The Center for Active Stewardship activestewardship.org

The CAS Rating System

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 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 the same method, treating votes on the same proposal by distinct managed funds as separate. 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.

On our web portal, we display fund-level scores organized by parent institution, the fund's raw score, its size range, and a "rating" designation, which is the quartile its score falls into (labeled A–D). 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 currently displayed for the top 25 funds by assets under management, with more being added over time.

Data

Our underlying voting data is directly derived from SEC Form N-PX filings. We have developed a parsing engine designed to read these raw forms (which are not well-standardized) and record the votes cast on each proposal. We then filter the proposals by keyword to select only climate-related proposals, and use this subset of votes to calculate scores. We have combined this data set with Bloomberg data on mutual fund and ETF AUM, in order to report these alongside our scores. Thus, our ratings are based on a subset of US mutual funds and ETFs for which we were able to link these underlying data sets.

All told, scores for **895 mutual funds and ETFs** with at least five qualifying votes are available to browse on our site, covering nearly **23,000** votes cast. Together, these funds represent over **$9T in assets under management.**

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.