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# Addressing Key Corporate ESG Issues – Lessons From Industries With High ESG Risk

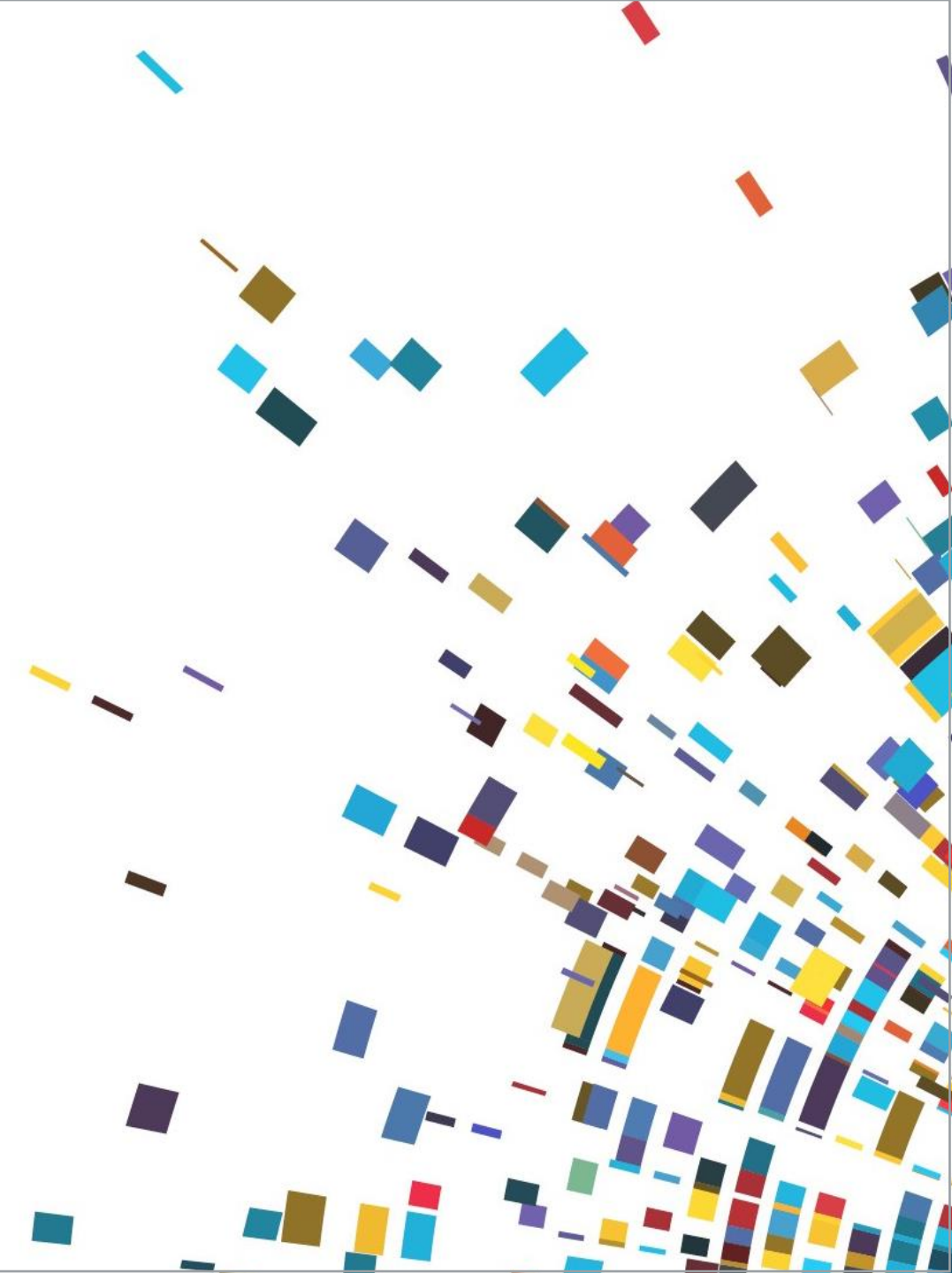
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Morningstar Sustainalytics

Corporate Solutions

May 11, 2022

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# Today's Speakers



**Frances Fairhead**

ESG Research Senior Analyst, Mining  
Sector Research



**Toshi Batbuyan**

ESG Research Senior Analyst, Oil &  
Gas Sector Research

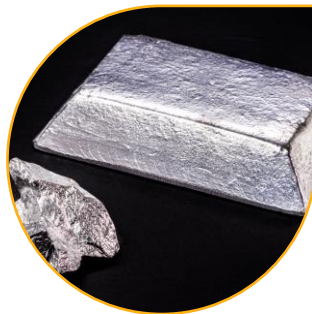


**Shilpi Singh**

Corporate Solutions Director

# Agenda

- 1 Introduction
- 2 Overview of 5 Highest ESG Risk Industries
- 3 Panel Discussion: Material ESG Issues for High-Risk Industries and Beyond
- 4 Audience Q&A



# Sustainalytics Is One of the Largest Providers of SPOs and ESG Risk Ratings



## Sustainalytics ESG strengths

- I. Transparent rating methodology
- II. 1000+ large investors globally trust our rating
- III. More than 25 years of market experience in ESG
- IV. End-To-End ESG solutions



**19/20**

**Top 20 Asset  
Managers**



**14,000+**

**Companies with  
Ratings**



**500+**

**Research Staff**



**17 countries  
Global presence**

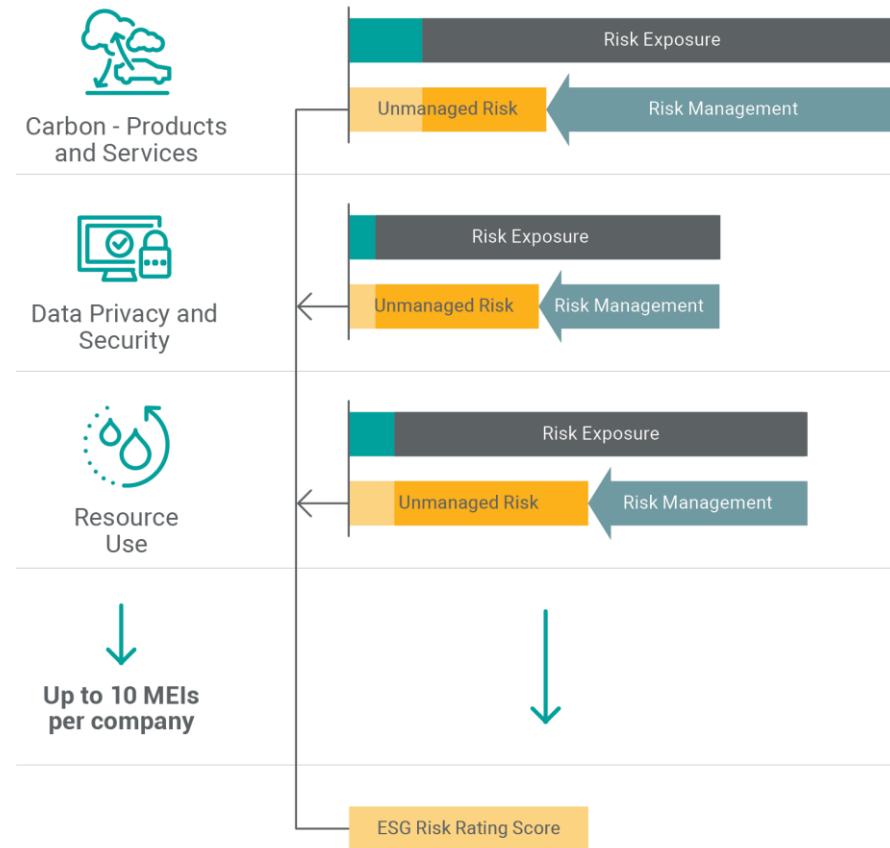
Source: Sustainalytics, as of July 2021

# Sustainalytics ESG Solutions for Corporates

Sustainable Finance Products	ESG Risk Rating Licenses	ESG Benchmarking	ESG Assessment Platform	Socio-Economic Impact Reporting
<p><b>Second-Party Opinion</b></p> <ul style="list-style-type: none"> <li>Green/ Social/ Sustainable Bond Framework</li> <li>Sustainability-linked Bond/Loan</li> <li>Transition Bond/Loan</li> </ul> <p><b>Banking Products</b></p> <ul style="list-style-type: none"> <li>Eligibility Guide               <ul style="list-style-type: none"> <li>Co-develop an eligibility guide with Sustainalytics</li> </ul> </li> <li>Sustainable Banking Opinion               <ul style="list-style-type: none"> <li>Impact and Transparency</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Sustainability-linked Loan</li> <li>Investor &amp; Marketing</li> <li>Remuneration</li> <li>Corporate ESG Assessment (Private Rating)</li> <li>IPO Assessment</li> </ul>	<p><b>Competitive Insights</b> (5 peers)</p> <ul style="list-style-type: none"> <li>Quantitative assessment</li> <li>Industry and peer high level scores</li> <li>Material ESG Issues (MEI) comparison</li> </ul> <p><b>* ESG Performance Analytics</b> (5 peers)</p> <ul style="list-style-type: none"> <li>Qualitative + quantitative assessment</li> <li>Industry trend analysis and identification of industry best practice</li> <li>Granular comparison of each MEI</li> <li>Gap analysis</li> </ul>	<ul style="list-style-type: none"> <li>Assess supply chain ESG risk</li> <li>Cater for a large portfolio of suppliers/companies</li> </ul>	<ul style="list-style-type: none"> <li>Quantitative Impact Analysis</li> <li>Downstream Impact (surveys)</li> <li>Indicator Alignment</li> <li>Benchmarking</li> </ul>

# Sustainalytics' Approach to Calculating ESG Risk

## Material ESG Issues



Source: Sustainalytics | For Informational Purposes Only

● Unmanageable Risk

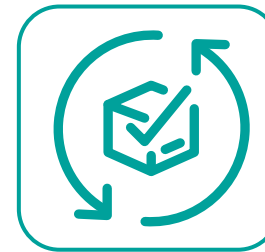
● Management Gap

# What is a Material ESG Issue?

- » An ESG issue is considered material if it's likely to have a substantial impact on the value of a company and if its presence or absence in the company's financial reporting is likely to influence the decisions made by a reasonable investor.
- » What's considered material will differ depending on the industry a company operates in and its business model.



Business Ethics



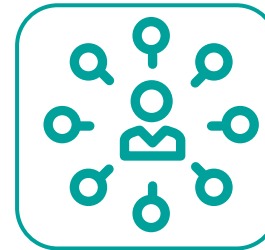
Product Governance



Carbon – Own Operations



Carbon – Products and Services



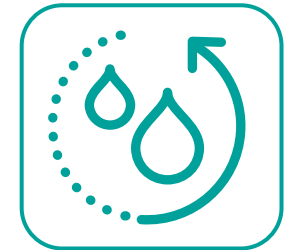
Community Relations



Emissions, Effluents, and Waste

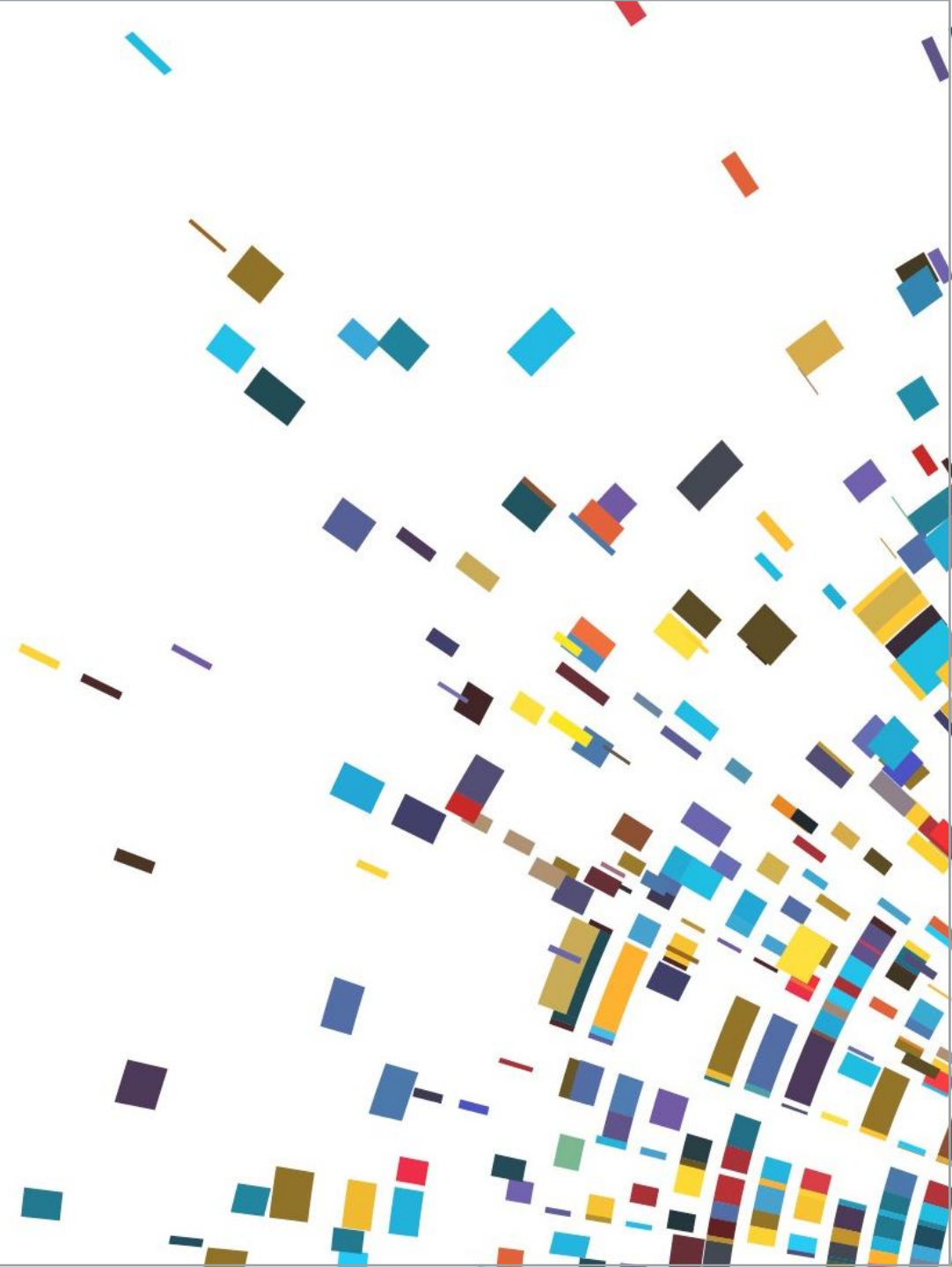


Occupational Health and Safety



Resource Use

# 5 Highest ESG Risk Industries

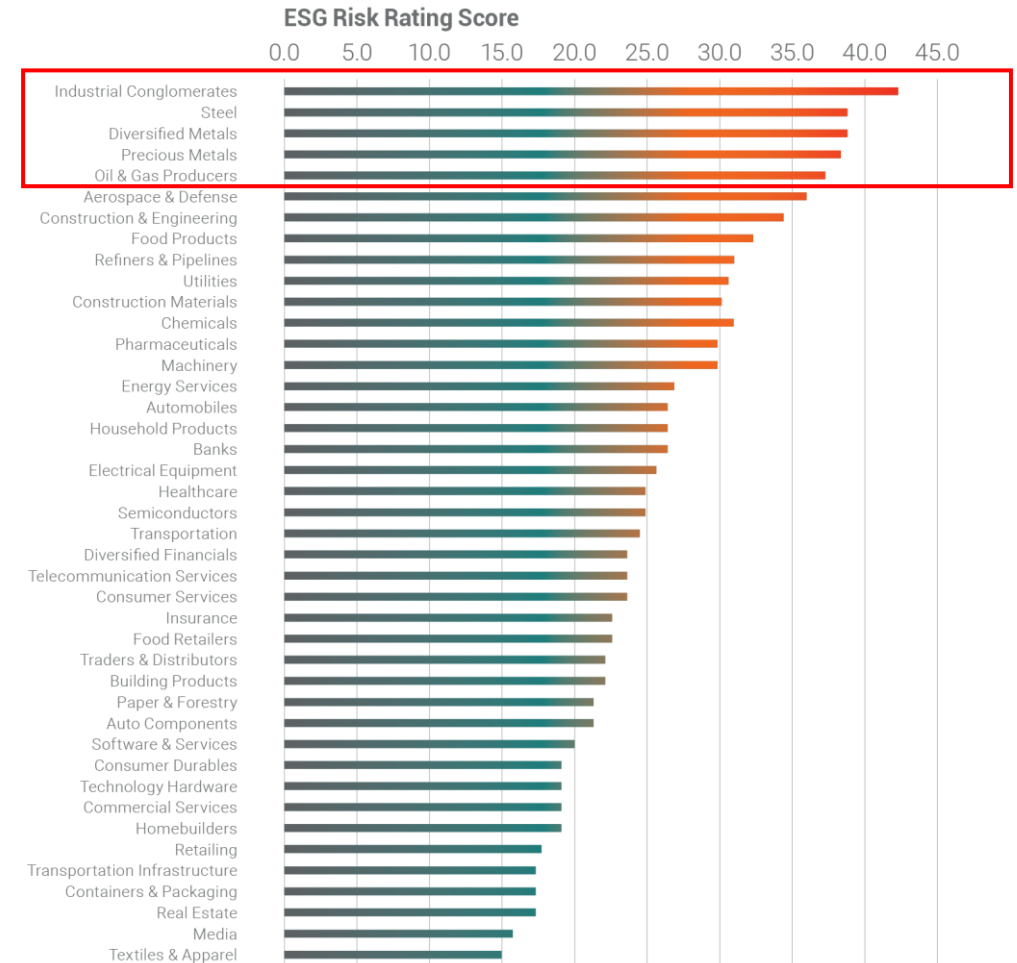




# Why Examine High-Risk Industries?

- » Growing scrutiny of organizations' contributions or harms to the environment, societal equality and well-being.
- » These five high-risk industries also play a critical role in global economic growth and are key in the transition to a net-zero carbon economy.
- » Companies in all industries can learn from these examples and find opportunities for improving ESG risk management.

Figure 1: Industries by Average ESG Risk Score – 2021



Source: Sustainalytics | For Informational Purposes Only

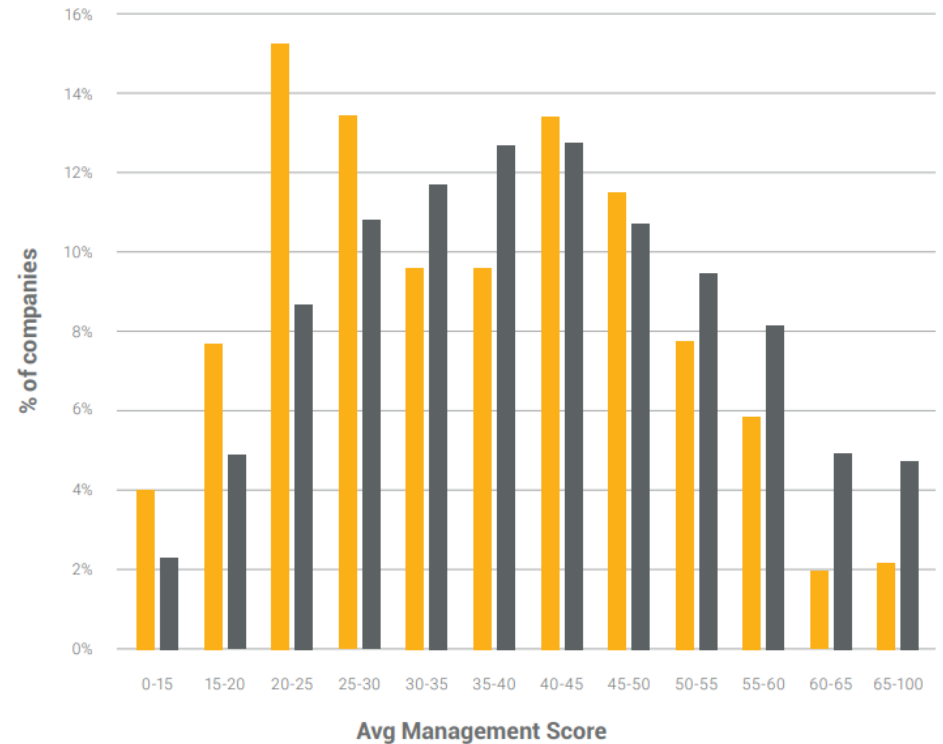


# Industrial Conglomerates

<b>Avg Exposure Score</b> 62.3	<b>Avg Management Score</b> 36.0	<b>Avg ESG Risk Rating Score</b> 42.0	<b>Key MEIs (Highest to Lowest Impact)</b> 1. Business Ethics 2. Product Governance 3. Carbon – Own Operations 4. Resource Use 5. Emission, Effluents, and Waste
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- » Companies in the industry are diversified by nature
- » As a result, have high exposure to multiple MEIs
- » Conglomerates have the highest average ESG Risk Rating score with most companies falling in high (22%) to severe (70%) risk category
- » Through strong management programs and policies, companies could meaningfully mitigate risk from multiple MEIs depending on their core business model.
- » Practices such as proactively developing a low-carbon strategy within a broader sustainability road map or managing product quality and safety risks are some ways to check unmanaged risks.

**Figure 2: Average ESG Management Scores Compared to Universe**



Source: Sustainalytics | For Informational Purposes Only

● Industrial Conglomerates ● All Industries

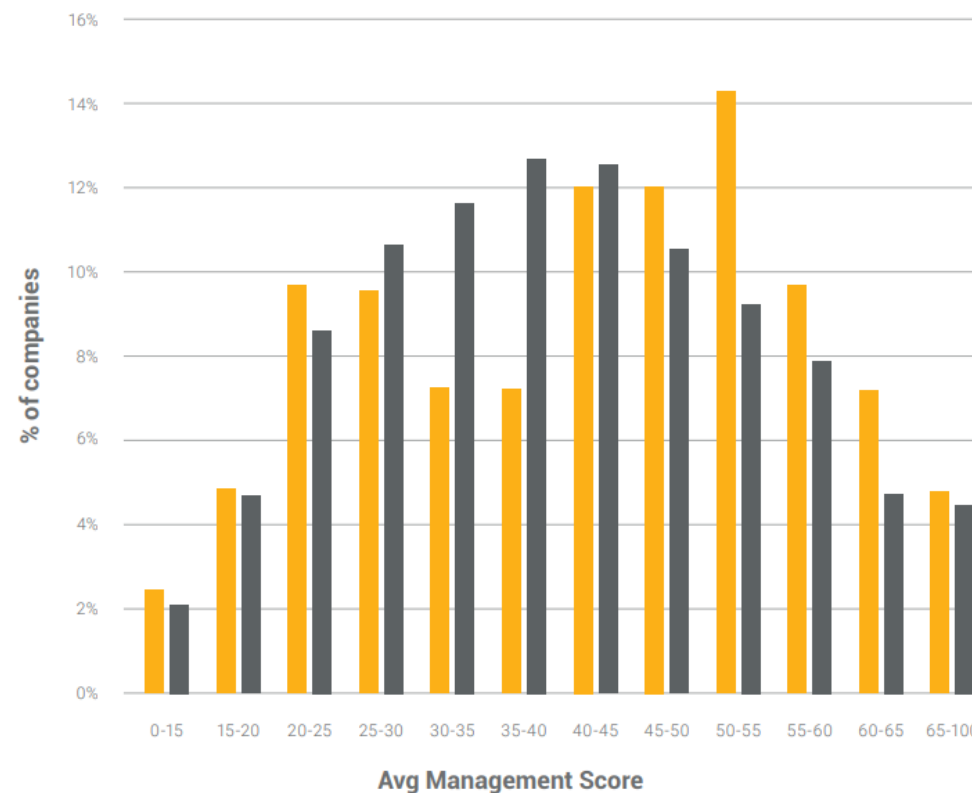


# Steel

Avg Exposure Score	Avg Management Score	Avg ESG Risk Rating Score	Key MEIs (Highest to Lowest Impact)
63.4	42.3	38.9	1. Carbon – Own Operations 2. Occupational Health and Safety 3. Emissions, Effluents, and Waste 4. Community Relations 5. Resource Use

- » Second-highest average ESG Risk Rating score (risk category: high)
- » Most companies have average management score; over 40% demonstrate strong management of ESG issues
- » Industry includes makers of crude steel and vertically integrated companies with mining activities
- » Key MEIs:
  - » Carbon – Own Operations
  - » Occupational Health and Safety
- » Companies should leverage opportunities for emissions reduction and targets to reduce large-scale accidents

Figure 3: Average ESG Management Scores Compared to Universe



Source: Sustainalytics | For Informational Purposes Only

● Steels ● All Industries



# Diversified Metals

<b>Avg Exposure Score</b> 66.7	<b>Avg Management Score</b> 47.1	<b>Avg ESG Risk Rating Score</b> 38.5	<b>Key MEIs (Highest to Lowest Impact)</b> 1. Emissions, Effluents, and Waste 2. Community Relations 3. Carbon – Own Operations 4. Resource Use 5. Occupational Health and Safety
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- » Third-highest average ESG Risk Ratings score (risk category: high)
- » Industry has significant exposure across a spectrum of ESG issues
- » Key MEIs:
  - » Emissions, Effluents, and Waste
  - » Community Relations
- » The biggest opportunities flow from balancing environmental and social impacts with the role some metals play in the transition to a low-carbon economy.

**Figure 4:** Average ESG Management Scores Compared to Universe



Source: Sustainalytics | For Informational Purposes Only

● Diversified Metals ● All Industries

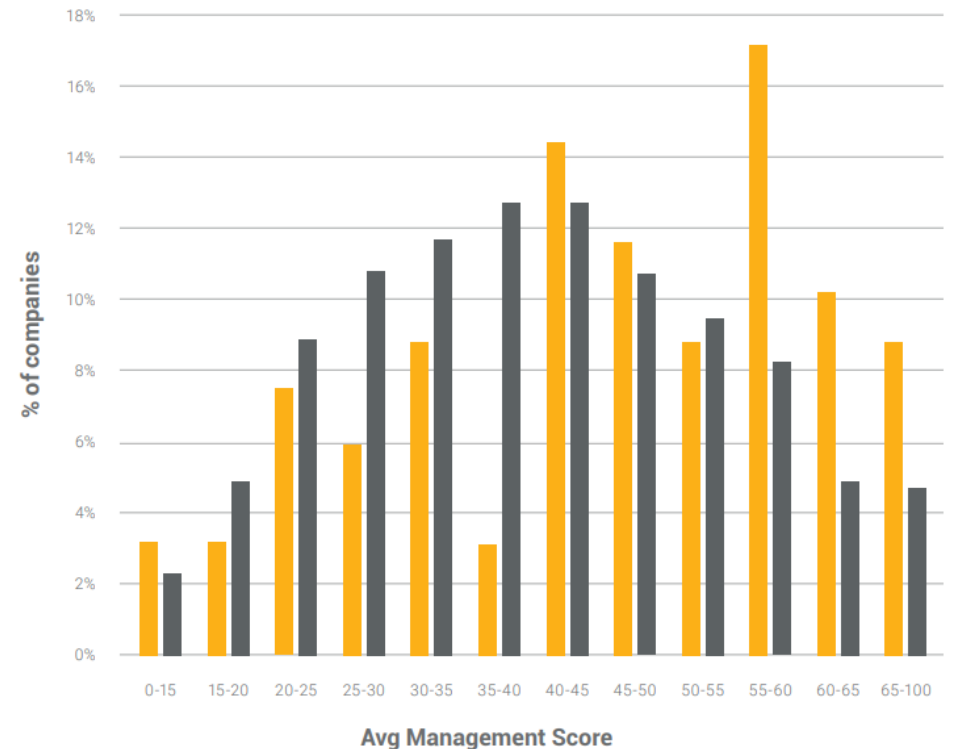


# Precious Metals

<b>Avg Exposure Score</b> <b>65.3</b>	<b>Avg Management Score</b> <b>46.0</b>	<b>Avg ESG Risk Rating Score</b> <b>38.1</b>	<b>Key MEIs (Highest to Lowest Impact)</b>	
			1. Emissions, Effluents, and Waste	2. Community Relations
			3. Resource Use	4. Occupational Health and Safety
				5. Carbon – Own Operations

- » Fourth highest average ESG Risk Ratings score (risk category: high)
- » Industry exposed to a high number of MEIs
- » Companies involved in the extraction and processing of precious metals.
- » Key MEIs:
  - » Emissions, Effluence, and Waste
  - » Community relations
- » Decarbonization is an important issue for the industry. A push for increased energy efficiency and the reduction of fossil fuel consumption continues to shape the modernization of mines.

**Figure 5: Average ESG Management Scores Compared to Universe**



Source: Sustainalytics | For Informational Purposes Only

● Precious Metals ● All Industries

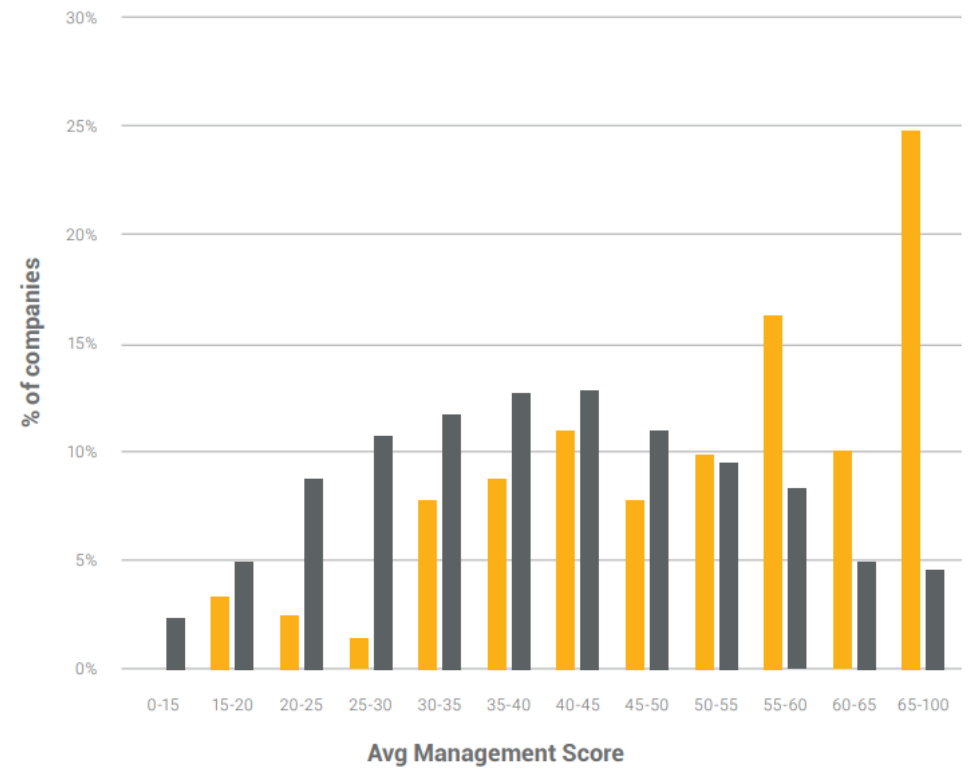


# Oil and Gas Producers

<b>Avg Exposure Score</b> 68.2	<b>Avg Management Score</b> 52.3	<b>Avg ESG Risk Rating Score</b> 37.7	<b>Key MEIs (Highest to Lowest Impact)</b>		
			1. Carbon – Product and Services	3. Carbon – Own Operations	5. Occupational Health and Safety
			2. Emissions, Effluents, and Waste	4. Community Relations	

- » Fifth-highest average ESG Risk Ratings score (risk category: high)
- » Has the highest overall ESG exposure score but, it also has the best average management score among the 5 industries covered
- » Companies in this industry are primarily involved in the discovery and production of oil, natural gas, and coal
- » Key MEI:
  - » Carbon – Products and Services
  - » Emissions, Effluents, and Waste
- » Most MEIs have a meaningful degree of unmanageable risk. For instance, carbon cannot be completely eliminated from the oil and gas value chain.

Figure 6: Average ESG Management Scores Compared to Universe



Source: Sustainalytics | For Informational Purposes Only



# Panelist Discussion



# Audience Q&A



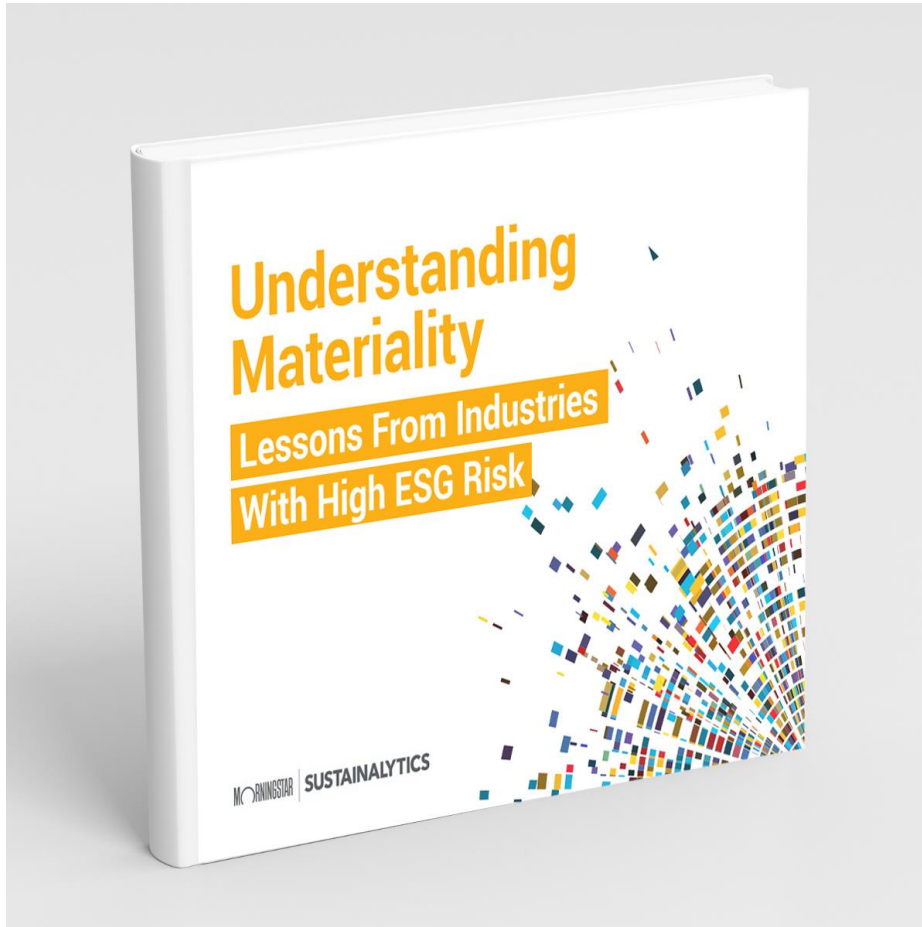
## Key Takeaways

- » **Climate resilience and disclosure** along with other **environmental** aspects remain top of mind for companies regardless of their industry and risk category
- » **'S' factors** such as Occupational Health and Safety as well as Community Relations are also prominent across sectors
- » Impactful to proactively reduce risk of **controversies** as well as manage the ones that occur responsibly
- » Understand and align with **industry standards and guidelines** as well as **peer leading practices** to aid implementation
- » Meaningful **strategic ESG initiatives** will ultimately guide capital deployment - some straightforward to address, while others long-term



Notes

For more insights download our ebook:



- » Overview of the 5 industries with the highest average ESG Risk Ratings score
- » Insights on the material ESG issues common to these industries
- » Lessons for all companies on identifying and managing these material ESG issues
- » Insight into Sustainalytics' approach to assessing corporate ESG risk exposure and management

For more information, please contact:

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