

MSCI ESG Ratings

ASX ISSUER METHODOLOGY WEBINAR

Morgan Ellis & Aaron Wei

September 2021



Introducing MSCI ESG Research

First ESG provider to assess companies based on industry financial materiality¹

270+
ESG
analysts²
(400+ FTE)

14,000
issuers in
ESG Ratings
coverage

1,500+
ESG equity &
fixed income
indexes use MSCI
ESG Research
ratings and data

1,700+
clients



¹ Through our legacy companies KLD, Innovest, IRRG, and GMI Ratings. ESG Ratings dating back to 1999.

² Source: MSCI ESG Research as of March 2021. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.

* Representative office for business development.



MSCI

The Independent Research in Responsible Investment Survey

MSCI voted **Best Firm for SRI Research, Corporate Governance and Sustainability Indexes** for the fourth consecutive year

- 2019
- 2016
- 2017
- 2018/19

WINNER

MSCI

2020 ESG Trends project: What are the big challenges for the new decade?

2020 PFI AWARD

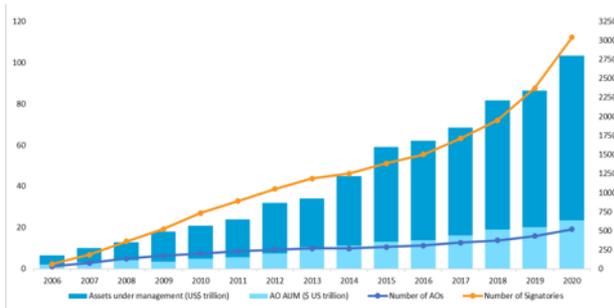
ESG research report of the Year

Why ESG?



ESG investing is growing dramatically...why now?

UN PRI* Has Grown to Over 3,000 signatories in managing over \$100 trillion in AUM



99% CAGR in ETF AUM Tracking MSCI ESG Indexes since 2013



HERE'S WHY:

1 Investors have become less tolerant of corporate ESG incidents

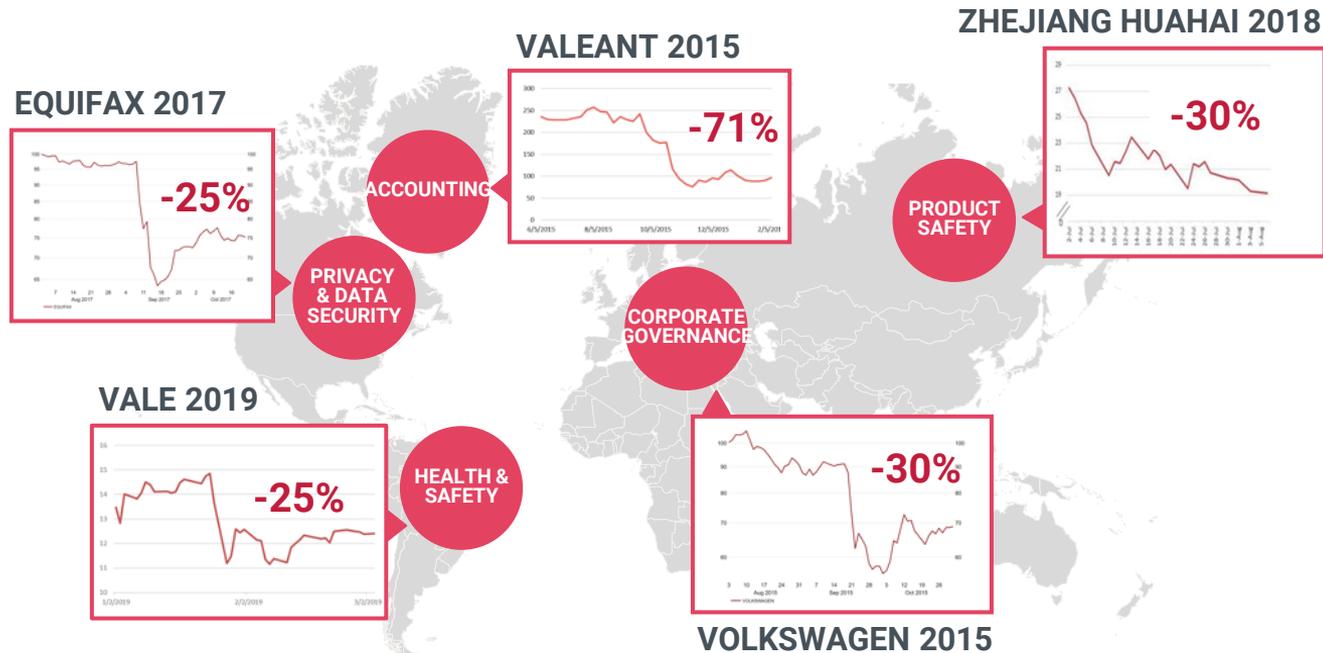
2 Investors demonstrating willingness to act

3 Greater understanding of ESG's influence on risk and return

4 Technology and ESG Ratings data enhancements

ESG incidents and stock price movements

30 years ago, Exxon's stock price barely moved when Exxon Valdez spilled 11mm gallons of oil on the Alaskan shore.* Today, with social media allowing for immediate, global communication of issues, investors are making companies accountable for their actions.



ESG leaders have demonstrated increased sophistication across their organizations

Asset owners

PENSION FUNDS

CONSULTANTS

INSURANCE

ENDOWMENTS & FOUNDATIONS

CIO OFFICE

FUND SELECTION

FINANCIAL ADVISORS

RETAIL

Asset management

FUNDAMENTAL EQUITY

FUNDAMENTAL FIXED INCOME

QUANT

ESG SPECIALIST

STEWARDSHIP & GOVERNANCE

RISK MANAGEMENT

COMPLIANCE

Other / product

EMERGING

ACTIVE FUND

PASSIVE FUND & ETP

Asset Managers are moving beyond fundamental equity and **integrating ESG into fixed income and quantitative** strategies with growing sophistication

Largest consultants are **incorporating ESG** dimensions into manager selection in reaction to Asset Owner requests

Engagement is becoming an important tool for improving company performance and returns

Risk teams are increasingly **systematically reporting** on ESG risk

Demand for active and passive **ESG Funds across asset classes** for total portfolio exposures

Understanding the most common ESG objectives

Incorporating ESG into investment strategy or creating products typically starts with understanding client objectives, which may combine elements of managing long-term risk, reflecting values and positive impact.

Investment Objectives

“Incorporating ESG may improve our investment results”



Incorporate ESG criteria to enhance long-term return, manage ESG financial risk

Individual Objectives

Values



Align portfolio with investor's ethical or political values

“Our investments should reflect our clients' values”

Impact



Generate measurable social or environmental benefits as well as financial returns

“We want our investments to make a difference in the world”

What are MSCI ESG Ratings?

What are ESG Ratings?

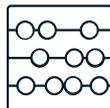
MSCI ESG Ratings aim to measure a company's **resilience to long-term, financially relevant ESG risks**

To do this we measure:

Robustness of governance controls, the foundation of good risk management



BOARD



ACCOUNTING



OWNERSHIP AND CONTROL



EXECUTIVE PAY

Exposure to **long-term systematic risk** factors



CLIMATE CHANGE



WATER SCARCITY



DATA SECURITY



DEMOGRAPHIC SHIFTS

Management quality & ability to limit surprised and event risks



ACCIDENTS



FRAUD



SHUTDOWNS



STRIKES

Key research questions

1

Q: How is the company governed?

How do governance structures impede / enable it to be a long-term steward of capital?

A: Analyze ownership structure, board, incentives and behavior.



2

Q: What risks does the company face?

How exposed is its business model to relevant short-, medium- and long-term ESG risks?

A: Map company operations to an extensive proprietary database of ESG risk factors.



3

Q: What does the company say?

What is its strategy for managing these risks? What measures has it put in place?

A: Benchmark company disclosures and policies vs. industry peers.



4

Q: What does the company do?

What evidence do we see that these risks are being managed? What is its track record?

A: Evaluate alternative data from sources outside the company.

Governance assessment for all companies

Detailed analysis of:

- Shareholders and management alignment
- Relationship of governance structures, events, and corporate behavior
- Local market standards
- Business ethics policies and corruption risk
- Tax controversies



Board

Size, director election standards, tenure and gender diversity
Assessment of financial, industry and risk management expertise



Pay

Robust data on CEO pay. Analysis of pay for performance link.
Assessment of compensation committee independence



Ownership and Control

Ownership structure, shareholder rights and key takeover defenses
Major owners and insider holdings



Accounting

Audit committee structure and fees paid to outside auditors. Transparency metrics tied to revenue, expense recognition, asset-liability valuation



Business Ethics

Oversight and management of business ethics issues, involvement in business ethics controversies, and exposure to corruption risks



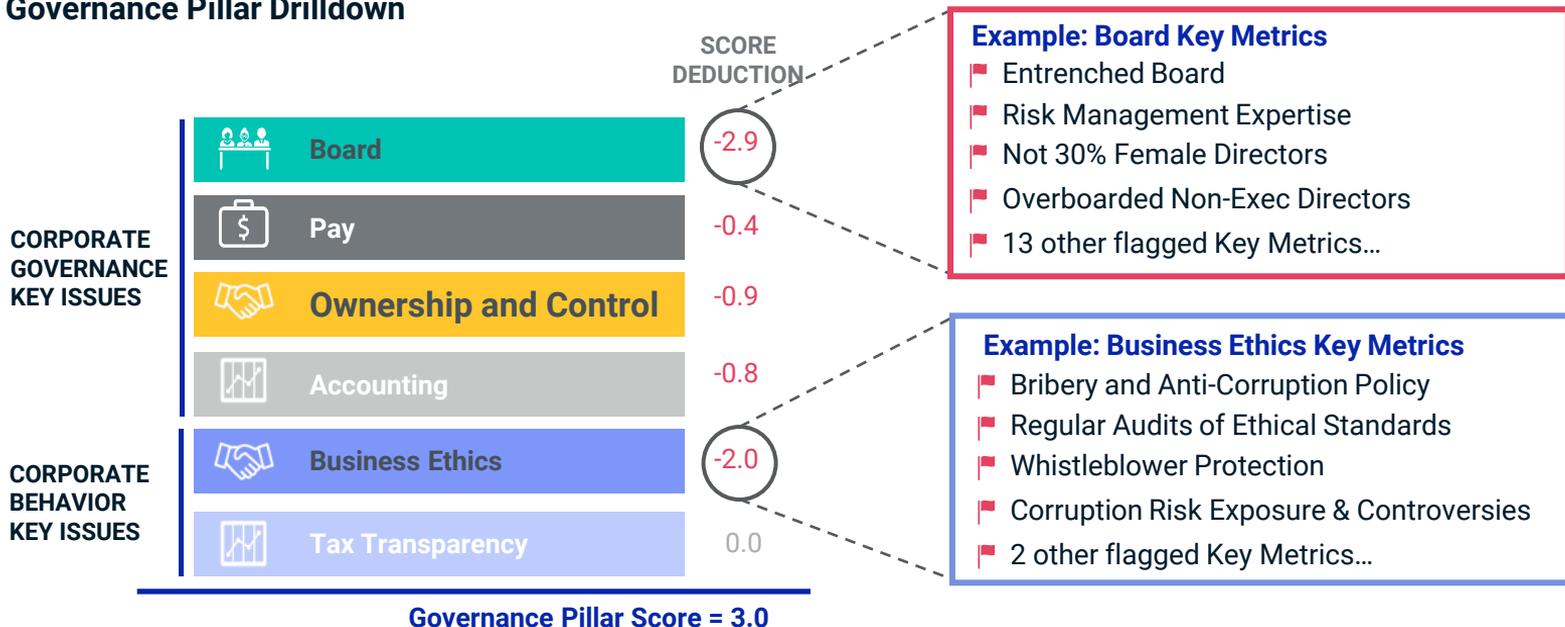
Tax Transparency

Estimated corporate tax gap and involvement in tax-related controversies

How is Governance assessed?

- Corporate Behavior and Corporate Governance are **assessed for all companies**
- **Key Metrics correspond to score deductions** from the Governance Pillar Score

Example of Governance Pillar Drilldown



MSCI ESG Rating model key issues

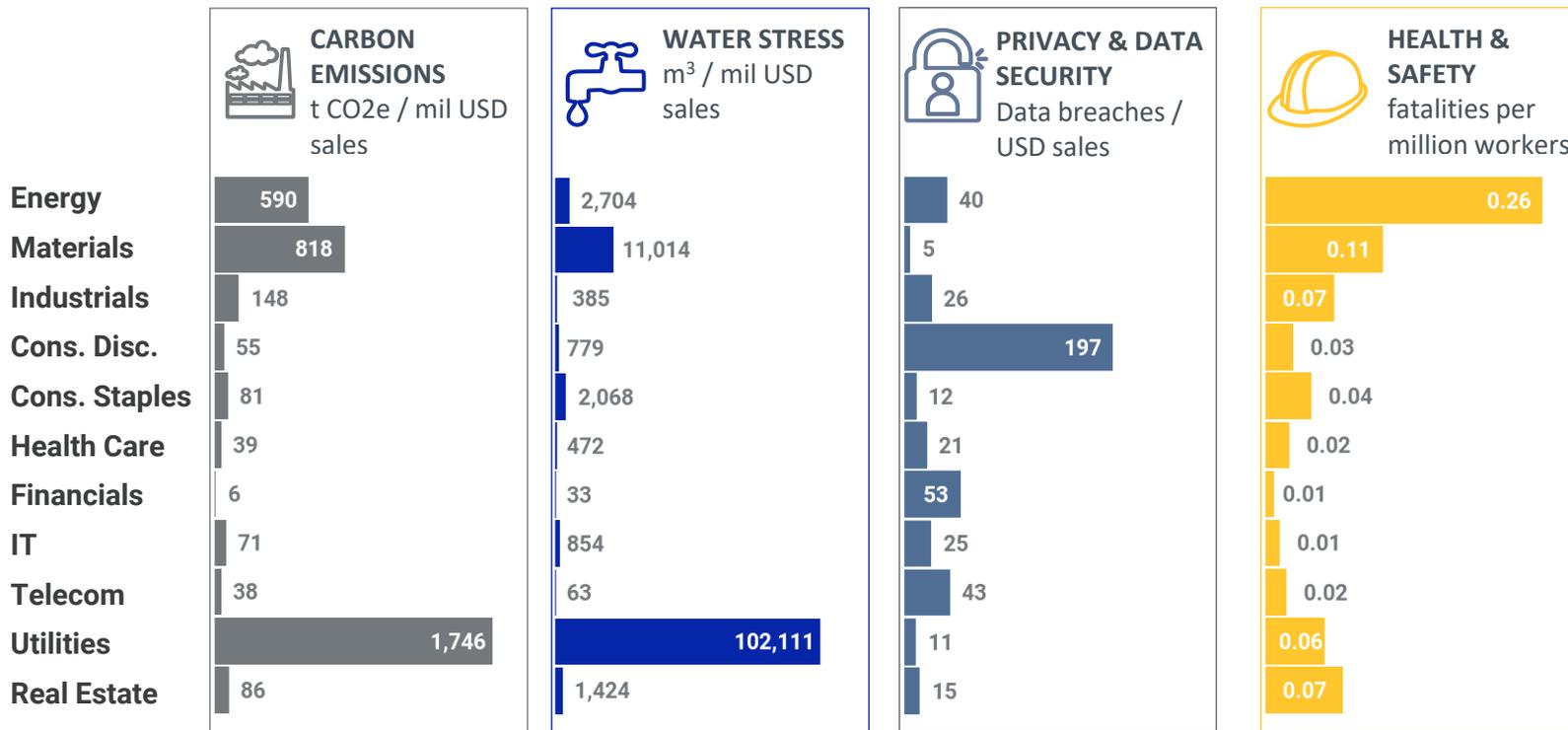
Example: Soft Drinks Sub-Industry

MSCI ESG Score									
ENVIRONMENT PILLAR				SOCIAL PILLAR				GOVERNANCE PILLAR	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Consumer Financial Protection	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Privacy & Data Security		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Responsible Investment		Opportunities in Nutrition & Health	Accounting	
					Insuring Health & Demographic Risk				
					Chemical Safety				

 Soft Drink Sub-Industry: e.g. Coca-Cola

 Universal key issues applicable to all industries

Environmental and social risks are industry-specific

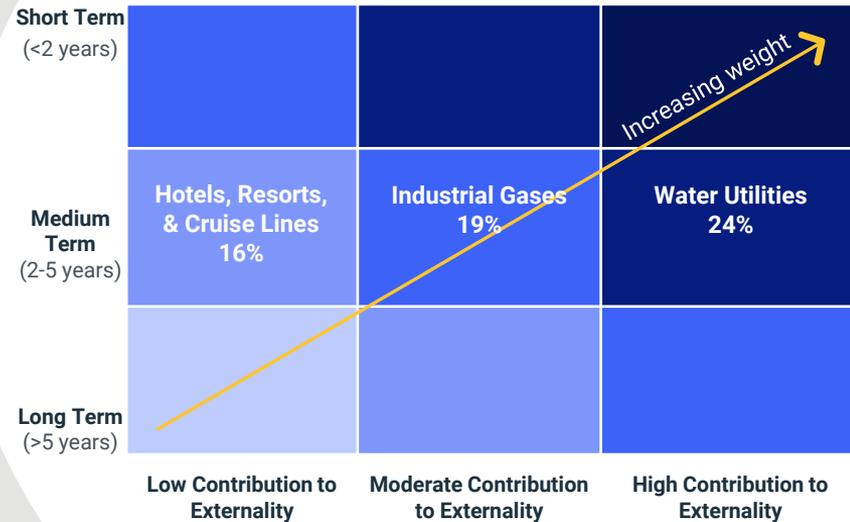


Sources: Carbon emissions and freshwater withdrawal intensities based on sample of 3,823 and 1,633 companies, respectively as of March 2, 2020. Percentage of companies with active bribery and ethics controversies is based on the number of companies with ongoing bribery & fraud controversies in the MSCI ACWI Investable Market Index (IMI) as of March 2, 2020. Fatalities per million workers calculated based on three-year average fatality rates from the Census of Occupational Injuries (US Bureau of Labor Statistics). Data breach intensity calculated based on three-year average of the number data breaches by sector (Verizon Data Breach Investigations Report) and business segments for companies in the MSCI ACWI Index as of March 2, 2020.

Setting key issue weights

Key issue weights are based on:

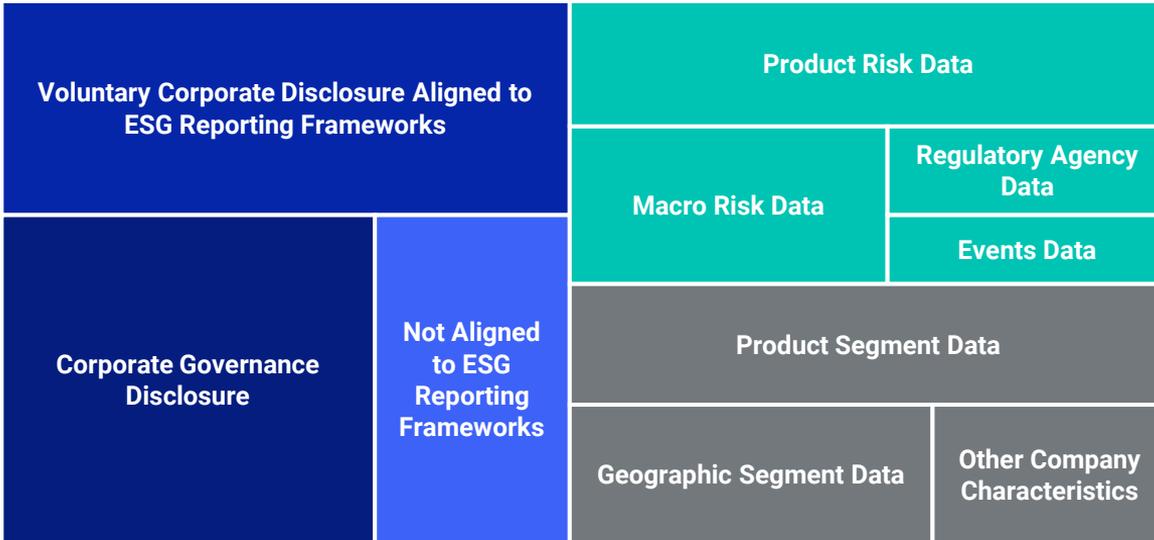
- Industry's contribution to externality vs. other industries
- Time horizon of risk factor for that industry
- Number and significance of other issues assessed
- Minimum 33% weight applied to the Governance Pillar, based on standard time horizon and impact for Corporate Behavior and Corporate Governance



Source of data inputs into MSCI ESG Ratings, sized by % of contribution

● Company-reported ESG information ● Information from other sources ● Company characteristics

Most standardized ← Least standardized



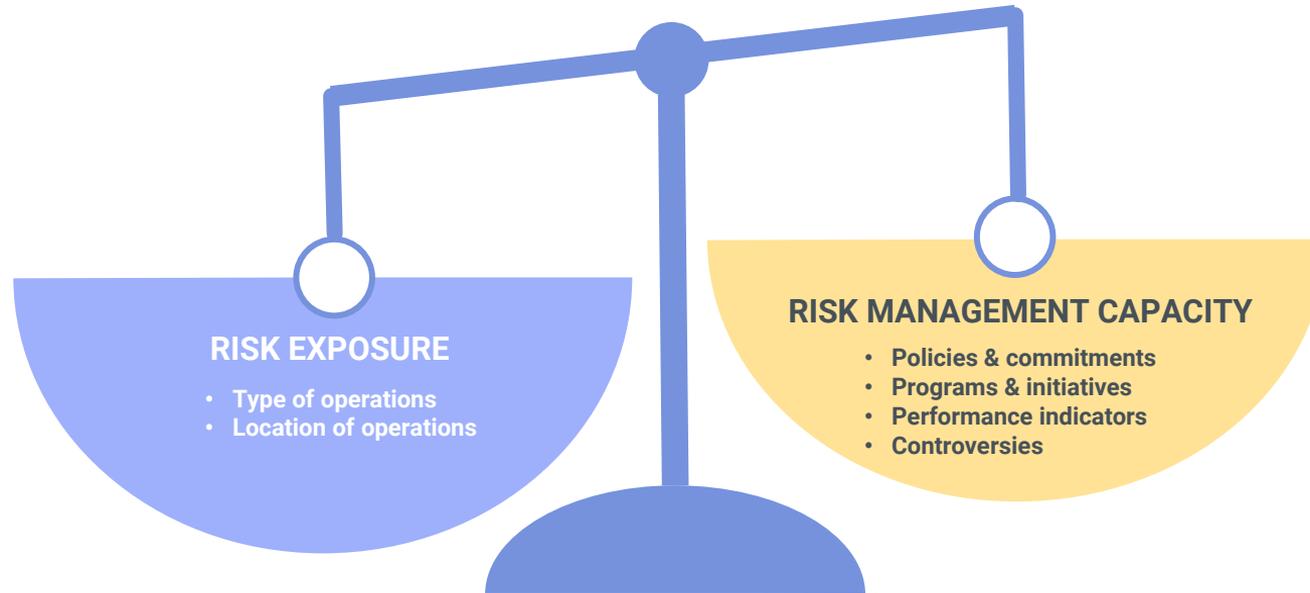
Data Processing

- ▶ Acquire data
- ▶ Fill data gaps with proxies and estimates
- ▶ Standardize data

Modelling

- ▶ Convert to quantifiable assessment
- ▶ Aggregate model components
- ▶ Apply weights

Measuring ESG risk exposure



**EVALUATE RISK MANAGEMENT STRATEGY
IN THE CONTEXT OF RISK EXPOSURE**

How MSCI ESG Research assesses company risk management practices

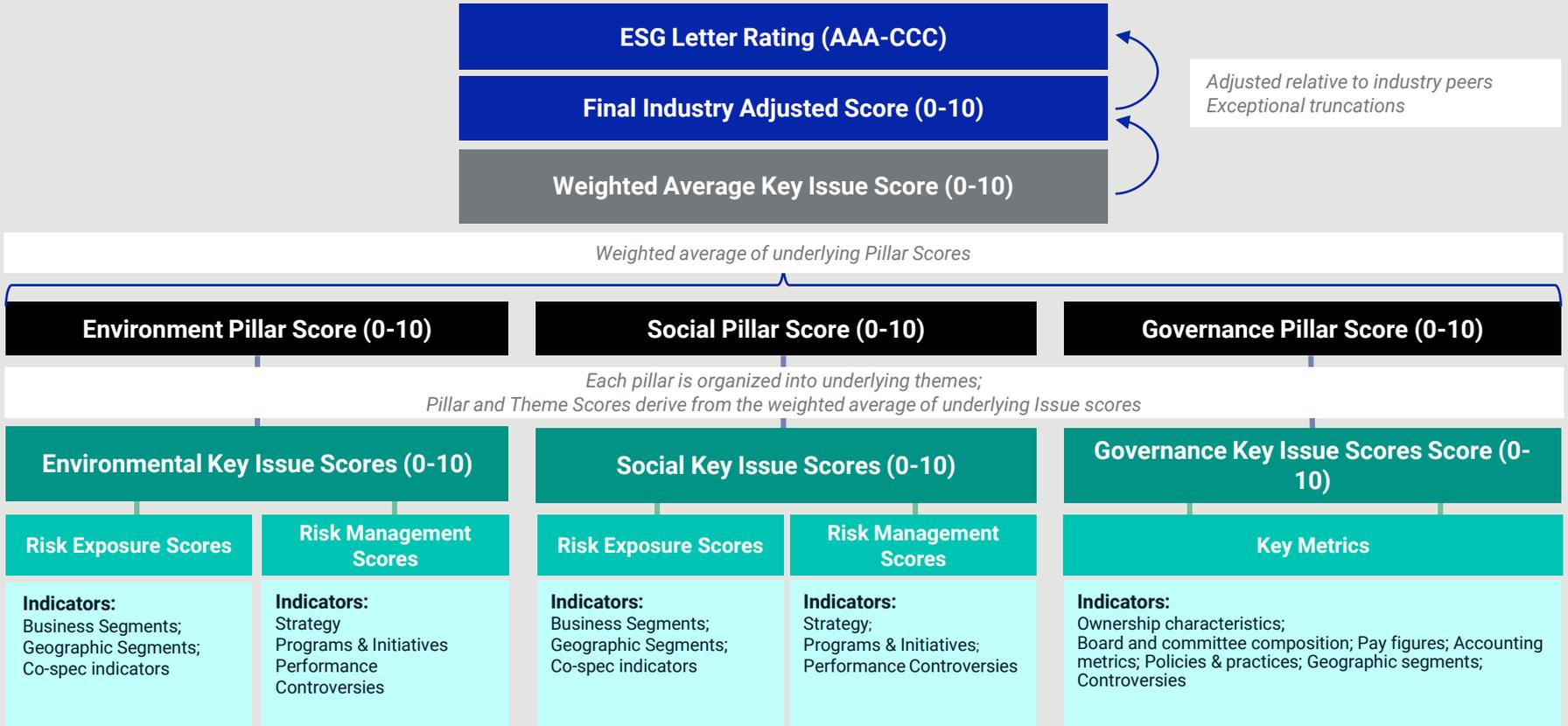
	EXAMPLE METRIC	COMPANY 1	COMPANY 2
PRACTICES	Oversight of Water Management	Board-level Committee BEST PRACTICE 	No evidence of oversight WORST PRACTICE 
	Water Reduction Target	5% annual reduction in water intensity BEST PRACTICE 	No evidence of target WORST PRACTICE 
	Practices Score	8.5/10	2.0/10
PERFORMANCE	Water Intensity vs. Industry Peers	21,450 m3/mil USD sales 2.1x industry average	7,150 m3/mil USD sales 0.7x industry average
	Water Intensity Trend	+2.1% CAGR (2016-2019)	-7.8% CAGR (2016-2019)
	Performance Score	3.5/10	8.0/10
CONTROVERSIES	Severity of Ongoing Controversies	No ongoing controversies	One Severe Controversy
	Controversy Deduction	0.0	-2.5
MANAGEMENT SCORE	Average (Practices, Performance) - Controversies	6.0 / 10	2.5 / 10

How strong are the company's programs and policies?

How effective are its programs and policies?

Do ongoing controversies indicate potential lapses in oversight?

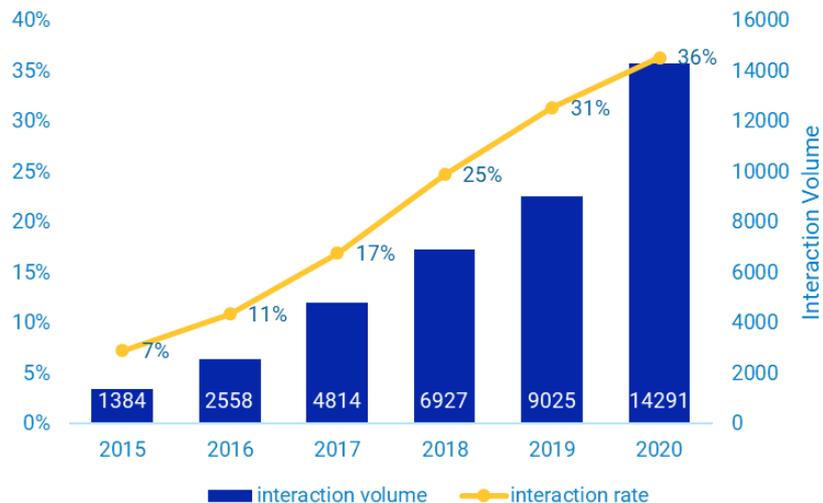
How the scores roll up to the final ESG Rating



How to Interact with MSCI

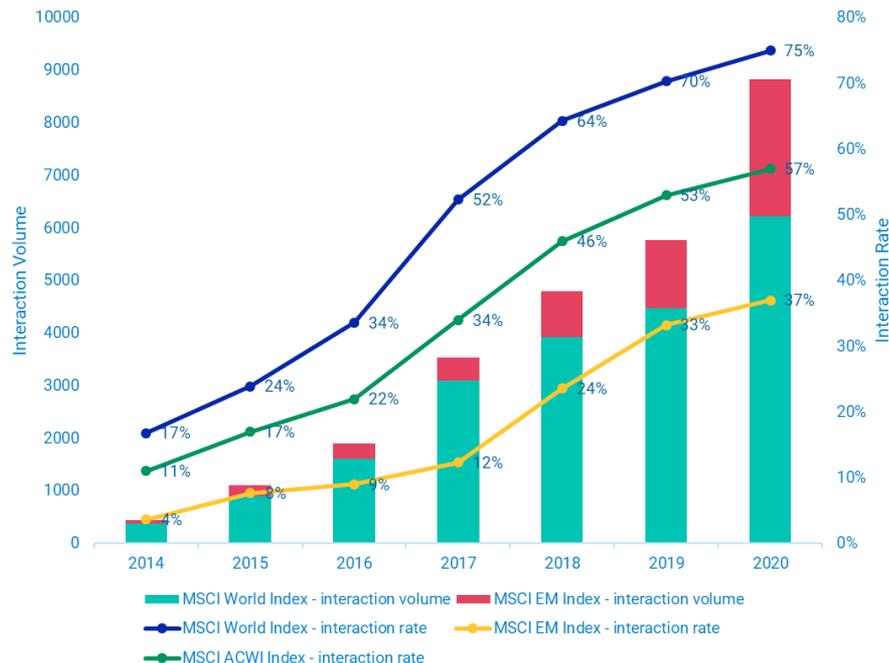
Issuer Awareness of ESG Continues to Rise

MSCI ACWI Investible Markets Index



Source: MSCI ESG Research LLC

MSCI World Index vs. MSCI EM Index



*Interaction volume includes any inbound communication from an issuer via E-mail, phone call, and queries or feedback submitted via the Issuer Communications Portal.

Australia Issuer Interactions

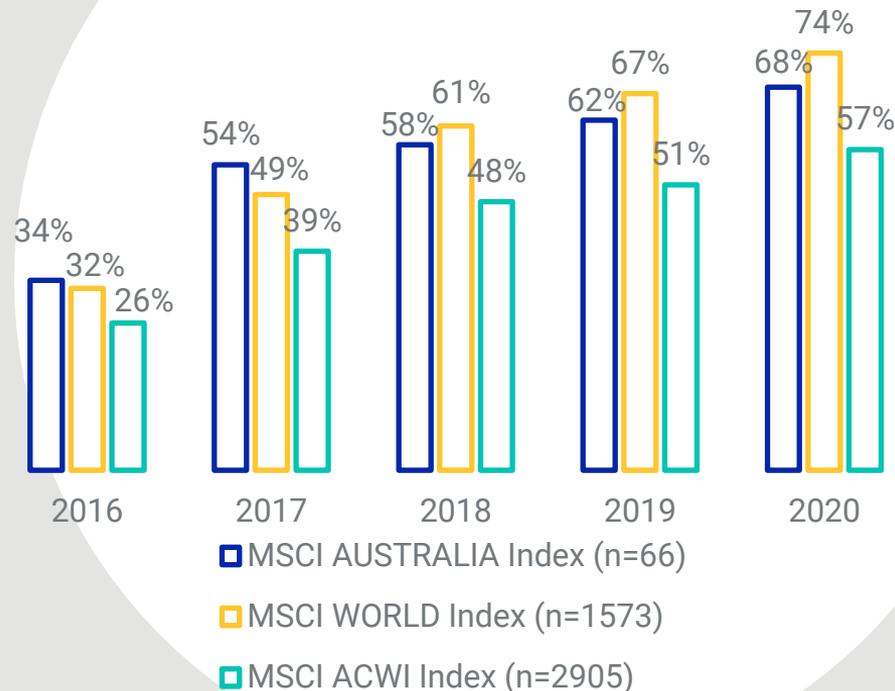
Insights: Australian issuers, part of the MSCI Australia Index have been steadily increasing interactions with MSCI.

Australia issued legislations¹ on mandatory disclosure of social and environmental information back in 2001, and energy and emissions reporting² in 2007 (amendments to this act are made annually). Australian Securities Exchange issued rules³ that require disclosure on corporate governance since 2003.

Most Active Issuers in recent two years

Issuer	Number of Interactions
Evolution Mining	34
Medibank Private	23
Origin	21
AGL	19
QBE	17
BHP	14
CBA	12
Rio Tinto	11
Mirvac	10
Scentre	10

Issuer interaction trend



Source: MSCI ESG Research LLC, as of April 20, 2021

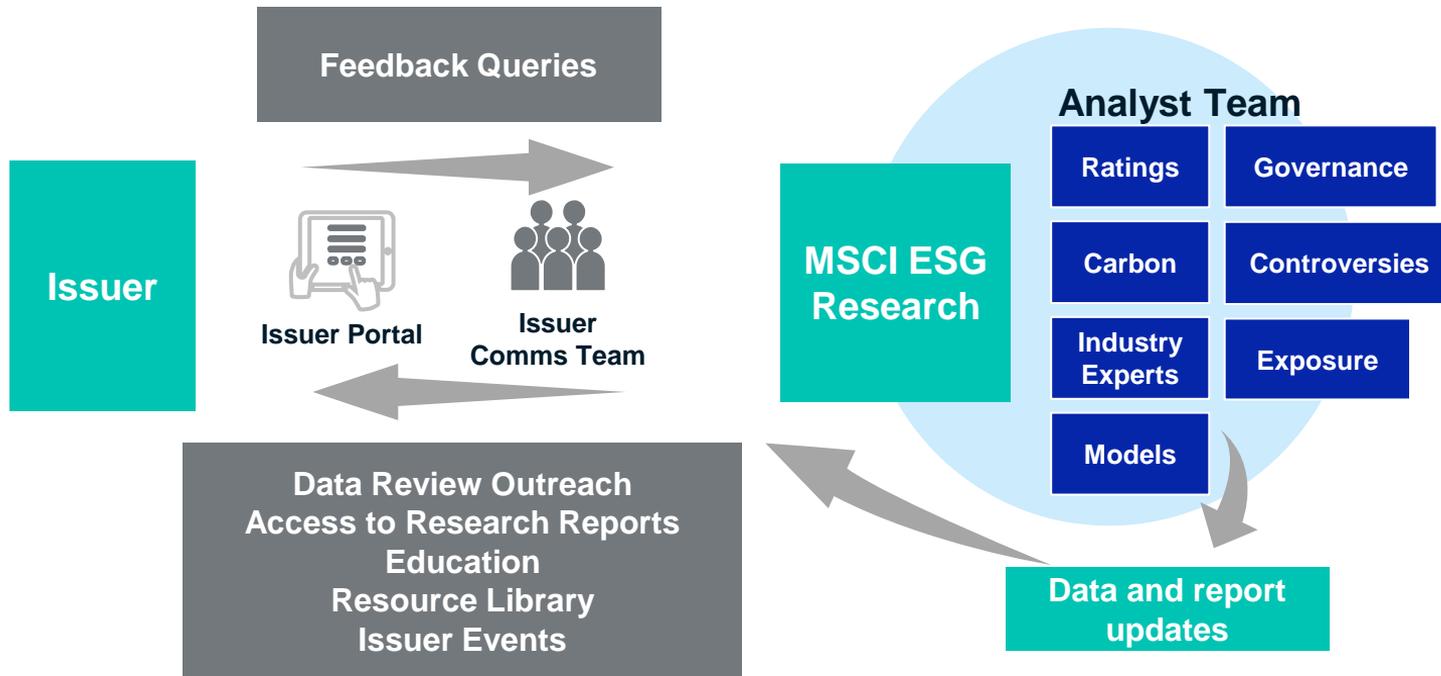
Interaction rate is the % of companies in the relevant MSCI Index that have reached out in the given year. The most active issuers are those who interacted with MSCI Issuer Communications team most frequently in recent two years.

¹ This Act requires the disclosure of social and environmental information on companies filing director's reports. The Corporations Act 2001. Australia Government. Last modified on Apr.4, 2021. [Source](#)

² National Greenhouse and Energy Reporting Act 2007. Australia Government. [Source](#)

³ Australia Securities Exchange (ASX) Listing Rules. ASX. 2003. [Source](#)

Typical Issuer Interaction



Engage With Us Through Our Dedicated Issuer Portal

Our [ESG Issuer portal](#) allows companies to access their ESG Research reports at any time and make changes to their designated contact.

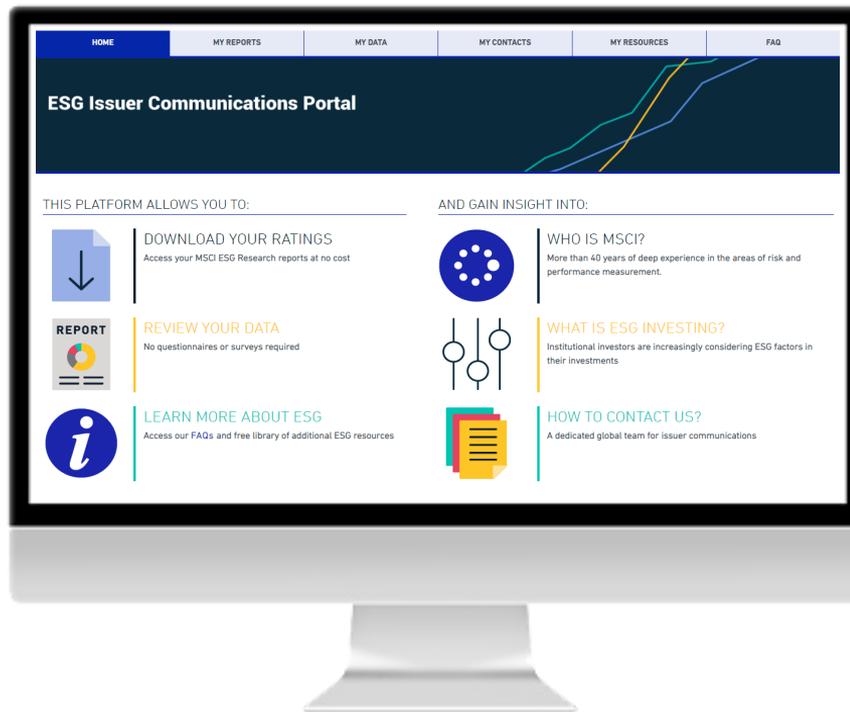
This is also where you submit feedback **at any time**.

Additional resources

- [Issuer Portal User Guide](#)
- www.msci.com/resources-for-issuers
- [Apply to use your ESG Ratings badge](#)

Contact us

- esgissuercomm@msci.com



Engage with us through the Issuer Communications Portal



Login to the ICP

<https://esgicp.msci.com/>

The screenshot displays the ESG Issuer Communications Portal interface. At the top, a navigation bar includes tabs for HOME, MY REPORTS, MY DATA (highlighted with a red box), MY CONTACTS, MY RESOURCES, and FAQ. A blue callout box labeled "Navigation Tab" points to the MY DATA tab. Below the navigation bar, the main header reads "ESG Issuer Communications Portal" with a line graph background. A red arrow points from the MY DATA tab to a "DATA VERIFICATION FORM" section. This form includes a table with columns for ESG Ratings, Carbon, ESG Controversies, Exposure, Governance Metrics, Screening Research, Racial Diversity, and SFDR. Under the ESG Ratings column, there are expandable sections for Weight, Practices, and Performance. A "Submit" button is located at the bottom of the form. A red box highlights the ESG Ratings column and its sub-sections. At the bottom of the form, there is an important notice: "IMPORTANT: Please ensure that you have reviewed all relevant data prior to submitting comments. While we welcome feedback at any time. In order to avoid any confusion while processing your feedback, we kindly request that you refrain from providing additional comments until all previous submissions have been reviewed and resolved."

Digital Data Verification Form

Data Review Efficiency

- Standardized and consistent feedback format
- Includes only company-verifiable data
- Data pre-filled; not a survey!

Extent of certification to a widely accepted product safety / quality standard (e.g. HACCP, ISO 9001, or equivalent)

MSCI Value

Most (over 80%) owned facilities are certified to widely accepted standards

Issuer Value

Most (over 80%) owned facilities are certified to widely accepted standards

Most (over 80%) owned facilities are certified to widely accepted standards

Some (over 20% and below 80%) owned facilities are certified to widely accepted standards

There is some evidence of certification

Few (less than 20%) owned facilities are certified to widely accepted standards

Company intends to pursue widely accepted certification of owned facilities

No evidence

Practices

Supply chain and sourcing

Membership in recognized industry-wide partnership(s) on supply chain/contractor risk evaluation and mitigation

Conducts supplier training on quality assurance

Frequency of supplier training

Scope of supplier training

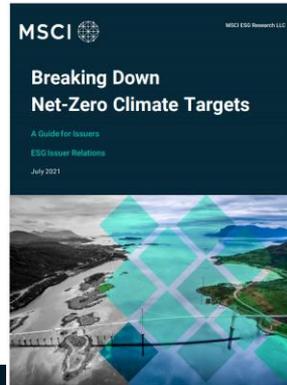
Metric Transparency

- Better understand MSCI ESG Research assessment criteria
- Submit feedback with public evidence

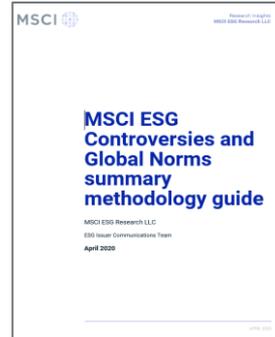
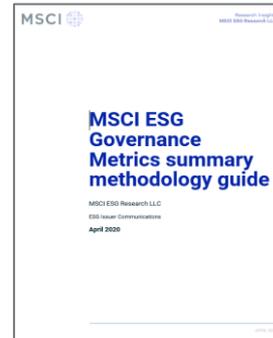
Additional resources available through the portal

- Visit the “My Resources” tab for access to on-demand webinars, methodology and more

FAQs and ‘How To’ Guides



Summary Methodology Guides



What goes into an ESG Rating?



Watch the MSCI ESG Ratings video

ALSO:

- Webinar recordings
- Relevant ESG thought leadership content from MSCI ESG Research
- And more!

Our ESG Issuer Communications Commitment



Independence

- No advisory or consulting



Consistency

- Systematic outreach to issuers
- Standard data review process



Traceability

- Use of publicly available data
- No confidential information



Transparency

- Issuer access to data and own reports at no cost
- Record of all interactions



For all inquiries related to your company's ESG data and assessments, the ESG Issuer Communication team is your main point of contact.

Get in touch:

esgissuercomm@msci.com

Q&A

About MSCI: ESG

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.

About MSCI Inc.

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.

Notice and disclaimer: ESG

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, iPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.

Contact us

AMERICAS		EUROPE, MIDDLE EAST & AFRICA		ASIA PACIFIC	
Americas	+1 888 588 4567 *	Cape Town	+ 27 21 673 0100	China North	10800 852 1032 *
Atlanta	+ 1 404 551 3212	Frankfurt	+ 49 69 133 859 00	China South	10800 152 1032 *
Boston	+ 1 617 532 0920	Geneva	+ 41 22 817 9777	Hong Kong	+ 852 2844 9333
Chicago	+ 1 312 675 0545	London	+ 44 20 7618 2222	Mumbai	+ 91 22 6784 9160
Monterrey	+ 52 81 1253 4020	Milan	+ 39 02 5849 0415	Seoul	00798 8521 3392 *
New York	+ 1 212 804 3901	Paris	0800 91 59 17 *	Singapore	800 852 3749 *
San Francisco	+ 1 415 836 8800			Sydney	+ 61 2 9033 9333
São Paulo	+ 55 11 3706 1360			Taipei	008 0112 7513 *
Toronto	+ 1 416 628 1007			Thailand	0018 0015 6207 7181 *
* = toll free msci.com clientservice@msci.com esgclientservice@msci.com				Tokyo	+81 3 5290 1555