

## What are ESG Relevance Scores?

ESG Relevance Scores, which are produced by Fitch's analytical teams, transparently and consistently display both the relevance and materiality of individually identified ESG elements to the rating decision. They are sector-based and entity-specific. We are introducing ESG Relevance Scores across all asset classes, starting with over 1,500 non-financial corporate ratings. This will be followed by banks, non-bank financial institutions, insurance, sovereigns, public finance, global infrastructure and structured finance.

## Why have you launched them?

The ESG Relevance Scores fill a market gap by publicly disclosing how an ESG issue directly affects a company's current credit rating. Our scores enable investors to agree or disagree with the way in which we have treated ESG at both an entity and a sector level, assist them in making their own judgements about credit rating impact, and enable them to fully discuss all aspects of the credit with our analytical teams.

## How is Fitch's approach different from that of other credit rating agencies?

Fitch is the first credit rating agency (CRA) to systematically publish an opinion about how ESG issues are relevant and material to individual entity credit ratings.

## How does Fitch's approach help investors identify and assess the potential for unexpected costs arising from ESG factors which may impact their returns?

We have identified at a sector level the elements of E, S and G that we believe are credit relevant for that sector. Our ESG Relevance Scores will enable investors to see how each element is influencing the rating and for them to make judgements about whether they agree with our assessment of the credit impact on an entity by entity, as well as sector, basis. The scores do not make value judgements on whether an entity engages in good or bad ESG practices, but draw out which E, S, and G risk elements are influencing the credit rating decision.

## Did Fitch consult with any external stakeholders when developing its ESG approach?

We actively engaged with investors and other market participants to understand what they want to see from credit rating agencies before devising the new relevance scores. Some stakeholders would clearly like views and opinions which extend beyond credit, and address different timeframes and considerations. Our focus is purely on fundamental credit analysis and so our ESG Relevance Scores are solely aimed at addressing ESG in that context.

## How does Fitch's ESG approach fit with the original aims of the ESG movement, and the expectations of broader society, for financial portfolios to be managed in a more sustainable and ethical way?

Asset managers and asset owners are in the business of managing and directing funds, whereas our role is to provide rigorous, independent and insightful commentary on the credit risks surrounding an entity with respect to its ability to repay debt. Providing this information in a transparent and challengeable manner is a significant step, but remains just a part of the overall considerations that investors are faced with when deciding how to allocate funds.

## What were the results of your initial analysis?

The initial analysis of our corporate portfolio has generated over 22,000 individual E, S and G scores for our publicly rated entities. Initial results show that 22% of our current corporate ratings are being influenced by E, S or G factors, with just under 3% currently having a single E, S or G sub-factor that by itself led to a change in the rating. There are significant variances by market classification (developed markets vs emerging markets) as well as by geography and sector, and our analysts are looking forward to discussing the detail with both issuers and investors.

## On top of the ESG Relevance Score, what ESG research will Fitch be offering?

We are intending to provide more thematic and cross sector research in response to demand from investors. We will also be publishing research on a regular basis that looks at trends and comparative analysis of the incidence of ESG factors in credit risk.