

# Rate the Raters Phase Five

## Questionnaire for Raters

### Sustainalytics

### February 2013

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#### 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.

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## 0 Rating Overview

### 0.1.1 Rating Name

Sustainalytics Global Platform Company Ratings

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

The primary objective is to assess the extent to which a company is managing current and emerging ESG trends and developments that are shaping the industry. To this end we assess a company's approach towards managing ESG exposure and impact and related risks and opportunities.

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

Our ratings and analysis are meant to complement our client's securities analysis. We do not claim any superior performance of highly rated companies. Rather, we believe that our analysis and ratings will allow investors to make more informed investment decisions. The success of our ratings is therefore mainly measured by the degree of client satisfaction.

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

Our client base is almost exclusively institutional investors including asset owners and asset managers as well as financial institutions more broadly. Generally speaking, our clients come to us for three main reasons:

- To ensure compliance with their investment policies;
- To protect their reputation;
- To make more informed investment decisions;

In practice this means that clients use our company research for screening purposes, company engagement and/or to integrate this research in their investment processes.

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## **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.**

Our methodology is fully transparent for clients including information sources used, answer categories selected and corresponding raw scores, along with default weights assigned per indicator in each peer group.

All companies in our research universe are contacted for feedback on an annual basis. This feedback focuses on the information collected and our analysis of certain controversies where relevant. While we do not explicitly make our methodology available to companies, they can see all of the criteria upon which they are assessed and are welcome to address any related questions with our analysts.

We do not share methodology or company ratings with the public or other stakeholders other than on an ad hoc basis or via reports or rankings that we make publicly available.

### **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?**

Pre-merger we had two separate policies on ethical conduct that we applied. We are in the process of finalizing a new corporate wide policy ('Code of Ethics') that covers conflicts of interests but also related topics such as data confidentiality, compliance, duty to clients etc. We expect to formally adopt the new policy this autumn.

Once the new policy is adopted, it will be disclosed publicly.

**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 publicly list the names of shareholders and board members. Additional information on our shareholders and board members is disclosed upon request.

How do you manage conflicts of interest with these entities?

Please note that none of our shareholders are rated in our global platform so there are no conflicts of interest in this area. We treat our shareholders who are clients the same way as regular clients. The employees who are responsible for those client accounts are not involved in board or shareholder related activities.

**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?**

We do not offer solicited ratings. What we offer to companies is a distinct Sustainability Intelligence service where we conduct a broader, strategic analysis of ESG sector trends, key risks and opportunities as well as stakeholder perceptions of the company. Revenues from this service represents less than 5% of annual revenues.

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

No. We note that some of our clients in the financial industry are also rated by us. We avoid conflicts of interest by clearly separating relevant account management and research responsibilities within our company. We will address this specific issue within the Code of Ethics that we are currently finalizing.

## **1.3 Regular Review**

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

Our research team is engaged in a rigorous ongoing process of framework enhancement based on emerging industry trends and client feedback. In 2010, we conducted a thorough review and refinement of our default weight matrix. We also conducted a comprehensive indicator review resulting in a number of proposals for improvements. Specific improvements have already been implemented, while others are scheduled for implementation in 2013.

**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.**

We communicate related changes to our clients through our internal client newsletter and account managers. Whenever necessary, we provide customized support in making any transitions required. Client notification and input is sought in advance of more significant methodology changes.

While, we do not communicate these changes to other stakeholders in a pro-active manner, we will highlight any substantive indicator changes to companies as part of our verification process.

## 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.

No.

### 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.

We regularly consult with clients on improving research processes and methodologies. We are also systematically collecting feedback from clients to identify any perceived research gaps or deficiencies.

Our analysts also regularly engage with companies, key industry stakeholders including NGOs, industry associations and labour unions, to name a few. Their input shapes our thinking and is reflected in our research and methodology updates.

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

This is not made public in any manner.

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## 2 Inputs

### 2.1 Information Sources

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

Our sources include company documents such as sustainability reports, financial reporting, websites and press releases, not to mention direct company feedback. We use Dow Jones' Factiva to conduct a thorough media search of all companies in our universe (including their subsidiaries) on a monthly basis. We also have an extensive list of NGO and web-based sources which are centrally consulted on a monthly basis. Other core sources include the Carbon Disclosure Project, OECD Watch, Business & Human Rights and Ethical Corporation. Core regional sources are consulted for labour relations, environmental and health and safety data (e.g. OSHA, EPA, and NLRB in the U.S.). Each analyst also tracks industry-specific sources tailored to the key ESG issues in their peer groups. We also have a subscription to selected Jane's Defense handbooks and newsletters.

**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 majority of the information consulted is publicly available, often through subscription. Other information is derived directly from companies. In some cases the information is provided to us via the OneReport platform, a centralized source of company ESG information to which a limited number of companies in our research universe submit their information. We will continue to look into other centralized sources of data so we can streamline our resources towards analysis, decreasing the amount of time that our analysts spend on data collection.

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

Full company updates take place on an annual to bi-annual basis, depending on the size of the company and level of reporting. However, controversy indicators are updated on a monthly basis for all companies based on media and NGO sources. Some additional centralized data feeds take place on a quarterly to semi-annual basis.

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

Our answer categories distinguish between lack of disclosure surrounding a program or policy versus lack of a program or policy. In addition, there are several indicators in the platform which directly assess the level of company reporting, including scope of reporting in accordance with GRI. Because our analysts rely heavily on publicly disclosed data, most companies receive a poor rating for lack of disclosure. Through the company verification process they have an opportunity to close some of the research gaps, yet the level of input received from companies tends to be correlated with the degree of public disclosure.

## **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).**

Upon completion of each full profile update, the company spokesperson is contacted (typically from their CSR or IR department) by email and sent a draft copy of their report and invited to provide additional information or feedback within a two-week period where possible. Follow-up phone calls ensure that we have approached the appropriate person. Company feedback is typically communicated in writing, in some cases supplemented by internal policies or documents.

Over the past year, as we've become involved in high profile partnerships with Newsweek and Ceres, companies have become increasingly engaged in our research process. We have experienced a surge in company response, particularly among U.S. companies which has included an increasing number of company calls and in-person meetings.

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

Analysts are advised to make several attempts to solicit feedback from companies, often approaching various contacts in efforts to identify the appropriate spokesperson. Beyond this initial outreach the degree of engagement varies considerably from one company to the next, primarily as determined by the company. For companies that are proactively involved in our research process, there is often a significant degree of back and forth, along with intermittent

updates throughout the year. Other companies that invest minimal efforts in providing feedback require considerably less investment of time by the analyst.

For companies involved in significant controversies, we often reach out on an ad hoc basis during the year in order to gain a better understanding of the company's perspective and to ensure that our assessments are updated and factually accurate.

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

Company feedback is incorporated at the analyst's discretion prior to uploading the profile to the client interface. The degree of detail provided and supporting documents or data determines the means by which it is assessed. Where information from other sources is disputed, the analyst may balance it with the company's perspective as deemed appropriate. The company spokesperson is listed as a source and referenced for each indicator applicable.

## **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?**

Many of the indicators are designed to solicit clear targets, performance data or policies, which require corroboration from the company. If there is any doubt regarding the validity of information the analyst is advised to use wording to the effect of 'reportedly' or 'allegedly' and assign scores on the basis of evidence in accordance with our analyst guidelines and conventions. Information on whether CSR reports or certain data/programs are externally verified and/or audited is considered in our analysis and leads to a more favourable assessment.

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

Yes. Various indicators in the platform assess external verification according to a reputable (inter)national standard; namely CSR reporting, supply chain and EMS. There are also several indicators assessing certification standards for health & safety, & product quality to name a few. We generally view external certifications favorably, which tend to improve a company's rating.

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## **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?**

The number of years of experience each analyst varies from one to ten years, approximately four years on average.

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

Each analyst is provided with an educational credit of up to \$1,000 per year to pursue educational opportunities related to their work. In some cases additional leave time is provided for educational purposes. In addition, there is a team conference budget to ensure that analysts have opportunities to attend relevant industry events. In house training includes monthly brownbag presentations by colleagues and external presenters, along with a core reading list. In 2012 we were pleased to be able to offer an internally facilitated course, customizing the RI Academy curriculum. Building on this success another session is in development for 2013. Analysts also come together on a weekly basis for weekly research meetings, training sessions and webinars.

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

Most analysts are expected to cover approximately 60 to 70 companies per year, including a mix of senior templates, junior templates and controversy only templates. However, this number varies depending on the degree of other responsibilities assigned to them and their level of responsibility. For example, associate to senior level analysts tend to be assigned fewer, yet higher profile, companies, while providing mentorship to junior to analyst-level employees tasked with heavier profile schedules.

**3.2 Quality Management**

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

The peer review is the final step before sending the profile out to companies for feedback and releasing profiles and related ratings to clients. The peer review process is designed to bring all profiles to a sufficient overall quality standard and consistency. Detailed guidelines are included in the Analyst Guidance manual, which also consists of stylistic guidelines and conventions.

The Research Products (RP) Quality Management Team has been established to oversee broader quality control initiatives. It has five members and works under direct supervision of the Global Director of Research Products. Its mission is to ensure:

- a) high quality of all the RP team's products and services (which includes the company profiles in Sustainalytics database, alerts service and the Country Risk Monitor);
- b) efficiency and cost-effectiveness of research processes and methodologies;
- c) reliable and efficient information exchange between the RP team and other Sustainalytics teams; and
- d) effective communication of best-practice and corporate standards across the RP team.

Among others, the team establishes effective quality control measures, identifies quality gaps and provides recommendations to fill them, collects and analyzes client quality concerns, answers analysts queries regarding methodology application, updates analyst guidance as required, spot-checks RP team products, identifies training needs for the analyst team and coordinates methodology revision processes. The team meets twice a month.

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

No, however our QMS team has been tasked to investigate external quality certification opportunities.

**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.

A limited set of core indicators is assigned to all 42 peer groups where expectations are uniformly applied across all sectors, primarily involving corporate governance and environmental operations. A broader number of sector specific indicators are assigned to relevant peer groups on the basis of unique industry exposure, relating to stakeholder impact, supply chains and products and services, to name a few. A reduced set of core and sector specific indicators are assigned to the Type B template in a similar way.

Our default weight matrix includes a unique allocation of weights for each peer group in conjunction with key areas of ESG exposure and impact. The most heavily weighted indicators are typically those which have been formally identified by our lead industry analysts as key performance indicators.

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

As described above, the sector specific indicators and weightings account for variations at the industry and sub-industry level. Analysts also have the option to deactivate certain indicators which may be inapplicable for certain companies in a peer group.

**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?**

Overall scores are generated by multiplying the raw scores assigned to each answer category and the relative weight assigned to the indicator. Companies are ranked relative to their industry peers on using a best of sector approach at the overall, theme, topic and indicator level. Given that weights can be customized by clients, our ratings are treated as relative as opposed to absolute.

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

Yes.

For example, if assessing a company on water consumption, do you consider the geographic context for this assessment (e.g. some regions are more arid than others)?

We assess geographic considerations via our identification of operations in sensitive countries or conflict zones, with an emphasis on human rights. This framework identifies key points of

intersection and exposure surrounding industry segmentation and geographic presence. We will be fleshing out this analysis further via pending product development initiatives.

We also have a number of Product Involvement indicators which identify controversial business activities including tobacco, weapons and nuclear involvement, to name a few. While these indicators are not scored and weighted, they can be applied as filters to identify any company specific business involvement which may be deemed controversial by clients.

**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.**

If so, describe how you use these to calibrate or assess company performance.

We have a number of indicators which consider whether (and in some cases, the degree to which) a company is a member or signatory of a key global or industry standard. Examples include: UNGC, GRI, UNPRI, UNEPFI, PRI, Equator Principles, EICC and CDP, to name a few.

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

We have ten controversy indicators that cover all relevant negative ESG incidents. The weight assigned to these types of indicators total between 30-40 per cent of the overall company score. The controversy indicators are updated on a monthly basis in accordance with our client alert service, a monthly update on any changes in controversy status affecting companies in their portfolios. We have developed detailed guidelines to assess such events consistently in a contextual manner.

Clients use these monthly alerts to make timely decisions regarding divestment and engagement. Clients are also able to apply controversy assessments as filters or screens to identify any companies in their portfolios implicated in varying degrees of controversies, rated on a scale of 1 to 5 on the basis of severity.

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## 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.**

Analysts are able to generate a rating report through the Analyst Interface to review company scores and rankings prior to uploading profiles to the Client Interface. Our best-of-sector™ analysis includes a review of overall scores to benchmark their consistency with analysts' knowledge and views of the peer group.

**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.

As noted above, each company is invited to review and provide feedback on their draft profiles. The proposed time frame for responding is two weeks but any feedback at a later moment in time is always taken into account. Moreover, companies are informed that they are welcome to submit feedback on their profiles at any time of year and it will be updated in a timely manner. Companies are not systematically provided with overall scores and assessments but we do make this available upon request.

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

Yes.

There are at times cases where the view of the company differs from the view expressed by other parties. We clearly highlight such differences to clients in the company reports. We also separate the presentation of facts from our own analysis and assessment of a situation on the other hand. Clients are presented with the situation in an objective manner together with our analyst's analysis and assessment. Clients are then in a position to draw their own conclusions. For high profile controversies we generally solicit feedback from companies to get more direct input on the questions at hand.

## **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.**

As noted, companies are systematically provided with draft profiles to review, highlighting answer categories selected for each indicator and related commentary. We are also open to sharing finalized client reports, including overall assessments and rankings, with relevant companies if requested. Yet, based on our experience, companies tend to focus quite heavily on the ratings, particularly if unfavorable. We find it important to have their views on facts and information that we collect. Company input on what conclusions to draw or how to balance positive and negative elements we have found less useful.

We value feedback by companies on the relevance of our indicators and take this into account in periodic framework reviews. We also share details on how we assess specific indicators on a case-by-case basis.

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

Our ratings and research is only available to clients, with the exception of the occasional public report or ranking e.g. the Newsweek Green Rankings, and The Road to 2020, where our raw scores are aggregated into a customized framework.