

# Rate the Raters Phase Five Questionnaire for Raters

oekom

February 2013

---

## 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

oekom research AG

### 0.1.2 Please describe the primary objectives and motivations for your rating

We outline our motivation and reason for existence in our Mission Statement (publicly available on: [http://www.oekom-research.com/index\\_en.php?content=unsere-werte](http://www.oekom-research.com/index_en.php?content=unsere-werte)):

"oekom research AG contributes substantially to the achievement of sustainable development with its business activity. The orientation towards the principles of sustainability is an integral component at all levels of the company's operations. Our ratings give companies an incentive to improve their environmental and social performance continuously. At the same time, our research provides the capital market with a tool to help investors to be better able to integrate the opportunities and risks presented by sustainable development into their investment decisions so as to achieve long-term success and to foster the sustainable development of business (...)"

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

Our research has been the reliable basis for a sound and successful integration of ESG data into the investment process for many years, which is demonstrated by our constantly growing customer base. We appreciate that our research is used by organisations and customers for engagement purposes.

Regarding rated companies, our in-depth rating mirrors a company's sustainability performance and outlines current and future challenges, which may lead to effective improvements. Many companies highly value oekom research's rating and choose to actively participate in the process (for example, see [http://www.oekom-research.com/index\\_en.php?content=analysierte-unternehmen](http://www.oekom-research.com/index_en.php?content=analysierte-unternehmen)). They often seek an intensive dialogue with us, which supports this view. However, the precise effects of sustainability ratings on companies are as yet not very transparent. While it is well known that some companies have now begun to link their managers' bonuses to a good sustainability rating, it remains generally unclear what specific changes this has brought about. The sustainability rating agencies all still have some work to do here in terms of raising awareness.

We have undertaken some research into the long-term performance of a universe based on our research with conventional investment universes such as MSCI. In cooperation with DPG, the Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios (a German company specialised on investment portfolio performance assessment) we compared the performance and risk status of large caps that have been awarded with the oekom Prime Status against the respective development of the MSCI World Total Return Index® – revealing a very positive outcome:

During the period 31 December 2004 to 31 December 2011, hence over a time period of seven years, the oekom Prime Portfolio Large Caps achieved a return on investment that was 15.3 percent higher compared to its conventional benchmark, the MSCI World Total Return Index®. In absolute numbers, the cumulative return on investment of the oekom Prime Portfolio Large Caps (weighted by market capitalisation) amounted to 30.9 percent. Over the same period the MSCI World Total Return Index® achieved a cumulative return on investment of 26.8 percent. If equal weighting is applied to the securities in the oekom Prime Portfolio Large Caps, their cumulative return on investment even rises to 62.84 percent. The annual risk of the oekom Prime Portfolio Large Caps (weighted by market capitalisation) was found to be 18.92 percent, slightly lower than that of the MSCI World Total Return Index®. (07/2012)

In 2007, we conducted a study in cooperation with the Wealth Management division of HypoVereinsbank. The study found that over six years, the securities in oekom research's prime universe had returned a total gain of 35.8 percent, while the MSCI World index recorded a negative yield of -24.0 percent over the same period. In earlier years, similar studies with the Munich University of Technology or Morgan Stanley confirmed the financial superiority of sustainable companies (defined according to our research results).

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

A growing number of asset owners and asset managers revert to our sustainability research for the selection of securities for mutual funds, segregated accounts and asset management mandates. We provide research to around 75 customers, for assets totaling more than 520 billion euros (12/2012). Most of our customers rely on our research for the identification of exclusionary criteria and best-in-class performance. Also, a growing number of customers use our research for Integration and Engagement purposes.

Further information can be found on our website ([http://www.oekom-research.com/index\\_en.php?content=finanzmarkt](http://www.oekom-research.com/index_en.php?content=finanzmarkt)).

In addition to the oekom Corporate Ratings, we offer a range of products and tools which are based on our research, but present the results in a customised form, e.g. the ORBIT database, the oekom Engagement Compass, Controversial Weapons Monitor, PRI Toolbox, Industry Reports, investment portfolios or indices, Emerging Markets Risks Assessment, or the Climate Risk Portfolio Check.

---

## 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.

In our view, what marks us out is our independence, the quality of our research and the high level of transparency that we provide on our work. These values are shared by all employees and form the basis of our success.

We publicize our rating approach and methodology on our website ([http://www.oekom-research.com/index\\_en.php?content=methodik](http://www.oekom-research.com/index_en.php?content=methodik)). Rated companies get targeted information on our methodology and processes at certain steps throughout the feedback process, in order to enable them to understand our rating and their possibilities to contribute to the process. Also, they receive for free their full draft oekom Corporate Rating Report for comment, as well as their final rating, which - among other information - includes a full list of indicators, their weight, and individual and aggregated grades assigned. In 2011 we invited our company contacts to a two-day 'Meet Your Analyst' event with workshops and the opportunity of one-on-one meetings. This event was initially focused on companies from Germany, Switzerland and Austria, but it is planned to repeat the event and to extend it to international contacts as well.

All stakeholders may contact us for further information or clarification, either via the contact address provided on the website or, e.g. in the case of rated companies, by directly addressing the analyst in charge of their rating.

Also, as part of our external certification of our quality management system, we regularly fill in a "Transparency Matrix" containing detailed information on oekom research, our methodology, rating processes, data management, independence, quality requirements, staff training, stakeholder management, complaint management, etc. You can access this certified Transparency Matrix on the website of ARISE, the association holding the rights to the quality standard ARISTA: <http://www.aristastandard.org/content/home.html>

## 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. oekom research has a set of written guidelines that is also published on our website ([http://www.oekom-research.com/index\\_en.php?content=unsere-werte](http://www.oekom-research.com/index_en.php?content=unsere-werte)). The overall rules of behaviour are outlined in the Code of Conduct, which has been signed by every employee and is part of regular internal employee training. The respective paragraphs read as follows:

#### "§ 3 Conflicts of interest

The independence of the rating agency as a whole, as well as that of the individual analysts, is a fundamental requirement for meaningful and credible analysis results. Accordingly, each employee should avoid situations and actions in which his/her personal or financial interests could conflict with the interests of oekom research AG.

In particular, employees of oekom research AG shall not, in connection with their work and duties within the company, accept any gifts or benefits which go beyond the limits of established business practice.

This shall also include invitations outside the scope of normal business collaboration. Employees of oekom research AG shall not, either directly or indirectly, demand, accept or give bribes or sweeteners.

If an oekom research AG analyst owns securities or derivatives in companies which he or she is responsible for analysing, then these security or derivative holdings must be disclosed in writing to the Supervisory Board.

Employees of oekom research AG shall be urged to discuss internally the handling of possible conflicts of interest or of conflicts of interest that have already arisen. The Managing Board, in particular, shall be available for this purpose. If an employee wishes to pass on information about cases of conflict of interest anonymously, oekom research AG's Supervisory Board shall be available as an additional point of contact.

Employees who learn of actions which are not in accordance with the Code of Conduct or other relevant guidelines of oekom research AG or which are otherwise illegal or dishonest should fear no detriment for passing on such information, provided the disclosure has been made in good faith. This shall apply even if the disclosure should turn out to be unfounded."

The Code is complemented by additional, more specific guidelines. These include our quality standard - Principles of Sustainability Rating, the Independence Policy, the Confidentiality Statement and, of course, our Complaint Procedure (see below, 4.1.3.).

This issue, as well as many others, is part of our external certification according to the ARISTA 3.0 quality standard for sustainability rating agencies. A copy of our certificate is also on our website: [http://www.oekom-research.com/index\\_en.php?content=qualitaetsstandard](http://www.oekom-research.com/index_en.php?content=qualitaetsstandard).

**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.

Information on our Supervisory Board ([http://www.oekom-research.com/index\\_en.php?content=aufsichtsrat](http://www.oekom-research.com/index_en.php?content=aufsichtsrat)), shareholders ([http://www.oekom-research.com/index\\_en.php?content=aktionaere](http://www.oekom-research.com/index_en.php?content=aktionaere)) and the independent Scientific Advisory Board ([http://www.oekom-research.com/index\\_en.php?content=beirat](http://www.oekom-research.com/index_en.php?content=beirat)) is available on our website.

Additional information is available in the Independence Statement, which we publish yearly ([http://www.oekom-research.com/index\\_en.php?content=unsere-werte](http://www.oekom-research.com/index_en.php?content=unsere-werte)). It discusses situations that have arisen in which conflicts of interest could not be fully ruled out, together with corresponding measures taken to safeguard the independence of the rating agency and its executive bodies in these situations. This includes issues such as influence of oekom research AG's shareholders on the design of the content of sustainability research, and conflicts of interest concerning members of the Rating Committee, a sub-section of the Scientific Advisory Board which is more closely involved in our methodology development, but only in an advisory function.

oekom research does not have any shareholdings or relevant subcontractors. Co-operations and membership in organisations are made public ([http://www.oekom-research.com/index\\_en.php?content=kooperationspartner](http://www.oekom-research.com/index_en.php?content=kooperationspartner)).

How do you manage conflicts of interest with these entities?

First of all, we believe in transparency and would thus report on potential conflicts of interest and how we dealt with them. Regarding shareholders, our Independence Statement 2012 for example outlines the following: "As at 31 December 2012, oekom research AG had a total of 51 shareholders. Two of these were religious orders which at the same time maintained an indirect client relationship with oekom research AG. The proportion of shares held by these orders at that time amounted to approximately 7.5 per cent and was thus sufficiently small that any influence on the substantive independence of oekom research AG could be ruled out. In 2012, none of the companies which were potentially eligible as rating objects were shareholders in oekom research AG." It contains a similar section on the Rating Committee. As neither the Rating Committee, the Advisory Board nor any third parties are authorised to issue directives to us, but rating decisions are only taken by our direct staff, the potential for conflicts of interest is already very limited.

**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?**

Rated companies receive the full and final version of their oekom Corporate Rating for free (see 2.2, 4.2).

Rated companies may, as every other person or organisation, buy a standardised oekom Industry Report, an oekom Corporate Rating Report of another company or any other of our products. The oekom Corporate Rating Reports usually are between 15-25 pages long and include detailed information on the assessment criteria, grades and weightings, exclusion

criteria as well as an analysis of a company's strengths and weaknesses in detail. The oekom Industry Report is a sector study. It is published following each comprehensive industry update and includes all results. Besides the rating reports of all companies assessed, the Industry Report contains a comparative presentation and analysis of the companies in detail, as well as benchmark information. However, these reports and studies are not customised for a certain company, but are offered in this form to the interested public in general. In 2011, we introduced a new product, catering more specifically for companies, the oekom responsibility benchmarking & information tool (ORBIT). The key feature of the online database is the facility for comparing companies from the oekom Rating Universe against one another at individual-criterion level. The companies can be selected to suit individual requirements and arranged into benchmark groups. For each of the up to 100 sector-specific individual criteria that are used in the oekom Corporate Rating, ORBIT documents how the companies selected are rated by oekom research and why. This facilitates direct comparison of company performances.

In very few cases, individual companies, which are not covered by oekom research's rating universe, request a rating from oekom research AG. In these individual cases, oekom research AG offers to carry out a rating for these companies at the companies' expense, and information that the rating was commissioned by the company appears in a prominent position in the rating report on the company.

As a general rule, marketing activities are clearly separated from our research work. Additional information on measures to avoid conflicts of interest can be found in our Independence Statement (see above).

oekom research does not conduct any consulting services for companies which could help them to improve their rating.

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

Yes. oekom research AG has entered into contractual agreements on the supply of sustainability research with a number of financial service providers which also, either directly or indirectly through their parent companies, regularly undergo a sustainability rating by oekom research. In all cases, information on any existing relationship with the client appears in a prominent position in the rating report on the company concerned.

As a general rule, marketing activities are clearly separated from our research work. Additional information on measures to avoid conflicts of interest can be found in our Independence Statement (see above).

### **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. In regular intervals the methodology including rating criteria undergoes an internal, overall review and discussion process. Additionally, there are regular meetings of the internal Teamleader Board (every 2 weeks) and meetings of the entire research staff (every 4 weeks) for discussing questions related to the methodology or evaluation of certain aspects/issues, resulting in minor adjustments whenever necessary. Each topic and each industry is overseen by a designated analyst who is in charge of keeping up to date with the latest developments in the respective fields and who proposes relevant changes in the methodology if necessary.

Significant changes in rating criteria used in all industries are discussed between the analyst responsible for the topic and the Teamleader Board. Whenever an update of all companies of a specific industry is envisaged, the analyst in charge revises the industry-specific criteria and indicators in consultation with the Teamleader Board and oekom's Rating Committee. The Rating Committee is composed of members of the Scientific Advisory Board and the Head of Research (also see below). While it is important to continuously update and improve the methodology and to keep abreast new developments, we are also committed to continuity and comparability of our rating results over a period of time.

oekom research has a Scientific Advisory Board which is consulted regarding major changes to the methodology, and which provides input on different aspects of the rating methodology. The Scientific Advisory Board consists of external experts from various backgrounds related to CSR and SRI, such as academics, NGOs, practitioners. The Scientific Advisory Board is appointed and disbanded by the Executive Board. The Advisory Board has no authority to issue directives to oekom research.

oekom research values the exchange with academics and other stakeholders and actively collects input regarding certain topics. Also, oekom research considers input from its customers regarding certain topics and/or criteria. Sometimes, rated companies contribute comments as well. However, the concrete definition and design is carried out internally.

**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.**

Rated companies are provided with information on our methodology as part of the standardised feedback process which takes place approximately every two years. They always receive the contact details of the analyst in charge of their rating, and several of them use the opportunity to contact us with questions and comments on our methodology.

Of course, major changes of our methodology are published on our website as well.

**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.**

There are two institutionalized bodies ensuring the input of stakeholder opinion in our methodology: The Scientific Advisory Board and the Rating Committee (further details are available on our website [http://www.oekom-research.com/index\\_en.php?content=beirat](http://www.oekom-research.com/index_en.php?content=beirat)).

The Scientific Advisory Board which is consulted regarding major changes to the methodology, and which provides input on different aspects of the rating methodology. For a list of members of our Advisory Board, please refer to our website ([http://www.oekom-research.com/index\\_en.php?content=beirat](http://www.oekom-research.com/index_en.php?content=beirat)). The Scientific Advisory Board consists of external experts from various backgrounds related to CSR and SRI, such as universities, NGOs, and consultancies. The Advisory Board is appointed and disbanded by the Executive Board. The Advisory Board has no authority to issue directives to oekom research.

In addition, a Rating Committee exists which is composed of members of the Scientific Advisory Board and the Head of Research.

While the Scientific Advisory Board deals with issues rather on a "global" scale, discussions at the Rating Committee usually are much more detailed and get down to the concrete implications of our applied methodology.

Discussions with the Advisory Board e.g. deal with the overall direction of our research. For example, our View on Sustainability ([http://www.oekom-research.com/index\\_en.php?content=unsere-werte](http://www.oekom-research.com/index_en.php?content=unsere-werte)) was the result of heated debates with this board. Other topics may be our position on controversial technologies such as GMOs or nuclear energy, new product ideas, or the inclusion of new topics into our research.

The external members of the Rating Committee are members of the Advisory Board and appointed by oekom research's Executive Board. They usually represent "sustainability practitioners". Currently, Mr. R. Andreas Kraemer (Ecologic Institute) and Mr. Frank Sprenger (Sustainable) sit on the Rating Committee, who are at the same time the Chairman and Vice-Chairman of the Scientific Advisory Board. They regularly report back, usually at every meeting of the Advisory Board.

oekom research's standard procedures include that each updated set of indicators per industry is revised by and discussed with the Rating Committee; thus, about once every two years per industry. During the Committee meetings, about 1.5 hours are reserved for each industry rating structure. Discussions may include the range of issues covered, the weighting of specific aspects for the industry or the operationalisation of individual indicators. At the end of the comprehensive update process of each industry, the Rating Committee gets an overview of the results as well as a summary by the analyst in charge, dealing with issues such as experiences made with the Committee's recommendations, difficulties met during the update process and solutions found. In addition, the Rating Committee is contacted throughout the year whenever there are questions related to our methodology and concrete operationalisations. Relevant documentation and information is sent in advance, in order to allow for a thorough preparation of the Committee members.

Input and contributions by the Rating Committee include e.g. up-to-date scientific knowledge and research results as well as recent developments in the practical application by and performance of companies. As the members are closely linked to ongoing debates conducted by various stakeholders, they introduce other stakeholders' opinions in the meetings as well, e.g. from NGOs.

Besides this institutionalised stakeholder engagement, oekom research also regularly seeks stakeholder input e.g. from academics, NGOs, and other specialists. Such consultation takes place e.g. during methodology reviews, such as the design of newly included indicators or the review of existing ones, but is based on a case by case approach.

Neither external stakeholders nor members of the Scientific Advisory Board and Rating Committee conduct ratings of companies on behalf of oekom research.

**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.**

At the beginning of each of the industry updates, relevant stakeholders, such as oekom research's Scientific Advisory Board/Rating Committee (for further details see above), NGOs

and academics, are consulted and included when discussing and designing new indicators. If necessary, these contacts also take place during the rating process, but this is not the rule.

The Scientific Advisory Board is as well included in larger methodological developments. In case of need for expert advice regarding controversial assessment decisions which cannot satisfactorily be solved in-house, oekom research consults experts on its Scientific Advisory Board and/or Rating Committee, as well as from outside, e.g. academics or NGOs. However, the final assessment decision will always be made by oekom research itself.

During the comprehensive update process of each industry, comprehensive research across a wide range of non-company information sources takes place for each single company within the industry and covered by a rating. This may include up to 50 external sources including standard sources (for all companies), industry- and country-specific sources, covering stakeholder information e.g. from NGOs, governmental authorities and the media. oekom research also uses a search engine to search the internet for a range of pre-defined keywords.

In addition, we conduct a continuous screening process of certain information sources, including newsletters and alerts from NGOs, press releases from governmental bodies and publications by experts or consumer organisations. Whenever such information will have a significant impact on a company's rating, the information is included in the assessment in due course. When considered necessary, additional direct stakeholder input is collected, e.g. via telephone interviews or other means of personal contact.

After the rating process, we provide rated companies with an opportunity to comment on the rating process and the methodology. In some cases, also customers are contacted directly. Such feedback is a valuable source of information for helping us to improve and refine our methodology and these comments as well as all other relevant stakeholder input are considered in our methodology development.

As an example, the research team was interested in seeking the advice of the Scientific Advisory Board on the issue of temporary work in March 2012. The analyst in charge gave a brief presentation to the board. The discussion that followed showed that the members of the board saw the greatest problem in the increase of people who cannot live off their full-time jobs as well as the increasing divide between rich and poor within a society and the lack of transparency surrounding the whole issue. The analyst in charge went on to read up on the issue and also visited a number of conferences covering the topic of working conditions in the modern world and finally devised two new indicators, one directed at the question to which degree companies disclose different employment types and employment contracts and one looking at the ratio of CEO compensation to median employee compensation.

All research staff internally document direct stakeholder contact, including meetings with companies, participation in stakeholder dialogue meetings, as well as all other conferences and meetings. Besides the name of the contact person or the conference, this includes information on the reason for the meeting, possible conflicts of interest and any background information available.

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

As a general rule, these comments are for internal use only. However, as part of meeting our requirements of the ARISTA quality standard, we compile a stakeholder report each year that describes our general approach with regards to stakeholders as well as specific interactions

with stakeholders during that year. Interested parties may request the report from our communications department.

---

## 2 Inputs

### 2.1 Information Sources

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

In order to build up a comprehensive picture of each company, our analysts collect the information relevant to the rating both from the companies being analysed and from independent sources. This includes, but is not limited to, company documentation such as annual reports, CSR/sustainability/employee/environmental/community reports, company guidelines and codes, product fact sheets, company websites, company feedback.

The company information is complemented by comprehensive research across a wide range of non-company information sources. This may include up to 50 external sources including standard sources (for all companies), industry- and country-specific sources covering stakeholder information e.g. from NGOs, governmental authorities and the media. In addition, oekom research uses a search engine to search the internet for a range of pre-defined keywords. Also, we conduct a continuous screening process of certain information sources, including newsletters and alerts from NGOs, press releases from governmental bodies, or publications by experts or consumer organisations. We have direct access to databases such as Bloomberg and RepRisk, which are also used for data collection.

When considered necessary, additional direct stakeholder input is collected, e.g. via telephone interviews or other means of personal contact.

#### 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.

The oekom Corporate Rating includes publicly available information from the rated company. This is complemented by company feedback, including in some cases confidential information, if the company wishes to provide such. Information from non-company sources is also collected in the public domain. When considered necessary, additional direct stakeholder input is collected, e.g. via telephone interviews or other means of personal contact.

Some of the external information used in the ratings comes from databases or similar offers, such as Bloomberg or RepRisk. However, while relevant information from different sources is included in the ratings and assessment processes, all sources have to comply with our quality requirements (e.g. regarding their reliability) and assessments are exclusively made by oekom research.

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

We operate a multi-stage updating cycle in order to ensure that relevant information is included in our Corporate Ratings in a timely manner. Media screening takes place continuously, covering changes e.g. regarding the exclusion criteria, mergers, de-listings.

Relevant information of this nature is included in the ratings as part of an "event-driven update".

Furthermore, the ratings undergo a comprehensive update procedure every two years. During this process, all relevant company and non-company information is researched and included in the assessment process. This includes in-depth contact with the company and extensive feedback possibilities. These updates are sector-specific and include a range of sector-specific criteria.

In between the comprehensive updates, the ratings are covered by an annual "interim update process" during which relevant information is included in the ratings, with a focus on company information. This interim update is usually conducted without further company input beyond publicly available information.

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

If no information is available on one of the indicators considered relevant for a company's assessment, this results in the lowest grade according to our methodology. In line with our transparency commitment, this approach is outlined in each oekom Corporate Rating Report. Unless explicitly stated, we do not differentiate whether the information is publicly available or provided during the feedback process with the rated company.

## **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).**

Due to a prevailing "questionnaire fatigue", oekom research does not work with questionnaires. Instead, companies are provided with the possibility to provide information and feedback during the comprehensive update process of a company's rating every two years. All companies assessed via an oekom Corporate Rating have the opportunity to comment on our rating.

oekom research regards an extensive dialogue with the companies assessed as integral part of the research quality. Therefore, we invest substantial time in the contact with the rated companies during the comprehensive update process of a company's rating every two years. Before the rating starts, we introduce oekom research and our rating process and research a suitable contact person at the company. After our analysts have prepared the draft rating of the company, companies receive this rating and have a six-week period to provide additional information and comments. These are then included in the rating, where appropriate. If necessary (e.g. for further clarification of comments or because confidential information was included), the company receives an additional feedback period before the oekom Corporate Rating is finalised.

All companies receive their full final oekom Corporate Rating Report for internal use. oekom research is committed to transparency, so if the company needs further background information or other assistance, we try to meet its needs. In addition, we re-contact companies to remind them of their possibility to comment on the draft rating in case they have not responded. Rated companies of course have the name and contact details of the analyst in charge.

Apart from the standardised processes of engaging with rated companies described above, companies can get in touch with oekom research at any time. Information that has been provided after the full update of the company's rating is considered in our continuous update processes.

Company contact may take place in written form, via telephone or in person. We are open to all forms of contact. However, to ensure a continuously high quality and independence of our research, there are comprehensive guidelines that have to be followed (see 2.2.3, 1.2) and information will only be included in our assessments if it is provided to us in writing.

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

On average, the full update of a company's rating takes about five to six working days. Depending on the company, one oekom Corporate Rating may well take up to ten days of work before being finalised. In addition, working time spent on ad-hoc updates (due to our continually ongoing media screening) may need to be added to this average. For details on our contact with rated companies, see above.

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

As stated above, we generally welcome feedback from rated companies, both as an information source for the rating and as input on our methodology and processes.

We have a set of rules regarding research processes and independence that has to be followed also when feedback from rated companies is included in the rating. For example, only written information is considered in the rating, such as written and authorised protocols of meetings or calls with companies, or additional documentation provided afterwards. All measures and guidelines related to an objective assessment apply equally to all companies, irrespective of whether personal contact took place during the rating process or not. During the rating process, each company rating is proof-read by another analyst (in most cases a senior analyst).

In order to improve our processes, when mailing the final oekom Corporate Rating to the companies assessed, we attach a feedback questionnaire regarding the methodology and the rating process which companies are asked to fill in and send back. Although this is purely voluntary, various feedbacks are provided by the companies and - if relevant - discussed by responsible oekom staff. We appreciate company feedback and see it as valuable source of information for continuous improvement, at the same time bearing in mind that the concrete definition and design of our methodology and processes is carried out internally only.

## **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?**

Double-checking of relevant information included in assessments is a standard procedure at oekom research. Mostly, this means verifying company information by using stakeholder information, and verifying third party sources (e.g. from NGOs or the media) through additional research or information provided by the company assessed. Usually, relevant stakeholder information is collected using internet research and publications. However, whenever it is considered necessary, the research staff contacts stakeholders directly.

For quality reasons, our internal research and rating processes are documented and adequate training for research staff takes place. While we e.g. use external databases for data collection,

and controversial topics are discussed with our Rating Committee, the Scientific Advisory Board or external experts, all assessments and rating decisions are exclusively carried out by our staff.

The experience of our research staff is an important factor in the research process. As all rating decisions are exclusively taken by our trained staff, this includes an effective plausibility control of the information used. For example, the analyst in charge of an industry is acquainted with industry averages, trends and benchmarks, as well as with company trends and earlier performance. Therefore, if surprising deviations occur or unusually good (or bad) performance is claimed, the analyst will double-check the information, e.g. by discussing the issue with the rated company and asking for background documentation.

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

Yes. We generally take care to check e.g. the reliability and quality of information sources used in the oekom Corporate Rating. When evaluating the quality of company reporting, we also for example take into consideration whether it has been audited by an external accountant.

---

## **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?**

As a general rule, before a member of the research staff becomes the analyst in charge of an industry, he/she has to work under the supervision of an experienced staff member for a minimum of one year.

Currently, our analysts have an average work experience of 2,7 years; senior analysts: 6,2 years; research directors: 9.3 years; and our executive board has an average work experience of 17,5 years in the field.

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

Staff training is a key element of our quality commitment and the related framework is outlined in a company guideline. oekom research recognises that a process of continuous learning and training of each employee is an essential prerequisite for successful company growth. In good company tradition, oekom considers professional development as an integral part of our employees' everyday job. The continuous „learning on the job“ – with a clearly assigned time budget – should be complemented by specialised measures. This includes e.g. participation in conferences, trainings, webinars, etc. that are related to the covered industry or SRI or CSR issues in general. At the same time, our staff is often invited as expert speakers or panel members at various events.

New employees in the research department have to undergo comprehensive training, which stretches out over several months and is designed to ensure knowledge and application of all relevant regulations and procedures required by our quality management system. It usually takes about a year of working experience before new staff members conduct a rating on their

own. Until they reach a sufficient level of experience, they are supervised by experienced research staff (at least for one year).

On-going training is scheduled as part of the monthly meeting of all research staff, as well as during a meeting of all employees once a year such as the annual workshop of oekom staff. Major changes related to oekom's research methodology or research processes will always be accompanied by adequate training.

Additional training is provided for all staff. For example, once a year, there is a standard training on independence and quality management carried out by the responsible board member and the quality manager. Also, four times a year, a training session led by an external expert takes place. It may for example focus on our employees' overall skills (such as language or communication training) or research- or company-related issues (such as recent SRI trends or specific background information on our areas of research).

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

We use a different definition of company coverage: Each company in our oekom Rating Universe undergoes a comprehensive update every two years, including company feedback (see above). In between these comprehensive updates, there is a shorter „interim“ update (excluding company feedback) as well as a continuous "event-driven" update based on ongoing media screening, where relevant information is included in the rating. On average, each member of our research staff covers around 30 companies throughout this process.

Parallel to the Rating Universe, which covers about 1,000 companies, oekom has a Scouting Universe with about 2,000 companies, which exhibit shortcomings in terms of their social and environmental performance or which create little or no transparency in this regard. For these companies an assessment of their social and environmental performances is carried out in the form of an estimated rating based on publicly available data. As the Scouting Process is much more compact as the Rating process, each member of our research staff covers around 60 companies per year.

## **3.2 Quality Management**

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

oekom research AG sees the provision of high-quality products and services as a fundamental part of its business activity. This requires a structured approach to integrating quality aspects into all relevant activities and internal departments. To this end we have introduced a comprehensive quality management system (QMS), which should help us in our continuous efforts to optimise client benefit and satisfaction. Furthermore, oekom research is audited regularly by an independent institution against the Voluntary Quality Standard for Responsible Investment Research (ARISTA 3.0).

Further details on our quality management, responsibilities as well as our certificate are available on our website ([http://www.oekom-research.com/index\\_en.php?content=qualitaetsstandard](http://www.oekom-research.com/index_en.php?content=qualitaetsstandard)).

There are detailed guidelines as well as a set of general and industry-specific criteria according to which the companies are assessed. Clear decision structures are in place in case of controversies related to the internal rating procedures:

When evaluating information for individual indicators / criteria, oekom research uses a grade between 1 (lowest grade) and 4 (highest grade). The overall grade is generated by these individual scores according to their weighting. Each numerical grade corresponds to a letter grade between D- (lowest grade) and A+ (highest grade), which is communicated. Within each industry, all oekom Corporate Ratings of the companies assessed are compared and result in one overall ranking list of the industry. A handbook exists for each indicator, which defines the rating background as well as which performance/information relates to which grade. Additional guidance documents outline the overall research, assessment and evaluation framework and processes. Generally, a wide range of diverse information is assessed during oekom research's rating process, originating from the company evaluated, various stakeholders and media sources.

Each analyst is in charge of one or more industries, which are regularly covered by Corporate Ratings. The update process usually takes place within a team of analysts, which allows for an informal exchange and feedback procedure regarding e.g. assessment-related issues. On the basis of oekom research's comprehensive internal regulations, each analyst carries out Corporate Ratings, which are then proof-read by designated, specially trained analysts. In case of assessment problems or uncertainties, there is a rule regarding the procedure to be followed: First, the analyst will discuss the issue with the analyst in charge of the respective industry or the internal specialist for the related topic; then, the issue might be discussed at a Teamleader Board meeting or a meeting of all research staff. If no satisfactory solution has been found by then, external specialists (e.g. Scientific Advisory Board members, experts at NGOs, academics) may be contacted. The final decision in such cases lies with the Head of Research.

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

Yes. See above (ARISTA)

**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.**

No.

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

oekom research's entire rating methodology shows an industry-specific approach. We are convinced that an appropriate assessment of a company's sustainability performance can only be achieved via industry-specific indicators which complement the fundamental sustainability challenges across all industries. We think that this approach best reflects the actual performance of a company, if compared with companies with similar challenges. Therefore, it is applied across all oekom Corporate Ratings.

Our rating methodology includes an industry-specific weighting of the different parts of the rating, an industry-specific minimum grade for best in class, as well as various industry-specific

criteria. This industry-specific framework is defined according to the industry's major challenges and exposure in terms of sustainability and based on a scientifically developed matrix. For example, in the automobile industry, the Social Rating accounts for 40 per cent and the Environmental Rating accounts for 60 per cent of the overall grade of the oekom Corporate Rating, while in the insurance industry, both parts of the rating account for 50 per cent each. The industry-specific weighting goes down to individual topics and indicators. For example, social indicators focusing on supplier issues account for 15 per cent of the total rating in the IT industry, compared with 2 per cent in the banking industry.

Out of a pool of approximately 500 indicators, about 100 are selected specifically for each industry. Of these, approximately one-third are industry-specific, while the remaining two-thirds address general social and environmental challenges. (For further information, see 3.4.1.)

Our analyses also take into account additional specifics. For example, when companies are active in countries considered as especially controversial regarding certain criteria, e.g. with regard to freedom of association, countries such as Bangladesh, Russia, and Saudi Arabia,, these criteria focus exclusively on the company's operations in these countries. In addition, there are criteria taking into account minimum standards in countries in which the company is active and where its employees are located. Also, the rating covers sustainability issues of all major fields of operation, even if these go beyond typical challenges of the particular industry that the company is part of.

An example of one of our oekom Corporate Ratings can be downloaded from our website ([http://www.oekom-research.com/index\\_en.php?content=corporate-rating](http://www.oekom-research.com/index_en.php?content=corporate-rating)).

### **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?**

When evaluating information for individual indicators / criteria, oekom research uses a grade between 1 (lowest grade) and 4 (highest grade). The overall grade is generated by these individual scores according to their weighting. Each numerical grade corresponds to a letter grade between D- (lowest grade) and A+ (highest grade), which is used in the external communication of grades. Within each industry, all oekom Corporate Ratings of the companies assessed are compared and result in one overall ranking list of the industry. A handbook exists for each indicator, which defines the rating background as well as which performance / information relates to which grade. Additional guidance documents outline the overall research, assessment and evaluation framework and processes. As a guiding idea, a grade of 4 (or A+) represents the best possible practice a company could adopt, based on the ideal outlined in our Understanding of Sustainability [http://oekom-research.com/index\\_en.php?content=unsere-werte](http://oekom-research.com/index_en.php?content=unsere-werte)). Generally, a wide range of diverse information is assessed during oekom research's rating process, originating from the company evaluated, various stakeholders and media sources.

As outlined above, oekom research follows an industry-specific rating approach, which includes an industry-specific weighting of the different parts of the rating, an industry-specific minimum grade for best in class, as well as various industry-specific criteria. This industry-specific framework is defined according to the industry's major challenges and exposure in terms of sustainability and based on a scientifically developed matrix. In addition, the companies

assessed are screened according to a wide range of exclusion criteria. Our customers have the opportunity to either follow oekom research's pre-defined best-in-class approach, to adapt it to their individual perception of sustainability/CSR and to choose among the exclusion criteria those that should be applied to their universe.

The oekom Corporate Rating provides for an evaluation of each company within the framework of its industry affiliation. oekom research follows this approach due to homogeneous sustainability challenges in each industry, and thus to ensure a better comparability between the companies' rating results.

oekom research's assessment is based on qualitative as well as quantitative indicators, and on a quantitative rating scale. Due to the well-balanced rating criteria including both the current status quo analysis and strategic elements based on the current sustainability performance, the oekom Corporate Rating also includes information on the future orientation and the expected performance of each company in the future.

As outlined above, there are detailed guidelines as well as a set of general and industry-specific criteria according to which the companies are assessed. Clear decision structures are in place in case of controversies related to the internal rating procedures.

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

Yes. See above (3.3). As a general rule, the same processes and methodology apply to each company. However, in order to obtain meaningful rating results, our methodology provides a framework to include industry and company specifics, such as area of operation or business segments.

As an example, where adequate, the weighting of the different topics and indicators of the rating is adjusted to a company's activities and operations and their related social and environmental challenges. In the retail industry, e.g. indicators have been developed for all major product groups and apply to a company based on its individual retail operations.

Also, regarding human rights of communities/peoples affected by a company's activities, additional requirements apply if a company is active in critical countries or involved in (potentially) controversial projects.

One more example: In the utilities industry, company assessment, among other issues, includes an analysis of incentive systems offered to customers to increase water efficiency. Requirements have been defined in a way that the evaluation focuses on areas especially affected by water shortage.

#### **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.**

Yes. Originally, oekom research's rating methodology was based on the Frankfurt-Hohenheim Guidelines (FHG), known as the most comprehensive set of criteria for the ethical/sustainable evaluation of companies. The FHG were developed by a team of German scholars headed by Prof. Johannes Hoffmann. They include 800 indicators derived from a value-tree analysis, which resulted in three main dimensions: cultural sustainability, social sustainability and environmental sustainability. In co-operation with this project team, in 1999, oekom research transferred the guidelines into an implementable set of universal and sector-specific indicators.

Using this rating structure, oekom research has developed a pool of approximately 500 indicators that are seen to adequately represent the complex circumstances of the respective areas under investigation. For each company, an average of 100 indicators are selected from this pool on an industry-specific basis so that a targeted evaluation of the problems specific to that company can be carried out. When the selection for the common pool of indicators was made, special emphasis was placed on the functional context, relevance, data availability and data quality. In order to make the rating applicable to all countries worldwide, value was also attached to the universal relevance of criteria, irrespective of geographical location, development status, etc.

With its Corporate Rating, oekom research identifies the sustainability leaders of each industry. These pioneer companies are awarded with the prime status and a corresponding logo. Hence, oekom research follows the best-in-class approach with its rating system.

As outlined in our Mission Statement, it is oekom research's aim to significantly contribute to the realisation of sustainable development. Our ratings give an incentive to the companies to continually improve their environmental and social performance. As an example, our evaluation underlying the individual indicators is generally based on best practice/best available technology. At the same time, with our research, we provide the capital market with an instrument to better integrate the risks and opportunities of sustainable development into their investment decisions and thus achieve success in the long term. Respecting these fundamental values, our methodology has been developed and is continually improved.

The FHG as well as oekom research's daily work are inspired by fundamental codes and principles regarding social/ethical and environmental standards. Important examples include the UN Declaration of Human Rights, the UN Global Compact, the fundamental ILO conventions. The influence of these standards can be tracked down to specific rating criteria, whose written methodology clearly outlines the consideration of these standards in the evaluation process. Also, they are reflected in specific exclusion criteria, which are designed along these standards, e.g. "Labour Rights" refers specifically to the four fundamental principles of the ILO Declaration on Fundamental Principles and Rights at Work, i.e. freedom of association, forced labour, child labour, and discrimination.

Other examples are recognised management systems such as ISO 14001, EMAS, SA8000 or OHSAS, as well as a range of more (industry-)specific concepts such as the FSC, MSC, or Ökotex100 standards.

These norms and standards are considered within the assessment framework, but do not automatically lead to the best grade regarding the respective indicator. Instead, oekom research evaluates their content and context and assigns to them a corresponding grade within our scoring system, which may also differ depending on industry specifics. Regarding a human rights policy for example, a company belonging to the extractive industries is expected to have a comprehensive policy addressing issues such as indigenous peoples' rights, resettlement and relations with authoritarian regimes, in addition to a commitment to international norms such as the UN Universal Declaration on Human Rights, the UN Global Compact, or a similar policy.

In addition, the company usually only gets full credits for adhering to such norms when it communicates their content either directly or by linking to the content of the norms on external websites, therefore contributing to the spreading of knowledge of these norms.

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

Besides our broad and in-depth rating approach (which of course includes negative company performance), we strive for highest up-to-dateness of our research. Therefore, controversies related to rated companies are promptly included in the oekom Corporate Rating. Depending on various factors such as the severity of the case, countermeasures taken, date of the allegations, etc., a company's positive performance in the related field is downgraded. According to our methodology, a company's actual performance (such as controversies or fines) puts into perspective the effectiveness and quality of its related policies and measures.

As outlined above, oekom research conducts continuous media screening and relevant information is rapidly included in the ratings. Such information very often relates to controversies or fines in the field of labour and human rights, the environment, or business ethics. With a monthly Ad-hoc Newsletter, we inform our customers on major changes in a company's assessment, e.g. due to changes in the respective exclusion criteria.

---

## **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.**

There is a detailed set of guidelines, handbooks, regulations, explanations, etc. to ensure a consistent application of the methodology by different researchers to different companies. In addition, measures have been taken to ensure correct application of the methodology across oekom research. For example, each company rating is proof-read by another analyst (in most cases a senior analyst); in case of assessment problems or uncertainties, a procedure to be followed has been defined (see above).

In addition, our database performs consistency checks after a company rating has been finished, outlining missing or inconsistent data. Before an industry update is finished, the responsible analyst undertakes crosschecks over all the companies assessed in order to verify that evaluations are consistent. Also, at the end of the comprehensive update process of each industry, the Rating Committee gets an overview of the results as well as a summary by the analyst in charge. Thereby, a high degree of accuracy is guaranteed, and we receive virtually no complaints from companies or clients regarding handling 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. See above 2.2

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

Yes. oekom research's activities affect various groups of stakeholders. We make an effort to respond to any criticism or complaints in a timely and constructive manner and to use them for optimising our communication processes and our products and services.

A specific guideline outlines the communication channels and internal processes for the most relevant groups of stakeholders, i.e. customers, rated companies, employees, and other stakeholders.

First point of contact for other stakeholders is the Corporate Communications department, whose contact details are published on our website.

We especially invite the rated companies to send us their comments. When mailing the final oekom Corporate Rating to the companies assessed, we attach a feedback questionnaire regarding the methodology and the rating process which companies are asked to fill in and send back. Although this is purely voluntary, various feedbacks are provided by the companies and - if relevant - discussed by responsible oekom staff.

As a general rule, all complaints have to be documented, including measures taken in response by oekom research's employees.

## **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.**

Yes. See above 2.2

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

Generally, the output of our research is available to all interested stakeholders. However, while we usually offer a discount for NGOs, the information is not available for free. Information on our methodology and research processes is outlined on our website for all interested parties at no charge, including an exemplary oekom Corporate Rating Report.