

Rate the Raters Phase Five

Questionnaire for Raters

Corporate Knights Capital

May 2014

Overview of Questionnaire

The questionnaire covers five areas: Rating Overview, Governance and Transparency, Inputs, Research Process and Outputs. SustainAbility developed a methodology to evaluate raters' responses in the latter four areas, and we used this to identify the good practices and areas for improvement described in [Rate the Raters Phase III: Uncovering Best Practices](#). We have made our methodology available on our website for readers to use while reviewing the raters' responses.

Directions for Raters

Please use space below each question to input your answers. While we have not set a minimum or maximum number of words for your responses, please answer the questions in sufficient detail for us to understand your practices. We have included guidance notes in italics. We recognize that certain questions may not be pertinent to every rating. If you find this to be the case, please indicate this and provide a brief explanation.

0 Rating Overview

0.1.1 Rating Name

Global 100 Most Sustainable Corporations in the World

0.1.2 Please describe the primary objectives and motivations for your rating

We want to mainstream sustainability in the business community. By applying objective corporate social and environmental measures that clearly show which companies stand above their peers, our aim is to create a virtuous cycle where the most sustainable companies attract the most capital and earn the best returns. The top performing companies in each of our rankings deserve to be recognized, because they are models for the art of the possible, living proof of how billion dollar entities can squeeze more wealth from less material resources while honoring the social contract.

0.1.3 How do you evaluate the impact or success of your rating? If so, how?

Since our primary target audience is the investment community, we do not have a mechanism in place to systematically measure the "impact" of our ratings with individual corporations. However, a great number of companies, including both Canadian and international firms, *reach out to us* to see how they can improve their positioning in the Global 100. During these

exchanges, we ask companies how they perceive the ranking, and how important it is to them in terms of their sustainability, business and communications strategy. We have documented numerous cases where a company has changed its reporting practices to improve their position in the Global 100. Moreover, we have found that senior executive compensation at a growing number of companies is linked to performance in the Global 100.

In terms of engaging with investors, we follow the impact of our ratings by measuring the financial performance of companies in our ratings universe. For example, we have measured the total return of the Global 100, benchmarked against MSCI All Country World Index (ACWI), since the project began in 2005. Since inception (February 1, 2005) to March 31, 2014), the Global 100 offered investors a 96.68% total return, compared to 89.38% for the MSCI ACWI, resulting in 7.29% outperformance. For further information, please visit: www.global100.org

0.1.4 Please identify your audience or customer base, and, if possible how they use your rating in their decision making.

Our main audience and customer base consists of investors. Because the Global 100 is one of the world's most successful sustainability indices, it helps us build credibility with our investors and serves as a testament to our capabilities around sustainability data.

1 Governance and Transparency

1.1 Disclosure of methodology

1.1.1 Describe how you make available the details of your methodology to the public, rated companies and other stakeholders.

One of our core principles is 'radical transparency'. We absolutely and in all cases fully publicly disclose every aspect of our rating methodology for each of our rankings, such that stakeholders can replicate the output. This transparency runs central to our business model.

Global 100: <http://global100.org/methodology/>

1.2 Conflict Management

1.2.1 Do you have a policy (or guidelines, standards, etc.) that addresses conflicts of interest? If so, is it disclosed publicly?

Yes, we have a policy that specifically addresses conflicts of interest. It is disclosed publicly here:

<http://corporateknights.com/about/about-us> (see Policies tab)

"From time to time Corporate Knights Inc. or its executives may have revenue relationships with companies that are the subject of its editorial, ranking or investment products. Employees are required to disclose any and all potential conflicts to senior managers. Corporate Knights has a strict policy regarding the separation of revenue relationships and its suite of editorial, ranking

and investment products. Any employee who allows a revenue relationship to influence the company's editorial, ranking, or investment products will be dismissed."

1.2.2 Do you disclose the relationships and independence of board members, advisory panel members, partners and/or other involved third-parties? If so, how? How do you manage conflicts of interest with these entities?

Yes, we fully disclose these relationships. Corporate Knights executives, who have ultimate oversight for all the rankings, are required to sign the Corporate Knights policy regarding the separation of advertising and rankings, any breach of which is punished with dismissal. Ultimately, sunlight is the best disinfectant: the best protection against conflicts of interest is to ensure the ranking and methodology are transparent in a manner so that any outside party can verify the results.

<http://corporateknights.com/about/about-us>

1.2.3 Do you offer for-fee services to the companies that you rate (including benchmark reports)? If yes, please describe these services. How do you avoid conflicts of interest in these situations?

Yes.

There are three instances where this occurs. First, the sale of benchmarking reports to companies in our coverage universe. We offer customized benchmarking services designed for corporate executives and sustainability professionals, which show how companies compare against their domestic and global same-sector peers on a range of quantitative sustainability KPIs. The reports are used by Corporate Knights Capital clients to determine sector best disclosure practices, 5-year reporting trends, best-in-class KPI performers, and company performance trends. The reports are also used by companies to inform executive compensation strategies, internal target setting and balanced scorecard metrics.

Second, Corporate Knights, Inc., the parent of Corporate Knights Capital, sells advertising in the Corporate Knights magazine to companies in Corporate Knights Capital's research universe. This creates the potential for conflict of interest (e.g. companies could be lured to advertise through artificially inflated scores in our rankings). We are aware of this potential and have taken all reasonable steps to ensure this conflict of interest does not ensue. We do this by requiring all employees of Corporate Knights to sign the policy described above in 1.2.1. We have also set up a Chinese wall within our company that prevents employees on the media side of our company from accessing Corporate Knights Capital's rankings and research database.

Third, some companies pay a modest licensing fee to use a high-resolution version of the Global 100 logo on their website but may freely mention their inclusion on the list and use the low-resolution version. The fee is meant to cover administrative costs associated with the output of the Global 100 ranking, for which there is no other revenue stream.

1.2.4 Do you have any other financial relationships (e.g. sponsorships, advertising) with companies you rate?

No.

1.3 Regular Review

1.3.1 Do you have a regular approach to updating your methodology over time? If yes, describe this approach.

Yes.

Global 100: We review sell-side research from mainstream brokerages to identify new quantitative key performance indicators (KPIs) that are being used. We check financial data providers with environment, social, and governance feeds for thresholds of disclosure. In cases where disclosure is at a significant threshold, and there is a strong rationale for the new indicator to be included, we present the case to the Global 100 Council of Experts, and go with the majority opinion. We also solicit blue-sky suggestions from the Global 100 Council of Experts to improve the methodology, and present these suggestions to the Council of Experts for feedback and consideration. As an illustration, we added a twelfth KPI, Pension Fund Status, to the 2013 Global 100, and in the 2014 Global 100, we refined the Waste Productivity indicator to take into account the amount of waste that companies recycle.

1.3.2 Describe how you communicate any changes in your methodologies to affected companies and other stakeholders, and how you work with them to adapt to and understand the implications of the changes.

Global 100: Via email, the Global 100 website and through one on one engagement when possible. We send data directly to all companies on the Global 100 shortlist for verification prior to ranking finalization, as a further step in quality control.

1.4 Stakeholder Involvement (excluding rated companies)

1.4.1 Does the rating have an external and/or independent advisory body in place? If so, describe how this body is involved in the rating's construction and maintenance and the scoring, rating, or selection of companies.

Global 100: When we find a strong rationale for a new indicator to be included, we present the case to the Global 100 Council of Experts, and go with their consensus. Each autumn, we also solicit blue-sky suggestions from the Global 100 Council of Experts to improve the methodology, and present these suggestions to the Council of Experts for feedback and consideration. The continuity of the Global 100 methodology is important so changes are made with careful consideration.

<http://corporateknights.com/about/about-us> (See "Board" tab)

1.4.2 Describe how you involve / solicit feedback from external stakeholders in the development and ongoing maintenance of the rating. Please provide an example of how you revised your methodology based on stakeholder input.

In 2013 we once again presented the Global 100 methodology to a representative sample of global, cross-industry large caps and solicited feedback on what we could do to improve the methodology. As an example of how this consultation affected the methodology, we added a twelfth KPI, Pension Fund Status, to the 2013 Global 100, and in the 2014 Global 100, we refined the Waste Productivity indicator to take into account the amount of waste that companies recycle.

1.4.3 How do you communicate the output / summary from this engagement? For example, do you make public the stakeholder comments?

As above, the methodology behind the Global 100 is clearly documented at www.global100.org/methodology. We do not make public the specific comments from the external engagement process from the Global 100. This is an interesting idea and there is no reason in principle why the comments themselves, as opposed to the end result of the comments (i.e. the methodology changes) could not be released. However, we would need to think about the value added of doing this if we found that it discouraged the vitality or candidness of comments in the engagement process.

2 Inputs

2.1 Information Sources

2.1.1 Please list and describe the information sources that you utilize to develop your rating.

Global 100: Primary research (corporate sustainability reports, annual reports, including income statement, balance sheet and cash flow statement and the MD&A, management circulars), as well as direct engagement via email with corporations on the shortlist.

Secondary research (Bloomberg, and CDP)

2.1.2 Please describe how this information is obtained (i.e. from publicly available documents, partner organizations, directly from companies). If your rating is based on other ratings or third-party research firms, please describe how they obtain their information.

See above

2.1.3 How often do you refresh information / inputs on companies?

Annually.

2.1.4 How do you deal with non-disclosure by companies in your rating?

As mentioned above, companies that do not disclose are effectively penalized, so long as the KPI is a 'priority indicator' for the companies in question.

2.2 Company Engagement

2.2.1 Describe the process by which you engage / interact with the companies that you rate (i.e. frequency, nature, format).

As mentioned above, we currently send data to companies on the Global 100 shortlist for verification.

Our methodology depends solely on publicly available information. We also offer briefings at no fee to companies who are interested in our approach. From time to time, we present the Global 100 approach to conferences of industry professionals.

In many cases, companies disclose information to us that they have not publicly released. In these cases, we only use the data if companies agree that we can publicly disclose it, either on our website or on the Global 100 website. In this sense, the data becomes 'public' even though it may not be found in company documents.

2.2.2 On average, how much time do your analysts spend engaging with each rated company on an annual basis?

Less than one hour for the majority of rated companies. However, for some companies we spend several hours.

2.2.3 Please describe if and how feedback from rated companies is incorporated into your research and ratings process.

We do not send a questionnaire per se but rather an excel file with pre-populated data for companies to review.

2.3 Input Verification

2.3.1 Describe your approach to verifying the information used to assess companies. Is this approach captured in any sort of policy or guidance document?

Verification takes many forms.

1. One of the advantages of conducting primary research is that we have found it to be more accurate than secondary data obtained through Bloomberg. On some KPIs, the differential is virtually non-existent (e.g. Bloomberg is correct) but on other indicators, the error rate is surprisingly large.
2. Follow up with companies. In some cases, companies provide data that has been re-stated since their last sustainability disclosure. In a push for accuracy, we typically use this data but we reserve final judgment – we have encountered examples of companies providing data to us through direct engagement that has not (yet) been publicly released, and that differs significantly from their historical performance. This scenario triggers further investigation.
3. Once all data has been entered into our database, irrespective of the source, it is subjected to a comprehensive quality control/quality assurance process. The process is multilayered and entails: investigating all outliers, cases where carbon and energy productivity numbers are trending in the opposite direction, cases where data gleaned from primary research differ substantially from secondary sources.

2.3.2 Is external or third-party verification a consideration in assessing the quality of information sources? If so, please explain.

We are more likely to take company data at face value if it has been verified by a third-party, such as an accounting firm or specialized consulting company.

3 Research Process

3.1 Experience and Capacity of Research Team

3.1.1 On average, how many years of experience do your analysts (internal or contract) have working in or analyzing the industries they cover?

5-10 years.

3.1.2 Describe your approach to ongoing training and industry education for your analysts.

UNPRI webinars, regularly review research from sell-side brokerages, and active liaison with academic institutions to make presentations and provide rankings for research projects.

3.1.3 On average, how many companies do your analysts cover each year?

Corporate Knights Capital currently has two full time analysts, and two part time analysts covering a research universe of 4,000 companies.

3.2 Quality Management

3.2.1 Describe your approach to ensuring quality control throughout the ratings process. Is this process documented or codified?

See above.

3.2.2 Have your research systems or processes been certified, assured or verified by an external organization?

No. But the Global 100 is now calculated by Solactive, the German index provider.

<http://www.solactive.com/?s=Global%20100&index=DE000SLA6CK5>

3.3 Sector Specificity

3.3.1 Does your rating use the same criteria and weightings for all sectors and companies? If so, explain why.

In the same way that Grade Point Average (GPA) is used to compare the academic performance of an engineering student and a political science student, the Global 100 compares the sustainability performance of companies using a set of industry-specific metrics. While companies from all geographies are eligible for consideration in the Global 100, companies are only evaluated against their same-industry group peers. Banks are assessed against other banks, and mining companies are assessed against other mining companies. It is not until all companies have been scored on this basis that they are sorted in descending order based on their Global 100 score.

For the Global 100, companies are only scored on indicators that are deemed to be 'priority indicators' for their respective industry group. A priority indicator is one that is disclosed by more than 20% of all companies in a given industry group. This ensures that companies are only scored on the indicators that matter most to them. Our starting menu of indicators totals 12, and as of 2014, all 12 indicators were 'priority indicators' in 12 of the 24 Global Industry Classification Standard (GICS) industry groups, up from 11 in 2013. A company's overall score

is a simple average of its score on each of its priority indicators. A company's score on each KPI is based on a percentile rank of its raw score against that of all same-sector peers in the Corporate Knights Capital database.

3.3.2 Describe how you take into account industry and company specific issues and context.

For the Global 100, the starting universe effectively consists of all of the world's listed mid-caps or higher, which numbers about 4,000. In order to reduce this number to a manageable number that we can meaningfully engage with, we employ four screening criteria. The screens eliminate:

- i) Companies that do not disclose at least 75% of the priority indicators for their respective industry group;
- ii) Companies with an F score below 5¹;
- iii) Companies with a GICS sub-industry classification that relates to the manufacturing or distribution of tobacco products or armaments²; and
- iv) Companies that are bottom quartile performers in the Corporate Knights Financial Sanctions screen.³

3.4 Basis for Rating

3.4.1 Describe the basis for your rating of companies, including how you determine what constitutes the different degrees of performance. For example, if you grade companies on an A-F scale, how do you determine these levels?

A company's final score is a simple average of its score on each of the priority KPIs for its respective industry groups.

Companies in the Global 100 shortlist are analyzed using CK's standard research model, which consists of 12 KPIs. Companies are only scored on the 'priority KPIs' for their respective industry groups. In industry groups where all 12 KPIs are deemed to be priority KPIs, each KPI will have a weight of $(100\%/12) = 8.3\%$

¹ The F-Score (the Piotroski F-score) is a measure of the financial strength of a company. The F-score is the sum of the scores for each of nine tests. Each test scores one for a pass and zero for a fail. The tests are: i) net profit is positive; ii) operating cash flow is positive; iii) net profit ÷ total assets at beginning of year, minus the same number for the previous year is positive; iv) operating cash flow is greater than net profit; v) long term debt ÷ by average assets has not increased; vi) the Current ratio has increased (the change is more than zero, so even a negligible increase passes the test); vii) no raising of ordinary (common) equity over the previous year: this test is passed if the company did not issue any ordinary shares; viii) gross margin has improved over the previous year; and ix) asset turnover has increased.

² The relevant sub-industries include: i) Aerospace & Defence; and ii) Tobacco. In the case of Aerospace & Defense, the company will be eliminated if it derives a majority of its revenue from its Defense business.

³ The Corporate Knights Financial Sanctions screen measures the amount of money that companies have paid out in qualifying fines, penalties or settlements on a trailing one-year basis. In order to quantify the amount paid out, a keyword search for "fines, penalties or settlements" is run for each company using Factiva and Lexis Nexis. Payouts may relate to legal repercussions from environmental accidents, generalized environmental pollution, infringement of labor standards, human rights-related abuses, child exploitation or violation of collective bargaining arrangements. Payouts that occurred during the qualifying period are totaled and converted to USD, and then divided by total revenue over the same period. The resulting ratio is then percent-ranked on an industry group-specific basis, such that companies are only compared against their industry group peers. Those companies that receive a bottom quartile percent score (e.g. 25% or below) are eliminated.

3.4.2 Do you factor company-specific context into your rating?

As described above, all of our indicators use company revenue to normalize raw sustainability data values (e.g. energy use).

3.4.3 Do you incorporate external norms, standards or principles (e.g. UN MDGs, GRI, UNGC, etc.) into your rating or process? If so, describe how you use these to calibrate or assess company performance.

Not explicitly. However, we reference corresponding GRI codes wherever relevant in our methodology to provide additional insight into our indicators.

3.4.4 How do you deal with unforeseen, negative company events in your ratings process (e.g. environmental incidents, ethics breaches)?

Please see section 3.3.2

4 Outputs

4.1 Validation of Results

4.1.1 Describe the steps you take to verify your rating results (including scores and reports) prior to their finalization.

As described above, we verify all datapoints with other data providers (e.g. Bloomberg) and revisit the original source where there are discrepancies. We provide companies an opportunity to see their public data before it is published by us.

All algorithms, weighting formulas, and percentile scoring codes are reviewed by an external consultant to guard against errors.

4.1.2 Do you give rated companies an opportunity to review draft scores or reports? If yes, describe this process, including timeframe given for review.

Yes, please see above.

4.1.3 Do you have a formal policy and/or process for addressing challenges or disputes presented by companies or other stakeholders?

Yes, a systematic process is embedded in our QA/QC process. If a company can demonstrate with a link to a public filing that we made a mistake in one of our datapoints, then we correct that mistake. While there are many instances where a company feels it may be the case we have made a mistake it is often the case that the company has not carefully read the definition of the indicator for which we are looking. For example, a company may object to Corporate Knights not including a datapoint for their energy use, but this could be because the company reports energy use only for a certain limited scope of its business.

4.2 Accessibility

4.2.1 Describe how you disclose and explain your results to rated companies. Do you share the full details of the assessment or results? If no, explain why not.

Full details are shared on our website and on the Global 100 website.

4.2.2 Describe how and to what extent stakeholders (other than rated companies) can access the details and results of your rating.

Please see above.