
The Morningstar ESG Commitment Level

Our first assessment of 100-plus strategies and 40 asset managers

Morningstar Manager Research

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Executive Summary

The importance of environmental, social, and governance criteria to investors is growing rapidly around the world. In response, asset managers are increasingly incorporating ESG factors into their investment processes and launching new ESG-focused strategies. Many investors, however, feel confused about the claims they hear and read in sales materials and are unsure about the many different approaches to sustainable investing. It has become harder for investors to separate funds and asset managers that truly focus on sustainable investing from those that incorporate ESG factors but in a limited way.

Quantitative measures such as the [Morningstar Sustainability Rating](#)¹ (which uses a scale of 1 to 5 globes) can help investors assess the ESG risk characteristics of a strategy's portfolio holdings. To provide investors with even more analysis and context, Morningstar has developed a new qualitative measure, the Morningstar ESG Commitment Level for funds and asset managers.

The Morningstar ESG Commitment Level expresses our analysts' assessments of individual strategies' and asset managers' determination to incorporate ESG factors into their investment processes and organizations. It is assigned to both strategies and asset managers following a four-tier scale: Leader, Advanced, Basic, and Low.

In this report, we introduce our assessment and share the results of our first round of evaluations, which consist of 145 funds, representing 107 individual strategies, and 40 asset managers spread across the globe. This first set of evaluations was focused largely on ESG-focused strategies but also included a smaller group of non-ESG-focused funds to ensure we examined a broad spectrum of capabilities.

Key Takeaways

- ▶ Out of the 107 strategies evaluated, 19 and 37 were awarded an ESG Commitment Level of Leader and Advanced, respectively, reflecting our sample bias toward ESG-focused strategies. Twenty-eight received an ESG Commitment Level of Basic, while 23 earned an ESG Commitment Level of Low.
- ▶ Out of the 40 asset managers assessed, six were awarded our top accolade of Leader, including Calvert, Parnassus, Robeco, and Stewart Investors. Six firms, including AXA Investment Managers, Nuveen/TIAA, and Schroders, earned the Advanced level. Sixteen received an ESG Commitment Level of

¹ Morningstar Sustainability Rating methodology.

https://www.morningstar.com/content/dam/marketing/shared/research/methodology/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf

Basic, including BlackRock, Capital Group, Pimco, and UBS. Twelve earned an ESG Commitment Level of Low, including American Century, Fidelity Investments, and Vanguard.

- ▶ Passive strategies displayed mixed results. Of 31 strategies evaluated, 11 achieved Advanced, 13 landed at Basic and seven at Low, with no Leaders. The seven at Low were all conventional index funds without an ESG focus.
- ▶ Active strategies generally fared better, with 45 of the 76 active strategies evaluated earning either Leader (19) or Advanced (26). This partially reflects the broader skill-set that active managers can apply to their portfolios versus passives, but it also is indicative of a level of ESG incorporation being applied at some non-ESG-focused active strategies, an option that isn't available to passives.

Exhibit 1 Summary of Morningstar ESG Commitment Levels

ESG Commitment Level	Number of Strategies	Number of Asset Managers
Leader	19	6
Advanced	37	6
Basic	28	16
Low	23	12

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct

Introduction

Amid both a rapidly increasing number of [sustainable fund launches](#) and claims made by more and more asset managers that they are incorporating ESG factors into their investment decisions, investors are seeking help. They want to understand how ESG factors inform investment strategies and also which funds and asset managers are committed to delivering the ESG outcomes that best meet their preferences.

For this reason, Morningstar has developed a new qualitative measure, the Morningstar ESG Commitment Level. It expresses our analysts' assessments of asset managers' and individual strategies' commitment to incorporating ESG into their investment organization and processes. The scale runs from best to worst as follows: Leader, Advanced, Basic and Low.

This new evaluation is entirely separate from the Morningstar Analyst Rating, which expresses our analysts' expectations that a fund will be able to outperform its category benchmark index over time. The ESG Commitment Level is not evaluating expected performance. It is focused on the extent to which asset managers and funds incorporate ESG considerations into their investment processes and decisions and on which funds and asset managers are leading the way when it comes to ESG investing.

The ESG Commitment Level is also complementary to the existing Morningstar Sustainability Rating. The latter is a quantitative holdings-based measure of a fund's ESG risks relative to category peers. Investors may find it helpful to use the two measures in tandem, but they are separate—one qualitative and

based on an overall assessment of a strategy, the other quantitative and based on the ESG risks of a strategy's holdings.

In this report, we report the results of our new measure for a group of more than 100 funds and 40 asset managers covered by our teams in North America, EMEA, Hong Kong, and Australia. The majority of the funds (77) are tagged as "sustainable investment" in the Morningstar Direct database and were selected on this basis, while the rest were selected in order to end up with a diverse range of strategies with exposure to a variety of asset classes. The asset managers covered in this report are those that handle the day-to-day portfolio management of the selected funds.

Strategies

Out of the 107 strategies assessed in this report, we have awarded a Morningstar ESG Commitment Level of Leader to 19. Examples include Calvert Emerging Markets Equity, Impax Environmental Markets, and TIAA-CREF Core Impact Bond. Leader funds integrate ESG factors fully into their security analysis and portfolio construction, and they deliver desirable ESG outcomes at the portfolio level, such as lower carbon emissions relative to a market benchmark, advancing the UN Sustainable Development Goals, or similar. To make this happen, these funds' investment teams are armed with a large amount of data sources, and analysis is carried out by a well-sized team with a strong specialization in ESG. Finally, Leader strategies add purposeful proxy voting and corporate engagement that push companies toward more sustainable practices and typically have best-in-class reporting on their active ownership activities.

Exhibit 2 Leader Strategies

Fund Name	Strategy		Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
	Active/ Passive	ESG Commitment Level				
Australian Ethical Australian Shares	Active	Leader	Equity	Australia Fund Equity Australia Mid/Small Blend	Australian Ethical	Leader
Calvert Balanced	Active	Leader	Allocation	US Fund Allocation—50% to 70% Equity	Calvert	Leader
Calvert Bond	Active	Leader	Fixed Income	US Fund Intermediate Core-Plus Bond	Calvert	Leader
Calvert Emerging Markets Equity	Active	Leader	Equity	US Fund Diversified Emerging Mkts	Calvert	Leader
Calvert Income	Active	Leader	Fixed Income	US Fund Corporate Bond	Calvert	Leader
Calvert Short Duration Income	Active	Leader	Fixed Income	US Fund Short-Term Bond	Calvert	Leader
Calvert Ultra-Short Duration Income	Active	Leader	Fixed Income	US Fund Ultrashort Bond	Calvert	Leader
Impax Environmental Markets	Active	Leader	Equity	EAA Fund Sector Equity Ecology	Impax	Leader
Impax Global Equity Opportunities	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Impax	Leader
Pacific Assets Trust	Active	Leader	Equity	EAA CE Asia ex-Japan Equity	Stewart Investors	Leader
Parnassus Core Equity	Active	Leader	Equity	US Fund Large Blend	Parnassus	Leader
Parnassus Endeavor	Active	Leader	Equity	US Fund Large Blend	Parnassus	Leader
Parnassus Mid Cap	Active	Leader	Equity	US Fund Mid-Cap Blend	Parnassus	Leader
Parnassus Mid Cap Growth	Active	Leader	Equity	US Fund Mid-Cap Growth	Parnassus	Leader
Pax Global Opportunities	Active	Leader	Equity	US Fund World Large Stock	Impax	Leader
Stewart Investors Asia Pacific Sustainability	Active	Leader	Equity	EAA Fund Asia-Pacific ex-Japan Equity	Stewart Investors	Leader
Stewart Investors Global Emerging Markets Sustainability (IE)	Active	Leader	Equity	EAA Fund Global Emerging Markets Equity	Stewart Investors	Leader
Stewart Investors Global Emerging Markets Sustainability (UK)	Active	Leader	Equity	EAA Fund Global Emerging Markets Equity	Stewart Investors	Leader
Stewart Investors Wholesale Worldwide Leaders	Active	Leader	Equity	Australia Fund Equity World Large Blend	Stewart Investors	Leader
Stewart Investors Wholesale Worldwide Sustainability	Active	Leader	Equity	Australia Fund Equity World Large Growth	Stewart Investors	Leader
Stewart Investors Worldwide Leaders Sustainability	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Stewart Investors	Leader
Stewart Investors Worldwide Sustainability	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Stewart Investors	Leader
TIAA-CREF Core Impact Bond	Active	Leader	Fixed Income	US Fund Intermediate Core-Plus Bond	Nuveen, A TIAA Company	Advanced
TIAA-CREF Short Duration Impact Bond	Active	Leader	Fixed Income	US Fund Short-Term Bond	Nuveen, A TIAA Company	Advanced

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

We have awarded a Morningstar ESG Commitment Level of Advanced to 37 strategies. This group is the largest in our launch cohort of 107 strategies, a natural outcome given the cohort is heavily populated with intentional ESG strategies. It includes actively managed funds such as Brown Advisory Sustainable Growth, Pimco Total Return ESG, and RobecoSAM Smart Energy but also exchange-traded funds such as iShares ESG MSCI USA Leaders and UBS Bloomberg Barclays MSCI US Liquid Corporates Sustainable. For these funds, ESG is a key part of the strategy even if they fall short of ESG Leader funds in one or more areas. ESG affects security selection and portfolio weights and even can drive portfolio-level targets to meet certain sustainable metrics. To deliver such outcomes, strategies given an ESG Commitment Level of Advanced have investment teams that exhibit strong ESG credentials.

Exhibit 3 Advanced Strategies

Fund Name	Active/ Passive	Strategy ESG Commitment Level	Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
Alphinity Sustainable Share	Active	Advanced	Equity	Australia Fund Equity Australia Large Blend	Alphinity	Basic
Altius Sustainable Bond	Active	Advanced	Fixed Income	Australia Fund Bonds - Australia	Altius	Advanced
AXA IM Sustainable Equity	Active	Advanced	Equity	Australia Fund Equity World Large Blend	AXA Invst Managers	Advanced
AXA World Funds - Global Factors - Sustainable Eq	Active	Advanced	Equity	EAA Fund Global Large-Cap Blend Equity	AXA Invst Managers	Advanced
BlackRock Advantage ESG U.S. Equity	Active	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
BlackRock Global Funds - ESG Multi-Asset	Active	Advanced	Allocation	EAA Fund EUR Moderate Allocation - Global	BlackRock	Basic
Brown Advisory Sustainable Growth	Active	Advanced	Equity	US Fund Large Growth	Brown Advisory	Basic
Calvert Equity	Active	Advanced	Equity	US Fund Large Growth	Calvert	Leader
Comgest Growth Europe	Active	Advanced	Equity	EAA Fund Europe Large-Cap Growth Equity	Comgest	Advanced
DWS Invest ESG Euro Bonds (Short)	Active	Advanced	Fixed Income	EAA Fund EUR Diversified Bond - Short Term	DWS	Basic
iShares ESG MSCI USA Leaders	Passive	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
iShares MSCI EM SRI	Passive	Advanced	Equity	EAA Fund Global Emerging Markets Equity	BlackRock	Basic
iShares MSCI Japan SRI	Passive	Advanced	Equity	EAA Fund Japan Large-Cap Equity	BlackRock	Basic
iShares MSCI USA ESG Select	Passive	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
iShares MSCI USA SRI	Passive	Advanced	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
Neuberger Berman Municipal Impact	Active	Advanced	Fixed Income	US Fund Muni National Interm	Neuberger Berman	Basic
NN (L) Global Sustainable Equity	Active	Advanced	Equity	EAA Fund Global Large-Cap Growth Equity	NN Inv. Partners	Advanced
NN (L) Patrimonial Balanced European Sustainable	Active	Advanced	Allocation	EAA Fund EUR Moderate Allocation	NN Inv. Partners	Advanced
NN Duurzaam Aandelen	Active	Advanced	Equity	EAA Fund Global Large-Cap Growth Equity	NN Inv. Partners	Advanced
Nuveen ESG Aggressive Growth	Active	Advanced	Allocation	US SA Allocation — 70% to 85% Equity	Nuveen, A TIAA Co	Advanced
Pimco GIS Global Bond ESG	Active	Advanced	Fixed Income	EAA Fund Global Bond - USD Hedged	Pimco	Basic
Pimco Low Duration ESG	Active	Advanced	Fixed Income	US Fund Short-Term Bond	Pimco	Basic
Pimco Total Return ESG	Active	Advanced	Fixed Income	US Fund Intermediate Core-Plus Bond	Pimco	Basic
Renaissance Europe	Active	Advanced	Equity	EAA Fund Europe Large-Cap Growth Equity	Comgest	Advanced
Robeco Sustainable European Stars Equities	Active	Advanced	Equity	EAA Fund Europe Large-Cap Blend Equity	Robeco	Leader
RobecoSAM Smart Energy	Active	Advanced	Equity	EAA Fund Sector Equity Alternative Energy	Robeco	Leader
RobecoSAM Sustainable Water	Active	Advanced	Equity	EAA Fund Sector Equity Water	Robeco	Leader
Royal London Sustainable Diversified Trust	Active	Advanced	Allocation	EAA Fund GBP Moderate Allocation	Royal London	Basic
Royal London Sustainable Leaders Trust	Active	Advanced	Equity	EAA Fund UK Large-Cap Equity	Royal London	Basic
Royal London Sustainable Managed Growth Trust	Active	Advanced	Allocation	EAA Fund GBP Moderately Cautious Allocation	Royal London	Basic
Royal London Sustainable World Trust	Active	Advanced	Allocation	EAA Fund GBP Moderately Adventurous Alloc	Royal London	Basic
TIAA-CREF Social Choice Equity	Active	Advanced	Equity	US Fund Large Blend	Nuveen, A TIAA Co	Advanced
UBS - Bloomberg Barclays MSCI Euro Area Liquid Corporates Sustainable	Passive	Advanced	Fixed Income	EAA Fund EUR Corporate Bond	UBS	Basic
UBS - Bloomberg Barclays MSCI US Liquid Corporates Sustainable	Passive	Advanced	Fixed Income	EAA Fund USD Corporate Bond	UBS	Basic
UBS - MSCI EMU SRI	Passive	Advanced	Equity	EAA Fund Eurozone Large-Cap Equity	UBS	Basic
UBS - MSCI United Kingdom IMI SRI	Passive	Advanced	Equity	EAA Fund UK Large-Cap Equity	UBS	Basic
Vanguard Global ESG Select Stock	Active	Advanced	Equity	US Fund World Large Stock	Wellington Mgmt	Basic
Xtrackers MSCI USA ESG	Passive	Advanced	Equity	EAA Fund US Large-Cap Blend Equity	DWS	Basic
Xtrackers MSCI USA ESG Leaders Equity	Passive	Advanced	Equity	US Fund Large Blend	DWS	Basic

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Twenty-eight strategies have received a Morningstar ESG Commitment Level of Basic. This group encompasses the broadest range of ESG practices, from simple exclusionary screens as applied by Royal London Ethical Bond and Vanguard ESG US Stock to more-integrated approaches like those implemented by American Century Sustainable Equity and BetaShares Global Sustainability Leaders. These two funds didn't receive a higher ESG Commitment Level because they are managed by firms with low commitment to ESG. (Funds managed by firms with Low ESG Commitment Levels see their ESG Commitment Levels capped at Basic in our methodology.) Strategies that received a Morningstar ESG Commitment Level of Basic also include funds that are not explicitly ESG-focused, such as BlackRock Global Funds - Euro Bond and Schroder International Selection Euro Equity, but that demonstrate some degree of ESG incorporation and have the resources and expertise to implement it.

Exhibit 4 Basic Strategies

Fund Name	Strategy		Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
	Active/ Passive	ESG Commitment Level				
Acadian Sustainable Global Equity	Active	Basic	Equity	Australia Fund Equity World Large Value	Acadian	Basic
American Century Sustainable Equity	Active	Basic	Equity	US Fund Large Blend	American Century	Low
American Funds New Perspective	Active	Basic	Equity	US Fund World Large Stock	Capital Group (American Funds)	Basic
AMP Capital Ethical Leaders International Share	Active	Basic	Equity	Australia Fund Equity World Large Blend	AMP	Basic
Ausbil Active Sustainable Equity	Active	Basic	Equity	Australia Fund Equity Australia Large Blend	Ausbil	Basic
BetaShares Global Sustainability Leaders	Passive	Basic	Equity	Australia Fund Equity World Large Growth	BetaShares	Low
BlackRock Global Funds - Euro Bond	Active	Basic	Fixed Income	EAA Fund EUR Diversified Bond	BlackRock	Basic
BlackRock Global Funds - US Dollar High Yield Bond	Active	Basic	Fixed Income	EAA Fund USD High Yield Bond	BlackRock	Basic
BlackRock High Yield Bond Portfolio	Active	Basic	Fixed Income	US Fund High Yield Bond	BlackRock	Basic
Capital Group New Perspective (AU)	Active	Basic	Equity	Australia Fund Equity World Large Blend	Capital Group (American Funds)	Basic
Capital Group New Perspective (LUX)	Active	Basic	Equity	EAA Fund Other Equity	Capital Group (American Funds)	Basic
Capital Group New Perspective Hedged (AU)	Active	Basic	Equity	Australia Fund Equity World - Currency Hedged	Capital Group (American Funds)	Basic
Comgest Growth Japan	Active	Basic	Equity	EAA Fund Japan Large-Cap Equity	Comgest	Advanced
Dimensional Global Sustainability Trust Hedged	Active	Basic	Equity	Australia Fund Equity World - Currency Hedged	Dimensional	Low
Dimensional Global Sustainability Trust Unhedged	Active	Basic	Equity	Australia Fund Equity World Large Blend	Dimensional	Low

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Exhibit 4 Basic Strategies (Continued)

Fund Name	Strategy		Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
	Active/ Passive	ESG Commitment Level				
Eventide Healthcare & Life Sciences	Active	Basic	Equity	US Fund Health	Eventide	Basic
Fidelity US Sustainability Index	Passive	Basic	Equity	US Fund Large Blend	Geode	Low
iShares ESG Aware MSCI USA Small-Cap	Passive	Basic	Equity	US Fund Small Blend	BlackRock	Basic
iShares ESG Aware MSCI USA	Passive	Basic	Equity	US Fund Large Blend	BlackRock	Basic
iShares ESG U.S. Aggregate Bond	Passive	Basic	Fixed Income	US Fund Intermediate Core Bond	BlackRock	Basic
iShares MSCI EM IMI ESG Screened	Passive	Basic	Equity	EAA Fund Global Emerging Markets Equity	BlackRock	Basic
iShares MSCI USA ESG Screened	Passive	Basic	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
Lyxor MSCI Europe ESG Leaders	Passive	Basic	Equity	EAA Fund Europe Large-Cap Blend Equity	Lyxor	Low
Natixis Sustainable Future 2015	Active	Basic	Allocation	US Fund Target-Date 2015	Natixis Advisors	Basic
Natixis Sustainable Future 2020	Active	Basic	Allocation	US Fund Target-Date 2020	Natixis Advisors	Basic
Natixis Sustainable Future 2025	Active	Basic	Allocation	US Fund Target-Date 2025	Natixis Advisors	Basic
Natixis Sustainable Future 2030	Active	Basic	Allocation	US Fund Target-Date 2030	Natixis Advisors	Basic
Natixis Sustainable Future 2035	Active	Basic	Allocation	US Fund Target-Date 2035	Natixis Advisors	Basic
Natixis Sustainable Future 2040	Active	Basic	Allocation	US Fund Target-Date 2040	Natixis Advisors	Basic
Natixis Sustainable Future 2045	Active	Basic	Allocation	US Fund Target-Date 2045	Natixis Advisors	Basic
Natixis Sustainable Future 2050	Active	Basic	Allocation	US Fund Target-Date 2050	Natixis Advisors	Basic
Natixis Sustainable Future 2055	Active	Basic	Allocation	US Fund Target-Date 2055	Natixis Advisors	Basic
Natixis Sustainable Future 2060	Active	Basic	Allocation	US Fund Target-Date 2060+	Natixis Advisors	Basic
Perpetual Wholesale Ethical SRI	Active	Basic	Equity	Australia Fund Equity Australia Large Value	Perpetual	Basic
Royal London Ethical Bond	Active	Basic	Fixed Income	EAA Fund GBP Corporate Bond	Royal London	Basic
Schroder Australian Equity	Active	Basic	Equity	Australia Fund Equity Australia Large Blend	Schroders	Advanced
Schroder International Selection EURO Equity	Active	Basic	Equity	EAA Fund Eurozone Large-Cap Equity	Schroders	Advanced
Vanguard ESG Developed World All Cap Equity Index	Passive	Basic	Equity	EAA Fund Global Large-Cap Blend Equity	Vanguard Group	Low
Vanguard ESG International Stock	Passive	Basic	Equity	US Fund Foreign Large Blend	Vanguard Group	Low
Vanguard ESG U.S. Stock	Passive	Basic	Equity	US Fund Large Blend	Vanguard Group	Low
Vanguard FTSE Social Index	Passive	Basic	Equity	US Fund Large Blend	Vanguard Group	Low
Vanguard SRI European Stock	Passive	Basic	Equity	EAA Fund Europe Large-Cap Blend Equity	Vanguard Group	Low

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Finally, we have assigned a Morningstar ESG Commitment Level of Low to 23 strategies, including Dodge & Cox Income and DWS Top Dividende. For these funds, ESG plays only a minor role, if any, in the execution of the strategy. Some are just beginning to incorporate ESG information into their processes. Another group of funds populating the Low level are index funds and ETFs that track a benchmark without any ESG screening, even if the asset manager is engaging and voting to improve the holdings' ESG credentials.

Exhibit 5 Low Strategies

Fund Name	Active/ Passive	Strategy ESG Commitment Level	Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
American Funds Global Balanced	Active	Low	Allocation	US Fund World Allocation	Capital Group (American Funds)	Basic
Dodge & Cox Balanced	Active	Low	Allocation	US Fund Allocation—50% to 70% Equity	Dodge & Cox	Low
Dodge & Cox Global Stock	Active	Low	Equity	US Fund World Large Stock	Dodge & Cox	Low
Dodge & Cox Income	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Dodge & Cox	Low
Dodge & Cox International Stock	Active	Low	Equity	US Fund Foreign Large Value	Dodge & Cox	Low
Dodge & Cox Worldwide Global Stock	Active	Low	Equity	EAA Fund Global Large-Cap Blend Equity	Dodge & Cox	Low
DWS Invest Top Dividend	Active	Low	Equity	EAA Fund Global Equity Income	DWS	Basic
DWS Top Dividende	Active	Low	Equity	EAA Fund Global Equity Income	DWS	Basic
Fidelity Blue Chip Growth	Active	Low	Equity	US Fund Large Growth	Fidelity Investments	Low
Fidelity Blue Chip Growth K6	Active	Low	Equity	US Fund Large Growth	Fidelity Investments	Low
Fidelity Total Bond	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Fidelity Investments	Low
Fidelity Total Bond ETF	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Fidelity Investments	Low
Greencape Broadcap	Active	Low	Equity	Australia Fund Equity Australia Large Growth	Greencape	Low
Hunter Global Fixed Interest	Active	Low	Fixed Income	NZ OE Global Bond	Pimco	Basic
Investors Mutual Australian Share	Active	Low	Equity	Australia Fund Equity Australia Large Value	Investors Mutual	Low
iShares Core S&P 500 (US)	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares Core S&P 500 (IE)	Passive	Low	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares Core S&P 500 Index	Passive	Low	Equity	Canada Fund US Equity	BlackRock	Basic
iShares Core S&P 500 Index (CAD-Hedged)	Passive	Low	Equity	Canada Fund US Equity	BlackRock	Basic
iShares Core S&P 500 USD Dist	Passive	Low	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares Core S&P Small-Cap	Passive	Low	Equity	US Fund Small Blend	BlackRock	Basic
iShares Core S&P Total U.S. Stock Market	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares Core U.S. Aggregate Bond	Passive	Low	Fixed Income	US Fund Intermediate Core Bond	BlackRock	Basic
iShares S&P 500 Index	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares S&P Small Cap 600 USD (Dist)	Passive	Low	Equity	EAA Fund US Small-Cap Equity	BlackRock	Basic
iShares V PLC - iShares S&P 500 EUR Hedged (Acc)	Passive	Low	Equity	EAA Fund Other Equity	BlackRock	Basic
Loomis Sayles Core Plus Bond	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Loomis Sayles	Low
Loomis Sayles U.S. Core Plus Bond	Active	Low	Fixed Income	EAA Fund USD Diversified Bond	Loomis Sayles	Low
Natixis Oakmark International	Active	Low	Equity	US Fund Foreign Large Blend	Harris Associates	Low
Neuberger Berman Equity Income	Active	Low	Equity	US Fund Large Value	Neuberger Berman	Basic
Oakmark International	Active	Low	Equity	US Fund Foreign Large Blend	Harris Associates	Low
Perpetual Wholesale Australian Share	Active	Low	Equity	Australia Fund Equity Australia Large Value	Perpetual	Basic
Pimco GIS Global Bond	Active	Low	Fixed Income	EAA Fund Global Bond - USD Hedged	Pimco	Basic
Pimco GIS US Investment Grade Corporate Bd Fund	Active	Low	Fixed Income	EAA Fund USD Corporate Bond	Pimco	Basic
Pimco Global Bond	Active	Low	Fixed Income	Australia Fund Bonds - Global	Pimco	Basic
Pimco Global Bd Opportunities (U.S. Dollar-Hedged)	Active	Low	Fixed Income	US Fund World Bond-USD Hedged	Pimco	Basic
Pimco Investment Grade Credit Bond	Active	Low	Fixed Income	US Fund Corporate Bond	Pimco	Basic
UBS - MSCI EMU	Passive	Low	Equity	EAA Fund Eurozone Large-Cap Equity	UBS	Basic
Vanguard Developed Markets Index	Passive	Low	Equity	US Fund Foreign Large Blend	Vanguard Group	Low
Xtrackers II Eurozone Government Bond	Passive	Low	Fixed Income	EAA Fund EUR Government Bond	DWS	Basic

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Asset Managers

Out of the 40 asset managers assessed here, we have awarded a Morningstar ESG Commitment Level of Leader to only six: Australian Ethical, Calvert, Impax, Parnassus, Robeco, and Stewart Investors. We recognize that for these firms, ESG is core to their identity. They have long histories committed to ESG investing, and ESG considerations are ingrained and pervasive across the firms—in their investment processes, strategies, voting records, and also in their own operations. These firms are also transparent and educative about their ESG efforts and thinking.

Exhibit 6 Leader Asset Managers

Asset Manager	Asset Manager ESG Commitment Level
Australian Ethical	Leader
Calvert	Leader
Impax	Leader
Parnassus	Leader
Robeco	Leader
Stewart Investors	Leader

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Six asset managers earned a Morningstar ESG Commitment Level of Advanced: Altius, AXA Investment Managers, Comgest, NN Investment Partners, Nuveen/TIAA, and Schroders. These firms are among the industry's better ESG proponents. While they are deliberate in integrating ESG considerations into their investment processes using robust resources and formal monitoring, their application of ESG considerations still tends to be more limited than that of Leader firms.

Exhibit 7 Advanced Asset Managers

Asset Manager	Asset Manager ESG Commitment Level
Altius	Advanced
AXA Investment Managers	Advanced
Comgest	Advanced
NN Investment Partners	Advanced
Nuveen, A TIAA Company	Advanced
Schroders	Advanced

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

We awarded a Morningstar ESG Commitment Level of Basic to 16 asset managers. These include BlackRock, Capital Group, DWS, Pimco, Royal London, Wellington Management, and other firms that incorporate ESG at a lesser level than Leader and Advanced firms. The Basic ESG Commitment Level group represents our largest and most diverse group of asset managers in terms of experience of ESG incorporation. Some are still in the early stages of their ESG incorporation journey, while others are

further along, although not far enough to be classified as Advanced. Some have a well-intentioned approach and dedicated resources, but their proxy-voting records and disclosures are still works-in-progress.

Exhibit 8 Basic Asset Managers

Asset Manager	Asset Manager ESG Commitment Level
Acadian	Basic
Alphinity	Basic
AMP	Basic
Ausbil	Basic
BlackRock	Basic
Brown Advisory	Basic
Capital Group (American Funds)	Basic
DWS	Basic
Eventide	Basic
Natixis Advisors	Basic
Neuberger Berman	Basic
Perpetual	Basic
Pimco	Basic
Royal London	Basic
UBS	Basic
Wellington Management	Basic

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Finally, 12 asset managers in our sample, including American Century, Dodge & Cox, Fidelity, and Vanguard, have received an ESG Commitment Level of Low. Firms at this level are typically just getting started on incorporating ESG considerations into their investment processes, using ESG criteria in a limited or more-variable way, or simply not incorporating ESG at all.

Exhibit 9 Low Asset Managers

Asset Manager	Asset Manager ESG Commitment Level
American Century	Low
BetaShares	Low
Dimensional	Low
Dodge & Cox	Low
Fidelity Investments	Low
Geode	Low
Greencape	Low
Harris Associates	Low
Investors Mutual	Low
Loomis Sayles	Low
Lyxor	Low
Vanguard Group	Low

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Methodology

The Morningstar ESG Commitment Level expresses our analysts' assessments of individual strategies' and asset managers' determination to incorporate ESG factors into their investment processes and organizations. It is assigned to both strategies and asset managers. The asset manager's ESG Commitment Level is also an input into the strategy's ESG Commitment Level.

Strategies

For actively managed funds, we review three key pillars: Process, Resources, and Asset Manager.

Process includes an assessment of the manner and extent to which ESG factors are incorporated into the fund's investment process, from the definition of the investable universe (screening) to research, security selection, portfolio construction, risk management, active ownership efforts (proxy voting and engagement with respect to ESG issues), and the transparency of reporting. The Resources Pillar assesses the amount of data sources used by the fund's investment team as well as the ESG expertise both on the team and accessed by the team.

Each pillar is scored and then rolled into the overall ESG Commitment Level by weighting them as follows:

Process: 45%

Resources: 35%

Asset Manager: 20%

For passively managed funds, we review only two key pillars: Process and Asset Manager.

This approach reflects the fact that nearly all passive ESG offerings are based on indexes licensed from third-party providers, with the index methodology itself creating the ESG profile of the fund. Given this, data and ESG specialist personnel at the fund level aren't material to our assessment. We therefore exclude the Resources Pillar from our assessment of passively managed funds and focus primarily on Process, with the resulting weights as follows:

Process: 80%

Asset Manager: 20%

[To read the full methodology, visit this site.](#)

Asset Managers

To develop our view of asset managers, we assess the following three pillars: Philosophy & Process, Resources, and Active Ownership.

Philosophy & Process examines the history of a firm's involvement with ESG investing and its importance within the firm's culture and investment strategies. The Resources Pillar looks at the quantity of ESG data sources the firm uses, the ways in which the firm uses the data and ensures that it is propagated to research teams, and the extent and experience of firmwide ESG specialist resources and how they work

with investment teams across the firm. Lastly, Active Ownership assesses a firm's policies and actions for voting proxies and engagement with holding companies on ESG matters. Transparency of practices and reporting at firm level, while not a separate pillar, is also evaluated.

Each pillar is scored and then rolled into the overall ESG Commitment Level by weighting them as follows:

Philosophy & Process: 40%

Resources: 30%

Active Ownership: 30%

The asset manager's ESG Commitment Level is also an input into the strategy's ESG Commitment Level, as explained above. This ensures we capture centralized resources and overall backing for ESG by the asset manager, both of which bear materially on the level and quality of ESG incorporation in strategies.

The asset manager assessed here may differ in some cases from the Parent firm assessed in the Analyst Rating. The latter generally analyzes the firm that offers the fund, but the ESG Commitment Level focuses on the firm that handles day-to-day portfolio management for the strategy because its ESG capabilities are what matter to investors looking at this rating. Most of the time, the firms analyzed for the ESG Commitment Level and Analyst Rating for a given strategy will coincide, but they can differ when portfolio management is outsourced or handled by a specific and separate entity within the larger Parent.

Research Process

After selecting the asset managers and strategies to be included in our first round of evaluations, we sent the asset managers two types of questionnaires: one requesting information on the firm and another requesting information on each of the strategies evaluated.

Our analysts then interviewed relevant parties at the firms as needed, including portfolio managers, heads of sustainability, heads of investment stewardship, research analysts, and firms' key executives. At the interviews, we focused on fleshing out our knowledge of the asset manager's ESG philosophy, ESG capabilities, processes, and strategies.

Following the interviews, our analysts produced ratings notes, which were presented and discussed at a ratings committee. The committee had final approval for all ESG Commitment Levels.

Asset Manager Analyses

Acadian

ESG Commitment Level: Basic

Acadian's investment strategies apply ESG filters in a comprehensive and coordinated fashion, though its corporate engagement practices aren't as far-reaching as some other organizations. We consequently assign it a Morningstar ESG Commitment Level of Basic.

Acadian's quantitatively driven approach prioritizes accurate data disclosure to try to improve its research and portfolio construction models. This extends to its efforts on ESG factors. The firm has relevant history—it had incorporated ESG metrics for several years, particularly governance factors, before developing dedicated ESG offerings in 2012. While governance remains the most impactful element, Acadian has broadened out its ESG signals over time, altering their weightings by industry, such as making environmental issues (for example, carbon emissions) more influential when assessing utilities and social concerns (for example, workforce injuries) more impactful for energy/materials. This is intuitive, and having models as the foundation for investment decisions means ESG criteria are applied at scale across its portfolios.

By the same token, Acadian's quantitative roots limit the overall scope of its ESG efforts. Centering engagement efforts around data transparency is not to be underestimated, but the impact of Acadian's corporate outreach efforts is consequently lower than that of more activist-inclined peers. Public disclosure about ESG research is also rather modest, though a guarded stance and desire to protect intellectual property is understandable in light of competition in data-driven strategies.

The shop's sizable investment team contributes to ESG research and idea generation. However, Matt Picone is the sole dedicated ESG staffer following Asha Mehta's departure in July 2020. Picone has been at the firm for several years and acts to facilitate Acadian's overall ESG research agenda while managing specific ESG strategies. Mehta's departure left a gap to fill nonetheless.

Acadian's efforts to embed robust ESG practices throughout the firm are respectable in aggregate.

Alphinity

ESG Commitment Level: Basic

Alphinity Investment Management is a solid investment manager, with a basic commitment to responsible investing on a global comparative basis. It receives a Morningstar ESG Commitment Level of Basic.

Alphinity's time-tested investment philosophy includes the belief that investable companies with progressive ethical, ESG, and sustainability principles have a significantly higher probability of achieving earnings growth and outperforming over the longer term than peers.

The company's repeatable investment process has reflected this key principle since Alphinity was founded in 2010, with ESG considerations integrated into the investment procedures as part of the firm's risk management framework. The firm's Sustainable Share strategy has some key ESG features including a dedicated sustainable charter (outlining strict negative and positive ESG screens) and a sustainable compliance committee (with two independent ESG experts as members). However, there are also ethical and sustainable aspects implemented into the investment process for the firm's other domestic and global equity strategies. Encouragingly, the firm is working to ramp up its ethical credentials with the hiring of an ESG and Sustainability Manager.

While ESG is front-of-mind for this progressive funds-management business, at this stage full integration into all domestic and global equity strategies is still a work-in-progress. All ESG research work is undertaken by the portfolio managers, investment analysts, the investment committee, and the ESG and Sustainability Manager. Ultimately, the investment team, when undertaking evaluations of companies, has the ability to leverage its external independent ESG research database, gain insights from the portfolio managers of the Sustainable Share fund, and seek advice from the independent members of the Sustainable Share compliance committee.

Positively, Alphinity actively engages with all companies in its portfolios on ethical and ESG issues. Alphinity also votes all proxies in a manner consistent with its corporate responsibility principles and the Sustainable Share's sustainable charter.

Altius

ESG Commitment Level: Advanced

Altius Asset Management's long-standing commitment to ESG is deeply ingrained throughout the firm and the majority of its offerings. This results in an Advanced Morningstar ESG Commitment Level rating.

Altius is a wholly owned subsidiary of Australian Unity, a member-owned well-being company that offers members health, wealth, and care services. After being founded in 2011, Altius is now the in-house specialist cash and fixed-interest team for Australian Unity. Although not a UN-supported Principles for Responsible Investment signatory, the company's overall philosophy is a focus on responsible investing to shape a positive future and manage risk. It offers four main retail strategies, three of which are sustainable offerings, backed and partnered by influential agents in this style of investing. Its sustainable bond strategy is certified by the Responsible Investment Association Australasia.

Altius SRI and sustainability policies incorporate an ESG assessment into its credit analysis. The firm views an enhanced knowledge of management, culture, and business strategy to directly impact the risk and therefore probability of default of different portfolio companies. A firmwide sustainability policy defines the criteria by which investments qualify for the investable universe and the framework by which negative screens are implemented. An independent Sustainability Advisory Committee oversees

this policy and is assisted by an external sustainability advisor. The committee considers forward-looking assessments of ESG risk, matters of materiality, and mitigating factors to include debt with a low sustainability rating.

Bondholders don't have the same access points as equityholders to company management, but Altius does engage both passively and actively with issuers and across sectors as required to understand practices and convey its preferences. Altius investment products and philosophy are well aligned with well-considered ethics, sustainability, and ESG principles and ensure a high conviction.

American Century

ESG Commitment Level: Low

American Century is working to incorporate ESG standards into its investment processes, but these efforts are in their early stages. It earns a Morningstar ESG Commitment Level of Low.

American Century is making strides to prioritize ESG incorporation. However, it's behind some peers. The firm signed the UN-supported Principles for Responsible Investment in 2018, while leaders in the field signed more than a decade ago. The firm has an ESG specialist team, but with five members, it is modestly resourced relative to the firm's size and breadth of strategies. The members are also fairly new in their roles; leader Guillaume Mascotto joined the firm in 2017, and the other members were hired starting in 2018.

The firm is building a framework for ESG integration. Portfolio managers have access to ESG data from the ESG team; in some cases, the team encourages and facilitates managers' use of its ESG scores. The team scores firms on criteria such as corporate governance, environmental and social issues, and risk. The firm has only one ESG-focused fund in the United States, American Century Sustainable Equity. American Century Focused Dynamic Growth, after a successful strategy revamp several years ago, now has one ESG analyst monitoring its holdings. But most managers are not obligated to use ESG data in a standardized way.

American Century's portfolio managers tend to be active owners, but the active ownership process isn't formalized. There is no explicit policy for engaging with company managements about ESG-related issues, though the managers do talk to managements about such issues and monitor corporate actions and results. While the firm discloses its proxy votes, stated voting guidelines are vague and no rationale is provided for the votes.

American Century has some history with ESG. Its target-date fund series launched in 2006 with underlying funds that all excluded tobacco-related firms, though the series now owns a couple of strategies without that restriction. Also, close to half of the firm is owned by a cancer research center founded by American Century founder James Stowers, so a significant chunk of the firm's revenues fund that entity. However, that arrangement doesn't impact the funds' holdings.

AMP

ESG Commitment Level: Basic

While there are multiple factors, such as a dedicated ESG team and reasonable disclosure and reporting, that confirm AMP Capital's commitment to ESG, the integration of ESG across the wider group and investment culture is lagging behind its peers, warranting a Morningstar ESG Commitment Level of Basic.

While AMP Capital was one of the earliest movers to become signatories to UN-supported Principles for Responsible Investment, the firm is slower relative to peers in embedding ESG philosophy. ESG intentional funds make up only a small fraction (approximately 1%) of AMP Capital's total funds under management, evidencing their relatively muted focus. AMP Capital applies firmwide exclusions by eliminating the usual suspects such as tobacco/e-cigarettes, cluster munitions, landmines, and chemical and biological weapons. The shop utilizes multiple third-party ESG data providers for its analysis and undertakes proprietary fundamental ESG analysis on the ASX200 and additional small-cap stocks. Considering its larger scale, more-tangible efforts here are preferred.

However, in recent years, the firm has shown signs of prioritizing ESG by building out a dedicated team of specialists and providing more ESG research insights for investors. While the larger size of the ESG team is positive, the departures of the two most recent senior staff is a big loss. Seasoned ESG experts are in high demand and can be challenging to find in the Australian market, so the relevant replacements bear watching.

AMP Capital has a strong belief in engagement with companies, especially if a shift in a company's approach to ESG issues may improve business performance. While the firm publicly reports its proxy-voting outcomes, it could provide more insight into key voting decisions in its disclosures. Positively, the firm provides reasonable reporting and research insights on various ESG matters.

Ausbil

ESG Commitment Level: Basic

While Ausbil Investment Management has made a push into ESG, it's still working to integrate across all its investment capabilities. The firm receives a Basic Morningstar ESG Commitment Level.

ESG has recently become a focal point of the boutique's investment culture. Head of ESG research Mans Carlsson-Sweeny joined Ausbil in 2015 and formalized its ESG capabilities, which had long focused on governance. He produces thematic research and newsletters, and alongside a dedicated analyst assigns proprietary ESG scores to Australian equities, bringing a standardized approach to analysis and engagement. Still, the group's security-specific work is largely for the benefit of Ausbil Active Sustainable Equity, a large-cap, Australian equity ESG offering that's gaining traction.

While the team's work has boosted Ausbil's ESG capabilities, there's still work outstanding as we see less evidence of incorporation at other offerings, namely Ausbil's global strategies. Given that Ausbil doesn't rely on third-party ESG data sources (with the exception of proxy voting), it is reliant on Carlsson-Sweeny's expertise. He's quite experienced, though supporting ESG analyst Janelle Morrison has less than two years' ESG experience and another dedicated analyst left the firm in late 2020. Ausbil will likely add to its team, demonstrating a reasonable commitment relative to Australian peers.

Ausbil is an active and engaged shareholder, with well-defined views on various topics from board quality to climate change and modern slavery. Still, there's room for improvement. Ausbil summarizes its proxy voting in an annual report but doesn't disclose voting rationales or break down strategy-level statistics, which falls short of best practice. Overall, Ausbil has some positive attributes, but a lack of clearly defined ESG integration across all strategies holds it back from achieving a higher commitment level.

Australian Ethical

ESG Commitment Level: Leader

Australian Ethical Investment's ESG capability deserves strong praise and results in a Leader Morningstar ESG Commitment Level. The company's overall philosophy is based on the 23 principles of its Ethical Charter, which has remained unchanged since the firm's inception in 1986.

Unquestionably, Australian Ethical Investment is true to its ethical label, evidenced by the robust integration of ESG principles into the investment processes, activism, advocacy, and memberships undertaken by the firm. Further evidence is provided by the company's proudly ethical approach to employees, suppliers, investors, and shareholders. Effectively, Australian Ethical Investment's focus is specifically aimed at offering investment solutions targeted at the ESG-conscious investor. The company offers a range of managed funds, superannuation products, and pension investment options, with the underlying companies and investments in the portfolios all having passed comprehensive ethical, sustainability, and ESG screening processes. The company has a well-established history of applying strict ESG guidelines to all asset classes to guarantee all portfolios are ethical and sustainable.

Australian Ethical Investment has a highly experienced three-person ethics research team, headed by Dr. Stuart Palmer. Prior to joining the company in 2014, Palmer was head of ethics services at St. James Ethics Centre (Sydney), helping promote ethical leadership and culture in organizations. He is adeptly assisted by two knowledgeable ESG analysts. The ethics research team is imbedded with the investment research team and uses a structured ESG database, which includes information from a diverse range of sources to supplement its proprietary research and ratings. Australian Ethical Investment is at the forefront of undertaking extensive ethics and ESG active ownership activities including engagement, proxy voting, and advocacy. In addition, the company provides detailed, clear, and timely reports on these matters.

Australian Ethical Investment's business model, investment products, and ethos are all focused on detailed and well-considered ethics, sustainability, and ESG principles, which ensures our highest conviction.

AXA Investment Managers

ESG Commitment Level: Advanced

AXA Investment Managers has moved vigorously in recent years to incorporate environmental, social, and governance principles in its investment culture, with tangible results. The firm has considerably expanded its ESG team to oversee and implement its responsible investing policy and put in place substantial exclusion policies. While AXA IM has some scope to go further on its ESG journey, its current practices are strong enough to earn a Morningstar ESG Commitment Level of Advanced.

AXA IM has long shown an interest for sustainable investing. It has had a responsible investing policy and dedicated team since 2001 and signed the UN-supported Principles for Responsible Investment early, in 2007. But the firm's ESG efforts really took off in the last three years. The ESG team has doubled in size since 2017 to reach 30 people who are evenly split between a central team and the different investment platforms. The team has stabilized in the past two years, although the departure of the head of ESG in August 2020 and a consequent change of reporting lines bears watching.

The firm also multiplied the number of external ESG data sources in recent years to feed its proprietary ESG quantitative scoring that now covers 8,500 listed companies. This scoring is used by fund managers across the firm to inform their investment decisions. The exclusion policy has become more stringent and is applied across a large part of the fund range. For two thirds of the firm's mutual fund assets, companies involved in coal, tobacco, palm oil, and food-related derivatives and those violating the United Nations Global Compact principles are systematically excluded.

AXA IM is ahead of the competition with respect to reporting and active ownership practices. ESG metrics are disclosed on a per-fund basis for all funds. There is also a good level of transparency on proxy voting. The firm has detailed ESG proxy-voting guidelines and walks the talk with strong support of ESG shareholder resolutions. Engagement efforts with company holdings have been ramped up, with a focus on environmental issues, but more could be done on that front, given the scope of the firm.

BetaShares

ESG Commitment Level: Low

Offering a smattering of ESG products among a vast array of products, BetaShares warrants a Low Morningstar ESG Commitment Level.

BetaShares is one of Australia's fastest-growing providers of ETFs and other funds traded on the Australian Stock Exchange. Managing over AUD13 billion in assets, the firm offers a number of ESG intentional ETFs within Australian and global equities and fixed-income asset classes. Of the more than

60 strategies offered by BetaShares, two of the four ESG intentional strategies rank among the top 10 in terms of assets under management.

It is fair to say that under our ESG Commitment Level methodology, the firm structure of BetaShares renders a higher assessment difficult to achieve. It does not impose any ESG principles, philosophies, or policies at the firm level or across the majority of its product range. Nevertheless, the four specific ESG ETF strategies, which track custom indexes, do contain reasonable ESG characteristics. Most of the screening within these ETFs are in line with core ESG principles and cover many of the usual suspects including fossil fuels, gambling, tobacco, and environmental damage.

While BetaShares can be commended for bringing product to meet a growing demand, a higher ESG Commitment Level assessment is not warranted at this stage.

BlackRock

ESG Commitment Level: Basic

BlackRock has offered ESG strategies for years but only made a firmwide ESG commitment in 2020. It will take time to tell if its ambitious integration efforts permeate the sprawling firm, so it gets a Morningstar ESG Commitment Level of Basic.

BlackRock in January 2020 declared its desire to augment and extend its existing ESG efforts throughout its organization. The world's largest money manager's vow could prove to be a turning point for the industry—a sign that investment firms can no longer ignore ESG risks. But it was also an effort to catch up to global rivals that have more thoroughly inculcated ESG standards in their investment processes, operations, and cultures.

This isn't BlackRock's first ESG foray. The firm signed the UN-supported Principles for Responsible Investment quite early, in 2008, and has offered ESG-focused strategies since then, including a lineup of ETFs it acquired with iShares in 2009. It has expanded that range over the years, but in 2020 announced it would, among other initiatives, expand its ESG ETF lineup to 150, strip some thermal coal companies from all its actively managed portfolios, require all its investment strategies to consider ESG risks, and disclose ESG metrics for all its funds.

BlackRock's ESG endeavors, however, are still a work in progress. At the start of 2020's fourth quarter, it still planned to hit its goal of incorporating ESG measures into 100% of its actively managed assets by the end of 2020; as of this writing, BlackRock had reached 86%. In all, though, active approaches comprise just 27% of assets.

BlackRock has a large and sophisticated proxy-voting apparatus, but it tends to cast its ballots with management. Its low voting support for shareholder-sponsored ESG resolutions, especially related to climate change risk, an area of focus for the firm, is disappointing. The firm has increased transparency by providing rationales behind key votes. It has also stepped up its engagement and public-policy

advocacy efforts. BlackRock's 45-strong stewardship team has dialogues with thousands of companies every year to try to improve ESG practices. The firm also joined the high-profile Climate Action 100+ initiative in early 2020.

Brown Advisory

ESG Commitment Level: Basic

Although an area of emphasis, Brown Advisory's ESG initiatives are confined to just a fraction of the firm, warranting a Morningstar ESG Commitment Level of Basic.

Brown Advisory is prioritizing its ESG efforts but only for its ESG-focused strategies. The firm's ESG beginnings date back more than a decade to its purchase of Winslow Management Company in 2009. Through that acquisition, the firm secured a team with deep roots in ESG analysis and began its first sustainability-focused strategy, Brown Advisory Sustainable Growth. Although Brown Advisory has a longer history with ESG investing than many of its peers, the firm has required and incentivized incorporating sustainability analysis only within its ESG-explicit strategies, which accounted for just 16% of the firm's assets under management as of June 2020.

The backbone of the firm's ESG efforts is a stable and growing lineup of sustainability-focused managers and analysts. In alignment with the broader firm culture, both experienced and newer talent make up the ESG-focused analyst team. The group conducts its own proprietary ESG evaluations using ample third-party data and through collaboration with the fundamental analysts, and those assessments are made accessible to the broader investment group.

Brown Advisory has a decent record of exercising active ownership, but the firm could do a better job of disclosing it to fundholders. The firm has thoughtful and systematic proxy-voting guidelines and typically supports ESG-related shareholder proposals. Engagement with companies is a regular occurrence at the firm and takes many forms, but the team prefers direct dialogue with company management. Regular reports discuss the firm's active ownership but only in broad strokes.

Calvert

ESG Commitment Level: Leader

Calvert is a pioneer and best-in-class practitioner of ESG incorporation, earning it a Leader Morningstar ESG Commitment Level.

Calvert is one of the oldest ESG-focused management companies in the United States, launching in 1982 the Calvert Social Investment Fund (which, among other things, avoided exposure to apartheid South Africa from its inception). Whereas many competitors have only begun focusing their efforts on ESG integration over the last few years, Calvert has consistently positioned itself at the lead of several advancements in the field. It proposed its first socially driven shareholder resolution in the mid-1980s and was one of the inaugural signatories of the UN-supported Principles for Responsible Investment in

2006. Today, the firm curates and disseminates a detailed set of investing principles that lay out exactly how its research and active ownership teams should take ESG issues into account across their varying responsibilities.

Despite some turnover in the research team, Calvert has the resources to back its strong commitment to sustainable investing. Most of its members only came to the team after Eaton Vance acquired Calvert in 2016, and its current head, Jessica Milano, is slated to leave the firm by the end of 2020, so turnover has been a concern. However, Calvert's dedicated ESG research team is well-staffed and sports 13 members as of June 2020. Additionally, the research framework it has constructed is robust and used across all Calvert-branded strategies. The team combines proprietary and third-party data from roughly a dozen providers to integrate ESG criteria at every step of the investment processes from security valuation and selection to portfolio construction and risk management.

Calvert has a strong (and transparent) record of voting in favor of ESG shareholder resolutions. The firm's active ownership effort, curated by a six-person engagement team, does not stop at writing letters to company executives; the firm has not shied away from filing active resolutions of its own when it feels that dialogue with companies fails to generate a desired ESG-oriented outcome.

Capital Group (American Funds)

ESG Commitment Level: Basic

Capital Group is making a concerted effort to improve its scattered approach to ESG incorporation, warranting a Basic Morningstar ESG Commitment Level.

Capital's ESG efforts have lacked structure and direction. The firm tasked its investment professionals with evaluating ESG risks and opportunities but didn't provide top-down guidance or additional support. Capital didn't have the necessary ESG specialists to support its army of investment analysts and monitor exposures across the firm's large number of portfolio holdings. Further, the firm lacked a standardized approach to ESG analysis and engagement.

Yet Capital has recently prioritized ESG, leveraging its scale to construct internal processes. The firm has carved out a 16-person ESG team, with plans to hire additional support in the coming months. This group is working with Capital's industry analysts to construct and codify a firmwide ESG framework, which includes layering ESG metrics into quantitative investment screens to evaluate investment risks and prompt engagement with company management. The ESG team will also help portfolio managers monitor ESG exposures at the strategy level. Capital is also building a proprietary platform that will serve as the firm's central ESG repository, housing internal and third-party data and fostering collaboration. Although these tangible efforts should bolster Capital's ESG capabilities, there's still considerable work outstanding.

Capital's nascent ESG team should help clarify the firm's philosophy. The firm has long advocated for shareholder-friendly corporate governance policies, though its stance on environmental and social issues

is less clear. Capital eschews comprehensive, decisive statements, preferring to handle those matters internally at the industry and company levels. Although two of the firm's oldest strategies exclude alcohol and tobacco stocks, most strategies don't face exclusionary restrictions. Finally, Capital has robust systems to track and report proxy voting by strategy, but the firm could provide more insight into key voting decisions in its disclosures.

Comgest

ESG Commitment Level: Advanced

Comgest has intensified its ESG efforts since 2012 by hiring ESG analysts, formally integrating ESG factors into the firmwide investment process, strengthening its active ownership practices and enhancing reporting. The firm's current commitment and efforts are ahead of many industry peers, warranting a Morningstar ESG Commitment Level of Advanced.

ESG integration is a natural extension of Comgest's well-entrenched quality-growth approach. In the past seven years, the firm has formalized the incorporation of ESG factors into its standard investment process to the point where it has a systematic and tangible impact on investment decisions. The investment teams use ESG factors to identify growth opportunities for companies and assess risks that might threaten their long-term earnings power. The discount rates used in their valuation models are adjusted upward or downward according to their proprietary ESG quality ratings.

The firm's ESG efforts are led by a central team of four analysts that has been built out since 2012. This team is experienced, has solid ESG credentials, and works closely with the investment staff. But these dedicated resources remain small given the number of stocks held across the funds—around 350—and the large scope of the investment universe. Our concerns are alleviated by the demonstrated involvement of the investment teams, consisting of around 50 fund managers and analysts, in ESG research, proxy voting, and engagement activities. The firm also discloses ESG metrics on most of its funds.

Comgest is diligent with proxy voting and has selective, yet in-depth engagement with company management to foster better ESG practices. Transparent reporting of these engagement activities and full voting records are shared with investors. The firm has often voted in favor of ESG resolutions in recent years. That said, overall, Comgest's approach to ESG integration and active ownership still shows an emphasis on corporate governance—it has historically been a key tenet of its approach—while environmental and social aspects are less prevalent. More balance would further establish its credibility.

Dimensional

ESG Commitment Level: Low

Dimensional is not a firm that focuses on environmental and social issues. It has a strong infrastructure to handle governance-related issues, but it typically does not side with investors on key environmental and social resolutions. It earns a Morningstar ESG Commitment Level of Low.

Dimensional's ESG philosophy is closely tied to its broader investment philosophy and rooted in market efficiency. The firm believes that environmental and social issues with the potential to impact the value of a portfolio company should be reflected in stock and bond prices. It has no plan to integrate these considerations into its firmwide investment processes. Dimensional offers sustainability and social core mutual funds for clients who want to align their values and investments. But these strategies are not a major initiative and represent only about 2% of the firm's assets under management.

Dimensional takes the view that advocating on behalf of investors through good active ownership can be an effective risk management tool, engaging when resolutions address a financial risk to their clients. The firm rarely votes in favor of key environmental and social shareholder resolutions. The firm's five-person investment stewardship committee coordinates all internal active ownership activity.

Dimensional conducted 640 engagements during the 2020 proxy season, with executive compensation and board composition among the leading topics. Companies that are closely held or those with potentially fraudulent financials may also become engagement targets or temporarily excluded from Dimensional's funds. The number of portfolio companies excluded from Dimensional's portfolios represent a small fraction—about 1%—of the thousands it has stakes in.

Dodge & Cox

ESG Commitment Level: Low

Dodge & Cox is a top-flight asset management firm, but its foray into ESG integration is too limited at this point to earn it more than a Morningstar ESG Commitment Level of Low.

The firm, founded in 1930, is extremely light on ESG resources. It hired its first (and only) ESG integration analyst, Leah Edwards, in January 2020. As Edwards gets the lay of the ESG landscape, the firm's deep equity and fixed-income research teams continue to focus on traditional financial metrics when valuing securities, with ESG analysis playing only a peripheral role at this stage.

That's not to say ESG is anathema to the firm. Dodge & Cox signed the UN-supported Principles for Responsible Investment in 2012. In recent years, its analysts have integrated a simple ESG checklist into their thorough research efforts. With USD297 billion of assets under management, Dodge & Cox is often a major investor in its portfolio holdings (it invested in the equities of only 141 companies in September 2020) and can use its influence to effect change. The central tenet of its proxy-voting policy, however, is to vote in what it believes is the best interests of its shareholders, with ESG matters considered through that lens on a case-by-case basis. The firm has no formal engagement program, but it works with firms as needed on issues it deems material. To date, Dodge & Cox's record of engagement on ESG issues is thin.

That said, the storied firm has a long way to go before ESG plays a significant role in its investment processes. It has no ESG-dedicated security analysts or ESG-focused strategies. Under president and

CEO Dana Emery, Dodge & Cox is looking to expand its ESG capabilities, but it won't supplant the 90-year-old firm's valuation-focused, contrarian investment style anytime soon. That style doesn't shy away from out-of-favor businesses or sectors that look cheap—even if they don't score well on ESG metrics.

DWS

ESG Commitment Level: Basic

DWS has made a concerted effort over recent years to put in place the resources and framework for ESG integration, which has become one of the firm's major strategic initiatives. That said, the firm is still in the earlier stages of its ESG trajectory. It earns a Morningstar ESG Commitment Level of Basic.

The firm has ramped up data, tools, and ESG analysis, making them available to portfolio managers and analysts via the DWS ESG Engine and encouraging ESG integration into investment processes. Collaboration between the firm's sizable centralized ESG team (CIO Office for Responsible Investments), which was launched in 2017, and the broader investment platform is facilitated through ESG gatekeepers in every major investment team. ESG has been incorporated into manager and analyst KPIs and impacts bonuses so as to incentivize ESG incorporation.

Product development and distribution efforts focus on ESG offerings, which have reached 9% of the firm's assets. ESG-integrated strategies, where ESG factors are analyzed alongside other financially material factors, account for 59% of assets, as of this writing. As opposed to ESG-focused offerings, ESG-integrated funds do not have to meet minimum ESG requirements, and the ESG outcome will vary by strategy. That said, the firm has introduced a centralized process to restrict exposure to severe ESG laggards, defined as companies that score worst on norms compliance and climate transition risk. It is yet to be rolled out across the entire lineup and only concerns a small part of the investable universe.

Rather than applying universal exclusions, DWS prefers engaging with companies to improve corporate behavior. The firm has expanded and formalized its engagement and proxy-voting activities. While it stands out for often voting in favor of ESG-related shareholder proposals, environmental and social proxy-voting guidelines could be more detailed. Proxy-voting disclosure is comprehensive and includes rationales for votes against company management. The firm engages in collaboration with other investors, mainly on climate risk (such as Climate Action 100+).

Eventide

ESG Commitment Level: Basic

Eventide Asset Management has been committed to ESG principles since its founding, but the resources it has available to implement those principles remain limited. The firm earns a Morningstar ESG Commitment Level of Basic.

Eventide was founded in 2008 as a firm that considers a combination of ESG and faith-based criteria in its investment decisions. The firm has always made ESG considerations an integral part of its investment

process, starting with its first and still largest mutual fund, Eventide Gilead. As of October 2020, Eventide had over USD6 billion in assets under management in seven mutual funds, all of which incorporate ESG factors via the firm's holistic "Business 360" process. However, despite this commitment to sustainable, values-based investing principles, Eventide's ESG infrastructure is still a work in progress.

As a small boutique firm, Eventide has always had limited resources for ESG. Only in 2018 did it hire its first full-time person to oversee Business 360, followed by two more in 2019. The firm has never signed the UN-supported Principles for Responsible Investment because it doesn't have the resources or bandwidth for the required level of collaboration, promotion, and reporting. Similarly, Eventide is not a member of any ESG-oriented investor coalitions and does not engage in policy advocacy. The firm doesn't publicly report on its company engagement or proxy voting (other than the required SEC filings), again because of a lack of resources. In the past couple of years, Eventide has hired more people and formalized aspects of its Business 360 process, but it's still catching up with bigger firms that have more resources and a deeper commitment to active ownership.

Fidelity Investments

ESG Commitment Level: Low

Environmental, social, and governance issues are on the fringe of Fidelity Investments' investment culture. The firm earns a Low Morningstar ESG Commitment Level.

Despite being one of the largest asset managers in the world, with more than USD3 trillion of assets under management, Fidelity Investments only formally started its sustainable investing journey in 2017 when it signed the UN-supported Principles for Responsible Investment. That same year, the firm created a centralized team of ESG specialists that would supplement the fundamental research conducted by the core equity and fixed-income analyst teams. Led by Nicole Connolly and David King, both of whom lacked ESG experience prior to taking their current posts in 2017, a small team of five ESG analysts leverage sustainability data from third-party vendors and collaborate with the asset-class analysts to assign companies ESG ratings that take the form of a six-tier, alphabetical, sector-relative scale. It's a reasonable approach but purely informational and nonbinding for portfolio managers, who are mostly free to decide whether to incorporate the ESG ratings into their investment decisions. No monitoring of the ESG integration process is currently in place.

A separate group of roughly a dozen individuals is responsible for evaluating and voting proxies in accordance with guidelines established by the boards of trustees of the Fidelity funds. The guidelines' loudest demand is for corporate transparency—a hallmark of good corporate governance—but it sets vague standards for environmental and social issues. The firm does not engage with its investee companies by taking active steps such as writing letters or sponsoring shareholder resolutions. Granted, the firm has had in place for nearly a decade an India-based team devoted to governance and forensic-accounting research, and the firm plans to invest more in its ESG resources and capabilities. It will soon launch a forward-looking component of its ESG rating and may hire a few additional ESG

analysts to deepen sector-specific coverage. Still, Fidelity Investments' ESG efforts have yet to make a significant impact on the firm's portfolios.

Geode

ESG Commitment Level: Low

Geode, which subadvises most of Fidelity Investments' index funds, warrants a Morningstar ESG Commitment Level of Low. The firm has made strides to enhance its ESG efforts over the past few years, but its resources dedicated to ESG research and active ownership activities are still limited.

After signing the UN-supported Principles for Responsible Investment in 2017, the firm established an ESG committee to craft its ESG proxy-voting guidelines, which apply to both ESG-focused strategies and conventional funds. It also hired a third-party corporate engagement service, which engages with companies on behalf of a consortium of investors. These engagements are intended to prod companies to improve their ESG practices. In the spring of 2020, Geode went a step further and started to engage directly with portfolio companies. These engagements fall under the purview of a newly added proxy-voting manager, who sits on the compliance team and oversees proxy voting across all the firm's portfolios.

The proxy-voting guidelines and framework for setting engagements that have been disclosed are vague, and the resources behind these efforts are still limited. That said, Geode supports ESG shareholder proposals more often than many of its peers.

Index portfolios represent the bulk of the firm's assets, but there are no ESG adjustments beyond what is in the index. The firm currently manages only one ESG index portfolio and does not currently have a standing team of ESG analysts. For its actively managed quantitative funds, Geode recently started to incorporate changes in ESG ratings from MSCI. The investment team treats this ESG factor just like any other performance-enhancing factor in its active stock-selection model. It may own ESG laggards if they look sufficiently attractive on other metrics or if their ESG ratings are improving.

Greencape

ESG Commitment Level: Low

Greencape Capital is an outstanding funds-management business with solid features, including a robust investment approach by a talented team, but ESG is not the primary focus, resulting in a Low Morningstar ESG Commitment Level.

The firm's sensible investment philosophy encompasses the belief that ESG factors have the potential to significantly impact the risk, return, and long-term value of an investable company. The firm is an early adopter of the UN-supported Principles for Responsible Investment, being a signatory since 2006. In addition, Greencape has established a detailed ESG policy for the business, with a particular focus on climate change, modern slavery, and gender diversity. However, Greencape's primary focus is on the

durability of businesses and company governance issues, including stewardship, capital allocation, and executive remuneration structures. ESG assessment is integrated into the firm's straightforward investment process, considered as a component of the overall risk evaluation of investable companies.

Greencape's ESG resources are limited, with no dedicated ESG specialist in the investment team. The firm is reliant on using a combination of independent ESG research providers and a shared ESG specialist, employed by Fidante (minority shareholder). Greencape's team is an exceptionally capable and highly experienced group of investment professionals with some ESG capability as part of its overall analysis skill base. However, the team does not possess any specialist ESG and sustainability skills.

Greencape has an extremely thorough company visitation program and actively engages company management and directors on numerous matters including ESG issues if deemed material or likely to impact a company's sustainable business model. Advocacy is undertaken predominantly around governance issues. The firm uses independent proxy advisor services as an input to its own decisions and will vote in most cases, but the team could provide greater transparency into key voting decisions in its disclosures.

Harris Associates

ESG Commitment Level: Low

Harris Associates, long an active proponent of good corporate governance, is just starting to pay attention to environmental and social concerns in its investment strategies. Thus, it receives a Low Morningstar ESG Commitment Level.

The value-investing shop is renowned for grilling the executives and boards of the companies it owns on compensation, business plans, and long-term capital allocation. The advisor to the Oakmark family of funds, however, is not known for trying to persuade the leaders of its portfolio holdings to adopt more environmentally or socially friendly business practices. Shareholder value is Harris' primary objective.

Most of Harris' ESG efforts are, at best, in their pupal stages. The boutique, a subsidiary of French asset manager Natixis, only began formally developing ESG policies in 2017, signed the UN-supported Principles for Responsible Investment in 2019, and hired a director of responsible investment in 2020.

Harris doesn't currently offer any ESG-focused strategies, but it encourages its analysts and portfolio managers to consider material ESG risks in their bottom-up analysis. The investment team, however, seems to be doing so only on a case-by-case basis rather than in a systematic way at this point. Additionally, Harris falls short on reporting. It does not broadly disclose the ESG characteristics of its funds nor divulge its proxy votes beyond what regulators require. It also usually votes with management against ESG shareholder proposals, publishes no ESG research, and does no ESG-specific advocacy.

Impax

ESG Commitment Level: Leader

Sustainable investing has been at the heart of Impax's culture since its foundation in 1998. This hasn't changed after its acquisition in 2018 of US-based Pax World, a like-minded firm, with which it had already cooperated for over a decade. Impax's thoughtful approach to sustainable investing, comprehensive resources, and strong active ownership practices earn the firm a Morningstar ESG Commitment Level of Leader.

At its foundation, Impax pioneered sustainable investing by focusing on companies that provide solutions to resource scarcity in areas such as alternative energy, water, and waste. Impax's Listed Equity business nowadays accounts for around 70% of its total firm assets. The strategies within this group invest in companies that can benefit from the transition to a more sustainable economy. The Pax World acquisition added a diverse set of strategies, including fixed income, smart beta, and US equity funds, but all thoroughly incorporate ESG criteria in their approaches. Across the fund range, ESG considerations are incorporated at every stage of the investment process and rely on the firm's robust proprietary ESG research and tools. The high quality of ESG research is further exemplified by the regular publication of insightful thought leadership pieces.

Impax's commitment to sustainable investing also shines through its people. Each of the 16 members of the Listed Equity team is involved in ESG company research, proxy voting, and engagement efforts. This team is a sound mix of very seasoned and long-tenured ESG-minded investors and more-junior members. On active ownership, the investment team is supported by a dedicated team of seven proxy-voting and engagement experts.

Proxy voting at Impax is overall strong. True to its DNA, the firm votes often in favor of ESG-related shareholder resolutions. Impax also regularly cooperates with other investors in its engagement efforts and uses policy advocacy to infuse good ESG practices. In 2020, the firm strengthened this latter capability by hiring an additional experienced team member. However, more transparency and detailed reporting around active ownership would be welcome.

Investors Mutual

ESG Commitment Level: Low

Despite exhibiting some positive ESG features, the discretionary nature of ESG implementation across the firm results in Investors Mutual earning a Low Morningstar ESG Commitment Level.

IML doesn't purport to be an ESG-intentional manager, believing that a restriction in the investment universe would hamper the ability to deploy its investment process effectively. While some firmwide exclusions exist (such as tobacco, controversial weapons, and small arms), it is worth noting that IML's investable universe doesn't contain names with material exposure to these areas. The manager has also

been a signatory of the UN-supported Principles for Responsible Investment for more than a decade but does not manage any ESG-specific strategies.

Analysts are required to compile a detailed ESG report on all holdings, and IML has a dedicated ESG coordinator, which is positive. However, when it comes to portfolio construction, ESG is implemented on a risk/return assessment, rather than the systematic screening out of companies. It is up to the relevant portfolio manager to determine whether any identified ESG contraventions disqualify ownership. This level of ESG incorporation lags that of more-intentional peers.

Investor activism has been a commendable feature at the firm, aiming to unlock additional investment value by resolving governance issues. Proxy-voting decisions are assisted by third-party research, and all equity holdings are voted on.

Overall, IML is reasonably ESG-conscious for a non-ESG specific firm, though it doesn't stack up as well relative to the ESG intentional cohort and otherwise has room for improvement.

Loomis Sayles

ESG Commitment Level: Low

Loomis Sayles' ESG effort lacks dedicated resources and a clear application of ESG analysis across its investment teams and strategies. Despite its stated desire to promulgate responsible investing principles throughout the organization, Loomis Sayles warrants a Morningstar ESG Commitment Level of Low.

The firm utilizes a committee to guide its ESG efforts, but its expertise and impact is limited. Loomis Sayles' lone ESG specialist leads the committee that includes staff members from across the organization who hold other primary responsibilities. This is by design and differs from many of its better-resourced peers who benefit from greater depth and specialization. The committee promotes responsible investing principles and seeks to identify key initiatives, educate the firm's investment staff on best practices, and develop ESG-focused tools. The firm notably does not offer dedicated ESG strategies.

Loomis Sayles has, however, invested in proprietary tools and third-party data to bolster its reach. The firm has built a centralized data hub that integrates data from multiple vendors, retains ESG-specific analyses and scores, and provides its investment professionals with a tracking tool and timeline of all engagements with companies of interest. These data points influence the team's analysis, but its goal of strong risk-adjusted returns trumps any ESG mission. ESG-related data has also been incorporated in other quantitative tools used by its investment professionals.

While these additional resources improve the firm's ability to evaluate ESG risk factors, the ESG committee takes a hands-off approach to its application across strategies and teams. The firm lacks a standardized approach to ESG analysis that allows for its investment professionals to determine how and when ESG factors are applied, if at all. The firm works with proxy-voting services to fulfil its proxy

commitments. Loomis Sayles typically votes in-line with company management. Overall, Loomis Sayles' engagement with companies is limited, and ESG efforts here remain in their nascent stage.

Lyxor

ESG Commitment Level: Low

Lyxor has made important steps in the last five years toward making ESG part of its investment philosophy. But there is plenty of room for improvement, most notably in relation to its engagement program. As of this review, Lyxor is awarded a Morningstar ESG Commitment Level of Low. Lyxor signed the UN-supported Principles for Responsible Investment in late 2014 and established a socially responsible investment team in 2015. The team consists of five members who split responsibilities among governance monitoring and voting, climate-risk assessment, and incorporating ESG principles into investment processes.

Lyxor's ESG principles include the exclusion of controversial weapons and thermal coal companies. But these are applied only to physical ETFs with an explicit ESG mandate and to the substitute baskets for all synthetic ETFs. These, combined, currently account for about 55% of the firm's assets in passive funds. With respect to active ownership, a crucial component of a passive manager's ESG program, Lyxor has plenty of room to grow. The engagement program has clear guidelines, but it is in its infancy and has yet to be tested in terms of outcomes. The SRI team engaged with 41 companies in 2019. Lyxor is also part of the Climate Action 100+ initiative. Running an effective engagement program takes time and may call for additional resources for the SRI team.

Meanwhile, Lyxor has a detailed voting policy that already covers 70% of equity holdings. Although being expanded, the scope still falls short of competitors and retains a bias to vote only for the largest holdings. The voting record on ESG shareholder resolutions is another area that can be improved. On the plus side, Lyxor provides investors with comprehensive disclosure of ESG metrics by fund.

Natixis Advisors

ESG Commitment Level: Basic

Natixis Advisors declared sustainable investing a priority by launching an ESG target-date series in 2017, but the firm lags peers who have more fully ingrained sustainability into their cultures, limiting its Morningstar ESG Commitment Level to Basic.

Natixis Advisors kicked off its sustainability transition in 2017 with the launch of an ESG-intentional target-date series. The implementation at the series has considerable room for improvement: While the manager selection team has to have some level of confidence in the underlying managers' approach to ESG integration, it takes a relatively hands-off approach to oversight and reporting, resulting in a lackluster ESG portfolio.

The firm's stance on ESG has not evolved significantly since 2017. Natixis Advisors is not a signatory to the UN-supported Principles for Responsible Investment, does not have a dedicated ESG analysis team outside of manager selection, and has not published an ESG investment policy. Rather, this firm relies on the team at Natixis Investment Managers for guidance on ESG analysis and for broad strategic direction regarding ESG integration. However, the team at Natixis Investment Managers is just getting started. Harald Walkate, who is spearheading the effort, joined the firm in 2019 and hired three additional team members in 2020. This firm signed the UN-supported Principles for Responsible Investment in 2019 but has not yet been successful in implementing policies to guide either sustainable investing or corporate social responsibility initiatives.

Reporting on sustainability characteristics is an area of ongoing development for many peers in the space, and Natixis Advisors does not stand out. While certain ESG metrics (from third-party data providers) are available upon request, the lack of public reporting and transparency means that it would be tricky for the typical ESG investor to discern the level of impact that sustainability characteristics might have on a fund offering.

Neuberger Berman

ESG Commitment Level: Basic

Neuberger Berman has ramped up its ESG efforts in the past three years, but with modest participation by its equity strategies and many ESG-related projects still taking shape, the firm earns a Morningstar ESG Commitment Level of Basic at this stage.

Although the firm signed the UN-supported Principles for Responsible Investment in 2012, Neuberger Berman's ESG program began to blossom with the hiring of Jonathan Bailey as head of ESG and impact investing in 2017. Bailey has since built a small, six-person dedicated support staff to help him develop proprietary ESG rankings using 18 third-party data providers, encourage the firm's varied investment teams to use those rankings, and organize the firm's ESG reporting.

The progress is notable. The firm now publishes an ESG annual report detailing its internal initiatives and corporate engagement. In 2020, it launched NB25+, an effort to spur dialogue and effect change by disclosing in advance how it intends to cast its proxy votes on key issues. Neuberger Berman claims it integrates ESG data into its investment processes on three fourths of its USD374 billion of assets and across all asset classes. It also reported more than 2,200 engagements with companies in the 12 months through July 2020. Its investment teams handle most of these interactions, though the ESG team takes the lead in a few discussions. The firm has also signed on to programs advocating improved workforce data disclosure and greater awareness of labor conditions in corporate supply chains.

Yet there's room for improvement. The firm's equity side is fragmented into small, mostly autonomous teams, and its use of Bailey's ESG data has been spotty compared with fuller adoption on the fixed-income side. Across the firm, ESG-specific offerings are relatively scarce apart from a USD3.7 billion

Sustainable Equity strategy and a small municipal impact fund. For a firm whose ESG efforts only began in earnest in 2017, however, the results so far are promising.

NN Investment Partners

ESG Commitment Level: Advanced

NN Investment Partner's ESG journey started in 2000 with the introduction of a global sustainable equity strategy. In recent years, the firm has significantly stepped up its ESG efforts to bring it to the core of the company. While the departure of a large part of its sustainable equity team in September 2020 is a significant loss, it will not change the pace and direction of travel on the firm's ESG journey, and the broader investment platform boasts considerable development. A Morningstar ESG Commitment Level of Advanced is warranted given the progress already made across the broader firm.

As of September 2020, 62% of the firm's total assets under management apply some level of ESG integration, while an additional 8% of assets are in ESG-focused and impact strategies. Unlike for the latter, portfolio managers of ESG-integrated strategies do not have a sustainability objective, but they are obliged to consider ESG criteria in their investment decisions. They also have to apply the firm's exclusion policy, which is fairly wide-ranging. Exclusions are related to controversial weapons, tobacco, oil sands, thermal coal mining, and violations of international standards of business conduct. ESG assessments are primarily carried out by analysts and portfolio managers within the investment teams, who started to integrate ESG considerations into their research about five years ago.

Investment teams receive guidance and advice from the Responsible Investment team, though this team's main focus is on active ownership. A substantial part of engagement activities is outsourced to external providers, which may be related to the size of the RI team. On proxy voting, NN Investment Partners has a record of voting in favor of ESG shareholder resolutions. With seven ESG specialists, most of whom joined over the past three years, the team is experienced but relatively small in comparison with the firm's assets. We value the disclosure of proxy votes on the fund level, but the firm publishes ESG metrics only for its sustainable and impact strategies.

Nuveen, a TIAA Company

ESG Commitment Level: Advanced

By way of parent company TIAA, Nuveen was an early adopter of ESG investing. The CREF Social Choice Account, a variable annuity, was launched in 1990 and currently has roughly USD14 billion in assets. The firm was created over 100 years ago to manage the pensions of teachers; it stands to reason that this mission-driven firm would also be purposeful in its approach to ESG. TIAA Investments, one of the predecessor organizations to current-day Nuveen, signed the UN-supported Principles for Responsible Investment in 2009.

Early adoption has allowed the firm to develop in-house expertise, specifically a 28-person Responsible Investing team. That team oversees data collection from a variety of third-party sources and partners

with the firm's investment teams to identify where ESG data is most relevant. It has also built a robust internal platform that allows the creation of proprietary data points and which integrates with other common investment tools, ensuring that ESG data remains at the fingertips of the investment team. Certain members of this ESG team are dedicated to specific strategies and asset classes, while others work on proxy voting, active ownership, and reporting.

In most cases, the firm's active ownership is handled by the centralized ESG team, which has developed thorough proxy-voting guidelines and works with issuers of social- and environmental-impact bonds to ensure accurate reporting. However, this only applies to the firm's core investment teams; smaller affiliated teams can vote their proxies independently.

One meaningful drawback to the firm's ESG efforts is that its multiaffiliate model means there has been uneven implementation. Integration with the ESG team is strongest on products managed by legacy TIAA investors, while more-boutique teams that joined with the 2014 TIAA/Nuveen merger are not as far along. The firm has no intention of turning every product into an ESG-branded one; rather, the goal is to systematically integrate ESG factors to improve investment processes in areas like risk management. The firm has already made strong progress in that effort, and, given its very public support for ESG investing through aggressive marketing and education, it will remain a priority into the future.

Parnassus

ESG Commitment Level: Leader

Parnassus's long track record and continued advancement of its environmental, social, and governance process warrants a Morningstar ESG Commitment Level of Leader.

From humble beginnings around socially responsible investing, Parnassus has grown into a boutique leader in the field. The firm believes incorporating ESG research into its investment process improves both investment and social outcomes. Parnassus runs five strategies, all of which initially employ exclusionary screens to filter out companies that derive significant revenues from alcohol and tobacco products, controversial weapons, gambling, fossil fuels, and nuclear energy.

While small, the firm's 14-person investment team and three-person ESG team are appropriately resourced to handle due diligence on their concentrated strategies. Twelve out of the 17 members have been with the firm seven years or longer, with several members spending most of their careers at the firm. The firm was an early adopter of the UN-supported Principles for Responsible Investment, signing in 2008, and is involved in numerous other ESG associations to keep up with pertinent issues. The ESG team leverages several third-party data sources to build a proprietary ESG assessment of potential and current holdings. It emphasizes analyzing issues most relevant to the company and industry peers, often weeding out any borderline cases.

Parnassus has clear proxy-voting guidelines and discloses all ESG-related information on its website, but there is room for improvement. Parnassus votes in favor of ESG-related issues, but the firm will not lead

policy advocacy initiatives. The team believes having meaningful interactions with corporate management is better for the firm's clients and a better use of its resources. Parnassus sends all companies in which it invests an introductory letter outlining positive ESG attributes and areas for improvement. This is published on the firm's website; however, it could be more detailed. Parnassus also publishes annual case studies on engagement issues, but the firm could provide more insight on steps taken. Still, the firm's core commitment to ESG should continue to keep it a step ahead of its peers.

Perpetual

ESG Commitment Level: Basic

As a large, diversified asset manager, Perpetual's commitment to ESG varies by strategy, and given ESG-intentional mandates only make up a small portion of total assets under management, the firm earns a Basic Morningstar ESG Commitment Level.

Following the acquisition of Trillium Asset Management and the expected completion of the acquisition of 75% of Barrow Hanley Mewhinney & Strauss in late 2020, ESG-intentional strategies will make up just under 10% of group assets under management. Perpetual's overarching investment philosophy centers around quality and value. While governance is carefully considered when assessing an investment's quality, social and environmental factors are less of a focus for non-ESG intentional strategies and only to the extent they pose a material valuation risk. This occasionally leads to holdings that rate poorly on traditional ESG criteria but that the manager believes have more-than-offsetting share price upsides.

In Australia, the firm has modest ESG resourcing. Richard Morris has been head of responsible investments since 2012, while a supporting analyst hire was made in early 2020. This is a small team, particularly given the size of the Perpetual group, but it demonstrates a reasonable commitment relative to Australian peers. Trillium, an ESG specialist, brings its own expertise and capability, but integration is likely to be limited in the near term. Perpetual is an active and engaged shareholder, using its size to influence company boards. Its focus is on shareholder value creation and preservation, rather than taking a moralistic approach to ESG matters. While its proxy-voting record is publicly available, voting rationales are not disclosed, even for contentious resolutions, which falls short of best practice. Overall, Perpetual has some positive attributes, but a lack of clearly defined ESG integration across all strategies holds it back from achieving a higher commitment rating.

Pimco

ESG Commitment Level: Basic

Pimco has made strides ramping up its ESG effort and carries a Basic Morningstar ESG Commitment Level. Pimco has actively engaged with numerous ESG organizations and consortiums in recent years, but its efforts expanded in 2016 when the firm launched its ESG initiative. That included the buildout of an ESG team led by senior leaders, including CIO of US core strategies Scott Mather and global head of credit research Christian Stracke. That group has a small dedicated investment staff, but the day-to-day work of judging and engaging with individual bond issuers, as well as buying and selling based on ESG

criteria, falls to 65-plus analysts and scores of portfolio managers across bond market sectors, including securitized products, municipals bonds, corporate credit, sovereign, and green/sustainable bonds.

In addition to typical investment management decisions, ESG considerations include ESG-related business practices, global sustainability norms, and receptivity to engagement. The effort is relatively new though. Pimco does not employ exclusions across assets under its management, and strategies intentionally designed to hew to ESG principles are still a fraction of its business.

Given its hard-charging investment culture, it's difficult to imagine the firm's identity becoming synonymous with ESG, but Pimco has demonstrated a willingness to invest the resources necessary to build credibility in the space. In addition to the buildout of its ESG leadership and staff, the firm has developed its own proprietary analytical framework and draws on the research provided by numerous external ESG sources.

Unlike equities, bonds don't have ownership rights, so bond-focused asset managers have fewer tools to influence issuers. Large debtholders can wield power, though, and Pimco has demonstrated a willingness to actively engage with issuers in efforts to improve their adherence to ESG principles. The firm reported having engaged in-depth with more than 175 issuers in 2019, with the majority of those efforts focused on environmental risks and so-called green bond related frameworks. Pimco is also a member of numerous external organizations and coalitions actively involved in policy advocacy.

Robeco

ESG Commitment Level: Leader

Robeco earns the highest Morningstar ESG Commitment Level of Leader.

Over time, Robeco has integrated and nurtured ESG best practices thanks to RobecoSAM, its affiliate since 2007. That firm was founded in 1995 as Sustainable Asset Management and was a pioneer in sustainable investing. The ties between the two entities have been strengthened in the past decade from a senior leadership, fund management, and ESG integration perspective.

ESG is integrated across all asset classes at Robeco, exemplifying its strong commitment to sustainable investing. It regularly disseminates educational ESG content and publishes various in-depth reports discussing its sustainability principles, practices, and active ownership results. However, the firm's fund fact sheets lack detailed information about the ESG characteristics of its investment funds. Robeco says it aims to rectify this shortcoming by the end of 2020.

Robeco has deep and dedicated resources to support its sustainability initiatives. RobecoSAM is the main source of proprietary ESG research for the group. The firm uses its own sustainability scores and frameworks, which are complemented by input and tools from several external providers. ESG research is also effectively shared among portfolio managers and analysts. The investment teams on both sides closely collaborate with the firm's 37 sustainability experts, ensuring that ESG is well-integrated in their

investment processes and monitored in the portfolios.

Robeco has a well-structured process in place for engagement, but its guidelines on voting are less detailed on environmental and social aspects than for some other sustainability leaders. Its transparency regarding proxy-voting activities is exemplary, though, providing historical records since 2012 of its votes per fund on the company level and in-depth reports on voting activities, which include a discussion of individual cases and voting rationales. Unfortunately, the firm's reporting on engagement activities is less detailed. Robeco carries out individual and collaborative engagement and uses public-policy advocacy to try to improve the ESG behavior of companies and governments.

Royal London

ESG Commitment Level: Basic

Royal London Asset Management displays good ESG credentials via its sustainable fund range, but wider adoption across the group is still a work in progress, which supports a Basic Morningstar ESG Commitment Level for the firm.

The origins of the dedicated Sustainable Investment team came via the acquisition of the Co-operative Group in July 2013. This is one of the UK's longest-tenured teams whose process has been in place since 2003 under the leadership of Mike Fox, head of the SI team of portfolio managers. The Responsible Investment team was carved out of the SI team in 2019, reflecting the increasing demands for ESG research across the wider business, and it has grown quickly to reach a total headcount of nine. While it meets the needs of the sustainable strategies, it remains small relative to the overall size of the wider group.

The RI team works alongside the SI team on company-specific analysis. Outside of this, fund managers running nonconventional-intentional strategies rely to a greater extent on external data and research, although they do also have access to the RI team's research, made available through a centralized database. Interaction with the team also takes place via regular meetings to discuss portfolio holdings and ESG risks.

Company engagement also sits with the RI team, but because it serves the group as a whole with fairly limited resources, any engagement has to be targeted and topics prioritized. That said, where action has been taken, a wide range of examples are publicly declared, including details on the engagement itself and how it has impacted investment decisions. The firm does not yet vote on all equity assets but is aiming to do so in 2021. It publishes a summary of voting activity on its website, and an interface allows visitors to search for all voting activity on a specific company, including reasons for voting against a proposal or abstaining.

The group falls down a bit when it comes to fund-level reporting of ESG metrics, as fact sheets and reports neither summarize a strategy's ESG outcomes on an absolute basis nor relative to peers or a benchmark, which would provide greater visibility for potential investors.

Schroders

ESG Commitment Level: Advanced

Schroders has been at an advantage in recent years across the ESG spectrum, helping the firm achieve a Morningstar ESG Commitment Level of Advanced.

The CEO's vision has enabled the group to invest in relevant tools and resources to deepen ESG integration—the results of which are of a high standard in certain areas. On the investment desk, a variety of data sources have been thoughtfully amalgamated into a proprietary platform that all fund managers can access from their desktops. This allows them to analyze a company's relationship with its stakeholders as well as the negative and positive impact on social and environmental issues. While the firm doesn't employ broad negative screens on industries, the output provides a lens through which fund managers can make active decisions.

Furthermore, each investment team goes through an internal ESG accreditation and its commitment to this undertaking is linked to individuals' bonuses. The accreditation aims to demonstrate how ESG integration is implemented at various stages of the investment process and has been built out alongside the sustainability team. This team is 22-people strong and acts as a focal point for ESG, proxy voting, and engagement. While there are some recent junior hires here, the three most senior members each have more than 15 years' experience in their respective fields. The resources and levels of experience are therefore of a decent standing for a firm of this size.

When it comes to proxy voting, Schroders has structured policies in place and is transparent on reasons why proposals have been voted against. There is also a framework from which environmental and social issues are considered. On the ESG engagement side, the firm's activities and outcomes are monitored and tracked. Broad aspects and measures are captured, but a deeper understanding of more-tangible results and insights would be of benefit here. Still, Schroders displays many positive attributes, showing that in most areas it has a well-codified ESG framework across the firm that's been in play for a number of years.

Stewart Investors

ESG Commitment Level: Leader

Stewart Investors has a long and distinguished record of focusing on ESG issues and ranks among the industry's finest sustainability managers. The firm earns a Morningstar ESG Commitment Level of Leader.

The firm, through its two subgroups, Sydney-based Sustainable Funds Group and Edinburgh-based St. Andrew's Partners, has a clearly defined philosophy centered around stewardship. Its team members adhere to a code of conduct, which they call Hippocratic Oath, which governs their conduct and upholds Stewart's principles. The two groups, which operate relatively independently but share similar

investment philosophies, hold high bars for portfolio inclusion and are clear with their investment rationale and company engagement, linking to specific sustainable development goals and outcomes. As such, ESG is ingrained into all aspects of the teams' investment approach, and their frequent sustainability-focused thought pieces and reports are in-depth and insightful.

The Stewart investment teams largely rely on proprietary research, making very limited use of third-party ESG data, to form their ESG evaluations and opinions. The two teams are deep and experienced, and while the SFG group has been stable, its St. Andrew's Partners counterpart has had a bit of personnel turnover, though we maintain confidence in the group overall. Given how core ESG and stewardship is to both groups' approaches, all team members are subject-matter experts, and SFG recently added an ESG-focused specialist. The Stewart teams are active and engaged shareholders, clearly defining their objectives and measuring specific sustainable development goals for their portfolio companies, such as introducing sustainable agriculture techniques and reducing packaging waste. However, Stewart has some room to improve on reporting, as it has detailed reports at the group rather than fund level. Still, Stewart has consistently demonstrated an unwavering commitment to ESG issues and boasts one of the industry's strongest sustainability philosophies.

UBS

ESG Commitment Level: Basic

UBS Asset Management has deployed ample resources to boost its ESG capabilities in recent years, but there is still some way to go. The firm warrants a Morningstar ESG Commitment Level of Basic.

The firm is an early signatory to the UN-supported Principles for Responsible Investment, and over the past couple of years, the firm has started to embrace ESG more thoroughly and systematically, following its parent company's commitment to "Mainstream ESG across UBS Group."

UBS AM has built a 20-person ESG team, which oversees ESG implementation and helps investment teams integrate ESG into research and investment decisions. The firm has invested in acquiring ESG data and established its own ESG platform (ESG Risk Dashboard). KPIs focused on ESG integration have been introduced, and they impact bonuses for analysts and most portfolio managers.

That said, only 5% of assets sit in ESG-focused strategies. UBS' recent announcement that it will make sustainable investments its preferred solution for wealth-management clients will be supportive of further growth of ESG-focused funds, but for the time being, conventional funds make up the bulk of the firm's assets, with only 39% of assets applying some level of ESG integration, as of this writing. While analysts are expected to fully integrate ESG considerations in company analysis, the portfolio managers of these funds retain full discretion to invest in companies flagged for severe ESG risks if they believe that the upside potential outweighs the risks.

UBS AM does not apply firmwide exclusions except for controversial weapons producers, preferring to engage with companies to influence corporate practices. ESG issues have become more prevalent in

conversations with companies, and the firm started a climate engagement program three years ago. Proxy-voting guidelines include a reasonably detailed section on environmental and social issues, and the firm has generally been supportive of ESG-related shareholder proposals. There is room for improvement regarding voting disclosure. The voting record is disclosed at the fund level only where it is required by regulation, but the firm expects rationales for key votes to be made available by year-end.

Vanguard Group

ESG Commitment Level: Low

The Vanguard Group receives a Low Morningstar ESG Commitment Level because its ESG efforts do not stand out upon close inspection.

ESG strategies have a long history at Vanguard, but they amount to only a fraction of assets under management and most use negative screens to exclude companies in controversial industries and those that run afoul of ethical and environmental standards. In practice, the screens of Vanguard's ESG passive strategies do not differentiate the funds from their broader universes as much as peers that explicitly integrate ESG criteria to select companies with positive ESG characteristics.

Integrated ESG approaches at Vanguard are more recent and show some promise. Vanguard Global ESG Select Stock debuted in June 2019. While it hasn't gained much traction yet, the fund's Wellington Management subadvisor has a maturing sustainable investing approach. Vanguard's inhouse fixed-income group has a six- to seven-person ESG committee that leverages third-party ratings to assign an ESG risk rating of Low, Medium, and High to each issuer. The portfolio review department also takes ESG into account when evaluating external subadvisors. Still, the fixed-income ESG committee's membership rotation makes it difficult to develop deep expertise and the factors the portfolio review department uses to assess external subadvisors aren't clear. Nor can either draw on a centralized team of ESG integration specialists because Vanguard doesn't have one as some competitors do.

Vanguard's active ownership efforts for its passive equity strategies have considerable potential. A roughly 35-person investment stewardship team votes more than 150,000 proposals and engages 600-900 companies worldwide each year. Yet, the team isn't large given Vanguard's global scale and AUM and its support of key ESG resolutions, while improving, remains low. Personnel turnover is also a concern. Between late 2019 and early 2020, three senior leaders left to start their own governance firm and in September a new head with a background in government and business took over. His experiences could bring fresh perspectives, but that remains to be seen.

Wellington Management

ESG Commitment Level: Basic

Wellington Management's ESG resources have grown, but the impact on portfolio management has yet to be demonstrated. The firm earns a Morningstar ESG Commitment Level of Basic.

The firm's sustainable effort is maturing. Wellington created a dedicated ESG team in 2011 and embedded ESG data and analysis within its central research group in 2015. As of mid-2020, the firm's sustainable investment team counts 22 members across climate research, sustainability research, and strategy. The team includes a nine-member ESG Research Group. More than 7,000 companies are assigned a quantitatively derived ESG rating using a proprietary algorithm that leverages third-party data. ESG analysts specialize by industry, contribute insights to both equity and fixed-income strategies, author white papers, and use internal ratings as a starting point for further research and engagement.

Wellington is dedicated to building out its ESG effort further but notes that it shouldn't be expected to shift focus in grand scale. The firm's boutique investment model allows varied investment teams flexibility regarding philosophy while benefiting from the vast pool of central research analysts and proprietary tools. ESG research is primarily used as an additional tool by managers and is consumed to varying degrees based on investment objectives. The firm offers ESG-focused strategies and has a stand-alone Impact Investing capability, yet they represent a modest amount of assets under management. The firm also collaborates extensively with Woodwell Climate Research Center to assess the impact of climate change on the markets.

Company ESG evaluations, engagement records, and proxy-voting notes are housed in Wellington's internal research platform and integrated into investment teams' workflow and risk calculations. That said, it is difficult to measure the impact these factors have on portfolio construction. Disclosure of ESG metrics at the strategy level is limited. The firm has established proxy-voting guidelines and an active engagement record: Each year, Wellington participates in more than 10,000 meetings with company management teams, including roughly 400 ESG-focused engagements.

Strategy Analyses

Acadian Sustainable Global Equity

ESG Commitment Level: Basic

Asset Manager: Acadian

Acadian Sustainable Global Equity's credible systematic ESG analysis crafts a portfolio with a sustainable slant, but a recent senior departure has dented stewardship efforts, in our opinion. The strategy earns a Morningstar ESG Commitment Level of Basic.

Director of responsible investment Asha Mehta left in July 2020; this role included chairing Acadian's responsible investment committee. While not heavily involved in portfolio management or ongoing research, the exit nevertheless leaves a temporary void in Acadian's ESG leadership and gives cause for a tempered view. Dedicated ESG portfolio manager Matthew Picone comanages this strategy and serves as the key plank in the firm's ESG research projects and process integration. No dedicated ESG analyst team is in place; however, numerous members of its 100-plus-strong analyst team are drawn upon for contribution to ESG, ensuring broader support.

Data use is the key strength—a proprietary ESG data platform draws on extensive data sources to cultivate in-house ESG ratings and scores and guide the systematic process. Tobacco and controversial weapons are the only outright exclusions. ESG factors are incorporated into the quantitative model, mainly within governance. Many signals have considerable tenure but are also continually evolving. The other element of the ESG overlay is valuation-adjusted stock forecasts based on sustainable pursuits. Most notably, carbon-intensive industries such as coal and oil, as well as alcohol and gambling are penalized to achieve below-benchmark exposures, while more socially responsible stocks are promoted. Although hitting base ESG characteristics, the portfolio mandate could be strengthened to achieve a higher sustainability standard on par with peers, in our view. Picone’s involvement in the outsourced proxy voting is predominantly limited to oversight, a prudent measure for a quantitative manager. His active ownership undertakings are more prominent, yet targeted, almost exclusively comprising improving company ESG data disclosure and transparency.

Although there are embedded ESG considerations across many facets, we believe there’s still room for improvement.

Alphinity Sustainable Share

ESG Commitment Level: Advanced

Asset Manager: Alphinity

Alphinity Sustainable Share has solid ESG foundations, including a detailed sustainable charter, sound investment processes, an established ethical compliance committee, independent ESG advisors, and expanding sustainability resources, earning it an Advanced Morningstar ESG Commitment Level rating.

The investment objective of Alphinity Sustainable Share fund is to provide a balanced portfolio of stocks that will outperform the index (ASX 300) through the cycle, but with strong ESG characteristics and positive contributions toward the advancement of the UN Sustainable Development Goals. Constructively, the investment team has developed a sustainable charter for the strategy to achieve these goals; it is used to undertake negative and positive screening. The negative screen sensibly seeks to eliminate companies that are involved in activities that are harmful to society, including the mining of fossil fuels, uranium, and gold. The positive screen aims to discover companies that make a positive impact on society in areas of economic, environmental, and social development by making a net contribution to one or more of the UN SDGs. Alphinity then use proprietary ESG evaluations together with comprehensive qualitative and quantitative assessments to select and size companies within a balanced sustainable portfolio.

The ESG evaluations are prepared by the thoughtful investment team, using a robust combination of global ESG research providers, insights from the strategy’s portfolio managers, and guidance from the strategy’s compliance committee (which includes two independent ESG experts and the company’s ESG

and sustainability manager). In addition, Alphinity uses the ESG research database of a major stockbroking company to gain additional insights into investable companies.

The Alphinity investment team engages with all investable companies but meetings will typically cover many facets of the business, inclusive of ESG matters. Unfortunately, details of all company engagements are not readily available. All resolutions that go to company meetings are voted on by Alphinity's portfolio managers, with details outlined in an annual report.

Altius Sustainable Bond

ESG Commitment Level: Advanced

Asset Manager: Altius

Altius Sustainable Bond's unique sustainable committee oversight and commitment to responsible investing solutions stand out from domestic fixed-income peers. The strategy earns a Morningstar ESG Commitment Level of Advanced.

Altius plies a robust three-stage sustainability overlay to Australian fixed-income investing. First, a negative screen compresses the investment universe, most notably excluding issuers that derive material revenue from gambling, alcohol, and the production and sale of thermal coal. Second, a proprietary sustainability ranking is incorporated into bottom-up credit research. This ESG risk assessment further limits potential investment opportunities based on poor ESG scoring, while enhancing the credit profile of a positive scorer—a step that results in material allocation to green bonds. Finally, Altius' Sustainability Advisory Committee considers forward-looking assessments of ESG risk and matters of materiality to mitigate factors that could warrant engagement or divestment on sustainability grounds. This committee structure sets the strategy apart; industry experts provide independent validation of the investment team's commitment to upholding the organization's Sustainability Policy, an unrivaled framework in our opinion.

Founding-CIO Bill Bovingdon leads this strategy as well as the strategic ESG direction. Head of credit research Yen Wong is chiefly responsible for the bottom-up ESG research, with the broader team demonstrating great awareness in their consideration of environmental, social, and governance factors in the underlying credit scoring. Although this is a boutique manager, the investment team punches well above its weight with responsible investing at the forefront of its approach, a mindset that dates to the firm's origins. Engagement and reporting could be improved to be more comparable to best-in-class equity managers; however, Altius' activity exceeds the expectations of a fixed-income manager and is expanding in the right direction.

American Century Sustainable Equity

ESG Commitment Level: Basic

Asset Manager: American Century

American Century Sustainable Equity has done a good job of incorporating ESG since adopting its current strategy four years ago, but the team and infrastructure supporting that effort is still a work in progress, keeping its Morningstar ESG Commitment Level at Basic.

Formerly known as American Century Fundamental Equity, this fund got its current name in mid-2016, when its mandate was changed to favor stocks with positive ESG characteristics. This is done via a scoring system in which each stock receives a rating from 1 to 100 based on multiple data sources, including third-party ESG ratings from Sustainalytics and MSCI. The portfolio managers consider these ratings alongside similar “business improvement” ratings based on fundamental metrics, preferring to hold stocks that score well on both measures.

This system was initially overseen by the existing portfolio managers, who have been running the fund since 2008 and didn’t have previous ESG experience. But in late 2017 American Century hired Guillaume Mascotto, formerly of MSCI and Pimco, to head up the firm’s sustainability and engagement efforts. Mascotto refined the ESG ratings and systematized the way they’re used to build this fund’s portfolio; he also researches individual companies to identify ESG features, both positive and negative, that are not captured by the third-party ratings. He does this with the help of a team that includes five ESG analysts as of September 2020, with more in the hiring pipeline.

These changes mark a definite improvement in ESG capabilities over the past few years. However, Mascotto’s ESG team and its tools are very much a work in progress, and the team is still small relative to similar teams at many comparably sized investment firms. That keeps the fund from earning an ESG Commitment Level higher than Basic.

American Funds Global Balanced

ESG Commitment Level: Low

Asset Manager: Capital Group (American Funds)

The portfolio managers of American Funds Global Balanced consider ESG factors as part of their investment process, but such criteria don’t play a large role. It earns a Low Morningstar ESG Commitment Level.

As with other portfolio managers at Capital Group, the advisor to the American Funds, this fund’s managers have ESG-related screening tools available and they tend to treat ESG issues as risk factors in the context of their long-term investment theses. And when they invest in companies that have such issues, they are required to document and monitor them. But they retain the flexibility to invest in any such companies and are not required to sell companies that don’t respond well to ESG-related engagement efforts (though they do when it negatively impacts their investment thesis). Also, the rationale behind the fund’s proxy votes is not disclosed by the firm.

The firm is ramping up its ESG specialist team, which was just founded in 2018, and it is putting together a stronger ESG framework which ought to impact this fund in the future.

American Funds New Perspective**Capital Group New Perspective (LUX)****Capital Group New Perspective (AU)****Capital Group New Perspective Hedged (AU)**

ESG Commitment Level: Basic

Asset Manager: Capital Group (American Funds)

American Funds New Perspective's deep team bolsters its emerging ESG capabilities, warranting a Morningstar ESG Commitment Level of Basic.

The strategy's well-resourced team considers ESG factors when evaluating investment opportunities. The managers apply ESG criteria to define the investment universe. Although the ESG metrics aren't exclusionary, a poorly scoring firm requires additional due diligence before investment and ongoing engagement from the strategy's investors once in the portfolio, showing commitment to ESG principles. When conducting fundamental analysis, the strategy's investment analysts leverage research done by the centralized ESG team at Capital Group, the parent of American Funds, to consider ESG risks and opportunities. As such, all analyst recommendations that bubble up to the strategy's managers contain ESG considerations. Ultimately, the portfolio's ESG profile is favorable, with a considerably lower carbon footprint than the MSCI All-Country World Index.

There are areas for improvement. Capital Group's ESG team should help standardize the strategy's approach to ESG analysis and engagement, especially as the firm hires additional support and builds a centralized ESG data and communications repository. The dedicated proxy-voting team, which readily solicits input from the strategy's investment analysts, could provide more insight into the strategy's key voting decisions. Disclosing the strategy's ESG metrics on the firm's website would benefit investors, too.

AMP Capital Ethical Leaders International Share

ESG Commitment Level: Basic

Asset Manager: AMP

AMP Capital Ethical Leaders International Share benefits from a dedicated ESG team and a systematically embedded ESG analysis. However, the slower integration of ESG at the broader firm level and recent staff turnover are watchpoints. Consequently, the strategy earns a Morningstar ESG Commitment Level of Basic.

This is a multimanager strategy that targets appointing underlying managers who invest according to the strategy's ethical charter. The charter encourages responsible investing by excluding companies with material exposure (10% or more) to tobacco, nuclear power, armaments, alcohol, pornography, gambling, and fossil fuels. Preference is also given to strategies that can have a positive impact on ESG matters via corporate and thematic exposure. AMP Capital's dedicated sustainable investments team

supports the review of the charter and exclusions and provides recommendations for "grey-listing" investments that no longer meet the strategy's ESG requirements. While AMP Capital utilizes multiple third-party ESG data providers for some of its analysis, we would also like to see more tangible efforts dedicated to proprietary ESG research, considering the firm's considerable size.

AMP Capital's ESG framework and integration is driven by the dedicated sustainable investments team, which has five members. However, we are disappointed to see the recent departures of two senior staffers, which adds to the elevated levels of turnover across the broader firm. Capable portfolio manager Trent Loi has been managing the strategy for over eight years. The Sustainable Investments team is involved in engaging with companies and proxy voting for Australian equities. However, we believe there is still considerable room for improvement here. While the firm publicly reports its proxy-voting outcomes, it could provide more insight into key voting decisions in its disclosures. On the positive side, we are pleased to see reasonable ESG research and insights reporting on both firm and strategy levels.

Ausbil Active Sustainable Equity

ESG Commitment Level: Basic

Asset Manager: Ausbil

Ausbil Active Sustainable Equity benefits from an experienced management team and research lead, though we think its ESG incorporation could further improve. The strategy receives a Morningstar ESG Commitment Level of Basic.

Ausbil's head of ESG research Mans Carlsson-Sweeny guides the firm's ESG direction and is integral to this strategy. Together with a dedicated analyst, Carlsson-Sweeny assigns proprietary sustainability scores to around 150 stocks that pass an initial negative screen, which filters out names with material direct or indirect exposure to controversial activities, such as alcohol, gambling, and tobacco, and those that don't meet proprietary ESG minimum industry or company scores. They focus on how companies manage key ESG factors and ESG risks and opportunities inherent in an industry. The team doesn't use any third-party data sources, preferring their proprietary ratings—this places a considerable workload on the very small team of two following the recent loss of an additional dedicated ESG analyst. Carlsson-Sweeny's nearly 20 years' experience is helpful, but it's still a concern.

The proprietary rankings alone don't determine portfolio weights, as they are combined with the view of Ausbil's fundamental analysts to create a new, combined score. In aggregate, at least half of the portfolio (calculated by weight) comes from the top third of this new peer group ranking. We think the portfolio mandate could be strengthened to achieve a higher sustainability standard on par with peers by widening this minimum allocation. As is, half of the portfolio is effectively not subject to any constraints from the proprietary scoring.

Carlsson-Sweeny leads the firm's proxy-voting process (using two external providers on an ad-hoc basis), and while we think Ausbil's engagement is solid, its reporting has room for improvement, as voting

statistics and ESG metrics are summarized broadly at the firm-level rather than at each individual strategy, including here.

Overall, while there are embedded ESG considerations here and strong insight from Carlsson-Sweeny, we believe there's still room for improvement.

Australian Ethical Australian Shares

ESG Commitment Level: Leader

Asset Manager: Australian Ethical

Australian Ethical Australian Shares fund sets the ESG standard for Australian domestic-equity strategies by having outstanding characteristics including a well-designed ESG investment process, considerable resources, and a highly supportive parent. It earns a Morningstar ESG Commitment Level of Leader.

The strategy's investment philosophy and process are concentrated around ESG, ethics, and sustainability. Stocks must pass strict ESG criteria outlined in the 23 principles of Australian Ethical Investment's Ethical Charter, which includes positive and negative screens. The positive screens direct the portfolio manager toward companies that, in the firm's assessment, constructively contribute to a better world, including by undertaking activities that add to human happiness, dignity, health, and education. The negative screen results in the strategy avoiding certain stocks and sectors, particularly mining and energy.

The internal ESG and ethical ratings for stocks determine the investable universe. The scores are meticulously prepared by Dr. Stuart Palmer and the two-analyst-strong ethics research team using input from independent ESG research providers. The scores are ultimately approved by the chief investment officer David Macri, who has more than a decade of ESG investment experience. The third-party ESG research helps the ethics research team to rapidly identify, assess, and monitor important ESG issues affecting investable companies and sectors. In addition, the strategy can leverage the firm's ethical governance arrangements for guidance on contentious or controversial ethical assessments. Ultimately, the strategy's portfolio manager, Andy Gracey, together with the equities research team, conduct exhaustive fundamental analysis to select and size companies from the investable universe for inclusion in the portfolio. For the team, ESG analysis is a key part of identifying investment risks and opportunities in stocks well in advance of most competitors. Finally, active engagement, advocacy, and proxy voting are key strengths for the team, rounding out the strategy's ESG merits.

AXA IM Sustainable Equity

AXA World Funds - Global Factors - Sustainable Equity

ESG Commitment Level: Advanced

Asset Manager: AXA Investment Managers

AXA IM Sustainable Equity and AXA World Funds - Global Factors - Sustainable Equity, managed by subsidiary Rosenberg Equities, benefit from a large dedicated and centralized research team that scores each security in the investment universe using its proprietary six-factor methodology. These earn a Morningstar ESG Commitment Level of Advanced.

Rosenberg has been delivering systematic equity portfolios since the mid-1980s and was one of the first quantitative groups to fully integrate nonfinancial data, such as ESG, into its portfolios. As you would expect given its pedigree, the firmwide ESG score is drawn from myriad external data sources to give analysts over 100 data points to incorporate into the corporate scoring framework. This framework scores over 7,000 companies in developed and emerging markets between 0 and 10, based on its six-factor methodology. The 14-strong analytical team focuses on areas of materiality. Pleasingly, this output makes a material impact on portfolio weightings as it seeks to deliver an improved ESG score and less than 60% of the carbon and water footprint of the index.

AXA IM has numerous sectorial policies in place. Controversial weapons, palm oil, and soft commodities are excluded. There are further detailed rules over entities exhibiting climate risk impact, such as a prescribed level of revenue from thermal coal revenue or wattage used by coal-powered energy generation. AXA IM possesses a set of further standards around tobacco producers, weapons manufacturers, companies that breach the UN Global Compact, and overall ESG quality. Breaches to any of these results in termination from the models and portfolios.

AXA IM's reporting is high quality. Its portfolio visualizer tool allows for the viewing of ESG scores for every stock and the resulting portfolio impact. Its strategy materials further display aggregated data on its major KPIs, together with detail on engagement, proxy-voting statistics, and sustainable development goals. Despite being systematic, the use of the dedicated team at the AXA IM level gives this strategy the best of both worlds. Whilst slightly below peers where the portfolio managers are more actively involved in ESG issues, it is still a compelling ESG offering.

BetaShares Global Sustainability Leaders

ESG Commitment Level: Basic

Asset Manager: BetaShares

The BetaShares Global Sustainability Leaders ETF tracks a well-thought-out custom benchmark, but a low commitment at the parent level limits it to a Morningstar ESG Commitment Level of Basic.

The strategy tracks the Nasdaq Future Global Sustainable Leaders Index, a benchmark co-developed with BetaShares in November 2016. To be eligible for index inclusion, a security must be a member of the Nasdaq Developed Markets Index and identified as a "Climate Leader" by the BetaShares Responsible Investment Committee. These companies have a carbon efficiency that places them in the top one third of companies in their industry or are otherwise superior performers in relation to avoided, or "Scope 4," carbon emissions. A fossil-fuel screen is also applied, excluding companies with any direct involvement in the fossil-fuel industry, as well as

companies with material indirect exposure or particularly high use of fossil fuels. The remaining universe is screened to remove companies involved in controversial activities such as gambling, tobacco, armaments, uranium and nuclear energy, destruction of valuable environments, animal cruelty, chemicals of concern, mandatory detention of asylum seekers, alcohol, junk foods, pornography, human rights and supply chain concerns and companies lacking board diversity. The screens reduce the 6,000-plus names in the parent index down to 200, so the effect is significant.

This ETF differs from passive peers in that it has a Responsible Investment Committee that undertakes active ownership activity such as proxy voting and company engagement initiatives, provides oversight on index inclusions, and may exclude names considered inconsistent with the values of the index. Pleasingly, BetaShares has also modified the index as funds under management has grown—efforts to align selection criteria and reduce concentration risk are both welcome changes. The main downside to this assessment is that it is offered by a firm that, despite being a large distributor of ETF products, doesn't have any ESG policies in place at the firm level, and such considerations are also mostly absent across most of its product range. This holds the overall score back under our methodology.

BlackRock Advantage ESG U.S. Equity

ESG Commitment Level: Advanced

Asset Manager: BlackRock

BlackRock Advantage ESG U.S. Equity boasts unrivaled resources and innovative research, but its implementation leaves some room for improvement. The fund earns an Advanced Morningstar ESG Commitment Level.

The fund's proprietary systematic model has two objectives: minimize tracking error versus the Russell 3000 Index and deliver a portfolio with better ESG and carbon intensity metrics than the index (as measured by MSCI). In order to stay within its narrow tracking band relative to the index, the fund may invest in poorly rated companies that other ESG funds would exclude, such as Valero Energy VLO and Facebook FB.

While the fund's tight tracking error might dissuade the strictest ESG investor, the research driving the fund's quantitative model is indisputably topnotch. Many peers in the fund management space see sustainability and economic return as mutually exclusive targets, but this team's research emphasizes the high correlation between the two. For example, the team examines a company's compensation strategy for two reasons: to understand employee satisfaction and to indicate a team's resilience in a crisis (the coronavirus, for example). The team leading this research agenda is first-rate: More than 80 professionals with varying levels of ESG experience contribute to the factor analysis.

BlackRock's size presents both an advantage and a constraint when it comes to active ownership in ESG strategies. Some smaller asset managers actively vote against management on shareholder proposals

and exit portfolio positions if engagement proves ineffective. BlackRock's Investment Stewardship team, which leads the firm's proxy voting and company engagement efforts, prefers a softer touch, engaging with company leadership and often voting against ESG shareholder proposals. This fund isn't perfect, but its rigorous research agenda and systematic implementation raise it a step above other core equity offerings in the ESG space.

BlackRock Global Funds - ESG Multi-Asset

ESG Commitment Level: Advanced

Asset Manager: BlackRock

The investment process at BlackRock's ESG Multi-Asset strategy combines multiple layers to come up with an ESG-focused portfolio of global equities, bonds, and a sleeve of alternative investments, most of which have an impact angle. This approach merits a Morningstar ESG Commitment Level of Advanced.

While the approach to ESG is solid, the strategy falls short in some areas, including the relatively small significance of fundamental ESG research within the team's overall analytical framework and the limited active ownership work done here.

This fund used to be a conventional allocation product, but it transformed in March 2019 into an ESG-focused strategy. The strategy employs exclusions and screens to arrive at a best-in-class portfolio, which should be a comfortable choice for investors unwilling to be exposed to companies in questionable industries. To start with, the fund is prohibited from investing in nine industries, as well as companies identified as UN Global Compact violators. Furthermore, target companies and issuers must have an MSCI ESG rating of BBB or above. Together, these screens leave only around 70% of the global equity universe as investable and are non-negotiable: Managers must sell out of a company that fails these tests right away. They may also exclude other stocks or bonds based on their own ad-hoc work.

For the equity sleeve, the team relies mostly on BlackRock's quantitative models as well as ETFs but also creates thematic baskets that may have an ESG focus. Alternatives include impact themes such as renewables and social housing, which are mostly invested in through closed-ended funds selected by the portfolio managers.

ESG experience within the team lies mainly with co-lead manager Colin McKenzie, who has been managing portfolios with ethical screens for charities since 2012. However, this is the first true ESG fund he has managed. On active ownership, the team relies heavily on BlackRock's well-resourced central stewardship team. This fund's portfolio managers are typically involved with proxy voting or engagement only in cases where the fund is among the largest owners of the target company's or fund's shares at BlackRock.

BlackRock Global Funds - Euro Bond

ESG Commitment Level: Basic

Asset Manager: BlackRock

BGF Euro Bond benefits from access to firm-level dedicated ESG teams, and it has a clearly defined process that integrates ESG criteria at multiple stages. However, there is no obligation to meet specific ESG objectives. The fund earns a Morningstar ESG Commitment Level of Basic.

On the resources side, the fund benefits from access to the Sustainable Investing team, which helps other teams to integrate ESG into their processes, and it builds data and analytics. Then BlackRock's Stewardship team is tasked with engaging with firms on sustainability and governance issues. Credit analysts integrate ESG factors into their analysis for each company and country. The portfolio managers are not ESG-dedicated here, but they do also run intentional ESG portfolios and do consider ESG factors as part of their overall portfolio management approach. The strategy uses multiple external ESG data vendors that provide ESG data that are included in Aladdin, BlackRock's main risk engine. Overall, the strategy can call on a strong suite of ESG resources.

ESG is embedded in different steps of the process including idea generation and risk management. However, security selection and portfolio weightings are driven primarily by bond mispricing and overall bond market valuations, rather than ESG factors playing a significant role, as this is not an ESG-dedicated strategy. Deteriorating ESG scores for a security in the portfolio do not automatically lead to a sell, and the strategy does not use negative filters or exclusions, rather just positive filters as a source of potential alpha. This is in contrast to its ESG-dedicated sibling, BSF ESG Euro Bond, which combines exclusions and positive filters. Detailed reporting on the strategy's ESG characteristics is available to investors via fact sheets and reports, while company engagement reporting is provided at the groupwide level.

BlackRock Global Funds - US Dollar High Yield Bond BlackRock High Yield Bond Portfolio

ESG Commitment Level: Basic

Asset Manager: BlackRock

BlackRock's High Yield Bond's team does not substantially leverage the company's vast resources dedicated to sustainable investing, and while research analysts do consider ESG criteria when evaluating potential investments, the integration of these criteria into the overall investment process is rather limited. The strategy earns a Basic Morningstar ESG Commitment Level.

BlackRock has backed its vocal commitment to sustainable investing with vast centralized resources, but those have limited impact on the day-to-day management of this strategy. The investment management team supporting BlackRock High Yield Bond does not display ESG expertise at the management level or at the research level, and the leveraged finance research team ESG-lead mostly oversees operational aspects rather than investment ones.

BlackRock's High Yield Bond's team leverages third-party ESG data from many providers in addition to in-house research to gather company-level information on key ESG indicators. This information is then

incorporated into issuers' fundamental analysis and security valuations, but ESG integration ends here. No screening of the investment universe or portfolio construction guidelines tilt the portfolio toward a higher sustainability profile or limit the discretion of the managers who can override the analysts' ESG views at will.

Brown Advisory Sustainable Growth

ESG Commitment Level: Advanced

Asset Manager: Brown Advisory

Brown Advisory Sustainable Growth has proved the strength of its ESG capabilities. The strategy earns a Morningstar ESG Commitment Level of Advanced.

An experienced group with solid ESG resources is at the heart of this approach. Two seasoned managers guide the strategy's ESG efforts. The manager duo has worked together for over a decade with strong results. A supporting cast of three sustainability analysts draws upon multiple third-party data sources and fundamental research to conduct its thorough proprietary ESG analysis.

For Brown Advisory Sustainable Growth, ESG is central to the strategy's investment theses. In a space where most view ESG as an additional layer of risk oversight, this team considers ESG to be the primary driver of the fundamental outlooks for portfolio holdings. The group conducts a thorough ESG risk assessment for each holding, as well as a Sustainable Business Advantage report. Each portfolio name must have an ESG-driven competitive advantage that results in increased revenue growth, decreased costs, or enhanced franchise value. The group doesn't employ broad negative screens on industries because it doesn't want to limit the investment universe before understanding the underlying business, but it has usually steered clear of traditionally controversial segments of the market, such as fossil fuels and firearms, because those firms in those areas haven't met their ESG risk and SBA investment criteria.

While this team's ESG approach stands out, Brown Advisory on the whole has some room for improvement with incentivizing the use of ESG analysis across all its strategies. ESG is an area of growth and emphasis for the firm, but it only comprises a small percentage of its assets under management. Brown Advisory's non-ESG strategies have no formal commitment or incentive structure to incorporating the proprietary sustainability research.

Calvert Balanced

ESG Commitment Level: Leader

Asset Manager: Calvert

Calvert Balanced features a topnotch approach to ESG integration, driven by the firm's centralized sustainability research team. The fund earns a Morningstar ESG Commitment Level of Leader.

Calvert's Principles for Responsible Investment anchor the firm's materiality-driven process for evaluating ESG risks and opportunities. Broad negative screens on industries such as tobacco and weapons are common in the ESG investing space, but Calvert takes a more nuanced, though equally comprehensive, approach. While they often avoid these companies outright, Calvert funds have the latitude to invest in such sectors provided company management is taking active steps to mitigate their negative effects. In this way, Calvert provides investors the opportunity to benefit from the sustainability transition across industries, a step above the blunt approach employed by some peers.

Calvert takes sustainable investing one step further: A centralized team engages actively with company management to encourage improvement on sustainability issues, and the firm doesn't hesitate to escalate by means of shareholder proposal if it sees fit. Moreover, if a company's ESG profile deteriorates below the firm's minimum threshold, the fund's managers exit the position, reflecting the team's high-conviction approach to sustainable investing.

Calvert's ESG expertise has improved meaningfully since the firm's acquisition by Eaton Vance in late 2016. However, Jessica Milano, who led the team build-out and the development of the firm's rigorous framework, is planning to leave by year-end 2020. Her departure is concerning, but the remaining team members average more than a decade in sustainability research, and they wield more than a dozen third-party data providers to supplement their proprietary analysis.

The fund's approach to ESG integration is best-in-class relative to peers, but there remains room for improvement. For example, the analysis in sectors such as securitized assets and sovereign bonds is less robust than that in equities. This lower level of investigative detail contributes to reduced transparency in the fund's reporting capabilities. Still, the fund is a compelling ESG offering.

Calvert Bond

ESG Commitment Level: Leader

Asset Manager: Calvert

Calvert Bond sports a dedicated and centralized sustainability research team that oversees one of the most rigorous approaches to ESG integration in the fixed-income space. It earns a Leader Morningstar ESG Commitment Level.

Calvert's comprehensive Principles for Responsible Investment serve as the firm's north star for ESG research, integration in investment strategies, and active ownership. While the firm doesn't screen out industries such as gambling or alcoholic beverages, it won't invest in such businesses unless management is actively mitigating the harmful impact of their products. This ensures the same level of social responsibility investors expect from an ESG strategy but is more thorough and materiality-focused than peers.

Calvert's ESG research team is well sized and resourced given the scale of assets it runs, though it has seen significant shifts since the firm's acquisition by Eaton Vance in 2016. Its current head, Jessica

Milano, is slated to depart the firm by the end of 2020 and all but one of its 13 members only joined after the acquisition closed. That said, most are seasoned professionals with expertise in sustainability-oriented topics. They employ a rigorous analytical framework, which draws on over a dozen third-party data sources and their own proprietary research. Further, this strategy's comanagers Vishal Khanduja and Brian Ellis have been working at Calvert since 2012 and 2009, respectively, providing further depth in understanding the nuances of applying ESG principles to the fixed-income space.

There is still some room for this fund's approach to ESG to improve, but its process remains best-in-class in the fixed-income world. While the firm does not yet have a formal framework for applying its ESG principles to sovereign debt, the ESG team applies its research beyond straightforward corporate bonds into trickier territories like agency mortgages and asset-backed securities. Fixed-income investors do not yet have the same easily accessible impact metrics available for this strategy as they do for Calvert's equity offerings, but the firm's recent hiring of Edward Kamonjoh as director of impact management reflects a redoubled effort on this front.

Calvert Emerging Markets Equity

ESG Commitment Level: Leader

Asset Manager: Calvert

Robust analytical resources and a tight integration of environmental, social, and governance issues into its investment process earn Calvert Emerging Markets Equity a Morningstar ESG Commitment Level of Leader.

Analysis of ESG issues is central to the strategy's stock-level decision-making. The 10-person investment team, led by comanagers Kunjal Gala and Elena Tedesco, tries to steer clear of companies at risk of causing harm to communities, destroying shareholder value, or sullying their own reputations. It instead looks for companies that demonstrate responsible stewardship by promoting poverty reduction, mitigating and adapting to climate change, and respecting human and labor rights, among other things.

Backward-looking ESG metrics supplied by third-party vendors help the investment team sketch some of a company's stewardship profile, but myriad proprietary resources at subadvisor Federated Hermes flesh out a fuller picture. The firm runs a separate stewardship service, Equity Ownership Services (EOS), that advises institutional investors on ESG risks embedded in their portfolios and engages with portfolio companies to encourage positive changes. It is staffed by roughly three dozen ESG researchers with various coverage. Some are sector specialists; others focus on thematic issues, such as climate change or human rights; others are regionally oriented. The fund's investment team heavily relies on the stewardship group's research and joins EOS for engagement meetings with corporate executives. That's not to say the investment team lacks its own ESG bona fides: For example, Tedesco has spent the better part of two decades as an ESG-focused investor at the firm and previously worked in corporate governance.

Fund advisor Calvert provides a final layer of ESG due diligence. Its 13 analysts follow Calvert's Principles for Responsible Investment to rate and rank companies. Occasional disagreements between Calvert and EOS on a company's ESG fitness can force portfolio changes or bar certain new positions proposed by the subadvisor.

From an ESG perspective, this offering excels.

Calvert Equity

ESG Commitment Level: Advanced

Asset Manager: Calvert

Calvert Equity's solid ESG resources earn it a Morningstar ESG Commitment Level of Advanced.

Calvert's 13-strong analyst team generates an approved list here that is used by subadvisor Atlanta Capital as their investable universe for this fund. To do this, the Calvert team identifies material ESG factors for dozens of industries and tailors models to rate and rank firms using in-house and third-party ESG data. Although Calvert does not use exclusionary screens, its Principles for Responsible Investment help its analysts produce comprehensive evaluations of companies' ESG risks. Those principles include goals such as reducing environmental impact, promoting human rights and gender equality, and improving ethical standards for businesses.

Atlanta Capital also brings useful ESG expertise to the table. Three of its four managers have ESG-related credentials in sustainable accounting, and one, Lance Garrison, is a subject matter expert with the Sustainability Accounting Standards Board and a chartered SRI (socially responsible investing) counselor. Only Joe Hudepohl, the team's de facto leader, lacks official ESG qualifications. But the team doesn't worry much about ESG in portfolio construction. It does not target particular ESG outcomes; instead, it works with Calvert's approved list to build a portfolio of large-cap, growing companies based on traditional factors such as rising earnings or cash flows, favorable industry conditions, and attractive valuations. The lack of application of ESG criteria at this stage is one factor that keeps the strategy at Advanced rather than the highest ESG Commitment Level of Leader.

The Calvert team is at a crucial juncture that bears watching in late 2020. After more than two years at the helm of its ESG research staff, Jessica Milano will leave the firm by the end of the year. A replacement has not been named. During her tenure, Milano added depth to the analyst team and sharpened its focus on material ESG factors. Her loss is significant but does not materially affect the rating at this time.

Calvert Income

ESG Commitment Level: Leader

Asset Manager: Calvert

Calvert Income sports a dedicated and centralized sustainability research team that oversees one of the most rigorous approaches to ESG integration in the fixed-income space. It earns a Leader Morningstar ESG Commitment Level.

Calvert's comprehensive Principles for Responsible Investment serve as the firm's north star for ESG research, integration in investment strategies, and active ownership. While the firm doesn't screen out industries such as gambling or alcoholic beverages, it won't invest in such businesses unless management is actively mitigating the harmful impact of their products. This ensures the same level of social responsibility investors expect from an ESG strategy but is more thorough and materiality-focused than peers.

Calvert's ESG research team is well sized and resourced given the scale of assets it runs, though it has seen significant shifts since the firm's acquisition by Eaton Vance in 2016. Its current head, Jessica Milano, is slated to depart the firm by the end of 2020 and all but one of its 13 members only joined after the acquisition closed. That said, most are seasoned professionals with expertise in sustainability-oriented topics. They employ a rigorous analytical framework, which draws on over a dozen third-party data sources and their own proprietary research. Further, this strategy's comanagers Vishal Khanduja and Brian Ellis have been working at Calvert since 2012 and 2009, respectively, providing further depth in understanding the nuances of applying ESG principles to the fixed-income space.

There is still some room for this fund's approach to ESG to improve, but its process remains best-in-class in the fixed-income world. While the firm does not yet have a formal framework for applying its ESG principles to sovereign debt, the ESG team applies its research beyond straightforward corporate bonds into trickier territories like agency mortgages and asset-backed securities. Fixed-income investors do not yet have the same easily accessible impact metrics available for this strategy as they do for Calvert's equity offerings, but the firm's recent hiring of Edward Kamonjoh as director of impact management reflects a redoubled effort on this front.

Calvert Short Duration Income

ESG Commitment Level: Leader

Asset Manager: Calvert

Calvert Short Duration Income sports a dedicated and centralized sustainability research team that oversees one of the most rigorous approaches to ESG integration in the fixed-income space. It earns a Leader Morningstar ESG Commitment Level.

Calvert's comprehensive Principles for Responsible Investment serve as the firm's north star for ESG research, integration in investment strategies, and active ownership. While the firm doesn't screen out industries such as gambling or alcoholic beverages, it won't invest in such businesses unless management is actively mitigating the harmful impact of their products. This ensures the same level of

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Calvert Ultra-Short Duration Income

ESG Commitment Level: Leader

Asset Manager: Calvert

Calvert Ultra-Short Duration Income sports a dedicated and centralized sustainability research team that oversees one of the most rigorous approaches to ESG integration in the fixed-income space. It earns a Leader Morningstar ESG Commitment Level.

Calvert's comprehensive Principles for Responsible Investment serve as the firm's north star for ESG research, integration in investment strategies, and active ownership. While the firm doesn't screen out industries such as gambling or alcoholic beverages, it won't invest in such businesses unless management is actively mitigating the harmful impact of their products. This ensures the same level of social responsibility investors expect from an ESG strategy but is more thorough and materiality-focused than peers.

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Comgest Growth Europe

Renaissance Europe

ESG Commitment Level: Advanced

Asset Manager: Comgest

Comgest Growth Europe genuinely integrates ESG factors in its approach and has a sound active ownership program. The strategy earns a Morningstar ESG Commitment Level of Advanced.

Comgest has strengthened its ESG practices in the past decade, and this strategy is a direct beneficiary of these efforts. Integrating ESG criteria has been a natural extension of the fund's well-ingrained quality-growth approach. The firm does not believe in negative screening, and sector exclusions are limited to controversial weapons and tobacco. However, given the team's stringent quality criteria and avoidance of highly cyclical names, its investment universe is naturally tilted toward firms with above-average ESG practices in the first place. The team then uses ESG factors to identify growth opportunities for companies and assess risks that might threaten their long-term earnings power. The discount rates used in their valuation models are systematically adjusted upward or downward according to a proprietary ESG quality rating, which impacts position sizing.

Admittedly, ESG resources at Comgest are thin, with only four ESG analysts looking after a large investment universe spanning developed and emerging markets. One of them provides research on European companies and is directly working for this strategy. In that context, it is reassuring that members of the European equity investment team are very involved with the ESG efforts, actively participating in the ESG research and being at the forefront of proxy voting and engagement activities.

When material ESG risks emerge on a stock held in the portfolio, the investment team systematically engages with the offender with the support of the ESG team, but there's no strict escalation policy, and ESG laggards can be held at the discretion of the fund managers. The engagement is selective, yet thorough. In 2019, the team engaged with only 40% of the companies in the portfolio, with governance issues representing half of the discussions. Engagement is reported back

to investors in a candid manner, and full proxy-voting records are made available. Investors also benefit from a comprehensive climate impact report.

Comgest Growth Japan

ESG Commitment Level: Basic

Asset Manager: Comgest

Comgest Growth Japan's ESG integration fits well into the company's quality growth investment style, but the strategy's ESG research resources leave room for improvement. The strategy earns a Morningstar ESG Commitment Level of Basic.

Comgest has made good strides with its responsible investment practices in the past decade, and this strategy has benefited from these efforts. Integrating ESG criteria has been a natural extension of the fund's well-ingrained quality-growth approach. The firm does not believe in negative screening, and sector exclusions are limited to controversial weapons and tobacco. That said, the quality checks performed by the team before adding a stock to its investment universe systematically incorporate an ESG angle. At a later stage of the process, the team then uses ESG factors to identify growth opportunities for companies and assess risks that might threaten their long-term earnings power. It uses a proprietary ESG quality rating that impacts a company-specific discount rate in the valuation model. A lower ESG quality level increases the discount rate applied and impacts position sizing.

However, ESG considerations are not dominant in decision-making here, and the investment team can hold a stock with a subpar ESG profile. Engagements come into play in such cases, and in 2019, the Japan team engaged with half of the companies held in the portfolio. Still, compared with peers with strong ESG research programs, as well as Comgest's own European growth strategy, this strategy's ESG resourcing falls on the lighter side. The only dedicated ESG analyst for Japan also covers emerging markets, with much of the responsibility falling on Comgest's strong four-person Japan equity team, which does actively participate in ESG research and is at the forefront of proxy voting and engagement activities. Still, ESG is not its focus area. Reporting on engagement is candid, and full proxy-voting records are made available, but the comprehensive climate reporting available for other strategies at Comgest is not provided for this fund yet.

Dimensional Global Sustainability Trust Unhedged

Dimensional Global Sustainability Trust Hedged

ESG Commitment Level: Basic

Asset Manager: Dimensional

Dimensional Global Sustainability Trust is narrowly focused on greenhouse gas emissions, which limits its Morningstar ESG Commitment Level to Basic.

This strategy primarily emphasizes firms with low greenhouse gas emissions. The strategy evaluates a company's emissions against industry peers and on an absolute level, down-weighting high-emitting

companies within their industries and excluding the top 5% of absolute emitters at a portfolio level. Dimensional focuses its effort on rewarding factors like stocks with smaller market capitalizations, lower valuations, and higher profitability. Dimensional expects that the performance outcomes of the sustainable strategy should not differ substantially from the non-ESG strategy over time.

Dimensional builds this portfolio using datasets from several ESG data sources, and that data is verified and augmented with the firm's own proprietary research. Greenhouse gas emissions data includes emissions intensity and potential emissions, which together represent 85% of a stock's sustainability weighting. The remaining 15% of a stock's sustainability weighting is based on land use and biodiversity, toxic spills and releases, operational waste, and water management. Additionally, screens are applied that exclude coal, factory farming, cluster munitions and landmines, tobacco, and so on. This approach is sensible for such a large diversified portfolio, though the focus narrow.

Dimensional has a long-standing history of applying social screens in separately managed accounts. Its foray into open-ended sustainable investing occurred in 2008, with the introduction of the US & International Sustainability Core 1 Strategies. Head of responsible investment Joseph Chi leads the sustainable investing efforts, coordinating the various teams involved in the process. Pertinent ESG issues are addressed by a centralized team that is part of the firm's investment committee, which determines the materiality of governance contraventions that may result in forced exits of positions. Dimensional seeks to vote on shareholder proposals related to environmental and social issues for this strategy, which may differ from non-ESG intentional strategies.

Dodge & Cox Balanced

Dodge & Cox Global Stock

Dodge & Cox Income

Dodge & Cox International Stock

Dodge & Cox Worldwide Global Stock

ESG Commitment Level: Low

Asset Manager: Dodge & Cox

A nascent ESG effort earns these Dodge & Cox strategies Morningstar ESG Commitment Levels of Low.

Dodge & Cox has modest ESG resources. It appointed its first ESG integration analyst, Leah Edwards, in January 2020. It has no dedicated ESG researchers; instead, its global industry analysts (who support the firm's equity and fixed-income strategies) integrate ESG factors into their research program using a simple ESG risks and opportunities checklist. Without much internal ESG work taking place, Dodge & Cox taps third-party research firms (such as MSCI) for much of its ESG data needs.

Valuation is central to Dodge & Cox's investment process, and ESG factors only matter insofar as they affect a firm's valuation. Shareholder interests—and actions related to unlocking value for shareholders—are paramount to the firm's engagement efforts and proxy voting. In the end, ESG

considerations can affect these strategies' investment decisions—but not in a consistent and rigorous way.

DWS Invest ESG Euro Bonds (Short)

ESG Commitment Level: Advanced

Asset Manager: DWS

DWS Invest ESG Euro Bond (Short) benefits from access to firmwide ESG resources, proprietary ESG tools that analyse internal and external data, plus a clearly defined process that combines sector exclusions and best-in-class ESG issuers. The strategy earns a Morningstar ESG Commitment Level of Advanced.

On the resources side, the strategy is indirectly supported by the firmwide Responsible Investing unit, which includes teams dedicated to thematic research, corporate governance, and an ESG methodology panel. There is also proprietary software in place to analyse, evaluate, and rank corporations and sovereigns on a range of ESG indicators, integrating ESG information from external data providers and embedding it into the process. All these are a testament to the firm's effort to focus on ESG. Another positive is that there are different ESG gatekeepers for different asset classes. These are specialists embedded into the different portfolio construction teams for every strategy; they decide on asset allocation together with the portfolio managers. Moreover, credit analysts cover ESG-related topics in their company meetings and calls, and investment recommendations integrate this information. However, one disadvantage is that the portfolio managers have only limited experience in managing ESG-dedicated portfolios.

The strategy uses multiple external data sources, which in turn power the DWS proprietary ESG tool. There is also a well-defined process that employs a "minimum ESG approach" combining sector exclusions and best-in-class ESG issuers, which are ranked based on the tool's scoring. ESG factors are included in several steps of the process such as investment universe screening, idea generation, security selection, portfolio monitoring, and risk management (managers are required to exit positions with deteriorating ESG scores). However, ESG ratings do not impact the investment universe in a material way as it is a short-duration, EUR-denominated, and government-bond-biased portfolio. Detailed reporting on ESG rating criteria and breakdowns versus the benchmark are available to investors.

DWS Top Dividende

DWS Invest Top Dividend

ESG Commitment Level: Low

Asset Manager: DWS

Although DWS has ramped up its ESG efforts in recent years, sustainability is only marginally incorporated in DWS Top Dividende's investment process and portfolio construction. The strategy has a Morningstar ESG Commitment Level of Low.

Since July 2020, DWS' Germany-domiciled actively managed nonintentional strategies, including DWS Top Dividende, follow the company's "Smart Integration" approach. Although this method incorporates refined sustainability metrics using multiple external data providers, it does not guarantee a significantly better ESG outcome at this fund in our view. Companies involved in the production of controversial weapons are automatically excluded from the investable universe, and in addition, the framework screens stocks on violations of norms and climate transition risks. Each stock is assigned a grade on a scale between A and F, with F assigned to the severest laggards, and nonintentional strategies such as DWS Top Dividende may potentially exclude F-graded stocks. However, these stocks are reviewed by the Committee for Responsible Investments at DWS and are investable if the committee waives the investment restriction. In October 2020, there was one stock in DWS Top Dividende's portfolio that had an F grade on climate transition risk that had been granted permission by the company. And since no other restrictions apply, the number of stocks that the strategy excludes can be very limited.

All fund managers at DWS have access to ESG research, and analysts must incorporate ESG considerations into their investment notes and valuation analysis. However, portfolio managers have ample leeway in how much weight they give ESG factors when selecting stocks, managing risks, or constructing the portfolio. Hence, the level of ESG integration can differ from one fund to another, depending on the fund manager and mandate. For DWS Top Dividende, the requirement to invest in stocks with high dividend yields is the overriding factor. The fund's manager is willing to invest in stocks that offer high yields even if they are associated with elevated ESG risk, as illustrated by the portfolio's significant exposure to ESG laggards.

Eventide Healthcare & Life Sciences

ESG Commitment Level: Basic

Asset Manager: Eventide

Eventide Healthcare & Life Sciences does a good job of integrating ESG factors into its investment process, but limited resources at its parent firm keep its Morningstar ESG Commitment Level at Basic.

Like all of the Eventide funds, this one has an investment process that integrates ESG factors throughout. This is done through Eventide's "Business 360" approach, which considers a company's relationships with key stakeholders (customers, employees, suppliers, communities, the environment, and society) in order to identify firms whose products or services serve society and enable human flourishing. This fund's portfolio manager, Finny Kuruvilla, is the co-founder of Eventide and one of the key architects of Business 360.

But while Kuruvilla has very impressive credentials and a clear commitment to ESG principles, Eventide remains a fairly small boutique investment shop, thus limiting what it can do to implement those principles. After many years with no full-time employee overseeing the Business 360 process, the firm finally hired someone in 2018 and two more in 2019. That's an improvement, but Eventide doesn't collaborate with other firms on ESG or engagement matters and isn't a signatory to the UN-supported Principles of Responsible Investment, mainly due to lack of resources.

Eventide also does very little public disclosure of ESG metrics, and that's relevant given this fund's emphasis on small- and mid-cap biotechnology companies, including some nonpublic ones.

Fidelity Blue Chip Growth

Fidelity Blue Chip Growth K6

ESG Commitment Level: Low

Asset Manager: Fidelity Investments

The fund's process does not consider environmental, social, and governance factors. It therefore earns a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

Fidelity Total Bond

Fidelity Total Bond ETF

ESG Commitment Level: Low

Asset Manager: Fidelity Investments

Fidelity Total Bond doesn't take substantial steps to incorporate environmental, social, and governance factors into its process, warranting a Morningstar ESG Commitment Level of Low.

In addition to the firm's overall resources devoted to ESG being thin, this team has not made use of them to a noteworthy degree. Seven ESG analysts serve the entire investment research group, which includes over 700 investment professionals. They use data from two external providers to rate companies on various ESG metrics and deliver ESG views to investment analysts across the organization. However, ESG considerations are merely a factor in the overall security-selection process, and there are no explicit factors that would remove a security from consideration outright solely on ESG grounds.

Portfolio management is free from any ESG-related constraints. No blanket screens are applied to avoid certain industries or businesses, and lead portfolio manager Ford O'Neil, together with sector managers who support him, sources ideas from the research team without consideration for issuers' ESG scores. There is no minimum ESG score to be included in the portfolio, and the degradation of a holding's sustainability profile does not trigger a systematic response.

Some steps have been made at the firm level to indicate Fidelity's awareness of ESG concerns. It signed the UN-supported Principles of Responsible Investing in 2017 and has a proxy-voting policy that favors environmentally and socially concerned resolutions. Nevertheless, it does not submit such resolutions itself and, furthermore, rarely engages with companies on ESG issues beyond one-off issues material to businesses' financial success.

Ultimately, Fidelity Total Bond offers very little to investors seeking sustainable strategies.

Fidelity US Sustainability Index

ESG Commitment Level: Basic

Asset Manager: Geode

Fidelity U.S. Sustainability Index invests in the best ESG-scoring companies in each sector, applying demanding criteria for inclusion. However, Geode, which subadvises this portfolio, hasn't shown much commitment to ESG, which limits the fund's Morningstar ESG Commitment Level to Basic.

This portfolio replicates the MSCI USA ESG Leaders Index, which targets stocks from the broad MSCI USA Index representing half of the market with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. MSCI considers the environmental, social, and governance issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

The fund takes a sector-relative — also called best-in-class — approach to stock selection, so it owns some fossil-fuel companies, but it pursues the firms with the strongest ESG practices in each sector. There are additional screens in place to filter out firms involved in significant controversies or controversial lines of business, like firearms, tobacco, nuclear power, gambling, and alcohol. This yields an active share (which measures how different this portfolio is from the benchmark) of around 50% against the broad MSCI USA Index, demonstrating a strong commitment to ESG.

While this is a strong approach for building an ESG portfolio, the fund's parent, Geode, has limited resources dedicated to ESG, and its proxy-voting and engagement guidelines are vague and not fully transparent. This limits the fund's overall ESG appeal.

Greencap Broadcap

ESG Commitment Level: Low

Asset Manager: Greencap

Greencap Broadcap has an impressive portfolio manager and well-considered repeatable investment process, but the strategy has a Low Morningstar ESG Commitment Level.

Despite being a signatory to the UN-supported Principles for Responsible Investment since 2006 and establishing a detailed ESG policy, the investment process for this strategy does not implicitly attempt to negatively or positively screen the universe of investable stocks from an ethical or ESG perspective. There are no explicit stock exclusions from the investable universe on just ESG issues. Positively, the team won't invest in companies where it judges the governance to be poor unless management is

actively engaged in rectifying the situation. On occasion, Greencape will undertake significant activism with other stakeholders to ensure the situation on governance is corrected, which is commendable.

Greencape undertakes some ESG assessment within its investment process, primarily as a component of the risk evaluation. Each member of Greencape's investment team is given the flexibility and resources needed to incorporate ESG factors into their comprehensive fundamental analysis. But actual ESG implementation into the research process is highly dependent on the team member's judgment on the relevance, materiality, and implications of the issue. In instances where ESG is a concern, it typically results in an adjustment to the team's valuation of a company, which ultimately impacts stock selection and sizing.

Greencape's investment team is reasonably small but undertakes an aggressive company visitation program and utilizes external ESG research to identify key ethical, ESG, and sustainability factors in investable stocks. For contentious issues, the team has the ability to consult with the ESG manager of its minority shareholder (Fidante). The portfolio manager for the strategy undertakes active engagement and proxy voting as an important element of risk management.

Impax Environmental Markets

ESG Commitment Level: Leader

Asset Manager: Impax

Impax Environmental Markets is an ecology-themed strategy using the firm's thorough approach to ESG integration. The strategy earns a Morningstar ESG Commitment Level of Leader.

This strategy invests only in companies that derive at least 50% of their business from environmental markets. Additionally, ESG is integrated throughout the investment process with a wide range of ESG and nonfinancial information incorporated into Impax's 10-step company research process. Following completion of an analysis, each company is assigned the firm's proprietary ESG score. This sector-relative scoring ranks stocks on a five-point scale. The team focuses typically on the top three levels, while the worst-performing companies are excluded, and it imposes a position-size cap on stocks in the second to last bucket.

Impax strives to identify companies that display positive characteristics, rather than applying exclusions. However, given its environmental focus and the positive inclusion approach, it is highly unlikely that this strategy will invest in a company involved with controversial activities.

The strategy benefits from a highly experienced, capable team in portfolio managers Bruce Jenkyn-Jones and Jon Forster, two of the most seasoned managers within Impax's Listed Equity team. The broader equity research team is responsible for ESG company research. This team includes a mix of very seasoned and long-tenured sustainable investors and more-junior members, is well-resourced, and has proven ESG research capabilities.

The strategy further distinguishes itself by its strong active ownership practices. The portfolio managers and analysts within the equity research team are deeply involved in proxy voting and engagement activity with support and oversight from Impax's head of sustainability & ESG, who heads a team of seven ESG specialists. Impax nevertheless has some room for improvement—it presently does not report ESG metrics for this or other strategies on a fund level in its fact sheets or website, a curious omission. We would welcome fund-level reporting on its active ownership activities, as this is now limited to firm-level reporting.

Impax Global Equity Opportunities

Pax Global Opportunities

ESG Commitment Level: Leader

Asset Manager: Impax

Impax Global Equity Opportunities earns a Morningstar ESG Commitment Level of Leader.

This strategy has a strong sustainability focus as it invests in companies that managers see as likely to benefit from the transition to a more sustainable economy. To identify such companies, the team applies proprietary Impax industry sustainability research that ranks economic subindustries by ESG-related opportunities and risks. Given this positive inclusion approach, negative screenings or exclusion criteria are not central to the strategy.

In addition to the positive inclusion approach, ESG is integrated throughout the entire investment process with a wide range of ESG and non-financial information incorporated into Impax's 10-step company research process. Following completion of an analysis, each company is scored based on the firm's proprietary ESG score. This sector-relative scoring ranks stocks on a five-point scale. The focus of the team is typically on the top three buckets; companies in the worst-performing group are excluded, and the team imposes a 2%-position-size cap on stocks in the second to last bucket.

The strategy benefits from a highly experienced, capable team in portfolio managers Kirsteen Morrison and David Winborne. The broader equity research team is responsible for ESG company research and is deeply involved in proxy-voting and engagements efforts. This team includes a mix of very seasoned and long-tenured sustainable investors and more-junior members, is well-resourced, and has proven ESG research capabilities.

The strategy further distinguishes itself by its strong active ownership practices. The portfolio managers and analysts within the equity research team are deeply involved in proxy voting and engagement activity with support and oversight from Impax's head of sustainability & ESG, who heads a team of seven ESG specialists. Impax nevertheless has some room for improvement—it presently does not report ESG metrics for this or other strategies on a fund level in its fact sheets or website, a curious omission. We would welcome fund-level reporting on its active ownership activities, as this is now limited to firm-level reporting.

Investors Mutual Australian Share

ESG Commitment Level: Low

Asset Manager: Investors Mutual

Investors Mutual Australian Share has some positive features for a non-ESG intentional strategy, but given ESG issues tend to be a secondary consideration when assessing investment merit, it earns a Morningstar ESG Commitment Level of Low.

ESG is embedded in IML Australian Share's research process, included among 10 quality score factors used to assess stocks. Each analyst is responsible for compiling a thorough ESG report for every stock recommendation, which informs the portfolio manager of the risks involved. However, the extent to which ESG factors impact a stock's inclusion in the portfolio is purely up to the portfolio manager's discretion, rather than being systematically imposed. Serious ESG contraventions result in the position being put under review with an action plan to either reduce or remove the position unless the issue is addressed. There is no separate ESG team; rather, each stock analyst is responsible for their own ESG research, with one senior analyst acting as an ESG coordinator. The strategy employs negative screening, excluding controversial weapons, small arms, and tobacco names from the portfolio. However, it's worth noting these exclusions don't form a material part of the investible universe. IML doesn't employ any additional screening or exclusions on the belief this would potentially hamper the execution of the underlying strategy. Portfolio managers are extensively involved in all proxy voting, often voting based on perceived governance issues. While voting records aren't publicly available, they can be accessed upon request.

Overall, while Investors Mutual Australian Share's ESG integration is admirable for a non-ESG intentional strategy, it doesn't stack up as well against a global peer group.

iShares Core S&P 500 (US)**iShares Core S&P 500 Index****iShares Core S&P 500 (IE)****iShares Core S&P 500 Index (CAD-Hedged)****iShares Core S&P 500 USD Dist****iShares V PLC - iShares S&P 500 EUR Hedged (Acc)****iShares S&P 500 Index**

ESG Commitment Level: Low

Asset Manager: BlackRock

The fund track the S&P 500 index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

iShares Core S&P Small-Cap**iShares S&P Small Cap 600 USD (Dist)**

ESG Commitment Level: Low

Asset Manager: BlackRock

iShares Core S&P Small-Cap ETF is a traditional index fund that does not consider ESG in its portfolio construction approach. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

iShares Core S&P Total U.S. Stock Market

ESG Commitment Level: Low

Asset Manager: BlackRock

iShares Core S&P Total US Stock Market ETF tracks the S&P US Total Market Index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

iShares Core U.S. Aggregate Bond

ESG Commitment Level: Low

Asset Manager: BlackRock

iShares Core US Aggregate Bond ETF tracks the Bloomberg Barclays US Aggregate Bond Index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

iShares ESG Aware MSCI USA

ESG Commitment Level: Basic

Asset Manager: BlackRock

iShares ESG Aware MSCI USA ETF tilts toward the stronger ESG firms in each sector, while tightly limiting its active risk relative to the broad U.S. large-cap market. As a result, it doesn't necessarily avoid all ESG laggards. There are many that it owns and underweights, though the worst offenders don't make the cut. As such, the fund earns a Morningstar ESG Commitment Level of Basic.

This portfolio replicates the MSCI USA Extended ESG Focus Index. This index uses an optimizer to maximize exposure to large- and mid-cap stocks with high MSCI ESG ratings relative to their industry peers while targeting a low expected tracking error to the MSCI USA Index of 0.5%.

These ratings focus on the ESG risks and opportunities in each industry that could be material to financial performance. This allows the fund to focus on the issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

To achieve its tracking error objective, the fund uses an optimizer, which limits how far stock and sector weightings can deviate from those of the broad market. This optimization process doesn't establish a uniform ESG rating that guarantees inclusion. However, the fund has some firm exclusions. Companies that generate significant revenue from tobacco, oil sands, thermal coal, firearms, and controversial weapons aren't eligible, nor are firms involved in significant controversies.

The fund's constraints weaken its ESG tilt and keep the composition of the portfolio close to its starting universe's. This may cause it to own stocks that some socially conscious investors may find objectionable but also improves diversification and reduces the risk of underperformance. At the end of September 2020, the fund's active share (which measures how different this portfolio is from the parent benchmark) was less than 20%.

iShares ESG Aware MSCI USA Small-Cap

ESG Commitment Level: Basic

Asset Manager: BlackRock

iShares ESG Aware MSCI USA Small-Cap ETF tilts toward the stronger ESG firms in each sector, while tightly limiting its active risk relative to the broad U.S. small-cap market. As a result, it doesn't necessarily avoid all ESG laggards. There are many that it owns and underweights, though the worst offenders don't make the cut. As such, the fund earns a Morningstar ESG Commitment Level of Basic.

This portfolio replicates the MSCI USA Small Cap Extended ESG Focus Index. This index uses an optimizer to maximize exposure to small-cap stocks with high MSCI ESG ratings relative to their industry peers while targeting a low expected tracking error to the MSCI USA Small Cap Index of 0.5%.

These ratings focus on the ESG risks and opportunities in each industry that could be material to financial performance. This allows the fund to focus on the issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

To achieve its tracking error objective, the fund uses an optimizer, which limits how far stock and sector weightings can deviate from those of the broad market. This optimization process doesn't establish a uniform ESG rating that guarantees inclusion. However, the fund has some firm exclusions. Companies that generate significant revenue from tobacco, oil sands, thermal coal, firearms, and controversial weapons aren't eligible, nor are firms involved in significant controversies.

The fund's constraints weaken its ESG tilt and keep the composition of the portfolio close to its starting universe's. This may cause it to own stocks that some socially conscious investors may find objectionable but also improves diversification and reduces the risk of underperformance. At the end of September 2020, the fund's active share (which measures how different this portfolio is from the parent benchmark) was around 21%.

iShares ESG MSCI USA Leaders

ESG Commitment Level: Advanced

Asset Manager: BlackRock

iShares ESG MSCI USA Leaders ETF invests in the best ESG-scoring companies in each sector, applying demanding criteria for inclusion. The fund earns a Morningstar ESG Commitment Level of Advanced.

This portfolio replicates the MSCI USA ESG Extended Leaders Index, which targets stocks from the broad MSCI USA Index representing half of the market with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. MSCI considers the environmental, social, and governance issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

The fund takes a sector-relative — also called best-in-class — approach to stock selection, so it owns some fossil-fuel companies, but it pursues the firms with the strongest ESG practices in each sector. There are additional screens in place to filter out firms involved in significant controversies or controversial lines of business such as firearms, tobacco, nuclear power, gambling, and alcohol. This yields an active share (which measures how different this portfolio is from the benchmark) of around 50% against the broad MSCI USA Index, demonstrating a strong commitment to ESG.

iShares ESG U.S. Aggregate Bond

ESG Commitment Level: Basic

Asset Manager: BlackRock

iShares ESG U.S. Aggregate Bond ETF EAGG offers a light ESG tilt relative to its parent universe. The strategy earns a Morningstar ESG Commitment Level of Basic.

The fund tracks the Bloomberg Barclays MSCI US Aggregate ESG Focus Index. This strategy starts with the Bloomberg Barclays Aggregate Bond Index, which includes U.S. Treasuries and investment-grade securitized, corporate, and government-related bonds denominated in U.S. dollars with at least one year until maturity. The fund targets the same broad sector weightings as its parent index. Within the corporate and government-related bond sectors, which represent about a third of the portfolio, the fund tilts toward issuers with strong ESG ratings relative to their industry peers using an optimizer. In the other sectors, there are no ESG adjustments.

These ESG ratings are assigned by MSCI and are meant to reflect the relevant environmental, social, and governance risk factors facing each company and sovereign entity. Issuers which have received an ESG rating that is below average for the sector are not eligible for the index.

To ensure that the fund does not deviate too far from the parent index, each sector weight must remain within 2.0% of the parent index, each issuer weight must remain within 1.5% of the parent index, and each issue weight must remain within 1.0% of the parent index. Additionally, the fund must keep its modified duration within 0.1 years of its parent index. These constraints limit how far the fund can lean into ESG leaders and may cause it to own bonds from less than exemplary issuers.

iShares MSCI EM IMI ESG Screened

ESG Commitment Level: Basic

Asset Manager: BlackRock

iShares MSCI EM IMI ESG Screened applies a light ESG screen to the MSCI Emerging Markets IMI universe, limiting the fund's Morningstar ESG Commitment Level to Basic.

Underpinning the fund is the MSCI ESG Screened methodology that takes the MSCI Emerging Markets IMI universe and applies MSCI's proprietary Business Involvement screen that excludes controversial subsectors such as nuclear weapons, tobacco, and thermal coal, and oil sands extraction. The methodology also seeks to exclude companies that are not compliant with the 10 principles outlined in the United Nations Global Compact.

While the strategy is designed to prevent exposure to controversial companies, divestment of newly added exclusions only occurs at rebalance dates. That said, offenders in the parent index are few and far between, with the vast majority of current exclusions being companies associated with oil and mining subsectors that make up approximately 2%-3% of the MSCI Emerging Markets IMI. As a result, the

methodology has a less convincing impact on elevating the portfolio's ESG credentials than some of the more dedicated strategies on offer in this space.

The fund uses a direct physical method to replicating index performance and does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

Overall, the fund employs a light-touch approach to ESG investing that limits active risk while avoiding allocations to the worst offenders in the emerging-markets universe.

iShares MSCI EM SRI

ESG Commitment Level: Advanced

Asset Manager: BlackRock

iShares MSCI EM SRI applies a series of strict screens to the MSCI Emerging Market universe. The process results in a best-in-class approach to ESG stock selection worthy of a Morningstar ESG Commitment Level of Advanced.

Underpinning the fund is the MSCI SRI Select Reduced Fossil Fuels methodology. The strategy takes the MSCI Emerging Markets universe and applies an enhanced version of MSCI's proprietary Business Involvement screening that uses two types of screens. The first is a values-based screen that focuses on controversial business operations such as (but not limited to) controversial weapons, tobacco, alcohol, gambling, and nuclear power. The second screen focuses on climate-change risk exposure and excludes companies involved in extraction, production, and power generation associated with thermal coal, oil, and gas. To manage exposure to potential CO2 emissions, this screen also excludes companies with assets including fossil-fuel reserves and deposits.

Stocks that pass these screens are then required to meet both a minimum MSCI ESG Rating of A and an ESG Controversies Score of above 4 to be eligible for inclusion.

By using this combination of strict involvement criteria and high hurdles based on MSCI ESG Rating and ESG Controversies scores, the strategy avoids a wide array of controversial exposures. After applying these exclusions, the strategy targets companies with the strongest ESG scores from each sector, seeking to include the top 25% of the remaining universe.

The fund uses a direct physical method to replicating index performance and does not engage in securities lending, negating potential concerns surrounding the ESG credentials of any collateral held.

iShares MSCI Japan SRI

ESG Commitment Level: Advanced

Asset Manager: BlackRock

The strict ESG inclusion criteria employed by iShares MSCI Japan SRI means this is one of the most ESG-focused funds around and well-deserving of an Advanced Morningstar ESG Commitment Level.

This portfolio replicates a fossil-fuel-screened variant of the MSCI JPN SRI Index, which selects the top quartile of stocks from the MSCI Japan Index with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

In addition to picking the most compliant stocks by sector, the fund also applies several hard screens, excluding holdings based on their involvement in the extraction, production, or ownership of fossil fuels and on other values-based issues like firearms, tobacco, nuclear power, gambling, and alcohol. Potential holdings that violate the UN Global Compact are excluded from the get-go.

By focusing on the highest scoring holdings in the universe, the fund demonstrates the strength of its ESG commitment over other less discerning peers.

The index's sector-relative stock-selection approach — also called best-in-class approach — is designed to ensure that its performance doesn't deviate drastically from its parent index MSCI Japan.

Also, the infrequent rebalancing built into the strategy means that stocks that unexpectedly breach sustainability criteria may be held within the fund for some time before being excluded at the next quarterly index rebalance.

This fund does not engage in securities lending, which eliminates any concern surrounding the composition of any collateral held.

iShares MSCI USA ESG Screened

ESG Commitment Level: Basic

Asset Manager: BlackRock

iShares MSCI USA ESG Screened only applies a light ESG screen to the MSCI USA index, and this limits the fund's Morningstar ESG Commitment Level to Basic.

Underpinning the fund is the MSCI ESG Screened methodology. This strategy takes the parent index MSCI USA universe and applies MSCI's proprietary Business Involvement screen that excludes companies in controversial subsectors such as nuclear weapons, tobacco, and thermal coal and oil sands extraction. The screening also seeks to exclude companies that are not compliant with the UN Global Compact.

This strategy is designed to prevent exposure to basic controversies, and divestment of newly added exclusions only occurs at rebalance dates. That said, offenders in the parent MSCI USA index are few and far between. As of this review, most exclusions are companies in the energy, aerospace & defense, and tobacco subsectors, which collectively make up 4%-5% of the parent MSCI USA Index. As a result, the methodology has a less convincing impact on elevating the portfolio's ESG credentials than some of the more dedicated strategies on offer in this space.

The ETF employs physical replication and does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

Overall, the fund employs a light-touch approach to ESG investing that limits active risk while avoiding allocations to the worst offenders in the US large- and mid-cap equity market.

iShares MSCI USA ESG Select

ESG Commitment Level: Advanced

Asset Manager: BlackRock

iShares MSCI USA ESG Select ETF provides strong exposure to the best ESG-scoring companies in each sector, while applying constraints to rein in active risk. Most of the stocks in its available universe don't make the cut based on their ESG ratings or involvement in controversies or controversial lines of business. As such, the fund earns a Morningstar ESG Commitment Level of Advanced.

The fund replicates the MSCI USA Extended ESG Select Index. This index attempts to maximize exposure to large- and mid-cap stocks with high MSCI ESG ratings relative to their industry peers, while targeting an expected tracking error to the MSCI USA Index of 1.8%.

These ratings focus on the ESG risks and opportunities in each industry that could be material to financial performance. This allows the fund to focus on the issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

To achieve its tracking-error objective, the fund uses an optimizer, which limits how far stock and sector weightings can deviate from those of the broad market. This optimization process doesn't establish a uniform ESG rating that guarantees inclusion. However, the fund has some firm exclusions. Companies that generate significant revenue from tobacco, oil sands, thermal coal, firearms, and controversial weapons aren't eligible, nor are firms involved in significant controversies.

Even with its constraints, the fund has considerable room to lean into ESG leaders in each sector. Its active share (which measures how different this portfolio is from the parent benchmark) was 57% at the end of September 2020.

iShares MSCI USA SRI

ESG Commitment Level: Advanced

Asset Manager: BlackRock

iShares MSCI USA SRI applies a series of strict screens to the MSCI USA universe. The process results in a best-in-class approach to ESG stock selection worthy of a Morningstar ESG Commitment Level of Advanced.

Underpinning the fund is the MSCI SRI Select Reduced Fossil Fuels methodology. This strategy takes the MSCI USA universe and applies an enhanced version of MSCI's proprietary Business Involvement screening that uses two types of screens. The first is a values-based screen that weeds out companies involved in controversial business operations such as controversial weapons, tobacco, alcohol, gambling, and nuclear power. The second screen focuses on climate-change risk exposure and seeks the exclusion of companies involved in extraction, production, and power generation associated with thermal coal, oil, and gas. To manage exposure to potential CO2 emissions, this screen also excludes companies with assets including fossil-fuel reserves and deposits.

Stocks that pass these screens are then required to meet both a minimum MSCI ESG Rating of A and an ESG Controversies Score of above 4 to be eligible for inclusion.

By using this combination of strict involvement criteria and high hurdles based on MSCI ESG Rating and ESG Controversies scores, the strategy avoids a wide array of controversial exposures. After applying these exclusions, the strategy targets companies with the strongest ESG scores from each sector, seeking to include the top 25% of the universe.

This index fund is physically replicated and does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

Overall, the mix of comprehensive exclusions and best-in-class selection means that this strategy has a deep ESG profile and comes with elevated active risk relative to the broad market represented by the parent index.

Loomis Sayles Core Plus Bond

Loomis Sayles U.S. Core Plus Bond

ESG Commitment Level: Low

Asset Manager: Loomis Sayles

Loomis Sayles Core Plus Bond lacks a clear approach to responsible investing through its inconsistent and sometimes undefined ESG incorporation and inadequate access to specialists. The strategy earns a Morningstar ESG Commitment Level of Low.

The strategy's leadership team believes that ESG factors and traits are important considerations when investing, but they ultimately represent a small subset of the many data points that drive decisions. This attitude limits the strategy's appeal to investors looking for robust ESG exposure in the strategy and investment process. The team's goal is to generate strong risk-adjusted returns over the long term, and it is yet to be seen if responsible investing principles will be applied on a consistent basis.

Unlike a number of peers, the strategy's team does not work closely with dedicated ESG research professionals. Instead, the portfolio managers here rely on the firm's large and experienced centralized credit research group that performs rigorous fundamental analysis across industries. It will engage with corporate management teams, but ESG activism is not emphasized. The deep analyst team also draws on multiple third-party ESG-focused data sources to supplement this in-depth analysis. Analysts combine these inputs to generate a proprietary ESG score for each corporate bond. Low marks do not prohibit investment, while high scores do not mandate the bond's inclusion. Other sectors widely held in this strategy, like securitized fare and government-related debt, are not evaluated in this manner and remain a work in progress. As such, the management team here has the discretion to use ESG data and related tools to incorporate responsible investing principles into the portfolio as it sees fit.

Lyxor MSCI Europe ESG Leaders

ESG Commitment Level: Basic

Asset Manager: Lyxor

The strict ESG inclusion criteria employed by this fund's index makes it one of the most advanced. However, Lyxor scores Low as an asset manager, which limits this fund's Morningstar ESG Commitment Level to Basic.

This portfolio replicates the MSCI Europe ESG Leaders Index, which selects the top half of stocks from the European large- and mid-cap universe with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

The index's sector-relative stock-selection approach — also called best-in-class approach — is designed to ensure that its performance doesn't deviate drastically from its parent index MSCI Europe, but it also means that the fund invests in some sectors and stocks that might not meet everyone's definition of sustainable. For example, the fund holds integrated oil & gas companies such as Total TOT and Repsol REP.

A hard values-based screen applied to the starting universe acts as the first layer of defense. Any firm exposed to controversial lines of business such as firearms, tobacco, nuclear power, gambling, and alcohol or that violates the UN Global Compact is excluded from the get-go. For example, German utilities companies RWE and E.ON EOAN are excluded because of their involvement in nuclear energy.

The infrequent rebalancing built into the strategy means that stocks that unexpectedly breach sustainability criteria may be held within the fund for some time before being excluded at the next quarterly index rebalance.

Despite tracking an advanced ESG index, the fund's ESG credentials are limited by the fact that Lyxor's active ownership program, a crucial component of a passive manager's ESG efforts, is still a work in progress.

This fund does not engage in securities lending, which eliminates any concern surrounding the composition of any collateral held.

Natixis Sustainable Future 2015 - 2060

ESG Commitment Level: Basic

Asset Manager: Natixis Advisors

The Natixis Sustainable Future funds were the first intentionally sustainable target-date series on the market, but they lack the means to implement best practices. The series earns a Morningstar ESG Commitment Level of Basic.

Natixis Advisors designed this series to provide retirement savers with a plan that incorporates the risks and opportunities associated with sustainability issues, which the firm believes will be borne out over the course of a retiree's time horizon. This philosophy is sensible but leaves too much room for interpretation, and its execution has been disappointing thus far. The series invests in funds run by affiliates of Natixis Investment Managers such as Loomis Sayles, Harris Associates, and Mirova—and the quality of ESG expertise varies widely. Because of the fund-of-funds structure, the team at Natixis has minimal influence over the security selection in underlying funds, instead trusting those managers to implement sustainability considerations in the way they deem appropriate for each strategy.

The team's only means for ensuring ESG integration rests with the seven-person manager selection team. This team interviews potential managers before investing and conducts periodic quantitative and qualitative checks to monitor the level of integration, but it has not yet exercised the right to divest from a manager based on sustainability characteristics, nor has it set firm guidelines on what it would take to trigger divestment. This soft touch means that the portfolio invests in companies such as General Motors GM, Wells Fargo & WFC, and Monster Beverage MNST, each of which receives a Sustainalytics ESG Risk Rating of High and an MSCI ESG Rating of CCC, or Laggard. Management attributes the

sustainability constraints to the Department of Labor’s guidance on ERISA-sponsored plans, but the current offering falls short of the scrupulous ESG investor’s expectations. Finally, there is no publicly available reporting of ESG metrics for this series, so the investor searching for a sustainable retirement savings plan has no means to discern whether this plan aligns with personal views. This series has a long way to go.

Neuberger Berman Equity Income

ESG Commitment Level: Low

Asset Manager: Neuberger Berman

Neuberger Berman Equity Income doesn’t take significant steps to incorporate environmental, social, and governance factors into its process, warranting a Morningstar ESG Commitment Level of Low.

This strategy’s leaders haven’t taken advantage of the firm’s resources to meaningfully incorporate ESG into its process. While they partake in the same governance research standard at most actively managed equity strategies, lead managers Sandy Pomeroy and Richard Levine have full authority over the composition of the portfolio and aren’t bound by any concrete ESG-related guidelines such as sector screening or exclusions. The firm deserves commendation for its firm-level proxy-voting activities and record, but that information isn’t easily accessible to investors at a strategy level.

Neuberger Berman wasn’t one of the early adopters of ESG investing, but it has taken steps in that direction in recent years. Neuberger Berman’s equity analysts each incorporate ESG research into their respective sector-focused research, making their proprietary ESG evaluations available to all managers. Furthermore, the firm has a dedicated ESG investment team, consisting of seven full-time analysts who are responsible for deepening the integration of ESG themes into its investment strategies.

While Neuberger Berman has taken steps to make ESG analysis available to its individual strategies, this one has been hesitant to make any meaningful shift in its process, making it unfit for ESG-focused investors.

Neuberger Berman Municipal Impact

ESG Commitment Level: Advanced

Asset Manager: Neuberger Berman

Neuberger Berman Municipal Impact’s investment team lacks ESG expertise but efficiently leverages the company’s solid and growing ESG resources to carry out a well-structured impact investment approach. The strategy earns an Advanced Morningstar ESG Commitment Level.

Despite being created only in 2017, Neuberger Berman’s ESG research team has grown strong under ESG head Jonathan Bailey’s leadership. With over 17 years of experience in global ESG investing across public and private markets, Bailey is one of the most seasoned ESG leaders in the asset management industry. While lean, the growing ESG research team counts seven members with diverse backgrounds

in sustainable investing and half a century in combined experience. This team works closely with investment teams to continually improve its rigorous analytical framework, which draws on many third-party data sources to supplement proprietary in-depth fundamental analysis. In addition to scrutinizing issuer's past sustainability record, the teams build forward-looking views of material ESG risks and opportunities for each company.

The municipal investment team's impact approach is comprehensive and elaborate. The managers use a three-pillar approach to drive their assessment of the potential for impact. First, the team assesses issuers' sustainability profiles by building a deep understanding of the environmental, social, and governance risks it is exposed to and how those are addressed. Then, it analyses the use and impact of each issue's proceeds and maps the impact of the portfolio's projects with UN Sustainable Development Goals. Finally, the team assesses relative impact of equally attractive credits, accounting for metrics such as median household income and air quality, aiming to maximize the strategy's impact by focusing on counties with highest relative need.

Overall, the investment team has overcome its relative inexperience in ESG investing by tapping into solid firmwide dedicated resources. This collaboration results in a thoughtful integration of ESG and impact considerations into its investment process in a more consistent and systematic way than most peers.

NN (L) Global Sustainable Equity

NN Duurzaam Aandelen

ESG Commitment Level: Advanced

Asset Manager: NN Investment Partners

This is a long-standing global sustainable equity approach whose ESG integration framework has become more sophisticated over the years, earning it an ESG Commitment Level of Advanced. However, it lost significant ESG experience after a team lift in September 2020, which prevents it from earning top marks here.

This global sustainable equity strategy inceptioned two decades ago, but its approach to ESG integration has evolved in recent years. It gradually changed from a combination of a best-in-class approach with an exclusion policy to a more sophisticated approach that uses a sustainability screening focused on a proprietary ESG risk score, ESG momentum, activity and behavior exclusion, and controversy risk analysis. Furthermore, the investment team carries out ESG analysis focusing on material ESG issues, and within each investment case an ESG profile is integrated.

In September 2020, a large part of the team managing this strategy, including all three portfolio managers and four out of the seven dedicated analysts, resigned to join a competitor. Among them was Hendrik-Jan Boer, who had managed the sustainable global equity strategy since 2004 and who played an instrumental role in building up NN IP's sustainability efforts. NN IP put in place an interim team with

overall less experience. We consider this team lift to be a significant loss and are concerned by the level of turnover.

While proxy voting and engagement within nonintentional strategies at NN IP is outsourced, here it is carried out by the investment team and members of the Responsible Investment team. The latter consists of seven experienced members, but most of them only joined over the past three years.

NN IP is transparent on its proxy-voting records, as these are published per strategy on its website. However, reporting on engagement activities is currently done mainly at the firm level, so we feel there is room to improve by providing details on specific engagement activities at the strategy level. We also feel that the fund's reporting on ESG metrics could be more comprehensive for investors' benefit.

NN (L) Patrimonial Balanced European Sustainable

ESG Commitment Level: Advanced

Asset Manager: NN Investment Partners

This multi-asset strategy wields a comprehensive ESG approach across its whole portfolio, with all four sleeves exhibiting strong ESG integration. But turnover in an essential equity team at NN IP gives us pause as it may weaken the quality of the embedded ESG research as well as the active ownership practices. The strategy earns a Morningstar ESG Commitment Level of Advanced.

NN (L) Patrimonial Balanced European Sustainable invests in European stocks and bonds through intentional ESG strategies. The weights are determined by this fund's portfolio managers, including Siu-Kee Chan, who has 12 years of experience with ESG investing. He is, however, restricted to three internal fixed-income strategies and one sustainable equity mandate. The latter weighs around half of the fund's assets in the normal running of the strategy. The equity investment process is the key draw here. Stocks are screened with a combination of a proprietary ESG risk score, ESG momentum, activity and behavior exclusion (11 activities and multiple types of poor behaviors lead to exclusions), and controversy risk analysis. Furthermore, the investment team carries out analysis on material ESG issues. However, turnover in this team is a concern, as the three equity portfolio managers resigned in September 2020 to join a competitor, taking with them four of the seven analysts. They have been replaced in the interim by managers and analysts far less experienced in ESG.

On the fixed-income side, the strategy leverages three sleeves led by portfolio managers experienced in ESG, having run NN IP's sustainable credit strategy since its inception in 2014 and a green bond strategy since 2016. Corporate bonds are rated on the same methodology that's applied for scoring equities. With government bonds, the team can exclude a country if it falls too low within its scoring system, but currently all eurozone issuers are included.

Under the previous equity team, active ownership was very much in the hands of the equity managers. The recent departures may wear off good practices in this area as well. NN IP has a seven-person strong Responsible Investment team that is experienced but mostly consisting of recent hires.

Nuveen ESG Aggressive Growth

ESG Commitment Level: Advanced

Asset Manager: Nuveen, a TIAA Company

Nuveen's model portfolio series' reliance on passive ETFs has clear strengths, earning it a Morningstar ESG Commitment Level of Advanced.

In collaboration with MSCI, Nuveen's 20-plus person Responsible Investment team designed the methodology driving security selection in the ETFs that populates this model portfolio series. There's much to like about this implementation. The rigorous process screens out industries such as alcohol and nuclear power and then targets the top 50% of companies (by market capitalization) within each sector according to MSCI's ESG ratings. This ensures that the portfolio only includes top ESG performers, and it can lead to the exclusion of some of the biggest companies, such as Apple AAPL, whose MSCI ESG rating of A (as of October 2020) puts it out of the top 50% of large-cap-growth technology firms. The ETFs also target lower carbon emissions than the relevant index, which can lead to a significant underweight to the energy sector.

The methodology used to populate these ETFs is comprehensive and systematically applied, but the funds' design and reliance on passives present certain constraints relative to actively managed offerings. Once launched, the funds are fully reliant on MSCI's ESG ratings and analysis. ESG data providers often rate securities differently with regard to ESG risks and opportunities, so actively managed offerings tend to incorporate multiple third-party data sources, and many build their own proprietary ranking systems. Additionally, the ETFs are rebalanced quarterly, so if a company's ESG profile were to deteriorate meaningfully, it could remain in the portfolio for up to three months. Finally, while Nuveen's centralized team votes proxies in line with the firm's responsible investing policy, the funds' passive structure means that the funds won't exit a security based on unsatisfactory ESG engagement; actively managed peers reserve this power to encourage company management's cooperation on ESG issues.

Nevertheless, this process's limitations are common in the ESG ETF space, and Nuveen's approach is ahead of most multi-asset peers in its solid philosophy and comprehensive implementation.

Oakmark International**Natixis Oakmark International**

ESG Commitment Level: Low

Asset Manager: Harris Associates

Oakmark International's heritage of advocating good corporate governance is not enough to overcome a lack of explicit attention to sustainable environmental and social practices; it gets a Low Morningstar ESG Commitment Rating.

Veteran manager David Herro will consider companies' environmental and social risks in his process, but they don't sway his investment decisions as much as cheap share prices do. In recent years, the investment team led by Herro has made a more formal effort to incorporate ESG risk assessments into its bottom-up, fundamental research, albeit more in a case-by-case fashion than in a systematic way. The strategy has limited resources relative to strategies offered by other firms more focused on sustainability. ESG considerations are secondary to finding businesses whose shares are trading at discounts to their intrinsic values and management teams committed to increasing long-term shareholder value. Herro and his Harris Associates colleagues contend that management teams focused on generating strong and consistent long-term returns to owners will figure out how to best manage ESG risks.

Environmental and social concerns don't drive Herro's proxy votes, either. More than most other managers at advisor Harris Associates, he has never been shy about sharing his thoughts on compensation, board structure, business strategy, capital allocation, and management quality with the leaders of the companies in which this strategy invests. He usually doesn't support shareholder sponsored ESG initiatives, though.

ESG is not this strategy's core competency; value investing is.

Parnassus Core Equity

Parnassus Endeavor

Parnassus Mid Cap Growth

Parnassus Mid Cap

ESG Commitment Level: Leader

Asset Manager: Parnassus

These four Parnassus strategies' experienced investment and ESG teams merge fundamental and environmental, social, and governance research throughout their investment process earning each a Morningstar ESG Commitment Level of Leader.

Parnassus' focus on socially responsible investing goes back to its inception, resulting in an analyst team that is experienced in running ESG oriented strategies. The firm's 14-person investment team and three person ESG team have more than 10 years of average experience working together, with several members spending most of their career at the firm.

The strategies integrate ESG throughout their respective investment processes. All four focus on companies with robust ESG practices, with Endeavor adding a further emphasis on positive workplaces. Initially, the teams employ exclusionary screens to filter out companies that derive significant revenues from alcohol and tobacco products, controversial weapons, fossil fuels, gambling, nuclear energy, and thermal coal. The investment teams then undertake fundamental and positive ESG analysis on potential holdings within each sector, analyzing issues most relevant to the company and industry peers. While the resulting portfolio consists of names scoring high on their proprietary ESG assessments, the rankings

do not drive position weightings. The ESG team is responsible for monitoring holdings for potential negative ESG issues, and if one arises, the ESG analyst and portfolio manager will come up with an engagement plan of action.

Parnassus was an early adapter of the UN's Principles for Responsible Investing and keeps up with pertinent issues by being involved in several other ESG associations. Their proxy voting guidelines support increased disclosure and positive ESG issues, which are reviewed semiannually. The firm discloses all voting records and ESG summaries on each holding on their website.

Perpetual Wholesale Australian Share

ESG Commitment Level: Low

Asset Manager: Perpetual

At Perpetual Wholesale Australian Share, ESG matters are only considered when they present a material risk that is not already factored into market prices. As a result, the portfolio will often hold names that have poor ESG characteristics, so long as the manager believes there is valuation upside. The strategy earns a Morningstar ESG Commitment Level of Low.

The strategy follows Perpetual's overarching process of seeking investments that exhibit both quality and value characteristics. Quality incorporates balance sheet composition, margins and returns, management attributes, and governance. Positively, Perpetual is very active in corporate engagement at both the management and board level. However, the firm is also willing to invest in companies with poor governance practices, with the intent of agitating for reform and unlocking value. This approach is commendable, but as a minority (albeit sizable) shareholder, success is not assured.

Relative to governance, environmental and social issues take more of a back seat, even though Perpetual as a group has Basic ESG credentials. While the portfolio manager has access to Perpetual's centralized ESG research and recommendations, the mandate has the flexibility to invest wherever the manager sees fit. It is not uncommon for the portfolio to hold companies experiencing social or environmental issues, on the belief that issues have been overcapitalized into the current share price.

Perpetual Wholesale Ethical SRI

ESG Commitment Level: Basic

Asset Manager: Perpetual

While Perpetual Wholesale Ethical SRI strategy benefits from its dedicated ESG team, we believe its ESG analysis lags its peers. Consequently, the strategy earns a Morningstar ESG Commitment Level of Basic.

Perpetual Wholesale Ethical SRI aims to invest in a portfolio of ethically and socially responsible companies. The strategy applies a combination of negative and positive screens when hunting for such names. Companies are excluded if they derive more than 5% of revenue from alcohol, gambling, tobacco, uranium and nuclear, fossil fuel (upstream), weapons and armament industries, generic

engineering, pornography, and animal cruelty. As a second step, positive screens related to human rights, environment, labor standards, supply chain and corporate governance, among others, are overlaid in order to identify the best-in-class names. While Perpetual uses multiple third-party ESG data providers for its analysis, we are disappointed to see lack of dedication to proprietary ESG research, especially considering the firm's larger scale.

Perpetual's ESG framework and integration is driven by Richard Morris, head of responsible investments. Morris' ESG support spreads across multiple capabilities, so we are mindful that ESG resources can become stretched. Morris is supported by responsible investment analyst Harry Agnew, but Agnew is relatively junior and lacks ESG experience and credentials. Nathan Hughes has been at the helm of the strategy since April 2019. While Hughes is a seasoned investor, his ESG insights are lighter relative to some of his peers.

Perpetual has long been active on engaging with companies, especially in cases where it thinks a shift in a company's approach to ESG issues could improve business performance. Positively, the engagement is conducted by portfolio managers with Morris' support. While the firm publicly reports its proxy-voting outcomes, it could provide more insight into key voting decisions in its disclosures. We would also like to see more-detailed publicly available ESG reporting and research insights on a strategy level.

Pimco GIS Global Bond

Hunter Global Fixed Interest

Pimco Global Bond Opportunities (U.S. Dollar-Hedged)

Pimco Global Bond

ESG Commitment Level: Low

Asset Manager: Pimco

This strategy earns a Low Morningstar ESG Commitment Level. Although its analysts include ESG risk factors in their credit analysis, there's little that requires the managers to incorporate ESG analysis into their portfolio management decisions. A lack of transparent reporting also detracts from the effort.

This is not an ESG-focused strategy, but since Pimco launched its ESG effort in 2016, the firm's credit analysts and other investment specialists have integrated ESG analysis into their research and investment process. Pimco's ESG work is overseen by a group led by U.S. core strategies CIO Scott Mather and which includes some of the firm's most senior investment professionals, such as Del Anderson on credit research, Jelle Brons on corporate portfolio management, and Lupin Rahman on sovereigns. The research team has developed proprietary ESG-scoring frameworks customized by sector and industry to assess, monitor, and compare the most relevant ESG criteria across sectors and industries, which it supplements with various external ESG research and data sources. A dedicated technology team has built out a suite of tools to facilitate this analysis and communicate material ESG developments to portfolio managers.

Nevertheless, the firm's integrated ESG effort is still somewhat young. We also note that the credit analysts' ESG assessments are one of many inputs into the investment process, and managers have broad discretion to use the information as they see fit. That's particularly true for this strategy, whose portfolio is largely geared toward government bonds (primarily from developed markets and, to a lesser extent, emerging markets), where ESG criteria rarely make or break investment decisions. Investors here are also left in the dark as to how ESG impacts the overall portfolio as Pimco does not report any portfolio-level ESG metrics in its public investor materials. We think it's on the right path, but it has more work to do to earn a higher ESG commitment level.

Pimco GIS Global Bond ESG

ESG Commitment Level: Advanced

Asset Manager: Pimco

Pimco's Global Bond ESG's robust sustainability mandate earns it an Advanced Morningstar ESG Commitment Level.

This strategy was launched in 2017 as an ESG-oriented sibling of the more established Pimco Global Bond strategy. Its managers leverage proprietary ESG ratings produced by an in-house ESG team. But the day-to-day work of judging and engaging with individual bond issuers, as well as buying and selling based on ESG criteria, falls to the portfolio managers themselves.

Like many other ESG-focused funds, the strategy screens out companies and countries guilty of UN Global Compact violations, as well as those involved with civilian or military weapons, coal manufacturing, oil, tobacco, alcohol, gambling, or adult content. Secondly, companies that fall in the bottom 25% of the distribution based on Pimco's proprietary ESG scores are excluded. This hurdle is lower for sovereign bonds, however, as only countries in the bottom 15% are screened out on ESG criteria, and their impact here is minimal (as of October 2020, a lone example is Qatar). Outside of these exclusions, ESG scores do not materially affect investment decisions or position sizes for sovereign bonds, as the team argues that most countries, particularly in developed markets, converge on many ESG dimensions.

The portfolio has a distinctive green bond bias, however (around 20% of assets as of October 2020). Green bonds are scored on a scale of 1 to 5 based on whether their proceeds are used for genuinely environmental projects, but the team doesn't simply choose the ones with the highest scores. The fundamentals of the underlying company or country must be deemed sound, and valuations must also be reasonable compared with plain-vanilla bonds with similar features.

Overall, this strategy's ESG approach is thoughtful and robust. However, it falls partly short on the disclosure front. Fund fact sheets and quarterly reports do not, in our view, provide sufficient detail on ESG ratings within the sovereign sleeve of the portfolio, nor do they provide concrete examples of engagement that are relevant for this specific strategy. ESG disclosure remains an

area for improvement for Pimco as a whole, partly reflecting the fact that ESG is still a relatively new effort at the firm.

Pimco Investment Grade Credit Bond

Pimco GIS US Investment Grade Corporate Bond Fund

ESG Commitment Level: Low

Asset Manager: Pimco

This strategy earns a Low Morningstar ESG Commitment Level. Although its analysts include ESG risk factors in their credit analysis, there's little that requires the managers to incorporate ESG analysis into their portfolio management decisions. A lack of transparent reporting also detracts from the effort.

This is not an ESG-focused strategy, but since Pimco launched its ESG effort in 2016, the firm's credit analysts and other investment specialists have integrated ESG analysis into their research and investment process. Pimco's ESG work is overseen by a group led by U.S. core strategies CIO Scott Mather and which includes some of the firm's most senior contributors such as Del Anderson on credit research, Jelle Brons on corporate portfolio management, and Lupin Rahman on sovereigns. The research team has developed proprietary ESG-scoring frameworks customized by sector and industry to assess, monitor, and compare the most relevant ESG criteria across sectors and industries, which it supplements with various external ESG research and data sources. A dedicated technology team has built out a suite of tools to facilitate this analysis and communicate material ESG developments to portfolio managers.

Nevertheless, the firm's integrated ESG effort is still somewhat young. We also note that the credit analysts' ESG assessments are one of many inputs into the investment process, and managers have broad discretion to use the information as they see fit. For example, this strategy's lead manager Mark Kiesel has cited heightened ESG risk as a rationale for underweighting exposure to the energy sector in recent years. On the other hand, when energy sector debt sold off with plummeting oil prices in 2015, the team thought cheap valuations more than compensated for these risks and added to the sector. The team may also purchase bonds when their prices are temporarily battered by controversy. Investors here are also left in the dark as to how ESG impacts the overall portfolio, as Pimco does not report any portfolio-level ESG metrics in its public investor materials. We think it's on the right path, but it has more work to do to earn a higher ESG commitment level.

Pimco Low Duration ESG

ESG Commitment Level: Advanced

Asset Manager: Pimco

Pimco Low Duration ESG's robust sustainability mandate earns it an Advanced Morningstar ESG Commitment Level.

This strategy's ESG focus is strengthened by the involvement of Pimco's veteran investment leaders and expansive team of researchers. Since Pimco launched its ESG effort in 2016, the firm's credit analysts and other investment specialists have integrated ESG analysis into their research and investment process. Pimco's ESG work is overseen by a group led by Scott Mather, U.S. core strategies CIO and this strategy's lead manager, which includes several seasoned Pimco contributors such as comanager Jelle Brons on corporate portfolio management, Del Anderson on credit research, and Lupin Rahman on sovereigns.

While the firm's integrated ESG effort is still somewhat young, it's thoughtful and thorough. The research team has developed proprietary ESG-scoring frameworks customized by sector and industry to assess, monitor, and compare the most relevant ESG criteria across sectors and industries, which it supplements with various external ESG research and data sources. A dedicated technology team has built out a suite of tools to facilitate this analysis and communicate material ESG developments to portfolio managers. Analysts and portfolio managers also engage with issuers on their ESG-related business practices and advise them on structuring bond issues that finance projects with favorable ESG profiles.

Starting in January 2017, this strategy—which previously applied certain exclusionary screens to its portfolio construction—adopted a more holistic approach that takes advantage of the firm's integrated ESG analysis. The managers use the team's research to construct a portfolio that emphasizes issuers with improving-to-exemplary ESG practices while avoiding those with deteriorating-to-harmful ESG traits. While there are no set targets, the portfolio sports higher-quality ESG scores than its non-ESG sibling (based on Pimco's internal and external frameworks) and lower carbon intensity. It also has a distinctive bias toward green bonds and other impact bonds (around a fourth of the portfolio as of September 2020).

Pimco Total Return ESG

ESG Commitment Level: Advanced

Asset Manager: Pimco

Pimco Total Return ESG's robust sustainability mandate earns it an Advanced Morningstar ESG Commitment Level.

This strategy's ESG focus is strengthened by the involvement of Pimco's veteran investment leaders and expansive team of researchers. Since Pimco launched its ESG effort in 2016, the firm's credit analysts and other investment specialists have integrated ESG analysis into their research and investment process. Pimco's ESG work is overseen by a group led by Scott Mather, U.S. core strategies CIO and this strategy's lead manager, which includes several seasoned Pimco contributors such as comanager Jelle Brons on corporate portfolio management, Del Anderson on credit research, and Lupin Rahman on sovereigns.

While the firm's integrated ESG effort is still somewhat young, it's thoughtful and thorough. The research team has developed proprietary ESG-scoring frameworks customized by sector and industry to assess, monitor, and compare the most relevant ESG criteria across sectors and industries, which it supplements with various external ESG research and data sources. A dedicated technology team has built out a suite of tools to facilitate this analysis and communicate material ESG developments to portfolio managers. Analysts and portfolio managers also engage with issuers on their ESG-related business practices and advise them on structuring bond issues that finance projects with favorable ESG profiles.

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Robeco Sustainable European Stars Equities

ESG Commitment Level: Advanced

Asset Manager: Robeco

RobecoSAM's strong foundation in sustainable investments is reflected in Robeco Sustainable European Stars Equities. Experienced and sizable resources are a key strength, although turnover is a concern. The strategy earns a Morningstar ESG Commitment Level of Advanced.

This strategy is run by a team of two portfolio managers and two dedicated equity analysts. The departure of longtime lead manager Kai Fachinger in 2020 is a significant loss, but the remaining team is well-experienced in sustainable investing. Instrumental to the approach is the support coming from RobecoSAM's Sustainable Investment Research team, which determines the strategy's eligible universe. This is a sizable and experienced 15-member team, but it has been plagued by elevated turnover.

The team constructs the investable universe by applying the firm's proprietary ESG score and universe exclusions, including UN Global Compact breaches, controversial weapons, thermal coal, palm oil, and tobacco. From there on, the team provides support in idea generation with an initial sustainability analysis, followed by an in-depth sustainability due diligence for stocks that make it to the next phase of the process. The team accounts for material ESG issues in its valuation assessments, for example by adjusting the cost of capital for each company. Finally, the portfolio construction needs to ensure an overall environmental footprint (energy, greenhouse gas, waste, and water) that is at least 20% lower than the MSCI Europe benchmark.

In our view, the investment team has only limited involvement with proxy-voting and engagement activities. This is mainly handled by Robeco's 10-person Active Ownership team, with support of RobecoSAM's Sustainable Investment Research team. RobecoSAM discloses voting records on both a firm and strategy level. However, reporting on engagement activities is mostly thematic and could be enhanced by providing information on specific companies that the firm engages with. Meanwhile, RobecoSAM incorporates some reporting on impact metrics in the quarterly strategy updates, but not in more easily accessible sources like the firm's website or the fund's fact sheets.

RobecoSAM Smart Energy

ESG Commitment Level: Advanced

Asset Manager: Robeco

RobecoSAM has a strong foundation in sustainable thematic investments. RobecoSAM Smart Energy is an example of a long-standing thematic approach with solid ESG integration. We value the managers' longevity and in-depth knowledge of this specialized area, but turnover within the firm's Sustainable Investment Research team bears watching. The strategy deserves a Morningstar ESG Commitment Level of Advanced.

Thiemo Lang, who manages the fund since July 2007, provides a lot of continuity, while his supporting cast has experienced multiple changes over the years. The same is true for RobecoSAM's Sustainable Investment Research team, which is instrumental in constructing the strategy's investable universe. This is a sizable and experienced 15-member team, but it has been plagued by elevated turnover.

This strategy doesn't integrate sustainability only through its thematic approach: ESG criteria and research are also incorporated in a large part of its investment process. The investable thematic universe is split into four clusters: renewable energies, energy distribution, energy management, and energy efficiency. Companies should have a minimum of 20% revenue exposure to the theme to be eligible for inclusion here. The Sustainable Investment Research team evaluates sustainability drivers for each cluster and performs in-depth sustainability due diligence on individual stocks. The team accounts for material ESG issues in its valuation assessments, for example by adjusting the cost of capital for each company.

In our view, the investment team has only limited involvement with proxy voting and engagement activities. This is mainly handled by Robeco's comprehensive 10-person Active Ownership team, with support of RobecoSAM's Sustainable Investment Research team. RobecoSAM discloses voting records on both a firm and strategy level. However, reporting on engagement activities is mostly thematic and could be enhanced by providing information on specific companies that the firm engages with. Meanwhile, RobecoSAM incorporates reporting on social development goals and impact metrics in the quarterly strategy updates, but not in more easily accessible sources like the firm's website or the fund's fact sheets.

RobecoSAM Sustainable Water

ESG Commitment Level: Advanced

Asset Manager: Robeco

RobecoSAM has a strong foundation in sustainable thematic investments, as exemplified by RobecoSAM Sustainable Water. It benefits from a long-tenured manager, but turnover within the firm's Sustainable Investment Research team somewhat dents its appeal. The strategy deserves a Morningstar ESG Commitment Level of Advanced.

Dieter Küffer, who has managed the fund since October 2001, provides a lot of continuity, while his supporting cast has experienced multiple changes over the years. The same is true for RobecoSAM's Sustainable Investment Research team, which is instrumental in constructing the strategy's investable universe. This is a sizable and experienced 15-member team, but it has been plagued by elevated turnover.

This strategy doesn't integrate sustainability only through its thematic approach: ESG criteria and research are also incorporated into a large part of its investment process. The investable thematic universe is split into four clusters: capital goods & chemicals, construction & materials, quality & analytics, and utilities. Companies should have a minimum of 20% revenue exposure to the theme to be eligible for inclusion here. Furthermore, this strategy doesn't invest in bottled water, hydro power, water rights and water utilities with exposure to coal power. The Sustainable Investment Research team evaluates sustainability drivers for each cluster and performs in-depth sustainability due diligence for individual stocks. The team accounts for material ESG issues in its valuation assessments, for example by adjusting the cost of capital for each company.

In our view, the investment team has only limited involvement with proxy voting and engagement activities. This is mainly handled by Robeco's 10-person Active Ownership team, with support of RobecoSAM's Sustainable Investment Research team. RobecoSAM discloses voting records on both a firm and strategy level. However, reporting on engagement activities is mostly thematic and could be enhanced by providing information on specific companies that the firm engages with. Meanwhile, RobecoSAM incorporates reporting on sustainable development goals and impact metrics in its quarterly strategy updates, but not in more easily accessible sources like the firm's website or funds' fact sheets.

Royal London Ethical Bond

ESG Commitment Level: Basic

Asset Manager: Royal London

Royal London Ethical Bond's undifferentiated exclusions approach and its lack of formal ESG disclosure earn it a Morningstar ESG Commitment Level of Basic.

Bonds selected for inclusion in this strategy need to pass an ethical screening process that filters out firms with significant involvement in alcohol, armaments, gambling, tobacco, and pornography, as well

as companies with inappropriate or inadequate policies or systems in environmental, human rights, and animal testing areas. In practice, this leads to the avoidance of a handful of prominent issuers in the GBP corporate bond space, such as Imperial Brands in tobacco and Enterprise Inns' structured debt (because of its exposure to alcohol). The portfolio is therefore typically underweight in the consumer goods sector compared with market indexes.

However, beyond the standard ethical exclusions, there is no positive ESG screening aimed at identifying companies with a sustainability edge. A portion of the bonds in this fund's portfolio are also held in the firm's intentional ESG-focused strategies and thus receive an internal ESG rating. Furthermore, manager Eric Holt can use an array of third-party data from multiple vendors for the remainder of the bonds held in this portfolio to gauge individual firms' ESG profiles. But this data is just one of many inputs into the security-selection process, which is ultimately driven by fundamental research.

In conjunction with Royal London's Responsible Investment team of nine (including two members focused on engagement), Holt engages at times with issuers owned in the portfolio, particularly in the social housing and infrastructure sectors. For example, in 2020, the firm as a whole engaged with Southern Water (which is owned in this portfolio as well as in the intentional ESG portfolios) to address its poor governance and high incident rates. While such examples are disclosed in some detail at the firm level, this fund's specific reporting is lackluster. Its monthly fact sheets stick to standard portfolio-allocation breakdowns but do not include any specific ESG indicators that could help investors determine if this strategy is likely to meet their sustainability philosophy.

Royal London Sustainable Diversified Trust

ESG Commitment Level: Advanced

Asset Manager: Royal London

Royal London Sustainable Diversified Trust doesn't get everything right, but its strong team and ESG investment process warrant a Morningstar ESG Commitment Level of Advanced.

The Sustainable team headed by Mike Fox is responsible for the strategy. Fox established the team and the process initially at the Co-operative Group in 2003; it was then acquired by Royal London Asset Management in 2013, making this one of the longest-tenured teams among sustainable investment offerings. The team looks to invest in companies that deliver a net benefit to society in terms of the products and services they provide or that show leadership in environmental, social, and governance management.

The team employs a rigorous ESG framework that has been honed over a long period. ESG criteria are fully integrated into the investment process in defining the opportunity set and fundamental bottom-up analysis, as well as in risk assessment. The team also draws on data from multiple third-party sources to supplement its in-depth analysis, emphasizing the material risks and opportunities a company may encounter in the future. ESG factors receive equal weighting to traditional financial criteria in the stock-

scoring approach that is used for security selection and portfolio construction. Any changes in the ESG score of a company will directly flow through into position sizing.

The equity sleeve (managed by Fox) and the fixed-income sleeve (managed by Shalin Shah) are well coordinated. Both managers use a similar framework to implement one ESG approach to their respective parts while giving due considerations to the other's portfolio to control overall risks at the portfolio level.

Still, there's room for improvement here. Investors would profit from fund-level reporting on ESG metrics and outcomes so that investors can better understand the fund's exposures—it currently does not. Also, while reporting on engagement and proxy voting is sound, it falls short of being best in class.

Royal London Sustainable Leaders Trust

ESG Commitment Level: Advanced

Asset Manager: Royal London

Royal London Sustainable Leaders benefits from a highly experienced portfolio manager in the sustainable space, overseeing a well-established and integrated ESG investment approach. It earns a Morningstar ESG Commitment Level of Advanced.

Mike Fox started managing the strategy in 2003 at the Co-operative Group and built out the Sustainable Investment approach and team, which he still heads up, before its acquisition by Royal London Asset Management in 2013. The Responsible Investment team was carved out of the SI team in 2019, reflecting the increasing demands for ESG research across the wider business. Although these demands will continue to increase, the team has expanded as responsibilities have grown, and the links with the SI team of managers remain very strong. Its senior members are seasoned professionals with strong ESG expertise. Coupled with the experience and know-how of Fox, this strategy therefore possesses compelling ESG resources. In addition to a proprietary ESG research and scoring system, the team draws on multiple external data sources to supplement its own comprehensive analysis.

The strategy invests in companies whose products or services deliver a net benefit to society or those that show leadership in ESG management. Fox and the SI/RI teams employ a rigorous and fully integrated ESG framework that has been honed over a long period. ESG criteria are thoroughly integrated into all stages of the investment process, from defining the opportunity set, to fundamental stock analysis, to the overall assessment of risk. ESG factors receive equal weighting to traditional financial criteria in the scoring approach used for stock selection and portfolio construction. Any changes in the ESG score of a company will directly flow through into position sizing. Fox also remains actively involved in company engagement and RLAM's proxy-voting program. The firm falls down a bit when it comes to transparency—it does not provide fund-level reporting of ESG metrics, as fact sheets and reports neither summarize the strategy's ESG outcomes on an absolute basis nor relative to peers or a benchmark, which would provide greater visibility for potential investors.

Royal London Sustainable Managed Growth Trust

ESG Commitment Level: Advanced

Asset Manager: Royal London

Royal London Sustainable Managed Growth Trust doesn't get everything right, but its strong team and ESG investment process warrant a Morningstar ESG Commitment Level of Advanced.

The Sustainable team headed by Mike Fox is responsible for the strategy. Fox established the team and the process initially at the Co-operative Group in 2003; it was then acquired by Royal London Asset Management in 2013, making this one of the longest-tenured teams among sustainable investment offerings. The team looks to invest in companies that deliver a net benefit to society in terms of the products and services they provide or that show leadership in environmental, social, and governance management.

The team employs a rigorous ESG framework that has been honed over a long period. ESG criteria are fully integrated into the investment process in defining the opportunity set and fundamental bottom-up analysis, as well as in risk assessment. The team also draws on data from multiple third-party sources to supplement its in-depth analysis, emphasizing the material risks and opportunities a company may encounter in the future. ESG factors receive equal weighting to traditional financial criteria in the stock-scoring approach that is used for security selection and portfolio construction. Any changes in the ESG score of a company will directly flow through into position sizing.

The equity sleeve (managed by Fox) and the fixed-income sleeve (managed by Shalin Shah) are well coordinated. Both managers use a similar framework to implement one ESG approach to their respective parts while giving due considerations to the other's portfolio to control overall risks at the portfolio level.

Still, there's room for improvement here. Investors would profit from fund-level reporting on ESG metrics and outcomes so that investors can better understand the fund's exposures—it currently does not. Also, while reporting on engagement and proxy voting is sound, it falls short of being best in class.

Royal London Sustainable World Trust

ESG Commitment Level: Advanced

Asset Manager: Royal London

Royal London Sustainable World Trust doesn't get everything right, but its strong team and ESG investment process warrant a Morningstar ESG Commitment Level of Advanced.

The Sustainable team headed by Mike Fox is responsible for the strategy. Fox established the team and the process initially at the Co-operative Group in 2003; it was then acquired by Royal London Asset Management in 2013, making this one of the longest-tenured teams among sustainable investment offerings. The team looks to invest in companies that deliver a net benefit to society in terms of the

products and services they provide or that show leadership in environmental, social, and governance management.

The team employs a rigorous ESG framework that has been honed over a long period. ESG criteria are fully integrated into the investment process in defining the opportunity set and fundamental bottom-up analysis, as well as in risk assessment. The team also draws on data from multiple third-party sources to supplement its in-depth analysis, emphasizing the material risks and opportunities a company may encounter in the future. ESG factors receive equal weighting to traditional financial criteria in the stock-scoring approach that is used for security selection and portfolio construction. Any changes in the ESG score of a company will directly flow through into position sizing.

The equity sleeve (managed by Fox) and the fixed-income sleeve (managed by Shalin Shah) are well coordinated. Both managers use a similar framework to implement one ESG approach to their respective parts while giving due considerations to the other's portfolio to control overall risks at the portfolio level.

Still, there's room for improvement here. Investors would profit from fund-level reporting on ESG metrics and outcomes so that investors can better understand the fund's exposures—it currently does not. Also, while reporting on engagement and proxy voting is sound, it falls short of being best in class

Schroder Australian Equity

ESG Commitment Level: Basic

Asset Manager: Schroders

As an investment proposition, Schroder Australian Equity is an outstanding choice for domestic Australian equity with a strong risk assessment framework, but ESG appraisal is only one component of the risk analysis. The strategy earns a Morningstar ESG Commitment Level of Basic.

Globally, Schroders became a signatory to the UN-supported Principles for Responsible Investment in 2007, which serves as the firm's guidance for ESG analysis, integration in investment strategies, and shareholder engagement. However, ESG assessments are just one of many considerations in the investment process, together with evaluation of a company's business model, pricing power, financial strength, cash flow sustainability, and management ability. The sensible ESG analysis is predominantly a component of the expansive risk framework.

The team managing this strategy dedicates substantial time to risk assessment because of the potentially significant impact on a company's midcycle earnings. They believe ESG issues are strongly intertwined with the overall appraisal of a company's cash flows, which can only be considered durable and sustainable if they fully account for all environmental, social, and governance costs and benefits. The Schroders investment team prudently estimates a monetary value (positive and negative) for the ESG factors that it has identified as being relevant for a given business. The valuation of the company is then adjusted by the monetary value assigned to the ESG issue, which in the end impacts stock selection and sizing in the portfolio.

Most of the ESG analysis on Australian stocks is done by the 11-strong local team, which consists mostly of generalists without a specific ESG background. They are supported by a highly experienced 22-person sustainable investment team, mainly based in the UK, as well as broad third-party data and research resources and an in-house ESG research system. Encouragingly, the portfolio managers of the Schroders Australian Equity fund see engagement with companies and proxy voting, particularly on ESG issues, as a fundamental part of their roles as active investors.

Schroder International Selection EURO Equity

ESG Commitment Level: Basic

Asset Manager: Schroders

With the backing of a well-resourced central team, Schroder ISF Euro Equity has made some inroads on ESG integration. The fund earns a Morningstar ESG Commitment Level of Basic.

The fund does not have a specific ESG objective, but as part of Schroders' wider effort to have ESG integration across all strategies, ESG considerations have been explicitly integrated into the process since 2018. Driving the ESG Commitment Level for this fund is the ability of the investment team to make use of the firm's substantial ESG resources. The central sustainability team has developed a proprietary ESG tool that uses a variety of data sources to rank companies based on a range of material ESG factors. The sustainability team is also responsible for engagement and proxy voting.

The fund manager does not target any specific ESG factors, but he does aim to overweight stocks with higher ESG credentials, based on the scoring of the central sustainability team. This is evident in the fact that stocks ranked by the team in the bottom half of the investable universe of European equities make up less than a third of the portfolio by weight. However, there are no hard rules, and the manager is not prevented from investing in the lower-scoring names should he wish to do so. There should be a path to improvement, though, and the sustainability team plays a role here through its engagement with such companies. Additionally, if a stock's ESG score deteriorates, it will be reviewed.

Reporting on ESG, engagement, and proxy voting is limited at the fund level but is better at the parent level. Overall, some steps have been made to consider ESG more meaningfully, but in terms of integrating ESG fully, the strategy could consider steps such as stronger exclusions of ESG laggards, more direct influence of ESG criteria on portfolio construction, and improved reporting on the ESG metrics and credentials of the fund to improve visibility for investors.

Stewart Investors Asia Pacific Sustainability

Pacific Assets Trust

ESG Commitment Level: Leader

Asset Manager: Stewart Investors

Stewart Investors Asia Pacific Sustainability ranks among the industry's finest Asia Pacific ex-Japan equity ESG options, and it earns a Morningstar ESG Commitment Level of Leader as a result.

This strategy is led by David Gait, who heads Stewart Investors' 12-member Sustainable Funds Group. This group is experienced and stable and includes other seasoned team members such as Sashi Reddy and Nick Edgerton. The team focuses on hiring individuals with a passion for ESG matters, and all members fully incorporate ESG research into their daily work. A recent addition to the team was Pablo Berrutti, who joined as a senior investment specialist in July 2019. Berrutti has a long tenure in the ESG investing space, focuses on company engagement and outreach, and has impressed in meetings thus far.

ESG is also ingrained into all aspects of the investment approach. The team focuses on finding management teams with a shared vision of driving sustainable development in the markets in which they operate. A byproduct of this philosophy is that the strategy will not invest in companies with material exposure to harmful products, including weapons, tobacco, alcohol, fossil fuels, and gambling. What's more, the vision extends to more-subjective areas, including certain soft drink and snack manufacturers, with the rationale being the negative health effects of their product portfolios on the general population.

The SFG team is responsible for the vast majority of ESG analysis, and active ownership is part of its tool set to try to improve the sustainability of companies it invests in. The investment team has a long history of engaging with companies it invests in, and it is responsible for all voting decisions, with Gait being closely involved throughout the process. Outside of the fundamental ESG analysis, the team works with two external ESG research providers to verify that holdings are not involved in harmful industries or breaching social norms. That said, there is room for improvement from a reporting perspective. Presently, detailed and relevant active ownership reports are published at the SFG level, and we would encourage the team to report at the strategy level for the benefit of end investors.

Stewart Investors Global Emerging Markets Sustainability (IE)

Stewart Investors Global Emerging Markets Sustainability (UK)

ESG Commitment Level: Leader

Asset Manager: Stewart Investors

Stewart Investors Global Emerging Markets Sustainability ranks among the industry's finest global emerging-markets equity ESG options, and it earns a Morningstar ESG Commitment Level of Leader as a result.

This strategy is led by Jack Nelson, who is part of Stewart Investors' 12-member Sustainable Funds Group. This group is experienced and stable and includes other seasoned team members such as David Gait and Sashi Reddy. The team focuses on hiring individuals with a passion for ESG matters, and all members fully incorporate ESG research into their daily work. A recent addition to the team was Pablo Berrutti, who joined as a senior investment specialist in July 2019. Berrutti has a long tenure in the ESG

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Stewart Investors Worldwide Leaders Sustainability

Stewart Investors Wholesale Worldwide Leaders

ESG Commitment Level: Leader

Asset Manager: Stewart Investors

Stewart Investors Worldwide Leaders ranks among the industry's finest global equity ESG options, earning it a Morningstar ESG Commitment Level of Leader.

This large-cap strategy is led by Sashi Reddy, who is part of Stewart Investors' 12-member Sustainable Funds Group. This group is experienced, stable, and, alongside Reddy, includes seasoned team leaders such as David Gait and Nick Edgerton. The team focuses on hiring individuals with a passion for ESG matters, and all members fully incorporate ESG research into their daily work. A recent addition to the team was Pablo Berrutti, who joined as a senior investment specialist in July 2019. Berrutti has a long tenure in the ESG investing space, focuses on company engagement and outreach, and has impressed in meetings thus far.

ESG is also ingrained into all aspects of the investment approach. The team focuses on finding management teams with a shared vision of driving sustainable development in the markets in which they operate. A byproduct of this philosophy is that the strategy will not invest in companies with material exposure to harmful products, including weapons, tobacco, alcohol, fossil fuels, and gambling. The team parted with Berkshire Hathaway in 2019, for example, because of several ESG

issues such as succession risk and Berkshire's significant exposure to coal and gas transportation because of its rail business.

The SFG team is responsible for the vast majority of ESG analysis, and active ownership is part of its tool set to try to improve the sustainability of companies it invests in. The investment team has a long history of engaging with companies, and it is responsible for making all voting decisions, with Reddy being closely involved throughout the process. Outside of the fundamental ESG analysis, the team works with two external ESG research providers to verify that holdings are not involved in harmful industries or breaching social norms. That said, there is room for improvement from a reporting perspective. Presently, detailed and relevant active ownership reports are published at the SFG level, and we would encourage the team to report at the strategy level for the benefit of end investors.

Stewart Investors Wholesale Worldwide Sustainability

Stewart Investors Worldwide Sustainability

ESG Commitment Level: Leader

Asset Manager: Stewart Investors

Stewart Investors Worldwide Sustainability ranks among the industry's finest global equity ESG options, earning it a Morningstar ESG Commitment Level of Leader.

This all-cap strategy is led by Nick Edgerton, who is part of Stewart Investors' 12-member Sustainable Funds Group. This group is experienced and stable and includes seasoned team leaders such as David Gait and Sashi Reddy. The team focuses on hiring individuals with a passion for ESG matters, and all members fully incorporate ESG research into their daily work. A recent addition to the team was Pablo Berrutti, who joined as a senior investment specialist in July 2019. Berrutti has a long tenure in the ESG investing space, focuses on company engagement and outreach, and has impressed in meetings thus far.

ESG is also ingrained into all aspects of the investment approach. The team focuses on finding management teams with a shared vision of driving sustainable development in the markets in which they operate. A byproduct of this philosophy is that the strategy will not invest in companies with material exposure to harmful products, including weapons, tobacco, alcohol, fossil fuels, and gambling. This vision extends to more-subjective areas, including certain soft drink and snack manufacturers. For example, the team likes Coca-Cola KO because of its independent board, transparency, and efficient water management practices, but it deems the overall product as unsustainable because of its negative health effects, so it focuses the portfolio elsewhere.

The SFG team is responsible for the vast majority of ESG analysis, and active ownership is part of its tool set to try and improve the sustainability of companies it invests in. The investment team has a long history of engaging with companies, and it is responsible for making all voting decisions, with Edgerton being closely involved throughout the process. Outside of the fundamental ESG analysis, the team works with two external ESG research providers to verify that holdings are not involved in

harmful industries or breaching social norms. That said, there is room for improvement from a reporting perspective. Presently, detailed and relevant active ownership reports are published at the SFG level, and we would encourage the team to report at the strategy level for the benefit of end investors.

TIAA-CREF Core Impact Bond

ESG Commitment Level: Leader

Asset Manager: Nuveen, a TIAA Company

TIAA-CREF Core Impact Bond benefits from the firm's centralized ESG team and a lead manager steeped in responsible investing. The strategy earns a Morningstar ESG Commitment Level of Leader.

Launched in 2012, TIAA-CREF Core Impact Bond (formerly Social Choice Bond) has grown to become the largest dedicated ESG bond open-end strategy at roughly \$6 billion in assets. It is managed by Steve Liberatore, Jessica Zarzycki, and Joe Higgins; Liberatore in particular has a long history in responsible-investing circles. The managers incorporate traditional ESG screening alongside more robust rankings and impact investments, making this one of the purest ESG bond strategies out there.

To begin, traditional exclusionary screens remove securities too closely tied to industries such as alcohol, gambling, and coal, among others. And potential investments also must rank highly within their industry according to a variety of ESG factors; this ranking system is led by the firm's central ESG team, although it partners with the investment teams to identify the most relevant factors for each industry. Finally, a portion of the portfolio is dedicated to impact investments, which are bonds issued to finance a project that results in a "direct and measurable" impact toward some environmental, social, or governance goal. These investments are measured and tracked, and progress is reported at least annually.

To accomplish all that, the managers rely on the firm's 28-person ESG team, a centralized resource that supports investment teams across the firm. This ESG team has grown significantly in recent years and is larger than many peers; it has analysts dedicated to certain mandates and asset classes, helps to create the screening and ranking systems, and works with impact borrowers to ensure proper engagement and reporting. Liberatore has been active in responsible-investing circles for more than a decade and has worked with borrowers and nongovernmental organizations to help grow the impact bond universe. The strategy's ESG-focused mandate, incorporation of impact investments, and robust resources support the Leader rating.

TIAA-CREF Short Duration Impact Bond

ESG Commitment Level: Leader

Asset Manager: Nuveen, a TIAA Company

TIAA-CREF Short Duration Impact Bond benefits from the firm's centralized ESG team and a lead manager steeped in responsible investing. The strategy earns a Morningstar ESG Commitment Level of Leader.

Launched in 2018, TIAA-CREF Short Duration Impact Bond is an ESG standout. It is managed by Steve Liberatore, Jessica Zarzycki, and Joe Higgins; Liberatore in particular has a long history in responsible-investing circles. The managers incorporate traditional ESG screening alongside more robust rankings and impact investments, making this one of the purest ESG bond strategies out there. This team also manages the \$6 billion sibling TIAA-CREF Core Impact Bond.

To begin, traditional exclusionary screens remove securities too closely tied to industries such as alcohol, gambling, and coal, among others. And potential investments also must rank highly within their industry according to a variety of ESG factors; this ranking system is led by the firm's central ESG team, although it partners with the investment teams to identify the most relevant factors for each industry. Finally, a portion of the portfolio is dedicated to impact investments, which are bonds issued to finance a project that results in a "direct and measurable" impact toward some environmental, social, or governance goal. These investments are measured and tracked, and progress is reported at least annually.

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TIAA-CREF Social Choice Equity

ESG Commitment Level: Advanced

Asset Manager: Nuveen, a TIAA Company

TIAA-CREF Social Choice Equity has a long history of incorporating sustainability into its investment process, and the team behind it draws on a deep well of ESG resources, though it's not yet a leader in disclosure and reporting. It earns a Morningstar ESG Commitment Level of Advanced.

This is one of the oldest ESG mutual funds around, having been launched in 1999. It still uses a version of the same quasi-index strategy it has employed for the past 20 years. The ESG research team at MSCI identifies the stocks that best meet the criteria established by Nuveen's Responsible Investing team, then portfolio managers at TIAA-CREF use those stocks to build a portfolio that replicates the sector weightings and other factors of the Russell 3000 benchmark while adhering to ESG standards. This approach isn't flashy, but it has worked pretty well for a long time.

The Nuveen Responsible Investing team, formed a few years ago from the legacy TIAA-CREF and Nuveen teams when the two firms merged, is one of this fund's notable strengths. It's one of the largest such teams at a diversified asset manager, with 28 people as of June 30, 2020, and it's led by Amy O'Brien, Nuveen's global head of responsible investing, who joined TIAA-CREF in 2005. The team

includes sector specialists and specialists in ESG integration, engagement, and impact investing. Manica Piputbundit, who works most directly with this fund, has been with the team since 2012.

Nuveen is not a leader in publishing ESG metrics and information on its engagements, but it has been improving its reporting in this area, with reports such as its annual Proxy Season Preview. It has also been investing a lot of money and human capital in the Responsible Investing team; half of the members were hired in 2018 or 2019. With a solid track record and a parent firm that's committed to continually improving its ESG capabilities, this fund has plenty of good things to offer.

UBS - Bloomberg Barclays MSCI Euro Area Liquid Corporates Sustainable

ESG Commitment Level: Advanced

Asset Manager: UBS

UBS - Bloomberg Barclays MSCI Euro Area Liquid Corporates Sustainable employs a mix of exclusions and best-in-class selections that underpins its Advanced Morningstar ESG Commitment Level.

The fund tracks the UBS Bloomberg Barclays MSCI Euro Liquid Corporates Sustainable Index, which provides exposure to a basket of highly liquid investment-grade-rated bonds issued by corporations domiciled in the eurozone that carry an MSCI ESG rating of BBB or higher.

The incorporation of ESG into the strategy is done in three stages. As a first step, the index carries out screening of issuers of the parent universe for business involvement with a view to exclude those involved in the following sectors: alcohol, tobacco, gambling, adult entertainment, civilian firearms, military weapons, nuclear power, and genetically modified organisms. In addition, from February 2020, the index expanded the criteria to exclude issuers with greater than 5% revenues derived from business activities related to thermal coal, generation of thermal coal, and oil sands. Once the exclusions have been applied, the universe of issuers is screened for ESG ratings based on MSCI methodology. All issuers with an MSCI ESG rating below BBB are excluded. This is done on a sector basis. Finally, the resulting universe is screened for MSCI ESG controversies to expel issuers in significant breach of ESG norms. Issuers with a "Red" MSCI controversies score are excluded.

The risk/return profile of ESG indexes for investment-grade-rated corporate issuers from developed countries is typically very similar to that of their non-ESG parent indexes. In the case of this strategy, the comprehensive screening only results in the exclusion of around 25% of the issuers included in the initial universe. This is reflective of the realities of the European corporate bond market, which, compared with other areas, displays a significantly higher level of ESG compliance. As a result, the index displays very tight tracking error relative to its non-ESG parent benchmark, but crucially, it scores higher on all ESG metrics.

Overall, this strategy should appeal to ESG-conscious investors seeking something that goes beyond basic exclusions.

UBS - Bloomberg Barclays MSCI US Liquid Corporates Sustainable

ESG Commitment Level: Advanced

Asset Manager: UBS

USB - Bloomberg Barclays MSCI US Liquid Corporates Sustainable employs a mix of exclusions and best-in-class selections that underpins its Advanced Morningstar ESG Commitment Level.

The fund tracks the UBS Bloomberg Barclays MSCI US Liquid Corporates Sustainable Index, which provides exposure to a basket of highly liquid investment-grade-rated bonds issued by U.S. corporations that carry an MSCI ESG rating of BBB or higher.

The incorporation of ESG into the strategy is done in three stages. As a first step, the index carries out screening of issuers of the parent universe for business involvement with a view to exclude those involved in the following sectors: alcohol, tobacco, gambling, adult entertainment, civilian firearms, military weapons, nuclear power, and genetically modified organisms. In addition, from February 2020, the index expanded the criteria to exclude issuers with greater than 5% revenues derived from business activities related to thermal coal, generation of thermal coal, and oil sands. Once the exclusions have been applied, the universe of issuers is screened for ESG ratings based on MSCI methodology. All issuers with an MSCI ESG rating below BBB are excluded. This is done on a sector basis. Finally, the resulting universe is screened for MSCI ESG controversies to expel issuers in significant breach of ESG norms. Issuers with a "Red" MSCI controversies score are excluded.

The risk/return profile of ESG indexes for investment-grade-rated corporate issuers from developed countries is typically very similar to that of their non-ESG parent indexes, although there are variations depending on the geographical area. In the case of this strategy, the comprehensive screening leads to the exclusion of around 40% of the issuers included in the initial universe. This is reflective of the realities of the U.S. corporate bond market, which, compared with other developed countries, displays a lower level of ESG compliance. Compared with its non-ESG parent, this index scores higher on all ESG metrics.

Overall, this strategy should appeal to ESG-conscious investors seeking something that goes beyond basic exclusions.

UBS - MSCI EMU

ESG Commitment Level: Low

Asset Manager: UBS

USB - MSCI EMU tracks the MSCI EMU Index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those

that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

UBS - MSCI EMU SRI

ESG Commitment Level: Advanced

Asset Manager: UBS

The strict ESG inclusion criteria employed by USB - MSCI EMU SRI means this is one of the most ESG-focused funds around and well-deserving of an Advanced Morningstar ESG Commitment Level.

This portfolio replicates the MSCI EMU SRI Index, which selects the top quartile of stocks from the eurozone with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

A hard values-based screen applied to the starting universe acts as the first layer of defense. Any firm that is exposed to controversial lines of business, such as firearms, tobacco, nuclear power, gambling, and alcohol, or that violates the UN Global Compact is excluded from the get-go.

By focusing on the highest-scoring holdings in the universe, the fund demonstrates the strength of its ESG commitment over other less-discerning peers.

It is worth noting that the index's sector-relative stock-selection approach — also called best-in-class approach — is designed to ensure that its performance doesn't deviate drastically from the parent index (the MSCI EMU index), but it also means that the fund invests in some sectors and stocks that might not meet everyone's definition of sustainable. For example, at the time of writing, oil & gas companies account for 9.4%, and French oil major Total TOT makes up 4.5% of fund holdings.

Also, the infrequent rebalancing built into the strategy means that stocks that unexpectedly breach sustainability criteria may be held within the fund for some time before being excluded at the next quarterly index rebalance.

This fund does not engage in securities lending, which eliminates any concern surrounding the composition of any collateral held.

UBS - MSCI United Kingdom IMI SRI

ESG Commitment Level: Advanced

Asset Manager: UBS

The strict ESG inclusion criteria employed by USB - MSCI United Kingdom IMI SRI makes it one of the most ESG-focused funds around and well-deserving of a Morningstar ESG Commitment Level of Advanced.

This portfolio replicates a variant of the MSCI EMU SRI Index, which selects the top quartile of stocks from the eurozone with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

A hard values-based screen applied to the starting universe acts as the first layer of defense. Any firm that is exposed to controversial lines of business, such as firearms, tobacco, nuclear power, gambling, and alcohol, or that violates the UN Global Compact is excluded from the get-go. For example, French aircraft manufacturer Dassault Aviation *DUAVF* is excluded because of its exposure to both controversial and nuclear weapons.

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Also, the infrequent rebalancing built into the strategy means that stocks that unexpectedly breach sustainability criteria may be held within the fund for some time before being excluded at the next quarterly index rebalance.

This fund does not engage in securities lending, which eliminates any concern surrounding the composition of any collateral held.

Vanguard Developed Markets Index

ESG Commitment Level: Low

Asset Manager: Vanguard Group

Vanguard Developed Markets Index tracks the FTSE Developed All Cap ex US Index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that

we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

Vanguard ESG Developed World All Cap Equity Index

ESG Commitment Level: Basic

Asset Manager: Vanguard Group

Vanguard ESG Developed World All Cap Equity Index applies a light ESG screen to the FTSE Developed All Cap Index, limiting the fund's Morningstar ESG Commitment Level to Basic.

FTSE Global Choice indexes exclude companies whose products and conduct may have negative impact on society and the environment. Business involvement in nonrenewable energy, vice products, and weapons (military and conventional) guarantees exclusion. The candidates for inclusion are also required to satisfy three diversity indicators—namely women on the board, diversity policies, and diversity management systems. In addition, the index applies a controversy screen to exclude companies that are not compliant with the UN Global Compact.

Overall, this amounts to a light exclusionary approach, with the strategy representing around 80% of the global developed-markets stock universe, including small caps. Still, as the approach is not sector-relative, the fund may take sector or country bets relative to the broad market. As of this review, the fund is overweight in technology and healthcare by 3.2% and 2.2%, respectively, largely at the expense of energy (2.9%), industrials (1.4%), and basic materials (0.9%).

The strategy is designed to prevent exposure to controversial companies, but the exclusion list is reviewed quarterly. This means that newly identified offenders remain in the portfolio between rebalancings.

This index fund is physically replicated and maintains nearly all company weights in line with the index. The fund does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

Overall, the fund employs a light-touch approach to ESG investing that limits active risk while avoiding allocations to the worst offenders in the global developed equity universe.

Vanguard ESG International Stock

ESG Commitment Level: Basic

Asset Manager: Vanguard Group

Vanguard ESG International Stock ETF excludes stocks involved in controversial activities from its portfolio, limiting its Morningstar ESG Commitment Level to Basic.

The fund tracks the FTSE Global ex US Choice Index—a broad benchmark that starts with all stocks in the FTSE Global All Cap ex US Index. It excludes those with close ties to fossil fuels, vice products and services, and weapons. Additional screens remove companies with poor conduct related to the environment, human rights, and labor, as defined by the United Nations Global Compact principles, as well as companies that do not meet certain diversity criteria.

Excluding stocks involved in controversial sectors and poor business practices improves the ESG profile of the portfolio only to a limited extent. The fund's broad portfolio includes many stocks with mediocre scores and waters down its exposure to strong ESG names.

The biggest difference between this fund and the broader foreign market is its allocation to the energy sector. The portfolio does not hold stocks with close ties to nonrenewable energy, including nuclear power; firms with proved or probable reserves in coal, oil or gas; and others involved in the exploration and processing of those commodities. The strategy's screens are noticeable in other industries. It excludes firms like Diageo DGE and British American Tobacco BATS because they make alcohol and tobacco-related products. But their absence is not large enough to cause the fund's other sector weights to deviate from its parent universe.

The fund still captures most of the parent universe's market capitalization, so it looks and performs a lot like the broader foreign market. Its active share relative to its parent universe was less than 30%.

This strategy does not have strong corporate governance screens. It requires companies to have two of the following three items in place: diversity policies, a diversity management system, or at least one woman on the board. It does not consider other governance-related characteristics, like board member independence.

Vanguard ESG U.S. Stock

ESG Commitment Level: Basic

Asset Manager: Vanguard Group

Vanguard ESG US Stock ETF is branded as an ESG strategy, but it doesn't directly consider the environmental impact of its holdings or the strength of their corporate governance. Rather, it offers broad exposure to U.S. stocks of all sizes and only excludes those involved in significant controversies or controversial lines of business. These modest exclusions allow the fund to own some firms with less-than-exemplary ESG characteristics. As such, the fund earns a Morningstar ESG Commitment Level of Basic.

This portfolio replicates the market-cap-weighted FTSE USA All Cap Choice Index. This index starts with the broad U.S. stock market and filters out firms with business tied to fossil fuels, tobacco, alcohol, nuclear power, adult entertainment, and gambling. Firms with controversies related to human rights, labor standards, corruption, or the environment are also ineligible for the portfolio, as are firms that don't

do enough to promote diversity. This results in some sector tilts, including an underweighting to energy and overweighting to technology.

These modest exclusions filter out the most controversial firms but do little to steer the portfolio toward firms with strong ESG practices. At the end of September 2020, the fund excluded less than 20% of the available market. This improves diversification, but it allows firms with mediocre ESG characteristics into the portfolio. Besides, unlike many of its ESG peers, the fund does not include direct corporate governance screens. So, there would be nothing to prevent it from owning firms with a lot of corporate insiders on the board, for example.

Vanguard FTSE Social Index

ESG Commitment Level: Basic

Asset Manager: Vanguard Group

Vanguard FTSE Social Index fund is branded as an ESG strategy, but it doesn't directly consider the environmental impact of its holdings or the strength of their corporate governance. Rather, it offers broad exposure to U.S. large-cap stocks and only excludes those involved in significant controversies or controversial lines of business. These modest exclusions allow the fund to own some firms with less-than-exemplary ESG characteristics. As such, the fund earns a Morningstar ESG Commitment Level of Basic.

This portfolio replicates the market-cap-weighted FTSE 4Good U.S. Select Index. This index starts with the broad U.S. large-cap market and filters out firms with business tied to fossil fuels, tobacco, alcohol, nuclear power, adult entertainment, and gambling. Firms with controversies related to human rights, labor standards, corruption, or the environment are also ineligible for the portfolio, as are firms that don't do enough to promote diversity. This results in some sector tilts, including an underweighting to the energy sector and overweighting to technology.

These modest exclusions filter out the most controversial firms but do little to steer the portfolio toward firms with strong ESG practices. At the end of September 2020, the fund excluded less than 20% of the available market. This improves diversification, but it allows firms with mediocre ESG characteristics into the portfolio. Besides, unlike many of its ESG peers, the fund does not include direct corporate governance screens. So, there would be nothing to prevent it from owning firms with a lot of corporate insiders on the board, for example.

Vanguard Global ESG Select Stock

ESG Commitment Level: Advanced

Asset Manager: Wellington Management

Vanguard Global ESG Select Stock hasn't been around very long, but it draws on deep ESG resources at subadvisor Wellington and has already established itself as a respectable offering with a lot of promise. It earns a Morningstar ESG Commitment Level of Advanced.

Vanguard launched this fund in June 2019 as the first actively managed ESG fund in the firm's lineup. It's managed by Wellington's Mark Mandel and Yolanda Courtines, neither of whom has a formal ESG background. However, they are supported by Wellington's deep and experienced ESG and Sustainable Investment team, which compares well with those at other big diversified asset managers. The 20-person team includes seven ESG analysts, led by 15-year veteran Ana Carolina San Martin, along with seven research analysts and research associates. The team uses a variety of data and Wellington's methodology to generate proprietary ESG ratings for over 7,000 global stocks.

The process behind the fund was designed to integrate ESG considerations into stock-picking and portfolio construction. After narrowing the investment universe to 150 promising names, the portfolio managers subject each of these to a research deep dive from both a fundamental and an ESG perspective. For the latter, the managers prefer the term "stewardship," which encompasses traditional ESG factors as well as broader issues of good corporate management. They look for companies where executives have shown skill at effective capital allocation, have priorities aligned with a variety of stakeholders, and have shown a willingness to engage on important issues. The managers work closely with Wellington's central research team as well as the ESG analysts, but they also do their own research as necessary and take the lead on engaging with companies.

This fund's short track record means that some caution is still warranted, but so far the managers have done a fine job of establishing its ESG bona fides.

Vanguard SRI European Stock

ESG Commitment Level: Basic

Asset Manager: Vanguard Group

Vanguard SRI European Stock applies a very light ESG screen to the FTSE Developed Europe Index, limiting the fund's Morningstar ESG Commitment Level to Basic.

The fund seeks to approximate the performance of the FTSE Developed Europe Index, while excluding companies that are or have engaged in business practices that result in direct violations of the UN Global Compact. In addition, this exclusion list is extended to companies that are involved in the production of controversial weapons and tobacco.

Overall, this amounts to a very light exclusionary approach, as the index represents around 90%-95% of the European large- and mid-cap equity universe. For that reason, the extent of the fund's sector or country bets relative to the market is testimonial.

The strategy is designed to prevent exposure to some controversial companies, but the exclusion list is reviewed periodically. This means that newly identified offenders remain in the portfolio between rebalancings.

This index fund is physically replicated. The fund does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

All points considered, the index methodology has hardly any impact on elevating the portfolio's ESG credentials.

Xtrackers II Eurozone Government Bond

ESG Commitment Level: Low

Asset Manager: DWS

Xtrackers II Eurozone Government Bond tracks the Markit iBoxx EUR Government Bond Index. The index's methodology does not consider environmental, social, and governance factors. We have therefore assigned this fund a Morningstar ESG Commitment Level of Low, the bottom of our four-tier ESG Commitment scale. The Low tier of the ESG Commitment Level encompasses strategies that do not consider ESG, such as this one, as well as those that do consider ESG but in such minimal fashion that we don't believe the impact on the portfolio is meaningful enough to warrant a higher ESG Commitment Level.

Xtrackers MSCI USA ESG

ESG Commitment Level: Advanced

Asset Manager: DWS

Xtrackers MSCI USA ESG applies multiple ESG screens to the MSCI USA index universe, making it worthy of a Morningstar ESG Commitment Level of Advanced.

Underpinning the fund is the MSCI Low Carbon SRI Leaders methodology, which is a more stringent improvement over the previous MSCI ESG Leaders Low Carbon ex-Tobacco 5% methodology to which the fund was referenced from inception until April 2020. The change of benchmark has resulted in a tightening of revenue screens for certain business activities, namely tobacco producers, which are now completely ineligible for inclusion.

As an initial hurdle, the strategy applies a values-based screen to identify and exclude companies with revenue stemming from controversial subsectors such as (but not limited to) controversial weapons, tobacco, gambling, nuclear power, and thermal coal.

Additionally, the strategy strives to invest in companies with the lowest exposure to carbon emissions. This is done by applying two independent screens to the parent benchmark. The first is a carbon emissions screen that excludes the highest 20% of CO2 emitters from inclusion. The second is a potential carbon emissions screen that excludes 50% of the potential carbon emissions per dollar of market cap of the parent index. This screen is designed to select companies with low exposure to fossil-fuel reserves.

The comprehensive screening and its focus on the minimization of carbon emissions results in high active share relative to the parent benchmark. As of this review, 60% of the companies in the MSCI USA index are excluded from this ESG portfolio.

This ETF is physically replicated and does not engage in securities lending, which negates potential concerns surrounding the ESG credentials of any collateral held.

Overall, this strategy has a deep ESG profile and comes with elevated active risk relative to the broad market represented by the parent index.

Xtrackers MSCI USA ESG Leaders Equity

ESG Commitment Level: Advanced

Asset Manager: DWS

Xtrackers MSCI USA ESG Leaders Equity ETF invests in the best ESG-scoring companies in each sector, applying demanding criteria for inclusion. It is under the stewardship of a parent committed to using proxy voting and engagement to advance key ESG priorities. The fund earns a Morningstar ESG Commitment Level of Advanced.

This portfolio replicates the MSCI USA ESG Leaders Index, which targets stocks from the broad MSCI USA Index representing half of the market with the strongest ESG characteristics relative to their sector peers. This screen is powered by MSCI's ESG ratings, which focus on the ESG risks and opportunities in each industry that could be material to financial performance. MSCI considers the environmental, social, and governance issues that are most relevant to each industry, which should be more effective than a one-size-fits-all approach. For example, it might look at data security for banks and product packaging and water management for consumer products companies. How firms operate often has a bigger impact on these ratings than the goods and services they produce.

The fund takes a sector-relative approach to stock selection, so it owns some fossil-fuel companies, but it pursues the firms with the strongest ESG practices in each sector. There are additional screens in place to filter out firms involved in significant controversies or controversial lines of business, like firearms, tobacco, nuclear power, gambling, and alcohol. This yields an active share (which measures how different this portfolio is from the benchmark) of around 50%, demonstrating a strong commitment to ESG. ■■■

Appendix

Exhibit 10 All Strategies and Asset Managers Reviewed

Fund Name	Active/ Passive	Strategy ESG Commitment Level	Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
Acadian Sustainable Global Equity	Active	Basic	Equity	Australia Fund Equity World Large Value	Acadian	Basic
Alphinity Sustainable Share	Active	Advanced	Equity	Australia Fund Equity Australia Large Blend	Alphinity	Basic
Altius Sustainable Bond	Active	Advanced	Fixed Income	Australia Fund Bonds - Australia	Altius	Advanced
American Century Sustainable Equity	Active	Basic	Equity	US Fund Large Blend	American Century	Low
American Funds Global Balanced	Active	Low	Allocation	US Fund World Allocation	Capital Group (American Funds)	Basic
American Funds New Perspective	Active	Basic	Equity	US Fund World Large Stock	Capital Group (American Funds)	Basic
AMP Capital Ethical Leaders International Share	Active	Basic	Equity	Australia Fund Equity World Large Blend	AMP	Basic
Ausbil Active Sustainable Equity	Active	Basic	Equity	Australia Fund Equity Australia Large Blend	Ausbil	Basic
Australian Ethical Australian Shares	Active	Leader	Equity	Australia Fund Equity Australia Mid/Small Blend	Australian Ethical	Leader
AXA IM Sustainable Equity	Active	Advanced	Equity	Australia Fund Equity World Large Blend	AXA Investment Managers	Advanced
AXA World Funds - Global Factors - Sustainable Equity	Active	Advanced	Equity	EAA Fund Global Large-Cap Blend Equity	AXA Investment Managers	Advanced
BetaShares Global Sustainability Leaders	Passive	Basic	Equity	Australia Fund Equity World Large Growth	BetaShares	Low
BlackRock Advantage ESG U.S. Equity	Active	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
BlackRock Global Funds - ESG Multi-Asset	Active	Advanced	Allocation	EAA Fund EUR Moderate Allocation - Global	BlackRock	Basic
BlackRock Global Funds - Euro Bond	Active	Basic	Fixed Income	EAA Fund EUR Diversified Bond	BlackRock	Basic
BlackRock Global Funds - US Dollar High Yield Bond	Active	Basic	Fixed Income	EAA Fund USD High Yield Bond	BlackRock	Basic
BlackRock High Yield Bond Portfolio	Active	Basic	Fixed Income	US Fund High Yield Bond	BlackRock	Basic
Brown Advisory Sustainable Growth	Active	Advanced	Equity	US Fund Large Growth	Brown Advisory	Basic
Calvert Balanced	Active	Leader	Allocation	US Fund Allocation—50% to 70% Equity	Calvert	Leader
Calvert Bond	Active	Leader	Fixed Income	US Fund Intermediate Core-Plus Bond	Calvert	Leader
Calvert Emerging Markets Equity	Active	Leader	Equity	US Fund Diversified Emerging Mkts	Calvert	Leader
Calvert Equity	Active	Advanced	Equity	US Fund Large Growth	Calvert	Leader
Calvert Income	Active	Leader	Fixed Income	US Fund Corporate Bond	Calvert	Leader
Calvert Short Duration Income	Active	Leader	Fixed Income	US Fund Short-Term Bond	Calvert	Leader
Calvert Ultra-Short Duration Income	Active	Leader	Fixed Income	US Fund Ultrashort Bond	Calvert	Leader
Capital Group New Perspective (AU)	Active	Basic	Equity	Australia Fund Equity World Large Blend	Capital Group (American Funds)	Basic
Capital Group New Perspective (LUX)	Active	Basic	Equity	EAA Fund Other Equity	Capital Group (American Funds)	Basic
Capital Group New Perspective Hedged (AU)	Active	Basic	Equity	Australia Fund Equity World - Currency Hedged	Capital Group (American Funds)	Basic
Comgest Growth Europe	Active	Advanced	Equity	EAA Fund Europe Large-Cap Growth Equity	Comgest	Advanced
Comgest Growth Japan	Active	Basic	Equity	EAA Fund Japan Large-Cap Equity	Comgest	Advanced
Dimensional Global Sustainability Trust Hedged	Active	Basic	Equity	Australia Fund Equity World - Currency Hedged	Dimensional	Low
Dimensional Global Sustainability Trust Unhedged	Active	Basic	Equity	Australia Fund Equity World Large Blend	Dimensional	Low
Dodge & Cox Balanced	Active	Low	Allocation	US Fund Allocation—50% to 70% Equity	Dodge & Cox	Low
Dodge & Cox Global Stock	Active	Low	Equity	US Fund World Large Stock	Dodge & Cox	Low

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Exhibit 10 All Strategies and Asset Managers Reviewed (Continued)

Fund Name	Strategy		Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
	Active/ Passive	ESG Commitment Level				
Dodge & Cox Income	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Dodge & Cox	Low
Dodge & Cox International Stock	Active	Low	Equity	US Fund Foreign Large Value	Dodge & Cox	Low
Dodge & Cox Worldwide Global Stock	Active	Low	Equity	EAA Fund Global Large-Cap Blend Equity	Dodge & Cox	Low
DWS Invest ESG Euro Bonds (Short)	Active	Advanced	Fixed Income	EAA Fund EUR Diversified Bond - Short Term	DWS	Basic
DWS Invest Top Dividend	Active	Low	Equity	EAA Fund Global Equity Income	DWS	Basic
DWS Top Dividende	Active	Low	Equity	EAA Fund Global Equity Income	DWS	Basic
Eventide Healthcare & Life Sciences	Active	Basic	Equity	US Fund Health	Eventide	Basic
Fidelity Blue Chip Growth	Active	Low	Equity	US Fund Large Growth	Fidelity Investments	Low
Fidelity Blue Chip Growth K6	Active	Low	Equity	US Fund Large Growth	Fidelity Investments	Low
Fidelity Total Bond	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Fidelity Investments	Low
Fidelity Total Bond ETF	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Fidelity Investments	Low
Fidelity US Sustainability Index	Passive	Basic	Equity	US Fund Large Blend	Geode	Low
Greencape Broadcap	Active	Low	Equity	Australia Fund Equity Australia Large Growth	Greencape	Low
Hunter Global Fixed Interest	Active	Low	Fixed Income	NZ OE Global Bond	Pimco	Basic
Impax Environmental Markets	Active	Leader	Equity	EAA Fund Sector Equity Ecology	Impax	Leader
Impax Global Equity Opportunities	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Impax	Leader
Investors Mutual Australian Share	Active	Low	Equity	Australia Fund Equity Australia Large Value	Investors Mutual	Low
iShares Core S&P 500 (US)	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares Core S&P 500 (IE)	Passive	Low	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares Core S&P 500 Index	Passive	Low	Equity	Canada Fund US Equity	BlackRock	Basic
iShares Core S&P 500 Index (CAD-Hedged)	Passive	Low	Equity	Canada Fund US Equity	BlackRock	Basic
iShares Core S&P 500 USD Dist	Passive	Low	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares Core S&P Small-Cap	Passive	Low	Equity	US Fund Small Blend	BlackRock	Basic
iShares Core S&P Total U.S. Stock Market	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares Core U.S. Aggregate Bond	Passive	Low	Fixed Income	US Fund Intermediate Core Bond	BlackRock	Basic
iShares ESG Aware MSCI USA Small-Cap	Passive	Basic	Equity	US Fund Small Blend	BlackRock	Basic
iShares ESG Aware MSCI USA	Passive	Basic	Equity	US Fund Large Blend	BlackRock	Basic
iShares ESG MSCI USA Leaders	Passive	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
iShares ESG U.S. Aggregate Bond	Passive	Basic	Fixed Income	US Fund Intermediate Core Bond	BlackRock	Basic
iShares MSCI EM IMI ESG Screened	Passive	Basic	Equity	EAA Fund Global Emerging Markets Equity	BlackRock	Basic
iShares MSCI EM SRI	Passive	Advanced	Equity	EAA Fund Global Emerging Markets Equity	BlackRock	Basic
iShares MSCI Japan SRI	Passive	Advanced	Equity	EAA Fund Japan Large-Cap Equity	BlackRock	Basic
iShares MSCI USA ESG Screened	Passive	Basic	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares MSCI USA ESG Select	Passive	Advanced	Equity	US Fund Large Blend	BlackRock	Basic
iShares MSCI USA SRI	Passive	Advanced	Equity	EAA Fund US Large-Cap Blend Equity	BlackRock	Basic
iShares S&P 500 Index	Passive	Low	Equity	US Fund Large Blend	BlackRock	Basic
iShares S&P Small Cap 600 USD (Dist)	Passive	Low	Equity	EAA Fund US Small-Cap Equity	BlackRock	Basic
iShares V PLC - iShares S&P 500 EUR Hedged (Acc)	Passive	Low	Equity	EAA Fund Other Equity	BlackRock	Basic
Loomis Sayles Core Plus Bond	Active	Low	Fixed Income	US Fund Intermediate Core-Plus Bond	Loomis Sayles	Low

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Exhibit 10 All Strategies and Asset Managers Reviewed. (Continued)

Fund Name	Active/ Passive	Strategy ESG Commitment Level	Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
Loomis Sayles U.S. Core Plus Bond	Active	Low	Fixed Income	EAA Fund USD Diversified Bond	Loomis Sayles	Low
Lyxor MSCI Europe ESG Leaders	Passive	Basic	Equity	EAA Fund Europe Large-Cap Blend Equity	Lyxor	Low
Natixis Oakmark International	Active	Low	Equity	US Fund Foreign Large Blend	Harris Associates	Low
Natixis Sustainable Future 2015	Active	Basic	Allocation	US Fund Target-Date 2015	Natixis Advisors	Basic
Natixis Sustainable Future 2020	Active	Basic	Allocation	US Fund Target-Date 2020	Natixis Advisors	Basic
Natixis Sustainable Future 2025	Active	Basic	Allocation	US Fund Target-Date 2025	Natixis Advisors	Basic
Natixis Sustainable Future 2030	Active	Basic	Allocation	US Fund Target-Date 2030	Natixis Advisors	Basic
Natixis Sustainable Future 2035	Active	Basic	Allocation	US Fund Target-Date 2035	Natixis Advisors	Basic
Natixis Sustainable Future 2040	Active	Basic	Allocation	US Fund Target-Date 2040	Natixis Advisors	Basic
Natixis Sustainable Future 2045	Active	Basic	Allocation	US Fund Target-Date 2045	Natixis Advisors	Basic
Natixis Sustainable Future 2050	Active	Basic	Allocation	US Fund Target-Date 2050	Natixis Advisors	Basic
Natixis Sustainable Future 2055	Active	Basic	Allocation	US Fund Target-Date 2055	Natixis Advisors	Basic
Natixis Sustainable Future 2060	Active	Basic	Allocation	US Fund Target-Date 2060+	Natixis Advisors	Basic
Neuberger Berman Equity Income	Active	Low	Equity	US Fund Large Value	Neuberger Berman	Basic
Neuberger Berman Municipal Impact	Active	Advanced	Fixed Income	US Fund Muni National Interm	Neuberger Berman	Basic
NN (L) Global Sustainable Equity	Active	Advanced	Equity	EAA Fund Global Large-Cap Growth Equity	NN Invt Partners	Advanced
NN (L) Patrimonial Balanced European Sustainable	Active	Advanced	Allocation	EAA Fund EUR Moderate Allocation	NN Invt Partners	Advanced
NN Duurzaam Aandelen	Active	Advanced	Equity	EAA Fund Global Large-Cap Growth Equity	NN Invt Partners	Advanced
Nuveen ESG Aggressive Growth	Active	Advanced	Allocation	US SA Allocation — 70% to 85% Equity	Nuveen, A TIAA Co	Advanced
Oakmark International	Active	Low	Equity	US Fund Foreign Large Blend	Harris Associates	Low
Pacific Assets Trust	Active	Leader	Equity	EAA CE Asia ex-Japan Equity	Stewart Investors	Leader
Parnassus Core Equity	Active	Leader	Equity	US Fund Large Blend	Parnassus	Leader
Parnassus Endeavor	Active	Leader	Equity	US Fund Large Blend	Parnassus	Leader
Parnassus Mid Cap	Active	Leader	Equity	US Fund Mid-Cap Blend	Parnassus	Leader
Parnassus Mid Cap Growth	Active	Leader	Equity	US Fund Mid-Cap Growth	Parnassus	Leader
Pax Global Opportunities	Active	Leader	Equity	US Fund World Large Stock	Impax	Leader
Perpetual Wholesale Australian Share	Active	Low	Equity	Australia Fund Equity Australia Large Value	Perpetual	Basic
Perpetual Wholesale Ethical SRI	Active	Basic	Equity	Australia Fund Equity Australia Large Value	Perpetual	Basic
Pimco GIS Global Bond	Active	Low	Fixed Income	EAA Fund Global Bond - USD Hedged	Pimco	Basic
Pimco GIS Global Bond ESG	Active	Advanced	Fixed Income	EAA Fund Global Bond - USD Hedged	Pimco	Basic
Pimco GIS US Investment Grade Corp Bond Fund	Active	Low	Fixed Income	EAA Fund USD Corporate Bond	Pimco	Basic
Pimco Global Bond	Active	Low	Fixed Income	Australia Fund Bonds - Global	Pimco	Basic
Pimco Global Bond Opportunities (U.S. Dollar-Hedged)	Active	Low	Fixed Income	US Fund World Bond-USD Hedged	Pimco	Basic
Pimco Investment Grade Credit Bond	Active	Low	Fixed Income	US Fund Corporate Bond	Pimco	Basic
Pimco Low Duration ESG	Active	Advanced	Fixed Income	US Fund Short-Term Bond	Pimco	Basic
Pimco Total Return ESG	Active	Advanced	Fixed Income	US Fund Intermediate Core-Plus Bond	Pimco	Basic
Renaissance Europe	Active	Advanced	Equity	EAA Fund Europe Large-Cap Growth Equity	Comgest	Advanced
Robeco Sustainable European Stars Equities	Active	Advanced	Equity	EAA Fund Europe Large-Cap Blend Equity	Robeco	Leader
RobecoSAM Smart Energy	Active	Advanced	Equity	EAA Fund Sector Equity Alternative Energy	Robeco	Leader

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

Exhibit 10 All Strategies and Asset Managers Reviewed (Continued)

Fund Name	Active/ Passive	Strategy ESG Commitment Level	Global Broad Category Group	Morningstar Category	Asset Manager	Asset Manager ESG Commitment Level
RobecoSAM Sustainable Water	Active	Advanced	Equity	EAA Fund Sector Equity Water	Robeco	Leader
Royal London Ethical Bond	Active	Basic	Fixed Income	EAA Fund GBP Corporate Bond	Royal London	Basic
Royal London Sustainable Diversified Trust	Active	Advanced	Allocation	EAA Fund GBP Moderate Allocation	Royal London	Basic
Royal London Sustainable Leaders Trust	Active	Advanced	Equity	EAA Fund UK Large-Cap Equity	Royal London	Basic
Royal London Sustainable Managed Growth Trust	Active	Advanced	Allocation	EAA Fund GBP Moderately Cautious Allocation	Royal London	Basic
Royal London Sustainable World Trust	Active	Advanced	Allocation	EAA Fund GBP Moderately Adventurous Alloc	Royal London	Basic
Schroder Australian Equity	Active	Basic	Equity	Australia Fund Equity Australia Large Blend	Schroders	Advanced
Schroder International Selection EURO Equity	Active	Basic	Equity	EAA Fund Eurozone Large-Cap Equity	Schroders	Advanced
Stewart Investors Asia Pacific Sustainability	Active	Leader	Equity	EAA Fund Asia-Pacific ex-Japan Equity	Stewart Investors	Leader
Stewart Investors Glob Emg Mrkts Sustainability (IE)	Active	Leader	Equity	EAA Fund Global Emerging Markets Equity	Stewart Investors	Leader
Stewart Investors Glob Emg Mrkts Sustainability (UK)	Active	Leader	Equity	EAA Fund Global Emerging Markets Equity	Stewart Investors	Leader
Stewart Investors Wholesale Worldwide Leaders	Active	Leader	Equity	Australia Fund Equity World Large Blend	Stewart Investors	Leader
Stewart Investors Wholesale Worldwide Sustainability	Active	Leader	Equity	Australia Fund Equity World Large Growth	Stewart Investors	Leader
Stewart Investors Worldwide Leaders Sustainability	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Stewart Investors	Leader
Stewart Investors Worldwide Sustainability	Active	Leader	Equity	EAA Fund Global Large-Cap Growth Equity	Stewart Investors	Leader
TIAA-CREF Core Impact Bond	Active	Leader	Fixed Income	US Fund Intermediate Core-Plus Bond	Nuveen, A TIAA Co	Advanced
TIAA-CREF Short Duration Impact Bond	Active	Leader	Fixed Income	US Fund Short-Term Bond	Nuveen, A TIAA Co	Advanced
TIAA-CREF Social Choice Equity	Active	Advanced	Equity	US Fund Large Blend	Nuveen, A TIAA Co	Advanced
UBS - Bloomberg Barclays MSCI Euro Area Liquid Corporates Sustainable	Passive	Advanced	Fixed Income	EAA Fund EUR Corporate Bond	UBS	Basic
UBS - Bloomberg Barclays MSCI US Liquid Corporates Sustainable	Passive	Advanced	Fixed Income	EAA Fund USD Corporate Bond	UBS	Basic
UBS - MSCI EMU	Passive	Low	Equity	EAA Fund Eurozone Large-Cap Equity	UBS	Basic
UBS - MSCI EMU SRI	Passive	Advanced	Equity	EAA Fund Eurozone Large-Cap Equity	UBS	Basic
UBS - MSCI United Kingdom IMI SRI	Passive	Advanced	Equity	EAA Fund UK Large-Cap Equity	UBS	Basic
Vanguard Developed Markets Index	Passive	Low	Equity	US Fund Foreign Large Blend	Vanguard Group	Low
Vanguard ESG Developed World All Cap Equity Index	Passive	Basic	Equity	EAA Fund Global Large-Cap Blend Equity	Vanguard Group	Low
Vanguard ESG International Stock	Passive	Basic	Equity	US Fund Foreign Large Blend	Vanguard Group	Low
Vanguard ESG U.S. Stock	Passive	Basic	Equity	US Fund Large Blend	Vanguard Group	Low
Vanguard FTSE Social Index	Passive	Basic	Equity	US Fund Large Blend	Vanguard Group	Low
Vanguard Global ESG Select Stock	Active	Advanced	Equity	US Fund World Large Stock	Wellington Mgmt	Basic
Vanguard SRI European Stock	Passive	Basic	Equity	EAA Fund Europe Large-Cap Blend Equity	Vanguard Group	Low
Xtrackers MSCI USA ESG	Passive	Advanced	Equity	EAA Fund US Large-Cap Blend Equity	DWS	Basic
Xtrackers II Eurozone Government Bond	Passive	Low	Fixed Income	EAA Fund EUR Government Bond	DWS	Basic
Xtrackers MSCI USA ESG Leaders Equity	Passive	Advanced	Equity	US Fund Large Blend	DWS	Basic

Source: Manager Research Analysis (ESG Commitment Level, Fund Name, and Asset Manager) and Morningstar Direct. Note: In Morningstar Category, EAA refers to Europe, Asia, Africa.

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For More Information on the Morningstar ESG Commitment Level

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