

THE BENCHMARK FOR RESPONSIBLE INVESTMENT

An aerial photograph of a winding asphalt road with yellow lane markings, curving through a dense, lush green forest. The trees are tall and appear to be eucalyptus. The overall scene is captured from a high angle, looking down on the road and the surrounding canopy.

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WHAT IS RESPONSIBLE INVESTING?

THE JARGON EXPLAINED

Responsible Investment (RI) avoids harm and conflicted situations, while targeting sustainability, impact and ethical behaviour. This is good for society and the planet.

Over time, consumers have become increasingly conscious of the impact companies are having on their environment and society. They also wish to ensure that harm is avoided and minimised.

Research suggests that one way people

want to express these beliefs and values is through their investment choices. This is fuelling significant growth in RI. Further, it is clear that demand for RI options is not just being driven by younger generations. It is increasing across all age cohorts.

There is a lot of jargon around RI and it can be very confusing, for both clients and advisers. Below we list many of the terms people associate with RI and fit them within the seven RI capabilities as set out by the Responsible Investment Association Australasia (RIAA).

ESG INTEGRATION	NEGATIVE SCREENING	NORMS-BASED SCREENING	ACTIVE OWNERSHIP	POSITIVE SCREENING	SUSTAINABILITY-THEMED INVESTMENTS	IMPACT INVESTING
<ul style="list-style-type: none"> Financial Risk Environmental Risk Social Risk Governance Risks <p>Environmental</p> <ul style="list-style-type: none"> Climate change and carbon emissions Air and water pollution Biodiversity Deforestation Energy efficiency Waste management Water scarcity <p>Social</p> <ul style="list-style-type: none"> Customer satisfaction Data protection and privacy Gender and diversity Employee engagement Community relations Human rights Labor standards <p>Governance</p> <ul style="list-style-type: none"> Board composition Audit committee structure Bribery and corruption Executive compensation Lobbying Political contributions Whistleblower schemes 	<ul style="list-style-type: none"> All weapons (including firearms) Tobacco Production Gambling Fossil Fuel Exploration, mining and production Pornography production and distribution Alcohol production and sales Nuclear power (including uranium mining) Fossil fuel power generation Labour rights violations Human rights abuses Animal cruelty (e.g. animal testing, live exports) Environmental degradation (including land, air and water) Predatory lending Sugar (high content and/or predatory marketing) Genetic engineering Pesticides Companies that don't pay their fair tax share Meat and meat products 	<ul style="list-style-type: none"> Human Rights Workers Rights Landmines UN Global Compact UN SDGs UN PRI Paris Agreement UN Convention against Corruption UN Rights of Child 	<ul style="list-style-type: none"> Governance Stewardship Voting Engagement Board Structures Company Strategy Remuneration Board Diversity Management 	<ul style="list-style-type: none"> ESG Leaders Improving ESG Companies 	<ul style="list-style-type: none"> Climate Change Paris Agreement Sustainable Development Goals Sustainable Agriculture Sustainable Forestry Renewable Energy Water Efficiency Waste Management Recycling Sustainable Clothing Sustainability Leaders Net Zero Emissions 	<ul style="list-style-type: none"> Affordable Housing Disability Housing Senior Housing Education Future Generations Micro Finance Future Industries Food solutions



THE FUTURE OF RESPONSIBLE INVESTING STARTS HERE

LOOKING BEYOND THE NAME

RI is more than a trend. It is the beginning of a new investment landscape.

We are seeing growing demand from all types of investors for RI options. This raises a number of questions: how do we measure RI, how can we ensure a fund is 'true-to label' and how can we best integrate RI into a client's portfolio?

One of the challenges in RI has been the lack of a clear measurement framework. Given the absence of a consistent industry approach, we took on the task of developing our own Index, the Evergreen Responsible Investment Grading (ERIG) Index, to comprehensively assess funds and portfolios on a wide range of RI related themes.

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RESPONSIBLE INVESTMENT SPECTRUM

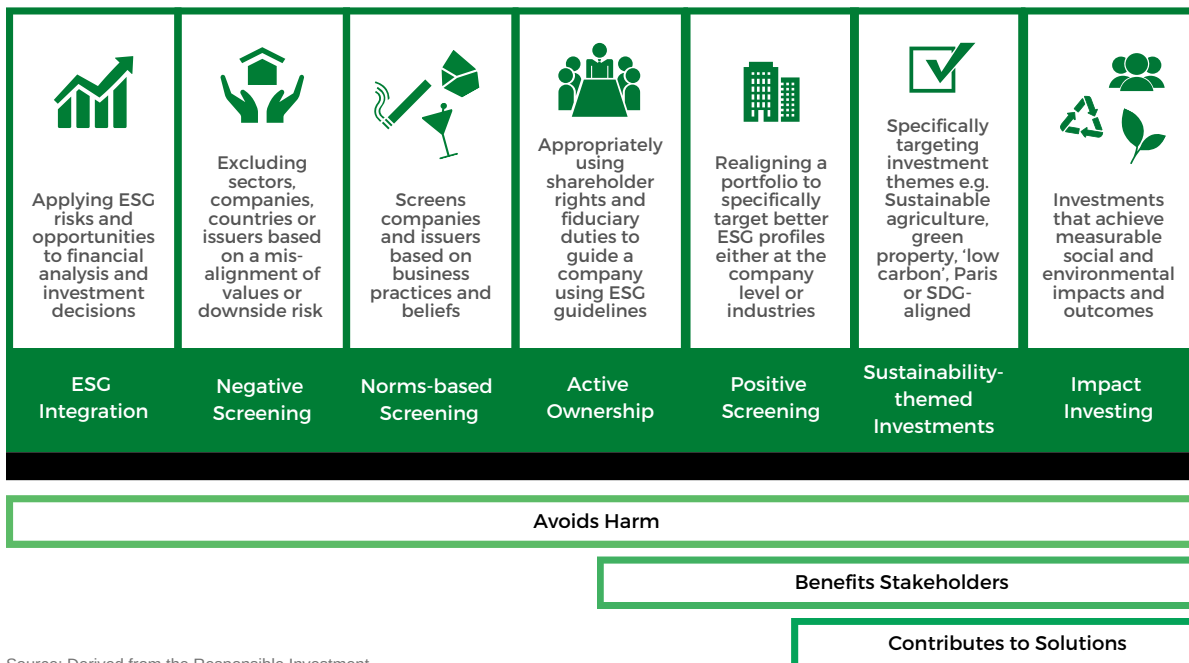
To ensure that the ERIG Index takes into consideration all relevant facets of RI, we have adopted the RIAA (Responsible Investment Association of Australasia) Responsible Investment Spectrum as a foundation for our work.

The ERIG Index assesses funds and fund managers across all seven areas of the Spectrum and provides a score from 1 to 10 for each area. This can then be compared

to peers and sector averages. We also collate that information to provide a quartile ranking for a fund, based on its overall score compared to peers.

The ERIG Index enables consultants, advisers and investors to assess the RI credentials of funds and to ensure their portfolios are aligned with their RI beliefs.

RESPONSIBLE INVESTMENT SPECTRUM



Source: Derived from the Responsible Investment Association Australasia

WHY A TOP-DOWN APPROACH?

There are two primary ways funds can be assessed for their RI credentials, being what we term 'bottom-up' and 'top-down' methods.

Globally, there are over 160 ESG or RI data providers that collect and provide 'bottom-up' data. These providers take publicly available data on companies, in addition to their own surveys and company questionnaires, to create a proprietary ESG analysis and rating of a company. These scores can then be used to build a fund score.

We think there are some shortcomings to that approach. Most importantly, it scores companies on the criteria the data provider

thinks are important, rather than allowing the investor and adviser to express their RI views.

So we have developed a 'top-down' method of measuring and analysing RI capabilities. The ERIG Index assesses how a manager or fund has integrated ESG and RI issues within its investment process.

This approach has some advantages: it provides detail on what a fund does, it is more aligned with the approach advisers and consultants have used to assess fund managers for decades, being evaluation of their process, and it allows us to evaluate funds across all asset classes.



Philip Morris International Inc is a tobacco company. As a company, they are considered by some ESG ratings providers to be high quality due to their efforts in phasing out tobacco products, in favour of nicotine-free products. However, it

overlooks the harm and the impact that the product Philip Morris currently manufactures has on the environment and society. In fact, most RI investors would screen out tobacco companies as a first step in their investment process.

SUPPORTING FINANCIAL ADVISERS

HOW TO BUILD AN RI PORTFOLIO

The first step to building a bespoke RI portfolio is understanding a client's RI beliefs, and then mapping these beliefs to appropriate investments.

We have created an RI Client Questionnaire which works similarly to a risk profile - profiling your client's RI beliefs.

This questionnaire is mapped back to the ERIG Index so that you can build an RI portfolio.

The ERIG Index portal also includes a portfolio construction tool that allows you to search for products, based on their RI characteristics, and model portfolios for your clients. Each portfolio can be exported for use within a Statement of Advice.

Questionnaire Name

Introduction

General Filters

RI Signatories

ESG Integration

Negative Screening

Norms Based Screening

Active Ownership

Positive Screening

Sustainability-themed and Impact Investing

Export
Reset
Universe Size
Save

Negative Screening

The exclusion of companies exposed to activities that are deemed harmful in nature.

Please note that there is some flexibility in the level of exclusion that managers can guarantee. Often 5% or 10% of revenue is considered a reasonable threshold, as it can be difficult to fully ascertain the source of every dollar of revenue in a large multi-national company, for example.

For the purposes of this Questionnaire, "Absolutely" refers to complete exclusion of the industry i.e. a threshold of 0% of the revenue is derived from the referred industry.

"Preferred" will refer to thresholds of 5% or 10% of revenue.

In order to keep the universe sizable, only 7 screens can be included as "Absolutely".

*If no option is selected, the results will default to "No Preference"

Would you like products that exclude:	Absolutely (Limit 7)	Preferred	No Preference	Definitely Not
All weapons (including firearms)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tobacco production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gambling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fossil fuel exploration, mining and production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Disarmament, production and distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Would you like the products to have:	Absolutely	Preferred	No Preference	Definitely Not
Engagement policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Voting policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Active Ownership/Stewardship policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Would you like the product to have clear expectations of investee companies in terms of the following:	Absolutely	Preferred	No Preference	Definitely Not
Disclosure and dialogue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Company culture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strategy, performance, investment, financial structures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relationships with stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Management of ESG issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decision-making rights, board composition, remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Materiality issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health and safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Human rights and labour rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Sustainability-themed and Impact Investing

The investment into companies that are producing sustainable goods or services.

Very few managers target Sustainability-themed and Impact Investing.

Sustainable-themed investors specifically seek certain investment themes that actively target the 17 UN Sustainable Development Goals (SDGs), such as No Poverty, Reduced Inequalities and Climate Action.

Impact Investing refers to products that invest in companies that achieve measurable social and environmental impacts and outcomes. In many ways, it can be similar to Sustainability-themed Investing, but Impact Investing begins with the intention of solving a societal or environmental issue, seeking financial return as a secondary objective.

If this is something that is important to you, small exposures to these types of investments can be included in your portfolio. However, it will be difficult to build a robust, diversified portfolio with a high exposure to Sustainability-themed and Impact Investments.

Please tick those areas, if any, to which you believe you would like your investment portfolio to have some exposure.

In order to keep the universe sizable, only 4 screens can be included as "Absolutely".

*If no option is selected, the results will default to "No Preference"

Would you like products that include:	Absolutely (Limit 4)	Preferred	No Preference	Definitely Not
Sustainability-themed Investing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Impact Investing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Would you like products that include sustainable investments in:	Absolutely (Limit 4)	Preferred	No Preference	Definitely Not
Green buildings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

HOW DOES THE ERIG SCORING WORK?

There are two ratings solutions provided for investment products scored by the ERIG Index, being a quartile ranking and the underlying RI Spectrum scores.

Each fund is given a quartile ranking, which reflects its overall RI position compared to its peers. This provides advisers with a simple method to ascertain a fund's RI capabilities at a glance.

For those seeking more information, we also provide scores for the seven RI capabilities. This gives a more detailed insight into a product's RI capability. We also provide information on details such as the screening filters a fund might use.

Scoring RI capabilities is a complex task. By providing two distinct levels of detail, we allow users to access both a quick summary and more detailed information as required.

QUARTILE RANKINGS:



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