



# Methodical Approach for ESG Analysis



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July 30<sup>th</sup>, 2019

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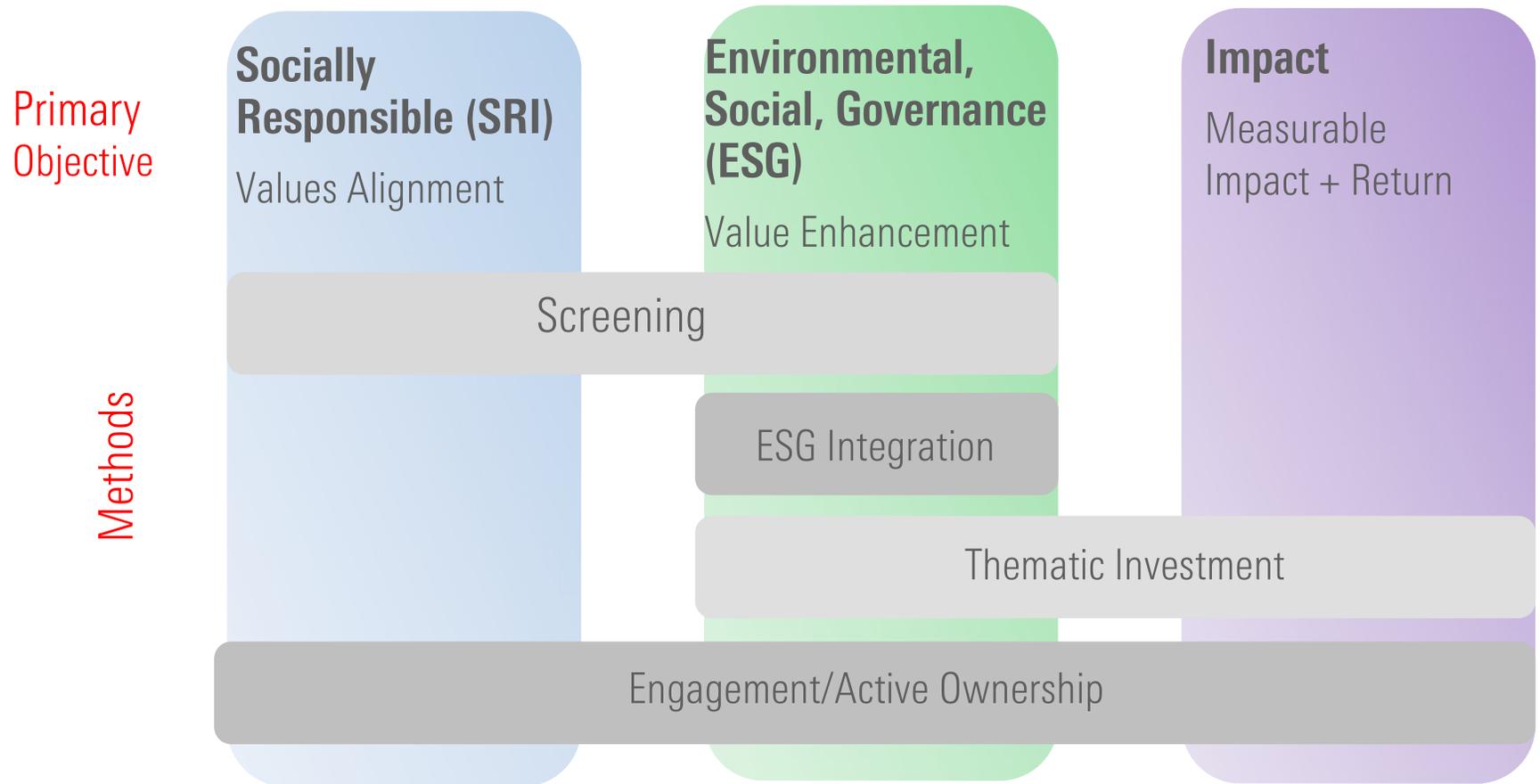


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# Agenda

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 1985<sup>1</sup>
- ▶ 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

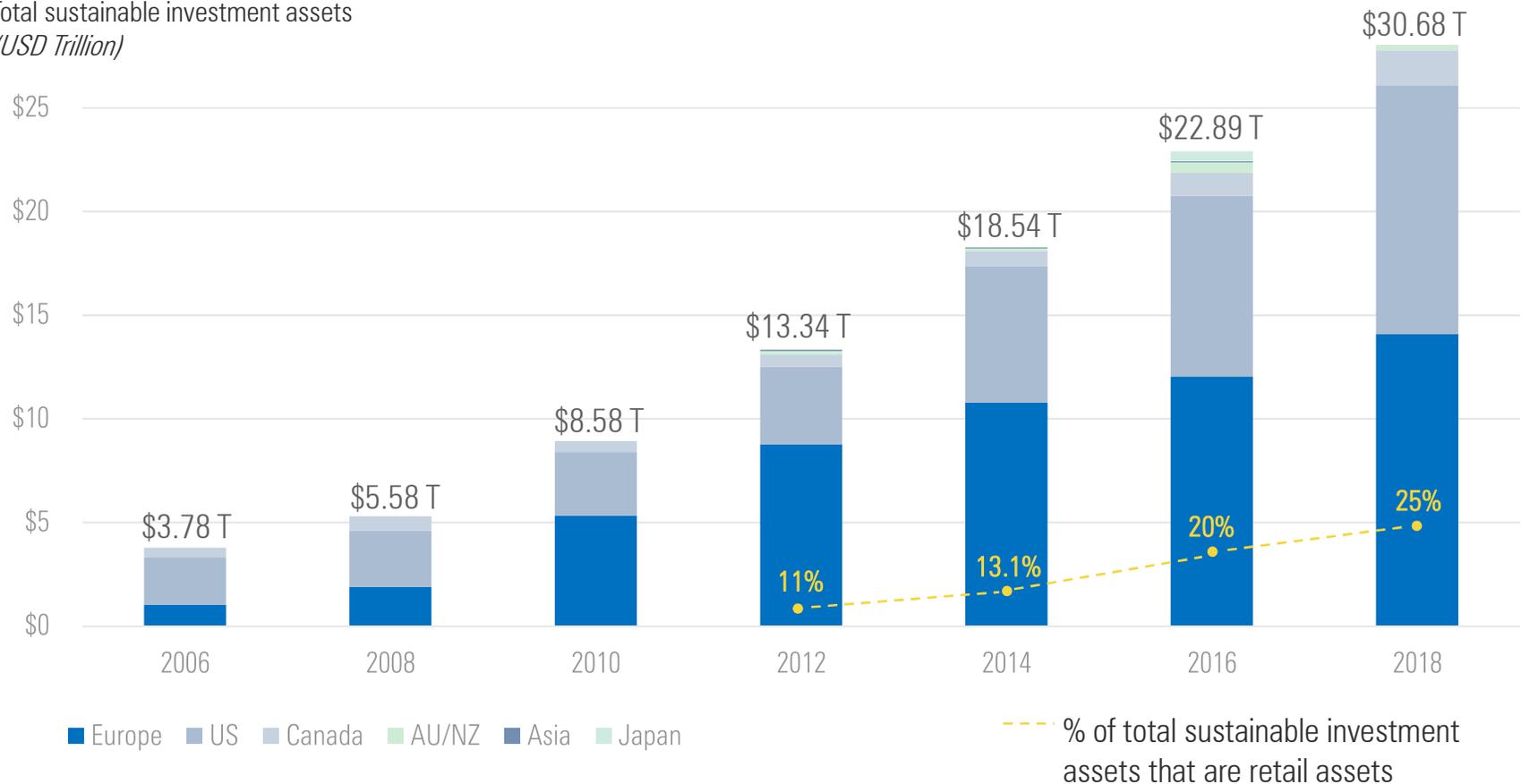
1. <https://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>

# Why Do We Care?

## Sustainable investing assets are growing.

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

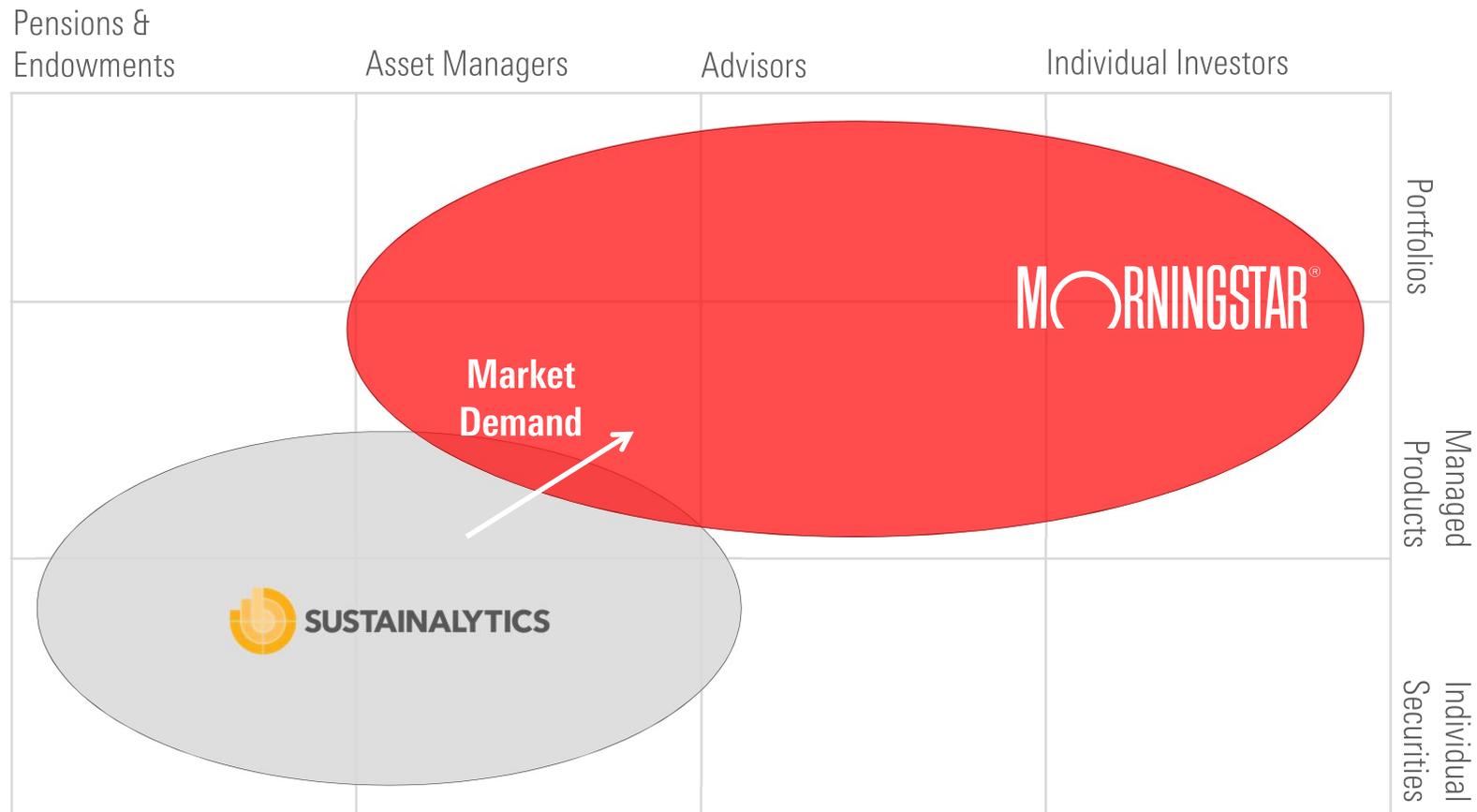
Total sustainable investment assets  
(USD Trillion)



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.



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# Sustainalytics Company ESG Research



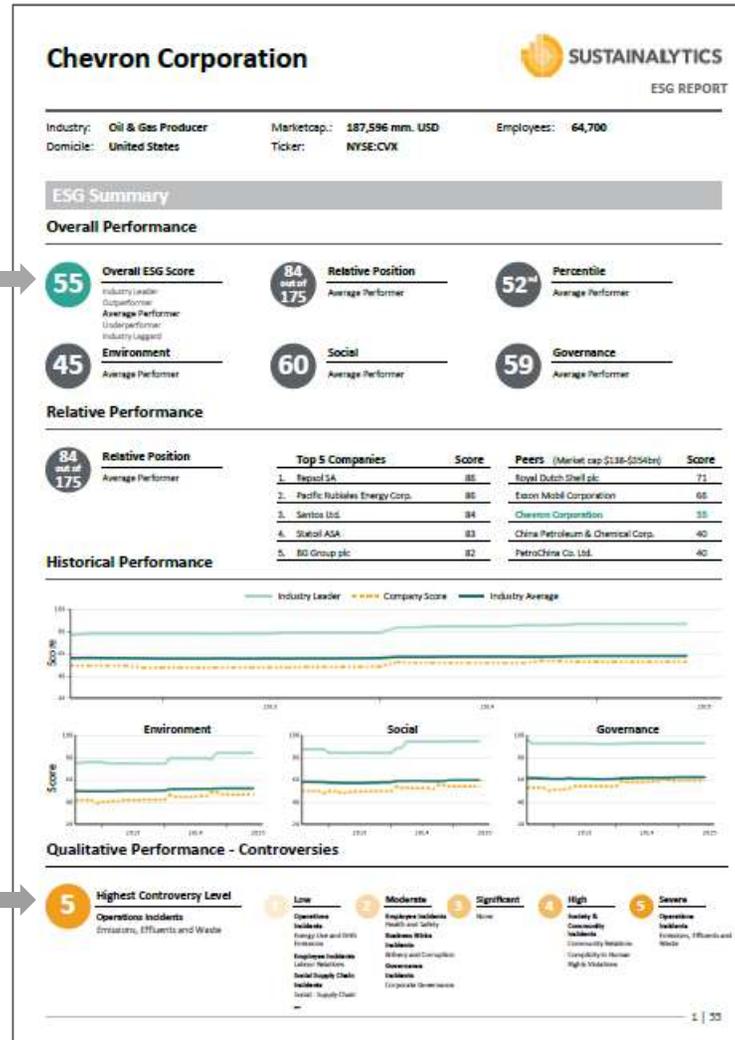
## Sustainalytics' two most important signals:

### 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

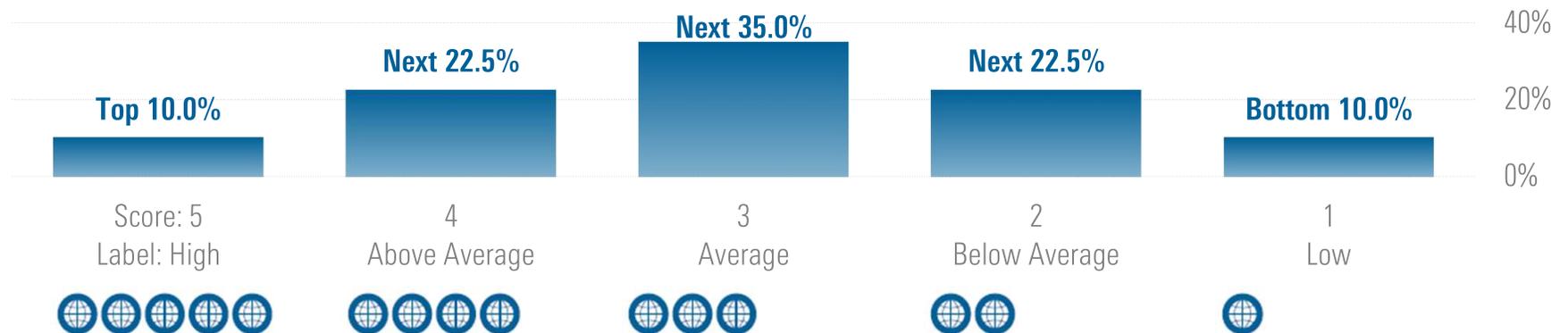


# Morningstar Sustainability Rating

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

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## 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

Morningstar Portfolio Sustainability Report | 15 Apr 2019, 00:51 UTC

## Stewart Investors AsiaPac Sust B Acc GBP

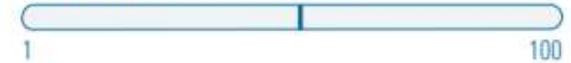
Senior Analyst  
Andrew Daniel

### Sustainability Rating<sup>2</sup>



High

Current Sustainability Score: 51.63



Historical Sustainability Score: 51.61



Global Category Percent Rank out of 1,000 Funds: 1



Morningstar Rating<sup>1</sup>  
★★★★★

Out of 451 Funds in Category

Morningstar Analyst Rating<sup>1</sup>  
Silver

1 Mar 2019  
1300, UTC-0500

Category  
Asia-Pacific ex-Japan Equity

Global Category  
Asia ex-Japan

### Sustainability Score Relative to Global Category

#### Sustainability Rating<sup>2</sup>



High

Current Sustainability Score: 51.63



Historical Sustainability Score: 51.61



#### Sustainability Score Relative to Global Category



Global Category Percent Rank out of 1,000 Funds: 1



Sustainability Score 51.63 vs 44.92

#### Sustainability Mandate by Prospectus?

Yes  No |  ESG  Environmental

### Holdings Analysis

#### ESG Score Distribution (% Assets)



#### Controversy Level Distribution (% Assets)



### Score Calculation (Based on 85% of AUM)

	Fund	Category
Portfolio ESG Score	53.20	49.07
Controversy Score	(1.57)	(4.15)
Sustainability Score	51.63	44.92

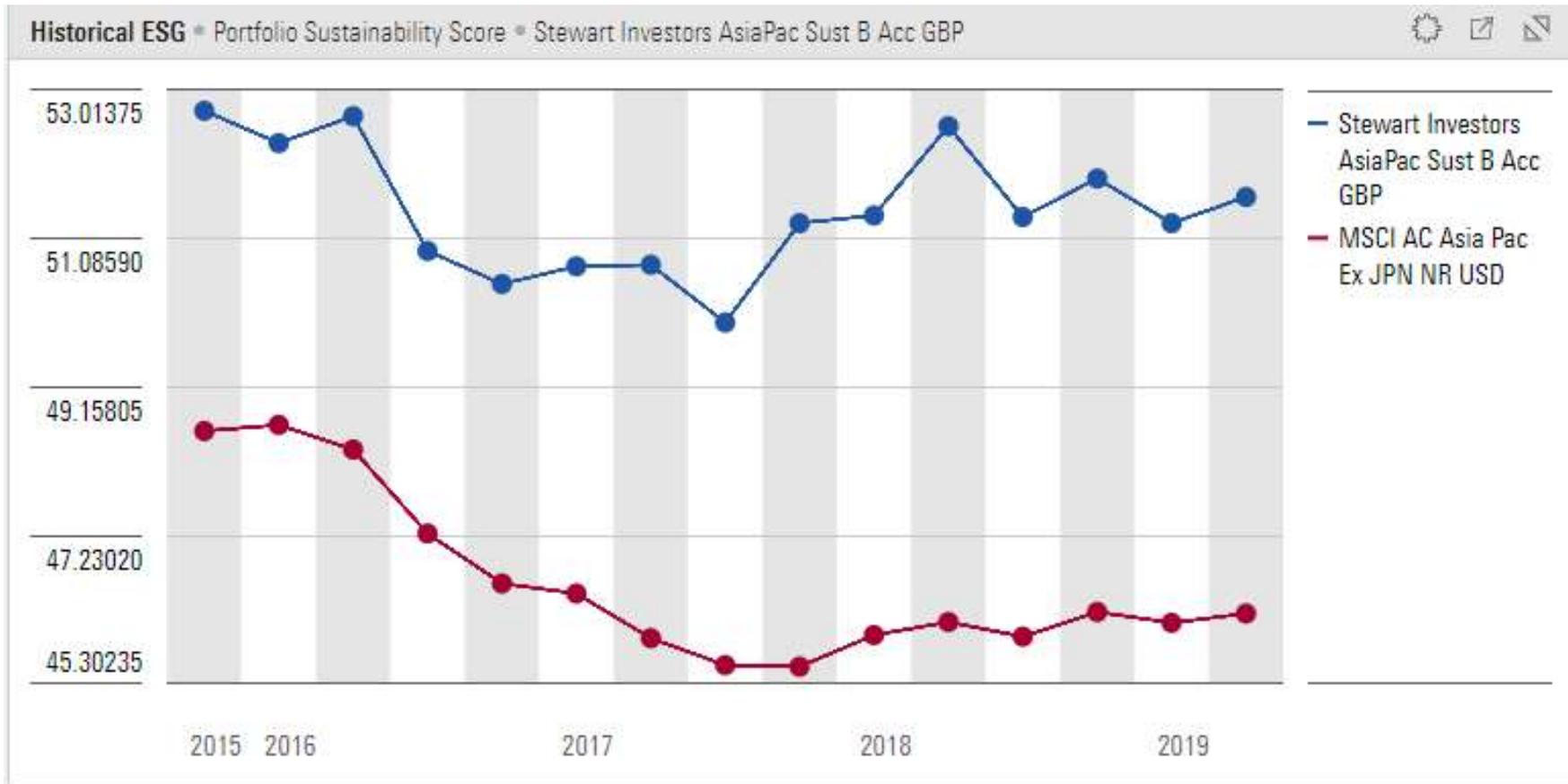
#### Sustainability Mandate by Prospectus?

Yes  No |  ESG  Environmental

ESG Score			Worst Controversies	
% Assets	Normalized	Description	Level	Incidents
<b>Largest Holdings</b>				
Vitasoy International Holdings Ltd	7.23	51 Average Performer	None	—
Tech Mahindra Ltd	6.05	82 Industry Leader	Low	Business Ethics, Employee, Customer
Tata Consultancy Services Ltd	4.19	72 Industry Leader	Significant	Business Ethics
CSL Ltd	3.55	58 Average Performer	Moderate	Governance, Customer
Unicharm Corp	3.47	47 Average Performer	Moderate	Society & Community
<b>Best ESG Scores</b>				
Tech Mahindra Ltd	6.05	82 Industry Leader	Low	Business Ethics, Employee, Customer
Tata Consultancy Services Ltd	4.19	72 Industry Leader	Significant	Business Ethics
Mahindra & Mahindra Ltd	2.84	68 Industry Leader	Low	Business Ethics
CSL Ltd	3.55	58 Average Performer	Moderate	Governance, Customer
Vitasoy International Holdings Ltd	7.23	51 Average Performer	None	—
<b>Worst ESG Scores</b>				
Housing Development Finance Corp Ltd	2.70	46 Average Performer	Moderate	Society & Community
Unicharm Corp	3.47	47 Average Performer	Moderate	Society & Community
Marico Ltd	2.99	48 Average Performer	Low	Customer
Delta Electronics Inc	2.84	51 Average Performer	None	—
Vitasoy International Holdings Ltd	7.23	51 Average Performer	None	—

Source: Morningstar

# Sustainability Over Time



Source: Morningstar

# Fund Sustainability Report – Another Look

**Morningstar Rating<sup>1</sup>**

**Morningstar Analyst Rating<sup>1</sup>**  
**Bronze** 17 Mar 2019  
19:00, UTC-0500

**Category**  
 Asia ex-Japan Small/Mid-Cap Equity

**Global Category**  
 Asia ex-Japan Equity

**Investment Style**

**Total Assets<sup>1</sup>**  
 881 Mil USD

Out of 121 Funds in Category

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**Sustainability Rating<sup>2</sup>**

**Current Sustainability Score: 41.01**

**Historical Sustainability Score: 41.01**

**Global Category Percent Rank out of 1,000 Funds: 96**

**Sustainability Score Relative to Global Category**  
 Environmental 46/Low    Social 50/Average    Governance 48/Below Avg.

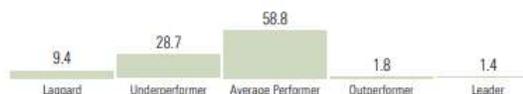
**Current Portfolio**  
**Score Calculation** (Based on 74% of AUM)

	Fund	Category
Portfolio ESG Score	42.69	49.28
Controversy Score	(1.68)	(3.98)
Sustainability Score	41.01	45.30

**Sustainability Mandate by Prospectus?**  
 Yes     No     ESG     Environmental

## Holdings Analysis

ESG Score Distribution (% Assets)



Controversy Level Distribution (% Assets)



ESG Score	ESG Score		Worst Controversies	
	% Assets	Normalized	Level	Incidents
<b>Largest Holdings</b>				
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 —
<b>Best ESG Scores</b>				
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
<b>Worst ESG Scores</b>				
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 +

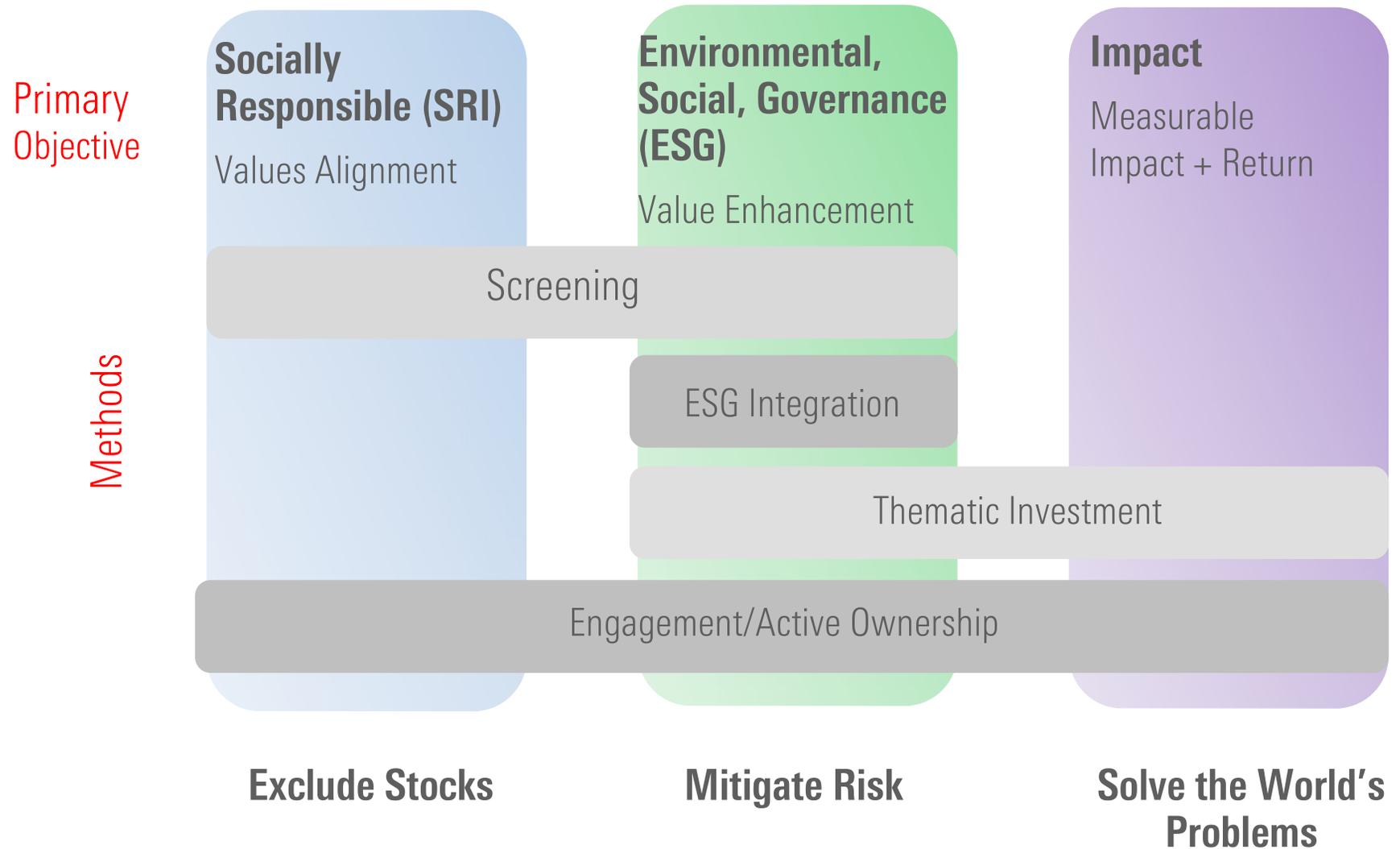
\* Exclusionary Screens 2

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 Eq 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

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# Appendix

# Morningstar & Sustainalytics

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



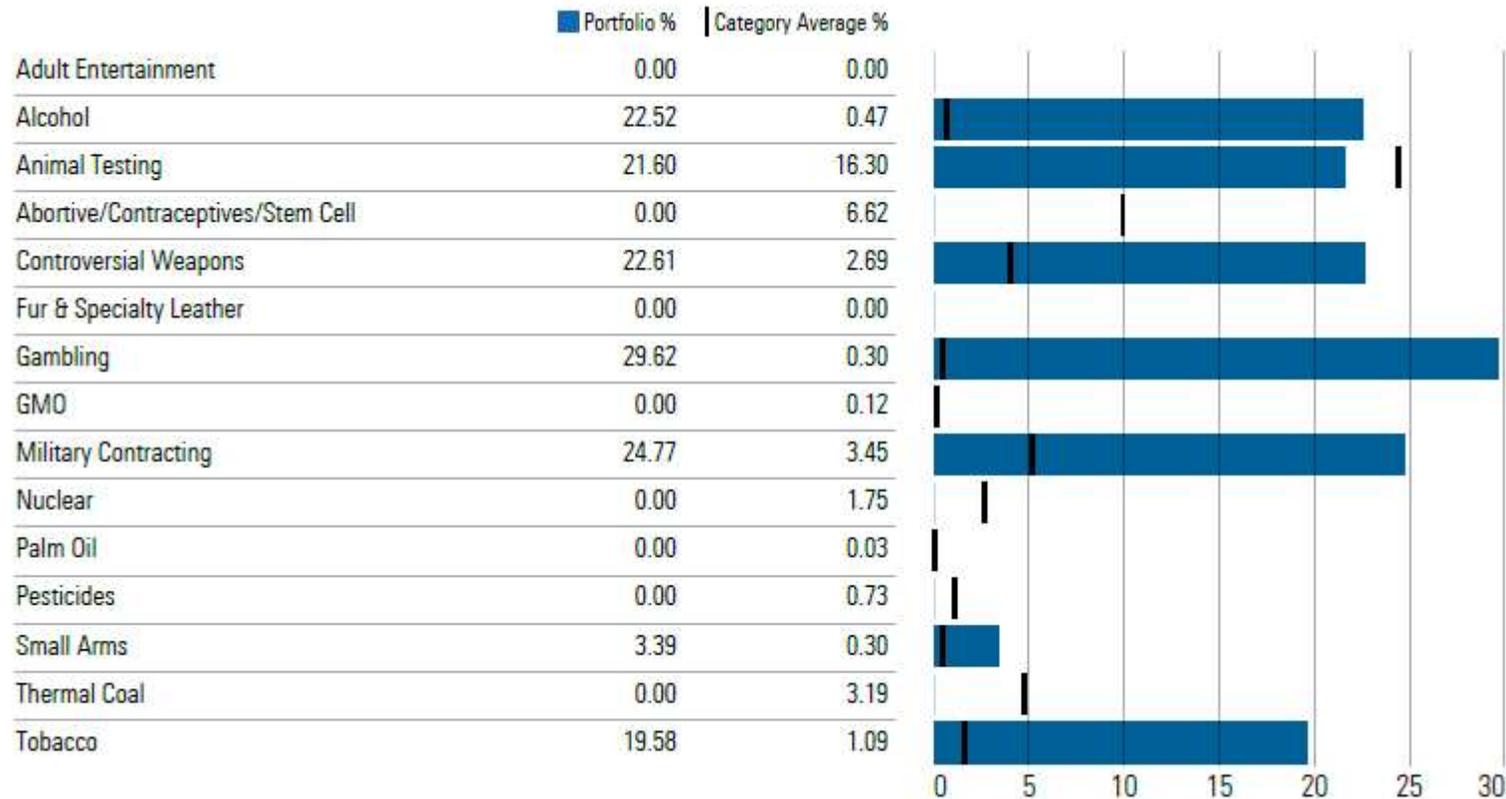
# Sustainable Attributes – What is the Fund’s Mandate?

- ▶ 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	 Gender & Diversity	 Renewable Energy
	 ESG Engagement	 Low Carbon/Fossil-Fuel Free	 Water-Focused
		 Community Development	 General Environmental Sector
		 Environmental	
		 Other Impact Themes	

Level 1	 Employs Exclusions		
	Norms-Based Screening	Fur & Specialty Leather	Pesticides
	Abortion/Stem Cells	Gambling	Small Arms
Level 2	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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