

Core Ratings

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Corporate Ratings: assessing qualitative risks to investment value

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Fitch Ratings and Core Ratings: sister companies

- **Core** Ratings is a sister company to Fitch Ratings
- **Core** Ratings analyses the effects on investment value from corporate responsibility risks
- **Core** Products: research ratings reports and engagement services and solicited ratings

A shift in the investment landscape

- The 1990's "bubble" and corporate scandals create the need to rebuild trust between companies, fund managers and investors.
- Investors want management that can build sustainable value – requires a shift in focus from short-term to long-term
- Asset managers and banks/insurers have a growing interest in risk to value from governance and corporate responsibility issues
- Regulators are requiring reporting on material risks through the OFR and MDA



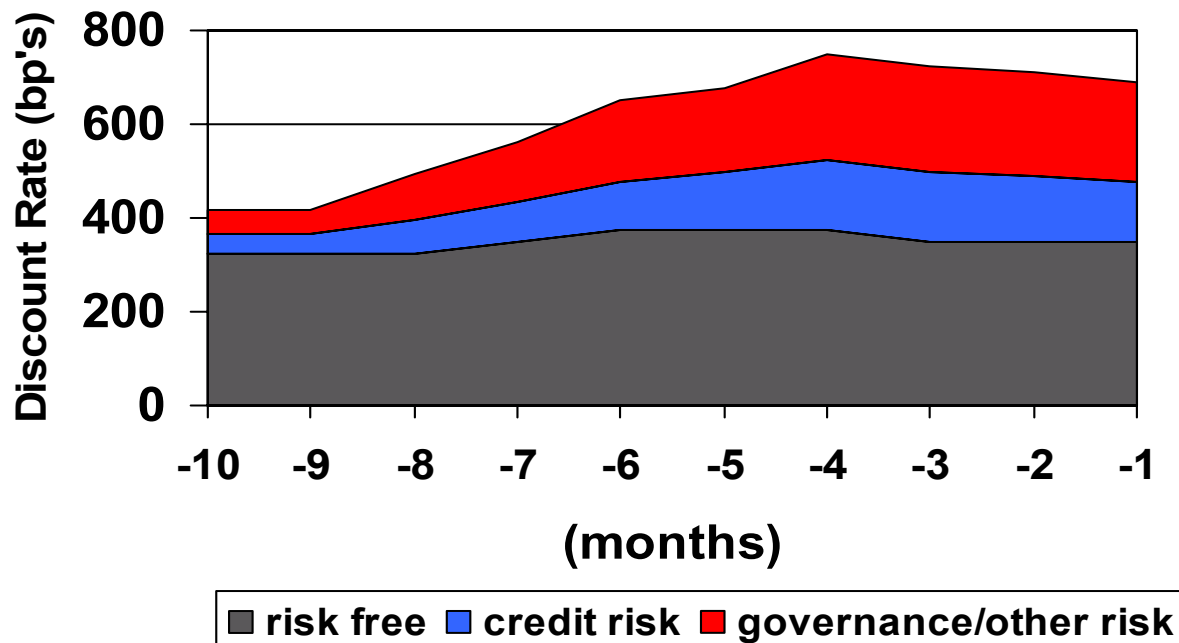
"I've diversified so many times, I can't tell you what business I'm in."

Governance and responsibility risks are priced into asset valuations

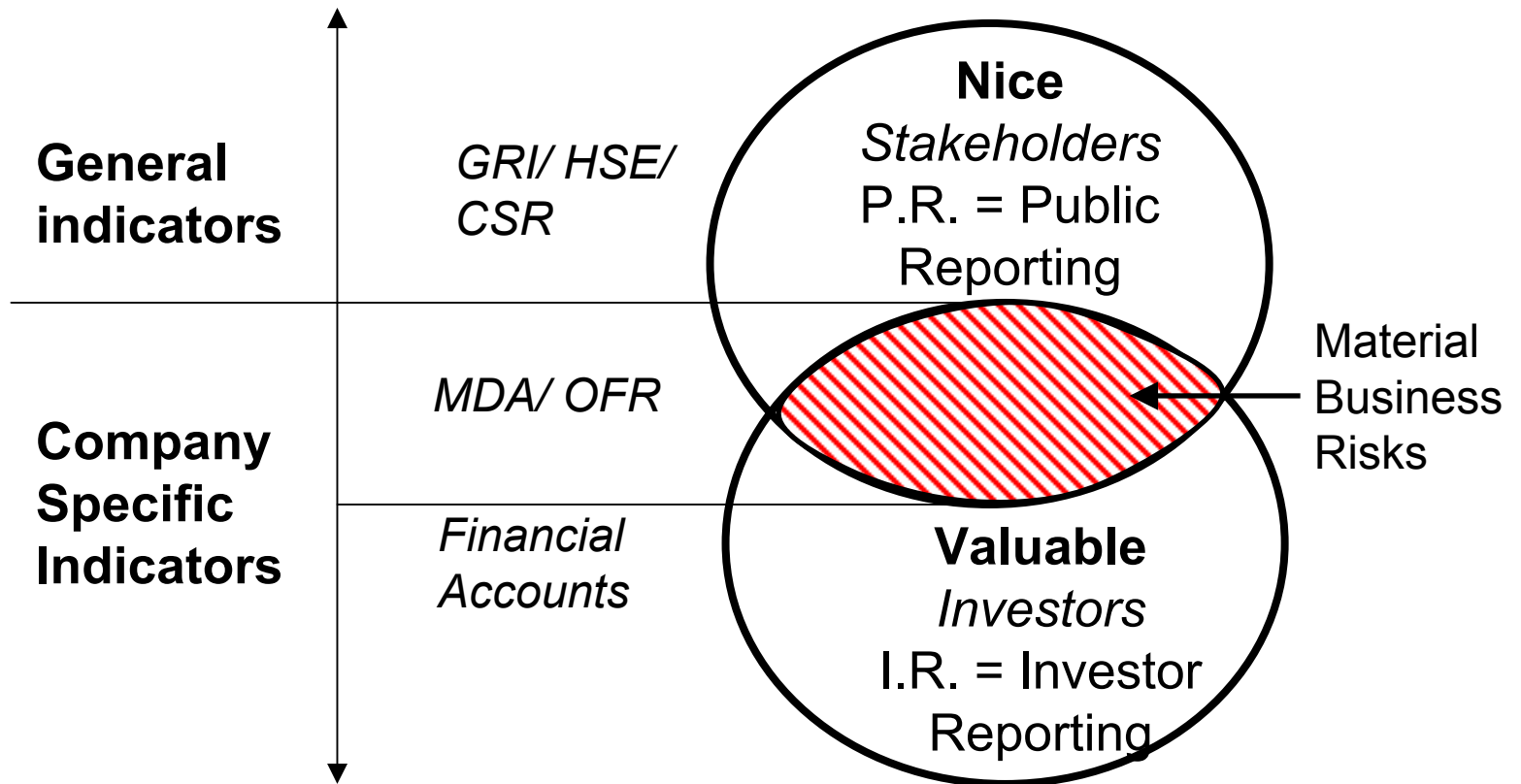
- Our ratings are primarily there to help investors value financial assets (equities and bonds)
- Corporate responsibility issues rarely have a significant effect on earnings/cash flow directly
- They do materially affect market capitalisation through the perception of risk
- Risk is taken into account in the CAP (capital asset pricing) model

Governance and responsibility risk affects the spread

Discount rate: typical bond



“Nice” vs. “Valuable” Information



Risk mapping risk to value drivers

We assess materiality of social, environmental and ethical risks by their potential effect on key value drivers within the company:

- Brand value impairment
- Permanence of intangible values
- Collateral reputation damage
- Regulatory changes
- Liability to legal actions (single or class)
- Long-term access to people skills
- Maintenance of competitive advantage

Responsibility Rating process

Top/ Down = Governance				
Governance policy	Business Ethics	Board and Management Organisation	Investor Rights and Relations	Risk management
				Analysing materiality of risk Identifying impacts and risks

Bottom/ Up= Systems

Core Responsibility Rating

- Builds trust with investors, bankers and regulators
- Helps reduce the investment risk premium on equity and bonds
- Benchmarks the company's performance on those responsibility issues that most effect value
- Identifies issues for inclusion in the OFR/MDA
- Builds in-depth knowledge of key intangible assets