

bmpi

# Data requirements for ESG Reporting

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# Current ESG Landscape

## WHAT'S DRIVING DEMAND?

### Shifting Societal Landscape

COVID-19 & Establishing Business Continuity  
Cultural Consciousness and the rise of the 'S' factor

### Evolving Investor Preferences

Climate Impact  
Diversity, Equity & Inclusion  
Transparent Corporate Governance

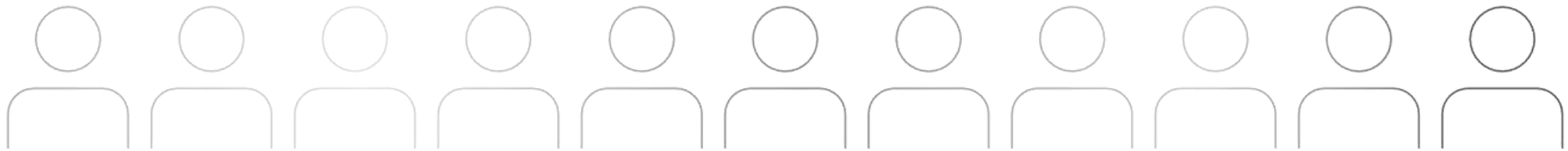
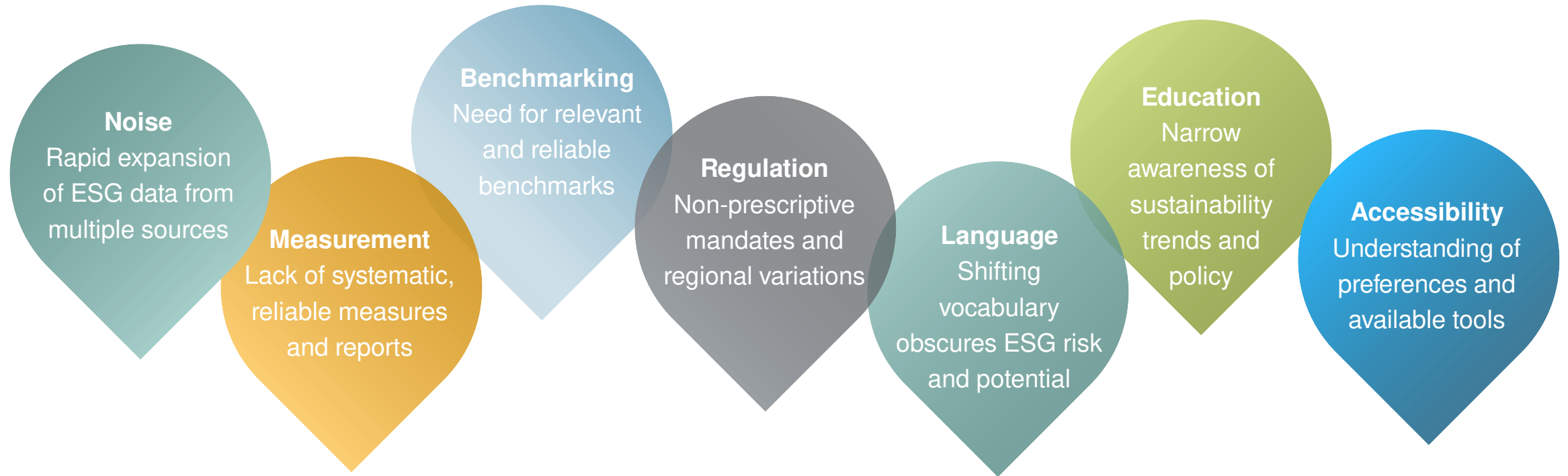
### Enhancing Investment Performance

Risk Mitigation  
Fee Sensitivity  
Investor Activism

### Changing Policy & Regulatory Requirements

EU Action Plan  
Pension Benefit Act  
Sustainable Finance Initiative

# Investors need a coherent understanding of ESG data



# What is needed to support reporting from an ESG provider perspective?



Clear definition of sustainability



Robust, transparent and high quality research methodologies and processes

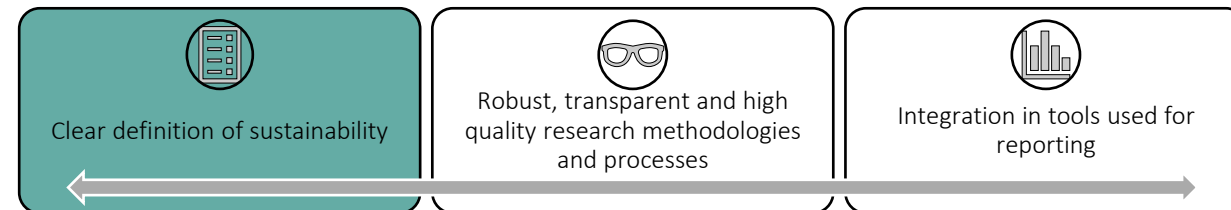


Integration in tools used for reporting



# Who We Are

- » Sustainalytics is a leader in providing environmental, social and governance research and ratings.
- » More than 1,200 professional staff with more than half engaged in research.
- » In excess of 1,000 clients.
- » Over 28 years experience in the fields of ESG and corporate governance research.
- » Part of the Morningstar family (Subsidiary). Morningstar is composed of 8000+ professionals dedicated to empowering investors through research.



# Sustainability Framework



## Motivations

**Improve Investments** + **Improve The World**

**Control risk**  
Consider ESG risks

**Enhance returns**  
Seek ESG opportunities

**Do no harm**  
Avoid negative impact

**Make a difference**  
Seek positive impact

## Approaches

Apply  
exclusions

Limit  
ESG risk

Seek ESG  
opportunities

Practice active  
ownership

Target  
sustainability  
themes

Assess  
impact

## Portfolios

**Supporting Role:** Consider some ESG information as part of the regular investment process

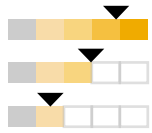
**Leading Role:** Emphasize sustainable investment approaches as central to the investment process

Avoid Negative Outcomes

Advance Positive Outcomes

# Research Methodology

## Example: ESG Risk Ratings



The rating measures and adds up the unmanaged risks of a company vis-à-vis a set of ESG issues that are considered material from a financial perspective



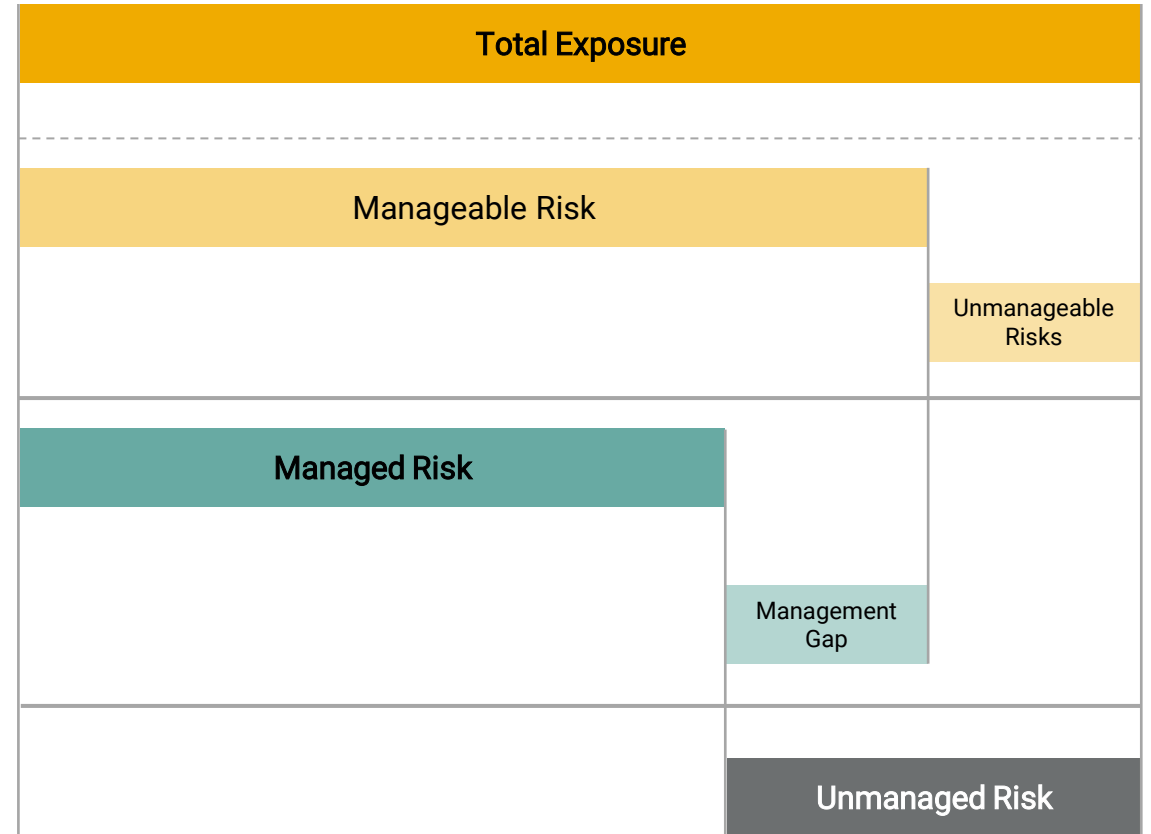
Companies are exposed to different ESG issues to different degrees. Their exposure is driven by sub-industry and company-specific factors



An ESG issue is considered material, if the company is sufficiently exposed to this issue. Corporate Governance is material for all companies



Companies are allocated across five risk rating categories (negligible, low, medium, high, and severe risk)





# ESG Risk Ratings

## Example: ESG Risk Rating of Toyota



Clear definition of sustainability



Robust, transparent and high quality research methodologies and processes



Integration in tools used for reporting

### ESG Risk Rating

**30.5**

Updated Jan 17, 2021

Calculated using our [ESG Risk Rating Methodology](#).

**+0.9**

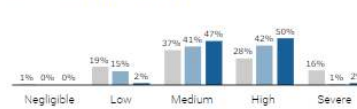
Momentum

**High Risk**

NEGL 0-10 LOW 10-20 MED 20-30 HIGH 30-40 SEVERE 40+

[Learn more](#)

### ESG Risk Rating Ranking



### ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1st = lowest risk)	(10th = lowest risk)
Global Universe	7,831/13,410	59th
Automobiles INDUSTRY	44/71	62nd
Automobiles SUBINDUSTRY	33/60	55th

Select Peer Group

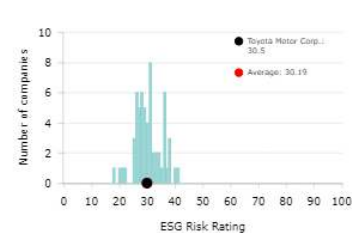
Industry

Subindustry

### Overall Score



### ESG Risk Score Distribution



### ESG Risk Exposure

**46.0**

Medium

**0.0**

Momentum



Beta = 1.05

Carmakers are under pressure to achieve greater fuel efficiency. The EU's standard, requiring passenger cars to meet a CO2 emissions target of 95 g/km by 2021, one of the strictest fuel efficiency targets in the world, is an immediate risk that carmakers, including Toyota, currently face. Any inability to competitively innovate and electrify fleets are serious medium-term risks for legacy automakers such as Toyota. Furthermore, vehicle quality and safety are key factors influencing consumers' purchasing decisions. Misconduct by major carmakers recently has increased scrutiny. Labour expenses are the second-highest costs for automakers after materials, representing a quarter of total costs. With a massive labour force spread throughout the globe, maintaining labour relations is key for Toyota to minimize the risk of strikes, which can result in costly work stoppages.

The company's overall exposure is medium and is similar to subindustry average. Product Governance, Human Capital and Carbon - Products and Services are notable material ESG issues.

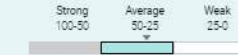
### ESG Risk Management

**34.5**

Average

**-2.1**

Momentum



Toyota's electrification strategy is quite different from that of its peers. As it still relies mostly on sales of hybrid cars to meet stringent environmental laws in developed countries and satisfy demand in developing ones, it has planned the launch of battery EVs (BEVs) on a mass scale only in 2025, which constitutes a very late entry. In parallel, Toyota aims to become a pioneer in fuel-cell EV (FCEVs) technology. However, its sales of FCEVs stagnated at around 2,000 between 2017 and 2019, and no technological breakthrough has allowed for adoption rates that are close to that of BEVs. For Product Governance, the lack of reported certification for its quality management system leaves room for improvement. Nonetheless, Toyota's vice chairman of the board of directors was appointed chief sustainability officer in 2020, indicating more ESG accountability at the board level.

The company's overall management of material ESG issues is average.

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Momentum

**High Risk**

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[Learn more](#)

SUBINDUSTRY	Automobiles
Rank	33/60
Percentile	55th

[See more](#)

Exposure & Management	Material ESG Issues	Risk Decomposition		
These are the Material ESG Issues driving the ESG Risk Rating. <a href="#">Learn more</a>				
Issue Name	ESG Risk Exposure Score   Category	ESG Risk Management Score   Category	ESG Risk Rating Score   Category	Contribution to ESG Risk Rating
Product Governance Significant Events	10.5 High	8.8 Weak	9.6 Severe	31.4%
Carbon - Products and Services	9.2 High	33.8 Average	6.1 High	20.0%
Corporate Governance	9.0 High	33.8 Weak	6.0 Medium	19.5%
Business Ethics	6.0 Medium	27.0 Average	4.5 Medium	14.6%
Human Capital	6.3 Medium	61.0 Strong	2.7 Low	8.7%
Human Rights - Supply Chain	2.0 Low	61.3 Strong	1.0 Negligible	3.3%
Carbon - Own Operations	3.0 Low	75.6 Strong	0.7 Negligible	2.4%
Overall	46.0 Medium	34.5 Average	30.5 High	100%

\*as of Jan 2021

Source: Sustainalytics



# Morningstar Sustainability Rating



## Issuer-Level ESG Research

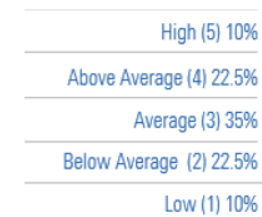
- Company ESG Risk Score (0–100+)
- Country Risk Rating Score (0-100+)
- Company analysis is applied to stocks and corporate bonds (mapped to the issuer)
- Country analysis applied to fixed-income securities issues by governments and select securitized debt
- 67% of portfolio assets must have company ESG Risk scores

## Current & Historical Sustainability Scores

- Asset-weighted roll-up of the 12-month exponentially weighted moving average of ESG Risk Scores & Country Risk Scores
- Limits on portfolios with High ESG Risk:
  - Score > 40 = No more than 1 Globe
  - Score > 35 = No more than 2 Globes
  - Score > 30 = No more than 3 Globes

## Sleeve Rank & Ratings

- Ratings for the Corporate and Sovereign portions of the portfolio are determined by each fund's Corporate and Sovereign Sustainability Score rank within the following distribution\*:



## Sustainability Rating

- Combine sleeve ratings proportional to the relative weight of the corporate and sovereign positions, a fund must have both a Corporate Sustainability Rating and Sovereign Sustainability Rating, unless one of either the Corporate or Sovereign portion of the fund is less than 5% of the fund.
- At least 30 funds in Global Category need a Historical Sustainability Score

# Delivery and Integration in Tools

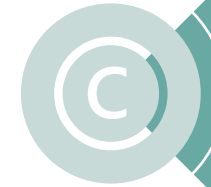
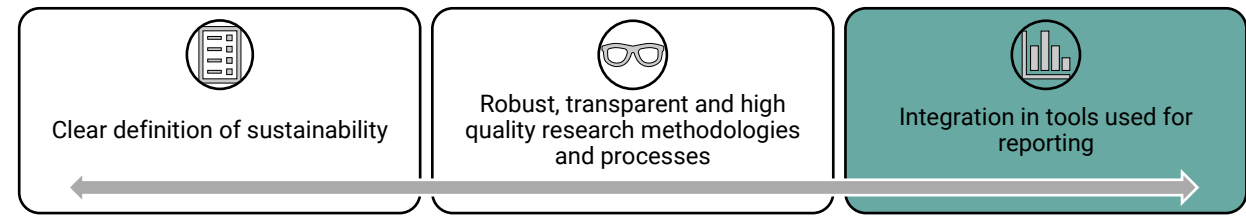
Need to deliver data in high quality format



State of the art proprietary delivery mechanisms

Data feeds through (S)FTP or via API in standardized formats

*...feeding data into...*



Proprietary reporting capabilities via Morningstar



Third party reporting capabilities



Clients' in-house reporting capabilities

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