Environmental, Social and Governance (ESG) Rating

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What is an ESG Rating?

A set of standards for a company's operations that socially conscious investors use to screen potential investments

Examples of ESG criteria used by investors include a company's:

- Impact on climate change or carbon emissions
- Water use or conservation efforts
- Anti-corruption policies
- Board diversity
- Human rights efforts
- Community development

Why an ESG Rating Is Beneficial

Used by leading global investors, lenders and other stakeholders to provide extra financial data and views to complement credit, equity research and other data points for business decisions

- Used to quantify or influence views on risks of a potential investment
- Supports capital markets and communication activities
- Support internal management and performance

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How an ESG Rating is Measured

An ESG rating measures three central factors that affect the sustainability and ethical impact of an investment in a company

Environmental

Measures a company's impact on the planet.

A company with strong environmental practices uses renewable energy, reduces emissions, supports clean air and water and works to address the risks of climate change

Social

Measures how a company affects people, including its employees and customers.

A socially responsible company treats its workers fairly, provides a productive workplace, keeps customer data secure and creates good products that are safe to use.

Governance

Measures how a company runs its business.

A company with good governance works to balance the needs of executives and shareholders, has a diverse and independent board of directors, is open about its political and lobbying efforts, and has policies in place to prevent bribery or corruption.

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Benefits of an ESG Rating

Studies suggest that by implementing management of ESG risks, companies can benefit from a lower cost of capital

- “Good corporate governance significantly decreases a firm’s cost of debt,” and “superior environmental management systems have significantly lower credit spreads”
- Firm’s with good environmental sustainability, environmental management, and voluntary disclosure of environmental practices have a significantly lower cost of equity
- Can invest strategically using an ESG rating to leverage the link between superior ESG performance and lower cost of capital

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THANK YOU