

ESG Forum

Refinitiv x Financial Standard

Jamie Coombs

Head of Market Development, ASEAN and Pacific

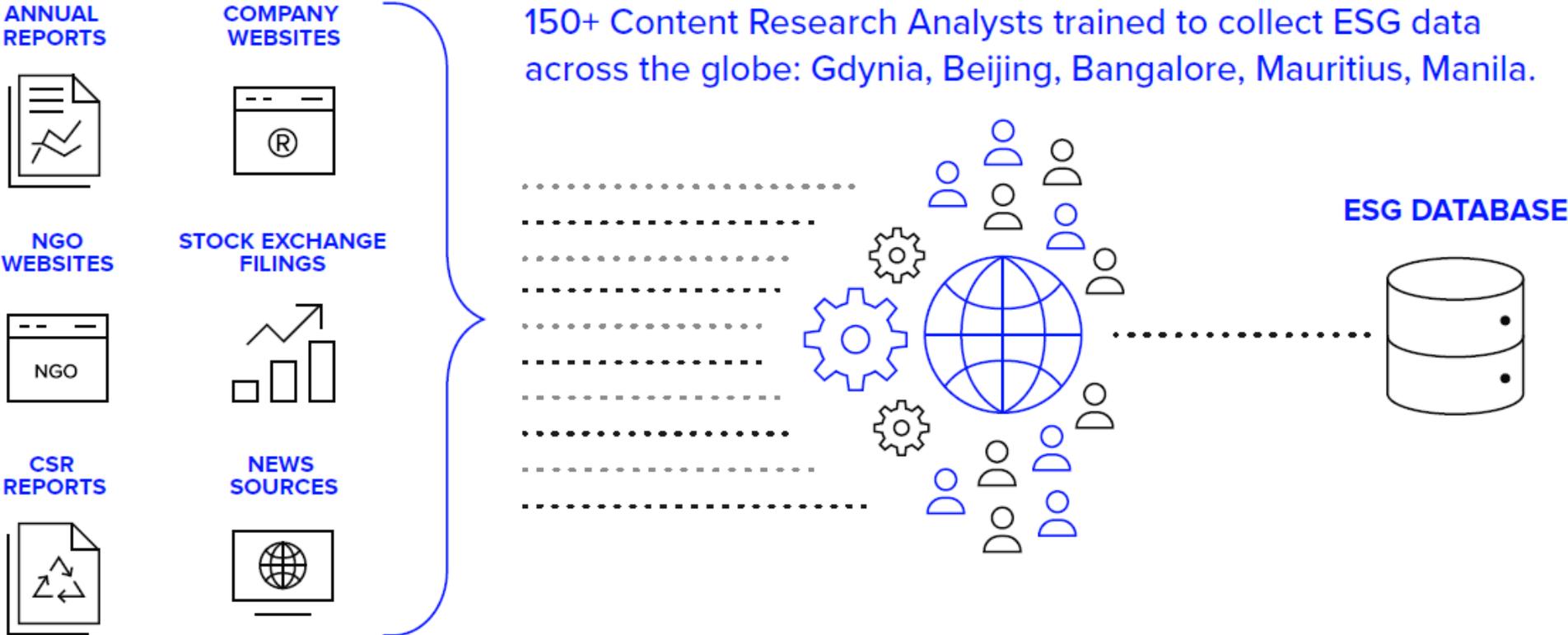
May 2020

The Financial and
Risk business of
Thomson Reuters
is now Refinitiv.

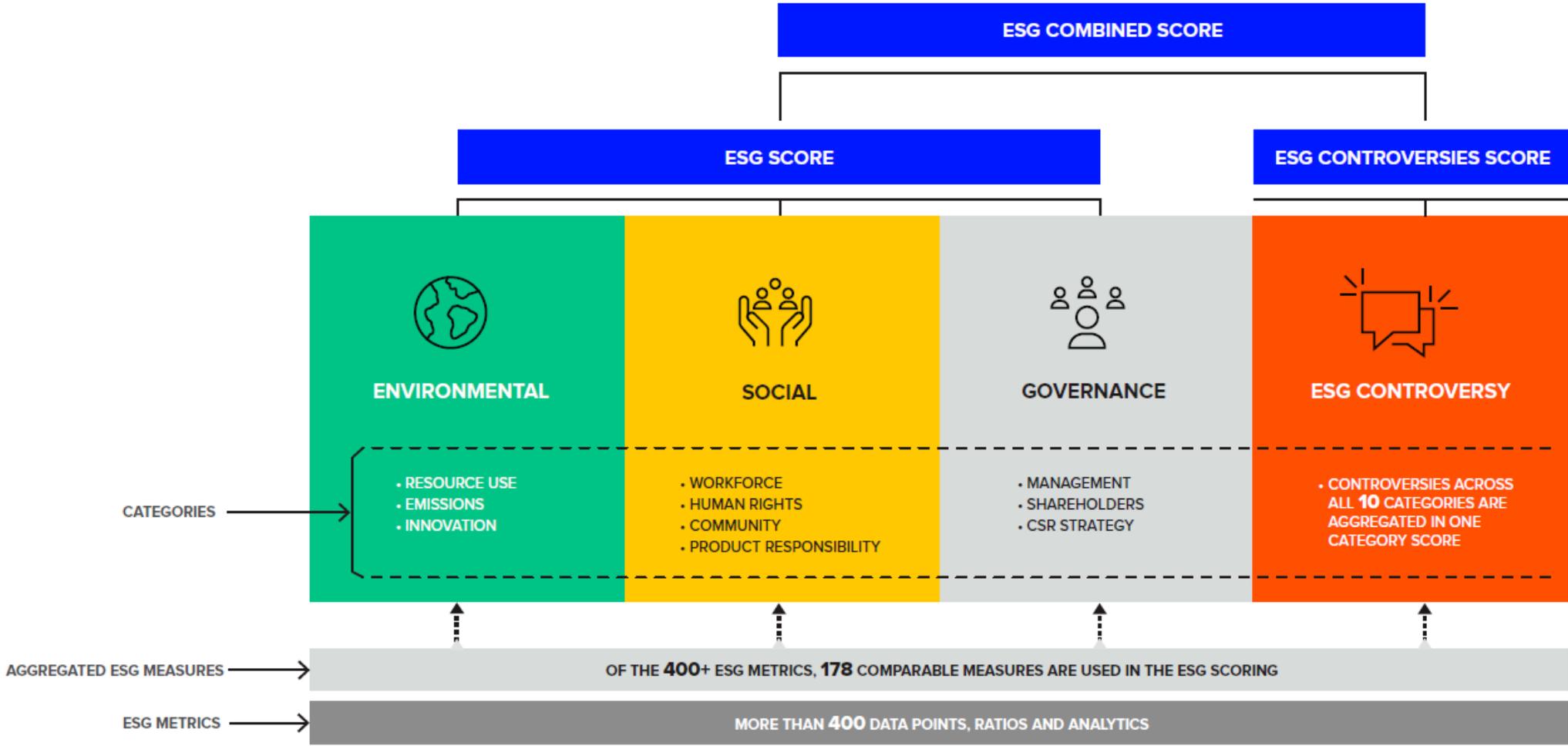


ESG Data Sourcing Workflow Focused on Data Quality

- We have the largest ESG operations team in the industry and the most scalable model
- ESG data is collected from publicly available sources
- Information is processed manually into verified and standardized data points

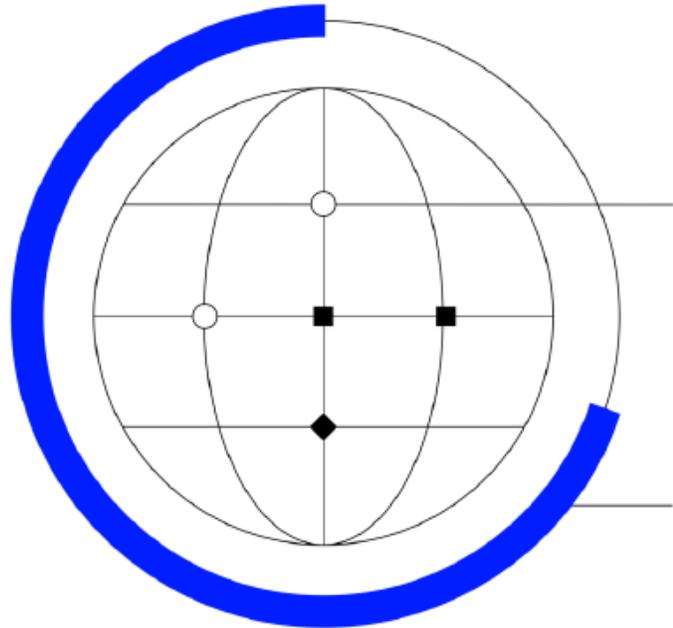


Core ESG Data Model



It is easier than ever to invest with an ESG lens

We have been providing the financial industry with ESG data and tools since the early 2000's. Refinitiv delivers the richest set of data in the industry which helps our customers assess ESG risks and opportunities.



76

countries

70%

of global
market cap

400+ ESG metrics

1.2M officers and directors

513,000 individual fixed
income securities

6,500+ equity issuers

Key ESG Differentiators

Raw Data

Transparency
and Auditability

Company
Coverage

Data History

Objective Data

Scoring
Customization

Integration

Materiality

Materiality

An increasing number of companies make sustainability investments, and an increasing number of investors integrate sustainability performance data in investment processes.

Whilst there are many things that the investment community has to think about when trying to introduce this relatively new element into their businesses (not least acquiring data, designing and writing frameworks, attracting investor capital, employing specialists), working out what an ESG score even means for a company is one of the toughest.

Working out whether the scoring for any given instrument is representative or material is tougher still.

Materiality - Corporates

- 1. Assess what Materiality means for you.** Is every issue important?
- 2. Be driven by materiality** - once materiality is at the heart of what you do, companies will react and refocus their resources and time (most importantly cash) to these topics.
- 3. Create Materiality-Driven Reporting** - Report on your ESG performance with a focus on material issues.
- 4. Operationalize Materiality-Driven Stakeholder Engagement** - Disclosure is important, but it is equally important to engage in a year-round dialogue with key stakeholders on ESG performance and progress..

ESG in a distressed Sector?

Skeptics have voiced their opinion that some portfolio managers with stocks heavily weighted toward ESG metrics may have done well this year just because ESG stock selection kept them out of the energy sector.

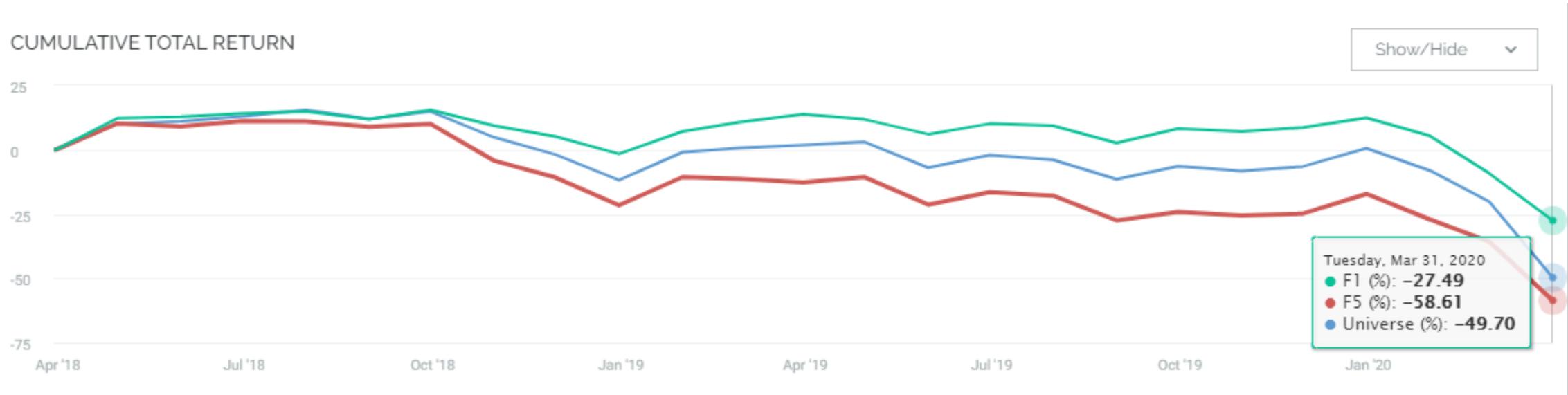
However....

That's not a viable option for institutional fund managers running a sector-neutral strategy or long-only with minimum and maximum sector weight constraints. For them, mitigating risk within their sector exposure is the alternative.

ESG in a distressed Sector?

The spread for the S&P 1200 energy sector was 31.12 percentage points – a meaningful difference in returns. Additionally, the top quintile (best ranked 20% of the index sector) outperformed the equal-weighted returns of the sector constituents and the bottom quintile underperformed.

Exhibit 1: S&P 1200 Energy between the top and bottom quintile Sector Returns March 30, 2018 – March 31, 2020

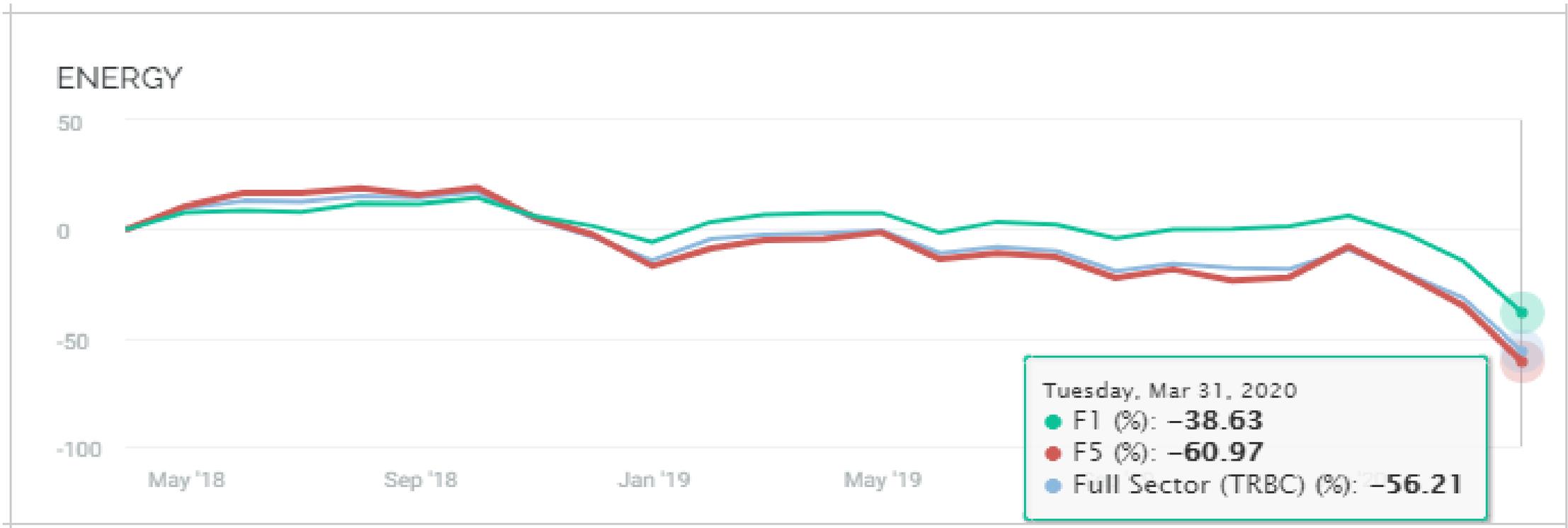


Source: ESG Scores from Refinitiv, QA Point from Refinitiv Powered by Elsen

ESG in a distressed Sector?

We also found good results using a larger universe within a global index of stocks. Using the TR Global index, the spread of cumulative returns among the top and bottom set of stocks was 22.34 percentage points.

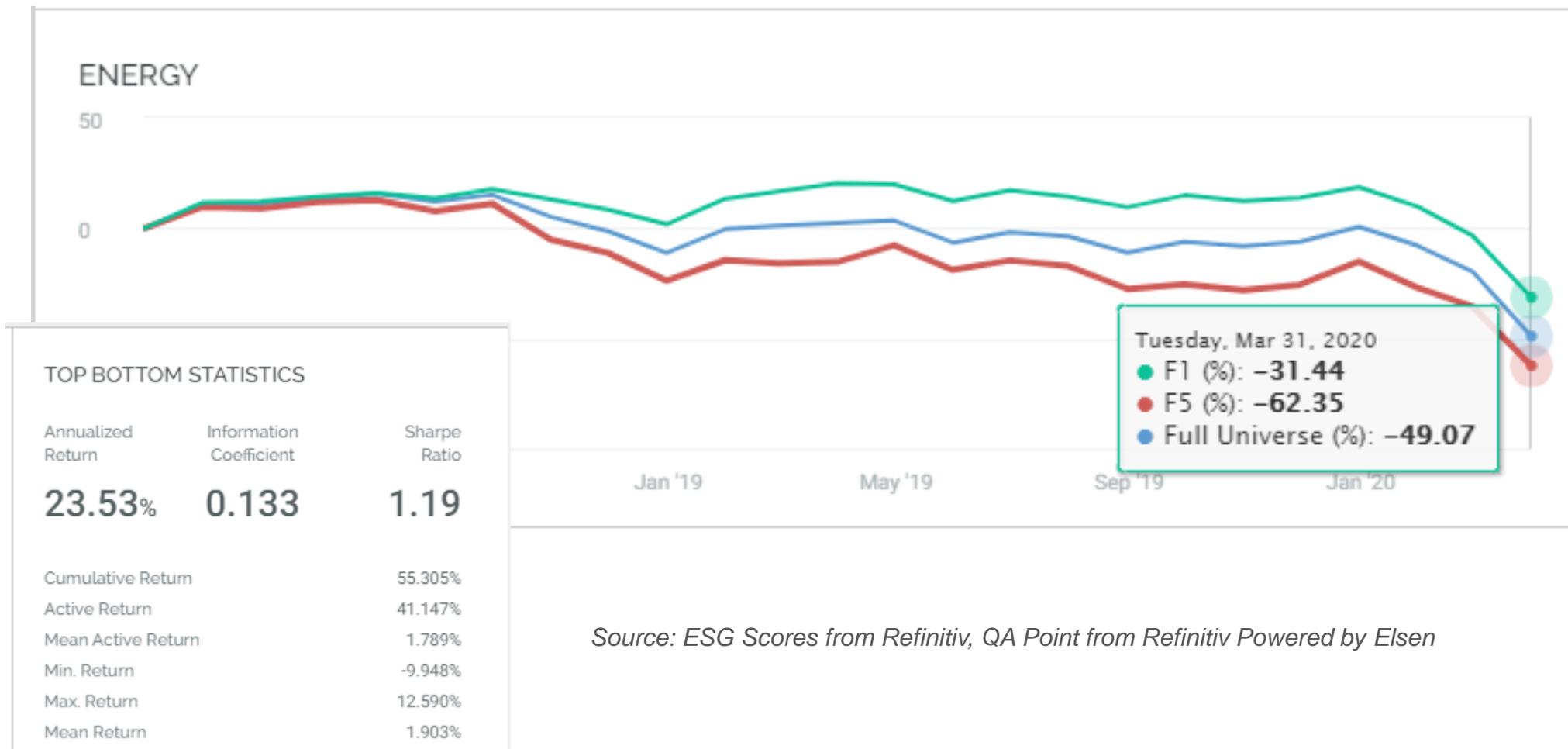
Exhibit 2: TR Global Energy Sector Returns March 30, 2018 – March 31, 2020



Source: ESG Scores from Refinitiv, QA Point from Refinitiv Powered by Elsen

ESG in a distressed Sector?

Exhibit 3: S&P 1200 Energy Sector – Emissions Score Returns March 30, 2018 – March 31, 2020



ESG in a distressed Sector?

Consider a couple of individual energy companies as examples, drilling into the details of their ESG component scores.

Looking at individual U.S. energy companies ranked back in March 2018, Arch Coal ranked in the bottom 20%, or in the chart below, at Fractile 5.

Exhibit 4: Arch Coal ESG Rank, March 30, 2018

Name	Ticker	EID	CUSIP	ISIN	SEDOL	TRBC Sector ▲	Country	Fractile
ARCH COAL 'A'	ARCH	1011163235	039380407	US0393804077	BYYHNV6	Energy	United States	5
EXTRACTION OIL & GAS	XOG	1011163236	30227M105	US30227M1053	BZ0CD34	Energy	United States	5
PENN VA.	PVAC	1011164682	70788V102	US70788V1026	BZCD9S2	Energy	United States	5
INTERNATIONAL SEAWAYS	INSW	1011164773	Y41053102	MHY410531021	BYX60M4	Energy	United States	4
C&J ENERGY SVS. DEAD - DELIST.31/10/19	CJ	1011166651	12674R100	US12674R1005	BD8PMN4	Energy	United States	3
TECHNIPFMC	FTI	1011166753	G87110105	GB00BDSFG982	BDSFG98	Energy	United States	3
NEXTIER OILFIELD SOLUTIONS	FRAC	1011166788	48669A108	US48669A1088	BDGV4C7	Energy	United States	5
JAGGED PEAK ENERGY DEAD - DELIST.11/01/20	JAG	1011167130	47009K107	US47009K1079	BDRW1M8	Energy	United States	5
PROPETRO HOLDING	PUMP	1011169343	74347M108	US74347M1080	BYXR9C0	Energy	United States	5
PEABODY ENERGY	BTU	1011170720	704551100	US7045511000	BDVPZV0	Energy	United States	1

Source: ESG Scores from Refinitiv, QA Point from Refinitiv Powered by Elsen

ESG in a distressed Sector?

Examining its ESG details, Arch Coal now has an ESG Combined Score of D+, the same as it held two years ago at the start of our backtest period. It received low scores across all major Environmental, Social and Governance Pillars and for Emissions. Its Controversies Score also declined in the most recent period.

🏆 - Scoring Measure	🏠 - Industry Scoring Mea...	2019	2018	2017
Period End Date		2019-12-31	2018-12-31	2017-12-31
ESG Report Auditor Name		–	–	–
ESG Period Last Update Date		Apr 9, 2020	Apr 11, 2020	Apr 11, 2020
ESG Combined Score ⓘ		D+	D+	D+
ESG Score ⓘ		D+	D+	D+
Environment Pillar Score ⓘ		D	D+	D
Social Pillar Score ⓘ		C-	C-	C
Governance Pillar Score ⓘ		D	D	D
ESG Controversies Score ⓘ		C+	A+	A+
▼ Resource Use ⓘ	🏆	D-	D-	D-

🏆 - Scoring Measure	🏠 - Industry Scoring Mea...	2019	2018	2017
Period End Date		2019-12-31	2018-12-31	2017-12-31
▼ Emissions ⓘ	🏆	D-	D	D-

Source: Eikon by Refinitiv

ESG in a distressed Sector?

Its last 1-year price change was a decline of -63.64%, compared to -8.01 for the S&P 500. Year-to date, it has lost 54.25% of its market value.

Exhibit 6: Arch Coal 1-year Price Chart



Source: Refinitiv Datastream

ESG in a distressed Sector?

In contrast, Hess Corp. received high marks across all major ESG Pillars and for Emissions.

Exhibit 7: Hess ESG Scoring Measures View

- Scoring Measure	- Industry Scoring Mea...	2018	2017
Period End Date		2018-12-31	2017-12-31
ESG Period Last Update Date		Apr 9, 2020	Apr 9, 2020
ESG Combined Score		A-	A-
ESG Score		A-	A-
Environment Pillar Score		A-	B+
Social Pillar Score		A	A-
Governance Pillar Score		A-	A-
ESG Controversies Score		A	A+
▼ Resource Use		A+	A+

- Scoring Measure	- Industry Scoring Mea...	2018	2017
Period End Date		2018-12-31	2017-12-31
▼ Emissions		A+	A

ESG in a distressed Sector?

Compared to the 64% loss in market value that Arch Coal has suffered, Hess has declined relatively less, at -44% over the last year. It also outperformed ARCH year-to-date by nearly 10 percentage points.

Exhibit 8: Hess Corp. 1-year Price Chart



Source: Datastream by Refinitiv

Conclusion

Besides helping align portfolio construction to the values individual investors are increasingly seeking, ESG may also aid portfolio managers in avoiding downside risk in the security selection process. From a risk mitigation perspective, focusing on a sector-specific scoring measure such as Emissions for energy companies, shows even greater promise. Based on this study, it may be especially effective when a sector undergoes a sudden market shock.

Green Crime

What is Green Crime?

Green Crime involves illegal activity that not only [directly harms the environment](#) but threatens our wildlife, impacts business supply chains, and poses a danger to security and stability around the world.

The consequences of Green Crime are far reaching, and it is gaining the attention of law enforcement agencies, regulators and, more recently, the technology sector.

It's time to get serious about the threat to business and security.

In addition to environmental crime and wildlife trafficking, Green Crime also includes the flouting of regulations designed to prevent harm to the environment. As such, it is closely linked to corruption, organized crime and money-laundering. It impacts supply chains, poses a danger to security around the world, and it threatens our ability to meet the sustainability goals set by the UN.

Green Crime

A growing transnational threat...

Green Crime is a global 'industry' and environmental crime is estimated to be worth up to \$258 billion a year* with wildlife crime alone one of the top five most lucrative illicit activities after illegal drugs, human and weapons trafficking.

The regulatory response...

Regulatory bodies are also acknowledging the threat. The European Union has included environmental crime as a predicate offence under the 6th EU Anti-Money Laundering Directive (6AMLD). And the new Financial Action Task Force (FATF) priorities for 2020 will focus on the illegal wildlife trade...

Green Crime

Disrupting the Green Crime networks through technology and data...

These criminal networks often use legal business structures and complex business ownership models to obscure their illicit activity.

Their ability to do this is often made easier by lax approaches to due diligence. Our own research shows that more than 40%** of companies do not adequately screen third-party relationships. Green criminals are effectively hiding in plain sight.

But formidable resources using vast data sets are being created to help fight back. They enable us to unravel complicated ownership structures, analyse network connections, and screen entities in line with regulations across the globe.

Predicting the future

As a company, we are partnering with other organizations to create powerful tools to help disrupt criminal networks. We can now unwrap ownership hierarchies across more than 200 countries, unlocking more than 100 million connections and screen the associated entities for potential risks, including those relating to Green Crime.