REPORT N.6

The Dow Jones Sustainability Indexes

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ABSTRACT

In a context characterized by a strong and active awareness towards the sustainability, it is a must to take in consideration and explain the Dow Jones Sustainability Indices (DJSI), one of the most renowned and long-lived ethic indexes. This family of indices evaluating the sustainability performance of publicly traded companies, are the longest-running global sustainability benchmarks worldwide and have become the gold standard for sustainability investing.

The remarkable history of the DJSI, which were launched in September 1999 as a landmark collaboration between Dow Jones Indexes (now S&P Dow Jones Indices) and SAM (now RobecoSAM), make us understand why it is the world's first ever global sustainability benchmark.

The DJSI provided one of the first opportunities to invest in a subset of global companies that are leading sustainability practices within their respective industries. This very stable and growing index allowed both investors and firms to pivot their investment portfolio toward a more sustainable and ethic vision. It is important to affirm that ESG-focused investors are interested in demonstrating the positive impact that their investing had on both society and the planet, by contributing to the achievement of international policy commitments.

We analyzed the performance of the index over time, noticing how the DJSI enabled investors to access the first global subset of leading sustainable companies, gathering firms characterized by best-in-class ESG practices within their respective industries and how the investment in this type of index has increased significantly the firm's share price, attracting the interest of long-term investors.

SUMMARY

INTRODUCTION

WHAT ARE THE DJSI?

The Dow Jones Sustainability Indices (DJSI) are a family of indices evaluating the sustainability performance of publicly traded companies. They are the longest-running global sustainability benchmarks worldwide and have become the gold standard for sustainability investing.

The objective of the indices is to provide investors with objective benchmarks for managing their sustainability investment portfolios: the DJSI allow the identification of companies that fulfil certain sustainability criteria better than the majority of their peers within a given industry and are thus best positioned to address unprecedented sustainability challenges for the future state of the world.

The DJSI family is comprised of three geographical breakdowns which encompass various indices

- DJSI World, consisting of DJS World, DJS World Enlarged and DJS Emerging Markets
- DJSI Regions, consisting of DJS Asia-Pacific, DJS Europe and DJS North America
- DJSI Countries, consisting of DJS Australia, DJS Korea, DJS Korea capped 25% and DJS Chile.

To address specific investor requirements, the DJSI index family includes ethical exclusion sub-indices that exclude companies engaged in certain activities widely considered as unsustainable.

WHO OPERATES THE DJSI?

The DJSI are operated under a strategic partnership between S&P Dow Jones Indices and RobecoSAM.

S&P Dow Jones Indices is responsible for calculation, marketing and distribution of the indexes. S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500 and the Dow Jones Industrial Average. It was formed in 2012 after the merger of Dow Jones Indexes and S&P Indices.

RobecoSAM is responsible for the component selections. RobecoSAM is an investment specialist focused exclusively on Sustainable Investing. It provides asset management, impact analysis and investing, sustainability assessments, as well as ESG data, ratings, and benchmarking.

HOW ARE THE DJSI CALCULATED?

The DJSI are based on an analysis of corporate economic, environmental and social performance, assessing issues such as corporate governance, risk management, branding, climate change mitigation, supply chain standards and labour practices. The trend is to reject companies that do not operate in a sustainable and ethical manner. It includes general as well as industry-specific sustainability criteria.

To be incorporated in the DJSI, companies are assessed and selected based on their long-term economic, social and environmental asset management plans. Selection criteria evolve each year and companies must continue to make improvements to their long-term sustainability plans in order to remain on the Index. Indexes are updated yearly, and companies are monitored throughout the year.

HISTORY OF A GLOBAL ICON

The DJSI were launched in September 1999 as a landmark collaboration between Dow Jones Indexes (now S&P Dow Jones Indices) and SAM (now RobecoSAM), becoming the world's first ever global sustainability benchmark. Today, there are over 37,000 sustainable indices available worldwide, and with a 60% increase in the number between 2017 and 2018 alone, the industry is rapidly transforming. Amid this proliferation of ESG benchmarking tools, the DJSI continues to make waves as the evolving global standard for benchmarking corporate sustainability performance, even two decades later.

A significant part of this sustained success is to be attributed to the quality of the sustainability research provided by SAM, still considered best-in-class.

In the belief that financial analysis is incomplete without extra-financial information, SAM was founded in 1995 as one of the world's first asset managers focused exclusively on sustainable investing. At the time, few companies disclosed their exposure to ESG issues. SAM analysts began contacting companies directly, via phone calls or written requests, to collect information on relatively undisclosed topics, such as company performance on greenhouse gases or human rights. However, such approach proved challenging and difficult to scale. Building on this initial ad-hoc research, the annual SAM Corporate Sustainability Assessment was later created, in what would soon become one of the most robust and well-established processes for measuring corporate sustainability performance in the world.

However, to get to that point, the relatively young Zurich-based asset management company needed the industrial clout of a globally recognized brand to get the largest companies in the world to willingly share this information. It was for this reason that the founders of SAM pitched to Dow Jones Indexes the idea of a global sustainability index built upon the rich ESG data that would emerge. The result was a powerful partnership to create a financial product that would radically transform the sustainable investment landscape, ultimately giving rise to the Dow Jones Sustainability Indices in 1999.

SAM founder, Reto Ringger, recently said in a speech at the International University of Geneva about these early discussions with Dow Jones Indexes that, "it was an exciting time, as nobody had measured the sustainability performance of companies before."

In the beginning, just 280 companies provided SAM with data, with 228 companies selected for inclusion in the first iteration of the index. At first, it was a small, self-selecting group of sustainability pioneers. Transparency was poor, and it was hard to imagine that it would develop into the leading benchmark for corporate sustainability that it is today. Twenty years later, nearly 1,200 companies actively participate in the SAM CSA, competing for one of the top spots in the world-renowned DJSI. Inclusion in the index is often regarded as a badge of honor and many companies make responding to the CSA – which can take hundreds of hours to complete – a priority for their business. The CSA, which has become synonymous with the DJSI, is seen as the most comprehensive assessment of ESG indicators. In 2019, the CSA was recognized for being the highest quality of 11 leading ratings providers in SustainAbility's Rate the Raters 2019: Expert Views on ESG Ratings.

In January 2020 SAM was acquired by S&P Global. The transaction included the CSA platform and the transition of the SAM ESG Ratings and Benchmarking teams to S&P Global.

Over the past two decades, the SAM CSA and the DJSI have helped companies to bridge the gap between their sustainability journeys and investor demands for transparency amid the rapidly evolving sustainability landscape. For investors, the DJSI provided one of the first opportunities to invest in a subset of global companies that are leading sustainability practices within their respective industries. Today, there are approximately USD 4.5 billion in assets in funds or other passive products tied to the DJSI.

The impact of the DJSI on the behavior of companies and the sustainable investing landscape is widely acknowledged within sustainability circles. In August 2019, a group of academics from HEC Paris researched and confirmed the value of a company being included in the DJSI in a paper titled Do Investors Actually Value Sustainability Indices? The research concluded that companies that are added to or remain within the DJSI "attract more attention from financial analysts" and that this also "lead(s) to an increase in the percentage of shares held by long-term investors indicative of a trend that professional investors are paying more attention to CSR-visible firms over time." Additional research conducted on the Dow Jones Sustainability North America Index in 2018 also concluded that a company's removal from or addition to the index has a statistically significant impact on its stock price, either negatively or positively, respectively.

Indeed, the idea that long-term investors would flow more capital into the leading sustainability performers within the DJSI was a key selling point from that initial pitch to create the world's first sustainability benchmark more than 20 years ago. However, at that time, the concept of ESG investing did not even exist. As a ground-breaking and novel contribution to the financial markets, the DJSI has had a profound impact not just on corporate sustainability performance but also, to some extent, on the way many investors think about and ultimately define company value.

SOME QUOTES FROM USERS

"We choose the DJSI indices as the benchmarks for our sustainable index funds because of the quality of the sustainability research provided by SAM and the strong recognition of the indices in the market...Today, the research is still considered 'best in class'; and the performance of the indices is strong."

- Paul Broholm, Director of Institutional Solutions, InsingerGilissen

"Sustainable investment continues to be a focus for our clients, and we have managed iShares ETFs that track DJSI indices for many years. DJSI indices allows us to provide investors with access to opportunities for sustainable, long-term value creation, and we look forward to many more years of collaboration."

- Serkan Batir, Head of Portfolio Engineering Team in Germany & Switzerland, BlackRock

"We are proud that we have made and stayed in the indices for 20 years in a row. The CSA emerged as the first approach to measure the ESG performance of global companies in a holistic way. It helped us to reflect on our own strengths and potential, as well as to better understand material sustainability trends and expectations."

- Anja Klieber, Senior Manager, Investor Relations, ESG, adidas

"The CSA has definitely been part of a fundamental change as sustainability became integrated in our business... As we continue to develop our sustainability

strategy and aim to keep raising the bar, the CSA continues to provide us with helpful insights on our strengths and weaknesses and provides inspiration for how to improve measurements and management systems."
- Hendrik Alpen, Sustainability Engagement Manager, H&M

"The DJSI has transformed the way we think about and measure sustainability within our business. Each year the CSA continues to evolve and challenge us to think about sustainability themes in new and impactful ways and offer a framework with which to engage business leaders throughout the organization to drive meaningful change. Without the instrumental guidance offered by the CSA over the years, the landscape for sustainability would probably be very different indeed."
- Jaclyn Bouchard, Global Lead, ESG Engagement, S&P Global

"In 2008, we converted our main index funds to follow the Dow Jones Sustainability Indices and never looked back! For more than 10 years, the DJSI have enabled us to provide our clients with opportunities to align investments with their values and earn good returns, all in a transparent and cost-efficient way."
- Jonathan Aalto, Portfolio Manager, Seligson & Co.

METHODOLOGY

The DJSI are float-adjusted market capitalization weighted indices1 that measure the performance of companies selected with ESG criteria using a best-in-class approach.

ELIGIBILITY CRITERIA

The key factor in selecting constituents for any DJSI index is a company's S&P Global ESG Score, calculated under SAM's annual Corporate Sustainability Assessment (CSA). The annual CSA process begins in March each year, with new scores released in September.

For each DJSI sub-family index (DJSI World, DJSI Emerging Markets, etc.), companies are invited to participate in the CSA so as to ensure that each index tracks the larger market, as represented by a relevant broad market benchmark.

For example, for the DJSI World index, the 2,500 largest companies in the S&P Global BMI are invited. Moreover, any existing index constituents whose free-float market capitalization is above a pre-defined threshold (above $500 million for the DJSI World index) are included in the assessment.

Even though companies may have more than one class of common stock outstanding, each company is represented only once in the DJSI2. For companies with multiple dual listings (e.g. Unilever PLC and Unilever N.V.) both stocks are considered and have identical scores.

S&P Global ESG Scores are calculated based on the industry-specific CSA questionnaire, either through the participation of the companies, or through the use of publicly available information.

Companies receive a S&P Global ESG Score between 0-100 and are ranked against other companies in their industry. The top 10% of companies within each industry are selected for inclusion in the DJSI World.

The composition of each of the DJSI sub-families is reviewed each year in September based on the S&P Global ESG Score resulting from that year's CSA. To reduce turnover, a standard buffer rule is applied to the constituent selection process.

Companies may also be deleted from the index between annual reviews, if, through the Media & Stakeholder Analysis (MSA) component of the CSA, or by other means, the Index Committee determines that a company is no longer behaving in a matter that is consistent with the Corporate Governance Compliance. In the event that the Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one year.

INDEX CONSTRUCTION AND MAINTENANCE

While the selection of constituents for the DJSI reflects the use of the S&P Global ESG Score, the weighting of constituents within each of the DJSI sub-families is in accordance with their market capitalization, based on their float-adjusted shares outstanding in S&P Global BMI, and subject to a maximum weight of 10%. The DJSI also follow the methodology and maintenance procedures for the S&P Global BMI with respect to quarterly rebalancing and the treatment of corporate actions. Ethical exclusion sub-indices are constructed by assigning an exclusion

tag to those companies – among all companies selected for the DJSI – involved in specific business activities determined by Sustainalytics. Categories of involvement include adult entertainment, alcoholic beverages, armaments, gambling, tobacco.
Each index is rebalanced once a year in September. In addition to the scheduled annual rebalancing, the indices are reviewed on an ongoing basis to account for corporate actions. A change to the index composition and a related weight adjustment is necessary whenever there is an extraordinary event (e.g. delisting, bankruptcy, merger, takeover, etc.) involving an index constituent. In these cases, each event is accounted for as soon as it is effective.
The constituent shares outstanding and capping factors are reviewed and updated quarterly.

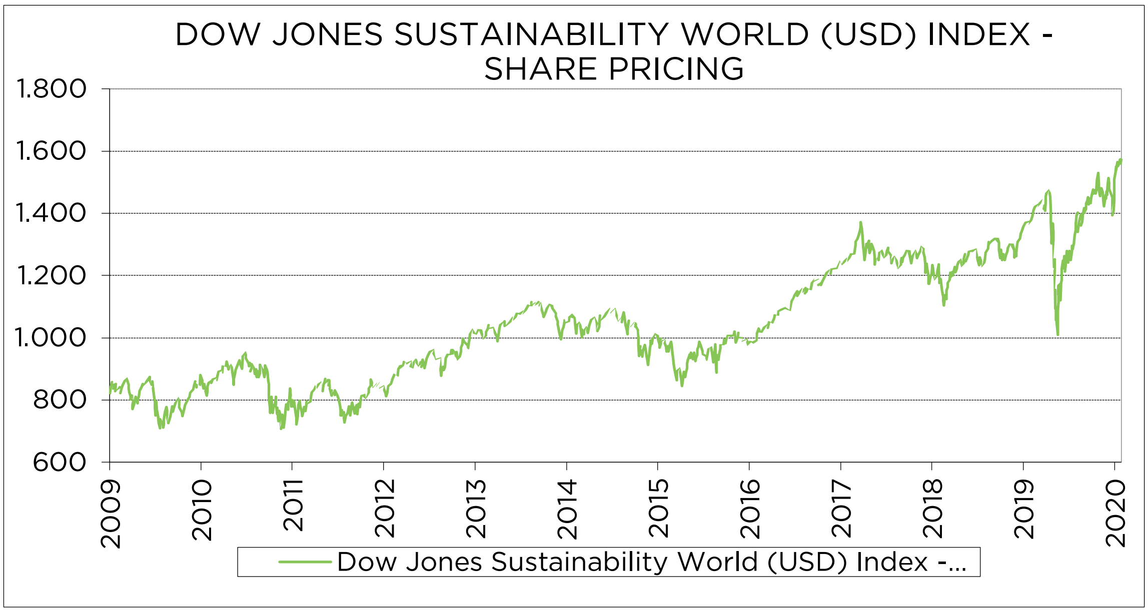
QUANTITATIVE ANALYSIS OF THE DJSI

Timeline analysis

Investors have historically based their investment strategies on mere financial measures, determining a company's long-term sustainability by means of its economic performance. Starting in 1999, when the DJSI was created and sustainability matters started to gain relevance, it became clear that many extra-financial, but financially material measures had to be considered. Accordingly, intangible assets such as reputation and goodwill began to be deemed essential factors of long-lasting value creation, leading responsible investors to integrate ESG practices into their valuation approaches. This newly-established trend caused the market to seek ever-higher degrees of transparency from firms regarding their management of human, environmental, and social capital, associating sustainable companies with better stock performances and, thus, superior returns. To this day, the ESG-related investing landscape constitutes a multitrillion-dollar business, providing the market with several classes of assets.

The DJSI, along with the SAM CSA, represented one of the most crucial means of interaction between firms and investors over the past 20 years, assisting companies through the attainment of more sustainable corporate behaviors, and meeting the transparency needs of the market. Accordingly, the DJSI enabled investors to access the first global subset of leading sustainable companies, gathering firms characterized by best-in-class ESG practices within their respective industries. Nowadays, the amount of assets that are tied to the DJSI is close to the sum of USD 4.5 billion, and the fact of being included in the index significantly boosts a firm's share price, attracting the interest of long-term investors.

Below is reported the 10-year performance of the Dow Jones Sustainability World Index, which comprises the 250 best performing firms in terms of long-term social, environmental, and economic criteria, out of the 2500 biggest companies forming the S&P Global BMI. The index, displayed in USD, currently accounts for an all-time high (USD 1,829.16 as of November 17, 2020), despite the recent struggles related to COVID-19. With 10-year annualized price returns of around 6.1%, the index displays a 1-year yield of almost 12.9%. This trend signals a path of significantly raising returns, boosted by the ever-higher relevance of ESG practices to the eyes of investors. Breaking down the sectoral composition of the Index, information technology accounts for 24.6%, health care for 21.2%, and financials for 12%, the lowest contributions are currently given by the real estate and energy sectors, amounting to just 3.4% altogether. Naming the top-3 countries in terms of index weight, the US ranks first with 47.6%, Switzerland accounts for 9.3%, and the UK for 6%. Italy places 12th, carrying an overall weight of 1.8%.

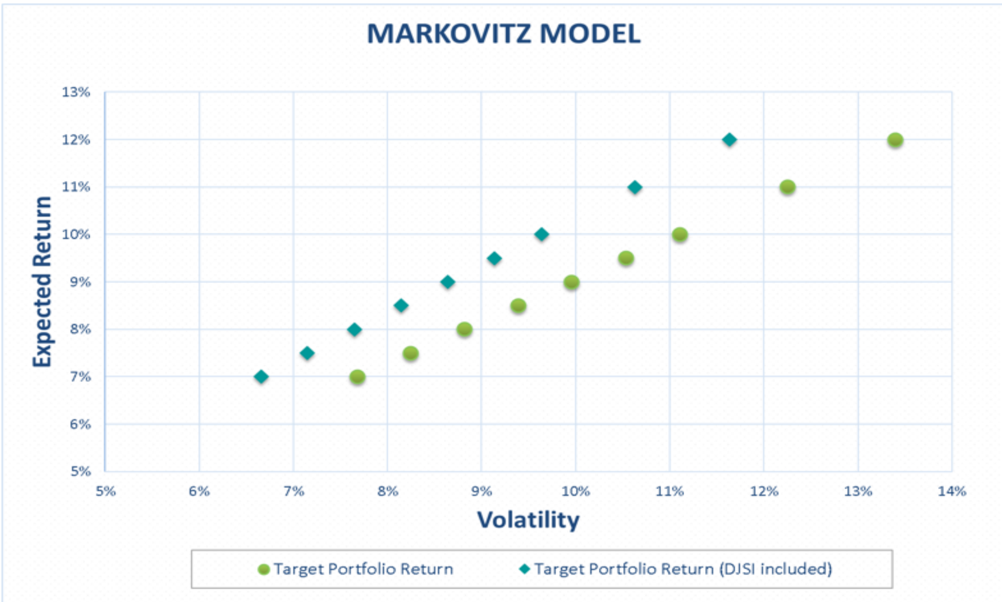


Source: Dow Jones Sustainability World Index – Factsheet, 2020.

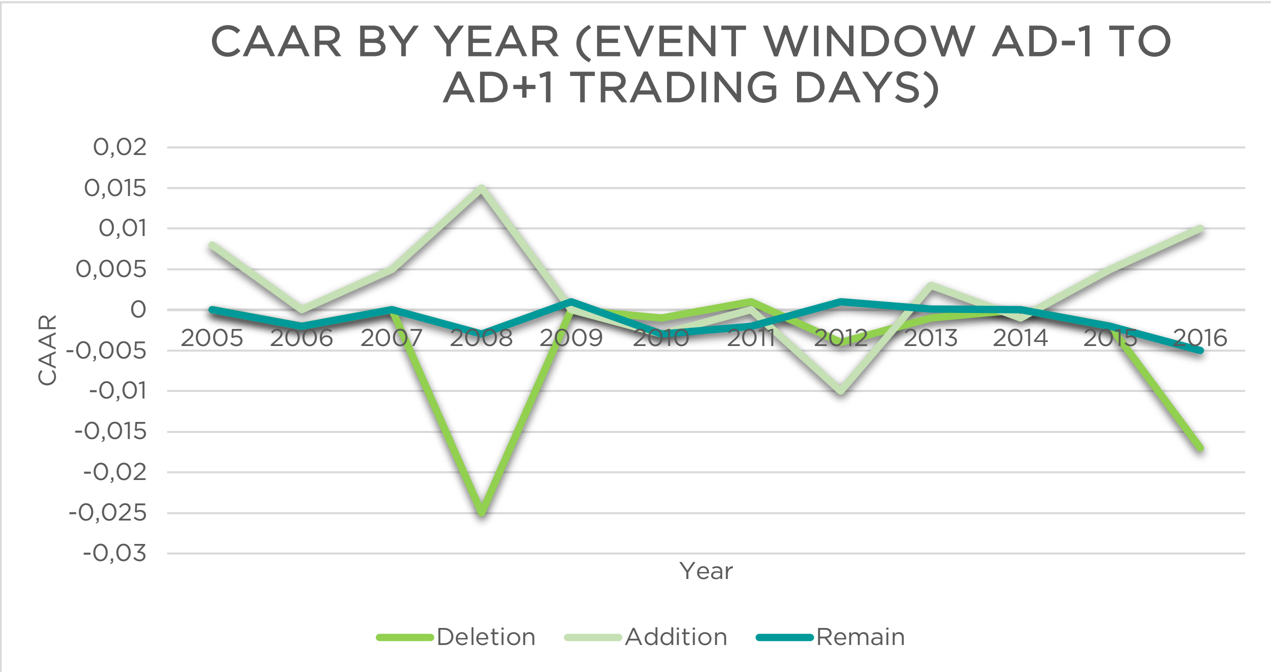
Nonetheless, it is possible to affirm that while ESG-focused investors seek the largest possible profits, they are also interested in demonstrating the positive impact that their investing had on both society and the planet, by contributing to the achievement of international policy commitments.
Another aspect that investors deeply value is the significant diversification opportunities that the Dow Jones Sustainability Indices provide. Indeed, they represents a total of 61 industries, including firms from all around the world. One top performer is also selected for each industry based on corporate sustainability practices. Italy currently provides for as many as five leading companies, namely, Pirelli, Hera, Saipem, Leonardo, and Moncler, outperforming their peers in terms of ESG activism. Focusing on Moncler, the latter accessed the Index in 2019, ranking first in the Textiles, Apparel & Luxury Goods (TEX) for the second year in a row as of November 2020. Indeed, the company employs energy obtained from renewable sources only, intending to run a carbon-neutral business by 2021. Moreover, Moncler is also very active in terms of social sustainability. It is thus characterized by a solid corporate welfare, intended to create a good balance between every employee's work and private life, and it sustains local communities and disadvantaged groups by promoting a variety of initiatives.

Furthermore, the graph of the Dow Jones Sustainability World Index historical performance shows an overall rising tendency of DJSI's price return in the past decade. Furthermore, we notice there's an intriguing fluctuation during the year of 2015 and 2016. As we know, ESG investing has been gathering momentum since the financial crisis in 2008, two landmark accords during 2015 and 2016 marked a turning point for the movement: the signing by world leaders of the UN Sustainable Development Goals (SDGs), followed by the Paris Climate Accord later that year. However, this enthusiasm towards responsible investing was harshly damped down by the famous Volkswagen emissions scandal - many VW cars being sold in America had a "defeat device" in diesel engines to cheat emissions tests in the US. When this scandal was revealed, those whose investment decision was influenced by perceived ESG suitability feel abused by VW management. What's more, they were also questioning the validity of sustainability ratings, especially to the DJSI since Volkswagen was part of the DJSI's global listing for 13 years - between 1999 and 2004, and again from 2007 to 2015 - and earlier that month was named the most sustainable automaker amongst its indexed peers. Under this circumstance, DJSI together with CSA, need to improve the transparency in public reporting and the supervision of the listed companies in order to guarantee the credibility of the data. After the fluctuation resulted from the international policy commitment and social events, we can clearly see the growing tendency of the price return: it nearly doubled within 10 years (before the significant decrease caused by COVID-19 in 2020).

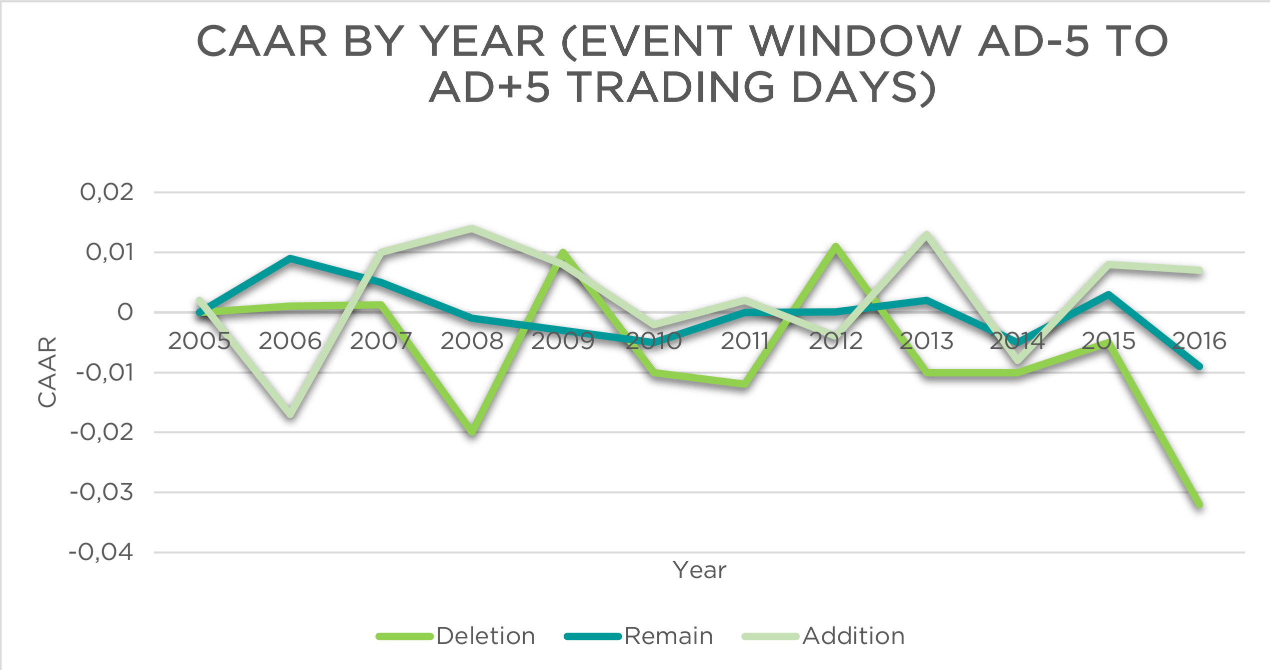
Investor's perspective



Looking at the Vanguard Short-Term Treasury Index ETF, the S&P 500, the Dow Jones Equity REIT and the DJSI index, it could be done a mean-variance analysis based on the last 10 years performance, in order to verify the real economic convenience offered by the DJSI's inclusion in a portfolio allocation. From the data, there is strong evidence of the diversification benefits that an investor could find taking into account the DJSI: the correlation of the latter with all the asset classes mentioned above is low. As it can clearly be seen from the graph (Figure 2), it has been made an optimal portfolio analysis' comparison between 2 scenarios: one takes into consideration the DJSI (blue) and the other does not. Thus, the scatter diagram shows an important statement: the DJSI's addiction in an asset allocation could guarantee from each level of volatility (proxy of risk) a higher return.



Furthermore, additional research conducted on the Dow Jones Sustainability North America also shows the impact of DJSI NA to the stock market. It uses an event study methodology to analyze how a company's stock price responded to the announcement of firms being added to (deleted from) the DJSI Industry leader list. The data set contains 286 additions to the DJSI NA and 122 deletions from the DJSI NA from 2005 to 2016, and the Cumulative Abnormal Return is used as the proxy of changes in the stock price caused by an event. Based on the regression results, the announcement that the company is added to DJSI NA has a statistically significant increase in stock price for two trading days after the announcement date. In addition, the announcement that a company is removed from the DJSI NA has a stronger and more lasting cause. There is a statistically significant decrease in stock price for seven trading days after the effective change date.



Over time, long-term investors may view firms that are visibly recognized as strong CSR performers as more suitable for their investment strategy, because these firms seem a better match for their investment time horizon relative to CSR equivalent firms that did not pass this stringent selection process.
Again, the difficulty for these long - term investors consists in identifying among CSR-active firms those with a higher potential.

Firm's perspective

Turning the point of view from the investor side to the company side, there are many benefits that an inclusion in DJSI index brings to a firm. First of all, the growing interest shown by institutional investors on sustainability investing gives the certainty that a huge amount of, for example, ETF will replicate this index. Therefore, a company that is added in this index will benefit from an increase in the demand of its shares from lots of ETF funds, and the larger demand will be followed by a rising path of the price considering in microeconomic perspective. For instance, 78% of analysts take ESG performance into consideration for their investment decisions, according to CFA Institute (2017) a media analysis confirms the growing concern of analysts and investors for ESG and CSR criteria. Secondly, from a fundamental analysis perspective, as company value has been shown to be increasingly driven by intangible assets, such as reputation and goodwill, being

listed in the DJSI could be seen as a "badge of honor" that gives an important message to the markets that will appreciate the company more. Additionally, this "badge of honor" can attract top talent whose expectations include a sense of corporate responsibility, and this would benefit the performance of the company in the long run. Following this perspective, as the EU has been working on the taxonomy of the ESG policy, it is clear that in the next few years there will be mandatory costs for the firms in order to rebuild business plans, of course that policies will reduce the future marginal profitability. A company that now has the eligibility criteria to be added in the DJSI, in future will not be subjected to this plunge of profitability and the markets will increase the interest in these firms.
Downside, there are cons that are related mainly to the marginal governance. Of course, the more institutional investors put money into the firm, the more transparency and balance sheet constraints in terms of leverage and liquidity will be requested: all of these means a drop in the governance marginality. Then, as in all indexes, a firm has to be conscious of the turnover in this index, i.e., the facility with which the SAM's policy puts away a firm from the index.

In conclusion, being included will bring a badge of honor that implies a rising in the image, but on the other hand being polished off will mean a (maybe more) dangerous effect on the reputation.

Foresight

The importance of sustainability indices to benchmark active ESG investments and to influence passive ESG investments may be far from its full potential. Confronted with the mounting demands of civil society and the daunting climate challenges, the impact of sustainability indices cannot but grow over time with the development and the structuring of the ESG investment industry and the questioning of non-ESG passive investing, especially among professional investors. Firstly, innovations can be expected in this space as investors become more accustomed to the current offerings in the market and may start to look for customized versions of sustainability indices that meet their investment objectives. We believe that in the near future more customized indexes will be added to the DJSI family. Secondly, the improvement of regulation and governance towards listed firms is significant. As we mentioned above, the lack of governance may lead to similar events like "VW emission scandal". It would be a crisis for the credibility of DJSI providers. Additionally, ESG analysis in the present is often associated with time lags, it is essential to have real- time analysis to meet investors' demand of immediate access to extra-financial.

CONCLUSION

This article's aim was to offer a general framework about the Dow Jones Sustainability Index starting from its history and features. After this, we focused also on the pro and cons for a company to be listed in this index and we saw that there are many benefits such as the major exposure to investor, the improvement of the reputation and better performance in the long run; but there are also some cons due to the transparency and the constraints for liquidity and leverage required. From investor's point of view, using a Markowitz model we showed that investing in this index could be useful to diversify a portfolio and the same time to increase profits. However, even considering all these relevant points there are still some problems related to DJSI as shown by the famous Volkswagen emissions scandal. For this reason, it is necessary an improvement of the regulation to avoid a loss in credibility in the future. This added to a better ESG analysis of the companies could lead to a relevant growth of the index also driven by the growing interest of investor for sustainability.

APPENDIX

FOCUS ON: CORPORATE SUSTAINABILITY ASSESSMENT

The SAM Corporate Sustainability Assessment results form the basis for the determination of DJSI inclusion. In 2019, the SAM CSA was recognized for being the highest quality of 11 leading ratings providers in SustainAbility's Rate the Raters 2019: Expert Views on ESG Ratings.

The CSA follows a strict rules-based methodology. The annual CSA process normally begins in March, with new scores released in September. The result of the annual CSA process is the creation of a set of companies for each index of the DJSI family for which S&P Global ESG Scores are calculated based on the CSA questionnaire, either through the participation of the companies, or through the use of publicly available information.

The starting point for the CSA is SAM's financial materiality framework. For each of the 61 industries, SAM's analysts conduct a financial materiality analysis to identify those sustainability factors that drive business value and that have the greatest impact on the long-term valuation assumptions used in financial analysis. This analysis results in a materiality matrix for each industry, which serves as the basis for determining the applicability and weights of the various sustainability criteria in the CSA.

Invited companies are assigned to one of the 61 industries defined by SAM and asked to respond to an extensive industry-specific questionnaire focusing on the identified financially relevant economic, environmental and social criteria.

Calculating a company's S&P Global ESG Score is a process of applying sub-level scores which are progressively weighted and summed until a final aggregated score is reached.

The reported results are supplemented with a Media & Stakeholder Analysis (MSA) that examines more recent findings which have surfaced via the media and other channels. The MSA monitors a company's sustainability performance on an ongoing basis by assessing current controversies which could have potentially negative reputational or financial impact on a company. The MSA is an additional overlay used to modify criteria scores downward based on evidence ranging from deliberate involvement and mismanagement of controversial incidents to negligent lapses in oversight.

Based on major global sustainability challenges identified by SAM's analysts, general criteria relating to standard management practices and performance measures such as Corporate Governance, Human Capital Development and Risk & Crisis Management are defined and applied to each of the 61 industries. The general criteria account for approximately 40-50% of the assessment, depending on the industry.

The remaining part of the CSA is made up of industry-specific risks and opportunities that focus on economic, environmental and social challenges and trends that are relevant to companies within that industry. This focus on industry-specific criteria allows SAM to compare companies against their own peers in order to identify sustainability leaders. For instance, a manufacturing company's management of its exposures to climate change risks cannot be compared to a bank's response to climate change. Therefore, for industries with complex supply chains and logistics, the assessment focuses on evaluating their efforts to manage carbon emissions, whereas for financial services providers, the assessment focuses on whether companies address climate change through their financial products or by offering innovative funding schemes that encourage a transition towards a low - carbon economy.

The questions within each criterion are structured to capture and evaluate the following elements:

- Awareness of the importance of these factors to its financial success
- Determination of the potential financial impact (i.e. materiality) of its exposure to sustainability factors
- Implementation of strategies to manage these sustainability risks or to capitalize on related opportunities in a manner that is consistent with its business models
- Measurement of results in relation to stated Key Performance Indicators (KPI) in order to evaluate the effectiveness of its sustainability strategy
- Validation or external audit of stated results
- Transparent communication of its corporate sustainability strategies and extent to which stated targets have been met.

This framework for evaluating corporate sustainability performance enables SAM to develop a more robust understanding of a company's quality of management.

An integral component of the CSA is the MSA, which enables the ongoing monitoring of media and stakeholder commentaries, and other publicly available information from consumer organizations, NGOs, governments and international organizations, to identify companies' involvement and response to environmental, economic and social crisis situations that may have a damaging effect on their reputation and core business. Throughout the year, SAM monitors ESG risk incident coverage of companies in the universe on a daily basis provided by RepRisk, a leading data science company specializing in ESG and business conduct risk research and quantitative solutions which leverages the combination of AI and machine learning with human intelligence to analyse more than 90,000 public sources in 20 languages, intentionally excluding company self-disclosures. A case is created if a company has been involved in a specific negative event for which it is considered to be responsible, and if the incident reveals that the company's actions are inconsistent with its stated policies and goals and/or exposes either a failure of management or of company systems and processes. Once an MSA case has been opened, SAM expects the company to redress the issue by taking measures to minimize its negative impact as well as the possibility of future incidents. In order to evaluate the quality of the company's response to the situation, SAM contacts companies for which an MSA case has been created and continues to monitor related information flows until it has been resolved.

The CSA is continuously enhanced to identify and measure under-researched or under-reported financially material ESG factors. This process helps better detect those companies that are well-positioned to address future sustainability-driven challenges and opportunities. Through its evolution, the CSA encourages consistent disclosure practices around both currently relevant sustainability themes and emerging forward-looking sustainability issues that may have a financially material impact on companies. For example, this year the existing CSA criteria of "Information Security, Cybersecurity & System Availability", "Privacy Protection", and the "Living Wage" were further enhanced based on the need for greater management controls and disclosures around these issues of importance for investors.

Indeed, since its inception, the CSA is often the first time a company is asked to consider a sustainability topic, spurring a conversation within the company that may lead to a change in its sustainability policies, business practices, or public reporting. For some companies, the CSA provided early support to help shape and develop internal sustainability practices. For others, it provided a framework within which to think about sustainability in regions where regulations, investors, and consumers often lagged behind in sustainability thinking.

To conclude, the results of the CSA are a suitable proxy for quantifying the value of a firm's intangible assets, leading to better informed investment decisions. By using industry-specific criteria to identify sustainability leaders that are likely to outperform in the long - run, SAM's best-in-class approach creates vibrant competition among companies within the same industry for inclusion in the DJSI while accelerating the momentum toward sustainability across all industries.

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