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CLEVELAND STATE UNIVERSITY FOUNDATION ESG AND SUSTAINABILITY SCORES

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MORNINGSTAR ESG SCORES

Name	ESG Score vs. Category	Portfolio ESG Score	ESG Category Average	ESG Percent Rank in Category
Vanguard 500 Index Admiral	Above Average	54.28	53.42	30
Westfield Capital Large Cap Growth Instl	Average	52.46	52.17	48
DFA Emerging Markets Value I	Average	50.24	50.71	66
Dodge & Cox International Stock	Above Average	59.69	57.70	11
Federated Total Return Bond Instl			55.65	
Harbor International Institutional	High	60.93	57.70	5
JPMorgan Core Bond Select			55.65	
JPMorgan Strategic Income Opps Sel			50.53	
Loomis Sayles Small Cap Growth Instl	Average	41.15	41.44	63
PIMCO Diversified Inc Instl			50.72	
Prudential Global Real Estate Z	Below Average	49.70	51.65	80
RidgeWorth Seix Floating Rate Hi Inc I				
Vanguard Mid Cap Index Adm	Above Average	48.65	46.42	20
Victory Integrity Small-Cap Value Y	Below Average	41.31	42.08	78
Wells Fargo Absolute Return Inst			54.70	
William Blair International Growth I	Average	55.84	55.70	49
William Blair International Sm Cap Gr I	Average	49.04	49.01	53

Source: Morningstar

MORNINGSTAR SUSTAINABILITY SCORES

Name	Morningstar Sustainability Rating	Portfolio Sustainability Score	Sustainability Category Average	Sustainability Percent Rank in Category	Number of Funds Analyzed in Category - Sustainability
Vanguard 500 Index Admiral	Average	46.23	46.43	52	629
Westfield Capital Large Cap Gth Instl	Average	46.28	46.18	54	564
DFA Emerging Markets Value I	Low	43.57	46.34	94	273
Dodge & Cox International Stock	Below Average	51.48	52.29	70	284
Federated Total Return Bond Instl			47.69		11
Harbor International Institutional	High	54.71	52.29	7	284
JPMorgan Core Bond Select			47.69		11
JPMorgan Strategic Income Opps Sel			44.53		16
Loomis Sayles Small Cap Growth Instl	Average	40.98	40.80	42	266
PIMCO Diversified Inc Instl			44.92		10
Prudential Global Real Estate Z	Below Average	48.47	50.41	78	87
RidgeWorth Seix Floating Rate Hi Inc I					0
Vanguard Mid Cap Index Adm	Above Average	46.02	44.06	12	207
Victory Integrity Small-Cap Value Y	Low	39.95	40.94	90	154
Wells Fargo Absolute Return Inst			48.56		67
William Blair International Growth I	Average	51.63	51.39	49	138
William Blair International Sm Cap Gr I	Average	48.50	48.09	50	35

Source: Morningstar

The Morningstar Sustainability Rating

A New Lens for Investors

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At Morningstar, our mission is to create tools that help investors make sound decisions so they can reach their financial goals. During the past 30 years, innovations like the Morningstar Rating, the Morningstar Style Box, the Morningstar Category, the Morningstar Stewardship Grade, and the Morningstar Analyst Rating have given investors the world over the ability to analyze, compare, select, and monitor mutual funds and exchange-traded funds. Our Morningstar Sustainability Rating for funds follows in that tradition, giving investors a new way to evaluate funds based on the sustainability profile of their underlying holdings.

Sustainability is a big deal to a lot of people today. In survey after survey, citizens express concern about climate change, environmental issues, the ways companies treat their workers, and corporate social responsibility. In the investment world, these concerns are often referred to as environmental, social, and governance, or ESG, issues. More and more investors are interested in seeing ESG concerns addressed in their portfolios, particularly women and younger investors. For many, their interest is values-based. They want to invest in companies whose activities reflect their sustainability concerns. For others, including many asset managers who now routinely incorporate ESG factors into their investment processes, the interest is value-driven. Given the increasing recognition that sustainability issues can affect a company's bottom line, it simply makes sense to consider ESG in a thorough investment process, especially one with a long-term perspective.

Until now, investors have lacked the tools to evaluate the sustainability performance of funds. Their choices have been limited to a relative handful of funds that explicitly hold themselves out as having sustainable or "responsible" investment objectives. These funds, known as socially responsible investment, or SRI, funds historically have relied on exclusionary screening techniques coupled with active ownership (proxy voting, filing or cosponsoring shareholder resolutions, and direct company engagement). Today, most SRI funds also incorporate ESG factors into their selection processes.

SRI funds may fit the needs of some, but investors interested in sustainability face two challenges. First, there simply aren't very many of these funds. They comprise only about 2% of the fund universe globally. Some SRI funds are good performers, but others haven't established strong performance records, further reducing the viable options. Retirement plans frequently lack such options altogether. The second challenge is that there has been no easy way to evaluate independently how well these funds are incorporating sustainability concerns.

The Morningstar Sustainability Rating helps investors address those challenges and put sustainable investing into practice. By using the ratings, investors can independently evaluate whether an SRI fund is living up to its mandate by holding companies that uphold best sustainability practices. Moreover, because Morningstar applies the Sustainability Rating to any fund for which there's sufficient underlying holdings data (approximately 20,000 funds in total), it makes it easier for investors to look beyond SRI funds to consider conventional funds that hold companies that do well on ESG metrics.

In sum, the Morningstar Sustainability Rating responds to investor demands for a more reliable, objective way to evaluate whether their investments reflect best sustainability practices.

How the Rating Works

The Morningstar Sustainability Rating is a measure of how well the companies held by a fund are managing their ESG risks and opportunities when compared with similar funds. We use company-level ESG data from Sustainalytics, a leading provider of ESG ratings and research, to calculate the rating.¹ All funds with at least 50% of their assets in firms that have been assigned company-level ESG ratings by Sustainalytics will receive a rating.

Exhibit 1 A Two-step Process

Step 1

Portfolio Sustainability Score =
Company ESG Scores – Controversy Deduction

Step 2

Portfolio Sustainability Rating =
Portfolio Sustainability Score relative to Morningstar Category,
sorted into five-normally distributed groups:








¹ We use two main elements of Sustainalytics research: Company ESG Ratings and Controversy assessments. Sustainalytics covers more than 4,500 companies globally, assigning ESG Ratings based on annual company evaluations relative to their global industry peer groups. Sustainalytics' analysts use a peer-group-specific mix of key indicators in each of the three broad areas (environmental, social, and governance) to capture the most relevant ESG issues in each peer group. The resulting Company ESG Rating comprises a score and peer group ranking, as well as underlying scores and rankings for each of the three—E, S, and G—components.

Controversy assessments are incidents that companies are involved in related to ESG issues, which Sustainalytics identifies and monitors in real time. The firm covers more than 10,000 companies with Controversy assessments. Controversies are grouped based on severity from Category 1 (Low) to Category 5 (High), along with an outlook assessment on whether the situation is trending worse or improving. Sustainalytics likens the severity scale to a hurricane warning system, meaning that the degree of seriousness rises exponentially from lower to higher categories.

We assign a fund's Sustainability Rating in two steps: First, we derive a Morningstar Portfolio Sustainability Score. This score is an asset-weighted average of a portfolio's normalized company-level ESG scores with deductions made for the controversies in which the portfolio's holdings are currently involved. (For further information on Sustainalytics' scoring methodology, refer to the Morningstar Sustainability Rating methodology document.²) We normalize Sustainalytics' company ESG scores to make them comparable across industry peer groups, which is necessary when scoring diversified portfolios.

Next, we sort funds into five normally distributed groups by comparing a fund's Portfolio Sustainability Score with that of its Morningstar Category peers.



Exhibit 2 Morningstar Sustainability Rating

Distribution	Score	Descriptive Rank	Rating Icon
Highest 10%	5	High	
Next 22.5%	4	Above Average	
Next 35%	3	Average	
Next 22.5%	2	Below Average	
Lowest 10%	1	Low	

Using the Sustainability Rating

Investors, and those helping them make decisions, can use the Portfolio Sustainability Score to evaluate how well the companies in a portfolio are managing their ESG risks and opportunities relative to their industry peer groups. Scores above 50 indicate that, on average, a fund's holdings place in the top half of their industry peer groups.³ Investors can use the Sustainability Rating to evaluate a fund relative to other funds in the same Morningstar Category.

Exhibit 3 Fund Rating Example

AUM Covered	Fund	ESG Score	Controversy Deduction	= Sustainability Score	Category % Rank	Sustainability Rating
94.7	A	58.1	12.3	45.8	40	
98.5	B	57.2	6.1	51.1	29	

² <http://corporate1.morningstar.com/Morningstar-Sustainability-Rating-Methodology-2/>

³ As a portfolio-based metric, the Sustainability Rating does not reflect exclusionary screening. In other words, funds aren't automatically rewarded or penalized for excluding certain companies or industries. Neither does the rating reflect the active ownership activities, including company engagement, of many SRI funds. The rating measures how well the companies in a portfolio are managing their ESG risks and opportunities relative to their industry group peers.

They can use it to evaluate how well the funds they already hold are applying best sustainable investing practices or to evaluate prospective investments through an ESG lens. They can also use the rating to assess how well SRI funds are living up to their mandates. Finally, the rating and supporting analytics afford investors a wealth of data that they can sift through in drawing their own conclusions about the investing payoff—in financial risk and reward terms—of incorporating sustainable principles into a portfolio.⁴

Conclusion

Our Sustainability Rating is not the last word on sustainability, but an important first step toward providing investors with better tools to evaluate and compare funds based on sustainable investing principles. The rating helps investors answer fundamental questions such as, How well are the companies that my fund owns managing the risks and opportunities associated with the sustainability challenges they face? And the rating does so objectively and robustly, leveraging fund holdings data, calculating portfolio scores, and comparing funds in a uniform, reliable way. It is an advance that should help sustainability-minded investors generate better outcomes when measured in terms of ESG opportunities and risks. ■■

⁴ The Sustainability Rating is portfolio-based, not performance-based. It should be used alongside traditional risk, return, and style metrics as well as qualitative assessments of a fund's investment process and how well it has been executed over time. As a purely portfolio-based measure, the Sustainability Rating has no impact on the Morningstar Rating for funds, or vice versa. The same goes for the Stewardship Grades we give to asset managers. While it doesn't automatically have an impact on our Analyst Rating for funds, it is an additional metric our analysts can consider alongside many others in their evaluations.