



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT!™



Timely Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

◎ EXTRA BACKGROUND

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BACKGROUND

1 of 2 for

1.10 Tracking ESG Ratings Players Influencing the Capital Markets

Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas: *corporate citizenship; corporate responsibility; corporate sustainability; community affairs; sustainable investing.*

To the Point! is a fee-based educational resource for corporate executives and managers distributed each month with periodic brief updates for critical items.

Published by Governance & Accountability Institute, Inc.

New York, New York

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BACKGROUND ON KEY ESG THIRD PARTY PLAYERS

The Big ESG Kahuna -- MSCI

In the early days of SRI, KLD Research & Analytics in Boston was a pioneering force. KLD created universes of "the best of" companies for investors, including the Domini 400 (the benchmark of the most sustainable and responsible companies). KLD created a family of indices for investors that continue today under MSCI management.

- ◎ What is now MSCI acquired KLD and adopted much of the analytical approaches. Domini Asset Management then became a separate company.
- ◎ Innovest Strategic Value Advisors, a separate research and investor advisory firm was also acquired by what is now the MSCI organization.
- ◎ These are now known as MSCI ESG Research, comprising one of the largest and most influential of the independent research services

MSCI, based in New York City's Financial District, provides analysis and tools for investors in equities and fixed-income; for hedge funds, and other institutional investors. The firm publishes the MSCI World and other MSCI indexes (and benchmarks).

Clients include both active and passive asset managers; chief investment officers (CIOs); chief risk officers; and a range of asset owners and their managers.

MSCI began business in 1969 with offerings of licensed indexes for institutions. For a number of years the shareholders were Morgan Stanley ("MS") and Capital Group International.

In 2004, the firm acquired Barra, which brought risk management tools to MSCI, which had mainly focused on indexes.



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- ◎ In 2010, Risk Metrics Group was acquired, and that firm in turn owned Institutional Shareholder Services (ISS), which was a long-established advisory firm for labor and public employee funds. Risk Metrics also owned the Center for Financial Research and Analysis (CFRA), which evaluated corporate accounting practices and often detected accounting fraud - now the operation is part of MSCI.
- ◎ In 2014 MSCI acquired the pioneering corporate governance research and ratings organization, GMI Ratings. That included the former units of Governance Metrics International (GMI); The Corporate Library and Audit Integrity.
- ◎ ISS, long a very influential force in the annual (and special) corporate voting process with a 60% share of market for proxy advisory services, was spun off to Vestar Capital Partners by MSCI in April 2014.

Keep in mind: MSCI is now a very important influence on public companies and the ways by which investors evaluate and understand the ESG profiles of many corporate entities around the world.

Institutional Shareholder Services

The firm moved from MSCI ownership, when it was acquired Ethix SRI Advisors in September 2015. Ethix is a Europe-based firm focused on SRI research and advisory services; it is now ISS-Ethix. Ethix was founded in 1999 and has offices in Stockholm and Copenhagen and advises institutions with Euros 300 billion in AUM.

- ◎ ISS acquired Portland, Maine-based IW Financial in January 2017. The IW work "helps institutional clients identify risks, enhance productivity and increase revenues by adding value to the money management process while strengthening client relationships." IW Financial's screens, methodologies and other solutions are being integrated into ISS-Ethix.

Watch for release of an environmental and social ratings ("E" and "S") methodology later in 2017 as part of the ISS QualityScore screening and solution

- ◎ In June 2017, ISS acquired the investment climate data division of South Pole Group; this is said by ISS to be the world's largest database of company-level climate change data with carbon screening tools for clients with US\$2 trillion in AUM. South Pole Group was founded in 2010 in Zurich, Switzerland.



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S&P Dow Jones Indices

This New York-based firm is a leader providing benchmarks and investable indexes to the global financial / investment community. There are 700,000 indexes it manages, the company reports. Owners are News Corp, CME Group and S&P Global.

- ◎ The firm acquired a controlling interest in Trucost plc in October 2016 through its London-based subsidiary, S&P Global Indices UK Limited. Trucost was founded in 2000 in London and provides tools, carbon & environmental data, risk analysis and insights to institutional investors, companies and policy makers to assist in transitioning "to low carbon, resource efficient economy." The transaction brought 15 years of Trucost data, methodologies and knowledge-base to the global S&P Dow Jones organization.
- ◎ Among the Trucost resources is climate bond verification, under the Climate Bonds Standard (including solar and wind assets).

Watch for new products to be rolling out in the months ahead and TruCost resources will be added to the work of the S&P DJ organization.

Sustainalytics / Morningstar - and Mutual Funds & ETFs

The Chicago-headquartered Morningstar firm has 4,500 employees with presence in 27 countries covering more than 500,000 investments. Clients include individual investors, retirement / savings plan sponsors (such as large companies), investment advisors and asset managers based in North America, Europe, Australia and Asia.

Services include investment indexes and credit ratings. Mutual funds are scored using a 5-star system with in-depth analysis of the mutual fund's operations, holdings and performance.

In August 2015, Morningstar formed a strategic alliance with the Sustainalytics organization and in March 2016 announced the new "Morningstar Sustainability Rating®" -- covering 35,000 mutual funds and ETFs, and most important, looking at public company holdings in these funds and how the mutual fund advisors were managing ESG issues.

- ◎ Morningstar Portfolio Sustainability Reports were launched in April 2017 detailing the ESG activities of the 35,000 mutual funds along with a new tool "to help investors screen portfolios for various ethical issues."

The firm also offers investors advice through subsidiaries. This, says Morningstar, now constitutes the largest ESG mutual fund/ETF coverage universe and more products are coming.

Keep in mind: Morningstar's reach – its asset management services through investment advisory subsidiaries boast of more than US\$200 billion in AUM.

(Note that mutual funds are typically created by an advisory firm, which makes an initial investment to launch the funds and then invites investors to purchase the fund or funds. The advisor then charges a fee for managing the assets.)



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Critical For You To Keep In Mind If Your Company's Top 10 Shareowners Include Vanguard Funds

Walden Asset Management, a unit of Boston Trust and one of the influential (and pioneering) SRI activists, pressured giant Vanguard Funds management to disclose more about the proxy voting policies and practices related to climate change/climate risk. After threatening a proxy campaign against Vanguard, Walden was able to engage and get Vanguard to cooperate.

Vanguard Funds Investment Stewardship Officer Glenn Booream said: "Climate change represents an evolving set of risks and opportunities for companies in many sectors. Vanguard has prioritized climate risk on our [corporate] engagement agenda and we have discussed the topic with more companies over the past year than ever before. It is crucial to our fund investors that market participants (investors and advisors) have access to consistently comparable information to incorporate these risk and opportunities into market prices."

- ◎ Vanguard is one of the world's largest investment management companies with US\$4.5 trillion in AUM. The organization, which is "owned" by the investors in the mutual funds, offers 369 funds with 20 million investors participating.

Tim Smith, Walden's Director of ESG Shareowner Engagement said: "We are pleased that Vanguard is championing climate risk and board diversity in its numerous [corporate] engagements. This include Vanguard proxy votes this spring supporting shareholder resolutions on climate change at ExxonMobil and Occidental Petroleum, helping drive majority votes at both companies (62% in favor at ExxonMobil)."

Watch for: Vanguard will file its N-PX reports very soon; these will show the votes on social and environmental resolutions.

Breaking News

On July 24, 2017 Morningstar (NASDAQ:MORN) announced acquisition of 40% ownership stake in Amsterdam-based Sustainalytics. This is part of Morningstar's long-term strategy of delivering high-quality, innovative ESG products and services, the company explains.



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About Sustainalytics

The independent corporate governance and ESG research firm (launched 25 years ago) now has 350 employees and provides analysis and ratings to investors around the world through 13 offices (including in Boston and New York City). The coverage includes public companies in 40 sectors.

The organization was launched in 2002 by key investors – Triodos Bank, MeesPierson and PGGM (all European-based). Current owners are ABN AMRO Mees Pierson, PCCM, Mooncrest Holdings Ltd, Silver Box Holdings Ltd, and Triodos.

- ◎ Today the firm’s service offerings include resources for ESG integration for portfolio managers; compliance screening; ESG analysis; and indexes/benchmarks for investors.

Sustainalytics is a global brand. The firm has deep roots in Canada, where veteran SRI professional and [Sustainalytics] CEO Michael Jantzi launched his company -- Jantzi Research -- in 1992, which was merged with Sustainalytics in September 2009. He and the Canadian staff are based in Toronto, Ontario. According to GISR, there are about 250 employees of the firm, of which 120 are analysts.

- ◎ Sustainalytics partners with the Glass Lewis proxy advisors to provide corporate proxy voting analysis and services (this competes with Institutional Shareholder Services and other proxy advisory firms).
- ◎ The firm was a partner with NEWSWEEK magazine in the compilation of the Greenest Companies universe.
- ◎ Sustainalytics research is used for the STOXX series, the Global Compact 100, and other benchmarks.
- ◎ The firm’s research has been carried on the 300,000-plus Bloomberg LP terminals around the world since May 2014. Corporate ESG performance data and ratings are carried along with the traditional financial data, news and other content on the terminal.

Sustainalytics provides Governance scores; corporate ESG profiles; “momentum” indicators reflecting ESG trends; assessments of ESG-related controversies involving companies; portfolio assessments; and screening-related services (indicators for corporate exposure to 11 product lines they may be involved in, such as tobacco and nuclear power generation).

The company helps clients developing Green Bond frameworks, a hot new area for fixed-income investors.

G&A Institute offers services to help our corporate consulting clients review the most important ESG investor rankings and analyst reports with a specialty in benchmarking, and strategies to improve the ESG profile in the eyes of this growing pool of capital. Contact us to find out more about how we can get started with your company.



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U.S. firms are invited to review the Sustainalytics ESG profile of the company and have the opportunity like many of the ratings players above to respond with information that they feel differs from the assessment by the analysts.

G&A INSTITUTE PERSPECTIVES

The asset owners, their managers and analysts, and other professionals in the investing business focused on ESG / Sustainability / CSR / Ethical strategies, policies, practices and behaviors of public companies are served by a growing body of independent third parties providing advice, opinions, scores, rankings, ratings, "best of lists," and other means of helping the investor make *buy/sell/hold* decisions.

A stock in the trade is the constant flow in of data and other information to monitor the activities of, and progress of, the ***sustainable public company***.

Some large-cap public companies receive upwards of 200, 250 and perhaps more queries from third parties seeking ESG-related information. (Managers talk of "survey fatigue".) Some of these are very structured (see above descriptions); others are a poking around sort of inquiry which may or may not affect directly or indirectly the valuation, or reputation, of public companies.

The G&A Institute team members have been engaged with many of the third party staff for the past three decades on behalf of corporate clients and we track the developments (some reported here) as the business continues to mature and consolidate – and then as new entries are announced.

Contact our staff if you have questions about the third party ESG players and if you need assistance in engaging, reviewing or responding to their queries or reports.

The evolvement of the SRI analytics industry is fascinating -- and ever continuing! Firms large and small, new and old, bear close watching (which is what we do). If you would like more information, we've included some additional information in our "Long Wave Context for SRI" commentary here: http://www.ga-institute.com/fileadmin/ga_institute/ToThePoint/Intro_Series-Summer_2017/G&AsToThePoint!IntroSum2017-1.10Background2of2.pdf



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