STATE STREET GLOBAL ADVISORS

Data: Breaking Down ESG's Final Barrier

Why Data Matters

When it comes to data about a company's ESG practices there are significant barriers to quality.

Currently, governments around the world don't require firms to report on most ESG data. Companies are left to determine for themselves which ESG factors are material to their business performance and what information to disclose.

With investors increasingly viewing material ESG factors as being critical drivers of a company's ability to generate sustainable long-term performance, asset owners and their investment managers need solutions to these data challenges.

The Problem with ESG Data

Lack of standardization and transparency in providers' data collection and scoring methodologies pose key challenges for investors.

ESG data providers generally develop their own sourcing, research and scoring methodologies.

As a result, the rating for a single company can vary widely across different providers. MSCI and Sustainalytics are two of the most widely used ESG data providers. But our research revealed a correlation of only 0.53 among their scores, meaning that their company ratings are only consistent for about half of the coverage universe.

These differing methodologies have real implications for investors. Investors are, in effect, aligning themselves with a provider's ESG investment philosophy in terms of data acquisition, materiality, aggregation and weighting.

By relying on an ESG data provider's score, asset owners are also taking on that provider's perspectives without a full understanding of how they arrived at those conclusions.

How SSGA's R-Factor™ Solves the ESG Data Challenge

To address these issues, we buit our own scoring system, R-Factor, with 3 key goals in mind:

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Bring greater transparency to the materiality considerations that drive ESG scores.	Develop ESG scores that are based on frameworks supported by a large number of investors.	Promote stewardship and incentivize greater disclosure of investor-relevant ESG information.

R-Factor is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes and inputs from four best-in-class data providers, and draws on our extensive stewardship and investment expertise.

R-Factor gives investors the ability to invest in ESG solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

R-Factor: A Transparent ESG Scoring System

R-Factor leverages commonly accepted transparent materiality frameworks that are supported by a large group of companies and investors to generate a unique ESG score for listed companies.

To maximize effectiveness, improve overall coverage and remove the biases inherent in existing scoring methodologies, the score is powered by ESG data from multiple best-in-class providers (Sustainalytics, ISS-Oekom, Vigeo-EIRIS, and ISS-Governance).

R-Factor scores will power our investment and client reporting capabilities, and be fully integrated into our stewardship program.

Putting Companies in the Driving Seat

The composite R-Factor allows for a global comparison of companies' ESG performance within a sector or industry.

Companies can improve their scores through better practice of, and disclosure on, industry-specific SASB topics, as well as better adherence to their applicable corporate governance code.

For companies, R-Factor offers clear guidance on which ESG topics to focus on and disclose to investors.

In doing so, this is the first ESG-scoring system to put companies in the driver's seat, allowing them to take the action needed to enhance their scores and improve investors' view of their ESG performance.

Right Data, Right Decisions

By investing in ESG solutions powered by R-Factor, investors can ensure their capital is being allocated to companies focusing on managing and mitigating financially material ESG risks.

Investing in an ESG scoring methodology that provides clear disclosure guidance to companies ultimately leads to better data and will allow ESG to be more accurately priced into financial markets — all of which leads to better ESG investment decisions.

We believe that R-Factor is the change needed for ESG to become an integral part of the financial system. We look forward to further exploring this innovation with you.

For more on R-Factor and our ESG investment capabilities, please contact your State Street Global Advisors Relationship Manager or visit ssga.com/esg for further information.