Frequently Asked Questions
The following list of Frequently Asked Questions (FAQs) provides brief answers to many common questions about GMI Analyst.

How many companies are in the GMI Analyst Coverage Universe?
GMI Analyst is updated daily and includes nearly 6,100 companies with ESG research and ratings, and approximately 18,000 companies with AGR® research and ratings as of April 2013.

What is the methodology behind your ESG Ratings?
Ratings are calculated on a weighting based methodology. The relative weights of the key metrics are context-sensitive, based on market, regional, ownership or sector differences. This variability allows the GMI Ratings model to more effectively address the many regional variations in governance practices, and the sector-based differences inherent in baseline environmental and social impacts. There is also a relationship between the metrics, so that for instance, a compensation flag may carry a higher negative impact on the score if the company is also flagged for additional compensation flags.

Also, for intrinsically high environmental or social impact companies, baseline weightings are automatically shifted to allow those concerns to carry more weight. In the case of industries that have been designated high impact in both areas, the governance component weight is reduced to 60% or even less, with the environmental and social components contributing approximately 40%. In addition, several metrics from our AGR model have been integrated in the governance component of our ESG model. Three AGR-based KeyMetrics impact the Accounting and overall ESG scores using scoring point values generated separately from the main ESG ratings model, and will be updated quarterly based on inputs from the AGR model.

ESG RATINGS COMPONENT STRUCTURE
How are the ESG and AGR Ratings distributed?
The ESG Ratings are expressed in two forms, first as equally distributed percentile ranking scores ranging from 1 (lowest score) to 100 (highest score), and also as an “A” to “F” letter grade based on those percentiles. The ESG Rating is a distributed rank, with 5% of companies rated as “A”, 20% rated as “B”, 50% rated as “C”, 20% rated as “D”, and 5% of companies rated “F”.

AGR Ratings are also expressed as equally distributed percentile ranking scores ranging from 1 (lowest score) to 100 (highest score). High scores indicate a more conservative profile. Currently, 15% of the total coverage universe registers as Conservative (Low Risk), 50% of the universe is Average (Moderate Risk), 25% of the total universe is High Risk (Aggressive) and the remaining 10% comprises our Highest Risk companies (Very Aggressive).

How does GMI Ratings evaluate companies in terms of ESG?
The ESG Ratings model is based on a carefully crafted and applied list of 150 ESG KeyMetrics®, organized into six individual scoring components. This organization ensures consistency, transparency and structural integrity, while context-sensitive weightings and an emphasis on behavior over policy significantly enhance the relationship between these ratings and investment risk.

Why do companies receive more than one ESG rating in GMI Analyst?
Our ESG Rating coverage includes three ratings; a Global Rating, a Home Market Rating, and a Sector Rating. ESG Global Ratings are based on percentile ranks relative to all ESG-rated companies within the GMI Ratings coverage universe (approximately 6,100 as of April 2013). Home Market Ratings, displayed just below the company’s name on each profile page, gauge the company’s ESG performance relative to the normative data set of the company’s home market (typically, a specific country). Each company also receives a Sector Rating, which assesses the issuer’s ESG risk relative to measures of central tendency in the issuer’s sector based on the Thomson Reuters Business Classification. Like the Global Ratings, Home Market and Sector Ratings also conform to a normalized statistical distribution.

Our AGR Ratings include one overall rating that is controlled for region, reflecting different financial reporting standards.

When GMI Ratings decides to add a company to ESG coverage, at what point is the company rated and published?
The release of an ESG rating and report is determined by the availability of primary research information. In the US, this would be the annual proxy statement that precedes the Annual Meeting. In all other markets, GMI Ratings requires the publication of the first annual report. An initial rating will not be released until the end of the corresponding research cycle in which the primary research material is made available. Note: GMI Ratings does not circulate corporate profiles to companies in advance of publishing.

Why does GMI Ratings need to wait for the Proxy and Annual Reports to initiate a rating?
A number of key metrics which GMI Ratings collects are only available in primary research documents such as the Proxy or Annual Report. In particular, executive compensation or remuneration information, which is a key component of our rating model, is typically only available in these documents.

Where can I find academic work or internal research on the relationship between ESG/AGR Ratings and portfolio performance?
GMI Ratings has collateral available to clients and prospects regarding the performance characteristics of both our ESG and AGR metrics. Such research includes the following, available on request.

- *Using ESG and AGR Risk Metrics to Improve Performance: Overview of Research Findings*
- *The AGR and Equity Returns*
- *The AGR and Equity Returns in the S&P 500*
- *The Corporate Library’s Governance Ratings and Equity Returns*
- *AGR Outperforms Academic Risk Measures*
- *AGR Outperforms Academic Risk Measures*
- In June 2012, DB Climate Change Advisors issued a lengthy report with a strikingly unequivocal finding that companies with high ESG ratings enjoy superior market performance and cost of capital. This study helped clear up confusion that had long persisted about the performance characteristics of sustainable investment strategies. Numerous academic literature reviews in recent memory have concluded that sustainable investing strategies deliver “mixed results”. Experts
and firms steeped in ESG research have long known that this kind of analysis errs in conflating responsible investing with SRI strategies that rely primarily on exclusionary screens. The DB report represents an important departure from this undifferentiated approach.

- Between February 2006 and December 2012, a portfolio of companies with top-decile AGR ratings would have outperformed the lowest-decile portfolio by 135% in North America, 90% in Western Europe, 113% in Asia Pacific (ex. Japan), and 118% in Japan.
- Companies with bottom-decile AGR ratings experienced major price drops (70%+) 3.6 times more frequently compared to companies with top-decile AGR ratings.
- GMI Ratings downgraded BP before Deepwater Horizon, Tepco before Fukushima, AIG before the financial crisis, News Corp before the phone-hacking scandal, Olympus before Michael Woodford blew the whistle, and many other companies before major negative events irretrievably destroyed shareholder wealth.
- AGR is a major component of GMI Ratings’ Litigation Risk Model which was designed to identify public companies at risk of class action lawsuits. The majority of companies facing Federal class action lawsuits are consistently ranked in the lowest 20% of the risk ratings distribution a year before the lawsuit was filed.

If a company operates in an industry that is widely associated with negative social values, such as gambling, tobacco or certain kinds of weapons manufacturing, how does this impact the ESG rating?

Formal industry classifications (or even marginal operating involvement in a particular industry) do not affect our ESG ratings. We do not exclude any industries nor reduce issuer ratings simply because of the company’s focus on a particular industry. Across industries, we focus instead on individual company characteristics mostly likely to have a material impact on the company’s sustainable investment value. GMI Analyst does provide much of the data needed to screen for companies operating in industries where clients may prefer to limit their exposure. However, our main goal is to rank companies in terms of ESG risk regardless of the industries within which they operate.

If a company operates in a country with high corruption, how does this impact the ESG rating? For instance, oil companies that have operations in African countries.

Such factors alone are not factored into our ESG ratings. GMI Analyst continues to flag companies primarily based on their actual behavior, rather than the locations in which they operate.

How often does GMI Ratings update its ratings?

ESG ratings can fluctuate slightly on a month-to-month basis, and the monthly ESG rating history is displayed in the company profile. However, the majority of changes in the underlying data occur in the data-collection period corresponding with the release of either the proxy statement or annual report. Additionally, many companies update the sustainability information contained on their websites at this time.

Outside (as well as within) this primary research period, GMI Ratings updates company data with current events that have an effect on the governance, environmental and social profile of the company. Examples would include personnel activity such as director or committee changes, corporate activity such as M&A, governance changes such as the adoption of majority voting and environmental and social events such as environmental incidents and bribery investigations. Current events can have an effect of a company’s rating in as little as two weeks.

AGR Ratings are generated four times per year based on mandated corporate filings. The last AGR Rating update can be viewed for each company in the upper-right hand corner of the profile page.

How many analysts are on staff at GMI Ratings?

GMI Ratings has more than 30 analysts dedicated to company research on ESG issues. The Portland, Maine office is the primary center for US-based research. We currently employ 12 full-time analysts. However, during the US proxy season (February-June) we bring in 10 temporary staff to help process the increased filing load during this period.

Of our current non-US research staff, three analysts reside outside of the US, one in Greece, one in Israel, and one in Mexico. All remaining GMI Ratings researchers reside in the US.

- One analyst with French and Portuguese language skills currently covers companies within Brazil, Portugal, France and Belgium.
- One analyst with Greek and German language skills currently covers companies within Germany, Austria, Switzerland.
One analyst with Hebrew and Russian language skills covers Israel and Russia.
One analyst with Chinese language skills covers China, Hong Kong, and Taiwan.
One analyst with Italian language skills covers Italy.
One analyst with Korean language skills covers South Korea.
One analyst with Spanish language skills covers Spain, Mexico, Chile and Colombia
Three analysts with Japanese language skills, cover Japan.

In addition to their language-based assignments, these analysts are typically responsible for research in a number of non-US English-language markets such as the UK and Australia.

Emerging markets such as South Africa, India, Thailand, Turkey and Malaysia and a number of others have sufficient English disclosure as to not require specific language skills.

Clients using our forensic accounting model (AGR) often draw on the expertise of our senior analysts whose backgrounds include statistical/quantitative research in equity and credit markets.

In addition to our front-line analysts, our editorial team (usually 5 to 8) people generate event-driven and trend-focused research to help clients respond quickly to emerging risks and opportunities. While these people are not directly involved in the day-to-day data collection and analysis, their work contributes to the understanding of ESG and forensic accounting issues that impact analysis at the company level.

What sources or publications does GMI Ratings use to conduct its ESG research?
GMI Ratings uses a number of sources to conduct its research, including regulatory filings, disclosures on the corporate website, public news sources, regulatory news, Thomson-Reuters and Lexis-Nexis.

On what basis does GMI Ratings decide to add a company to ESG coverage?
The coverage of our ESG model expands when companies are added to the indices we cover. Often, we also initiate coverage on companies based on specific requests from current and prospective clients (assuming that the companies meet our data-sufficiency criteria for the initiation of coverage).

When does GMI Ratings remove a company from ESG coverage?
Companies are removed from ESG coverage when they merge, delist from their primary exchange or drop off an index under which they are covered.

Does GMI Ratings provide an ESG rating for companies that are not included in the indices it covers?
Occasionally, a high-profile widely followed company falls outside a covered index. If the company meets our criteria for inclusion in the ESG model, we may initiate coverage, often at the request of a client.

How does GMI Ratings rate companies whose ESG disclosures do not provide sufficient detail to cover all ESG KeyMetrics?
Non-disclosure may result in a company being flagged for certain key metrics, but the ESG KeyMetrics list overall includes enough event-driven or calculated key metrics to outweigh all but the most egregious cases of non-disclosure. In extreme cases, however, we may simply be unable to rate particular companies and must exclude them from our coverage universe.

If your ratings are so heavily based on news stories and events that have already occurred, how can they possibly be considered predictive of future events? Haven't these risks already been “priced in”?
Very few companies engage in behaviors that can unexpectedly cause a significant destruction of shareholder wealth. These isolated actions are difficult, if not impossible, to predict. They also offer limited value as a factor in a predictive model. Investment risks stemming from counter-productive corporate actions typically build up slowly over time, as seemingly isolated events form observable patterns of behavior amenable to statistical analysis and context-sensitive risk modeling. Our ESG KeyMetrics have been crafted to identify and score these patterns, with a particular focus on their investment relevance.

These patterns have a cumulative impact on our company ratings over time, and it has been our experience that such patterns...
can indeed be employed as valuable indicators of negative future outcomes.

**Why is the number of companies under coverage for the S&P 500 only at 498 companies vs. 500?**
During the research cycle, companies across our coverage universe merge, get acquired or delist. At any given point in time, there will appear to be a shortage of companies in many of the indexes we cover, until new companies are added by the index manager.

**When does GMI Ratings decide to add a company to AGR Coverage?**
1. When the company trades in one of our coverage regions.
2. When the industry peer group to which it belongs has at least 8 members, and the company has at least 5 consecutive quarters of qualified financials with a sufficient number of valid metric operations.

**What are GMI Ratings’ Litigation and Financial Distress Models?**
Our Litigation and Financial Distress models are expressed on a numerical scale from 1 (lowest score) to 100 (highest score). Updated monthly, the Litigation Model was built to identify companies at risk for securities class action litigation. The model includes four components: adverse stock performance, company size, industry classification, and the AGR rating. Based on the probability of class action litigation, we assign a percentile ranking of litigation risk for a specific company.

The Financial Distress Risk Model was developed to predict bankruptcy and to identify companies in severe financial distress. The model is also updated monthly and combines accounting ratios, AGR, and Merton Distance-to-Default components to quantify the risk of distress as compared to all companies in the region.

**Why do we not have a Financial Distress Model for banks or other financial companies?**
No financial companies in the AGR universe have the Financial Distress model. The key ratios that we track are not appropriate for companies in the financial industry.

**What are the key differences between predecessor firm GovernanceMetrics International (oGMI) and GMI Analyst rating systems?**
oGMI and GMI Analyst ratings are driven by two distinct methodologies. While both models rate companies on relative global and home-market basis and share a common set of metrics, there are number of structural and philosophical differences that account for differences in issuer ratings under the two models.

The oGMI rating model was built on a large set (over 600 data points) of data and metrics. It was a blended approach using governance data based mainly on policy disclosure and, to lesser degree, behavioral outcomes. As result, this large data set reduced the influence of any single metric on the overall company rating. The other consequence of the oGMI rating approach was that it was influenced by the quality of disclosure. This characteristic introduced a measure of market cap bias into the ratings. In essence, larger companies that generally had better depth and breadth of governance policy disclosure, all things being equal, would score better than smaller companies.

By contrast, the GMI Analyst rating model uses a reduced but comprehensive set of 150 ESG KeyMetrics. The focus of this new model is to place a greater emphasis on materiality and behavioral outcomes rather than simple policy disclosure. For most companies, the governance component of the ESG Rating is most heavily weighted, representing as much as 80% of a company’s overall score. In contrast to the oGMI model, for companies where environmental or social risk exposure is high, the relative weights for each of these two components, normally just 10% each, can become much higher, depending on the degree of materiality associated with the factors involved.

The GMI Analyst model still does utilize a number of policy disclosure metrics. However, instead of placing value on disclosure itself, it tries to account for behavior that is in contravention of stated practice. For example, if a company has disclosed an over boarding policy, and has no overcommitted directors, the company would receive positive scoring impact for such practice. However if the company has disclosed an over boarding policy, but a number of current directors were overcommitted, there would then be negatively impacted.

Ultimately, we believe the increased focus on materiality and behavioral outcomes in new GMI Analyst rating model provides a better measurement of long term sustainability risk.
Why don’t the AGR and ESG scores exhibit any correlation?
Although they use a handful of similar risk metrics, the two models measure different aspects of issuer risk, on different timeframes, and they lend themselves to different (albeit, complementary) applications in investment research.

The AGR model assesses the reliability of reported financials, and it relies primarily on forensic accounting metrics to identify issuers with anomalous characteristics that may reveal mispriced risk. While the AGR does incorporate certain governance measures, these metrics mainly relate to identifying near-term risks likely to affect investors within the next six to twelve months.

The ESG rating was specifically built to measure risk from ESG factors on a longer-term timeframe – typically more than a year and possibly as long as 3-5 years. In sum, the fact that these two models do not correlate is not unintended.

Why am I having GMI Analyst display issues in Internet Explorer?
There are known issues in Internet Explorer that can affect the display of some contents within GMI Analyst. Alternate browsers, such as Mozilla Firefox and Google Chrome, are suggested for optimum viewing of the GMI Analyst platform.

About GMI Ratings
GMI Ratings is an independent provider of research and ratings on environmental, social, governance (ESG) and accounting-related risks affecting the performance of public companies. GMI Ratings is a registered investment adviser and is therefore subject to certain reporting requirements. Specifically, per our ethics policy, our analysts are precluded from engaging in any transactions involving any companies we follow. Our ratings and supporting research are intended to provide investors with an effective summary of ESG and forensic accounting factors that can and do impact issuer risk. They are not, however, intended for stand-alone use and should not be considered as simple Buy, Sell or Hold recommendations. We encourage investment professionals to regard these ratings as a specialized, proprietary input to be used in combination with existing fundamental analysis or other approaches and to help comply with the UN-PRI (United Nations Principles of Responsible Investing) and similar standards.