

Sustainability scoring methodology

How are the sustainability scores calculated?

The sustainability scores and associated commentary for ASX200 are provided directly by Sustainalytics, a global provider of company-level environmental, social and governance (ESG) research and ratings. The scores for managed funds that invest primarily in Australian and International shares are provided by Morningstar in partnership with Sustainalytics.

Sustainalytics' research process

Sustainalytics' research methodology addresses a broad range of macro-level ESG factors and trends that have a significant impact on each industry and company, creating both risks and opportunities for investors.

Each company is assessed by Sustainalytics via a comprehensive ESG research process that determines the calculation of scores and associated commentary by Sustainalytics including:

- > Sustainability score (the overall score),
- > Environmental score,
- > Social score,
- > Governance score, and
- > Controversy assessment.

The sustainability score is made up of the environmental score, the social score and the governance score for a company and includes an assessment of the company's involvement in ESG-related controversies.

The ESG research process

The Company ESG research is conducted by a Sustainalytics' analyst and includes the following steps:

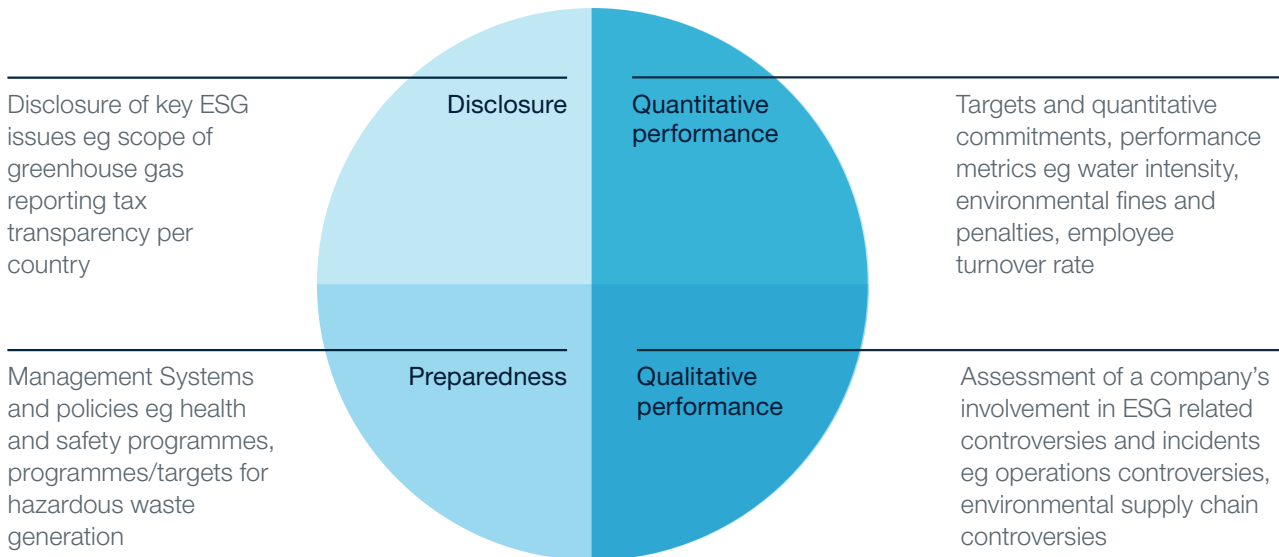
- > Step 1 – Review of company reporting
- > Step 2 – Review of external resources
- > Step 3 – Structural peer review and company feedback.

Step
1

Review of company reporting

Eg: annual reports, CSR reports, publicly available policies, etc.

In this step, the Sustainalytics analyst team reviews publically available company reports and identifies ESG indicators which have been present over the last 12 months that fall within the 4 management dimensions listed below:



Step
2

Review of external resources

Eg: media, Non Government Organisations, publications, etc.

The second step relates to a company's qualitative performance, the fourth management dimension.

This step requires review of external sources to track a company's involvement in ESG controversies and incidents. Controversy research is conducted using a framework that determines the severity of an event, its associated risks to the company, and the company's management of the issue.

- 1. LOW**
The controversy has a low impact on the environment and society, posing negligible risks to the company.
- 2. MODERATE**
The controversy has a moderate impact on the environment and society, posing minimal risks to the company.
- 3. SIGNIFICANT**
The controversy has a significant impact on the environment and society, posing significant risks to the company.
- 4. HIGH**
The controversy has a high impact on the environment and society, posing high risks to the company. This category often reflects structural problems in the company.
- 5. SEVERE**
The controversy has a severe impact on the environment and society, posing serious risks to the company. This category represents the most severe corporate conduct.

The controversies identified, fall into one of the following 10 topics: business ethics, society and community, environmental operations, environmental supply chain, product and service, employee, social supply chain, customer, governance, and public policy.

Please note – BT Financial Group will only make available a summary and commentary from Sustainalytics for controversies that are rated 3 or higher.



Structural peer review and company feedback

This is the final step. Along with peer review by a second Sustainalytics analyst, company feedback is produced and the key indicator scores are calculated. These scores can then be used as an indicator for assessing how well companies manage their exposure to relevant ESG issues.

Managed funds

Morningstar uses an asset-weighted average of the overall ESG score supplied by Sustainalytics, with deductions made for holdings of underlying investments involved in controversial incidents. For a fund to receive a score, at least 50% of its assets must include the companies assessed by Sustainalytics globally. To learn in detail how Morningstar calculates the Sustainability scores for funds, view the document [here](#).

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Important to know

Role of Sustainalytics

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