MSCI ESG RATINGS MAY HELP IDENTIFY WARNING SIGNS

ESG SIGNALS CAN BE CRITICAL IN IDENTIFYING OUTLIERS – POSITIVE OR NEGATIVE.

MSCI ESG Research's team of more than 185 in-house ESG analysts rate over 6,500 listed companies on their exposure to key ESG risks and management, performance and practices. MSCI ESG Ratings provides the basis for sector and company reports, thematic research, and MSCI's family of more than 900 equity and fixed income ESG indexes.

Scandals like Equifax, Volkswagen, Wells Fargo and Valeant may call for tighter screening of companies in the stock selection process in order to mitigate Environmental, Social and Governance (ESG) risks in investment portfolios.

MSCI ESG Research provides institutional investors with robust ESG Integration tools to help them mitigate risk and enhance long-term value creation.

EQUIFAX

In September 2017, Equifax, the credit reporting company, was a victim of a cyber-attack potentially impacting 143 million U.S. consumers.

In August 2016, MSCI ESG Ratings identified, and called attention to, Equifax Inc.'s poor data security and privacy measures, which lead to its downgrade to 'CCC' – our lowest possible rating. The issuer was subsequently excluded from the MSCI ESG Leaders Index in December 2016.

MSCI ESG Rating Report on Equifax: "Equifax is vulnerable to data theft and security breaches, as is evident from the 2016 breach of 431,000 employees' salary and tax data of one of its largest customers, Kroger grocery chain. The company's data and privacy policies are limited in scope and Equifax shows no evidence of data breach plans or regular audits of its information security policies and systems."

AUGUST 2016	DECEMBER 2016	JANUARY 2017	JULY 2017	AUGUST 2017	SEPTEMBER 2017
• MSCI ESG Research downgraded Equifax to "CCC" (lowest possible rating)	• Excluded from MSCI ESG Leaders Index • Class Action over credit reporting and unfair competition, moderate product safety and quality	• USD 6.3 million penalty over alleged misleading claims related to credit score services, moderate marketing and advertising	• Individual lawsuit over alleged violation of fair credit reporting act minor product safety and quality	• Lawsuits over alleged failure to verify disputed false information in credit reports minor financial product safety	• Equifax confirms cybersecurity breach, compromising personal information of up to 143 million customers • CEO, Richard Smith resigns

WELLS FARGO

In September 2016, the Consumer Financial Protection Bureau alleged that internal control lapses and incentive misalignment for front line employees had permitted fraudulent activity at Wells Fargo since 2011. The CFPB alleged that more than 1.5 million fraudulent accounts had been opened affecting nearly three million people.

In November 2015, MSCI downgraded Wells Fargo to a B, citing MSCI ESG Research's ongoing tracking of customer complaints which revealed that, of the top U.S. banks, Wells Fargo had the most complaints issued since 2012 (per billion gross assets). This indicated that the company was likely at the beginning of customer and regulatory attention rather than the end.

In November 2016 the company was further downgraded to a CCC due to the severity of the account opening controversy.

NOVEMBER 2015	SEPTEMBER 2016	OCTOBER 2016	NOVEMBER 2016	DECEMBER 2016	AUGUST 2017
• MSCI ESG Research downgraded Wells Fargo to a B from a BB citing product safety concerns	• Wells Fargo faces fine of USD $185 million due to allegations of account opening mal practice	• CEO John Stumpf resigns	• Wells Fargo further downgraded to a CCC, the lowest possible MSCI ESG Rating	• Wells Fargo eliminates sales targets for non-sales front line employees as result of settlement with CFPB	• Lawsuit alleges Wells Fargo wrongly charged customers for auto insurance

VALEANT

In October 2015, investigative reports initiated ongoing fraud investigations into Valeant's pharmaceutical relationships and drug pricing practices.

In May 2015, MSCI ESG Research downgraded Valeant Pharmaceuticals to a CCC, citing worst-in-class accounting practices. The company was flagged by our forensic accounting rating (AGR) as "very aggressive" and had seen pressure from an investor report alleging accounting fraud. MSCI ESG Research noted that Valeant's acquisitions had raised several accounting issues between goodwill and intangibles relative to assets, debt relative to equity, large unusual expenses, and prepaid expenses.

VOLKSWAGEN

In September 2015, German car manufacturer Volkswagen came under fire after admitting defective devices were installed on 11 million vehicles to cheat on emissions tests, leading to CEO Martin Winterkom’s resignation. Volkswagen’s alleged violation of the U.S. Clean Air Act raised a number of questions about the company’s product management practices.

Between 2013 and 2015, MSCI ESG Research noted a deterioration of VW’s corporate governance practices as well as proactive steps to lower its environmental impact, while elevated warranty expenses were raising questions in MSCI ESG Research’s assessment of the company. The issuer was subsequently removed from the MSCI ACWI ESG Leaders Index in May 2015.

2013-2015	APRIL 2015	MAY 2015	AUGUST 2015	SEPTEMBER 2015	MARCH 2015
• Between 2013 and 2015, MSCI ESG Controversies flagged VW on product and service quality, bribery and fraud, and collective bargaining controversies	• VW’s overall MSCI corporate governance score was in the 28th percentile, lower than 72% of companies covered by MSCI ESG Research globally	• VW removed from the MSCI ACWI ESG Leaders Index	• VW’s MSCI ESG Rating upgraded to a BBB from BB due to the company’s proactive steps to lower environmental impact of its products	• Following the scandal, VW further downgraded to a CCC, the lowest possible rating, and to a Red flag for MSCI ESG controversies CEO Martin Winterkorn resigns	• VW admits that 11 million vehicles were equipped with emissions cheating software

ABOUT MSCI ESG RATINGS

MSCI ESG Ratings helps 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. 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.

AAA	AA	A	BBB	BB	B	CCC
LEADER		AVERAGE			LAGGARD	

ABOUT MSCI

For more than 40 years, MSCI’s research-based indexes and analytics have helped the world’s leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research. Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research. MSCI serves 99 of the top 100 largest money managers, according to the most recent P&I ranking. For more information, visit us at www.msci.com.