

ISS ESG CORPORATE RATING

The ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments. Rooted in a holistic understanding of materiality, companies are assessed against a standard set of universal ESG topics as well as additional industry-specific topics. The materiality approach covers both material sustainability risks as well as adverse impacts on society and the environment. Drawing on an overall pool of more than 700 indicators, ISS ESG applies approximately 100 social, environmental, and governance-related indicators per rated entity, covering topics such as employee matters, supply chain management, business ethics, corporate governance, environmental management, eco-efficiency, and others. Differentiated weighting scenarios ensure that the topics most material for a given line of business/industry are duly taken into account. “Prime” status is granted to rated entities that are leaders in their respective industries and who meet demanding absolute performance expectations and are thus seen as well-positioned to manage critical ESG risks as well as capitalize on opportunities offered by transformations towards sustainable development.

The ESG Corporate Rating framework recognizes that environmental, social, and governance risks and impact differ by industry. The extent of industry-specific E, S, and G risks and impact defines the respective performance requirements, the distribution of weights between these rating dimensions, as well as the Prime threshold per sector. Companies in high risk and impact sectors such as oil and gas, for example, must demonstrate better performance in terms of their overall rating grade than those in low-risk sectors such as real estate to obtain the ISS ESG Prime status.

The ESG Corporate Rating integrates a detailed assessment of the sustainability impact of operations based on risk exposure and an assessment of management approaches regarding material sustainability risks along the entire value chain (“do no harm”). Meanwhile, positive and adverse sustainability impacts of product portfolios, assessed based on the share of net sales generated from products/services contributing to or obstructing the achievement of global sustainability objectives, are also considered (“find impact/opportunity”). Furthermore, the ESG Corporate Rating integrates ISS ESG’s Norm-Based Research’s evaluation of corporate compliance with recognized international norms and guidelines as a stress-test of ESG performance while highlighting sustainability risks.

The set of universal ESG topics against which all companies covered by the ESG Corporate Rating are assessed includes certain good governance practices as defined under the EU Sustainable Finance Disclosure Regulation (SFDR). Within the “G” pillar of ISS ESG’s Corporate Rating, companies’ management structures are evaluated, including, for instance, the independence of the board of directors, the presence of relevant independent board committees, as well as remuneration policies. Employee relations are considered in the Corporate Rating’s “S” pillar which include a company’s management approach and performance in relation to fundamental principles and rights at work as well as labor conditions. Responsible tax practices and a company’s broader engagement with governments in terms of political spending and lobbying activities form part of the “S” pillar as well.

Outputs

The ESG Corporate Rating provides a qualitative assessment of ESG performance and comprises a range of complementary outputs. The rating model applies a twelve-point grading system from A+/4.00 (excellent performance) to D-/1.00 (poor performance). All indicators are individually assessed based on clearly defined absolute performance expectations. Based on individual scores and weightings at the indicator level, results are aggregated to yield data on the topic level as well as

an overall score (rating). "Prime" status is granted to industry leaders who meet the industry-specific Prime threshold, with Prime thresholds ranging from C (for low risk industries) to B- (for high risk industries). In addition to the overall rating, a decile rank indicates performance relative to industry peers. A decile rank of 1 indicates high relative performance, while a 10 indicates a lower relative performance. The ESG Performance Score allows for cross-sector comparisons using a standardized best-in-class threshold, measuring company performance on a scale of 0 to 100 with 50 representing the Prime threshold applicable for the industry.

Additionally, ratings analysts compile qualitative summaries addressing the most material sustainability opportunities, sustainability risks, and governance performance ('Analyst Opinion').

Research Process

The ESG Corporate Rating follows a staged update process: Scheduled annual updates are complemented by ad hoc updates triggered by significant events, including but not limited to, corporate actions (e.g., mergers, major spin-offs, acquisitions) and new or evolving ESG controversies involving a rated company.

The rating process can be broken down into the following core steps:

- **Data collection:** Relevant information is retrieved both from the companies being analyzed and from alternative ESG data sources, including media sources (international, local), recognized international or local non-governmental organizations, government agencies, and inter-governmental agencies, among others. Generally, the overall ratio of quantitative to qualitative data used in ratings is about 1:3 (based on type of indicators). At an individual rating level, this proportion can vary depending on the selection of material indicators.
- **ESG research:** Proprietary ratings and scoring models are applied, resulting in a draft rating.
- **Quality assurance:** Draft ratings are systematically proofread by experienced analysts.
- **Company feedback:** A comprehensive dialogue with the rated issuers is carried out once every two to three years. Additionally, corporate issuers are welcome to send information/updates regarding sustainability issues for consideration at any time.
- **Final report:** The final ESG Corporate Rating report is made available to the assessed company free of charge on a confidential basis and will be published on ISS ESG customer platforms.

Use of Estimated Data

The ESG Corporate Rating primarily uses disclosed company data wherever available. If no relevant or current company information for a specific indicator is available, and no assumptions can be made on pre-defined standards, the indicator is assessed with D-.

Indicators can be distinguished into qualitative and quantitative indicators. Further, to allow for meaningful and granular assessments, almost all indicators are evaluated regarding both content and coverage of relevant information. Coverage refers to the reach of content in terms of e.g., percentage of (relevant) employees, operations, or revenues covered.

In cases of inadequate or non-existent disclosure, estimations may be necessary in the following situations:

- While the content assessments of qualitative indicators do not include estimations, in some quantitative indicators which are based on percentages assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance to ensure that estimated figures are based on reasonable assumptions with medium to high certainty. No estimations in raw data (such as consumption data or intensities) are made.
- Regarding coverage, if not disclosed by the company, estimations are made based on contextual information provided that reasonable assumptions with medium to high certainty can be made. The share of estimations in coverage assessments is estimated to be between 10-15%.
- Taking into account indicator types and share of estimations in coverage assessments, the estimated overall share of estimated data across ESG Corporate Ratings data lies between 5-10%. At an individual rating level, the share of estimated data can vary.

Last Updated: June 2022

**We empower investors and companies to build
for long-term and sustainable growth by providing
high-quality data, analytics, and insight.**

SUCCEED WITH ISS ESG SOLUTIONS

Email sales@iss-esg.com or visit iss-esg.com for more information.

ISS ESG is the responsible investment arm of Institutional Shareholder Services Inc., the world's leading provider of environmental, social, and governance solutions for asset owners, asset managers, hedge funds, and asset servicing providers. With more than 30 years of corporate governance expertise and 25 years of providing in-depth responsible investment research and analytics, ISS ESG has the unique understanding of the requirements of institutional investors. With its comprehensive offering of solutions, ISS ESG enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, ISS ESG delivers corporate and country ESG research and ratings enabling its clients to identify material social and environmental risks and opportunities.

This document and all of the information contained in it, including the methodologies which are described, is the property of Institutional Shareholder Services Inc. ("ISS") or its subsidiaries. The Information may not be reproduced or disseminated in whole or in part without prior written permission of ISS. The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. The Information is provided for informational purposes only. While ISS exercised due care in compiling this document, ISS makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for any purposes. In particular, the Information provided does not constitute investment advice and is not intended to constitute an offer, solicitation or advice to buy or sell securities nor is it intended to solicit votes or proxies.

© 2022 | Institutional Shareholder Services and/or its affiliates