# Morningstar ESG Commitment Level

## Fidelity International, Pictet, Janus Henderson, Man Group, and Comgest earn upgrades.

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### Executive Summary

Sustainability-focused investors should be discerning when selecting managers. With tremendous growth in sustainable investing[1] has come increased choice and concerns about greenwashing. The Morningstar ESG Commitment Level helps investors assess an asset manager's alignment to their own sustainability preferences by providing insights into the firm's sustainable-investing philosophies, ESG integration processes, resources, and active ownership activities.

In this fifth edition of the Morningstar ESG Commitment Level report[2], we share an update on the landscape with the review of 12 firms. The Morningstar ESG Commitment Level is expressed as a four-point scale: Leader, Advanced, Basic, and Low.

### Key Takeaways

- Out of the 12 asset managers reviewed for this report, five were upgraded:
  - Comgest—to **Advanced** from Basic
  - Fidelity International—to **Advanced** from Basic
  - Pictet—to **Advanced** from Basic
  - Janus Henderson—to **Basic** from Low
  - Man Group—to **Basic** from Low
- We initiated coverage of Nordea at **Advanced**.
- The remaining six managers under review maintained their ESG Commitment Levels:
  - Amundi, HSBC AM, and Jupiter retained ESG Commitment Levels of **Advanced**.
  - Baillie Gifford, Eventide, and Ninety One maintained ESG Commitment Levels of **Basic**.
- This brings our total ESG Commitment Level coverage to 97 firms.[3] Out of these, 8% are rated **Leader** and 24% score **Advanced**. The largest group of firms—45%—receive ESG Commitment Levels of **Basic**, and 23% earn **Low**. This distribution reflects the variety of the marketplace, which includes large, diversified asset managers as well as sustainability-focused firms.

1 Global Sustainable Fund Flows: Q4 2023 in Review

2 Previous edition: https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt8f0bbd6cc5ab9f18/Asset_Manager_ECL_2023_Landscape.pdf

3 During our ongoing review of analyst coverage and capacity, we elected to cease coverage of the following firms: Allspring, AMP Capital, Bell Asset Management, Colonial First State, Greencape Capital, IML, Jamieson Coote Bonds, Magellan Group, Nanuk Asset Management, Perpetual, Voya, and VanEck. For more information on our criteria for coverage, see section "Criteria for Coverage Under the ESG Commitment Level" in this report.

## Summary of Morningstar ESG Commitment Levels

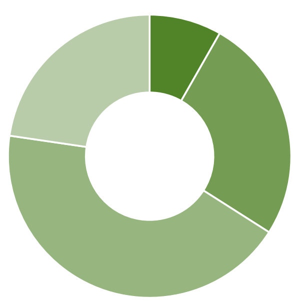
Below is a summary of the 97 firms carrying an ESG Commitment Level. Highlighted in green are the 12 firms reviewed for this report.[4]

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

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

Source: Morningstar Manager Research. Data as of Feb. 1, 2024. Firms highlighted in green indicate firms included in this report. BlackRock includes iShares-branded funds, Capital Group includes American Funds, DWS includes Xtrackers, Morgan Stanley includes Calvert, and Nuveen includes TIAA.

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



| ESG Commitment Level | Count of Asset Managers | (% Total) |
|---|---|---|
| Leader | 8 | 8% |
| Advanced | 25 | 24% |
| Basic | 42 | 45% |
| Low | 22 | 23% |

Source: Morningstar Manager Research. Data as of Feb. 1, 2024.

4 ESG Commitment Level evaluations are conducted on a rolling basis at least every two years, with flexibility to review earlier based on material firm changes. All firms included in Exhibit 1 have been evaluated within the past two years. Texts not included in this edition of the report can be found in the Appendix of the previous edition.

**Upgrades and Downgrades**

The pace of change in sustainable investing over the past several years is quite something to behold. Although demand for products focused on environmental, social, and governance issues has tapered in some markets[5], investor interest in sustainable investing remains high overall [6, 7]. There is broad recognition that sustainability issues, including climate change, should be considered in all investment processes as they represent both investment risks and opportunities. Furthermore, with new and pending disclosure regulation in many parts of the world, such as the European Union's Sustainable Finance Disclosure Regulation[8], or SFDR, which came into force in March 2021, the recently released Sustainable Disclosure Requirements in the United Kingdom[9], and the upcoming SEC enhanced disclosures about ESG investment practices, buttoning up internal processes for and external messaging around ESG considerations has become compulsory for investment management firms, rather than a nice-to-have.

Most asset managers have responded to these trends by investing in people, data, research, and training, resulting in enhanced ESG integration processes, more corporate engagement, and heightened disclosure, among other positive outcomes. The vast majority of firms have improved their practices, which has raised the bar for the industry overall as well as for our ESG Commitment Level evaluations.

That said, some firms have ramped up their efforts faster or to a greater extent than others and relative to where they were when we started assessing them a few years ago. Examples include Fidelity International, Pictet, and Comgest, for which we upgraded the Morningstar ESG Commitment Levels to Advanced from Basic.

Since our previous reviews, Comgest and Fidelity International have invested significantly in personnel dedicated to sustainable-investing initiatives. Comgest's team has nearly doubled in the past two years, and Fidelity International's team has quadrupled since 2019. With this growth has come sensible structure, too. Both firms have divvied up functional responsibilities (such as company research, corporate engagement, and client service) across different subteams, and both also enjoy direct lines of communication with executive leaders.

Comgest and Pictet have both made great strides in their active ownership programs in recent years. Pictet's expanded engagement ambitions benefit from improvements in infrastructure to track progress in these engagements. In the case of Comgest, additional hands-on-deck have boosted the team's

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5 Global Sustainable Fund Flows in Review.

6 Sustainable Investment Interest on the Rise in 2024 | Morgan Stanley

7 PwC's Global Investor Survey 2023 | PwC

8 https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en. Morningstar Research: SFDR Article 8 and Article 9 Funds: Q4 2023 in Review.

9 SDR policy statement. Morningstar Research: Through the Looking Glass: An early analysis of what the U.K. sustainability-labeled funds market may look like

capacity for direct corporate engagement. Both firms are expanding their areas of focus as well, engaging companies on issues related to climate change and, in the case of Pictet, water and nutrition.

Two firms—Janus Henderson and Man Group—earned Morningstar ESG Commitment Level upgrades to Basic from Low. Both firms have grown their internal resources dedicated to ESG efforts, be that by creating and hiring a chief responsibility officer (as JHI did in early 2023) or adding climate expertise (in the case of Man Group). The two firms have each strengthened their respective ESG integration processes. However, Janus Henderson and Man Group both have some room to improve. For instance, neither firm publishes proxy-voting rationales, which we consider to be best practice.

Other firms recently reviewed have similarly made investments in people, processes, and stewardship, but this progress hasn't been enough to warrant a change in their respective ESG Commitment Levels. This is the case for Amundi, HSBC GAM, and Jupiter—three firms that maintained ESG Commitment Levels of Advanced—as well as for Baillie Gifford, Eventide, and Ninety One, who stayed at Basic.

**Asset Manager Analysis**

In this section, we share the full ESG Commitment Level analysis of the 12 asset managers included in this report. Asset managers are grouped by ESG Commitment Levels and subsequently listed in alphabetical order.

## Advanced

**Amundi** | Mara Dobrescu, CFA | Dec. 1, 2023—**Advanced**

*A staunch supporter of ESG initiatives.*

Amundi incorporates ESG criteria consistently across its entire fund range and is a strong supporter of key ESG resolutions at the companies it invests in. The firm earns a Morningstar ESG Commitment Level of Advanced.

Amundi made headlines in 2018 when it announced that it would apply ESG criteria to its entire range, including active and passive funds. That goal first entailed building a sophisticated proprietary ESG rating, which Amundi based on third-party data but supplemented with its own qualitative assessments. By the end of 2021, the firm had excluded the worst offenders according to its ESG criteria from its entire range, and virtually all of its active open-end funds had an average ESG rating above that of their respective market benchmarks. Additionally, the firm has continued to launch ESG-focused funds, which by mid-2023 accounted for more than 40% of its discretionary assets. These include "best-in-class" ESG funds and "ESG improvers" strategies, as well as passive strategies benchmarked to ESG indexes. The firm's range also includes green/social bond funds and thematic strategies such as decarbonization.

As the next step on its sustainability journey, Amundi has committed to invest at least 18% of its assets in net-zero strategies by 2025. The firm has backed these ambitions with sufficient resources: Its ESG team counts 30 experienced research analysts, while eight additional professionals are dedicated to corporate governance and voting. Both teams have grown significantly over the past three years, though like many in the industry, they have not been unaffected by staff turnover.

Looking at the firm's proxy-voting record, Amundi's support for ESG resolutions is exceptionally high. The firm backed over 99% of key ESG resolutions in the 2021 to 2023 proxy years. However, the firm's small number of U.S.-domiciled funds have shown declining support in recent years, from close to 100% in 2021 to only 34% in 2023. These funds are structured as regulated investment companies, where the voting policy is controlled by the board of trustees, not by Amundi's central governance team. While not necessarily representative of Amundi's firmwide stance on ESG resolutions, investors in these funds should take note.

Amundi has room for improvement in other areas, too. The firm does not publicly disclose voting rationales on its website; to disclose is viewed as a best practice for transparency. Furthermore, the firm's annual engagement report could be made more comprehensive by including more examples and case studies, with explicit milestones for progress on environmental and social issues.

**Comgest** | Mathieu Caquineau, CFA | Jan. 1, 2024—**Advanced**
*Comgest has boosted its sustainable-investing credentials, driving an upgrade.*

Comgest has raised its game in the last two years by expanding and rearranging its team of ESG specialists, fostering closer collaboration with the investment team, and beefing up its engagement practices. These changes bring the firm closer to best practice, driving an upgrade of its Morningstar ESG Commitment Level to Advanced from Basic.

The firm's efforts to embed ESG factors into its philosophy and research are a natural extension of Comgest's hallmark quality-growth approach. Since 2013, the firm has formally incorporated ESG factors into its investment process such that they systematically play a role in investment decisions. ESG factors are used to identify growth opportunities and assess risks that might threaten companies' long-term earnings power. Comgest's proprietary ESG qualitative ratings must be assigned to each company entering its portfolios. The firm has also introduced a suite of "Plus" funds that exclude fossil fuels on top of existing firmwide exclusions such as tobacco and United Nations Global Compact violators and that tilt toward stocks with the best ESG ratings. That said, the investment teams don't seek specific ESG outcomes against the indexes.

The most notable improvement in the last two years has been the extension of resources. Comgest added four ESG specialists, bringing the team size to nine members. The team is split into two units: one in charge of researching companies and the other leading collaborative engagement, thematic research, and reporting. The ESG team interacts constantly with the members of the investment team. Fund managers and analysts are involved in the research, engagement, and proxy-voting activities for the holdings in their portfolios. The two teams are increasingly interlinked, evidenced by the fact that some ESG specialists have been named co-portfolio managers on a few strategies. To improve its ESG governance, the firm also created a sustainability committee in 2022, which reports directly to Comgest's executive committee.

The expanded ESG team has supported a stronger active ownership program. The team now undertakes a much larger volume of engagements and has more clearly defined monitoring and escalation processes. The team has also diversified the engagement topics to focus on environmental topics, especially climate-related issues. This expanded focus is reflected in the firm's proxy-voting policy as well. On voting, the firm has shown consistently high support for key ESG resolutions in recent years.

**Fidelity International** | Giovanni Cafaro | Nov. 1, 2023—**Advanced**
*A clear commitment to high sustainability credentials drives an upgrade.*

Since 2019, Fidelity International put sustainability at the forefront of its agenda. The company demonstrated a clear commitment to its environmental, social, and governance objectives by investing in resources, developing frameworks for integration, and refining its approach to active ownership. The firm's success in these efforts sets it apart from many peers, driving an upgrade of its Morningstar ESG Commitment Level to Advanced from Basic.

The central sustainable-investing team quadrupled in size since 2019 to roughly 40 members in 2023. The company brought in both experienced and junior staff members and implemented a graduate program dedicated to sustainable investing. To accommodate this growth, the firm introduced a more formal structure for the sustainable-investing team. It is now composed of three subteams focusing on stewardship and research; client engagement; and strategy, product, and governance. Jenn-Hui Tan leads this team as chief sustainability officer and reports directly to the firm's global CIO. His remit includes the company's corporate sustainability objectives alongside those in its investment portfolio.

Senior management led an increased focus on ESG across all areas of the business. While there has been some form of ESG integration across the firm for many years, it increased in scope and formality since 2019 with the development of a proprietary ESG scoring system, which was revamped in 2022. The system combines data from external sources with insights and input from FIL's vast bank of analysts, leveraging the firm's resources more effectively. More recently, the firm evolved its quarterly fund review process to include an additional sustainability review. While this exercise is limited to dedicated ESG strategies at present, it ensures systematic measuring and monitoring of progress at the portfolio level. This also helps assess managers on how they integrate sustainability factors in their portfolios. The expansion of their Sustainable Fund Family range, launched in 2019, has helped grow the breadth of ESG-dedicated fund offerings. Nonetheless, this remains an area of ongoing development, with the focus more recently turned to thematic or impact strategies.

The firm's engagement efforts, increased in recent years, are informed by four key systemic themes, namely climate, nature loss, social disparities, and effective governance. FIL is also a member of investor coalitions FAIRR and the Net Zero Asset Managers initiative. Proxy-voting guidelines published in 2021 were a significant improvement on the previous editions, especially in relation to guidelines on the environment. On another positive note, the firm often votes in favor of key ESG shareholder resolutions. The more recent rollout of its proprietary climate rating framework, which currently covers around 2,000 companies, helps the team assess where a company is on its transition journey and prompts engagement with laggards.

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

**HSBC Global Asset Management** | Mara Dobrescu, CFA | Jan. 1, 2024—**Advanced**
*An early sustainable-investing advocate continues its progress.*

HSBC Asset Management has made strides forward in integrating ESG aspects within its investment process in recent years and has consolidated an already solid active ownership effort. We maintain the firm's Morningstar ESG Commitment Level of Advanced.

HSBC AM has long been active in industrywide ESG initiatives. For example, the firm signed the United Nations-supported Principles for Responsible Investment in the launch year, 2006, and it became a member of Climate Action 100+ in 2017. However, the firm's ESG efforts have accelerated considerably over the past five years under its new leadership team, showing stability throughout a period that included a change in CIO and a polemical speech in 2022 by the firm's then head of responsible investing. The firm's new leadership has formally tied portfolio managers' bonuses to ESG goals and extensively integrated ESG considerations at every step of the security-selection process for all portfolios under its purview.

This work has been facilitated by the group's "Virtual Sector Teams," comprising more than 120 portfolio managers and analysts specialized by industry, but also draws on 28 dedicated ESG specialists, including six dedicated to engagement, stewardship, and voting. The firm's ESG-specific resources have grown significantly over the past three years, although, similar to many competitors, ongoing turnover in the ranks is a concern.

While only a small minority of the firm's fund assets can be currently classified as focused on ESG or sustainability outcomes, the firm has committed to managing 38.2% of its assets under management in line with net zero by 2030 and to reducing carbon intensity on these assets by 58% in 2030.

The firm's active ownership efforts are solid. The firm casts a very high proportion of votes in favor of key ESG-related resolutions and has outlined detailed engagement road maps that hold companies accountable on their environmental and social practices. HSBC AM has also co-filed several prominent shareholder resolutions in recent years. Meanwhile, the firm has improved its transparency on several fronts since our previous analysis in 2021: Voting rationales are now systematically available on its website, and comprehensive ESG metrics are disclosed on fund factsheets, including on a holding-by-holding basis, for the entire fund range, including funds that have no ESG focus.

**Jupiter** | Evangelia Gkeka | Jan. 1, 2024—**Advanced**
*Active ownership strategy and disclosures are key strengths.*

Jupiter’s widespread adoption of environmental and social considerations in its investment culture stands out. Further supported by its active approach to company engagement and transparency into stewardship activities, the firm maintains a Morningstar ESG Commitment Level of Advanced.

In 2022, Jupiter put in place a central corporate sustainability team to lead and deliver on its firmwide sustainability ambitions. The firm has an active engagement policy with a well-defined escalation process. The escalation pathways that Jupiter uses include writing to the company, dialogue with independent directors, collective engagement, and co-filing or supporting shareholder motions. The firm has actively supported key ESG shareholder resolutions and provides monthly transparency on its global voting records.

Fund managers work closely with central ESG experts on integration, engagement, and proxy voting. The firm is serious about requiring its portfolio managers to use ESG criteria in their decisions as ESG integration and engagement activity are part of annual appraisals. Fund managers aren’t left to tackle ESG matters alone; Jupiter’s substantial and growing central resources support the firm’s ESG integration and stewardship efforts. The ESG team has grown to more than a dozen individuals split between research, stewardship, corporate sustainability, and other topics. This new structure brings more clarity to the division of duties and simultaneously fosters collaboration between ESG experts and investment teams. In addition to the dedicated central team, the firm counts six sustainability-focused investment professionals and nine ESG data experts.

Over the past five years, Jupiter has developed and iterated on a proprietary ESG database. It provides portfolio-level ESG statistics as well as security-specific data and engagement highlights. This central platform supports fund managers’ ESG work and is used by Jupiter's senior management to oversee the ESG activities of fund managers. A number of features and data have been added over the years, and the scope of this hub is constantly evolving.

The firm has improved its ESG reporting to clients, but this is only available on demand. Publishing fund-level ESG metrics on fact sheets would bring it closer to best practice. Although ESG-focused funds represent a small portion of Jupiter's overall business, the firm mandates adoption of ESG principles across its entire fund range. In practice, this means that portfolio managers can only invest in companies considered "ESG laggards" if there is clear commitment from the company to improve on areas of weakness. Combined with a clearly defined escalation strategy, where Jupiter will exit an investment if its ESG credentials don't improve, this process leads to portfolios with relatively low levels of ESG risk.

**Nordea** | Matias Mottola | Jan. 1, 2024—**Advanced**
*Ambitious sustainability effort with an emphasis on engagement.*

With a long history in sustainable investing, Nordic bank-owned asset manager Nordea has continued ramping up resourcing and its level of ambition in recent years. While its ESG-focused products have strong credentials, in the rest of its lineup, Nordea's portfolio managers are given considerable discretion as to whether and how they use ESG data and research. The firm earns a Morningstar ESG Commitment Level of Advanced.

Nordea has built a 16-person responsible-investment team led by Eric Pedersen (as of November 2023). The team's size and experience are solid, but with most members joining in 2020 or later, the firm is behind some of the most committed ESG leaders in terms of tenure. The RI team works closely with a nine-strong stewardship team. Six private-market professionals had their employment contract changed from Nordea to its minority-owned partnership company Trill Impact in January 2023, but otherwise turnover has been mostly under control. The sustainability team provides key support for Nordea's thematic and sustainable focused funds (7% of assets) as well as the ESG Stars strategies (5% of assets) that incorporate ESG factors in their quest for market-beating risk-adjusted returns. In the ESG Stars funds, the RI team specialists have the last word on whether a stock can be included in a portfolio or not. Many in the RI team have a long industry experience history, which facilitates their cooperation with portfolio managers.

Some of Nordea's ESG products have garnered large assets, and overall, the 12% of assets under management in strategies that either follow an ESG-focused or thematic approach or deeply integrate ESG in their security-selection process is certainly a respectable amount even if not the highest of broad-based asset managers. In the rest of the lineup, all funds follow a set of companywide exclusions, and the company's EU SFDR Article 8 funds incorporate also additional ESG criteria for inclusion such as credible alignment with Nordea's Paris climate accord fossil fuel policy. An internal ESG research platform as well as a calculation engine for principal adverse impact, or PAI, indicators are available for portfolio managers of nondedicated ESG funds. While most Article 8 funds consider PAI at the product level, the use of these metrics varies by investment process. All ESG funds have detailed ESG reports, while non-ESG funds don't provide fund-level disclosures.

Active ownership is an integral part of Nordea's approach to sustainability. Nordea builds heavily on collaborative engagement and considers thematic engagements particularly useful. In collaborative engagement, Nordea has taken the global lead in several projects. From time to time, the stewardship team also engages companies around a theme that it considers particularly important and timely. In voting its proxies, Nordea has supported practically all key ESG resolutions in the last three years.

**Pictet** | Natalia Wolfstetter | Feb. 1, 2024—**Advanced**

*Progress on products, processes, and active ownership drive an upgrade.*

Pictet Asset Management has made progress in integrating environmental, social, and governance factors in recent years, earning the firm a Morningstar ESG Commitment Level upgrade to Advanced from Basic.

One cornerstone of the firm's sustainable-investing heritage is its large thematic equity franchise, which dates back more than 20 years. Many of these funds target sustainability-focused themes such as clean energy and water. That said, ESG integration within the entire product lineup only took off in the last few years, as sustainable investing became one of the strategic priorities of Pictet Group. Dedicated ESG funds have also grown as a share of the firm's business. Article 8 and Article 9 funds rose from 60% of global assets in 2021 to 77% at the end of 2023 (including global equivalents but excluding external mandates), including 15% of Article 9 funds.

Unlike many competitors, Pictet AM follows a decentralized approach to ESG integration, whereby it expects its investment teams to fully own ESG research and stewardship responsibilities. Portfolio managers are empowered with ESG data and analytics on individual names shared through the "ESG Scorecard," a sophisticated proprietary system to flag ESG risks. Depending on the ESG profile of the fund, they retain autonomy over the ESG risks in their portfolios (aside from securities covered by the firm's exclusion policy). However, a central investment risk team oversees each fund's ESG positioning and may challenge portfolio managers on risky holdings during routine quality reviews.

Because of the decentralized approach, central ESG resources are kept small. The firm's head of ESG has been in place since 2017, leading an experienced seven-member central team. However, they haven't worked together for very long. The team oversees ESG integration, provides advice to investment teams, and coordinates engagement activities. In addition, the firm has six ESG data and analytics specialists, around 40 "ESG champions" to lead ESG activities across different functions, and embedded ESG specialists in investment teams. Investment teams have ramped up their ESG capabilities, but the central team could benefit from additional resources to support the sheer scope of its responsibilities.

A key area of improvement has been active ownership. The firm has boosted its infrastructure for tracking engagements, which has supported growing ambition and transparency on such efforts. Pictet AM has defined detailed engagement plans and a well-defined strategy for escalating unsuccessful engagements. In 2022, Pictet AM launched a program targeting approximately 80 companies for in-depth engagement around four priority themes: climate, water, nutrition, and long-termism. To support its efforts on climate, the firm joined the Net Zero Asset Managers initiative in 2021. However, it still has some way to go to cover all assets with validated 1.5-degree-aligned science-based targets.

## Basic

**Baillie Gifford** | Michael Born | Feb. 1, 2024—**Basic**

*Solid steps forward, but yet to break out from the crowd.*

Baillie Gifford has made progress to integrate environmental, social, and governance criteria in its investment process over recent years. However, the firm's product mix and proxy-voting record are closer to the middle of the pack. We maintain the firm's Morningstar ESG Commitment Level of Basic.

Baillie Gifford's growth-focused, long-term investment approach lends itself well to sustainability-related stewardship, and it has built on this by integrating ESG factors into all investment desks. Most investment teams now have an embedded ESG analyst, and ESG factors are considered as part of the investment case across all asset classes. Baillie Gifford's first dedicated ESG fund was launched in 2011, and ESG-focused products have grown in priority over the past few years, although they remain a small portion of the firm's assets.

As of the end of 2023, there were over 40 ESG specialists at the firm. Most are ESG analysts embedded within investment teams, which are supported by a central team of stewardship and climate specialists. With the exception of a few recent departures, this group has remained stable over time. Nevertheless, current resources seem adequate given the scope of responsibilities.

On active ownership, Baillie Gifford has made some improvements in line with its peers. The firm's history of intensive due diligence and close company contact facilitates strong engagements. Recently, the firm established a clear escalation framework and sold some stocks following unsuccessful engagements. While this escalation framework is a step in the right direction, the firm's overall support for key ESG resolutions is well below the average for large European firms, and it has not filed any shareholder resolutions to date. Reporting is also an area for improvement; voting disclosures have improved over the past few years, but they remain limited.

**Eventide** | Mahi Roy | Jan. 1, 2024—**Basic**

*Changes in a relatively small team hinder the firm's progress.*

Since Eventide's founding in 2008, values-based principles have been at the core of the firm's investing strategy. However, limited resources and lack of transparency into stewardship activities hold the firm back compared with peers. The firm maintains a Morningstar ESG Commitment Level of Basic.

Eventide's faith-based philosophy seeks to avoid investing in controversial businesses such as predatory lending and weapons manufacturing while favoring high-quality companies that create value for their stakeholders. Although Eventide does not use the "ESG" label for its funds, there is substantial overlap in areas such as practicing environmental stewardship and concern for justice and peace. While this commitment to values-based investing is admirable, resources backing Eventide's values-based approach are still a work in progress.

The firm maintains a proprietary software platform that draws on internal research and external data to screen out stocks that do not meet the firm's standards. However, as a small boutique firm, Eventide has struggled with turnover on its values-focused research bench. The team is responsible for ensuring each issuer abides by the firm's investment ideals. Eventide did not hire its first full-time analyst on this team until 2018, and it still only has four full-time analysts. The team has also struggled with stability, as members have departed in each year since 2020.

Instability weighs on the team's bandwidth for collaborative engagements, too. Eventide is one of the few remaining firms under ESG Commitment Level coverage that has never signed the United Nations-backed Principles of Responsible Investment, primarily because it lacks the capacity to deliver on the requirements of such initiatives. Similarly, the firm does not participate in public policy or thought leadership to promote the industry's understanding of sustainable investing, a common practice among more highly rated peers.

Eventide provides relatively little transparency into investment stewardship activities. Eventide does not publicly report on its company engagement or proxy voting (other than required regulatory filings). Its proxy-voting guidelines lack clarity around environmental and social issues. In the future, disclosure of proxy-voting results, discussion of engagement activities, and enhancement of proxy-voting guidelines would bring the firm closer to par with competitors.

**Janus Henderson** | Mahi Roy | Dec. 1, 2023—**Basic**
*Improvements under new leadership drive an upgrade.*

In early 2023, Janus Henderson hired its first chief responsibility officer. Under this new leadership, the firm strengthened the integration of environmental, social, and governance factors across its lineup, expanded its personnel focused on ESG and stewardship, and invested in tools to streamline the investment process. The significant revamping of the firm's sustainability program warrants an upgrade of its Morningstar ESG Commitment Level to Basic from Low.

JHI's new chief responsibility officer has made great strides in her early days with the firm. The firm now has a formal ESG investment policy covering ESG integration, engagement, and proxy voting, and internal governance. The chief responsibility officer oversees the approach with the help of a newly formed ESG oversight committee that assesses the credibility of ESG funds and investment processes. In addition to governing the framework for managing ESG-related risks in portfolios, the new leadership has also grown the firm's product range and capabilities with the launch of three new dedicated ESG strategies.

JHI's central ESG team grew to more than 20 members in 2023, with 15 additional ESG experts embedded within investment teams. Next on the docket is finalization of a centralized database that will increase internal transparency into how investment teams are managing ESG risk. For instance, the tool will surface portfolio-level data related to carbon emissions, gender diversity, ESG controversies, and more.

Implementation of JHI's new central database will strengthen the firm's active ownership ambitions through better tracking and documentation of engagements. However, the firm's lack of disclosure holds it back compared with peers. The firm does not clearly outline its escalation strategy for companies that lag on environmental and social priorities. Furthermore, unlike higher-rated firms, Janus Henderson does not publish its rationales for proxy-voting decisions nor case studies detailing its engagement strategy for portfolio companies. Not only are the firm's proxy-voting guidelines vague around environmental and social issues, but its proxy-voting record for 2023 also was discouraging, with less than 40% support for key ESG resolutions (down from nearly 50% support in 2022). This appears to be at odds with the firm's increased ESG focus.

Overall, the firm is headed in the right direction, but more transparency would bring JHI closer to par with peers.

**Man Group** | Daniel Nilsson | Oct. 1, 2023—**Basic**
*Signs of clear effort to accelerate ESG integration.*

Man Group has increased ESG integration within its investment process and expanded the central responsible-investment and stewardship teams over the last two years. This is further supported by a strong record on environmental, social, and governance-related proxy voting, so we upgrade the firm's Morningstar ESG Commitment Level to Basic from Low.

Man Group consists of six distinct divisions: Man AHL, Man Numeric, Man GLG, Man FRM, Man GPM, and Man Varagon. Across these businesses, Man Group runs a broad range of alternative and long-only strategies on a systematic and discretionary basis, across public and private markets. The firm also targets several asset classes, including listed equities, private equity, and private credit. As such, there is no one-size-fits-all approach to ESG integration within the firm.

Over the past few years, divisions within the group—namely Man GLG, Man Numeric, Man AHL, and Man GPM—have stepped up internal ESG integration efforts and launched sustainability-themed funds. For instance, Man Numeric expanded its proprietary models to look at specific ESG considerations and various climate considerations. It has been pleasing to see Man Group continue to expand its ESG capabilities into different divisions. This integration approach is an improvement compared with the firm's previous focus on distributing ESG data and tools with little guidance for implementation. The firm's recent purchase of a majority stake in ESG boutique Asteria further strengthens the group's position on ESG matters.

The responsible-investment team has more than doubled in size to 10 since June 2021, with additional ESG expertise embedded across the firm, including a climate scientist in Numeric. The appointment of a responsible-investment director, portfolio oversight, to develop and monitor Man Group's ESG reporting framework and improve related investment processes was a key hire, and further team growth is expected. Similarly, the investment stewardship team has grown from one to three since last review.

Man Group's centralized stewardship specialists are responsible for firm-level proxy-voting and engagement efforts, and the group votes in favor of most key ESG resolutions. The firm has worked with other asset managers to co-sponsor several climate-change resolutions in the last 18 months. Voting summary reports are publicly disclosed each quarter. However, the firm does not publish voting rationales, which we consider to be best practice.

For Man GLG, engagement with portfolio companies is primarily conducted at the fund level, with support from the firm-level stewardship team. For other investment engines that trade listed equities, such as AHL and Numeric, engagement with portfolio companies is conducted at the firm level, with the group-level Stewardship team initiating firmwide engagements more often, as its resources increase. Man Group has developed a proprietary ESG engagement tracking tool to record all interactions with investee companies groupwide at the fund level. This is a clear improvement—portfolio managers previously tracked engagements in whichever way they saw fit. Notwithstanding the improvements made by the firm, the absence of investment team incentives linked to ESG integration remains an area for further development.

**Ninety One** | Tom Mills | Jan. 1, 2024—**Basic**
*ESG efforts are solid, but some areas fall short of industry best practice.*

Ninety One's investment teams have made progress in integrating environmental, social, and governance factors in portfolios. The firm shines on climate-related issues, but limited fund-level transparency and modest resources hold it back. Ninety One continues to earn an ESG Commitment Level of Basic.

All strategies at Ninety One integrate ESG factors, and the firm allows flexibility to investment teams to implement this in keeping with their own investment philosophies. Ninety One supports the teams with ESG data, tools, and frameworks, and it monitors their investment processes centrally to ensure ESG integration. Still, dedicated ESG funds represent a small portion of the firm's overall business. When it comes to transparency, Ninety One could improve public disclosure of fund-level ESG metrics across its fund offerings.

Although investment teams are primarily responsible for ESG integration, there is a small central sustainability team that oversees this integration from a top-down perspective. This team also coordinates Ninety One's stewardship initiatives including company engagement, proxy voting, and policy advocacy. The team has experienced recent turnover, including the departure of Ninety One's global head of sustainability at the end of 2021, but has capably backfilled these roles. Still, more hands on deck might provide the firm more capacity to expand and deepen its ESG efforts.

Ninety One prefers to take a case-by-case approach to proxy-voting decisions and engagement strategies, instead of applying strict firmwide policies on environmental and social goals for investee companies. Still, Ninety One provides ample disclosure on voting and engagement activities. In general, Ninety One also aims to engage and work with management on contentious issues before voting against them or escalating. In practice, the firm's support for key ESG resolutions is lower than other sustainability-focused managers, and while some more-ambitious peers opt to file shareholder resolutions, Ninety One is yet to go this route.

# What Is the Morningstar ESG Commitment Level, and How Do Other Managers Stack Up?

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

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

- Philosophy and Process
- Resources
- Active Ownership

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

**How to Use the ESG Commitment Level**

The ESG Commitment Level is distinct from the Morningstar Medalist Rating,[10] which identifies strategies that Morningstar believes should be able to outperform their category index or peers over time. The ESG Commitment Level is not evaluating expected performance. Rather, it is focused on the extent to which asset managers and funds incorporate ESG considerations into their investment processes, and it highlights the asset managers that are leading the way when it comes to sustainable investing.

10 Morningstar Medalist Rating Methodology, Morningstar Research, May 2, 2023. https://s21.q4cdn.com/198919461/files/doc_downloads/othe_disclosure_materials/2023/1134512.pdf

The ESG Commitment Level is also complementary to existing portfolio-level sustainability metrics such as the Morningstar Sustainability Rating[11] and Sustainable Attributes.[12] The Morningstar Sustainability Rating is a quantitative, holdings-based measure of a fund's ESG risks relative to category peers. Investors may find it helpful to use the two measures in tandem, but they are merely complementary—one qualitative and based on an overall assessment of a strategy, the other quantitative and based on the ESG risks of a strategy's portfolio holdings.

**Criteria for Coverage Under the ESG Commitment Level**

Asset managers selected for coverage are based on a combination of factors. We seek to cover the largest asset managers, the leading asset managers from an ESG perspective, highest-rated parents under our Morningstar Medalist Rating, and a diverse sample based on geography and asset class. These asset managers are mostly headquartered in the U.S. (42) and the United Kingdom (22). The rest are headquartered in Australia (18), Continental Europe (12), Finland (1), Canada (1), and Singapore (1).

**What the Four Levels – Leader, Advanced, Basic, Low – Mean**

In this section, we describe some common aspects of firms reaching each of the four designations: Leader, Advanced, Basic, and Low.

**Leading the Way**

Out of the 97 asset managers covered under the Morningstar ESG Commitment Level, we have awarded the highest honors to just eight. Robeco, Impax, Parnassus, Australian Ethical, Boston Trust Walden, Domini Asset Management, Affirmative Investment Management, and Stewart Investors all earn Morningstar ESG Commitment Levels of Leader.

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

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

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11 The Morningstar Sustainability Rating is an asset-weighted rollup of Sustainalytics' company and sovereign ESG Risk Ratings based on the trailing 12 months of a fund's portfolios. Fund sustainability scores are ranked, and 1 to 5 globes are assigned. Funds with the best 10% of scores within their peer group receive 5 globes, and those ranking in the next 22.5% receive 4 globes. In other words, funds ranking in the top third of their peer group receive 4 or 5 globes. Morningstar Sustainability Rating Methodology, Morningstar Research, Oct. 13, 2021. https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt98ccfd4eaefc767f/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf

12 Morningstar Sustainable Attributes: Framework and Definitions for Sustainable Investment and Employs Exclusions Attributes, Morningstar Research, August 2022. https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt1a2acd4a1f02054d/Sustainable_Attributes_Definitions_May_2022.pdf

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

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

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

### Advancing the Field

The cohort of 25 asset managers who earn Advanced ESG Commitment Levels reflects a more varied group of investment firms, including large firms such as Amundi and Schroders, as well as small and midsize shops like Royal London Asset Management and Generation Investment Management. These firms have considerable track records of sustainable investing stretching up to a decade or more, but they usually haven't prioritized sustainability considerations for quite as long as the Leaders and have yet to solidify their efforts. Firms assessed as Advanced demonstrate high competence in integrating ESG considerations throughout their fund range, even in products without specific sustainability objectives.

### Just the Basics

The largest and most diverse grouping of asset managers—42 firms—receive ESG Commitment Levels of Basic. These range from industry behemoths such as BlackRock and State Street Global Advisors to boutiques including Colchester Global Investors and Acadian Asset Management. There's also a wide range of ambition on sustainability among the firms in this group. Some firms have lofty intentions and have dedicated considerable resources to sustainable investing but fall short of the front-runners on key points. Other firms have built out the basics of ESG integration across their investment processes but do not have explicit aspirations regarding environmental and social issues. Either way, firms with an ESG Commitment Level of Basic have made a meaningful effort to integrate sustainability themes into their investment process, but they still blend in with the crowd.

### Be-Low Expectations

Finally, 22 asset managers in our sample, including Vanguard, Schwab Asset Management, and Dimensional, received Low ESG Commitment Levels. Firms at this level tend to be slower to adopt ESG policies and processes, doing so only once these have become common practice or regulatory requirements, or they consciously avoid prioritizing ESG considerations in alignment with their clients' and other stakeholders' preferences. These firms also typically have a small percentage of assets in sustainability-focused funds. As a result, incorporating ESG criteria and pushing the needle through active ownership tend to be lower priorities. In other cases, these asset managers may be just getting started on incorporating ESG considerations into their investment processes, but a late start means their efforts lag peers. All in all, firms with Low ESG Commitment Levels are ESG laggards and are not expected to drive the sustainability agenda for investors.

**About Morningstar Manager Research**

Morningstar Manager Research provides independent, fundamental analysis on managed investment strategies. Morningstar views are expressed in the form of Morningstar Medalist Ratings, which are derived through research of three key pillars—People, Process, and Parent. The Morningstar Medalist Rating is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. A global research team issues detailed research reports on strategies that span vehicle, asset class, and geography.

Medalist Ratings are not statements of fact, nor are they credit or risk ratings, and should not be used as the sole basis for investment decisions. A Medalist Rating is not intended to be nor is a guarantee of future performance.

**About Morningstar Manager Research Services**

Morningstar Manager Research Services combines the firm's fund research reports, ratings, software, tools, and proprietary data with access to Morningstar's manager research analysts. It complements internal due-diligence functions for institutions such as banks, wealth managers, insurers, sovereign wealth funds, pensions, endowments, and foundations. Morningstar's manager research analysts are employed by various wholly owned subsidiaries of Morningstar, Inc. including but not limited to Morningstar Research Services LLC (USA), Morningstar UK Ltd, and Morningstar Australasia Pty Ltd.

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