

ESG RATING: UNDERSTANDING & USING IT

1 WHAT IS AN ESG RATING?

An ESG rating gives you an indication how well a company is managing environmental, social, and governance risks and opportunities, in comparison to its industry peers.

According to a survey by SustainAbility¹, there are approximately 600 independent ESG ratings and rankings existing globally as of 2018. However, there is still no standard approach to-date, as agencies adopt different methodologies when rating an investment product.



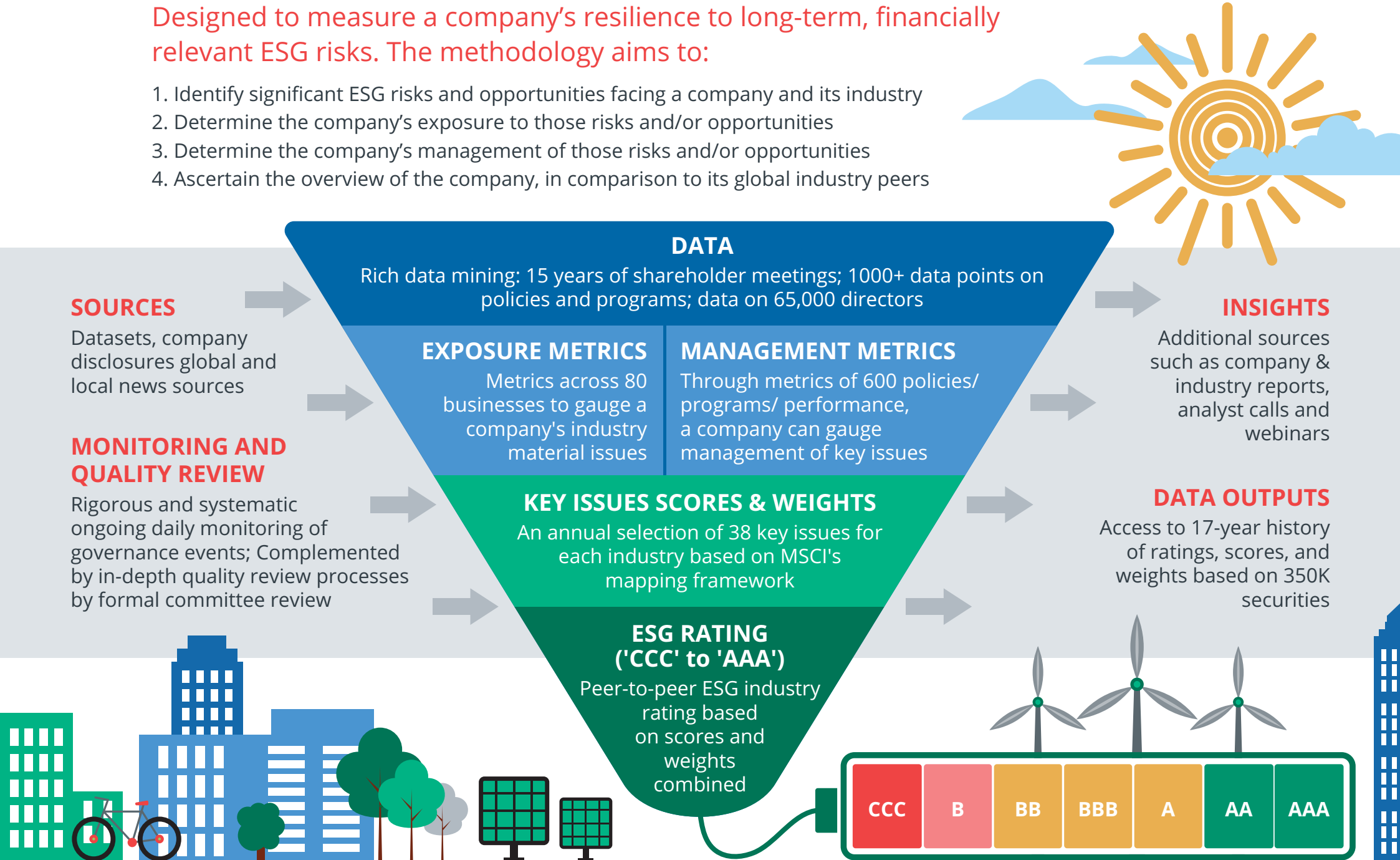
2 DBS AND MSCI

At DBS, we have adopted MSCI ESG Ratings (which cover equities, bonds and funds) to provide clients with greater transparency over the ESG characteristics of their investment portfolios. [Read more](#)

3 MSCI ESG RATINGS METHODOLOGY

Designed to measure a company's resilience to long-term, financially relevant ESG risks. The methodology aims to:



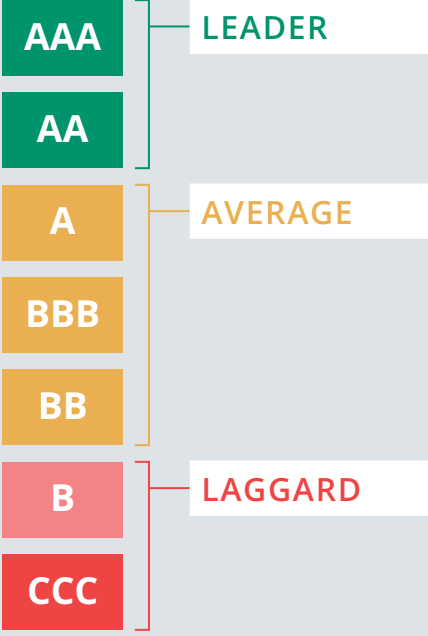
- 1. Identify significant ESG risks and opportunities facing a company and its industry
- 2. Determine the company's exposure to those risks and/or opportunities
- 3. Determine the company's management of those risks and/or opportunities
- 4. Ascertain the overview of the company, in comparison to its global industry peers



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4 WHAT MSCI ESG RATINGS MEAN

MSCI uses a ‘CCC’ to ‘AAA’ scale to rate companies (ESG risk exposure and management, relative to industry peers), funds and ETFs (ESG characteristics of the portfolio). Here’s what you need to know about the different approaches and ratings:

	MSCI ESG Rating	MSCI ESG Fund Rating
Coverage 	Over 8,500 companies (14,000 issuers including subsidiaries) and more than 680,000 equity and fixed income securities globally* <small>*Source: MSCI ESG Research, October 2020</small>	ESG scores and metrics for over 52,000 multi-asset class mutual funds and ETFs globally (as of August 2020)
Criteria / Approach 	Companies are weighted on 38 key ESG issues that are material to them, and their industry: <ul style="list-style-type: none">• Level of contribution to social or environmental externality• Expected time horizon of risk/ opportunity	To obtain the ESG Fund Rating, the fund must fulfil these 3 qualifying criteria: <ul style="list-style-type: none">• 65% of the fund’s gross weight comes from covered securities• Fund holdings date must be less than one year old• Fund must have at least ten securities
What the rating means 	The company is/has:	The fund is exposed to companies that:
AAA	Leading its industry, in managing the most significant ESG risks and opportunities.	Show strong and/or improving management of financially relevant ESG issues. They may be more resilient to disruptions arising from ESG events.
AA		
A	A mixed or unexceptional track record of managing the most significant ESG risks and opportunities, relative to industry peers.	Show average management of ESG issues, or a mix of companies with above-average and below-average ESG risk management.
BBB		
BB		
B	Lagging in its industry, based on its high exposure and failure to manage significant ESG risks.	Do not demonstrate adequate management of risks that they face or show worsening management of these issues. They may be more vulnerable to disruptions arising from ESG events.
CCC		

5 HOW DO I INCORPORATE MSCI ESG RATINGS IN MY INVESTMENT ANALYSIS?



Adding an ESG lens can help you identify fundamental sustainability risks, not picked up by conventional financial analysis.

- 1 Sieve out companies with stronger MSCI ESG Ratings amongst industry peers. Investing sustainably helps you mitigate risks by, for instance, excluding companies that are exposed to wastewater mismanagement, have unfair labour practices or material ESG issues that are poorly managed—all of which can have a detrimental impact on their reputation and performance.
- 2 If you wish to “do good” by injecting capital in companies that have a strong focus on ESG or adopted good practices to mitigate material ESG risks, you can use MSCI ESG Ratings as an initial guide to suss out suitable investments.

1 Rate the Raters 2020: Investor Survey and Interview Results, by SustainAbility (an ERM Group Company – a leading global provider of environmental, health, safety, risk, social consulting and sustainability related services)

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