

Environmental, Social and Governance (ESG)

The Role of ESG in the Investment Research Process

January 2020

ESG: Enhancing Investment Analysis

Conning believes the integration of environmental, social, and corporate governance (ESG) risk factors enhances the research process and better allows us to adhere to the fiduciary duty we owe each client.

ESG factors are non-financial material information that can influence the fundamental assessment of credit profiles and security valuation. Determining the sustainability of an issuer's business model is paramount, and ESG risk factors provide a more robust, holistic assessment. We think integrating ESG risk factors is a necessary consideration for responsible investing.

In 2012, Conning became a signatory to the Principles for Responsible Investment (PRI) Initiative to solidify our commitment to a discipline we have practiced for many years. PRI provides a voluntary framework by which investors can incorporate ESG issues into their decision-making and ownership practices to better align their objectives with the values of society at large.

In 2019, Conning became a signatory to PRI's new ESG in Credit Ratings statement, committing to incorporating ESG into credit ratings and analysis.

To review Conning's most recent rating statement, please contact us at connect@conning.com.

Conning's ESG Analytical Process

Our analysts assign a proprietary Conning ESG risk factor score of Strong, Average or Weak to issuers in our coverage universe and provide a brief synopsis of their rationale. We incorporate this information into our database of fundamental analysis, which is accessible to all Conning investment professionals and used in the underwriting assessment we require for each security we consider for client portfolios.

Conning's ESG factor-weighting matrix provides a consistent evaluation framework across industries. The impact of ESG factors can vary by industry, e.g., environmental issues have a greater impact on utilities and energy issuers than on financials issuers. This proprietary matrix helps us better understand the impact of ESG factors for each issuer based on its industry.

Conning manages each client portfolio according to its unique guidelines and constraints. Portfolio managers review and discuss the ESG risks of individual issuers with research analysts and decide whether to include or exclude issuers based upon each client's unique risk tolerance and portfolio objectives.

Conning's ESG Discipline: The "G" Factors

ESG analysis is intended to uncover aspects of a credit that may not show up in a financial statement but may potentially affect performance at some point.

For example, governance is a key consideration when reviewing the creditworthiness of investment grade issuers. While many activities could fall under the "governance" purview, Conning has identified the corporate governance characteristics that we consider the most important for help companies achieve long-term success and provide long-term rewards to their investors.

Under "G" factors, Conning focuses on:

- » transparency of ownership structure
- » a high quality, diverse board of directors that includes numerous independent members
- » a board and management team with a track record supportive of creditor interest
- » a well-articulated capital allocation policy that is aligned with long-term creditor interest
- » a balanced executive pay structure that incentivizes long-term behavior supportive of creditor interest
- » an appropriate level of corporate disclosure
- » executive management succession planning and deep management bench
- » high quality accounting standards.

Senior Executive Commitment to ESG

Conning's Chief Risk Officer (CRO) is responsible for oversight and compliance of client guidelines related to ESG issues, supported by the ESG Steering Committee. Conning's Board of Directors supervises management's efforts to adhere to the firm's standards for investment operations, including ESG considerations.

Conning's ESG Steering Committee, created in 2017, provides strategic guidance for the firm's ESG initiatives to strengthen our responsible investment practices. The ESG Steering Committee includes senior leadership from investment operations in the U.S., Europe and Asia and meets quarterly.

Conning also engages with issuers on ESG factors to enhance sustainability efforts and help issuers potentially improve their credit profiles and security valuations.

Tools Supporting ESG Incorporation

Conning uses MSCI ESG Research Inc. to review, monitor or screen corporate holdings, based on specific client objectives. Portfolio managers can also utilize MSCI ESG ratings to help improve the overall ESG profile of the portfolio while also ensuring the best interests of each client are being pursued.

In addition, we contract with various nationally recognized statistical rating organizations (NRSROs) as well as an independent research firm for ESG-related research.

Conning's ESG Steering Committee

Brian Baczyk
Chief Risk Officer

Cindy Beaulieu
Chair of Investment Policy Committee

Matthew Daly
Head of Corporate and Municipal Teams

Denzil De Bie
Head of European Credit Research

John Fitzgerald
Portfolio Manager

Ben Hamilton
Portfolio Manager

Joseph Mayo
Managing Director, Credit Research

Robert Pearce
Chief Compliance Officer

Vi Smalley
General Counsel

Siew Mee Yeo
Chief Investment Officer, Asia

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