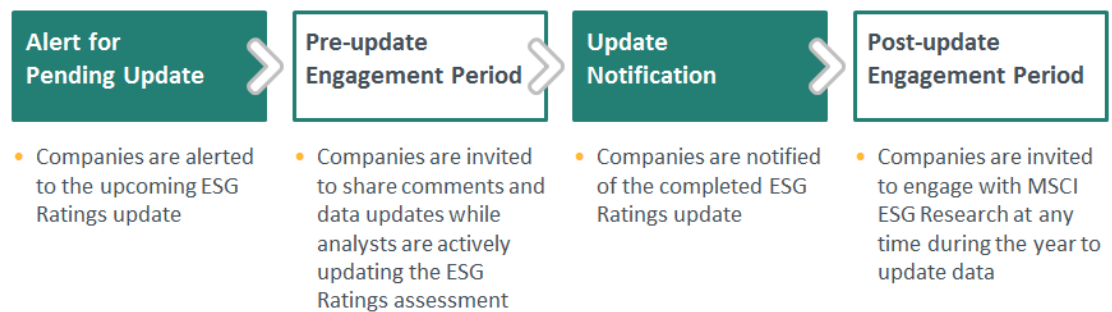
3.3 WE HAVE RECEIVED A NUMER OF COMMUNICATIONS FROM MSCI ESG RESEARCH AND SEVERAL DIFFERENT REPORTS. CAN YOU JUST SEND ONE REPORT AND ONE REQUEST?

We recognize that companies may receive multiple requests from ESG ratings and research firms throughout any given year, and can understand the burden of responding to all inquiries. However, MSCI ESG Research does not issue one single ESG report to our clients, and our research and analysis and data collection is carried out at different times throughout the year by several dedicated expert teams. We anchor our main standard data verification process in the annual ESG Ratings update (see Question 3.4), which covers the majority of our data. While we are always looking for ways to make the process clearer, more streamlined, and more efficient overall, it is our primary commitment to ensure that all of the company-verifiable information that we collect is accurate. As such, we make all efforts to reach out to companies whenever necessary to do so.

There is no obligation for issuers to respond to our outreaches, however, we appreciate the time companies take to participate in our process.

3.4 HOW CAN COMPANIES PROVIDE FEEDBACK ON ITS MSCI ESG RESEARCH REPORTS?

MSCI ESG Research has established several data review/verification processes across its core research. Companies are provided the opportunity to comment on all of the company-verifiable information that MSCI ESG Research collects. **We anchor our main standard data verification process in the annual update of the MSCI ESG Rating.** Please see below for a visual of this process.



We do not publicly share our update schedule for MSCI ESG Ratings, which is subject to change at our discretion. However, companies are typically updated on an annual basis. Please see Question 3.2 above for more information.

Companies will receive the “alert” approximately 8-12 weeks prior to the new update, and will be invited to provide comment ahead of the assessment. When the update is complete, companies receive another auto-notice that this has occurred, and are again invited to comment should they have additional feedback or identify any outstanding issues. Please note we do **not** share draft reports.

Instructions on how to comment will be provided in the communications sent to companies. General guidelines are also included in this FAQ below.

The standard data review process includes a majority of the underlying data that MSCI ESG Research collects (that is company-verifiable), including data that factors into the ESG Controversies and ESG Governance Metrics research, in addition to ESG Ratings.

Our data verification process for our Business Involvement Screening Research (BISR) is conducted separately. At this time, companies may receive auto-notifications to review

this information at various points throughout the year. We may also reach out to companies on an ad-hoc basis to review additional data where necessary.

3.5 WHAT IS THE BEST WAY FOR COMPANIES TO COMMENT ON CONTROVERSIES? WHAT INFORMATION CAN WE PROVIDE THAT WOULD BE RELEVANT TO THE ASSESSMENT?

MSCI ESG Research’s primary concern is to ensure that the data that we collect is factually accurate. We request that companies first review the case narratives and comment on any factual errors through our data verification process. MSCI also welcomes any additional commentary the company would like to provide relevant to the specific controversy. This information is reviewed and incorporated, where relevant, into our dedicated Company Response section for each controversy. However, please note that the controversy’s assessment is based on MSCI’s standard methodology criteria. A company’s response may not directly impact the overall severity level, but can add context to the case.

As a reminder, MSCI ESG Research only uses publicly available data. For any comments provided, please include the web links to where this information can also be found in the public domain. We will not use any confidential data. In addition, in order for efficient processing of company comments, please be as specific as possible; please refrain from providing information that is already included in the case narrative.

3.6 IS THERE A DEADLINE TO PROVIDE COMMENTS? IF YES, WHAT HAPPENS IF WE MISS THE DEADLINE?

Within the standard data review process, companies will receive an alert notification *ahead* of the annual ESG Ratings update. At this stage, companies are invited to provide any updates, comments, and/or corrections prior to the issuance of the new assessment, and there is indeed a deadline to do so, which will be explicitly specified in the corresponding communication. For the weighted key ESG issues, particularly the management metrics, our analyst team will make all efforts to review comments provided by this deadline before completing the annual ESG Rating update.

However, if a company does not meet this deadline, it can still provide comment after the update is complete. Per the standard process, companies will be sent a second auto-notification when the ESG Ratings is released (See Question 3.4). At this stage, there is an open-ended opportunity (no deadline) for companies to provide comments. MSCI ESG Research is always open to reviewing feedback at any time, and will correct

erroneous information in a timely fashion. Any comments sent to us in the “post-publication” period will be reviewed, and feedback incorporated where appropriate, *typically* within 4-6 weeks. If any updates to underlying data/scores are significant enough (based on internal triggers) to impact the overall rating, we will update the assessment accordingly, per our methodology and out-of-cycle update processes.

3.7 DOES MSCI ESG RESEARCH SEND DRAFT REPORTS TO COMPANIES FOR REVIEW PRIOR TO RELEASE TO CLIENTS?

MSCI ESG Research does **not** share draft reports with companies. For the ESG Ratings research, we do provide companies the opportunity to provide comments and engage with us ahead of the update of the annual ratings update (See Question 3.4).

Please note that while the overall ESG rating undergoes a full review typically only once annually, MSCI ESG Research’s data can be quite dynamic and some of the underlying information can be updated frequently throughout the year (e.g. controversies, governance data).

We are committed to reviewing feedback from companies at any time and will make any necessary corrections/updates in a timely fashion. The “door” for comment is never closed. Just as our research can be dynamic/fluid, so is the opportunity for issuers to review and respond. Any updates made will flow directly to clients on our proprietary platform, ESG Manager.

3.8 WHAT IS THE BEST FORMAT IN WHICH TO SUBMIT COMMENTS?

At this time, unless specified otherwise, we request that companies follow the below instructions when providing feedback for most data verification requests:

1. Please comment directly in the pdf document using the “sticky note” function.
2. All corrections/requests for updates **MUST** be accompanied by the web link to where the information can be found in the public domain. MSCI ESG Research only uses public information. We will not use any internal or confidential information.
3. Submit all feedback via email to the ESG Issuer Communications team at esgissuercomm@msci.com. For our ESG Ratings research, we do not issue stock questionnaires or surveys and do not conduct general interviews.

We also strongly encourage companies to read this FAQ document before commenting or submitting questions.

3.9 CAN/DO ANALYSTS SPEAK DIRECTLY TO COMPANIES?

MSCI ESG Research collects a significant amount of data that factors into our company research. In addition to leveraging big data, our analyst team is structured along thematic, regional, and industry expertise. For example, we have governance data experts, a dedicated controversies team, and carbon data analysts; our sector leads provide a holistic view on companies in the context of their particular industry dynamics. This innovative matrix approach diverges a bit from assessment models of the past, but we feel lends itself to greater flexibility and objectivity in the evaluation process.

As such, given we do not follow a traditional 1:1 company-analyst structure, ESG Issuer Communications is the central channel and primary point of contact for companies. In the first instance we usually request that companies review all of their relevant MSCI ESG Research data and send all comments and feedback **in writing**. Once we review comments, should a call be warranted to discuss any items for clarification, we would be happy to arrange one with the relevant member(s) of our analyst team for a more targeted or in-depth discussion.

It is important to note that MSCI only uses public information. For our ESG Ratings research, we do not issue stock questionnaires or surveys and do not conduct general interviews.

In addition, we pursue opportunities to connect our expert analyst team with companies in a fair and scalable way, such as through dedicated issuer education sessions. We will continue these efforts in 2019 with a number of planned issuer events in several global locations.

3.10 WE HAVE INFORMATION/FEEDBACK TO SHARE, BUT THIS IS NOT PUBLIC. WILL THIS BE CONSIDERED?

No. MSCI ESG Research **only** uses public information. We are strong supporters of ESG information in the public domain, available to all market participants, in the interest of market transparency. We will not use any internal or confidential information.

We request that all feedback shared be accompanied by the (web) link to where the information can be found publicly.

3.11 CAN WE ACCESS OUR HISTORICAL ESG RATINGS REPORTS (LAST 4-5 YEARS)?

Unfortunately, we are unable to provide these at this time. Once archived, we are not able to extract “past reports” easily. Our system only displays the current report. However, you can see your historical letter rating on your MSCI ESG Ratings report.

3.12 OUR COMPANY JUST RELEASED ITS NEW CSR/SUSTAINABILITY REPORT. WILL MSCI ESG RESEARCH USE THIS TO UPDATE OUR COMPANY ASSESSMENT?

For the ESG Ratings update, our analyst teams will reference any public information available at the time of the scheduled annual assessment. In general, any new information released/published by the company after the initial annual ESG Ratings update takes place will be utilized in the *next* ratings update. In other words, we will not do a blanket re-rate mid-cycle based only on new sustainability reporting.

3.13 HOW CAN WE IMPROVE OUR MSCI ESG ASSESSMENT(S)? IS THERE IS A WAY WE CAN BETTER ENGAGE MSCI ESG RESEARCH, AS WE WOULD LIKE TO IMPROVE OUR RATING?

In order to avoid any perceived conflict of interest, MSCI ESG Research **does not** provide any advisory or consulting to companies on how they can improve their ratings or other MSCI ESG evaluations.

The ESG Ratings reports provide a considerable amount of information and details about the assessment, including insight on our approach to the model and many of the indicators we capture. Companies may reference the report to understand its company’s general strengths and weaknesses on key ESG issues.

Please see Appendix 1 for our general company interaction guidance.

4 REPORT FORMAT QUESTIONS

4.1 IN THE ESG RATINGS REPORT, MY COMPANY’S KEY ISSUE SCORE IS HIGH, BUT WE FALL IN THE THIRD/BOTTOM QUARTILE.

In general, the quartiles are dynamic, and can change frequently as more companies in the industry are assessed and the distribution of the scores change. It is very possible for a company’s individual score to improve or even be relatively high, and still be in a lower quartile, depending on how clustered the distribution of the scores are. The quartiles are all automatically generated.

4.2 IN THE ESG RATINGS REPORT, THE “LAST UPDATE” DATE IS AUGUST 2017. HOWEVER, THE REPORT DOES NOT APPEAR TO INCLUDE OUR UPDATED ESG DATA, WHICH WAS RELEASED WITH OUR LATEST SUSTAINABILITY/ANNUAL REPORT IN JUNE 2017. WHY WAS THIS INFORMATION MISSED?

In general, the “Last Update” date reflects when any underlying data or text narrative was last changed/updated. Some of the underlying data that we collect may change frequently throughout the year – e.g. governance information and controversies research; additionally, we may correct data based on feedback from companies, where applicable.

However, the majority of the ESG Ratings data (i.e. the weighted key issues) that factor into the overall letter rating, is up-to-date as of the “Rating Date” (can be found under the ESG Ratings History chart). The ESG Rating is typically only issued/updated once annually, and the information used in this update reflects the data available at that time. At this time, any new information/disclosures released from the company after the initial annual ESG Rating Date, will typically be factored into the *next* ratings cycle.

4.3 AT THE BEGINNING OF THE ESG RATINGS REPORT, IT STATES THAT “NO AREAS OF SUBSTANTIAL STRENGTHS IN MANAGING MATERIAL RISKS...ARE IDENTIFIED FOR THIS COMPANY”. WE STRONGLY DISAGREE.

The “Key Risks” and “Strengths” section at the beginning of the ESG Ratings report is auto-generated based on the performance/score of the company on the weighted key ESG issues. Key issue scores that are below a certain threshold criteria will be highlighted as Key Risks; similarly, key issue scores that are above certain threshold criteria will be highlighted as Strengths.

4.4 WHAT IS THE DIFFERENCE BETWEEN THE ESG RATINGS REPORT AND THE CORPORATE DATA VERIFICATION REPORT?

The ESG Ratings report is the full, published ratings report, available to clients via our proprietary platform, ESG Manager. The Corporate Data Verification report includes the underlying data that we have collected to date, which is used in various MSCI ESG Research products, including the flagship ESG Ratings report. It is not a client-facing report; it is only sent to companies as part of the standard data verification process. Unlike the ESG Ratings report, it does not include the rating, scores, or text analysis.

4.5 IN BOTH THE ESG RATINGS REPORT AND THE CORPORATE DATA VERIFICATION REPORT WHY IS SOME INFORMATION UPDATED AND SOME NOT?

Any ESG key issue that carries a weight should be up-to-date as of the Rating Date (as specified in the full ESG Rating report). Any issues that are 0% weighted do not factor into the rating and are updated on a different schedule than the ESG Ratings data. As such, these supplemental issues may not be updated as of the Rating Date.

We include all data that we collect in the standard data review process in order to reduce the burden of data review outreaches we send to companies, and welcome feedback and corrections on all info.

4.6 WE DISAGREE THAT OUR COMPANY HAS “MODEST/SOME” EFFORTS. WHAT IS THE BASIS FOR THIS STATEMENT?

Statements in our ESG Ratings report that reference minimal/moderate/modest/some efforts are a reflection of the company’s management performance on the key data points that we evaluate, as well as the evaluation of the company’s efforts in the context of its peer set. We have increased transparency into the management metrics that we look at directly in the ESG Ratings report, and encourage companies to reference this report for more information.

4.7 ‘RISK MANAGEMENT’ IN THE ESG RATINGS REPORT – WHAT INFORMATION IS MSCI ESG RESEARCH LOOKING FOR?

We are continually refining the format of our reports, and have greatly increased transparency into our methodology and data we collect over the past couple of years. The ESG Ratings report includes a considerable amount of detail on the management metrics we assess, as well as our evaluation of where the company has strengths and weaknesses. We encourage companies to read the ESG Ratings report for this

information. As a reminder, MSCI ESG Research does not provide consulting or advisory services to companies on how to report information and/or how to improve their score/rating.

In general, our assessment of a company’s risk management capabilities on a key issue typically falls into three broad categories:

- Strategy & Governance
- Initiatives & Programs
- Performance

4.8 WE PROVIDED AN EXTENSIVE RESPONSE TO THE CONTROVERSIES, BUT THESE HAVE NOT BEEN CONSIDERED. WHERE ARE THE COMMENTS FROM OUR COMPANY?

All comments provided by companies on controversies are indeed reviewed by our analyst team. We will incorporate company responses in the body of the case narrative, where appropriate, as well as the dedicated “Company Response” section in the ESG Controversies report. At this time, the “Company Response” section is only included in the ESG Controversies report, and is not featured in the ESG Ratings report or the Corporate Data Verification Report.

4.9 WE REPORT IN OUR LOCAL CURRENCY, BUT THE MSCI ESG REPORTS SHOW THE DATA IN USD. IT IS VERY DIFFICULT FOR US TO VERIFY THIS INFORMATION WITHOUT THE EXCHANGE RATE THAT IS USED.

For comparative and standardization purposes, the ESG Ratings report displays data in USD. The exchange rate used is typically the FYE rate for that specific year. For MSCI-calculated *intensity metrics*, given there may be small discrepancies in revenue data depending on the exchange rate used, for data review, we are primarily concerned with the accuracy of the numerator (e.g. Scope 1+2 carbon emissions). See Question 5.8.

For certain governance data (e.g. summary pay, audit fees), we collect and show this information in local currency in the ESG Governance Metrics report.

5 METHODOLOGY QUESTIONS

5.1 HOW CAN WE ACCESS THE METHODOLOGY FOR THE VARIOUS ESG RESEARCH REPORTS?

The full methodology documents for our various core research products are typically only accessible to clients, not to the general public. However, an Executive Summary of the methodology for our flagship ESG Ratings research is available here:

<https://www.msci.com/www/research-paper/esg-ratings-methodology/0175943017>

In 2019, we will be working to add additional methodology summaries for other research products.

The existing full ESG reports also provide considerable information about our methodology and approach directly in the assessment, and we plan to continue to enhance our transparency into our approach in all of our reports over time.

5.2 HOW ARE PEERS DETERMINED? THE LIST OF PEERS ON THE ESG RATINGS REPORT IS NOT RELEVANT TO OUR COMPANY.

The Industry peer groups are typically standardized and determined by Global Industry Classification Standard (GICS). There is no analyst selection involved. The peers listed in the ESG Ratings report are the ten largest peers in the GICS industry by market cap. It is only a subset of the peer set, not the full list.

5.3 ON LABOR MANAGEMENT WE ARE NOT EXPOSED TO ANY RISKS, AS WE HAVE NEVER FACED ANY STRIKES OR WORK STOPPAGES DUE TO POOR LABOR RELATIONS. HOW IS RISK EXPOSURE DETERMINED?

Most key issues, although not all, consist of two components: risk exposure and risk management. This distinction allows the model to adjust the strength of management systems required to achieve a given key issue score: *companies facing higher risk exposure must have stronger management practices in place to mitigate their risks.*

On the risk side, MSCI has developed a proprietary risk exposure model. Our assessment of exposure may be comprised of three different areas of analysis, depending on the key issue:

- **Business Segment Risk Exposure** – analyzes the breakdown of a company’s business in terms of revenues, assets, or operations

- **Geographic Segment Risk Exposure** – analyzes the breakdown of a company’s geographic segments in terms of revenues, assets, or operations
- **Company-Level Risk Exposure factors** – such as number of employees, size, reliance on government contracts, or reliance on outsourced production

We utilize a variety of sources to determine the risk exposure level/scores for each of the areas. This model is *independent* of a company’s own determination of risk exposure or performance in the key issue.

For example, on Labor Management, Company X’s risk exposure is determined to be high based on the type of business it is involved in (% of operations in business segments with high labor intensity, as measured by average sales per employee), the location of its operations (% of operations in countries with high likelihood of labor unrest, based on historic precedent). The key issue also looks at additional factors, such as workforce size, recent restructuring, etc. The *exposure* side of this assessment does **not** consider Company X’s track record in avoiding labor disputes or work stoppages. This would be a performance measure evaluated under the *risk management* side of the key issue assessment.

5.4 HOW ARE ESG KEY ISSUE WEIGHTS DETERMINED?

Once the key issues have been selected for a GICS Sub-Industry, we set the weights that determine each key issue’s contribution to the overall rating. Each key issue typically comprises 5-30% of the total ESG Rating. The weightings take into account both the contribution of the industry, relative to all other industries, to the negative or positive impact on the environment or society; and the timeline within which we expect that risk or opportunity for companies in the industry to materialize, as illustrated conceptually below (excerpt from the full ESG Ratings Methodology).

Figure 9 Framework for Setting Key Issue Weights

		Expected Time frame for Risk/Opportunity to Materialize	
		Short-Term (<2 years)	Long-Term (5+ years)
Level of Contribution to Environmental or Social Impact	Industry is major contributor to impact	Highest Weight	
	Industry is minor contributor to impact		Lowest Weight

5.5 CAN MSCI ESG RESEARCH SHARE THE DETAILS OF ALL THE BUSINESS/GEOGRAPHIC SEGMENTS CONSIDERED TO BE HIGH, MEDIUM, LOW RISK IN ORDER FOR US TO VERIFY THE DATA?

MSCI ESG Research’s risk exposure assessment is based on our proprietary risk methodology. This breakdown of all the segments considered high, medium, low risk is not available to the general public. Segment risk exposure determination based on MSCI ESG Research methodology is not verifiable by companies.

5.6 IN THE CARBON EMISSIONS KEY ISSUE, THE REPORT STATES THAT WE DO NOT “CAPTURE GHG EMISSIONS”. THIS IS NOT CORRECT – WE TRACK, MEASURE AND REPORT OUR EMISSIONS IN OUR SUSTAINABILITY REPORT.

This metric is specifically looking at whether companies have efforts in the development or implementation of technologies that aim to capture and store GHG emissions (e.g. carbon sequestration technology). This is completely separate from a company’s effort to track, measure, and disclose its actual carbon emissions.

5.7 WE DON’T REPORT CARBON EMISSIONS DATA. WHERE DID THE EMISSIONS DATA COME FROM?

Where companies do not report this information, we estimate based on MSCI ESG Research proprietary carbon estimation methodology. However, if the company does report carbon data publicly, please let us know, including the link to where this information can be found in the public domain. We will review and make the necessary updates, replacing the estimates where appropriate.

5.8 HOW DOES MSCI ESG RESEARCH CALCULATE INTENSITY? OUR INTENSITY CALCULATIONS DIFFER THAN WHAT IS IN THE ESG RATINGS REPORT.

Unless stated otherwise, the denominator in the MSCI-calculated intensity metric is typically USD million sales, converted (where needed) at the FYE exchange rate. Given there may be small discrepancies in revenue data depending on the exchange rate used, for date verification purposes, we are primarily concerned with the accuracy of the numerator (e.g. actual emissions).

We may collect company-reported intensity metrics for informational purposes; our assessment utilizes/scores normalized MSCI-calculated intensity.

5.9 WHAT IS INCLUDED IN THE R&D EXPENSES FOR THE OPPORTUNITIES IN CLEAN TECH KEY ISSUE?

We use USD as the main currency. If the company reports R&D expenses in local currency, this is converted to USD using the exchange rate date as of the fiscal year end date of the company. Discrepancy between the numbers might be caused by foreign exchange rate difference. We would not typically update minor discrepancies on an ad-hoc basis.

In general, we capture R&D expense data from the Consolidated Financial Statements disclosed by the company in its Annual Report. If the company reports a breakdown of its R&D expense that separates out Capitalized R&D from R&D expenses recognized as costs, we would exclude the capitalized amount and report the remaining figure. We do not consider R&D capitalized cost as part of the Research and Development expenses. Capitalized cost is considered to be an asset, and thus not included in R&D expense.

Furthermore, we report the figures disclosed by the company on its Annual Report for that specific fiscal year. If the company restated its expenses based on change in Accounting Principles, we would not restate historical figures since it would not accurately reflect the amount reported by the company in the previous years. Likewise, if the restatement was due to a corporate event (e.g., an acquisition, or spin-off), we would not restate historical figures, since it would not accurately reflect the amount of R&D expenses that the company had at the time.

5.10 IN THE RAW MATERIAL SOURCING KEY ISSUE, WHERE DID MSCI ESG RESEARCH GET THE EXPOSURE DATA FROM? WE DO NOT REPORT THIS INFORMATION. E.G. % SALES AND SALES RELIANT ON EACH MATERIAL.

Where companies do not disclose this information (it is indeed not commonly reported publicly by many issuers) we estimate this data based on our understanding of the company’s product portfolio. The sales reliant is simply the % estimated mapped to 3 yr avg sales (USD). If the company has any comments on these estimates, please let us know.

5.11 FOR HOW LONG IS A CONTROVERSY CASE DEEMED ONGOING? WHAT INFORMATION IS REQUIRED TO CONSIDER A CONTROVERSIES CASE CONCLUDED?

As per MSCI ESG Research Controversies methodology, an MSCI ESG Controversies report reflects all controversies associated with a company within the past three

calendar years. This includes all ongoing and concluded controversies- with the last update happening within the past three years.

A controversy is considered Ongoing if the last known case development does not indicate a definitive resolution of the controversy. For example, community protests around a company facility have been recurring with no indication that the underlying issues have been addressed, or legal action against the company is continuing to work its way through the courts. On the other hand, a case is considered Concluded if the controversy has been resolved, closed, or withdrawn. For example, the company has paid a settlement to close a regulatory action or a lawsuit has been dismissed and not appealed.

Controversies analysts monitor the status of a controversy on a daily basis using our news database. Depending on the controversy update available for the case, this will confirm if the case status is still Ongoing or already Concluded. As a simple example: if an individual lawsuit filed in October 2017 was settled by the company in October 2018, this will result in the conclusion of the controversy. Conversely, if the October 2018 case update only referred to a change in court jurisdiction, then this indicates that the lawsuit (and controversy) is still ongoing.

A controversy status can also change from Ongoing to Concluded and vice versa on the basis of new developments. For example, a case believed to be Concluded could be reassessed as Ongoing if it were to be reopened, for example in the form of a new appeal filed with the courts, or a separate government agency launched an investigation for the same issue.

Individual controversy cases for which a recent update has not been found via the daily updates process are also periodically reviewed. Severe ongoing cases typically undergo targeted search annually. If for two consecutive years we do not find any other information, we would consider this case concluded. For Moderate cases, where no other updates appear in our data news database alerts over three years, then the case would generally be archived.

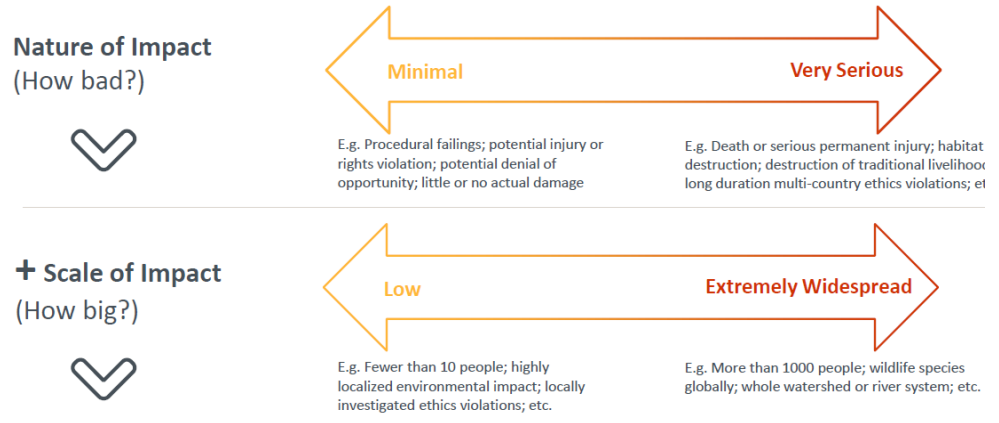
5.12 WHAT IMPACT DO CONTROVERSIES HAVE ON THE ESG RATINGS RESEARCH?

Within the ESG Ratings research, controversies act as a deduction to the overall management score for each key issue, where applicable. The size of the deduction (0 to -5.0 points) is based on the severity and type of controversies facing the company on a particular Key Issue.

5.13 HOW ARE CONTROVERSIES ASSESSED? HOW ARE THE SEVERITY LEVELS DETERMINED?

Each controversy case is assessed for the severity of its impact on society or the environment (not the impact necessarily to the company) and consequently rated Very Severe, Severe, Moderate, or Minor.

To reach these assessments, each case is analyzed along two dimensions: the **nature of impact** and the **scale of the impact**. These are then combined to reach an initial determination of severity, with multiple possible scenarios able to yield the same severity assessment through various combinations of nature and scale of impact. Please see illustrations below, excerpted from the MSCI ESG Controversies methodology.



= Severity

	Very Serious	Serious	Medium	Minimal
Extr. Widespread	Very Severe	Very Severe	Severe	Moderate
Extensive	Very Severe	Severe	Moderate	Moderate
Limited	Severe	Moderate	Minor	Minor
Low	Moderate	Moderate	Minor	Minor



While the initial severity assessment is determined by a controversy case’s placement on the matrix, there may be extenuating circumstances or exacerbating circumstances that may warrant a final assessment that is more or less severe under the methodology. The most severe cases undergo further review by senior methodology committees.

5.14 ONE OF THE CONTROVERSIES LISTED FOR OUR COMPANY IS CONCLUDED. HOW LONG WILL IT REMAIN ON THE REPORT?

Concluded Controversies: A ‘Concluded’ controversy retains its final severity assessment for one year from the date of conclusion, at which point it is upgraded by one severity level (e.g. from Severe to Moderate). The following year the case will be upgraded again or be archived, depending on the severity level. For Example, a Severe case becomes Moderate one year after it was concluded. After a year as a Moderate case, it becomes Minor. After a year as a Minor case, it is archived (removed).

Minor Controversies: All Minor controversies are archived after one year, regardless of status, unless developments warrant a downgrade to a more severe assessment.

Very Severe Controversies: Very Severe controversies that have concluded will only be upgraded if certain criteria are met. These conditions include factors such as a company’s response to the controversy and the lack of new allegations or developments related to the same issue. Likewise, a Very Severe controversy may be upgraded before it is concluded if the company has taken aggressive steps to remediate the situation and avoid future recurrences. Upgrades, downgrades, and reaffirmation of a Very Severe assessment all undergo internal review processes.

5.15 UNDER THE DATAPOINT “ENGAGEMENT SURVEYS TO MONITOR EMPLOYEE SATISFACTION”, IT STATES “SURVEYS CONDUCTED SPORADICALLY”. OUR COMPANY CONDUCTS EMPLOYEE SURVEYS EVERY TWO YEARS.

General best practice in terms of frequency of employee surveys is *annual*. Per our scoring, a company that conducts engagement surveys at any other regular frequency (e.g. every two years) will typically be assessed as “sporadically”. While we are always looking to refine our indicators, this is currently the standardized scoring level.

5.16 WHAT IS REFLECTED IN THE NUMBER OF EMPLOYEES DATA?

We collect the full-time equivalent figures of the company if these values are disclosed. If these are not available, we collect the total number of full-time and part-time employees (excluding temporary workers) as disclosed in company reports.

If both the average number of employees for a specific year as well as the number of employees at fiscal year-end are disclosed, we capture the number of employees at fiscal year-end. However, if year-end data is not available, we capture the average number of employees. We do not re-state employee numbers for past years.

Please note that at this time, other data such as part time and contract workers are only supplemental and included at the analyst team’s discretion (with no impact on the assessment).

5.17 IN THE HUMAN CAPITAL DEVELOPMENT KEY ISSUE, WE PROVIDED INFORMATION ON OUR ETHICS HOTLINE AS A MEANS FOR EMPLOYEES TO RAISE GRIEVANCES AND REPORT ISSUES ANONYMOUSLY. HOWEVER, THIS FEEDBACK WAS NOT INCORPORATED. WHY WAS THIS NOT ACCEPTED?

For this particular indicator, we are specifically looking at how the company addresses employee grievances related to its policy on employee benefits or collective bargaining – more labor relations management than ethical behavior. Whistleblower protection, and reporting/auditing on accounting issues etc. are **not** considered in this key issue. Best practices in outlining grievance procedures include detailing the framework for how the company then handles reported labor issues, the arbitration process, etc.

5.18 OUR COMPANY BELIEVES THAT NOT HAVING A UNION IS AN INDICATION OF STRENGTH IN OUR LABOR MANAGEMENT. BUT MSCI APPEARS TO SCORE US NEGATIVELY FOR OUR LOW UNIONIZATION RATE. WHY IS THIS?

MSCI does not have an official position on merits of unionization. However, for our Labor Management key issue, we use unionization rate as a proxy for the presence of basic employee rights and benefits. Therefore, in this context, a higher unionization rate would score more positively for this indicator. Having said that, a company with low or no unionization rate could still receive a higher management score if it had strong performance on all other metrics

5.19 IN THE CORRUPTION & INSTABILITY KEY ISSUE, HOW WAS IT DETERMINED THAT THE COMPANY IS “RELIANT ON THE GOVERNMENT SECTORS FOR A MAJOR PROPORTION”?

Where companies do not disclose granular data on revenue generated from government contracts, MSCI ESG Research will estimate this information based on an understanding of its industry, business model, and product/service portfolio. At this time, “major” refers to 20% or more of revenue. If the company has feedback on the accuracy of this determination, please let us know, and please include supporting documentation.

5.20 ANTI-COMPETITIVE PRACTICES/BUSINESS ETHICS KEY ISSUES – WHY DO WE HAVE A SCORE OF 5 AND WHY IS IT 0%?

Companies successfully avoiding incident score "5", while companies that have faced controversies in the last three years score lower, based on the severity and type of controversy. In general, this issue is only weighted in the assessment for companies with Severe or Very Severe controversies in this area. It is considered a company-specific key issue.

5.21 IN THE HEALTH & SAFETY KEY ISSUE, FOR “TARGET TO IMPROVE H&S PERFORMANCE”, IT SAYS “ZERO TARGET”. WE CLEARLY HAVE A TARGET TO ACHEIVE ZERO FATALITIES. PLEASE AMEND.

“Zero Target” is a recognition that the company is has a goal to achieve zero/no fatalities, not that the company does not have a target.

5.22 HOW IS THE SCORE FOR TAX TRANSPARENCY DETERMINED?

We evaluate the extent to which companies may face enhanced public and regulatory scrutiny as well as potential liabilities because of actual or perceived avoidance of corporate income taxes. Scores are based on the gap between the company’s estimated effective tax rate and the estimated statutory tax rate if the company were paying taxes as per the statutory tax rates in the jurisdictions where it generated revenues. Scores are also adjusted based on the disclosure transparency around breakdown of revenues by country; whether a company is predominantly domestic; whether it is classified as a tax-favored structure such as REITs; and by involvement in controversies.

For more information, please see our issue brief: The Tax Gap – Regulatory responses and Implications for Investors, which can be accessed here:

<https://www.msci.com/www/research-paper/the-tax-gap-regulatory/0598209930>.

Please note that for *most companies*, this issue is 0% weighted and is considered an additional ESG issue, not impacting the overall ESG Rating assessment.

APPENDIX 1 - ISSUER INTERACTION GUIDELINES

MSCI ESG Research’s primary focus is to ensure the company data we collect are accurate. We are committed to providing companies with the underlying data, which is company-verifiable, via the standard data verification processes. We are also committed to provide companies with their full MSCI ESG Research reports upon request at any time after they are published. We endeavor to address questions companies may ask with regard to our research reports, methodology, and processes in a timely fashion. General guidance on what can be discussed with companies, as well as our limitations in interaction, is noted below.

WHAT WE DO DISCUSS WITH COMPANIES

- High-level methodology overview for core products.
- Basic methodology questions. Some examples, but not an exhaustive list:
 - General components of the ratings (e.g. exposure vs. management).
 - High-level data point description/definitions/clarifications.
 - General data sources
- Basic report format questions.
- Process-oriented questions – timing of different research/report updates, data verification process, etc.

WHAT WE DO NOT DISCUSS WITH COMPANIES

- How to improve ratings and disclosures of ESG issues.
- How a company’s peers are performing.
- Minor changes in scores from one period to the next.
- Scoring thresholds/levels at the individual data point/indicator level.
- Detailed discussion of segment scores underlying MSCI ESG Research’s proprietary risk exposure model.

MSCI ESG Research reports, public executive summary methodologies, and FAQ for Corporate Issuers provide a great deal of information on our methodology and processes, as well as where a company leads and/or falls behind peers, and the main drivers for ratings changes, where applicable. These documents should be the first reference point for companies. We do not provide, and cannot be perceived to be providing, any advisory or consulting services.

CONTACT US

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