

## ISS ESG CORPORATE RATING

The ESG Corporate Rating provides relevant and forward-looking environmental, social and governance (ESG) data and performance assessments. Rooted in a holistic and gradual understanding of materiality, companies are assessed against a standard set of universal ESG topics as well as additional industry-specific topics. The materiality approach covers both material sustainability risks as well as adverse impacts on society and the environment. Drawing on an overall pool of more than 700 indicators, ISS ESG applies approximately 100 social, environmental, and governance-related indicators per rating, covering topics such as employee matters, supply chain management, business ethics, corporate governance, environmental management, eco-efficiency and others. Differentiated weighting scenarios ensure that the topics most material for a given business model are duly taken into account. “Prime” status is granted to industry leaders who fulfill demanding absolute performance expectations and are thus well-positioned to manage critical ESG risks as well as capitalize on opportunities offered by transformations towards sustainable development.

The environmental, social and governance risks and impact differ by industry. The extent of industry-specific E, S and G risks and impact defines the respective performance requirements, the distribution of weights between these rating dimensions as well as the Prime threshold per sector. Companies in high risk and impact sectors such as oil and gas, for example, have to deliver a better performance than those in low-risk sectors such as real estate to obtain the ISS ESG Prime Status.

The ESG Corporate Rating integrates a detailed assessment of the sustainability impact of operations based on risk exposure and an assessment of management approaches regarding material sustainability risks along the entire value chain (“do no harm”). Meanwhile, positive and adverse sustainability impacts of product portfolios, assessed based on the share of net sales generated with products/services contributing to or obstructing the achievement of global sustainability objectives, are also considered (“find impact/opportunity”). Furthermore, the ESG Corporate Rating integrates ISS ESG’s Norm-Based Research’s evaluation of corporate compliance with recognized international norms and guidelines as a stress-test of ESG performance while highlighting sustainability risks.

The set of universal ESG topics against which all companies covered by the ESG Corporate Rating are assessed includes certain good governance practices as defined under the EU Sustainable Finance Disclosure Regulation (SFDR). Within the “G” pillar of ISS ESG’s Corporate Rating, companies’ management structures are evaluated, including, for instance, the independence of the board of directors, the presence of relevant independent board committees, as well as remuneration policies. Employee relations are considered in the Corporate Rating’s “S” pillar which include a company’s management approach and performance in relation to fundamental principles and rights at work as well as labor conditions. Responsible tax practices and a company’s broader engagement with governments in terms of political spending and lobbying activities form part of the “S” pillar as well.

### Outputs

The ESG Corporate Rating applies a twelve-point grading system from A+/4.00 (excellent performance) to D-/1.00 (poor performance). All indicators are individually assessed based on clearly defined absolute performance expectations. Based on individual scores and weightings at the indicator level, results are aggregated to yield data on the topic level as well as an overall score (rating). “Prime” status is granted to industry leaders who meet the industry-specific Prime threshold, with Prime thresholds ranging from C (for low risk industries) to B- (for high risk

industries). In addition to the overall rating, a decile rank indicates performance relative to industry peers. A decile rank of 1 indicates high relative performance, while a 10 indicates a lower relative performance. The ESG Performance Score allows for cross-sector comparisons using a standardized best-in-class threshold, measuring company performance on a scale of 0 to 100 with 50 representing the Prime threshold applicable for the industry.

## Research Process

The ESG Corporate Rating follows a staged update process: Scheduled annual updates are complemented by ad hoc updates triggered by significant events, including but not limited to, corporate actions (e.g. mergers, major spin-offs, acquisitions) and new or evolving ESG controversies.

The rating process can be broken down into the following steps:

- **Data collection:** Relevant information is retrieved both from the companies being analyzed and from alternative ESG data sources, including media sources (international, local), recognized international or local non-governmental organizations, government agencies, and inter-governmental agencies, among others.
- **ESG research:** Proprietary ratings and scoring models are applied, resulting in a draft rating.
- **Quality assurance:** Draft ratings are systematically proofread by experienced analysts.
- **Company feedback:** A comprehensive dialogue with the rated issuers is carried out once every two to three years. Additionally, corporate issuers are welcome to send information/updates regarding sustainability issues for consideration at any time.
- **Final report:** The final ESG Corporate Rating report is made available to the assessed company free of charge on a confidential basis and will be published on ISS ESG customer platforms.

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