

Lynk-letter

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ESG RATINGS... what do they mean?

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ESG ratings help investors identify the environmental, social and governance (ESG) risks and opportunities present within an organization. As a growing number of companies are publicly reporting on ESG matters, data providers are capturing this information in an effort to formulate a score of how well a company performs related to their peers. A company's ESG rating can be a vital tool in knowing its position within the investment community and will increasingly determine the flow of investment capital as more investors are not only seeking returns, but also to align with companies that mirror their values.

Rating agencies such as Bloomberg, MSCI, ISS, and Sustainalytics, among others, all have their own formula for compiling a company's ESG rating. **Do you know your current ESG rating?** Corporate directors and board members should become familiar with their company's reported sustainability data and resulting ESG scores. This information is important in understanding industry-specific ESG risks and performance relative to peers. It assists the business with assessing how those risks can be mitigated and incorporated into strategy. Corporate directors should inquire of executive management regarding a company's active engagement with the rating agencies to ensure their ratings accurately reflect the performance of the company. Not managing your ESG rating could be a missed opportunity with controlling how your company is presented to the investment community.

With the lack of standardization, the methodology driving a company's ESG score varies widely depending on the data provider. Companies need to drive a more consistent and higher quality scoring system.

Using a systematic framework such as the Sustainability Accounting Standards Board (SASB) allows for more reliable data delivery and ultimately more meaningful and comparable ESG scores. The key is to remain in the driver's seat when delivering information to data providers and to take control and own the score published under your company's name.

