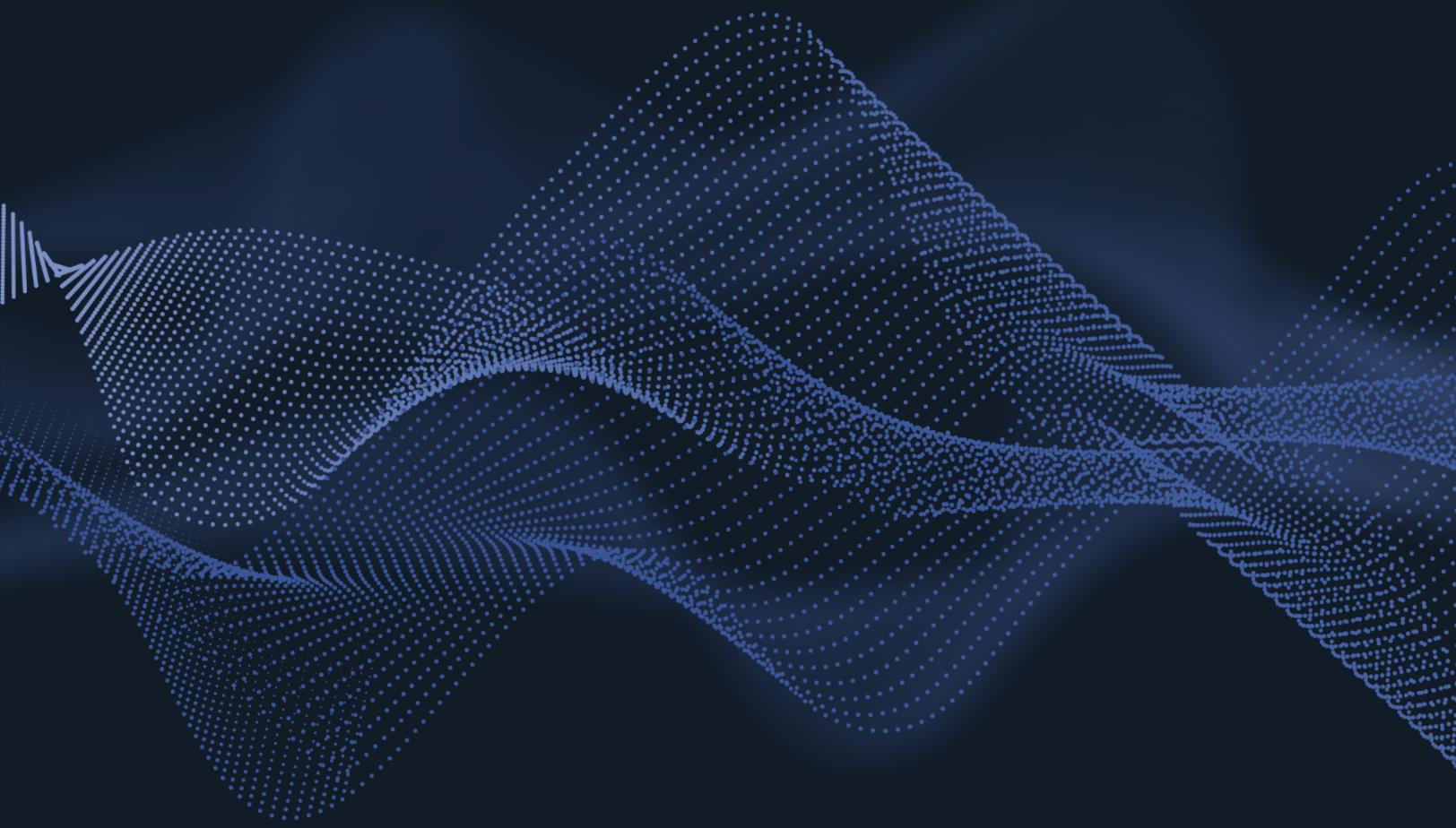


The End of **Intuition**

The Value of Independent Validation



CONTENTS

03

PREFACE

04

ANALYSIS

05

KEY
FINDINGS

08

CONCLUSIONS

Investors are **willing to pay a premium** for better - governed emerging market firms.

IFC, "Survey Says...Corporate Governance Matters to Investors in Emerging Market Companies", 2010

PREFACE

CHALLENGES

Emerging markets will account for 70% of global growth over the next five years according to the International Monetary Fund. Although the world has become undeniably more connected, searching for and evaluating business partners and investment targets in many of the world's fastest growing markets (emerging or not) is as challenging and opaque as ever. And this introduces significant risk.

WHY IS THIS STILL THE CASE?

More often than not, this problem stems from a lack of complete, actionable data that might be used to make decisions or to make meaningful comparisons at scale on non-credit factors like governance, financial crime and corruption. Moreover, where there is enough data to form a basic opinion, it rarely addresses the question of good governance or the adequacy of financial crime controls in a standardized way.

Existing rating systems, such as credit ratings, or other purpose-built approaches, including the trillion-dollar investment thesis around Environmental, Sustainability and Governance ("ESG") metrics, all fail to cover financial crime.

This is evidenced by recent headlines and significant stock price losses resulting directly from financial crime lapses at companies with both high credit ratings and high ESG scores in the Americas and in Europe.

This reality means that despite growing interest in emerging and frontier markets, global businesses and investors still lack meaningful tools for non-credit risk comparisons which may lead to uninformed decision making or a decision to just not invest at all.

Equally, a lack of data creates problems for companies in these fast growth markets who hope to attract investment and gain better connectivity to the international financial system.

In the end, it comes down to trust. Normalizing and improving data access and analytics is an important step in building trust and reducing risk exposure.

*According to a 2017 IMF report on emerging markets entitled, "Roads Less Traveled: Growth in Emerging Markets and Developing Economies in a Complicated External Environment"

ANALYSIS

THE END OF INTUITION

At company inception, the Sigma Ratings founding team conducted hundreds of interviews with credit officers, financial crime experts and emerging market debt and equity investors. These interviews primarily took place with large asset managers and financial institutions in Boston, New York and London. Conversations also included a number of executives of leading emerging and frontier market corporations who struggle to differentiate despite spending millions of dollars on compliance controls, broad-based branding and face-to-face reassurance (e.g., shuttle diplomacy).

As part of this original interview process, we asked global institutions: “How do you quantify the non-credit risk of a company in an emerging or frontier market?” The answers varied – by profession – but one interviewee told us, well, “It is really just intuition.”

In an age of big data and a world where the UN reports close to \$2 trillion a year is laundered (and less than 1% of this illicit activity is discovered by law enforcement and ultimately forfeited), something more than intuition is necessary. In the end, intuition is hard to document, compare and monitor over time. Moreover, it is inherently biased.

At Sigma Ratings, we envision a new, deeper set of standards that are equally useful to financial crime compliance teams, investors and credit teams seeking a better way to establish trust through data.

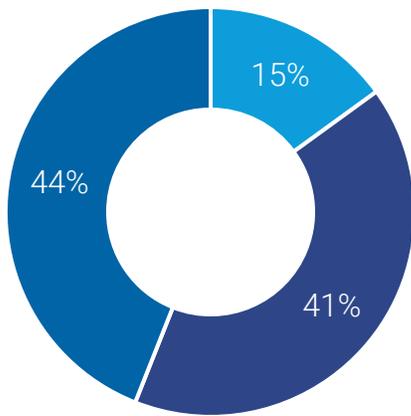
Normalizing financial crime and governance risk data is as important as understanding credit data for investors and counterparts looking to act with conviction.

* See link: <https://www.unodc.org/unodc/en/money-laundering/globalization.html>

KEY FINDINGS

Our recent survey found that investment and banking executives would greatly benefit from having access to third party validation around **financial crime, corruption and reputational risks**. The research found that most of this work today relies on network and the Internet.

Specifically, the survey uncovered six key findings that signal that there is significant benefit not only for investors, but for emerging and frontier market companies who obtain validation via independent assessment. Benefits include better risk management, as well as credit decisioning.



- Slightly Valuable
- Very Valuable
- Extremely Valuable

85%

of investors & global banks would find independent ratings for financial crime & governance very or extremely valuable.

85%

said that alternative ratings that look at financial crime & governance would considerably or moderately improve credit risk decisions.

94%

Consider independent assessments when deciding on an investment or business relationship.



Audits



Credit Ratings



Other

KEY FINDINGS

IN ORDER OF IMPORTANCE:

- 01 Financial Crime Risk
- 02 Corruption
- 03 Credit
- 04 GeoPolitical
- 05 Cyber

97%

of investors consider a company's reputation as a critical factor in a decision to do business.

89%

said that financial crime risk is either extremely or very important in decision-making around investment or relationships in emerging markets.

Internet research and word-of-mouth drive most decisions today. When making decisions, investors consult:

97%

Contacts in the Industry

91%

Contacts in the Country

88%

Internet Research

Corporate governance is a matter of the quality of leadership provided by the board of directors and the quality of the management delivered by the executives.

Larry Fink CEO BlackRock

CONCLUSION

STRIVING FOR BEST PRACTICE

EMERGING AND FRONTIER MARKETS ARE THE FUTURE.

Understanding emerging and frontier markets and the companies that comprise them aides long-term growth, opens untold opportunity and decreases wholesale de-risking. In sum, it is a win/win and is only achievable through trust which, as evidenced by this white paper, benefits from greater data availability around governance and financial crime risk.

Moreover, entities in these fast growth markets who receive a certified Sigma Rating - our highest evaluation level - are successful in expanding relationships, maintaining important links with the international financial system and demonstrating to stakeholders and shareholders a commitment to excellence on an area of profound concern. And one that increasingly includes personal liability for those who get it wrong. These entities also benefit from the rating exercise in that they use it to discover areas for improvement and to benchmark against Sigma Ratings' growing database of risk metrics.

RATINGS

Sigma Ratings issues estimated and certified ratings on companies, with a focus on emerging markets. Estimated ratings rely exclusively on public data, whereas certified ratings incorporate both public and private data sourced directly from the rating target. Ratings range from AAA (strongest) to C (weakest) and are dynamically updated when new information becomes available.

SIGMA RATINGS

Sigma Ratings is the world's leader in rating governance and financial crime risk. Sigma pioneered a country and entity rating methodology and has delivered estimated and certified ratings on thousands of companies across the Americas, Europe, Africa, the Middle East and Southeast Asia.

SURVEY METHODOLOGY

This survey was conducted online by Gerson Lehrman Group on behalf of Sigma Ratings in the fall of 2018. The survey was conducted utilizing an online panel of experts primarily based in the United States and Europe who work in banks, investment firms or private equity. All surveyed individuals invest in or work in emerging markets and have decision making authority over the purchase of alternative data.

CONTACT

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