

Creating an ESG-Enhanced Model Portfolio



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Creating an ESG-Enhanced Model Portfolio

This exercise guide shows clients how to use Morningstar DirectSM to find research from Morningstar on the topic of ESG Commitment Level, discover sustainable funds, and analyze the sustainability data for these funds. Learning about this content and capabilities offers a unique and insightful perspective when it comes to reviewing sustainable funds and creating a model portfolio comprised of these investments.

The Morningstar ESG Commitment Level expresses a Morningstar analyst's assessment of how individual strategies and asset managers incorporate ESG factors into their investment processes. It is assigned to both strategies and asset managers following a four-tier scale:

- ► Leader
- Advanced
- ► Basic, and
- ► Low.

The Morningstar ESG Commitment Level is a qualitative assessment, providing rich context, detail, and insights on both asset managers and strategies. The written assessment sheds light on the true practices of the strategies, offering a unique lens from Morningstar on how ESG is incorporated (or not) into the investment approach. Morningstar ESG Commitment Levels are assigned to strategies and asset managers.

For more information on the Morningstar ESG Commitment Level data point, see Exercise 1 on page 5.

This exercise guide covers the following topics:

- ► Finding Low Carbon Fossil Fuel Funds (page 5)
- Investigating Low Carbon Funds (page 9)
- Creating a Model Portfolio (page 17)
- Creating a Presentation Studio Report (page 24)

Overview

Mark works on the Portfolio Management team at XYZ Wealth Advisors. He is creating an ESG model portfolio focusing on low carbon fossil fuel funds, to align with clients stating this as a concern of theirs when investing. The Morningstar Sustainability Rating[™] and Low Carbon Designation[™] are two of the available sustainability measures to calculate how a portfolio is meeting environmental, social, and corporate governance challenges. In addition to the Morningstar Sustainability Rating[™] and Low Carbon Designation[™], Morningstar released a new ESG measure, the Morningstar ESG Commitment Level, to give clients additional insight into a fund's commitment to ESG issues.

The Morningstar ESG Commitment Level, paired with other sustainability metrics, allows Mark to fully assess a fund's commitment and perform his due diligence in selecting sustainable funds for an ESG portfolio.

To find the Morningstar ESG Commitment Level methodology paper, do the following:

- 1. **Login** to Morningstar Direct.
- 2. On the Home page, in the Research Portal widget, click **Launch**. The Research Portal opens in a browser.

Experience the best of Morningstar Direct, featuring new ways to discover our latest

research curated daily for investment professionals. Try it now!

Morningstar Direct Help Search for <u>File N</u>ew Favorites <u>T</u>ools In Securities - Go Home 🗉 Home Welcome, Training 11 | Tuesday, July 27, 2021 Alerts E Filinas Excel Add-In Announcements Help/Definitions Date Headline Morningstar Publica 7/26 Morningstar Direct Release Notes | July 26, 2021 HFR Research E Content Catalog 7/15 Morningstar to Discontinue Cambridge Associates Indexes - Aug. 30, 2021 E Learning Center 7/13 Morningstar Sustainability Rating Enhancement - Nov. 8, 2021 7/13 Morningstar to Revert Naming Convention for Stocks - Jul. 13, 2021 7/12 Morningstar Direct Release Notes | July 12, 2021 More **Explore New Analytics with Notebooks Product Support** Launch Telephone+1 866 22 Morningstar's Latest More Analytics Quickstart for New Users Get ready to leverage Mornings Use this button to access functionality. Check out the Analytics Lab module to explore notebooks containing new analytics with the Research Portal. contextual explanations and research commentary Markets Explore Research Portal within Morningstar Direct 1-Day 1-Mo 3-Mo 1-Y Equity/Credit Research Local Databases A curated view of **Global Databases** Performance Reporting Morningstar Research Asset Allocation Portfolio Management Portfolio Analysis

Overview

Exercise 1: Find the Morningstar ESG Commitment Level methodology paper

Markets

Asset Flow

3. In the **search field**, type **esg commitment**, then select the **Morningstar ESG Commitment Level Methodology** under the Morningstar Research heading. The paper opens.

Home				
	(M RNINGSTAR Direct A		
	Lists & Screens	10 Results: Your Portfolics (0) Securities (0) Morningstar Research (10) Morningstar Topics (0)	🕑 Create	
	Name	Morningstar Research More Results Morningstar ESG Commitment Level Methodology	Last Modified	Clients can include terms in
	Medalist 5 Globe Fund	? Morningstar ESG Commitment Level Methodology Overview Morningstar's manager 11/17/2020 = Jeffrey Ptak = Equity	5/5/2020	the body of an article or in the title and the search
	Medalist Five Globe Fu	The Morningstar ESG Commitment Level		feature will find the
	Test	? The Morningstar ESG Commitment Level Our first assessment of 100-plus strategies and 40 11/17/2020 = Hortense Bioy = Manager		best match.
	ESG Enhancements	The Morningstar ESG Commitment Level, May 2021 ? The Morningstar ESG Commitment Level Our second assessment of 140 strategies and 31 05/12/2021 * Hortense Bioy * Manager		
	Conservative Models \			
	Models Test	Community		
	TROWE ESG Company	View search results on Morningstar Community		

- 4. Read the methodology paper.
 - Note: To easily find this paper for re-reading or sharing with others, click the **Bookmark** icon in the top-right corner of the screen.

This exercise shows clients how to find sustainable funds with a Low Carbon Designation. The Low Carbon Designation is assigned to funds with low carbon-risk scores and low levels of fossil-fuel exposure. Do the following:

Exercise 2: Search for sustainable, low-carbon medalist funds

- 1. Return to Morningstar Direct and select the Workspace module
- 2. Select Search Criteria > My Search Criteria. The My Search Criteria area opens.
- 3. From the toolbar above the grid view, click New > Advanced Search > Funds (Open End and Exchange Traded Funds). The search criteria window opens..

🚺 Morningstar Direct]	
<u>F</u> ile <u>N</u> ew Favorites <u>T</u> o	ols <u>H</u> elp	Search for	In This View 🔹 Go			
Home	My Sea	arch Criteria				
Equity/Credit Research	Action	🔹 New 🔹 🟦 Export 🔹 🕨 PD	F 🧔 Refresh		1	
Local Databases	Г	N Basic Search	Туре	Owner		
Global Databases		Advanced Search 🕨	All Managed Investments			
Performance Reporting	□ 1	US Stable Value Funds	Analysis/News/Report	•	Use this button to	
Asset Allocation	□ 2	2021 Dividend Payers	Bonds		create a new searc	
	□ 3	Analyst Rated Funds and Tenui	Category Average	•		
Portrollo Management	□ 4	Concentrated Funds	Closed-End Fund			
Portfolio Analysis	□ 5	Core and Core Plus Funds College Savings Plans		•		
Markets	□ 6	Corporate Bond ETFs	rate Bond ETFs Economic Series			
Asset Flows	□ 7	Fixed Income Funds	ds Exchange Traded Fund			
Presentation Studio	□ 8	French US Dollar Funds	European Pension/Life Fund Wra	appers		
Advantaged Analysis	□ 9	MoatTrends	Funds (Open End and Exchange			
Advanced Analysis	□ 10	Models	Strategies			
Workspace	□ 11	Multialternative National Intern	HFR Hedge Funds			
📲 Investment Lists	□ 12	Muni Funds	eVestment Hedge Funds			
My Lists	□ 13	Securitized Bond Funds	Market Index			
📲 Search Criteria	□ 14	Small Value Funds	Money Market Fund			
🗉 My Search Criteria			Open-End Fund			
🗎 Report Templates			Ownership-Portfolio			
E Chart Templates			Ownership-Security			
Data Sets			Pension/Life/Insurance	W		

4. This search requires multiple criteria, as shown in the following table:

Rel	(Field Name	Operator	Value)
		Domicile	=	Unites States	
And		Morningstar Analyst Rating	>=	Bronze	
And		Oldest Share Class	=	Yes	
And		Morningstar Sustainability Rating™	>=	Above Average	
And		Low Carbon Designation ^{TM}	=	Yes	

☞ Note: Domicile, Oldest Share Class, and Morningstar Analyst Rating are found in the Snapshot view. Morningstar Sustainability Rating[™] is found in the Sustainability: ESG Risk (Fund) view and Low Carbon Designation[™] is found in the Sustainability: Carbon Risk (Fund) view.

B)pen	-Inse	ert 🗙 Delete 🖆 Clear All 👔 Export 🕶 🕨 PDF	Save As	Feedback	
	Rel	(Field Name	Operator	Value)
] 1			Domicile	-	United States	-
2	And		Morningstar Analyst Rating	>=	Bronze	
3	And		Oldest Share Class	=	Yes	
4	And		Morningstar Sustainability Rating™	>=	Above Average	
5	And		Low Carbon Designation™	=	Yes	
6		_				
7						
8						
9						
10						~
View	Field Na	me:	Include: It	ems Searched:	Items Found: Bun Search	
• Ву	Categor	у	✓ Only Surviving Investments 0			
OAL	habetica	ally	User Defined Primary Class Only			

- 5. Click **Run Search**. The number of Items Found is shown.
- 6. From the toolbar at the top of the window, click **Save As**, then name the search **Low Carbon Sustainable Funds**.
- 7. Click **OK** to close the Save As window.
- 8. Click **OK** to close the Search Criteria window and view the search results.

Investigating Low Carbon Funds

The previous exercise showed clients how to find low-carbon funds. The next step is to investigate the Sustainability data for these funds, to see in the following exercises:

- Curate a set of sustainability data points on page 9
- Sort the data set by two data points on page 12
- ► Analyze company-level Sustainability and Low Carbon data on page 14

Morningstar provides dozens of default data sets with curated data points. These data sets are helpful for investigating investments, but clients can also leverage the data available to them by creating their own custom data sets. This exercise shows clients how to investigate the funds they found by creating a custom data set. To create a custom data set, do the following:

Exercise 3: Curate a set of sustainability data points

Use this icen to create a custom data set

1. From the toolbar, click Edit Data. The Select Data Points window opens.

			036 11			10 301.	
Morningstar Direct							
<u>F</u> ile <u>N</u> ew Favorites <u>T</u> o	ools <u>H</u> el	Search for	In This View	•	Go		
Home	My Lis	sts Untitled Investm	ient List			_	
Equity/Credit Research	Actio	on • 🐟 🔺 🖌 View	Snapshot	•	🔚 Save 🛨 Add	📑 Edit Da	ita 🐙 Sort
Local Databases	Г	Name		Base		Ticker	ISIN
Global Databases					mency		
Performance Reporting	□ 1	AB Concentrated Growth Advisor		US	Dollar	WPSGX	US01878T
Asset Allocation	2	Aberdeen Emerging Markets Instl		US	Dollar	ABEMX	US003021
Deatfalls Management	□ 3	Akre Focus Instl			Dollar	AKRIX	US742935
Portrollo Management	□ 4	Amana Growth Investor		US Dollar		AMAGX	US022865
Portfolio Analysis	5	American Funds New W	orld A	US	Dollar	NEWFX	US649280
Markets	□ 6	Artisan Developing Wor	rld Institutional	US	Dollar	APHYX	US04314H
Asset Flows		Artisan Global Opportu	nities Inv	US	Dollar	ARTRX	US04314H

2. From the Selected Data Points section, click **Remove All**. Every data point except Name is removed.

3. Add the following data points:

☞ Note: Select the correct view to find each data point.

View	Data Point
Snapshot	Ticker
Snapshot	Global Category
Snapshot	Morningstar Category
Snapshot	Morningstar Analyst Rating
Sustainability: ESG Risk (Fund)	Morningstar Sustainability Rating
Sustainability: Carbon Risk (Fund)	Low Carbon Designation
Sustainability: Carbon Risk (Fund)	12 Month Average Carbon Risk Score
Sustainability: Carbon Risk (Fund)	12 Month Average Fossil Fuel Exposure
Intentional Attributes: Sustainable Investment	Sustainable Investment - Overall
Morningstar Ratings and Grades	Morningstar ESG Commitment Level Strategy Assessment
Morningstar Ratings and Grades	Morningstar ESG Commitment Level Strategy Assessment Analyst
Morningstar Ratings and Grades	Morningstar ESG Commitment Level Asset Manager Assessment
Morningstar Ratings and Grades	Morningstar ESG Commitment Level Asset Manager Assessment Analyst
Proxy Data: Shareholder Resolutions (Fund)	% Support - Climate Change
Proxy Data: Shareholder Resolutions (Fund)	% Support - Environment
Proxy Data: Shareholder Resolutions (Fund)	% Against - Climate Change
Proxy Data: Shareholder Resolutions (Fund)	% Against - Environment
Proxy Data: Shareholder Resolutions (Fund)	Votes Counted - Climate Change
Proxy Data: Shareholder Resolutions (Fund)	Votes Counted - Environment

4. Click Save.

Select Data Points Choose a Universe, name. To change th Available Data Lists	then locate data po e general or calcula	nts by sel ion setting	ecting an exi gs of a select	sting view, ed point, us	or searching se the Setting	by Is button.	
Available Data Lists							
Universe	Funds (Open End ar	nd Exchange	Traded Funds))	~		
Find Data Point By	 View 	() Name contair	ning			
	Proxy Data: Shareh	older Resolu	itions (Fund)		~		
Available Data Point	ts						
Total Data Points: 66							
% Abstained - Other G % Abstained - Shareho % Abstained - Shareho % Abstained - Strategy Votes Counted - Climat Votes Counted - ENG G Votes Counted - ESG G Votes Counted - Humar	ov Ider Rights Ider Meetings and Proxy //Business e Change nment overnance Arrangement n and Workers' Rights	v Process			~		
			Add	Add	All		
Selected Data Points Total Data Points: 20	5					8	
Name					^	*	
Global Category						^	
Morningstar Category Morningstar Analyst Ra Morningstar Sustainabil	iting ity Rating™					~	
Low Carbon Designation	n™ Dop Dick Score					*	0 "
12 HOHULAVELOUE Call	sil Fuel Exposure				~		Unce all data points are
12 Month Average Fos	an acrexposare						
12 Month Average Fos	Settings	Re	emove	Remo	ve All		selected, use th button to save the data set.

- 5. Name the data set Low Carbon Fossil Fuel, then click OK.
- 6. Click **OK** to close the Select Data Points window.

The Sort button in Morningstar Direct allows clients to sort by up to two data points. This exercise shows clients how to sort by Primary Rank and Secondary Rank data points, to better analyze the data showing in the grid.

Exercise 4: Sort the data set by two data points

1

To sort data in the grid, do the following:

1. From the toolbar, click **Sort**. The Sort window opens.

Morningstar Direct					
<u>F</u> ile <u>N</u> ew Favorites <u>T</u> oo	ols <u>H</u> elp	Search for In This View	▼ Go		
Home	My Sea	arch Criteria Low Carbon Sustainable Fund	ds		
Equity/Credit Research	Actio	n 🕶 View Low Carbon Fossil Fuel 🔹 🗧 Save	Save As	🎸 Search 📭 Edit Data 🛛 🐙 So	rt 🔍 Loca
Local Databases	Г	Name	Ticker	Global	Mornings
Global Databases				Category	
Performance Reporting	□ 1	AB Concentrated Growth Advisor	WPSGX	US Equity Large Cap Growt	US Fund
Asset Allocation	□ 2	Aberdeen Emerging Markets Instl	ABEMX	Global Emerging Markets E	US Fund I
Portfolio Management	□ 3	Akre Focus Instl	AKRIX	US Equity Large Cap Growt	US Fund I
Portiono Management	□ 4	Amana Growth Investor	AMAGX	US Equity Large Cap Growt	US Fund I
Portfolio Analysis	□ 5	American Funds New World A	NEWFX	Global Emerging Markets E	US Fund I
Markets	□ 6	Artisan Developing World Institutional	APHYX	Global Emerging Markets E	US Fund I
Asset Flows	□ 7	Artisan Global Opportunities Inv	ARTRX	Global Equity Large Cap	US Fund
Presentation Studio	□ 8	Artisan International Investor	ARTIX	Global Equity Large Cap	US Fund I
	₽ 🗆	Artisan International Value Investor	ARTKX	Global Equity Large Cap	US Fund I
Advanced Analysis	□ 10	Artisan Mid Cap Investor	ARTMX	US Equity Mid Cap	US Fund
Workspace	□ 11	Baird MidCap Inst	BMDIX	US Equity Mid Cap	US Fund I
- Investment Lists	□ 12	Baron Asset Retail	BARAX	US Equity Mid Cap	US Fund
My Lists	□ 13	BlackRock Advantage ESG US Eq Instl Shrs	BIRIX	US Equity Large Cap Blend	US Fund
📲 Search Criteria	□ 14	BlackRock Advantage Large Cap Gr Inv A	BMCAX	US Equity Large Cap Growt	US Fund
🔟 My Search Criteria	□ 15	BlackRock Capital Appreciation K	BFGBX	US Equity Large Cap Growt	US Fund I

- 2. From the **Primary Rank** drop-down field, select **Morningstar ESG Commitment Level Strategy Assessment**.
- 3. From the Primary Rank section, select the option for Descending.
- 4. From the Secondary Rank drop-down field, select Sustainable Investment Overall.
- 5. From the Secondary Rank section, select the option for Descending.

Morningstar Di	irect – 🗆 X	
Set Display Rank		
Primary Rank	Morningstar ESG Commitment Level Strat 🗸	Note the options
	O Ascending	selected in this dialog box.
Secondary Rank	Sustainable Investment - Overall 🛛 🗙 💌	
	O Ascending • Descending	
	OK Cancel Help	

- 6. Click **OK**. to close the Sort dialog box. The grid view refreshes.
- 7. Click **Save** to make the sort order part of the custom view.
- 8. Answer the following questions:

How many funds receiving a Leader or Advanced ESG Commitment Level Strategy Assessment are also intentionally sustainable?	
From the funds you noted above, did any vote against Climate Change or Environment shareholder resolutions?	
If you replied "yes" to the previous question, how many votes were counted for those issues?	

Thus far, you have identified funds scoring well when considering sustainability, low carbon exposure, and expected performance, and constructed a custom data set to better analyze their ESG Commitment Level and proxy voting activity. While these funds may have a strong Morningstar Sustainability Rating and Low Carbon Designation, as well as a demonstrated commitment to ESG issues, it does not mean their portfolios contain only stocks scoring well from a Sustainability or Low Carbon perspective.

In this exercise, clients will analyze the company-level ESG data for a fund. To analyze company-level Sustainability and Carbon data, do the following:

 Identify a fund from the last exercise designated as a Leader on the ESG Commitment Level data point, then right-click on its row and select View Holdings > Detailed Holding Analysis. The Detailed Holding Analysis window opens. Exercise 5: Analyze company-level Sustainability and Low Carbon data

Select this option from the right-click menu for a fund.
--

<u>File New Favorites To</u>	ois <u>H</u> elp	Search for In This View	▼ Go					
Home	My Sea	arch Criteria 🔷 Low Carbon Sustainable F	unds				_	
Equity/Credit Research	Action	n 🕶 View Low Carbon Fossil Fuel 🔹 🖷 Sa	ve 🐂 Save As	🍟 Search 📑 Edi	t Data	🐙 Sort	🔍 Locate 🛛 🟦	Export - 🔊 PDF
Local Databases	Г	Name	Low	12 Month	12 Mc	onth Ro Forcil	Sustainable	Morningstar
Global Databases			Designat	i Risk Score	Fuel E	xposure	Overall	Commitment
Performance Reporting	Γ1	Parnassus Mid Cap Growth Investor	View Vehicle	_		0.00	Yes	Leader
Asset Allocation	□ 2	Parnassus Core Equity Investor	view venicie	5 - 54651 - 11 - 11 P		1.39	Yes	Leader
Deutfelie Menseement	□ 3	Parnassus Mid-Cap	View Accourt	its with Holding		6.20	Yes	Leader
Portiono Management	□ 4	Pax Global Opportunities Institutional	New Iransad	tion		0.00	Yes	Leader
Portfolio Analysis	□ 5	iShares MSCI USA ESG Select ETF	View Transac	tions		4.98	Yes	Advanced
Markets	□ 6	Brown Advisory Sustainable Growth I	View Prices			0.00	Yes	Advanced
Asset Flows	□ 7	BlackRock Advantage ESG US Eq Instl Shrs	Edit Security			4.88	Yes	Advanced
Presentation Studio	□ 8	iShares ESG MSCI USA Leaders ETF	Reports		>	3.93	Yes	Advanced
A designed Assolution	□ 9	iShares MSCI KLD 400 Social ETF	Interactive C	harts	>	3.65	Yes	Advanced
Advanced Analysis	□ 10	Xtrackers MSCI USA ESG Leaders Eq ETF	Risk Model		>	3.94	Yes	Advanced
Workspace	□ 11	Vanguard Global ESG Select Stk Admiral	Precentation	Studio Charte	>	4.33	Yes	Advanced
📲 Investment Lists	□ 12	TIAA-CREF Social Choice Eq Instl	Dremaiuma (Di	scount	1	5.61	Yes	Advanced
My Lists	□ 13	Vanguard FTSE Social Index I	Premium/Di	scount				
📲 Search Criteria	□ 14	Fidelity® U.S. Sustainability Index	View Holdin	gs	>	lop	len Holding Anal	ysis
My Search Criteria	□ 15	iShares ESG Aware MSCI USA ETF	View Owner		>	Deta	iled Holding Ana	lysis
E Report Templates	□ 16	Vanguard ESG US Stock ETF	View Fundco	de Info		Histo	orical Holding An	alysis
Chart Templates	□ 17	Calvert International Responsible Idx I	View Histori	al Instruments		Peer	Holding Analysis	
Data Sets	E 10	ure wide over consult a	Men I Falad	I Deviews		0.70	AL.	Denie

2. From the View drop-down field, select Sustainability: ESG Risk (Company).

M	orningstar Direct						
<u>F</u> ile	<u>N</u> ew Favorites <u>H</u> elp	Search for	In This	View •	Go		
Black	Rock Advantage ESG U						
Actio	on - View Portfolio	 Snapshot 		📀 6/30/2021 F E	dit Data	Cocate	Export
	Name	My Data Set Snapshot Stable Value Fun	nd Data		CUSIP	Po We	rtfolio aighting %
1	Apple Inc	Sustainability: Es	SG Risk (Compa arbon Risk (Con	ny) npany)	0378331	00	4.43
2	Microsoft Corp	Sustainability: C	arbon Involvem	ent (Company)	5949181	04	4.01
3	Amazon.com Inc	Sustainability: Pr	ustainable Produ	icts (Company)	0231351	06	2.70
- 4	Alphabet Inc Class A	HFR Funds			02079K3	05	2.65
5	Tesla Inc		TSLA	US88160R1014	88160R1	01	1.75
6	The Home Depot Inc		HD	US4370761029	4370761	02	1.73
7	Alphabet Inc Class C		GOOG	US02079K1079	02079K1	07	1.71

3. Find the ESG Risk Rating Assessment column, then sort in ascending order.

- ☞ Note: Maximize the window to make it easier to read.
- 4. **Answer** the following questions:

Which holdings received a one-globe ESG Risk Rating?	
Scroll to the right to view the Notable Material ESG Issues. What are the most common issues for these holdings?	

- 5. From the View drop-down field, select Sustainability: Carbon Risk (Company).
- 6. Sort the **Carbon Overall Risk Score** column and sort it in descending order.

		Be s the o	ure to select the correct column ir	correct view an h the right direc	nd sort tion.		
Mor	ningstar Direct						
<u>F</u> ile	New Favorites Help Search for	In This View	• Go				
BlackR	ock Advantage ESG US Eq Ins						
Actio	on • View Portfolio • Sustainability: Car	rbon Risk 🝷 🔗 6/30/20	21 F Edit Data	🔍 Locate 👖	Export -	PD	F 🧔 Refresh
Γ	Name	Detail Holding Type	e SecId	Portfolio Weighting %	Carbon Overall R Score	isk 🔻	Carbon Overall Risk Classification
□ 1	EQT Corp	EQUITY	0P00000206	0.04		49.66	High Risk
□ 2	Chevron Corp	EQUITY	0P00000185	0.31		48.59	High Risk
□ 3	ConocoPhillips	EQUITY	0P000001GE	0.21		43.26	High Risk
□ 4	Phillips 66	EQUITY	0P0000VW84	0.04		42.34	High Risk
5	Hess Corp	EQUITY	0P000000BN	0.96		41.43	High Risk
F 6	Woodward Inc	EQUITY	0P000005ZK	0.67		32.45	High Risk
□ 7	Teledyne Technologies Inc	EQUITY	0P000005CT	0.04		32.40	High Risk
□ 8	Mercury Systems Inc	EQUITY	0P000003KG	0.00		32.29	High Risk
F 9	Caterpillar Inc	EQUITY	0P0000014I	0.42		31.96	High Risk
□ 10	Spirit AeroSystems Holdings Inc Class A	EQUITY	0P00006TTA	0.01		30.56	High Risk
□ 11	Curtiss-Wright Corp	EQUITY	0P000001KX	0.01		29.45	Medium Risk
□ 12	Heico Corp	EQUITY	0P000002N5	0.01		28.71	Medium Risk
□ 13	Heico Corp Class A	EQUITY	0P00000682	0.02		28.71	Medium Risk
□ 14	ChampionX Corp	EQUITY	0P0001D6J1	0.02		28.69	Medium Risk

7. Answer the following questions:

Which holdings received a Carbon Overall Risk Classification of High Risk?	
What is the total portfolio weight of these holdings?	

8. **Close** the Detailed Holding Analysis window.

Creating a Model Portfolio

Manually creating a model portfolio in Morningstar Direct involves the following basic process:

- 1. Determine how frequently the model should be rebalanced (if ever)
- 2. Select investments for the model portfolio
- 3. Assign weights to the holdings, and
- 4. Save the model portfolio.

In this section, clients will use the custom data set created in Exercise 3 on page 9 to select 10 funds to save to an investment list, then create a model portfolio in the following exercises:

- ► Sort the custom data set by Morningstar Category and Morningstar Sustainability RatingTM on page 17
- Save select funds to a list on page 18
- Create a model portfolio on page 19

This exercise shows clients how to sort the data in the grid view by the Morningstar Category and Morningstar Sustainability Rating data points. This will make it easy to both select a diverse set of funds for the model portfolio, and filter the funds with the best Morningstar Sustainability Rating to the top of each category grouping. To sort the data set, do the following:

Exercise 6: Sort the custom data set by Morningstar Category and Morningstar Sustainability Rating[™]

Overview

- 1. From the toolbar, click **Sort**. The Sort window opens.
- 2. From the Primary Rank drop-down, select Morningstar Category.
- 3. From the Secondary Rank drop-down, select Morningstar Sustainability Rating[™].
- 4. From the Secondary Rank section, select Descending.

Morningstar D	irect – 🗆 X	
Set Display Rank		
Primary Rank	Morningstar Category	Note the options
	Ascending O Descending	selected for Display Rank.
Secondary Rank	Morningstar Sustainability Rating™ 💽	
	O Ascending	
	OK Cancel Help	

5. Click **OK**. The grid view updates.

This exercise shows clients how to save funds to an investment list. The investment list will in turn be used to create a model portfolio. Therefore, the list should be diverse and contain funds from different Morningstar categories.

Exercise 7: Save select funds to a list

To save funds to a list, do the following:

- 1. **Scroll** through the list of funds and select **10 funds** with a five-globe Morningstar Sustainability Rating. Each fund should be from a unique Morningstar Category.
 - Note: If multiple funds in a category match this requirement, use the other data columns present to help guide your choice.

Actio	🔹 View ESG Model Portfolio 🔹 🔚 Save	Save As	🎸 Search 🖷 Edit Data 🛛 🐙 Sort	🔍 Locate 🛛 🟦 Expo	rt 🕶 🚺 PDF		
	Name	Ticker	Morningstar Category	 Morningstar Analyst Rating 	Morningstar Sustainability Rating™	Low Carbon Designation™	
64	Principal Blue Chip Institutional	PBCKX	US Fund Large Growth	C Silver	@@@@	Ø	
65	Vanguard Mega Cap Growth ETF	MGK	US Fund Large Growth	C Silver	0000	0	
66	ClearBridge Large Cap Growth A	SBLGX	US Fund Large Growth	C Bronze	0000	9	
67	AB Concentrated Growth Advisor	WPSGX	US Fund Large Growth	C Bronze	0000	0	
68	BlackRock Capital Appreciation K	BFGBX	US Fund Large Growth	C Silver	0000	9	
69	Laudus US Large Cap Growth	LGILX	US Fund Large Growth	C Silver	0000	Ø	
70	JHancock US Global Leaders Growth A	USGLX	US Fund Large Growth	C Bronze	0000	Ø	
71	BlackRock Advantage Large Cap Gr Inv A	BMCAX	US Fund Large Growth	🖾 Bronze	0000	9	
72	MFS Massachusetts Inv Gr Stk A	MIGFX	US Fund Large Growth	🖾 Silver	0000	Ø	
73	Vanguard Growth Index Investor	VIGRX	US Fund Large Growth	😳 Silver	0000	Ø	
74	MFS Growth B	MEGBX	US Fund Large Growth	😳 Bronze	0000	Ø	
75	Parnassus Core Equity Investor	PRBLX	US Fund Large Blend	👽 Silver	00000	ø	
76	iShares MSCI KLD 400 Social ETF	DSI	US Fund Large Blend	😳 Bronze		Ø	Check the box nex
77	Fidelity® U.S. Sustainability Index	FITLX	US Fund Large Blend	😳 Silver	00000	Ø	to a fund to select
78	iShares ESG MSCI USA Leaders ETF	SUSL	US Fund Large Blend	Silver 😳	00000	Ø	
79	Xtrackers MSCI USA ESG Leaders Eq ETF	USSG	US Fund Large Blend	😳 Bronze		ø	
80	Neuberger Berman Sustainable Eq Investor	NBSRX	US Fund Large Blend	😳 Bronze	00000	Ø	
81	iShares MSCI USA ESG Select ETF	SUSA	US Fund Large Blend	😳 Bronze	00000	ø	
82	Goldman Sachs ActiveBeta® US LgCp Eq ETF	GSLC	US Fund Large Blend	Silver 😳	0000	Ø	
83	BNY Mellon Appreciation Investor	DGAGX	US Fund Large Blend	😳 Bronze		ø	
84	Vanguard ESG US Stock ETF	ESGV	US Fund Large Blend	Silver 😳		ø	
85	Invesco S&P 500® Quality ETF	SPHQ	US Fund Large Blend	🖾 Silver		ø	
		<					

2. From the toolbar, click Action > Save As > Investment List. The Save As window opens.

A	ction - View ESG Model Portfol	io	- 📻 Save	Save As	🎸 Search 📑 Edit Data 🛛 🐙 Sort	
Г	Save As	•	Investment Lis	st	Morningstar Category	Click Investment List.
	Add To	×	Performance F	Report		
	Settings	•]				
	Reports	- F				
Г	Interactive Charts	•	al	PBCKX	US Fund Large Growth	
-	Risk Model	- F	TF	MGK	US Fund Large Growth	
-	Presentation Studio Charts	•	h A	SBLGX	US Fund Large Growth	
-	View Holdings	•	sor	WPSGX	US Fund Large Growth	
	View Owners	•	n K	BFGBX	US Fund Large Growth	
	Average Detail Report			LGILX	US Fund Large Growth	
	Stock Intersection		Growth A	USGLX	US Fund Large Growth	
	X-Ray		ap Gr Inv A	BMCAX	US Fund Large Growth	
	Filing		A	MIGFX	US Fund Large Growth	
-	Documents		stor	VIGRX	US Fund Large Growth	
-	UK Closed End Fund News			MEGBX	US Fund Large Growth	
7	75 Parnassus Core Equity In	vest	or	PRBLX	US Fund Large Blend	

3. Name the list ESG Model Portfolio Funds, then click OK.

☞ Note: When prompted to save your changes, click **No**.

Now that the funds have been selected, the next step is to create a model portfolio. To create a model portfolio, do the following:

Exercise 8: Create a model portfolio

- 1. Select the **Portfolio Management** module, then select the **Model Portfolios** page. The Model Portfolios page opens.
- 2. From the toolbar, click **New**. The Model Portfolio Basics window opens.

[Morningstar Direct						
<u>F</u> ile <u>N</u> ew Favorites <u>T</u> o	ols <u>H</u> elp	Search for	In This View	▪ Go		
Home	Model	Portfolios				
Equity/Credit Research	Action	n 🔹 🖬 New 🛃 Import 📰 View	/ Import Job Results	🟦 Export 🕶	PDF	
Local Databases	Γ	Name		Owner		Click this icon on the Model Portfolios page.
Global Databases						1.0
Performance Reporting		Alternate		Chelsea Be	eckford	
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Portfolio Management	Γ3	ESG Low Carbon Model Portfo	olio	Chelsea Be	eckford	
Fortiono Management	4	Model2		Chelsea Be	eckford	
Custom Strategies	5	Model3		Chelsea Be	eckford	
Model Portfolios	F 6	Moderate Model Portfolio Test		Chelsea Be	eckford	
Custom Benchmarks	□ 7	TEST		Chelsea Be	eckford	
Accounts	□ 8	Test2		Chelsea Be	eckford	
III Account Groups III Securities Invested IIII Saved Reports						

- 3. Name the Model Portfolio ESG Low Carbon Model Portfolio.
- 4. Scroll down to the Performance calculation start date field and select Earliest Common.

Morningstar Direct		2		х	
Model Portfolio Basics					
Enter general model por	tfolio information here.				
Risk free proxy	USTREAS T-Bill Auction Ave 3 Mon	٩	~		
Portfolio ID			-		
Performance source	Calculated based on underlying positions	~			
Management fee effective period	Entire period Custom pe	riod			
Management fee %					
Fee applied*	Annually	•			
Performance series	Daily	~			
Rebalancing frequency	Monthly	~			Be sure to select the
Rebalancing based on	Calendar Period End	-			concer option nom this held
Performance calculation start date	Earliest Common	~			
Attached policy	None	~			
Use Gross Return					
Notes					
		0			
			~		
*The fee that is defined	under Management foe 9/ is applied evenly	+-			
	Save Cancel Hel	p			
		174			

5. Click Save. The Holdings Entry window opens.

6. From the toolbar, click **Add**. The Add Holdings window opens.

he tabs to er	nter holdings for	a model po	ortfolio. The default entr	y method is percentage. Assigr	n weights to the mem	bers of your model p	ortfolio by typing values i	into the percent colur	nn. You can	
e to enter b	y Shares or by A	mount from	n the Enter By Action m	enu.						
on as of	6/30/2021 🔲 י	•								
Ste	ock/Fund		Fixed Income	Cash						_
Action -	Enter By -	+ Add	🕸 Refresh Price	Edit Definition Master		USD Equiv	. Total Amount: 10,	000.0C Total Wei	ght: 100.00	Click
	Symbol	ľ	Name		Inception Date	Percent (%)	Number of Shares	USD Equivalent Amount	Amount Currency	CIICK
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- 7. From the Within options, select the option for My Lists.
- 8. From the drop-down field, select ESG Model Portfolio Funds.
- 9. Click **Go**.
- 10. From the Available Records section, click Add All.

🕌 Add Holdings				×	
Within	OUniverses	My Lists	O My Searches		
	ESG Model Portf	olio Funds	~		
Find By	Name	✓ ● Begins with	O Contains		
		Include Only S	Surviving Investments		
				Go	
Available Records	1				
Total records: 10					
Jump to record nam	e:				
Akre Focus Instl (U	SD,XNAS,AKRIX,Port-	Perf,RepPerf)	^		
Fidelity® Low-Price	d Stock K6 (USD,XN/	AS,FLKSX,Port+Perf,Re	oPerf)		
iShares MSCI USA N	Multifactor ETF (USD,	ARCX,LRGF,Port+Perf,R	epPerf)		
JOHCM Internationa	al Select Institutional	(USD, XNAS, JOHIX, Port	t+Perf,RepPerf)		
Oakmark Internation	nal Small Cap Investo	or (USD,XNAS,OAKEX,P	ort+Perf,RepPerf Y		
<			>		
		Add	Add All		Note the highlighted sections.
Selected Records					
Total records: 10					
Parnassus Mid Cap	Growth Investor (USI	D,XNAS,PARNX,Port+Pe	erf,RepPerf) ^	*	
Parnassus Mid-Cap	(USD,XNAS,PARMX,P	ort+Perf,RepPerf)		~	
Pax Global Opportur	nities Institutional (U	SD,XNAS,PXGOX,Port+I	Perf,RepPerf)	~	
Vanguard Global ES	G Select Stk Admiral	(USD,XNAS,VESGX,Por	t+Perf,RepPerf)	~	
<			>	*	
		Remove	Remove All		
Uala			01	Canaal	
нер			UK	Cancel	

11. Click **OK**. The funds are added to the Holdings Entry window.

12. Click **Equal Weight**. The weight for each fund updates to 10%.

ne tabs to er se to enter b	nter holdings for a mod y Shares or by Amoun	el portfolio. The default entry method is percentag from the Enter By Action menu.	e. Assign weights to the mem	bers of your model p	ortfolio by typing values i	into the percent colur	nn. You can	
on as of 🕞	6/30/2021 🔲 🔻							
Str	nek/Eund	Fixed Income	Cash					
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	Symbol	Name	Inception Date	Percent (1/4)	Number of Shares	USD Equivalent Amount	Amount Currency	
1 1	AKRIX	Akre Focus Instl	8/31/2009	10.00	15.91	1,000.00	1,0 ^	
2	FLKSX	Contract Con	5/26/2017	10.00	64.39	1,000.00	1,0	
3	LRGF	🔍 iShares MSCI USA Multifactor ETF	4/28/2015	10.00	23.35	1,000.00	1,0	
4	JOHIX	JOHCM International Select Institutional	7/29/2009	10.00	31.75	1,000.00	1,0	
5	OAKEX	Cakmark International Small Cap Investor	11/1/1995	10.00	49.29	1,000.00	1,0	
6	PRBLX	Parnassus Core Equity Investor	8/31/1992	10.00	16.23	1,000.00	1,0	
7	PARNX	Ramassus Mid Cap Growth Investor	12/27/1984	10.00	15.12	1,000.00	1,0	
8	PARMX	🔍 Parnassus Mid-Cap	4/29/2005	10.00	22.45	1,000.00	1,0	
9	PXGOX	Rax Global Opportunities Institutional	6/27/2018	10.00	62.70	1,000.00	1,0	
10	VESGX	🔍 Vanguard Global ESG Select Stk Admiral	6/5/2019	10.00	26.66	1,000.00	1,0	
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13. Click Finish. The model portfolio window opens, which you can close.

Creating a Presentation Studio Report

Now that a low carbon fossil fuel model portfolio has been created, the final step is to create a report using Presentation Studio. This work is covered in the exercise, Create a Presentation Studio report on page 24.

Clients can create a Sustainability report for a model portfolio in Presentation Studio by using a Morningstar factsheet template specifically designed for this purpose. To create the report, do the following:

- 1. Select the Presentation Studio module. Presentation Studio opens in a new window.
- 2. Click Morningstar Templates.
- 3. Expand the Factsheets section.
- 4. Scroll down and double-click the Sustainability Factsheet (Custom Portfolio) template. The Investments: Settings window opens.

Overview

Exercise 9: Create a Presentation Studio report

	Be sure to select this Factsheet t	emplate from Mornings	star.	
Presentation Studio				en inferins en inferins
	M RNINGSTAR Pre	esentation St	udio	
Workbook +	Factsheet + Plan Re	view +	€) tion +	Batch Management
Morningstar Templates My Templates My Reports		^		
Name	🔺 Туре	Layout	Version	Date Created
Single Manager Auribution 4	rausneer remplate		J.11	12/10/2011
Stable Value Fund - Fund Profile 1 New	Factsheet Template	Landscape	3.20.4	1/23/2021
Stable Value Fund - Fund Profile 2 New	Factsheet Template	Landscape	3.20.4	1/23/2021
Stock Analysis	Factsheet Template	Portrait	3.19.5	5/18/2016
	Factsheet Template	Portrait	3.20.4	5/18/2020
Sustainability Factsheet New	radiandet remplate			
Sustainability Factsheet New Sustainability Factsheet (Custom Portfolio) New	Factsheet Template	Portrait	3.20.6	9/2/2020

5. Click the **magnifying glass** icon next to the Name field. The Find Investment dialog box opens.

		Investments: Settings		x	
Name	Inception Date Category	Show Display Name	Calculation Benchmark 1	Calculation Benchmark 2	
Display Benchmarks	٩	\checkmark	Display Benchmark 1 👻 🔍	Display Benchmark 2 👻 🦉	Use this icon to fir
Morningstar Category Ir	n ~ 🔍	✓	Display Benchmark 1 💉 🔍	Display Benchmark 2 🗸 🧯	and select a model
MPT Index	~ Q		Display Benchmark 1 💉 🔍	Display Benchmark 2 🗸 🧯	portfolio for the ter
Category Average	a		Dista Das das data da	Dista Distant of a state	
<	5	V	Display Benchmark 1	>	
				OK Cancel	

- 6. From the Within drop-down field, select Model Portfolios.
- 7. Click Go.
- 8. From the Available Records section, click ESG Low Carbon Model Portfolio

Find Investment				\times	
Within	Universes	O My Lists	O My Searches		
	Model Portfolios			\sim	
Find By	Name ~	Begins with Include Only	Contains Surviving Investment	s	
Available Reco	rds		Go		
Total records: 8 Jump to record r	name:				
Alternate Class					
ESG Low Carbor	n Model Portfolio				Select this model portfolio
Model2					
Model3	Portfolio Tost				
TEST	Portiono Test				
Test2					
Help		C	OK Cancel		

9. Click **OK**. The model portfolio is added to the Investment Settings window.

10. Click **OK**. The factsheet opens in a new window.

		Investments: Settings		x	E .
Name	Inception Date Category	Show Display Name	Calculation Benchmark 1	Calculation Benchmark 2	
ESG Low Carbon Model Portfo	6/30/2021	ESG Low Carbon Model Port	Display Benchmark 1 💉 🔍	Display Benchmark 2 Y	
Display Benchmarks					
Morningstar Category In 👻 🔍		✓	Display Benchmark 1 🛛 🔍	Display Benchmark 2 🛛 🖌	
MPT Index 🗸 🔍			Display Benchmark 1 💉 🔍	Display Benchmark 2 🗸 🧯	
Category Average					
<			Display Benchmark 1 💉 🔍	Display Benchmark 2 Y	Click UK after selecting the port
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11. If all cells do not immediately populate with data, from the toolbar, click **Calculate** > **Workbook**.

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- 12. From the Header on page 1, click the **Insert Logo** cell.
- 13. From the toolbar, click **Image** > **Insert Image**. The Open dialog box opens.

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14. Select your **firm's logo**, then click **Open**.

Su	stainability Repo	rt: ESG Low Carbon Model Po	rtfolio MORNINGSTAR Note the log
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How	do I read this page?		
As su makin expos	stainable investing becomes increasi 1g. This report allows you to quickly a ure to carbon emissions and controv	ngly mainstream, understanding environmental, social, and ssess whether the holdings in your portfolio are exposed to ersial product involvement areas.	povemance (ESG) factors has become fundamental to investment decision- material ESG factors, evaluate ESG risk, and understand your portfolio's

15. To save this change as part of the template (which could be used for any model portfolio or account in the future), from the top-left corner of the window, click the **Settings icon**, then select **Save As Template**.

ĸ.	Home	Chart	Da	ata Tabl	е	Forma	t	
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- 16. Name the template My Sustainability Factsheet (Custom Portfolio), then click Save.
- 17. Click the **Settings icon** on the top left and click **Save**. This command allows you to save the template as a report for this specific model portfolio.



18. Name the report ESG Low Carbon Model Portfolio, then click Save.