NATURAL INVESTMENTS LLC

# RIGOR IN RATINGS

*A Comparison of Morningstar Sustainability Rating® & Natural Investments' Heart Rating*

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## Introduction

Socially responsible investing (SRI, also known as sustainable, responsible, and impact investing) has significantly increased in popularity over the past several decades, comprising nearly 20% of professionally managed investments in the U.S. market[1]. Industry research on investor trends indicate that, regardless of market conditions, SRI will continue to garner capital and increase its share of the overall investment universe due to increasing investor alignment of values and money. Consequently, as this niche market continues to grow and mature, more investors, advisors and wealth managers are searching for tools to measure a company's policies and performance with regard to key environmental, social, and governance (ESG) factors. These tools can help them meet the growing demand for ethical and socially responsible investment options.

Natural Investments LLC, a national SRI investment adviser since 1985, has published three books on the field.[2]. In 1992, the firm developed the Heart Rating (originally the NI Social Rating), a system to evaluate the ESG rigor applied to U.S. SRI mutual funds. The SRI industry was still in its infancy at the time, and investors wanted to understand the nuanced approaches undertaken by fund managers to select their holdings. Natural Investments therefore created a ground breaking, proprietary methodology to rate and score SRI funds on the breadth and depth of ESG criteria used to select securities. Since then, the Heart Rating's scoring process has evolved. The methodology expanded to include categories such as research rigor, community investing, advocacy, and more detailed screening standards when new ESG issues emerged in investor discussions. The Heart Rating is featured at NaturalInvestments.com and GreenAmerica.org.

When Morningstar announced its Sustainability Rating to the investment world in 2016, Natural Investments was among many investment firms that greeted the news with enthusiasm. The SRI industry was encouraged to see a mainstream service provider supporting the SRI field. Also, as a user of Morningstar's services, Natural Investments also welcomed the access to additional information to supplement its own research, as well as to look at non-SRI funds that Natural Investments did not evaluate. However, an examination of Morningstar's ESG rating system revealed surprising differences and even shortcomings, particularly as compared to the Natural Investments methodology. When peers[3] in the SRI industry began to express their concerns about the Morningstar rating methodology, Natural Investments sought to provide important context expertise to the conversation. Rating systems are a valuable tool for advisors and investors for choosing funds, so the rigor of a system's evaluation criteria and process is of paramount importance.

The purpose of this whitepaper is to highlight areas of concern so that the Morningstar's Sustainability Rating may improve its methodology and avoid unintentionally "greenwashing" mutual funds that do not reflect the widely-held ESG standards of the SRI industry.

## RATING METHODOLOGY

### Morningstar Sustainability Rating

Morningstar's Sustainability Rating is essentially a measure of how funds are measuring their environmental, social, and governance (ESG) risks and opportunities relative to their Morningstar category peers. The ratings are based on underlying company data provided by Sustainalytics, an independent provider of ESG research and sector rankings. Sustainalytics provides Morningstar with two components:

1) an assessment and scoring of ESG criteria for more than 6500 individual companies, and 2) assessment and scoring of controversies for those companies.

Sustainalytics gathers data from a variety of sources including corporate sustainability reports, media outlets, and legal or regulatory proceedings, to evaluate companies across every business sector using 60-80 ESG indicators. The indicators, both qualitative and quantitative, determine scores ranging from 0-100 for each criterion. Scores are then rolled into one overall absolute score for the company, with different ESG indicators varying in weight, depending on the characteristics of each business sector. For example, environmental indicators carry more weight in scoring when assessing oil industry companies than when assessing insurance industry companies. The "Controversy" score is based on events or incidents that have resulted in negative ESG impacts and are scored on a scale of one to five. A score of five represents the most egregious types of incidents with significant negative impact on society or the environment.

Morningstar uses the combination of Sustainalytics' company level ESG and Controversy scores to assess the overall sustainability performance of Morningstar-reported funds when sufficient data from Sustainalytics is available. The rating of funds is done within each Morningstar category for those funds in which at least 50% of portfolio companies have been scored by Sustainalytics, and only in categories for which at least ten funds can be rated. Morningstar uses an asset-weighted calculation of company level ESG scores, reduced by deductions for controversies, to determine Sustainability scores for funds. Then, 1 to 5 Globes is awarded for each fund in each Morningstar category across a bell curve with Sustainability scores in the top 10% of scores receiving 5 Globes, and the bottom 10% receiving 1 Globe.

A fund's Globe rating over time can change based on the fund's holdings, sometimes month to month. This requires that investors continually monitor funds' ratings, as funds without a formal SRI mandate can shift or even abandon their ESG criteria and therefore include higher- or lower-rated positions at any time.

### *Morningstar Sustainability Rating Summary*

- Rates SRI and non-SRI funds using only ESG screening criteria
- Ranks best-in-class companies in each sector compared to peers within particular Morningstar categories
- Distributes fund scores across a bell curve
- Intentional commitment to SRI or ESG assessment has no bearing on scores, and no additional SRI practices at the fund or manager level are taken into consideration

## Natural Investments' Heart Rating

The Heart Rating evaluates the ESG strategies and management of U.S. funds with a stated SRI or ESG mandate. The Heart Rating incorporates an assessment of ESG screening criteria, shareholder advocacy, community investing, and research capacity through a questionnaire and interview process with fund managers or social research professionals, coupled with a review of a fund's materials, including the prospectus, website, and fact sheets. In the Heart Rating, 47 ESG issues are assessed, with points awarded for use of both negative and affirmative screens, plus extra weighted scores awarded for total avoidance of critical ESG issues (such as military contractors, fossil fuel industries, and nuclear power companies) and Shareholder Advocacy. Assessment of a fund's Shareholder Advocacy depends on the level of engagement by fund companies in dialogue with company management on issues of ESG concern (e.g., political contributions disclosure, climate change and sustainability reporting, or labor and human rights standards). The number of shareholder resolutions filed or formally supported as well as testimony at company meetings or regulatory agencies are also relevant to the category score. The Community Investing score is based on a fund's commitment to supporting community investment through intentionally investing or holding assets in community banks, credit unions, loan funds, or targeted bonds that benefit low- to moderate-income communities or other marginalized populations.

### The Heart Rating

| Fund Name | Overall Heart Rating |
|---|---|
| New Alternative Fund | ♥♥♥♥♥ |
| Domini Social Equity Fund | ♥♥♥♥♥ |
| Walden Equity Fund | ♥♥♥♥♥ |
| Walden Mid-Cap Fund | ♥♥♥♥♥ |
| Walden Small-Cap Innovations Fund | ♥♥♥♥♥ |
| Parnassus Endeavor Fund | ♥♥♥♥ |
| Parnassus Fund | ♥♥♥♥ |
| AB Sustainable Global Thematic Fund | ♥♥♥♥ |
| Boston Common International Fund | ♥♥♥♥ |
| Boston Common US Equity Fund | ♥♥♥♥ |

Accordingly, 62% of the Overall Heart Rating score is based on the fund's management mandates or application of stated ESG Screening criteria, with the Community Investing and Shareholder Advocacy scores making up 16.5% each of the total score. The final 5% of the overall score is based on the fund company's research process and capacity, with the highest scores going to those funds with dedicated social research staff, written and publicly available social research and proxy vote publishing policies, and the use of a variety of ESG research sources. The ratings process is completed through a review of company materials (e.g., the prospectus, annual reports, and written policies), as well as a questionnaire and interview process with fund managers or social research personnel. Funds are awarded 1-5 Hearts in each of the three main categories of scoring (ESG, Shareholder Advocacy, and Community Investing) that together comprise an

| Shareholder Advocacy | Community Investing | ESG Screening |
|---|---|---|
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Overall score. The Heart Rating's methodology assures that an overall score of 5 Hearts is only possible when funds have strong ESG Screening scores combined with significant activity in Shareholder Advocacy and/or Community Investing.

## Applied Heart Rating: Green Century Balanced Fund

Of the 165 SRI funds assessed and awarded a Heart Rating, the Green Century Balanced Fund, sub advised by Trillium Asset Management, is one of the highest rated funds. Its Overall Score reflects 5 Hearts awarded in every category NI assesses. The fund utilizes a broad and thorough range of ESG criteria to make holding selections. There are fully ten industries or harmful business practices that Green Century's Balanced Fund totally excludes from their portfolio. Besides the typical tobacco, alcohol, and firearms exclusions seen in many SRI funds, Green Century also excludes fossil fuels, nuclear power, and military contractors, plus companies that have records of toxic spills or emissions, EPA violations, and corruption or fraud. They also have a stated investment policy that actively seeks to invest in companies using 18 out of the 19 Affirmative Screening themes in the Heart Rating. This includes such things as a commitment to environmentally friendly practices, the health and safety of communities and workers, supply chain monitoring, positive community relations, and policies that support inclusion and diversity in management. For companies held that have ESG risks, Green Century directly engages company management to push for positive change through dialogue, filing shareholder resolutions, and collaboration with other investor groups on issues such as board diversification, disclosure including political contributions, and offensive labels or marketing. On an annual basis, Green Century engages directly with approximately 30 companies, files about 10 shareholder resolutions on topics of concern, supports numerous shareholder resolutions of others, and regularly submits testimony at both annual company meetings and government regulatory agencies, actions that exemplify the type of Shareholder Advocacy that warrants a top score for this category of the Heart Rating. Furthermore, the fund has a deep commitment to Community Investing by directly investing in low- to moderate-income communities through green bonds and community loan funds, banks and credit unions, reflecting a deep level

GREEN CENTURY FUNDS
Invest in a Green Future

### *Natural Investments' Heart Rating Summary*

- Rates only SRI-mandated funds
- Assesses manager portfolio construction methodology
- Features sector exclusions as part of ESG screening, shareholder advocacy strategies, level of participation in community investing, and research capacity
- Scores on absolute terms of breadth and depth, not a bell curve

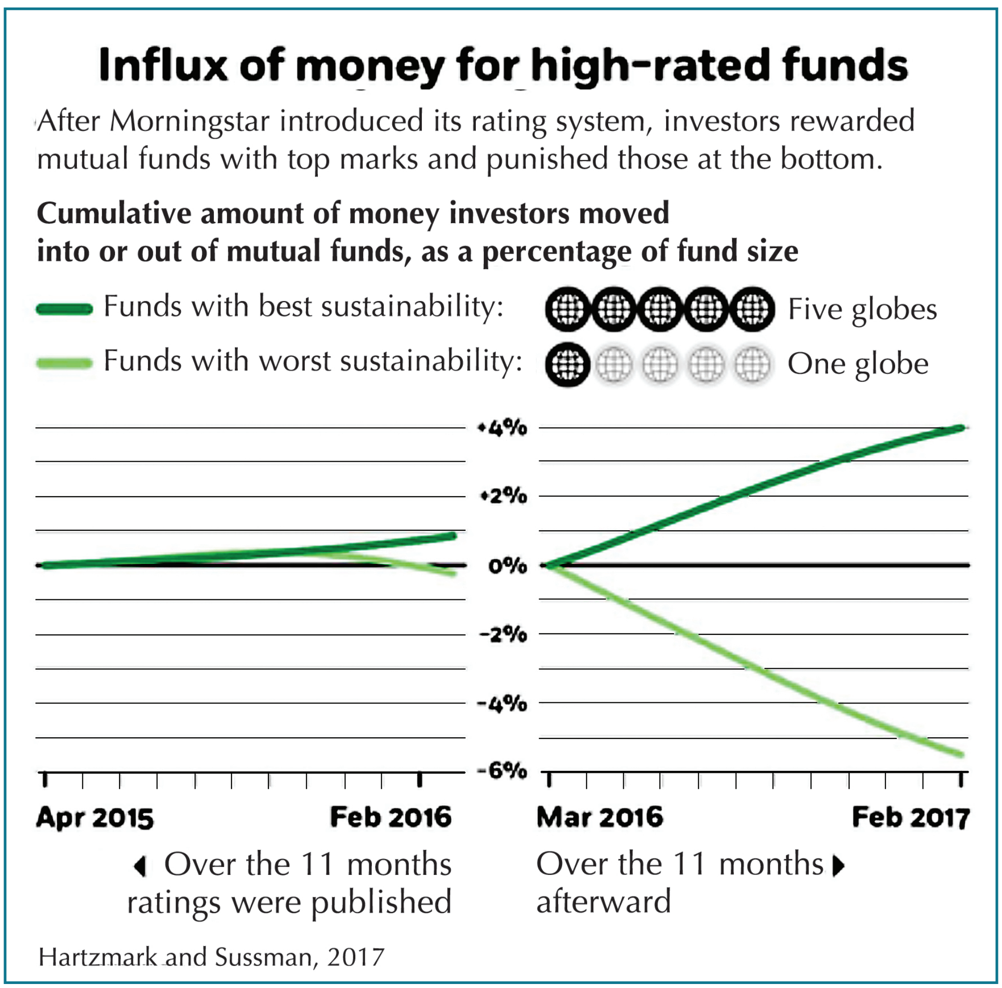
of commitment that earns the highest scoring in the Community Investing rating.

## The Consequences of Ratings

Since a rating system may affect investors' decision-making process and influence buy and sell activity, its accuracy is critical. According to a recent working paper by Hartzmark and Sussman on the Morningstar Sustainability Rating, directly after the rating's release, funds at the extreme ends of the rating scale (1 or 5 Globes) saw a marked change in capital flows immediately after the rating's release. "Investors responded to funds rated high or low in sustainability, interpreting 5-Globe ratings and 1-Globe ratings as clear positive or negative signals. Meanwhile, investors largely ignored the ratings for funds in between these two extremes, as well as the underlying details that were available about the ratings."[4] This analysis points to two phenomena in the investment industry:

(1) investors and investment professionals trust and rely on the expertise of major corporate research providers; and

(2) they won't look at the details of investments to see if they accurately measure "sustainability" if an easy rating scale is available to do it for them.




# DESIGN OF A COMPREHENSIVE RATING SYSTEM

The methodology of a credible rating system that fulfills investors' demand for sustainability and social responsibility in a portfolio must maintain critical analysis in three primary areas: scoring, consideration for intentionality, and the inclusion of advocacy activity and community investing.

## Scoring

A scoring structure typically allows for an "apples-to-apples" comparison of fund characteristics. However, when mutual funds come in a variety of asset classes, fund categories, investment strategies, construction methodology, and values, the scoring structure should adjust for such "apples-to-oranges" comparison to more accurately reflect the approaches used by fund managers.

Morningstar (and Sustainalytics) uses a best-in-class approach to compare mutual funds to each other. This is a common practice used by SRI funds in order to be able to select the best company in a given sector from an ESG perspective rather than omit the entire sector. Funds do this primarily to track the sector exposure of the underlying benchmark to which investors compare their performance. Other funds proactively seek outstanding leaders in certain ESG areas or sectors. However, the best-in-class approach, while meaningful, is not appropriate in a subjective environment, especially given that many investors and investment professionals do not carefully analyze the rating systems of major corporate research providers. When conducting comprehensive analysis of responsible and sustainable behaviors, certain areas require deeper scrutiny, as not all issues are weighed equally in the minds of investors. Some may find the manufacture and sale of weapons to be of higher concern than corporate board diversity policies, while for others, carbon emissions and toxic chemicals may be a more serious priority than gambling or alcohol. So affirmative and avoidance screening practices deserve different weighting and scoring principles.

Put another way, a best-in-class approach that gives the highest rating to top tier companies in each sector is problematic if 5 Globes can be awarded to funds that clearly are causing harm to humanity and the planet. For instance, Invesco Energy Fund (FSTEX) is invested entirely in fossil fuel companies and given a 5 Globe Morningstar rating. Without taking the time to dig deeper, the average investor might assume that this fund's ESG rating means it is sustainability-focused, perhaps limited in fossil fuel exposure or heavily invested in alternative energy sources. But clearly it is nothing of the sort. This is why Natural Investments uses absolute criteria applied to issues, practices and categories, as well as weighted sectors that automatically trigger point deductions or additions. Natural Investments' system is designed to prevent giving a misleadingly positive rating to funds like FSTEX.

## Intentionality

Intentionality in the construction and purpose of a fund is important when evaluating the design of an SRI scoring system. Non-SRI funds, even comprised of sectors that exhibit relatively "clean" practices in, for example, pollution or carbon intensity, do not necessarily translate into excellence with regard to key social and governance issues that are of importance to SRI investors. Such funds may appear on the surface to have relatively benign holdings compared to their peers, but without including other ESG criteria in the analysis of the securities, there's no valid evidence to support such an inference. Conversely, in an SRI fund, where analysts and managers evaluate companies based on specific ESG practices, principles, and standards, all the holdings must meet the manager's minimum standards for inclusion. While these criteria vary – hence 1 to 5 Hearts – it is the level of comprehensiveness of the ESG analysis that ultimately determines the score.

When fund managers evaluate dozens of ESG issues in a comprehensive manner, they inform investors that these companies are sufficiently well-managed to avoid unnecessary risks, and they often exhibit leadership that positions the company well to capture greater market share and improve the financial bottom line. There is a big difference between a company that is relatively benign and one that is truly exceptional regarding environmental, social, and governance practices no matter the sector. ESG factors are not relative criteria in the eyes of most investors; people have a comprehensive sense of what they value or find objectionable, and they are not solely interested in one issue, e.g., climate change. Investors want to own companies with outstanding labor, human rights, governance, and environmental practices or to own funds that advocate for improvements in corporate policies and practices. Funds that engage company management along these lines are therefore highly attractive to conscientious investors.

## Shareholder Advocacy and Community Investing

In the U.S., shareholder rights are a meaningful tenet of investor corporate engagement. The use of shareholder advocacy in corporate dialogue and in resolutions filed and voted on by shareholders is one of the most direct and powerful tools for minimizing excessive company risks with regard to the environment, employment practices, and corporate governance. Excluding this component from a fund's ESG assessment undervalues the meaning of a "sustainability rating" in an investor context. Dozens of such engagements are conducted by SRI funds each year, and many of them are successful because the mitigation of various types of risk is material to the bottom line. Investors and investment professionals deserve to know which funds are persistently involved in these activities and which ones aren't at all, and the funds should be rated accordingly. This standard applies to community development investments as well.

Community development investment, also referred to as community investing, often takes a backseat to sustainability metrics in mutual funds. However, the meaning of "triple bottom line" business value framework embraced by SRI investors includes social performance, and these types of investments strengthen the economic backbone of communities throughout the country. When cash allocations are intentionally targeted to community development loan funds, credit unions and banks, municipal and green bonds in low-income communities, and non-insured targeted investments (e.g. micro credit institutions in emerging markets), mutual funds deserve credit for choosing social justice, green redevelopment, and poverty alleviation investments over passive agency securities with no identified social mission.

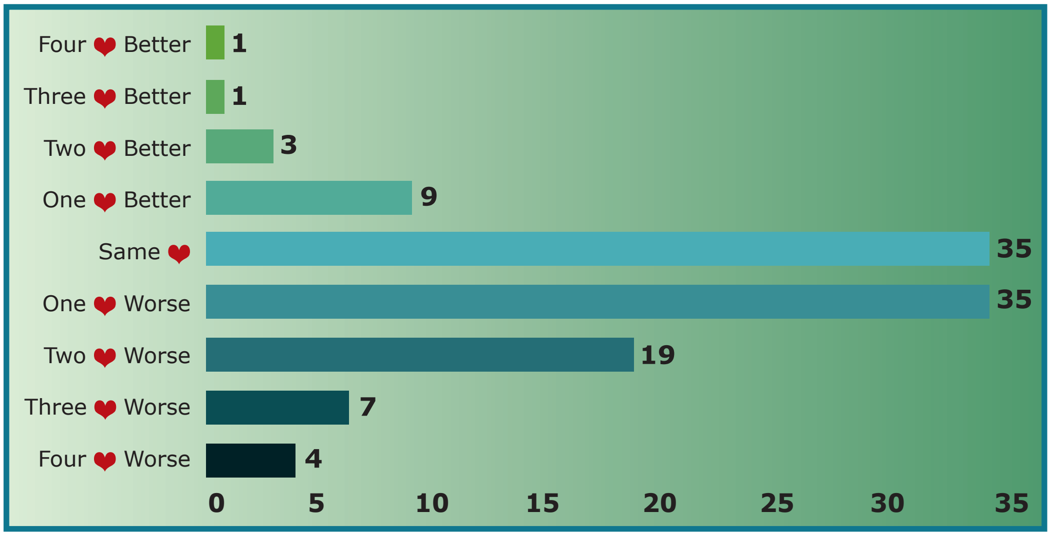
## Comparing the Ratings of SRI Funds

There are 114 SRI funds with a Natural Investments Heart Rating that, as of this printing, have also a Morningstar Sustainability Rating.

Over half (57%) of the fund ratings received a worse rating by Natural Investments than Morningstar, close to one-third (31%) received the same rating, and in only 14 instances (12%) did Natural Investments rate a fund better than Morningstar.

This chart breaks down the differences in ratings by "levels" (as opposed to "quintiles") for ease of interpretation. For example, 3 funds achieved "Two Better" Heart Ratings at Natural Investments, meaning the

**How SRI Funds Rate: Morningstar vs. Natural Investments**




fund would have either achieved 5 Hearts compared to 3 Globes, 4 Hearts compared to 2 Globes, or 3 Hearts compared to 1 Globe. Similarly, the 19 "Two Worse" funds received two fewer Hearts than they did Globes.

On the whole, the Heart Rating's absolute and comprehensive fund evaluation criteria appears to indicate a more stringent standard than that of Morningstar. A few examples that follow illustrate the differences.

## FUND CASE STUDIES

## Appleseed Fund

One of the largest discrepancies between the two scorecards is Appleseed Fund (APPLX). Of the 114 funds compared, APPLX received 5 Hearts but only 1 Globe. In Natural Investments' assessment, Appleseed managers demonstrated depth in analysis and a long list of ESG criteria used to select and monitor companies within its holdings. Furthermore, the fund actively engages in corporate dialogue and files shareholder resolutions on a variety of ESG issues. APPLX has a substantial commitment to community development investments as well. The company itself is a certified B Corporation, meaning it "walks the talk" as a firm in meeting rigorous standards for environmental, social, and governance policies, including public transparency and legal accountability.

Only 56% of the APPLX holdings were assessed by Morningstar (with one of the holdings including a Controversy score), because Sustainalytics has not yet evaluated the bulk of small cap companies within the fund. While it is difficult to determine how this influenced the final score, it appears to be one of the glaring issues of the best-in-class approach and an all-inclusive investment universe where SRI and non-SRI funds are treated the same. For Appleseed, the effect of an extreme score of 1 Globe - on a fund that transparently shows diligence in ESG screening, shareholder advocacy, and community investing - is chilling (see Hartzmark and Sussman graph on page four).

## Dreyfus Global Equity Income Fund

The Dreyfus Global Equity Income fund earned 5 Globes from Morningstar, but it does not operate under an SRI mandate (which could explain how it holds the likes of Phillip Morris and McDonalds), though sub advisor Newton Investment Management claims to have embraced an "integrated ESG" approach in its decision-making across all the Dreyfus funds under its management. The Global Equity Income fund does not exclude any industries or practices, so it instead assesses companies on a case-by-case basis if there are any negative ESG issues presented by an individual company. The manager tends to avoid companies that have demonstrated an ongoing track record of egregious behavior. The range of criteria in the assessment of companies includes board diversity, health and safety, business ethics, energy use, and waste management. While fairly broad, the number and specificity of criteria the manager identifies and assesses are far fewer in number than other funds given higher Heart Ratings. As such, this fund earned only 2 out of 5 Hearts in ESG Screening. The Heart Rating awards the most points for ESG screening when numerous screens are addressed, when critically harmful practices or industries have restricted investment or are avoided entirely, and when shareholder advocacy by the fund company specifically targets negative practices or industries to drive positive change. This fund scored well in terms of Shareholder Advocacy since the fund company engages in dialogue with companies, publishes its proxy votes, and supports many resolutions filed by others, but there is no involvement at all in Community Investing. Taken all together, this fund received an Overall Heart Rating score of 2 Hearts.

In the Morningstar scoring rubric, this fund was recently awarded 5 Globes. This is based on its being in the top 7% of funds in its World Large Stock category, with a Sustainability score of 52 based on 97% of its fund holdings. Ironically, this fund, which contains oil industry giant Royal Dutch Shell and tobacco king Phillip Morris, scored higher with Morningstar than the Dreyfus Sustainable Equity Fund, which does indeed have an SRI mandate and a commitment to excluding tobacco companies alongside the same ESG integration strategies outlined above. Granted, this lower scoring fund sits in a different Morningstar category of Large Blend, where it is in the top 18% of funds with a Sustainability score of 47 based on 99% of its holdings. Within the Heart Rating system, the Dreyfus funds managed by Newton received scores on the lower end of the Heart Rating spectrum, with the Dreyfus Sustainable Equity Fund being the exception. Due to its additional layer of exclusions and a written SRI mandate, it is the only Dreyfus fund to achieve a 3 Heart Overall Score by Natural Investments, one level higher than the Global Equity Fund.

## Ariel Fund

The Ariel Fund, the largest of Ariel's funds, has a stated SRI/ESG mandate and was awarded 4 Globes under the Morningstar's Sustainability Rating®. This contrasts sharply with Natural Investments' 1 Heart Rating for the fund. Within the Mid Cap Value category at Morningstar, the Ariel Fund is in the top 25% of its category with a Sustainability score of 46 based on 89% of its assets as rated by Sustainalytics. The NI Heart Rating Overall Score of just 1 Heart is based on a lack of breadth in ESG screening criteria, no direct Community Investment, and limited Shareholder Advocacy engagement. The fund intentionally screens out tobacco companies as well as makers of handguns, but these are the only two avoidance screens applied. While Ariel does intentionally seek out companies with a demonstrated commitment to diversity in the workforce and giving back to communities, there is no formal process or specific in-house set of standards used to assess other social or environmental risks in company selection. Instead, they rely on the MSCI ESG Manager service for reporting on potential ESG risks, which may or not result in exclusion of a particular company. Within the NI Heart Rating process, this indicates a low level of commitment to ESG screening.

In terms of Shareholder Advocacy, Ariel does engage directly with company management on controversial issues, and they do have proxy voting guidelines that include supporting responsible and fair practices, but they do not publish their proxy votes nor do they file or support shareholder resolutions targeting ESG issues. This level of engagement warrants 2 Hearts for Ariel in the Shareholder Advocacy category of the Heart Rating.

Finally, it is interesting to note that, again, a fund company's non-SRI funds were rated higher by Morningstar than those with an SRI mandate, similar to the Dreyfus case study. This is perplexing and speaks to a core challenge of the Morningstar rating methodology, which awarded the Ariel International Equity Fund 5 Globes without any ESG screening criteria noted in the prospectus. The higher score of a non-SRI fund may be based on finding better underlying best-in-sector scores of companies, but without an SRI mandate, a non-SRI fund can somehow become a winner by chance instead of through meticulous, comprehensive decisions.

## RECOMMENDATIONS

Socially responsible investors rely on ESG rating systems to help them make decisions about what they own. Therefore, in order to be effective, such ratings must have broad and high standards to be credible in the eyes of investors. Flawed methodology can mislead investors looking for clear criteria regarding what types of holdings they wish to own.

Several aspects of the Morningstar Sustainability Rating® fail to inform investors which funds have holdings that are truly socially responsible, ethical, and sustainable. The Morningstar rating should award extra points to funds with an SRI mandate; it should use absolute criteria across all sectors; and it should maintain a set of minimum standards for achieving 4 and 5-Globe status, since many funds with such current ratings would receive far lower scores if the underlying sectors of holdings were scored on a relative "harm and benefit" basis instead of treated as comparatively equal. The current approach dilutes the rigor of its overall structure, even rendering it meaningless in some cases. The best-in-class standard weakens a rating's credibility because investors don't have the time or capacity to access sufficient information necessary to evaluate whether or not a fund is truly beneficial or harmful to society and the planet. In other words, relativity is an insufficient standard because it is not only entirely subjective, it is an incomplete evaluation of a fund's true impact. As such, all rating systems, particularly Morningstar's, should abandon the best-in-sector approach and weight sectors and practices on a more objective basis by their level of positive or negative impact. This will prevent anyone from equating the practices and impact of, say, top-tier carbon emitters with top tier information technology companies.

Since the Morningstar Sustainability Rating is largely based on how each underlying company is scored by Sustainalytics, mutual funds should only be rated if a substantial majority (at least 80%) of the underlying companies are rated, as opposed to the current 50% majority threshold. The current policy is a disservice to firms with significant mid- and small-cap company exposure, and as such it is unfair to be rated when so many fund holdings are not examined using ESG criteria.

Intentionality matters. Funds that have an ESG policy mandate, particularly by prospectus, are often qualitatively different from funds without one, especially those that examine corporate practices in-depth and do not just avoid or include a few sectors. There are dozens of issues that dedicated SRI fund managers examine; this rigorous evaluation process sets a high bar that most funds simply do not meet, and the rating should reflect that difference. There effectively should not be any 4-5 Globe rating for a fund that does not have an SRI mandate or a comprehensive approach to ESG screening. The long-standing best practices of the SRI industry include personnel who conduct their own ESG research beyond using company self-disclosure filings or subscribing to widely available services, engage in shareholder advocacy with the companies they hold, and support community investing in the fund's asset allocation. Such activities merit consideration for scorable points, and as such, it should not be possible for a fund to receive a 5 Globe rating without a commitment to in-depth ESG research or participation in shareholder engagement and/or community investing.

## CONCLUSION

Most SRI investors do not merely want to include the top-ranked companies in every sector in their funds; they sincerely want their values to be reflected in their portfolio. As such, investors can't truly embrace the notion of ESG researchers or SRI mutual funds grading companies on a curve, as if "the best of the worst " were the same as "the best". Rather, investors want to be able to separate the truly harmful companies from the pack and invest in those that are clearly leading the way towards positive social and environmental change. This is why the methodology of the Morningstar Sustainability Rating® system matters; it must be sufficiently rigorous to inform the public about which companies are good for society and which are not. Investors can then have more accurate information about what they own and distinguish the funds that are truly focused on sustainability, responsibility, and positive social impacts.

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