

Thinking about Sustainability (Global Large Cap)

A More Complete Picture of Investing in Quality

Investors routinely consider both the ESG quality (i.e., the quality of a company's management approach to environmental, social, and governance [ESG] risks and opportunities) and the Financial quality (i.e., a company's Risk-Adjusted Profitability) of a firm in their day-to-day investment due diligence. Up until now the two have been examined somewhat in isolation. Marrying the financial 'F' pillar with ESG performance can help create a more holistic approach to sustainable investing. This is exactly the use case for [our ISS ESGF factor](#).

In this report, we screen for the top scoring ESGF companies in our Global Large Cap universe. These are all of the companies that score a B+ for ESGF. We include each company's underlying Environmental, Social, and Governance rating, along with the overall ESG Corporate Rating. Note that some companies score as low as a C on the individual components of the ESG Rating but achieve an overall ESG Corporate Rating of B- or higher.

Figure 1: Top Names

Name	Ticker	Sector	Country	Market Cap (US\$M)	Environ Rating	Social Rating	Govern Rating	ESG Corp Rating	Financial Rating	ESGF	Value	PRVt	YTD Returns
August 19, 2025 Picks													
APPLE INC	AAPL	IT	USA	3,448,533	C+	B+	B-	B	A	B+	95	49	-7.91%
TAIWAN SEMICONDUCTOR MFG CO -ADR	TSM	IT	TWN	1,017,540	B-	B+	A-	B	A-	B+	80	67	11.22%
SAP SE -ADR	SAP	IT	DEU	339,230	B	B-	B+	B	A-	B+	70	51	1.17%
ASML HOLDING NV -ADR	ASML	IT	NLD	283,522	B-	B-	A	B	A	B+	88	70	-4.62%
NOVARTIS AG -ADR	NVS	Health Care	CHE	262,334	B+	B-	B	B	A	B+	64	85	17.91%
HERMES INTERNATIONAL	RMS FP	Discretionary	FRA	255,357	B-	B-	B+	B-	A+	B+	99	41	-8.36%
NOVO NORDISK A/S -ADR	NVO	Health Care	DNK	242,607	B	B+	B+	B	B+	B+	55	55	-42.66%
SERVICENOW INC	NOW	IT	USA	185,719	B	C+	B+	B-	A	B+	98	61	-16.47%
IND DE DISENO TEXTIL SA	ITX SM	Discretionary	ESP	158,848	B-	B+	B+	B	A	B+	92	57	-10.40%
ADOBE INC	ADBE	IT	USA	152,541	B	C+	B+	B	A+	B+	74	77	-19.06%
ABB LTD -ADR	ABB NY	Industrials	CHE	122,788	B	B	B+	B	A-	B+	83	62	12.82%
DELL TECHNOLOGIES INC	DELL	IT	USA	94,343	B-	B	B+	B	A-	B+	59	74	18.74%
RELX PLC -ADR	RELX	Industrials	GBR	87,740	B-	B-	B+	B-	A+	B+	94	41	-0.87%
GSK PLC -ADR	GSK	Health Care	GBR	79,238	B+	B	B	B+	B	B+	21	93	11.52%
HILTON WORLDWIDE HOLDINGS	HLT	Discretionary	USA	63,614	B-	B-	B+	B-	A+	B+	95	60	9.87%
EDWARDS LIFESCIENCES CORP	EW	Health Care	USA	46,171	B+	C	A-	B-	A	B+	88	69	6.39%
MSCI INC	MSCI	Financials	USA	42,989	C	A-	B-	B-	A+	B+	97	69	-4.64%
VESTAS WIND SYSTEMS A/S	VWS DC	Industrials	DNK	20,866	C+	A	A-	A-	B-	B+	51	44	38.56%
HINDUSTAN ZINC LTD	HZ IN	Materials	IND	20,658	B	B	A-	B	A-	B+	94	68	-1.39%
BRAMBLES LTD	BXB AU	Industrials	AUS	20,608	B-	B	A-	B	A-	B+	85	60	22.72%
LTIMINDTREE LIMITED	LTIM IN	IT	IND	17,269	B+	C	A-	B	A-	B+	75	75	-7.71%
EXLSERVICE HOLDINGS INC	EXLS	Industrials	USA	6,994	B	C+	B+	B-	A+	B+	86	63	-2.61%
NORDEX SE	NDX1 GR	Industrials	DEU	6,086	B-	B+	B	B+	B+	B+	67	55	90.59%
Average													4.99%
MSCI AC World													11.81%

ISS ESG

The ISS ESG Corporate Rating captures and evaluates companies' management of sustainability risks, opportunities, and impacts along the entire value chain, including a detailed assessment of impacts from products and services, as well as their involvement in controversial practices. Applying an industry-specific materiality approach, each issuer is evaluated on approximately 100 indicators. This allows for highly relevant, material, and forward-looking sustainability performance assessments.

ISS EVA

The ISS ESG Financial Rating leverages data from ISS EVA, an established standard in measuring, analyzing, projecting, valuing, and discounting a firm's underlying economic profit rather than its accounting profit. The Financial Rating is based on EVA Profitability (P) and Risk (R) measures. The Profitability factor consists of EVA Profitability Level (P1) metrics along with EVA Profitability Trends (P2) measured over the last quarter, year, and three years. The Risk factor is calculated based on the Volatility (R1) of EVA Profitability and the three-year standard deviation of the stock price. The second Risk component, Vulnerability (R2), evaluates free cash flow generation and balance sheet leverage. **Figure 2** on page 2 has example scores to show the calculations that constitute the Financial Rating score.

Key Takeaways

By taking into consideration both ESG and financial measures, the ESGF Rating provides comprehensive insights into a firm's position on the quality curve.

The ESGF model can help ensure that a good Financial Rating will not compensate for poor ESG performance.

The good management of long-term sustainability risks may aid in the reduction of financial risks as companies hedge against negative impacts from, for example, natural disasters, volatile energy prices, or labor-related controversies.

Factor	Best	Worst
Environmental Rating	A+	D-
Societal Rating	A+	D-
Governance Rating	A+	D-
ESG Rating	A+	D-
Financial Rating	A+	D-
ESGF	A+	D-
Value	0	100
PRVt	100	0

Screen Criteria:

- ISS EVA Global Large Cap Universe.
- Top 23 names by ESGF score, all score B+ (these are all the companies that score B+).

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

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Figure 2: Financial Rating Factors

3.18 Financial Rating		(Profitability Score * 60%) + (Risk Score * 40%)	
3.30 Profitability Score (P)		(Profitability Level * 60%) + (Profitability Trend * 40%)	
3.50	P1 Profitability Level	Financial strength in generating a return on capital over the full cost	
3.00	P2 Profitability Trend	The growth rate in the firm's economic profit (its EVA)	
3.00 Risk Score (R)		Average (Volatility, Vulnerability)	
3.00	R1 Volatility	Variability in stock price and the EVA profit margin	
3.00	R2 Vulnerability	Leveraged, negative cash flow firms are suspect	

Figure 3: Numeric Translations

Numeric Rating Translations

Less Than (<)	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00
Greater Than or Equal (≥)	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75
Letter Rating Scale	D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+
Performance	Poor			Medium			Good			Excellent		

Methodology

While the Financial Rating can be used as a standalone measure of a firm's Risk-Adjusted Profitability (Quality), to understand the full view of quality, the combined ESGF rating is used. The ESGF model (Figure 4) is structured to make sure that poor ESG performance cannot be overly compensated by good financial performance. This is achieved using a weight distribution of 2:1 between ESG and F. In practical terms, companies with poor ESG performance (D rating) cannot obtain a good or very good ESGF performance rating (A or B rating).

ESG & Financial Rating Results

In the tables to the right, we present the results of our backtest for the Global Large Cap universe. The top table shows the backtest results of the two factors on a stand-alone basis: the top basket of ESG Financial Rating companies generates 15bps/month of alpha while the top basket of the ESG Corporate Rating factor generates 12bps/month of outperformance.

In the lower table, we look at the average monthly alpha when combining these factors. Companies with a strong ESG Corporate Rating and a strong ESG Financial Rating (the A&B vs A&B box of the table) produce 24bps/month of alpha versus the overall, equal-weighted universe since December 2012. Avoiding the worst names in both metrics (D vs D) generates 23bps of alpha.

Figure 4: Results of ESGF Model

		Corporate ESG Rating											
Financial Rating		A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-
A+		A+	A	A-	B+	B	B-	B-	B-	C+	C	C	C-
A		A+	A	A-	B+	B	B-	B-	C+	C	C	C	C-
A-		A	A-	A-	B+	B	B-	B-	C+	C	C	C	C-
B+		A	A-	A-	B+	B	B-	B-	C+	C	C	C	C-
B		A	A-	B+	B+	B	B-	B-	C+	C	C	C-	D+
B-		A-	A-	B+	B	B	B-	C+	C+	C	C-	C-	D+
C+		A-	B+	B+	B	B-	B-	C+	C	C	C-	D+	D+
C		A-	B+	B	B	B-	C+	C+	C	C-	C-	D+	D
C-		B+	B+	B	B-	B-	C+	C	C	C-	D+	D+	D
D+		B+	B	B	B-	C+	C+	C	C-	C-	D+	D	D
D		B+	B	B-	B-	C+	C	C	C-	D+	D+	D	D-
D-		B	B	B-	C+	C+	C	C-	C-	D+	D	D	D-

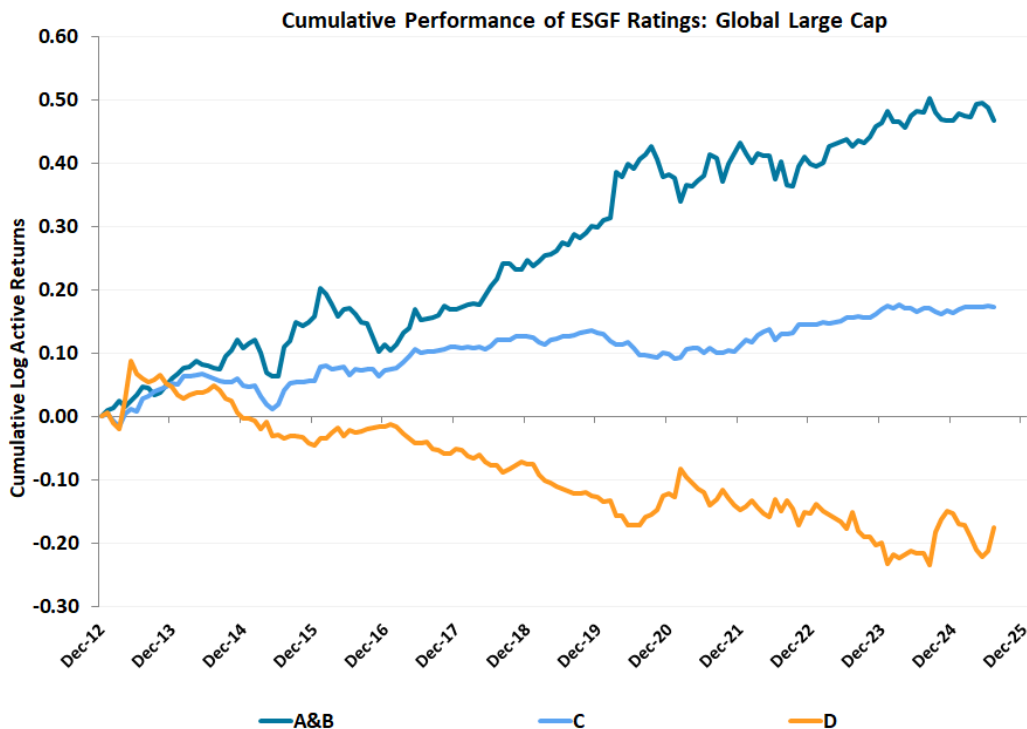
Standalone Factor	A&B	C	D
ISS ESG Financial Rating	0.15%	0.01%	-0.28%
ISS ESG Corporate Rating	0.12%	0.12%	-0.05%

		ISS ESG Corporate Rating		
		A&B	C	D
ISS ESG	A&B	0.24%	0.22%	0.11%
Financial	C	0.06%	0.15%	0.03%
Rating	D	0.02%	-0.04%	-0.23%

Historical Results

The graph below (**Figure 4**) shows the cumulative performance of three portfolios created using the ESGF score. Over time, the strongest ESGF companies (A&B line) outperform the other two portfolios. The worst names (D line), with weak financial ratings and poor ESG scores, underperform the other two portfolios and the overall universe. These results are based on monthly portfolio re-balancing, equal-weighted portfolios, and no transaction costs. The Global Large Cap universe includes companies that comprise 85% of the cumulative market cap in our coverage universe of 29,000 companies.

Figure 4: Compound Performance Over Time



About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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