THE BENCHMARK FOR RESPONSIBLE INVESTMENT

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

- Financial Risk
- Environmental Risk
- Social Risk
- Governance Risks

Environmental
- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

Social
- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Governance
- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

NEGATIVE SCREENING

- 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

NORMS-BASED SCREENING

- Human Rights
- Workers Rights
- Landmines
- UN Global Compact
- UN SDGs
- UN PRI
- Paris Agreement
- UN Convention against Corruption
- UN Rights of Child

ACTIVE OWNERSHIP

- Governance
- Stewardship
- Voting
- Engagement
- Board Structures
- Company Strategy
- Remuneration
- Board Diversity
- Management

POSITIVE SCREENING

- ESG Leaders
- Improving ESG Companies

SUSTAINABILITY-THEMED INVESTMENTS

- 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

IMPACT INVESTING

- Affordable Housing
- Disability Housing
- Senior Housing
- Education
- Future Generations
- Micro Finance
- Future Industries
- Food solutions

ERIG INDEX

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.

ERIG
INDEX

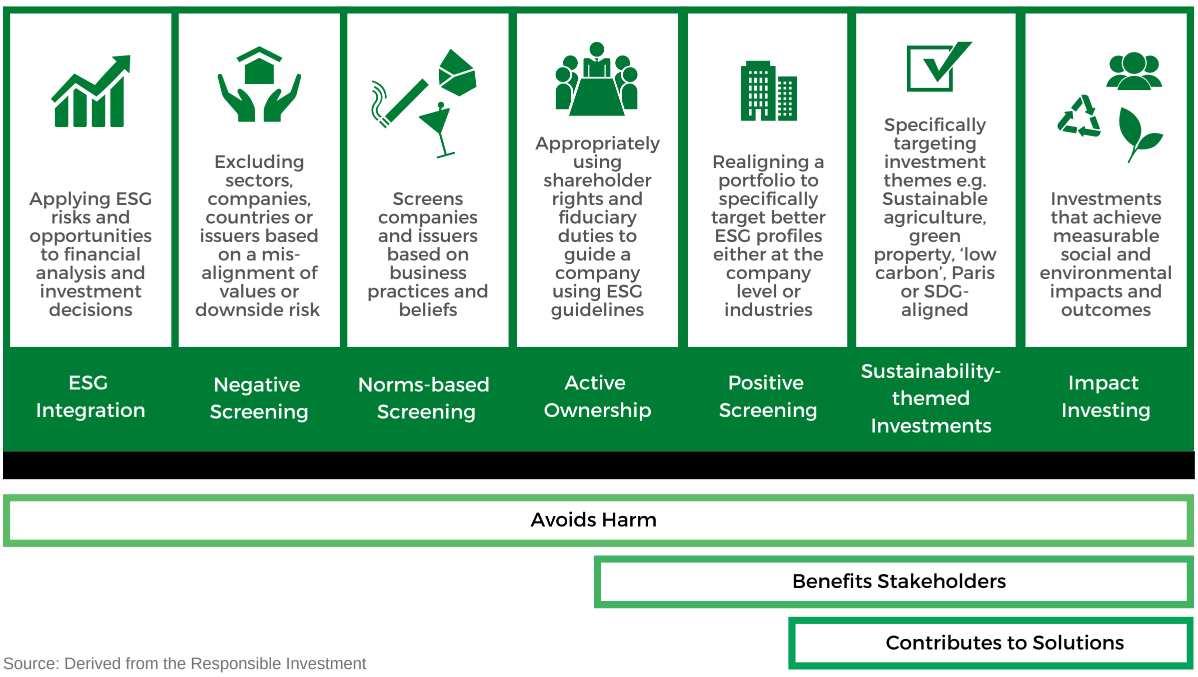
RESPONSIBLE INVESTMENT SPECTRUM

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 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

ERIG INDEX

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.

STOCK STORY

PHILIP MORRIS INTERNATIONAL INC

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

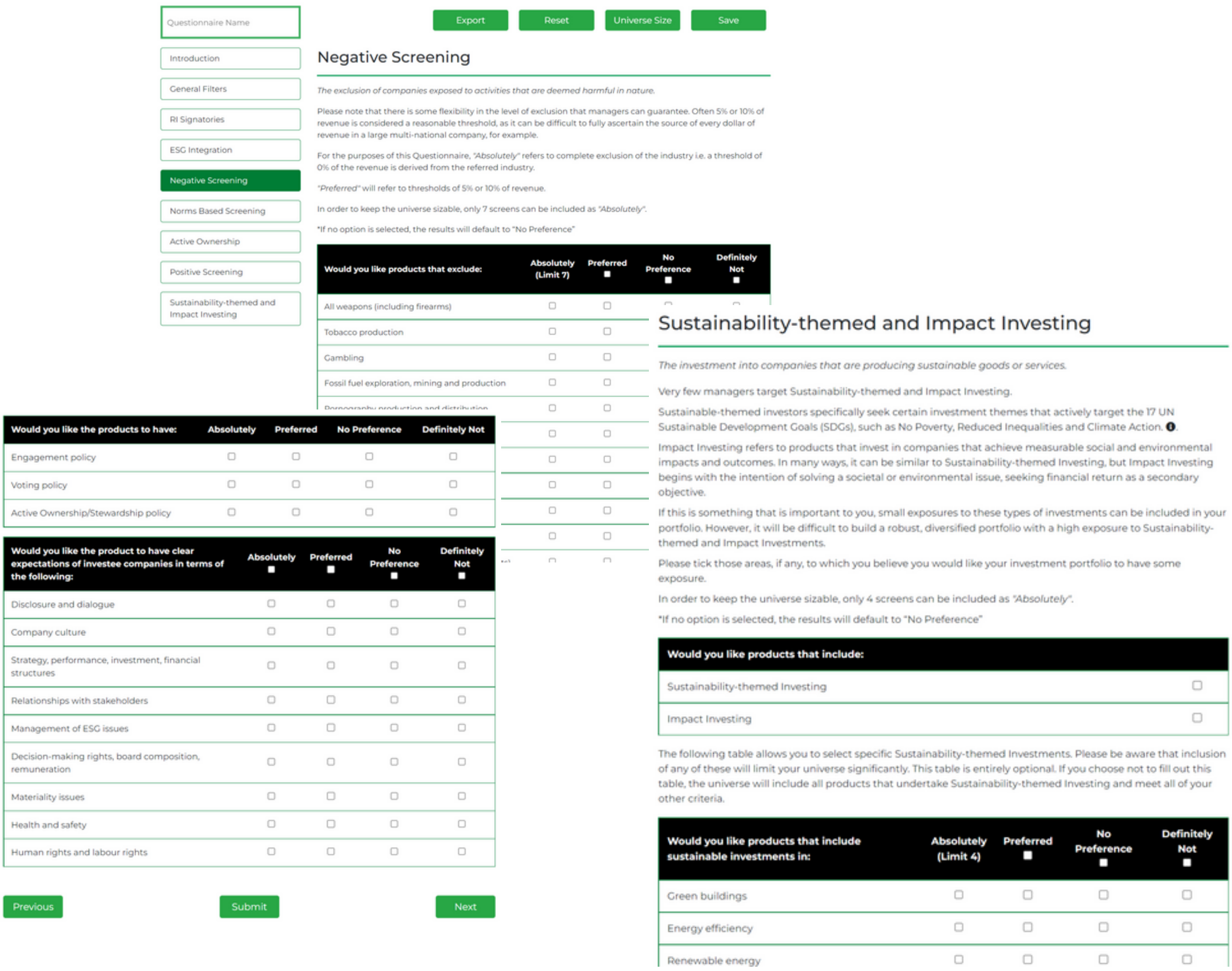
HOW TO BUILD AN RI PORTFOLIO

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.



ERIG
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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:

1ST QUARTILE ERIG INDEX

2ND QUARTILE ERIG INDEX

3RD QUARTILE & 4TH QUARTILE ERIG INDEX

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