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# Sustainable Funds U.S. Landscape Report

## Record flows and strong fund performance in 2019.

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### Morningstar Research

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### Introduction

After having steadily gained prominence over the past decade, sustainable investing appears to be reaching a tipping point. For evidence, one need look no further than the nearly fourfold increase in assets that flowed into sustainable funds in the United States in 2019.

Asset managers and public companies started off 2020 by issuing significant commitments to sustainability. BlackRock BLK, the world's largest asset manager, announced that sustainability would be its "new standard" for investing and urged corporate CEOs to recognize that "climate change has become a defining factor" in their companies' long-term prospects.<sup>1</sup>

State Street Global Advisors, the third largest asset manager, contacted corporate boards, writing "ESG is no longer an option for long-term strategy," and warned that SSGA would use its proxy voting power to "ensure companies are identifying material ESG issues and incorporating the implications into their long-term strategy."<sup>2</sup>

More announcements followed: Goldman Sachs GS said it was targeting \$750 billion in sustainable investments during this decade; Microsoft MSFT announced it would become 100% carbon-negative by 2030, remove its historical carbon emissions by 2050, and launch a \$1 billion climate innovation fund; Starbucks SBUX committed to become resource-positive in terms of carbon emissions, eliminating waste, and water usage.<sup>3</sup>

These moves reflect two overarching issues that have gradually come to the fore. The first is climate change, and the second is the growing critique of the shareholder-primacy view of the corporation. Now, rather suddenly, we seem to have reached a tipping point on both issues. More people and more investors are realizing that global warming is a crisis bearing down on us, with significant societal and investment risks.<sup>4</sup> And more people and more investors are realizing that corporate short-termism and focus on shareholder value has not created enough shared value and that a shift toward long-termism

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1 <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter> and <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

2 <https://www.ssga.com/investment-topics/environmental-social-governance/2019/02/incorporating-sustainability-into-long-term-strategy.pdf>

3 <https://www.goldmansachs.com/what-we-do/sustainable-finance/index.html>, <https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/>, and <https://stories.starbucks.com/stories/2020/message-from-starbucks-ceo-kevin-johnson-starbucks-new-sustainability-commitment/>

4 <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts>

focused on creating value for all stakeholders will create more value for both shareholders and society over the long run.<sup>5</sup>

Against that backdrop, more investors are redirecting their money to investment strategies that support the shift toward long-term sustainable stakeholder value. This report provides a view of the sustainable funds landscape in the U.S. as we enter 2020, tracing the growth and breadth of sustainable funds, evaluating financial and impact performance, and providing a taxonomy that investors can use to help navigate this increasingly prominent investment area.

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### Key Takeaways

- ▶ The sustainable funds universe grew to 303 open-end and exchange-traded funds in 2019, consisting of three broad types: ESG Focus, Impact/Thematic, and Sustainable Sector.
- ▶ The number of conventional funds that now say they “consider” ESG factors has grown enormously, to 564 funds from 81 in 2018.
- ▶ Flows into sustainable funds totaled \$21.4 billion in 2019, a nearly fourfold increase over the previous calendar-year record, which had been set in 2018.
- ▶ Sustainable funds outperformed their conventional peers in 2019, with 35% finishing in the top quartile of their Morningstar Categories and 66% in the top half.
- ▶ Sustainable funds overwhelmingly have 4- or 5-globe Morningstar Sustainability Ratings, indicating that they have lower levels of ESG risk in their portfolios.
- ▶ Only 10% of sustainable diversified equity funds are fossil-fuel-free.
- ▶ While most sustainable funds exhibit high levels of support for ESG-related shareholder proposals, individual fund support ranges from zero (two funds) to 100% (17 funds).

### The Sustainable Funds Universe

Sustainable investing describes a range of investment approaches that put the analysis of environmental, social, and governance, or ESG, criteria at the center of the process used to evaluate investments, build portfolios, and assess their societal impact. The use of ESG criteria is grounded in materiality and, at a minimum, contributes to a more thorough financial analysis at a time when corporate performance on sustainability issues is under greater scrutiny by a range of stakeholders. Sustainable investing supports the notion of stakeholder value—the idea that the purpose of the corporation is to create sustainable value for all of its stakeholders over the long term. It encourages more-responsible corporate behavior, which results in firms reducing negative externalities, helps them attract and retain a competitive workforce, enhances their intangible value, and strengthens confidence in the overall financial system. Sustainable investing also encourages direct investment in areas like renewable energy and green technologies as the world transitions to a low-carbon economy.

As sustainability issues have become increasingly relevant, growing numbers of conventional actively managed investment strategies have begun considering ESG criteria. A 2018 survey of asset managers

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<sup>5</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

conducted by Harvard Business School professors showed that more than 80% now consider ESG criteria when making investment decisions and do so not only because of growing client demand but also because they believe ESG information is material to investment performance.<sup>6</sup> Many strategies now consider ESG information without orienting their entire investment process and outcomes around sustainability.

Investment managers who focus on sustainability in their investment processes do so in a variety of ways. Some use ESG criteria to narrow or exclude parts of the investment universe, then apply a more traditional investment analysis. Others integrate ESG criteria alongside other factors throughout the process. Some focus on sustainability themes, especially in areas like climate change and diversity. A growing number of strategies aim to deliver impact alongside financial return by focusing on companies that have a net positive impact on society. Most asset managers running sustainable strategies actively engage with companies on ESG issues and support, sponsor, or co-sponsor shareholder resolutions in the proxy process.

Defining the sustainable funds universe is complicated because so many asset managers have launched strategies reflecting their own takes on sustainable investing. One important distinction that has emerged in the past few years is between strategies that now consider ESG criteria as part of their investment process and those for which ESG analysis and impact are central, intentional features of their investment process. Strategies employing both approaches have increased significantly.

As in previous reports, I have identified the universe of sustainable funds in the U.S. as of the end of the year. The process begins with a review of fund prospectuses, which yields a list of funds that discuss *ESG*, *sustainability*, *impact*, or related terms in their offering documents. For further insight, I consult fund reports, websites, and pitchbooks, and, in many cases, meet with asset managers. Based on this information, I have identified the universe of funds and grouped them into four types, which are described in detail below.

Last year's report included 351 funds in total. Of those, 270 were funds with a sustainable investing focus as a central feature of their strategy. The remaining 81 were described as "ESG Consideration" funds that had added ESG analysis in a more limited way to their investment process. In 2019, we saw a sixfold increase in the number of ESG Consideration funds, as another 483 funds added ESG consideration language to their prospectuses, bringing the total number to 564. While I discuss the ESG consideration trend in various sections, the report centers mainly on those funds for which sustainability is an intentional focus.

At the end of 2019, these sustainable investment funds numbered 303, up from 270 in last year's report. In 2019, 30 new funds launched (plus one in late December 2018 that did not make it into last year's report) and 11 existing conventional funds were repurposed as sustainable funds. Nine funds from last year's report liquidated during 2019. I begin the report by describing three types of sustainable funds

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6 Amel-Zadeh, A., & Serafeim, G. 2018. "Why and How Investors Use ESG Information: Evidence from a Global Survey." *Financial Analysts Journal*, Vol. 74, No. 3 (Third Quarter), P. 87–103.

and contrasting them with a fourth type—the growing number of funds that now say they “consider” ESG in their investment process.

**A Sustainable Funds Taxonomy**

Last year’s report proposed this taxonomy of sustainable funds to help investors organize the universe and understand some key distinctions. This year, I have refined the taxonomy to clarify the difference between ESG Consideration funds and the other three types of funds that, taken together, form the universe of intentional “sustainable funds.”<sup>7</sup>

As shown in Exhibit 1, among diversified funds, the taxonomy first distinguishes between conventional strategies that consider ESG factors and two types of sustainable investment strategies that place ESG at the center of their process. A third type of sustainable strategy takes an even more focused sectorlike approach.

**Exhibit 1 A Sustainable Funds Taxonomy**

Sustainable Investment Strategies			
ESG Consideration	ESG Focus	Impact/Thematic	Sustainable Sector
Strategy “considers” ESG factors but sustainability not central	Strategy has intentional ESG Focus: <ul style="list-style-type: none"> <li>▶ Incorporates ESG in security selection and portfolio construction</li> <li>▶ May use exclusions</li> <li>▶ Engages in active ownership</li> </ul>	Strategy has intentional Impact/Thematic focus: <ul style="list-style-type: none"> <li>▶ Seeks impact alongside financial returns</li> <li>▶ May incorporate ESG in security selection and portfolio construction</li> <li>▶ May use exclusions</li> <li>▶ Engages in active ownership</li> </ul>	Strategy focuses on “green economy”: <ul style="list-style-type: none"> <li>▶ Renewable energy</li> <li>▶ Energy efficiency</li> <li>▶ Environmental services</li> <li>▶ Climate resilience</li> <li>▶ Water</li> <li>▶ Green real estate</li> <li>▶ Green transportation</li> <li>▶ Food</li> </ul>
Diversified Strategies			

Source: Morningstar (author). Data as of 07/21/2019.

**ESG Consideration**

These are otherwise conventional funds that consider ESG a part of their process but have not made sustainability a central focus. This can be seen in the way they describe ESG in their prospectuses. Exhibit 2 contains several examples of the language found in the prospectuses of ESG Consideration funds. Such funds typically make clear that ESG factors are considered where relevant but do not indicate that ESG is a central focus of the strategy.

<sup>7</sup> As in previous reports, I do not include funds that only use values-based exclusionary screening that is not related to sustainability issues. The report does not include funds that simply exclude so-called “sin stocks”, for example, or that use faith-based criteria to restrict their investments. Certainly, there is a values-based dimension to sustainable investing in the belief that investors can affect the transition to a just, low-carbon global economy and help move companies to a long-term stakeholder-value orientation.

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**Exhibit 2** ESG Consideration Sample Prospectus Language

More on the fund's investment strategies, investments and risks: The portfolio managers utilize the subadviser's fundamental research analysts who, using their industry expertise, determine the material ESG (environmental, social and governance) factors facing both individual companies and industry sectors; these factor may include, but are not necessarily limited to, environmentally-friendly product initiatives, labor audits of overseas supply chains and strong corporate governance. The choice of ESG factors for any particular company reflects the specific industry.

— *ClearBridge Appreciation, Prospectus, March 1, 2019, p. 9*

The following is added to "Investment Objectives & Principal Policies and Risks": Research Process. As part of the research process, portfolio management may consider financially material environmental, social and governance ("ESG") factors. Such factors, alongside other relevant factors, may be taken into account in the Fund's securities selection process.

— *Eaton Vance, Supplement to Prospectus (for 12 Eaton Vance funds), Nov. 1, 2019*

Wellington Management may also consider certain environmental, social and/or governance (ESG) factors during its assessment.

— *Hartford Domestic Equity Funds Prospectus, May 1, 2019, p. 70*

For Certain MFS Funds: (Under "Investment Objective, Strategies, and Risks") MFS may also consider environmental, social, and governance (ESG) factors in its fundamental investment analysis.

— *MFS, Supplement to the Prospectus, Oct. 28, 2019*

Investment Philosophy and Process: When assessing the worth of a particular security, the teams utilize internally generated research and proprietary quantitatively driven tools and frameworks (including an analysis of cash flows, ability to pay principal and interest, balance sheet composition, market positioning, and the team's assessment of Environmental, Social, and Governance (ESG) factors) to a) establish an internal outlook; b) evaluate the market's outlook as it is reflected in asset prices, and c) contrast the two. The teams then use the information generated by this process to decide which securities the Fund will own.

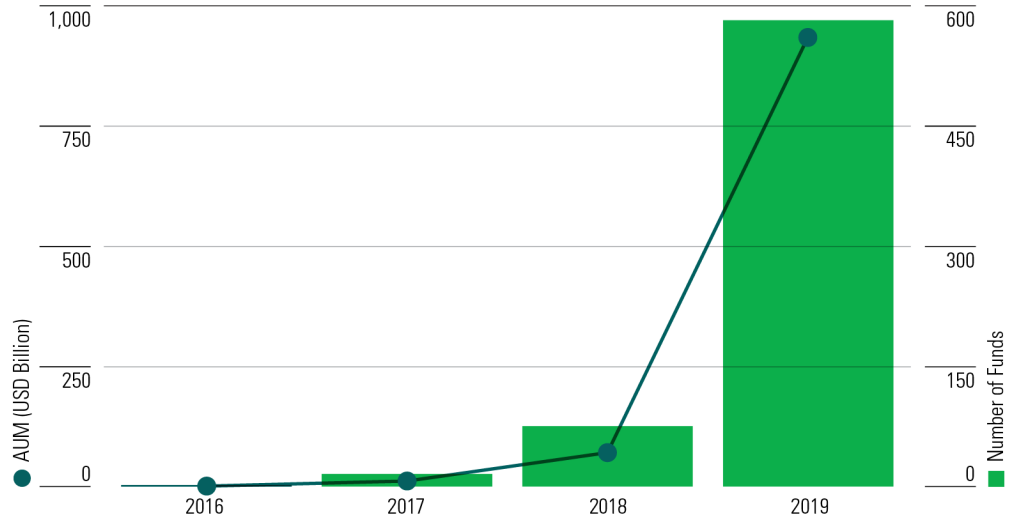
— *Neuberger Berman Strategic Income Fund Summary Prospectus, Feb. 28, 2019*

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Source: Morningstar. Data as of 07/21/2019.

For ESG Consideration funds, ESG criteria may or may not play a role in the selection of any specific security, and ESG considerations generally do not come into play at the portfolio-construction stage. Such funds typically do not use other tools of intentionality, such as exclusionary screens, impact analysis, or engagement, as a formal part of their process. They are best thought of as funds that simply claim to be considering ESG information as relevant to a more complete investment analysis. Some asset managers have added identical ESG language across all, or significant portions, of their fund lineups.

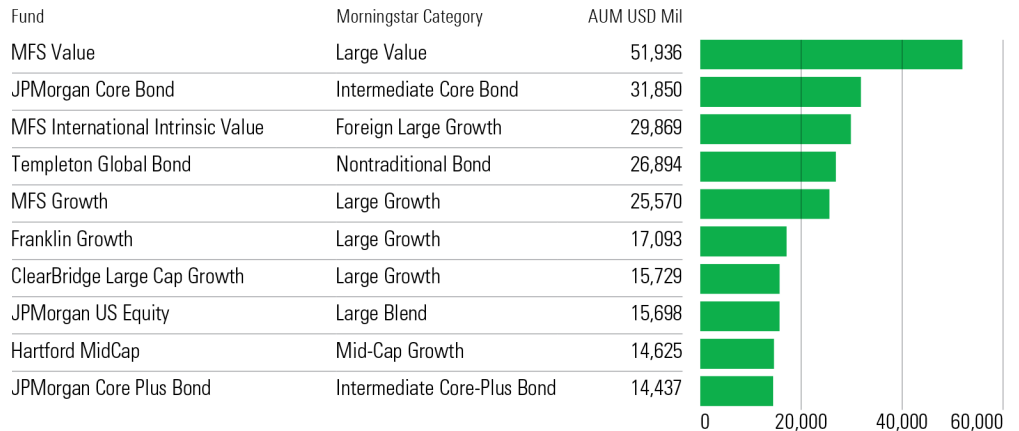
**Exhibit 3** The Number of ESG Consideration Funds Exploded in 2019



Source: Morningstar (author). Data as of 12/2019.

After a few funds added ESG consideration language in 2016 and 2017, the trend started to take off in 2018. Then last year, as noted above, the number of ESG Consideration funds exploded, with 483 funds adding ESG consideration language to their prospectuses. Asset managers who did so across all or substantial portions of their fund lineups in 2019 include BMO (26 funds), ClearBridge (19), Eaton Vance (77), Hartford (49), MFS (67), and Franklin Templeton (20). ESG Consideration funds are actively managed, and most are seasoned funds with large asset bases. The 564 ESG Consideration funds had \$933 billion in assets under management at the end of 2019.

**Exhibit 4** The 10 Largest ESG Consideration Funds



Source: Morningstar Direct. Data as of 12/31/2019.

The explosive growth of funds considering ESG reflects the growing recognition among asset managers of the relevance and materiality of ESG factors in evaluating investments, the greater capacity of asset managers to evaluate ESG factors resulting from increased analytical resources and personnel, and a desire on the part of asset managers to signal their ESG awareness to end investors.

While the growth of funds that formally claim to be considering ESG is notable and is part of the overall trend toward sustainable investing, these strategies are not employing the more comprehensive approaches characteristic of intentional sustainability-focused strategies. Moreover, little is known about how often ESG considerations actually affect the investment decisions of these funds.

### **Sustainable Funds**

Sustainable funds are characterized by intentionality and come in three types. Two of them, ESG Focus and Impact/Thematic, are types of diversified strategies that could be used in lieu of conventional strategies across most asset allocations. The third, Sustainable Sector, consists of funds invested more narrowly in industries and companies that produce the sustainable products and services necessary to bring about a transition to a low-carbon economy. As the term implies, these funds are similar to traditional sector funds, even though there isn't a clearly defined sustainable sector.

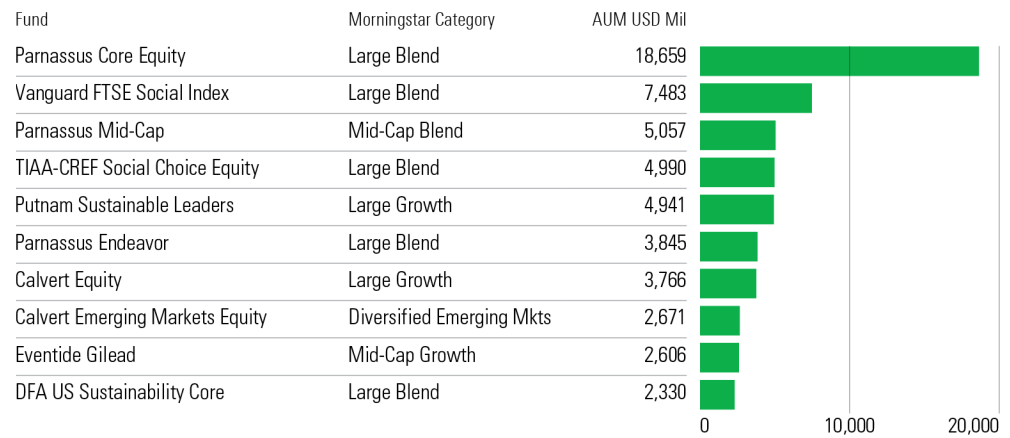
- **Sustainable Funds: ESG Focus.** The largest sustainable fund type consists of diversified funds that focus on the broad incorporation of ESG criteria throughout their investment process.<sup>8</sup> Of the 303 sustainable funds, 195 are classified as ESG Focus. These funds exhibit higher levels of commitment to sustainable investing than do ESG Consideration funds—in most cases, much higher. While nearly all ESG Focus funds incorporate ESG criteria in their security-selection and portfolio-construction processes, many also use some exclusions, and most actively engage with companies around ESG issues.

ESG Focus funds are not all alike. They may be active or passive, concentrated or broadly diversified. They employ a range of specific investment styles. Some actively tilt portfolios toward sustainability leaders, while others focus on weeding out laggards. Some apply sustainability criteria to their sector- or country-exposure decisions; others construct marketlike portfolios that focus security selection on "best-in-class" companies. Many, but not all, ESG Focus funds use some exclusionary screens. Many also actively engage with the companies they own about ESG issues and are willing to sponsor or co-sponsor shareholder resolutions, to vote their proxies in favor of ESG-related resolutions, and to work together to promote sustainable finance more broadly. Most ESG Focus funds are marketed as sustainable offerings and include key terms like *ESG* or *sustainable* in their names.

The prospectus language for a typical ESG Focus fund is far more expansive than that of an ESG Consideration fund. Appendix B contains examples from the prospectuses of several ESG Focus funds that launched in 2019.

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<sup>8</sup> I referred to these funds as "ESG Integration" funds in last year's report, but I consider the term "ESG Focus" to be more accurate in capturing the intentionality and comprehensiveness with which these funds typically employ ESG criteria. "ESG Integration" is a term better used to describe one aspect of the tools of intentionality available to and used by ESG Focus funds.

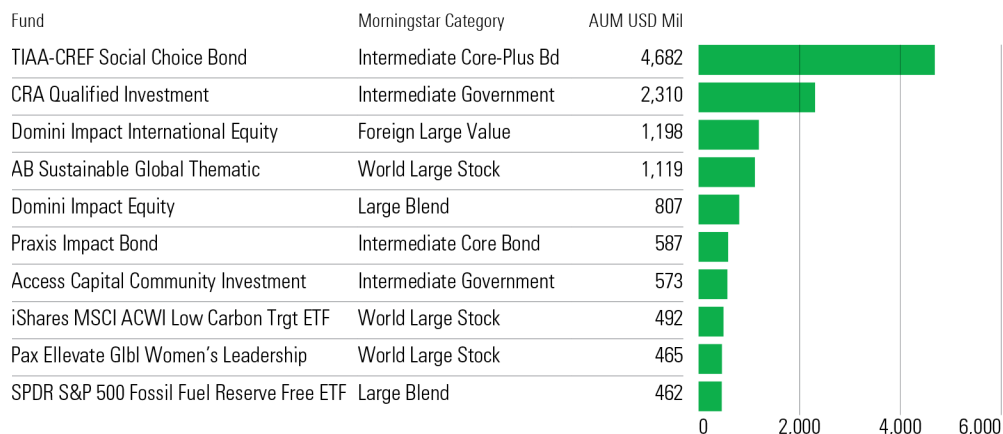
**Exhibit 5** The 10 Largest ESG Focus Funds

Source: Morningstar Direct. Data as of 12/31/2019.

- **Sustainable Funds: Impact/Thematic.** This type of diversified sustainable fund explicitly attempts to define and deliver positive societal and environmental returns alongside financial returns. Of the 303 sustainable funds, 67 are classified as Impact/Thematic. Impact investing is a term often used to refer to direct investments in impactful projects or companies through private-placement bonds, venture capital, or private equity. But public fund investments have discernible, if not somewhat less direct impacts, which this group of funds seeks to identify and measure for its investors. An Impact/Thematic fund may focus on bonds whose use of proceeds go toward projects that build sustainable infrastructure or affordable housing or focus on investing in companies whose products help reduce greenhouse gas emissions or promote sustainable consumption.

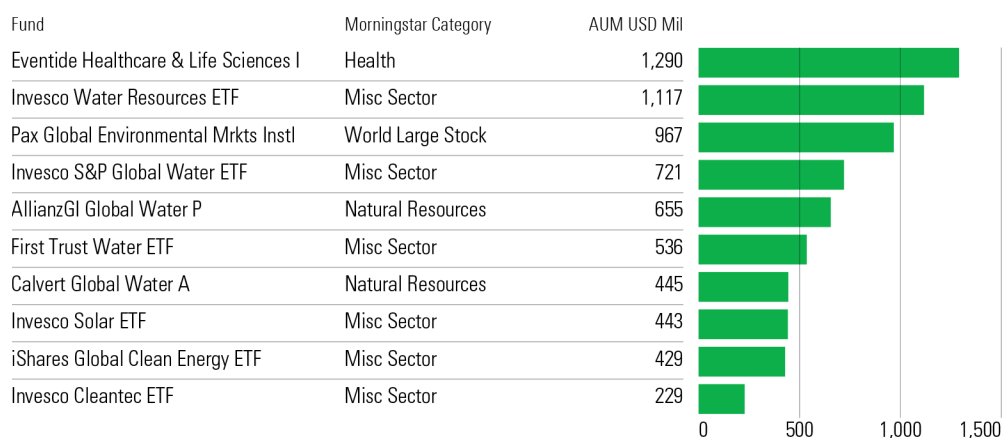
Some of these funds are focused on specific themes, such as low carbon/fossil free, gender equity, or green bonds. Others use the 17 U.N. Sustainable Development Goals as a framework for evaluating the overall impact of their portfolio. While some Impact/Thematic funds downplay ESG integration in security selection in favor of impact criteria, most also employ ESG incorporation alongside their impact objectives. Increasingly, Impact/Thematic funds are measuring and reporting on their impact to investors. Not surprisingly, many are also using the term *impact* in their names.



**Exhibit 6** The 10 Largest Impact/Thematic Funds

Source: Morningstar Direct. Data as of 12/31/2019.

- **Sustainable Sector.** Offerings that invest in “green economy” industries like renewable energy, energy efficiency, environmental services, water infrastructure, and green real estate are grouped as Sustainable Sector funds. Green economy companies can be found across a variety of conventionally defined sectors, and, according to one estimate, they constitute 6% of global market cap. Sustainable Sector funds were among the first sustainable ETFs, with 15 launched between 2005 and 2008. This group now totals 41 funds.

**Exhibit 7** The 10 Largest Sustainable Sector Funds

Source: Morningstar Direct. Data as of 12/31/2019.

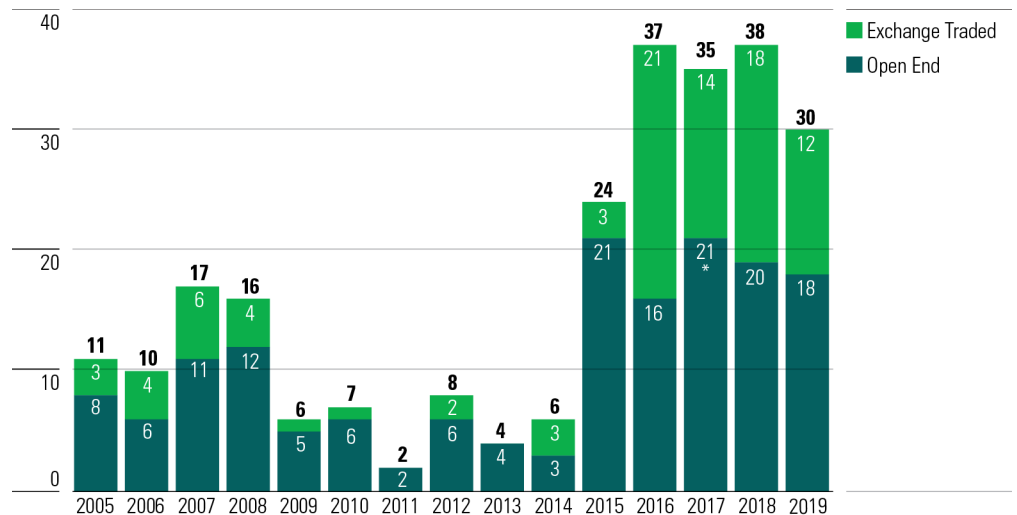
The taxonomy is a useful framework for thinking about ESG intentionality. Funds that consider ESG information within a conventional investment process are not committed to sustainability outcomes. They are interested, however, in using ESG information to make better investment decisions. How interested they are remains an open question, as many portfolio managers are just getting used to incorporating ESG information into their processes.

For sustainable funds, be they ESG Focus, Impact/Thematic, or Sustainable Sector, the purpose is to deliver not just competitive financial returns but also broader social returns in terms of societal or environmental impact. An ESG Focus fund, for example, may invest in and support via engagement companies that are pursuing long-term stakeholder value. An Impact/Thematic fund may even more explicitly organize its portfolio around companies whose products are having positive societal impacts and away from those with negative impacts. A Sustainable Sector fund focuses on companies in industries that are creating products and services that will help the world transition to a more sustainable low-carbon economy.<sup>9</sup>

### Sustainable Funds New Launches in 2019

The universe of sustainable open-end and exchange-traded funds in the United States continued its multiyear growth trend in 2019 with 30 new fund launches. The growth trend began in 2015 when 24 funds were launched. Although launches were lower last year than in the previous three, 2019 was the fourth year in a row with at least 30 new inceptions. From 2015 through 2019, more than half—163 of 303—of sustainable funds in our universe launched.

**Exhibit 8** Sustainable Fund Launches: A Multiyear Growth Trend



Source: Morningstar Direct. Data as of 12/31/2019. Note: 38 open-end funds in the report were launched between 1971 and 2004. The earliest ETF launch was in 2005. Includes 20 funds that subsequently have liquidated. \*Counts Natixis Sustainable Future Target Date Series as one fund rather than 10.

<sup>9</sup> In researching this year’s report, my observation is that the line between ESG Focus and Impact/Thematic is getting less distinct and that we may see many ESG Focus funds migrate toward Impact/Thematic. Partly, that could happen as a way for ESG Focus funds to further differentiate themselves from ESG Consideration funds, as the latter continue to proliferate.

Eighteen of the 30 newly launched funds in 2019 are open-end funds, marking a slight departure from the 2016-18 period when launches were more evenly split between open-end and exchange-traded funds. Twenty-two of the 30 are equity funds, seven are bond funds, and one is a money market fund—State Street ESG Liquid Reserves. Twenty-one are categorized as ESG Focus, six as Impact/Thematic, and three as Sustainable Sector.

Among the launches are three new funds offered by Federated. The firm rebranded as Federated Hermes in early 2020, reflecting Federated’s 2018 purchase of London-based Hermes and its newly stated conviction to focus on “responsible investing in the best way to create wealth over the long term.”<sup>10</sup> Pimco added three funds in December, including Pimco Climate Bond and an equity ETF run by its longtime subadvisor Research Affiliates, Pimco RAFI ESG U.S. ETF RAFE. Vanguard launched an actively managed global ESG fund with its longtime subadvisor Wellington Management. The fixed-income ranks were bolstered with the launches of two high-yield funds and two muni-bond funds.

### Repurposed Funds

Repurposed funds have contributed to the growth of the sustainable funds universe. Last year, 11 existing funds changed their investment strategies to become ESG Focus, Impact/Thematic, or Sustainable Sector funds. A total of 42 funds have been repurposed over the past several years, representing about 14% of the current sustainable funds universe.

#### Exhibit 9 Repurposed Funds

Name	Date of ESG Adoption	Original Name	Inception Date
Aberdeen Global Equity Impact	2/28/19	Aberdeen Select Int'l Equity II	5/4/05
AllianzGI Global Allocation	10/11/19	AllianzGI Global Allocation	9/30/98
AMG GW&K Core Bond ESG	5/1/19	AMG GW&K Core Bond	4/30/93
AMG GW&K Enhanced Core Bond ESG	5/1/19	AMG GW&K Enhanced Core Bond	1/2/97
BNY Mellon Sustainable Balanced	4/1/19	BNY Mellon Global Multi-Asset Income	11/30/17
DWS ESG Core Equity	9/23/19	DWS Mid Cap Value	8/1/05
DWS ESG Global Bond	5/1/19	DWS High Conviction Global Bond	3/1/91
DWS ESG International Core Equity	12/1/19	DWS European Equity	11/11/14
Russell Sustainable Equity	1/1/19	Russell U.S. Defensive Equity	5/14/99
Segal Bryant & Hamill Workplace Equity	5/1/19	Segal Bryant & Hamill Dividend	6/1/88
Tortoise Energy Evolution	12/31/19	Tortoise Select Opportunity	9/30/13

Source: Morningstar Direct. Data as of 12/31/2019.

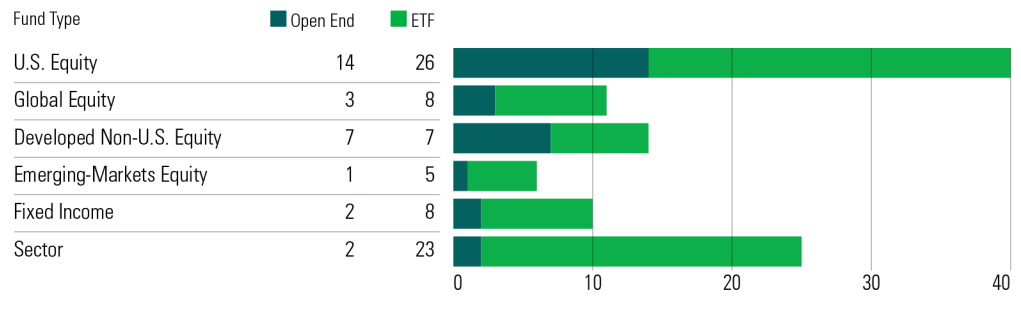
Transforming existing funds into sustainable strategies is a way for asset managers to build their sustainable investing assets without having to start new funds from scratch and waiting for them to reach scale. Because of the move to passively managed funds, many asset managers have an inventory of actively managed funds that are no longer attracting flows. For those asset managers who want to start an actively managed sustainable fund, it may make sense to retool an existing fund.

<sup>10</sup> <https://www.prnewswire.com/news-releases/federated-hermes-inc-introduces-new-brand-identity-300997372.html>

### Passive Funds

Passive funds now constitute about one third of the sustainable funds in the U.S. Many are designed to substitute for broad market index funds, while others focus on specific themes or sectors. In addition to sustainable sector ETFs, there are 75 diversified ESG Focus or Impact/Thematic index funds out of 262 funds in those two groups. Adding in rules-based passive funds from Dimensional and TIAA brings the total to 81. Seventy-one of those funds offer marketlike ESG exposure to global, U.S., non-U.S. developed, and emerging-markets equities. The other 10 offer marketlike fixed-income ESG exposure. Sustainable investors now have plenty of choices to construct passive portfolios to meet a range of asset-allocation needs.

**Exhibit 10** Passively Managed Sustainable Funds



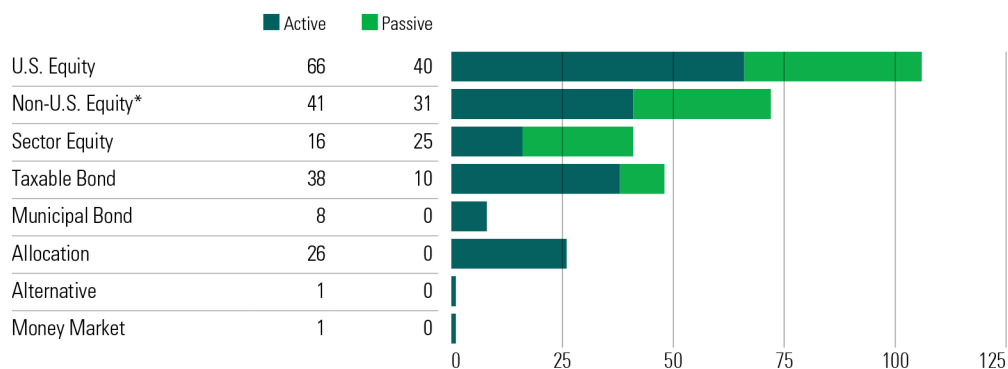
Source: Morningstar Direct. Data as of 12/31/2019.

Most broad-market passive funds base their security selection on company ESG ratings along with some exclusions. The iShares funds, for example, track various MSCI ESG indexes and generally screen out companies involved in the production of tobacco products, controversial weapons, and civilian firearms. The TIAA-CREF Social Choice funds seek to achieve the return of the broad U.S. market with a portfolio of companies that meet or exceed ESG performance standards and exclude companies significantly involved in alcohol, tobacco, military weapons, firearms, nuclear power, and gambling. Passive fixed-income funds are typically based on indexes that screen corporate issuers on the same ESG criteria that are used in equity indexes and may include a more limited ESG evaluation of sovereign issuers.

### Asset Class and Category Coverage

Investors can find sustainable funds in 67 Morningstar Categories. Equity funds make up 219 of the 303 funds, or 72%, and fixed-income funds number 56, or 19%.

**Exhibit 11** Sustainable Funds by Asset Class



Source: Morningstar Direct. Data as of 12/31/2019. \*Includes global funds.

Investors have enough choices to construct comprehensive portfolios using sustainable funds, although many funds lack long-enough track records and large-enough asset bases to meet fund-selection criteria often used by intermediaries. Only 168 sustainable funds have three-year track records and only 102 have five-year track records.<sup>11</sup> Although sustainable funds overall are starting to gather assets at a faster pace, as discussed below, the group has 105 funds in it with less than \$50 million in assets, virtually all of them less than three years old.

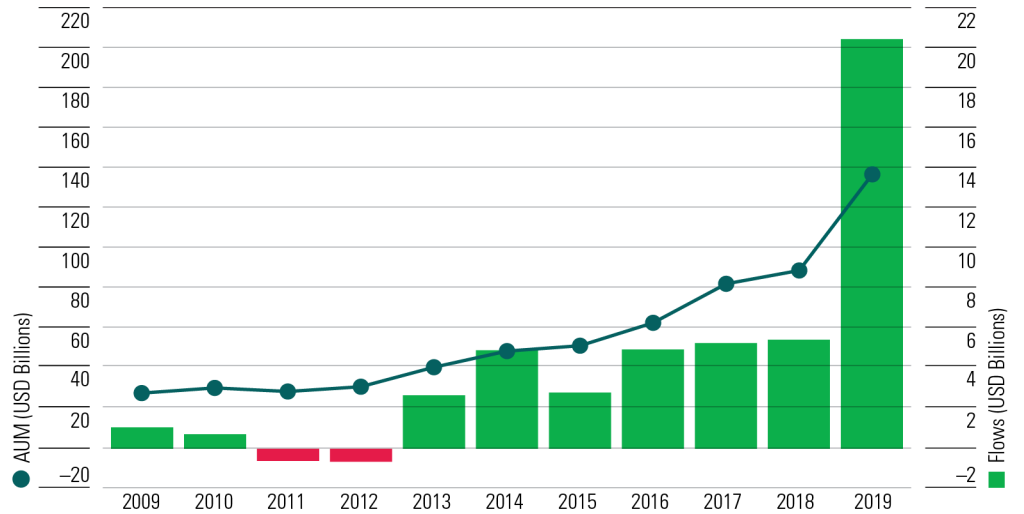
This poses a challenge in categories like emerging-markets equity, where there are now 10 sustainable emerging-markets options, but only one, Calvert Emerging Markets Equity, with a five-year track record. Only five of the 10 have assets of \$50 million or more. Similarly, among 24 sustainable U.S. small- and mid-cap equity funds, just nine have five-year records and eight have assets of \$50 million or more. Track records and asset base are generally of greater concern when considering actively managed funds. While many of the sustainable index funds also have shorter track records, they mimic reputable ESG indexes run by established firms like MSCI. One way for investors to expand their options when they lack a viable sustainable fund choice may be to use ESG Consideration funds.

<sup>11</sup> Most of the 42 funds that have been repurposed as sustainable offerings have three- and five-year track records but are not included in this calculation because they have not been sustainable funds for that long.

### Sustainable Fund Flows

Sustainable funds in the United States attracted new assets at a record pace in 2019. Estimated net flows into open-end and exchange-traded sustainable funds that are available to U.S. investors totaled \$21.4 billion for the year. That’s nearly 4 times the previous annual record for net flows set in 2018.

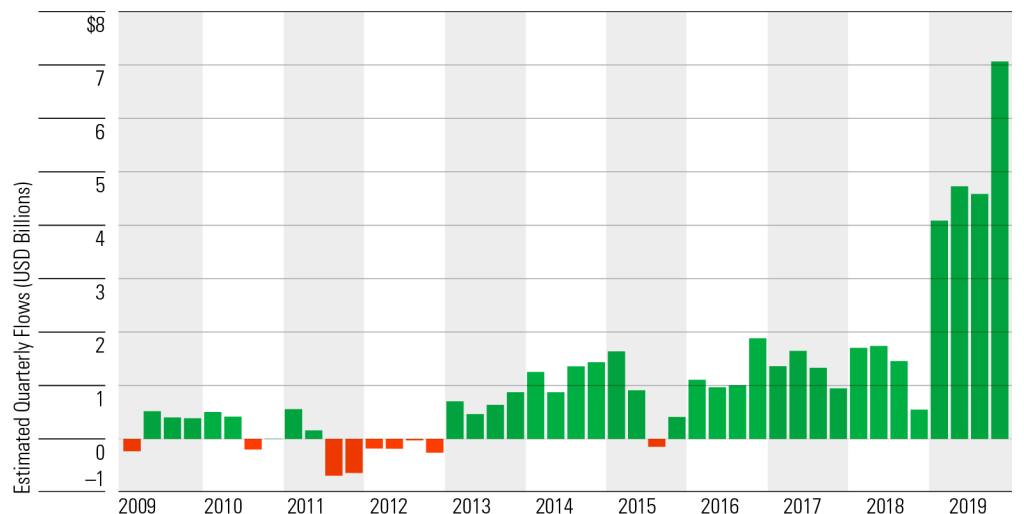
**Exhibit 12** Sustainable Funds Annual Flows Set Record in 2019



Source: Morningstar Direct. Data as of 12/31/2019.

Flows picked up momentum over the course of 2019. During the fourth quarter, estimated net flows jumped to \$7.9 billion, easily surpassing the record high set for a quarter of \$4.8 billion, set in 2019’s second quarter.

**Exhibit 13** Sustainable Funds Quarterly Flows



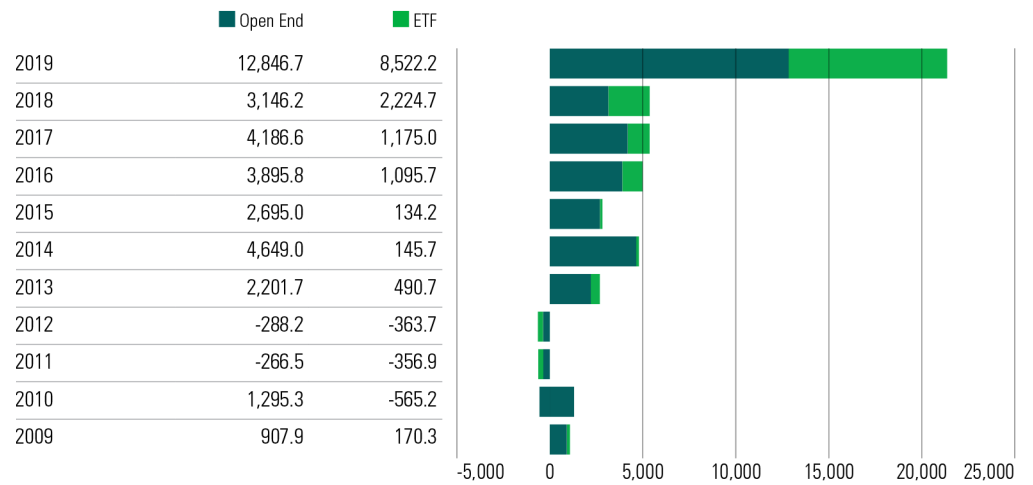
Source: Morningstar Direct. Data as of 12/31/2019.

Flows have been trending higher since 2013. In the four years after the financial crisis, 2009 through 2012, annual net flows averaged only \$136 million. From 2013 through 2018, average annual net flows jumped to \$4.3 billion. Then came 2019’s giant step forward to \$21.4 billion in net flows.

**ETF Flows**

Sustainable ETFs attracted \$8.5 billion in net flows in 2019, nearly 4 times more than in 2018. Sustainable ETF flows accounted for about 40% of overall sustainable fund net flows in each of the past two years. In 2016 and 2017, ETFs took about 20% of sustainable fund flows. Before 2016, most of the sustainable ETF universe consisted of sector funds, which experienced outflows from 2010 through 2012 and modest inflows from 2013 through 2015. Beginning in 2016, the number of diversified ETF options expanded dramatically, with 57 having been launched since then, and flows have started to follow.

**Exhibit 14** Sustainable Fund Flows (USD Mil): ETFs Gaining Ground

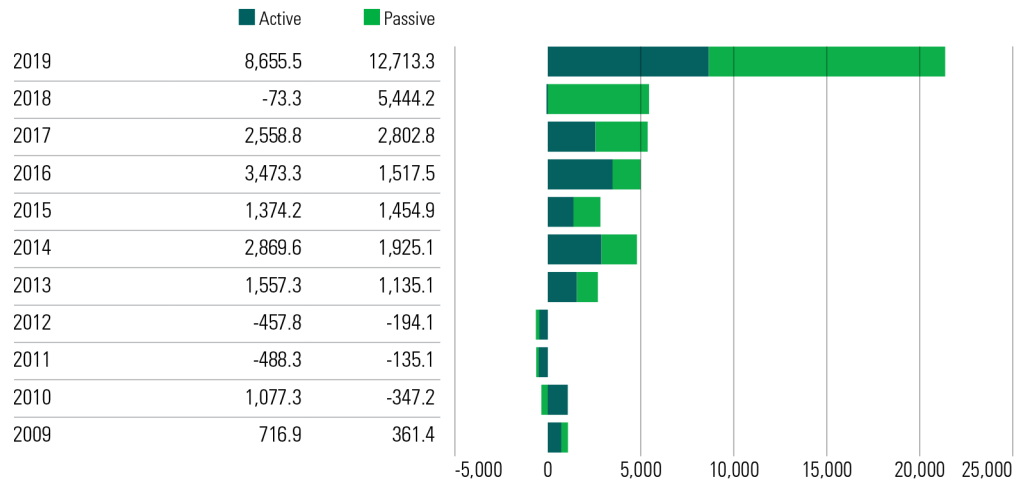


Source: Morningstar Direct. Data as of 12/31/2019.

### Passive Fund Flows

Passively managed funds attracted nearly 60% of net flows into sustainable funds in 2019, marking the third year in a row that passive funds have outdrawn active funds and the fourth out of the past five years.

**Exhibit 15** Sustainable Fund Flows (USD Mil): A Move Into Passive Funds



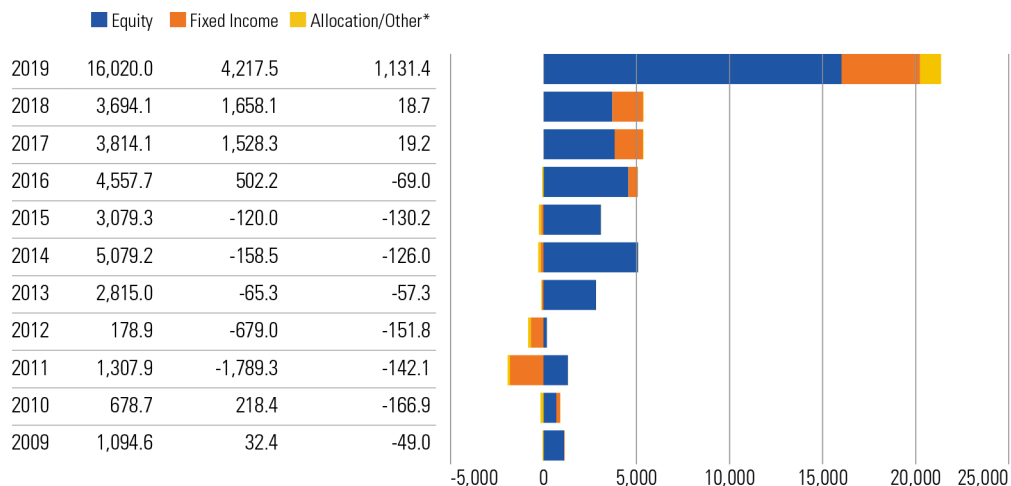
Source: Morningstar Direct. Data as of 12/31/2019.

### Fixed-Income Fund Flows

Flows into sustainable fixed-income funds totaled \$4.2 billion in 2019, or about 20% of overall net flows. That is more than twice the 2018 record for flows, but in 2017 and 2018, fixed-income flows accounted for about 30% of overall net flows. Prior to 2017, flows into fixed-income funds typically accounted for less than 10% of net flows into sustainable funds. The number of fixed-income sustainable funds has nearly tripled since 2015, to 57 from 20, helping drive flows. Between 2009 and 2015, about half of sustainable fixed-income funds were run by a single manager, Calvert, which was struggling with outflows across its lineup during that period.



**Exhibit 16** Fixed-Income Flows Growing (USD Mil)

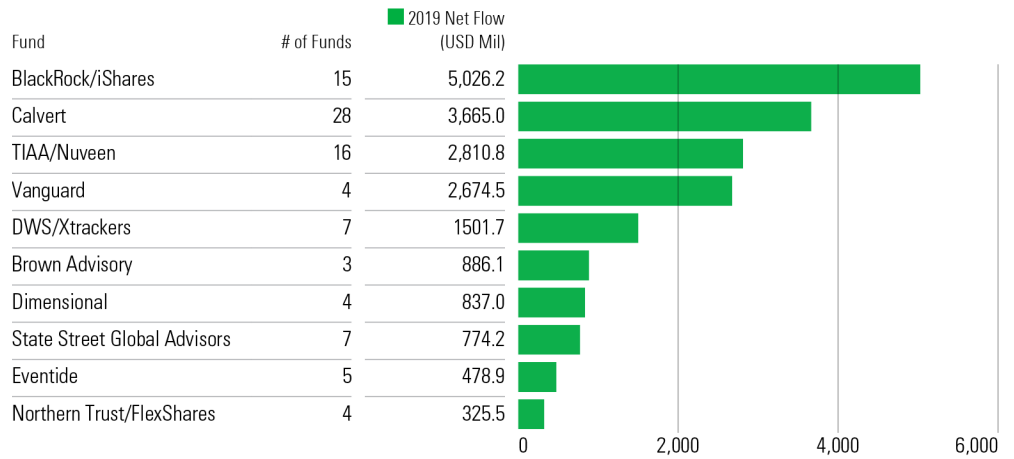


Source: Morningstar Direct. Data as of 12/31/2019. \*Excludes funds of funds.

**Asset Manager Flows and Assets Under Management**

Five asset managers attracted more than \$1 billion in net flows in 2019. They advise 70 of the 303 U.S. sustainable funds. Leading the way was BlackRock, which attracted nearly \$5 billion in flows to its 13 iShares ESG ETFs and a small amount to two actively managed funds. Calvert, now owned by Eaton Vance, garnered \$3.7 billion for its 28-fund lineup of active and passive funds. Funds offered by TIAA and its Nuveen subsidiary had net flows of \$2.8 billion, on the strength of TIAA-CREF Social Choice Bond, which led all funds with net flows of \$1.8 billion. Vanguard gained \$2.7 billion in sustainable fund flows, with three of its four offerings placing in the top 15 of individual fund flows. DWS/Xtrackers was the other \$1 billion-plus asset manager, coming mostly on the strength of Xtrackers MSCI USA ESG Leaders Equity ETF USSG, a fund that benefited from an \$850 million initial investment made by a large institutional investor at its March launch.

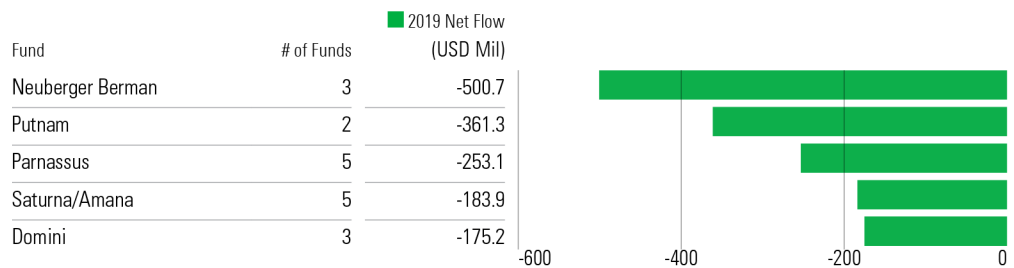
**Exhibit 17** Asset Managers With Largest Flows Into Sustainable Funds



Source: Morningstar Direct. Data as of 12/31/2019.

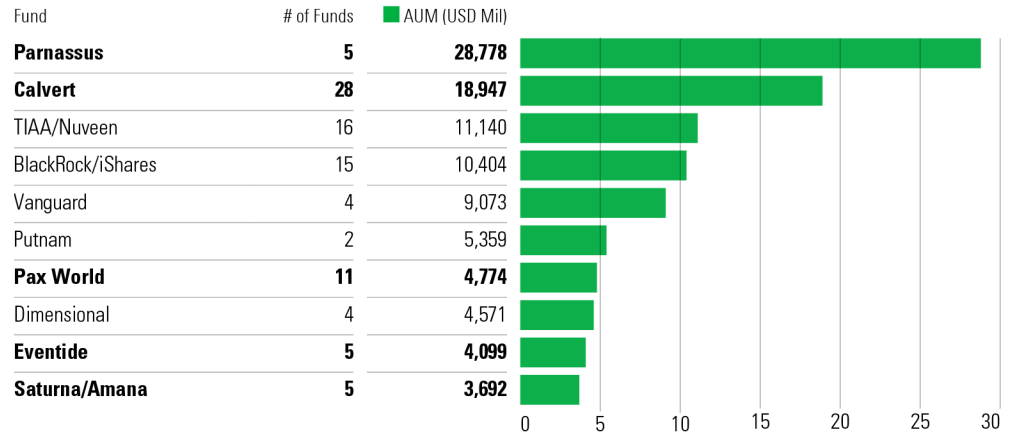
A few asset managers experienced net outflows from their sustainable funds in 2019. All of the asset managers in Exhibit 18 run older, actively managed funds with large but dwindling asset bases. With seasoned funds like these, it has become difficult to replace the natural runoff of older assets with new assets in the current environment because far more sustainable fund options now exist and many investors prefer passive funds.

**Exhibit 18** Asset Managers With the Most Outflows From Sustainable Funds

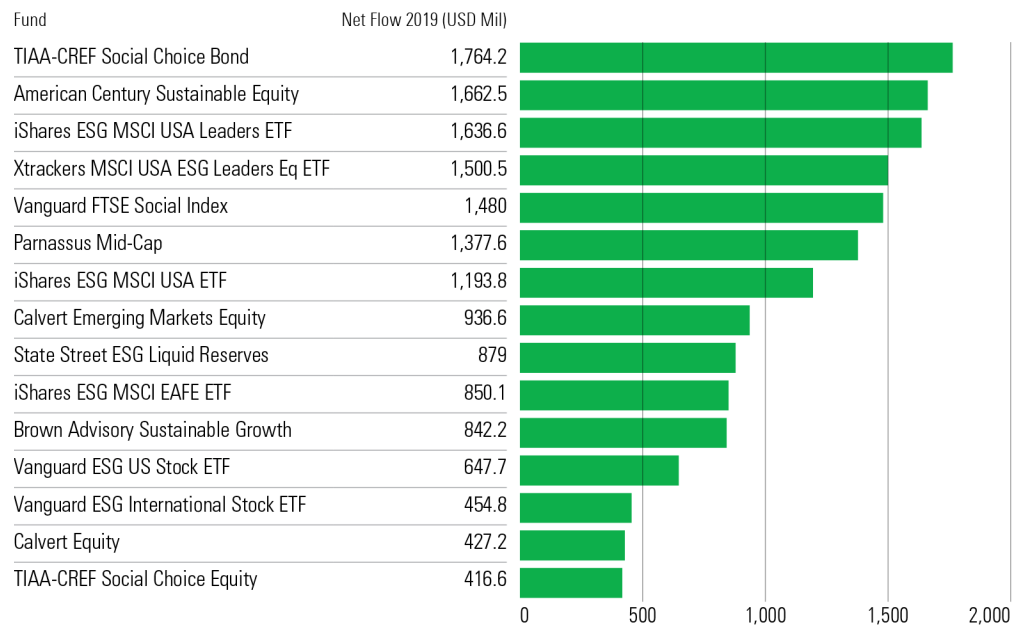


Source: Morningstar Direct. Data as of 12/31/2019.

Among funds, as noted above, TIAA-CREF Social Choice Bond gathered the most assets in 2019, followed by American Century Sustainable Equity, which experienced large inflows in November and December. The third and fourth largest flows came from the same large institutional investor into two ETFs that follow the same MSCI ESG index. Parnassus Mid-Cap and iShares ESG MSCI USA ETF ESGU also attracted more than \$1 billion in flows.

**Exhibit 19** Top 10 Asset Managers by Sustainable Fund Assets

Source: Morningstar Direct. Data as of 12/31/2019. Bold=Sustainable-investing-focused firm.

**Exhibit 20** Sustainable Funds With Largest Flows in 2019

Source: Morningstar Direct. Data as of 12/31/2019.

The 15 funds attracting the most flows have also been strong performers. Of the 12 funds on the list with full one-year records, the average category percent rank is 30 (top third). Of the 10 with three-year records, the average category percent rank is 17, and of the seven with five-year records, the average category percent rank is 15.

While sustainable fund flows remain modest in the larger scheme of overall fund flows, 2019’s flows may be the leading edge of a significant wave of assets to come. In January 2020 alone, flows into sustainable funds topped \$5 billion.

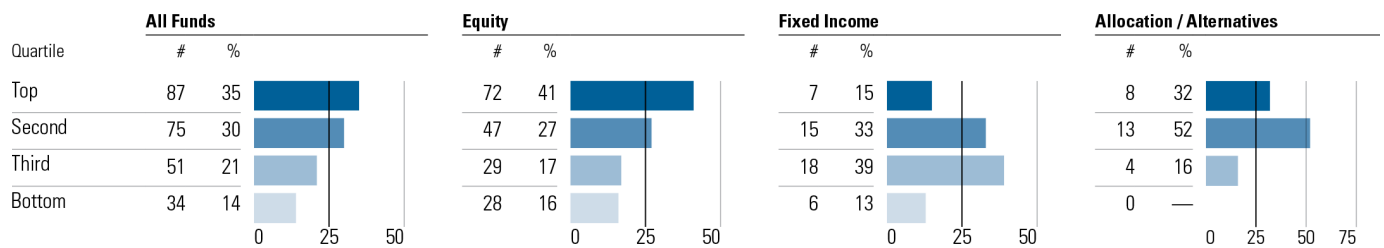
**Sustainable Funds Performance**

Sustainable funds outperformed their conventional fund peers in 2019. As discussed above, sustainable funds come in all shapes and sizes. They do not represent a distinct asset class or investment category. Their unifying characteristic is that they put the analysis of ESG factors at the center of their investment process, using it to evaluate securities, build portfolios, and assess their societal impact.

**Overall Performance by Category Rank**

To evaluate the investment performance of sustainable funds, I examined the rankings of their returns relative to their categories. Exhibit 21 groups those return ranks by quartile. By definition, 25% of the funds in a category place in each of four quartiles. Because sustainable funds represent a subgroup within any given category, we can compare the distribution of sustainable funds across category quartiles to determine whether the sustainable funds within a category outperformed or underperformed the category as a whole.

**Exhibit 21** Sustainable Funds 2019 Outperformance Relative to Category



Source: Morningstar Direct. Data as of 12/31/2019.

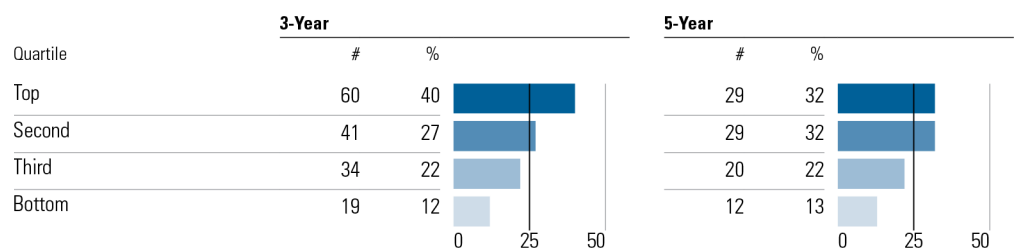
Using this approach, sustainable funds comfortably outperformed their peers in 2019. The returns of 35% of sustainable funds placed in the top quartile of their respective Morningstar Categories, and nearly two thirds finished in the top two quartiles. By contrast, the returns of only 14% of sustainable funds placed in the bottom quartile, and only about one third placed in the bottom half.

Sustainable equity funds did even better, with the returns of 41% ranking in the top quartile of their respective categories, and 68% in the top two quartiles. The returns of only 16% placed in the bottom quartile and 32% in the bottom half. The relative returns of sustainable fixed-income funds in 2019 were

more or less average for their categories and clustered into the middle two quartiles, while those of sustainable allocation and alternative funds skewed more positive. Overall, rather than their returns being distributed evenly within their respective categories, the returns of sustainable funds were skewed toward the top half, with the returns of two thirds landing in the top half and one third in the bottom half.

What about the longer term? Focusing on the trailing annualized three-year returns through the end of 2019, we see a similar pattern. The returns of 40% of sustainable funds placed in the top quartile of their categories, and two thirds finished in the top half. Much of that outperformance was driven by sustainable equity funds. We see a similar story over the trailing five years, even though only 90 sustainable funds have five-year records, compared with 154 sustainable funds that have three-year records.

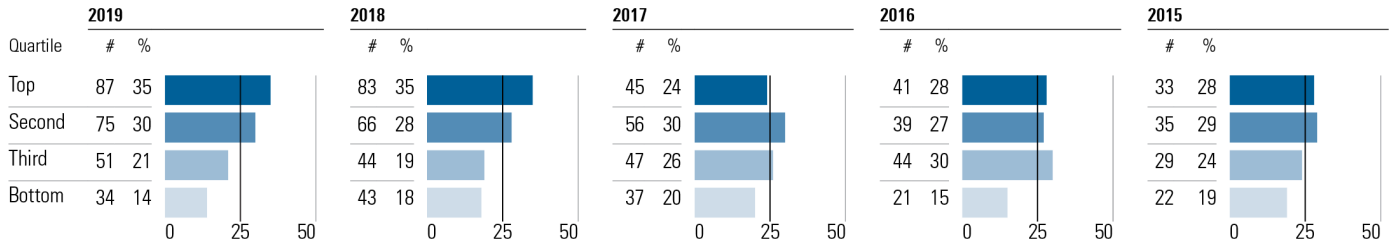
**Exhibit 22** Sustainable Funds Three- and Five-Year Performance Relative to Category



Source: Morningstar Direct. Data as of 12/31/2018.

Over the past five years, sustainable funds have done well in both up and down markets relative to their conventional peers. When markets were flat (2015) or down (2018), the returns of 57% and 62% of sustainable funds placed in the top half of their categories. When markets were up in 2016, 2017, and 2018, the returns of 55%, 54%, and 67% of sustainable funds placed in the top half of their categories.

**Exhibit 23** Sustainable Funds Annual Performance Relative to Category, 2015-19



Source: Morningstar Direct. Data as of 12/31/2019.

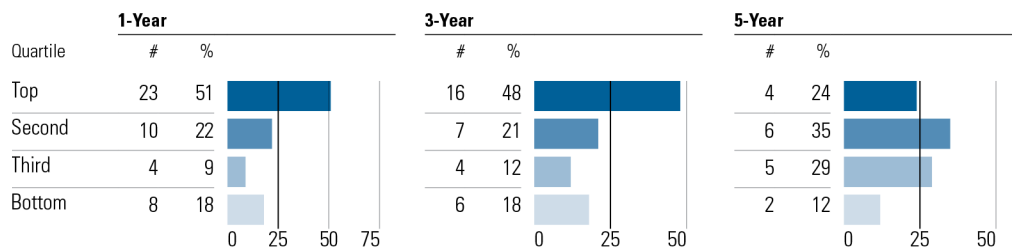
**Performance of Sustainable Large-Cap Equity Funds**

Most investors have significant exposure to the world’s largest companies, and the largest groups of sustainable funds are those that invest in U.S. and global large-cap equity. These funds outperformed in 2019 and for the trailing three and five years.

- ▶ **U.S. Large Cap.** This is often the first area U.S. investors consider when adding sustainable funds to their portfolios. Core large-cap funds are also directly comparable to the S&P 500, the most-used benchmark for U.S. equities. Investors have 56 sustainable-fund options in the large-blend Morningstar Category.

As a group, sustainable large-blend funds turned in an impressive 2019. Of the 45 funds with full-year records, the returns of 23 ranked in the category’s top quartile, and the returns of 73% ranked in the top half. Moreover, all of the top-quartile sustainable funds (23 of 45) beat the S&P 500 for the year. That is a 51% “beat rate,” twice that of large-blend funds overall.

**Exhibit 24** Sustainable Large-Blend Funds Outperform Category

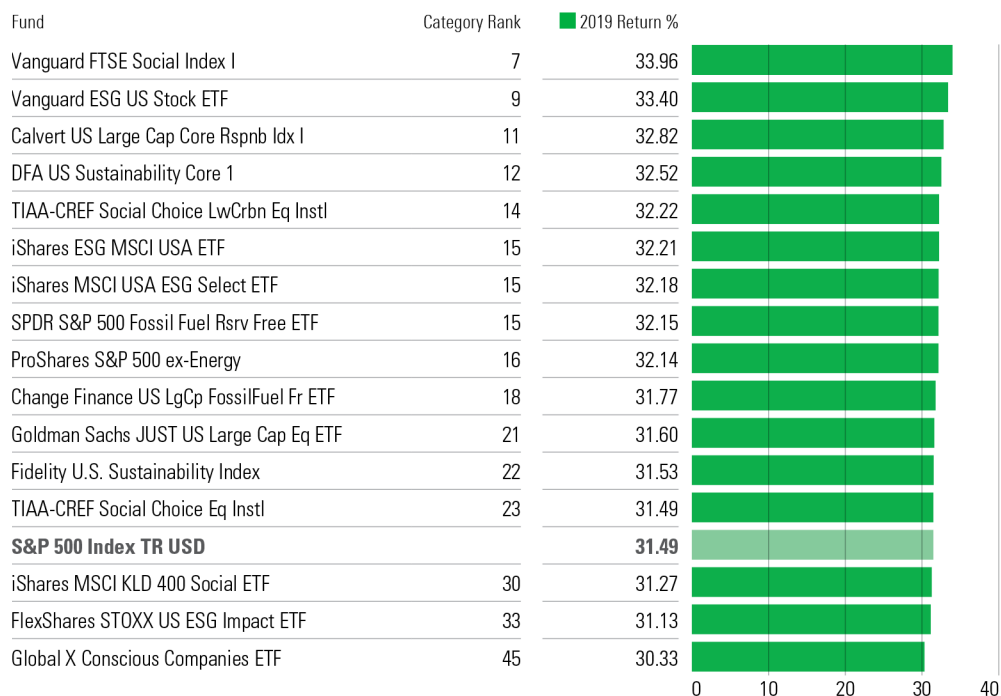


Source: Morningstar Direct. Data as of 12/31/2018.

Over the longer periods, nearly half of the 33 sustainable large-blend funds with sufficient records place in the category’s top quartile for the trailing three years. Although the group diminishes to only 17 funds with five-year records, more than half place in the category’s top half for the trailing five years.

Among sustainable index funds in the large-blend category, 13 of 16 matched or outperformed the S&P 500 in 2019.

#### Exhibit 25 Sustainable Large-Blend Index Funds Outperform S&P 500

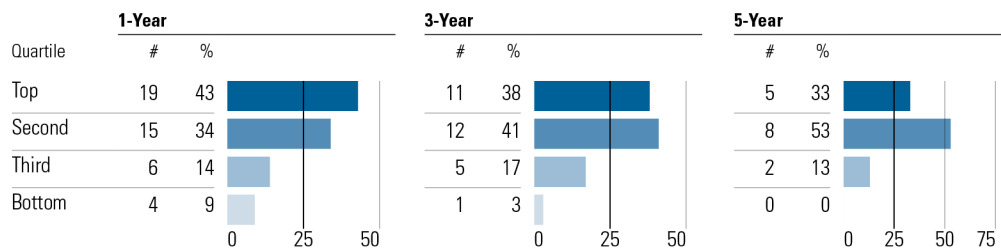


Source: Morningstar Direct, 12/31/2019. Note: Oldest share classes of OE funds shown.

- **Global and Non-U.S. Developed-Markets Large Cap.** Investors can also choose from 48 sustainable funds that focus on developed-markets large-cap equities. This group includes 30 diversified sustainable global funds that focus on large-cap equities in developed markets, including the U.S. These funds are in the world large stock Morningstar Category. It also includes 18 funds that focus on core non-U.S. large caps, residing in the foreign large-blend Morningstar Category.

Of the 44 sustainable funds with full-year records, the returns of 19 ranked in the top quartile of their categories with another 15 in the second quartile. That is an impressive 43% top-quartile rate and a 77% top-half rate. By contrast, the returns of only four funds ranked in the bottom quartile. While the ranks of funds with longer-term records thin considerably, the three- and five-year returns of the older sustainable funds rank even better relative to their categories.

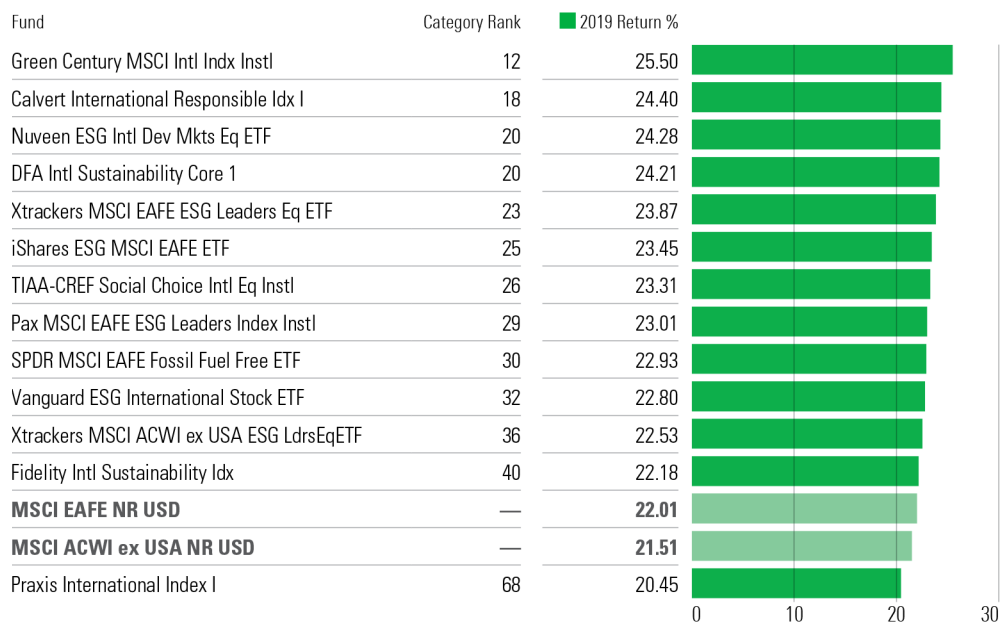
**Exhibit 26** Sustainable Global and Core International Equity Funds Outperform Category



Source: Morningstar. Data as of 07/21/2019.

Among sustainable index funds that focus on non-U.S. large caps, 12 out of 13 beat the relevant conventional index, either the MSCI EAFE or MSCI ACWI ex USA.

**Exhibit 27** Sustainable International Equity Index Funds Outperform MSCI EAFE



Source: Morningstar Direct, 12/31/2019. Note: Oldest share classes of open-end funds shown.

A partial explanation for the outperformance of sustainable equity funds may lie in their sector weightings. They have been, on average, underweight energy during a period of significant underperformance by that sector. Diversified sustainable U.S. equity funds have about a 1.9% average energy weighting compared with 3.9% for the S&P 500. That difference alone, however, does not explain the relative outperformance of sustainable funds across categories.



Similarly, many have the impression that sustainable funds are overweight technology, which could be responsible for their relative outperformance. But diversified sustainable U.S. equity funds have an average 23.9% weighting to the information technology sector, just about the same as the S&P 500's 24.2% weighting.

The performance of sustainable funds relative to the fund universe is consistent with evidence from academic research, which suggests no systematic performance penalty associated with sustainable investing and possible avenues for outperformance through reduced risk or added alpha. Because of the variety of approaches that a fund manager can take to sustainability and to other facets of the investment process, including passive funds optimized to minimize tracking error to conventional market-weighted indexes and differences in the skill of active managers, consistent year-by-year outperformance by sustainable funds relative to the fund universe seems unlikely, yet it has happened in each of the past five calendar years.

### **Sustainable Funds and the Morningstar Sustainability Rating**

In this section, I look at the extent to which sustainable funds are actually investing in sustainable companies and the extent to which they differ from the rest of the universe of funds that do not explicitly consider ESG factors. The Morningstar Sustainability Rating can help answer these questions.

In November 2019, Morningstar introduced an enhanced version of the rating, which now reflects ESG evaluations of companies in a portfolio both within and across industry groups. The original version only captured differences among companies relative to their industry peers. As a result, in the original version, portfolios that emphasized companies that were ESG "leaders" among their industry peers or avoided those that were ESG "laggards" tended to receive higher ratings.

Differences in the level of ESG risk across industry groups, however, were not reflected in the original version of the rating, even though companies in some industries clearly face more ESG risks than those in other industries. The energy, utilities, and basic-materials sectors, for example, carry considerably more ESG risk than the real estate, technology, and communication services sectors. Sustainalytics' company ESG risk framework<sup>12</sup> compares companies with their peers based on an evaluation of industry-specific material ESG risks, while also taking into account differences in overall ESG risk across industries. A fund's Morningstar Sustainability Rating now reflects both dimensions.

The enhanced rating enables us to answer two key questions about sustainable funds. First, how much ESG risk are intentional sustainable funds taking on relative to their peers? Is there any difference between intentional sustainable funds and so-called ESG Consideration funds?

Certainly, we should expect sustainable funds to be managing their ESG risks better than conventional funds. In the original version of the Sustainability Rating, the vast majority of sustainable funds had better ratings, but those ratings only reflected within-industry company analysis. Many sustainable

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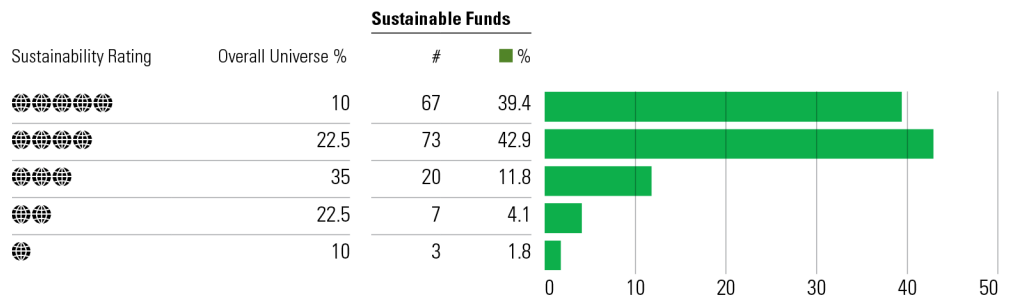
<sup>12</sup> Morningstar uses company ESG Risk scores from Sustainalytics to evaluate fund portfolio holdings.

funds, in fact, use some variant of "best-in-class" selection, tilting their portfolios toward ESG leaders and away from ESG laggards within industry peer groups.

But not all sustainable funds avoid fossil fuel, for example. In the original version of the rating, a lack of fossil-fuel exposure would not necessarily have hurt a fund's globe rating. In fact, a fund holding the best-in-class company in the integrated oil and gas industry would have benefited from doing so.

Diversified sustainable funds have significantly lower levels of ESG risk embedded in their portfolios. More than four in five (82%) diversified sustainable funds receive the highest ratings, 4 or 5 globes, compared with only a third of funds in the overall universe.<sup>13</sup> Only 6% of diversified sustainable funds receive the lowest ratings, 1 or 2 globes, compared with a third of funds in the overall universe.

**Exhibit 28** ESG Risk in Diversified Sustainable Equity Funds



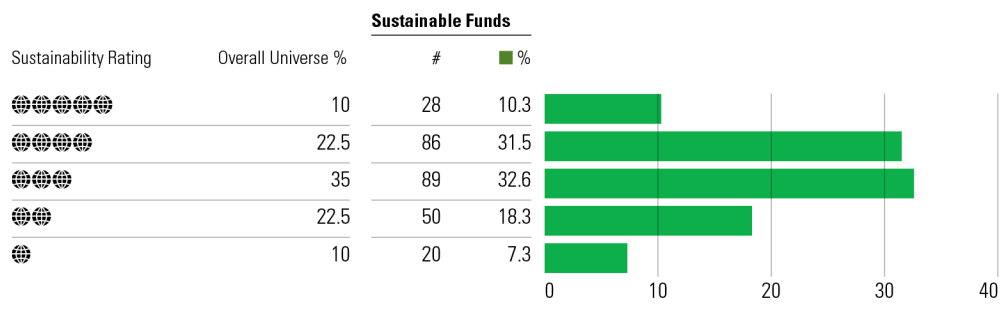
Source: Morningstar Direct. Data as of 12/31/2019.

Diversified sustainable funds fared similarly well in the original version of the ratings. As noted above, that version rewarded "best-in-class" selection, while this version adds industry weightings as a factor. The enhanced rating suggests that most diversified sustainable funds have low ESG risk, relative to peers, across their industry exposures and within industry groups.

As discussed above, many otherwise conventional funds now claim to be considering ESG in their investment process. Yet there is little known, thus far, about what ESG consideration means in practice. We can address that question indirectly by asking whether the ESG risk embedded in the portfolios of diversified ESG Consideration equity funds can be distinguished from that of other conventional funds, on the one hand, and from funds with a clear sustainable investing mandate, on the other.

<sup>13</sup> Sustainable Sector funds are not included in this analysis because most are in either diversified equity categories or a catchall Miscellaneous Sector category, making peer-group comparisons like the globe rating less meaningful. Many of these funds have higher ESG risk levels, owing to their exposure to companies in the energy, utilities, and industrials sectors. Such companies may have higher ESG risk but also higher potential societal impact because of the products and services they are developing.

**Exhibit 29** ESG Risk in Diversified Equity ESG Consideration Funds



Source: Morningstar Direct. Data as of 12/31/2019.

ESG Consideration funds do exhibit somewhat lower ESG risk than conventional funds. Among ESG Consideration funds, 42% receive 4 or 5 globes, versus 32.5% of funds overall. And 26% receive 1 or 2 globes, versus 32.5% of funds overall. Compared with funds that have a sustainable investing mandate, however, ESG Consideration funds tend to have much higher ESG risk relative to their category peers, as can be seen by comparing the previous two exhibits.

**Low Carbon and Fossil-Fuel-Free Sustainable Funds**

A relative few sustainable funds avoid investing in fossil fuel. Only 91 of the 303 sustainable funds are fossil-fuel-free or even “low carbon” by prospectus. And of the 184 funds that receive a Morningstar Carbon Risk Score, slightly less than half receive the Morningstar Low Carbon Designation, which requires lower than average fossil-fuel involvement but not complete avoidance.

Focusing on diversified U.S., non-U.S., and global equity sustainable equity funds, I found only 16 with no fossil-fuel involvement in their most recent portfolio.<sup>14</sup> Another 11 funds had less than 1% fossil-fuel involvement. By contrast, 35 sustainable funds had fossil-fuel involvement in 7.5% to 10% of assets, and 11 had more than 10% fossil-fuel involvement. For comparison, major equity indexes have about 10% of assets with fossil-fuel involvement.

<sup>14</sup> Morningstar’s measure of fossil-fuel exposure, “Fossil Fuel Involvement,” is the portfolio’s percentage exposure to companies deriving at least 5% of their revenue from thermal-coal extraction, thermal-coal power generation, oil and gas production, or oil and gas power generation, or at least 50% of their revenue from oil and gas products & services.

**Exhibit 30** Fossil-Fuel Involvement in Diversified Sustainable Equity Funds

<b>Funds with No Fossil Fuel Involvement</b>	<b>% of Assets</b>	<b>Funds with &gt; 10% Fossil Fuel Involvement</b>	<b>% of Assets</b>
AMG Managers Fairpointe ESG Equity	0	Columbia Sustainable Intl Eq Inc ETF	18.44
Aspiration Redwood	0	Columbia Sustainable Global Eq Inc ETF	16.64
Brown Advisory Sustainable Growth	0	Invesco Global ESG Revenue ETF	16.41
Calvert Emerging Markets Equity	0	Segall Bryant&Hamill Workplace Eq Ret	16.22
Calvert Equity	0	Miller/Howard Income-Equity I	15.78
Change Finance US LgCp FossilFuel Fr ETF	0	Columbia Sustainable US Equity Inc ETF	15.70
Etho Climate Leadership US ETF	0	Invesco ESG Revenue ETF	15.31
Green Century MSCI Intl Indx	0	ClearBridge Dividend Strategy ESG ETF	12.88
Morgan Stanley Inst Global Sustain	0	iShares ESG MSCI EM ETF	11.69
Parnassus	0	Dana Epiphany ESG Equity Inv	11.33
Parnassus Core Equity	0	Praxis Value Index A	10.66
Parnassus Endeavor	0		
Pax Global Opportunities	0		
Riverbridge Eco Leaders®	0		
Shelton Green Alpha	0		
Trillium ESG Small/Mid Cap	0		

Source: Morningstar Direct. Data as of 12/31/2019.

Narrowing the scope to thermal-coal exposure, sustainable funds do somewhat better, with 47 funds having no exposure and another 26 with less than 1% exposure. At the higher end, 34 sustainable funds have thermal-coal exposure between 3% and 5% of assets (thermal coal takes up around 4% of global indexes). Nine sustainable funds have thermal-coal exposure of 5% or more.

Investors should be aware of differences in how funds define being fossil-fuel-free. For example, three State Street ETFs use the term "Fossil Fuel Reserves Free" in their names. They exclude companies that own "proved and probable coal, oil, and/or natural gas reserves used for energy purposes" but still have overall fossil-fuel exposure ranging from 4.3% to 7.4%.<sup>15</sup>

**Sustainable Funds Proxy Voting<sup>16</sup>**

Another dimension of sustainable investing is active ownership: how a fund engages with the companies it owns, votes proxies, and seeks to provide measurable impact beyond financial return. Active ownership is an increasingly important part of a sustainable investment strategy. Yet is it not necessarily the case that funds following a sustainable investing mandate also use their proxy votes to support sustainability in companies whose stocks they own.

Many of the issues that shareholders place on the proxy ballot directly address sustainability concerns at companies. In the 2019 proxy year, 177 such items came to vote at U.S. companies calling for better transparency around issues such as climate risks, human rights risks in supply chains, environmental

<sup>15</sup> SPDR MSCI EAFE Fossil Fuel Reserves Free ETF Summary Prospectus, Jan. 31, 2020. The three ETFs and their overall fossil-fuel involvement are: SPDR S&P 500 Fossil Fuel Reserves Free ETF SPYX 7.4%, SPDR MSCI EAFE Fossil Fuel Reserves Free ETF EFAX 4.3%, and SPDR MSCI Emerging Markets Fossil Fuel Reserves Free ETF EEMX 5.1%.

<sup>16</sup> Jackie Cook contributed to this section.

stewardship, political influence, and gender pay inequality, as well as measures and policies that address diversity and the management of these risks.

Based on an analysis of average support for sustainability-related shareholder resolutions in 2019, sustainable funds were significantly more likely than conventional funds to support shareholder resolutions addressing environmental and social risks. On average, sustainable funds supported these resolutions 68% of the time compared with 37% for other funds.

The 17 sustainable funds in Exhibit 31 supported every resolution on which they voted.

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**Exhibit 31** Sustainable Funds Voting in Favor of 100% of ESG Resolutions (U.S. Companies, 2019)

Fund	Number of Votes	Percent Support
1919 Socially Responsive Balanced	36	100
Alger Responsible Investing	43	100
Dana Epiphany ESG Equity	23	100
Calvert Equity	18	100
Calvert Global Energy Solutions	10	100
Calvert Global Water	10	100
Calvert US Mid Cap Core Responsible Index	39	100
Green Century Balanced	40	100
Green Century Equity	77	100
JHancock ESG All Cap Core	34	100
JHancock ESG Large Cap Core	40	100
Praxis Growth Index	88	100
Pax Ellevest Global Women's Leadership	38	100
Pax ESG Beta Dividend	57	100
Pax ESG Beta Quality	62	100
Pax Large Cap	29	100
Trillium P21 Global Equity	24	100

Source: Morningstar Fund Votes data. Data as of 12/31/2019.

Among the 15 sustainable equity funds with the most assets, Calvert Equity and Pax Large Cap supported 100% of the resolutions and Domini Impact Equity and Calvert US Large Cap Core Responsible Index supported 99%. Because they each have hundreds of holdings, the latter two funds voted on many more resolutions than the first two, which have more-compact portfolios.

**Exhibit 32** How the Largest Diversified Equity Sustainable Funds Voted on ESG Resolutions (U.S. Companies, 2019)

Fund	Number of Votes	Percent Support
Calvert Equity	18	100
Pax Large Cap	29	100
Calvert US Large Cap Core Responsible Index	111	99
Domini Impact Equity	82	99
Parnassus Core Equity	20	90
Parnassus	18	89
Parnassus Endeavor	18	89
TIAA-CREF Social Choice Equity	77	55
Putnam Sustainable Leaders	29	31
Amana Income	15	27
Amana Growth	17	24
iShares MSCI KLD 400 Social ETF	81	23
iShares MSCI USA ESG Select ETF	53	19
DFA US Sustainability Core	118	12
Vanguard FTSE Social Index	104	2

Source: Morningstar Fund Votes data. Data as of 12/31/2019.

By contrast, the least supportive large sustainable funds were those from Vanguard, Dimensional, and iShares. Vanguard FTSE Social Index supported only 2% of the 104 resolutions on which it voted. DFA US Sustainability Core supported only 12%, and the two iShares funds on the list supported only 19% and 23%.

While sustainable funds supported 68% of ESG resolutions voted, on average, they exhibited the maximum range of support, from zero to 100%. Two smaller funds, Riverbridge Eco Leaders and Baywood Socially Responsible, failed to support any ESG resolutions in 2019.

## Conclusion

For some time now, investors have reported high levels of interest in sustainable investing. In 2015, at the beginning of the growth wave in sustainable funds, a Morgan Stanley survey reported that 71% of investors and 84% of millennial investors were interested in sustainable investing. When Morgan Stanley replicated that survey in 2017 and 2019, it found interest growing even more from these already-high levels. In the 2019 version, 85% of investors said they were interested, 95% among the oversampled subset of millennials. Moreover, most of the interested investors indicated they were “very” interested as opposed to only “somewhat” interested, a reverse from the 2015 survey.<sup>17</sup>

Yet there have been several factors that have operated as pinch points limiting the flow of assets into sustainable funds from all these interested investors. The first has been the lack of a sufficient number of sustainable fund options. At the end of 2014, there were just 111 funds in the sustainable universe; most were actively managed and only a few were ETFs. At the end of 2019, there were 303 funds in the sustainable universe, including 106 passive options and 77 ETFs. Investors can find sustainable funds in 67 Morningstar Categories.

This pinch point has not been eliminated entirely, as many sustainable funds are still building competitive track records and growing their assets, but it has eased considerably. And with the growth in the number of established funds that are now considering ESG factors in their process, sustainable investors can fall back on the more than 500 ESG Consideration funds in categories where sustainable funds may not meet all their investment criteria.

A second pinch point limiting the flow of assets into sustainable funds has been the perception among intermediaries that sustainable funds underperform and that it is therefore not prudent to recommend them to investors unless they insist on it. This view reflects confusion on the part of many intermediaries around the differences between sustainable investing and the socially responsible investing approaches of the 1990s, which relied primarily on values-based exclusions in portfolios. Nowhere is this more apparent than in employee-contribution retirement plans, whose administrators have been reluctant to offer sustainable fund options, backed up by inconsistent guidance from the Department of Labor, which itself seems less than clear about the differences between integrating ESG into an investment process and values-based exclusions.

But as it becomes more apparent to investment professionals that ESG factors are material to the value of companies and can enhance fund performance, more intermediaries appear to be embracing sustainable investing, or at least the use of ESG criteria in an investment process. A recent Nuveen survey of advisors, for example, reported that more advisors are proactively bringing up the subject with their clients<sup>18</sup> Moreover, as we saw earlier, sustainable funds clearly hold their own when it comes to

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<sup>17</sup> [https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable\\_Signals\\_Individual\\_Investor\\_White\\_Paper\\_Final.pdf](https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf)

<sup>18</sup> <https://www.nuveen.com/en-us/thinking/responsible-investing/fourth-annual-responsible-investing-survey>

performance relative to funds that are not focused on sustainability. As a group, they have outperformed over the past several years, including 2019.

A third pinch point is simply investor inertia. Even though investors overwhelmingly say they are interested in sustainable investing, they have been slow to take action to invest or shift their investments. For most individuals, investing is not something that is done every day; it is something that is undertaken every so often in response to a life event (think bonus, inheritance, or birth of a child). Simply expressing a preference for sustainable investing for most individual investors may only mean they intend to consider it the next time they make or change an investment.

Similarly, for institutional asset owners, it takes time to fully consider a shift to sustainable investing. It requires considering the views of all relevant stakeholders and getting advice from intermediaries who, as discussed above, may be reluctant to embrace the idea. This pinch point, too, looks to be easing, given the fourfold increase in flows to sustainable funds in 2019.

So far in 2020, the discussion is less about pinch points than tipping points. I expect asset managers to continue to fill the gaps in the fund universe with new sustainable funds and many more to add "ESG consideration" to the investment process of all their funds. I expect intermediaries to more fully embrace sustainable investing and to turn their attention to more-thorough evaluation of the tools of intentionality that funds use both to apply ESG factors and to achieve societal and environmental impact beyond financial return. I expect regulators to require more ESG disclosures from companies and, eventually, to clarify that ESG analysis is an important component of fiduciary duty. And I expect flows to continue their record-breaking pace. ■■



## Appendix A

### Appendix A Sustainable Funds Included in Report

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	Fund AUM		% Rank	Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
				ESG Start Date**	2018-12 (\$Mil)***				
1919 Socially Responsive Balanced A	ESG Focus	Allocation--50% to 70% Eq.	11/6/92	—	229.0	24.69	3 ★★★★★	🌱🌱🌱🌱🌱	🌱
AB Impact Municipal Income	Impact/Thematic	High Yield Muni	9/12/17	—	192.0	10.72	16 —	—	—
AB Sustainable Global Thematic A	Impact/Thematic	World Large Stock	3/1/82	11/1/16	1,118.7	29.47	25 ★★★	🌱🌱🌱🌱	🌱
AB Sustainable Intl Thematic A	Impact/Thematic	Foreign Large Growth	6/2/94	1/8/18	326.3	26.87	65 ★★	🌱🌱🌱🌱	🌱
Aberdeen Global Equity Impact Instl	Impact/Thematic	World Large Stock	5/4/05	2/28/19	65.5	26.73	44 ★	🌱🌱🌱🌱	🌱
Access Capital Community Investment I	Impact/Thematic	Intermediate Government	6/23/98	—	572.8	6.13	44 ★★★	—	—
AGF Global Sustainable Growth Equity I	ESG Focus	World Large Stock	11/15/17	—	1.3	29.93	22 —	🌱🌱🌱🌱	🌱
AIG ESG Dividend W	ESG Focus	Mid-Cap Value	12/16/16	—	32.1	17.70	91 ★★★	🌱🌱🌱🌱	🌱
Alger Responsible Investing A	ESG Focus	Large Growth	12/4/00	—	64.6	33.91	34 ★★★	🌱🌱🌱	🌱
AllianzGI Global Allocation A	ESG Focus	World Allocation	9/30/98	10/11/19	327.2	17.90	35 ★★★	—	—
AllianzGI Global Natural Resources Instl	Sustainable Sector	Natural Resources	6/30/04	8/28/2018	10.1	10.08	74 ★★	🌱🌱🌱	—
AllianzGI Global Sustainability Instl	ESG Focus	World Large Stock	12/9/14	—	169.3	31.50	13 ★★★★★	🌱🌱🌱🌱	🌱
AllianzGI Green Bond Institutional	Sustainable Sector	Intermediate Core-Plus Bd	11/19/18	1/31/2018	34.8	10.35	18 —	—	—
AllianzGI Water Class P	Impact/Thematic	Natural Resources	3/31/08	—	655.0	33.12	1 ★★★★★	🌱🌱🌱🌱	🌱
Alpha Architect Freedom 100 Em Mkts ETF	Impact/Thematic	Diversified Emerging Mkts	5/22/19	—	15.1	—	— —	🌱🌱🌱	—
ALPS Clean Energy ETF	Sustainable Sector	Equity Energy	6/27/18	—	117.9	51.51	3 —	🌱🌱🌱	—
Amana Developing World Investor	ESG Focus	Diversified Emerging Mkts	9/28/09	9/21/17	36.4	18.68	54 ★★	🌱🌱🌱	—
Amana Growth Investor	ESG Focus	Large Growth	2/3/94	9/21/17	2,221.2	33.07	42 ★★★★★	🌱🌱🌱🌱	🌱
Amana Income Investor	ESG Focus	Large Blend	6/23/86	9/21/17	1,397.8	25.29	85 ★★	🌱	🌱
American Century Sustainable Equity A	ESG Focus	Large Blend	11/30/04	6/30/2016	2,045.7	33.51	9 ★★★★★	🌱🌱🌱🌱	—
AMG GW&K Core Bond ESG I	ESG Focus	Intermediate Core Bond	4/30/93	5/1/19	214.7	9.69	8 ★★★	—	—
AMG GW&K Enhanced Core Bond ESG Z	ESG Focus	Intermediate Core-Plus Bd	1/2/97	5/1/19	33.3	10.59	13 ★★★	—	—
AMG Managers Fairpointe ESG Equity I	ESG Focus	Mid-Cap Value	12/24/14	10/1/17	13.0	19.04	88 ★★	🌱🌱🌱🌱	🌱
Amplify Advcd Btty Mtls and Matrls ETF	Sustainable Sector	Natural Resources	6/4/18	—	4.9	-3.26	95 —	🌱	—
Applesseed Investor	ESG Focus	World Allocation	12/8/06	—	158.6	15.68	58 ★★★	🌱🌱🌱	—
Arabesque Systematic USA Institutional	ESG Focus	Tactical Allocation	5/2/17	—	39.5	15.32	47 —	🌱🌱	—
Aspiration Redwood	ESG Focus	Large Blend	11/16/15	—	95.2	37.30	2 ★★★	🌱🌱🌱🌱	🌱
Baillie Gifford Positive Chg Eqs K	Impact/Thematic	World Large Stock	12/14/17	—	26.6	30.53	18 —	🌱🌱	🌱
Baywood Socially Responsible Instl	ESG Focus	Large Value	1/3/05	—	4.6	26.56	36 ★	🌱🌱🌱	—
BlackRock Advantage ESG US Eq Instl Shrs	Impact/Thematic	Large Blend	10/5/15	—	105.6	31.18	32 ★★★	🌱🌱🌱	🌱
BlackRock Impact Bond K	Impact/Thematic	Intermediate Core-Plus Bd	8/23/16	—	28.1	9.44	43 ★★★	—	—
BNY Mellon Sustainable Balanced K	ESG Focus	World Allocation	11/30/17	4/1/2019	13.0	19.10	20 —	🌱🌱🌱🌱	—
BNY Mellon Sustainable US Eq Fd Z	ESG Focus	Large Blend	3/29/72	—	366.0	34.00	7 ★★★	🌱🌱🌱	🌱
Boston Common ESG Impact Intl	Impact/Thematic	Foreign Large Growth	12/29/10	—	271.2	23.74	86 ★★	🌱🌱🌱🌱	🌱
Boston Common ESG Impact US Equity	Impact/Thematic	Large Growth	4/30/12	—	41.0	28.17	83 ★★	🌱🌱	🌱
Brown Advisory Sustainable Bond Investor	ESG Focus	Intermediate Core-Plus Bd	8/7/17	—	141.3	8.90	61 —	—	—
Brown Advisory Sustainable Growth I	ESG Focus	Large Growth	6/29/12	—	1,926.4	35.05	27 ★★★★★	🌱🌱🌱	🌱
Brown Advisory Tax-Exempt Sust Bd Inv	Impact/Thematic	Muni National Intern	12/2/19	—	62.3	—	— —	—	—
Calvert Balanced A	ESG Focus	Allocation--50% to 70% Eq.	10/21/82	—	872.8	23.73	7 ★★★★★	🌱🌱🌱	🌱
Calvert Bond A	ESG Focus	Intermediate Core-Plus Bd	8/24/87	—	1,759.2	8.44	71 ★★★	—	—

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class. \*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	ESG Start Date**	Annual Return		% Rank	Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
					Fund AUM 2018-12 (\$Mil)**	2018				
Calvert Conservative Allocation A	ESG Focus	Allocation--30% to 50% Eq.	4/29/05	—	228.0	15.61	37	★★★★	—	—
Calvert Emerging Markets Advancement I	ESG Focus	Diversified Emerging Mkts	10/1/19	—	29.0	—	—	—	—	—
Calvert Emerging Markets Equity I	ESG Focus	Diversified Emerging Mkts	10/31/12	—	2,671.4	22.66	28	★★★★★	🌐🌐🌐🌐	—
Calvert Equity A	ESG Focus	Large Growth	8/24/87	—	3,766.0	36.50	16	★★★★	🌐🌐🌐🌐	🌱
Calvert Flexible Bond Fund Class I	ESG Focus	Nontraditional Bond	9/30/14	—	200.8	7.06	45	★★★★	—	—
Calvert Floating-Rate Advantage R6	ESG Focus	Bank Loan	10/10/17	—	52.0	9.47	4	—	—	—
Calvert Global Energy Solutions I	Sustainable Sector	World Small/Mid Stock	5/31/07	—	90.4	33.48	15	★★	🌐🌐🌐	—
Calvert Global Water A	Sustainable Sector	Natural Resources	9/30/08	—	445.3	28.02	3	★★★★	🌐🌐🌐	—
Calvert Green Bond I	Impact/Thematic	Intermediate Core-Plus Bd	10/31/13	—	418.4	8.34	72	★★★	—	—
Calvert Growth Allocation A	ESG Focus	Allocation--85%+ Equity	6/30/05	—	178.8	27.33	12	★★★★	🌐🌐🌐🌐	🌱
Calvert High Yield Bond I	ESG Focus	High Yield Bond	7/9/01	—	223.2	12.81	58	★★★★	—	—
Calvert Income A	ESG Focus	Corporate Bond	10/12/82	—	575.4	14.74	27	★★★	—	—
Calvert International Equity A	ESG Focus	Foreign Large Blend	7/2/92	—	300.9	30.69	2	★★★★	🌐🌐🌐🌐	🌱
Calvert International Opportunities I	ESG Focus	Foreign Small/Mid Growth	5/31/07	—	394.2	26.10	55	★★★	🌐🌐🌐	—
Calvert International Responsible Idx I	ESG Focus	Foreign Large Blend	10/30/15	—	163.5	24.40	18	★★★★	🌐🌐🌐	🌱
Calvert Long-Term Income A	ESG Focus	Long-Term Bond	12/31/04	—	81.0	20.76	52	★★	—	—
Calvert Mid-Cap A	ESG Focus	Mid-Cap Blend	10/31/94	—	230.7	30.57	16	★★★	🌐🌐🌐🌐	—
Calvert Moderate Allocation A	ESG Focus	Allocation--50% to 70% Eq.	4/29/05	—	348.6	21.19	23	★★★★	🌐🌐🌐	—
Calvert Responsible Municipal Income A	Impact/Thematic	Muni National Intern	8/23/83	—	185.1	7.10	37	★★★	—	—
Calvert Short Duration Income A	ESG Focus	Short-Term Bond	1/31/02	—	1,748.8	6.21	12	★★★★	—	—
Calvert Small-Cap A	ESG Focus	Small Blend	10/1/04	—	861.8	26.01	28	★★★★★	🌐🌐🌐	—
Calvert Ultra-Short Duration Income A	ESG Focus	Ultrashort Bond	10/31/06	—	988.1	3.31	36	★★★	—	—
Calvert US Large Cap Core Rspnb Idx I	ESG Focus	Large Blend	6/30/00	—	2,191.5	32.82	11	★★★★★	🌐🌐🌐	🌱
Calvert US Large Cap Growth Rspnb Idx I	ESG Focus	Large Growth	6/19/15	—	105.9	35.32	25	★★★★	🌐🌐🌐	🌱
Calvert US Large Cap Value Rspnb Idx I	ESG Focus	Large Value	6/19/15	—	519.7	29.38	12	★★★	🌐🌐🌐	🌱
Calvert US Mid Cap Core Rspnb Idx I	ESG Focus	Mid-Cap Blend	10/30/15	—	71.2	31.05	13	★★★★	🌐🌐🌐	🌱
CCM Alternative Income Institutional	ESG Focus	Multialternative	5/31/13	—	58.3	8.85	40	★★★★	—	—
Change Finance US LgCp FossilFuel Fr ETF	Impact/Thematic	Large Blend	10/9/17	—	12.7	31.77	18	—	🌐🌐🌐🌐	🌱
ClearBridge Dividend Strategy ESG ETF	ESG Focus	Large Blend	5/22/17	—	6.6	29.41	55	—	🌐🌐🌐	—
ClearBridge Large Cap Growth ESG ETF	ESG Focus	Large Growth	5/22/17	—	201.3	32.08	51	—	🌐🌐🌐	🌱
ClearBridge Sustainability Leaders I	ESG Focus	Large Growth	3/31/15	—	14.0	37.79	10	★★★	🌐🌐🌐🌐	🌱
Coho Relative Value ESG	ESG Focus	Large Value	11/27/19	—	0.2	—	—	—	—	—
Columbia Sustainable Global Eq Inc ETF	ESG Focus	World Large Stock	6/13/16	—	17.0	24.79	59	★★	🌐🌐🌐	—
Columbia Sustainable Intl Eq Inc ETF	ESG Focus	Foreign Large Value	6/13/16	—	5.3	15.52	79	★★★	🌐🌐🌐	—
Columbia Sustainable US Equity Inc ETF	ESG Focus	Large Value	6/13/16	—	6.1	30.52	7	★★★	🌐🌐🌐	—
Columbia US Social Bond Inst	Impact/Thematic	Muni National Long	3/26/15	—	54.7	8.05	48	★★★	—	—
Cornerstone Capital Access Impact Instl	Impact/Thematic	World Large Stock	11/13/19	—	5.5	—	—	—	🌐🌐	—
CRA Qualified Investment CRA	Impact/Thematic	Intermediate Government	8/30/99	—	2,309.8	5.43	77	★★★	—	—
Dana Epiphany ESG Equity Inv	ESG Focus	Large Blend	1/8/07	12/19/18	13.3	28.96	60	★★	🌐🌐🌐	—
DFA Em Mkts Sustnby Cor 1 Instl	ESG Focus	Diversified Emerging Mkts	3/27/18	—	326.7	16.69	69	—	🌐🌐	—
DFA Global Sustainability Fixed Inc Ins	ESG Focus	World Bond-USD Hedged	11/6/18	—	367.1	9.85	26	—	🌐🌐🌐🌐	—
DFA Intl Sustainability Core 1	ESG Focus	Foreign Large Blend	3/12/08	—	1,547.2	24.21	20	★★★★	🌐🌐	🌱
DFA US Sustainability Core 1	ESG Focus	Large Blend	3/12/08	—	2,330.0	32.52	12	★★★★	🌐🌐	🌱
Domini Impact Bond Investor	Impact/Thematic	Intermediate Core-Plus Bd	6/1/00	—	160.7	9.13	56	★★	—	—
Domini Impact Equity Investor	Impact/Thematic	Large Blend	6/3/91	—	807.5	31.66	20	★★	🌐🌐🌐🌐	🌱

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class. \*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	Fund AUM		% Rank	Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
				ESG Start Date**	2018-12 (\$Mil)**				
Domini Impact International Equity Inv	Impact/Thematic	Foreign Large Value	12/27/06	—	1,198.0	16.75	64 ★★★★★	🌍🌍🌍🌍🌍	🌱
DWS ESG Core Equity Institutional	ESG Focus	Large Blend	8/1/05	9/23/19	203.0	28.16	66 ★★	🌍🌍🌍🌍	—
DWS ESG Global Bond S	ESG Focus	World Bond-USD Hedged	3/1/91	5/1/19	56.0	9.30	34 ★★★★★	—	—
DWS ESG International Core Eq Instl	ESG Focus	Foreign Large Blend	11/11/14	12/1/19	23.9	26.02	10 ★★	🌍🌍🌍🌍🌍	—
Essex Environmental Opportunities Instl	Sustainable Sector	World Large Stock	9/1/17	—	12.1	25.83	51 —	🌍	—
Etho Climate Leadership US ETF	Impact/Thematic	Mid-Cap Growth	11/18/15	—	74.9	34.72	36 ★★	🌍🌍🌍🌍	🌱
Eventide Dividend Opportunities I	ESG Focus	World Large Stock	9/29/17	—	25.0	27.06	42 —	🌍🌍🌍🌍🌍	🌱
Eventide Gilead N	ESG Focus	Mid-Cap Growth	7/8/08	—	2,605.6	33.83	42 ★★★★★	🌍	—
Eventide Healthcare & Life Sciences I	Sustainable Sector	Health	12/27/12	—	1,289.7	58.74	1 ★★★★★	🌍	—
Eventide Limited-Term Bond A	ESG Focus	Short-Term Bond	7/28/10	12/20/18	51.4	5.71	20 ★★	🌍🌍🌍🌍	—
Eventide Multi-Asset Income I	ESG Focus	Allocation~30% to 50% Eq.	7/15/15	—	127.6	19.88	3 ★★★★★	🌍🌍🌍🌍	—
Federated Hermes Global Equity Instl	ESG Focus	World Large Stock	4/23/19	—	5.9	—	—	🌍🌍🌍	—
Federated Hermes Global Small Cap Instl	ESG Focus	World Small/Mid Stock	4/23/19	—	2.8	—	—	🌍🌍🌍	—
Federated Hermes SDG Eggn HY Crdt Instl	Impact/Thematic	High Yield Bond	9/25/19	—	26.4	—	—	—	—
Federated Hermes SDG Engagement Eq Instl	Impact/Thematic	World Small/Mid Stock	11/6/18	—	38.0	25.41	59 —	🌍🌍🌍	—
Fidelity® Intl Sustainability Idx	ESG Focus	Foreign Large Blend	5/9/17	—	88.9	22.18	40 —	🌍🌍🌍🌍	—
Fidelity® Select Envir and Alt Envy Port	Sustainable Sector	Industrials	6/29/89	—	191.5	26.83	78 ★★	🌍🌍🌍	—
Fidelity® Sustainability Bond Index	ESG Focus	Intermediate Core Bond	6/19/18	—	92.0	8.29	54 —	—	—
Fidelity® U.S. Sustainability Index	ESG Focus	Large Blend	5/9/17	—	263.9	31.53	22 —	🌍🌍🌍🌍🌍	—
Fidelity® Women's Leadership	Impact/Thematic	Large Blend	5/1/19	—	23.9	—	—	🌍🌍🌍🌍🌍	—
First Trust EIP Carbon Impact ETF	Sustainable Sector	Utilities	8/20/19	—	2.1	—	—	🌍🌍🌍	—
First Trust Global Wind Energy ETF	Sustainable Sector	Miscellaneous Sector	6/16/08	—	90.6	30.30	—	🌍🌍🌍🌍	—
First Trust NASDAQ® Cln Edge® GrnEngyETF	Sustainable Sector	Miscellaneous Sector	2/8/07	—	144.5	42.68	—	🌍	—
First Trust NASDAQ® Cln Edge® StGidlfsETF	Sustainable Sector	Miscellaneous Sector	11/16/09	—	32.9	42.11	—	🌍🌍🌍🌍🌍	—
First Trust Water ETF	Sustainable Sector	Miscellaneous Sector	5/8/07	—	536.2	37.12	—	🌍🌍	—
Firsthand Alternative Energy	Sustainable Sector	Technology	10/29/07	—	6.2	40.59	36 ★	🌍	—
FlexShares STOXX Gbl ESG Impact ETF	Impact/Thematic	World Large Stock	7/13/16	—	96.9	29.27	27 ★★★★★	🌍🌍🌍🌍	—
FlexShares STOXX US ESG Impact ETF	Impact/Thematic	Large Blend	7/13/16	—	63.4	31.13	33 ★★★★★	🌍🌍🌍🌍	—
Franklin Municipal Green Bond Adv	Impact/Thematic	Muni National Interm	10/1/19	—	5.0	—	—	—	—
Frontier MFG Global Sustainable Instl	ESG Focus	World Large Stock	10/9/19	—	10.9	—	—	—	—
FundX Sustainable Impact	Impact/Thematic	Large Growth	3/31/17	—	19.9	26.54	90 —	🌍🌍🌍	🌱
Gabelli ESG I	ESG Focus	Large Blend	6/1/07	—	41.2	26.23	81 ★	🌍🌍🌍🌍	🌱
Glenmede Responsible ESG US Equity	ESG Focus	Large Blend	12/22/15	—	25.4	23.56	90 ★★	🌍🌍🌍🌍🌍	—
Glenmede Women in Leadership US Eq	Impact/Thematic	Large Value	12/22/15	—	23.1	26.88	32 ★★★★★	🌍🌍🌍🌍	—
Global X Conscious Companies ETF	Impact/Thematic	Large Blend	7/11/16	—	90.8	30.33	45 ★★★★★	🌍🌍🌍🌍	—
GMO Climate Change III	Sustainable Sector	World Small/Mid Stock	4/5/17	—	129.0	26.45	48 —	🌍	—
GMO Climate Change Series PS	Sustainable Sector	World Small/Mid Stock	11/16/18	—	13.1	26.13	50 —	🌍	—
Goldman Sachs ESG Em Mkts Eq R6	ESG Focus	Diversified Emerging Mkts	5/31/18	—	7.8	27.09	12 —	🌍🌍🌍🌍	🌱
Goldman Sachs International Eq ESG Svc	ESG Focus	Foreign Large Blend	12/1/92	2/28/2018	129.1	27.55	5 ★★	🌍🌍🌍🌍	🌱
Goldman Sachs JUST US Large Cap Eq ETF	Impact/Thematic	Large Blend	6/7/18	—	149.4	31.60	21 —	🌍🌍🌍	—
Gotham ESG Large Value Institutional	ESG Focus	Large Value	12/28/18	—	1.3	30.53	7 —	🌍🌍🌍🌍🌍	—
Green California Tax-Free Income Fund	Impact/Thematic	Muni California Int.	12/4/85	1/1/15	63.1	4.84	84 ★★	—	—
Green Century Balanced	ESG Focus	Allocation~50% to 70% Eq.	3/18/92	—	292.5	20.91	26 ★★	🌍🌍🌍🌍🌍	🌱
Green Century Equity Individual Investor	ESG Focus	Large Growth	9/13/95	—	330.2	30.72	63 ★★	🌍🌍🌍🌍🌍	🌱
Green Century MSCI Intl Indx Instl	ESG Focus	Foreign Large Blend	9/30/16	—	77.2	25.50	12 ★★★★★	🌍🌍🌍🌍🌍	🌱

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class. \*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	Annual Return					Morningstar Sustainability Rating	Low Carbon
				ESG Start Date**	Fund AUM (\$Mil)***	2018	% Rank Cat	Morningstar Rating Overall		
Guinness Atkinson Alternative Energy	Sustainable Sector	Foreign Small/Mid Value	3/31/06	—	9.3	30.20	1	★	●●●●	—
Hartford Climate Opportunities Y	Sustainable Sector	World Small/Mid Stock	2/29/16	—	40.7	33.96	13	★★★★	●●●●●●	—
Hartford Global Impact R6	Impact/Thematic	World Small/Mid Stock	2/28/17	—	106.2	27.92	38	—	●●●●●●	—
Highland Socially Responsible Equity A	ESG Focus	Large Growth	12/31/96	7/17/19	80.9	11.63	100	★	●●●●●	✔
Horizon ESG Defensive Core Inv	ESG Focus	Large Blend	12/27/19	—	0.5	—	—	—	—	—
Impact Shares NAACP Minority Empwmt ETF	Impact/Thematic	Large Blend	7/12/18	—	2.9	30.10	48	—	●●●●●	✔
Impact Shares Sus Dev Glb Eq ETF	Impact/Thematic	Large Value	9/24/18	—	2.2	23.07	77	—	●●●●●●	✔
Impact Shares YWCA Women's Empwmt ETF	Impact/Thematic	Large Blend	8/24/18	—	6.9	31.80	18	—	●●●●●	—
Integrity Growth & Income A	ESG Focus	Large Blend	1/3/95	—	42.2	33.10	10	★★★★	●●●●●●	✔
Invesco Cleantech™ ETF	Sustainable Sector	Miscellaneous Sector	10/24/06	—	229.1	35.71	—	—	●●●●●	—
Invesco ESG Revenue ETF	ESG Focus	Large Value	10/28/16	—	26.1	27.92	23	★★★★	●●●●●●	—
Invesco Global Clean Energy ETF	Sustainable Sector	Miscellaneous Sector	6/13/07	—	56.3	39.66	—	—	●●●	—
Invesco Global ESG Revenue ETF	ESG Focus	World Large Stock	10/27/16	—	25.0	21.71	76	★★★★	●●●●●	—
Invesco Global Responsibility Equity Y	ESG Focus	World Large Stock	7/1/16	—	9.3	16.46	96	★	●●●●●●	✔
Invesco Global Water ETF	Sustainable Sector	Miscellaneous Sector	6/13/07	—	202.6	35.08	—	—	●●●●●	—
Invesco S&P Global Water ETF	Sustainable Sector	Miscellaneous Sector	5/14/07	—	720.9	33.40	—	—	●●●●●	—
Invesco Solar ETF	Sustainable Sector	Miscellaneous Sector	4/15/08	—	443.4	65.65	—	—	●●	—
Invesco Water Resources ETF	Sustainable Sector	Miscellaneous Sector	12/6/05	—	1,116.8	37.46	—	—	●●●	—
Invesco WilderHill Clean Energy ETF	Sustainable Sector	Miscellaneous Sector	3/3/05	—	217.2	61.85	—	—	●●	—
IQ Candriam ESG International Equity ETF	ESG Focus	Foreign Large Blend	12/16/19	—	11.4	—	—	—	●●●●●	—
IQ Candriam ESG US Equity ETF	ESG Focus	Large Blend	12/16/19	—	6.4	—	—	—	●●●●●●	—
iShares ESG 1-5 Year USD Corp Bd ETF	ESG Focus	Short-Term Bond	7/11/17	—	163.7	6.95	5	—	●●●●●●	—
iShares ESG MSCI EAFE ETF	ESG Focus	Foreign Large Blend	6/28/16	—	1,490.7	23.45	25	★★★★	●●●●●	—
iShares ESG MSCI EM ETF	ESG Focus	Diversified Emerging Mkts	6/28/16	—	880.6	19.11	50	★★★★	●●●●●	—
iShares ESG MSCI USA ETF	ESG Focus	Large Blend	12/1/16	—	1,463.4	32.21	15	★★★★	●●●●●	—
iShares ESG MSCI USA Leaders ETF	ESG Focus	Large Blend	5/7/19	—	1,836.6	—	—	—	●●●●●●	—
iShares ESG MSCI USA Small-Cap ETF	ESG Focus	Small Blend	4/10/18	—	112.6	28.53	14	—	●●●●●	—
iShares ESG U.S. Aggregate Bond ETF	ESG Focus	Intermediate Core Bond	10/18/18	—	155.3	8.71	35	—	—	—
iShares ESG USD Corporate Bond ETF	ESG Focus	Corporate Bond	7/11/17	—	89.7	14.58	33	—	●●●●●	—
iShares Global Clean Energy ETF	Sustainable Sector	Miscellaneous Sector	6/24/08	—	429.0	43.81	—	—	●●●●●	—
iShares Global Green Bond ETF	Impact/Thematic	World Bond-USD Hedged	11/13/18	—	42.8	9.35	33	—	—	—
iShares MSCI ACWI Low Carbon Target ETF	Impact/Thematic	World Large Stock	12/8/14	—	491.9	27.90	36	★★★★	●●●●●	—
iShares MSCI Global Impact ETF	Impact/Thematic	World Large Stock	4/20/16	—	75.0	24.78	59	★★★★	●●●●●	✔
iShares MSCI KLD 400 Social ETF	ESG Focus	Large Blend	11/14/06	—	1,845.2	31.27	30	★★★★	●●●●●●	—
iShares MSCI USA ESG Select ETF	ESG Focus	Large Blend	1/24/05	—	1,193.7	32.18	15	★★★★	●●●●●●	✔
JHancock ESG All Cap Core R6	ESG Focus	Large Growth	6/6/16	—	29.6	28.96	77	★★	●●●●●	✔
JHancock ESG Core Bond R6	ESG Focus	Intermediate Core Bond	12/14/16	—	62.3	6.26	88	★★	—	—
JHancock ESG International Equity R6	ESG Focus	Foreign Large Growth	12/14/16	—	62.2	23.69	86	★★★★	●●●●●	✔
JHancock ESG Large Cap Core R6	ESG Focus	Large Blend	6/6/16	—	69.2	30.83	39	★★★★	●●●●●●	✔
JPMorgan Intrepid Sustainable Equity I	ESG Focus	Large Blend	2/28/03	11/1/2016	36.9	29.93	49	★★★★	●●●●●●	—
JPMorgan Municipal Income I	Impact/Thematic	Muni National Interm	2/9/93	2/28/2017	255.9	6.17	76	★★★★	—	—
Karner Blue Animal Impact Institutional	Sustainable Sector	Miscellaneous Sector	9/17/19	—	5.3	—	—	—	●●●●●	—
KBI Global Investors Aquarius Instl	Sustainable Sector	Natural Resources	10/12/18	—	53.8	24.31	9	—	●●●●●	—
Kennedy Capital ESG SMID Cap I	ESG Focus	Mid-Cap Blend	6/28/19	—	1.4	—	—	—	●●●●●	—
KraneShares MSCI China Environment ETF	ESG Focus	China Region	10/12/17	—	1.9	11.85	88	—	●●●●●	—

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class. \*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.



## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	ESG Start Date**	Fund AUM 2018-12 (\$Mil)***	Annual Return		Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
						% Rank 2018	Cat			
Matthews Asia ESG Institutional	ESG Focus	Pacific/Asia ex-Japan Stk	4/30/15	—	55.1	12.74	88	★★★	🌐	—
Mesirow Financial Sm Cp Value Sust Instl	ESG Focus	Small Value	12/19/18	—	10.7	23.03	31	—	🌐🌐🌐	—
Miller/Howard Income-Equity I	ESG Focus	Large Value	12/31/15	—	79.9	23.00	77	★★	🌐🌐🌐🌐	—
Mirova Global Green Bond N	Impact/Thematic	World Bond	2/28/17	—	36.8	9.52	12	—	🌐🌐🌐🌐🌐	—
Mirova Global Sustainable Equity Y	ESG Focus	World Large Stock	3/31/16	—	146.9	33.00	8	★★★★★	🌐🌐🌐🌐	🌱
Mirova International Sustainable Eq N	ESG Focus	Foreign Large Blend	12/28/18	—	17.0	26.57	8	—	🌐🌐🌐🌐🌐	🌱
Morgan Stanley Inst Global Sustain I	ESG Focus	World Large Stock	8/30/13	3/29/2018	29.5	30.03	21	★★★★★	🌐🌐🌐🌐	🌱
Nationwide Global Sust Eq R6	ESG Focus	World Large Stock	1/28/94	12/10/2015	54.2	29.42	25	★★★	🌐🌐🌐🌐	🌱
Natixis Sustainable Future 2015 N	ESG Focus	Target-Date 2015	2/28/17	—	6.2	16.52	24	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2020 N	ESG Focus	Target-Date 2020	2/28/17	—	6.1	17.94	21	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2025 N	ESG Focus	Target-Date 2025	2/28/17	—	6.2	19.15	33	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2030 N	ESG Focus	Target-Date 2030	2/28/17	—	6.7	20.99	37	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2035 N	ESG Focus	Target-Date 2035	2/28/17	—	5.6	23.12	25	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2040 N	ESG Focus	Target-Date 2040	2/28/17	—	5.8	23.83	46	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2045 N	ESG Focus	Target-Date 2045	2/28/17	—	4.8	25.23	34	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2050 N	ESG Focus	Target-Date 2050	2/28/17	—	4.4	24.89	51	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2055 N	ESG Focus	Target-Date 2055	2/28/17	—	3.8	25.51	38	—	🌐🌐🌐🌐🌐	—
Natixis Sustainable Future 2060 N	ESG Focus	Target-Date 2060+	2/28/17	—	3.2	25.78	34	—	🌐🌐🌐🌐🌐	—
Neuberger Berman AMT Sustainable Eq I	ESG Focus	Large Blend	2/18/99	—	612.8	25.88	83	★★★	🌐🌐🌐🌐🌐	🌱
Neuberger Berman Municipal Impact Instl	Impact/Thematic	Muni National Interm	3/11/13	6/28/2018	59.1	6.51	65	★★★	—	—
Neuberger Berman Sustainable Eq Investor	ESG Focus	Large Blend	3/16/94	—	1,853.5	25.87	83	★★★	🌐🌐🌐🌐🌐	🌱
New Alternatives A	Sustainable Sector	World Small/Mid Stock	9/3/82	—	223.9	36.98	7	★★★	🌐🌐🌐	—
Northern Global Sustainability Index	ESG Focus	World Large Stock	3/5/08	—	813.9	28.28	34	★★★	🌐🌐🌐🌐	—
Northern US Quality ESG	ESG Focus	Large Blend	10/2/17	—	121.4	31.40	26	—	🌐🌐🌐🌐🌐	🌱
Nuveen ESG Emerging Markets Equity ETF	ESG Focus	Diversified Emerging Mkts	6/6/17	—	62.3	16.06	73	—	🌐🌐🌐🌐	—
Nuveen ESG High Yield Corporate Bd ETF	ESG Focus	High Yield Bond	9/25/19	—	52.9	—	—	—	—	—
Nuveen ESG Intl Dev Mkts Eq ETF	ESG Focus	Foreign Large Blend	6/6/17	—	53.8	24.28	20	—	🌐🌐🌐🌐	🌱
Nuveen ESG Large-Cap ETF	ESG Focus	Large Blend	6/3/19	—	14.8	—	—	—	🌐🌐🌐🌐🌐	—
Nuveen ESG Large-Cap Growth ETF	ESG Focus	Large Growth	12/13/16	—	126.3	39.27	5	★★★★	🌐🌐🌐🌐🌐	🌱
Nuveen ESG Large-Cap Value ETF	ESG Focus	Large Value	12/13/16	—	129.5	26.76	34	★★★★	🌐🌐🌐🌐	—
Nuveen ESG Mid-Cap Growth ETF	ESG Focus	Mid-Cap Growth	12/13/16	—	59.9	34.37	38	★★★	🌐🌐🌐🌐🌐	🌱
Nuveen ESG Mid-Cap Value ETF	ESG Focus	Mid-Cap Value	12/13/16	—	51.3	29.34	22	★★★★	🌐🌐🌐🌐🌐	—
Nuveen ESG Small-Cap ETF	ESG Focus	Small Blend	12/13/16	—	197.9	26.82	22	★★★★★	🌐🌐🌐🌐	—
Nuveen ESG US Aggregate Bond ETF	ESG Focus	Intermediate Core Bond	9/29/17	—	79.1	8.17	59	—	—	—
Old Westbury All Cap ESG	ESG Focus	World Large Stock	3/1/18	—	40.4	21.56	78	—	🌐🌐🌐🌐🌐	—
Parnassus	ESG Focus	Large Blend	12/27/84	—	986.1	29.82	50	★★★	🌐🌐🌐🌐🌐	🌱
Parnassus Core Equity Investor	ESG Focus	Large Blend	8/31/92	—	18,659.1	30.69	41	★★★★	🌐🌐🌐🌐🌐	🌱
Parnassus Endeavor Investor	ESG Focus	Large Blend	4/29/05	—	3,845.4	33.29	9	★★★	🌐🌐🌐🌐🌐	🌱
Parnassus Fixed-Income	ESG Focus	Intermediate Core-Plus Bd	8/31/92	—	230.1	9.63	36	★★	—	—
Parnassus Mid-Cap	ESG Focus	Mid-Cap Blend	4/29/05	—	5,057.1	28.75	30	★★★★★	🌐🌐🌐🌐🌐	🌱
Pax Core Bond Fund Institutional	ESG Focus	Intermediate Core Bond	12/16/16	—	708.0	8.04	63	★★★	—	—
Pax Ellevest Gbl Women's Ldrsp Indv Inv	Impact/Thematic	World Large Stock	10/1/93	—	464.6	26.42	47	★★★★	🌐🌐🌐🌐🌐	—
Pax ESG Beta Dividend Fund Institutional	ESG Focus	Large Blend	12/16/16	—	132.9	26.18	81	★★★	🌐🌐🌐🌐🌐	🌱
Pax ESG Beta Quality Individual Investor	ESG Focus	Large Blend	6/11/97	—	240.5	27.13	75	★★★	🌐🌐🌐🌐🌐	🌱
Pax Global Environmental Mkts Instl	Sustainable Sector	World Large Stock	3/27/08	—	967.3	28.17	34	★★★	🌐🌐🌐🌐	🌱

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class.

\*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	ESG Start Date**	Annual Return		Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
					Fund AUM 2018-12 (\$Mil)***	% Rank 2018			
Pax Global Opportunities Institutional	ESG Focus	World Large Stock	6/27/18	—	42.1	33.72	6	—	—
Pax High Yield Bond Individual Investor	ESG Focus	High Yield Bond	10/8/99	—	374.4	14.11	37	★★★	—
Pax Large Cap Fund Institutional	ESG Focus	Large Blend	12/16/16	—	766.3	35.23	4	★★★★	✔
Pax MSCI EAFE ESG Leaders Index Instl	ESG Focus	Foreign Large Blend	1/27/11	—	645.0	23.01	29	★★★	✔
Pax Small Cap Institutional	ESG Focus	Small Blend	3/27/08	—	433.4	23.56	54	★★★	—
Pax Sustainable Allocation Indiv Inv	ESG Focus	Allocation—50% to 70% Eq.	8/10/71	—	1,915.5	20.83	27	★★★	—
PIMCO Climate Bond Institutional	Impact/Thematic	Intermediate Core-Plus Bd	12/10/19	—	5.0	—	—	—	—
PIMCO Enhanced Short Mtrty Actv ESG ETF	ESG Focus	Ultrashort Bond	12/10/19	—	17.0	—	—	—	—
PIMCO Low Duration ESG Institutional	ESG Focus	Short-Term Bond	12/31/96	1/6/17	293.4	4.26	64	★★★	—
PIMCO RAFI ESG US ETF	ESG Focus	Large Blend	12/18/19	—	13.1	—	—	—	—
PIMCO Total Return ESG Institutional	ESG Focus	Intermediate Core-Plus Bd	5/1/91	1/6/17	1,447.3	8.94	60	★★★	—
Praxis Genesis Balanced A	ESG Focus	Allocation—50% to 70% Eq.	12/31/09	—	83.2	18.54	66	★★★	—
Praxis Genesis Conservative A	ESG Focus	Allocation—30% to 50% Eq.	12/31/09	—	26.7	14.08	69	★★★	—
Praxis Genesis Growth A	ESG Focus	Allocation—70% to 85% Eq.	12/31/09	—	74.3	22.16	49	★★★	✔
Praxis Growth Index I	ESG Focus	Large Growth	5/1/07	—	325.6	31.91	53	★★★★	✔
Praxis Impact Bond A	Impact/Thematic	Intermediate Core Bond	5/12/99	—	586.6	7.75	69	★★★	—
Praxis International Index I	ESG Focus	Foreign Large Blend	12/31/10	—	288.5	20.45	68	★★★	—
Praxis Small Cap Index I	ESG Focus	Small Blend	5/1/07	—	120.4	22.12	69	★★	—
Praxis Value Index A	ESG Focus	Large Value	5/1/01	—	254.0	32.21	3	★★★	—
ProShares S&P 500® ex-Energy	ESG Focus	Large Blend	9/22/15	—	12.7	32.14	16	★★★★★	✔
Putnam Sustainable Future A	ESG Focus	Large Growth	11/1/99	3/1/2018	418.2	29.76	73	★★	✔
Putnam Sustainable Leaders A	ESG Focus	Large Growth	8/31/90	3/1/2018	4,941.2	35.84	22	★★★	✔
Quaker Impact Growth Advisor	Impact/Thematic	Large Growth	11/25/96	10/2/2018	63.6	32.85	43	★	✔
Quaker Small/Mid-Cap Impact Val Advisor	Impact/Thematic	Small Value	11/25/96	10/2/2018	28.9	25.23	19	★★★★★	—
RBC Impact Bond R6	Impact/Thematic	Intermediate Core Bond	12/18/17	—	27.2	7.56	72	—	—
REMS International RI Estt Val-Opp Fndrs	ESG Focus	Global Real Estate	5/8/14	12/3/18	89.8	21.48	70	★★★★	—
Reynders McVeigh Core Equity Instl	ESG Focus	Large Growth	3/29/19	—	23.0	—	—	—	—
Riverbridge Eco Leaders® Institutional	Impact/Thematic	Mid-Cap Growth	12/31/14	—	6.8	32.25	52	★★★★	✔
Russell Inv Sustainable Equity E	ESG Focus	Large Blend	5/14/99	1/1/19	309.1	27.35	74	★★★	✔
Sage ESG Intermediate Credit ETF	ESG Focus	Corporate Bond	10/30/17	—	17.7	8.74	93	—	—
Saturna Sustainable Bond	ESG Focus	World Bond	3/27/15	—	28.1	7.08	47	★★	—
Saturna Sustainable Equity	ESG Focus	World Large Stock	3/27/15	—	8.8	30.95	16	★★★★	✔
Segall Bryant&Hamill Workplace Eq Ret	Impact/Thematic	Large Value	6/1/88	7/11/19	18.1	26.85	33	★★★	—
Shelton Green Alpha	ESG Focus	Mid-Cap Growth	3/12/13	—	60.4	43.72	3	★★	—
Sit ESG Growth I	ESG Focus	Large Blend	7/1/16	—	6.8	26.41	79	★★★	✔
SPDR® Kensho Clean Power ETF	Sustainable Sector	Equity Energy	10/19/18	—	13.1	62.02	1	—	—
SPDR® MSCI ACWI Low Carbon Target ETF	Impact/Thematic	World Large Stock	11/25/14	—	89.3	27.76	37	★★★	—
SPDR® MSCI EAFE Fossil Fuel Free ETF	Impact/Thematic	Foreign Large Blend	10/24/16	—	101.2	22.93	30	★★★	✔
SPDR® MSCI Em Mkts Fossil Fuel Free ETF	Impact/Thematic	Diversified Emerging Mkts	10/24/16	—	101.2	17.46	64	★★★	—
SPDR® S&P 500 Fossil Fuel Rsrsv Free ETF	Impact/Thematic	Large Blend	11/30/15	—	461.7	32.15	15	★★★★	—
SPDR® SSGA Gender Diversity ETF	Impact/Thematic	Large Blend	3/7/16	—	154.6	23.76	90	★★★	—
State Street ESG Liquid Reserves Pre	ESG Focus	Money Market—Taxable	12/4/19	—	880.1	—	—	—	—
Strategy Shares EcoLogical Strategy ETF	Impact/Thematic	Miscellaneous Sector	6/18/12	—	53.3	6.77	—	—	—
The Organics ETF	Sustainable Sector	Consumer Defensive	6/8/16	—	7.2	-0.15	100	★	—
Thornburg Better World International I	ESG Focus	Foreign Large Blend	9/30/15	—	78.0	24.56	17	★★★	✔

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class. \*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix A Sustainable Funds Included in Report (Continued)

Name*	Sustainable Fund Type	Morningstar Category	Inception Date	ESG Start Date**	Fund AUM		% Rank 2018	Morningstar Cat	Morningstar Rating Overall	Morningstar Sustainability Rating	Low Carbon
					2018-12 (\$Mil)***						
TIAA-CREF Green Bond Institutional	Impact/Thematic	Intermediate Core-Plus Bd	11/16/18	—	31.4	8.92	60	—	—	—	—
TIAA-CREF Short Duration Impact Bd Instl	ESG Focus	Short-Term Bond	11/16/18	—	28.6	5.06	36	—	—	—	—
TIAA-CREF Social Choice Bond Instl	Impact/Thematic	Intermediate Core-Plus Bd	9/21/12	—	4,681.9	8.73	65	★★★★	—	—	—
TIAA-CREF Social Choice Eq Instl	ESG Focus	Large Blend	7/1/99	—	4,990.0	31.49	23	★★★	🌍🌍🌍🌍	—	—
TIAA-CREF Social Choice Intl Eq Instl	ESG Focus	Foreign Large Blend	8/7/15	—	319.6	23.31	26	★★★★	🌍🌍🌍🌍	—	—
TIAA-CREF Social Choice LwCrbn Eq Instl	Impact/Thematic	Large Blend	8/7/15	—	260.6	32.22	14	★★★	🌍🌍🌍🌍	🌱	—
Tortoise Energy Evolution Instl	Sustainable Sector	Equity Energy	9/30/13	12/31/19	18.8	7.69	51	★★★★	🌍🌍	—	—
Tortoise Global Water ESG	Sustainable Sector	Natural Resources	2/14/17	6/5/18	15.6	36.61	1	—	🌍🌍🌍🌍🌍	🌱	—
Touchstone Global ESG Equity Fd - CI A	ESG Focus	World Large Stock	12/19/97	5/4/15	737.0	21.23	80	★★★★	🌍🌍	🌱	—
Touchstone Impact Bond Y	Impact/Thematic	Intermediate Core Bond	11/15/91	5/21/18	324.3	7.91	66	★★★★	—	—	—
Touchstone International ESG Equity A	ESG Focus	Foreign Large Blend	12/3/07	—	33.8	23.21	—	—	🌍🌍🌍	—	—
Trillium ESG Small/Mid Cap Inst	ESG Focus	Mid-Cap Growth	8/31/15	—	20.8	25.06	94	★	🌍🌍🌍🌍	—	—
Trillium P21 Global Equity R	ESG Focus	World Large Stock	9/30/99	—	606.8	28.20	34	★★★★	🌍🌍🌍🌍🌍	🌱	—
UBS Engage For Impact P	Impact/Thematic	World Large Stock	10/24/18	—	22.0	23.64	66	—	🌍🌍	🌱	—
UBS International Sustainable Equity P	ESG Focus	Foreign Large Blend	8/31/93	10/28/2013	210.9	22.58	35	★★★★	🌍🌍🌍🌍	🌱	—
UBS Sustainable Development Bank Bond P	Impact/Thematic	World Bond-USD Hedged	10/24/18	—	36.3	6.79	82	—	🌍🌍🌍🌍🌍	—	—
UBS US Sustainable Equity P	ESG Focus	Large Blend	2/22/94	10/27/2017	33.5	37.22	2	★★★	🌍🌍🌍🌍	🌱	—
US Vegan Climate ETF	Sustainable Sector	Large Blend	9/9/19	—	11.6	—	—	—	🌍🌍🌍🌍🌍	—	—
VanEck Vectors Environmental Svcs ETF	Sustainable Sector	Industrials	10/10/06	—	37.3	28.22	67	★★★★	🌍🌍🌍	—	—
VanEck Vectors Green Bond ETF	Impact/Thematic	World Bond	3/3/17	—	26.4	5.53	73	—	🌍🌍🌍🌍	—	—
VanEck Vectors Low Carbon Energy ETF	Sustainable Sector	Miscellaneous Sector	5/3/07	—	104.7	37.39	—	—	🌍🌍🌍	—	—
Vanguard ESG International Stock ETF	ESG Focus	Foreign Large Blend	9/18/18	—	618.2	22.80	32	—	🌍🌍🌍	🌱	—
Vanguard ESG US Stock ETF	ESG Focus	Large Blend	9/18/18	—	872.6	33.40	9	—	🌍🌍🌍🌍	🌱	—
Vanguard FTSE Social Index I	ESG Focus	Large Blend	1/14/03	—	7,483.4	33.96	7	★★★★★	🌍🌍🌍🌍	🌱	—
Vanguard Global ESG Select Stk Admiral	ESG Focus	World Large Stock	6/4/19	—	98.6	—	—	—	🌍🌍🌍🌍🌍	—	—
Vert Global Sustainable Real Estate Inst	Sustainable Sector	Global Real Estate	10/31/17	—	41.3	24.61	31	—	🌍🌍🌍🌍🌍	—	—
Walden Balanced	ESG Focus	Allocation—70% to 85% Eq.	6/18/99	—	157.9	23.70	26	★★★★★	🌍🌍🌍🌍🌍	🌱	—
Walden Equity	ESG Focus	Large Blend	6/18/99	—	248.2	32.30	14	★★★★	🌍🌍🌍🌍🌍	🌱	—
Walden International Equity	ESG Focus	Foreign Large Blend	6/9/15	—	57.0	20.62	66	★★★	🌍🌍🌍🌍	—	—
Walden Midcap	ESG Focus	Mid-Cap Blend	8/1/11	—	62.4	28.38	34	★★★★★	🌍🌍🌍🌍	🌱	—
Walden Small Cap	ESG Focus	Small Blend	10/24/08	—	127.5	29.15	11	★★★★★	🌍🌍🌍🌍	—	—
Walden SMID Cap	ESG Focus	Mid-Cap Blend	6/28/12	—	61.6	26.12	57	★★★★★	🌍🌍🌍🌍	—	—
Xtrackers MSCI ACWI ex USA ESG LdrsEqETF	ESG Focus	Foreign Large Blend	12/4/18	—	8.4	22.53	36	—	🌍🌍🌍	—	—
Xtrackers MSCI EAFE ESG Leaders Eq ETF	ESG Focus	Foreign Large Blend	9/5/18	—	9.4	23.87	23	—	🌍🌍🌍🌍	—	—
Xtrackers MSCI EMs ESG Leaders Eq ETF	ESG Focus	Diversified Emerging Mkts	12/4/18	—	8.2	19.15	50	—	🌍🌍🌍	—	—
Xtrackers MSCI USA ESG Leaders Eq ETF	ESG Focus	Large Blend	3/6/19	—	1,703.4	—	—	—	🌍🌍🌍🌍🌍	—	—
Xtrackers S&P 500 ESG ETF	ESG Focus	Large Blend	6/25/19	—	108.9	—	—	—	🌍🌍🌍🌍	—	—
Zeo Sustainable Credit I	ESG Focus	Multisector Bond	5/31/19	—	9.8	—	—	—	—	—	—

Source: Morningstar Direct. Data as of 12/31/2019. \*For funds with multiple share classes, the largest share class is shown. Returns, Category % Rank, and Morningstar Rating refer to largest share class.

\*\*ESG Start Date shows the date a fund added ESG to its prospectus after its launch. \*\*\*Fund AUM includes all share classes of multiple share-class funds.

## Appendix B

### Appendix B Examples of Sustainable Funds Prospectus Language

The Fund's investment approach is based on proprietary, bottom-up fundamental research conducted by the advisor. The advisor considers the investment universe, sector-by-sector and region-by-region, looking for companies with strong long-term fundamentals that also meet the advisor's ESG criteria. The advisor will place an emphasis on the following company attributes: (1) a proven track record of effective capital allocation; (2) leading ESG practices as determined by the advisor through an evaluation of how the company integrates material ESG risks and opportunities into its corporate strategy (e.g., a realistic assessment of long-term ESG risks and opportunities, increased transparency into the company's ESG practices, management teams with aligned incentives, better governance practices, and thoughtful resource allocation); and (3) confidence that a wide gap between return on capital and cost of capital can be sustained. The advisor will then examine issues outside the scope of traditional research—such as corporate culture, adaptability, and employee engagement—to build conviction in each holding.

– **Vanguard Global ESG Select Stock, Summary Prospectus, May 21, 2019.**

As part of the strategy's assessment of quality and its approach to risk management, risks associated with a company's approach to environmental, social and governance (ESG) issues are actively assessed. The Adviser considers data on Hermes' proprietary ESG Dashboard, which contains a wide range of ESG factors and ranks companies on their behaviors versus peers. The Adviser assesses companies within its investment universe on their exposure to and management of ESG risks and assigns a weighted score for each. ESG represents governance (being the way in which the company is run), environmental issues (such as the impact on natural resources), and social issues (such as human rights). No sector or industry is excluded from the initial analysis. The ESG score favors companies with lower ESG risks than companies who are actively improving their focus on ESG issues. The ESG score is combined with the output of the quantitative model to determine the overall attractiveness of each company. The output from this quantitative model is analyzed by the Adviser to ensure that all relevant information is accurately captured and that the portfolio is not exposed to risks not otherwise identified by this quantitative model. These ESG considerations are intended to provide guidance on achieving best practice standards of corporate governance and equity stewardship in order to make informed investment decisions.

– **Federated Hermes Global Equity, Summary Prospectus, Jan. 31, 2020.**

The Fund seeks to track the investment results of the Index, which is comprised of equity securities issued by large capitalization companies listed on U.S. exchanges that meet certain environmental, social, and governance ("ESG") criteria. . . . As of April 30, 2019, the Index was comprised of 288 securities. The Index identifies equity securities from the Base Index that satisfy certain ESG criteria, based on ESG performance data collected by MSCI ESG Research, Inc. ESG performance is measured on an industry-specific basis, with assessment categories varying by industry. Environmental assessment categories can include a company's impact on climate change, natural resource use, and waste management and emission management. Social evaluation categories can include a company's relations with employees and suppliers, product safety and sourcing practices. Governance assessment categories can include a company's corporate governance practices and business ethics. The ESG criteria also consider how well a company adheres to national and international laws and regulations as well as commonly accepted global norms related to ESG matters. The Index generally excludes companies with significant activities in certain controversial businesses, including those involving alcohol, tobacco, military weapons, firearms, nuclear power and gambling, among others.

Companies that meet the ESG criteria are then ranked within their respective sectors based on their ESG performance score. The highest ranked companies in each sector are identified as eligible for inclusion in the Index until such point that the aggregate weight of companies in the sector reaches 50% of the market cap of such sector in the Base Index. For example, if the market capitalization of all consumer discretionary sector companies included in the Base Index totals \$200 million, then the Index would screen these consumer discretionary sector companies, rank them based on ESG performance scores, and add the highest scoring companies to the Index until such point that their combined total market capitalization reaches \$100 million. Those companies identified as eligible for inclusion in the Index are market capitalization weighted within their respective sectors. Companies otherwise eligible for inclusion in the Index that exceed certain carbon-based ownership and emissions thresholds are excluded from the Index. Once the universe of eligible Index components is established, the Index optimizes the market cap weightings of its individual components so that the sector weightings of the Index approximate the sector weightings of the Base Index, within certain constraints established by the Index.

– **Nuveen ESG Large-Cap ETF, Summary Prospectus, May 31, 2019.**



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**Appendix B** Examples of Sustainable Funds Prospectus Language (Continued)

The Fund seeks to achieve its investment objective by dedicating sleeves/portions of its portfolio to one or more equity-focused themes (the “Thematic Guidelines”). Cornerstone Capital Inc. (the “Adviser” or “Cornerstone”) sets these Thematic Guidelines using a holistic approach incorporating various environmental, social, and governance (“ESG”) factors such as carbon footprints, board diversity, and sustainable supply chains, among others. The Thematic Guidelines may change from time to time depending on social and market conditions, and may include, but are not limited to:

- Circular Economy
- Climate & Clean Energy
- Data Driven Solutions
- Health, Wellness, and Education
- Innovation & Economic Opportunity
- Reduction of Inequality & Social Justice

-- **Cornerstone Capital Access Impact Fund, Summary Prospectus, Oct. 1, 2019**

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Source: Morningstar. Data as of 12/2019.

**For More Information**

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