



SUSTAINALYTICS'

Controversies Research

FAQ

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General Questions

1. What is Controversies Research?

Sustainalytics' Controversies Research provides an assessment of a company's involvement in incidents with negative environmental, social and governance (ESG) implications. Controversy involvement is a key measure of ESG performance that can inform investment decision making processes.

Sustainalytics conducts news screening on a daily basis, where incidents with negative ESG implications are identified and assessed by our research analysts. Companies are assessed on the following aspects:

- 1) The nature and scale of the negative impact that the incident has caused to society and the environment
- 2) The business risk to the company as a result of the incident
- 3) How the company manages the issue

Companies are then rated on a scale of Category 1 (low severity) to Category 5 (most severe) to reflect the severity of the issue and the company's level of involvement as well as response.

2. Why did we develop Controversies Research?

We developed Controversies Research in order to serve clients who wish to monitor, screen, analyze and/or report on companies that have been involved in negative ESG controversies, for the purpose of informing their investment decision-making and/or company engagement processes. With over 25 years of a track record and expertise in ESG research, we are confident that Sustainalytics' Controversies Research offers investors comprehensive and timely assessments underpinned by a robust methodology.

3. What are the key benefits of Controversies Research?

1) **Manage your portfolio's ESG exposure**

Identify and assess to which degree companies in your portfolios are exposed to negative ESG impact and risks, which can potentially affect the companies' operations.

2) **Improve reputational risk management**

Enhance your portfolio's long-term performance by proactively identifying and managing reputational risks.

3) **Demonstrate your commitment as a responsible owner**

Identify issues for potential engagement and support background research and engagement target setting.

4) **Respond to responsible investment mandates**

Expand your product suite to systematically incorporate ESG consideration into your portfolio offering and respond to relevant client mandates.

Product Features

4. What are the key features of Controversies Research?

Category Assessment

Companies are rated on a severity scale of Category 1 (low) to Category 5 (severe) on each of the 40 Event Indicators.

Event Assessments

In case of more severe Events (Categories 3 to 5), we provide qualitative assessment texts outlining our rationale for the rating and assessments. The Event Assessments summarize major milestones and timelines, as well as provide detailed analysis on impact, risk, management and trend of the event, which are the basis of the Category Rating. For Category 1 and 2 Events, only the Category Rating is provided (no qualitative assessments are provided). A company may have several active Events with Category assessments at the same time.

Outlook

A Positive, Negative or Neutral Outlook is provided for Events assessed as Category 3 to 5. The Outlook reflects our analyst's expectation of future rating changes (improvement or deterioration) within a one to two-year period, based on the company's management of the issue and other external circumstances (e.g. legal settlements).

Incidents

We provide descriptions of each underlying Incident that constitutes the basis for an Event, together with date of occurrence, news source and location. The Incident descriptions are also accompanied by Incident-level impact and reputational risk scores.

Alerts Service

Clients can subscribe to bi-weekly email alerts with an excel overview of any Category and Outlook changes of their portfolio companies. The overview contains company names, nature of changes (Category and Outlook, positive and negative), previous and new assessments, as well as the rationale for changes.

Reporting Tools

On Sustainalytics' Global Access platform, a number of data points are available for Controversies Research for filtering, including, but not limited to;

- Category Ratings
- Qualitative assessments
- Outlook (for Category 3 to 5)
- Highest Controversy Category
- Incidents-level Impact and Risk scores

5. What universe of companies do you cover and how often is the research updated?

Controversies Research provides assessments on over 17,000 companies.

Companies covered by our Controversies Research are monitored for possible incidents and rated with Category assessments on an ongoing basis, and available on Sustainalytics' Global Access platform and data feeds on a daily basis. In addition, clients can receive an alert via email on a bi-weekly basis, which flags any changes in Category Ratings and Outlooks.

6. How can I access Controversies Research?

Controversies Research is available via Sustainalytics' Global Access platform (onscreen reports, PDFs, and excel/csv reports), data feeds and custom deliverables, as well as third-party data platforms such as FactSet.

7. Is historical data available for this product?

Yes, historical data is available going back to 2011. Please note that there may be limited amount of historical data in some cases, as the number of companies researched by Sustainalytics has increased constantly over time.

Application

8. How can I use Controversies Research?

Clients can use our Controversies Research to monitor, screen, analyze and/or report on companies that have been involved in negative ESG controversies, in order to inform decision-making for both equity and fixed income investing for a range of investment strategies. Below are examples of client use cases:

- Identify companies with the most severe controversies (Category 4-5) for due diligence, exclusion, engagement, voting, manager monitoring and engagement (in the case of asset owners).
- Use lower Category Ratings, for example Category 3 with Negative Outlook, as 'early warning signals' in order to proactively manage potential reputational and/or financial risks.
- Dive deeper into the Impact, Risk, Management and Trend assessments to identify opportunities for management improvements, as well as structural goal setting for an engagement effort.
- Receive Bi-weekly Alerts for ongoing monitoring of portfolio holdings.
- Use Category Ratings to detect more granular and early signs of credit rating changes.
- Use Event Indicators and associated Category Ratings to identify specific ESG risks for thematic funds or for implementing tilts on passive products.
- Use Controversies Research in combination with ESG Risk Rating data points. For example, focus on Controversies on a material ESG issue (MEI) with the highest Exposure or Unmanaged Risk scores in the ESG Risk Rating.

To effectively support clients with these varied needs, we provide various filtering features as mentioned in Question 5.

9. How is Controversies Research different from Global Standards Screening?

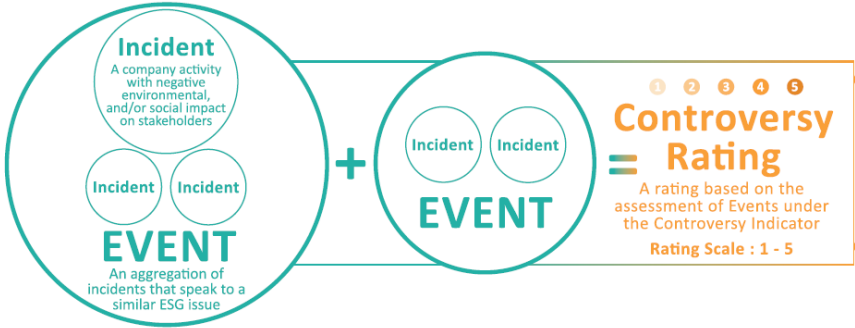
Sustainalytics’ Controversies Research provides ongoing and granular assessments of companies’ involvement in incidents with negative ESG implications, based on a holistic perspective considering both impact on the environment and society and risks to a company’s operations.

Sustainalytics’ Global Standards Screening (GSS) assesses a company’s involvement in negative ESG incidents solely from the perspective of impact on stakeholders. The assessments are provided based on the extent to which a company causes, contributes or is linked to violations of international norms and standards, namely the United Nations (UN) Global Compact Principles. Companies do not receive a rating or score in Global Standards Screening. Instead, they are assessed as Compliant, Watchlist or Non-Compliant. We have developed GSS in order to serve clients who wish to implement norms-based screening for compliance purposes.

Research Framework

10. What is the overall methodology for this product?

Our Controversies Research product reflects a company’s level of involvement in incidents and how that company manages those incidents. The diagram below provides an overview of how the Controversies rating is formed, with a few building blocks – Incidents and Events.



INCIDENTS

An Incident is a building block of Controversies Research. It is a company activity with unintended and/or undesired negative environmental and/or social impacts on stakeholders. Incidents are primarily assessed based on the negative environmental and/or social impact of the company activity, as well as the reputational risk that this activity poses to the company. An incident is tied to one company, one location and one date.

Incidents are tracked through various media and NGO sources and typically inform a Controversy rating for a period of three years. In exceptional cases, long-running, high-impact incidents can continue to inform a Controversy rating for more than three years, until they no longer pose a risk to the company.

EVENTS

Events are series of separate or related incidents that pertain to the same ESG issue. Events are classified into 40 Event Indicators that represent different ESG issues. For example, a series of employee strikes in multiple locations of a company’s operation forms an Event under the Event Indicators “Labour Relations”. To assess an Event, an analyst looks at the following aspects of underlying incidents:

- **Impact:** The nature and scale of the negative impact that the incident has caused to society and/or the environment
- **Risk:** The business risk to the company as a result of the incident
- **Management:** A company’s management systems and response to the incident
- **Trend:** The frequency and/or pattern of occurrence of such incidents

An Event is rated on a scale of 5 Category levels:

Category 5 – Severe	The Event has a severe impact on the environment and society, posing serious business risks to the company. This category indicates exceptional egregious corporate behavior, relatively high frequency of recurrence of incidents, very poor management of ESG risks, and a demonstrated lack of willingness by the company to address such risks.
Category 4 – High	The Event has a high impact on the environment and society, posing high business risks to the company. This rating level indicates systemic problems within the company, weak management systems and company response, and a recurrence of incidents.
Category 3 – Significant	The Event has a significant impact on the environment and society, posing significant business risks to the company. This rating level indicates evidence of structural problems in the company due to recurrence of incidents and inadequate implementation or lack of appropriate management systems.
Category 2 – Moderate	The Event has a moderate impact on the environment and society, posing moderate business risks to the company. This rating level indicates low frequency of recurrence of incidents and adequate or strong management systems and/or a company response that mitigates further risks.
Category 1 – Low	The Event has a low impact on the environment and society, and risks to the company are minimal or negligible.

CONTROVERSIES

Controversies are an Event or series of Events related to broader ESG topics, defined with 10 Controversy Indicators. The most severe Event Category under a Controversy Indicator

automatically becomes the Controversy Rating. Controversy ratings also follow the five-level hurricane scale shown above. For example, if a company has a Category 2 Event under the Labour Relations Event Indicator and a Category 3 Event under the Occupational Health and Safety Event Indicator, the company’s highest Event Category under the “Employee Incidents” Controversy Indicator is Category 3.

Example of Controversy – Event – Incident mapping:

Controversy Indicator	Event Indicator	Incident tags
Operations Incidents	Conservation and Land Use	Environment - Other
		Land Use and Biodiversity
	Emissions, Effluents and Waste	Degradation & Contamination (Land)
		Discharges and Releases (Water)
		Emissions to Air
Energy Use and GHG Emissions	Energy Use and Greenhouse Gas Emissions	
Water Use	Water Use	

11. What sources do you use for the research?

We monitor 700,000 news items from more than 60,000 media and NGO sources on a daily basis, in order to identify potential incidents for a universe of over 17,000 issuers.

Our local language coverage includes over 10 languages:

- English
- French
- Spanish
- Portuguese
- Japanese
- Russian
- Dutch
- Swedish
- Danish
- Norwegian
- Chinese

In addition, our dedicated team of 30 sector analysts analyze company disclosure, as well as other publicly available information. We also analyze information provided by companies as part of a company feedback process.

Research Processes

12. How do you ensure the quality of your research?

Both at the Incidents research and Events research levels, analysts, who focus on respective sectors, conduct research based on robust internal methodology and guidelines. Their work is then reviewed by senior analysts. Proposals of Category Rating changes for more severe controversies (changes from/to Category 4-5) and all Outlook changes need to be approved by a dedicated committee – the Events Oversight Committee – comprising senior representatives from the Research, Product Management and Quality Control teams.

Besides ongoing reviews of news updates and resultant rating changes to an event, the structural review of the Category ratings and Outlooks are conducted, quarterly for Category 4-5 and half-yearly for Category 3, regardless of the emergence of new information or not.

13. Do you engage with issuers on their performance?

Companies are contacted for every status change from/to Category 4-5. Sustainalytics conducts this feedback process in order to inform companies about the status change, as well as to allow companies the opportunity to provide us with more information related to the controversy. Companies are contacted once a year during our update of their ESG Risk Rating, at which time they can also provide feedback on our Controversies Research.

14. What does the research team look like for this product?

Sustainalytics has heavily invested in access to news sources and software to identify relevant news items, which includes 60,000 media and NGO sources in more than 10 languages. These Incidents are then reviewed, analyzed and processed by a dedicated team of 20 analysts based on a robust methodology. Furthermore, a team of 30 sector analysts assesses and rates the Events, based on the Events assessment methodology, which takes into account the Impact, Risk, Management and Trend aspects, mentioned previously.

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