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# Morningstar Sustainable Attributes<sup>SM</sup>

## Framework and Definitions for 'Sustainable Investment' and 'Employs Exclusions' Attributes

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### Morningstar Data Content

May 2019

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With portfolio managers increasingly including environmental, social, and governance considerations in their investment processes, investors need tools to identify managed investments committed to employing various ESG strategies that mitigate sustainability risk and better align with their goals or values.

To address this growing need, Morningstar is undertaking a multistage effort to assess the current landscape and educate the investment community on manager intentionality toward ESG, or sustainable investing. The first stage of this effort is the launch of two sets of intentionality indicators, one built around identifying intentionally sustainable strategies and the other focused on identifying the use of exclusionary screens.

Morningstar assesses the information provided in regulatory filings to assign these attributes. Given that these regulatory documents lack standardization across regions, we are also evaluating other potential sources for collecting this information.

## Sustainable Investment

Morningstar defines a strategy as a "Sustainable Investment" if it is described as focusing on sustainability, impact, or considering ESG factors in its prospectus, offering document, or regulatory filings. At the next level of granularity, "Sustainable Investment" funds are categorized into three distinct groupings. "ESG Funds" incorporate environmental, social, and governance principles into the investment process or engagement activities. "Impact Funds" seek to make a measurable impact with investments on specific issue areas like gender diversity or community development alongside financial return. "Environmental Sector Funds" are strategies that invest in environmentally oriented industries like renewable energy or water.

### Exhibit 1 Sustainable Investment Framework

Level 1	Sustainable Investment		
Level 2	ESG Fund	Impact Fund	Environmental Sector Fund
Level 3	ESG Incorporation	Gender & Diversity	Renewable Energy
	ESG Engagement	Low Carbon/Fossil-Fuel Free	Water-Focused
		Community Development	General Environmental Sector
		Environmental	
		Other Impact Themes	

Source: Morningstar.

### ESG Fund

These are sustainable strategies that incorporate ESG principles into the investment process or through engagement activities.

### ESG Incorporation

These are strategies that indicate the use of any sort of environmental, social, and/or governance factors in their investment process. These strategies often use positive screens to make their investment choices, tacitly removing companies that do not meet their standards in relevant environmental, social, and/or governance areas. ESG incorporation typically includes best-in-class strategies where managers select investments based on stronger ESG performance relative to peers.

### ESG Engagement

These are strategies that use shareholder engagement, including raising resolutions, active proxy voting, and direct company engagement to pursue ESG goals with invested companies.

Intentional engagement is currently only marked based on regulatory filings. However, due to the firmwide nature of engagement methods and their frequent absence from regulatory filings, we are currently exploring additional ways of confirming this data.

**Impact Fund**

These are strategies that seek to make a measurable impact alongside financial return on specific issue areas through their investments.

**Gender and Diversity**

These are strategies that seek to make a measurable impact alongside financial return through examination of gender dynamics to better inform investment decisions and/or to intentionally and measurably address gender disparity by investing in companies with a record of measurement and improvement of gender and diversity or related initiatives.

**Low Carbon/Fossil-Fuel Free**

These are strategies that seek to make a measurable impact alongside financial return through their investments in companies with small or decreasing carbon footprints, low carbon risk, or the active disuse/divestment of fossil fuels.

**Community Development**

These are strategies that seek to make a measurable impact alongside financial return through their investments in companies with positive records in community development and engagement. These strategies may accomplish this through seeking to positively affect economic development, local institutions, or the availability of resources in target communities.

**Environmental**

These are strategies that intend to invest in companies with a positive environmental record or are specifically involved in industries that positively impact the environment.

**Other Impact Themes**

These are strategies that seek to make a measurable impact alongside financial return through their investments in companies with other specifically stated or general impact themes that do not fall within the other impact categories.

### Environmental Sector Fund

These are strategies that invest in environmentally oriented industries, such as renewable energy or water.

### Renewable Energy

These are strategies that intend to invest in companies involved in the renewable energy sector.

### Water-Focused

These are strategies that intend to invest in companies with clean water practices.

### General Environmental Sector

These are strategies that invest in other environmental industries without a primary focus on renewable energy or water.

### Employs Exclusions

"Employs Exclusions" are strategies that exclude certain sectors, companies, or practices. This indicator is marked if any exclusions are employed by the strategy, even if it is not a "Sustainable Investment" strategy based on the criteria outlined above.

#### Exhibit 2 Employs-Exclusions Framework

Level 1	Employs Exclusions		
Level 2	Norms-Based Screening	Fur & Specialty Leather	Pesticides
	Abortion/Stem Cells	Gambling	Small Arms
Level 2	Adult Entertainment	GMOs	Thermal Coal
	Alcohol	Military Contracting	Tobacco
	Animal Testing	Nuclear	Other
	Controversial Weapons	Palm Oil	

Source: Morningstar.

### Uses Norms-Based Screening

These are strategies that cite international agreements, such as the UN Global Compact or Universal Declaration of Human Rights, as a guideline for investing responsibly. These frequently involve human rights violations, child labor issues, or investments in companies in conflict zones like Syria or Afghanistan.

**Excludes Abortion/Stem Cells**

These are strategies that intend to avoid investments in companies that derive revenue from abortion services, abortifacients, and/or the use of embryonic stem cells. Strategies that exclude human cloning are also included in this data point because of the use of embryonic stem cells and the issue's relationship to life ethics questions. While many strategies employing these exclusions also exclude contraceptives, the exclusion of the latter is reflected in "Excludes Other."

**Excludes Adult Entertainment**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from adult entertainment. Strategies that identify specific exclusions of a subindustry, such as pornography, also receive this tag.

**Excludes Alcohol**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of alcohol.

**Excludes Animal Testing**

These are strategies that intend to avoid investments in companies that engage in animal testing practices.

**Excludes Controversial Weapons**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from controversial military weapons, such as weapons of mass destruction, nuclear weapons, land mines, and cluster munitions. These do not necessarily preclude investments in companies with revenue from conventional military weapons but may include companies that produce materials used in controversial weapons.

**Excludes Fur and Specialty Leather**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of fur and/or specialty leather.

**Excludes Gambling**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from gambling or casinos.

**Excludes GMOs**

These are strategies that intend to avoid investments in companies that are significantly involved in the use of genetically modified organisms.

**Excludes Military Contracting**

These are strategies that intend to avoid investments in military contractors or companies that derive a significant percentage of their revenue from nonconsumer military contracting or operations. Some strategies cite companies that derive a significant amount of revenue from working with military organizations, or defense more generally. This category does not necessarily exclude nonmilitary companies that are involved in materials or components used in controversial weapons.

**Excludes Nuclear**

These are strategies that intend to avoid investments in companies that are significantly involved in the research or production of nuclear energy. This does not reflect exclusions of nuclear weapons, which are instead reflected in "Excludes Controversial Weapons."

**Excludes Palm Oil**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of unsustainable palm oil and its products. This may not require the exclusion of companies that produce, distribute, or sell palm oil that has been shown to be sustainably sourced, including cosmetics and lotions.

**Excludes Pesticides**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of pesticides for environmental or biological concerns.

**Excludes Small Arms**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of personal weapons and small arms. These strategies most frequently exclude firearms but may exclude other personal weapons as well.

**Excludes Thermal Coal**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the extraction, distribution, sale, or use of thermal coal. Investments in companies exposed to metallurgical coal are typically not included in this category.

**Excludes Tobacco**

These are strategies that intend to avoid investments in companies that derive a significant percentage of their revenue from the production, distribution, or sale of tobacco and/or tobacco-related products.

**Excludes Other**

These are strategies that intend to avoid investments in companies that are significantly involved in other products or practices deemed to be contradictory to the strategy's values. Examples include

companies with business operations in countries whose governments pose human rights concerns, or more general language about companies whose products or services are "anti-family" or have "severely negative" impact on customers. ■■