



# An Introduction to the ERIG Index

**ERIG**  
**INDEX**

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# An Introduction to the World of Responsible Investment

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## What is Responsible Investment?

Responsible Investment (RI) is defined by the United Nations Principles for Responsible Investment (UNPRI), the peak global body, as “a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership”.<sup>1</sup>

It is used as a catch-all term for the different investment approaches that are designed to achieve a variety of RI outcomes. These outcomes can range from risk mitigation through to having a direct impact on society or the environment, such as ESG screens through to Impact investing.

## A brief history of Responsible Investment

RI began formally in 1971 with the launch of the Pax World Fund – the first socially responsible fund in the US.

Through time, however, RI has been implemented in different ways. The evolution of RI has often been driven by a catalyst, typically a negative event that caused significant public activism.

For example, in the 1980s, there was widespread divestment from South Africa as a protest against the Apartheid system. In 1989, the Valdez Principles were formed following the Exxon Valdez oil spill.

As activism evolved, it became entwined with corporate stewardship. Companies faced growing pressures from campaigners and shareholders to change negative behaviours. One visible example was GlaxoSmithKline being pressured by its shareholders into cutting the cost of AIDS drugs in developing countries.

These events have shown that, while not formalised in a systematic practice, RI has existed in various guises for decades.

This occurred until its mainstream adoption which took place on the back of the formation of the PRI in 2006.

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<sup>1</sup> UNPRI – What is Responsible Investment? <https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article>

## What is the UNPRI?

In 2006, with the support of the UN, the Principles for Responsible Investment (PRI) was launched as “a global organisation to encourage and support the uptake of responsible investment practices in the investment industry”.

It is commonly known as the UNPRI and is now the world’s leading proponent of RI.

Investors who become signatories to the UNPRI commit to implementing six Principles for Responsible Investment. These are an aspirational set of principles that offer a menu of possible actions for incorporating ESG issues into practice.

The six Principles are:

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** We will each report on our activities and progress towards implementing the Principles.<sup>2</sup>

The preamble to the Principles states: “We recognise that applying these Principles may better align investors with broader objectives of society.”

## The Sustainable Development Goals<sup>3</sup>

Never before have the “broader objectives of society” been more clearly defined than in the UN’s Sustainable Development Goals (SDGs).

Every UN Member State has agreed on a sustainability agenda, covering three broad areas – economic, social and environmental development. This agenda comprises of 17 global goals (the SDGs), further developed into 169 targets to be reached by 2030.

The launch of the SDGs in 2015 has made it clear that the world relies heavily on the private sector to provide solutions to the urgent problems the world is currently facing. Both companies and institutional investors are being asked to contribute to the SDGs through their business activities and investment decisions.

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<sup>2</sup> [2] PRI – What are the Principles for Responsible Investment? <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

<sup>3</sup> [3] Sustainable Development Goals – The SDG Investment Case - <https://www.unpri.org/sustainable-development-goals/the-sdg-investment-case/303.article>

The SDGs' relevance to responsible investors is grouped into five overarching categories:

1. The SDGs are the globally agreed sustainability framework.
2. Macro risks: The SDGs are an unavoidable consideration for “universal owners”.
3. Macro opportunities: The SDGs will drive global economic growth.
4. Micro risks: The SDGs as a risk framework.
5. Micro opportunities: The SDGs as a capital allocation guide.

The SDGs and the underlying targets provide a common pathway towards a more sustainable world. They also provide a strong foundation for ESG risk frameworks.

**Figure 1. UNPRI - The 17 UN Sustainable Development Goals**



Source: UNPRI

## Responsible Investment Association Australasia

While the UNPRI is a global organisation, the reality of implementation for domestic financial services providers is different due to each country’s own laws and regulations. They each have their own nuances which requires an accessible domestic entity to guide them on their journey towards RI.

The Responsible Investment Association Australasia (RIAA) champions RI and a sustainable financial system in both Australia and New Zealand.

With over 500 members representing more than \$29 trillion in assets, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Its membership base includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

RIAA achieves its mission through:

- Providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term RI and sustainable capital markets;
- Delivering tools for investors and consumers to better understand and navigate towards RI products and advice, including running the world's first and longest running fund certification program, and the online consumer tool 'Responsible Returns';
- Supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- Acting as a hub for members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and
- Being a trusted source of information about RI. <sup>4</sup>

Evergreen Consultants became a member of RIAA in 2020.

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<sup>4</sup> RIAA's mission <https://responsibleinvestment.org/about-us/>

# Our Approach to Assessing RI in Funds

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## Top-down vs bottom-up perspectives for scoring funds

The collection of RI related company-level analytics has become an industry. Companies now report very detailed information to hundreds of data collectors, which in turn summarise and compare companies on a range of RI-related metrics.

This data is often used by fund managers as part of their ESG Integration framework. It also forms the basis of much of the fund data available to advisers and investors. The company or security level data is used to compile an 'RI score' for a fund and then presented as a complete RI analysis. This is the bottom-up approach to fund assessment.

An analogous example is the use of the P/E ratio of a portfolio. We can collate the P/E ratio of every stock in a fund and in that way, build the P/E ratio for the fund.

There are some meaningful drawbacks with this approach.

Importantly, a bottom-up approach is often only applicable for one asset class. For example, stock data being relevant only to equities or credit, and inapplicable to treasury bonds or real assets such as property and infrastructure. Many asset classes are not well catered for, and the bottom-up approach may differ for each asset class.

Further, this approach may be a good way to check portfolio characteristics, but it is not sufficient to prove the style or approach of the manager. Analogously, a portfolio with a low P/E does not mean the manager is a value manager. It means the portfolio had value characteristics at that point in time, but nothing more. Similarly, a portfolio with a certain sustainability score does not mean a manager is an RI manager. It is a contributor, but not sufficient condition to prove the style.

We have chosen instead to use a top-down assessment. This approach has a number of advantages over the bottom-up approach, which means that it is more appropriate for the purpose of assessing funds and fund managers.

Firstly, and importantly, the top-down assessment analyses a manager's approach to RI through their investment process and philosophy, as opposed to a fund's portfolio characteristics at any point in time.

This means a top-down approach is more consistent with traditional manager research. We assess what a manager does with respect to RI in their investment processes. This leads to a more robust analytical approach.

It also means that we can also assess funds in all asset classes, not just equities. Our approach can be used for fixed income, multi asset funds and so on. Hence, it can be applied to the analysis of client portfolios.



Our top-down approach will also more adeptly eliminate any potential 'greenwashing' in fund managers as we consider how a manager integrates RI within its investment processes.

We have described in more detail our approach in the coming pages.

## The RIAA Spectrum

We have chosen to adopt the RIAA Responsible Investment Spectrum (the Spectrum) as the basis of our approach to RI measurement categorisation.

This Spectrum is based on a globally recognised framework that captures the different RI approaches.

The Spectrum, shown below, consists of seven categories, which are described briefly here. In Appendix One, we provide in-depth descriptions of each approach.

**ESG Integration** – The inclusion of ESG factors within financial analysis and the investment decision-making process.

**Negative screening** – Excluding certain companies, sectors, issuers or countries based on activities that are deemed unacceptable in terms of downside risk or values misalignment.

**Norms-based screening** – Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions.

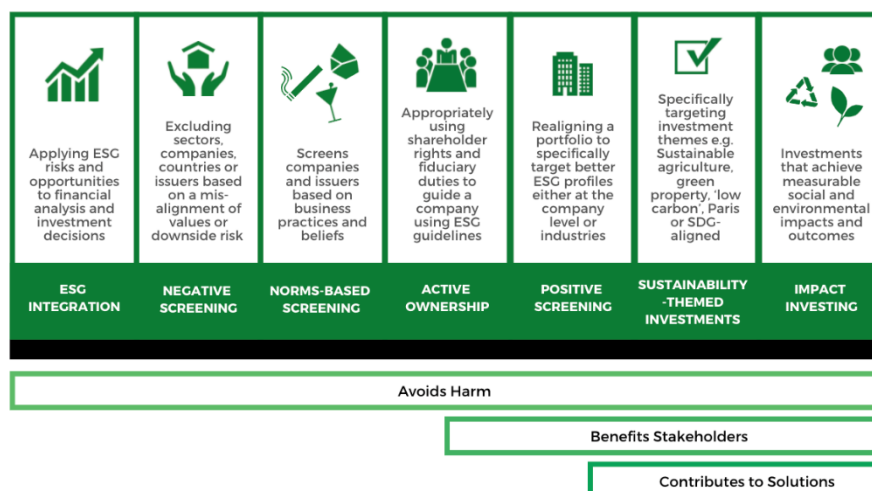
**Active Ownership** – Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours. It is also known as stewardship.

**Positive Screening** – Intentionally tilting the portfolio or security analysis towards solutions or targeting companies or industries with better RI profiles.

**Sustainability-themed Investing** – Specifically targeting investment themes, for example, sustainable agriculture or SDG-aligned investments.

**Impact Investing** – Investing with the intention to solve a social or environmental issue as a primary goal, with financial returns being secondary.

Figure 2. RIAA – the Responsible Investment Spectrum



Source: Derived from the Responsible Investment Association Australasia



## The Evergreen Responsible Investment Grading Index

The Evergreen Responsible Investment Grading (ERIG) Index focusses on which of the seven RI capabilities a fund implements, as well as their strengths and weaknesses in each of the approaches listed in the Spectrum.

In order to gather information for analysis, we ask managers to complete a detailed questionnaire, which we developed using resources from both the UNPRI and RIAA.

This approach provides us with the ability to assess single asset classes, including equities, fixed interest, and multi-asset strategies.

Managers are asked to complete each section according to the capabilities that they offer for each of their individual funds or investment strategies.

The questionnaire has two main components per RI capability:

- The high-level RI beliefs of the manager (this could be considered the manager's *Intent*).
- The evaluation of each RI capability, with questions designed to establish depth and breadth, strengths, and weaknesses. This is focussed primarily on their processes behind each RI capability (this could be described as their *Action*).

The questions are designed to be closed- ended, that is, in the form of Yes/No answers, to ensure the evaluation across managers is consistent and systematic.

We ask managers to substantiate their answers by providing supplementary documents that support their answers for the relevant sections of the questionnaire.

We then audit the questionnaire responses and documents provided. Should there be discrepancies between the manager's answers and their documents evidencing their process we will follow up with the manager to obtain clarification.

The aggregate points across the manager's Intent and Action are then summed and converted to a score out of 10 for each RI capability.

At this stage, we intend to update this information annually, unless there are significant changes to processes that warrant an interim rating review.

## The Universe of Funds

As at July 2022, we have scored over 670 fund strategies (which equates to around 2,700 separate APIR codes). This number will continue to grow.

## The ERIG Index Questionnaire in Detail

The ERIG Index Questionnaire is made up of the following components:



1. Instructions – this allows a manager to select which RI capabilities are relevant to the fund.
2. RI Identity – The manager answers questions based on their beliefs (Intentions) for each relevant RI capability.
3. Individual RI sections related to each RI capability – This is where the manager is able to demonstrate their actions in terms of their respective RI capabilities.
4. An RI scorecard – the scores from each capability and the RI identity section are fed through for a summarised view of the strengths and weaknesses across capabilities.

There are three main sections to the scorecard:

**1. The Firm Identity**

This shows its membership status within the RIAA and PRI and captures the score for the firm’s overall beliefs about RI.

**2. The RIAA Spectrum**

This section relates to the “Intent” of the fund for each of its relevant RI capabilities. It considers what the manager or fund believes about its RI capabilities.

**3. The Individual RI capabilities**

Each RI capability then has its own section in the questionnaire, with sub-sections examining the “Actions” or processes that are implemented by the fund.

The aggregate points across the manager’s Intent and Action are then summed and converted to a score out of 10 for each RI capability.

It is important to note that funds are only comparable within a sector. For example, an Australian Equity fund should only be compared to other Australian Equity funds with respect to these scores.

There are also some regional and asset class specific nuances between RI approaches being utilised by funds. As an example, fixed income does not typically have an Active Ownership capability. Globally, however, there are some managers who have highlighted the integration of Active Ownership into their fixed income capabilities through their investment processes.

**Table 1. Sample of Fund Grades**

APIR Code/Ticker	Fund Name	Sector	Quartile	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-Divested Investments	Impact Investing
<a href="#">ADOSTLE1E</a>	Apostle People and Planet Diversified Fund	Multi Asset	1 <sup>ST</sup>	9.3	9	10	10	10	10	10
<a href="#">ETLBTZ6AU</a>	NT World Green Transition Index Fund (AUD)	Global Equities	1 <sup>ST</sup>	4.8	7.8	8.3	9.7	9.3	6	4.5
<a href="#">DIM4806AU</a>	Mellor Australian Impact Fund	Australian Equities	1 <sup>ST</sup>	7.7	7.8	4.4	9.7	9.3	9.5	9.5
<a href="#">EFPB333AU</a>	JPMorgan Global Macro Sustainable Fund	Alternatives	1 <sup>ST</sup>	6.8	2.9	7.2	9.7	8.6	7.5	0
<a href="#">WHTD039AU</a>	Plato Aust Sh Inc Fd	Australian Equities	1 <sup>ST</sup>	7.4	3.2	0	8.5	8.6	0	0
<a href="#">WHT3344AU</a>	Plato Australian Shares Tax-Exempt Fund	Australian Equities	1 <sup>ST</sup>	7.4	3.2	0	8.5	8.6	0	0
<a href="#">PLB</a>	Plato Income Maximiser Limited	Australian Equities	1 <sup>ST</sup>	7.4	3.2	0	8.5	8.6	0	0

# The ERIG Index Quartile Measurement

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The ERIG Index provides users with detailed information on a fund’s approach to RI. This is useful and valuable information but can sometimes be difficult to present in a simple-to-understand way.

To address this issue, we have developed a second measurement tool, known as the ERIG Index Quartile Ranking. This tool allows us to allocate a quartile ranking to each fund with an ERIG Index score, based on its relative rating compared to other funds in the same sector or asset class.

To determine a fund’s quartile ranking, we use a weighted average<sup>5</sup> of all seven scores provided by the ERIG Index and rank each fund within its asset class. The first 25% of funds are awarded a ‘1<sup>st</sup> Quartile’ ranking, the second 25% of funds are awarded a ‘2<sup>nd</sup> Quartile’ ranking and so on.

This provides ERIG Index users with a simple tool for initial filtering or consideration.

Each fund’s Quartile ranking is reviewed annually.

**Figure 3. Quartile Ranking Logos**



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<sup>5</sup> The weighted average is not a simple average, as there is a high level of correlation between some scores (in particular, Sustainability and Impact) so we have downweighted those scores slightly.

# How the ERIG Index can be applied to your Portfolio

The ERIG Index online portal allows users to find the Spectrum scores for each fund in a portfolio, as well as sector averages.

A portfolio can be built, edited, saved and downloaded. Sector averages for the portfolio are available which can be compared to the universe's sector averages (see figure 4).

Figure 5 provides sample portfolios with their scores. The first shows a standard growth portfolio while the second shows a more sustainable growth portfolio. This visual display can be shown to clients and aid in making decisions for a 'greener' portfolio.

**Figure 4. Sector Averages vs Portfolio Averages**

Sector	ESG Integration		Negative Screening		Norms-based Screening		Active Ownership		Positive Screening		Sustainability-themed Investments		Impact Investing	
	Portfolio	Universe	Portfolio	Universe	Portfolio	Universe	Portfolio	Universe	Portfolio	Universe	Portfolio	Universe	Portfolio	Universe
Alternatives	6.00	3.80	0.00	2.39	0.00	1.99	3.30	4.28	0.00	1.71	0.00	1.37	0.00	1.03
Australian Equities	6.06	5.27	7.35	2.79	3.52	1.00	8.81	6.89	6.37	1.61	3.91	0.59	3.59	0.42
Australian Fixed Interest	7.69	5.25	4.96	3.27	3.16	1.44	9.83	5.05	5.17	1.49	5.00	0.83	0.00	0.57
Cash	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Global Equities	7.14	4.85	6.55	3.41	4.99	1.67	9.02	6.75	4.57	1.78	4.42	1.09	3.63	0.72
Global Fixed Interest	7.00	5.79	6.10	3.53	10.00	2.16	7.90	5.39	6.40	1.83	8.50	1.82	8.50	1.78
Global Infrastructure	6.40	6.08	5.40	4.98	0.00	3.02	8.50	8.31	2.90	2.19	1.50	2.38	0.00	0.34
Global REITs	5.60	5.53	3.20	3.34	0.00	2.39	8.80	8.21	0.00	1.59	0.00	1.35	0.00	1.15

Figure 5. Example Portfolios – Growth vs Sustainable Growth

Growth Portfolio

APIR Code/Ticker	Fund Name	Sector	Weight Total 100.00%	Quartile	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investments	Impact Investing
HGI1794AU	Janus Henderson Global Multi-Strategy Fund - I Class	Alternatives	5.556	1 <sup>ST</sup>	6.2	0.2	0.6	97	0	15	15
ETL0060AU	Allan Gray Australia Equity Fund	Australian Equities	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	5.4	0	0	67	0	0	0
ETL0444AU	Flinders Emerging Companies B	Australian Equities	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	4.7	4.9	0	42	0	0	0
ETL0490AU	LI Capital Long Short Fund Retail	Australian Equities	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	6.2	0	0	0	0	0	0
EIM0028AU	DNR Cap Aus Equities High Conviction Fd	Australian Equities	5.556	2 <sup>ND</sup>	6.8	3.7	0	55	5	0	0
BTA0507AU	Pendal Sustainable Australian Fixed Interest	Australian Fixed Interest	5.556	1 <sup>ST</sup>	7.6	4.1	3.3	10	6.4	7	0
ETL2805AU	Alexander Fixed Income Fund	Australian Fixed Interest	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	5.7	3.2	0	0	0	0	0
COL0001AU	Charter Hall Maxim Property Sec Fd	Australian REITs	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	0.7	0	0	12	5.7	0	0
MAQ0274AU	Macquarie Dynamic Bond Fund	Credit	5.556	2 <sup>ND</sup>	7.5	3.2	0	76	0	0	0
CIM0006AU	Capital Group New Perspective Fund (AU)	Global Equities	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	7.1	3.9	0	91	0	0	0
ETL0331AU	Janus Henderson Global Natural Resources Fund	Global Equities	5.556	1 <sup>ST</sup>	8.8	7.6	2.2	97	6.4	6	1.5
ESF0974AU	Realindex Wholesale Glb Share - Class A	Global Equities	5.556	3 <sup>RD</sup> & 4 <sup>TH</sup>	4.2	3.2	0	91	0	0	0
IOF0045AU	Antipodes Global Fund	Global Equities	5.556	1 <sup>ST</sup>	7.9	7.8	8.9	97	7.1	1.5	0
MGL0004AU	Ironbark Royal London Conc Glb Shr	Global Equities	5.556	1 <sup>ST</sup>	8.2	5.4	0	97	6.4	0	0
ESF8602AU	Affirmative Global Bond	Global Fixed Interest	5.556	1 <sup>ST</sup>	7	6.1	10	79	6.4	8.5	8.5
ICP0034AU	ClearBridge RARE Infrs Val Fund Unhdged	Global Infrastructure	5.556	2 <sup>ND</sup>	6.4	5.4	0	85	2.9	1.5	0
WHT2080AU	Resolution Capital Global Property Securities Fund (Unhedged) - Series II - Class B	Global REITs	5.548	3 <sup>RD</sup> & 4 <sup>TH</sup>	5.3	0	0	79	0	0	0
EIM7802AU	Fairlight Glb Sm & Mid Cap SMID Fd Cl A	Global Small Caps	5.556	2 <sup>ND</sup>	5.6	7.3	1.1	73	0	0	0

# Sustainable Growth Portfolio

APIR Code/Ticker	Fund Name	Sector	Weight Total 100.00%	Quartile	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Sustainability-themed Investments	Impact Investing
HQW0098AU	Ardea Real Outcome Fund	Alternatives	4.762	2 <sup>ND</sup>	6	0	0	3.3	0	0	0
AAP3940AU	Ausbil Active Sustainable Equity Fund	Australian Equities	4.762	1 <sup>ST</sup>	5.9	6.3	0	91	7.9	0	0
AUC0018AU	Australian Ethical Aus Share Fund Cl B	Australian Equities	4.762	1 <sup>ST</sup>	5.9	9.8	5	9.4	71	0	0
ETL6826AU	Inspire Australian Equities Fund	Australian Equities	4.762	1 <sup>ST</sup>	5.6	6.1	3.3	6.7	5	9.5	9.5
EAIB	BetaShares Australian Sustainability Leaders ETF	Australian Equities	4.762	1 <sup>ST</sup>	5.8	10	0	9.7	71	4	3.5
SCH0002AU	Schroder Australian Equity Fund - Professional Class	Australian Equities	4.762	1 <sup>ST</sup>	6.1	4.4	3.9	9.4	6.4	1	5
WFS0285AU	Pendal Sustainable Australian Share Fund	Australian Equities	4.762	1 <sup>ST</sup>	7.6	6.8	6.7	10	5.7	7	0
BTA0507AU	Pendal Sustainable Australian Fixed Interest	Australian Fixed Interest	4.762	1 <sup>ST</sup>	7.6	4.1	3.3	10	6.4	7	0
IOF0145AU	Janus Henderson Tactical Income Fund	Australian Fixed Interest	4.762	1 <sup>ST</sup>	7.9	71	2.8	9.4	2.1	0	0
CASH	CASH	Cash	4.762	3 <sup>RD</sup> 4 <sup>TH</sup>	0	0	0	0	0	0	0
ETL0331AU	Janus Henderson Global Natural Resources Fund	Global Equities	4.762	1 <sup>ST</sup>	8.8	7.6	2.2	9.7	6.4	6	1.5
ETL0561AU	Robeco Global Developed Sustainable Enhanced Index Equities	Global Equities	4.762	1 <sup>ST</sup>	7.9	71	10	10	71	2.5	2
HHA0007AU	Pengana WHEB Sustainable Impact Fund	Global Equities	4.762	1 <sup>ST</sup>	7.7	6.8	0	91	7.9	9	8.5
NBM0032AU	CFML Stewart Investors Worldwide Sustainability Fund	Global Equities	4.762	1 <sup>ST</sup>	6.4	8.3	7.8	91	0	6.5	0.5
PDL4608AU	Regnan Global Equity Impact Solutions	Global Equities	4.762	1 <sup>ST</sup>	7.6	5.6	4.4	10	0	0	9.5
SLT2171AU	Nanuk New World Fund	Global Equities	4.762	1 <sup>ST</sup>	6.7	7.8	9.4	4.2	5.7	8.5	8
SS10057AU	State Street Climate ESG International Equity	Global Equities	4.762	1 <sup>ST</sup>	4.5	6.1	2.8	8.8	5.7	3.5	0
ZUR0817AU	Zurich Invest Hedged Clb Thematic Share	Global Equities	4.762	2 <sup>ND</sup>	7.9	2.9	0	9.7	0	2.5	0
FSE7298AU	CFS Affirmative Global Bond A	Global Fixed Interest	4.762	1 <sup>ST</sup>	7	6.1	10	7.9	6.4	8.5	8.5
ICP0008AU	ClearBridge RARE Infras Value Fund Hdgd	Global Infrastructure	4.762	2 <sup>ND</sup>	6.4	5.4	0	8.5	2.9	1.5	0
ESF0456AU	First Sentier Wholesale Global Property Securities	Global REITs	4.760	2 <sup>ND</sup>	5.6	3.2	0	8.8	0	0	0



## Average Scores within the Rated Fund Universe

From the table below, we note that Australian and Global Equities together have just over 50% of the universe of funds that have been rated.

The next three largest sectors are Australian and Global Fixed Interest, as well as Australian Small Caps.

**Table 2. ERIG Index average grades by sector within the fund manager universe**

Sector	Number of Funds Scored	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive/Best-in-class Screening	Sustainability-themed Investing	Impact Investing
Australian Equities	137	5.24	2.85	1.04	6.90	1.61	0.71	0.41
Multi Asset	59	5.18	3.43	1.79	7.26	1.94	1.80	1.02
Global Equities	176	4.80	3.41	1.72	6.77	1.77	1.15	0.72
Global Infrastructure	16	6.01	5.00	3.02	8.18	2.23	2.34	0.34
Global Fixed Interest	36	5.79	3.53	2.16	5.39	1.83	1.82	1.78
Emerging Markets	43	5.58	3.39	1.68	7.72	1.19	0.88	0.10
Australian Small Caps	36	5.47	2.14	0.63	6.69	1.25	0.46	0.17
Alternatives	38	3.80	2.39	1.99	4.28	1.71	1.37	1.03
Australian Fixed Interest	47	5.25	3.27	1.44	5.05	1.49	0.83	0.57
Australian REITs	20	5.60	3.31	1.54	6.58	0.50	1.28	0.23
Credit	36	6.26	3.51	1.63	5.31	0.59	0.97	0.53
Global REITs	17	5.53	3.34	2.39	8.21	1.59	1.35	1.15
Global Small Caps	8	4.50	3.03	0.76	5.54	0.80	0.63	0.19
Cash	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>670</b>								

Source: ERIG Index

# Appendix One - The RI Spectrum

Figure 6. The RIAA Responsible Investment Spectrum

RIAA's responsible investment spectrum									
APPROACH	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT						PHILANTHROPY	
		ESG Integration	Exclusionary/negative screening	Norms-based screening	Corporate engagement and shareholder action	Positive / best-in-class screening	Sustainability-themed investing	Impact investing	
METHOD	Providing limited or no regard for environmental, social, governance and ethical factors in investment decision making	Explicitly including ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources	Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values mis-alignment	Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions; can include screening for involvement in controversies	Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours - includes corporate engagement and filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines	Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers	Specifically targeting investment themes e.g. sustainable agriculture, green property, 'low carbon', Paris or SDG-aligned	Investing to achieve positive social and environmental impacts - requires measuring and reporting against these, demonstrating the intentionality of investor and underlying asset/ investee and (ideally) the investor contribution	Using grants to target positive social and environmental outcomes with no direct financial return
INTENTION	Avoids harm								
	Benefits stakeholders								
					Contributes to solutions				
FEATURES AND OUTCOMES	Delivers competitive financial returns								
	Manages ESG risks								
					Contributes to better system stability and economic sustainability				
						Pursues opportunities and creates real - economy outcomes			

\* This spectrum has been adapted from frameworks developed by Bridges Fund Management, Sonen Capital and the Impact Management Project

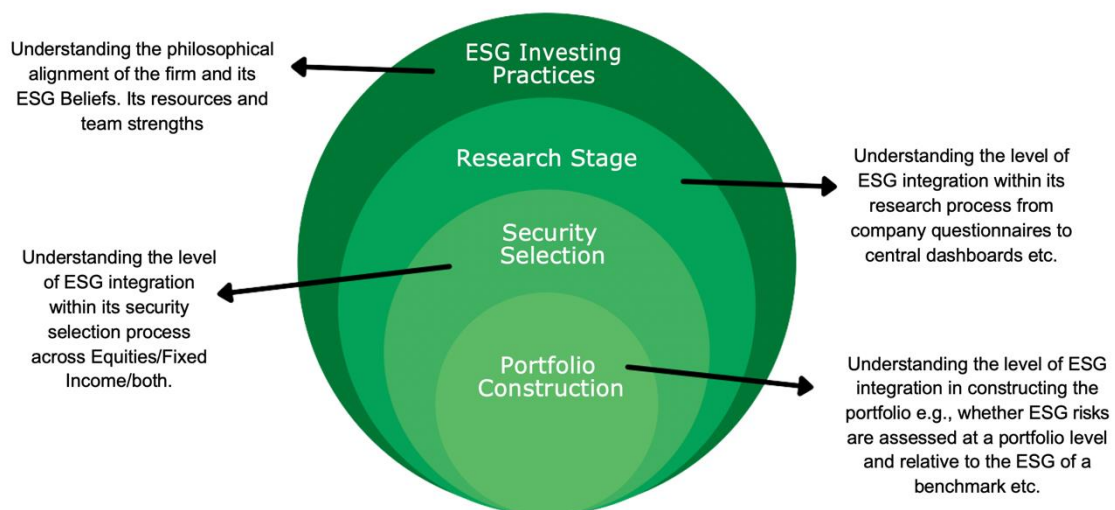
Source: Responsible Investment Association Australasia

## ESG Integration

ESG Integration refers to the practice of the evaluation and explicit inclusion of ESG factors within investment analysis and investment decisions. Historically, ESG was considered more as a risk management tool until recent times where the enhancement of returns has been shown as a correlated outcome for investors as well.

There are four key areas of focus that allow us to understand the strengths and weaknesses of a manager's ESG Integration capability. They are displayed in the diagram below:

**Figure 7. ERIG Index's four key areas of focus in evaluating a manager's ESG Integration capability**



Source: ERIG Index, UNPRI

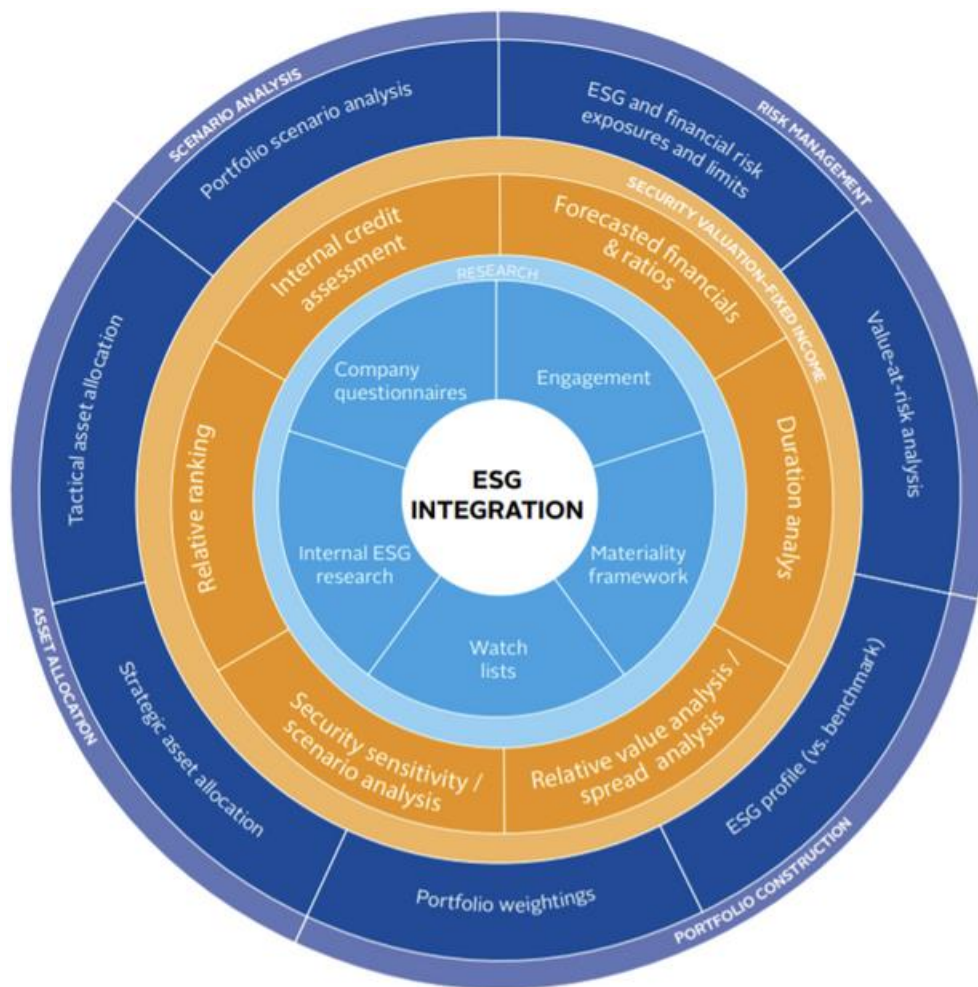
In terms of the four areas of focus above, the ESG Investing Practices layer is an additional layer we have added to the three-layer framework created by the UNPRI. This layer explores the governance and organisational architecture of the ESG Integration capability. It is aimed at understanding the following:

- Alignment of a manager's investment philosophy to its ESG beliefs.
- The strength of the ESG team and whether their recommendations influence the investment decisions in a significant manner.
- The research inputs whether proprietary or third-party.
- The strength of the ESG monitoring within the risk management team.<sup>6</sup>

<sup>6</sup> UNPRI - Enhancing Relationships and Investment Outcomes with ESG Insight - <https://www.unpri.org/download?ac=4355>

The UNPRI framework for evaluating the ESG integration within a manager, as shown below, requires additional mention in terms of the high benchmark nature of the questions that are set within the framework. They have tried to strike a balance between pragmatism and idealism in their quest for setting a standard of measuring managers.

**Figure 8. The UNPRI framework for ESG factors within financial analysis**



Source: UNPRI

## Negative Screening

Negative Screening is the application of exclusionary filters with the aim of explicitly excluding securities as part of the investable universe.

The way investment managers approach the screening process can range from systematic and rigid, through to flexible with threshold conditionalities depending on revenue exposures, ESG scores and so on.

**Table 4. Negative Screening Categories**

Negative Screening for Exposures	
All weapons (including firearms) Tobacco Production Gambling	Typically screened out by most investment managers
Fossil Fuel Exploration, mining and production Pornography production and distribution	
Alcohol production and sales Nuclear power (including uranium mining) Fossil fuel power generation	Some managers use a variation of thresholds such as not more than 10% of revenues
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	

Source: ERIG Index

## Norms-based Screening

Norms-based screening, while not widely used as dedicated products by providers, typically is an additional layer of negative screening. It often excludes companies or government debt that fail to meet internationally accepted 'norms' such as the UN Global Compact, UN Declaration of Human Rights, International Labour Organization standards, UN Convention Against Corruption, OECD Guidelines for Multinational Enterprises.

These are also known as 'controversy screens' or the negative screening of unethical behaviour by companies. When a manager has this capability, we wish to understand how it is applied through real-world examples. This is for us to see its translation into the selection or exclusion of companies as a result of issues detected through the investment process.

The following categories provide examples of the conventions that the ERIG Index assesses as part of an investment manager's norms-based screening capability:

**Table 5. Norms-based screening conventions**

Norms Based Screening Conventions	Typically included as part of company codes of conduct /stewardship policies
The Ten Principles of the UN Global Compact	Yes
Principles for Responsible Investments	
UN Framework Convention on Climate Change / Paris Agreement	
UN Sustainable Development Goals (SDGs)	
UN Guiding Principles on Business and Human Rights	Yes
International Bill of Human Rights	Yes
United Nations Convention against Corruption	Yes
International Labour Organization's Fundamental Conventions	Yes
Convention on Cluster Munitions	Yes
UN Convention on the Rights of the Child	
OECD Guidelines for Multinational Enterprises	
Ottawa Convention on Landmines	
Treaty on the Non-Proliferation of Nuclear Weapons	

Source: ERIG Index

## Active Ownership

This term is typically referred to as stewardship or shareholder governance amongst investment managers.

It is an approach that is predominantly seen among equity investment managers. Shareholders have more publicly visible actions or options for interacting with companies compared to fixed income investors.

The methods of interactions with companies typically involve engagement (written or verbal), proxy voting or a combination of both. Often, investment managers outsource their proxy voting operations to companies such as Institutional Shareholder Services Inc. (ISS) or Regnan. They are also well-established providers of services involving shareholder governance and also provide ESG monitoring services to differing degrees.

From an ERIG Index perspective, we consider three key areas in Active Ownership:

**Figure 9. Three key focus areas for evaluating a manager's Active Ownership capability**

<b>Policy</b>	<ul style="list-style-type: none"><li>• Are the stewardship policies clear in its scope and prioritisation of themes?</li><li>• Is the policy aligned to the investment beliefs of the firm?</li></ul>
<b>Engagement</b>	<ul style="list-style-type: none"><li>• Does the manager have clear expectations of companies in terms of their governance relating to issues such as remuneration, stakeholder relationships, ESG Issues, Labour rights, company culture etc.</li><li>• Does the firm collaborate with other firms on engagement?</li><li>• Does the firm have a defined plan of escalations when it faces issues?</li></ul>
<b>Voting</b>	<ul style="list-style-type: none"><li>• Are the votes systematically tracked and recorded for progress?</li><li>• Does the manager engage with the company prior to the vote to explain its stance and rationale?</li></ul>

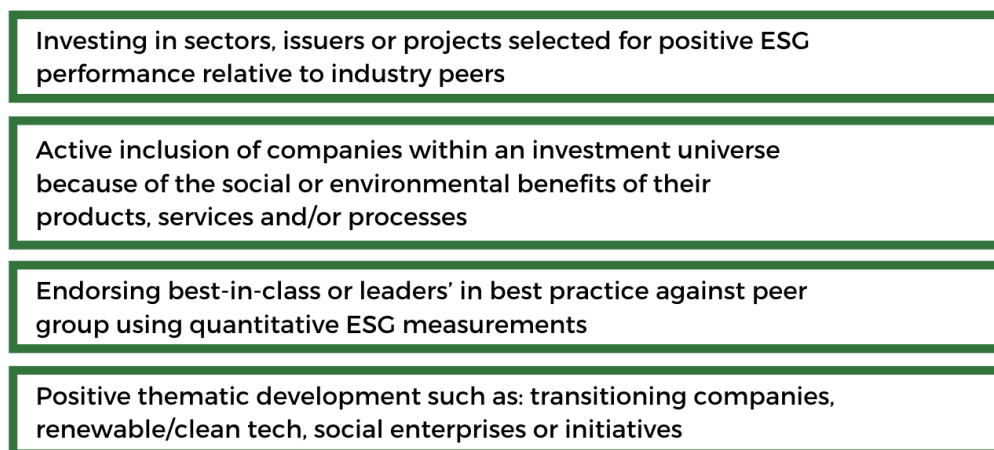
Source: UNPRI



## Positive Screening

Positive Screening can be done using different methods to achieve varying levels of influence, which range from a straight-forward evaluation of ESG performance on a relative basis, through to positive thematic developments as illustrated in the figure below:

**Figure 10. Positive Screening methods**



Source: UNPRI

When evaluating a manager's positive screening capability, we try to understand the types and extent of the methods used by asking questions relating to:

- Whether the manager is targeting companies with high ESG scores or improving ESG scores.
  - This indicates the spectrum of a manager's beliefs about RI. Managers who seek improving scores are often more pragmatic in their approach, while managers who seek high ESG scores often have firm beliefs about sustainable investing.
- Whether the manager targets specific sectors or themes and/or targets the UN SDG
  - This allows us to gauge the depth of the manager's sustainable investing capabilities in terms of how well they have aligned themselves to the SDG framework of investing sustainably.
- From the portfolio construction perspective, we also attempt to establish whether there is a mechanistic approach that ties the higher ESG scores to a higher weighting in the portfolio (whether it be an absolute weight or relative to a benchmark weight).

## Sustainability-Themed Investing

The terms thematic and sustainable investing are often used interchangeably across the investment industry. Nonetheless, Sustainability-Themed investing may have a broader definition for some investment managers, in that a fund can target themes related to macro dynamics, technological disruption, demographic trends and so on. However, In the context of RI, this typically means targeting themes and measuring them according to the UN SDGs.

**Figure 11. UNPRI - The 17 UN Sustainable Development Goals**



Source: UNPRI

The UNPRI has acted as a resource for both internally developed and externally developed tools and frameworks in mapping the SDGs to real-world investment sectors.

Figure 12. PRI Impact Investing Market Map



Source: UNPRI

In evaluating a manager's capability in Sustainability-Themed Investing, we try to understand the following:

- Whether the manager has a thematic investing framework that is aligned to the UNPRI Impact Investing Market Map – this aligns a manager to the SDG outcomes through the impact/thematic/sustainable investing themes pursued.
- Whether the manager has targeted themes/sectors and if that is in alignment with their beliefs about responsible investing and whether the manager actively targets the UN SDGs.
- What type of thresholds whether revenue-based or valuation-based are utilised in evaluating a company's exposure to a particular theme.

The impact investing market map (applicable as well to thematic/sustainable investing) has been a core framework used by investment managers in evaluating the sustainability outcomes of their investments.

## Impact Investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.

The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

The core characteristics of impact investing as defined by the Global Impact Investing Network are shown in the figure below.

**Figure 13. The Global Impact Investing Network - Core Characteristics of Impact Investing**

<b>Intentionality</b>	<ul style="list-style-type: none"><li>• Impact investing is marked by an intentional desire to contribute to measurable social or environmental benefit. Impact investors aim to solve problems and address opportunities.</li><li>• This is at the heart of what differentiates impact investing from other investment approaches which may incorporate impact considerations.</li></ul>
<b>Use Evidence and Impact Data in Investment Design</b>	<ul style="list-style-type: none"><li>• Investments cannot be designed on hunches, and impact investing needs to use evidence and data where available to drive intelligent investment design that will be useful in contributing to social and environmental benefits.</li></ul>
<b>Manage Impact Performance</b>	<ul style="list-style-type: none"><li>• Impact investing comes with a specific intention and necessitates that investments be managed towards that intention. This includes having feedback loops in place and communicating performance information to support others in the investment chain to manage towards impact.</li></ul>
<b>Contribute to the Growth of the Industry</b>	<ul style="list-style-type: none"><li>• Investors with credible impact investing practices use shared industry terms, conventions, and indicators for describing their impact strategies, goals, and performance. They also share learnings where possible to enable others to learn from their experience on what contributes to social and environmental benefit.</li></ul>

Source: The Global Impact Investing Network

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