Theory of Change

Our rating system scores funds and their parent firms based on how they vote on resolutions proposed by shareholders at corporate annual meetings. In the United States, shareholders who meet certain ownership requirements are allowed to submit these proposals – called **14a-8 proposals** – for inclusion in a company's proxy solicitation, the document that companies circulate to shareholders to inform them about issues that will be voted on at their annual meetings. These issues typically include electing a board of directors, amending corporate bylaws, approving a merger, and other company business that needs to be submitted to shareholder approval.

Increasingly, 14a-8 proposals also deal with environmental issues. One driver has been the rise of "environmental, social, and governance" (ESG) investing approaches, which has contributed to the acceptance of treating issues like a company's environmental impact or its attention to diversity in hiring as legitimate objects of risk management. Just as important, though, has been the decades-long effort to expand the role of smaller shareholders in corporate governance, and SEC rule-making that has made it harder for companies to exclude shareholder proposals from their proxies (a process called "no-action relief").

One rationale for practicing sustainable investing in the public markets is to better manage risk – companies that generate negative externalities for the communities they operate in (by practicing discriminatory hiring, say, or polluting local watersheds) are betting that they won't face the full cost of these externalities, and like any bet, it may or may not pay off. The thinking goes that fund managers should limit their exposure accordingly. In practice, these strategies often rely on buying shares (and bonds) of companies with high ESG scores – metrics that attempt to measure good corporate citizenship across a variety of dimensions, from carbon emissions to the technicalities of electing board members.

Another rationale, implicit in the first, and often more compelling to ordinary investors saving for their retirement, is that practicing sustainable investing can actually incentivize companies to change their behavior. One mechanism through which this could occur is by affecting companies' **cost of capital,** the return they have to offer investors in order to raise fresh debt or equity funding. And, indeed, researchers have found that common stocks of companies with higher ESG scores tend be more richly valued on both price-to-earnings (P/E) and price-to-book (P/B), and that their bonds tend to trade at lower spreads.

On the margin, this could allow companies with high ESG scores to raise more capital and outgrow their competitors, and encourage companies with low ESG scores to improve. But in all likelihood, the effect is just that - marginal.

While we believe there is a place for ESG-focused strategies in the investment landscape, we are focused on highlighting a different lever for funds to make a positive impact - how they vote their proxies. **We use voting records on a range of environment-focused 14a-8 proposals to score how funds and firms are using their voice as shareholders to influence the companies they are invested in.**

Methodology

CAS scores are essentially weighted averages. Any given fund's score is the sum of its votes for proposals in our focus universe, divided by the number of proposals it was eligible to vote on, multiplied by two weighting variables. The first of these is a demeaning factor, which improves the comparability of scores across funds by adjusting for the different levels of support that different proposals receive across the shareholder electorate.

Fig. 1 - An illustrative example comparing three funds, each voting on three different proposals with different levels of support among shareholders. All funds supported two out of the three proposals, but receive widely varying scores, to reflect the varying difficulty of supporting proposals that make more or less demanding "asks" of boards and management teams.

	Average Support			Fund's Support			Score
	Prop 1	Prop 2	Prop 3	Prop 1	Prop 2	Prop 3	
Fund A	70%	80%	90%	0	1	1	0.30
Fund B	40%	50%	60%	0	1	1	0.69
Fund C	10%	20%	30%	0	1	1	0.94

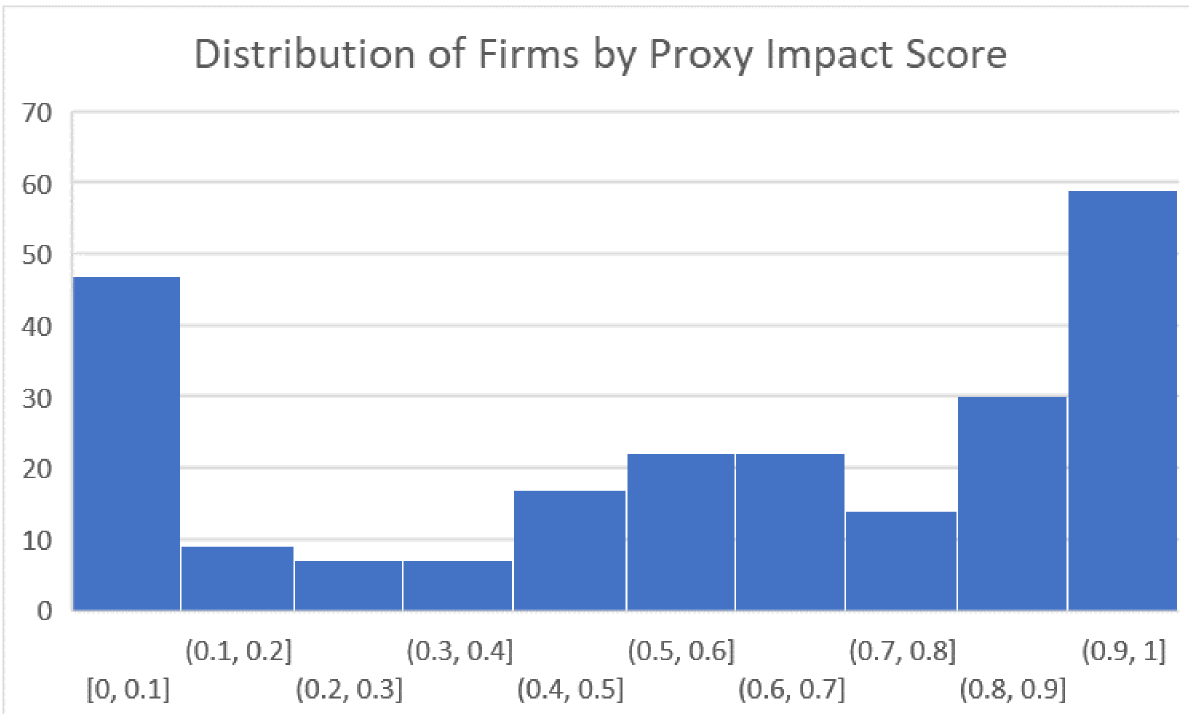
The second is an emissions factor, based on public disclosures, to align the weight accorded each vote with potential climate impact.

Firm-level scores, for the asset manager parents of individual funds, are generated by asset-weighting votes across all funds associated with the manager for which voting and assets-under-management (AUM) data was available. We have attempted to identify sub-advised funds across our underlying voting data, and, wherever possible, we have eliminated them from the firm-level scores, in order to avoid rewarding or penalizing a manager for the sub-advisor's voting policies.

Finally, for firms voting inconsistently across their products, we discount "for" votes on our focus universe of proposals by 25%.

On our web portal, we display fund-level scores organized by parent institution, the fund's raw score, its size range, and a "tier" designation, which is the quartile its score falls into. Only funds with at least five rated votes are shown on our site, given concerns about the reliability of our score in cases where the number of relevant votes is very low. Firm-level scores are displayed for firms with at least $100m in AUM and five rated votes. Scores for funds and firms that do not meet these thresholds are available on request.

Figs. 2-3 - Histograms showing the distribution of proxy impact scores for funds (with at least 5 rated votes) and parent firms (with at least $100m in AUM and 5 rated votes).



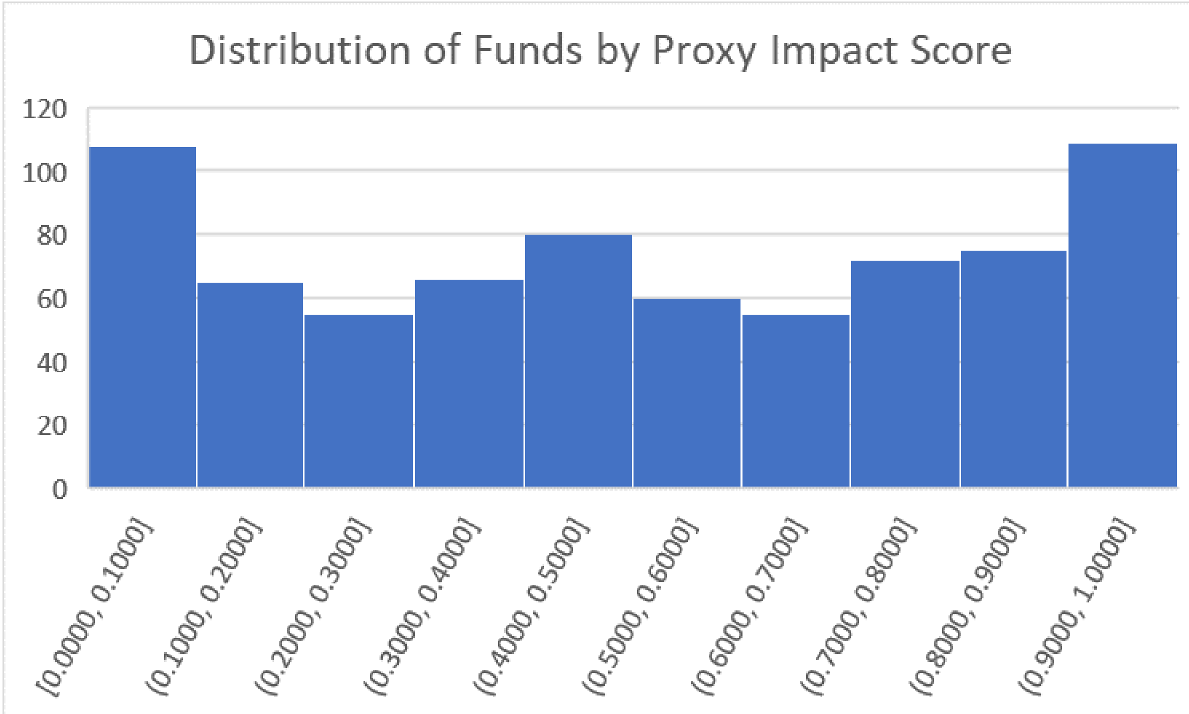
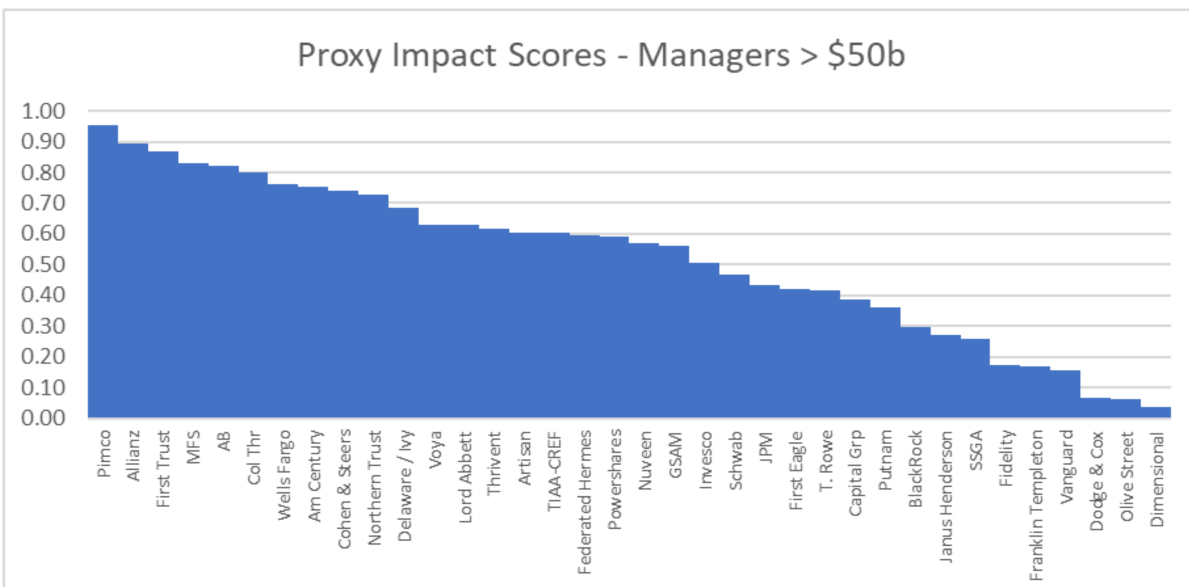


Fig. 4 - Proxy impact scores for asset managers covered in our data set with at least $50b in AUM.



Data

Our underlying voting data is licensed from ISS ESG. We have combined this data set with Bloomberg data on mutual fund and ETF AUM, in order to derive asset-weighted scores at the firm level. Thus, our ratings are based on a sub-set of US mutual funds and ETFs for which we were able to link these underlying data sets.

All told, scores for **2,272 mutual funds and ETFs** with at least five qualifying votes are available to browse on our site, representing roughly **$9T in assets under management.** Scores for an additional **728 funds,** with between one and four qualifying votes, and representing an additional **$200B in assets**, are available upon request. Excluding sub-advised funds, our total data coverage extends to **6,243 funds** and **$10T** in assets under management, which compares to $15.7T in assets invested in domestic equity funds at the end of last year, according to the Investment Company Institute.

While our licenses with data vendors mean that we cannot share the raw data behind our rating directly, please reach out if you believe there is missing or incorrect data on your firm's products. We would also be happy to arrange a walkthrough of the code powering the rating, or a session to discuss the drivers of your firm's rating versus peers.