



FOR ADVISER USE ONLY NOT TO BE DISTRIBUTED TO CLIENTS

ESG and carbon research data

MLC Wrap and Navigator
MLC Masterkey Fundamentals

Adviser guide
Q&A

Date prepared: 16 November 2021

Background

Sustainable investments, and understanding the environmental, social, governance (ESG) and carbon metrics of managed funds and ETFs is becoming increasingly important to Australian investors. That's why we're making the latest research available to you—so that you can help your clients in their investment choices when this is the criteria that's important to them.

It's available for managed funds and ETFs on the MLC Wrap and Navigator investment menus, as well as for managed funds on the MLC MasterKey Fundamentals investment menus. To help you understand more about this research, we've prepared this handy Q&A guide. Your MLC Relationship Manager will also be happy to help with any questions you have.

1. Where are you getting this research?

The research data is sourced from both Morningstar and Sustainalytics. Sustainalytics is a global leader in ESG and corporate governance research and ratings and is a Morningstar company.

2. What data will I have access to?

You'll have access to two sets of data: *Sustainability* and *Carbon metrics*.

- i. The *Sustainability* data set will help you evaluate the extent to which a portfolio's economic value is at risk, driven by unmanaged ESG risk exposure of the companies and sovereign debt it holds.
- ii. The *Carbon metrics* data set will help you evaluate the extent to which a portfolio's economic value is at risk in the transition to a low-carbon economy based on the companies it holds.

Each data set includes an industry recognised rating:

- The **Morningstar Sustainability Rating** (often called the *Globe Rating*) is a measure of the financially material ESG risks in a portfolio left unmanaged, relative to the fund's Morningstar Global Category peers. It's derived by combining a portfolio's Corporate Sustainability Rating and Sovereign Sustainability Rating proportional to the relative weight of the corporate and sovereign positions (both of which are rated separately). Since a Morningstar Sustainability Rating is assigned to all funds that meet certain criteria, the rating isn't limited to funds with explicit sustainable or responsible investment mandates. It also isn't a measure of whether or not or to what extent a fund screens out any activities that investors may deem to be unethical or controversial.
 - The **Morningstar Low Carbon Designation** allows investors to easily identify funds with low carbon risk around the world. The designation is an indicator that the companies held in a portfolio are in general alignment with the transition to a low-carbon economy. The designation is given to portfolios that have low carbon-risk scores and low levels of exposure to fossil fuels. Unlike the Morningstar Sustainability Rating, this Designation is not a relative ranking against peers.
-

3. Where can I find the research?

The research is in the tab called *ESG and carbon metrics* added to the performance spreadsheets you're already familiar with at mlc.com.au > prices & performance > performance and ESG data.

Or, just click [here](#).

(To view the research data for badged products, go to mlc.com.au > Login > (RHS) *MLC Wrap & Navigator* > (top) *Alliances* > (click on the relevant badged product) > *Performance figures*).

4. How often will the data be updated?

Morningstar Sustainability Ratings (as well as the Corporate and Sovereign Sustainability Ratings) and ESG metrics are calculated monthly; Morningstar carbon risk metrics are calculated quarterly.

Updates to MLC's performance spreadsheets will occur at the same time as existing updates are made: on the 20th calendar day each month for MLC Wrap, and on the 3rd or 4th business day each month for MLC MasterKey Fundamentals.

5. Some of my clients prefer sustainable investments. Can I use this research to support my advice recommendations?

Ask your advice licensee for guidance on whether this research data is appropriate to support your advice recommendations.

6. Have Morningstar considered potential fluctuation in the Morningstar Sustainability Rating (ie Globe Rating)? Is there anything that stabilises the fund/ETF's Sustainability Rating over time?

Yes. Morningstar has accounted for potential fluctuation in their construction of their ratings.

To increase the rating stability for funds/ETFs near the distribution breakpoints—for example, when a rating is close to decreasing from 5 globes to 4 globes—Morningstar uses a buffering system.

Between each Globe Rating, the buffer is 1%. A portfolio near a rating threshold must move past the buffer before its rating changes. For example, a fund/ETF below the 90th percentile will need to move past the 89th percentile before the rating changes.

7. **I can't find either a Morningstar Sustainability Rating (ie Globe Rating) or a Morningstar Low Carbon Designation for the fund/ETF I'm interested in. What can I do?**

There are a few possible reasons why a fund/ETF doesn't have either a Morningstar Sustainability Rating or a Low Carbon Designation on the *ESG and Carbon metrics* tab of the performance spreadsheets:

- **Morningstar hasn't been provided with the required information for the fund/ETF, so a rating can't be calculated.**
If that's the case, the column labelled *Sustainability Date* and the *Carbon Date* will be blank.
- **Sustainalytics has a minimum requirement of 67% coverage of corporate or sovereign ratings data before it can calculate a Morningstar Sustainability Rating.**
If that's the case, the columns labelled *Corporate Sustainability Rating—Percent of Eligible Portfolio Covered*, *Sovereign Sustainability Rating—Percent of Eligible Portfolio Covered* or *Percent of AUM Covered—Carbon* will have a value of less than 67%. (Examples of where this may occur are where there's high exposure to small caps, emerging markets or private equity).
- **(Applies only to the Morningstar Sustainability Rating) The Morningstar Global Category to which the fund/ETF has been assigned (and helps investors compare other funds in the same peer group based on their holdings) may not have the minimum required number of funds/ETFs with historical portfolio Sustainability Scores—the minimum is 30.**
If that's the case, the column labelled *Number of Funds in Global Category—Sustainability* will be left blank.

Where either a Morningstar Sustainability Rating (ie Globe Rating) or a Morningstar Low Carbon Designation isn't available, you can try to access the fund managers' ESG policy or alternative research to understand the fund/ETF's approach to ESG and/or carbon risk factors.

Your advice licensee or MLC Relationship Manager can provide guidance in these instances.

8. **Why is the column labelled *Percent AUM Covered – Carbon* more than 100%?**

Morningstar's current calculations for carbon metrics doesn't take short positions into account. These positions are more common in geared funds, where a fund will typically have more than its invested assets exposed to the market. Morningstar continues to assess its carbon metrics for portfolios and will provide further updates on any potential revisions in 2021.

9. **Where can I find more information about how the ratings and designations are derived?**

- There's a quick overview of the Morningstar Sustainability Rating in [this video](#).
- To understand more about the methodology used in deriving the Morningstar Sustainability Rating, Morningstar Low Carbon Designation or the Morningstar Global Category Classifications, click [here](#).

There's also a range of research papers, guides, and other supporting material at available at both the Morningstar [website](#) and the Sustainalytics [website](#).

Your MLC Relationship Manager will also be happy to help with any questions you have.

Important information:

The information in this document is for adviser use only and is not intended for general distribution. The information in this document is correct as at 16 November 2021, but may change in the future. For further information please refer to the Morningstar website.

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser.



End of document