

# The Morningstar ESG Commitment Level

## Our assessment of 108 asset managers.

### Morningstar Manager Research

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### Executive Summary

The Morningstar ESG Commitment Level is a qualitative assessment that aims to help investors identify the asset managers dedicated to delivering sustainability outcomes. In this report, we share our analysis of 108 asset managers around the world, nearly half of which have been reviewed so far in 2023.

Over the past few years, environmental, social and governance issues such as climate change have become more prominent. As a result, investors increasingly expect asset managers to minimize these risks to their portfolios and address the impact of their investments on society and the planet. In response, asset managers have ramped up their ESG capabilities and investment offerings.

More than ever, sustainability-focused investors should be discerning when selecting managers. With tremendous growth in sustainable investing has come increased choice, and today there is a fund to suit each investor's preferences. Concerns about greenwashing have also proliferated, and buying an ESG-focused or sustainable fund without doing proper due diligence on the provider could lead to disappointing results. The Morningstar ESG Commitment Level helps sustainability-focused investors assess a fund manager's alignment to their own preferences by providing insights into firms' sustainable-investing philosophies, ESG integration processes, resources, and stewardship activities.

### Key Takeaways

- ▶ Out of the 108 asset managers evaluated, eight earn a Morningstar ESG Commitment Level of Leader, while 21 score Advanced. The largest group of firms—48—receive an ESG Commitment Level of Basic, and 31 earn Low. This distribution reflects the variety of the marketplace, which includes large, diversified asset managers as well as sustainability-focused firms.
- ▶ In this fourth installment of the ESG Commitment Level landscape, 15 firms were new additions to coverage. Domini earned an inaugural rating of Leader, and three firms—Federated Hermes, Northwest Ethical Investments, and Melior—earned Advanced.
- ▶ Ratings changes picked up compared with previous years. Wellington Management and Brown Advisory were upgraded to Advanced from Basic. Franklin Templeton and Betashares were upgraded to Basic from Low. UBS Asset Management was downgraded to Basic from Advanced.
- ▶ This year, 34 firms were reviewed for the second or third time. Of those, four maintained ESG Commitment Levels of Leader: Robeco, Impax Asset Management, Parnassus, and Boston Trust Walden.
- ▶ BlackRock, Capital Group, JPMorgan, and Invesco retained Morningstar ESG Commitment Levels of Basic. Vanguard remained at Low.

## What Is the Morningstar ESG Commitment Level?

In this section, we provide an overview of the Morningstar ESG Commitment Level and what it aims to do for investors. We illustrate how to use the ESG Commitment Level alongside Morningstar's portfolio-level data, and we summarize the findings of our first three years of ESG Commitment Level evaluations.

### Introduction to the ESG Commitment Level

In 2020, Morningstar introduced the ESG Commitment Level for Asset Managers, a qualitative rating that expresses our analysts' assessments of asset managers' determination to incorporate ESG factors into their investment processes and deliver sustainability outcomes, relative to peers. The Morningstar ESG Commitment Level aims to help investors with their fund and asset manager due diligence process. The scale runs from best to worst as follows: Leader, Advanced, Basic, and Low.

To arrive at the Morningstar ESG Commitment Level for a given asset manager, our analysts evaluate three key pillars:

- ▶ Philosophy and Process
- ▶ Resources
- ▶ Active Ownership

Although not an exhaustive list, *philosophy and process* includes factors such as a firm's history of sustainable investing, the alignment of a firm's investment philosophy and ESG principles, and the level and consistency of ESG integration across the investment lineup. Sustainable investing requires adequate *resources* including specialized sustainability expertise and useful ESG data. To evaluate a firm's *active ownership* practices, analysts consider the firm's engagement and proxy-voting policies, its record of support for ESG shareholder resolutions, and its level of disclosure around these activities, among other factors.

The ESG Commitment Level is distinct from the Morningstar Medalist Rating,<sup>1</sup> which identifies strategies that Morningstar believes should be able to outperform their category index or peers over time. The ESG Commitment Level is not evaluating expected performance. Rather, it is focused on the extent to which asset managers and funds incorporate ESG considerations into their investment processes, and it highlights the asset managers that are leading the way when it comes to sustainable investing.

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<sup>1</sup> Morningstar Medalist Rating Methodology, Morningstar Research, May 2, 2023.  
[https://s21.q4cdn.com/198919461/files/doc\\_downloads/othe\\_disclosure\\_materials/2023/1134512.pdf](https://s21.q4cdn.com/198919461/files/doc_downloads/othe_disclosure_materials/2023/1134512.pdf)

The ESG Commitment Level is also complementary to existing portfolio-level sustainability metrics such as the Morningstar Sustainability Rating<sup>2</sup> and Sustainable Attributes.<sup>3</sup> The Morningstar Sustainability Rating 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 merely complementary—one qualitative and based on an overall assessment of a strategy, the other quantitative and based on the ESG risks of a strategy's portfolio holdings.

Asset managers that earn top marks under the ESG Commitment Level are those that our analysts expect to continue leading the charge on ESG and sustainability issues. Because such a large portion of a fund's sustainability characteristics is driven by centralized resources and active ownership strategies, it is crucial to assess the firm itself, not just individual funds.

In this report, we share the results of our Morningstar ESG Commitment Level assessments of 108 asset managers. These managers were selected for coverage based on a combination of factors. We seek to cover the largest asset managers, the leading asset managers from an ESG perspective, highest-rated parents under our Morningstar Medalist Rating, and a diverse sample based on geography and asset class. These asset managers are mostly headquartered in the U.S. (45) and the United Kingdom (22). The rest are headquartered in Australia (27), Continental Europe (12), Canada (1), and Singapore (1).

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<sup>2</sup> The Morningstar Sustainability Rating is an asset-weighted rollup of Sustainalytics' company and sovereign ESG Risk Ratings based on the trailing 12 months of a fund's portfolios. Fund sustainability scores are ranked, and 1 to 5 globes are assigned. Funds with the best 10% of scores within their peer group receive 5 globes, and those ranking in the next 22.5% receive 4 globes. In other words, funds ranking in the top third of their peer group receive 4 or 5 globes. Morningstar Sustainability Rating Methodology, Morningstar Research, Oct. 13, 2021.  
[https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt98ccfd4eafc767f/744156\\_Morningstar\\_Sustainability\\_Rating\\_for\\_Funds\\_Methodology.pdf](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt98ccfd4eafc767f/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf)

<sup>3</sup> Morningstar Sustainable Attributes: Framework and Definitions for Sustainable Investment and Excludes Exclusions Attributes, Morningstar Research, August 2022.  
[https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt1a2acd4a1f02054d/Sustainable\\_Attributes\\_Definitions\\_May\\_2022.pdf](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt1a2acd4a1f02054d/Sustainable_Attributes_Definitions_May_2022.pdf)

## Summary of Morningstar ESG Commitment Levels

### Exhibit 1 Overview of the Morningstar ESG Commitment Level

Low	Basic		Advanced	Leader
Allan Gray Australia (AU)	Abrdn (UK)*	Goldman Sachs Asset Mgmt (US)*	AllianceBernstein (US)*	Affirmative Invnt Mgmt (UK)
American Century (US)*	Acadian (US)	Invesco (US)*	Alphinity Invnt Mgmt (AU)	Australian Ethical (AU)
Antipodes Partners (AU)	Aegon Asset Mgmt (NL)	JPMorgan Asset Mgmt (US)*	Altius (AU)	Boston Trust Walden (US)*
Ariel Invnts (US)	Allianz Global Investors (DE)*	Lazard Asset Mgmt (US)	Amana (US)	Domini (US)
Artemis (UK)	Allspring (US)	Liontrust (UK)	Amundi (FR)	Impax (UK)*
Baird Asset Mgmt (US)*	AMP Capital (AU)	M&G (UK)	AXA Invnt Managers (FR)*	Parnassus (US)*
Bennelong (AU)	Ausbil Invnt Mgmt (AU)	Macquarie (AU)	BNP Paribas Asset Mgmt (FR)	Robeco (NL)*
BNY Mellon (US)*	Baillie Gifford (UK)	MFS (US)*	Brown Advisory (US)	Stewart Investors (UK)
Colonial First State (AU)	Barings (US)*	Morgan Stanley Invnt Mgmt (US)*	Candriam (LUX)	
Dimensional (US)*	Bell Asset Mgmt (AU)	Nanuk Asset Mgmt (AU)*	Federated Hermes (US)	
Dodge & Cox (US)	Betashares (AU)	Natixis Solutions (US)	Generation Invnt Mgmt (UK)	
Eastspring Invnts (SG)	BlackRock (US)	Neuberger Berman (US)*	HSBC Global Asset Mgmt (UK)	
Fidelity Invnts (US)	Capital Group (US)*	Ninety One (UK)	Jupiter (UK)	
Fundsmith (UK)	Colchester Global Investors (UK)	Payden & Rygel (US)	LGIM (UK)*	
GQG Partners (AU)	Columbia Threadneedle (US)*	Pendal (AU)	Melior (AU)	
Greencape Capital (AU)	Comgest (FR)	Perpetual (AU)	Northwest Ethical Invnts (CA)	
Hyperion Asset Mgmt (AU)	Dexus (AU)	Pictet Asset Mgmt (CH)	Nuveen (US)	
Investors Mutual Limited (AU)	DNR Capital (AU)	Pimco (US)*	Royal London Asset Mgmt (UK)	
Jamieson Coote Bonds (AU)	DWS (DE)*	Putnam (US)*	Schroders (UK)	
Janus Henderson (UK)	Eventide (US)	State Street Global Advisors (US)	Unigestion (CH)	
Magellan Group (AU)	Fidelity International (UK)	T. Rowe Price (US)*	Wellington Mgmt (US)	
Man Group (UK)	First Sentier Investors (AU)	Troy Asset Mgmt (UK)		
PGIM (US)	Franklin Templeton (US)	UBS Asset Mgmt (CH)		
Platinum (AU)	GMO (US)	Veritas Asset Mgmt (UK)		
Principal (US)				
Schwab Asset Mgmt (US)*				
Solaris Invnt Mgmt (AU)				
VanEck (US)				
Vanguard (US)*				
Victory Capital (US)				
Voya (US)				

Source: Morningstar Manager Research. Data as of Aug. 30, 2023. Firms highlighted in yellow indicate new additions to coverage; blue indicates a firm whose rating has changed since the previous landscape. An asterisk denotes a firm that was reviewed since the previous landscape. BlackRock includes iShares-branded funds, Capital Group includes American Funds, DWS includes Xtrackers, Morgan Stanley includes Calvert, and Nuveen includes TIAA.

### Leading the Way

Out of the 108 asset managers covered under the Morningstar ESG Commitment Level, we have awarded the highest honors to just eight. Robeco, Impax, Parnassus, Australian Ethical, Boston Trust Walden, Domini Asset Management, Affirmative Investment Management, and Stewart Investors all earn Morningstar ESG Commitment Levels of Leader.

In most cases, these firms have focused on sustainable investing (formerly known as *responsible investing*) since day one, and this philosophy remains core to their identities today. These firms operate from a shared belief that sustainability goals go hand-in-hand with long-term financial return, and this is reflected at all levels of the organization.

Over the years, these firms have not rested on their laurels. Rather, they have been at the cutting edge of developing innovative frameworks to assess ESG risks as well as the impacts, both positive and negative, that companies and investments have on the environment and society at large. Strong internal cultures of sustainability drive continued innovation in the space, and these firms stay ahead of the curve by promoting improved disclosures and practices in portfolio companies as well as collaborating with regulators and peers to raise sustainability standards.

Leading sustainable-investing programs require topnotch talent. Many of these firms combine strong, widespread knowledge of sustainability topics as well as dedicated specialist resources to stay at the forefront of best practices in the space. Compensation programs clearly incentivize sustainability initiatives, and checks and balances exist to ensure accountability to these goals. Firms that earn top marks empower their investment talent with robust ESG data and tools.

Active ownership practices, including engagement and proxy-voting strategies, clearly reflect the firm's sustainable-investing philosophy. For asset managers that earn ESG Commitment Levels of Leader, these activities are outcomes-oriented, meaning that firms set expectations of investee companies on major ESG issues and persist through escalation to drive progress toward these goals. For example, leading firms may engage with companies to improve climate-related reporting, net-zero transition plans, and firmwide diversity initiatives. If progress is slow, firms may escalate by voting against board directors, filing or co-filing shareholder proposals, or divesting or refusing to purchase new securities.

Moreover, escalation programs and proxy-voting strategies shouldn't come as a surprise. Preeminent firms predispose their priorities for investee companies, promptly publish rationales for proxy-voting decisions, and provide case studies so that investors can understand the firm's approach.

### **Advancing the Field**

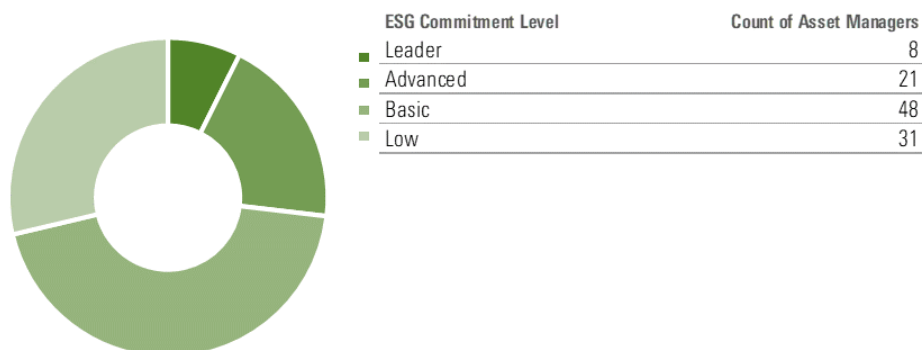
The cohort of 21 asset managers who earn Advanced ESG Commitment Levels reflects a more varied group of investment firms, including large firms such as Amundi and Schroders, as well as small and midsize shops like Royal London Asset Management and Generation Investment Management. These firms have considerable track records of sustainable investing stretching up to a decade or more, but they usually haven't prioritized sustainability considerations for quite as long as the Leaders and have yet to solidify their efforts. Firms assessed as Advanced demonstrate high competence in integrating ESG considerations throughout their fund range, even in products without specific sustainability objectives.

### **Just the Basics**

The largest and most diverse grouping of asset managers—48 firms—receive ESG Commitment Levels of Basic. These range from industry behemoths such as BlackRock and State Street Global Advisors to boutiques including Colchester Global Investors and Acadian Asset Management. There's also a wide range of ambition on sustainability among the firms in this group. Some firms have lofty intentions and have dedicated considerable resources to sustainable investing but fall short of the front-runners on key points. Other firms have built out the basics of ESG integration across their investment processes but do

not have explicit aspirations regarding environmental and social issues. Either way, firms with an ESG Commitment Level of Basic have made a meaningful effort to integrate sustainability themes into their investment process, but they still blend in with the crowd.

**Exhibit 2** Asset Managers by ESG Commitment Level



Source: Morningstar Manager Research. Data as of Aug. 30, 2023.

### Be-Low Expectations

Finally, 31 asset managers in our sample, including Vanguard, Schwab Asset Management, and Dimensional, received Low ESG Commitment Levels. Firms at this level tend to be slower to adopt ESG policies and processes, doing so only once these have become common practice or regulatory requirements, or they consciously avoid prioritizing ESG considerations in alignment with their clients' and other stakeholders' preferences. These firms also typically have a small percentage of assets in sustainability-focused funds. As a result, incorporating ESG criteria and pushing the needle through active ownership tend to be lower priorities. In other cases, these asset managers may be just getting started on incorporating ESG considerations into their investment processes, but a late start means their efforts lag peers. All in all, firms with Low ESG Commitment Levels are ESG laggards and are not expected to drive the sustainability agenda for investors.

### Upgrades and Downgrades

Financial markets are always dynamic, but the pace of change and evolution in sustainable investing over the past several years is quite something to behold. Although demand has tapered in some markets, investor interest remains strong in others, and regulatory developments and improvements in data and technology all require asset managers to move quickly but thoughtfully.

Most asset managers have indeed responded, some with significant investment in people, data, research, and training, resulting in enhanced ESG integration, more corporate engagement, and more-transparent proxy-voting decisions, among other efforts. The vast majority of firms have improved their practices, which raises the bar for the industry overall as well as for our ESG Commitment Level consideration. These developments mean that the ESG-investing landscape can be fluid in terms of

which firms stand out from the pack as it becomes clearer which firms are accelerating and supporting their efforts in a way that signals a higher commitment level. Morningstar revisits a firm's commitment to sustainable investing on a regular basis, taking a fresh look at a firm's strategy in the context of the current global environment.

Morningstar's analysts have evaluated more than 100 firms. Among those that have been considered multiple times, most retained their ESG Commitment Levels through these evaluations. However, five firms saw their ratings change recently. Wellington Management and Brown Advisory earned upgrades to Advanced from Basic, while Franklin Templeton and Betashares moved to Basic from Low. UBS Asset Management, on the other hand, received a downgrade to Basic from Advanced.

Wellington joined the squad of Advanced firms in March 2023 as a result of its increased emphasis on climate, a growing central sustainable-investment team, and disclosure efforts that exceed industry standards. The firm's climate focus is supported by two impressive partnerships: one with MIT to research the transition to a low-carbon economy and another with the Woodwell Climate Research Center to study physical climate risk. Similarly, Brown Advisory moved to Advanced from Basic in July 2023. The firm has a demonstrable track record of managing sustainable strategies for more than a decade, and clients have increasingly turned to it as a reputable sustainable investor. Nearly all of the firm's fund launches in the past five years have been sustainable funds, which propelled a jump in the firm's sustainable assets under management to almost half its business. Brown Advisory also actively engages with portfolio companies and directly links this process to investment decisions, supporting an upgrade.

Franklin Templeton added to its ESG-dedicated personnel and articulated a new firmwide strategy to support disparate investment teams with ESG integration. This strategy includes heightened coordination and accountability across most asset classes. As a result, it was upgraded in April 2023 to Basic from Low. Australia-based Betashares also moved to Basic from Low in July 2023. This upgrade was driven by the development of ESG-related policies, rules-based sustainable offerings, and transparency of reporting, particularly in relation to proxy-voting decisions.

Prior to its recent downgrade, UBS AM had been upgraded to Advanced from Basic in December 2021 on the back of deepening ESG integration, growing ESG-focused product offerings, and expanded resources. However, challenges related to its ESG integration efforts and the acquisition of Credit Suisse's asset-management franchise introduced some uncertainty; hence, we determined its ESG Commitment Level to be Basic in June 2023. This does not mean that UBS isn't making progress in these areas, just that it has slipped relative to other firms with Advanced ESG Commitment Levels.

Morningstar will continue to assess progress among firms, looking for material improvement and deterioration, and will apply those insights to asset managers' ESG Commitment Levels.

## Deep Dive Into the Three Pillars and What We Consider Best Practices

To develop our view of asset managers, we assess the following three pillars: Philosophy & Process, Resources, and Active Ownership. In this section, we discuss the significance of each pillar and how we evaluate them. We also share what we consider best practices.

### **Philosophy & Process**

#### **The Significance of Philosophy & Process**

In the asset-management industry, a firm's investment philosophy underpins every facet of the organization. Firms seek and attract talent that is aligned with their investment beliefs, and their cultures are built around the investment offerings. This philosophy typically dictates the flow of resources, which in turn often guides investment success.

As assets in sustainable products have risen in recent years, more and more asset managers are launching ESG strategies to meet demand.<sup>4</sup> However, it takes time to develop a deeply rooted culture of sustainable investing. For this reason, firms with a long history of sustainable-investing practices, together with a well-integrated central philosophy of sustainability, have an edge in developing innovative sustainable-investing solutions, compared with peers that are newer to the space.

#### **How Morningstar Analysts Evaluate Philosophy & Process**

Of the three pillars that make up the Morningstar ESG Commitment Level, Philosophy & Process receives the highest weighting, at 40% of the overall score. The Philosophy & Process Pillar examines a firm's history of sustainable investing and its importance within the firm's culture and investment strategies.

To assess these elements of a firm, Morningstar analysts consider a range of factors, including the firm's history as a signatory to the U.N.-supported Principles for Responsible Investment, commitment to the Net Zero Asset Managers initiative, and role in industry-leading shareholder coalitions such as Climate Action 100+. We seek to understand the breadth and depth of ESG integration in the fund lineup. As consideration of financially material ESG risks becomes mainstream, leading asset managers go a step further by assessing the impacts, both positive and negative, that companies and investments have on the environment and society at large. Centralized risk oversight and robust minimum requirements for

<sup>4</sup> Global Sustainable Fund Flows: Q2 2023 in Review, Morningstar Research, July 26, 2023.

[https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt59da488acc5944a5/Global\\_ESG\\_Q2\\_2023\\_Flow\\_Report.pdf](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt59da488acc5944a5/Global_ESG_Q2_2023_Flow_Report.pdf)



portfolios underpin strong ESG-integration programs. We also look for accountability and incentives surrounding sustainability goals at all levels of the organization.

For a firm's ESG commitment to be taken seriously, its sustainable-investment philosophy should also be reflected in the organization's internal practices, known as *corporate social responsibility*. This may include initiatives such as pay parity, retention of diverse talent, and carbon footprint measurement and reduction. That said, some firms with strong cultures of investment oversight, which may be highly regarded on the Morningstar Parent Pillar rating, fall behind peers on ESG-related investment efforts.

### **Best Practices**

For the asset managers who sit at the higher end of the spectrum, sustainable investing is core to the firm's identity. The firm operates from a shared belief that sustainability goals go hand in hand with long-term financial return, and this is reflected at all levels of the organization. In the strongest cases, this philosophy of a dual outcome is evidenced in the firm's investment offerings. In addition to sustainability-focused strategies, these asset managers commonly mandate a minimum level of compliance with firmwide ESG goals and restrictions.

Furthermore, for these asset managers, sustainable investing is not a new initiative. Asset managers that earned a Morningstar ESG Commitment Level of either Advanced or Leader typically signed the Principles for Responsible Investment more than a decade ago. That is remarkable when you consider the principles launched less than 20 years ago. By that time, most of these firms already had formal sustainable-investing policies and had integrated ESG principles into their investment offerings.

Firms that earn top marks are transparent about the purpose of ESG considerations in their investment portfolios and how their overall investment philosophy aligns with ESG principles. These firms have established clear and detailed ESG policies, which are implemented consistently and effectively at all levels of the organization, from the board level down through investment analysts. They are open, too, about the sustainability characteristics of their strategies, a key tool in empowering investor choice.

Strong internal cultures of sustainability drive continued innovation in the space. As best practices for sustainable investing have developed in recent decades, these firms have stayed at the forefront by incorporating new research into investment strategies, promoting improved disclosures in portfolio companies, and collaborating with regulators and peers to raise sustainability standards. Investors can be confident that these firms have the internal frameworks to stay competitive in sustainable-investing strategies and that sustainability is genuinely integrated throughout the firm's culture rather than hastily constructed in an effort to catch up with growing demand.

Exhibit 3 highlights common observations for each dimension of the Philosophy & Process Pillar, broken down by ESG Commitment Level.

**Exhibit 3** Morningstar's Approach to Evaluating Philosophy & Process

	<b>Low</b>	<b>Basic</b>	<b>Advanced</b>	<b>Leader</b>
<b>Philosophy</b>	The firm may be early in its ESG journey, or it may be stepping back from previous sustainability commitments. If there is an ESG investment policy, it is likely brief, focused primarily on governance, and/or recently established.	The firm has an ESG investment policy, but it is likely small in scope or solely focused on mitigating ESG risks.	The firm's investment policy is comprehensive and includes consideration of all firm stakeholders. ESG may be a central principle of the firm's culture, but it may only have become core in the past few years.	The firm's investment philosophy reflects a strong history of ESG investing practices. Policies go beyond ESG risk mitigation to capitalizing on ESG opportunities and driving impact. Sustainability is a core consideration for internal firm structure and all operations.
<b>Process</b>	Some portfolio managers consider ESG risks and opportunities. If the firm offers ESG-focused strategies, they may focus on one asset class or represent a small portion of the firm's total AUM.	ESG considerations are integrated in a substantial portion of assets, across several asset classes. ESG integration is recently formalized. The firm may have a plan to integrate sustainability across all asset classes, but it	ESG integration covers a majority of the firm's assets and spans most asset classes and strategies. The process is systematic, but it may not apply to all strategies. The asset manager implements some firmwide exclusionary screens.	ESG risks and opportunities are systematically integrated across the full lineup of investment strategies. The firm has a clear policy on dynamic exclusionary screens and/or minimum ESG criteria for all strategies.

Source: Manager Research Analysts.

**Resources****The Significance of Resources**

Sustainable investing is complex and requires specialized expertise and robust resources, in terms of people, data, and systems. There is no one-size-fits-all organizational structure. In some cases, having separate teams of sustainability experts who provide support to investment teams makes sense. In other cases, ESG knowledge resides within investment teams.

**How Morningstar Analysts Evaluate Resources**

Of the three pillars that make up the Morningstar ESG Commitment Level, Resources receives 30% of the overall score. The Resources Pillar looks at the 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 sustainability specialist resources and how they work with investment teams across the firm.

To assess these elements, Morningstar analysts consider a range of factors, including the expertise, size, and tenure of sustainability specialist teams. We look at the level of collaboration between sustainability specialists and investment teams. In many cases, a firm has separate teams dedicated to proxy voting and stewardship, ESG research in the investment process, and internal efforts around corporate sustainability and governance. Therefore, it is important to understand the extent of overlap and coordination among these teams. We evaluate the relative level of ESG knowledge for portfolio managers and researchers, and we examine the role ESG integration plays in compensation incentives.

The Resources Pillar also examines the quality and quantity of ESG data, research, and analytics made available to investment teams. To evaluate these aspects of a firm, Morningstar analysts assess the extent to which ESG data is easily accessible and well-integrated in the investment team's research process. Over the past few years, many firms have developed proprietary analytical frameworks that draw on third-party data. We assess the amount of time these systems have been in place and how they factor into the firm's investment process.

### **Best Practices**

The asset managers who sit at the higher end of the spectrum boast well-staffed, well-integrated teams of sustainable-investment and stewardship experts in addition to robust, effective ESG data and research. All investment professionals at the firm possess a certain level of proficiency in sustainability topics, and designated specialists are committed to advancing knowledge of sustainability themes, both within the organization and for the industry at large.

Many of the firms that earned Advanced or Leader have a centralized team of full-time sustainable-investment specialists. They collaborate actively with subject-matter experts on climate science or other sustainability themes. If this expertise is not centered in-house, firms may partner with academic institutions or industry coalitions. However, when working with external experts or designating separate teams to specialize in sustainability research, it is important that firms ensure a high level of overlap and collaboration with portfolio managers and analysts. Teams that are siloed from one another are unlikely to achieve success.

While many firms choose to centralize sustainable-investing efforts on a specialized team, this is by no means the only worthwhile approach. Some firms have adopted a more holistic approach, opting to train all investment professionals on sustainability topics. In this approach, we see the strongest firms have carved out time and capacity for all investment professionals to integrate ESG research into the process and to continue learning, as the field continues to evolve rapidly. In addition, the strongest examples of a more decentralized approach commonly pair this with strong risk management and oversight, ensuring that teams comply with the firm's guidance on integrating ESG criteria.

Firms that earn top marks on Resources empower their investment teams with robust, reliable ESG data and research. In recent years, the availability of data relevant to sustainable investing has skyrocketed, as has the number of third-party ESG data providers. In asset classes where third-party data is less readily available, leading firms have brought the matter in-house and created frameworks to evaluate ESG risks and opportunities. A paucity of global consensus around ESG data does not prevent sustainability-focused firms from tackling material issues.

For the strongest asset managers, access to multiple data sources is essential, but quality is more important than quantity. Therefore, each of these firms has developed a proprietary framework, typically drawing on primary and secondary research, to reach a house view of ESG risks and opportunities within the investment universe. This research is easily accessible and used by all investment teams. Furthermore, the strongest asset managers are committed to constantly iterating upon the sustainability

research available to their teams, often by adjusting the framework to incorporate new disclosure standards, objectives, or data points.

Exhibit 4 highlights common observations for each dimension of the Resources Pillar, broken down by ESG Commitment Level.

#### Exhibit 4 Morningstar's Approach to Evaluating Resources

	Low	Basic	Advanced	Leader
<b>People</b>	If the firm has designated ESG specialists on the research and investment teams, this is likely a new initiative for the firm, a small team compared with the broader organization, or only an auxiliary focus for these individuals.	Some portfolio managers demonstrate knowledge of sustainability topics, but the investment group may be siloed from the ESG specialist team. The firm may offer centralized sustainability training, but adoption throughout the firm is not widespread.	The firm has a well-resourced team of ESG specialists who collaborate regularly with investment teams. This group may be recently formalized, or it may still be expanding. Portfolio managers demonstrate some knowledge of sustainability topics. ESG is a component of compensation incentives for some, but not all, teams throughout the organization.	A stable, well-resourced team of ESG specialists collaborates closely with investment teams. ESG specialists demonstrate a high level of expertise and commit to ongoing training to stay at the forefront of sustainability topics. In addition to developing investment insights, this team produces industry-leading research on sustainability topics. ESG is a key component of compensation incentives for all teams throughout the organization, underlining its importance to firm success.
<b>Data</b>	The firm has invested in some ESG research, but it is optional or not well-integrated in the investment process.	The firm has invested in third-party ESG research and data. These insights are readily available and well-integrated in most investment processes. The firm may build on third-party data with proprietary analysis.	Investment teams have ready access to multiple third-party ESG data sources. The firm has developed a robust proprietary framework for evaluating sustainability issues in most asset classes. This research is well-integrated throughout the investment process, and adoption by portfolio managers is strong.	The firm has developed a robust and innovative proprietary framework for evaluating sustainability issues. This framework is time-tested and spans all asset classes and investment mandates. This framework and investment teams may still draw on third-party ESG data, but in-house research is the primary driver of ESG insights.

Source: Manager Research Analysts.

### Active Ownership

#### The Significance of Active Ownership

Active ownership is where an asset manager's ESG philosophy, process, and resources are put into practice. It is the direct influence that investors bring to bear by exercising the control rights their fiduciary responsibility requires on behalf of their clients in the strategies and products they offer. This

mainly includes share ownership rights, but asset managers are also seeking ways to embed active ownership in management of fixed income and other asset classes.

### **How Morningstar Analysts Evaluate Active Ownership**

Active Ownership carries a 30% weighting in the overall ESG Commitment Level evaluation and takes into account an asset manager's policies, disclosures, and practices linked to proxy voting, engagement, policy advocacy, and collaborations with other investors to scale influence.

Morningstar analysts evaluate the range of stewardship tools available to asset managers. We look at how managers engage with company boards and management on sustainability issues where they would like additional disclosure or changes in practice, either individually or through collaborative initiatives; as well as how they communicate expectations of companies and provide transparency to investors and other stakeholders by publishing engagement and voting policies. It is also important to ascertain how managers escalate concerns after a period of unsuccessful engagement: either by making their concerns public, through targeted voting against management resolutions or director elections, by submitting shareholder proposals, or possibly by exiting their investment. A final key element is our assessment of managers' activities in advocating for public policies that seek to improve disclosures and promote marketwide improvements in corporate practices on key sustainability themes.

### **Best Practices**

Asset managers' active ownership practices have historically focused on corporate governance themes, and some asset managers continue to reinforce a short-term view of shareholder value creation, but sustainable investing requires a long-term perspective on environmental and social issues, too.

Best practices have progressed in lockstep with market expectations. Responding to client demand and growing regulatory scrutiny, asset managers with ESG Commitment Levels of Leader or Advanced are taking steps to demonstrate that their active ownership efforts are applied consistently across their portfolios. They have also invested heavily in their internal systems to track engagement and escalation with investee companies, ensure policy-aligned voting, and deliver clear reporting of stewardship activities to investors.

Asset managers demonstrating commitment to sustainable and responsible investing usually set basic expectations of investee companies on major sustainability issues, including net-zero transition plans, human rights throughout the supply chain, and workforce diversity (particularly in the U.S. and Europe) in their voting and engagement policies.<sup>5</sup>

Managers' stated policy goals should be reflected in their voting and engagement record. We analyze key ESG resolutions — that is, shareholder resolutions on environmental and social themes that are supported by more than 40% of a company's independent shareholders — to assess this. Managers with ESG Commitment Levels of Leader or Advanced tend to consistently support more than half of all key

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<sup>5</sup> See also our July 2022 research paper: [Proxy Voting: Managers Focus on Environmental and Social Themes](#)

ESG resolutions. Highly rated managers also tend to centrally coordinate engagements with investee companies, using the expertise of stewardship and ESG specialists to manage escalations, long-term engagements, and multistakeholder collaborations.

Managers with Advanced ESG Commitment Levels typically report the results of their voting and engagement activities with evidence of how they have challenged companies that fall short of their sustainability expectations and how they have supported shareholder resolutions that are aligned with their stated objectives. Leader-rated firms tend to go a step further, publicly disclosing rationales behind voting decisions and detailed outlines of engagement processes.

Investment stewardship should be guided by an overarching vision and strategy for change. Furthermore, engagement activities, voting, and other efforts should be outcome-oriented. Faced with increasing polarization of views on ESG topics, it is doubly important for managers to demonstrate that they will cleave to their stated principles on sustainable investing.

Exhibit 5 below summarizes typical observations for the three dimensions that comprise the Active Ownership Pillar at each ESG Commitment Level.

**Exhibit 5** Active Ownership: Evaluating Asset Managers' Policy, Practice, and Transparency

	<b>Low</b>	<b>Basic</b>	<b>Advanced</b>	<b>Leader</b>
<b>Policy</b>	Proxy voting, engagement and general stewardship policies are absent or very basic, possibly focusing primarily on governance and business strategy while addressing environmental and social issues only in very broad terms.	Proxy voting, engagement and general stewardship policies are present and set objectives and expectations regarding the most common ESG themes (e.g. climate, board diversity).	Proxy voting, engagement and general stewardship policies reach a Basic level. Publications also provide granular guidance on important issues, including ESG topics less commonly covered by other managers.	Proxy voting, engagement and general stewardship policies reach an Advanced level. Additionally, detailed guidance and investor briefs that further explain the asset manager's position on key ESG themes are made public.
<b>Practice</b>	Low proxy voting support (broadly, less than 30%) for key ESG resolutions. No engagement activity, or engagements are primarily led by portfolio managers rather than ESG and stewardship experts.	Significant proxy voting support (around 30-50%) for key ESG resolutions. Evidence of engagement activity is present but often lacks clear objectives, especially on environmental and social themes. Evidence of proxy voting and engagement activity, but with an absence of central coordination across strategies.	High proxy voting support (well above 50%) for key ESG resolutions. Evidence that the asset manager centrally coordinates engagements, escalations and proxy voting in line with clearly defined ESG objectives, drawing on the expertise of the stewardship team, proxy voting committee, and ESG specialists.	High proxy voting support (well above 70%) for key ESG resolutions and sponsorship of shareholder proposals (as a filer or co-filer). Evidence that the asset manager participates in: multi-stage, long-term engagements with clear objectives and milestones; and collaborative engagements (such as Climate Action 100+).
<b>Transparency</b>	Public disclosure of engagement and proxy voting policies and activities is limited or absent.	Proxy voting results are disclosed only at a high level. Engagements described but companies engaged are rarely identified even when this would not threaten the engagement outcome. Engagement case examples are described in broad terms.	Proxy voting results are disclosed at least annually and in detail. Engagement activities are disclosed with detailed explanations of engagements and relevant votes. The asset manager's escalation strategy is disclosed, where relevant. Voting intentions for important shareholder meetings are often communicated in advance.	Proxy voting and engagement disclosure reaches an Advanced level, plus publication of: a full vote record and summary of votes on the manager's website; rationales for significant voting decisions; and an engagement report containing a full outline of the engagement process with detailed case studies.

Source: Manager Research Analysts. Note: "Key ESG resolutions" are generally shareholder resolutions that are supported by 40% or more of a company's independent shareholders.

## Asset Manager Analysis

In this section, we share the full ESG Commitment Level analysis of the 108 asset managers under coverage. Asset managers are grouped by ESG Commitment Levels and subsequently listed in alphabetical order.

### **Leader**

**Affirmative Investment Management** | Chris Tate | 1 January 2022

*Sets an ESG standard to aspire to.*

Affirmative Investment Management's dedication to sustainable fixed-income investing and advancing environmental initiatives is strong. It earns a Morningstar ESG Commitment Level of Leader.

Formed in 2014, AIM is early in its investment journey, but its environmental, social, and governance endeavors are well beyond its years. Responsible investing is integral to AIM's existence, targeting fixed-income portfolios that generate financial returns as well as meaningful environmental and social impact. All strategies are managed with a sustainability focus in line with the Paris Agreement and the United Nations Sustainable Development Goals. AIM's proprietary SPECTRUM framework incorporates a sustainability assessment directly into bond evaluation. Its ESG-focused approach is integrated firmwide and one we consider at the top-tier of ESG investing globally.

Despite turnover within AIM's sustainability team, substantial commitment to resourcing is a constant. In October, Fiona Reynolds joined the boutique from the United Nations-backed Principles for Responsible Investment in an advisory role, after former head of sustainability Judith Moore retired in 2021. The boutique manager maintains a seven-person dedicated team of experienced ESG and impact specialists. This group works in tandem with the firm's credit and portfolio management teams to evaluate issuers from a dual credit and sustainability perspective. All utilize their impact database, ARCH, which was developed internally and encompasses all sustainability and credit analysis. While third-party ESG data is used, qualitative research and data gathering forms the core of the team's analysis.

AIM isn't resting on its already lofty ESG standing in active ownership; it continues to raise the bar. Annual impact reports are the centerpiece, detailing the environmental and social impact across all portfolios. These impact reports ensure ongoing monitoring of debt issuers, evaluate the portfolios' level of alignment with U.N. SDGs, and provide an in-house analysis of avoided greenhouse gas emissions.



AIM is committed to engaging with company management on ESG issues, actively collaborating with global sustainability experts to support collective action along with involvement in several ESG-related associations.

**Australian Ethical** | Chris Tate, CFA | 1 January 2022

*Comprehensive ESG integration merits solid acclaim.*

Australian Ethical Investments is deserving of recognition but must evolve with global standards to maintain its first-rate status. It retains a Morningstar ESG Commitment Level of Leader.

Australian Ethical's overall philosophy is grounded in the 23 principles of its Ethical Charter, which remain unchanged since the firm's inception in 1986. This purpose-driven approach is evidenced by the robust integration of ESG research into all sustainability-focused solutions, spanning all asset classes. All underlying companies and investments pass comprehensive ethical, sustainability, and ESG screening to ensure support for the U.N. Sustainable Development Goals. Additionally, the firm avoids any investment that violates human rights or exacerbates climate change. Some impact measurement is undertaken with disclosure of ESG metrics beginning in 2021, allowing investors to identify the sustainable revenue impact based on each strategy's equity holdings.

The firm boasts an experienced ethics research team led 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 has the adept support of an expanding team of three ESG analysts. The ethics research team works in concert with the investment team, using a proprietary sector and ESG issues framework to produce qualitative research and ratings with the use of external data sources.

Australian Ethical could do better in active ownership. Proxy voting and ethical investment policies identify the firm's strategic proxy-voting and engagement priorities but guidance on environmental and social issues is detailed in sector and ESG issues frameworks, which aren't publicly available. The firm votes in favor of a high number of ESG resolutions, following recommendations from ISS with oversight from the ethics research team, as well as co-files and promotes shareholder resolutions through engagement at annual general meetings, for instance. The firm also engages with company management on numerous issues, including alignment to net zero by 2050 and climate policy.

**Boston Trust Walden** | Mahi Roy | 30 August 2023

*The firm walks the talk when it comes to sustainable investing.*

With a nearly 50-year legacy of investing sustainably, Boston Trust Walden's thorough integration of environmental, social, and governance factors and its industry-leading engagement stand out. Two

retirements introduce some uncertainty, but the firm maintains a Morningstar ESG Commitment Level of Leader.

Robert Zevin founded the firm in 1974 to provide socially responsible investment services. In 1982, Boston Trust Walden began subadvising Calvert Social Investment, one of the first U.S. mutual funds with socially responsible criteria, such as avoiding exposure to apartheid South Africa. What's more, the group filed the first socially focused shareholder resolution for a mutual fund in 1986, prompting a company to negotiate with its union. Today, Boston Trust Walden manages 100% of its assets under management with ESG considerations in mind, although only half—including strategies branded with the Walden name—employ formal exclusionary screens.

Where Boston Trust Walden really stands out is active ownership. The firm's proxy-voting policy clearly outlines guidelines for a wide variety of environmental and social issues, and it publishes proxy-voting decisions in a timely manner. Voting support for ESG-related shareholder proposals is extremely high, with 100% support for key ESG resolutions over the past three years. The firm has a clear policy for engagement, primarily focusing on climate risk, equality, and governance. When engagement efforts fail, the firm has regularly proved willing to file shareholder resolutions, while also participating in public policy initiatives.

Despite being a leader, Boston Trust Walden still has space for improvement. Transparency into the details of specific stewardship activities is lacking. The firm does not publish voting rationales for individual votes, nor does it provide enough case studies with set objectives, which are useful resources for investors and the broader industry. In addition, the firm should modernize the process for monitoring and tracking engagements with a more robust data management system.

Recent retirements leave the firm's ESG expertise in relatively new hands. Longtime senior members Heidi Soumerai and Tim Smith, who oversaw engagement and thought leadership for Boston Trust Walden, retired in 2021 and 2022, respectively. Amy Augustine, who hails from sustainability advocate Ceres and Calvert Investments before that, joined in early 2019 as Boston Trust Walden's director of ESG. She oversees a squad of eight ESG professionals, none of whom has more than five years' experience with the firm, but several have ESG experience. This team supports the firm's fundamental analysts with ESG integration and engagement. While the team's size is adequate for its mandate, a longer track record of the team working together along with an investment in technology would evoke confidence.

### **Domini Asset Management | Mahi Roy | 30 August 2023**

*A pioneer in sustainable investing.*

Domini stands out as one of the most committed and thorough ESG-focused managers in the U.S. investing space. The firm's legacy of sustainable investing, a product offering that is entirely geared

toward sustainable funds, and a strong history of filing shareholder resolutions earn the firm a Morningstar ESG Commitment Level of Leader.

Firm founder Amy Domini paved the way for today's sustainable investors when she published *Ethical Investing* in 1984, one of the first comprehensive commentaries on incorporating environmental and social criteria into investment decision-making. This book built the foundation for the Domini Impact Equity fund, which launched in the early 1990s. The firm proposed its first socially driven shareholder resolutions in 1995. Domini was also a founding signatory of the United Nations-backed Principles for Responsible Investment in 2006. Today, the firm's philosophy remains entirely rooted in ESG principles. Domini's impact investment standards outline the criteria for investment and ongoing monitoring within the companies it already owns. These principles apply to all of Domini's funds, setting strict guidelines on the companies to be avoided outright (for example, tobacco companies). The firm also sets guidelines for identifying "best in class" ESG companies and when to sell out of a company with a deteriorating ESG profile.

The backbone of the firm's ESG research is a stable and experienced team of eight associates. The group conducts its own proprietary ESG evaluations using ample third-party data. Adding another member to the research team would help the associates carve out more time to support engagements. Additionally, the firm has refined its in-house database over the past few years. The tool centralizes high-quality ESG data, takeaways from engagement activities, and proprietary research insights for ready access by investment professionals.

Furthermore, Domini's sustainable-investing philosophy permeates its proxy-voting strategy. The firm has voted in favor of all key ESG shareholder resolutions in each of the past three proxy seasons. The firm has a clear policy for engagement—primarily focusing on climate risk, equality, and governance—and engagements are closely monitored and tracked in a transparent manner. In fact, Domini Impact Equity Fund was one of the first mutual funds to publish its proxy-voting guidelines and procedures. The firm has also filed or co-filed several prominent shareholder resolutions and has sponsored significant policy initiatives addressing sustainability issues like biodiversity and forest preservation. Public disclosure of voting rationales along with a concise escalation strategy would improve the firm's standing as a leader in the space.

**Impax** | Ronald van Genderen | 30 August 2023

*Long-standing dedication to sustainable investing.*

Sustainable investing has been at the heart of Impax's culture since its foundation in 1998, and this is reflected in its product offering that is entirely geared toward sustainable funds. The firm's well-thought-out, thorough approach to sustainable investing, comprehensive and experienced resources, and strong active ownership practices mean Impax retains a Morningstar ESG Commitment Level of Leader.

At its foundation, the firm pioneered sustainable investing by focusing on solutions to address resource scarcity, including alternative energy, water, and waste management. Since then, the firm has broadened its product lineup to include fixed-income and private-market strategies, while maintaining its focus on sustainability.

The listed equity business accounts for around 95% of the GBP 38.9 billion total firm assets as of May 2023. Most of the strategies within this group invest in companies that can benefit from the transition to a more sustainable economy. Following this focus, the different investment approaches tend to rely on positive inclusion rather than negative screenings or exclusions.

Impax's environmental, social, and governance research is largely internally generated, although it uses data from a significant number of external sources as an input. ESG analysis at Impax is performed by its investment teams, most notably its listed equity team. This is a stable 35-plus member team that boasts a wealth of experience, both on the investment front as well as on the sustainability side. In 2021, Impax merged its original listed equity team with the equity team of Pax, a U.S.-based and sustainability-conscious firm that Impax acquired in 2018. This move added three portfolio managers and six analysts to the team. Impax's Sustainability and Stewardship team, led by the experienced Lisa Beauvilain, provides support and oversight. The team has been strengthened in recent years, with no departures.

Next to the firm's robust proprietary ESG research and tools, which includes a company-level ESG review and score, its high-quality ESG research is bolstered by its regular publication of insightful thought leadership pieces.

Furthermore, Impax's sustainable-investing philosophy permeates its proxy-voting strategy. True to its DNA, the firm has supported all of the key ESG shareholder resolutions it voted on in the last three proxy seasons. Impax also regularly cooperates with other investors in their engagement efforts and in recent years has increased its policy advocacy efforts. We appreciate the introduction of its "Beyond Financial Returns" disclosures, which has extended its sustainability reporting practices, as these fund level reports provide more detail on sustainability aspects, including environmental footprint and active ownership practices. However, we still see some areas for improvement. For example, including ESG metrics on their fund fact sheets would be a positive step.

**Parnassus** | Rasa Kerelis | 1 April 2023

*Driven by sustainable principles.*

Parnassus stands out among firms in its wholesale approach and long-term commitment to sustainable investing, and its innovation in the field since the firm's inception drives a durable edge above peers. The firm maintains a Morningstar ESG Commitment Level of Leader.

Parnassus boasts a time-tested sustainable-investment process that accounts for fluctuating availability, quality, and expectations regarding environmental, social, and governance data. Jerome L. Dodson

founded the firm in 1984 on principles of socially responsible investing, and all its strategies are sustainability-focused, using both ESG-driven exclusionary screens alongside the firm's proprietary ESG scoring system. Often, an investment process relying exclusively on avoiding select industries or companies runs the risk of growing stale in the face of evolving norms. However, Parnassus' exclusion list works as one part of the broader fundamental investment process, and the investment team routinely reexamines it. For example, portfolio managers have reevaluated the nature of the firm's nuclear energy exclusion and proposed eliminating it altogether. In this regard, the analyst teams' focused coverage lists and in-depth fundamental research help them thoroughly but nimbly assess the idiosyncratic ESG concerns associated with its roughly 100 companies held in Parnassus portfolios. The firm also publishes benchmark-relative ESG metrics for most of its funds, providing investors with easy access to each fund's greenhouse gas emissions, employee engagement, board diversity, and more, relative to appropriate benchmarks.

Engagement takes a front seat at Parnassus as a tool for facilitating change and improvement in sustainable practices at the portfolio company level. Marian Macindoe assumed the newly formed role of head of ESG stewardship in April 2022 to build a formidable team and drive a more targeted engagement strategy. The team doesn't shy away from using all the tools at its disposal to escalate failed engagements when necessary. For instance, Parnassus filed two shareholder resolutions in 2022: one at Republic Services related to environmental justice and one at Cerner on the potential for discrimination in artificial intelligence and machine learning. On climate, although Parnassus has not signed on to the Net Zero Asset Managers initiative because of concerns regarding autonomy within the initiative, the firm set its own goal of attaining net-zero carbon emissions in its portfolios by 2050 through company engagement.

Despite being a leader, Parnassus still has space for improvement. The firm publishes proxy-voting records in a timely manner, and its proxy-voting policy clearly outlines guidelines for a wide variety of environmental, social, and governance issues. Voting support for ESG-related shareholder proposals is extremely high, with 100% support for key ESG resolutions over the past three years. However, transparency into stewardship activities is lacking. Parnassus does not publish voting rationales for individual votes, nor does it produce substantial thought leadership on sustainable investing, which are useful resources for investors and the broader industry.

Nevertheless, the firm's clear dedication to sustainable investing and ability to dynamically navigate an ever-shifting ESG landscape place Parnassus as a Leader among sustainability-oriented firms.

**Robeco** | Jeffrey Schumacher, CFA | 1 March 2023

*A consistent sustainability leader with a long history in ESG.*

Robeco has a long heritage in sustainable investing and continues to integrate and nurture ESG best practices, earning it a Morningstar ESG Commitment Level of Leader.

Robeco has been a pioneer in sustainable investing for decades, with a history that goes back to 1995. Since becoming an early signatory of the United Nations-backed Principles for Responsible Investment in 2006, Robeco has remained publicly committed to sustainable investing. Robeco joined Climate Action 100+ in 2017, and the firm participates in numerous working groups and collaborative engagement initiatives. It is one of the initiators of Nature Action 100, a biodiversity-focused initiative launched in December 2022. The firm also regularly leads engagements with companies and with governments and regulatory bodies through policy advocacy.

The firm has set clear and challenging milestones on climate action. Its net-zero road map targets a 7% reduction of the carbon footprint of its investment portfolios year-on-year to reach a decarbonization of 50% by 2030, with a 30% interim reduction target for 2025, compared with 2019 levels. Furthermore, Robeco has selected 55 companies in its climate engagement theme, of which the 15 worst-performing companies will be subject to enhanced engagement with escalation steps, meaning that these companies could be excluded if they fail to make progress. The company has also set clear targets to reduce its own operational carbon emissions.

Robeco has shaped its product range according to high ESG standards supported by its vast research capability—the firm's sustainable analyst team covers approximately 500 companies. The firm applies exclusions and integrates ESG for 96% of its assets under management, with the degree of exclusions and sustainability targets varying depending on whether a strategy is classified as "sustainability inside," "sustainability focused," or "impact." Portfolio managers and analysts have access to a comprehensive sustainability dashboard that gives them access to Robeco's detailed proprietary sustainability information, the active ownership team's engagement notes, and external sustainability data.

Robeco has built an impressive team that is dedicated to the company's sustainability initiatives. More than 50 dedicated resources are involved in sustainability research, thought leadership, active ownership, and client support. Although there has been elevated turnover within the firm's sustainability research team, Robeco has adequately backfilled departures, while adding capability by hiring experts on biodiversity and climate and other key themes.

Robeco's deep resources enable intensive engagements with many companies simultaneously on a variety of themes. Its public disclosure of voting and engagement activities has improved. Since 2022, Robeco discloses rationales for its voting decisions and provides more case studies naming the companies it engages with. Robeco also now discloses the full list of companies under engagement, categorized by theme.

Although Robeco's integration of sustainability and active ownership practices remain impressive, there is room for improvement on the consistency of disclosure of ESG metrics for funds on its website and its fact sheets.

**Stewart Investors** | Michael Malseed | 1 December 2022*A sustainability leader.*

Stewart Investors has very strong sustainability credentials and puts ESG at its core, making it among the industry's finest sustainability managers. While its Edinburgh arm run under the St. Andrew's Partners banner was closed in 2022 by First Sentier Investors following a strategic review, this only serves to cement the firm's focus on ESG, with the Sustainability Funds Group now responsible for all strategies. The firm earns a Morningstar ESG Commitment Level of Leader.

The firm 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 firm holds a high bar for portfolio inclusion and is clear with its investment rationale and company engagement, linking to specific sustainable development goals and outcomes. As such, ESG is ingrained into all aspects of the team's investment approach, and its frequent sustainability-focused thought pieces and reports are in-depth and insightful. The firm supports the transition to net-zero carbon emissions, committing to allocate capital to companies that are developing solutions to climate change.

The Stewart investment team largely relies on proprietary research, making very limited use of third-party ESG data to form its ESG evaluations and opinions. The team is deep and experienced. Given how ingrained ESG is into the firm, all analysts and portfolio managers take on ESG responsibilities. All team members are subject-matter experts. 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. The firm is an active shareholder, engaging with portfolio companies to drive better sustainability outcomes. Transparency is strong, with the firm publicly disclosing and providing rationales for all instances where it votes against resolutions.

Stewart has consistently demonstrated an unwavering commitment to ESG issues and boasts one of the industry's strongest sustainability philosophies.

**Advanced****AllianceBernstein** | Rasa Kerelis | 1 January 2023*Strong roots in climate despite major departure.*

AllianceBernstein has built a credible, research-backed program of climate investing and engagement in recent years. The firm continues to augment its already-strong environmental, social, and governance resources despite a significant departure. As its approach to ESG integration is less robust compared with leaders in the space, AB maintains an Advanced Morningstar ESG Commitment Level.

AB's ESG resources continue to lend an edge over peers. When former head of responsible investing Michelle Dunstan departed in October 2022, AB veteran Erin Bigley swiftly took the reins. Bigley has been at AB in various roles for more than 25 years and oversees roughly a dozen dedicated ESG professionals who work with portfolio managers and develop proprietary tools that track ESG data, research, and company engagements. The fixed-income team benefits from additional expertise by way of AB's Fixed Income Responsibility Team, while a handful of ESG analysts serve the more boutique-style equity side of the business. ESG analysis and integration covers the firm's active equity and fixed-income offerings (approximately two thirds of assets as of June 2022), but its impact varies across portfolios. Portfolio managers retain discretion when weighing ESG considerations, and although integration is largely standardized across the firm's fixed-income group, each team within the firm's equities division takes a distinct approach.

The expansion of AB's thematic impact investing series that launched more than five years ago maintains its momentum. These offerings target specific social and environmental objectives in line with the United Nations Sustainable Development Goals. For example, the Luxembourg-domiciled AB Climate High Income fund launched in 2021, and it invests with debt issuers that enable the transition to a low carbon economy, support people and infrastructure in adapting to climate change, and develop technological solutions to the climate crisis. Science-based climate investing is a major priority for the firm, as evidenced by its collaboration with The Earth Institute at Columbia University. Since the partnership's inception in 2019, more than 250 AB investment professionals have completed the codeveloped climate science and investing curriculum. This alliance has also produced a wealth of thought leadership on topics such as carbon emissions, global food security, and impact investing through municipal bonds.

Climate research guides AB's active ownership strategy, too. It was one of the earliest members of the Climate Action 100+ investor coalition in 2017, and it has co-led a number of successful engagements. For example, in 2021, AB advocated for the closure of coal plants in Chile, and four major Chilean energy companies committed to phase out their coal plants over the coming decade. AB also worked with regulators to subsidize power for consumers affected by heightened energy prices incurred by impending closures, ensuring a just transition. AB's record of support for ESG-related shareholder proposals stands out among peers, and the proxy-voting policy offers a detailed picture of its priorities for ESG issues. Still, room for improvement remains. The firm doesn't disclose its rationale for all proxy votes, and those it publishes come through after a delay. Additionally, AB's engagement policy could outline a clearer link between environmental and social priorities and specific expectations for engagement outcomes. It will need to keep progressing to stay ahead of peers in a competitive ESG investing landscape.



**Alphinity Investment Management** | Ross MacMillan, CA | 1 January 2022*Continues to develop and expand ESG and sustainability capability.*

Alphinity Investment Management is a progressive funds-management business with an advanced commitment to ESG, sustainability, and responsible investing. It receives a Morningstar ESG Commitment Level of Advanced.

Alphinity's time-tested investment philosophy includes the belief that investable companies with valuation upside and a sustainable trajectory of earnings upgrades have a significantly higher probability of outperforming over the longer term. It applies its investment process to a universe of companies that have passed comprehensive ESG and sustainability filters to arrive at a portfolio with good investment prospects and strong social characteristics.

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 includes all 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). What's more, numerous ethical and sustainable aspects are implemented into the investment process for the firm's other domestic and global equity strategies. In 2020, Alphinity furthered its commitment to ESG considerations by creating a new role, ESG and Sustainability Manager, and hired Jessica Cairns, who brings more than 10 years of relevant experience, to fill it. In 2021, Alphinity further expanded the team with the hiring of an ESG and Sustainability analyst.

Ultimately, Alphinity's domestic equity investment team, global equity investment team, and ESG and Sustainability team are closely integrated. All members of the various teams have the ability to leverage the 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 ESG and sustainability issues. Alphinity also votes all proxies in a manner consistent with its corporate responsibility principles and the Sustainability Share Fund's sustainable charter.

**Altius** | Chris Tate, CFA | 1 January 2022*Setting a high bar in the Australian sustainable bond market.*

Altius Asset Management's move to become a dedicated ESG manager signals its long-standing commitment to sustainable and responsible investing. It earns a Morningstar ESG Commitment Level of Advanced.

Altius is a wholly owned subsidiary of Australian Unity. Since its founding in 2011, Altius is the in-house specialist fixed-interest team for Australian Unity, which, after converting its lone non-ESG strategy, is now a dedicated ESG manager. Although the company is not a signatory of the United Nations-backed Principles for Responsible Investment, its overall philosophy focuses on responsible investing to shape a positive future and manage risk. This boutique's sustainable offerings are backed by a six-person team whose members are all well-versed in ESG investing, with the firm now a decade old, while also partnering with expert industry advisors. From early 2022, Altius will work closely with Australian Unity's head of responsible investment and stewardship, a newly created role.

The firm views a company's culture and business strategy as directly impacting its risk and probability of default. Therefore, a firmwide sustainability policy ensures consistent integration of ESG factors into credit analysis. The policy sets minimum criteria by which securities qualify for inclusion in portfolios and applies negative screens on industries such as gambling and fossil fuel production. An independent Sustainability Advisory Committee, which comprises external sustainability advisors, oversees this policy. The committee considers forward-looking assessments of material ESG risk and mitigating factors to exclude debt deemed as having a low sustainability rating.

The firm has room to improve on active ownership practices. Although bondholders don't have the same company access as shareholders, Altius' engagement program isn't as formal or as active as other managers', despite engaging with some issuers across sectors as required to understand practices and convey its preferences. Similarly, disclosure and reporting are limited at present, but this will be a priority for the Australian Unity's incoming head of responsible investment, allowing investors to accurately assess the ESG characteristics of their portfolios.

**Amana** | David Kathman, CFA, Ph.D. | 1 August 2022

*A strong sustainability culture, with room for some improvement.*

Saturna Capital, advisor to the Amana and Saturna mutual funds, has sustainability in its character, though engagement is an area where it could do better. It earns a Morningstar ESG Commitment Level of Advanced.

The Amana funds, which constitute the bulk of Saturna's assets under management, have employed ethical investing principles since their inception more than 25 years ago. These funds adhere to Islamic law, which is based on principles of risk-sharing and equity (between the parties in a financial transaction) and leads to avoidance of interest and other prohibited activities. This includes prohibiting investments in industries such as gambling, alcohol, and adult entertainment. These businesses are often, though not always, excluded from environmental, social, and governance mandates as well. When Saturna adopted a formal ESG mandate for the Amana funds in 2017, it made no changes other than making the funds fossil-fuel-free and otherwise formalizing the environmental components of the present-day strategy. The investment team is relatively small, with fewer than a dozen people; all of

them do both ESG and fundamental analysis as part of the investment process, using a proprietary ESG scoring system that incorporates information from three different data sources.

As ESG standards have evolved, so has Saturna. In recent years, the firm has updated its investment process to formally incorporate such factors as gender and ethnic diversity and pay equality, as well as monitoring carbon emissions and plans to reduce such emissions. Also, Saturna has worked to make its own business more sustainable. In 2014, the firm instituted a robust Toward Zero Waste program that diverts over 80% of its waste away from landfills.

Active ownership is one area where Saturna could use some improvement. The firm does not do any direct engagement with companies, largely because it doesn't have the resources to do so, though Morningstar believes that such engagement can be an important part of a firm's commitment to sustainability and thus Saturna's progress here bears close monitoring. While there is a proxy committee that maintains proxy-voting guidelines, those guidelines are not publicly available. However, in practice, the Amana funds have usually voted in favor of key ESG resolutions, so their proxy-voting record is consistent with the firm's sustainable focus.

**Amundi** | Mara Dobrescu, CFA | 10 May 2021

*Amundi earns a Morningstar ESG Commitment Level of Advanced.*

Since announcing a key sustainability initiative in 2018, Amundi has invested in state-of-the-art environmental, social, and governance tools and data, and incorporated ESG criteria across most of its range, earning it a Morningstar ESG Commitment Level of Advanced.

In 2018, Amundi made headlines when it announced that it would apply ESG criteria to its entire range, including active and passive funds wherever technically possible, by the end of 2021. The firm has so far made significant progress toward that goal. It has built a sophisticated proprietary ESG rating based on third-party data and supplemented it with its own qualitative ESG assessment for a subset of its largest holdings. Amundi has also excluded ESG worst-offenders across its entire range, and almost all of its active open-end vehicles are now expected to maintain an average ESG rating above that of their respective market benchmark. As of February 2021, 60% of the firm's mutual fund assets were classified as Article 8 or Article 9 under the SFDR regulation. That's no mean feat given Amundi's plethora of fund range, which spans the continuum of all major asset classes but also includes sectors of the market where third-party ESG data and methodologies are not always readily available, like small caps, emerging markets, or junk bonds.

Despite these advances, the firm is held back somewhat by instability in its ranks of ESG specialists. Its head of responsible investments, Stanislas Pottier, who had been named in 2018, was replaced by Elodie Laugel in mid-2020. The team of ESG analysts, engagement specialists, and ESG methodology experts also experienced significant turnover, and its 35 current members, while decently experienced, only average two years of tenure in the ESG team.

Finally, while Amundi's proxy-voting policies are well aligned with environmental and social best practices, the firm's engagement effort is somewhat less encompassing. The majority of its engagements across holdings consist of one-off interactions, and only a small subset, around 30 to 50 companies, is targeted for in-depth continuous engagement. A disclosure of voting rationales, which the firm plans to introduce later this year, would also improve the firm's standing as a leader in ESG practices.

**AXA Investment Managers** | Mathieu Caquineau, CFA | 1 July 2023

*Sustainable investing has become a centerpiece of AXA IM's identity.*

AXA Investment Managers has integrated sustainable investing in its DNA and has continued to make noticeable progress since 2021. The firm has strengthened its research capabilities, advanced its climate policy, designed stronger ESG-related compensation practices, and boosted its active ownership policy. However, the firm still has scope to further integrate sustainable investing in a larger portion of its assets under management. AXA IM earns a Morningstar ESG Commitment Level of Advanced.

AXA IM has long shown an interest in sustainable investing. It introduced a responsible investing policy and dedicated team back in 2001 and signed the U.N.-supported Principles for Responsible Investment early, in 2007. But the firm's ESG efforts really took off in 2016 with significant investments in people and tools. The sustainable-investing team has practically doubled in size in the last seven years and now boasts around 40 ESG specialists split between a central team and AXA IM's different investment platforms. The team was reorganized in 2020 and 2021 with several groups dedicated to issuer research, thematic research, and stewardship activities. Pleasingly, staff turnover—a previous concern—has subsided in the last two years. The firm also built a dedicated team of a dozen people for its investments in private markets, showing that its commitment to ESG is encompassing all asset classes. The various investment teams are integrated in the firm's sustainable-investing strategy. From 2023, the deferred part of the variable pay for around 400 investment professionals is linked to carbon intensity reduction targets, aligned with the firm's net-zero goals.

The firm's ongoing efforts to assert its ESG capabilities and integrate them in the fund lineup are also visible. AXA IM has devoted resources to launching sustainable funds and transforming legacy products into credible ESG funds. Still, despite the firm's efforts to steer the ship toward sustainable products, its impact and ESG-focused funds represent less than 10% of their assets under management. But roughly half of the assets—its ESG integrated products—use sectoral exclusions that go beyond industry standards. Tobacco, palm oil, soft commodities derivatives, companies with a prescribed level of revenue from thermal coal and those violating the United Nations Global Compact principles are excluded. Further, investments in companies with the lowest ESG ratings according to the firm's MSCI-powered ESG scoring are not allowed.

AXA IM finds itself one step ahead of the competition with respect to its reporting and active ownership practices. ESG metrics are disclosed on a per-fund basis for all funds. The firm has detailed ESG proxy-

voting guidelines and walks the talk with strong support of ESG shareholder resolutions. There is a good level of transparency on proxy-voting activities, although clearer rationales would be welcome when the firm decides to vote against management. Finally, the firm has beefed up its engagement program with clear priorities and a credible escalation strategy. From 2023, climate laggards with unsuccessful engagement over a three-year horizon will be divested.

**BNP Paribas Asset Management** | Morningstar Manager Research | 1 November 2022

*Intensifying its commitment to sustainable investing.*

BNP Paribas Asset Management has further evolved its already strong environmental, social, and governance credentials and continued to add resources, but it has encountered some challenges in rolling out the ESG integration program, and disclosure efforts trail industry best practices. It maintains an ESG Commitment Level of Advanced.

Sustainable investing consistently features at the core of BNP Paribas AM's strategic plan, echoing management's ambition to become a sustainability leader. The executive team holds itself accountable for the successful implementation of the firm's sustainability strategy by linking aspects of compensation to key performance indicators.

With strong backing from management, BNP Paribas AM has ramped up its efforts in several key areas. The firm has deployed innovative quantitative tools to assess portfolios' alignment to sustainability frameworks such as the EU Taxonomy and the U.N. Sustainable Development Goals, as well as exposure to key climate and biodiversity metrics (such as scope 3 emissions).

Management has also heavily invested in the firm's sustainability center. The central ESG team now numbers 28 experienced investment professionals. However, turnover within the team has been higher compared with peers, which is concerning; over approximately the past year, eight team members have left. That said, the firm has taken steps to improve retention and more than backfilled those positions, hiring 13 analysts during the period.

The group has also enhanced its policies and frameworks regarding internal fund classification, exclusion of controversial businesses, and systematic ESG scoring capabilities. Still, its sustainability ambitions have hit some bumps in the road. In order to adapt to a fast-evolving regulatory framework, firmwide ESG integration efforts have decelerated in the last 12 months, and some of the group's private and real assets funds do not yet consider ESG factors.

Regarding climate action, BNP Paribas AM signed up to the Net Zero Asset Managers initiative in 2021 but has yet to disclose its net-zero road map and decarbonization targets. NZAMI requires signatories to publish these within one year of joining. BNP Paribas AM's active ownership policy is wide-ranging, thoughtful, and well-coordinated. Its internal proxy-voting system is a key strength, which allows it to seamlessly cast and report on its votes at

shareholder meetings in line with its ESG principles. BNP Paribas AM supported all of the key ESG shareholder resolutions it voted on in the 2022 proxy year. The group boasts a detailed engagement policy, provides transparent reporting to investors, and is a vocal proponent of sustainable investing through policy advocacy and engagement with regulators.

**Brown Advisory** | Rasa Kerelis | 1 July 2023

*Finding the advantage in sustainable businesses.*

Brown Advisory's increased focus on sustainable investing over the past two years warrants an upgrade to the firm's ESG Commitment Level to Advanced from Basic. Several key developments underpin this upgrade. The firm has increased the sustainability-focused assets under management; has demonstrated clear permeance of environmental, social, and governance considerations throughout the firm's investing culture; and has implemented a robust process for engaging with investing companies and clients.

Brown Advisory has come a long way from the launch of its first sustainable fund in 2010. Since then, clients have increasingly turned to the firm as a reputable sustainable investor. Increasing demand for existing funds along with for the five additional strategies launched since 2020 propelled a jump in the firm's sustainable assets from under a fourth to almost half of AUM over the course of two years. These strategies employ a proprietary methodology that seeks businesses where sustainability drives success, creating a repeatable and comprehensive structure for investment professionals to follow during the security-selection process. A majority of non-ESG-focused strategies still consider ESG factors, meaning that nearly all strategies are within the purview of the firm's strong ESG process.

The firm embodies a culture of sustainability, with both analysts and portfolio managers being well-connected to the ESG risks and opportunities of each portfolio position. Analysts conduct detailed ESG assessments, incorporating engagement outcomes and targets for holdings across all portfolios. The firm's dedication to on-the-ground information gathering through site visits brings together ESG considerations and more traditional, fundamental analysis. Traditional investment professionals and ESG specialists of all experience levels conduct site visits in tandem, aligning the teams on multiple counts.

Brown Advisory clearly and directly links its team's thorough and well-documented engagements to investment decisions. Dedicated stewardship professionals ensure that the investment thesis and time horizon of each holding has a detailed engagement plan right from the start of the investment period. This oversight provides support for investment professionals when deciding whether and how best to escalate through increased engagement or even divestment when investment companies don't meet expectations. Clear proxy-voting guidelines and a solid track record of support for ESG-related shareholder proposals over the past three years accompanies a culture of stewardship that centers shareholders at every step.

**Candriam** | Morningstar Manager Research | 1 November 2022*Worthwhile efforts that could be further improved.*

Candriam continues to build upon its decades-long legacy of sustainable investing, notably by dialing up its focus on climate in engagement activities. However, more remains to be done to integrate ESG criteria throughout the investment lineup, and recent additions to the environmental, social, and governance team have yet to reach their stride. The firm retains a Morningstar ESG Commitment Level of Advanced.

Candriam launched its first socially responsible strategies in the mid-1990s and was a founding signatory of the United Nations-supported Principles for Responsible Investment in April 2006. In 2017, the firm ramped up these initial efforts with an ambitious initiative to incorporate ESG criteria across all strategies. As of April 2022, nearly 80% of the firm's assets were in funds classified as either Article 8 or Article 9 under the EU Sustainable Finance Disclosure Regulation. Such funds either promote ESG characteristics or target a sustainable-investment objective, respectively. For the rest of its offerings, which include esoteric asset classes such as convertible bonds, alternatives, and private assets, Candriam continues to face challenges in integrating ESG considerations.

Candriam has stepped up efforts to address climate risk since 2017, which coincides with the firm joining Climate Action 100+. Candriam's 2022 proxy-voting policy reflects its heightened focus on climate with the addition of clearer and more specific climate-related priorities and recommendations for investee companies. For instance, in addition to expecting a credible Paris Agreement-aligned climate strategy, Candriam also expects companies to align executive compensation with measurable and transparent climate change objectives. Candriam is applying greater scrutiny to "Say on Climate" votes, too. Based on Morningstar data, the firm voted against 83% of company directors with insufficient climate plans in 2022 and supported all key ESG resolutions over the past three years.

To support its increased focus on sustainability, Candriam has expanded its ESG team. Roughly one fourth of the team joined within the past year, bringing the total headcount close to 20 as of October 2022. The added resources are a plus, but the new joiners will take time to settle into their roles. The central ESG team, led by Wim Van Hyfte since 2016, oversees all of the firm's ESG activities, including maintaining the ESG scoring framework and serving as a center of expertise to advise investment teams on sustainability-related topics. The sheer scope of the team's responsibilities suggests it could benefit from added personnel to bolster the firm's direct engagement agenda.

**Federated Hermes** | Rasa Kerelis | 1 August 2023*Adopting a vision for the future of sustainable investing.*

Federated Hermes, emerging from U.S.-based Federated Investors' acquisition of sustainability-focused Hermes Investment Management in 2018, has undergone significant transformation in its approach to

incorporating environmental, social, and governance factors into its investment and stewardship practices. The firm earns an inaugural ESG Commitment Level of Advanced.

With a long track record of support for socially responsible investing, legacy Hermes' expertise has helped shift the focus of Federated's investment teams toward innovation in the ESG space. Nearly 20 years ago, Hermes established its responsible investment program and its dedicated Equity Ownership Services team, which have driven its ambitions for sustainability-focused engagement. Since acquiring Hermes, Federated has made concentrated efforts to expand these sustainable-investing ambitions by growing resources and embedding the philosophy into its own operations. The combined entity includes roughly 60 dedicated ESG professionals as well as a detailed proprietary system for evaluating ESG risks, seeking sustainable opportunities, and furthering engagements. Investment teams at Federated Hermes retain some autonomy in their approach to ESG integration, but the firm ensures connectivity to a central philosophy and resources. Nearly every investment team receives ample support from dedicated ESG professionals who tailor ESG frameworks and engagement agendas to individual team needs.

Federated Hermes stands out on the point of transparency by publicly outlining its approach to ESG investing, disclosing engagements on a firmwide and fund-level basis, and publishing topical thought leadership. The firm publishes annual stewardship reports that include fund-level engagement metrics and portfolio exposures to the United Nations Sustainable Development Goals. Federated Hermes also regularly shares research on emerging ESG topics, such as political influence in investment decisions, the climate-related risks companies face, gender equity in the workplace, and more.

The EOS team gives Federated Hermes a leg up when it comes to investment stewardship. For instance, each team has an EOS representative assigned to oversee and support engagements, allowing for a high level of connectivity between portfolio managers and stewardship professionals in integrating ESG developments into the investment process. The firm also publishes case studies that outline its sustainability-focused investment thesis, engagement priorities, and reflections on material developments. However, there is still some room for improvement. The firm's support for key ESG-related shareholder resolutions is relatively low. Additionally, although overall team size has remained stable, ESG resources have endured significant turnover as a result of the move to the U.S. that will take some time to settle.

### **Generation Investment Management | Shamir Popat | 1 June 2022**

*Generation has proved its advanced capabilities in ESG integration and sustainable investing since 2004.*

Generation Investment Management has advanced capabilities in sustainable and ESG investing. The core mission of the firm is to ensure that sustainable investing drives the transformative change required for a net zero, prosperous, equitable, healthy, and safe society. This mission is achieved through the people, investment process, active ownership, and the firm's initiatives globally.



The founding partners share the belief that sustainable investing is a key element in ensuring long-term returns. The investment process has sustainability at its heart, with the idea-generation process seeking opportunities derived from the firm's proprietary research into sustainability trends. Key insights, data, and external expert opinions are leveraged throughout the process in ensuring the ideas are at the forefront of sustainability. This leads to the main focus list of almost 150 companies that the analysts and portfolio managers are responsible for from a research, engagement, proxy-voting, maintenance, and portfolio construction perspective.

Generation's active ownership capabilities do not take the traditionalist activist stance that is gaining traction globally. Instead, the firm already has a positive view on its companies at the time of inclusion on the focus list, thereby creating a platform for more-constructive engagements. Often, the companies seek Generation's perspective on how to adapt their business models to enhance sustainability and profitability. The active ownership reporting in terms of disclosure and regularity does, however, leave room for improvement compared with leading peers.

The firm has a well-established reputation as a pioneer of sustainable investing through its initiatives globally. Its recent highlights include being a steering member of the Glasgow Financial Alliance for Net Zero and most recently launching an initiative called Just Climate. It aims to provide finance to the asset-heavy parts of the climate transition that are viewed as capital intensive, unproven at scale, or in geographies too challenging for investors to consider.

It has provided a strong example of executing a belief that sustainable investing leads to long-term returns.

**HSBC Global Asset Management** | Mara Dobrescu, CFA | 10 May 2021

*Under the direction of its new leadership, HSBC GAM has made strides in environmental, social, and governance integration and has consolidated an already impressive active ownership effort.*

While HSBC GAM's ESG integration effort is still relatively recent, the firm has already achieved more-tangible objectives than several of its industry peers. The firm's exemplary proxy voting and engagement activities also support its Morningstar ESG Commitment Level of Advanced.

The firm has been a signatory to the United Nations-backed Principles for Responsible Investment since 2006, but its ESG efforts have mostly taken off over the past three years, as CEO Nicolas Moreau and Joanna Munro have invested heavily in a dedicated and experienced ESG team, formally tied portfolio managers' bonuses to ESG goals, and formalized an ambitious ESG product development pipeline (for both active and passive offerings). While some other firms have hired aggressively but then struggled to retain talent, HSBC GAM's 24 ESG analysts and engagement specialists have been stable, with only one departure over the past three years.

Meanwhile, the firm has also audited its traditional fund range (which composed 98% of its assets as of December 2020) to verify that the incorporation of ESG risks and opportunities is appropriately and extensively documented in stock and credit write-ups. There are, however, no firmwide company or sector exclusions, nor a minimum ESG rating standard applied across the board, as investment teams retain ultimate discretion on the ESG integration framework they deem most relevant to their approach.

The firm's active ownership efforts are topnotch, with quasi-systematic votes in favor of ESG-related resolutions and detailed engagement road maps that hold companies accountable on their environmental and social practices. HSBC GAM, a Climate Action 100+ co-founder, has also co-filed several prominent shareholder resolutions and has sponsored significant policy initiatives addressing climate change. The firm, however, does not currently disclose the full rationale for its votes on its website. Another area of improvement is its disclosure of portfolio-level ESG metrics that, though comprehensive, are currently only available for the firm's range of intentional ESG funds.

**Jupiter** | Evangelia Gkeka | 10 May 2021

*Jupiter earns a Morningstar ESG Commitment Level of Advanced.*

Jupiter is on a good trajectory with its environmental, social, and governance incorporation, and some aspects have been long embedded into the firm's culture. Its active company engagement policy and transparency are key strengths. However, progress in further developing its proprietary ESG system and reporting on fund-level ESG metrics would be welcome. It earns a Morningstar ESG Commitment Level of Advanced.

Jupiter has been involved in ESG incorporation for several years. It has been a signatory of the United Nations-backed Principles for Responsible Investment since 2008 and a member of several stewardship, engagement, and climate initiatives, including its recent commitment to net-zero emissions by 2050 and the U.N. Global Compact principles. The firm has a team of nine experienced ESG-dedicated professionals, who work closely with fund managers on ESG integration and engagement. The team is expected to grow further in 2021.

Jupiter has an active engagement policy with a well-defined escalation process. Engagement is led by fund managers who work closely with the ESG team on integration, engagement, and proxy voting. The firm is serious about its portfolio managers incorporating ESG in their decisions as ESG integration and engagement activity are part of their annual appraisals. The group has been actively supporting ESG shareholder resolutions and provides monthly transparency on its global voting records.

Firmwide exclusions are limited to controversial weapons. Companies that might typically be excluded by other houses can be deemed investable, as long as these companies have a clear sustainability agenda. Fund managers collaborate with them to improve their ESG trajectory.

Jupiter's main ESG IT tool is called ESG Hub, an online proprietary database the firm started developing a couple of years ago. It connects third-party ESG data to portfolios and provides information on securities, portfolios, and engagement activities. It allows fund managers to access ESG risk data across portfolios and individual securities efficiently and is also used by Jupiter's senior management to oversee the ESG activities of fund managers. The scope of this hub is still evolving, and further development of ESG-related reporting across all funds is still a work in progress.

### **LGIM** | Monika Calay | 30 August 2023

*Strong sustainability credentials built on market-leading stewardship.*

Over the past five years, LGIM has advanced along its sustainability journey, particularly demonstrating leadership in the areas of engagement and stewardship. The firm earns an ESG Commitment Level of Advanced.

Environmental, social, and governance criteria are integrated into LGIM's investment process wherever feasible. For instance, LGIM excludes controversial weapons and coal from active strategies and select passive funds where it controls the index. However, roughly half of the assets remain allocated to older passive funds that are tied to non-ESG benchmarks, so they fall outside the scope of these restrictions. There is also a distinct shift in the firm's approach for newer fund launches, which seek a deeper integration of sustainability as standard.

Active ownership is a central tenet of LGIM's investment ethos, and in this arena, it outpaces many competitors. LGIM's investment stewardship team has pioneered a well-structured and centralized engagement approach with portfolio companies, ensuring every opportunity to vote is leveraged. LGIM further demonstrates its proactive stance by publicly recognizing leaders in sustainability while holding laggards accountable. LGIM also scores well on disclosure. The firm regularly posts educational and thought leadership material, provides detailed quarterly updates on engagements, and is transparent on its proxy-voting records.

LGIM's commitment to the Net Zero Asset Managers initiative goes above and beyond the minimum requirements. It has set interim targets to curb portfolio emissions by 50% by 2030, and it is engaging with the top 20 emitters that lack Paris-Aligned business commitments. LGIM has also underscored this commitment by tying executive remuneration to climate-focused targets. However, the significant portion of the firm's assets under management sitting in non-ESG passive funds presents an obstacle to reaching these ambitious goals. As such, achieving the firm's net-zero targets will likely be contingent on broader decarbonization trends within the global economy.

LGIM invests significantly in human resources and infrastructure to support its sustainability objectives. The firm counts a cadre of over 50 seasoned ESG specialists spread throughout the organization, many of whom hold top-tier positions. The firm is also building a strong pipeline of future talent by nurturing junior roles. LGIM draws on a wide range of external data sources to calculate its proprietary ESG score,

which it makes publicly available. The score and other qualitative content on sustainability are disseminated throughout the firm via a purpose-built tool that supports the firm's holistic integration of ESG criteria in the investment process.

**Melior** | Erica Hall | 1 December 2022

*Australian impact manager with solid sustainability credentials.*

Melior's efforts to deliver to investors a carefully curated portfolio of listed companies that can deliver a positive impact on the world, aligned to the United Nations Sustainable Development Goals, is ambitious; however, the investment process, the team, and supporting operational structures mean the firm is well placed to deliver its impact goals. The firm earns a Morningstar ESG Commitment Level of Advanced.

Melior's investment philosophy includes the belief that investing in positive impact companies with excellent ESG attributes has a higher competitive advantage and increased probability of outperforming over the longer term. It applies its investment process to a universe of companies that have passed comprehensive ESG and sustainability filters to arrive at a portfolio with good investment prospects and strong social, environmental, and governance characteristics. In addition, Melior seeks to change company behaviors through advocacy aiming to garner improvements to material ESG risks to better companies' businesses and ameliorate their positive impact. Melior's investment process is comprehensive; it leads with impact and ESG requirements via positive and negative screens before consideration of financial attributes. A key part of the process is the consideration of ESG momentum as ESG transitioning companies with good balance sheets represent an opportunity to deliver alpha.

The firm's Australian Impact fund includes a dedicated responsible investing policy that outlines its approach. There is a proxy-voting policy, and oversight is provided by the risk and compliance committee, which meets quarterly. Further, there is an advisory council made up of several experienced sustainability experts to offer guidance. Areas of improvement are the provision to more specific and measurable details in its responsible-investing and proxy-voting policies and more transparency in its publicly available reporting.

**Northwest Ethical Investments** | Mahi Roy | 30 August 2023

*Responsible investing efforts show commitment despite recent organizational changes.*

The evolution of NEI's corporate structure has boosted the firm's innovation within sustainable investing, but recent movement in the firm's leadership and consequent change of reporting lines bear watching. The firm's approach to selecting ESG-friendly subadvisors, a growing responsible investing team, and strong transparency efforts merit a Morningstar ESG Commitment Level of Advanced.

Responsible investing, or RI, has been at the heart of NEI's culture since its predecessor Ethical Funds launched the first RI fund in Canada in 1986. In 2016, NEI launched one of the first fossil-fuel-free funds in Canada and applied an RI lens across the entire fund lineup. Subsequent mergers, especially with OceanRock in 2018, made NEI the largest provider of responsible investments in Canada. Although the restructurings require monitoring as teams settle in, the individual entities that constitute modern-day NEI share a focus on responsible investing, helping to clarify the firm's strategic path forward.

The effectiveness of NEI's approach is reflected in its selection of subadvisors from global and boutique investment managers with notable RI capabilities, such as Leader-rated Impax Asset Management and Advanced-rated Wellington Management. The firm's proprietary sustainable-investment policy is implemented by the in-house RI team and applies to all its funds. Should subadvisors fall short of NEI's expectations, the RI team will intervene to ensure all products meet the firm's sustainability policy and expectations of its clients.

Management has also invested heavily in the firm's central RI expertise. NEI boasts a fully staffed in-house RI team, which is led by Adelaide Chiu, who joined in April 2022. Most team members joined within the past few years, bringing the total headcount close to 10 as of July 2023. The added resources are a plus, but the new joiners will take time to settle into their roles. The novelty of the team is not the only drawback. While the firm has access to third-party data providers, it does not have an in-house database that centralizes high-quality ESG data, takeaways from engagement activities, or proprietary research insights. An investment in technology would improve efficiency.

When it comes to proxy voting, NEI has structured policies in place, but it would benefit from more-detailed guidelines around environmental and social issues. The firm is transparent on its reasons for votes against proposals, far above some peers that only disclose rationales for votes against management, if at all. On the ESG engagement side, the firm publishes quarterly reports with detailed case studies and progress reports. NEI's engagement and transparency are not its only key strengths. The firm has a history of filing shareholder resolutions, and it walks the talk with strong support of ESG proposals.

**Nuveen/TIAA | Mahi Roy | 1 January 2023**

*Responsible investing remains a key focus for Nuveen.*

Nuveen continues to evolve its already strong responsible investing credentials by achieving ESG integration across most asset classes, expanding the Responsible Investing team, and improving transparency, but room for improvement remains. The firm maintains a Morningstar ESG Commitment Level of Advanced.

The firm draws on a legacy of mission-driven and responsible investing, or RI, through parent company TIAA, but Amy O'Brien's promotion to head of RI for TIAA/Nuveen and the subsequent buildout of a dedicated RI team following TIAA's acquisition of Nuveen in 2014 kickstarted the effort to embed RI into

every fragment of the firm. As of October 2022, nearly 100% of the firm's assets systematically consider ESG risks, whether part of a branded ESG mandate or not. This derives from the firm's conviction that ESG risks are financially material. Beyond ESG integration, Nuveen is rolling out portfolio-level goals for reducing carbon emissions. In May 2021, TIAA's General Account announced its aim to be net zero by 2050. Nuveen's real estate business went further by committing to reach net zero by 2040. In June 2022, the firm launched Nuveen Global Net Zero Transition ETF NTZG, which targets net-zero carbon emissions by 2050 through a mix of engaging with portfolio companies to reduce their operational footprints and investing in emergent technologies to support climate change mitigation.

Nuveen's ability to retain and increase talent during a competitive job market gives it an edge over peers. In 2022, six professionals joined to support the firm's ESG integration efforts, and four junior members joined to bolster the firm's active ownership practices. Industry veterans such as O'Brien and Peter Reali, each of whom counts more than 15 years' experience in ESG matters, steer junior talent in overseeing a unified strategy for responsible investing across Nuveen. In addition to its deep bench of specialists, the firm has refined its in-house database over the past four years. The tool centralizes high-quality ESG data, takeaways from engagement activities, and proprietary research insights for ready access by investment teams.

Recent growth in the stewardship team strengthened Nuveen's transparency and engagement initiatives. In 2022, the firm started publicly disclosing its rationales for all proxy votes at S&P 500 companies and increased the number of engagements with portfolio companies, which provided the firm with additional insights to enhance investment decisions and expand its research around engagement efforts. In recent years, Nuveen supported roughly two thirds of key ESG shareholder resolutions, but the policy driving this strategy has room to improve. The proxy-voting guidelines lack specificity on environmental and social issues. Explicitly detailing desired outcomes on climate change and clearly outlining the firm's escalation strategy for companies that lag on environmental and social priorities would bring the firm closer to best practice.

### **Royal London Asset Management | Evangelia Gkeka | 1 July 2022**

*The firm's recent ESG team growth and completion of its internal ESG database drive an upgrade.*

Royal London Asset Management has a strong presence in ESG-related initiatives, helped by a key investment unit that boasts a heritage in this space. The growth in Royal London's in-house team of ESG experts and completion of the internal ESG database are further positives that support an upgrade of the firm's Morningstar ESG Commitment Level to Advanced from Basic.

The firm boasts an experienced Sustainable Equity Investment team that has spurred the firm's progress on ESG initiatives by means of thought leadership. The origins of the team came via the acquisition of the Co-operative Group in July 2013. This is one of the U.K.'s longest-tenured teams, whose process has been in place since 2003. In 2019, RLAM's Responsible Investment team was carved out of this sustainable equity team to focus on ESG research across the wider business.

Over the years, the firm has expanded these robust in-house teams dedicated to responsible investment and ESG analysis. The Responsible Investment team has nearly doubled to 17 members during the past year. This includes a mixture of backgrounds and experience levels, and RLAM's RI academy serves to develop junior talent internally, which boosts retention and team cohesion.

At the end of 2021, RLAM completed the rollout of its internal ESG database, which combines third-party data with internal research and insights. The tool provides proprietary ESG scores to all investment staff, as well as details on engagement for all securities (previously, these were only available for holdings within the sustainable fund range). ESG integration across strategies is monitored during quarterly oversight meetings, and investment professionals regularly collaborate with ESG specialists to discuss portfolio holdings and ESG risks.

RLAM has a strong handle on governance and stewardship issues and has recently expanded the scope of its proxy-voting initiative to include all equity holdings. The firm publishes a summary of voting activity on its website, including reasons for voting against a proposal or abstaining. The engagement appears well-targeted and impactful, although extra resources here would provide greater capacity to tackle issues. Where action has been taken, a wide range of examples are publicly declared, including details on the engagement itself and how it has affected investment decisions.

One area of weakness is transparency and reporting on fund-level ESG metrics for nonsustainable offerings. Currently, these are neither published nor reported to investors. Fund-level disclosure of ESG metrics on an absolute basis or relative to peers or a benchmark would provide greater clarity for potential investors.

**Schroders** | Jonathan Miller | 1 May 2022

*Not resting on its laurels.*

Schroders has continued to add headcount and further evolve its already strong ESG credentials, helping the firm maintain a Morningstar ESG Commitment Level of Advanced.

The group has invested in relevant tools and resources to deepen ESG integration. These resources were of a high standard to begin with and continue to develop, helping the firm maintain an edge above newer entrants and competitors in the ESG space. 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 ranges from social and environmental issues to top-line country analysis, which helps provide insight into ESG concerns.

Each investment team has gone through an internal ESG accreditation process, and the team's 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 developed alongside the burgeoning sustainability team. This team has continued to grow in recent years and was

32-strong at the end of February 2022. It acts as a focal point for ESG analysis, sustainable thematic research, proxy voting and engagement, and the firm's internal corporate governance initiatives. In addition to junior hires to the bench, the firm has also successfully recruited managers and executives from competitor firms. 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 for votes against proposals. By comparison, some peers still only disclose rationales for votes against management or disclose no voting rationales whatsoever. On the ESG engagement side, the firm's activities and outcomes are monitored and tracked. However, these measures are currently broad in nature, so a deeper understanding of more-tangible results and insights would be of benefit.

Schroders has committed to transitioning all investment portfolios to net zero by 2050. The firm's goals and pathway to reach this have been validated by the Science Based Targets initiative, a leading source of third-party underwriting on such matters. On the acquisition side, Schroders has recently made deals that should extend its sustainable capabilities: Greencoat Capital (2021, specialist manager dedicated to the renewable energy infrastructure sector), Natural Capital Research (2021, data-led science-based organization that specializes in measuring biodiversity and land quality), and Blue Orchard (2019, specialist in impact emerging-markets debt and microfinance).

### **Unigestion** | Mathieu Caquineau | 1 August 2022

*ESG investing is a core pillar of Unigestion's identity.*

Unigestion draws on its strong quantitative roots to entrench environmental, social, and governance factors in its investment process, design industry-leading fund reports, and develop a credible active ownership program. Still, dedicated resources could be bolstered to fully back the firm's ESG ambitions. Unigestion earns a Morningstar ESG Commitment Level of Advanced.

Although Unigestion signed the United Nations-backed Principles for Responsible Investment in 2013, its ESG journey really kicked off in 2016 with the integration of ESG factors in the firm's quantitative process. Since then, Unigestion has built, refined, and rolled out its proprietary ESG rating across all funds as a key driver for stock selection and portfolio construction. All equity funds must maintain a better ESG profile than their benchmarks and reduce their carbon intensity by at least 20%. In practice, the funds go way beyond that objective, with reduction targets ranging from 40% to 60%. Unigestion puts a particular emphasis on environmental issues and climate change, areas where the firm can best leverage its historical quantitative expertise and where it sees the biggest long-term risks and opportunities. One of the outcomes of this strategy was the launch of the firm's first climate-transition fund in February 2022. Among other milestones achieved in recent years, the firm has developed world-class ESG reporting at the fund level.



Climate change is also a central focus of Unigestion's robust active ownership program. The firm partners with ISS to carry out its proxy voting, and it leverages detailed voting guidelines for climate issues. Alongside voting, the firm has developed a solid engagement program with clear expectations, and it closely tracks how a company responds to its demands. Finally, Unigestion has improved the sustainability of its own business, highlighting its rising role as a promoter and advocate of sustainable investing.

One area for improvement is resources. The firm's four dedicated ESG experts are embedded in the investment teams, and while all investment professionals are involved in ESG research, the specialist capacity remains thin. Similarly, the stewardship team of three is small—given the total number of companies held across the funds—and less experienced than those at other firms. Unigestion's quantitative capability helps to support its various ESG endeavors, but more resources will likely be needed to sustain the firm's growing ambitions.

#### **Wellington Management** | Mahi Roy | 1 March 2023

*Focus on climate issues, supported by dedicated resources, drive an upgrade.*

Wellington Management has made significant progress in sustainable investing in recent years such that it has a discernable and durable edge over peers. The firm has dialed up its focus on climate, expanded its central sustainable-investment team, and enhanced its disclosure efforts. The firm earns a Morningstar ESG Commitment Level rating upgrade to Advanced from Basic.

Wellington's sustainable-investing journey began in 2011 with the creation of a dedicated team for environmental, social, and governance research. Since then, it has accelerated its efforts by hiring specialists for specific goals and areas of focus. For example, Wellington formed an impact measurement team in 2021, which significantly improved the firm's disclosure capabilities by means of detailed, strategy-specific ESG and carbon reports. The firm's shared belief that sustainability goals go hand-in-hand with long-term financial returns is reflected in its continuous focus on climate investing. A founding signatory to the Net Zero Asset Managers initiative, Wellington formed a new partnership with MIT in 2022 to support the firm's research around the transition to a low-carbon economy. This builds on a similar relationship the firm established to study physical climate risk with Woodwell Climate Research Center in 2018, which formed the basis for the firm's coordinated response to the SEC's proposed climate rule, advocating for transparent, thorough, and accurate climate risk disclosures.

The firm's integration of ESG risks extends beyond ESG-focused strategies. Wellington balances philosophical consistency and investment team independence by requiring that every portfolio manager defend their unique approaches to ESG integration before a central panel consisting of senior risk-, sustainability-, and product-focused members of the firm.

Wellington boasts a well-staffed bench of sustainable-investment and stewardship experts, along with best-in-class ESG data and research. The firm benefits from the leadership of Wendy Cromwell,

Wellington's head of sustainable investing, who also sits on the board of the United Nations-supported Principles for Responsible Investment. Cromwell started her career at Wellington 25 years ago, and she has helped Wellington's venture into impact and sustainable investing over the past decade. Wellington's sustainable-investment team has doubled since 2020 to a total of 40 members across sustainability strategy, ESG sector research, and climate research. In addition to those above, nearly 100 global industry and credit analysts support the central effort through company engagement and due diligence on proxy-ballot items. In 2022, Wellington incorporated ESG insights and thematic climate research from Woodwell and MIT into its central proprietary tool, which includes portfolio- and security-level ESG data for portfolio managers.

Wellington's internal database is a key strength for its proxy-voting and engagement needs, too. It centralizes company engagements and escalations, and it records feedback on each engagement, which enables Wellington to seamlessly cast and report on its votes at shareholder meetings. In addition to disclosing its full proxy-voting record in a timely fashion, Wellington also publishes its rationale for each key vote. Wellington's public reports and policies offer more detail compared with peers, but there is room to improve: The firm's engagement and escalation policy could still benefit from a clearer outline of priorities and expectations for outcomes at engaged companies.

### **Basic**

**Abrdn** | Michael Born | 1 August 2023

*Aiming for leadership in ESG, but with a long road ahead.*

After a merger and a major rebrand in the last six years, Abrdn has set admirable aims to build on its predecessor firms' heritage in integrating environmental, social, and governance factors in investing. Abrdn appears to be on the right path with ESG set to become a key aspect of the business. However, much is still to be delivered, and the firm retains its Morningstar ESG Commitment Level of Basic.

Both the Standard Life and Aberdeen franchises that combined to form Abrdn had well-developed ESG frameworks and had been running sustainable mandates for several decades, particularly with Aberdeen's Asian equity offerings having a noted history of high governance standards. Consequently, much of the firm's work has focused on putting the teams and processes all together and determining the longer-term plan. ESG information has long been included in research templates as a lens through which any material risk should be evaluated. However, in honing the investment process across asset classes, the degree to which Abrdn includes ESG information as part of the investment thesis across all strategies is more recent. The firm's work is currently focused on formalizing the process across the asset classes. The firm aims to embed ESG analysis into every investment team as part of their core decision-making process, although there is a long road ahead in this regard. Meanwhile, the product offering remains centered around strategies that embed ESG but with a primary focus on fundamental investing, with just a small number of explicitly ESG-focused products. ESG scores for stocks and bonds are assigned using in-house matrixes backed by a wide set of data, both proprietary and from a range of third-party providers. These also act as points of validation, although qualitatively assigned scores will

guide investment processes. These scores help to guide fundamental analysis as well as highlight controversies.

Abrdn now boasts a 30-strong centralized team of ESG analysts with considerable experience (up from 20 as of May 2021). The ESG team sits alongside the major asset classes, such as equity and fixed income, reflecting its prominence in the firm and the overall importance of sustainability to the firm's strategy. We view this as a clear positive alongside two major developments implemented in 2022: the appointment of Chief Sustainability Officer Amanda Young (the former head of responsible investment), and the founding of the Sustainability Institute, which is expected to drive firmwide thought leadership and top-down views. The significant resources put in place are impressive and indicate how Abrdn views ESG as a central part of its plans. The key test is how it executes on this going forward.

In its stewardship activities, the firm prefers to engage rather than divest, and escalation is not formalized. Engagement with companies is led by Abrdn's investment teams, as they know a company and its management best. However, the active ownership team works closely alongside investment teams to provide top-down direction. The group supported 98% of key ESG resolutions and 100% of key climate resolutions over the past three years. However, we have yet to see the firm sponsor any ESG or climate-related proposals.

There are other areas for improvement. Abrdn incentivizes portfolio managers and holds them accountable for ESG integration through compensation, which is a plus, but we think the firm could use robust quantitative metrics to gauge behavior in addition to primarily qualitative evaluations. Furthermore, fund-level ESG disclosures remain minimal.

**Acadian** | Erica Hall | 1 November 2022

*Structured approach to ESG incorporation, but transparency needs improvement.*

As a quantitative investment manager, Acadian applies environmental, social, and governance filters in a structured manner; however, transparency in both reporting corporate engagement activities and the thoroughness of the activities themselves could be improved. Therefore, we assign it a Morningstar ESG Commitment Level of Basic.

All strategies incorporate ESG signals at the stock-selection level; however, the dedicated sustainable strategies favor companies that rate highly from a social and governance perspective. Sustainable strategies have a thematic target relating to the transition to the low carbon economy, which means these portfolios are free of fossil fuel exposures and are low carbon emitters.

Further, Acadian looks to continue to evolve its ESG process. While governance remains the most impactful element, Acadian has broadened its ESG signals over time, altering their influence by industry, such as weighing environmental issues (for example, carbon emissions) more heavily when assessing utilities, while social concerns (for example, workforce injuries) are more impactful for energy/materials.

Having quant 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. Engagement efforts are centered around three key themes: energy transition, employee well-being, and management long-termism prioritized based on materiality. When it comes to proxy voting, Acadian's lack of transparency is disappointing as its proxy-voting records are not readily publicly available. Public disclosure about ESG research is modest and could be improved.

The sizable investment team contributes to ESG research and idea generation, but dedicated ESG resources have been underdone in the past. However, there has been recent improvement in ESG resourcing, which started with Andy Moniz's appointment as the director of responsible investing and continued with two ESG analysts joining the team, Devin Nial and Jerry Wu. They have been undertaking deeper analysis on corporate greenwashing, climate analytics, and company engagements. Matt Picone remains as a dedicated ESG resource also.

Overall, we view Acadian's ESG commitment as a light touch. The firm's efforts to reduce exposure to some controversial products and to tilt its sustainable portfolios to better carbon outcomes are positive yet limited. Nevertheless, we acknowledge Acadian's efforts to systematically integrate ESG practices throughout the firm as respectable.

### **Aegon Asset Management** | Morningstar Manager Research | 1 December 2021

*Aegon Asset Management UK benefits from a parent that is ahead on ESG.*

Aegon Asset Management UK was an early provider of an environmental, social, and governance-intentional product via its ethical equity fund, launched in 1989, but a firmwide focus on ESG and the resources to back that up have only developed at pace with the wider industry. Therefore, the firm receives a Morningstar ESG Commitment Level of Basic.

Benefiting from its acquisition by Aegon NV, the level of resources and expertise available has increased. The U.K.-based central ESG team numbered only three before the acquisition (it has now grown to five), but after the acquisition it can also now lean on the Netherlands-based team, which totals 11. A total of 16 ESG specialists represents a good size, but more time may be needed before the U.K.-based investment teams make the most effective use of them. Turnover in these teams has been relatively low, but notably there was the loss of the U.K. outfit's head of ESG Ryan Smith in 2020.

There is a framework in place for analyzing ESG for both equities and fixed income. For equities, it involves looking at how significant an ESG factor is for a company, the level of risk, and the direction of change. On the fixed-income side, there is a five-point scale that covers credits and is used to determine the materiality of ESG factors and their potential impact on a credit rating. However, these were only more recently developed (one to three years) into a proper framework.

The active ownership approach could be improved by adopting a more structured and purposeful voting policy that incorporates greater detail on ESG considerations. Similarly, more information on the firm's engagement efforts would be welcome. It does have an engagement framework that is based on a (four-part) milestone approach. In 2020, the firm stated that approximately a third of all engagement efforts resulted in progress being made by the company engaged or the issue being resolved. This is commendable, but it should also be noted that almost 40% of engagements had reached only the "contact acknowledged" stage. Aegon AM U.K.'s voting record is stronger, however. The teams vote on all equities in which they own more than 0.1% of the company. And full voting records, including reasons for votes against management, are available. This is important given that there has been an increasing number of votes against management in recent years. Being part of the wider Aegon NV group means that where there is overlap in holdings between the U.K. and non-U.K. arms, active ownership benefits from scale, as engagement has at least some level of central coordination.

**Allianz Global Investors** | Natalia Wolfstetter | 1 January 2023

*Quickening the pace on ESG, but not yet ahead of the pack.*

Allianz Global Investors demonstrates ongoing commitment to integrate environmental, social, and governance considerations across its business but could still go further. Many of the firm's assets do not incorporate binding ESG considerations. We would also like to see the firm strengthen its stewardship footprint. The firm keeps a Morningstar ESG Commitment Level of Basic.

Allianz GI was an early signatory to the United Nations-backed Principles for Responsible Investment, but its broader ESG efforts have really taken off in the last three years. Matt Christensen, head of sustainable and impact investing, joined the firm in early 2021. Under his leadership, the central sustainability team has been through a major overhaul and expansion to strengthen central coordination of its ESG initiatives. As of May 2022, the team comprised 42 investment professionals with an average of 11 years of ESG experience. Team turnover has been elevated and requires monitoring, but it appears to have subsided since 2021.

Around 40% of the firm's assets incorporate ESG considerations, with this growth aided by product launches and conversions. Half of that sits in what the firm defines as sustainability-focused strategies, some of which are light-touch approaches to sustainability. The share of assets reported as applying no ESG considerations is still sizable at 43%, owing to institutional mandates with no client-specified ESG approach and limitations to the quality and availability of ESG data for some asset classes.

ESG considerations have been integrated into the firm's broader risk-control processes and investment professionals' daily workflows; however, portfolio managers retain broad leeway to invest in ESG laggards outside of ESG-focused strategies.

Our research reveals that Allianz GI has a high level of focus on environmental and social issues in its proxy-voting policies. The firm often votes in favor of ESG-related shareholder proposals, though we note that support for climate proposals has declined as many of these were deemed too prescriptive by the

firm's active ownership team. The firm publishes key voting decisions and rationales on its website, and it has ramped up reporting on engagement activities, but it publicly discloses fund-level ESG metrics only for intentional funds.

The company has further formalized its engagement approach and launched a thematic engagement program featuring three core topics: climate, planetary boundaries, and inclusive capitalism. While the firm has a well-defined escalation process, it remains to be seen whether it will take decisive action on failed engagements. AllianzGI signed on to the Net Zero Asset Managers initiative in March 2021. It has yet to provide more detail on specific targets and the decarbonization strategy for its third-party assets.

**Allspring** | R.J. D'Ancona | 1 September 2021

*Allspring's ESG investing effort shows commitment but is still in its early stages.*

Allspring has been making progress on its environmental, social, and governance investing effort in recent years, but cultural and practical adoption across the firm's disparate investment teams is still in the early stages. The firm earns a Morningstar ESG Commitment Level of Basic.

Allspring's nine dedicated ESG personnel are a veteran bunch, averaging more than eight years' experience in the space, which is significant for this relatively nascent segment of the broader investment industry. Nonetheless, nine members is a modest group considering they lead ESG-integration efforts for the firm's fragmented 29 investment teams.

Although Allspring's core ESG crew is small relative to many peers, it has collaborated with the firm's various investment teams on some noteworthy ESG-related projects. For example, in July 2020, the firm launched a proprietary ESG risk assessment score, ESGiQ. The metric couples quantitative distillation of third-party data with a fundamental assessment of material ESG risks to produce a final score reflecting a company's exposure to ESG risk. While the framework is robust, its adoption by investment teams is mixed. Investment-grade and high-yield fixed-income groups have incorporated it into their processes, but equity team adoption is less advanced.

On the engagement front, Allspring's stewardship practices are adequate, but its participation in public advocacy groups does not stand out. The firm holds a quarterly stewardship and engagement forum that aims to foster collaboration among its investment teams and the dedicated ESG squad, as the combined group prioritizes portfolio companies for engagement, as well as key issues on which to engage. The firm became a United Nations-supported Principles for Responsible Investment signatory in 2015 and a member of the Climate Action 100+ initiative, which is common for asset managers seeking to align with ESG principles.

Finally, the pending GTCR and Reverence Capital acquisition of Allspring, which will come with a name change to Allspring Global Investment at the projected close of 2021's second half, creates some uncertainty around the firm's future ESG efforts.

**AMP Capital | Morningstar Manager Research | 17 November 2020**

*Integration of ESG across the broader firm is still a work in progress.*

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 its peers, warranting a Morningstar ESG Commitment Level of Basic.

While AMP Capital was one of the earliest movers to become signatories to the United Nations-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, land mines, 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 Investment Management | Ross MacMillan, CA | 1 January 2022**

*ESG, sustainability, and responsible investing efforts continue to grow at this firm.*

Ausbil Investment Management continues to intensify its ESG, sustainability, and responsible investing efforts across the entire range of its investment products. When considering Ausbil's approach against global best practice, Ausbil receives a Morningstar ESG Commitment Level of Basic.

Since Ausbil's establishment in 1997, the firm's investment philosophy and corporate goals have been formulated to provide a disciplined investment process that is active, while incorporating qualitative analysis, quantitative inputs, and risk awareness, inclusive of ESG issues. Ausbil signed the United Nations-backed Principles for Responsible Investment in 2016. However, the firm has long adhered to these concepts as sound practice when analyzing and assessing companies, particularly in terms of good corporate governance. ESG and sustainable investment development and integration at Ausbil is built around the ESG research team, which comprises the highly experienced Mans Carlsson (head of

ESG research) and two ESG analysts. Carlsson effectively drives the firm's ESG philosophy, and the team assigns proprietary ESG ratings to the investable universe of Australian stocks.

Ausbil's ESG team has significantly boosted the firm's ESG credentials and pushed further with implementing sustainability features into all investment products. Ausbil remains an active and engaged shareholder, with well-defined views on various topics from board quality to climate change and modern slavery. However, transparency remains an issue, relative to global best practices, with Ausbil not publicly disclosing voting rationales or breaking down strategy-level voting statistics; it is currently reviewing its approach. In addition, ESG disclosure, statistics, and metrics could also improve at the strategy level. Overall, Ausbil's strategies have numerous positive ESG and sustainability attributes, and the firm is clearly working toward comprehensive integration across all domestic and global strategies.

**Baillie Gifford** | Daniel Haydon | 1 February 2022

*A long way through its ESG journey.*

Baillie Gifford has a thoughtful approach to ESG, but team integration is ongoing and fund disclosure leaves room for improvement. It earns a Morningstar ESG Commitment Level of Basic.

Most of the systems and practices are already well-established. Indeed, the nuanced approach to sustainability and how it feeds into investment decisions is appealing. A sensible plan for 2022 will help to remedy some areas, including improvements to fund disclosure and the completion of ongoing ESG team integration. Overall, lots of thought, effort, and resources are being dedicated to ESG research, and the erudite approach marries well with the firm's history of long-term investing, intensive due diligence, and close company contact.

Baillie Gifford first launched a dedicated ESG fund in 2011. Prior to this, as long-term investors, governance played a prominent role. Over time, the approach has evolved and formalized, accompanied by considerable growth in the firm's ESG resources: The growing Sustainability and Governance team now counts 32 specialists, with substantial relevant experience. The firm uses a wide array of external data and has many academic linkages. ESG work is propagated via an integrated research platform and through educational sessions.

The group is at the tail-end of its transition toward a more integrated approach where ESG analysts will sit on investment desks, rather than the current centralized ESG resource structure. They have instituted four ESG research hubs, each specializing in an area deemed of high interest: data ethics, human rights, corporate governance, and climate change, with the latter currently the most evolved. A prospective fifth hub will focus on ESG data. As it stands, the ESG team is responsible for highlighting ESG risks and opportunities, and it does the bulk of portfolio company monitoring and engagements.

Proxy voting is centralized, with long-term shareholder value the guiding principle, rather than a strict ESG focus, though the two are interlinked. Baillie Gifford has a clearly articulated engagement strategy



but rarely proposes shareholder resolutions or participates in broad collaborative engagements alongside peers. Many companies that score poorly on ESG metrics have already been screened out because of other investment criteria, so there is typically less need to agitate for major change.

Strategy-level disclosure is reasonably good but could be better, and the firm plans to introduce ESG metrics on all fund fact sheets in 2022. ESG-focused strategies already have plentiful ESG data disclosure and highly detailed stewardship reports.

**Barings** | Giovanni Cafaro | 1 January 2023

*Positive momentum and a commitment to develop further.*

Barings continues to put resources behind its environmental, social, and governance efforts by expanding its centralized sustainability team and better defining firmwide policies. More work remains to be done, however, in areas such as climate strategy and external reporting. As a result, it maintains a Morningstar ESG Commitment Level of Basic.

The team, which now includes 11 professionals split between the Sustainability team and the Portfolio Solutions & Analytics team, was largely built by the firm over the past few years. Most of the expansion happened in 2021, when the team almost doubled in size through six new hires, though ESG-specific experience remains mixed. The equities division formally implemented ESG criteria in 2016, introducing it as an aspect that affects the cost of capital in its equity valuations, and the fixed-income team had already started using ESG inputs a few years prior. Over the past three years, progress has been made around analytics and measuring engagement efforts. Barings also recently established Sustainability Working Groups, which include members of other business units and help to spread the initiatives of the Sustainability team throughout the organization, including sharing best practices about the integration of ESG factors into investment processes.

Within the investment process, ESG is in effect owned by analysts and fund managers in their valuation work across asset classes. The centralized ESG team supports this work by providing frameworks and guidance. The ability to combine qualitative and quantitative inputs into their models continues to be one of their strengths, though scarcer data for some areas of the market continue to be a challenge, as for peers. In addition to using quantitative data from various ESG sources, the analysts also incorporate qualitative assumptions into a standardized ESG scorecard. The framework focuses on evaluating the sustainability of a company's business model, looking at the credibility of its corporate governance, and uncovering any hidden risks on its balance sheet.

Barings is a signatory to a multitude of industry initiatives, including some of the more-known collaborative engagement efforts including Climate Action 100+, the Investor Forum, and the FAIRR initiative. The firm also liaises with a range of regulatory bodies and investment associations to define new frameworks and guidelines. For example, Barings Investment Institute participated in discussions with the European Commission over ESG regulation, as well as green and social taxonomies. With

regard to its climate strategy, Barings has yet to provide a structure on achieving certain goals and targets. While there has been some progress on the reporting of ESG and carbon metrics for funds, it remains largely "on request" rather than formally embedded across client-facing documentation, and mostly available for Barings equity funds. Overall, while the firm has made progress in sustainability efforts, there remains potential for further improvement.

**Bell Asset Management** | Erica Hall | 1 July 2022

*Good ESG incorporation but requires better transparency to rate among our best.*

Bell signed on to the United Nations-backed Principles for Responsible Investment in 2014, and it incorporates ESG attributes at multiple points in its investment process. It has incrementally improved its ESG capabilities over time through improvements to research, policies, processes, and reporting. We would like to see Bell further improve its transparency on proxy-voting decisions and provide more-detailed ESG objectives within its policies.

Bell is a boutique global equities manager that integrates ESG considerations to the extent it believes that ESG incorporation can aid in delivering long-term returns to investors. In the investment process, ESG criteria act as an initial exclusionary screen, influence the firm's quality factor assessment, and affect position sizing (they tilt the portfolios toward companies with higher ESG ratings and lower carbon intensity).

Bell Asset Management has encompassed ESG into its firmwide philosophy for longer than most Australia-domiciled global equities peers. Every portfolio manager is responsible for undertaking both fundamental and ESG research. This has resulted in a comprehensive database of information on listed equities, allowing for detailed monitoring and reporting on both quantitative and qualitative ESG data.

Bell has incrementally added to its ESG capabilities by widening its ESG screening criteria, mapping portfolios to United Nations Sustainable Development Goals, and monitoring and linking ESG standards to portfolio managers' remuneration. It formalized its stewardship activities by structuring its engagement and escalation priorities in line with the Task Force on Climate-related Financial Disclosures.

What holds back Bell Asset Management relative to peers is the limited detail contained in its public ESG investment policy, fund-level fact sheets, and proxy-voting disclosures. While better than many Australia-domiciled counterparts, offshore peers, particularly in Europe, set a higher bar. Bell's reluctance to comprehensively share active ownership activities and outcomes is an area for improvement. Overall, the firm's ESG foundations are solid, but more is required in an evolving landscape—hence, the ESG commitment level assessment of Basic.

**Betashares** | Zunjar Sanzjgiri | 1 July 2023

*Betashares earns a Morningstar ESG Commitment Level of Basic.*

Betashares earns a Morningstar ESG Commitment Level of Basic. The upgrade to Basic from Low is driven by the development of environmental, social, and governance-related policies, rules-based sustainable offerings, and transparency of reporting, particularly in relation to proxy-voting decisions.

Betashares is one of Australia's fastest-growing and leading providers of exchange-traded funds, with around AUD 25 billion in assets as of December 2022. Over time, starting with the launch of its first ESG strategy in 2017, Betashares has curated a range of sustainable offerings that spans over AUD 4 billion.

The majority of Betashares' products fall under the passive domain, which puts limitations to their ability to implement sustainability principles on a firmwide basis. Nevertheless, the responsible investment strategies track customized indexes that grant ESG characteristics. The strategy-specific ESG methodologies are largely based on identifying companies with best-in-class sustainability and climate scores, in addition to screening out the usual suspects including fossil fuels, gambling, tobacco, and environmental damage. A responsible investment committee, or RIC, has oversight over the ESG strategies and adds qualitative inputs to ensure that the portfolios are in line with the desired outcomes.

In November 2021, Betashares onboarded Greg Liddell as director—responsible investments; he is a member of the RIC. Liddell brings with him deep experience of ESG policymaking and implementation at the organizational level. In October 2022, he was joined by Vinay Chhoda, who leads ESG-related engagement activities with the investee companies. Further, Betashares became a signatory to the United Nations-supported Principles for Responsible Investment in April 2021.

**BlackRock** | Alyssa Stankiewicz | 1 December 2022

*A mix of capability and caution.*

BlackRock's efforts to build out topnotch resources and integrate ESG considerations in most parts of its business is impressive, but its sheer size and asset mix hamper its ability to fully embrace a culture of sustainable investing. The firm earns a Morningstar ESG Commitment Level of Basic.

In January 2020, CEO Larry Fink's high-profile declaration that sustainability would become BlackRock's standard for investing kick-started the firm's ESG efforts. Since then, the firm has ramped up its integration of ESG criteria to include nearly all actively managed strategies (roughly one third of the firm's assets) and rolled out fund-level ESG disclosures for all funds. BlackRock has also rolled out dozens of ESG-focused product offerings in recent years. However, both in terms of assets and volume, strategies that cater to sustainability-focused investors continue to be dwarfed by those that don't (accounting for 4% versus 60% of assets, respectively).

Despite being the world's largest asset manager, BlackRock's ability to push for improvement on ESG issues at investee companies seems limited. Fear of accusations of anticompetitive behavior means the firm is reluctant to file or co-file shareholder resolutions or join onto collaborative engagements. More recently, BlackRock has found itself at the center of anti-ESG sentiment in the United States, making the manager hesitant to promote a strong sustainability agenda, as evidenced by its latest voting record. BlackRock backed roughly half of key ESG resolutions in 2022, down from 72% in 2021, although still up from 16% in 2020. On climate-specific proposals, BlackRock's support also waned in 2022, judging them too prescriptive. But changes are afoot to give shareholders a bigger voice in the conversation. In 2021, BlackRock rolled out a pass-through proxy-voting program it calls "Voting Choice," which allows clients to choose a proxy-voting policy that reflects their individual priorities, effectively empowering investors to vote their own proxies. This option is not yet available to all shareholders, but it is a suitable workaround for those clients who can leverage it.

BlackRock's size gives it an edge over peers, particularly in its ability to process massive volumes of ESG data and translate it into meaningful investment insights. Still, the firm restructured its central sustainable-investing team in October 2022. Some functions, including sustainability research and ESG monitoring, moved into the broader BlackRock Investment Institute, and other functions such as client engagement remain in the renamed Sustainable Transition Solutions unit. The reorganization makes sense in principle, but it will take time for the team to harness new synergies and settle into new roles. The group hasn't been immune to turnover either. Roughly 30 sustainability-focused professionals (of a team of 70) left the firm since the beginning of 2019, although their roles were quickly backfilled.

When it comes to driving outcomes for sustainability-focused investors, BlackRock's size is in many ways its biggest strength and its biggest weakness, but bright spots remain.

### **Capital Group/American Funds | Mahi Roy | 30 August 2023**

*Growing, but yet to bloom.*

Over the past year, Capital Group made significant efforts to build out a strong sustainable-investing team to support integration of environmental, social, and governance criteria across the firm. While this growth in the firm's resources is impressive, its range of ESG-focused product offerings and its disclosure practices remain behind more-advanced industry peers. Capital Group maintains a Morningstar ESG Commitment Level of Basic.

Capital Group's ESG resources rest predominantly with its 45-plus central sustainability team, which supports the broader firm in incorporating ESG risks into the investment process. Since 2018, the firm has made 25 external hires including global head of ESG Jessica Ground, who previously helmed Advanced-rated Schroders' global stewardship team. Integration lead Marisa Sullivan is another recent hire—she works with equity portfolio managers to deepen their understanding of ESG risks and opportunities. She also helps enhance the firm's tools by embedding ESG metrics and frameworks in the central database.

In 2020, the ESG team set out to build 30 proprietary, sector-specific investment frameworks that would distill the ESG and investment analysts' perspectives on the most material, long-term sustainability issues. Backed by several dedicated software engineers and product managers, the in-house ESG platform—Ethos—aggregates and displays the data for sector-specific material ESG considerations. Although the firm does not offer ESG-focused products in the United States, it makes sure that the data is available to all in-house investors. For the most part, investment teams analyze ESG data from the bottom up, alongside traditional financial data, and integrate it as they see fit.

The firm continues to use its voice as a large asset manager to advocate for climate-related disclosure through comment letters to regulators and engagement with different investor coalitions. For instance, the firm signed on to the Net Zero Asset Managers initiative in 2022 and is set to publish its emissions reduction targets before the end of 2023.

Although Capital Group continues to strengthen internal resources and broaden external engagements, the firm still has room for improvement in its own disclosure practices. It does not report its rationales for proxy-voting decisions, and outside of a few scattered governance topics, the firm lacks a clear engagement and escalation policy outlining priorities and expectations for outcomes at portfolio companies. Explicitly detailing desired outcomes on climate change and clearly outlining the firm's escalation strategy for companies that lag on environmental and social priorities would bring the firm closer to best practice.

### **Colchester Global Investors** | Justin Walsh | 1 August 2022

*An encouraging start but a lack of transparency makes it hard to tell.*

Colchester Global Investors surpasses the competition among global sovereign fixed-income managers by integrating environmental, social, and governance views directly into its research and engaging actively with sovereign entities, but transparency is lacking. Colchester only provides a broad overview of the outcomes of these assessments and activities. The firm earns a Morningstar ESG Commitment Level of Basic.

The firm signed the United Nations-supported Principles for Responsible Investment in 2016. Unlike many investment managers, Colchester does not have a separate ESG team, nor does it have specialist ESG analysts. Rather, based on the belief that ESG criteria is material to a country's suitability as an investment, Colchester integrates ESG assessments directly into its overall view of a country. Analysts supplement traditional sovereign credit analysis with a systematic integration of ESG factors. In its ESG assessments, Colchester does not use any third-party ESG databases, preferring to use publicly available data and internal research to formulate ESG views for each country. These views then form part of the proprietary financial stability score that Colchester assesses for each country.

As a sovereign-bond investor, Colchester is not able to vote proxies and so has developed an approach to engaging with governments to encourage progress on sustainability issues. For instance, it has met

with several sovereigns (including Malaysia and India) to discuss their strategies for lowering emissions and approaches to ensuring the viability of their targets. As part of its commitment to ESG, Colchester regularly gives high-level overviews of its engagement with sovereign issuers. Still, more detail and transparency would be a plus.

**Columbia Threadneedle** | Rasa Kerelis | 1 August 2023

*A steady path toward sustainable investing boosted by a recent acquisition.*

Legacy Columbia Threadneedle's sustainable-investing program passes muster, but its recent acquisition of BMO Global Asset Management teams brings opportunities as well as challenges. The firm retains a Morningstar ESG Commitment Level Rating of Basic.

Columbia Threadneedle holds space as a reputable sustainable investor with a healthy number of funds that focus on environmental, social, and governance factors when making investment decisions. The portfolio managers and analysts who run those funds follow a strong process that incorporates proprietary analysis of portfolio companies' financially material ESG risk, working toward a net-zero trajectory centering science-based targets and alignment with the United Nations' Sustainable Development Goals.

The 2022 acquisition of several BMO GAM teams has amplified this work by formalizing and ramping up much of the above efforts, especially in thematic research, stewardship efforts, and client reporting. This added support has improved oversight and staffing, but the firm has yet to ensure consistency in application of ESG considerations across teams. The global teams acquired are based in the U.K., with Claudia Wearmouth leading ESG research and Nina Roth facilitating stewardship and increased transparency. These teams surpass 60 dedicated ESG professionals in total, and their subject-matter expertise lends a hand to legacy Columbia Threadneedle offices. Still, the group has faced significant turnover in the past few years, and the recency of this acquisition means it will take time to appreciate the full potential of integration.

Active ownership stands out as Columbia Threadneedle aligns with best practice for transparency and disclosure. A comprehensive, publicly available portion of the website takes investors through individual voting decisions with detailed explanations. Engagement is also strong: the Responsible Engagement Overlay program, which came over with the BMO GAM acquisition, supports investment teams and even subcontracts its services to other asset managers. Columbia Threadneedle's disclosures of escalation strategies in engaging with firms, approach to proxy voting on various ESG issues explained in publicly available policies, and strong track record of support for key ESG-related shareholder proposals over the last three years point to a healthy culture of stewardship at the firm.

Ultimately, Columbia Threadneedle holds promise and continues to develop in a positive direction, but recent and rapid growth in resources may take time to settle into all areas of the practice.

**Comgest** | Mathieu Caqueneau | 1 February 2022

*Comgest has built a credible ESG approach but falls short of some of the industry's best practices.*

Comgest has made efforts in the last decade to bolster its ESG credentials by hiring a dedicated team of analysts and by formally integrating ESG factors in its quality-growth investment approach. But in a fast-evolving field, the firm finds itself with fewer dedicated resources than some competitors and lacking the depth of ESG integration and active ownership practices of the most advanced players. The firm earns a Morningstar ESG Commitment Level of Basic, instead of its previous Advanced ESG Commitment Level.

ESG integration is a natural extension of Comgest's well-entrenched quality-growth approach. Since 2013, the firm has formalized the incorporation of ESG factors into its standard investment process to the point where it systematically plays a role in 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. Comgest has also introduced a suite of "Plus" funds that apply fossil fuel exclusions on top of existing firmwide exclusions, but none of its funds are ESG-focused strategies and the investment teams don't seek specific ESG outcomes against the indexes.

The firm's ESG research efforts are led by a central team of five analysts that has been slowly built out since 2012. This team is experienced, has relevant ESG credentials, and works closely with the investment staff. But these dedicated resources appear small today given the increased requirements of a proper ESG program, the number of stocks held across the funds (around 350), and the broad scope of the investment universe, which includes emerging markets.

Meanwhile, the firm has room to improve on the active ownership front. The firm's engagement policy targets only a subset of companies held across the portfolios (around 60 in 2021). Proxy voting is diligent and transparent, yet there are no specific voting guidelines around environmental and social issues. Overall, Comgest's approach to sustainable investing and active ownership still shows an emphasis on corporate governance, which has historically been a key tenet of its philosophy. A more holistic approach of E, S, and G would strengthen the firm's credibility in its sustainable-investing journey.

**Dexus** | Justin Walsh | 1 May 2023

*Dexus earns a Morningstar ESG Commitment Level of Basic.*

Dexus Asset Management continues to evolve its ESG, sustainability, and responsible investing efforts, but while the manager considers ESG requirements in the research process, they are not binding. Since its acquisition of the APN Property Group, which includes the APN AREIT strategy, in 2021, Dexus has worked to deepen the approach. When considering Dexus' approach against global best practices, Dexus receives a Morningstar ESG Commitment Level of Basic.

Dexus is a property specialist, and the former APN Property Group manages a series of listed property funds. Dexus has brought a significant level of resourcing to support the ESG efforts. The approach has been deepened through the formal adoption of a number of policies and through the ability of the Real Estate Securities, or RES, team to draw upon expertise in ESG matters from across the larger Dexus business.

The RES team has been working to integrate ESG criteria in the research process for listed real estate securities from 2012, but the weighting of the consideration is not, in our view, significant from an ESG perspective. Nonetheless, it still shows encouraging steps by accounting for ESG considerations in the overall research. More broadly, Dexus has adopted a zero-carbon-emission target and has integrated sustainability criteria, such as various building sustainability measures, including reducing the carbon footprint, evaluating water wastage, and transferring to renewable energy use, in its business. The RES team has been working on a sustainable-investing policy.

The RES team has a policy of engagement with real estate security companies. It does not have a dedicated resource in the real estate security team; rather, it is up to the analysts to cover ESG issues for the stocks they cover. Individual analysts are responsible for recommendations on voting. Overall, while encouraging progress has been made, the approach is hampered by the narrowness of the investment universe (being real estate investment securities) and the continuing evolution of the approach.

**DNR Capital | Callan MacLennan | 1 July 2023**

*The group's resources and environmental, social, and governance incorporation level are notable for a boutique manager.*

DNR Capital's quality-focused investment approach and ESG principles are natural bedfellows. Its active company engagement policy and transparency are key strengths, though peers outshine in key areas, namely in the depth of reporting on fund-level ESG metrics and alignment with industry initiatives. This results in a Morningstar ESG Commitment Level of Basic.

ESG has been core to DNR's investment approach for many years through its focus on improving, sustainable, or derated quality companies. The firm believes that good ESG practices can enhance shareholder returns and that quality companies with strong ESG capabilities are likely to make better decisions. ESG factors are thus integrated into fundamental company research, though exclusions are only relevant for the dedicated socially responsible investing strategy.

The group has one dedicated ESG analyst, with the role in place since July 2021, where previously responsibilities were delegated to the analyst team. The broader investment team undertakes fundamental ESG research in conjunction with the ESG analyst, which is reviewed by the internal Socially Responsible Investment committee. In evaluating the ESG risks of individual companies, DNR primarily relies on its own proprietary research but also factors in third-party ESG data. The resources are adequate for an investment boutique of AUD 7 billion in assets under management.



DNR Capital signed the United Nations-backed Principles for Responsible Investment relatively early, in 2009. DNR Capital is also a member of the Responsible Investment Association Australasia.

Engagement is a component of the investment process, and DNR believes that engaging with portfolio companies provides long-term benefits to its investors. Each engagement has a clear objective and issues are prioritized, typically involving company meetings, though it can also include written communication with senior management. Where the group is unsatisfied with engagement outcomes, it may choose to vote against management or exit the position. The firm publishes an annual Stewardship Report that lists details of engagement and proxy voting.

**DWS** | Natalia Wolfstetter | 1 March 2023

*Regulatory overhang overshadows continued progress.*

DWS has continued to make progress in its sustainability efforts, but ongoing investigations on alleged misrepresentation of the firm's true ESG integration are casting a shadow over its efforts to build a culture of sustainable investing. The firm maintains a Morningstar ESG Commitment Level of Basic.

Sustainability investing has been one of DWS' major strategic initiatives in recent years, spurring new products and meaningful investments in resources and data. DWS has established a strongly data-driven approach, sharing data, tools, and ESG analysis with portfolio managers and analysts through its "ESG Engine" platform. Product development now focuses on ESG offerings. Most of the firm's fund launches in the last three years have been ESG-oriented, with many existing strategies (including exchange-traded funds) now converted to sustainable approaches. To support this effort, the firm has grown its central ESG team to more than 30 ESG professionals as of January 2023. They help investment teams incorporate ESG insights in their valuation work and investment decisions.

DWS has introduced various management layers and committees over the years to coordinate and monitor its sustainability strategy, with mixed success. In 2021, DWS was accused of greenwashing by its former chief sustainability officer, which triggered investigations into the firm's ESG disclosures by U.S. and German authorities. While the outcome of these investigations is still unknown, the allegations indicate that monitoring of ESG integration may have been inadequate in the past; hence, we welcome the firm's efforts to improve oversight and communicate more conservatively about its ESG credentials.

This is important because, with the exception of ESG-focused offerings, which still represent a fairly limited share of overall assets (12.5% as of June 2022), portfolio managers retain broad discretion over ESG outcomes, though typically certain baseline exclusions apply (that is, the worst offenders when it comes to climate transition risk, norms violations, and involvement in controversial sectors).

DWS prefers to engage with companies to improve corporate behavior instead of applying universal exclusions. While the firm has an extensive track record of governance-related engagement, environmental and social engagement activities have come to the fore in recent years. For example, the

firm has defined a priority group of around 50 companies it engages with on their poor climate credentials as a key part of its commitment to the Net Zero Asset Managers initiative signed in December 2020. The firm also engages in collaboration with other investors through industry coalitions such as Climate Action 100+. The new engagement framework brings more structure, but adoption is still in its early stages, and it remains to be seen how the firm will deal with failed engagements. DWS' proxy-voting policy sets out clear expectations on environmental and social issues, and the firm often votes in favor of ESG-related shareholder proposals. Proxy-voting disclosure is comprehensive, with rationales provided for votes against company management.

**Eventide** | David Kathman, CFA, Ph.D. | 1 November 2021

*Sustainability has always been central to this firm's investment process, but limited resources hold it back.*

Eventide Asset Management's longtime commitment to environmental, social, and governance principles is somewhat offset by the limited resources it has available to implement those principles. The firm earns a Morningstar ESG Commitment Level of Basic.

Ever since Eventide's founding in 2008, ESG and faith-based criteria have been integral to the firm's investment process. As of October 2021, Eventide had \$8.8 billion in assets under management in seven mutual funds, all of which incorporate ESG factors as well as faith-based criteria. This is done partly via the custom-built Edify screening process, which draws on four outside databases to screen out stocks that do not meet the firm's standards, and partly via the holistic "Business 360" process, which identifies companies that relate well to six different stakeholders. While this commitment to sustainable-investing principles is admirable, Eventide's ESG infrastructure is still a work in progress.

As a small boutique firm, Eventide has always had limited resources for ESG. The firm didn't hire its first full-time Business 360 analyst until 2018, and it still only has three such analysts. The firm has never signed the United Nations-backed 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 secular ESG-oriented investor coalitions and does not engage in formal 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. Over the past few years, Eventide has beefed up its screening methodology and formalized aspects of its Business 360 process, but it is still catching up with bigger firms that have more resources and a deeper commitment to active ownership.

**Fidelity International** | Morningstar Manager Research | 1 May 2022

*Fidelity International has invested significant resources into its ESG program but could do more at the portfolio level.*

Since 2019, Fidelity International has put environmental, social, and governance investing at the forefront of its agenda. The firm has invested significantly in tools and personnel. However, we would

like to see further impact of this investment at the portfolio level. It earns a Morningstar ESG Commitment Level of Basic.

Under the guidance of senior management, all areas of the business have increased their focus on ESG. While there has been some basic form of ESG integration across the firm for many years, it has become formalized and more significant since 2019 with the development of a proprietary ESG scoring system, which was revamped for 2022. That system combines data from external sources with insights and input from FIL's vast bank of analysts, and it leverages the firm's resources well. Although portfolio managers are challenged on ESG issues in their quarterly reviews, they are not necessarily precluded from having a low portfolio sustainability score or holding poor ESG performers.

The central sustainability team grew significantly in 2021 and stood at 30 individuals as of January 2022. There is also an additional team of 10 to deal with the operational side of ESG—for example, monitoring the use of green bond proceeds. With FIL's size, securities can be held by different managers, so having a large team is ideal to help coordinate engagement and proxy voting. The engagement program is commendable and based on the ESG themes identified as most important, but it can also focus on arising controversies. FIL is also a member of investor coalitions FAIRR and the Net Zero Asset Managers initiative. The 2021 proxy-voting guidelines were a significant improvement on the previous editions, especially in relation to guidelines on the environment. On another positive note, the firm often votes in favor of ESG shareholder resolutions.

FIL produces materials related to ESG, including short and in-depth research, engagement reports, and full voting records, including reasons for voting against management. Fund-level ESG information has improved, with ESG data available on fact sheets for all funds.

**First Sentier Investors** | Matthew Wilkinson | 1 May 2022

*Positive direction of travel but implementation in investment strategies has yet to materialize.*

First Sentier Investors embraces lofty ESG investment goals, but a relatively small responsible investment team is underresourced to support implementation within each investment group. Consequently, it receives a Morningstar Commitment Level of Basic.

First Sentier Investors is a collection of individual investment teams that implement their own active investment strategies. The responsible investment team is headed by Will Oulton, who has nearly 20 years' experience in sustainable and responsible investment. He leads a group of four that provides ESG principles for the investment teams to enact. The RI team empowers each investment unit with policy guidelines, background knowledge, and training across all areas of ESG. While each investment team counts an ESG representative that liaises with the RI team, the latter is too small with regards to the firm's asset base to provide consistent quality support. A more comprehensive oversight of policy implementation and more-frequent portfolio reviews by the RI team are aspects that could be improved. This should be within reach as the RI team grows, more resources are slated, and processes advance to

ensure higher standards of ESG integration. However, industry expectations of ESG strategies are evolving rapidly, underpinning the need for stronger infrastructure here.

The only firmwide exclusions applied are related to controversial weapons and the tobacco industry, as is often the case in Australia. Notably, the RI steering group, who set the strategic direction, has prioritized four key areas of focus for the firm: climate change, modern slavery, diversity, and biodiversity. The various investment teams are expected to consider each of these issues before allocating capital. However, First Sentier has typically focused on valuation rather than ESG issues. The proxy-voting record made publicly available is a step in the right direction, but best practice would include more details on voting rationales, particularly on environment and social resolutions.

First Sentier has a workable base to integrate ESG into its investment process, but additional resources and further evidence of its consistent integration would better support the firm's lofty goals.

**Franklin Templeton | Mahi Roy | 1 April 2023**

*New sustainability strategy and additional resources drive an upgrade.*

Over the past year, Franklin Templeton adopted a new firmwide strategy to enhance sustainable investing. The expansion of in-house ESG- and stewardship-focused expertise and the creation of committees and working groups to help investment teams with the newly launched strategy warrant an upgrade of the firm's Morningstar ESG Commitment Level to Basic from Low.

In early 2022, Anne Simpson took the reins as Franklin's first global head of sustainability. She leads the newly formed, 12-person global sustainability strategy team, which focuses on helping each affiliate build out custom ESG integration frameworks. Portfolio managers are free to use this information as they see fit, however, and there is no formal system for reporting how they use the data to the ESG team. The stewardship and sustainability council amalgamate ESG information and make it easily available to different investment teams. The council, which includes at least one member from each investment team, serves as an effective vehicle for reducing communication gaps at an organization with various sustainable-investing approaches. David Sheasby, from Scotland-based Martin Currie, and Franklin Templeton veteran David Zahn co-chair the council.

As of January 2023, Franklin Templeton has more than 30 full-time, dedicated ESG specialists embedded across the firm, a significant increase from five in 2020. Notably, the firm created a central sustainability data position for Jennifer Willetts, who focuses on the sourcing and analysis of sustainability-related data to support investment teams with ESG integration. After Franklin Templeton joined the Net Zero Asset Managers initiative in 2021, Willetts' team created a tool that takes third-party data and overlays in-house analysis to bucket firm assets according to net-zero alignment, as defined by the IIGCC's Net Zero Investment Framework. It was only a year later in March 2022 that Franklin Templeton joined Climate Action 100+.

Franklin Templeton has recently joined prominent investor coalitions and strengthened its resources, but the firm still has room for improvement in its own active ownership practices. It does not report its rationales for proxy-voting decisions, and outside of a few scattered governance topics, the firm lacks a clear engagement and escalation policy outlining priorities and expectations for outcomes at portfolio companies.

The firm's recent advances in sustainable investing are commendable, but the novelty of this strategy warrants long-term monitoring.

**GMO** | Mahi Roy | 1 April 2023

*Climate is at GMO's core, but more hands are needed on deck.*

GMO's legacy as a quality manager lends itself well to sustainable investing, and its growing focus on climate bears promise. However, dedicated ESG expertise is slim compared with peers, and disclosure efforts trail industry best practices. The firm earns an inaugural Morningstar ESG Commitment Level of Basic.

Co-founder Jeremy Grantham has been a vocal advocate of the transition to a green economy for more than 40 years, establishing the Grantham Institute - Climate Change and the Environment, as well as the Grantham Foundation for the Protection of the Environment. These partnerships facilitate internal conversations around climate change science and technology, which support the investment thesis for various teams. The firm launched GMO Climate Change [GCCHX](#) in 2017 and signed the Net Zero Asset Managers initiative in 2022, bolstering firmwide efforts to address climate risk.

GMO has a bold goal to incorporate ESG criteria across all strategies. According to the firm, it is more than three fourths of the way there as of January 2023. The firm has a dedicated oversight committee to monitor ESG integration while allowing for portfolio manager independence. Despite taking the right steps toward becoming fully ESG-integrated, the firm's lineup lacks disclosure of ESG and carbon-related metrics. Fund-level disclosure of ESG metrics on an absolute basis, or relative to peers or a benchmark, would provide greater clarity for potential investors.

Deborah Ng joined in 2022 as the firm's first head of ESG and sustainability. Around the same time, GMO recruited a team of three to share quantitative ESG insights with the investment teams. Ng and the new ESG platform team joined Hardik Shah, GMO's ESG practice lead and lone dedicated ESG employee from 2017 to 2020. This squad of five helps investment teams with their ESG integration and engagement efforts. Notably, although the firm has recently built out its dedicated ESG expertise, all members of the investment teams consider sustainability research a core responsibility. The added resources bolster the investment teams' ability to handle ESG responsibilities, but Shah and Ng could benefit from additional hands on deck to improve transparency into the firm's sustainable-investing activities.

When it comes to active ownership, GMO's lack of public disclosure holds it back. The firm does not have a document clearly outlining its escalation strategy for companies that lag on environmental and social priorities. The firm's proxy-voting activities follow a customized version of Institutional Shareholder Services' policy with explicit desired objectives around climate change. That said, its proxy-voting record for 2022 was discouraging, with less than 50% support for key ESG resolutions (a substantial decline from nearly 80% support in 2021). Furthermore, unlike higher-rated firms, GMO doesn't publish its rationales for proxy-voting decisions or detailed outlines of engagement processes.

GMO is unlikely to shrink away from sustainable investing, but it has yet to develop an edge over peers.

**Goldman Sachs Asset Management** | Rasa Kerelis | 1 March 2023

*Substantial but siloed.*

Goldman Sachs Asset Management has expanded and refined its sustainability-focused resources and practices since signing the United Nations-supported Principles for Responsible Investment in 2011. Its 2022 acquisition of sustainability-oriented NN Investment Partners also bears promise. However, the firm's environmental, social, and governance integration efforts lack consistency, and rapid team growth has yet to drive an edge over peers, meriting a Morningstar ESG Commitment Level of Basic.

In late 2022, GSAM settled charges from the U.S. Securities and Exchange Commission related to insufficient oversight in specific ESG products between 2017 and 2020. The firm bolstered its monitoring for ESG-focused products as a result, and analysts now adhere to a fundamental bottom-up research process for all securities in-scope. However, the firm only incorporates binding ESG criteria for custom portfolios instead of using a standardized, firmwide integration process, leaving adoption of ESG principles siloed within designated offerings.

Despite these concerns, the firm has strengthened its ESG expertise and supporting resources. In 2022, GSAM finalized its acquisition of NN IP, which demonstrated a distinct alignment of ESG investment principles between the two firms and resulted in meaningful additions to both GSAM's sustainability and stewardship teams. It now hosts over 160 ESG investment professionals and 11 dedicated stewardship team members. Still, the expansion has been rapid, and most stewardship professionals have fewer than four years' experience on the team. GSAM also recently developed a proprietary ESG data tool that stands up to peers in its capacity to track research and company engagements across its equity and fixed-income strategies.

A wide range of industry-leading research along with timely reporting on proxy voting and engagement activity make GSAM a relatively responsible active owner. The firm goes beyond regulatory requirements to publish comprehensive annual stewardship reports, along with a specific fixed-income engagement report where case studies are outlined in detail. Nonetheless, the firm has room to improve. GSAM reports its rationales for proxy-voting decisions inconsistently, and outside of a few scattered topics such

as board diversity, the firm lacks a clear policy for escalating unsuccessful company engagements. Despite these gaps, the firm remains on par with its peers.

**Invesco** | Mahi Roy | 1 July 2023

*Staying the course through turnover.*

Invesco continues to develop its approach to integration of environmental, social, and governance factors, but instability in the ESG team holds the firm back. It maintains a Morningstar ESG Commitment Level of Basic.

Recent disruption in Invesco's ESG team ranks detracts from the considerable investment the firm has made in its ESG resources over the past few years. Previous head of ESG, Cathrine de Coninck-Lopez, who since mid-2019 built out the firm's ESG team, left Invesco in early 2023 for another opportunity. Today, the ESG team of 30 is led by Glen Yelton, interim head of ESG who was previously responsible for North American and European ESG client strategy. Most members of the original ESG team joined Invesco within the past five years, and turnover among senior staff has been higher than that of U.S. asset managers of a similar size. The team is mostly well-staffed, but certain verticals within the broader team are stretched thin considering Invesco manages more than USD 1 trillion in both active and passive strategies. Specifically, the governance and proxy-voting team led by Zoje Vataj lost its sole senior governance analyst in late 2022. While the firm was quick to backfill the role with a junior governance analyst, concerns remain about the team's capacity.

More hands on deck could help the firm keep up with industry best practices on transparency and disclosure. The newly hired junior analyst is responsible for providing investment teams with voting recommendations, but investment professionals lead engagements with the help of Vataj. The firm's record of support for key ESG shareholder resolutions is high, but it does not outline environmental or social guidelines in its proxy-voting policy, nor does it disclose the rationales behind voting decisions. To its credit, the firm has expanded its thought leadership on climate issues, which increases its clients' and the industry's understanding of sustainable investing.

Finally, Invesco's collection of investment teams each maintain autonomy over their approaches to ESG integration. This aligns with the firm's decentralized model, which lets each team pursue its own investment style. The firm does not have a considerable amount of assets under management in ESG-focused strategies, but its efforts seem thorough. In 2021, Invesco committed to integrating ESG criteria across 100% of its AUM by 2023. However, it recently renounced that goal to avoid trouble at the hands of regulatory bodies, and instead shifted its focus to specific and rigorous internal guidelines for strategies marketed as ESG-integrated or sustainability-focused. ESG-focused compliance members under a newly hired implementation manager audit adherence to these guidelines, establishing an additional layer of checks and balances.

The firm continues to use its size to participate in industry advocacy through SEC comment letters and different investor coalitions. Specifically, the firm signed on to major initiatives including the Net Zero Asset Managers initiative and Climate Action 100+. Those positive attributes aside, instability in the teams creates some concern, and ESG integration among Invesco's disparate teams warrants long-term monitoring.

**JPMorgan Asset Management** | Alyssa Stankiewicz | 1 May 2023

*Despite substantial progress, sustainable investing has yet to fully take root.*

JPMorgan Asset Management has taken meaningful steps to build out its sustainable-investing capabilities and related disclosures in recent years. However, it has yet to reach best practice in several key areas, and the growing sustainability team remains relatively green. The firm maintains a Morningstar ESG Commitment Level of Basic.

Over the past few years, JPMorgan has more fully embedded the consideration of environmental, social, and governance-related risks in its investment process, developed a strong climate strategy, and expanded its sustainability-focused offerings. JPMorgan joined the Net Zero Asset Managers initiative, committed nearly half the firm's assets to the effort, and acquired Campbell Global forestry—a sustainable timberland investing company with more than \$5 billion in assets under management—to support the firm's net-zero ambitions. JPMorgan has also built a suite of sustainable funds focusing on long-term themes such as sustainable infrastructure, climate change solutions, and social advancement. However, these funds remain a small part of the firm's overall strategy.

By the end of 2021, all the firm's actively managed funds were certified as "ESG-integrated," an internal process that required demonstration of ESG risk considerations. Following the inaugural round of certifications, this oversight resides with investment directors and escalates to a sustainability-focused oversight committee as necessary. Still, it remains difficult to assess the true depth and intensity of this framework's application. Investors in JPMorgan's sustainability-focused funds gain access to topnotch reports of portfolio-level carbon and ESG risk exposures. However, these metrics are not widely available for conventional funds, so investors who may be on the fence about investing sustainably lack ESG statistics for comparison.

The squad driving JPMorgan's sustainability ambitions is highly capable and has more than doubled since the end of 2020. The team's structure allows for broad fundamental research as well as narrow specialization on topics like climate and biodiversity. Some individuals are relatively new to financial services but draw on diverse backgrounds such as sustainable sourcing across supply chains or academic research on healthy ecosystems. The additional hands-on deck are a plus, and the current configuration is sensible, but it will take time for the group to reach its full stride.

JPMorgan's diverse book of business and global footprint lead to some inconsistencies across fund types and regions. Sustainable funds leverage an ESG-focused proxy-voting policy, but there is little



attention paid to environmental and social issues in the firm's standard proxy-voting guidelines. The firm's sustainable funds also tend to be more supportive of key ESG shareholder resolutions than their conventional peers, voting for nearly 80% of such proposals over the past three years (versus nearly 60% support among conventional funds). Furthermore, ESG research insights are published in European and Asian markets but not in the United States, partly because of the relatively low level of demand for such research there.

**Lazard Asset Management** | Mahi Roy | 1 May 2023

*Lazard's nascent sustainable-investing efforts are evolving at a great speed.*

Lazard houses adequate in-house sustainable-investing expertise and formally integrates environmental, social, and governance factors in its investment approach. However, the firm's efforts in this space are new, and transparency into investment stewardship activities remains below global peers, earning the firm an inaugural ESG Commitment Level of Basic.

The firm is a collection of investment teams that each maintain autonomy over their approaches to environmental, social, and governance integration. While some investment groups have considered ESG criteria for many years, Lazard's ESG integration process became more formalized only in 2019 when the firm appointed Jennifer Anderson and Nikita Singhal as co-heads of sustainable investment. Over the following three years, the duo built out a central ESG squad of more than one dozen members who support the investment teams' understanding of emerging sustainability issues. While the current capacity and level of experience is appropriate, it will take time for the team to stabilize and reach its full stride.

Even though each investment team is allowed to craft its own approach to ESG integration, the central team has already made progress in empowering investment teams with relevant ESG tools. For instance, the team recently built sector-based materiality frameworks and company-level scorecards to include ESG considerations more systematically across the funds. The investment teams also have access to an ESG watchlist that identifies companies with deteriorating ESG scores. To avoid inconsistency between different teams' approaches, the firm recently introduced specific internal guidelines for strategies marketed as ESG-integrated or sustainability-focused. Adherence to these guidelines is audited by compliance, establishing an additional layer of checks and balances.

In addition to these definitions, the firm also developed frameworks for voting on ESG shareholder proposals and collaborative engagements. Individual teams drive proxy voting and engagement activities with the help of newly hired Director of Stewardship Elly Irving. Notably, she created guidelines for investment teams on how to vote on climate issues. The firm's record of support for key ESG shareholder resolutions is high, but it does not outline environmental or social guidelines in its proxy-voting policy, nor does it disclose the rationales behind voting decisions.

Overall, Lazard has taken strides to embed sustainability into its investment process in recent years. However, insufficient public disclosure of voting decisions and the lack of structure around engagements are some of the areas currently holding the firm back.

**Liontrust** | Morningstar Manager Research | 1 February 2022

*A mixture of ESG integration is present at Liontrust.*

Liontrust Asset Management operates as a series of boutiques, with each investment team maintaining a high level of autonomy. This means ESG practices among the teams vary significantly. With some of its investment teams further ahead than others in terms of ESG integration, Liontrust receives a Morningstar ESG Commitment Level of Basic.

The group has been working with each investment team individually to ensure that the approach to ESG is suitable for each team's investment process and in accordance with local laws, such as EU Sustainable Finance Disclosure Regulation for offshore fund ranges. Having completed the ESG integration formalization process with the Sustainable Future, Economic Advantage, and Fixed-Income teams, those teams are now seen as fully ESG-integrated. This process is being undertaken with other Liontrust teams, but it may take some time to cover all assets, especially given the breadth and number of different investment styles present.

From both an assets and an ESG perspective, the Sustainable Future team is the business' leader. The team has its own distinct approach to ESG investing, which is at the heart of the investment process, and all its funds are ESG-focused. The team also accounts for over one third of Liontrust's assets under management, which gives its strong ESG credentials significance in terms of the overall group's standing. Some of the members of the Sustainable Future team have been active in ESG for many years. For example, Peter Michaelis, head of the team, has managed the U.K. equity strategy for over 20 years. The governance and stewardship specialists who joined with the Sustainable Future team in 2017 now number three and are a central resource available to all Liontrust investment teams, but they are not yet widely utilized. Liontrust also provides all teams with MSCI ESG ratings data.

On engagement and voting, individual teams carry out their own activities. Proxy votes are cast for all equity assets, but the type and level of engagement is different from team to team. At the moment, there is not much coordination between investment teams. As expected, the Sustainable Future team is strongest on active ownership and has its own engagement themes. Liontrust more broadly also has key engagement priorities, but data showing its success here is sparse (outside of the Sustainable Future team) and improvement would be welcome.

**M&G** | Giovanni Cafaro | 1 July 2022

*Significant recent progress has yet to come to full fruition.*

M&G has made substantial progress to integrate ESG within its activities and invest in new ESG resources in recent years. This includes formalizing firmwide ESG principles and commitments, upping the headcount of its Stewardship & Sustainability team, and developing proprietary ESG analytics. However, some challenges remain in place, especially around fund-level reporting and continued ESG integration across core products. This leads to a Morningstar ESG Commitment Level of Basic.

M&G has built its reputation on fiduciary duty and active ownership, with recent improvements allowing the team to look beyond traditional governance issues and take into consideration a wider range of factors related to environmental and social issues. M&G signed the United Nations-supported Principles for Responsible Investment in January 2013, and it is a member of many industry initiatives, including being a founding signatory of the Net Zero Asset Managers initiative in December 2020. The team has also taken an active role in collective engagements in bodies such as Climate Action 100+, FAIR, and FFP, leading to positive outcomes.

The firm has deployed significant resources to grow its S&S team to 24 professionals, with more than half joining in the last three years. Rob Marshall heads up the team, which is split into five subgroups with different areas of focus ranging from ESG research and integration to climate analytics. The team recently developed a set of tools including a scorecard and a portfolio analytics tool, which provide fund-level ESG insights to portfolio managers. M&G has also expanded its sustainable fund range more recently, with product launches ranging from stand-alone impact strategies to sustainable versions of long-standing funds.

Room for improvement remains. For example, fund-level ESG reporting is still in its early phases, and fact sheets include only limited ESG data. Core funds are also yet to benefit from a more comprehensive integration of ESG factors, with the portfolio managers only recently gaining access to the new set of tools. Additionally, more clarity around M&G's active ownership activities, including comprehensive proxy-voting rationales, would be welcomed. Despite the recency of overall progress, the firm appears to be committed to continue prioritizing ESG efforts in the coming years.

**Macquarie** | Tim Wong | 1 June 2022

*A clear agenda to address carbon emissions, though slim resources and limited disclosure hold it back.*

Macquarie Investment Management pushes a lower carbon emissions agenda, which materializes in its engagement and advocacy efforts, but thin central ESG resources, weak firmwide policies, and lackluster disclosures constrain its ability to pursue its most ambitious ESG goals. As a result, it attains a Morningstar ESG Commitment Level of Basic.

Macquarie's net-zero carbon-emissions pledge underpins much of the firm's ESG philosophy. The firm has pledged to hit net-zero emissions by 2040, but Macquarie's investment teams have not universally

adopted this initiative yet. In line with the firm's climate ambitions, Macquarie co-led a collaborative industry initiative to improve planning and disclosure around carbon emissions within the Climate Action 100+ organization. However, this laudably active approach to engagement is diminished somewhat by the fact that the firm does not consistently disclose proxy-voting rationales or engagement outcomes, a common practice among the leading lights in the industry.

Investment teams within Macquarie's public markets group have latitude to implement their own approach to applying ESG factors. Barry Gladstein leads a central group of ESG specialists to educate investment teams on thematic ESG issues and with company engagements, but the lack of central binding goals for investment teams means the ESG effort remains disjointed. This team ensures that firmwide ESG policies are upheld and oversees the centralized ESG database, among other responsibilities. Still, ESG resourcing for the broader public markets team is at the lighter end, and the team may be constrained as engagement work continues rising.

All in all, Macquarie Investment Management does some commendable work in applying ESG principles to investing, though it could take additional steps to reach the loftiest heights.

**MFS** | Rasa Kerelis | 30 August 2023

*ESG integration efforts hold steady despite personnel changes.*

MFS continues to incorporate environmental, social, and governance factors into its investment process despite an upcoming departure. The firm earns a Morningstar ESG Commitment Level of Basic.

In March 2023, MFS announced the retirement of Barnaby Wiener, the firm's chief sustainability officer, and his subsequent succession by Rob Wilson in April 2024. This early announcement not only signals to investors that the firm takes its sustainability ambitions seriously but also that it values transparency and long-term planning.

Although the firm does not offer any ESG-labeled funds, nor does it currently plan to, MFS' annual sustainability report provides comprehensive descriptions of how ESG factors are applied throughout the investment process. Each team is encouraged to understand the ESG risks associated with their investment decisions, but portfolio managers retain discretion to minimize or sell a position, and with only four dedicated ESG analysts, the firm's plan to bring every investment professional up to speed will take time. This investor-led philosophy of ESG integration is common at competing firms but leaves some room for inconsistent application within funds. While the annual report offers some transparency, publication of individual funds' ESG metrics or engagement activities would paint a clearer picture for sustainability-oriented investors.

MFS' approach to stewardship reflects the firm's integrated structure. Franziska Jahn-Madell, director of global stewardship, oversees the firm's net-zero commitment as well as the investment teams' engagement and proxy-voting activities with the support of three dedicated professionals. On proxy

voting, the firm's support for key shareholder proposals related to ESG issues sits relatively high at more than 80%. Published proxy-voting policies underpin the firm's commitment to diversity, climate disclosures, human rights issues, and more. Committing 92% of assets to the Net Zero Asset Managers initiative, Jahn-Madell supervises regular publication of progress reports and ensures that each portfolio company has a tailored plan to decarbonize.

**Morgan Stanley Investment Management** | Mahi Roy | 1 January 2023

*Inconsistent ESG philosophies dim the bright light of a recent acquisition.*

Morgan Stanley Investment Management has followed Calvert's lead by strengthening its policies on environmental, social, and governance issues and expanding its ESG offerings, but the lack of an overarching ESG philosophy across its lineup holds it back. It maintains a Morningstar ESG Commitment Level of Basic.

In March 2021, Morgan Stanley acquired Eaton Vance, at which point Calvert became a wholly owned subsidiary of MSIM. Calvert maintains an independent board to ensure rigorous ESG integration in all Calvert-branded funds, but the firms are increasingly merging, especially in terms of resources. Emily Chew left MSIM to become the chief responsibility officer of Calvert in May 2021, and Ted Eliopoulos moved from MSIM to succeed John Streur as CEO of Calvert in December 2022.

Despite changes in leadership, the acquisition has not upended Calvert's innovation and merit within sustainable investing. Calvert has led the field since the 1980s when it launched the Calvert Social Investment Fund, proposed its first socially driven shareholder resolution, and helped champion the foundation of Ceres, a network of investors and organizations that advocates for policy changes to accelerate the climate transition, among other sustainability issues. Calvert continues to build on this legacy through independent fund oversight and cutting-edge investment stewardship (including proxy voting and engagement).

Calvert's excellence in sustainable investing has provided a blueprint for MSIM's own progress in the field, but MSIM has a long road ahead to catch up. Beginning in 2021, MSIM updated its sustainable-investing principles and developed ex-ante portfolio modelling of ESG risks in its proprietary database. In 2022, the firm launched a suite of co-branded MSIM-Calvert sustainable funds in Europe, which introduced Calvert's proprietary research to overseas markets. Still, outside of ESG-branded funds, the incorporation of ESG risks is left to the discretion of portfolio managers, leading to inconsistent firmwide adoption.

The firm's ESG efforts are well supported by a dedicated central team and ESG specialists on individual investment teams. Navindu Katugampola replaced Chew as global head of sustainability in May 2021 with oversight of four verticals: policy, product development, stewardship, and data. Although the core ESG crew is small relative to peers, its access to Calvert's expertise is a key advantage, especially regarding access to third-party data sources and proprietary research.

MSIM's active ownership capabilities still have room to grow. The guidelines for proxy voting and engagement on environmental and social issues stop short of detailing desired actions on climate change or the firm's strategy for escalating engagements with laggards. Still, the firm's proxy-voting record indicates strengthening commitment in recent years. In 2022, MSIM funds (including Calvert and other subsidiaries) backed more than 90% of key ESG shareholder resolutions, with the highest support for those related to human rights disclosure, political lobbying, and workforce diversity. Calvert is a founding signatory of the Net Zero Asset Managers initiative in 2020 and committed 100% of its assets under management to the effort. Calvert also joined Climate Action 100+, which leads collaborative efforts to address climate change, in 2018. MSIM, on the other hand, has yet to join either initiative.

**Nanuk Asset Management** | Erica Hall | 1 May 2023

*Sustainable credentials but more clarity in policies and reporting required.*

Nanuk is an international equity manager with sustainable-investing credentials seeking to provide good investment outcomes by investing in companies that should fare well as the economy shifts to more-sustainable practices.

However, Nanuk does not necessarily seek to invest into the most sustainable companies. Rather, it favors firms that pass their positive and negative sustainable screening processes and are identified as mispriced. For example, it will invest in companies with poor governance factors if the company's price exhibits value. Negative screening is via its broad exclusion list, which contains typical exclusions such as coal, oil and gas, tobacco, and adult entertainment, among several others. Nanuk's positive screen requires at least 25% of a firm's value (not revenue) to be derived from activities that contribute to improving global sustainability.

All portfolio managers are responsible for integrating ESG assessments into their company research analysis and for participating in stakeholder engagement. Further, each portfolio manager has completed the CFA ESG certificate. Nanuk will partake in active ownership activities if it thinks they can make an impact; however, it typically votes aligned with the proxy-voting provider.

Philosophically, the firm provides a solid sustainable foundation, but there remains room for improvement, particularly when it comes to its sustainable policies and objectives, which are indistinct. Other areas of improvement relate to the frequency and transparency of its sustainable reporting, which is lacking relative to global sustainable peers. This is why it earns a Morningstar ESG Commitment Level assessment of Basic.

**Natixis Solutions** | Madeline Hume, CFA | 1 January 2022*Recent efforts don't stand out next to more-innovative peers.*

Natixis Solutions led the industry by launching an ESG target-date series in 2017, but the group will have to evolve further to stay competitive as the industry matures. The firm earns a Morningstar ESG Commitment Level of Basic.

Natixis Solutions runs a limited lineup of multi-asset strategies that invest in funds managed by sibling affiliates of the holding company, Natixis Investment Managers. The flagship offering is a sustainable target-date strategy, but beyond the series' design and assignment of mandates, the manager selection team takes a relatively hands-off approach to ESG oversight and engagement, resulting in portfolios that are lackluster from an ESG perspective.

Natixis Solutions does not have an ESG investment policy, and it doesn't enforce consistent exclusions across the fund lineup (target-date or otherwise), instead largely relying on underlying managers to integrate ESG criteria as they see fit. This doesn't measure up to peers who employ more-stringent screens on underlying managers. Furthermore, because the firm invests primarily in stand-alone funds, its active ownership capabilities are limited. Those funds' managers control proxy-voting and company engagement activities for the target-date series and the firm's model portfolios. Natixis Solutions collaborates with investor coalitions such as Ceres, ICCR, and As You Sow, but this doesn't stand out next to more-advocacy-oriented firms.

Natixis Investment Managers seeks to improve cohesion and clarity around the ESG practices of underlying affiliates, but it is unlikely to mandate firmwide adherence to a central ESG policy. Moreover, NIM's ESG leadership has seen turnover: Harald Walkate, who led the ESG effort since 2019, left the firm in 2021 and was replaced by Nathalie Wallace. It will take time for this team to drive material improvement in the ESG practices of underlying affiliates.

**Neuberger Berman** | Rasa Kerelis | 30 August 2023*Ongoing improvements underscore sustainability ambitions.*

Neuberger Berman continues to grow its environmental, social, and governance capabilities. The firm's expanded resources and exemplary disclosure of proxy voting and engagement activities stand out, but some remaining inconsistencies underpin a Morningstar ESG Commitment Level of Basic.

Jonathan Bailey assumed oversight of ESG and impact investing in 2017. Since then, he has more than quadrupled the team to 25 dedicated professionals spread globally, ranging from ESG generalists and subject-matter experts to engagement specialists. He also spearheaded a move to merge both investment and stewardship professionals into one team. This connection, along with strong support from an ESG advisory council made up of external experts, helps maintain strong alignment when it comes to investment decisions, to the firm's dedication to net zero, and more.

Using its increased resources, the firm provides strong disclosures for impact funds, as well as published case studies detailing engagements with portfolio companies. For funds like Neuberger Berman Municipal Impact NMIIX, investors can gain access to an impact analysis profile that outlines the themes addressed by fund proceeds and detailed reviews of select holdings. While transparency is strong for impact mandates, it would be useful if such metrics were more widely available. Neuberger Berman divides its funds into four categories according to the intensity of ESG integration. However, portfolio managers retain autonomy over their own processes, which—while common among competitors—can lead to inconsistency in application. More detailed fund metrics would improve transparency for investors seeking to understand the effect of ESG considerations on portfolio decisions.

The firm's stewardship practices approach best practice. Engagement and proxy-voting professionals have been positioned to work more closely with investment professionals, which helps guide engagement activity with portfolio companies and oversee client-directed ESG priorities. The firm's NB Votes program, which discloses proxy votes and rationales ahead of the voting process itself, stands out among peers and signals to both investors and other asset managers the firm's stance on ESG issues.

#### **Ninety One** | Morningstar Manager Research | 1 February 2022

*A solid ESG base is in place from which to develop further.*

The approach to ESG integration at Ninety One is solid, but we would like to see more at the fund level. Ninety One earns an ESG Commitment Level of Basic.

In the past, Ninety One had a larger central sustainability team, but it has made efforts to decentralize ESG expertise in order to make it part of the day-to-day investment activities. ESG analysts who previously sat in the central team have moved into the risk and investment teams, but there is still a central team to coordinate engagement and voting, as well as to oversee effective ESG integration in investment decision-making. With input from senior management, the Sustainability and Stewardship Committee has helped each team develop its own approach to ESG and will also provide ongoing monitoring. Ninety One saw its global head of sustainability, Therese Niklasson, leave the firm at the end of 2021, but the firm plans to replace her. Ninety One also created a new chief sustainability officer role, to be filled by Nazmeera Moola, who will spearhead engagements and oversee firmwide sustainability initiatives. Ninety One does not have a proprietary ESG tool but does equip investment teams with data. There is a portfolio-level ESG profiling tool and a proprietary carbon risk tool, but they are used primarily on an ex-post basis. One area in which we believe the group could improve at the individual strategy level is tilting toward strong ESG companies during stock selection rather than just avoiding laggards. The firm has three ESG-focused strategies, which were all launched in the only last few years.

Active ownership at Ninety One is characterized by a soft-touch approach and few hard rules around voting and engagement. Nonetheless, the firm votes on all equity assets, often in favor of ESG resolutions. On more-contentious issues, Ninety One prefers to engage and work with management



rather than voting against them or escalating—for example, via filing a shareholder resolution, which the firm has never done. Policy advocacy and initiatives are an area of focus for the firm, having signed on to eight in 2021. Disclosure on voting and engagement activities is good, with plenty of detail on both an aggregate and granular level.

**Payden & Rygel** | Chris Tate, CFA | 1 June 2022

*Displays great depth in sustainable fixed-income investing.*

Payden and Rygel's sustainable fixed-income investing is on a reasonable journey, but further depth to embed ESG factors and greater disclosure of these efforts are desirable. It earns an ESG Commitment Level of Basic.

Payden aims to integrate material ESG risks and opportunities that may not be present in traditional information sources but that may affect future performance. There are two pillars underpinning this ESG approach. First, rather than impose a broad ESG framework as an overlay, the firm prioritizes ESG research as a meaningful part of bottom-up credit analysis, which directly impacts valuations and security selection. In addition to this bottom-up fundamental research, the firm's individual strategy teams, with some broader oversight, apply a top-down approach to managing and monitoring ESG risks in each portfolio. Although not an ESG-focused manager, some level of ESG integration is applied to around half the firm's assets, while a small portion meets a higher standard.

Payden's central ESG team is small considering the firm's roughly USD 150 billion assets under management. Instead, representatives from each of the firm's strategy and research teams comprise the firm's ESG committee. This committee acts as the center of excellence for coordinating and disseminating ESG information and best practices, under the guidance of head of ESG Laura Lake. Credit analysts, research departments, and strategy teams lead bottom-up ESG research activities. ESG considerations go beyond merely corporate credit, extending to developed sovereigns, emerging markets, and securitized, a breadth not common among fixed-income managers. To supplement this fundamental analysis, ESG data, both external and proprietary, are widely available through the firm's internal system, including alignment with SASB industry standards, materiality maps, and scorecards.

The firm's role as a debtholder limits its ability to engage with portfolio companies because it can't vote proxies or participate in shareholder resolutions. Therefore, Payden takes a collaborative approach to engagement. For example, Payden is an active member of the Carbon Disclosure Project's initiative to improve climate risk disclosures, and the firm is an ongoing participant in the United Nations-supported Principles for Responsible Investment's sovereign credit working group. Payden's engagement policy lacks specificity; in particular, the firm doesn't provide measurable environmental and social goals for portfolio holdings, against which the effectiveness of engagements could be measured. A robust internal engagement tracking system is in place, inclusive of ESG topics and outcomes, but disclosure is an area that could be much improved.

**Pendal** | Tim Wong | 1 July 2022

*A meaningful and growing investment into ESG research is hindered by uneven disclosure around active ownership efforts.*

Pendal has a three-decade-plus track record managing ESG-oriented strategies, and the acquisition of ESG research specialist Regnan demonstrates ongoing commitment, but its disclosure around engagement activities lags competitors'. The firm earns a Morningstar ESG Commitment Level of Basic.

Pendal has managed dedicated ESG strategies across equities, fixed interest, and multisector for many years. It co-founded Regnan (a provider of thematic ESG research, engagement, and advisory services) in 2007, with Regnan providing research to support Pendal's ESG-focused funds. Pendal assumed full ownership of Regnan in 2019 and has since beefed up the team (spanning 15 people mostly across ESG research and investment). Regnan has launched impact investment strategies spanning global equities (including a water-focused offering) and a credit strategy.

Edwina Matthew (head of responsible investments) and Stuart Eliot (ESG multi-asset portfolio manager) both left for competitors in 2022, which is not ideal. Senior figures Crispin Murray, George Bishay, and Michael Blayney remain in place and are equipped to continue managing Pendal's ESG offerings. In recent years, Pendal has prioritized the development of proprietary ESG tools, such as a climate risk model that supports the team's understanding of carbon emissions sensitivities at the stock level. On the other hand, incentive compensation has no discrete linkage to ESG outcomes, so accountability for this research is less robust than at competitors.

Disclosure on ESG matters could also be better. The shop presents its views on ESG issues with businesses and seeks tangible progress on these matters, and it is a major voice in the Australian equity market. However, reporting on proxy-voting decisions is infrequent and lacks detail, and proxy-voting guidelines are not particularly prescriptive relating to Pendal's stance on environmental or social issues. Furthermore, the firm avoids naming specific companies in engagement reports; doing so is a common practice among leading ESG firms.

**Perpetual** | Michael Malseed | 1 February 2022

*Perpetual Australia earns a Morningstar ESG Commitment Level of Basic.*

Perpetual Australia earns a Morningstar ESG Commitment Level of Basic with limited application of ESG criteria outside of a small number of ESG intentional strategies. Separately, the acquired businesses of Barrow Hanley Mewhinney & Strauss and Trillium Asset Management have their own level of ESG integration, which is not included in this assessment.

Only a small proportion of Perpetual's Australian assets under management are classified as ESG-intentional as defined by Morningstar. The firm has broad ESG policies in place to ensure minimum

standards are met across all strategies; however, these are not as extensive or prescriptive as more-advanced peers.

Perpetual's overarching investment philosophy centers around quality and value. Governance is carefully scrutinized when assessing an investment's quality, but when it comes to non-ESG-focused strategies, social and environmental factors are considered only to the extent they pose a material valuation risk. This occasionally leads to holdings that rate poorly on traditional ESG criteria, provided the manager believes they are attractively priced.

In Australia, the firm has modest ESG resourcing. Richard Morris has been head of responsible investments since 2012, and he hired a supporting analyst in early 2020. This is a small team, particularly given the size of the Perpetual group. While stacking up reasonably in terms of size and experience against Australian peers, it continues to lag the global peer group. It demonstrates a reasonable commitment relative to Australian peers.

Perpetual is an active and engaged shareholder, but it has historically focused on shareholder value creation and preservation, rather than environmental or social concerns. While its proxy-voting record is publicly available, voting rationales are not disclosed in detail, even for contentious resolutions, which falls short of best practice. Overall, Perpetual has some positive attributes, but a limited approach to ESG integration across all strategies holds it back relative to peers.

#### **Pictet Asset Management** | Natalia Wolfstetter | 1 March 2022

*A large part of the firm's lineup lends itself well to sustainable investing, but the broader firm still has some way to go.*

Pictet Asset Management has a high share of assets in thematic strategies with compelling sustainability credentials, but we believe its decentralized approach has some blind spots. In combination with the modest size and impact of central ESG resources and nascent engagement efforts, this keeps the firm's ESG Commitment Level at Basic.

As of September 2021, Pictet AM has classified a large share of assets as Article 8 (40%) and 9 (22%) under SFDR, mainly thanks to its large thematic franchise, which accounts for two thirds of assets. That said, the firm has formalized its efforts in the ESG arena only in the last couple of years, with sustainable investing being included explicitly among the strategic priorities of Pictet Group and the aim to fully integrate ESG factors and active ownership into all investment processes by 2025. The firm follows a decentralized approach to ESG integration, whereby it expects its investment teams to fully own ESG research, whereas central ESG resources are deliberately kept small, and their main focus is on active ownership activities.

The members of the seven-member central ESG team are well-experienced (mostly in stewardship-related topics), and the firm has appointed 50 "ESG Champions" in 2020 to lead ESG activities across

different functions. The thematic team will also add further headcount to support engagement activities. Still, it will take time for all investment teams to become fully self-sufficient in ESG terms, and because of light resourcing, the central ESG team may not be able to offer as much support as required. ESG thought leadership is another area that could benefit from more resourcing.

Oversight on funds' ESG positioning is provided by the Investment Risk & Performance team, which can challenge portfolio managers on holdings with high ESG risk during biannual quality reviews. The firm uses a wide variety of ESG data sources, which feed into its proprietary "ESG Scorecard," a system used to flag the ESG risk of corporate issuers. It serves as a prompt for investment teams to develop their own assessment of issuers that are deemed high risk. Except for firmwide exclusions, which vary depending on the ESG profile of the fund, investment teams retain a lot of discretion to manage ESG risks as they see fit, and they can come to different conclusions on high-risk names, with the potential for inconsistencies across strategies managed by different teams.

The central ESG team, however, ensures that the firm has one voice when it comes to active ownership. The firm's proxy-voting activities are well-established, and it has often supported ESG-related resolutions, but most engagements are still done through a service provider, though the firm is ramping up its own engagement activities. Hence, it is still too early to evaluate their effectiveness. The firm could further improve on transparency and reporting, both with regard to active ownership and the disclosure of ESG metrics.

**Pimco** | Mahi Roy | 1 May 2023

*Pimco has expanded its ESG capabilities in recent years, but transparency remains an issue.*

Over the past few years, Pimco has invested heavily in its people and processes to facilitate stronger integration of environmental, social, and governance factors across the firm's investment strategy lineup. However, transparency remains an issue relative to global peers, and recent additions to the ESG team have yet to find their stride. The firm maintains a Morningstar ESG Commitment Level of Basic.

Pimco's ESG push ramped up in 2017 with the establishment of a dedicated ESG mutual fund platform and the creation of an ESG leadership team. That team has seen some turnover, including Scott Mather's retirement at the end of 2022. Mather was instrumental in building out the central ESG team in recent years and was the lead portfolio manager on a number of the firm's ESG strategies. Grover Burtthey quickly stepped in as head of ESG portfolio management, though he hasn't been named to the strategies Mather once led. As of December 2022, the ESG team under him consists of 11 dedicated analysts, a significant leap from just five members in 2020. Nonetheless, a change in leadership and the team's quick growth bears watching.

In addition to its efforts to build out and stabilize an 11-person ESG team, Pimco also expanded its proprietary ESG score to include securitized products and municipal bonds. The day-to-day work of assessing and engaging with individual bond issuers, as well as trading based on ESG criteria, falls to

the 80-plus credit analysts and portfolio managers across bond market sectors. The investment teams are also supported by a group of dedicated developers who build analytical frameworks and tools that support Pimco's investment process as well as its collaborative engagement with industry standard-setters.

As a titan of fixed-income investing, Pimco is involved in many industry initiatives to advance sustainable-investing practices. In June 2020, the firm provided critical input to the International Capital Markets Association, which sets guiding principles for green, social, and sustainability-linked bonds. The firm engages with ICMA in a range of capacities including its role on the executive committees for Green Bond Principles and Social Bond Principles, as well as its leadership in various related working groups. Pimco is also a member of Climate Action 100+, and while it is not a signatory of the Net Zero Asset Managers initiative, it has introduced a net-zero framework, although with no decarbonization targets.

Unlike equities, bonds don't have ownership rights, so bond-focused asset managers have fewer tools to influence issuers. Despite this, large debtholders such as Pimco are not powerless, and the firm engages with corporates to improve their adherence to ESG principles. Pimco is also well-positioned to engage with sovereign nations on issues such as the energy transition and green finance. However, the firm discloses limited information on sovereign engagements.

All in all, Pimco does some commendable work in sustainable investing, but it could take additional steps to reach the loftiest heights.

**Putnam** | Rasa Kerelis | 1 April 2023

*Robust methodology, room to improve.*

Putnam has demonstrated well-developed consideration for environmental, social, and governance issues, and recent firm-level initiatives have produced high-quality ESG data analyses and accessibility. However, the firm still has some way to go in terms of standardizing ESG integration across investment teams and in strengthening its stewardship practices. The firm maintains a Morningstar ESG Commitment Level of Basic.

With Katherine Collins leading the charge as head of sustainability since 2017, Putnam has developed a commendable host of comprehensive ESG data tools for investment professionals to leverage. The firm hosts more than a dozen investment professionals dedicated to ESG research, voting proxies, and guiding higher-level strategy for engaging with portfolio companies on ESG issues. This team has created dynamic materiality frameworks to translate ESG data into actionable signals for ESG and non-ESG funds alike. Furthermore, the central ESG team assigns a proprietary ESG risk score to every portfolio holding, which is available to portfolio managers across the firm. Although ESG data is readily available to portfolio managers, consideration of ESG criteria is nonbinding for most Putnam funds, leaving potential for inconsistency between investment teams' approaches.

Putnam has expanded its ESG-related thought leadership, which supports clients and the industry in understanding sustainable investing. Despite these advances, stewardship practices have significantly lagged in progress. The firm's record of support for key ESG shareholder resolutions hovers around 50%, and Putnam neither outlines environmental or social guidelines in its proxy-voting policy nor discloses the rationales behind voting decisions. While peers often collaborate on targeted engagements to persuade companies to disclose ESG-related data or amend practices prone to ESG risk, the firm's main format for engaging with investment companies is an annual letter-writing campaign to CEOs. The firm has also refrained from signing several major initiatives including the Net Zero Asset Managers initiative and Climate Action 100+ and does not have any formal commitment to reduce carbon emissions in its portfolios.

**State Street Global Advisors** | Daniel Sotiroff | 1 June 2022

*Small but positive improvements.*

SSGA's ESG effort took some small steps in the right direction over the past year, but hurdles to a stronger ESG program remain in place. It maintains an ESG Commitment Level of Basic.

SSGA's support for key ESG shareholder resolutions increased to more than 70% in 2021, compared with roughly 50% support in 2020. Board diversity and climate risk disclosures rank among the major initiatives driving SSGA's proxy-voting strategy across all portfolio companies. It also signed on to the Net Zero Asset Managers initiative and has undertaken efforts to improve its own climate footprint and the diversity of its workforce.

The firm's stewardship team uses its in-house R-factor tool to evaluate ESG risks unique to each portfolio company. This is a distinct and solid approach that helps the team prioritize certain engagements over others to make the most efficient use of its effort.

The stewardship team is integrated across multiple business units and continues to grow. It favors dialogue with companies to drive positive change, but it largely limits its effort to engagements and proxy voting. It does not take a more activist stance—such as initiating shareholder proposals—to push for change, which limits the strength of SSGA's ESG agenda.

Most of the assets SSGA oversees track indexes that do not have an ESG focus, making it a permanent source of capital to many publicly traded companies that don't have strong ESG profiles, such as those in the oil and gas industry. That means it often cannot take certain actions, such as divesting, when portfolio companies don't comply with its requests.

While most of the index-tracking strategies that SSGA offers do not have an ESG focus, it has started to offer more in the major markets that it serves, including the United States and Europe. Additionally, the firm has made efforts to integrate financially material ESG analysis across its actively managed strategies, but these represent about 15% of the firm's assets under management, so the impact likely

won't be big compared with the AUM opportunity set that it oversees. Despite efforts to strengthen its ESG credentials, SSGA's mix of assets adds some enduring challenges to its ESG program.

**T. Rowe Price** | Adam Sabban | 1 January 2023

*A genuine effort despite some shortcomings.*

T. Rowe Price has the resources to effectively integrate sustainable-investing principles but could improve its active ownership and investor transparency efforts, resulting in a Morningstar ESG Commitment Level of Basic.

T. Rowe Price incorporates environmental, social, and governance criteria into its fundamental research process because it believes they affect an investment's risk/return profile. The firm has long focused on matters of corporate governance but has paid more attention to social and environmental issues over the past decade. It signed the United Nations-supported Principles for Responsible Investment in 2010, incorporated third-party ESG data into the research process in 2014, and developed in-house ESG research capabilities in 2017. The firm has grown its responsible investing and governance teams to support the broadening of its effort, which now total more than 20 members combined.

In 2018, the firm developed a proprietary ratings system to underpin its sustainable-investing effort. The model supplements third-party ESG data from numerous vendors with its own datasets, culminating in a multitiered ESG rating for a given company. While portfolio managers aren't compelled to avoid companies with potential ESG concerns, they must consider them and meet with the firm's responsible-investing team quarterly to review their portfolios. Directors of research and a central ESG committee oversee ESG implementation. The firm could be more transparent by making ESG data for its numerous mutual funds easily accessible for investors.

T. Rowe Price has the resources and scope to be an influential advocate of sustainability, but its reluctance to vote in favor of key ESG issues and vague proxy-voting and engagement policies are key drawbacks. In each of the last three proxy seasons, the firm voted for less than half of key ESG resolutions as defined by Morningstar. T. Rowe Price prefers to engage companies through board letters and private meetings rather than through public-facing methods. The firm's engagement guidelines stop short of clear directives on topics such as decarbonization targets and instead let company management address issues as it sees fit. Aside from advocating more detailed and standardized ESG disclosures from companies, T. Rowe Price lacks meaningful sustainability goals in its proxy-voting policy.

**Troy Asset Management** | Tom Mills | 1 May 2022

*Some positives but ESG disclosure is lacking.*

While Troy embraces ESG research in the investment process, ESG-related resources and disclosure remain behind more-advanced industry peers. This results in a Morningstar ESG Commitment Level of Basic.

Troy signed the United Nations-supported Principles for Responsible Investment in 2016 and appointed a head of responsible investment, Hugo Ure, from within the ranks in 2018. Ure leads the firm's responsible investment and stewardship policies, and the systems and processes supporting them—duties he combines with fund management responsibilities. Unlike some peers who have set up central responsible investment teams independent from portfolio managers, Troy's 14-member investment team is collectively responsible for ESG analysis and engagement, in addition to all portfolio management activities. This streamlines integration of ESG considerations into the investment process, but it also puts more onus on the investment team to keep up with evolving ESG best practice.

Troy's tight-knit investment team works collegiately and uses a single investment process to support a handful of strategies, picking from a relatively small central universe of stocks that meet its investment criteria. Rather than targeting dual financial and sustainable mandates, Troy's investment process integrates ESG criteria directly into the long-term and quality-focused assessment of companies. Apart from its ethically screened funds, Troy applies no hard-and-fast ESG exclusions across its funds. Troy shares ESG research insights and explains its thinking in regular responsible investment reports, but fund-level ESG metrics aren't routinely disclosed to fund investors—something we would welcome.

Troy has traditionally focused its engagement activities on corporate governance. In 2021, however, Troy signed the Net Zero Asset Managers initiative, which spurred increased collaborative engagement on environmental issues and growing support for shareholder resolutions. The firm has room to improve its transparency in proxy voting and engagement priorities and records. For example, Troy doesn't publish explicit and detailed environmental and social proxy-voting guidelines, preferring to weigh each situation case-by-case. Similarly, rather than providing full voting records, it provides details on only a selection of votes deemed significant. Reporting on engagement activities is also limited to summary statistics.

**UBS Asset Management** | Natalia Wolfstetter | 1 June 2023

*Integration challenges of more than one kind lie ahead.*

UBS Asset Management continues to expand and refine its sustainability-focused resources and practices, but as a large, diversified asset manager with global operations and a diverse client base, it faces significant challenges in integrating environmental, social, and governance factors across its fund range. These challenges are exacerbated by integration issues of another kind, as UBS AM absorbs Credit Suisse's asset-management franchise—a project that will consume much organizational resource



and management attention, and which could slow further ESG progress. In the face of these headwinds, we have downgraded UBS AM's Morningstar ESG Commitment Level to Basic from Advanced.

As of September 2022, UBS AM reported that ESG factors play a role for only 46% of assets. This is partly explained by the firm's large share of institutional and passive assets but also by the firm applying a stricter definition of "ESG incorporation" following greater regulatory scrutiny. UBS AM uses a proprietary ESG data and research platform that feeds on a broad range of external data and includes in-house assessments. Recent firmwide initiatives have prioritized enhancing data and research to better account for ESG opportunities and alignment with sustainable development goals in addition to focusing on ESG risks. While ESG integration in the firm's risk-monitoring processes provides an additional layer of assurance, it remains difficult to assess whether sustainability is deeply embedded in the firm's ESG-integrated funds (28% of assets) where managers retain the discretion to invest in companies flagged for high ESG risk. On a more positive note, the firm has excluded companies involved with thermal coal from funds that integrate ESG considerations since 2021. The firm's designated "ESG-focused" funds (17% of assets) also apply additional exclusions related to business controversies.

The firm's central ESG team experienced some restructuring and a change of leadership in 2021-22. The team nearly doubled in size in 2022-23, to more than 30 members. They offer a lot of relevant experience, though it will take some time for team members to settle into their new roles. The team has evolved from providing ESG training and support to developing thematic and impact expertise, while the fundamental research analysts are responsible for company-specific ESG research. They are expected to fully integrate ESG considerations in issuer analysis as well as in a forward-looking ESG risk evaluation. This puts a lot of responsibility on analysts, who are also closely involved in engagement activities.

UBS AM is an active member in many industry initiatives to advance sustainable-investing practices and goals, such as Climate Action 100+ and the Net Zero Asset Managers initiative. The firm's participation builds on a well-established climate engagement program on net zero, now in its fifth year. However, at this stage, only 20% of the firm's assets have been committed to the effort.

UBS AM's engagement approach continues to evolve, with thematic engagement gaining importance. Beyond climate, the firm has launched a social thematic engagement program, linked to human rights, human capital, and health. A priority for 2023 is determining how to measure engagement progress and feed it back into investment decisions. In proxy voting, UBS AM also leverages the influential capacity of its formidable passive lineup, which accounts for 42% of firm assets. Voting draws on detailed environmental and social proxy-voting guidelines. The firm has generally been supportive of ESG-related proposals, providing public disclosure of high-level rationales for votes against management. Fund-level transparency has increased, with the firm now displaying ESG metrics on fact sheets for ESG-focused and Article 8 funds, while others are still in the works.

**Veritas Asset Management** | Lena Tsymbaluk | 1 January 2022

*The group's resources and ESG incorporation level seem reasonable for a small investment boutique.*

Veritas Asset Management LLP's high-quality investment strategy is naturally aligned with ESG principles. However, it lags peers in key areas, including the depth of ESG resources and disclosure of ESG metrics. This results in a Morningstar ESG Commitment Level of Basic.

Sustainability has been core to Veritas' investment approach for many years through its focus on high-quality companies and sustainable free cash flows. The emphasis has historically been on shareholder value, but the firm believes that environmental and social factors are interwoven with a firm's broad strategy and governance structure. ESG considerations are thus integrated into the fundamental assessment of business risk conducted by research analysts. In terms of exclusions, because of sustainability risk factors, the teams avoid companies related to oil, coal, most utilities, steel, cement, and agriculture.

The group's ESG team is adequately sized for an investment boutique of GBP 24 billion in assets under management. The central ESG team was formed in 2017 and consists of three dedicated professionals, though they are still relatively new to the field. This team monitors fundamental ESG research and company engagements, activities that are primarily handled by the broader analyst team. In evaluating the ESG risks of individual companies, Veritas primarily relies on its own proprietary research rather than using third-party ESG data.

Veritas signed the United Nations-backed Principles for Responsible Investment relatively late, in July 2017. But the group also endorses key climate change-related initiatives such as the Task Force on Climate-related Financial Disclosures and Transition Pathway Initiative and has joined the Net Zero Asset Managers initiative.

On the engagement front, the firm is an active and engaged owner and believes it has a part to play in encouraging constructive behavior through dialogue with portfolio companies. Each engagement has a clear objective and typically involves writing to the company or speaking with senior management. If engagement fails, the group may escalate by choosing to vote against management or exit the position. Areas of improvement include deeper ESG resources as well as better transparency into the funds' ESG characteristics and the firm's proxy-voting activities.

**Low****Allan Gray Australia** | Chris Tate, CFA | 1 January 2022

*Still work in process for ESG to become front of investment mind.*

Allan Gray Australia is noted for its engagement on governance grounds, but other ESG facets need improvement to be considered on a higher standing. It is assigned a Morningstar ESG Commitment Level of Low.

Allan Gray became a signatory to the United Nations-backed Principles for Responsible Investment in 2018. This is late compared with rivals. The firm's ESG integration is expressed through an assessment of the sustainability of a company's cash flows from an environmental and social perspective, as well as scrutiny of governance issues when determining intrinsic value. This determination is formed largely subjectively through a company's discount rate or stranded asset values, as no ESG scoring framework is in place. Similarly, no ESG exclusions are applied firmwide, unlike many local competitors who exclude tobacco at a minimum. The firm's contrarian investment approach doesn't automatically lend itself to sustainable investing, but further advancements are required to warrant greater regard for ESG's integration into the process compared with fundamental equity peers.

Allan Gray has no dedicated ESG personnel, nor is the use of external ESG data providers adopted. Instead, portfolio managers Simon Mawhinney and Suhas Nayak and the firm's analyst team are tasked with ESG responsibilities as part of broader qualitative investment due diligence, required to be presented at the firm's Policy Group Meetings. While quite learned with their awareness of ESG issues, identifiable portfolio impacts of this knowledge are difficult to discern.

While Allan Gray has some public recognition for its engagement, this activity is primarily focused on governance issues despite including some environmental and social matters. ESG-specific reporting and transparency is limited, with room for more public disclosure, but an internal register records all company interactions. The firm publishes an annual Statement of Responsible Investing that lists high-level detail of engagement and proxy voting. A proxy-voting policy is maintained by the internal Legal and Compliance team, though these guidelines are brief without specific ESG references.

### **American Century Investments** | Rasa Kerelis | 1 June 2023

*Playing catch-up.*

American Century has done well to centralize its resources and has taken some meaningful steps to incorporate environmental, social, and governance considerations into its investment process. However, the substantial results of these efforts have yet to materialize, underpinning an ESG Commitment Level of Low.

American Century welcomed five new additions to the ESG team in the past two years, including Sarah Bratton Hughes as head of sustainable investing in January 2022. Now made up of 10 individuals, the ESG research team has been firing on all cylinders to build out several key tools, including maps that highlight the financial materiality of various ESG issues, a robust internal ESG risk scoring system, and a central internal resource for ESG-related data. With so many proprietary tools in the works, data centralization and dissemination have the potential to improve greatly over the next few years. However, the firm is not quite there yet as investment professionals are not yet able to access these tools as of March 2023, and it will take time to see how the new team members will grow into the firm's existing structure. Additionally, the ESG research team is stretched thin across multiple roles, including product and technological support, distancing it from the investment process itself.

Upgrades are in the works, and socially conscious business practices are not new to American Century. The firm's leadership has made it clear that its ultimate goal is to be a leader in sustainable investing, and it sees its mission tied to creating positive societal good, emphasizing the "social" in ESG. The firm has strong ties to the Stowers Institute for Medical Research, founded by American Century's own founders. American Century financially supports the Institute, and it provides research-driven contributions to American Century's investment process, such as through the American Century Health Care Impact strategy. The growth of overall ESG-integrated assets by nearly 20 percentage points from 2021 through 2022 marks the firm's progress.

At the same time, American Century's active ownership capabilities have only recently begun to take shape. The process behind engaging with portfolio companies has yet to be formalized through published escalation policies, though the firm does use an internal database to track engagements centrally. Portfolio managers lead engagements with companies, and ESG research analysts often sit in on those meetings to provide perspective on specific issues. Notably, the firm's proxy-voting record shows a significant increase in support for key ESG-related shareholder proposals, jumping from less than 50% support in 2020 to over 90% support in 2021 and remaining high for the 2022 voting season. However, the firm's proxy-voting policy lacks guidance for handling environmental and social concerns at the portfolio company level, and the firm does not publish proxy-voting rationales. To its credit, the firm regularly publishes insightful thought leadership on topics such as decarbonization, diversity, the "Just Transition," and much more.

Ultimately, while the firm shows strong progress and potential for developing a competitive edge in sustainable investing, American Century still has a long way to go to fill in the gaps to actualize much of its vision.

**Antipodes Partners** | Ross MacMillan, CA | 1 August 2022

*Antipodes is working to develop and incorporate ESG into its culture.*

Antipodes Partners is a sound fund-management business, but environmental, social, and governance procedures and disclosure remain a work-in-progress. Antipodes is still behind global best practices in ESG investing, resulting in a Morningstar ESG Commitment Level of Low.

Antipodes considers ESG research to be an important component of risk assessment but shies away from targeting sustainable outcomes directly in its strategies. In 2017, Antipodes began formally incorporating third-party ESG scores into its investment process as a key component of measuring a business' risk alongside traditional financial metrics. In 2020, Antipodes signed the United Nations-backed Principles of Responsible Investment and appointed a commodities investment analyst from within the firm to be the ESG specialist responsible for assessing ESG risk across prospective investments, together with the investment team. However, to keep pace with a rapidly evolving market, Antipodes needs to develop stronger ESG objectives, policies, and procedures. In addition, the breadth of Antipodes' investment strategies warrants a larger fulltime ESG specialist team and resources.

Antipodes engages with companies but mainly focuses on governance concerns more than environmental or social issues. While Antipodes will engage with companies, if the issue is significant, the firm will typically avoid the company or divest the stock from the portfolio. Furthermore, disclosure and transparency are lacking relative to global peers. Antipodes needs to make its full proxy-voting, corporate engagement, and portfolio ESG metrics more readily and publicly available as proof of its overall ESG commitment. The firm has made some positive initial steps, but further progress to embed ESG considerations in investment strategies is now necessary.

**Ariel Investments** | David Carey | 1 May 2022

*The firm's fledgling ESG efforts remain a work in progress.*

Although Ariel continues to expand and formalize its ESG efforts across the firm, ESG considerations have minimal impact on investment decisions and portfolio construction. The firm receives a Morningstar ESG Commitment Level of Low.

As a minority-owned firm, Ariel has long been a leader in advocating for better corporate diversity practices and often engages with companies to hire directors with diverse backgrounds. In 2021, the firm launched its private-investment segment of the firm called Ariel Alternatives, which will invest in companies that are or can be transformed into certified minority-owned business enterprises.

While the firm has thus demonstrated a commitment to certain social causes, the team is unlikely to eschew investing in a company solely because of ESG concerns. Rather, it relies first and foremost on the firm's signature value-oriented investment process. The firm's work to formally integrate ESG research into its investment process is still nascent. In 2021, Ariel's international-investing team, which runs roughly half of the firm's assets, started to consider financially material ESG risks in its valuation models. This follows a similar effort by the firm's domestic-equity team, which began one year prior in 2020. Furthermore, just three ESG analysts—two of whom have been with Ariel for fewer than three years— are in charge of supporting this ESG research, a broad global remit for a slim team.

Ariel has made some progress to provide transparency into its ESG practices, but room for improvement remains. The firm published its second ESG Annual Report in 2021, but this report lacks the depth and detail provided by some competitors. Furthermore, Ariel could do a better job providing ESG metrics for individual funds and publishing information about its proxy-voting policy and vote rationales. All told, the firm's efforts fall short compared with peers'.

**Artemis** | Teodor Dilov | 1 March 2022

*Some foundations have been established, but the overall framework needs further enhancement.*

Although ESG is not an entirely new endeavor for Artemis, the company started building its in-house ESG capabilities and structure relatively recently. Despite the firm demonstrating its focus on further

development in this area, the current overall resources and approach seem light relative to peers, leading to a Morningstar ESG Commitment Level of Low.

The company's philosophy of embracing ESG into its culture and product offering is for now purely based on working with individual portfolio managers to incorporate ESG factors as a fundamental part of their investment process. There is no firmwide exclusions policy. Oversight on funds' ESG positioning is provided by the investment risk team via the quarterly investment risk overview. The risk and investment teams can also call on the central stewardship team, which consists of two experienced professionals, Antonia Sterling and Inez Oliver, but their impact on final investment decisions is limited. In addition, there is no specialist ESG team that can provide further support or company-level ESG analysis. Artemis has built internal tools that use external data mostly from MSCI but also Sustainalytics, TruValue, and Bloomberg. It monitors the underlying holdings of all strategies and can raise concerns with the respective fund managers, but the company's policy is to maintain the independence of its individual franchises.

In terms of reporting, Artemis has synchronized the ESG language used across the company and developed its own stamps system that discloses the approach taken on a fund level. They are published on fund fact sheets, but the criteria for receiving a specific stamp seem rather subjective. Almost all funds receive the "ESG Integration" stamp, while the other three categories—"Impact Investing," "Sustainable Investing," and "Negative Screening"—are very limited across the entire product offering.

The Stewardship team, which is also in charge of building the company's voting policy, has made good effort in disclosing the managers' voting record through a report that is publicly available. However, thought leadership is another area that needs more attention.

Overall, we note that the company recognizes the importance of ESG by being a United Nations-backed Principles for Responsible Investment signatory since 2015 and joining a number of initiatives such as the Net Zero Asset Managers initiative. However, despite its plans for further enhancement of the ESG function, the lack of dedicated resources and structure is notable compared with peer fund groups.

### **Baird Asset Management** | Rasa Kerelis | 1 May 2023

*Proceeds with extreme caution.*

Baird Asset Management has been slow in its adoption of environmental, social, and governance considerations in its investment process relative to peers. The firm maintains a Morningstar ESG Commitment Level of Low.

The firm does not offer any ESG-focused strategies, nor does it mandate any standard ESG integration practices within its existing offerings. Investment professionals use third-party data to evaluate ESG risks alongside traditional investment risks within the firm's majority fixed-income offerings. However, there are no ESG-specific targets against which portfolio managers run their strategies, so consideration of ESG risks only affects investment decisions if there is a direct impact on cash flows or creditworthiness

of issuers. Instead, the firm focuses its ESG research on how to navigate a dynamic regulatory environment while focusing on long-term financial outcomes.

Because of concerns about unstandardized ESG data, especially within fixed income (which makes up roughly 95% of the firm's assets under management), Baird remains cautious in building out ESG products. A dedicated ESG team would significantly improve the firm's capacity to navigate these challenges. Where other firms have built teams of ESG professionals and created internal curricula around ESG investing, Baird relies on one key ESG risk analyst for support. Baird's main avenue for ESG training is the CFA ESG designation, which only a handful of the firm's analysts have received. Beyond product offerings and resources, the firm's engagement efforts are limited and mainly focus on issues of corporate governance. Within fixed-income investing, engagement can take many shapes such as collaborating with other firms to encourage change and communicating environmental and social concerns to issuers. Along those lines, Baird's corporate credit team has reduced positions because of ESG risk in the past but only in severe cases. For example, Baird trimmed its exposure to Exxon Mobil because of environmental concerns and has avoided exposure to Russian sovereign debt altogether because of poor governance, even ahead of the invasion of Ukraine.

However, these instances are isolated as the firm does not have a detailed, ESG-focused engagement and escalation policy. Public-facing stewardship reports, proxy-voting policies, and voting rationales have become more prevalent throughout the industry in recent years, but Baird's transparency into its stewardship activities is lacking.

Ultimately, the firm has made some progress in recent years but has a long way to go to catch up to its peers.

**Bennelong** | Callan Maclennan | 30 August 2023

*ESG has a minimal role to play.*

Bennelong Australian Equity Partners is a sound fund-management business but does not aim to be an environmental, social, and governance-focused manager. The firm is still behind global best practices in incorporating ESG factors in its investment processes, resulting in a Morningstar ESG Commitment Level of Low.

BAEP does not have any dedicated ESG research or engagement resources and publishes next to no materials on the subject. Although the firm's analysts use both internal ESG research and external data provided by ISS in their fundamental research, they consider these issues only when they are material to understanding idiosyncratic risks to a company's quality, earnings predictability, and growth. Furthermore, BAEP does not offer any ESG-focused strategies, nor do its portfolio managers target specific sustainable outcomes. ESG metrics also do not play a distinct role in investment team compensation.

Disclosure and transparency are lacking relative to peers, and BAEP provides limited visibility on its proxy voting and corporate engagement. Additionally, fund-level ESG metrics are not made publicly available for investors to understand the ESG risks in their portfolios. Finally, BAEP does not formally link itself to any sustainable initiatives and hasn't signed on to the United Nations Principles for Responsible Investment.

### **BNY Mellon** | Rasa Kerelis | 1 August 2023

#### *Room for improvement.*

Although some of BNY Mellon's affiliates run environmental, social, and governance investing programs that pass muster, its firmwide sustainability ambitions are constrained by a lack of standardization, slim resources, and limited transparency. The firm maintains a Morningstar ESG Commitment Level of Low.

Newton and Insight, two independent affiliates of BNY Mellon, are at the forefront of the firm's sustainable-investing capabilities. Both affiliates have run sustainable strategies for more than 20 years and signed the United Nations-supported Principles for Responsible Investment in 2007 and 2006, respectively. These groups remain active in building out ESG research frameworks and engaging with portfolio companies on environmental and social issues, but their progress has little bearing on BNY Mellon's other affiliates. In fact, BNY Mellon aims to protect each affiliate's autonomy over its investment process by focusing on streamlining data sources rather than on creating a cohesive sustainable-investing philosophy. This approach can allow for different flavors of excellence in some cases. However, at BNY Mellon, this has led to inconsistency in fund classifications, duplicated efforts, and a lack of transparency. BNY Mellon's central product development team signs off on each new fund's prospectus, including its ESG mandate, but ongoing oversight is more limited.

With about two years of experience at BNY Mellon, Kristina Church, global head of responsible investing, oversees the firm's seven independent affiliates. This includes responsibility for the affiliates' sustainable-investing classification systems, proxy-voting and engagement policies, and disclosure efforts. Church also coordinates high-level discussions of thematic sustainability issues between the affiliates, tracks regulatory developments, and advises the bank on its corporate sustainability efforts. She leans on some of the affiliates' ESG investment and stewardship professionals, but central resources are limited compared with peers and leave Church's hands full.

Although affiliate Walter Scott doesn't run any ESG-labeled strategies, it stands a head above its siblings on the topic of proxy voting and engagement. Unlike the others, Walter Scott publicly discloses its proxy-voting guidelines and recent case studies in an annual report. Walter Scott also maintains a public-facing engagement policy that previews the steps it will take if portfolio companies are unresponsive to environmental and social concerns. For instance, Walter Scott investors may escalate from sending formal letters to voting against management proposals and even trimming their investment in a given company. BNY Mellon could improve the consistency and transparency of its affiliates' proxy-



voting policies, voting decisions, and the rationale for those votes. The firm has a long journey ahead to catch up with peers.

**Colonial First State** | Tim Wong | 1 March 2022

*A relatively light-touch approach to applying ESG principles.*

Colonial First State's tendency to give free rein to its subadvisors caps the extent to which its ESG principles affect portfolios. It consequently receives a Morningstar ESG Commitment Level of Low.

Colonial First State primarily focuses on selecting investment managers to construct diversified portfolios across asset classes. Firmwide exclusions of tobacco and controversial weapons are in place, as is often the case in Australia, and it has in-house ESG specialists to support the investment team's understanding of the ESG credentials of prospective submanagers.

The firm allows its submanagers discretion to invest as they see fit, with no bias toward ESG-focused strategies. Historically, this has included letting submanagers vote on proxies without CFS' involvement. This will change somewhat in future, as CFS appointed Federated Hermes EOS in 2021 to provide recommendations on proxy votes and engage with non-Australian equities, though submanagers in Australian equities will retain these responsibilities. Meanwhile, public disclosure of these activities as well as publication of research on pertinent ESG matters is uneven and could be improved.

The internal Responsible Investments team has been led by Guneet Rana since mid-2020. Rana is joined by three staffers, each of whom came aboard after 2018, with this being their first dedicated ESG role in each instance. As such, the cumulative expertise on ESG matters is at the lower end among the industry. They are required to sign off on the suitability of how the prospective submanagers incorporate ESG principles into their investment approach, but their integration with the investment team appears modest. Notably, the ESG team doesn't attend the quarterly reviews conducted by the CFS investment team with their submanagers.

All in all, CFS' efforts on ESG matters are at the more modest end.

**Dimensional** | Rasa Kerelis | 1 January 2023

*Prioritizing market efficiency over ESG consideration.*

Dimensional has continued to make small improvements to its environmental, social, and governance offerings over the years, but the firm's investment process leaves little room for ESG considerations. It maintains a Morningstar ESG Commitment Level of Low.

Dimensional's ESG approach is rooted in its broader investment philosophy of market efficiency. The firm believes that financially relevant information should be reflected in stock and bond prices, which drives

its investment process and the limited consideration of ESG issues, even within its ESG-focused products. Outside of specific values-based requests from clients, ESG issues are viewed exclusively in the context of financial materiality and have little effect on the firm's approach to constructing portfolios. This consistent approach to investing overall is a hallmark of its business, but Dimensional lacks conviction that ESG risks will be compensated, so ESG considerations are a lower priority for Dimensional compared with its peers.

Through applying exclusions, Dimensional offers sustainability and socially focused mutual funds for clients that want to align their investments with their values. For example, the DFA U.S. Social Core Equity 2 Portfolio limits exposure to companies involved in gambling, tobacco, and pornography. The firm has cautiously integrated ESG factors into some of its non-ESG focused strategies, but the focus is squarely on governance issues such as executive compensation and board composition. Jim Whittington and Lacey Huebel, each of whom counts more than a decade at Dimensional, co-lead the small but adequate team that develops these exclusionary criteria.

Dimensional avoids taking a highly public stance on climate-related issues. The firm became a signatory of the United Nations-supported Principles for Responsible Investment in 2012 and the U.K. Stewardship Code in 2011. However, it has refrained from participating in major climate-related efforts such as the Net Zero Asset Managers initiative and Climate Action 100+. Dimensional advocates for disclosure of financially material information tied to key environmental and social issues but believes that these decisions should be left to the discretion of company management. However, the firm's engagements rarely escalate beyond exploratory conversations with management to more severe action like divestment. In addition, its proxy-voting record demonstrates less than 20% support for key ESG resolutions over the last three years. Overall, the firm's efforts don't stand out.

**Dodge & Cox** | Tony Thomas, Ph.D. | 1 February 2022

*Still early.*

Dodge & Cox is an exemplary asset manager in many ways, but its nascent ESG efforts warrant a Morningstar ESG Commitment Level of Low.

The firm, founded in 1930, is just beginning to build out its ESG resources. Even though it signed the United Nations-backed Principles for Responsible Investment in 2012, it named its first dedicated ESG analyst only in January 2020, but she left for business school in mid-2021. Leadership then appointed Tory Sims, from the firm's client services side, to head up ESG work. Like her predecessor, Sims is working with Dodge & Cox's new director of research, Steven Voorhis, to strengthen analysts' access to—and consideration of—ESG data, including new carbon and climate-impact metrics it began sourcing from a third-party provider in 2021.

Despite growing access to data, ESG analysis plays only a peripheral role in the firm's fundamental investment research. The analysts' primary interest is valuation—and they consider ESG factors only

insofar as they affect a company's worth. A simple ESG checklist is one part of their much broader research effort.

The central tenet of Dodge & Cox's active ownership strategy is to vote in what it believes is the best interests of its fundholders, with ESG matters considered through that lens on a case-by-case basis. The firm has no formal engagement policy. As a major shareholder, it could flex muscle on ESG matters, but it has not taken a consistent stance on proposals on such issues as climate change or human rights.

As such, the storied firm has a long way to go before ESG plays a significant role in its investment processes or stands out relative to peers. It has no ESG-dedicated security analysts or ESG-focused strategies. Dodge & Cox is starting to develop its ESG capabilities, but they won't shift the firm's focus away from its long-standing, valuation-driven investment style anytime soon.

#### **Eastspring Investments** | Morningstar Manager Research | 1 February 2022

*Still early in its ESG journey.*

Eastspring has been making efforts to raise the importance of ESG within the firm in recent years but at its current state warrants a Morningstar ESG Commitment Level of Low.

Eastspring's ESG aspirations are relatively recent as evidenced by signing the United Nations-backed Principles for Responsible Investment in 2018 and launching its first ESG-focused fund in 2019. The firm boosted its centralized ESG team by hiring Stuart Wilson as the new head of sustainability in January 2022, adding to the existing duo. While the new appointment reflects the firm's commitment to its ESG buildout, its team of three is small compared with other asset managers.

The firm's investment professionals have access to a single provider of ESG data, the use of which by portfolio managers seems limited. There is no harmonized ESG scoring system across teams since each team develops its own approach to ESG considerations, rendering ESG integration as highly flexible. To incentivize investment personnel along the ESG-integration journey, the firm's management has assigned ESG as a component of its variable remuneration. Its effectiveness in encouraging greater ESG integration is yet to be proved, and it will be a challenge to measure, given that there is no formal or systematic monitoring of ESG integration.

Both proxy-voting and engagement policies broadly reference ESG issues without clear guidelines. Proxy voting is decentralized, with investment teams taking ownership. Investment teams can draw on third-party provider ISS for advice. While voting participation is high, support for ESG resolutions does not stand out. Climate change mitigation is a priority for Eastspring, where portfolio managers engage directly with company management to identify financially material risks to the business. Besides direct dialogue, Eastspring occasionally also escalates engagement by collaborating with other investors, for example via the Climate Action 100+ initiative.

Overall, Eastspring is still early in its ESG journey, and ESG has yet to become an impactful factor in the firm's investment processes.

**Fidelity Investments** | Robby Greengold, CFA | 1 April 2022

*Fidelity's ESG efforts are tough to detect.*

In recent years, Fidelity Investments has contributed heavily to its investment teams' ability to scrutinize companies' environmental, social, and governance issues and to offer new products surrounding that research. Its business leaders consider its advancements in this arena to be a strategic priority, and its investment leaders have thoughtfully developed frameworks to inform portfolio managers' and analysts' thinking on sustainability issues. But the firm receives an ESG Commitment Level of Low because it has provided little public clarity about its expectations of current or prospective portfolio companies with respect to their ESG priorities and it has not shared ESG metrics on its portfolios with investors.

Fidelity formalized its ESG research efforts in 2017, when it signed the United Nations-supported Principles for Responsible Investment and created a centralized team of sustainability specialists. The firm has significantly bolstered that team since 2019 by recruiting a sizable cohort of analysts (including some with ample sustainable-investing experience) and new leaders to help shepherd their research. By late 2021, it had 10 analysts with sector-specific coverage and ESG heads in charge of specific asset classes, including equity and fixed income.

Leveraging sustainability data from third-party vendors and Fidelity's direct discussions with the executives of its portfolio companies, the ESG analysts collaborate with Fidelity's sprawling teams of fundamental research analysts to assign proprietary ESG ratings to a large portion of the firm's investable universe. It is a sophisticated framework and scalable: Fidelity has recently expanded it to encompass noncorporate fixed-income instruments, such as asset-backed securities and municipal bonds, whose greater complexity and scarcer ESG data make them tougher for asset managers to assess through a sustainability lens. Deep quantitative resources help make it feasible for Fidelity.

But it is hard for investors to know for sure how the firm's ESG resources affect its funds or the thinking of its portfolio managers. Fidelity provides no data that might describe its strategies' ESG profiles, while some peers offer absolute ESG metrics along with peer-relative comparisons. Few of its strategies use well-defined criteria to bar ESG laggards, and those that do have in place basic, timid exclusions. It provides only vague guidelines for how it will vote proxies on key ESG resolutions, and its voting record does not show much support for them.

Its inaugural stewardship report, released in 2021, marked a significant step toward revealing more about its ESG philosophy and processes, but it holds back details surrounding its engagement with corporate executives. With greater illumination of how it urges for specific sustainability outcomes, it could show greater commitment to ESG.

**Fundsmith** | Morningstar Manager Research | 10 May 2021

*Fundsmith earns a Morningstar ESG Commitment Level of Low.*

Fundsmith LLP, while displaying strong traditional governance capabilities across the firm, has not adopted a wider environmental, social, and governance stance, earning a Morningstar ESG Commitment Level of Low.

The relatively young firm, founded by Terry Smith in 2010, has adopted a sustainability mindset from its inception. Sustainability, however, in the context of Fundsmith, relates to the ability of businesses to sustain high returns on the capital that investors have provided them. While ESG issues are incorporated into the investment process, the focus is put on governance, which relates primarily to traditional aspects, such as business strategy and product innovation and does not translate to the level of environmental and social engagement.

The firm offers a sustainable mandate, but this primarily adopts a negative screen rather than actively seeking out ESG criteria. The strategy also has a small impact on the firmwide ESG assessment given it constitutes less than 2% of assets under management.

Fundsmith's ESG efforts are limited compared with peers. The firm is considering hiring an additional stewardship analyst, which will bring the number of dedicated ESG analysts up to two. The ESG team, headed by Tom Boles (who maintains additional responsibilities), will be releasing additional ESG metrics sometime in 2021; this will serve as the litmus test of the firm's detailed reporting efforts. Fundsmith is a signatory of the United Nations-supported Principles for Responsible Investment but is not affiliated with any other ESG-related bodies or groups. It prefers not to take a vocal stance so is not considered an ESG advocate.

While its long-term investing approach and focus on high-quality businesses have served investors well in terms of financial performance, Fundsmith has a long way to go on the wider ESG perspectives. A greater commitment to ESG would include emphasis on the environmental and social aspects of ESG and governance issues extended.

**GQG Partners** | Michael Malseed | 1 May 2023

*GQG Partners earns a Morningstar ESG Commitment Level of Low.*

GQG Partners incorporates the consideration of ESG risks into its fundamental stock analysis, but it is not an ESG intentional manager that actively seeks to enact change. When considering GQG's approach against global best practices, GQG receives a Morningstar ESG Commitment Level of Low.

The primary focus of GQG is to deliver financial returns for investors. ESG risks are considered insofar as they may affect valuations and long-term capital growth prospects, but there is no overarching strategy

to deliver positive environmental, social, and governance outcomes. The exclusion of controversial weapons from the portfolio, and tobacco for the Australian mandates, are relatively standard.

GQG doesn't have any dedicated ESG or stewardship specialists. Rather, ESG is incorporated into the fundamental research undertaken by the analyst team. The team will engage with companies to gain a better understanding of ESG risks or where it thinks it would be possible to enhance risk/reward outcomes. However, public disclosures around such engagement are limited.

Overall, while ESG issues are considered as part of the financial valuation equation, GQG's commitment to ESG is at the lower end of the spectrum.

### **Greencape Capital** | Steven Le | 1 December 2021

*The firm's ESG efforts have room to grow.*

Greencape Capital boasts a talented team and robust investment approach but gives little attention to environmental, social, and governance concerns, resulting in a Morningstar ESG Commitment Level of Low.

Greencape holds that ESG factors are material to assessing the risk and long-term value of investable companies, but ESG analysis is just one component of the overall valuation process. The firm excludes certain controversial activities, such as small arms and pornography, from its opportunity set, and the ESG policy states it considers matters such as climate change, modern slavery, and gender diversity. Still, the firm's main focus is on governance issues, including board structure and worker safety. Greencape signed the United Nations-supported Principles for Responsible Investment in 2009.

Greencape has limited ESG resources. The firm uses a combination of third-party ESG research/data providers. The team has developed a broad ESG understanding as part of its overall skill base, but no one on the team has deep ESG expertise or distinct specialties.

Greencape actively engages with company management and directors on ESG matters if the firm deems them financially material. The firm's engagement activities predominantly focus on governance issues, such as business durability, capital allocation, and executive remuneration structures. Greencape uses independent proxy advisor services as an input to its proxy-voting practices, but greater transparency into voting decisions on ESG issues would be welcomed.

### **Hyperion Asset Management** | Michael Malseed | 1 May 2023

*Hyperion earns a Morningstar ESG Commitment Level of Low.*

Hyperion's consideration of environmental, social, and governance risk is fundamental to its quality-driven process, but its ESG policies and disclosures are less detailed than more highly rated firms. When

considering Hyperion's approach against global best practices, Hyperion receives a Morningstar ESG Commitment Level of Low.

Hyperion is an investment boutique with a focused offering in Australian and global equities. Fundamental analysts and portfolio managers undertake very detailed research, which incorporates the ESG risk profile of a potential investment over the long term, but the firm's strategies are not specifically ESG intentional, nor does the firm target specific ESG outcomes.

Hyperion seeks to invest in companies that can grow strongly over the long term. To this end, the long-term sustainability of earnings is an important consideration, under which material ESG risks are incorporated. Hyperion's equity strategies have broader ESG exclusions than a typical non-ESG strategy, which is a positive. This includes exclusions on fossil fuels, tobacco, and controversial weapons from Hyperion's investable universe.

Hyperion does actively engage company management and boards on ESG risk and will sell out of holdings where it believes the company is not adequately managing long-term ESG risk. When it comes to active ownership, Hyperion's disclosure of vote decisions is positive, but the absence of public engagement disclosures and the general lack of details in its various ESG policies disappoints.

Overall, while ESG issues are considered, Hyperion's efforts to date are at the more modest end of the spectrum.

#### **Investors Mutual Limited** | Morningstar Manager Research | 17 November 2020

*Incorporation of ESG principles, but they aren't front and center.*

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 United Nations-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.

**Jamieson Coote Bonds** | Tim Wong | 1 March 2022

*Jamieson Coote Bonds is investing in its approach to ESG, though the overall impact is modest.*

The efforts made by Jamieson Coote Bonds to integrate ESG into its investment process have a limited effect on end outcomes, which is why it attains a Morningstar ESG Commitment Level of Low.

Jamieson Coote Bonds focuses solely on government and government-related bonds across a handful of developed-markets countries, specifically Australia and G-7 nations. Sticking to high-grade, developed-markets government-related issuers can limit the potential for unwelcome ESG practices among portfolio holdings, though it also makes Jamieson Coote a small player in terms of influencing the actions of issuers. Given that reality, the shop's ESG-related engagement efforts revolve around understanding the appetite for issuance of green and other sustainability-linked bonds to inform its view of pricing among different instruments. The firm invests in green and sustainability-linked bonds, but it tends to avoid applying its own binding judgments on the use of proceeds to differentiate between securities.

The shop keeps tabs of the potential ESG risk of different sovereign issuers by capturing a range of ESG-related metrics from the largest companies listed in those markets. These metrics include (among others) greenhouse gas emissions intensity and gender diversity and are formulated into a score to compare between countries. Ultimately, this is decidedly secondary to the team's focus on assessing the financial risk and return characteristics of each bond and its fit with the portfolio manager's economic outlook.

Pleasingly, the firm has invested in its team to lift its expertise in ESG matters. Talieh Williams, a long-standing practitioner in this field, joined as an ESG specialist in 2021. Head of investment strategy and research Paul Chin and deputy CIO Kate Samranvedhya had been primarily responsible for developing the firm's ESG approach and policies, and while they remain important cogs on ESG issues, both have broader investment responsibilities to manage. Consequently, staffing appears suitable for the firm's ESG needs on the whole.

**Janus Henderson** | Eric Schultz | 10 May 2021

*Janus Henderson earns a Morningstar ESG Commitment Level of Low.*

Environmental, social, and governance issues are not a central part of Janus Henderson's investment culture. The firm earns a Morningstar ESG Commitment Level of Low.



Despite being an early signatory of the United Nations-supported Principles for Responsible Investment in 2006, the firm has just begun ramping up its ESG efforts in recent years. Its London-based governance and responsible investing team has now grown to seven members. All but two joined in the past couple years, with global head of ESG Paul LaCoursiere joining the firm in January 2021. The group subscribes to multiple ESG data sources and supplements those with in-house research, all of which is made available to investment managers through the firm's eQuantum platform. Investment teams can also draw on LaCoursiere's team for corporate engagements and ad-hoc projects, the bulk of which focus more on traditional governance concerns rather than environmental and social issues.

As a bottom-up, fundamental management firm, Janus Henderson doesn't mandate a firmwide view on ESG and its systematic incorporation into investment strategies. Instead, it takes a more decentralized approach. ESG integration is left to the discretion of individual investment teams to the extent they find it supportive of good, long-term outcomes for clients. Many portfolio managers do indeed factor ESG considerations into their investment decisions, but to varying degrees and not uniformly across the firm. Doing so is not required, and ESG integration is not tied to compensation for non-ESG-focused strategies. Furthermore, there are no firmwide exclusions.

Overall, Janus Henderson's philosophy toward ESG is consistent with how the firm operates as investors. ESG issues are considered but to varying degrees across investment team.

**Magellan Group** | Chris Tate, CFA | 1 June 2022

*Enhancements continue the evolution of increasing ESG integration.*

Magellan Asset Management continues to enhance its analysis of environmental, social, and governance risks, but transparency into active ownership practices is still lacking. It earns a Morningstar ESG Commitment Level of Low.

Magellan incorporates material ESG (and other) risks to forecast cash flows and valuations, which ultimately drive an overall quality score. The team assesses and monitors ESG risk factors at the industry and company level in line with SASB's materiality framework. The overall philosophy to integrate material risk evaluations spans over a decade, but enhanced focus on ESG risk assessments began in late 2020. Magellan also launched the MFG ESG Core Fund and Magellan Sustainable Fund the same year. While enhancements have increased the focus on environmental and social factors, building on already robust governance considerations, greater evidence of portfolio impacts of this approach is required to be viewed alongside better-rated ESG peers.

Magellan's ESG resources rest predominantly with its 30-plus investment team, which assesses the ESG risks of a company. Head of ESG Domenico Giuliano and dedicated ESG strategist Elisa Di Marco are charged with formulation and execution of the firm's ESG philosophy. Each is the lead portfolio manager of one of Magellan's ESG offerings; Giuliano, the Sustainable Fund, and Di Marco, the ESG Core Fund. The two-person ESG team is small relative to the firm's AUD 70 billion in assets under management and

a heavy workload compared with the typical demands of ESG. To supplement the assessment of ESG risks, analysts leverage data and information from a variety of external sources.

The ESG duo oversees Magellan's proxy voting and active ownership, including engagement, though engagements are typically enacted by portfolio managers and analysts. The firm engages with portfolio companies on a broad range of issues, including those related to ESG, but disclosure is lacking. The firm maintains proxy-voting records and engagement statistics internally but does not currently disclose any of this externally. Similarly, responsible investment policies related to environmental and social issues are vague. This lack of transparency makes it difficult for investors to discern the extent and impact of these activities and is a barrier to a more positive view of Magellan's ESG endeavors.

**Man Group** | Morningstar Manager Research | 2 August 2021

*Work remains to integrate ESG more fully into the investment processes.*

Man Group boasts a strong record on environmental, social, and governance-related proxy voting but remains at an early stage on other ESG aspects, such as oversight of ESG integration across investment teams. The group receives a Morningstar ESG Commitment Level of Low.

The group consists of five divisions, and as such it is a heterogeneous firm with no one-size-fits-all approach to ESG. A key focus has been the provision of data and tools to provide portfolio managers with relevant information. The firm has an in-house ESG data dashboard that scores companies using 15 key pillars across E, S, and G. It draws on data from external providers, adjusts for various factors, and formats this into usable distributions.

Rob Furdak, who became Man Group's CIO of ESG in January 2020, oversaw the development of the ESG tool and model in his previous role as co-CIO of Man Numeric, the group's quantitative investment division. Around 90% of Numeric's assets incorporate the ESG model, but investment teams across the other divisions of Man Group are free to incorporate ESG factors as they see fit. They have access to the dashboard, but there is little structured monitoring in place to push uptake of ESG incorporation, which remains at the teams' discretion. For portfolio managers, there are currently no formal goals, objectives, or KPIs linked to the integration of ESG factors.

Man Group's centralized stewardship and active ownership specialists are responsible for firm-level engagement and proxy-voting efforts, and the group has a very strong record on voting for key ESG resolutions. They have also joined forces with other asset managers and co-sponsored climate-change resolutions. Despite this, full voting records aren't publicly available. Quarterly voting summary reports are provided on the group's website.

Engagements at the fund/investment team level primarily stem from Man GLG, the fundamental active investment division in the group. Again, it is left up to the portfolio managers to track their own progress here, with little central oversight currently. Man Group is working on systems to bring more structure

and to see how information can be better shared across teams, but it remains a work in progress for now.

**PGIM** | Rasa Kerelis | 1 August 2023

*In the early stages of bringing together a fragmented structure.*

PGIM has built its environmental, social, and governance capabilities from the ground up over the past few years by dedicating resources and developing an overarching ESG strategy. These efforts are still in their early stages, and the firm's four affiliates integrate ESG considerations into their investment processes to varying degrees, earning the firm an ESG Commitment Level of Low.

PGIM's four affiliates are given a high degree of autonomy and can differ in their ESG approaches. Unfortunately, in PGIM's case, this has meant that efforts to integrate ESG into both investment and stewardship practices from the top down have sometimes lacked cohesion. Each affiliate has a high level of autonomy, and there are legal firewalls in place between them. While this is not inherently a negative, at PGIM, this setup has meant that team structures facilitating ESG practices sometimes appear undersupported. For example, PGIM Quantitative Solutions, Jennison Associates, and PGIM Fixed Income have dedicated ESG investment professionals but no full-time stewardship professionals, while PGIM Real Estate has no named ESG professionals at all. At Jennison, the departure of its global head of ESG strategy in 2021 has left the affiliate on pause until the role is filled. As a result, a proprietary ESG scoring system for evaluating individual portfolio holdings is in place, but there is no one to guide its further development. PGIM has not developed any unifying policies or guidance to integrate ESG in investing or in proxy voting and engagements. The firm could greatly benefit from continuing to improve coordination among affiliates by implementing common definitions, policies, and procedures when it comes to ESG practices.

PGIM does, however, have a meaningful pool of resources to draw from in supporting each affiliate in its ESG development. Eugenia Jackson, hired from the PGIM Fixed Income team as global head of ESG in 2022, serves as the firm's uniting force to build out ESG strategy at the firm level. Jackson heads the firm's newly formed Global ESG Council, which helps build connectivity in most ESG matters, from data usage and engagement approaches to publication of reports and thought leadership. While these developments bode well for the positive trajectory of PGIM's broader ESG efforts, they are still relatively new.

Along those lines, PGIM has moved toward centralizing some resources (such as an ongoing initiative to publish more ESG thought leadership centrally). However, meaningful progress has yet to manifest itself in the firm's active ownership. The affiliates' proxy-voting policies offer varying detail on environmental and social concerns. Policies outlining engagement procedures similarly lack explanation on how unproductive engagements are escalated. Some affiliates do not have these policies at all. This inconsistency leads to poor transparency for investors on how their ESG concerns within their funds are being managed.

**Platinum** | Ross MacMillan, CA | 1 June 2022

*Well-established fund manager, but ESG is a work-in-progress.*

Platinum Asset Management is slowly establishing its environmental, social, and governance and responsible investing efforts. However, the firm's slim ESG resources and limited disclosures place it behind international best practice, resulting in a Morningstar ESG Commitment Level of Low.

Despite a legacy of strong fund management practices, Platinum's ESG efforts remain a work-in-progress. Platinum only signed the United Nations-supported Principles for Responsible Investment in 2020, after many of its peers, and the firm employed its first ESG specialist in 2021. Platinum now formally excludes tobacco, military contracting, and controversial weapons companies from portfolios. The firm has room to grow in terms of developing and integrating ESG policies, methodologies, and procedures.

Platinum maintains that ESG factors can directly and indirectly affect a company's financial performance and prospects. However, ESG assessment is currently considered as just one component of the overall risk evaluation for investable companies. Platinum actively engages company management and directors on numerous topics, including ESG issues if deemed material to a company's long-term valuation. Nevertheless, Platinum usually steers away from active ownership. Typically, the firm will choose to either not take a position or exit an existing position in cases of material ESG risks, rather than attempting to effect change or collaborating with other asset managers to bring about change. Disclosure of portfolio-level ESG metrics relating to portfolios is limited, but the carbon intensity of each strategy's portfolio is published regularly. However, overall, reporting on various ESG and sustainability initiatives could be appreciably more detailed and encompassing.

Proxy voting is restricted to governance matters such as proposed share buybacks, mergers and acquisitions, and other business reorganizations. Transparency and disclosure of proxy-voting decisions are below the level of global peers.

**Principal** | Rasa Kerelis | 1 July 2023

*Stretched a little thin.*

Principal Asset Management has enjoyed a positive trajectory in fund launches and has implemented good documentation of sustainable policies. However, inconsistent application of environmental, social, and governance criteria between investment teams and stretched responsibilities of ESG professionals leave the firm with an ESG Commitment Level of Low.

Principal has provided institutional clients with the ability to screen investments in their portfolios according to their sustainability preferences since the mid-1990s. Although the firm launched its first ESG-focused equity and listed infrastructure products in 2021 and 2022, investor choice in other asset classes remains limited. Outside of sustainable funds, investment teams maintain autonomy over their

process for integrating ESG considerations into investment decisions, resulting in a wide range of approaches being employed by different teams. Nearly half of the firm's assets under management incorporated no ESG considerations altogether as of 2022.

The firm houses a number of centralized working groups, including a five-person ESG oversight committee focused on regulatory issues, operational support of ESG research, and most other ESG matters. However, the committee members hold multiple responsibilities, leaving individuals spread thin and investment teams lacking sufficient support. For example, Daniela Spassova oversees multiple working groups including the ESG oversight committee while maintaining her responsibilities as managing director of investments & client solutions.

There are signs of budding stewardship capabilities at the firm. Principal has shown a consistent track record of support for ESG-related shareholder proposals in recent years, along with an increase in ESG-related thought leadership and engagement disclosure. The listed infrastructure team especially shines with its published thought leadership and individualized sustainable-investing policies. Despite differing engagement procedures between teams, a centralized policy provides guidance on key themes and strategies when the firm engages with companies. Nevertheless, a few drawbacks remain. Although the firm's proxy-voting policy provides a detailed list of ESG-related topics that may come up, it contains limited guidance as to how voting should ultimately be carried out. In addition, the firm could do more to draw clear connections between engagement outcomes and their effect on the ESG profile of particular holdings, such as impacting internal scoring systems or changing position sizing.

### **Schwab Asset Management** | Mahi Roy | 30 August 2023

*Wavering support for sustainable investing.*

Schwab Asset Management has taken a measured approach to environmental, social, and governance issues. Minimal ESG-focused product offerings, a thinly staffed team without a dedicated head of ESG, and disclosure efforts that lag those of industry peers earn the firm an ESG Commitment Level of Low.

In late 2020, Malik Sievers assumed the newly formed role of head of ESG strategy at Schwab Asset Management. Before he could reach his stride, the firm experienced decreased demand for sustainable products, and Sievers reduced his focus on ESG. Most of his time is spent on multi-asset product strategy. A squad of four people on the investment stewardship team support the firm's sustainable-investing practices and help with proxy voting and engagements.

Historically, Schwab Asset Management has done little to incorporate ESG into its culture or investment strategies and relies mostly on ESG-motivated clients to take the initiative. The firm provides third-party investment solutions and funds to those clients as a way to align their investments with their values. For example, the firm launched Schwab Ariel ESG ETF in November 2021 and introduced a direct-indexing solution for clients that can access it. These offerings represent a tiny portion of the firm's overall business, most of which is in non-ESG passive strategies.

Schwab Asset Management is not a part of prominent investor coalitions such as the Net Zero Asset Managers initiative, and it has room for improvement in its own active ownership practices. It does not report its rationales for proxy-voting decisions, and outside of a few scattered governance topics, the firm lacks a clear engagement and escalation policy outlining priorities and expectations for outcomes at portfolio companies. In October 2022, like some of its peers, Schwab Asset Management introduced a new program that gives investors a say in the proxy-voting process. Demand thus far has been underwhelming, so the future of this offering is uncertain.

**Solaris Investment Management** | Michael Malseed | 1 May 2023

*Solaris earns a Morningstar ESG Commitment Level of Low.*

Solaris incorporates environmental, social, and governance concerns into its investment process insofar as it considers ESG risks as they relate to the investment case, but it is not an ESG intentional manager that actively seeks to enact change. When considering Solaris' approach against global best practices, Solaris receives a Morningstar ESG Commitment Level of Low.

Solaris has a dedicated ESG analyst, which is good for an Australian equities' boutique. They are responsible for the compilation of ESG data and research, maintaining an ESG database and liaising on proxy advice. The individual analysts and portfolio managers at Solaris are ultimately responsible for factoring in ESG risks to the investment case and making decisions on proxy voting. Solaris provides full public disclosure of its proxy-voting records but doesn't include detailed rationales. Solaris also doesn't have any specific environmental proxy-voting policies and doesn't have any history of putting forward its own ESG-related resolutions.

Overall, while ESG issues are considered as part of the financial valuation equation, Solaris' commitment to ESG is at the lower end of the spectrum.

**VanEck** | Morningstar Manager Research | 10 May 2021

*VanEck earns a Morningstar ESG Commitment Level of Low.*

VanEck seeks to distinguish itself from larger asset managers by providing exposure to unique markets such as natural resources and emerging markets, but it has not distinguished itself within the sustainable-investing space and is most deserving of a Morningstar ESG Commitment Level Rating of Low.

VanEck maintains an ESG Committee composed of senior leaders from across its major business lines. It has also developed a proprietary ESG tool that measures the environmental impact of the companies it invests in; however, nearly 90% of the assets VanEck manages are in index-tracking strategies that are agnostic to ESG criteria. Thus, the potential impact of the firm's ESG initiatives is limited.

Active ownership through engagement and proxy voting are VanEck's primary tools to affect ESG initiatives. On the proxy-voting front, Van Eck follows Glass Lewis' guidelines, which have resulted in high support for ESG-related resolutions (87% in 2020). However, VanEck's engagements appear to be limited. The firm's engagement guidelines lack meaningful detail, such as what would trigger an engagement, how the engagement would be monitored, or how the effects of the engagement would be communicated to investors.

**Vanguard** | Mahi Roy | 1 March 2023

*Vanguard is dialing back its sustainable-investing efforts.*

Vanguard is an exemplary asset manager in many ways, but not when it comes to environmental, social, and governance issues. The firm's inconsistent integration of ESG factors, paucity of dedicated ESG specialists, and low support for key ESG shareholder resolutions warrant a Morningstar ESG Commitment Level of Low.

Vanguard signed the United Nations-supported Principles for Responsible Investment in 2014 and offers ESG-focused funds—its first, Vanguard FTSE Social Index VFTNX, was launched in 2003. However, the firm hasn't since made much progress compared with peers. Furthermore, the firm's decision to depart from the Net Zero Asset Managers initiative in 2022, less than two years after originally signing, is a discouraging sign for the firm's ESG ambitions. Although other firms have delineated portfolio decarbonization plans while not signing on to NZAMI, Vanguard has yet to offer a clear decarbonization strategy after leaving the initiative.

Passive ESG-focused strategies amount to only a fraction of Vanguard's assets under management, and most use screens to exclude companies in controversial industries and those that run afoul of environmental or social standards. In practice, this process does not differentiate the funds from their broader universes as much as peers that explicitly integrate ESG criteria to select companies with positive sustainability characteristics. Moreover, disclosure of ESG and carbon-related metrics for Vanguard products is lacking across the board.

The firm relies chiefly on subadvisors, including Advanced-rated Wellington Management and Basic-rated Baillie Gifford, to steer its actively managed equity strategies, which comprise roughly 5% of Vanguard's total assets. This may lead to higher degrees of ESG consideration on these funds, but Vanguard does not require a specific level of integration nor coordinate these efforts at the enterprise-level. Although much of the firm's actively managed fixed income is run by in-house teams, this group's approach to ESG integration is rudimentary compared with peers.

Since Vanguard's book of business primarily consists of index-tracking strategies, the main avenue for acting on ESG risks is through activities such as proxy voting and company engagement, otherwise known as active ownership. Although the firm's record of support for key ESG shareholder resolutions continues to be lower than comparable peers, its disclosure of the rationale behind such voting decisions is strong. Investors can find highlights of engagement activities in semiannual stewardship

reports. Changes are also afoot to give shareholders a bigger voice in the conversation. As part of a new pilot program launched in 2023, investors in three Vanguard equity index funds now have four proxy-voting policies to choose from. This is a new foray with an uncertain future, but it may be a step in the right direction. All told, the firm's efforts fall short compared with peers.

**Victory Capital | Rasa Kerelis | 1 July 2023**

*Hands-off approach at the top leaves implementation gaps.*

Victory Capital Management is a relatively new player in the sustainable-investing space. The firm houses 13 affiliates, each with a high level of autonomy. As a result, the affiliates show varying commitment to using environmental, social, and governance factors and incorporating them throughout their investment processes. The firm has launched several ESG products and improved fluency in sustainable investing at the affiliate level, but its light top-down oversight leaves gaps in capacity to develop relevant tools. Victory Capital Management earns an inaugural Morningstar ESG Commitment Level of Low.

Across the investment affiliates, less than half of assets under management consider ESG factors or employ exclusions as of April 2023. A few of the affiliates have launched ESG-focused funds, but overall the affiliates' approach to integrating ESG factors in traditional funds has varied. While centralized policies could help define and standardize sustainable investing and ESG integration, Victory Capital uses its central tools as an additional support only when requested by affiliates.

David Alt, Victory Capital's first director of responsible investing, joined in May 2020 to accelerate the firm's move toward centralization at the parent level. However, he focuses on the firm's own corporate social responsibility ambitions rather than embedding ESG principles within the firm's affiliates' investment processes. Notably, Victory Capital partners with Xavier University to improve diversity at the firm as well as throughout the asset-management industry and participates in a number of volunteer activities firmwide. Although participation in such initiatives is admirable, Alt's investment-related work could use additional support. He liaises with "ESG champions" from each affiliate while the council focuses on meeting regulatory requirements, but the champions carry non-ESG responsibilities as well. The firm would benefit from dedicated specialists to build out centralized resources for both investment processes and stewardship activities, improving the breadth and transparency of ESG-related efforts.

When it comes to stewardship, the firm could improve in three key areas: transparency, centralization, and thought leadership. Victory Capital Management does not publish proxy-voting data beyond what is required by regulation. Furthermore, it does not report on engagement activity with portfolio companies and does not collaborate on engagements across affiliates. Greater transparency would empower investors to understand Victory Capital's approach to proxy voting and engagements as well as its stance on specific ESG issues.



**Voya** | Morningstar Manager Research | 10 May 2021

*Voya earns a Morningstar ESG Commitment Level of Low.*

Voya is still in the early stages of developing its environmental, social, and governance effort and therefore earns a Morningstar ESG Commitment Level of Low.

Despite an early legacy foray into socially responsible investing through exclusionary strategies, Voya's effort toward a broader integration of ESG considerations across its product offering is fairly nascent. The firm has signed on to several ESG-related industry codes and associations over the years but became a United Nations-backed Principles for Responsible Investment signatory only at the end of 2017. Voya counts very few professionals dedicated to sustainable investing and relies predominantly on the recently established ESG steering committee to incorporate ESG considerations across asset classes. The committee, which is led by a seasoned head of ESG hired at the end of 2016, is mostly composed of investment professionals with limited experience in sustainable investing. Voya employs multiple sources of ESG data, and several areas of the company's investment platforms have developed in-house ESG tools and scoring processes, but the firm has yet to finalize its uniform proprietary rating system.

Ultimately, 16% of the firm's assets resides in strategies considered ESG-focused, but virtually all these assets are in purely exclusionary approaches, and the balance of the company's assets is managed free of any ESG considerations. ■■■

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