

MATERIAL RISK ENGAGEMENT



Key Benefits

Engagement with **over 250** high-risk companies on the most financially material ESG issues – as identified by Sustainalytics' ESG Risk Ratings

With **~30** engagement managers Sustainalytics has a diverse and experienced team dedicated to engagement

Refined over **more than 25** years, we follow a robust and proven approach to ESG engagement with face-to-face interactions, well-defined objectives and a strategy for each case

Covering **more than 2** trillion dollars in assets under advisement (AuA), Sustainalytics is the largest engagement services provider, enabling us to leverage our pooled resources to increase our impact

Comprehensive coverage of our ratings universe covering > 4,500 companies

Unparalleled TRANSPARENCY with the option to attend engagement dialogues and access all ESG information, including company responses

Material Risk Engagement promotes and protects long-term value by engaging with high-risk companies on financially-material ESG issues.

The focus is on the companies with the highest unmanaged ESG risks. We protect and develop the value of our clients' portfolio companies through collaborative and constructive engagement that help companies better identify, understand and manage these ESG risks.

Constructed as an engagement overlay to Sustainalytics' flagship ESG Risk Ratings, the engagement focuses on companies in our universe with an ESG Risk Ratings score of greater than 32, labeled as high or severe risk and within the worst performing half of their industry.

Material Risk Engagement is change-oriented and has a long-term commitment to engagement. The engagement process defines clear change objectives with an engagement strategy aimed at the most material ESG issues as identified by the ESG Risk Ratings. The aim is to address the management gaps so the target company improves its ESG performance and risk management.

Investors can use Sustainalytics' Material Risk Engagement to reduce their ESG-related portfolio risks, and support their portfolio management, stewardship, ESG integration, and proxy voting activities.

Investors can access all engagement-related information, like company responses and dialogue, as well as other ESG products, like the ESG Risk Ratings, via Sustainalytics' Global Access platform.



Use Cases

ESG Risk Management

Material Risk Engagement focuses on high-risk holdings, aiming to help companies better identify, understand and manage ESG risks.

ESG Integration

The assessment of responses and progress as well as other data points can improve investors' insight into companies' readiness and ability to mitigate ESG risks and opportunities.

ESG/SDG Reporting

Positive engagement cases are consistently tracked, which enable investors to report positive impact from the engagement to clients and beneficiaries. Engagements are also mapped against the Sustainable Development Goals (SDGs).

Proxy Voting

Engagements address Material ESG Issues that may end up on companies' AGM agendas, making case information a useful input for voting decisions.

Compliance with Stewardship Codes and International Guidelines

Engagement is a key element of guidelines for responsible investors, such as the Principles for Responsible Investing (PRI) and the OECD: Responsible business conduct for institutional investors, as well as relevant regulations, such as the UK Stewardship Code.



Engagement Overlay for Passive Strategies

By consistently engaging with all the highest risk companies on various indexes, Material Risk Engagement provides passive/index investors with the opportunity to **meet their stewardship obligations and differentiate their fund** by providing an engagement overlay.



How it Works

- 1 As soon as a company in the worst-performing half of its industry is assigned a risk rating above 32, the Material Risk Engagement engagement process commences.
- 2 The first meeting with the company is preferably face-to-face to build a common understanding of the company's material ESG issue, creating the trust that is key for our partnership approach.
- 3 The engagement team defines change objectives and the engagement strategy is developed. The company also receives the first set of suggested actions to address management gaps in the Material ESG Issues.
- 4 Sustainalytics regularly follows up with the company and tracks progress on action points and positive developments. Change objectives and suggested actions are updated regularly to ensure continuous improvement.
- 5 An engagement case is closed when the company's ESG Risk Rating improves to below a score of 28, or the company's rating improves to the top 40% of its industry.



Delivery

Global Access: Sustainalytics' user-friendly investor interface provides full insight into the company engagement profile, overall ratings and dialogue. It also includes engagement manager commentary on the case, next steps and upcoming meetings.

Data Services: Basic data points can be delivered as a standard portfolio report in Excel or as a data feed. PDF company engagement profiles can also be delivered.



Related Products

ESG Risk Ratings: Forming the basis of our Material Risk Engagement, the combination with our ESG Risk Ratings enables investors to have a consistent and coherent approach to ESG risk both pre- and post-investment.

Global Standards Engagement: This incident-driven engagement service complements Material Risk Engagement by focusing on company compliance to internationally recognized standards, such as the United Nations' Global Compact.

Thematic Engagement: This proactive engagement service encourages a select number of companies to address ESG themes from a risk and/or impact perspective.

Learn More About Sustainalytics

contact@sustainalytics.com | www.sustainalytics.com

Europe: Amsterdam (+31) 20 205 00 00 | Copenhagen (+45) 32 72 52 81 | London (+44) 20 3514 3123
Frankfurt (+49) 69 3329 6555 | Paris (+33) 1 184880642 | Stockholm (+46) 8 505 323 33

Americas: Boston (+1) 617 603 3321 | New York (+1) 212 500 6468 | Toronto (+1) 416 861 0403

Asia Pacific: Sydney (+61) 2 8320 9436 | Tokyo (+81) 3 4510 7979



SUSTAINALYTICS

a Morningstar company

Copyright ©2021 Sustainalytics. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third parties suppliers (Third Party Data), are provided for informational purposes only and may be made available to third parties provided that appropriate citation and acknowledgement is ensured. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers/>.