



**SUSTAINALYTICS**

a Morningstar company

# **SUSTAINALYTICS**

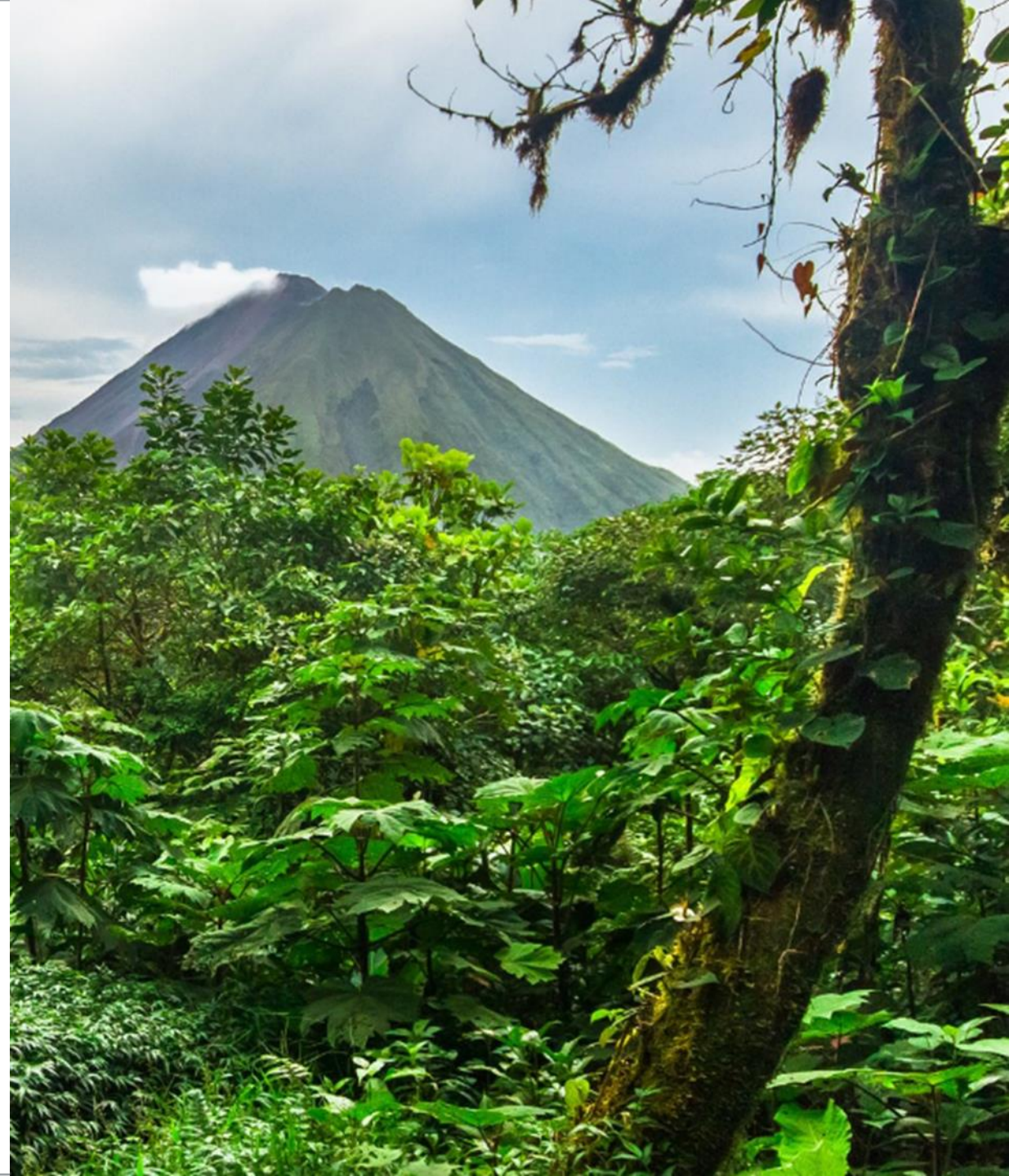
## **SUSTAINABLE CORPORATE SOLUTIONS**

### **ESG Ratings in APAC: Supporting the Corporate Sustainability Journey**



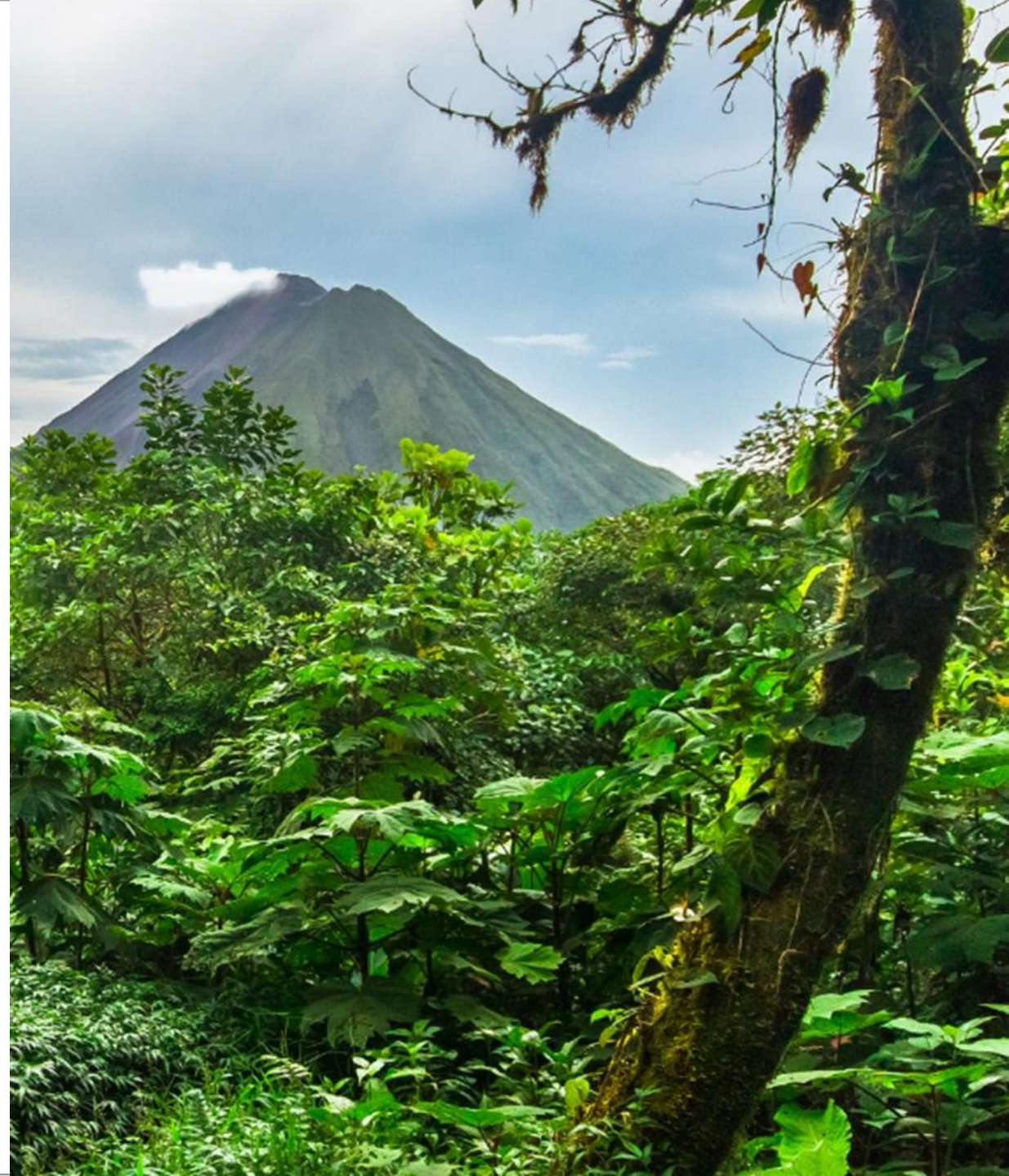
# Agenda

- 1 The Business Case for Improving a Company's Sustainability Performance
- 2 Benefits of an ESG Risk Rating and Sustainalytics Role as a Market Leader
- 3 Methodology of the ESG Risk Rating
- 4 ESG Rating Landscape and Trends Globally and in APAC





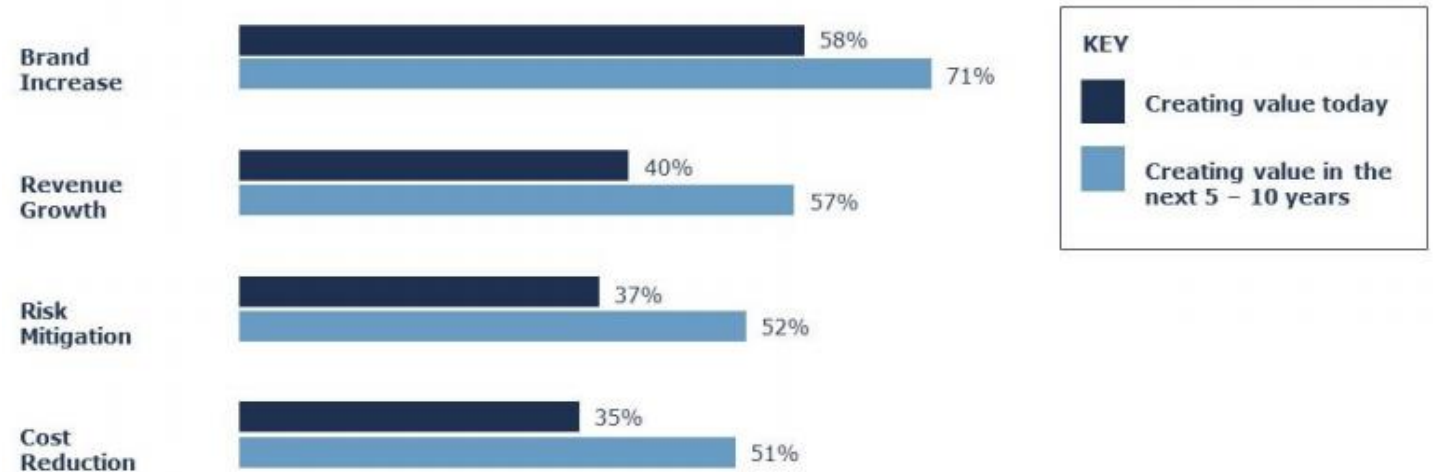
# The Business Case for Improving a Company's Sustainability Performance



# The Broad Shifts in Business Towards Corporate Sustainability



**99%** \* of CEOs from companies with more than \$1 billion in annual revenues believe sustainability will be important to the future success of their business.



Source: UN Global Compact

**99% of CEO's see the future business value of sustainability\***

# Clear Link Between the Bottom-Line and a Company's ESG Practices

Higher ESG  
scores

Stronger  
financial  
performance

Improved  
corporate  
governance

## ARABESQUE & UNIVERSITY OF OXFORD META-ANALYSIS OF 200 ACADEMIC STUDIES

Lower cost of capital (90%)

Better operational performance (88%)

Better stock price performance (80%)

## ESG Score

(0–100): a sector specific analysis of each company's performance on financially material environmental, social and governance (ESG) issues

Source: UN Global Compact and BCG: [Why the New Competitive Advantage Demands Sustainability | BCG](#)

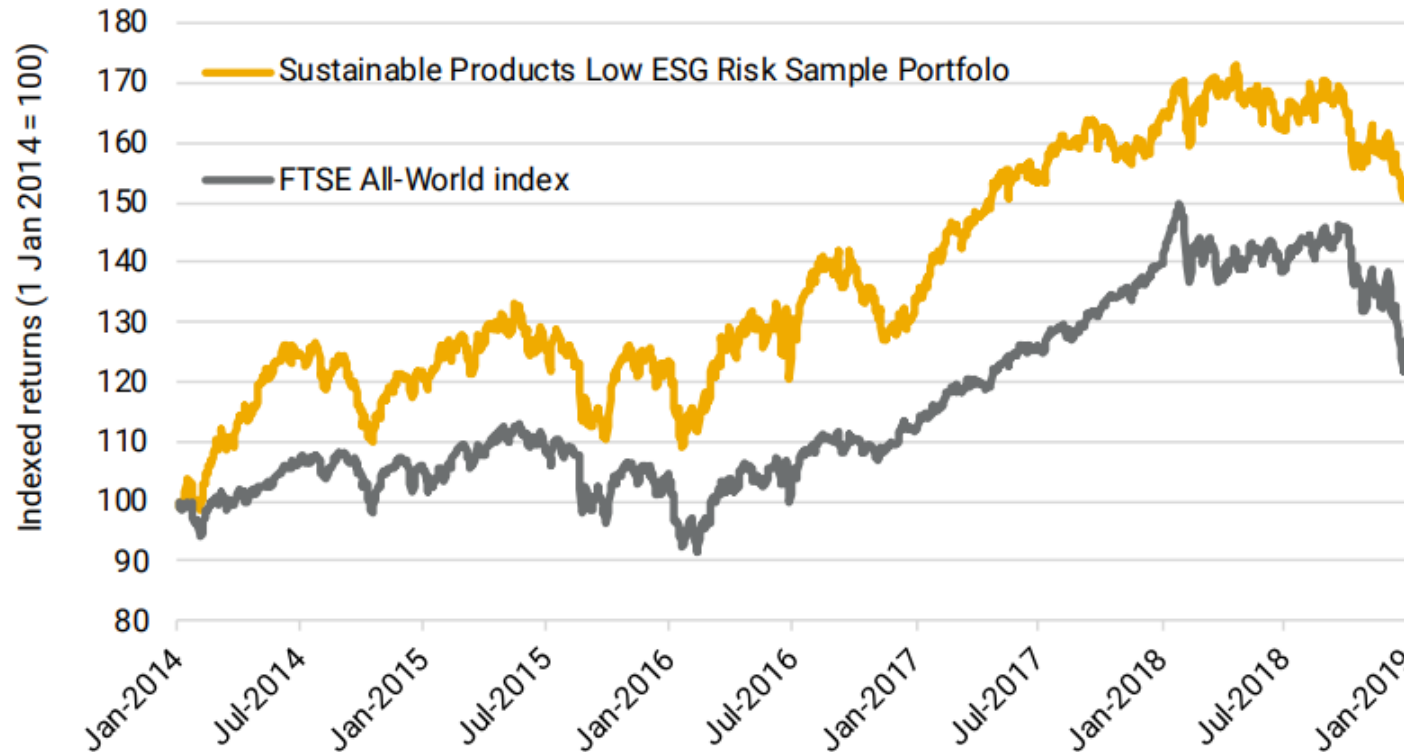
A study from **BCG** showed that **ESG front-runner companies** were able to break economic constraints, access new markets, expand scale with the right economics, and change ecosystem dynamics to **enhance competitive advantage**.

**Sustainable companies tend to outperform their peers with sustainability creating a competitive advantage in the market**



# ESG-Related Investments Tend to Outperform the Market

On the equity side



Source: Sustainalytics, Bloomberg Financial, L.P., Vanguard<sup>82</sup>

- The sample portfolio consisted of 27 companies in different ESG sectors
- Holding period: 2014-2018
- Benchmark: FTSE All-World index
- Total return of 53.9% compared to 27.2% for the benchmark

**The ESG portfolio achieved an active return of 26.6% against the FTSE All-World index**

# Better Pricing For Companies Issuing Sustainable Finance Instruments

On the debt side

CBI research shows (only US and EU bonds)

- Green bonds achieved a higher book cover and spread compression than vanilla equivalents, on average
- Most bonds exhibited a greenium
- Better secondary market performance than vanilla baskets and matched indices

2050 green Bund has exhibited consistently lower yields compared to vanilla twin

Climate Bonds INITIATIVE

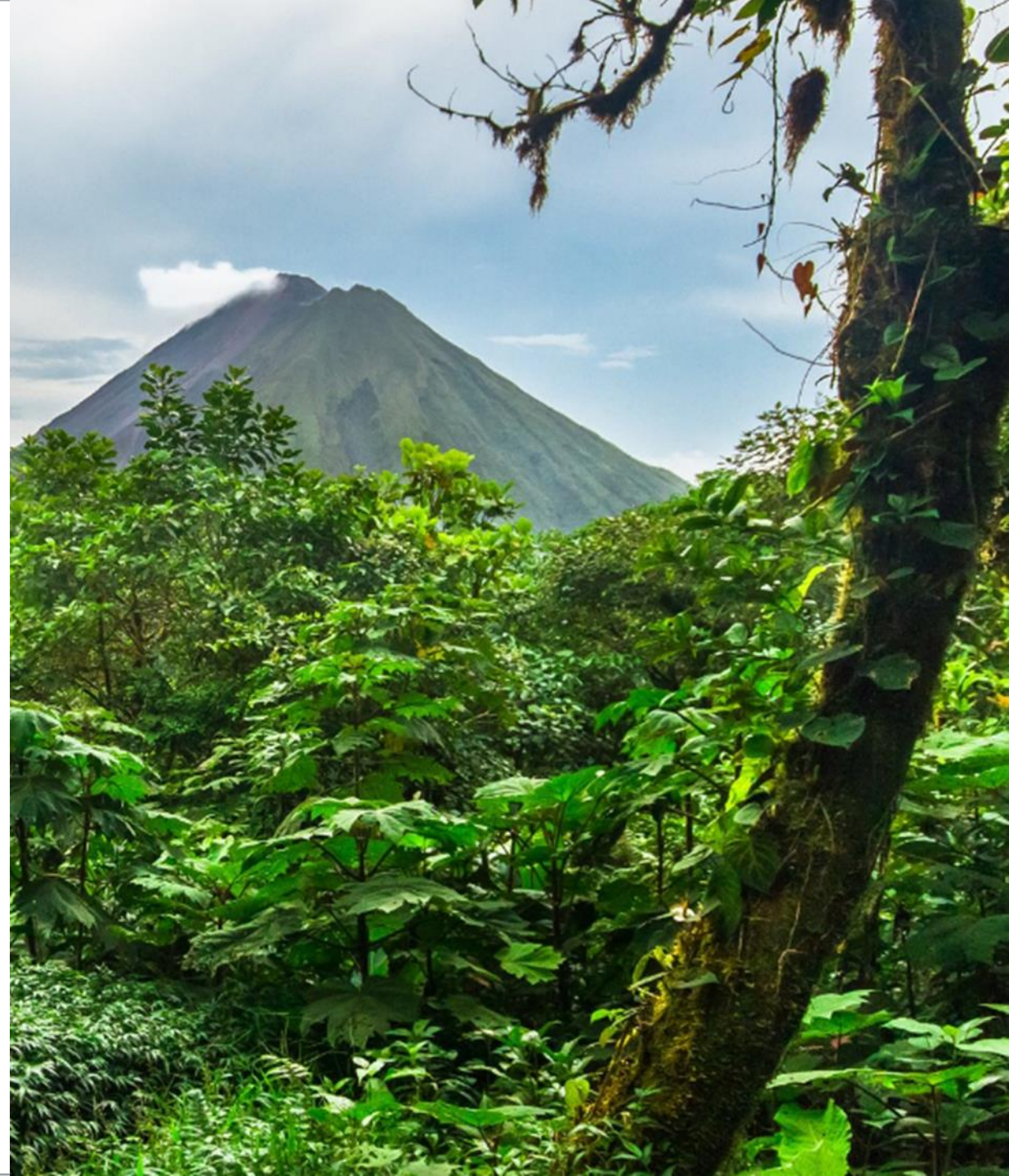


Source: CBI

Data: Bloomberg

**Cost of funding is similar or less for sustainable finance instruments vs conventional debt**

# Benefits of an ESG Risk Rating and Sustainalytics Role as a Market Leader





# Sustainalytics Is One of the Largest ESG Risk Rating Providers Globally

## WHY SUSTAINALYTICS?



A Single Market Standard



Largest Second-Party Opinion Provider



End-to-End ESG Solutions



Largest Second-Party Opinion Provider of Green Bonds

## FAST FACTS \*



350+  
Research Staff



49  
Languages Spoken



50+  
Engagement Cases  
Resolved in 2020



19/20  
Largest Asset  
Managers Served



54  
Nationalities



700+  
Sustainability Bond  
Second-Party  
Opinions Delivered



1,000+  
Team Members



16  
Global Offices

## GLOBAL COVERAGE\*



13,000+  
Companies with ESG Ratings  
(>20,000 including subsidiaries)



24,000+  
Companies Covered by  
our Compliance Research



700,000+  
News Items  
Monitored Daily

## Sustainalytics ESG strengths:

- I. Transparent rating methodology
- II. +1000 large investors globally trust the rating
- III. More than 25 years of market experience in ESG

\* As of July 2021

# Benefits of Working with Sustainalytics ESG Risk Rating

## Strategic Benefits

- ✓ Learn how you can improve your ESG performance now and over time
- ✓ Identify and focus on your Material ESG Issues (MEIs)
- ✓ Obtain ESG benchmarking knowledge (industry & sub-industry)
- ✓ Get ahead of what investors will focus and engage on
- ✓ Build a road map with the rating and shape your sustainability strategy and reporting
- ✓ Understand and strengthen your Corporate Governance performance
- ✓ Identify ESG controversies and how they impact the rating
- ✓ Make the ESG Risk Rating part of your capital raising and investor relations activities
- ✓ Leverage the rating for your sustainable finance, supply chain and benchmarking activities

## Operational Benefits

- ✓ Personalised Support
- ✓ Engage with analysts for key observations
- ✓ ESG Rating Training Sessions
- ✓ Define your rating update cycle
- ✓ No questionnaire needed to get rated
- ✓ And many more...



# Four Ways to Use the ESG Risk Rating

Depending on the status of the company, Sustainalytics offers four different types of Rating Assessment



# Awards and Recognitions – Sustainalytics as an Industry Leader

## Research & Organizational Awards



<< For Stewardship and Risk Engagement on Plastics and the Circular Economy



2019 recipient of the Business as a Force for Good Award



2012-2019 voted among top two firms for Best SRI Research



2015 Farsight Award for "Banks – Like a Phoenix from the Ashes"



2010 TBLI Award – Best ESG Research House



2006 Globe Award for Sustainable Investment & Banking

## Sustainable Finance & Bond Awards



Recognized as the Largest External Reviewer by the Climate Bonds Initiative for **three consecutive years**



2017, 2018 & 2019 voted Most Impressive Second Opinion Provider

## ESG Rating Awards



ESG Opinion Provider of the Year



Best ESG Ratings Provider 2021

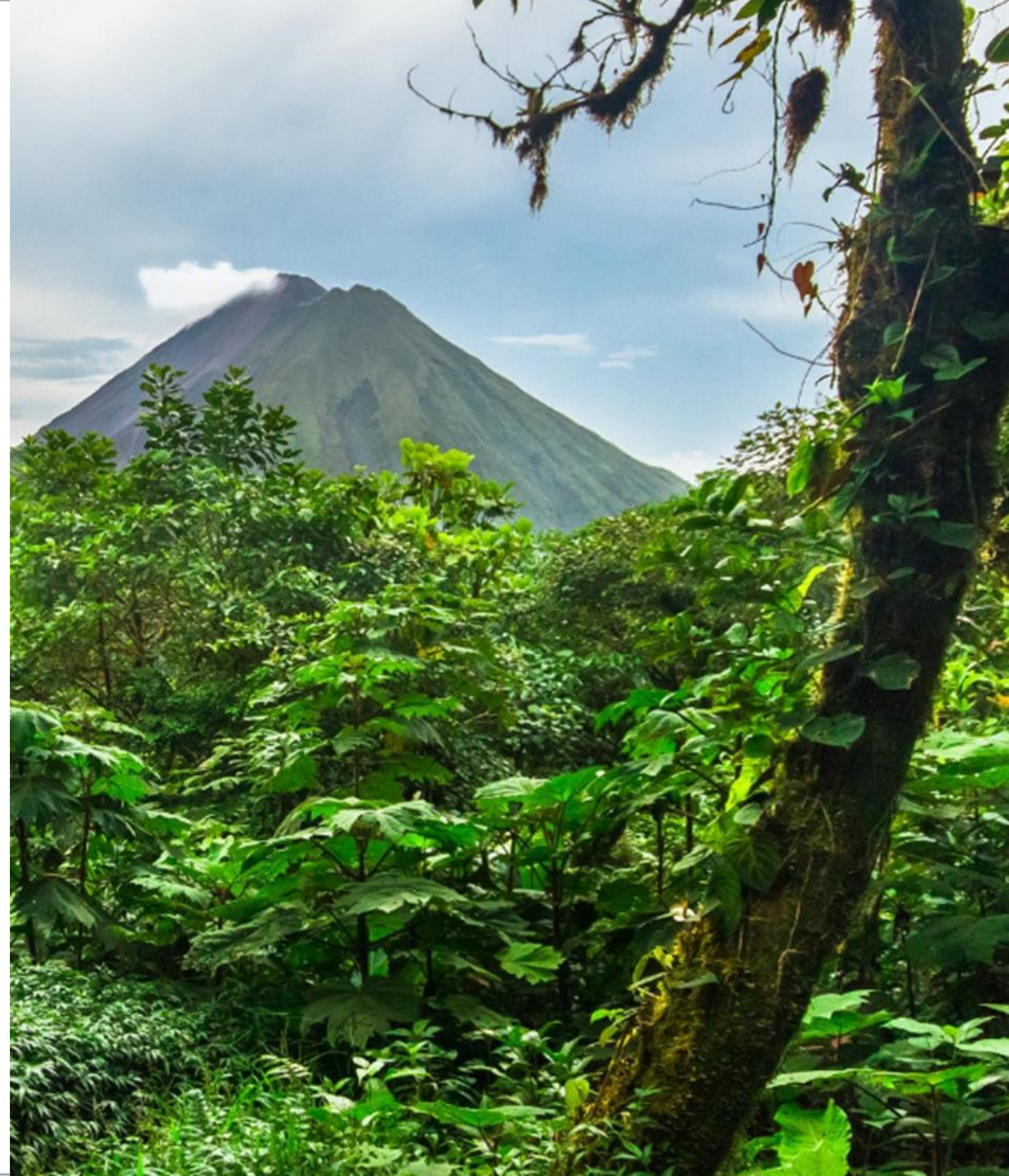


# Methodology of the ESG Risk Rating



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# Go Beyond Traditional Analysis

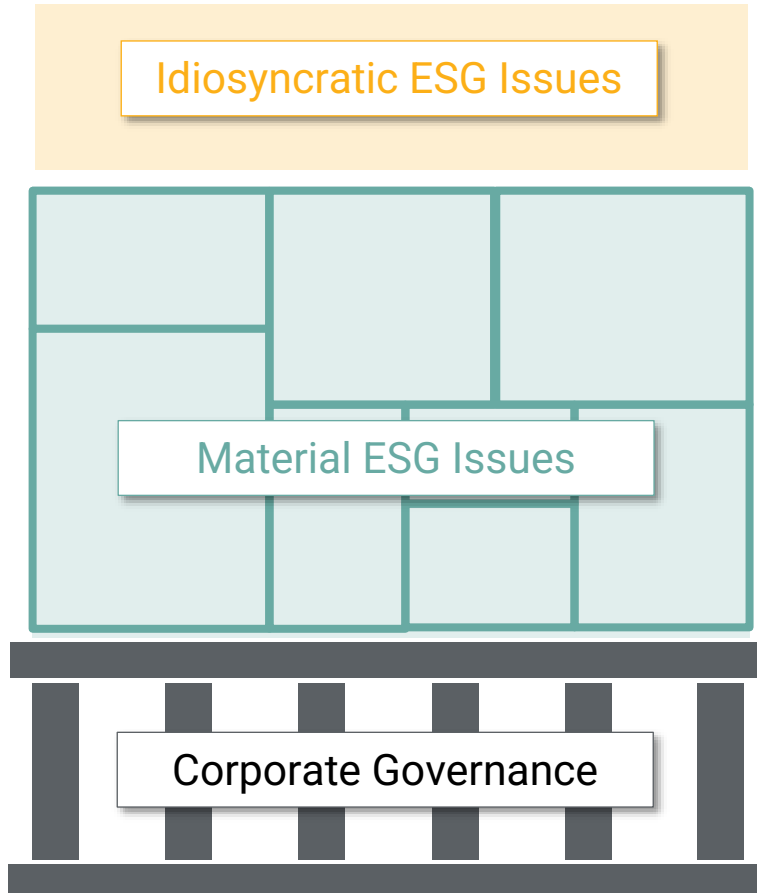
Understand how ESG factors create (financial) risk

Sustainalytics ESG Risk Rating measures and **adds up** the **unmanaged risks** of a company vis-à-vis a set of **ESG issues** that are considered **financially material**



# What Do the ESG Risk Ratings Measure?

## The Three Building Blocks of the ESG Risk Rating



## The ESG Risk Rating Score is the Total Unmanaged ESG Risk from a Company



## Asian Development Bank

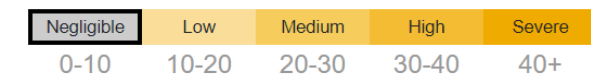
Industry Group: Banks

Country: Philippines

### ESG Risk Rating

8.5

Negligible Risk



# Arriving at the ESG Risk Rating for a Company

Following a Staged Top-down Process

## Setting the scene:

- » Understanding the environment in which a company is operating in.

## Assessing Exposure:

- » Subindustry specific and Company specific (Beta).

## Assessing Management:

- » Indicator selection; weighting and assessment.

## Assessing Unmanaged Risk:

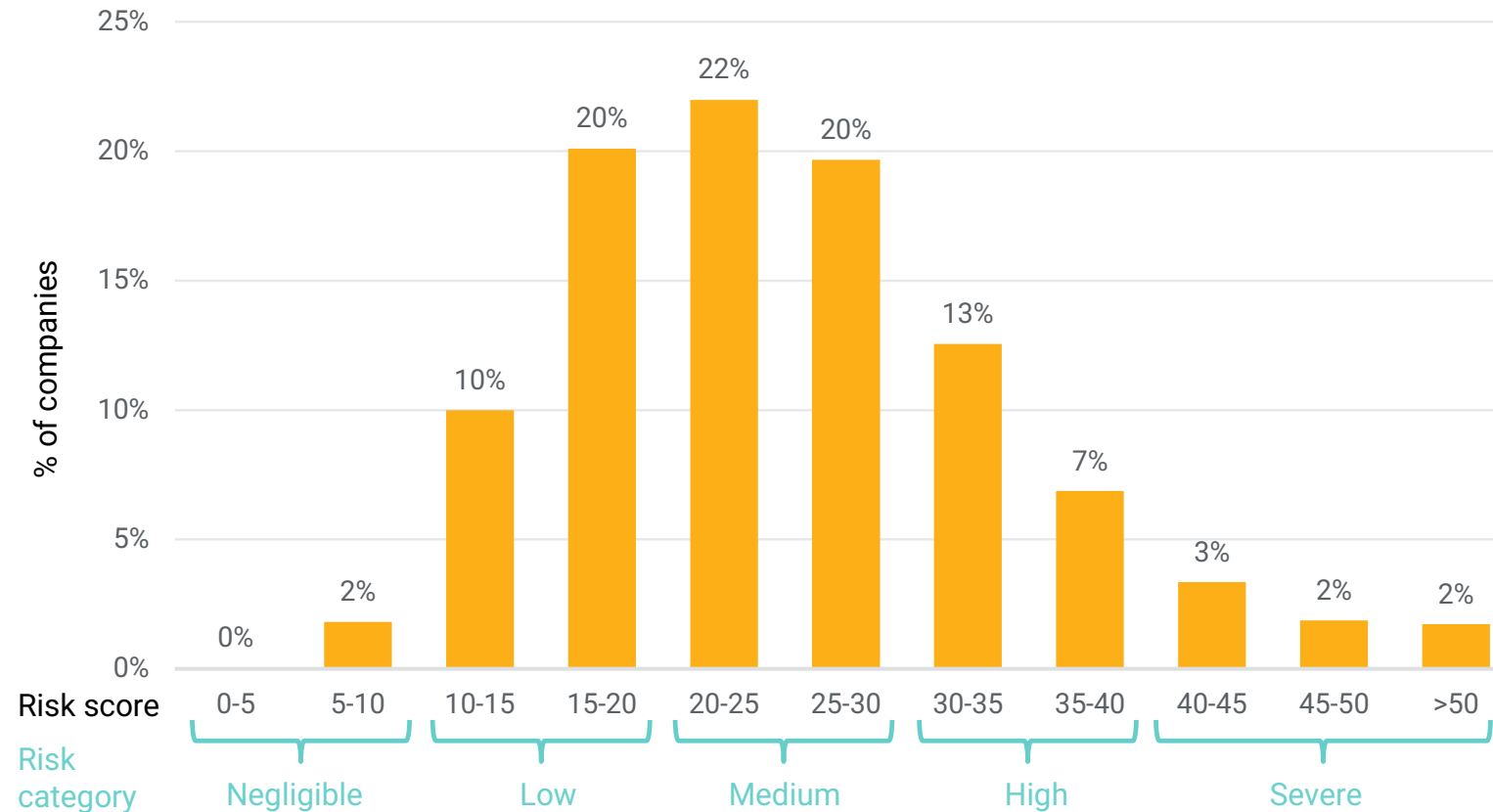
- » Determining the share of Manageable Risk;
- » Calculating the degree to which Manageable Risk is actually managed;
- » Calculating Unmanaged Risk.



# Distribution of ESG Risk Ratings Outcomes

The rating differentiates well between companies with different ESG exposure and management profiles

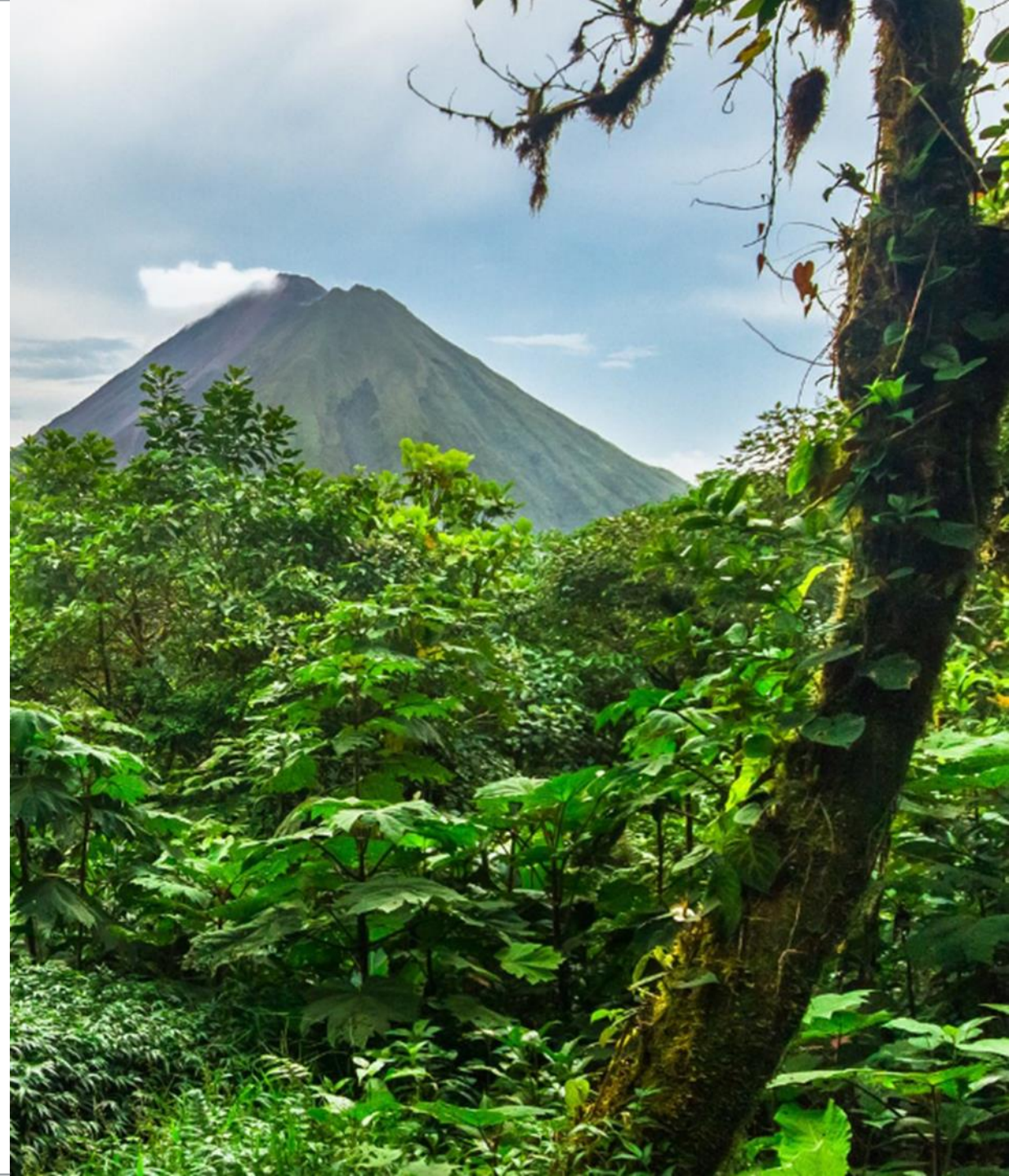
Distribution of ESG Risk Ratings Scores Across Ratings Universe



\*as of Jan 2021

Source: Sustainalytics

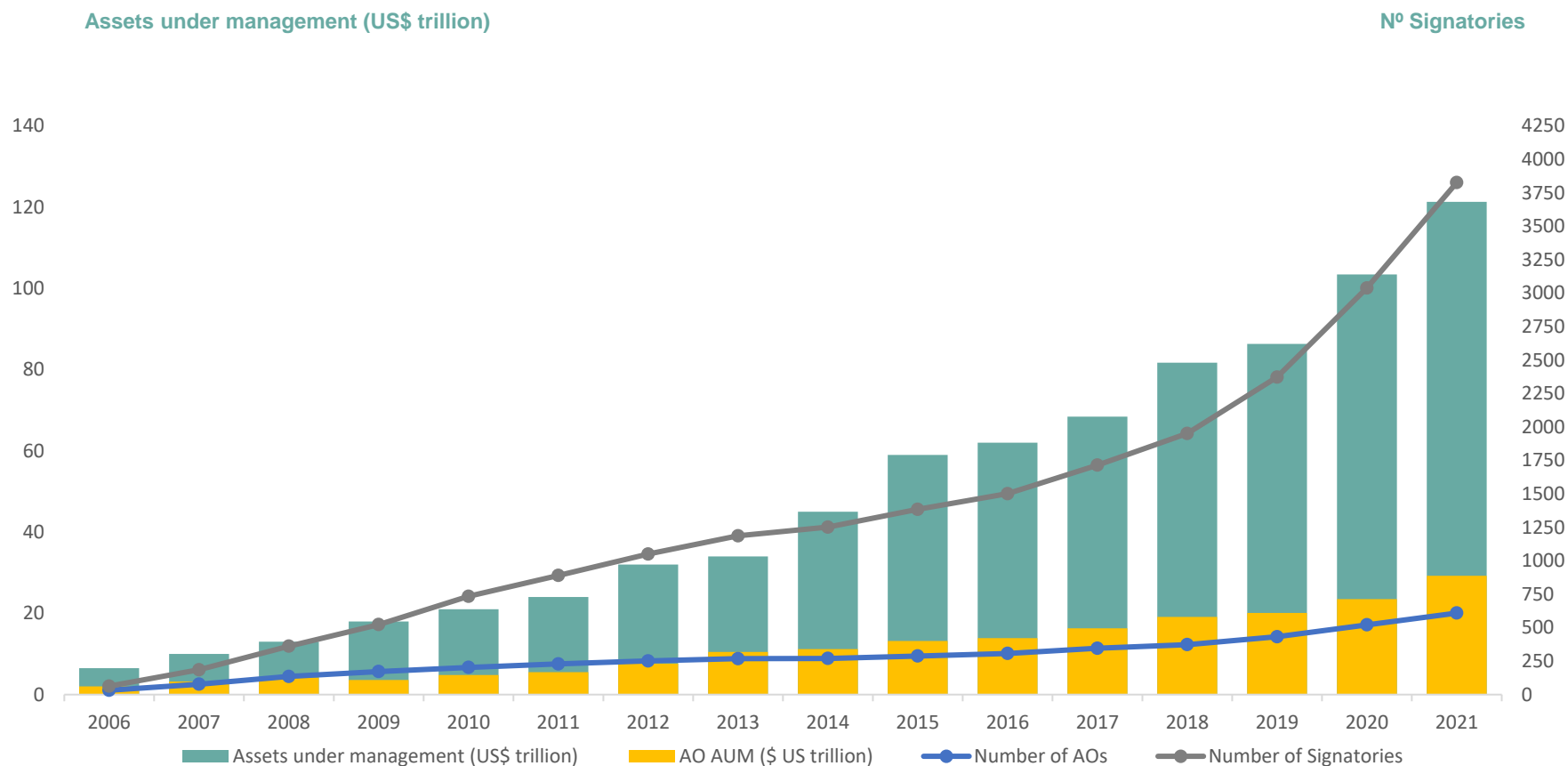
# ESG Rating Landscape and Trends Globally and in APAC





# ESG Considerations are on the Radar of Mainstream Investors

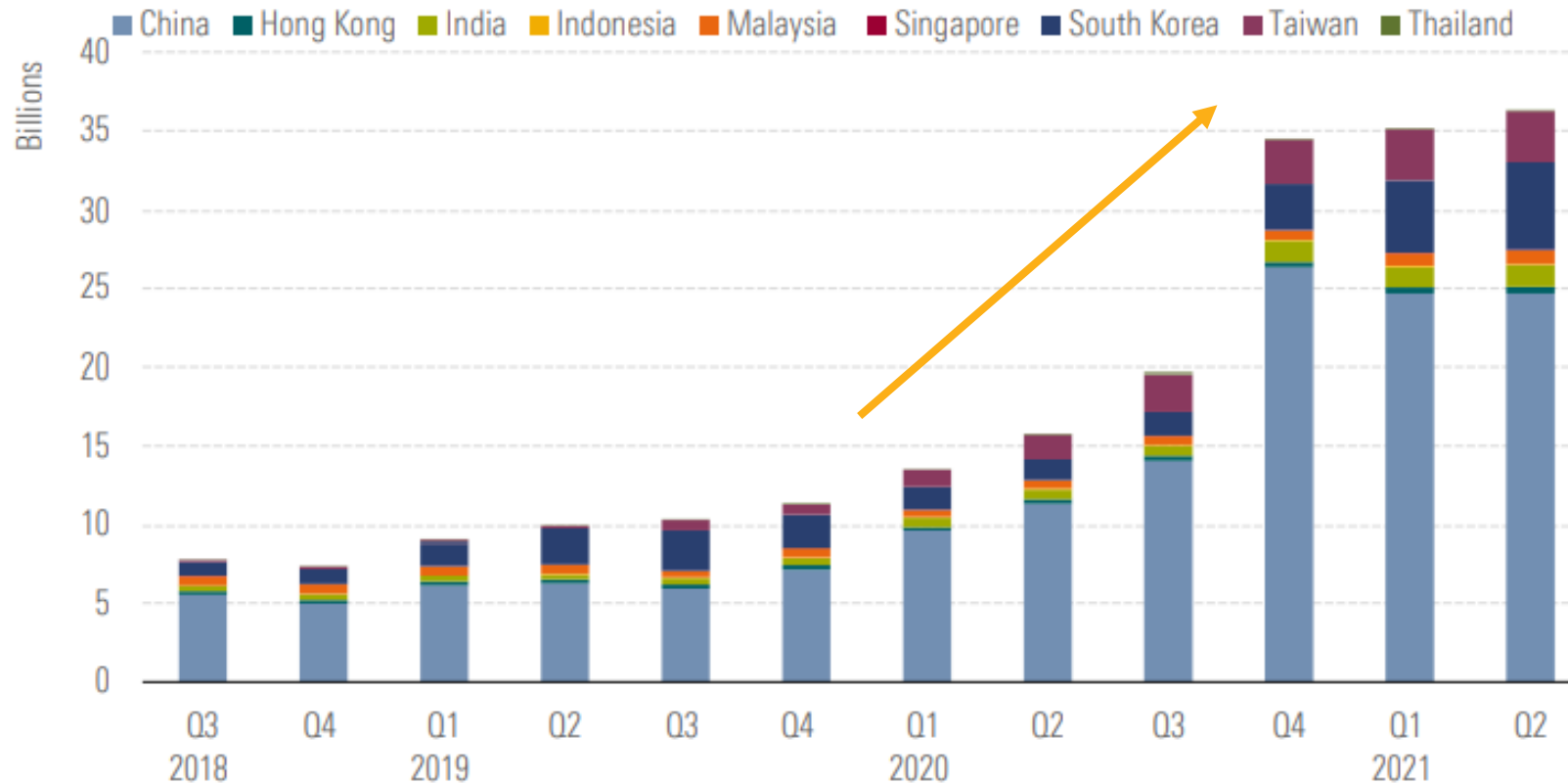
## PRI Signatories and Assets Under Management (2006-2021) Continue to Grow



**PRI signatories are representing more than US\$100 trillion in assets under management**

# Growing Demand for ESG & Sustainability is Rising in APAC

Asia-Pacific Demand for ESG Funds



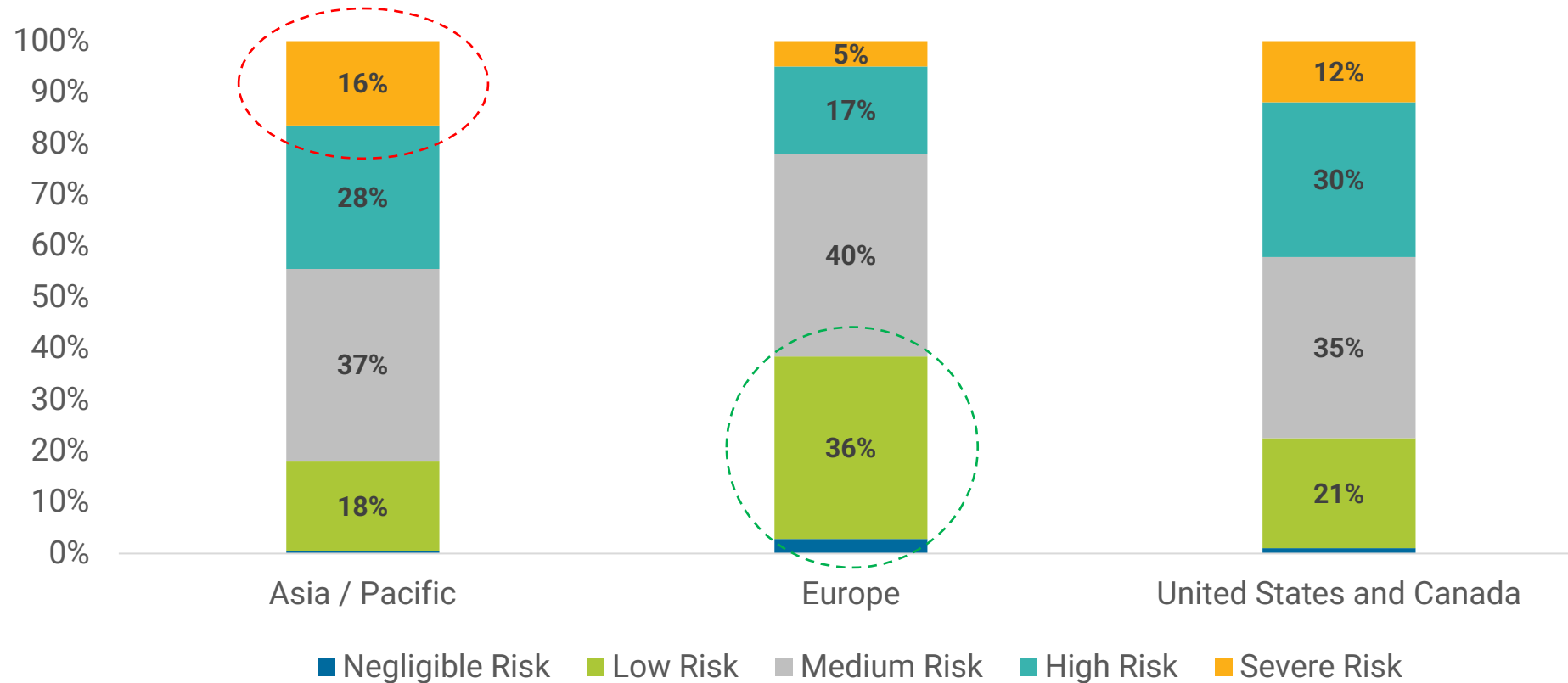
Source: Morningstar Direct, Morningstar Research. Data as of June 2021.

**133% growth rate for ESG funds in APAC from 2020 to 2021**



# ESG Risk Distribution Across Regions

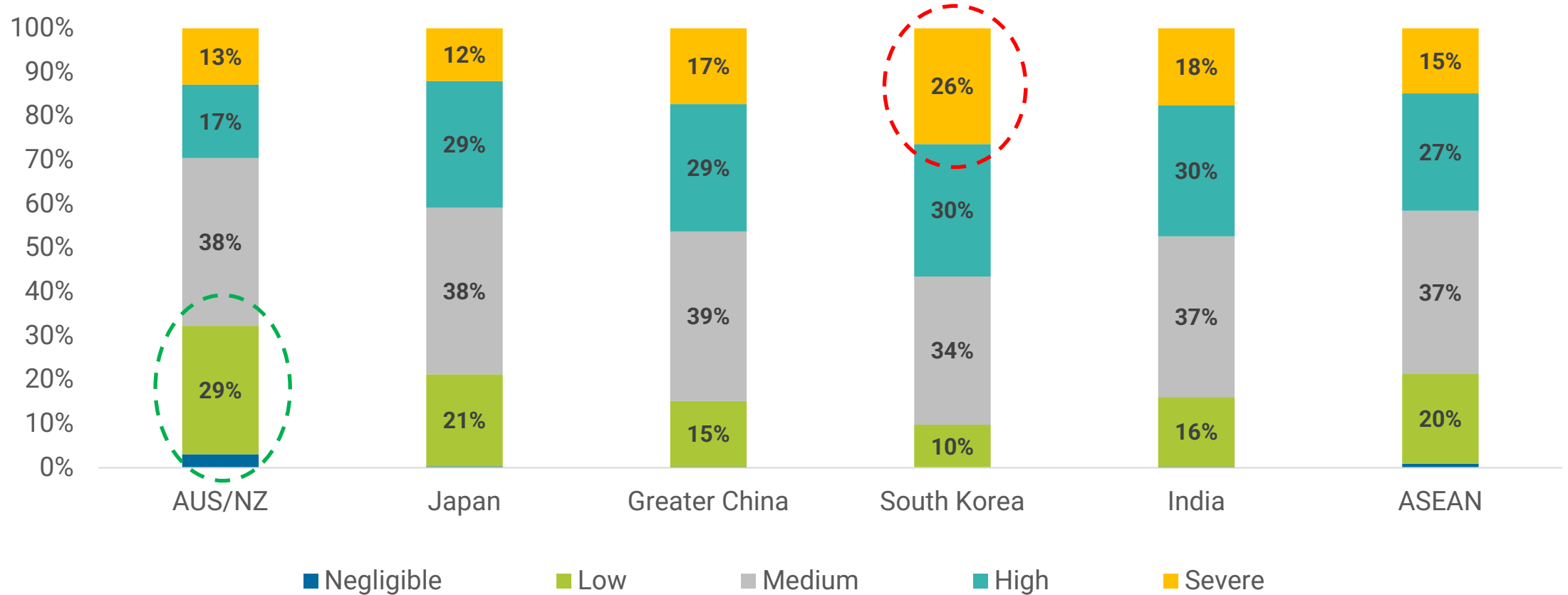
Sustainalytics ESG Risk Rating Comparison for APAC/Europe/North America



**Europe has the highest share of low risk rated companies while APAC has the highest share of severe risk rated companies**

# ESG Risk Distribution Across APAC

## Sustainalytics ESG Risk Rating Comparison



**Australia/NZ has the highest share of low risk rated companies while South Korea has the highest share of severe risk rated companies**



# Summary

- » ESG trends are here to stay
- » ESG Risk Ratings are becoming as important as credit ratings so treat them as such
- » Pressure to improve sustainability will increase from governments, investors, regulators, and consumers
- » ESG and sustainability are key to building, driving and sustaining competitive advantage over time
- » ESG Risk Rating is a key tool to use, leverage and maximize for stakeholder and investor engagement
- » Understand and leverage the ESG Risk Rating for communication of your strategy/commitments and support your sustainability road map





For more information, please contact:

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**Nicholas Gandolfo**

Director

Sustainable Finance Solutions

+65 3157 0314

[nicholas.gandolfo@sustainalytics.com](mailto:nicholas.gandolfo@sustainalytics.com)

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**Marika Stocker**

Senior Manager

Sustainable Finance Solutions

+65 3157 6881

[Marika.stocker@sustainalytics.com](mailto:Marika.stocker@sustainalytics.com)

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