What story is your sustainability information telling investors?

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ABOUT MSCI ESG RESEARCH

MSCI ESG Research is the world’s largest provider of Environmental, Social and Governance (ESG) data and research¹

We work with 47 of the top 50 global asset managers² - over 900 clients in total including 125 asset owners

Global staff of over 250 dedicated full time to ESG business, including 150+ ESG analysts³

Over 40 years experience in ESG (IRRC, KLD, Innovest, GMI Ratings)³

MSCI Inc. is the world’s largest provider of ESG indexes⁴ with over 700 ESG Equity and Fixed Income Indexes

¹ By client coverage and staff based on public information produced by Sustainalytics, EIRIS, Trucost, as of February 2016
² Based on P&I AUM data as of Dec 2014 and MSCI clients as of December 2015
³ Source: MSCI ESG Research as of February 2016
⁴ By number of indexes and by assets tracking the indexes compared with publically available information produced by FTSE and S&P Dow Jones
We provide ratings on 6,000 companies (11,000 total issuers including subsidiaries) and more than 350,000 equity and fixed income securities globally.

MSCI ESG RESEARCH

- **ESG INTEGRATION**
  - ESG RATINGS
  - Values Alignment
  - Business Involvement Screening
  - NORMS & CONTROVERSIES SCREENING

**OUTPUT**

- Company, industry, and thematic reports
  - Portfolio analytics
  - Data feeds

**VALUES ALIGNMENT**

- **BUSINESS INVOLVEMENT SCREENING**
  - Equities: All publicly traded companies
  - Fixed Income: Over 500,000 Securities
  - Funds and ETFs: 21,000

**NORMS & CONTROVERSIES SCREENING**

- Equities: ACWI IMI (8,500 Issuers)
- Fixed Income: Over 300,000 Securities
- Funds and ETFs: 21,000

**SUSTAINABLE IMPACT METRICS**

- Equities: MSCI ACWI IMI (8,500 Issuers)
- Funds and ETFs: 21,000

For issuers who would like to receive a complimentary copy of their MSCI ESG Ratings report and/or would like to comment on their MSCI ESG Ratings company report, please contact: esg_corporate_communications@msci.com
BENCHMARKS FOR INSTITUTIONAL INVESTORS

Parent Index: MSCI ACWI Index

ESG Overlay

MSCI ESG Research

SCREENING
MSCI Global ex Fossil Fuels
MSCI SRI
MSCI ex Controversial Weapons

INTEGRATION
MSCI Global Low Carbon
MSCI Global Sustainability
MSCI Governance Quality

IMPACT
MSCI Global Environment
MSCI Sustainable Impact

ESG Category

Fixed Income: BARCLAYS GLOBAL AGGREGATE

Parent Index

Barclays MSCI SRI
Barclays MSCI Sustainability
Barclays MSCI Green Bonds

ESG Fixed Income Index Families

Barclays MSCI ESG Weighted
PUTTING ESG DATA IN CONTEXT:

UTILITIES CASE STUDY
UTILITIES KEY TRANSFORMATIVE DRIVERS

- **GHG Regulations**
  - Natural Gas
  - Energy Efficiency
  - Renewables

- **Energy Efficiency**
  - Smart Grid
  - Storage

- **Economics**
  - Supply/Demand
  - LCOEs

- **Capacity Factors**
  - Coal Decline
  - RE/Gas Increase

- **Asset Value**
  - Impairments
  - Retirements

- **New Market Entrants**
  - Software
  - Energy Storage
# MSCI ESG Rating (AAA-CCC)

## Environment Pillar (0-10)
- Climate Change
- Water Stress
- Energy Efficiency
- Product Carbon Footprint
- Financing Environmental Impact
- Climate Change Vulnerability
- Natural Capital
- Pollution & Waste
- Environmental Opportunities
- Carbon Emissions
- Water Stress
- Toxic Emissions & Waste
- Opportunities in Clean Tech
- Packaging Material & Waste
- Opportunities in Green Building
- Biodiversity & Land Use
- Opportunities in Renewable Energy
- Raw Material Sourcing
- Electronic Waste

## Social Pillar (0-10)
- Human Capital
- Labor Management
- Opportunities in Clean Tech
- Health & Safety
- Opportunities in Green Building
- Human Capital Development
- Financial Product Safety
- Supply Chain Labor Standards
- Responsible Investment
- Privacy & Data Security
- Insuring Health & Demographic Risk
- Product Liability
- Product Safety & Quality
- Chemical Safety
- Controversial Sourcing
- Stakeholder Opposition
- Access to Communication
- Access to Finance
- Access to Health Care

## Governance Pillar (0-10)
- Corporate Governance
- Corporate Behavior
- Board
- Pay
- Access to Finance
- Controversial Sourcing
- Anti-Competitive Practices
- Access to Health Care
- Opportunities in Nutrition & Health
- Opportunities in Green Building
- Opportunities in Renewable Energy
- Financial Product Safety
- Financial System Instability
- Accounting
- Corruption & Instability
- Responsible Investment
- Insuring Health & Demographic Risk
HOW DO WE ASSESS THE IMPACT ON COMPANIES?
KEY ISSUE ASSESSMENT

Level of Exposure
Business Activities
% of assets from carbon-intensive business lines
Regulatory Risk
% of assets from countries impacted by GHG regulations

Management Capacity
Policies & commitments
KPIs (GHG emissions)
Reduction targets
Emissions-control technologies

EVALUATE MANAGEMENT STRATEGY IN THE CONTEXT OF RISK EXPOSURE
FINAL BENCHMARK REFLECTS RISK MANAGEMENT AND EXPOSURE

Source: MSCI ESG Research; Quartiles set as of December 31, 2015.
REGULATORY RISKS: CARBON REGULATIONS

USA
28% reduction by 2025 relative to 2005 baseline.

EU
40% reduction by 2030 relative to 1990 baseline.

APAC
China: 60% reduction per unit GDP by 2030.
Japan: 26% reduction per unit GDP by 2030.

Brazil
43% reduction below 2005 levels by 2030.

South Africa
398-614 mt CO2e cap by 2030.

India
33-35% reduction per unit GDP by 2030.

Data as of Dec 2015
BUSINESS ACTIVITIES: FUEL MIX IS KING

Energy Mix (Fuel Type)

Asset Location

Risk exposure

Note: As of April 2016. Data as based on 2014 performance year.
MANAGING CARBON FOOTPRINT: CARBON EMISSIONS INTENSITIES BY POWER GENERATION

3-year Average GHG Intensity/Generation (LA) - Decreasing Trend, CAGR (RA) - Increasing Trend, CAGR (RA)

Note: As of April 2016. Data as based on 2014 performance year.

Sources: Company Reports, MSCI ESG Research. Intensities normalized by unit of power produced (MWh) and based on carbon emissions from power generation operations only. Companies with 20% or more of assets in natural gas T&D, intensities were based on Scope 1 emissions only.
CLEAN ENERGY: REALITY CHECK?

Listed equities in the MSCI ACWI Index may not be fully capturing all of the growth potential in the market.

Companies with the largest non-hydro renewable capacity accounted for roughly 44% of the aggregate coal capacity of MSCI ACWI Index constituents.


Sources: Company Reports; MSCI ESG Research. Data represent FY 2014.
Electric Utilities: Evaluation of Material Sustainability Issues

SASB’s research and prioritization starts with a broad set of sustainability issues

<table>
<thead>
<tr>
<th>Environment</th>
<th>Business model and innovation</th>
<th>Leadership and governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• GHG emissions</td>
<td>• Lifecycle impacts of products and services</td>
<td>• Systemic risk management</td>
</tr>
<tr>
<td>• Air quality</td>
<td>• Environmental and social impacts on assets and operations</td>
<td>• Accident and safety management</td>
</tr>
<tr>
<td>• Energy management</td>
<td>• Product packaging</td>
<td>• Business ethics and transparency of payments</td>
</tr>
<tr>
<td>• Fuel management</td>
<td>• Product quality and safety</td>
<td>• Competitive behavior</td>
</tr>
<tr>
<td>• Water and wastewater management</td>
<td>• Biodiversity impacts</td>
<td>• Regulatory capture and political influence</td>
</tr>
<tr>
<td>• Waste and hazardous materials management</td>
<td>• Energy management</td>
<td>• Materials sourcing</td>
</tr>
</tbody>
</table>

| Social capital                   |                                                                      |                                                                        |
|----------------------------------|                                                                      |                                                                        |
| • Human rights and community relations | • Access and affordability                                      | • Systemic risk management                                             |
| • Access and affordability       | • Customer welfare                                                  | • Accident and safety management                                      |
| • Customer welfare               | • Data security and customer privacy                                | • Business ethics and transparency of payments                         |
| • Fair disclosure and labeling   | • Fair marketing and advertising                                    | • Competitive behavior                                                |
| • Fair marketing and advertising |                                                                      | • Regulatory capture and political influence                          |

| Human capital                    |                                                                      |                                                                        |
|----------------------------------|                                                                      |                                                                        |
| • Labor relations                | • Fair labor practices                                               | • Systemic risk management                                             |
| • Fair labor practices           | • Diversity and inclusion                                            | • Accident and safety management                                      |
| • Diversity and inclusion       | • Employee health, safety, and wellbeing                             | • Business ethics and transparency of payments                         |
| • Employee health, safety, and wellbeing | • Compensation and benefits                                       | • Competitive behavior                                                |
| • Compensation and benefits     | • Recruitment, development, and retention                            | • Regulatory capture and political influence                          |
| • Recruitment, development, and retention | • Water and wastewater management                                  | • Materials sourcing                                                  |
Topics in the Electric Utilities Standard

Sustainability topics most likely to constitute material information in the industry

10 DISCLOSURE TOPICS

- Air Quality
- Water Management
- Coal Ash Management
- Community Impacts of Project Siting
- Workforce Health & Safety
- End-Use Efficiency & Demand
- Nuclear Safety & Emergency Management
- Grid Resiliency
- Management of the Legal & Regulatory Environment

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10-K Disclosures on Sustainability Topics

Boilerplate or industry-specific disclosures 59%; metrics are disclosed 44%
10-K Disclosures on Topics in Electric Utilities Industry
Further analysis of GHG and End-Use Efficiency topics to explore usefulness...

- Air Quality
- Water Management
- Coal Ash Management
- Community Impacts of Project Siting
- Workforce Health & Safety
- End-Use Efficiency & Demand
- Nuclear Safety & Emergency Management
- Grid Resiliency
- Management of Legal & Regulatory Environment

Legend:
- Red: No Disclosure
- Light Red: Boilerplate
- Grey: Industry-specific
- Dark Grey: Metrics

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Topic 1: GHG Emissions & Energy Resource Planning

100% disclosure

Majority report metric(s) in 10-K (75%)

- No GHG emissions among 27%
- Usefulness challenges among 40%

No Scope 1 disclosure
Summary

- No GHG emissions among 44%
- Usefulness challenges among 75%
- Contextual information surrounding GHG emissions
- Disclosure in voluntary sustainability reports
Ideal Corporate Disclosure on Sustainability Information
Material Info in Mandatory Filings and Relevant Info in CSR Reports

Relevant Information
- All environmental, social, and governance topics of interest

Material Information
- Sustainability factors likely to effect the financial condition or operating performance of a company

Alignment is key
(e.g., consistent use of the description “material”)

Stakeholders
Investors

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A True and Fair Representation of Performance?
Voluntary sustainability reports are not decision-useful for investors

A 2013 study of GRI A and A+ reports in the Accounting, Auditing & Accountability Journal found that “90 per cent of the significant negative corporate (social or environmental) events were not reported.”
Topic 2: End-Use Efficiency & Demand

High percentage of disclosures with metrics: 70%

But variation in metrics reported severely limits usefulness…
Topic 2: End-Use Efficiency & Demand
Wide variation in metrics reported severely limits usefulness

- Number of smart meters deployed in service area
- Number of smart meters expected to be deployed next year
- Capex on smart meters
- Expected capex on smart meters next year
- Number of customers with regulatory energy efficiency targets
- Progress in meeting energy demand reductions
- Revenue generated by energy conservation performance targets
- Future revenue opportunities created by energy efficiency performance targets
- Energy efficiency incentive awards
- Amount under recovered from energy conservation performance targets
- Energy savings resulting from energy conservation programs
- Energy savings resulting from demand side management programs
- Energy demand reductions required by regulations and percentage fulfillment
- Cost of energy efficiency and peak demand programs
- Regulated operations with decoupled rate mechanisms
- Recoveries from efficiency-related rate mechanisms
Lack of Common Language
Current communication on sustainability metrics simply inadequate

Why report?
What’s material to measure?
How to report?
Where to report?

Companies

Investors
Investors are Dissatisfied with Current ESG Disclosures
Investors lack the tools needed to integrate sustainability into investment decisions

Focusing specifically on US-listed companies, how satisfied are you with the information currently being provided by these companies on the following topics?

- How risks and opportunities are identified and quantified in financial terms
- Comparability of sustainability reporting between companies in the same industry
- Relevance and implications of sustainability risks/issues
- Key performance indicators related to each identified material issue
- Process used to identify material sustainability issues

Source: PwC
Sustainability Goes Mainstream, May 2014
Increasing Reporting Burden
Surveys create a burden for companies and provide little help to the market

Large-cap companies receive hundreds of information requests each year, leading to "questionnaire fatigue" and information asymmetry. Because questionnaires and surveys lack a materiality focus, they also add noise to the mix, masking what matters.

Information requests: 650+
Process: ~ 3 months
Employees involved: 75+
Benefit to company and its shareholders: ?

Example from General Electric, FY 2014
Current State of Disclosure in the 10-K on SASB topics
Reporting lacks consistency, comparability, industry-specificity

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Percentage Disclosed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Utilities</td>
<td></td>
</tr>
<tr>
<td>Infrastructure (80 companies)</td>
<td></td>
</tr>
<tr>
<td>Renewable Resources &amp; Alternative Energy (47 companies)</td>
<td></td>
</tr>
<tr>
<td>Consumption II (79 companies)</td>
<td></td>
</tr>
<tr>
<td>Consumption I (68 companies)</td>
<td></td>
</tr>
<tr>
<td>Resource Transformation (50 companies)</td>
<td></td>
</tr>
<tr>
<td>Services Sector (93 companies)</td>
<td></td>
</tr>
<tr>
<td>Transportation Sector (63 companies)</td>
<td></td>
</tr>
<tr>
<td>Non-Renewable Resources Sector (81 companies)</td>
<td></td>
</tr>
<tr>
<td>Technology &amp; Communications Sector (59 companies)</td>
<td></td>
</tr>
<tr>
<td>Financials Sector (63 companies)</td>
<td></td>
</tr>
<tr>
<td>Health Care Sector (58 companies)</td>
<td></td>
</tr>
</tbody>
</table>

75% of SASB disclosure topics are already being disclosed in the 10-K—but not effectively
SASB Helps You Cut through the Noise
Giving companies and investors a common language

- Financial Materiality
- Decision-Useful
- Cost Effective

- Transparency
- Benchmarking
- Accountability

Companies

Investors
The SASB Mission
Improved sustainability disclosure enhances market efficiency

SASB’s mission is to develop and disseminate sustainability accounting standards that help companies disclose material, decision-useful information to investors in a cost-effective way.

That mission is accomplished through a rigorous, transparent process that includes evidence-based research and broad, balanced stakeholder participation.

Facts about SASB

- Independent 501(c)(3) non-profit

- Develops standards for 79 industries in 10 sectors for use in mandatory filings such as the Form 10-K and 20-F
Strong Support for SASB Vision
SASB’s Board is informed by experience, character, and commitment

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Philanthropist, Founder of Bloomberg LP, and the 108th Mayor of New York City

Mary Schapiro – Vice Chair
Promontory Advisory Board Vice Chair
Former Chairman – SEC

Robert H. Herz
Former Chairman – FASB

Erika Karp
CEO – Cornerstone Capital Inc.

Shawn Lytle
President – Delaware Management Holdings, Inc.

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Member & Global Head of Public Affairs – KKR

Clara Miller
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Catherine Odelbo
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Kevin Parker
CEO – Sustainable Insight Capital Management

Aulana Peters, JD
Former Commissioner – SEC

Arnie Pinkston, JD
General Counsel, Allergan (Retired)

Curtis Ravenel
Global Head, Sustainable Business and Finance – Bloomberg LP

Jean Rogers, PhD, PE
Chief Executive Officer & Founder – SASB (Ex-officio)

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Edward D. White, JD
Managing Partner – Fahr LLC

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Senior Counsel – Cleary Gottlieb Steen & Hamilton

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CEO – CalSTRS

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“Material information” is defined by the U.S. Supreme Court as presenting a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the “total mix” of information made available.


Other sustainability disclosure frameworks use definitions of materiality that are broader and inclusive of the interests of additional stakeholders.
Designed for Integration into Mandatory Public Filings

An integrated reporting environment without regulation

US GAAP governs presentation of the financials

True and fair representation of performance on material factors

SASB Disclosure Topics and Metrics designed for integration into MD&A, risk factors, and other sections as appropriate
Robust Standards Designed to Yield Decision-Useful Information
SASB standards contain industry-specific disclosure topics, metrics, and guidance.

### Table 1. Material Sustainability Topics & Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse Gas Emissions</td>
<td>(1) Gross global Scope 1 emissions covered under a regulatory program; percentage by hydrogen resource.</td>
</tr>
<tr>
<td></td>
<td>(2) Amount of gross global Scope 1 emissions from: (1) combustion, (2) flared hydrocarbons, (3) process emissions, (4) directly vented releases, and (5) fugitive emissions/leaks.</td>
</tr>
<tr>
<td></td>
<td>(3) Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets.</td>
</tr>
<tr>
<td>Air Quality</td>
<td>(1) Air emissions for the following pollutants: NOx (excluding NO2), SOx, volatile organic compounds (VOCs), and particulate matter (PM)</td>
</tr>
<tr>
<td>Water Management</td>
<td>(1) Total freshwater withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress</td>
</tr>
<tr>
<td></td>
<td>(2) Volume of produced water and flowback generated; percentage (1) discharged, (2) injected, (3) recycled; hydrocarbon content in discharged water</td>
</tr>
</tbody>
</table>

**Reserves Valuation & Capital Expenditures**

**Description**

Estimates suggest that E&P companies are unlikely to be able to extract a significant proportion of their probable oil and gas reserves if GHG emissions are to be controlled to limit global temperature increases to 1.5 or 2 degrees Celsius. Companies with more carbon-intensive reserves and production activities are likely to face greater risks. Regulatory limits on GHG emissions, together with improved competing energy technologies, could lower or reduce the growth in global demand, and therefore in oil and gas products. Extraction costs could increase with regulations that put a price on carbon emissions and could affect the net present value of oil and gas reserves. Regulatory actions that are more stringent, or those focusing on industries with high emissions, could impair asset values substantially over time. Stewardship of capital resources and production decisions that take into account new regulations related to climate change mitigation actions can help prevent current asset impairment and enhance long-term asset value and creditworthiness.

**Accounting Metrics**

NR0101-22. Sensitivity of hydrocarbon reserve levels to future price projection scenarios and a price on carbon emissions.

.122 The registrant shall conduct an analysis of its reserves to determine how several factors affect its determination of whether the reserves are proved or probable.
“Sustained severe drought conditions could impact generation by hydroelectric plants, as well as fossil and nuclear plant operations, as these facilities use water for cooling purposes and for the operation of environmental compliance equipment”

Assured supplies of water are important…[we have] adequate water to meet [our] needs. However, [one region where we operate] has been experiencing drought conditions that may affect the water supply for the plants if adequate moisture is not received in the watershed that supplies the area. [We are] continuing to work with area stakeholders to implement agreements to minimize the effect, if any, on future operations of the plant. The effect of the drought cannot be fully assessed at this time, and [we] cannot predict the ultimate outcome, if any, of the drought or whether the drought will adversely affect the amount of power available, or the price thereof…

- (1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress
- Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations
- Discussion of water management risks and description of strategies and practices to mitigate those risks

Disclosure examples from FY 2013 annual SEC filings
Rigorous Process Drives SASB Standards

An iterative process focused on continuous improvement

- **UNIVERSE OF ESG ISSUES**
  - Sustainability Issues

- **Industry Research**
  - Average of 5 topics and 13 metrics

- **Industry Working Groups**

- **Vetting Evidence**
  - Standards Council
  - Sub-Committee on Metrics Quality

- **Public Comment**

- **Final Revisions**

- **Provisional Standard**
  - With ~ 30 issues

- Standards maintenance

- Ongoing
“Corporate Sustainability: First Evidence on Materiality,”
Working Paper by Mozaffar Khan, George Serafeim, and Aaron Yoon
*Harvard Business School, 2015*

Findings:

- Using SASB’s framework, Harvard researchers found that **firms with good performance on ‘material sustainability issues’** and concurrently poor performance on ‘**immaterial sustainability issues**’ enjoy the strongest financial returns.

- They also found that **80 percent of corporate disclosures on sustainability are immaterial**, having no correlation to financial performance.
Supporting the Market
SASB standards are supported by a host of tools and resources

- Technical Bulletins
- Standards Navigator
- Data Providers
- Research Briefs
- Materiality Map
- FSA Credential
- Mock 10Ks
- Guidance
  - Implementation
  - Engagement
  - Integration
SASB Advisory Partners
Supporting the consideration and application of SASB Standards
Accounting for a Sustainable Future
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