



Methodical Approach for ESG Analysis



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Advisors



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Independents &
affiliates

\$43.8 bil
Managed Portfolios

Asset
Managers



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\$26.9 bil
Investment Management

Retirement



285,000 +
Plans

\$130.8 bil
Retirement Solutions

Individual
Investors



11.9 mil
Individuals

Institutional
Clients



2,700
Institutions

Global Regulators



60+

Media Companies



140+

Alliances & Redistributors



655+

Data as of Mar. 31, 2018. Includes assets under management and advisement for Morningstar Investment Management LLC, Morningstar Investment Services LLC, Morningstar Investment Management Europe Ltd., Morningstar Investment Management Australia Ltd., Morningstar Investment Management South Africa (PTY) Ltd, and Ibbotson Associates Japan KK, all of which are subsidiaries of Morningstar, Inc. Advisory services listed are provided by one or more of these entities, which are authorized in the appropriate jurisdiction to provide such services.

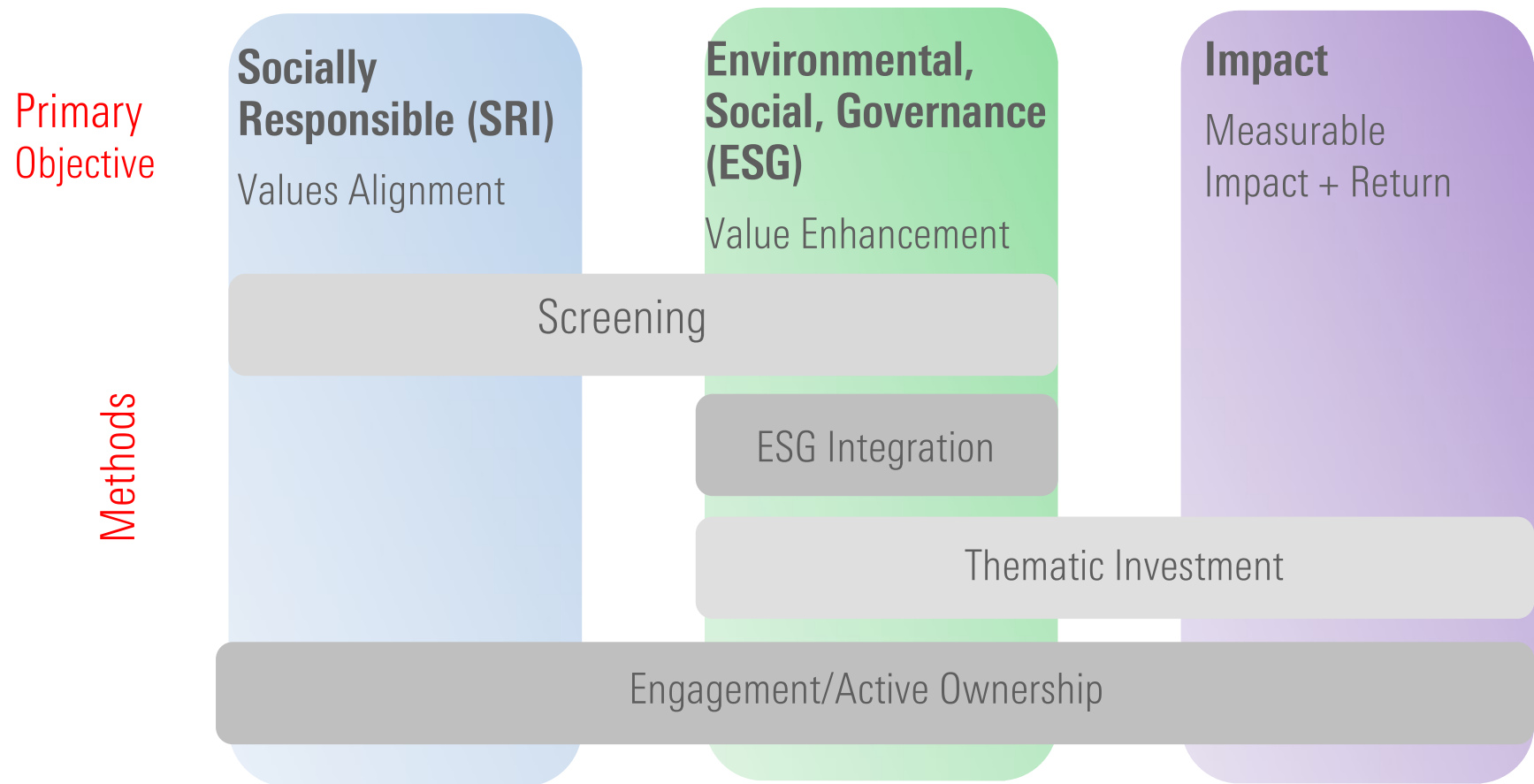
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Agenda

1. ESG Investing - What We Know
2. Why We Care
3. A Look at Sustainalytics & Morningstar
4. ESG Fund Level Analysis – Tools & Best Practices
5. Tying it Together

3 Dimensions of Sustainable Investing



Why Does it Matter?

ESG risks can have a material impact on a company's value.

- ▶ A recent study estimated that Intangible Assets make up approximately 84% of the total value of the S&P500. This value represents a staggering 52% growth from 1985¹
- ▶ Intangible assets like brand value are impacted significantly by E, S, and G issues

Environmental Issues



Carbon emissions

Air/water pollution

Social Issues



Labor Standards

Data protection/privacy

Governance Issues



Board composition

Executive compensation

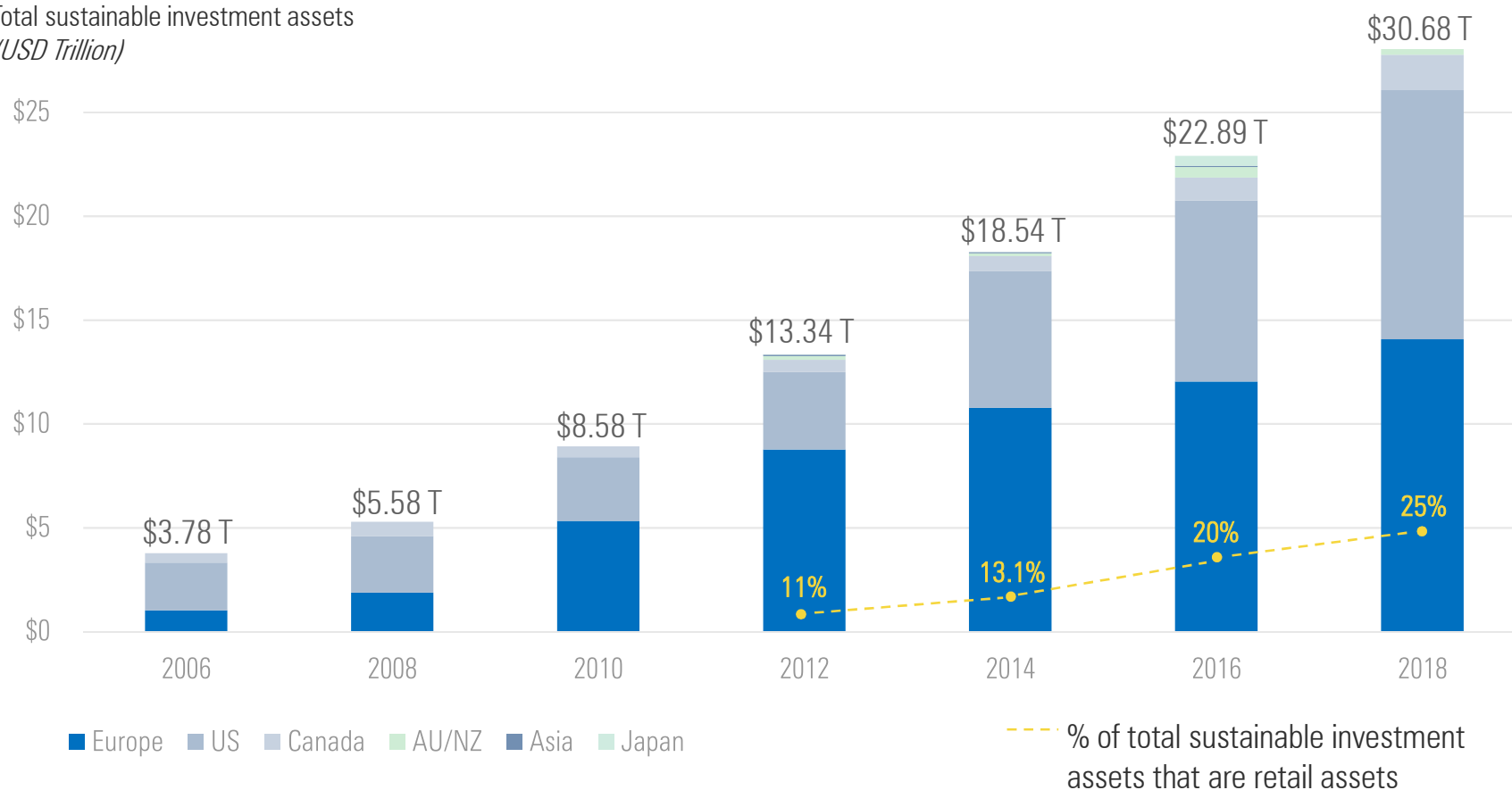
1. <https://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>

Why Do We Care?

Sustainable investing assets are growing.

- ▶ Investor preferences are changing & ESG is entering the mainstream

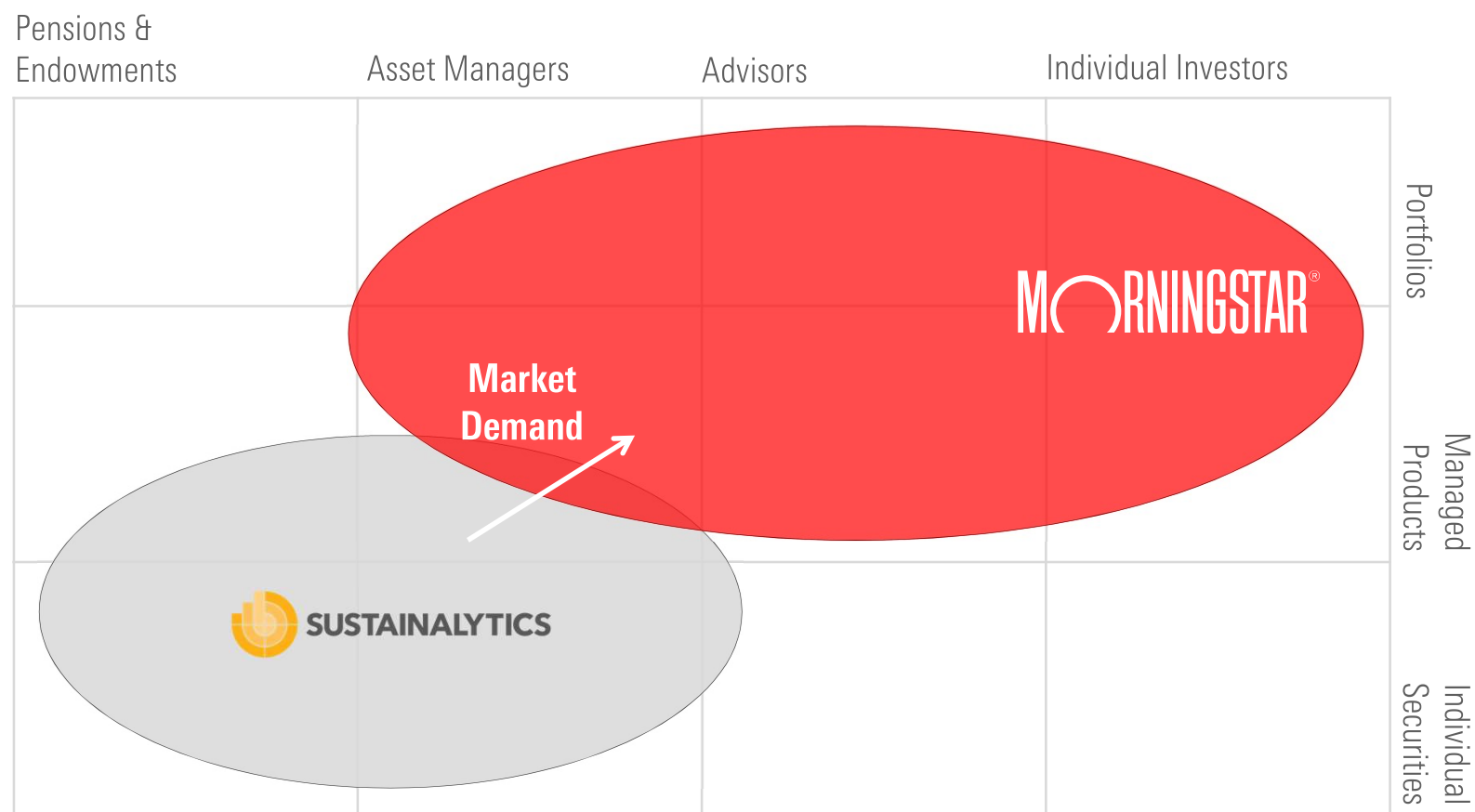
Total sustainable investment assets
(USD Trillion)



Data as of 9/30/2017; Source: Morningstar Direct

Morningstar & Sustainalytics

Investors, advisors, and asset managers are increasingly requiring portfolio-level information about the sustainability of their investments.



Sustainalytics Company ESG Research



Sustainalytics' two most important signals:

Company ESG Ratings:

Overall ESG Score (0–100)

Environmental Score

Social Score

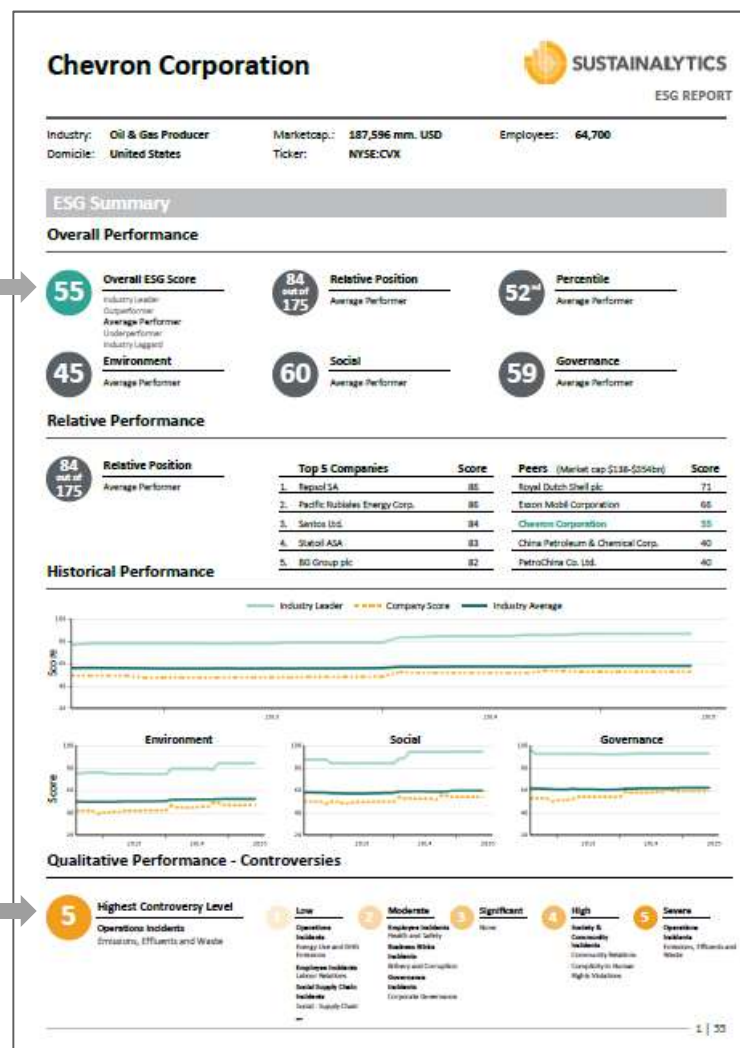
Governance Score

Company Controversy/Incident Assessments:

Based on 10 issue areas

Scored for severity
0 (none), 1 (low) – 5 (high)

Outlook



ESG Ratings

12,000 public issuers

Controversy Research

14,000 issuers

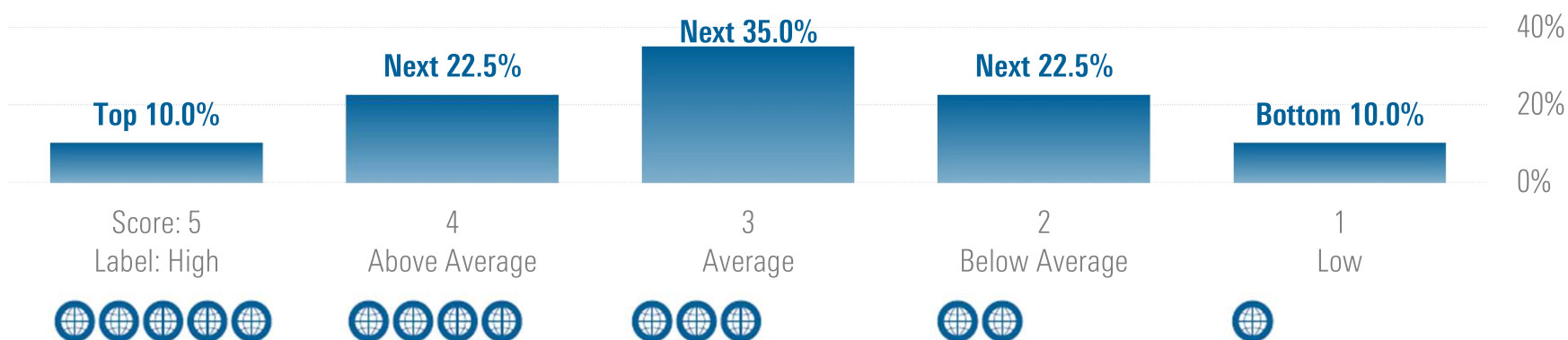
Source: Sustainalytics

Morningstar Sustainability Rating

How well does the manager manage ESG risks and opportunities relative to category peers?

Portfolio Sustainability Score = *Asset-weighted roll-up of company-level ESG scores with deductions made for holdings with controversial incidents*

Morningstar Sustainability Rating = *Portfolio Sustainability Score relative to Morningstar Category*



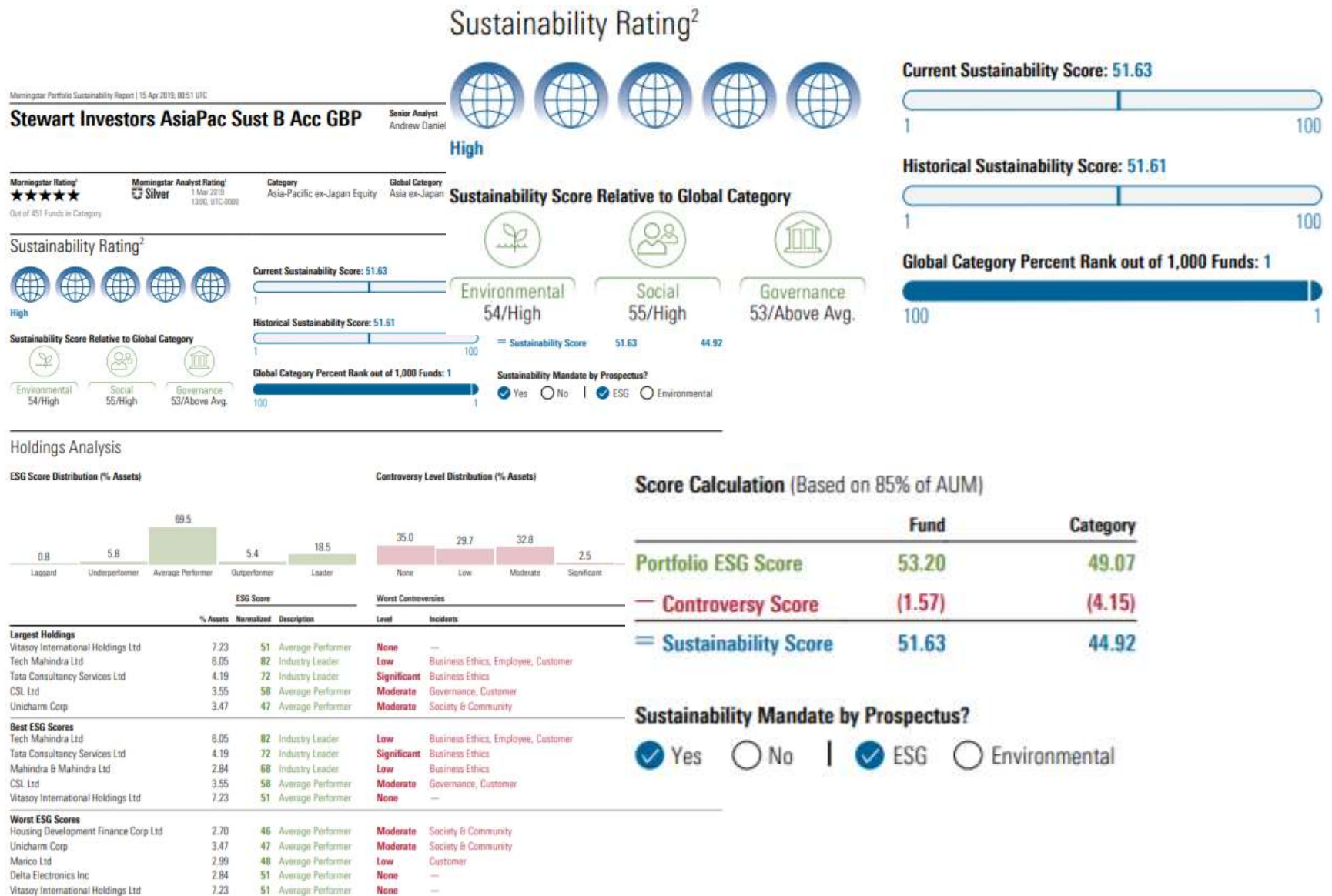
- Rating threshold: 67% of AUM must have ESG scores for a portfolio to receive a score; at least 30 portfolios in a category must have portfolio scores for any funds in the category to receive a rating

Source: Morningstar

ESG Evaluation – Key Considerations

- ▶ Varying degrees of ESG integration across asset managers
 - ▶ Management engagement and activism
 - ▶ Exclusionary screens
 - ▶ Risk analysis/mitigation tool
- ▶ Client needs vary – difficult to make a call on “good” or “bad” ESG strategies compared to non-ESG strategies
- ▶ Instead, we assess whether:
 - ▶ the approach employed is robust and repeatable
 - ▶ the team is doing what it says it is doing

Fund Sustainability Report



Source: Morningstar

Sustainability Over Time



Source: Morningstar

Fund Sustainability Report – Another Look



Holdings Analysis

ESG Score Distribution (% Assets)



Controversy Level Distribution (% Assets)



ESG Score			Worst Controversies	
% Assets	Normalized	Description	Level	Incidents
Largest Holdings				
Power Grid Corp Of India Ltd	3.58	42 Average Performer	Moderate	Society & Community
LIC Housing Finance Ltd	2.93	40 Average Performer	Low	Business Ethics
Fufeng Group Ltd	2.73	38 Underperformer	None	—
Redington (India) Ltd	1.98	39 Underperformer	None	—
BOC Aviation Ltd	1.85	41 Average Performer	None	—
Best ESG Scores				
Taiwan Semiconductor Manufacturing Co Ltd	0.98	68 Industry Leader	Low	Customer
Cognizant Technology Solutions Corp A	1.12	62 Outperformer	Moderate	Business Ethics
China Mobile Ltd	0.91	59 Average Performer	Significant	Business Ethics
Shinhan Financial Group Co Ltd	0.96	58 Average Performer	Moderate	Business Ethics, Society & Community
SK Hynix Inc	0.93	56 Average Performer	Moderate	Employee, Customer
Worst ESG Scores				
Sinopec Kantons Holdings Ltd	0.55	28 Industry Laggard	Severe	Society & Community
Bumitama Agri Ltd	0.59	33 Industry Laggard	Significant	Operations, Business Ethics
RFM Corp	0.53	33 Industry Laggard	None	—
Essel Propack Ltd	0.74	35 Industry Laggard	None	—
WH Group Ltd	0.47	35 Underperformer	Significant	Society & Community

Source: Morningstar

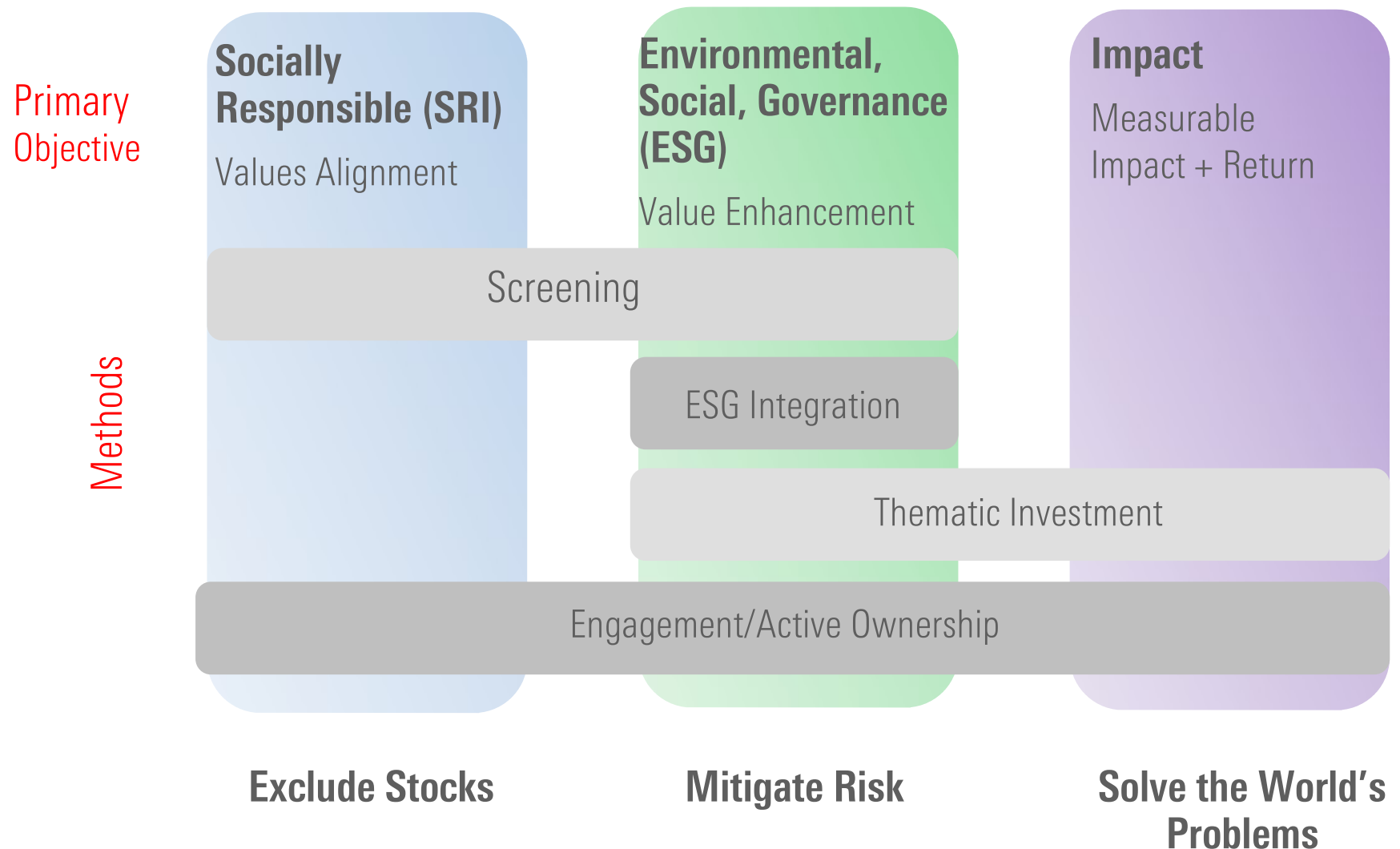
Intention = Execution?

Investment Analysis *Grid View										
Grid View										
* Exclusionary Screens										
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✓	Name	Morningstar Category	Portfolio Prod Inv % - Alcohol (mo-end)	Portfolio Cat Avg Prod Inv % - Alcohol (mo-end)	Portfolio Prod Inv % - Animal Testing (mo-end)	Portfolio Cat Avg Prod Inv % - Animal Testing (mo-end)	Portfolio Prod Inv % - Controversial Weapons (mo-end)	Portfolio Cat Avg Prod Inv % - Controversial Weapons (mo-end)	Portfolio Prod Inv % - Tobacco (mo-end)	Portfolio Cat Avg Prod Inv % - Tobacco (mo-end)
✓	1 Aberdeen Ethical World Equity I Acc	Global Large-Cap Blend Equity	0.00	1.31	0.00	17.12	0.00	1.21	0.00	0.98
✓	2 AS SICAV I World Equity X Acc USD	Global Large-Cap Blend Equity	4.05	1.31	25.91	17.12	1.53	1.21	5.93	0.98

- ▶ Top vehicle is the ESG-focused version of the bottom vehicle, with the former excluding alcohol, animal testing, tobacco, among others
- ▶ Indeed, can conclude the manager is executing the ESG-focused approach as stated

Source: Morningstar

3 Dimensions of Sustainable Investing



Tying it All Together

Name	Net Flow Comprehensive Fund Level YTD (mo-end) USD	Fund Size Comprehensive (mo-end) USD	Morningstar Rating 3Y (mo-end)	Morningstar Sustainability Rating (mo-end)	Morningstar Analyst Rating (day-end)	Total Return (3Y - mo-end)	Alpha Total (excess return) (3Y - mo-end) Cat Curr	Standard Deviation Total (3Y - mo-end) Cat Curr	Annual Report Net Expense Ratio FY1
1 Schroder ISF Japanese Eq A Dis AV	-363,823,186	253,627,878,275	★★★★	🌐🌐	Neutral	9.52	-0.78	14.00	—
2 PIMCO GIS GlnGd Crdt Instl USD Inc	1,482,767,975	19,949,148,072	★★★★★	🌐	Silver	5.04	0.84	3.07	—
3 Jupiter European Growth L EUR Acc	-478,584,606	15,420,984,333	★★★★★	🌐	Neutral	11.54	3.05	12.01	1.72
4 MS INVF Global Brands A	1,444,129,530	13,624,766,354	★★★★★	🌐🌐🌐🌐🌐	—	13.41	4.95	9.88	1.64
5 Principal LSF HK Eq	53,534,896	12,641,305,141	★★	🌐🌐🌐🌐	—	11.86	-2.37	15.96	—
6 UBS (Lux) EF China Oppo(USD) P USD acc	-27,655,170	10,378,259,337	★★★★★	🌐🌐🌐	Bronze	22.57	8.15	18.43	2.39
7 JPM Emerging Markets Equity A (dist) USD	254,093,573	7,749,168,614	★★★★★	🌐🌐🌐🌐🌐	Silver	14.01	2.69	15.16	1.73
8 Jupiter Global Em Mkts Eq Uncons D\$ Acc	5,239,618	6,857,340,165	★	🌐🌐	—	4.98	-4.92	14.60	0.95
9 Robeco BP US Premium Equities IH €	-1,211,506,465	5,902,883,056	★★	🌐🌐🌐🌐	Silver	7.97	—	16.57	—
10 HSBC American Index Retail Acc	432,495,149	5,316,233,421	★★★★★	🌐🌐🌐	Gold	16.30	0.27	12.90	—
11 BGF World Mining A2	-367,121,895	5,228,210,948	★★★★★	🌐🌐🌐	—	10.93	-1.07	21.50	2.07
12 Investec GSF Asian Equity A Inc USD	-252,024,753	5,125,055,579	★★★★★	🌐🌐🌐	Silver	12.12	0.26	15.53	—
13 Principal LSF Asian Equity Ret	-17,170	4,991,251,232	★★	🌐🌐🌐	—	8.67	-3.02	14.99	—
14 PIMCO GIS Ttl Ret Bd Instl USD Acc	-262,166,036	4,887,587,481	★★★★★	🌐	Silver	3.07	0.85	2.75	—
15 Capital Group New Pers (LUX) ZL	594,471,283	4,852,355,873	★★★★★	🌐🌐	Gold	14.35	0.99	12.07	0.74
16 BGF World Gold A2	-136,341,822	4,832,503,887	★★★★	🌐🌐🌐🌐🌐	Bronze	-5.83	-5.81	23.73	2.07
17 BGF World Healthscience A2	412,799,110	4,434,991,839	★★★★★	🌐🌐🌐🌐	Neutral	10.56	2.17	12.64	1.82
18 Robeco QI Emerging Cnsvr Eqs I €	20,814,258	4,363,946,450	★★★★	🌐🌐🌐	Silver	7.84	0.15	11.38	—
19 First State Asian Eq Plus I USD Inc	281,078,855	4,312,483,182	★★★★★	🌐🌐🌐🌐	Gold	12.02	2.55	10.91	—
20 Schroder Asian Asset Income C Acc HKD	28,119,719	4,286,883,465	★★★★★	🌐	Bronze	6.71	—	6.39	—

Source: Morningstar

Appendix













Morningstar & Sustainalytics

Capabilities	Morningstar	Sustainalytics	Solution
Equity		✓	<ul style="list-style-type: none"> ▶ ESG ratings on 12,000 public issuers ▶ Controversy research on 14,000 issuers
Fixed Income		✓	<ul style="list-style-type: none"> ▶ ESG ratings on 12,000 corporate issuers
Mutual Funds	✓		<ul style="list-style-type: none"> ▶ 75 Metrics, including Sustainability Rating, on 45,000 global funds ▶ Product involvement exposure details for 15 key areas including alcohol, tobacco, and controversial weapons ▶ 70 + Carbon Risk , fossil fuel involvement and carbon solutions metrics for 30,000+ funds, and low carbon designation for 6,500 funds
Company ESG Reports		✓	<ul style="list-style-type: none"> ▶ Available for 12,000 companies ▶ +Controversy research on 14,000 companies
Fund Reports	✓		<ul style="list-style-type: none"> ▶ Available for 50,000 funds globally
Country ESG Research		✓	<ul style="list-style-type: none"> ▶ Ratings for 172 countries
Norms-Based Research		✓	<ul style="list-style-type: none"> ▶ Review 20,000 issuers to identify breaches of norms and conventions
Screening Research		✓	<ul style="list-style-type: none"> ▶ Monitor 20,000 issuers for exposure to 23 products and services



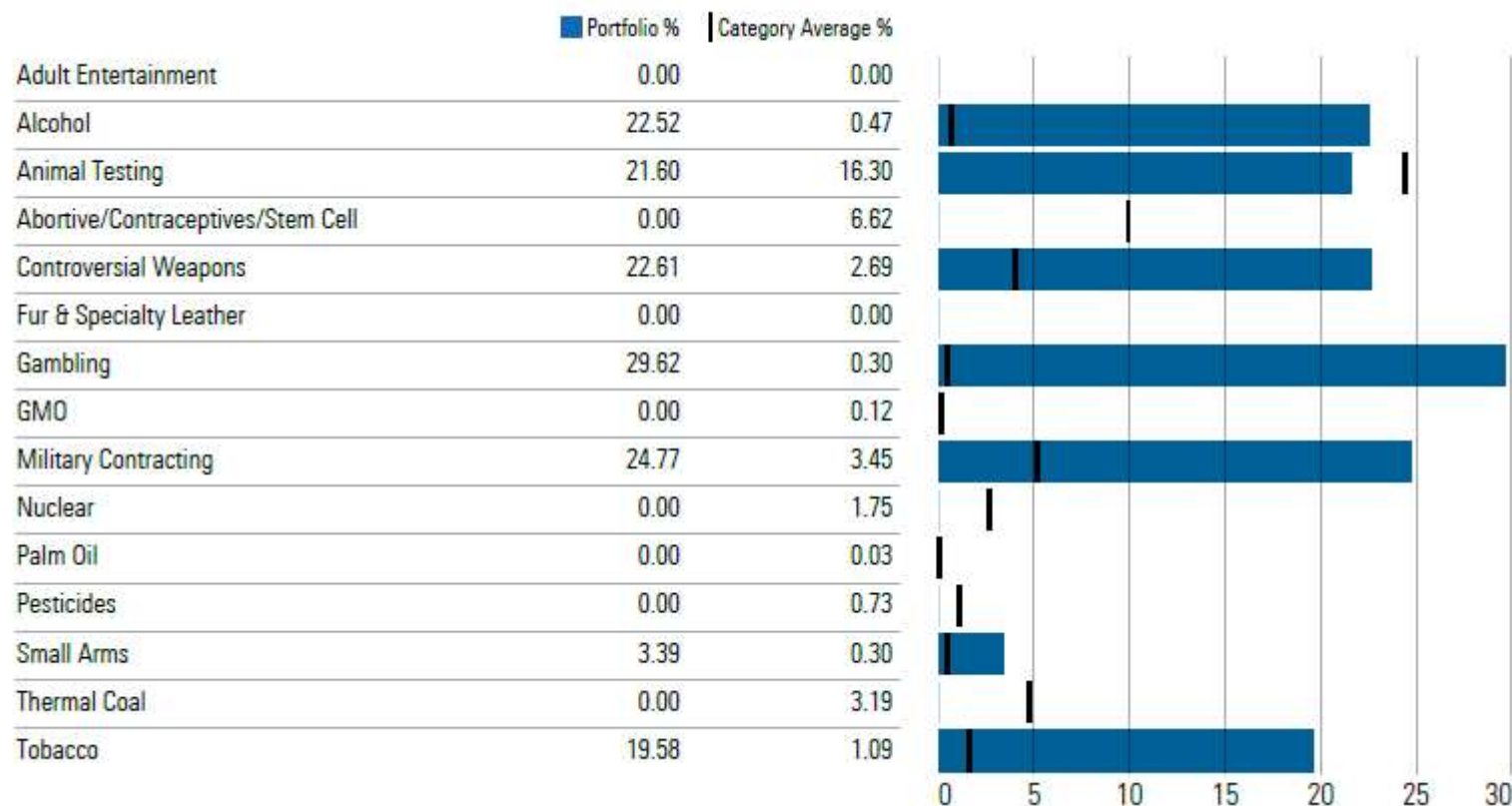
Sustainable Attributes – What is the Fund’s Mandate?

- ▶ 1. Intentional sustainable strategies, such as positive screens or specific impact goals
- ▶ 2. Exclusionary screens collected from information in fund offering documents

Level 1	 Sustainable Investment		
Level 2	 ESG Fund	 Impact Fund	 Environmental Sector Fund
Level 3	 ESG Incorporation  ESG Engagement	 Gender & Diversity  Low Carbon/Fossil-Fuel Free  Community Development  Environmental  Other Impact Themes	 Renewable Energy  Water-Focused  General Environmental Sector

Level 1	 Employs Exclusions		
Level 2	Norms-Based Screening	Fur & Specialty Leather	Pesticides
	Abortion/Stem Cells	Gambling	Small Arms
	Adult Entertainment	GMOs	Thermal Coal
	Alcohol	Military Contracting	Tobacco
	Animal Testing	Nuclear	Other
	Controversial Weapons	Palm Oil	

Portfolio Product Involvement – Does Fund Align with Mandate/Values?



- ▶ Sustainability evaluates direct revenue exposure from producing, manufacturing, or operating a product, as well as indirect exposure from distributing or selling related products and services.
- ▶ Portfolio Product Involvement = asset-weighted direct and indirect exposure to controversial products, derived from portfolio holdings.

Source: Morningstar

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