Scorecard

Morningstar Sustainalytics ESG Risk Ratings

About Morningstar Sustainalytics

COVERAGE OF COMPANIES

16,000

LAUNCH DATE

2009
(as Sustainalytics)

FOCUS
ESG risk ratings

LINK:
https://www.sustainalytics.com/esg-data#
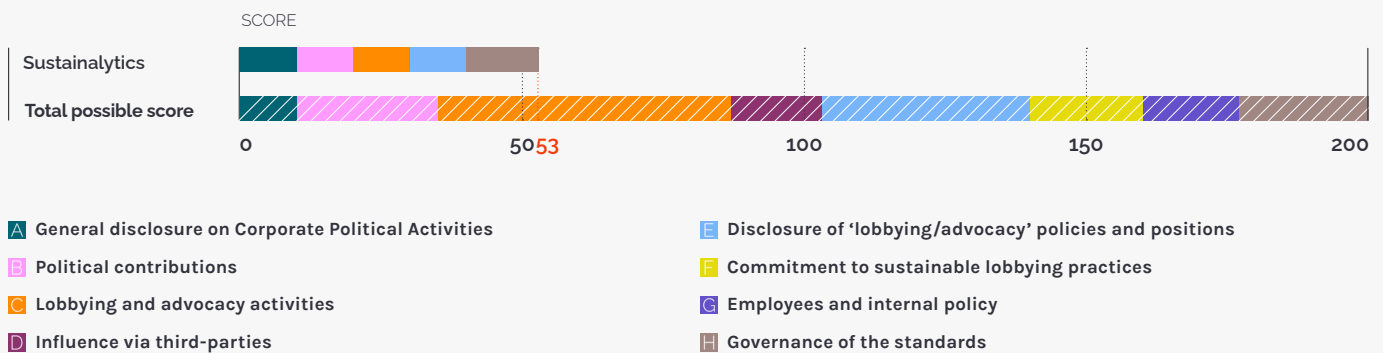
Morningstar Sustainalytics ESG Risk Ratings Score

Tracker Rank and Score for Morningstar Sustainalytics
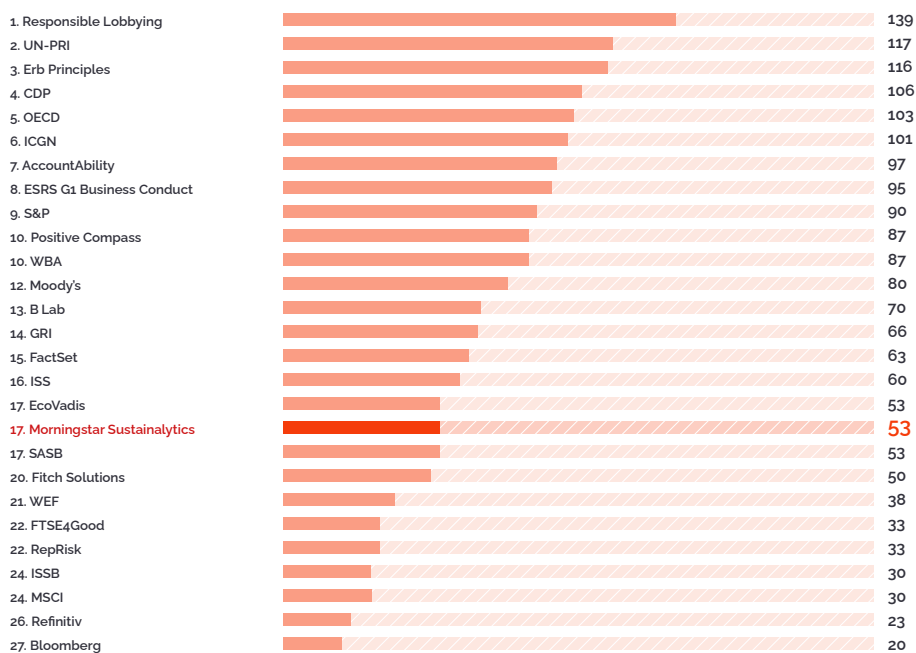
The score is out of a total of 200 and the rank describes the standards position in the 27 standards assessed by the Tracker.

53 /200
Score

Rank 17 /27

Category scores of Sustainalytics

SCORE

Sustainalytics	
Total possible score	

0   50 53   100   150   200

A General disclosure on Corporate Political Activities	**E** Disclosure of 'lobbying/advocacy' policies and positions
B Political contributions	**F** Commitment to sustainable lobbying practices
C Lobbying and advocacy activities	**G** Employees and internal policy
D Influence via third-parties	**H** Governance of the standards

*Categories where the standard received no points do not appear in the colour-coded graph

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Rank and scores for all standards

1. Responsible Lobbying	139
2. UN-PRI	117
3. Erb Principles	116
4. CDP	106
5. OECD	103
6. ICGN	101
7. AccountAbility	97
8. ESRS G1 Business Conduct	95
9. S&P	90
10. Positive Compass	87
10. WBA	87
12. Moody's	80
13. B Lab	70
14. GRI	66
15. FactSet	63
16. ISS	60
17. EcoVadis	53
17. Morningstar Sustainalytics	53
17. SASB	53
20. Fitch Solutions	50
21. WEF	38
22. FTSE4Good	33
22. RepRisk	33
24. ISSB	30
24. MSCI	30
26. Refinitiv	23
27. Bloomberg	20

Description

Morningstar Sustainalytics ESG ratings and research cover more than 16,000 companies, and claim to provide the widest coverage of analyst-based ESG Risk Ratings in the market. The recently expanded universe includes public and private companies, fixed-income issuers and listed Chinese companies and allows investors to support diversified investment strategies.[1] The current product suite includes Sustainalytics' ESG Risk Ratings, which measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This methodology for measuring ESG risk combines the concepts of management and exposure to arrive at what is described as an absolute assessment of ESG risk.[2] The ESG Risk Ratings are categorised across five risk levels. According to the company, the ESG Risk Ratings are designed to help investors identify and understand financially material ESG risks in their portfolio companies and how those risks might affect performance.

The ESG Risk Ratings is intended to provide investors with relevant insights on sustainability risks, with a focus on material ESG issues that present the most material risks to a company's economic value. According to Morningstar Sustainalytics, Material ESG Issues are at the centre of their rating,[3] with each one speaking to a specific, ESG related topic. Corporate Governance and Stakeholder Governance are fully integrated in the ESG Risk Rating's methodology, suggesting that lobbying and corporate political activities are also covered.

The ESG Risk Ratings are driven and determined by the underlying notion and concept of forward-looking exposure; quantitative and qualitative factors linked to the exposure assessment are designed to capture trends and anticipate future developments. The Sustainalytics methodology takes a "two-dimensional lens approach", where the Exposure lens informs investors about what material ESG risks a company is facing; and the Management lens assesses how well the company is managing material ESG risks. The exposure dimension reflects factors such as a company's business model, financial strength and event history. The management dimension provides a high level of granularity to a company's management strengths and weaknesses. External shocks are reflected in the rating, increasing a company's risk depending on the materiality of the impact.

The Methodology documents describe the Sustainalytics approach to determining material ESE, with an assessment of material ESG issues starting at the sub-industry level, reviewed annually.[4] There are 22 material ESG issues used for new company assessments across all sub-industries. A differentiation between sub-industries occurs via the assessment of the issue-specific materiality for each sub-industry as well as the set of indicators used to assess the management effectiveness.

Score summary

The Morningstar Sustainalytics Tracker score changed from 46 in the first edition of the Tracker to 53 in the 2024 edition reflecting new information shared with the research team. The assessment framework receives points in Tracker category A 'General disclosure on corporate political activities' for considering companies' potential involvement in lobbying and public policy controversies. One of the Sustainalytics indicators on 'Lobbying and Public Policy' includes an assessment of

the level of Lobbying and Public Policy controversies at the company. A relatively high controversy level is a signal the company is more exposed to ESG issues. Additional indicators cover 'bribery and corruption' risks and business ethics issues which may touch on corporate political activities, but the definitions provided by Sustainaltyics do not indicate how detailed this assessment is. In order for users of the Sustainalytics ratings to be able to fully understand the impact and risks associated with corporate political activities, a more consistent approach is needed to both assess and report on this data to users.

In addition to these points, the topic of 'Transparency on Lobbying and Political Expenses' is addressed in one of the Sustainalytics indicators, earning points in Tracker Category B on 'Political contributions.' This indicator assesses a company's disclosure of its lobbying and political expenses, which are defined as spending related to the company's political engagement activities, aimed at influencing laws and regulations.

Opportunities for improvement

The Sustainalytics methodology could be improved by adding additional indicators across each of the 8 Tracker categories. In particular the absence of a process for consistently assessing indicators in Tracker Category C 'Lobbying and advocacy activities' could lead to significant gaps in the company ESG risk profiles under the current methodology. Information on company conduct via third party influencers, including trade associations would further support a complete assessment of companies risk profile. The Sustainalytics methodology scores no points in Tracker category D, 'Influence via third parties' indicating that this could be one area of focus to improve the methodology, given the rising importance and critical dimension of trade associations' governance and their relationship with individual members.

Endnotes

1   https://www.sustainalytics.com/esg-data#
2   Idem
3   https://www.sustainalytics.com/material-esg-issues-resource-center
4   see page 49 ESG Risk Ratings Review and Enhancement of Model Components

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