

*Link to PDS for Refinitiv scoring methodology*

This document is a summary of the ESG Scores methodology provided by Refinitiv (a major data vendor) and used by the investment manager to screen out companies that are “unethical” from the investment process.

### **ESG Scoring methodology summary**

Refinitiv’s ESG scoring methodology has a number of key calculation principles set out below:

1. Unique ESG magnitude (materiality) weightings have been included – as the importance of ESG factors differs across industries, Refinitiv has mapped each metric’s materiality for each industry on a scale of 1 to 10.
2. Transparency stimulation – company disclosure is at the core of the methodology. With applied weighting, not reporting “immaterial” data points doesn’t greatly affect a company’s score, whereas not reporting on “highly material” data points will negatively affect a company’s score.
3. ESG controversies overlay – Refinitiv verify companies’ actions against commitments and to magnify the impact of significant controversies on the overall ESG scoring. The scoring methodology aims to address the market cap bias from which large companies suffer, introducing severity weights which ensure controversy scores are adjusted based on a company’s size.
4. Industry and country benchmarks at the data point scoring level – to facilitate comparable analysis within peer groups.
5. Percentile rank scoring methodology – to eliminate hidden layers of calculations. This methodology enables Refinitiv to produce a score between 0-100 as well as easy-to-understand letter grades when utilising the methodology.

### **Data Process**

There are over 450 ESG measures, which are processed manually for each company within the ESG universe, with each measure undergoing a careful process to standardize the information and guarantee it is comparable across the entire range of companies. The database is updated on a continuous basis – aligned with corporate reporting patterns – and data is refreshed on products every week, including the recalculation of the ESG Scores. Updates could include a brand-new company being added to the database, the latest fiscal year update or the inclusion of new controversy events.

In most cases, reported ESG data is updated once a year in line with companies’ own ESG disclosure. Refinitiv refresh data more frequently in exceptional cases, usually when there is a significant change in the reporting or corporate structure during the year.

ESG news and controversies are updated on a continuous basis, as and when such events occur and get picked up by global media.

### **Frequency of Updates**

All Refinitiv ESG scores, including controversies scores, are updated on a weekly basis.

### **Definitive scores**

Scores will be marked as definitive for all historical years excluding the five most recent. For instance, if the most recent fiscal year is FY2020, then all historical scores prior to FY2016 will be considered definitive – but not those between FY2016 and FY2020. Definitive scores remain unchanged even if there are changes to the underlying data due to company restatements or data corrections.

The model comprises two overall ESG scores:

1. ESG score – measures the company's ESG performance based on verifiable reported data in the public domain
2. ESG Combined (ESGC) score – overlays the ESG score with ESG controversies to provide a comprehensive evaluation of the company's sustainability impact and conduct in of time

The availability of the two overall scores and underlying category assessments allows users to adopt and apply the scoring that meets their requirements, mandates or investment criteria.

### **ESG score**

Refinitiv captures and calculates over 500 company-level ESG measures, of which a subset of 186 of the most comparable and material per industry are used in the overall company assessment and scoring process. The underlying measures are based on considerations around comparability, impact, data availability and industry relevance that varies across each industry group.

These are grouped into 10 categories that reformulate the three pillar scores and the final ESG score, which is a reflection of the company's ESG performance, commitment and effectiveness based on publicly reported information.

The category scores are rolled up into three pillar scores – environmental, social and corporate governance. The ESG pillar score is a relative sum of the category weights which vary per industry for the Environmental and Social categories. For Governance, the weights remain the same across all industries.

### **ESG Combined (ESGC) score**

ESGC scores provide a rounded and comprehensive scoring of a company's ESG performance, based on the reported information pertaining to the ESG pillars, with the ESG controversies overlay captured from global media sources. The main objective of this score is to discount the ESG performance score based on negative media stories. It does this by incorporating the impact of significant, material ESG controversies in the overall ESGC score.

When companies are involved in ESG controversies, the ESGC score is calculated as the weighted average of the ESG scores and ESG controversies score per fiscal period, with recent controversies reflected in the latest completed period. When companies are not involved in ESG controversies, the ESGC score is equal to the ESG Score.

### **ESG controversies category**

The ESG controversies score is calculated based on 23 ESG controversy topics. During the year, if a scandal occurs, the company involved is penalized and this affects their overall ESGC score and grading. The impact of the event may still be seen in the following year if there are new developments related to the negative event; e.g., lawsuits, ongoing legislation disputes or fines. All new media materials are captured as the controversy progresses. The controversies score also addresses the market cap bias from which large cap companies suffer, as they attract more media attention than smaller cap companies.

[To read the full Refinitiv ESG Scoring Methodology, please click here.](#)