

Guide to Selecting an ESG Service Provider

July 2007



INSTITUTIONAL SHAREHOLDER SERVICES

2099 Gaither Road
Rockville, MD 20850
www.issproxy.com

Guide to Selecting an ESG Service Provider

Environmental, Social and Governance (ESG) factors have become part of the mainstream investment landscape, as evolving public policy and company social, governance and environmental practices create material risks and opportunities that do not shine through on financial statements. A company's position and performance in areas such as climate change, energy use, political contributions, labor and human rights can have profound societal and financial impact, and are important for investors to consider when assessing portfolio risk and opportunity.

Institutional investors can minimize risk and gain competitive advantage by incorporating a comprehensive, objective and reliable set of quantitative and qualitative ESG information into their investment decision-making. Selecting the right ESG service partner--one that provides not only screening, but detailed research and analysis - is critical.

With our deep research expertise, extensive ESG staff and a unique view of ESG issues through the lens of shareholder value, ISS' ESG solutions and tools are among the most respected in the industry.

Over the next twelve months ISS will double the size of its team of ESG analysts and invest over \$6 million in building new services and employing the latest technology to deliver clients the next generation in ESG screening, research and analytics.

Based on questions provided by our clients, both in the US and internationally, we have compiled a guide to enable institutions to ask the appropriate questions when reviewing ESG screening and research capabilities. These questions help identify areas of significant risk and opportunity.

Overall Approach to ESG Research and Screening Model

- Does your business partner have experience in analyzing both financial and non-financial risk factors?
- Does your business partner use an objective, sector-based, best-practices approach to analyzing ESG data?
- Is your business partner a boutique firm or activist firm? Do they advocate a standardized view or value set?
- Is your business partner capable of providing research and screening for each of the critical aspects of ESG– Environmental, Social and Governance?
- What coverage of U.S. and non-U.S. companies does your partner provide for environmental research? For social research? For governance research?
- Does your business partner make its research, screening and analytical process transparent?
- Does your business partner allow you to customize your screening and rating preferences?
- Does your business partner have global research capabilities?
- Does your business partner have research analysts in local markets, or do they partner with companies that have a local market presence?
- Does your business partner's local market knowledge encompass both mature and emerging markets? Is your business partner able to provide coverage for companies in emerging markets?
- Does your business partner provide analysis of ESG performance and capabilities across industry sectors? Across countries?

Guide to Selecting an ESG Service Provider

- Does your business partner deliver comparative assessments?
- Will your business partner scale the breadth and depth of its coverage in order to meet your evolving needs around ESG screening and research?
- Does your business partner have a firm-wide commitment to developing new ESG solutions?
- Does your business partner offer new ways to link ESG performance with traditional business model analysis?

Research and Data Gathering

- Does your business partner engage with companies as part of the research process?
- Does your business partner use surveys?
- What sources of data does your business partner rely on? Do they include non-public as well as public sources of data? Company data? Government data? Media and industry data? Financial data?
- Is the research methodology made transparent to both users and companies?
- Does your business provider's approach differentiate between levels of business involvement, ranging from physical presence to non-physical ties, or equity and non-equity ties?
- Is data gathered from third party sources verified with company representatives?
- Does your business partner engage in direct discussion with special interest groups, including NGO's, watch-dog groups, government agencies, and think tanks?
- How many governance factors does your business partner factor in when evaluating companies?
- How many environmental and social factors does your business partner evaluate when profiling companies?
- Does your business partner utilize a stringent fact-checking process?
- How do your business partner's research analysts collaborate as a team to complete company profiles?

Methodology and Scoring

- What scoring and ratings methodologies does your business partner use?
- Does your business partner provide both qualitative and quantitative assessments of company performance?
- Does your business partner utilize an objective, quantitative approach to scoring companies?
- Is the research methodology made transparent to both users and companies?
- Can you customize your business partners scoring methodology?
- Are scored companies invited to review and weigh-in on the information that is gathered?

Guide to Selecting an ESG Service Provider

- Does your business partner apply uniform screening standards?
- Do the screening standards provided by your business partner allow you to set portfolio restrictions based on your unique investment philosophy?
- Does your business partner compare ESG performance and capabilities across industry sectors to assess progress towards best practices?
- In what format(s) does your business partner deliver ESG data? A screening database? Comprehensive reports? Company profiles?
- How often does your business partner assess the strengths and weaknesses of its research methodology?
- How often does your business partner review and update its research methodologies to reflect industry and market trends?

Quality Assurance

- How often does the business partner review and update its research for companies that have been found to have controversial ties?
- How often does the business partner review each company comprehensively?
- How often does your business partner make updates to its environmental and social screening database and reports?
- How does your business partner verify the data that has been collected? How often is this done?
- Does your business partner engage with companies to verify the data collected?
- Does your business partner notify companies of any changes made to their profile or score? How?
- Does your business provider give the company the opportunity to discuss its concerns directly with the provider's research analysts?
- Does your business partner offer an online platform for companies to review, comment or correct the data gathered on them?
- Does your business provider have a proven methodology to handling disputes? Is it a universally applied methodology or a case-by-case method?

Coverage

- How many companies does your business partner cover today? What plans do they have for expanding coverage?
- Does your business partner cover large as well as small and mid cap companies?
- Is your business partner willing to expand coverage to meet your needs? Are they capable of expanding \ their coverage?
- Is your business partner able to provide coverage in emerging markets?
- How many unique industry sectors does your business partner cover (breadth of coverage)? Do they follow Global Industry Classification System (GICS) codes?
- What specialized experience does your business partner have in researching controversial issues?
- How many indicators does your business partner analyze for each company? How many of these indicators are sustainability-focused? How many are governance-focused?
- How does your business partner plan to enhance the list of indicators employed to analyze companies (depth of coverage)?

Analysis and Reporting

- Does your business provider offer the ability to create 'red or yellow flags' or alerts for companies that are doing a relatively poor job at managing risks that might arise from ESG issues. If so, can this alert system be customized by clients?
- What tools does your business partner provide to model scores/rankings and the underlying data?
- Does your business partner provide company profiles and reports, in addition to scores and data? If so, does your business partner provide company profiles and reports specifically for sustainability or controversial issues?
- Do the reports provided by your business partner analyze the potential impact of social and environmental practices on the companies' reputation?
- Can your business partner provide reports in languages other than English?

Online Delivery Platform

- Does your business partner integrate screening information and company profiles within a single delivery platform?
- Is the business partner's ESG research and screening platform integrated with other critical governance applications, such as proxy voting?
- Does your business partner's screening platform allow you to upload and screen your portfolios?
- What online tools does your business provider offer for customization, such as creating and saving customized ESG screens, generating detailed company profiles, and accessing global restricted lists?
- Does your business partner offer customized feeds of screening data?
- If so, can data feeds be delivered according to your schedule and in your preferred format?

Staffing and Experience

- How many research analysts does your business partner employ? How many of these analysts focus specifically on environmental, social and governance research?
- What is the business partner's ratio of senior analysts to junior analysts?
- What percentage of the business partner's staff is involved in research, including both quantitative and qualitative issues-based research, data procurement, data analysis and/or portfolio screening?
- What is the typical educational background and experience level of your business partner's research analysts?
- Do the research analysts have practical experience in business and finance, as well as environmental, social and governance issues?
- What is the reputation of your business partner's senior analysts within the industry?
- How are the research analysts trained? What programs exist for ongoing training?
- How does your business partner assign research to analysts?
- What plans does your business partner have to grow and scale its ESG research team?
- Has your business partner made a firm-wide commitment to investing in both the human resources and technology needed to expand its ESG solution?

Commitment and Credibility

- How many years of experience does your business partner have in providing social and environmental-issues based research?
- How many institutional investor clients does your business partner currently serve?
- Does your business partner have a proven track record of meeting the needs of its clients?
- What is the reputation of your business partner within the overall industry?
- What role does the business provider play in shaping industry and market-specific trends?
- Does your business partner have the financial strength to deliver and scale its ESG screening and research solutions?
- What is your business partner's philosophy towards being responsible stewards of good governance and environmental and social responsibility?
- How quickly are companies removed from restricted company lists once it is verified that a company is no longer involved in the issue of concern?

Technology Infrastructure Management

- Does your business partner have the technical support and infrastructure needed to properly service your account?
- Does the business partner have a documented Business Continuity Plan that addresses facilities, telecommunications, and data backup and restore procedures?
- How often is the plan tested?
- Is the plan maintained as critical systems, business processes and people responsibilities change?
- When was the last BCP test conducted? What was the scope of the test? What were the results?
- Does the business partner have a formal change management process? Does it include specific testing of new processes and systems? Do clients participate in the testing?
- Does the business partner monitor system availability? Can they provide 2 or more years of uptime statistics?

Client Service Structure and Experience

- What type of organization structure do you or your business partner have relative to client servicing?
- Is there a single point of contact?
- Are there clearly defined escalation paths and designated back-ups?
- Do you or your business partner have client relations personnel available in your region or local market(s)?
- Do you or your partner have formal training programs for new client relations associates?
- Do you or your business partner deploy a separate team dedicated to on-boarding and account set-up?
- What is your business partner's retention rate with regard to ESG research and screening clients over the \ past 3 years?
- Do you or your business partner have adequate tools and systems (telecommunications, databases, etc.) for effective client relationship management?

Information Security Practices and Management

- Are you or your business partner compliant with the ISO 17799 standards for information security?
- Do you or your business partner have a third party telecommunications network penetration test conducted regularly? Are they willing to share results of the latest test?
- Are you or your business partner's information security policies and practices documented? How are they monitored and enforced?
- If you have a business partner model, does the business partner allow clients to conduct audits? Onsite?
- How many have been completed in the last 12 months and what were the summary results?
- How do you or your business partner ensure that access to production programs, data files, sensitive system transactions, and operating system files are restricted to authorized users only? Is security role based?
- Do you or your business partner have physical security to restrict access to server/computer rooms?
- How do they ensure that physical access to computer and network hardware, stored data, and documentation is restricted to prevent unauthorized destruction, modification, disclosure or use?
- Do you or your business partner run intruder detection systems?
- Who is responsible for information security?
- Who is responsible for risk management?

Internal and External Audit Practices

- Do you or your business partner have an internal audit department? If so, what is the reporting structure?
- Is there a regularly scheduled external audit? If so, at what frequency?
- Does the business partner have a dedicated quality assurance team that provides oversight to operations and production controls?
- If you have a business partner model:
- Are they willing to review their operational audit plans with you as part of due diligence? Does the business partner have a continuous process improvement approach or methodology?
- Do they have Key Performance Indicators for processes?
- Will they provide you with copies of SAS70 Type I reports? Type II reports? Do these cover technology? Compliance Activities? Key third party providers?

Participation in Industry Associations and Conferences

- In which industry organizations does your business partner actively participate?
- In which forums does your business partner actively contribute to and participate in?
- In which thought leadership conferences does your business partner participate?