

Sustainalytics

1. What Sustainalytics Is

Sustainalytics is a global ESG research, ratings, and data provider, owned by Morningstar since 2020. It evaluates how well companies manage material Environmental, Social, and Governance (ESG) risks.

It is used by:

- Asset managers & hedge funds
- Pension funds
- Banks & insurers
- Regulators & ESG-compliant funds
- Index providers (MSCI, Morningstar, etc.)

2. What the Sustainalytics Score Exactly Measures

It measures how much unmanaged ESG risk remains.

It answers this question: *How exposed is the company to financially material ESG risks, and how well are those risks managed?*

So it is a risk metric for financial downside, not a moral score.

3. How the Rating is Calculated

The score is built in 3 layers:

a) ESG Risk Exposure

How exposed the company is to:

- Climate & emissions
- Labor & human rights
- Data security
- Product safety
- Corruption
- Supply-chain risk
- Board structure, etc.

This depends heavily on:

- Industry (oil ≠ software)
- Geography
- Business model

b) ESG Risk Management

How well the company:

- Has policies
- Applies controls
- Reports transparently
- Has audits & governance systems

c) Unmanaged Risk = Final Score

What is left after management efforts. This final number is the Sustainalytics ESG Risk Rating.

4. Sustainalytics Risk Score Scale

Score	Risk Level
0 – 10	Negligible risk
10 – 20	Low risk
20 – 30	Medium risk
30 – 40	High risk
40+	Severe risk

Lower score = better (less unmanaged ESG risk)

Higher score = worse (more ESG risk still unmanaged)

Examples:

- Microsoft ≈ 14 → Low Risk
- Shell ≈ 35–40 → High Risk
- Tesla has fluctuated between Medium and High in recent years

5. How Sustainalytics Is Used in Practice

It is used for:

- ESG fund screening
- Regulatory compliance (SFDR in EU)
- Portfolio risk control
- Green bonds & sustainability-linked loans
- Bank credit pricing
- Institutional mandates ("only low-risk ESG stocks allowed")

In Europe it is directly tied to SFDR Article 8 and Article 9 classification.