RepRisk ESG Business Intelligence

Analysis and metrics to measure and manage environmental and social risks

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Introduction: RepRisk is a global research and business intelligence provider on ESG risks

- Global research and **business intelligence** firm specializing in dynamic **ESG risk analysis and metrics**

- Founded in 1998 as environmental risk consultancy

- Launch of RepRisk ESG database in 2006 as a **due diligence tool** for the financial sector

- Today, runs **comprehensive database on ESG risks** related to companies, projects, sectors and countries worldwide

- Database used by **100 global financial and corporate clients** for risk management, compliance, supply chain, as well as monitoring of reputation, peers, NGOs and ESG issues

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A new business imperative: ESG risks can translate into bottom-line impacts

Environmental, social and governance (ESG) risks

E.g. Environmental degradation, human rights abuses, corruption and fraud

Compliance risks

E.g. Violation of policies, commitments, international standards

Reputational risks

E.g. Risks to earnings and capital from adverse public perception

Financial risks

E.g. Direct impact on cash flows and capital, including credit or investment risks, business continuity, etc.

Two megatrends: Increased stakeholder attention and transparency amplify ESG issues

## Increased and rapidly changing stakeholder expectations

Environmental, social and governance (ESG) issues have evolved from tangential importance to material relevance over the last decade

Increased transparency and disclosure

The internet and social media create a hyper-transparent and hyper-connected world, which serves to amplify stakeholders' expectations about ESG issues

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Big data: How can business leaders navigate the endless stream of open-source intelligence?
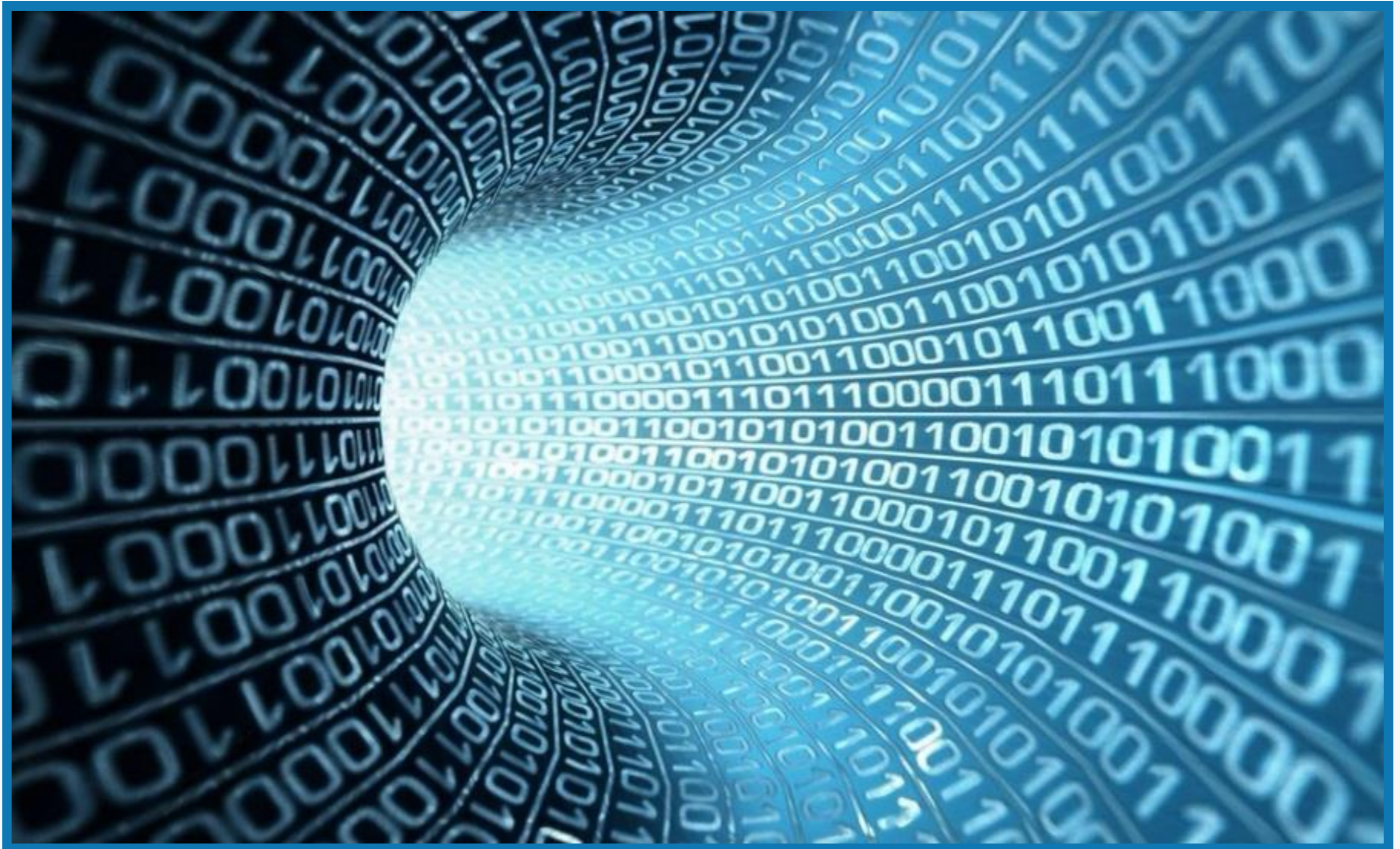
Source: cloudtimes.org

Within the landscape of ESG information, an external perspective provides a reality check

Information type

Policies, management systems, commitments ("intention")

Performance ("reality")

Information source

Third-party and stakeholder-based information

e.g. Rating agencies, Research organizations

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External perspective on company operations

Company-provided information

e.g. Annual CSR Reports, Sustainability websites, Policy summaries
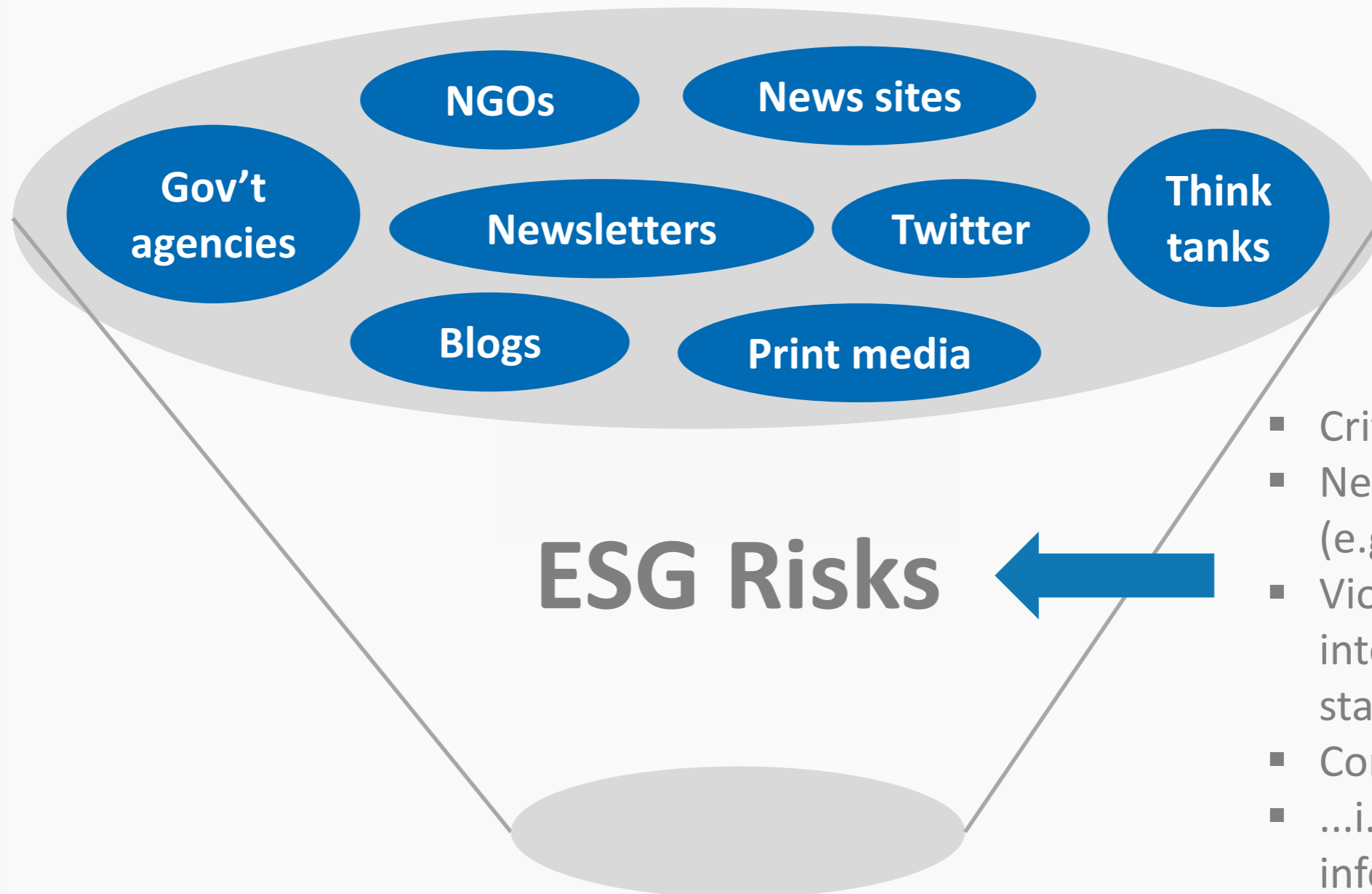
e.g. KPIs, GRI, CDP

Why look at third-party, media and stakeholder information?

- Third-party, media and stakeholder information can provide **valuable insight** into a company's performance – e.g. can act as an early warning system, can provide a different perspective

- Complements information provided by the company itself ("mirror"), helping to **ensure a data-driven, holistic assessment**

- Helps assess whether a company's intention translates into reality ("**reality check**")

Leveraging stakeholder data supports transparency and informed decision-making

+80,000 sources in 15 languages

NGOs

News sites

Gov't agencies

Newsletters

Twitter

Think tanks

Blogs

Print media

ESG Risks

- Criticism
- Negative incidents (e.g. factory fire)
- Violation of international standards
- Controversies
- ...i.e. – no positive information

Extracting information that supports tranparency and decision-making

Broad language coverage supports the early identification of risks
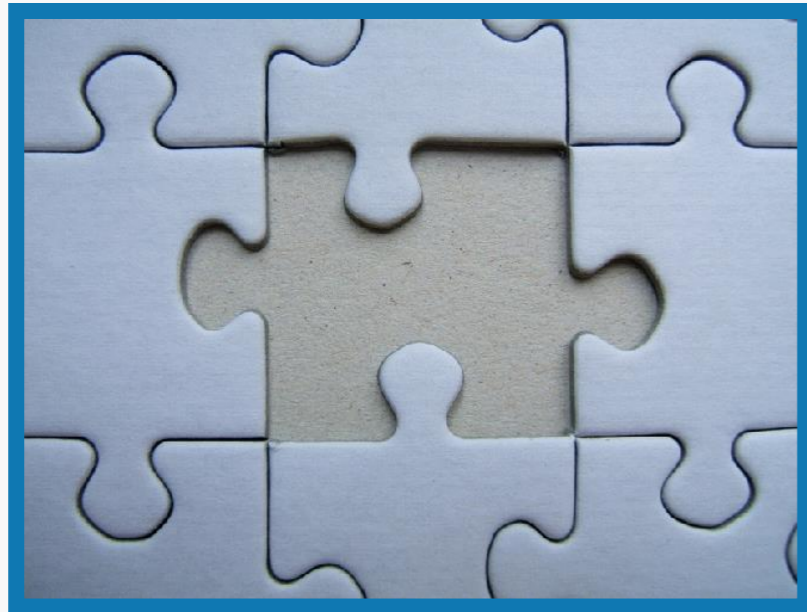
- Risks often appear earlier at the local level – i.e. In local sources, in local languages

- Language coverage helps ensure early identification of ESG-related risks

Chinese	Italian	Spanish
Dutch	Japanese	Danish
English	Korean	Finnish
French	Portuguese	Norwegian
German	Russian	Swedish

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Following a strict, rules-based approach ensures consistent data over time

ESG and reputational risk

1) Screen	2) Identify	3) Filter	4) Analyze	5) Quantify
Prop. IT Tool	**Human intelligence**			**Algorithm**
- Over 80,000 sources from stakeholders, media and third parties - 15 languages - Issues-driven searches	- ESG-related - Identified as a risk (no positive info) - Related to a named company - Severity threshold	- Removal of duplicates - Each risk incident added only once, unless risk profile of incident changes	- Summary of risk incident - Scoring of risk incident according to parameters: 1) Severity 2) Source 3) Novelty - Quality check	- Risk metric that quantifies ESG-related reputational risk exposure - From 0-100 (higher = more exposure) - Available for all entities

Systematic and rules-based, daily 5-step process

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All quantitative and qualitative data captured on an Entity Profile Page

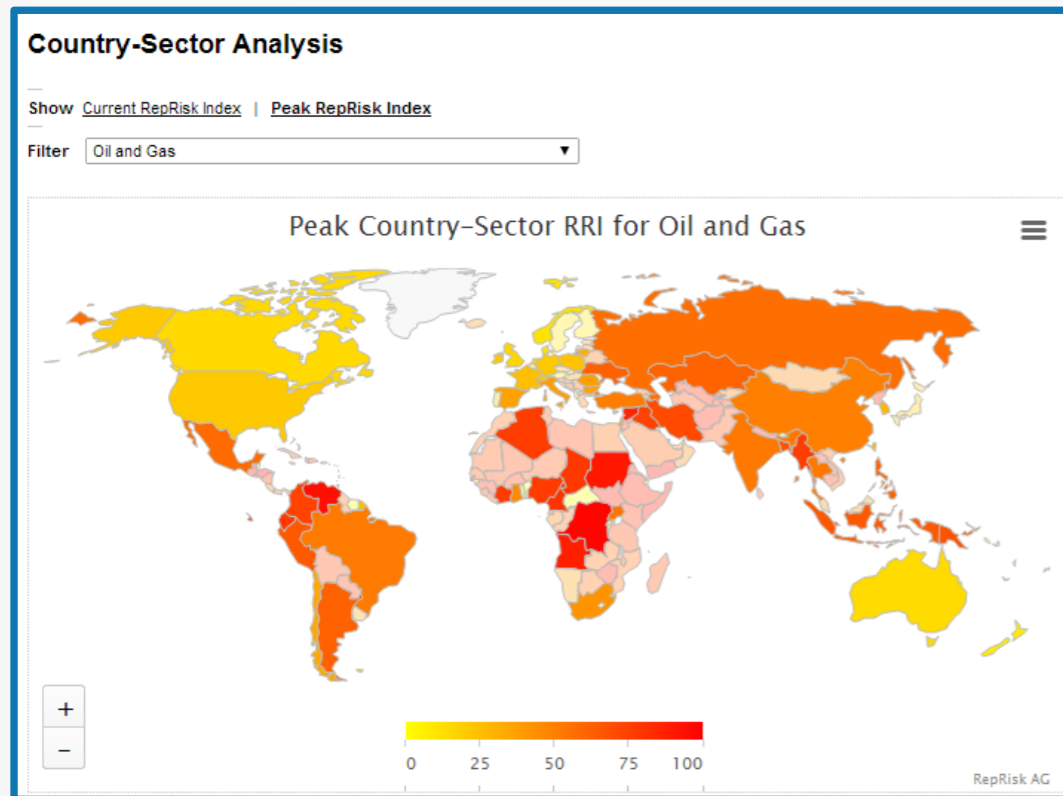## Entity Profile Page

Relationship analytics   **Risk metrics**

**Qualitative data:** summaries and scores of risk incidents

Entities in database   Coverage*

Entities in database	Coverage*
Companies	+50,000**
Projects	+12,000
Sectors	All sectors
Countries	All countries
Gov't bodies	+7,000
NGOs	+9,000
Issues	27 ESG issues
Topic Tags	36 ESG Topic Tags

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* Database grows daily as new information is screened, identified, filtered, analyzed and quantified
** Approx. 37,000 privately-held; 13,000 publicly-traded

# What happens when no information is available on a specific company?

- In absence of company-specific information, the **risks related to the company's country and sector** can be analyzed – e.g. mining in Guatemala

- Country-Sector Analysis Tool plots the ESG-related country risk, over which sector risk can be plotted

- Country-Sector Profile Page helps **identify "hot spots" and issues** that support analyses and engagement
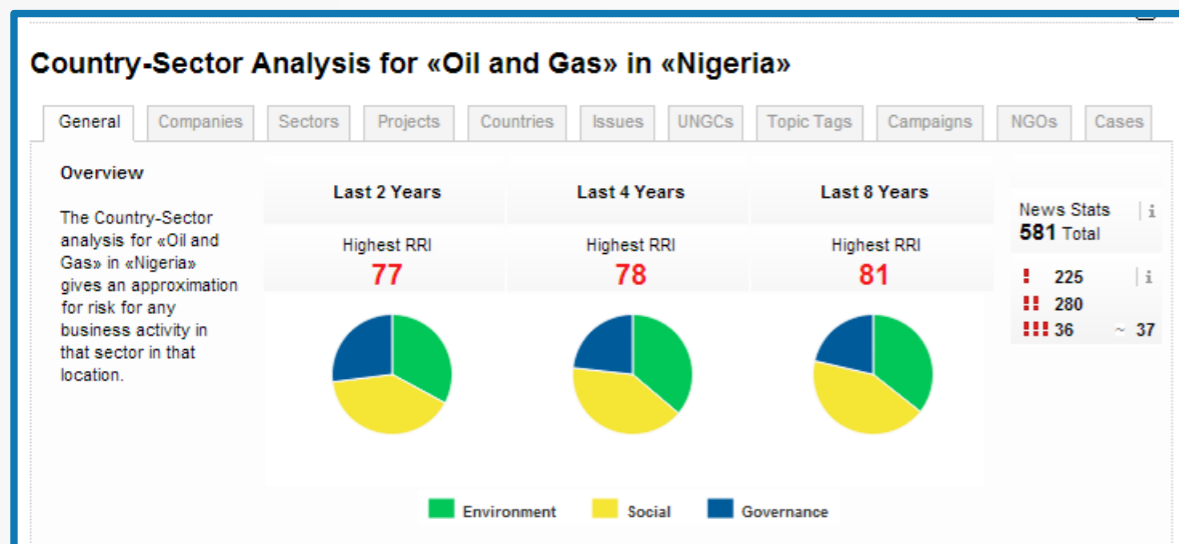
What new data-driven metrics are on the horizon?

RepRisk ESG Risk Rating (beta)

ESG Risk Rating: **CC** Peak RRI **56** in Jun 2014 Country Sector Avg. **47**
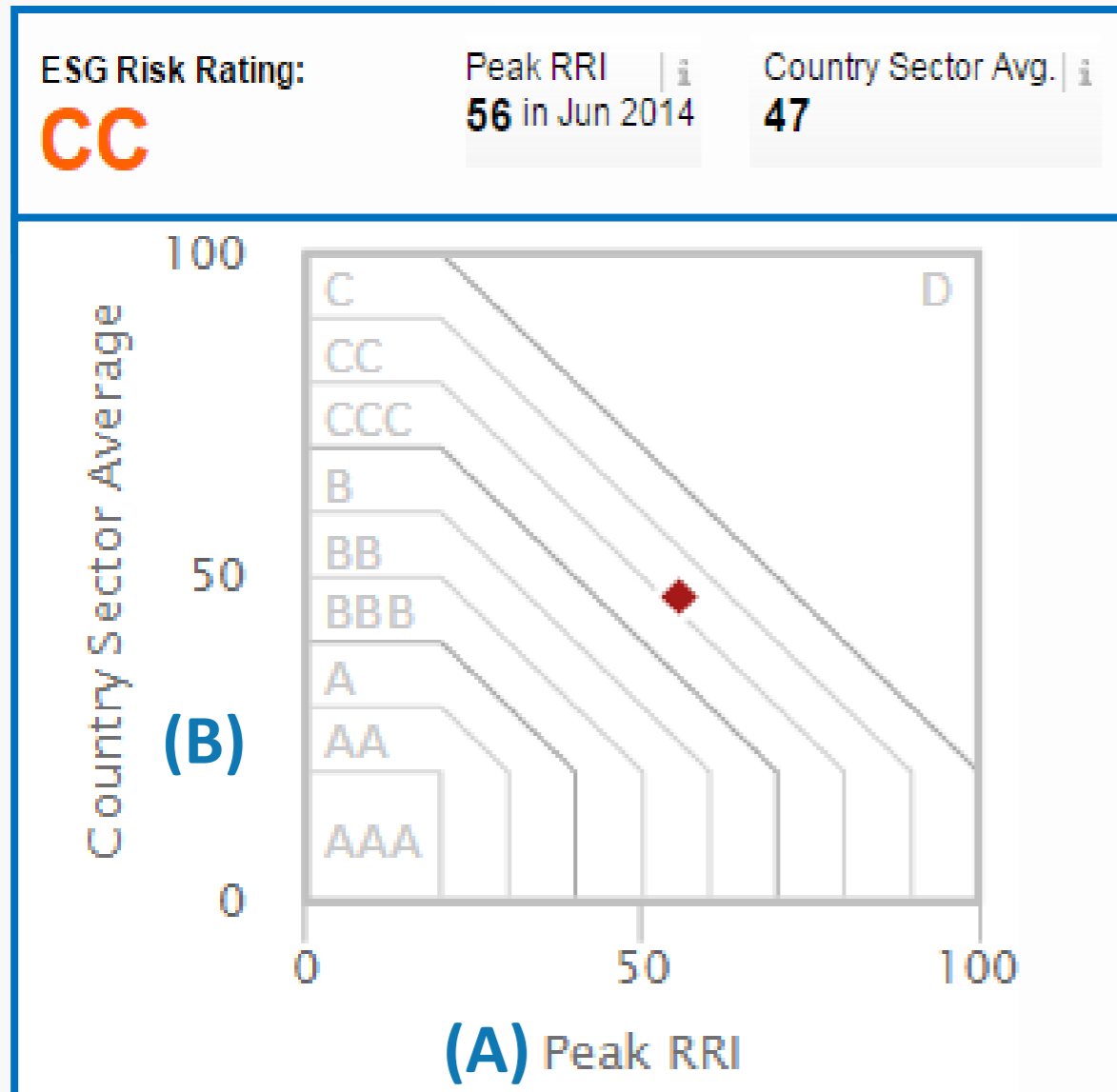
- Aims to be a simple, yet holistic rating that facilitates benchmarking and ESG integration

- Combines the **(A)** reputational risk exposure of a company and **(B)** the company's country-sector risk exposure (based upon HQ and countries linked to risks)

ESG Risk Exposure	
Low	AAA, AA, A
Moderate	BBB, BB, B
High	CCC, CC, C
Very high	D

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"Big data" provides information that helps make ESG risks more manageable

Appendix I:
Background information

RepRisk's scope of 27 ESG issues guides the risk screening and identification process

Environmental	Social		Governance
Environmental Footprint	**Community Relations**	**Employee Relations**	**Corporate Governance**
Global pollution and climate change	Human rights abuses, corporate complicity	Forced labor	Corruption, bribery, extortion, money laundering
Local pollution	Impacts on communities	Child labor	Executive compensation
Impacts on ecosystems and landscapes	Local participation issues	Freedom of association and collective bargaining	Misleading communication, e.g., "greenwashing"
Overuse and wasting of resources	Social discrimination	Discrimination in employment	Fraud
Waste issues		Health and safety issues	Tax evasion
Animal mistreatment		Poor employment conditions	Anti-competitive practices

Controversial products and services

Product-related health and environmental issues

Violation of international standards

Violation of national legislation

Supply chain

Note: All 10 Principles of the UN Global Compact map to RepRisk's ESG scope

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RepRisk's scope also includes 36* Topic Tags – specific ESG "hot topics" and themes

Abusive/illegal fishing	Agricultural commodity speculation	Alcohol	Animal transportation	Arctic drilling	Asbestos
Automatic weapons	Cluster munitions	Coal-fired power plants	Conflict minerals	Deep sea drilling	Depleted uranium munitions
Diamonds	Endangered species	Forest burning	Fracking	Gambling	GMO
Genocide/ ethnic cleansing	High conservation value forests	Illegal logging	Indigenous people	Land grabbing	Landmines
Monocultures	Mountaintop removal mining	Negligence	Nuclear power	Oil sands	Palm oil
Pornography	Privacy violations	Protected areas	Sea-bed mining	Tobacco	Water scarcity

* Additional Topic Tags will be added by June 2015:
Hydropower (dams); Migrant labor; Predatory lending

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RepRisk selects, defines and assesses ESG issues in line with key international standards

United Nations Global Compact (UNGC)

World Bank Group (IFC) Performance Standards

World Bank Group Environmental, Health and Safety Guidelines

OECD Guidelines for Multinational Enterprises

The Equator Principles

ILO Conventions

United Nations Principles for Responsible Investment (UN PRI)

UN Convention Against Corruption

Universal Declaration of Human Rights

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RepRisk runs a comprehensive and dynamic ESG risk database that supports transparency

Comprehensive   **Timely**   **Independent**

REPRISK®

Universal coverage:
Unlimited coverage of companies, listed and non-listed, in developed and emerging markets

Dynamic updates:
Database updated daily as new ESG-related risk incidents are detected

Third-party sources:
+80,000 third-party sources in 15 languages (not company-provided information)

Supports effective management of ESG risks related to clients, business transactions, partners, and suppliers

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Headquarters in Zurich and over 40 risk analysts in North America, Europe and Asia

Research partner: SRQ — steward redqueen

Research partner: Ethix — ethix SRI ADVISORS

Research partner: JRI — 日本総研 The Japan Research Institute, Limited

Headquarters and Analyst Hub

Analyst Hub

Stockholm
Amsterdam
Brussels
London
Zurich
Vienna
Milan
Montreal
Washington DC
Tampa
Bishkek
Beijing
Seoul
Tokyo
Manila
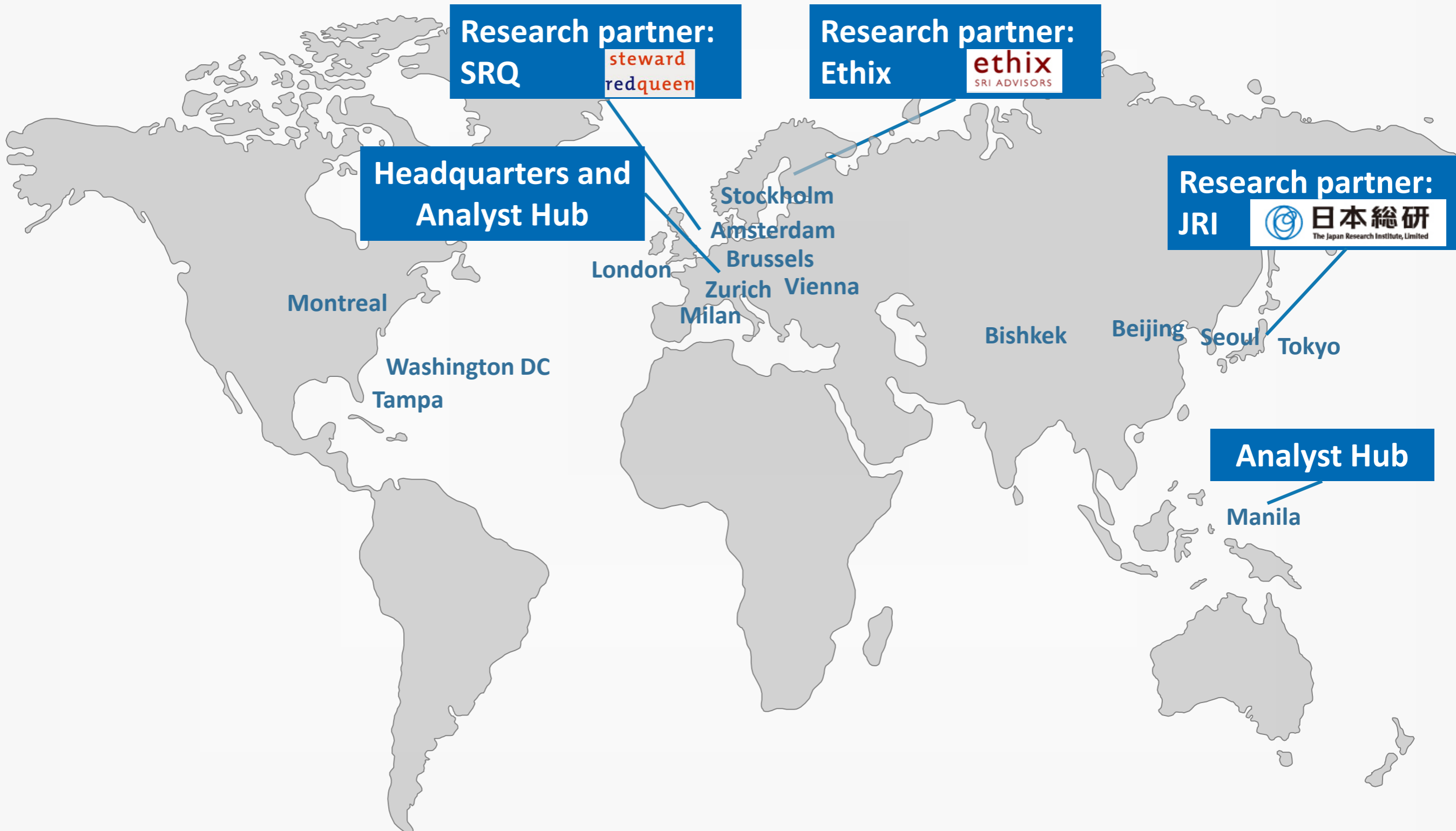
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RepRisk serves 100 global clients, helping them to manage and mitigate ESG risks

RepRisk partners with key sustainability index providers and initiatives to advance ESG issues
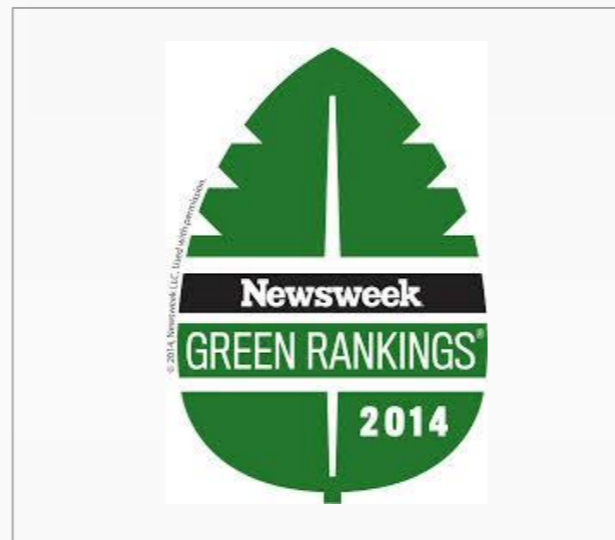
More coming in 2015...

RepRisk ESG Risk Platform – Sector Profile Page provides information on sector-specific risks

RepRisk ESG Risk Platform – Country Profile Page to analyze country-specific risks

RepRisk ESG Risk Platform – Topic Tag Profile Page helps you research specific ESG themes

Appendix II:
Use cases

Putting the data to use in banking: Integrating ESG risks in KYC and due diligence procedures

Internal compliance, risk management and sustainability policies and procedures

Onboarding, periodic reviews and monitoring

Clients	Partners	Transactions	Suppliers

RepRisk ESG Risk Platform

Not Flagged

Flagged

Escalation to:
- Risk function/CRO
- Legal and compliance
- CSR/Sustainability
- Corporate Affairs

In line with policy

Violation of policy

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Putting the data to use in insurance: Integrating ESG risk data in underwriting processes

Know your customer (KYC) and partner → **All lines of business**

Underwriting Single Risks →
- **Specialty**
- **Property**
- **Casualty, incl. D&O**
- **Credit Risk and Surety**

Asset Management → **Investment decisions**
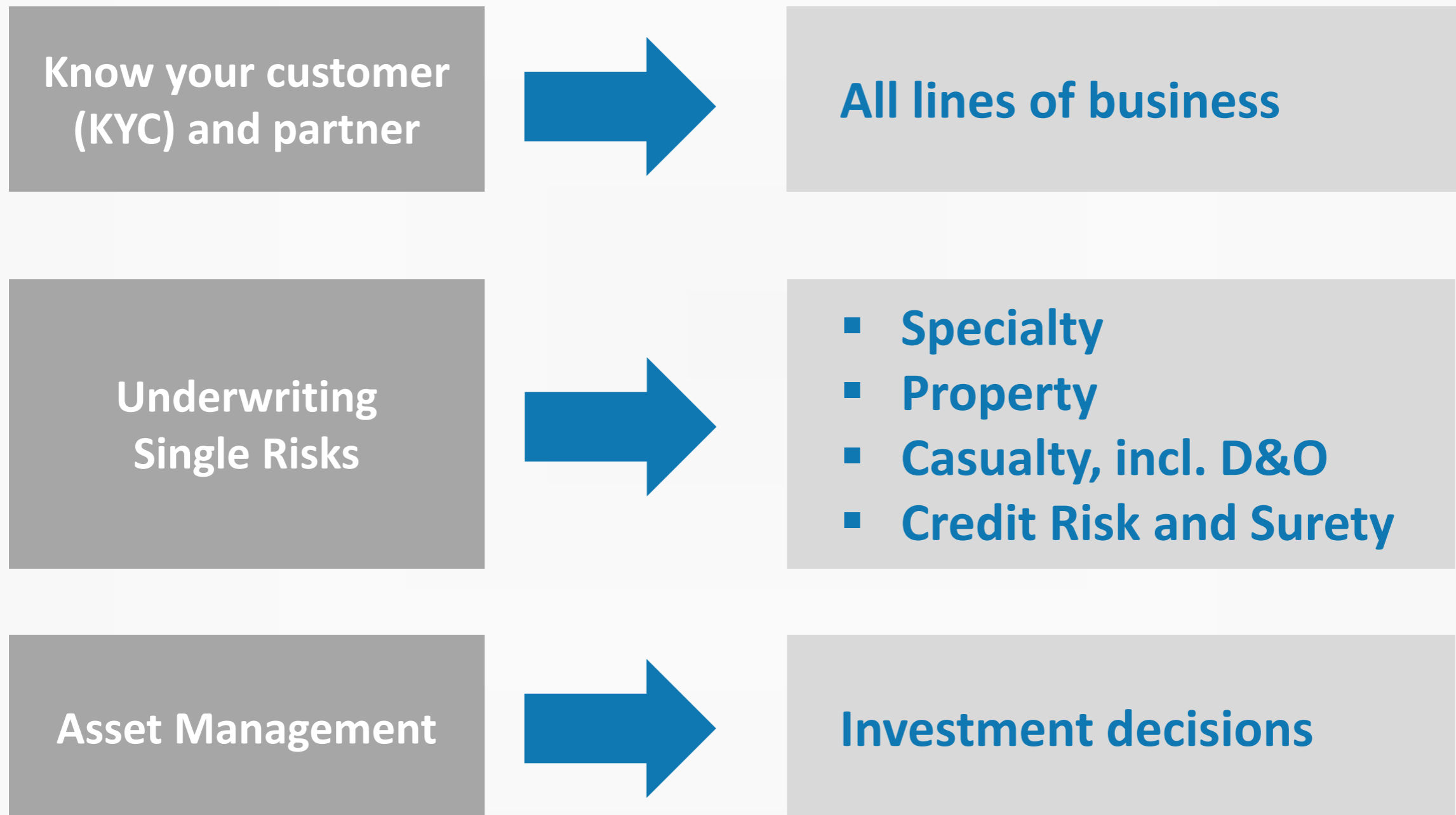
Putting the data to use at ECAs: Data to support environmental and social due diligence

OECD Common Approaches for ECAs

Environmental and social due diligence

- Screening
- Classification
- Review
- Monitor

- Exporters
- Buyers
- Project sponsors
- Contractors
- Projects
- Country-sector
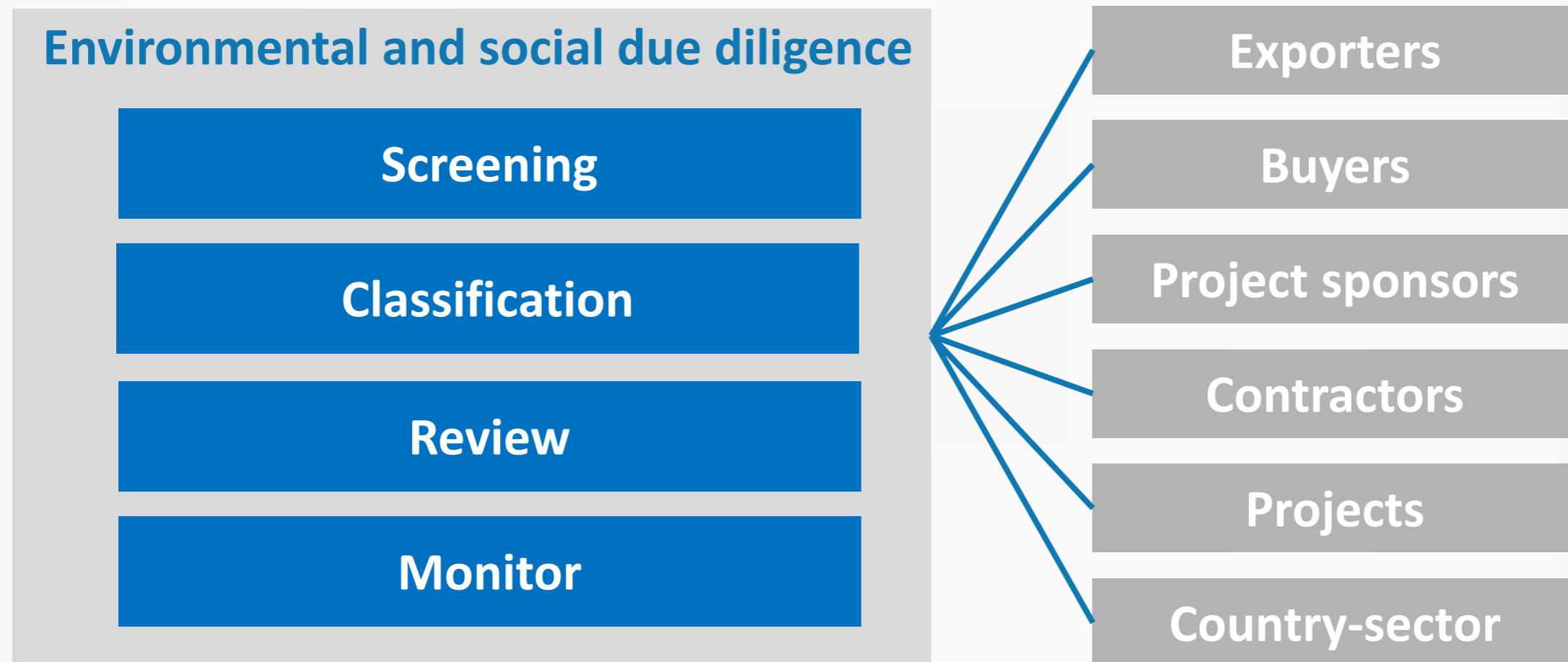
RepRisk ESG Risk Platform

✔ **In line with ECA Policies**

✘ **Not in line with ECA Policies**

Putting the data to use in asset management: ESG integration into all asset classes

Project Finance

Private Equity

High-yield bonds

Corporate bonds

Equity EM

Equity

Portfolio Management

Adherence to ESG risk management policies

RepRisk ESG Risk Platform and Data Feed

Input

CRO Office

List of all investment positions for all asset classes

Output

1) **Daily monitoring and alerts for policy-related ESG risk incidents**
2) **In-depth research triggered by high risk incidents and possible engagement with portfolio manager and research teams**

Putting the data to use in supply chain: Supporting supplier selection and monitoring

Standard setting and Supplier Code of Conduct	›	Supplier selection and risk analysis	›	Supplier monitoring and audits
Selection of relevant ESG issues for benchmarking against standards and internal policies		Assessment of supplier ESG risk based on company-specific data		Ongoing monitoring of all suppliers for possible breaches of standards and internal policies

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Putting the data to use in CSR, sustainability and communications: Data-driven research

Tracking ESG trends, developments and issues

NGO monitoring and engagement

Country- and sector-specific research

Peer benchmarking and monitoring

Corporate responsibility reporting (e.g. materiality analyses)

Internal management reporting

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