



SUSTAINALYTICS


a Morningstar company

—
INTRODUCTION

Controversies

Research
—





Sustainalytics

Controversies Research

Controversy Assessment Process

- » Rating changes are proposed by analyst and peer-reviewed by Sector Lead.
- » Company contact in case of significant or severe rating changes.
- » Events Oversight Committee comprising of interdisciplinary senior staff approves rating and significant outlook changes.

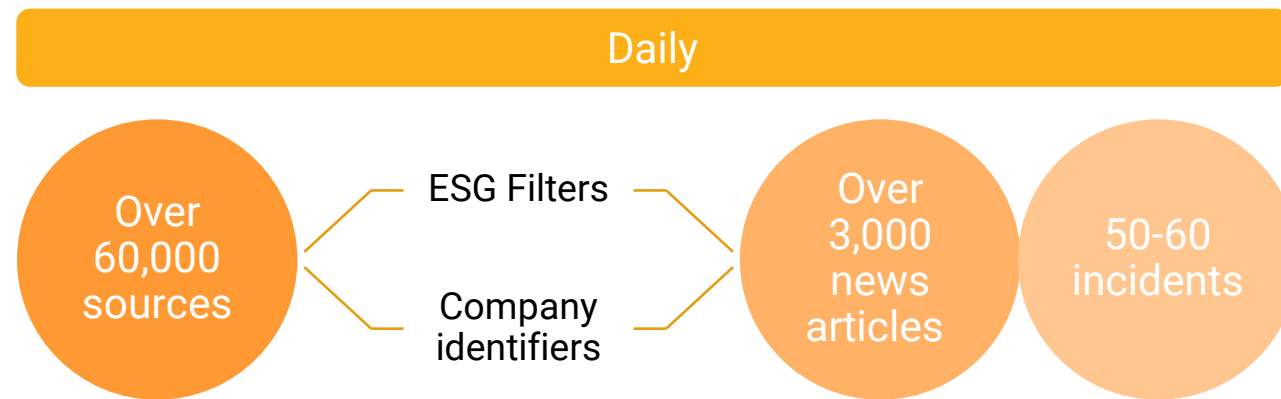


*For significant downgrades/upgrades

Daily News Screening

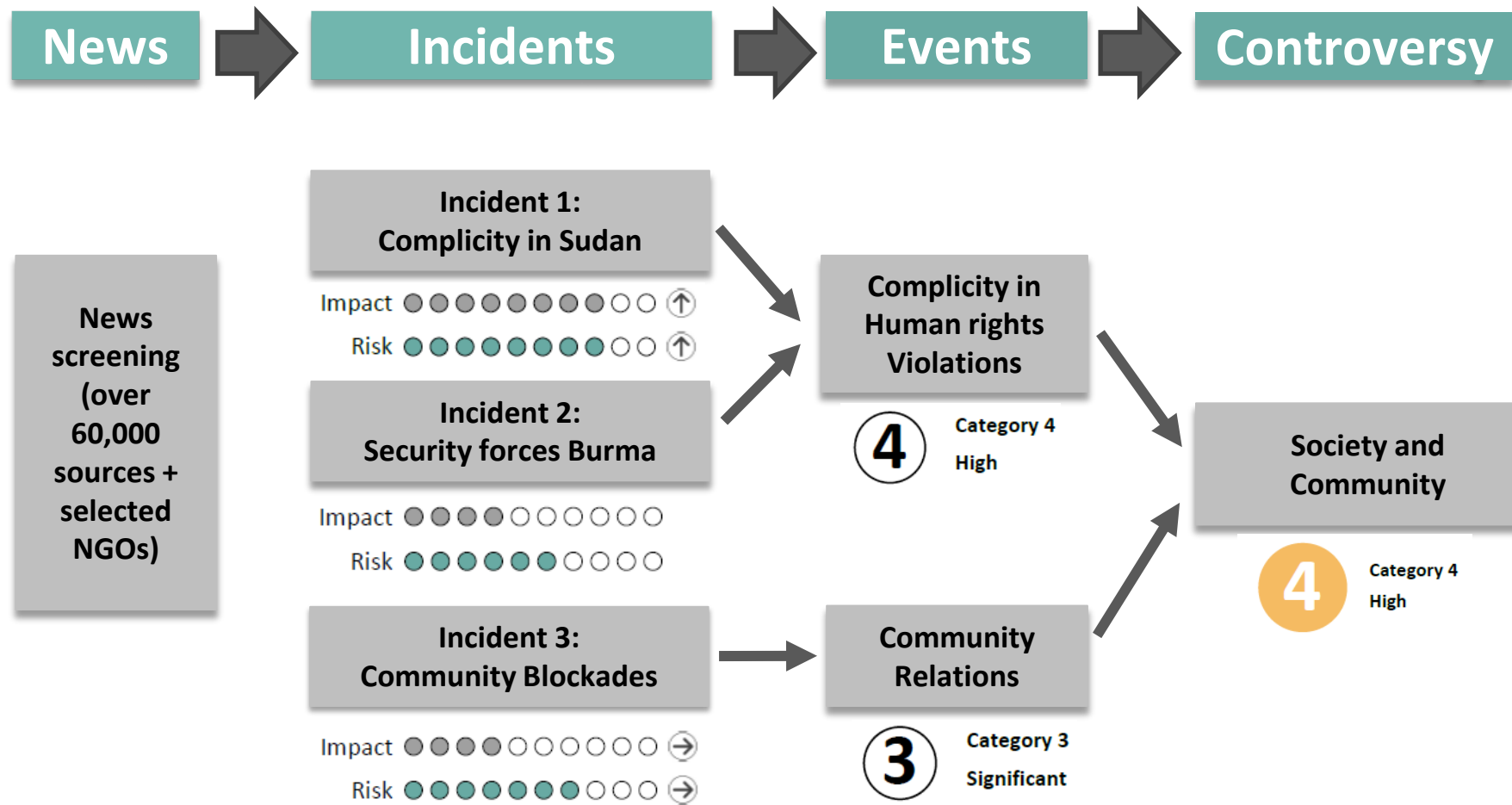


Daily Screening – Moreover Technologies (a Lexis Nexis company) provides a wide range of information, spanning from financial, to political and business news

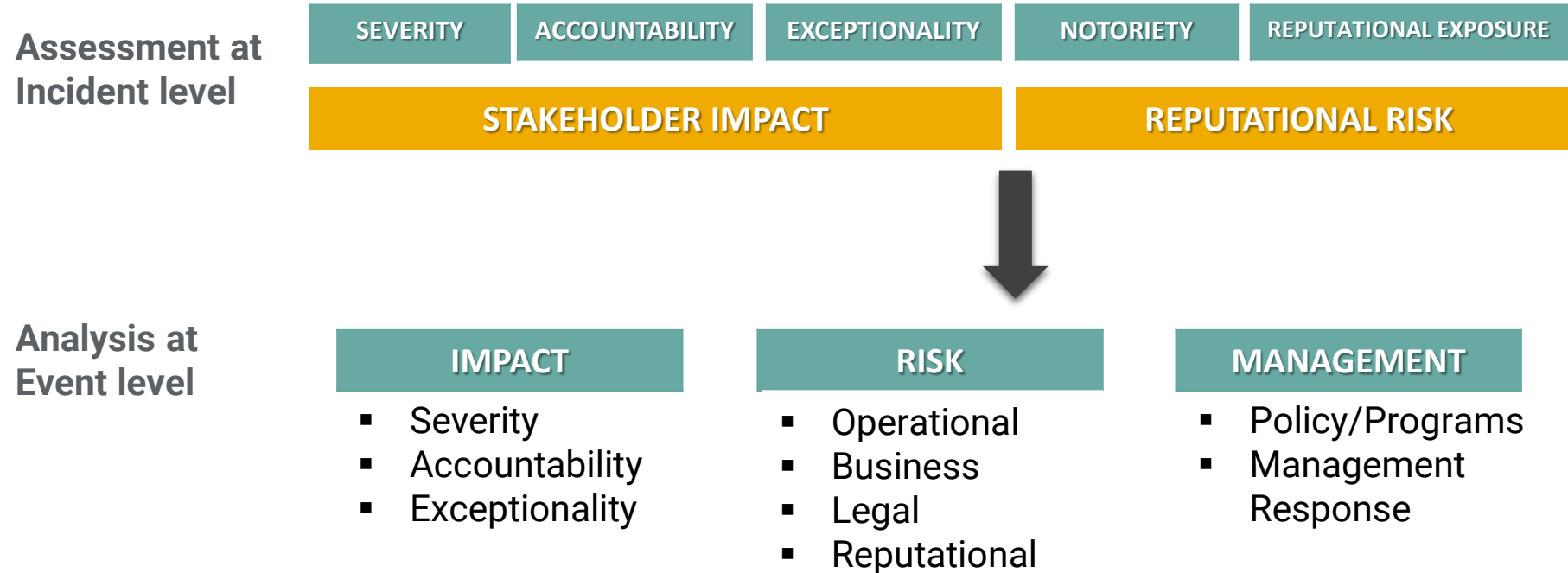


- » In-house built ESG filters are applied that sort through the news, narrowing them down to relevant news stories that are pertinent to Sustainalytics' controversy research process.
- » The news is matched to companies in Sustainalytics' research universe by using company names.

From News to Ratings



Controversy Assessment Framework



Controversy Assessment Process



- » For rating and Outlook changes of significant level of controversies, analysts are required to make a proposal to the Events Oversight Committee (EOC)
- » The EOC, which is comprised of interdisciplinary senior staff, meets every week to discuss proposals
- » The rating is changed only when the EOC approves the proposal

Events Oversight Committee

Product
Manager

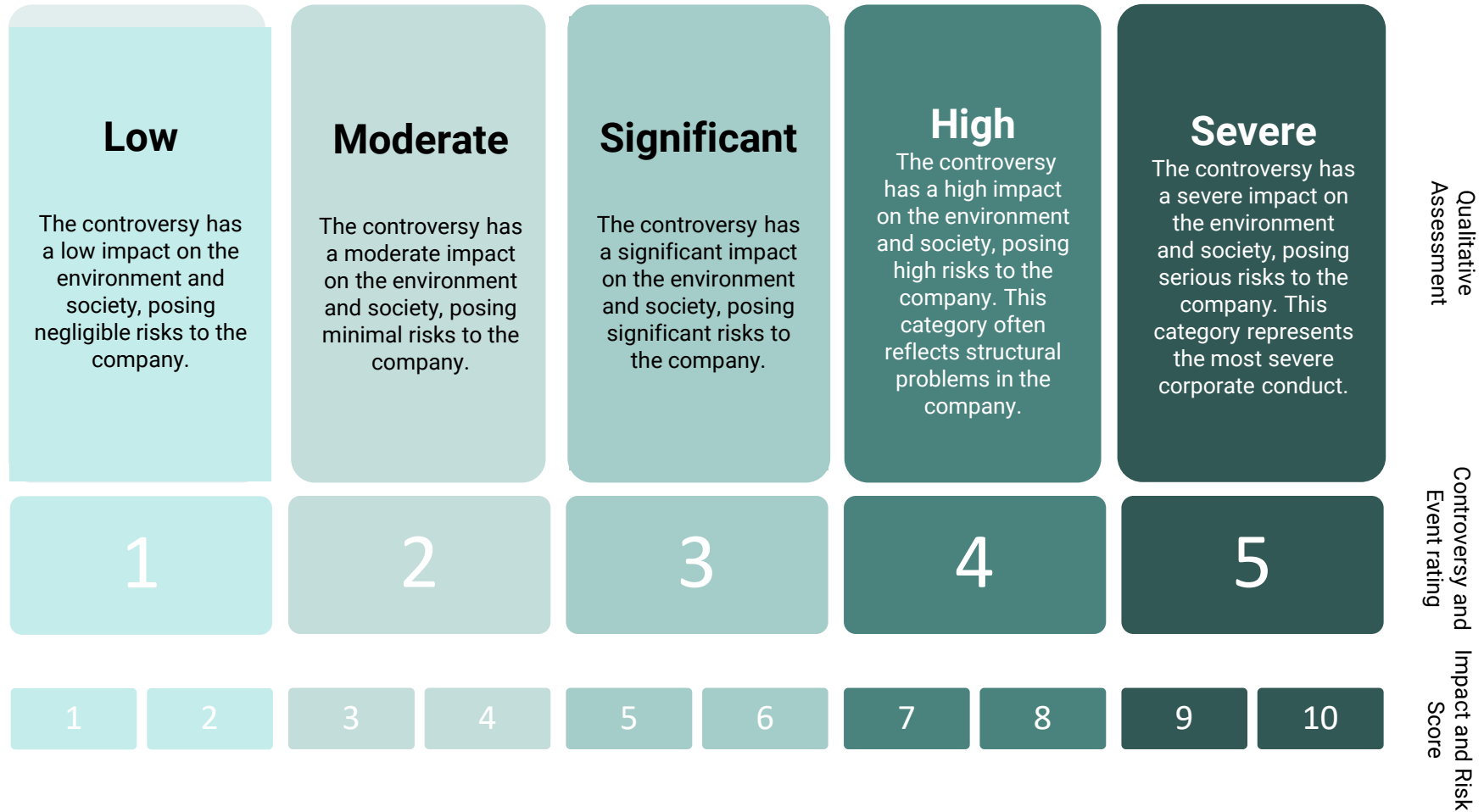
Director of
Research

Senior
Client
Advisor

Senior
Analyst

Senior
Business
Editor

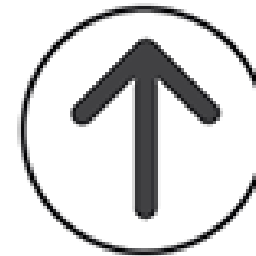
Arriving at the Controversy Rating



Controversy Outlook

Forecast of how the rating will evolve in the next 24 months

- » Factors that mitigate or exacerbate impact and risk
- » External factors that increase or decrease exposure
- » Downgrade and upgrade scenarios



Positive



Neutral

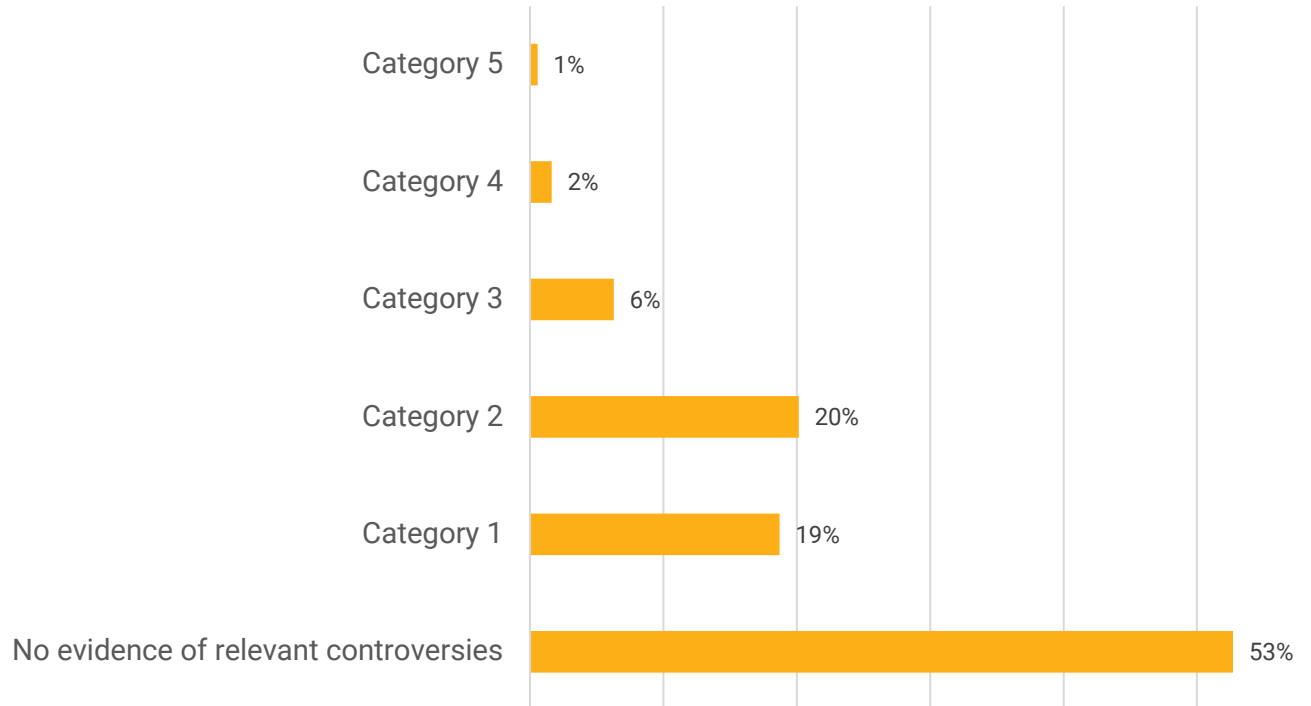


Negative

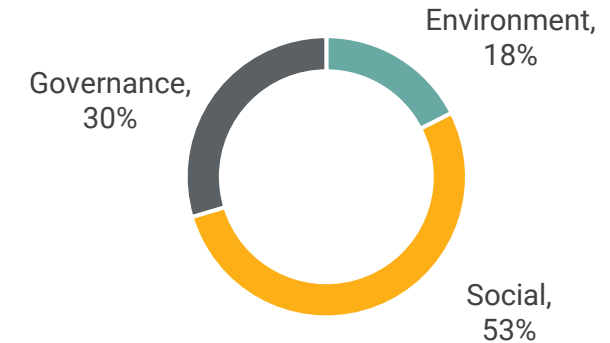
Overall Controversy Category Distribution

Based on Sustainalytics Compliance Base universe

Highest controversy level category distribution



Distribution of events per theme



Theme level considerations

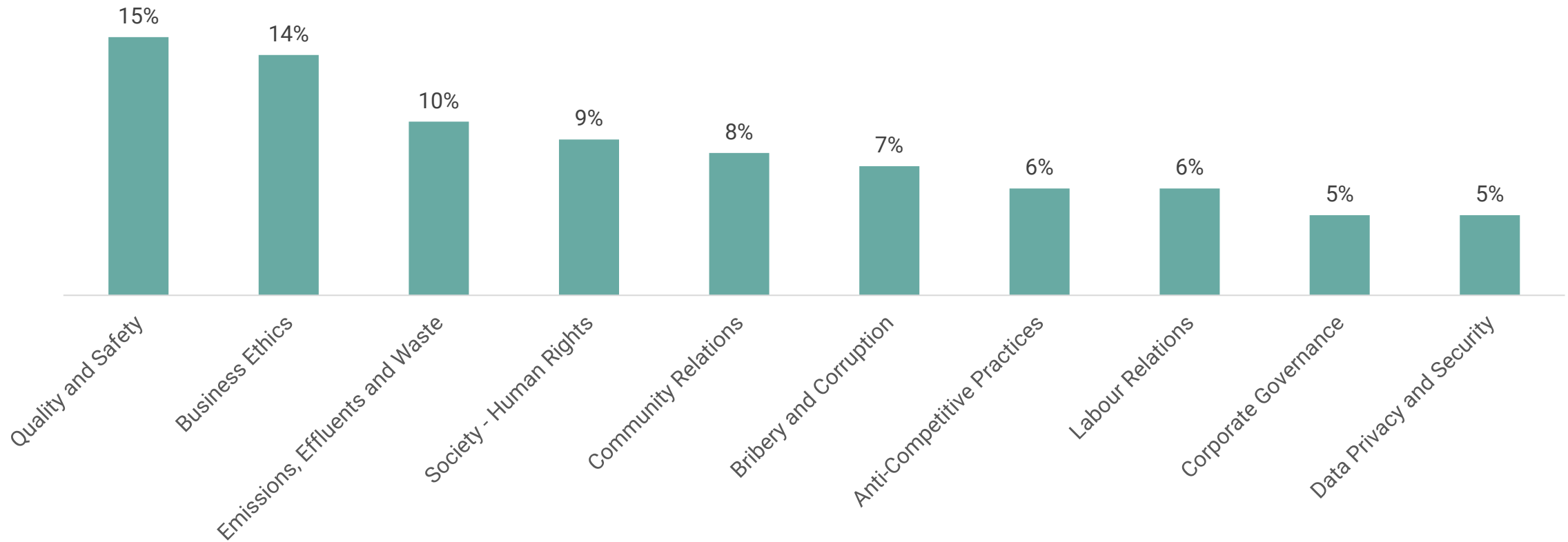
- » The majority of events involve social topics (53%)

Outlook

- » Currently, most of the significant Events have a neutral Outlook (~70%)
- » There are more Negative (~20%) than Positive Outlook assessments (~10%)

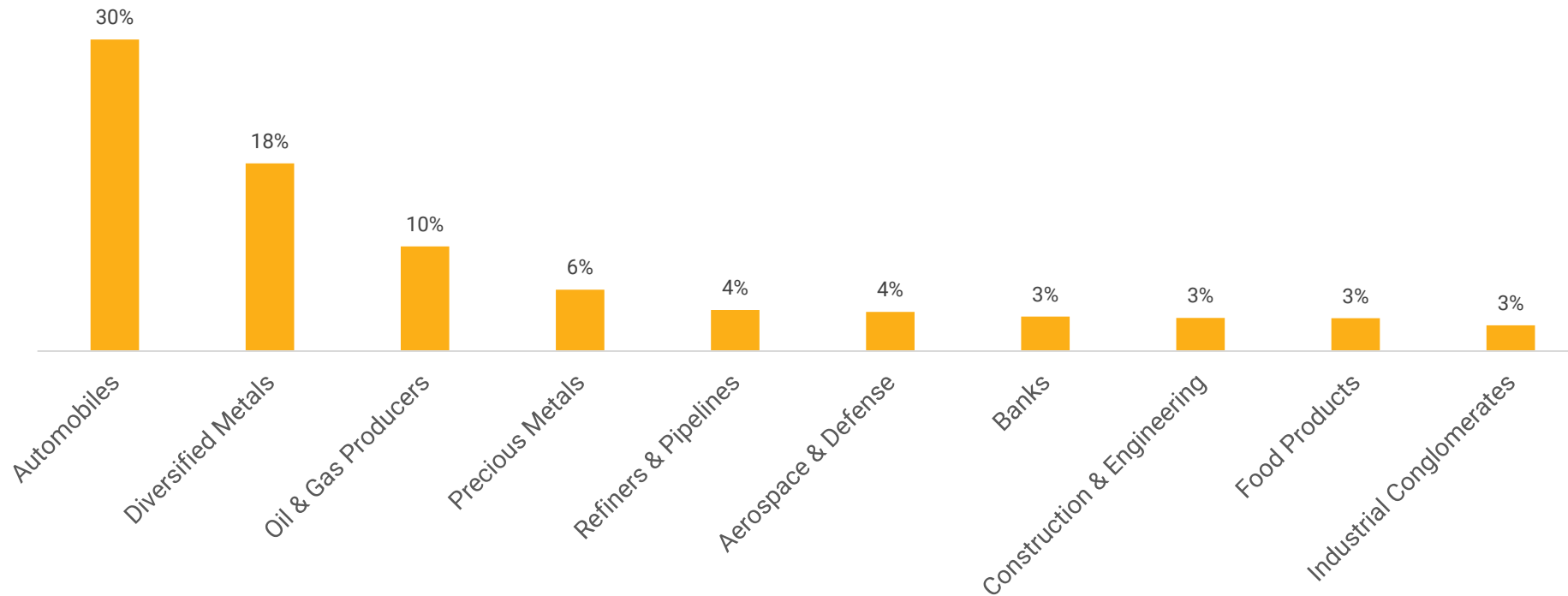
Top 10 most common significant Controversies by ESG Topic

Significant controversies are category 4 and 5 controversies



Top 10 peer groups with Significant Controversies within total Peer Group

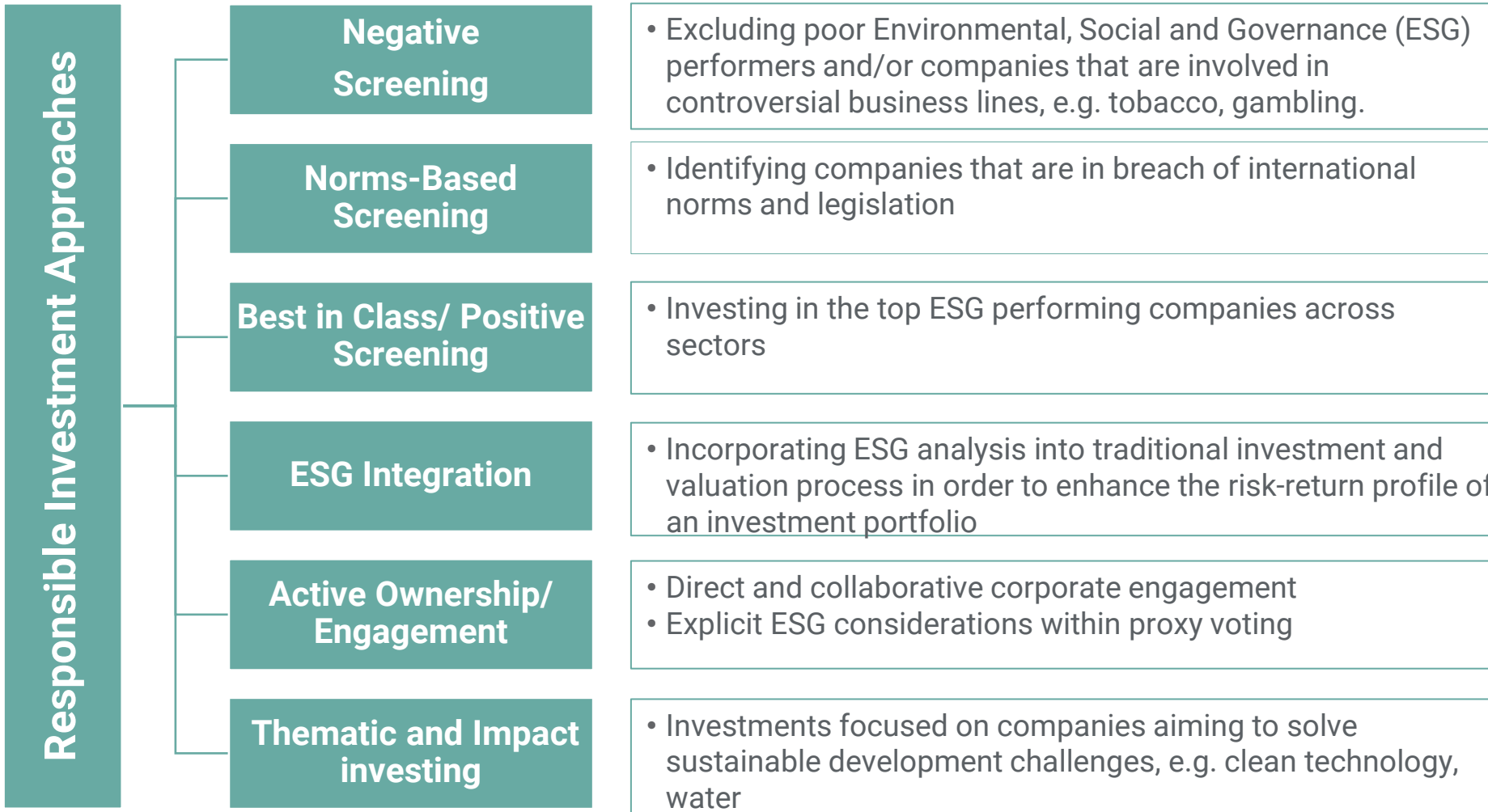
Significant controversies are category 4 and 5 controversies





Appendix

ESG Strategies Overview



Mapping Environment theme

Controversy Indicator Name

- » Operations Incidents
- » Environmental Supply Chain Incidents
- » Product & Service Incidents

Event Indicator Name

- » Emissions, Effluents and Waste
- » Energy Use and GHG Emissions
- » Land Use and Biodiversity
- » Water Use
- » Emissions, Effluents and Waste - SC
- » Energy Use and GHG Emissions - SC
- » Land Use and Biodiversity - SC
- » Water Use – SC
- » Environmental Impact of Products
- » Carbon Impact of Products

Mapping Social theme

Controversy Indicator Name

- » Employee Incidents
- » Social Supply Chain Incidents
- » Customer Incidents
- » Society & Community Incidents

Event Indicator Name

- » Employees - Human Rights
- » Labour Relations
- » Occupational Health and Safety
- » Community Relations - SC
- » Employees - Human Rights - SC
- » Society - Human Rights - SC
- » Labour Relations - SC
- » Occupational Health and Safety – SC
- » Anti-Competitive Practices
- » Marketing Practices
- » Media Ethics
- » Data Privacy and Security
- » Quality and Safety
- » Access to Basic Services
- » Community Relations
- » Society - Human Rights
- » Sanctions
- » Social Impact of Products
- » Weapons

Mapping Governance theme

Controversy Indicator Name

- » Business Ethics Incidents
- » Governance Incidents
- » Public Policy Incidents

Event Indicator Name

- » Accounting and Taxation
- » Animal Welfare
- » Bribery and Corruption
- » Business Ethics
- » Intellectual Property
- » Animal Welfare - SC
- » Bribery and Corruption - SC
- » Business Ethics - SC
- » Corporate Governance
- » Resilience
- » Lobbying and Public Policy

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