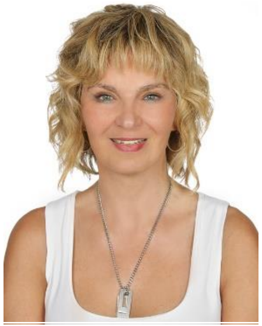

Responsible Investing: ESG Data Providers*

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What is the state of ESG investment?

The concept of Environmental, Social and Governance (ESG) investment, also known as responsible investment, was first coined in 2005 in a study entitled "Who cares Wins". Over the last three to four years, ESG investment has exploded and investors are increasingly taking into account the ESG performance of corporations in their investment strategies. In fact, according to a survey by Morgan Stanley, a massive 84% of investors are at least "actively considering" integrating ESG criteria into their investment processes. Over the past few years ESG investments are growing at a compound annual growth rate of 11,9% and European ESG investments currently account for 476 billion euros of Assets Under Management (AUM).

What information are the investors using?

Each investor has its own investment policy when it comes to ESG investing, dependent on their goals and expectations. For instance, some investors may apply a "negative screening" or "exclusion" policy, meaning that they avoid certain sectors (e.g. weaponry or tobacco). On the other side of the spectrum, investors may practice "impact investing", where they invest to both achieve a financial return and a positive and measurable social and environmental impact. Regardless of their ESG policy, an investor requires accurate and comparable data to inform their decisions and to put their plan into practice. As the number of ESG investors has grown, so too has the number of ESG data providers and rating agencies. This includes companies such as:

- Bloomberg
- MSCI
- Sustainalytics

- Analyses consolidate and present ESG data on informational platforms.
- Data: includes media articles, sector reports, annual reports and questionnaires.
- Investors can subscribe to these platforms and extract data such as ratings, competitive benchmarking and risk analyses.
- A company that has **a high ESG rating** or performance according to the data providers can be considered as a "sustainable asset".

Assessment of current ESD Data Provider

The assess the current landscape of major ESG data providers, is based on the qualities of best in class providers identified in SustainAbility's "Rate the Raters" report (SustainAbility, 2011). This research based its assessment on three pillars:

- **objectives:** a focus on either market, ESG exclusive, or specialty ESG data, target audience, unique product offerings, and governance structure;
- **data quality:** companies covered, number of issues included and metrics considered, means of data collection, and company engagement; and
- **rating methodologies**: model method, transparency and complexity, and ability to assess future performance.

The first table summarizes the Market based, ESG Exclusive and Specialized companies conducting ESG indices/rating and ranking services.

Table 1: Data providers and major product offerings

Company	Indices[2]				Ratings[3]				Ranking[4]	Investment Funds	Proxy Voting
	ESG	E	S	G	ESG	E	S	G	ESG	Other Services	
Market											
Bloomberg	√	√	√		√	√	√	√			
FTSE Russell	√	√			√	√	√	√			
MSCI	√	√	√		√	√	√	√			
Thomson Reuters	√	√	√	√	√	√	√	√			
ESG Exclusive											
Arabesque					√	√	√	√		√	
Covalence	√				√	√	√	√	√		
CSRHub					√	√	√	√			
Ethos				√	√	√	√	√		√	√
Inrate		√			√	√	√	√			√
Oekom Research	√				√	√	√	√	√		
RobecoSAM	√	√			√				√	√	√
Sustainalytics	√	√	√	√	√	√	√	√	√		
VigeoEIRIS	√				√			√	√		
Specialized											
ISS/IW Financial					√			√	√		√
CDP		√				√					
RepRisk					√				√		

[2] **Index** – composition of an investment portfolio, made up of the % of companies that reflect the highest ESG ratings. These provide investors exposure to sustainability profiles and have a low tracking error to the overall equity or fixed income markets.

[3] **Rating** – an evaluation or assessment of ESG performance, overall or in the aggregate of Environmental "E", Social "S" or Governance "G" factors, based on a unique methodology.

[4] **Ranking** – listing of companies based on selected sustainability factors.

While Table 2. Summarizes these companies in terms of their targeted market, number of firms they are covering within their scope, number of indicators and key issues they are taking into account within their assessment / scoring methodology.

Table 2. Target market and scope of data considered in rating methodology

Rating Provider	Target Market	Market Coverage (#of firms)	Indicators (#)	Key issues (#)
Market				
Bloomberg	Investors & Companies	>10,000	700	120
FTSE Russell	Investors	>4,000	350	125
MSCI	Investors	>6,000	1,000	37
Thomson Reuters	Investors	>6,000	400	178
ESG Exclusive				
Arabesque	Investors	>4,000	200[7]	NA
Covalence	Investors & Companies	>3,400	NA	50
CSRHub	Companies	>17,000	NA	NA
Ethos	Investors	>1,650	NA	NA
Inrate	Investors	>2,600	NA	NA
Oekom Research	Investors	>3,500	100	37
RobecoSAM	Investors & Companies	>2,400	survey[8]	120
Sustainalytics	Investors	>6,500	70	21
VigeoEIRIS	Investors & Companies	>3,200	330	38
Specialized				
CDP	Investors	*>2,000*	175	2

[7] Also include over 50,000 news sources gathered daily

[8] RobecoSAM sends its Corporate Sustainability Assessment (CSA) surveys to over 3,400 companies and had 867 responses in 2016. The survey covers 80Y120 questions (RobecoSAM, 2016a). In addition, they also rate 2,400 companies as part of their Sustainabiity Yearbook (RobecoSAM, 2016b)

Table 3. summarizes the models/methodologies, rating scales and whether the company provides advisory services or not based on their assessment to the company.

Table 3. Model Characteristics of Market and Broad ESG Data Providers

Data Provider	Model Methodology	Rating Scale	Advisory Offered to Companies
Market			
Bloomberg	Model	100Y0	No
FTSE Russell	Hybrid	5.0Y1.0	No
MSCI	Hybrid	AAA to CCC	Yes
Thomson Reuters	Hybrid	A+ to DY	No
ESG exclusive			
Arabesque	Model	100Y0	No
Covalence	Hybrid	100Y0[9]	Yes
CSRHub	Model based	100Y0	No
Ethos	Analyst based	Y	No
Inrate	Hybrid	A+ to DY	No
Oekom Research	Analyst based	A+ to DY	Yes
RobecoSAM	Hybrid	Gold, Silver, Bronze	Yes
Sustainalytics	Analyst based	100Y0	Yes
VigeoEIRIS	Hybrid	Double+ to doubleY	Yes

Potential consequences of low ESG Rating:

Investors use ESG ratings to determine company's "future proof". Poor rating from ESG rating provider may have the following potential implications:

1. If this rating is used by a passive investor, it may result in the company's stock being excluded from their investment portfolio as it is in seen as an "unsustainable asset". If multiple investors do so, this can eventually negatively impact the company's stock price.

2. By definition investors aim to minimize risk while maximizing return. For an ESG investor, company's low ESG rating may indicate a higher risk profile as it gives the perception that the company is not in control of certain ESG aspects.

3. The impacts of negative public exposure are magnified in today's increasingly connected world where news, in particular bad news, travels further and faster than ever before. Since company's reputation can impact brand value, a poor ESG rating can be perceived as a higher risk exposure to reputational damage. This can in turn indicate a higher risk to brand value. As the brand value can be a large part of a company's balance sheet (for AB Inbev's brand value this accounted for 18% in 2017), investors might not be too enthusiastic about this. A perception of higher risk might thus dissuade investors from investing in company's stock.

What can we expect in the (near) future?

Given the impressive surge in ESG investment over the past couple of years combined with the growing interest of investors, and the regulatory developments, it is expected that the importance of ESG data and ratings will become even more crucial in the future.

Recommendations:

The proliferation of ESG data, research, and rating providers has fueled the growth of responsible investment and the incorporation of ESG factors into investment decision making. Data providers have consolidated in light of these trends, as increased size, coverage, and scope of service provide competitive advantage. The recent acquisitions of IW Financial by ISS and Trucost by S&P Global, along with the merger of EIRIS and Vigeo, indicate that this trend will likely continue. With growth in responsible investment, it is forecasted finance integrating ESG factors will be advancing in the near future.

However, researches also underline that, ESG data must improve if it is to meet its potential. SustainAbility's "Rate the Raters" provides a useful framework for analysis, but improving the usefulness of ESG for investor decision making requires additional criteria. The researcher's recommendations are as follows:

1. **consistency** is needed in the material data tracked and published by companies; SASB provides a first step;
2. a widely adopted and verified data provider **standard that sets guidelines** for a credible approach and reduces discrepancies across same company ratings; the Global Initiative for Sustainability Ratings and Arista 3.0 have made a start. Clearly, investors should be able to choose from different approaches to suit their objectives, but the lack of transparency and basic guidelines create industry

wide credibility challenges;

3. corporations must **track and report** ROI on sustainability investments in order for ESG data to offer managers and investors insights into correlation with financial performance;
4. **standards** such as SASB, GRI, and IIRC should include tracking of financial performance related to ESG policies and investments by firms. If, for example, adoption of GHG targets results in process innovation, reduced costs, risk mitigation, and better employee retention, those impacts need to be monetized and reported in addition to the reduction in GHG emissions;
5. it is recommended and beneficial that ESG data providers, reporting companies as well as investors **worked together** towards a standard approach that can be widely adopted and verified;
6. company should stay **critical** of the ratings provided and the methodologies behind them. A single data point or ESG rating may not always reflect the reality. This is where the European taxonomy will offer the right framework for standardization among the different methodologies and analysis.

Data Sources

Global Initiative for Sustainability Ratings (GISR) ratings directory:
http://ratesustainability.org/

Arabesque http://www.arabesque.com/

Bloomberg http://www.bloomberg.com/professional/sustainableYfinance/, CDP

https://www.cdp.net,

CSRHub https://www.csrhub.com/ Ethos

https://www.ethosfund.ch/ FTSE Russell

http://www.ftse.com/ Inrate

http://inrate.com/

ISS/IW Financial https://www.issgovernance.com/esg/iwfinancial/ MSCI

https://www.msci.com/

Oekom Research http://www.oekomYresearch.com/ RobecoSAM

http://www.robecosam.com/ Sustainalytics

http://www.sustainalytics.com/

Thomson Reuters https: http://financial.thomsonreuters.com/