Providing Access to Responsible Investing

An Introduction to the ERIG Index

evergreen

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An Introduction to the World of Responsible Investing

What is Responsible Investing?

Responsible Investing (RI) is defined by the Principles for Responsible Investments (PRI) *"as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership"*. It is typically used as the umbrella term for the various approaches that incorporate ESG factors that aim to achieve different RI outcomes through time. These outcomes range from risk mitigation through to having a direct impact on society or the environment. Before going into the technical aspects of defining ESG and the various approaches, it is worth understanding the history of RI and the evolution of its formalisation to its current form.

A brief history of RI

RI has been formally recognised as first starting in 1971 with the launch of the Pax World Fund – the first socially responsible fund in the US. Through time, however, it has been implemented in different ways, often requiring a catalyst of a negative event that caused significant public activism. In the 1980s, there was widespread disinvestment from South Africa as a protest to the Apartheid system, and in 1989 the Valdez Principles were formed following the Exxon Valdez oil spill. As the evolution of activism became entwined within corporate stewardship, companies faced pressure from campaigners and shareholders to change, with the most visible example being GlaxoSmithKline cutting the costs of AIDS drugs in developing countries as a result of the pressure it faced from its shareholders.

These events have shown that, while not formalised in a systematic practice, RI has been utilised in various guises through time until its mainstream adoption on the back of the formation of the PRI.

What is ESG?

ESG refers to Environmental, Social and Governance. These three areas have both internal and external factors that relate directly to the measurement of sustainability and its impact.

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

Who and what are the PRI?

In 2006, with the support of the United Nations (UN), the PRI was launched as *"a global organisation to encourage and support the uptake of responsible investment practices in the investment industry".*

Investors who become signatories to the UNPRI commit to implementing the six Principles for Responsible Investment across their organisation. The six Principals are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The UNPRI supports the signatories' efforts through the following:

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. [2]

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

The Sustainable Development Goals [3]

Since the launch of UNPRI in 2006, the preamble to the Principles has said: *"We recognise that applying these Principles may better align investors with broader objectives of society."* Never before have these "broader objectives of society" been more clearly defined than in the Sustainable Development Goals (SDGs).

Every country in the world has agreed on a sustainability agenda, covering three broad areas – economic, social and environmental development – and comprising 17 global goals (the SDGs), further developed in 169 targets, to be reached by 2030.

The launch of the UN SDGs in 2015 has made clear that the global community of countries relies heavily on the private sector to solve some of the most urgent problems the world is facing. Both companies and institutional investors are being asked to contribute to the SDGs through their business activities, asset allocation and investment decisions.

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

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

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 underlying targets provide a common way of referencing the move towards a more sustainable world and can thus strengthen investors’ ESG risk frameworks.

Responsible Investment Association Australasia (RIAA)

While the UNPRI is a global organisation, operating with a broader membership base, the implementation practicalities for domestic financial services providers have their own nuances, and also require an accessible domestic entity to spur them on their journey towards responsible investing.

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 350 members managing more than $9 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. Their 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 achieves its mission through:

- Providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- Delivering tools for investors and consumers to better understand and navigate towards responsible investment 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 responsible investment.

Evergreen Consultants became a member of RIAA in 2020.

Evergreen Consultants' Approach to Responsible Investing

Top-down vs bottom-up perspectives of rating fund managers

The evolution of RI related company level data analytics has been phenomenal in its speed and depth. Companies now report incredibly detailed information about operations and a significant amount of work is undertaken by companies such as Sustainalytics and MSCI to gather, synthesise and compare companies using this information.

These systems allow market participants, such as fund managers, to evaluate most companies from a bottom-up perspective on different ESG metrics. Managers can use this information to evaluate companies and can collate company information and come up with an RI profile for a fund at any time. That RI profile can then be used to prove the 'greenness' of a fund or manager.

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

At Evergreen, we think of this approach as being a good way to check a manager's portfolio but it is not sufficient to prove the style. In other words, a portfolio with a low P/E does not mean a manager is a value manager. And a portfolio with a certain sustainability score does not mean a manager is an RI manager. It is a necessary, but not sufficient, condition to prove the style.

Evergreen has chosen instead to use a top-down assessment. This seeks to eliminate any potential 'greenwashing'[4] through understanding two main facets of a manager's reported RI capabilities: **intent** versus **action**.

As a result of this top-down perspective, our assessment of a manager is heavily skewed towards evaluating the depth and breadth of their actual process (actions), with recognition of the alignment to their beliefs about RI (intent).

Our top-down assessment effectively analyses a manager's approach to RI, as opposed to the fund portfolio. We think this is a better approach and is analogous to traditional manager research – we look at what the manager does and compare this to others in the marketplace.

Analysis of the manager's portfolio (the sustainability score) can play a part, but it is not the complete analysis in our view.

The RIAA Spectrum

As part of our internal work on RI, Evergreen became a member of RIAA. After spending time thinking about an approach to evaluate managers, we decided to adopt the RIAA Responsible Investment Spectrum (the Spectrum).

[4]The Guardian - The troubling evolution of greenwashing https://www.theguardian.com/sustainable-business/2016/aug/20/greenwashing-environmentalism-lies-companies

We believe the framework communicates the definitions and nuances between approaches succinctly, as well as captures the extent of the intentions of each approach.

The features and outcomes are also tied into the framework in a manner that shows the escalation in the contribution towards better outcomes that are not only financial in nature. As a result, we have chosen to use this framework to assess managers.

The Spectrum consists of seven categories, which are captured in the figure below, and are described in brief detail. In Appendix One, we provide in-depth descriptions of each category.

ESG Integration – The inclusion of ESG risks and opportunities 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.

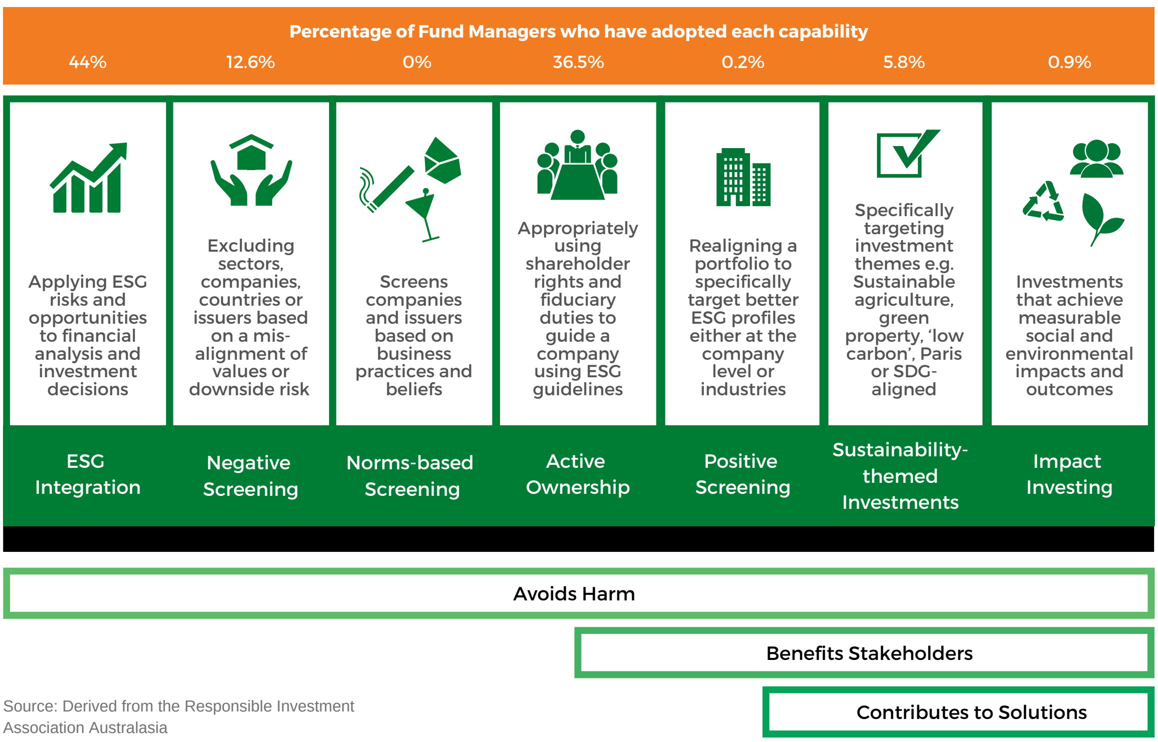
Active Ownership – Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours.

Positive Screening – Intentionally tilting the portfolio towards solutions or targeting companies or industries with better ESG profiles.

Sustainability-themed Investing – Specifically targeting investment themes e.g. sustainable agriculture, low carbon, Paris or SDG-aligned investments.

Impact Investing – Investing to achieve positive social and/or environmental impacts and demonstrating through measurement and reporting on the investor contribution and achievement of outcomes.

Responsible Investment Spectrum



Source: Derived from the Responsible Investment Association Australasia

The Evergreen Consultants Manager Grading Framework

In the process of understanding the landscape of managers' RI capabilities, there were numerous thought-provoking questions that led us to taking an approach of not rating a manager on a single score, but rather focussing on which capabilities they offered and their strengths (or weaknesses) in each. We have thereby created the Evergreen Responsible Investment Grading Index (ERIG Index).

The nature of the grading scale provides room to offer a multi-faceted look at a manager's RI capabilities, and be robust enough to represent the manager in a more accurate manner than one simple score.

To build the grading framework, we asked managers to complete a questionnaire, which we compiled using information and questions from both the UNPRI and RIAA. The questionnaire was designed based on the adoption of the the seven RI capabilities of the RIAA Spectrum and managers were asked to complete each section according to the capabilities that they offered.

The questionnaire has two main components per RI capability:

- The high-level beliefs of the manager about each RI capability that they offer. (Intent)
- The deeper evaluation of each RI capability that they offer, with questions designed to establish the depth and breadth, strengths, and weaknesses. (Action)

The questions were designed to be closed-ended that is, in the form of Yes/No answers, to make the evaluation across managers systematic. We also allow room for the managers to substantiate their answers.

The grading system has been primarily developed from questions set out within the UNPRI frameworks for selecting investment managers through to evaluating their equities and fixed income security selection.

The Universe of Funds

In the first instance, the questionnaire was sent to all managers used within client models and the survey was quickly extended to all the 'sustainable' fund options available on the major platforms we work with. At the moment, we are surveying over 300 funds.

Managers answered the questionnaire in a self-rated fashion and sent through supplementary documents that supported their answers for the relevant sections of the questionnaire. Evergreen then audited the answers and documents, and made subjective adjustments to the scores where relevant. For example, in the case of managers who selected Negative Screening as a capability, yet only excluded alcohol, gambling, tobacco and weapons, these were deemed common screens across most equity managers. As a result, the manager could not claim to have a proper negative screening capability compared to funds which eliminated more sectors or industries.

This questionnaire will be sent to managers on an annual basis, unless there are significant changes to their processes that warrant an interim rating review. We also intend to significantly increase the number of funds we survey each year as part of our ongoing due diligence.

The combination of the scores from the questionnaire for the intent and action of each RI capability within a manager is then taken and a score is determined out of the maximum potential points available for each capability.

The ERIG Index Questionnaire

The Evergreen Consultants Manager RI Questionnaire is made up of the following components:

1. Instructions Tab – allows a manager to select which RI capabilities are relevant to them for rating themselves.
2. RI Identity Tab – The manager answers questions based on their beliefs (Intentions) for each relevant RI capability.
3. Questions Tabs related to each RI Capability – This is where the manager has to demonstrate their actions in terms of their respective RI capabilities ranging from ESG Integration to Impact Investments.
4. An RI scorecard – the scores from each capability and the RI identity tab are fed through to this sheet which allows for a summarised view of the strengths and weaknesses across capabilities.

Here is an example of the scorecard that is produced from the results of the questionnaire per manager. The 'intent' section is how they perceive their RI investing to be, the 'action' section is how it is.

The columns refer to:

1. The first column references the tabs in the workbook relating to the RI identity (RIAA spectrum) and capabilities.
2. The first points column are the points a manager has scored for the relevant RI capability.
3. The second column is the maximum potential points a manager can score for that section.

Table 1. The ERIG Index Scorecard

Responsible and Ethical Investment Categorisation (RIAA Spectrum)		
ESG Integration	0	15
Negative Screening	0	5
Norms-based screening	0	3
Active Ownership	0	5
Positive/Best-in-class screening	0	3
Thematic Investing	0	3
Impact Investing	0	3
ESG Integration Process		
ESG Investing Practices	0	18
ESG Integration within Research Stage	0	9
ESG Integration within Security Selection	0	11
ESG Integration at the Portfolio level	0	19
Negative Screening Process		
Negative Screening Flexibility	0	4
Negative Screening Evaluation Components	0	8
Negative Screening Criteria	0	18
Negative Screening Examples	0	6

Norms-Based Screening Process		
Norms-Based Screening Criteria	0	13
Norms-based Screening Examples	0	2
Active Ownership		
Active Ownership/Stewardship Policy	0	6
Engagement Policy	0	16
Voting Policy	0	4
Positive Screening Process		
Positive Screening Identification	0	9
Portfolio Construction Approaches	0	2
Thematic Investments		
Thematic Investments Identification	0	6
Thematic Investments Selection	0	11
Impact Investments		
Impact Investments Identification	0	6
Impact Investments Selection	0	11

This score per capability is then converted into a whole number (rounded down) as shown in the next figure.

Table 2. ERIG Index

	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
Intent	15	3	3	5	3	3	3
Action	57	36	15	26	11	17	17
Manager Score							
Max points	72	39	18	31	14	20	20
Manager Rating							

(Total manager points per capability / max points per capability) x 10 = whole number rating (rounded down)

The grading system across the managers' RI capabilities remains the same on a scale of 1 to 10 to make it easily comparable between managers within sectors.

The key mention here is that managers are only comparable within a sector i.e., an Australian Equity manager vs an Australian Equity manager in terms of their RI capability scores are directly comparable.

Table 3. ERIG Index scale

ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
1	1	1	1	1	1	1
2	2	2	2	2	2	2
3	3	3	3	3	3	3
4	4	4	4	4	4	4
5	5	5	5	5	5	5
6	6	6	6	6	6	6
7	7	7	7	7	7	7
8	8	8	8	8	8	8
9	9	9	9	9	9	9
10	10	10	10	10	10	10

Table 4. Example of a portfolio of manager grades

	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
Manager A	6	7		7	8		
Manager B	5			8			
Manager C	8	8		9	8	8	

The blanks indicates a manager not possessing that RI capability

How is Evergreen Consultants' ERIG Index applied to your portfolio?

Evergreen has built our grading framework into our proprietary software, GreenVUE. As a client, your existing portfolio within GreenVUE will now have the option to view its RI capabilities.

The following two examples provide sample portfolios with their ESG grades. One shows a standard portfolio while the other shows a sustainable portfolio. This visual display can be shown to clients and aid in making RI decisions for a greener portfolio.

ERIG Index Example: Current Portfolio

	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
Manager A	5	10					
Manager B	2	5					
Manager C	7	5	6		5		
Manager D	4	4	6				
Manager E							
Manager F							
Manager G	2						
Manager H							
Manager I							
Manager J	6						
Manager K							
Manager L	5	8	6				
Manager M	6	6	4	4	3		
Manager N	7	9					
Manager O	5	7	7				
Manager P	7	8	5				
Manager Q	7	10					
Manager R							
Manager S	7						
Manager T		6	5				
Manager U							
Manager V							
Manager W	5						
Manager X							
Manager Y	6	8	5		3	7	
Manager Z	6						

ERIG Index Example: Sustainable Portfolio

	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
Manager A	7	10		9	8	6	
Manager B	8	6	7	10	5	7	
Manager C	7	6		5	5		
Manager D	5	8	8	6	5		
Manager E	8	10	4	9	4		
Manager F	7	5		8	8	6	
Manager G	6	6	8	7	10	9	10
Manager H							
Manager I	7	9		9			
Manager J	7	5		10	6	8	
Manager K							
Manager L							
Manager M	7	7	9	4	5	8	8
Manager N	7	9		9	8	6	7
Manager O	8	7		9	7	9	
Manager P	7	6	8	10			9
Manager Q	5	7		7			
Manager R	8	7		9	7	9	8
Manager S							
Manager T	7	5		8		9	
Manager U	7			10			
Manager V							
Manager W	9	8	9	8	7	7	9
Manager X		5		6			
Manager Y							
Manager Z	5						
Manager AA							
Manager BB	6	5		8	3	7	
Manager CC	6			7			

Average Scores within the rated manager universe

From the table above, we note that Australia and Global Equities together have just under 50% of the universe of funds that have been rated.

The next three largest sectors are Australian and Global Fixed Interest, as well as Emerging Markets.

Due to the initial universe of managers rated being predominantly those of clients' portfolios, the client portfolio's Australian Equity – ESG Integration scores would be close to the average indicated in the table above. This will change as we add more funds to the universe.

Table 5. ERIG Index average grades by sector within the rated manager universe

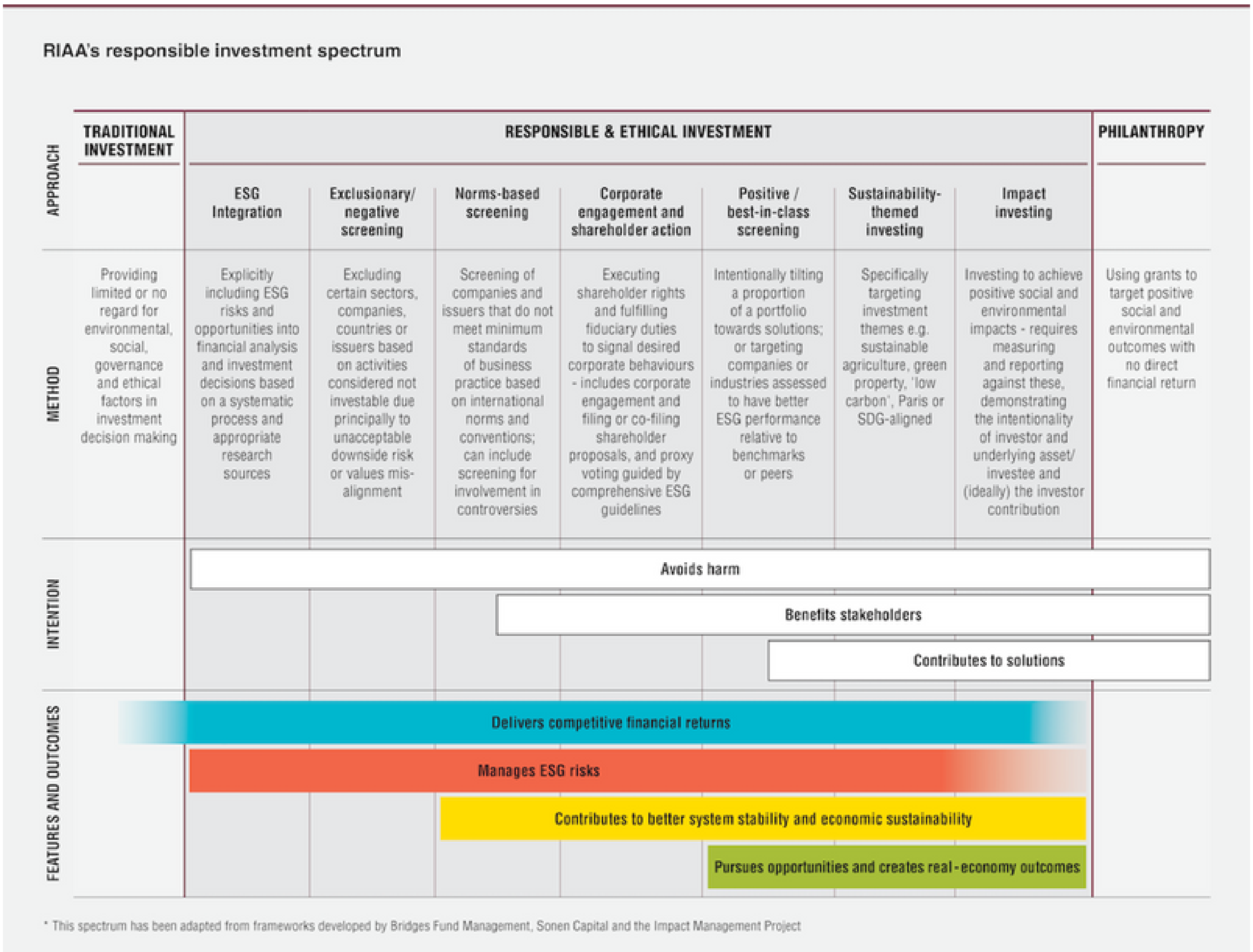
ERIG Index - Average per sector

Sector	Number of Funds	ESG Integration	Negative Screening	Norms-based Screening	Active Ownership	Positive Screening	Thematic Investing	Impact Investing
Alternatives	4	6.72	3.78	3.06	3.46			
Alternatives - Equities	8	6.80	1.68	1.15	5.56		1.25	1.00
Australian Credit	10	6.11	3.86	1.63	1.96			
Australian Equities	63	5.05	3.26	0.89	6.87	1.98	0.80	0.29
Australian Fixed Interest	24	5.45	3.73	1.31	4.05	1.93	1.39	1.32
Australian REITs	3				4.52	1.90		
Australian Small Caps	21	5.68	2.32	0.55	5.23	1.09	0.31	
Diversified Credit	13	4.71	1.78		2.46			
Emerging Markets	21	5.98	4.81	1.11	8.46	0.50	1.43	
Global Equities	97	5.47	4.61	2.17	7.38	1.73	1.67	0.75
Global Equities (Hedged AUD)	9	6.22	3.05	0.37	7.38	1.35	0.74	0.99
Global Fixed Interest	24	5.54	3.11	2.87	3.27	1.67	1.98	1.88
Global Infrastructure	9	5.93	4.27		9.14	1.11	1.00	
Global REITs	15	4.43	0.50		7.62	0.43		
Global Small Caps	5	4.23	4.39		6.26			
Multi Asset Aggressive	1				6.77			
Multi Asset Balanced	4	5.82	4.47	1.25	7.96	5.24	4.34	3.00
Total	**328**							

Source: Evergreen Consultants

Appendix One - The Responsible Investment Spectrum Defined

Figure 5. The RIAA Responsible Investment Spectrum



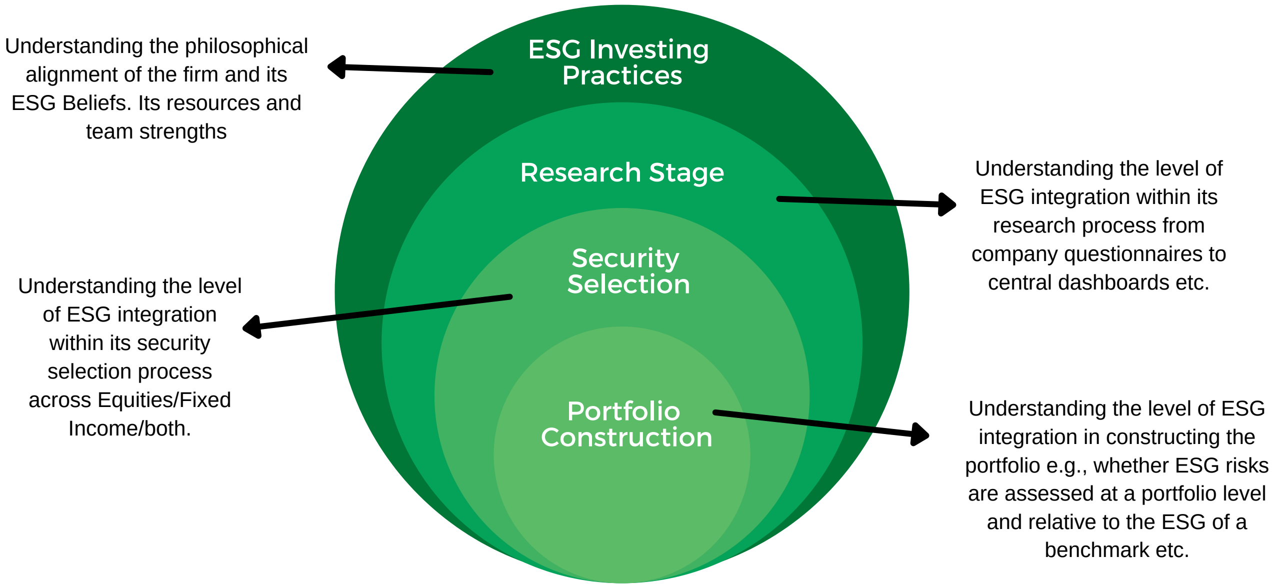
Source: Responsible Investment Association Australasia

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 feature until recent times where the enhancement of returns has been shown as a correlated outcome for investors as well.

For Evergreen Consultants, 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 as follows:

Figure 6. Evergreen Consultants' four key areas of focus in evaluating a manager's ESG Integration capability



Source: Evergreen Consultants, UNPRI

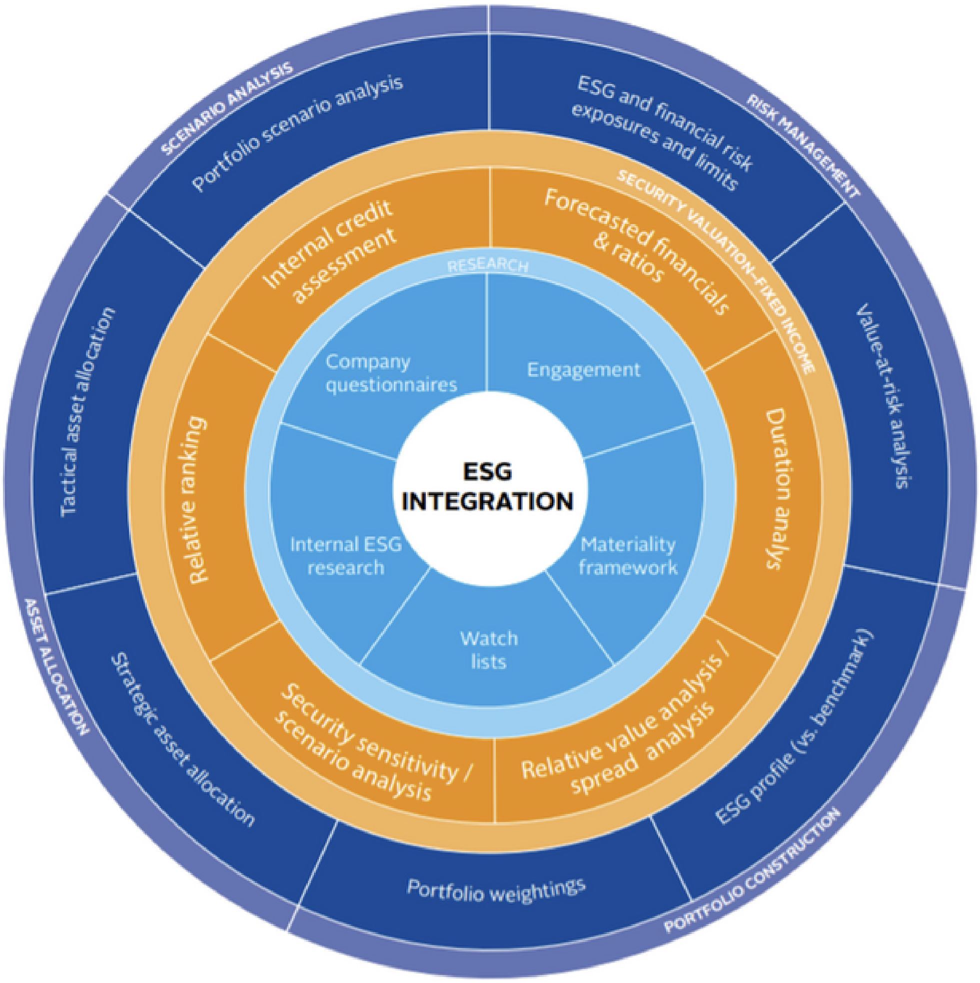
In terms of the four areas of focus above, the ESG Investing Practices layer was an additional layer that was added on to the three-layer framework created by the UNPRI (shown on the next page). This layer explores the governance and organisational architecture of the ESG Integration capability aimed 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.[5]

[5] 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 7. The UNPRI framework for ESG factors within financial analysis



Source: UNPRI

Evergreen Consultants in its development of its questionnaire has tended to skew towards the future trends in RI by ensuring the standard of questions remains fair, but also relatively difficult to achieve high scores as we seek managers who are above average in terms of their respective RI capabilities.

Negative Screening

Negative Screening is the application of exclusionary filters with the aim of explicitly excluding companies 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 etc.

Typically, passive indexation products that are badged as “Ethical” in nature are ones that have strict negative screening across a broad set of categories, with there being no flexibility in terms of threshold allowances for business revenue exposures in areas that are considered unethical.

Evergreen Consultants’ approach in classifying an investment manager as one with a negative screening capability. They must have more categories than the commonly excluded tobacco, gambling, and weapons.

Table 1. 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: Evergreen Consultants

Norms-based Screening

Norms-based screening, while not widely used as dedicated products by providers, typically is a sub-category of negative screening. It excludes companies or government debt on account of any failure by the issuer to meet internationally accepted 'norms' such as the UN Global Compact, Kyoto Protocol, 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. What we seek in evaluating a manager who is utilising this approach is to understand, through real-world examples. 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 Evergreen Consultants assesses as part of an investment manager's norms-based screening capability:

Table 2. 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: Evergreen Consultants

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, as 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, 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, who are well-established providers of services involving shareholder governance and also provide ESG monitoring services to differing degrees. Regnan is notable as an ESG provider having a 20 year history in ESG advisory services as well.

From an Evergreen Consultants perspective, when we evaluate managers on their Active Ownership capabilities, we are looking at three key focus areas.

Figure 8. Three key focus areas for evaluating a manager's Active Ownership capability

Policy	• Are the stewardship policies clear in its scope and prioritisation of themes? • Is the policy aligned to the investment beliefs of the firm?
Engagement	• 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. • Does the firm collaborate with other firms on engagement? • Does the firm have a defined plan of escalations when it faces issues?
Voting	• Are the votes systematically tracked and recorded for progress? • Does the manager engage with the company prior to the vote to explain its stance and rationale?

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 9. Positive Screening methods

Investing in sectors, issuers or projects selected for positive ESG performance relative to industry peers
Active inclusion of companies within an investment universe because of the social or environmental benefits of their products, services and/or processes
Endorsing best-in-class or leaders' in best practice against peer group using quantitative ESG measurements
Positive thematic development such as: transitioning companies, renewable/clean tech, social enterprises or initiatives

Source: UNPRI

For Evergreen Consultants, when evaluating a manager's positive screening capability, we try to understand the 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, Evergreen Consultants tries to also 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).

Thematic/Sustainable Investing

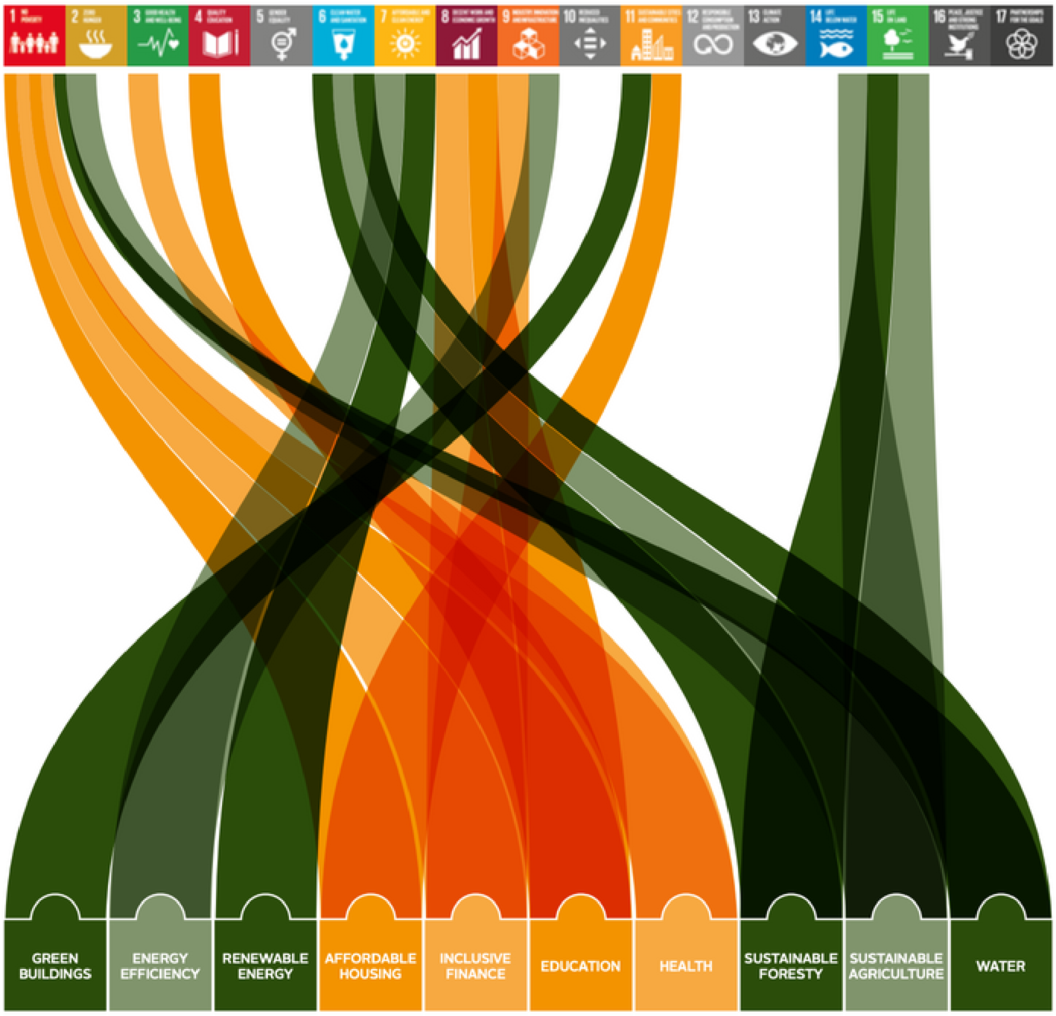
The terms thematic and sustainable investing are often used interchangeably across the investment industry. Nonetheless, thematic investing may have a broader definition for some investment managers, in that a fund can target themes related to macro dynamics, technological disruption, demographic trends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

Figure 10. 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 11. PRI Impact Investing Market Map



Source: UNPRI

From an Evergreen Consultants perspective, in evaluating a manager's capability in Thematic/Sustainable Investing, we are trying 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.

Source: The Global Impact Investing Network (GIIN)

The core characteristics of impact investing as defined by the GIIN are shown in the figure below.

Figure 12. The Global Impact Investing Network - Core Characteristics of Impact Investing

Intentionality	• 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. • This is at the heart of what differentiates impact investing from other investment approaches which may ncorporate impact considerations.
Use Evidence and Impact Data in Investment Design	• 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.
Manage Impact Performance	• 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.
Contribute to the Growth of the Industry	• 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.

Source: The Global Impact Investing Network

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