The ESG Corporate Rating provides highly relevant, material and forward-looking environmental, social and governance data and performance assessments.

The ESG Corporate Rating universe covers approximately 10,000 issuers*, including

- full coverage of major stock indices of developed and emerging markets,
- coverage of small and mid-cap indices in developed markets,
- important non-listed bond issuers.

A company’s ESG performance is assessed with a standard set of cross-sectoral indicators complemented by sector-specific ones in order to address its material ESG challenges.

An Analyst Opinion complements each ESG Corporate Rating, providing a qualitative summary and analysis of central rating results in three dimensions: Sustainability Opportunities, Sustainability Risks and Governance.

To ensure high quality analyses, indicators, rating structures, and results are regularly reviewed by an internal Methodology Board. In addition, methodology and results are regularly discussed with an external Rating Committee, which consists of highly recognized ESG experts.

*Growth target by end of 2019 for the ESG Corporate Rating Universe

### Development of ESG Performance Indicators

- Comprehensiveness and Materiality
  - Pool of 800+ Indicators
  - Selection of 100 Indicators per Sector
  - Focus on and High Weighting of 4-5 Material Key Issues

- Standards and Development
  - International Norms & Conventions
  - UN SDGs
  - GRI
  - SASB
  - New Scientific Findings
  - Technological Developments
  - Regulatory Changes

### Performance Data on More than 30 ESG Topics

available across all industries and based on in-depth analysis of various factors

#### Environment
- Climate Change Strategy
- Eco-Efficiency
- Energy Management
- Environmental Impact of Product Portfolio
- Environmental Management
- Water Risk and Impact
- And more

#### Social
- Equal Opportunities
- Freedom of Association
- Health and Safety
- Human Rights
- Product Responsibility
- Social Impact of Product Portfolio
- Supply Chain Management
- Taxes
- And more

#### Governance
- Business Ethics
- Compliance
- Independence of the Board
- Voting Rights
- Shareholder Participation
- Remuneration
- And more
Alphabetical and Numeric Rating Scale

The ESG Corporate Rating 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).

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.

Industry-specific Performance Thresholds and Weightings

The environmental, social and governance risks and impact of industries differ. Their sector-specific materiality determines the position of an industry within the Industry Classification Matrix.

The extent of industry-specific E, S and G risks and impact defines the respective performance requirements and the distribution of weights between these rating dimensions per sector.

Companies in high risk and impact sectors such as oil and gas, for example, have to deliver a better performance than those in low risk sectors such as real estate to obtain the ISS ESG Prime Status.

Industry-Specific Key Issues

For every sector four to five key issues are identified. To ensure that performance with regard to these most material issues is adequately reflected in the overall rating results, their weighting accounts for at least 50% of the overall rating.

Impact of Product Portfolio and Operations

Aligned with the United Nations Sustainable Development Goals (UN SDGs), the ESG Corporate Rating integrates a detailed assessment of

- 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”)

- sustainability impact of product portfolios, assessed based on the share of net sales generated with products/services contributing to or obstructing the achievement of global sustainability objectives (“find opportunity”).
CONTROVERSY ASSESSMENT

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.

Each controversy is examined and categorized based on

- Verification
- Severity
- Remediation

The severity of the controversial behavior determines the impact on the ESG Corporate Rating score’s respective area.

DIALOGUE-ORIENTED RATING PROCESS

In order to build up a comprehensive picture of each company, information relevant to the rating is collected both from the companies being analyzed and from independent sources and experts.

During the rating process, considerable importance is attached to the dialogue with the company under evaluation. The rating process illustrated below provides companies with ample opportunity to comment on and add information to the provisional findings. After finalization of the rating, the full rating report is delivered to the company free of charge.

THE ESG CORPORATE RATING PROCESS

- Review of Rating Criteria
- Rating Update
- Draft Rating
- Company Feedback:
  Opportunity for comments and sharing of internal ESG documents
- Review & Validation
- Final Rating
- Delivery to:
  - Clients
  - Rated Issuer
**UP-TO-DATE RESEARCH REPORTS AND DATA**

ISS ESG Corporate Ratings are based on a staged update process. All Ratings are updated on an event-driven basis whenever incidents such as controversies, accidents or mergers occur.

Company reporting, like annual and sustainability reports, is integrated within annual reviews, taking into account companies’ reporting schedules. In addition, a comprehensive dialogue process with the rated issuers is carried out once every two to three years.

**KEY SOURCES**

**CONTINUOUS UPDATE**

- Controversy Assessment
  - 4,500+ selected media sources
  - 150+ stakeholder sources

- Company Developments
  - Mergers
  - Acquisitions
  - Spin-offs
  - Delisting

**ANNUAL UPDATE**

- Company Data
  - Annual Reports
  - CSR Reports
  - Website

- ESG Impact Data
  - Resource Efficiency & Emission Intensity
  - Revenue Data on relevant Product Groups & Services

**UPDATE PROCESS**

- Screening
- Evaluation
- Integration

**SASB ALLIANCE ORGANIZATIONAL MEMBER**

As a SASB Alliance Organizational Member, ISS ESG aims to educate asset owners and asset managers on the importance of ESG materiality and the inclusion of performance information for a successful ESG integration.

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ISS ESG**

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