

An aerial photograph of a man and a woman in a wooden boat on clear, turquoise water. The man is at the stern, smiling, and the woman is at the bow, also smiling. The water is so clear that the seabed is visible. A green line graphic separates the image from the text on the right.

FI/INSTITUTE

Future Investment Initiative Institute

Impact
on Humanity

Inclusive ESG Framework and Scoring Methodology for Emerging Markets

May 2022

Overview Deck

FII Institute is a global non-profit with ESG in its DNA, an investment arm and one agenda – **Impact on Humanity**

Inclusive ESG Initiative

- FII Institute inaugural ESG Event (April 2021)
- Published ESG Impact Report and announced the Inclusive ESG Initiative at FII 5th Edition in Riyadh (October 2021)
- Engaged EY to support the development of the Inclusive ESG Framework and Scoring Methodology (January 2022)
- Published 2nd ESG White Paper (May 2022)
- Hosted the Inclusive ESG for Emerging Markets Regional Summit in London on May 20th, 2022

Emerging Markets receive only a fraction of global ESG Funds

Emerging Markets (EMs) are the growth engines for the future (86% of the world's population and ~58% of global GDP*) but receive only a small proportion of global ESG funds

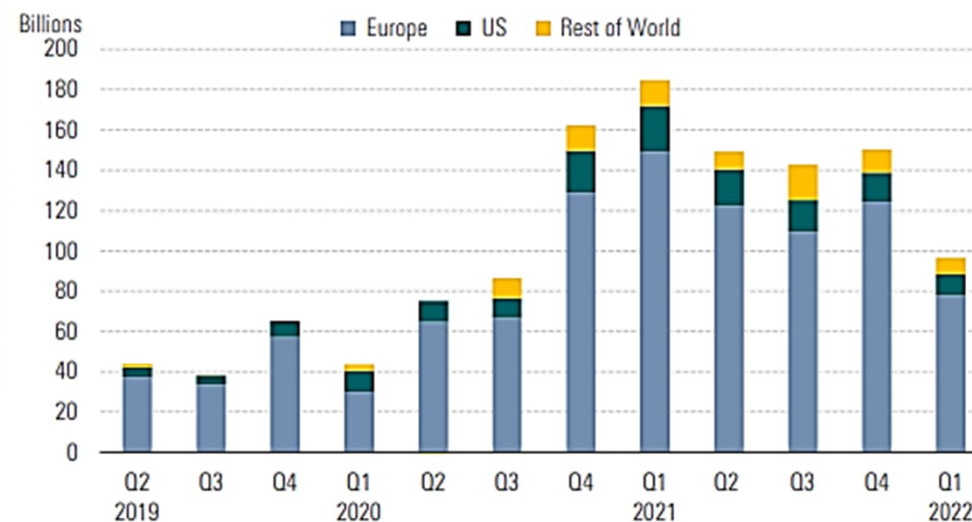
ESG is the fastest rising asset class, however, flow of global ESG funds is limited to **a handful of developed economies...**

At the same time, EMs have a **massive ESG funding gap.**

SDG funding gap in low-income countries now stands at **\$4.2T** (OECD).

(* by PPP – IMF 2020)

Emerging economies attract less than 8% of global ESG capital pool



ESG Capital flow in "rest of world" is also mainly directed to specific advanced economies (China, Taiwan, South Korea etc.)

Data sourced from Morningstar global ESG funds flow report 2022

Investors face common challenges, highlighting a need for an unbiased EM focused ESG analysis

“ ESG scoring is approached by each rating provider differently, hence divergent ratings for the same company

“ ESG Scoring / Rating should be free from biases (size, country etc.)

“ Companies should not be penalized on the basis of poor signposting of their ESG performance

“ Country risk lens tends to put better performing EM companies at a weaker starting position

“ Management's intent and performance track record are not fully accounted for in current ratings

“ Emphasis on tangible performance improvements can improve the credibility of ratings

20+

Interviews with leading Institutional Asset Owners, Global Investment Banks, and leading NGOs in the ESG and sustainability fields

The Inclusive ESG Scoring Methodology provides a fairer score which values performance improvement more than breadth of disclosure

Mainstream rating agency KPIs are not relevant to EM conditions, stress more on disclosure and less on YoY performance improvement. This creates bias.

Inclusive ESG removes bias with an objective analysis based on most material KPIs to EM conditions, for each sector. This is what Investors are looking for.



Key differentiating factors – what makes this methodology stand apart

1

Focus on most material KPIs for EM: Inclusive ESG Scoring deploys 16 themes and 96 KPIs that regulators, companies and experts judge as most material

2

Objective ESG analysis based on “what good looks like for EM”: KPIs are designed considering raw data medians for leading EM companies, drawing on prevalent performance thresholds

3

Emphasis on delivering change, instead of volume of data disclosed: Across KPIs, strong consideration is given to YoY performance improvements, rather than disclosure on various policy and systems

4

Higher emphasis on sectoral challenges rather than country risk: This levels the playing field for high performing companies in each sector to fairly compete against their DM counterparts

Data Sample: 34% of EM corporates received a higher Inclusive ESG score than standard ratings.

The Inclusive ESG Scoring Methodology is designed to create a level playing field for EMs

Built on what exists, not reinventing the wheel

- Aligned with global ESG taxonomy
- Aligned with ESG priorities of investors



Design parameters reflect EM conditions and maturity

- Themes and KPIs that matter the most to EMs
- KPI weights relate to “what good looks like for EMs”

Design principles are a reflection of continuous Investor feedback

- Companies' track records and management intent should be credited
- ESG scoring should reflect the actual operating conditions for EMs

Design overview of the Inclusive ESG Scoring Methodology

Design considerations

- 1 Selection of EM-Specific ESG Themes**
 - Built on ESG aspects considered important by DFI, EM regulators and EM companies
- 2 KPI Selection based on EM operating thresholds**
 - KPI thresholds are calibrated with EM companies across different sectors based on **“what good looks like for EMs”**
- 3 Adjustment for Sectoral Materiality**
 - Ability to incorporate investor specific bespoke materiality definitions and weighting
- 4 Adjustment for Country Influence**
 - Rewards EM company efforts to contribute to the National Developmental Agenda (SDGs)

Composite Inclusive ESG Score

Generates individual scores and a final composite ESG score on a scale of 0-100

Scoring process

Level 1 Scoring

How does an EM company perform on selected KPIs?



Level 2 Scoring

How does an EM company perform on topics material to its sector and country's priority topics?



Level 3 Scoring

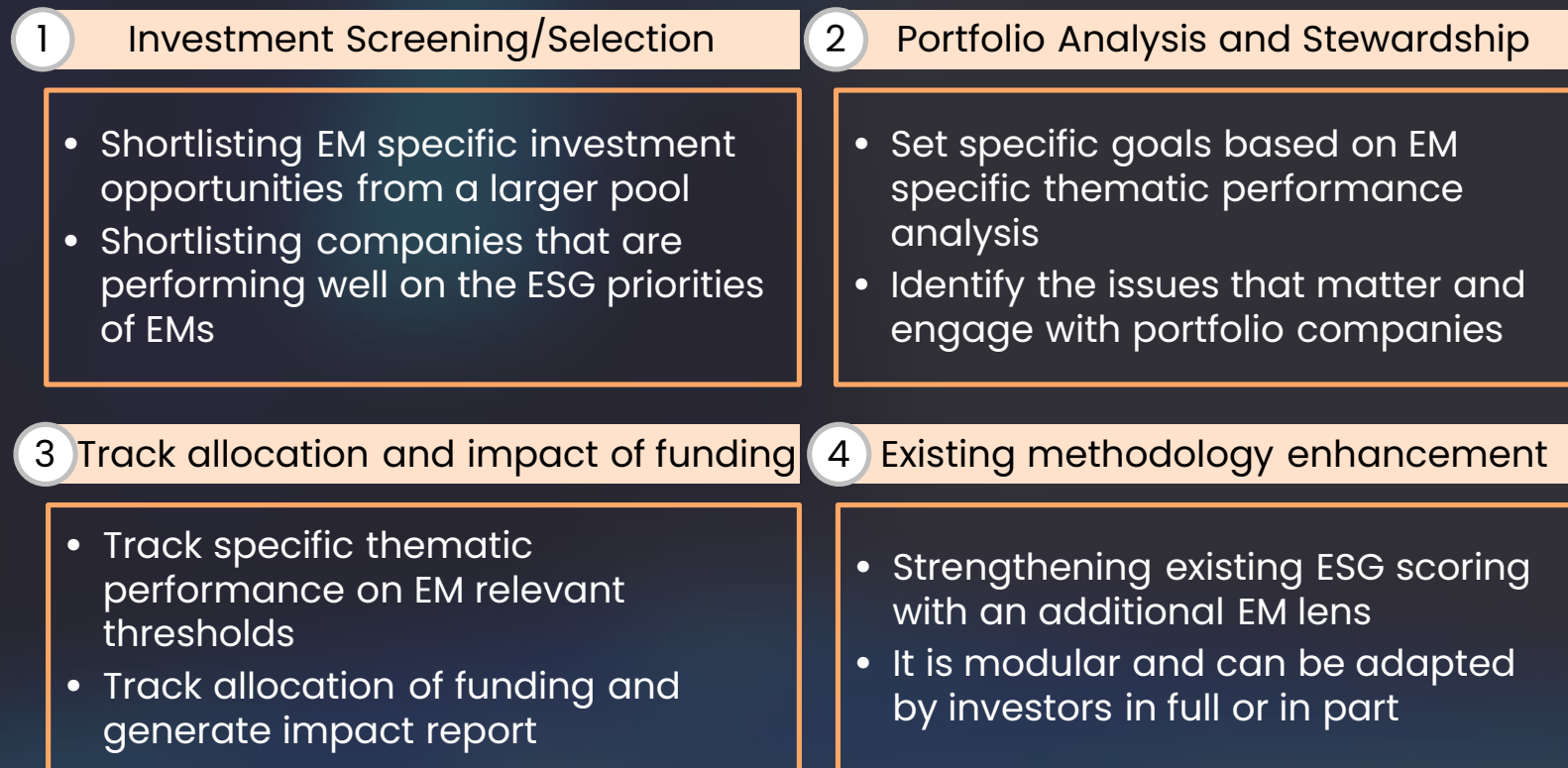
Final score on a scale of 0-100

Use Cases: Investors can leverage the Inclusive ESG Scoring Methodology to strengthen ESG investment decisions in EMs

Target Stakeholders





Potential Use Cases



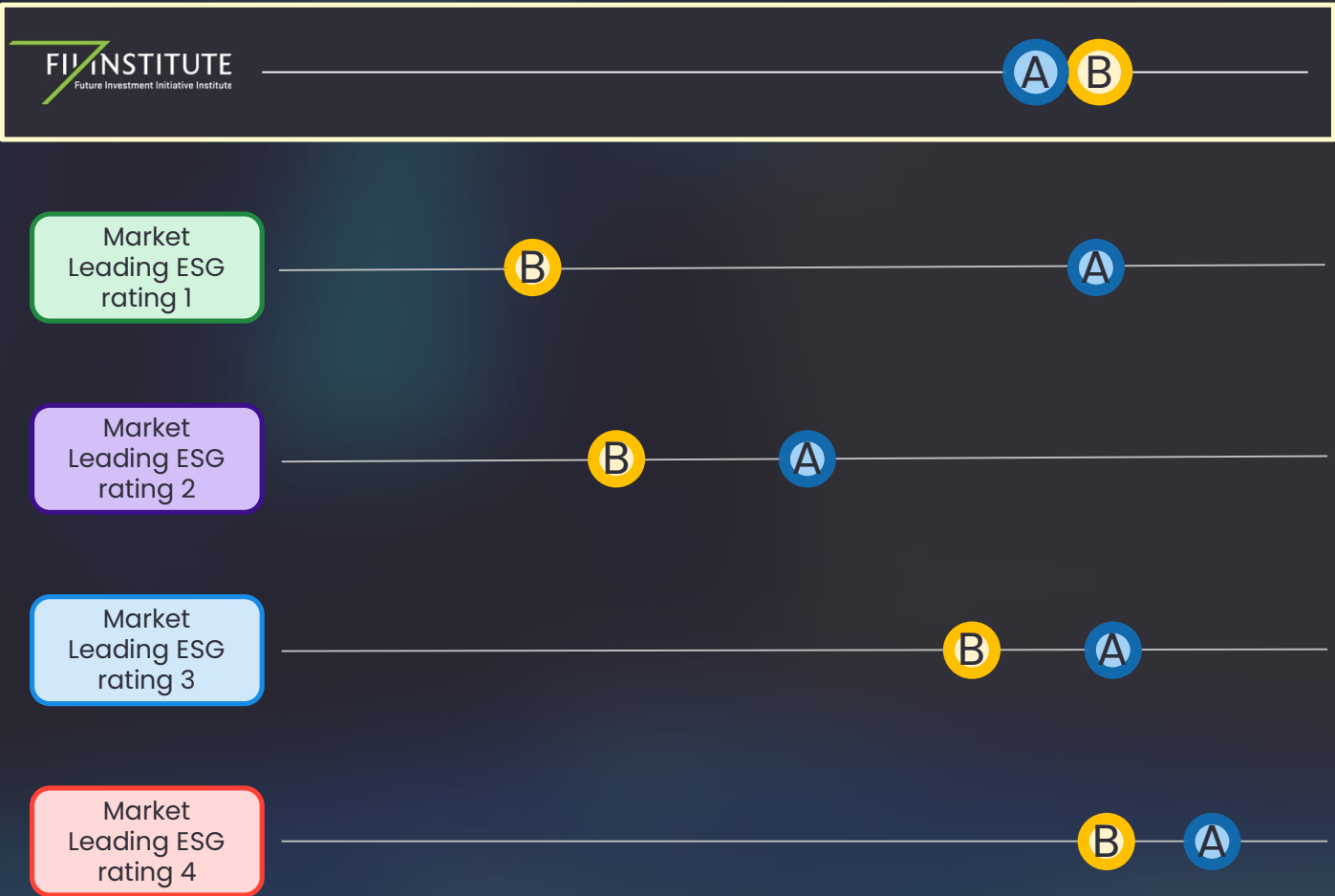
*Private Equities and Venture Capitalists firms

Case Study 1: The Inclusive ESG Scoring Methodology provides a fair and contextually relevant assessment

Two sister companies from EM and DM were assessed through traditional ratings and FII Institute.


| Company | Details |
|--|--|
| <div>A</div>  | Leading France based construction company, operating in more than 120 countries |
| <div>B</div>  | Leading Indian MNC construction company, amongst world's top 5 |

Applying relevant lenses, suitable for EM and DM, provide a nuanced and more company weighted result

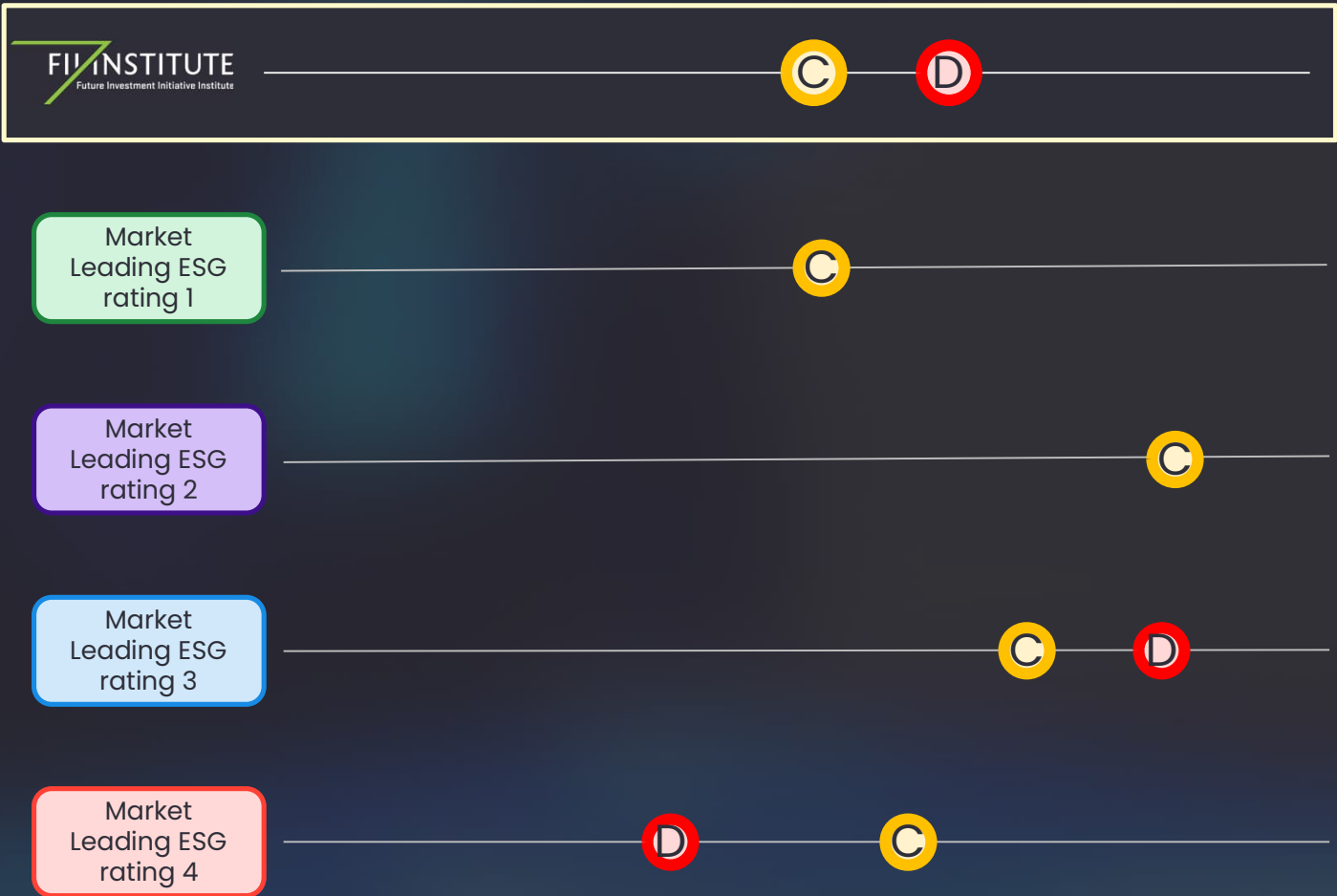


Case Study 2: The Inclusive ESG Scoring Methodology provides comparison of EM peer companies

Two counterpart companies from EM markets were assessed through traditional ratings and FII Institute.

| Company | Details |
|--|---|
| C  | Telecommunication market leader in India |
| D  | Telecommunication market leader in Kenya |

The Inclusive ESG Scoring Methodology allows you to create a comparable group of EM peers



The current model of Inclusive ESG Scoring Methodology is successfully tested and reasonably validated, now its ready for adoption



The technical package is available online at FII Institute and includes:

- Detailed technical design document
- Case study and use case document
- Excel based – model scoring worksheet
- Validation report (non-exhaustive testing outcome)



ESG Focused Publications by FII Institute

PUBLICATIONS

FII Institute has released a group of publications covering ESG specifically and sustainability broadly



Select Publications on Sustainability by FII Institute