

# Environmental Innovators

## Methodology Document

October 2013

## Introduction

MSCI ESG Research's Environmental Innovators (EI) list highlights companies that have made a commitment to creating products that help improve the environment.

## Eligibility Criteria

The EI list captures all constituents of the MSCI ACWI Investable Market Index (IMI) that earn 1% or more of their revenues from at least one of the following five environmental themes:

- **Alternative Energy** – Products and services that promote the generation of power using renewable or cleaner sources (i.e., cleaner than fossil fuels) or the development of alternative energy technology.
- **Clean Technology** – Products and services that deliver equal or superior performance while reducing energy use and natural resource consumption, when compared to conventional offerings.
- **Sustainable Water** – Products and services focused on water and wastewater treatment; water infrastructure; or water resource management and efficiency.
- **Green Building** – Building material suppliers; home builders; or property managers that directly support and have a confirmed commitment to achieving sustainable building standards (i.e., LEED, Energy Star Homes, or other recognized standards of sustainable building) for all new construction.
- **Pollution Prevention** – Products and services focused on pollution prevention; waste minimization or recycling, including source reduction, in-process recycling, reuse/reclamation, resource recovery, and treatment/abatement.

Please refer to Appendix 1 for a detailed description of these categories.

## Sample Companies

The following five companies were constituents of the EI list as of September 1, 2013:

### Theme: Clean Technology

**Company: Cree Inc. Country: United States**

LEDs account for more than 90% of Cree's revenues and the company is a long-acknowledged leader in this space with a reputation for innovation. LEDs provide highly energy efficient lighting (far more so than fluorescent bulbs) and the technology has developed to the point where they are increasingly being adopted for new applications. Regulatory developments such as bans on incandescent lighting in some jurisdictions may further propel sales of LEDs, especially as the quality of LED lighting has improved to the point where it is better than compact fluorescent bulbs (CFLs). LED lighting also has a longer lifespan than CFLs and does not present the same disposal issues (CFLs contain mercury). In addition to being well positioned to grow with the expanding LED market, in the last few years Cree has also launched lines of power-switching diodes that can be used in solar inverters, among other applications, and generally drive greater energy efficiency in the devices that contain them.

**Theme: Alternative Energy**

**Company: Acciona SA Country: Spain**

100% percent of the company's total generating capacity is comprised of renewable energy, which is higher than the average (34%) for companies in the Electric Utilities industry. As of December 2011, Acciona had 8,212 MW of renewable generating capacity, with 6,921 MW from wind power. Acciona is the second-largest wind power producer in the world after Spanish peer, Iberdrola. Over the next five years, 100% of Acciona's additional planned capacity (463 MW) is expected to come from renewables. Furthermore, the company provides a green power option to retail consumers, Acciona Green and from 2010 to 2011 it tripled the supply of green power to customers. The company has also ventured into the commercialization of renewable power equipment, including offshore wind turbines and efficiency biomass plants, which create additional revenue streams.

**Theme: Pollution Prevention**

**Company: Owens-Illinois Inc. Country: United States**

Owens-Illinois uses 36% recycled content in its finished product and plan to increase usage of recycled content to 60% by 2017. Although we have been unable to benchmark the company's performance against other glass manufactures due to a lack of disclosure by the industry, Owens-Illinois current recycling rate is approximately equivalent to the global glass recycling rate, and its 2017 target is equal to the current stringent targets set by the EU, both of which we regard as positive signs. Furthermore, the company has invested in technology that will allow it to operate using 90% recycled glass which will see it benefit should minimum recycling standards increase across the regions it operates in.

**Theme: Green Building**

**Company: Sekisui House, Ltd. Country: Japan**

Sekisui House has a strong level of green building commitment as the company's target is to build all new developments as "Carbon Neutral Houses" before 2020. To this end, the company has established the "Green First" and "Green First Premium" house product lines which include on-site electricity generation (photovoltaic and fuel cell systems) and low-carbon technologies (high efficiency hot water supply systems and advanced thermal insulation). Sekisui House offers training to employees on green building related topics. With respect to Sekisui House's performance, the company holds 83.8% of its

detached houses as certified under a green building standard. This certification level positions the company among best in the industry on this measure.

**Theme: Sustainable Water**

**Company: Kurita Water Industries Ltd. Country: Japan**

Kurita derives virtually all of its revenue from water and wastewater treatment and water reclamation services.

## Maintenance

**Research and Update Process**

MSCI ESG Research updates the EI list every quarter.

All companies covered by the EI list are a subset of the MSCI ACWI IMI. All constituents of the MSCI ACWI IMI are researched at least once per year for revenue exposure to at least one of the five EI themes.

**Additions and Deletions to the Underlying Parent Index**

The MSCI ACWI IMI is rebalanced four times per year – in February, May, August and November. All companies that are deleted from the ACWI IMI during these rebalances are also deleted from MSCI's EI list.

All companies newly added to the MSCI ACWI IMI are reviewed each quarter.

MSCI ESG Research makes new additions to the EI list four times per year, prior to each parent index rebalance – in January, April, July and October.

All constituents of MSCI ACWI IMI are reviewed at least once per year. Companies that are found to earn 1% or more of revenues from at least one of the five EI themes are added to the EI.

All constituents of the EI list are reviewed at least once per year. Companies that are found to no longer earn at least 1% or more of revenues from at least one of the five EI themes are deleted from the list.

**Sources:**

- Corporate documents – including annual reports, sustainability reports, securities filings, websites.
- Online financial and business databases

# Appendix 1: Environment Themes

The MSCI ESG Environmental Innovators list captures all publicly traded companies globally that earn 1% or more of their revenues from at least one of the following five environmental themes:

- Alternative Energy
- Clean Technology
- Sustainable Water
- Green Building
- Pollution Prevention

A brief description of these themes is included below.

## **Alternative Energy**

This theme includes renewable energy sources, such as wind, solar, geothermal, and tidal, as well as alternatives to fossil fuels, such as biofuels, biomass, landfill methane, hydrogen and natural gas based fuels, and fuel cells. This theme is comprised of companies that:

- Generate and distribute power from renewable energy sources;
- Produce alternative fuels with little or no negative externalities to the environment or human health (or from renewable or cleaner sources);
- Supply technologies, equipment, and components for renewable or alternative energy; or
- Promote renewable or alternative energy projects (i.e., financing, design, construction, management).

This category also includes companies that supply materials, specific-use parts and services to original equipment manufacturers and generators of electricity or fuel from renewable and alternative resources.

## **Clean Technology**

This theme category includes companies whose products or services reduce energy resource consumption through:

- Products that make current technologies highly energy-efficient;
- Technologies for producers or consumers that make more efficient use of power or fuel; or
- Products or services that reduce the demand for energy or fuel consumption

Examples of Clean Technology products and services include electric and hybrid (gas-electric) vehicles, energy-efficient machinery and equipment and large-scale energy storage equipment. They also include demand management services (utilities) and “smart metering” and industrial automation controls. Companies considered for the Clean Technology theme do not fit into the Alternative Energy, Sustainable Water, Pollution Prevention, or Green Building themes.

## **Sustainable Water**

Companies included in this theme have product and service offerings that focus on:

- Minimizing and monitoring current water use and demand increases;
- Improving the quality of water supply; or

- Improving the availability and reliability of water.

The Sustainable Water theme includes companies that provide products and services in water and wastewater treatment (i.e., water treatment plants, equipment and technologies used for treatment/purification of water, wastewater and sewage); water infrastructure (i.e., companies that build or maintain water and sanitation pipelines); or water resource management/water efficiency (i.e., technologies that reduce use of, reuse, or recycle water such as smart metering devices and controls, low-flow equipment and rainwater harvesting systems).

### **Green Building**

This theme category includes companies whose product and service offerings:

- Conserve natural resources;
- Are made with salvaged or recycled waste content;
- Avoid toxic or other emissions;
- Save energy or water; or
- Contribute to a safe, healthy built environment.

The Green Building theme addresses the products and services across the entire sustainable building value chain. Products may address raw materials; energy efficiency; manufacturing processes; toxicity of a product during installation and use; and resource recovery. Services may include consulting; design; engineering; construction; project management; real estate investment trusts (REITs); financing; and third-party certification.

### **Pollution Prevention**

Companies included in this theme have product and service offerings that focus on:

- Cutting or eliminating pollution, toxic wastes, and emissions during the entire lifecycle of a product (from manufacture and use to disposal);
- Reducing the use of materials in the production process;
- Facilitating in-process recycling;
- Utilizing inputs in the production process made from reclaimed/recycled/post-consumer materials;
- Promoting reuse of a product or a good;
- Minimizing the impact of the production process by treating waste prior to it being released for disposal or discharge; or
- Remediation.

The Pollution Prevention theme identifies companies whose products and services support pollution prevention, waste minimization, or recycling as a means of alleviating the burden of unsustainable levels of waste generation on the environment.

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<sup>1</sup> As of September 30, 2012, as published by eVestment, Lipper and Bloomberg on January 31, 2013