



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

August 2017

Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- ⦿ Corporate Citizenship,
- ⦿ Corporate Responsibility,
- ⦿ Corporate Sustainability,
- ⦿ Community Affairs, and
- ⦿ 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.

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TRACKING ESG RATINGS PLAYERS INFLUENCING THE CAPITAL MARKETS...Are These Organizations Watching Your Company?

Helping you keep track of the ESG / Sustainability third party analytics service providers assigning Scores, Ratings, Rankings, and Best-in-Class recognitions to Publicly-traded Corporations.

This is a feature that will be regularly updated as developments warrant. There is a lot of change going on in this space.

BACKGROUND

There is a large universe of well-established, independent third party organizations that examine corporations and offer opinions and perspectives in the form of assigning ratings, rankings, scores, “best of” lists, and other types of recognitions that are provided to investors and stakeholders.

Some of these organizations are global in reach with considerable staff assigned to the mission of examining companies. Others are small entrepreneurial ventures. As more mainstream institutional investors (asset owners and their managers) adopt sustainable investing approaches to their analysis and portfolio management, this strengthens the influence of established players and beckons new players.

In recent months, there has been a consolidation within the third party service provider field as well as new ventures springing up to market ESG analysis and evaluation to the investor base.

We present highlights of the industry’s activity — in effect, a scorecard of the third party “scorecard” players. You can share this with your Investor Relations Department and Corporate Secretary, and other members of the management team.

RECENT DEVELOPMENTS - ESG RANKERS - RATERS - SCOREKEEPERS

For many institutional investors, the initial focus beyond the traditional financials was on corporate governance — the strategies, policies and practices of “governing” the publicly-traded corporation. Quite often the investor concerns were centered what happened in the board room.

Over time, this analysis expanded to include concerns related to **environmental matters** and a widening range of social or **societal issues**. Think of “S” in the context of your company and these issues: workforce diversity and inclusion; supply chain policies & management practices:



policies on human rights, labor rights and worker conditions in the USA and in foreign lands; ingredients in food and methods of growing and manufacturing food; pharmaceutical pricing; a range of unique industry practices such as in oil & gas or mining.

The independent third party ESG analytics industry is large today, and very influential in the capital markets. We closely monitor developments and will share news and important background on the players with you. Here are some recent developments.

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.

In 2010, MSCI acquired Risk Metrics Group and that firm in turn owned Institutional Shareholder Services (ISS), a long-established advisory firm for labor and public employee funds.

DEVELOPMENTS AT INSTITUTIONAL SHAREHOLDER SERVICES

The **Vestar** P/E firm acquired independent ESG analytics companies under the ISS holding.

- ISS acquired **Ethix SRI Advisors** in September 2015. Ethix is a Europe-based firm focused on SRI research and advisory services; it is now to be known as 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.

S&P DOW JONES INDICES - AND FTSE RUSSELL & MSCI - MULTIPLE STOCK CLASSES

This New York-based company is a leading provider of benchmarks and investable indexes to the global financial / investment community. There are 700,000 indexes under management, the company reports. Owners are **News Corp**, **CME Group** and S&P Global.

- The company decided in August to ban certain new issuers, those companies with multiple classes of stock that enable insiders such as founders from having extra rights — especially voting power — from inclusion in the company's proprietary S&P Index,



such as the S&P Composite 1500(r) and components. This includes S&P 500(r) the most popular benchmark for institutional investors with more than 80% of available U.S. equity covered. Also, S&P MidCap 400; S&P SmallCap 600. The action came as new IPOs came to market (like Snap, with little or no voting rights for investors).

- However, existing companies in the indices with multiple classes are grandfathered in and so will not be affected by the change.

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. 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."
- 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.

Watch for the impact on, and of, **Vanguard Funds**. This is critical to keep in mind if your company's Top 10 shareowners include Vanguard Funds. Vanguard will file its N-PX reports very soon; these will show the votes on social and environmental resolutions.

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. There is information for you in the background commentary at: http://www.ga-institute.com/fileadmin/ga_institute/ToThePoint/Intro_Series-Summer_2017/G&AsToThePoint!IntroSum2017-1.10Background1of2.pdf

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 even more queries from third parties seeking



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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 two background files, available through these links:

- [Background on Key ESG Third Party Players](#): MSCI; IW Financial; Institutional Shareholder Services; South Pole Group; Ethix SRI Advisors; Sustainalytics; Morningstar. Vanguard Asset Management.
- [Background on the history of some key players – the “Long Wave Context for SRI” commentary](#)