

Environmental, Social and Governance (ESG)

The Role of ESG in the Investment Research Process

August 2022

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.

ESG Governance

The firm's Sustainability Leadership Group comprises members from across Conning Group entities and its affiliates, and includes several members of the Conning Holdings Limited (CHL) Operating Committee; it is ultimately accountable to the CHL Board of Directors. Its remit includes meeting the firm's Corporate sustainability goals and responsibilities as well as driving the firm's progress to delivering sustainable investment and risk offerings to meet its clients' needs whilst remaining aligned with industry practice and regulation.

Oversight and Governance of Conning's [Responsible Investment \(RI\) Policy](#) are the responsibility of the Sustainability Leadership Group.

Regional business heads and the Chair of Conning's Investment Policy Committee are responsible for implementation of the RI Policy.

An ESG Working Group provides guidance on, and monitors implementation of Conning's RI and ESG initiatives. In addition, it is responsible for external engagement including PRI reporting.

The continued development of our capabilities and direction in responsible investing includes both sponsorship of senior management and open feedback mechanisms including input from investment teams, clients, compliance/regulatory and our peers.

Conning's Chief Risk Officer (CRO) and Compliance Team are responsible for oversight of, and compliance with, client guidelines related to RI and ESG issues. The CRO periodically reports to the Risk Committee of the CHL Board of Directors and senior management as appropriate.

Results may differ from portfolios that do not apply similar ESG considerations to their investment process. Please refer to the ESG Disclosures for important information regarding Conning's ESG approach.

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ESG Disclosures

Clients utilizing ESG investing strategies and/or factors may underperform strategies which do not utilize ESG considerations. ESG strategies may operate by either excluding the investments of certain issuers or by selecting investments based on their compliance with factors such as ESG. These strategies may exclude certain sectors or industries from a client's portfolio, potentially negatively affecting the client's investment performance if the excluded sector or industry outperforms. ESG evaluations are subjective by nature, and Conning may rely on analysis and scores provided by third parties in determining whether an issuer meets Conning's standards for inclusion or exclusion. A client's perception may differ from Conning's or a third party's on how to judge an issuer's adherence to responsible investing principles.

Environmental, Social, Corporate Governance Considerations – Conning is a signatory to the United Nations Principles for Responsible Investing ("UN PRI"), and seeks to align its investment activities with the tenets of the UN PRI. However, Conning does not automatically negatively screen investments based on ESG, unless specified by client guidelines and does not represent that services are "ESG Compliant" or similar. Clients can continue to hold securities or industries that pose ESG risks.

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.

CHL Sustainability Leadership Group

Russell Büsst (Chair)

Chief Executive Office and Chief Investment Officer, Conning Europe

Jung Lee

Managing Director, Chief Operating Officer and Chief Financial Officer, Conning

Matthew Daly, CFA

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