CONVERGENCE

OPTIMAL PERFORMANCE

Is ESG Investing Creating a Catch-22 for US Asset Managers[i]

John Phinney, CEO and Chairman

September 2021

"Catch-22" is a term first introduced into the mainstream lexicon in the satirical novel of the same name published in 1961 by American author Joseph Heller. Heller introduces the term through the book's character Doc Daneeka, an army psychiatrist who invokes "Catch-22" to explain why any pilot requesting a mental evaluation for insanity—hoping to be found not sane enough to fly and thereby escaping dangerous missions—demonstrates his own sanity and thus cannot be declared insane. The phrase describes a dilemma or difficult circumstance from which there is no escape because of mutually conflicting or dependent conditions.

ESG and ESG investing principles are dominating the headlines and at the forefront of dialogue within asset management. Yet there are problems to be solved and Convergence suspects that an ESG "Catch-22" paradox may be developing which can misinform asset managers and investors alike on how ESG can best be utilized to support its lofty and sometimes conflicting objectives.

The ESG paradox implies that an asset manager can be an ESG investing champion while at the same time being an ESG villain in the way they run their advisory business. If you are scratching your head for empirical proof of this simply look no further than the dismal representation of women holding leadership roles in asset management. The statistics on this are flat to down over the past 5-years despite the amplification of this condition across traditional and social media. *So, is it possible that investment advisers are facing an ESG "Catch-22?"* Can advisers be ESG investment champions while at the same time be considered ESG business management villains?

Convergence developed a simple 3-factor approach to measure ESG sensitivity. we analyzed the business models of 32,000+ advisers to 1) measure the ESG sensitivity of asset managers doing business in the US, 2) determine if the "Catch-22" paradox exists and 3) determine if different types of investors can influence the ESG sensitivity of their advisers and we applied these measurements consistently to 6 different investor groups. Investor groups include advisers to investment companies[ii], non-investment companies[iii] and other forms of adviser clients[iv].

Summary Findings

- ***The ESG sensitivity scores of investment advisers doing business in the United States are low…***
- ***The ESG "Catch 22" paradox exists…***
- ***The ESG sensitivity scores appear to be influenced by investor type***

ESG Background

Environmental, social and governance (ESG) investing is a strategy used to invest in companies that strive to make the world a better place. ESG investing relies on independent ratings that help assess a company's behavior and policies when it comes to environmental performance, social impact and governance issues. "At its core, ESG investing is about influencing positive changes in society by being a better investor," says Hank Smith, Head of Investment Strategy at The Haverford Trust Company[v].

Investors poured record amounts of money last year into funds that aim to help the environment and promote social good, more than doubling the prior year's take. Funds that use so-called ESG principles may, for example, invest in energy firms that aren't reliant on fossil fuels or in companies that promote racial and gender diversity. They captured $51.1 billion of net new money from investors in 2020 — the fifth consecutive annual record, according to Morningstar. In 2019, investors funneled $21 billion into funds that apply environmental, social and governance principles[vi].

The pace of ESG investing in the global asset management industry is being driven in large part by investors and various regulatory frameworks being put into place across the globe. European investors and regulators have long been at the forefront of the ESG movement for years. In the asset management industry, large and influential institutional investors have used their "wallets" to get asset managers to pay more attention to ESG issues.

ESG Measurement Challenges

ESG poses significant challenges to asset managers seeking to understand and implement pragmatic and impactful ESG principles. These challenges include:

ESG terminology that includes green finance, sustainable finance, ethical investing, socially responsible investing (SRI), varies widely within the financial services industry — they are used with no common agreement, international understanding, consistent data or measurement standards.

ESG regulations vary across the globe, often stymied by different social and political forces. In recent years, Morningstar's Sustainability Atlas has consistently placed European countries including the Netherlands, Finland, and Sweden at the top of its global rankings on environmental, social, and governance (ESG) practices. Meanwhile, the United States has lagged slightly behind, ranking 13 out of 48 in the most recent analysis[vii]. Convergence believes that Europe is well ahead of the game because they, and their citizens, have long accepted the science supporting the view that climate change is caused by human behavior and because of its "principles-based" approach to tackling complex social/political issues. United States companies and asset managers have long been reluctant to embrace ESG because our "rules-based" approach creates a "wait-and-see" mindset. However, this is clearly changing as the new US Administration is asserting its ESG views and US regulatory bodies are beginning to "up" the ESG ante, in fact:

- On March 10, 2021, the final rule the Department of Labor (DOL) implemented in November set forth the guidance that retirement plan sponsors should only consider "pecuniary," or performance-related, factors when selecting investments for their investment lineup, rather than expressly limiting the use of ESG funds. It took a softer stance than the initial proposed rule, which drew intense criticism. And shortly after the rule was passed, many in the industry applauded it as paving the way for more ESG investing in retirement plans.

- On August 6, 2021, the Securities and Exchange Commission (the "SEC") approved new listing standards of the Nasdaq Stock Market LLC ("Nasdaq") regarding director diversity. The new rules require a Nasdaq-listed company to have or explain why it does not have, at least two diverse directors, including one female director and one director of a historically underrepresented community. Companies currently listed on the Nasdaq Global Select Market ("NGS"), or the Nasdaq Global Market ("NGM") will have two years to comply with the standard, or explain why they do not have at least one female or diverse director and four years to have, or explain why they do not have both a female and a diverse director (or five years for companies listed on the Nasdaq Capital Market ("NCM")). Nasdaq-listed companies will also be required annually to disclose board-level diversity data in a prescribed tabular format. Additionally, the SEC approved Nasdaq's board recruitment service proposal, which will provide certain eligible companies with a one-year complimentary recruitment service to facilitate their recruitment of board-ready diverse candidates.

ESG Data is inconsistent, often composed of a patchwork of reporting frameworks that make it difficult to collect and compare. The quality and quantity of ESG data, however, continues to improve as regulators around the world are working to address ways to standardize ESG data and definitions. The inconsistent ESG data and plethora of different ESG measurements makes adoption by asset managers a challenge.

According to an article published in the Stanford Social Innovation Review[viii] "the bar for what constitutes a good ESG corporate citizen is abysmally low and may have made ESG investing, the hottest trend in investing today, a greater force for destabilizing society and the planet than if it didn't exist at all. At the core of the problem is how ESG ratings, offered by ratings firms such as MSCI and Multianalytes, are computed. Contrary to what many investors think, most ratings don't have anything to do with actual corporate responsibility as it relates to ESG factors. Instead, what they measure is the degree to which a company's economic value is at risk due to ESG factors. For example, a company could be a significant source of emissions but still get a decent ESG score, if the ratings firm sees the pollutive behavior as being managed well or as non-threatening to the company's financial value. This could explain why Exxon and BP, which pose existential threats to the planet, get an average ("BBB") aggregate score from MSCI, one of the leading rating companies. It could also be why Phillip Morris made it onto the DJSI. The company recently committed itself to a "smoke-free" future, which ratings agencies might perceive as reducing regulatory risk even though its next generation of products remain addictive and harmful."

ESG Measurement is often confusing. Does ESG intend to measure the fund, the adviser or some combination of the two? Convergence believes that the same Phillip Morris ESG investing contradictions also exist in the way that ESG focuses on the fund and not the adviser. As more advisers hop onto the ESG investing bandwagon should we simply dub them as "good ESG citizens" if they are proven to show little interest in including ESG investing principles in the way they run their advisory businesses? Just think about the low level of women holding key leadership positions in the industry. With the focus on ESG investing, we fear that ESG "window dressing" is emerging.

We believe that ESG sensitive investors need to look at both. The question raised is will advisers who use ESG investing principles apply these principles to the way they run their business? Unfortunately, in the complex asset management business the data on advisers is scarce and there are few if any measurement standards outside of ESG fund ratings. Convergence set out to determine if we could gather enough ESG data to develop an ESG sensitivity measurement for an advisor's business that can be used alongside the ESG measurements used to evaluate an adviser's ESG funds. We evaluated publicly available sources of information to find common themes that we could use to create a consistent measurement standard for all Advisers.

Convergence's Approach

Convergence used our a 3-factor measurement approach to analyze the business models of 32,000+ investment advisers who serve 6 different types of types of clients[ix] for "signals" indicating some level of ESG sensitivity.

The Importance of Sensitivity and Specificity in Convergence's ESG Sensitivity Factors and Scores

Sensitivity and specificity mathematically describe the accuracy of a test which reports the presence or absence of a condition, in comparison to a 'Gold Standard' or definition. In a diagnostic test, sensitivity is a measure of how well a test can identify true positives and specificity is a measure of how well a test can identify true negatives. For all testing, both diagnostic and screening, there is usually a trade-off between sensitivity and specificity, such that higher sensitivities will mean lower specificities and vice versa.[x]

Our goal in selecting factors was to focus the debate on the factors relevancy by using "sensitivity" and "specificity" logic. Thus, we selected sensitivity factors that create logical yet initial <u>true positives</u> and use "specificity" logic to eliminate <u>false positives</u>. Our approach is purposefully simplistic and will be improved over time, yet it creates an initial analytical framework through which institutional investors can examine three standard business conditions that shed light on how the adviser applies ESG principles in running their advisory businesses. While it is possible false positives may exist in our analysis, meaning we cannot find evidence of ESG sensitivity in our datasets, we believe they would not change the overall findings in this paper.

- **ESG Factor Selection**

1. ***E – Environmental Sensitivity via Public Disclosure*** *– Has the adviser signed-up to any of the intergovernmental and governmental ESG accords bodies that publish ESG principles*[xi] *and/or has it disclosed in various regulatory documents their use of ESG investing or governance principles? Advisers that publicly announce their adoption of various ESG accords run the risk of making "false and misleading" statements, so we believe that advisers who make these statements are more likely to embrace ESG principles to avoid litigation or regulatory criticism.*

2. ***S – Social Sensitivity via Inclusiveness/Diversity*** *– Does the adviser disclose one or more women holding a position of leadership within its organization? Advisers that name women to key leadership positions are clearly more inclusive than those who do not. Women hold 23% of the leadership roles across 4-key functions including the CEO, COO, CFO and CCO. Only 5% of asset management firms are led by women (CEO or Managing Partner titles).*

3. ***G – Governance Sensitivity via Independent Oversight*** *– Does the adviser use independent directors to oversee their funds? While independent directors are required in investment companies and business development companies, private funds do not require them. In fact, only 30% of 83,000 private funds have independent directors (all private funds, not just those of pure play private fund advisers. Advisers to private funds that list independent directors exhibit best governance practices. In cases where the adviser does not sponsor a private or public fund, we seek a second disclosure about governance within their public filings and statements.*

ESG Scoring

Advisers receive one point when Convergence was able to verify the factor's existence in the adviser's business. Thus, advisers can receive 0, 1, 2 or 3 ESG sensitivity points.

We convert the points earned into a star-system. For example, advisers earning 3 ESG sensitivity points receive a "three-star" sensitivity score, advisers earning 2 ESG sensitivity points receive a "two-star" score, advisers earning 1 ESG sensitivity point receive a "one-star" score and advisers earning 0 ESG sensitivity points receive "no" score.

Table 1: ESG Scores – All Non-Exempt SEC and State Investment Advisers

We found **one or more ESG sensitivity signals** in **9,701**, or **30%** of all US SEC and State Investment Advisers. (.6%+4.6%+25.2%). Just **194**, or **.6%,** earned **3-ESG Sensitivity Stars**, **4.3%** earned 2-Stars, **25.1%** earned 1 Star and **70%** earned no stars. With only 30% of investment advisers earning an ESG sensitivity Star, as a whole, ESG sensitivity across US advisers needs improvement.

Three-Star ESG Ratings – Within the 6-adviser groups measured, advisers to private funds **rank 1st** with 92 advisers, or **47**% of the 194 earning 3-Stars, advisers to multiple investor types **rank 2nd** with 56 advisers, or **29%** of the 194 earning 3-Stars, advisers to institutional investors **rank 3rd** with 34 advisers, or **18**% of the 194 earning 3-Stars, advisers to public funds **rank 4th** with 11 advisers, or **6**% of the 194 earning 3-Stars, advisers to retail investors **rank 5th** with 1 adviser, or **1**% of the 194 earning 3-Stars, and advisers to BDCs **rank 6th**, with no adviser earning a 3-Star rating.

ESG Sensitivity Scores of US SEC and State RIAs											
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**	**Total**
Group 1	Private Funds	92	684	1,674	996	**3,446**	2.7%	19.8%	48.6%	28.9%	**100%**
Group 2	Public Funds	11	116	225	0	**352**	3.1%	33.0%	63.9%	0.0%	**100%**
Group 3	Retail Investors	1	60	2,114	9,997	**12,172**	0.0%	0.5%	17.4%	82.1%	**100%**
Group 4	Institutional Investors	34	215	693	942	**1,884**	1.8%	11.4%	36.8%	50.0%	**100%**
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	**14,481**	0.4%	2.1%	23.4%	74.1%	**100%**
Group 6	Business Development Companies	0	11	17	0	**28**	0.0%	39.3%	60.7%	0.0%	**100%**
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	**32,363**	**0.6%**	**4.3%**	**25.1%**	**70.0%**	**100%**

Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	**11%**	4.45x	4.61x	1.94x	0.41x
Group 2	Public Funds	6%	8%	3%	0%	**1%**	5.21x	7.66x	2.55x	0.00x
Group 3	Retail Investors	1%	4%	26%	44%	**38%**	0.01x	0.11x	0.69x	1.17x
Group 4	Institutional Investors	18%	15%	9%	4%	**6%**	3.01x	2.65x	1.47x	0.71x
Group 5	Combinations of Groups 1-4	29%	22%	42%	47%	**45%**	0.65x	0.49x	0.93x	1.06x
Group 6	Business Development Companies	0%	1%	0%	0%	**0%**	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

When we look at the results of advisers earning 3-stars as a percentage of their peer group, the story shifts a bit. Advisers to public funds with 3-star ratings total only eleven, or 3.1% of 352 pure play public fund advisers or **5.21x** the market, which **ranks 1st,** advisers to private funds with 3-star ratings total 92, or 2.7% of 3,446 pure play private fund advisers, or **4.45x** the market, which **ranks 2nd**.

The Convergence Take on ESG Sensitivity in Asset Management

It is no surprise to Convergence that pure-play advisers to **private funds** and **institutional investors** have the strongest ESG sensitivity ratings as a group. These advisers receive large slugs of capital from large institutional investors and receive hefty management fees ranging from 1-2% of assets under management and performance-based fees of 10-20%. In addition, advisers to private equity funds who use ESG principles can reduce certain ESG linked expenses, e.g., fuel consumption, waste removal, health insurance premiums, and increase the profits of the operating companies in their funds. So, in other words, ESG can and does pay. So institutional investors appear to be influencing the ESG sensitivity of advisers to private funds and institutional investors. And for advisers with the lowest ESG sensitivity scores, e.g., those serving retail investors, public funds and BDCs, there appear to be far less incentive for them to be ESG sensitive. They have numerically far more investors and receive lower management and performance fees.

Table 2: ESG Points Earned – Advisers to Private Funds (Exempt Funds)

- There are **3,446 pure play**[xii] private fund advisers, or **10.6%** of the adviser market.
- This group ranks **1st** with **92 advisers** earning **3-ESG Sensitivity Stars**, or **47**% of the **194** advisers in the market **earning 3-Stars**
- This group ranks **1st** with **684 advisers** earning **2-ESG Sensitivity Stars**, or **49%** of the **1,393** advisers in the market **earning 2-Stars**.
- This group ranks **3rd** with **1,674 advisers** earning **1-ESG Sensitivity Star**, or **21%** of the **8,114** advisers in the market **earning 1-Star.**

ESG Scores for Advisors to Private Fund Peer Group							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	**Private Funds**	**92**	**684**	**1,674**	**996**	**3,446**	**2.7%**	**19.8%**	**48.6%**	**28.9%**
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	14,481	0.4%	2.1%	23.4%	74.1%
Group 4	Institutional Investors	34	215	693	942	1,884	1.8%	11.4%	36.8%	50.0%
Group 2	Public Funds	11	116	225	0	352	3.1%	33.0%	63.9%	0.0%
Group 3	Retail Investors	1	60	2,114	9,997	12,172	0.0%	0.5%	17.4%	82.1%
Group 6	Business Development Companies	0	11	17	0	28	0.0%	39.3%	60.7%	0.0%
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	32,363	**0.6%**	**4.3%**	**25.1%**	**70.0%**

Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	**Private Funds**	**47%**	**49%**	**21%**	**4%**	**11%**	**4.45x**	**4.61x**	**1.94x**	**0.41x**
Group 3	Retail Investors	29%	22%	42%	47%	**45%**	0.65x	0.49x	0.93x	1.06x
Group 2	Public Funds	18%	15%	9%	4%	**6%**	3.01x	2.65x	1.47x	0.71x
Group 5	Combinations of Groups 1-4	6%	8%	3%	0%	**1%**	5.21x	7.66x	2.55x	0.00x
Group 4	Institutional Investors	1%	4%	26%	44%	**38%**	0.01x	0.11x	0.69x	1.17x
Group 6	Business Development Companies	0%	1%	0%	0%	**0%**	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

E-S-G Points Earned and Market Comparison - Advisers to Private Funds										
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 1	Private Fund Advisers	3,446	10.6%	408	1,132	1,778		11.8%	32.8%	51.6%
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Private Fund Advisers/Market	**0.106x**		**49%**	**15%**	**55%**		**4.6x**	**1.4x**	**5.1x**

The Convergence Take on the E-S-G Factor Scores of Private Fund Advisers

28.9% of advisers in this peer group did not earn an E-S-G factor star. This is 3rd lowest score among all peers. The E-S-G factor scores for this group are all above the market. The "E" factor at 4.6x is not surprising given the presence of institutional investment into private funds. The "S" factor is 1.4x the market indicating greater gender diversity in private fund advisers. Yet, we are surprised that 51.6% of this adviser group earned a "G" point which means they name independent directors to one or more of their private fund boards, which is **5.1x** the market. This number may be skewed by advisers who have more than one fund that does not have an independent director. For example, if an Adviser has 10 funds and 1 has an independent director and 9 do not, they earn a full ESG point. We plan to update this factor using a weighted value in our next ESG release that is scheduled in January 2022.

Table 3: ESG Scores – Advisers to Multiple Client Types

- There are **14,481** advisers to multiple client types, or **44.7%** of the adviser market.
- This group ranks **2nd** with **56 advisers** earning **3-ESG Sensitivity Stars**, or **29**% of the **194** advisers in the market **earning 3-Stars.**
    - 56 advisors represent **.4% of the peer group**
- This group ranks **2nd** with **307 advisers** earning **2-ESG Sensitivity Stars**, or **22%** of the **1,393** advisers in the market **earning 2-Stars**.
    - 307 advisors represent 2.1% of the peer group
- This group ranks **1st** with **3,391 advisers** earning **1-ESG Sensitivity Star**, or **42%** of the **8,114** advisers in the market **earning 1-Star.**
    - 3,391 advisors represent 23.4% of the peer group

ESG Scores for Advisors to Multiple Client Types Peer Group							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	92	684	1,674	996	3,446	2.7%	19.8%	48.6%	28.9%
Group 5	**Combinations of Groups 1-4**	**56**	**307**	**3,391**	**10,727**	**14,481**	**0.4%**	**2.1%**	**23.4%**	**74.1%**
Group 4	Institutional Investors	34	215	693	942	1,884	1.8%	11.4%	36.8%	50.0%
Group 2	Public Funds	11	116	225	0	352	3.1%	33.0%	63.9%	0.0%
Group 3	Retail Investors	1	60	2,114	9,997	12,172	0.0%	0.5%	17.4%	82.1%
Group 6	Business Development Companies	0	11	17	0	28	0.0%	39.3%	60.7%	0.0%
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	32,363	**0.6%**	**4.3%**	**25.1%**	**70.0%**

E-S-G Factor % of Group Earning a Factor Point/All Adviser Factor Points							% of Peer Group/Market			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	10.6%	4.45x	4.61x	1.94x	0.41x
Group 5	**Combinations of Groups 1-4**	**29%**	**22%**	**42%**	**47%**	**44.7%**	**0.65x**	**0.49x**	**0.93x**	**1.06x**
Group 4	Institutional Investors	18%	15%	9%	4%	5.8%	3.01x	2.65x	1.47x	0.71x
Group 2	Public Funds	6%	8%	3%	0%	1.1%	5.21x	7.66x	2.55x	0.00x
Group 3	Retail Investors	1%	4%	26%	44%	37.6%	0.01x	0.11x	0.69x	1.17x
Group 6	Business Development Companies	0%	1%	0%	0%	0.1%	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

ESG Points Earned and Market Comparison - Advisers to Multiple Client Types							% of Peer Group/Market			
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 4	**Advisers - Multiple Client Types**	**14,481**	**44.7%**	192	3,392	589		**1.3%**	**23.4%**	**4.1%**
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Multiple Client Advisers/Market	**0.447x**		**23%**	**46%**	**18%**		**0.5x**	**1.0x**	**0.4x**

The Convergence Take on the E-S-G Factor Scores of Advisers to Multiple Client Types

74.1% of the advisers in this peer group did not earn an ESG star. It is the second lowest score. Advisers that did earn stars, underperformed above the market in all categories. The "E" factor is **.5x** the market and is surprising given the presence of institutional investment into their private funds. The "S" factor is **1.0x** the market indicating sensitivity to gender diversity. Yet, we are surprised that 4.1% of this adviser group earned a "G" point which means they made fewer references to ESG principles in regulatory disclosures, which is **.4x** the market. These numbers may be skewed by advisers with different client influences. For example, an adviser that has 50% retail clients and 50% private fund clients will be influenced by each client base differently. We plan to update this factor using a weighted value in our next ESG release that is scheduled in January 2022.

Table 4: ESG Points Earned – Advisers to Institutional Investor Separately Managed Accounts

- There are **1,884** advisers to multiple client types, or **5.8%** of the adviser market.
- This group ranks **3rd** with **34 advisers** earning **3-ESG Sensitivity Stars**, or **18**% of the **194** advisers in the market **earning 3-Stars.**
    - 34 advisors represent **1.8% of the peer group**
- This group ranks **3rd** with **215 advisers** earning **2-ESG Sensitivity Stars**, or **15%** of the **1,393** advisers in the market **earning 2-Stars**.
    - 215 advisors represent **11.4% of the peer group**
- This group ranks **4th** with **693 advisers** earning **1-ESG Sensitivity Star**, or **9%** of the **8,114** advisers in the market **earning 1-Star.**
    - 693 advisors represent **36.8% of the peer group**

ESG Scores for Advisors to Institutional Investors							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	92	684	1,674	996	3,446	2.7%	19.8%	48.6%	28.9%
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	14,481	0.4%	2.1%	23.4%	74.1%
Group 4	**Institutional Investors**	**34**	**215**	**693**	**942**	**1,884**	**1.8%**	**11.4%**	**36.8%**	**50.0%**
Group 2	Public Funds	11	116	225	0	352	3.1%	33.0%	63.9%	0.0%
Group 3	Retail Investors	1	60	2,114	9,997	12,172	0.0%	0.5%	17.4%	82.1%
Group 6	Business Development Companies	0	11	17	0	28	0.0%	39.3%	60.7%	0.0%
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	32,363	**0.6%**	**4.3%**	**25.1%**	**70.0%**

E-S-G Factor % of Group Earning a Factor Point/All Adviser Factor Points							% of Peer Group/Market			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	10.6%	4.45x	4.61x	1.94x	0.41x
Group 5	Combinations of Groups 1-4	29%	22%	42%	47%	44.7%	0.65x	0.49x	0.93x	1.06x
Group 4	**Institutional Investors**	**18%**	**15%**	**9%**	**4%**	**5.8%**	**3.01x**	**2.65x**	**1.47x**	**0.71x**
Group 2	Public Funds	6%	8%	3%	0%	1.1%	5.21x	7.66x	2.55x	0.00x
Group 3	Retail Investors	1%	4%	26%	44%	37.6%	0.01x	0.11x	0.69x	1.17x
Group 6	Business Development Companies	0%	1%	0%	0%	0.1%	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

ESG Points Earned and Market Comparison - Advisers to Institutional Investors							% of Peer Group/Market			
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 4	**Advisers - Institutional Investor**	**1,884**	**5.8%**	**201**	**721**	**303**		**10.7%**	**38.3%**	**16.1%**
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Institutional Advisers/Market	**0.058x**		**24%**	**10%**	**9%**		**4.2x**	**1.7x**	**1.6x**

The Convergence Take on the E-S-G Factor Scores of Advisers to Institutional Investors

942, or 50% of the advisers in this group did not earn an ESG star. It is the third highest score among all peer groups. However, the advisers that did earn ESG stars, performed above the market in all categories. The "E" factor is **4.2x** the market and is not surprising given the presence of institutional investment. The "S" factor is **1.7x** the market indicating greater gender diversity. The "G" factor is **1.6x** the market because of the presence of institutional money and the way that separately managed accounts are managed.

Table 5: ESG Scores – Public Fund Advisers (Investment Companies)

- There are **352** pure play advisers to public funds, or **1.1%** of the adviser market.
- This group ranks **4th** with **11 advisers** earning **3-ESG Sensitivity Stars**, or **6%** of the **194** advisers in the market **earning 3-Stars.**
    - 11 advisors represent **3.1% of the peer group,** the highest of all peer groups
- This group ranks **3rd** with **116 advisers** earning **2-ESG Sensitivity Stars**, or **8%** of the **1,393** advisers in the market **earning 2-Stars**.
    - 116 advisors represent **33% of the peer group**
- This group ranks **4th** with **225 advisers** earning **1-ESG Sensitivity Star**, or **3%** of the **8,114** advisers in the market **earning 1-Star.**
    - 225 advisors represent **63.9% of the peer group**

ESG Scores for Advisors to Public Fund Advisors							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	92	684	1,674	996	3,446	2.7%	19.8%	48.6%	28.9%
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	14,481	0.4%	2.1%	23.4%	74.1%
Group 4	Institutional Investors	34	215	693	942	1,884	1.8%	11.4%	36.8%	50.0%
Group 2	**Public Funds**	**11**	**116**	**225**	**0**	**352**	**3.1%**	**33.0%**	**63.9%**	**0.0%**
Group 3	Retail Investors	1	60	2,114	9,997	12,172	0.0%	0.5%	17.4%	82.1%
Group 6	Business Development Companies	0	11	17	0	28	0.0%	39.3%	60.7%	0.0%
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	32,363	**0.6%**	**4.3%**	**25.1%**	**70.0%**

E-S-G Factor % of Group Earning a Factor Point/All Adviser Factor Points							% of Peer Group/Market			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	10.6%	4.45x	4.61x	1.94x	0.41x
Group 5	Combinations of Groups 1-4	29%	22%	42%	47%	44.7%	0.65x	0.49x	0.93x	1.06x
Group 4	Institutional Investors	18%	15%	9%	4%	5.8%	3.01x	2.65x	1.47x	0.71x
Group 2	**Public Funds**	**6%**	**8%**	**3%**	**0%**	**1.1%**	**5.21x**	**7.66x**	**2.55x**	**0.00x**
Group 3	Retail Investors	1%	4%	26%	44%	37.6%	0.01x	0.11x	0.69x	1.17x
Group 6	Business Development Companies	0%	1%	0%	0%	0.1%	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

ESG Points Earned and Market Comparison - Advisers to Public Funds							% of Peer Group/Market			
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 4	**Advisers - Public Funds**	**352**	**1.1%**	**201**	**721**	**303**		**4.0%**	**35.2%**	**100.0%**
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Public Advisers/Market	**0.011x**		**24%**	**10%**	**9%**		**1.6x**	**1.5x**	**9.9x**

The Convergence Take on the E-S-G Factor Scores of Advisers to Public Funds

None of the advisers in this group failed to earn an ESG star. The "E" factor is **1.6x** the market and the "S" factor is **1.5x** the market indicating greater gender diversity. The "G" factor is **9.9x** the market because regulation requires mutual funds to have an independent director. So, we believe that the E and S factors should take on more weight in the future. We plan to update this factor using a weighted value in our next ESG release that is scheduled in January 2022.

Table 6: ESG Points Earned – Advisers to Retail Investors (High Net Worth and Individual)

- There are **12,172** pure play advisers to public funds, or **37.6%** of the adviser market.
- This group ranks **5th** with **1 adviser** earning **3-ESG Sensitivity Stars**, or less than **1%** of the **194** advisers in the market **earning 3-Stars.**
    - 1 advisors represent **less than 1% of the peer group,** the second lowest of all peer groups
- This group ranks **5th** with **60 advisers** earning **2-ESG Sensitivity Stars**, or **4%** of the **1,393** advisers in the market **earning 2-Stars**.
    - 60 advisors represent **.50% of the peer group**
- This group ranks **2nd** with **2,114 advisers** earning **1-ESG Sensitivity Star**, or **26%** of the **8,114** advisers in the market **earning 1-Star.**
    - 2,114 advisors represent **17.4% of the peer group**

ESG Scores for Advisors to Retail Investors							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	92	684	1,674	996	3,446	2.7%	19.8%	48.6%	28.9%
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	14,481	0.4%	2.1%	23.4%	74.1%
Group 4	Institutional Investors	34	215	693	942	1,884	1.8%	11.4%	36.8%	50.0%
Group 2	Public Funds	11	116	352	0	352	3.1%	33.0%	100.0%	0.0%
Group 3	**Retail Investors**	**1**	**60**	**2,114**	**9,997**	**12,172**	**0.0%**	**0.5%**	**17.4%**	**82.1%**
Group 6	Business Development Companies	0	11	17	0	28	0.0%	39.3%	60.7%	0.0%
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	32,363	**0.6%**	**4.3%**	**25.1%**	**70.0%**

E-S-G Factor % of Group Earning a Factor Point/All Adviser Factor Points							% of Peer Group/Market			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	10.6%	4.45x	4.61x	1.94x	0.41x
Group 5	Combinations of Groups 1-4	29%	22%	42%	47%	44.7%	0.65x	0.49x	0.93x	1.06x
Group 4	Institutional Investors	18%	15%	9%	4%	5.8%	3.01x	2.65x	1.47x	0.71x
Group 2	Public Funds	6%	8%	3%	0%	1.1%	5.21x	7.66x	2.55x	0.00x
Group 3	**Retail Investors**	**1%**	**4%**	**26%**	**44%**	**37.6%**	**0.01x**	**0.11x**	**0.69x**	**1.17x**
Group 6	Business Development Companies	0%	1%	0%	0%	0.1%	0.00x	9.13x	2.42x	0.00x
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

ESG Points Earned and Market Comparison - Advisers to Retail Investors							% of Peer Group/Market			
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 4	**Advisers - Retail Investors**	**12,172**	**37.6%**	**13**	**2,013**	**211**		**0.1%**	**16.5%**	**1.7%**
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Retail Investor Advisers/Market	**0.376x**		**2%**	**27%**	**6%**		**0.0x**	**0.7x**	**0.2x**

The Convergence Take on the E-S-G Factor Scores of Advisers to Retail Investors

12,172 advisers, or 82.1% of the advisers in this group failed to earn an ESG star. This is the highest failure rate of all the groups. The "E" factor is **0x** the market, the "S" factor is **.7x** the market indicating less gender diversity and the "G" factor is **.2x** the market. This group is the least ESG sensitive group of all peer groups studied. They have more clients, receive smaller investments and earn lower management and performance-based-fees. The large number of investors they serve and the smaller average account balances suggest these clients have less ability to influence the adviser's ESG investment or business policies.

Table 7: ESG Scores – Advisers to Business Development Companies

- There are **28** pure play advisers to public funds, or **.001%** of the adviser market.
- This group ranks **6th** with **no adviser** earning **<u>3-ESG Sensitivity Stars</u>**, or **0%** of the **194** advisers in the market **earning 3-Stars.**
    - 0 advisors represent **0% of the peer group,** the lowest of all peer groups
- This group ranks **6th** with **11 advisers** earning **<u>2-ESG Sensitivity Stars</u>**, or **less than 1%** of the **1,393** advisers in the market **earning 2-Stars**.
    - 11 advisors represent **39% of the peer group**
- This group ranks **6th** with **17 advisers** earning **<u>1-ESG Sensitivity Star</u>**, or **less than 1%** of the **8,114** advisers in the market **earning 1-Star.**
    - 17 advisors represent **60.7% of the peer group**

ESG Scores for Advisors to Business Development Companys							% of Peer Group			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	92	684	1,674	996	3,446	2.7%	19.8%	48.6%	28.9%
Group 5	Combinations of Groups 1-4	56	307	3,391	10,727	14,481	0.4%	2.1%	23.4%	74.1%
Group 4	Institutional Investors	34	215	693	942	1,884	1.8%	11.4%	36.8%	50.0%
Group 2	Public Funds	11	116	352	0	352	3.1%	33.0%	100.0%	0.0%
Group 3	Retail Investors	1	60	2,114	9,997	12,172	0.0%	0.5%	17.4%	82.1%
Group 6	**Business Development Companies**	**0**	**11**	**17**	**0**	**28**	**0.0%**	**39.3%**	**60.7%**	**0.0%**
	Total Advisers	**194**	**1,393**	**8,114**	**22,662**	**32,363**	**0.6%**	**4.3%**	**25.1%**	**70.0%**

E-S-G Factor % of Group Earning a Factor Point/All Adviser Factor Points							% of Peer Group/Market			
Group #	**Advisers to:**	**3**	**2**	**1**	**0**	**Total**	**%-3**	**%-2**	**%-1**	**%-0**
Group 1	Private Funds	47%	49%	21%	4%	10.6%	4.45x	4.61x	1.94x	0.41x
Group 5	Combinations of Groups 1-4	29%	22%	42%	47%	44.7%	0.65x	0.49x	0.93x	1.06x
Group 4	Institutional Investors	18%	15%	9%	4%	5.8%	3.01x	2.65x	1.47x	0.71x
Group 2	Public Funds	6%	8%	3%	0%	1.1%	5.21x	7.66x	2.55x	0.00x
Group 3	Retail Investors	1%	4%	26%	44%	37.6%	0.01x	0.11x	0.69x	1.17x
Group 6	**Business Development Companies**	**0%**	**1%**	**0%**	**0%**	**0.1%**	**0.00x**	**9.13x**	**2.42x**	**0.00x**
	Total Advisers	**100%**	**100%**	**100%**	**100%**	**100%**	**1.00x**	**1.00x**	**1.00x**	**1.00x**

ESG Points Earned and Market Comparison - Advisers to Business Dev Companys							% of Peer Group/Market			
	Advisers to:	**#**	**%-Mkt**	**E**	**S**	**G**		**E %**	**S %**	**G %**
Group 4	**Advisers - Bus Dev Companys**	**28**	**0.1%**	**0**	**11**	**28**		**0.0%**	**39.3%**	**100.0%**
	Market - All Advisers	32,363		828	7,393	3,261		2.6%	22.8%	10.1%
	Retail Investor Advisers/Market	**0.001x**		**2%**	**27%**	**6%**		**0.0x**	**1.7x**	**9.9x**

The Convergence Take on the E-S-G Factor Scores of Advisers to Business Development Companies

None of the advisers in this group failed to earn an ESG star. The "E" factor is **0x** the market and the "S" factor is **1.7x** the market indicating greater gender diversity. The "G" factor is **9.9x** the market because regulation requires BDCs to have an independent director. So, we believe that the E and S factors should take on more weight in the future. We plan to update this factor using a weighted value in our next ESG release that is scheduled in January 2022.

Table 8: Comparing Adviser Sensitivity Scores to Advisers of ESG Sustainability Fund Scores

To determine if the “Catch-22” paradox is finding its way into the asset management industry, we created a sample study group of 28 advisers to public ESG funds and ETFs that advise one or more of 5-Star rated ESG funds or ETFs[xiii] and a study group of 3 advisers to private funds that were identified as being ESG funds. As a reminder the “Catch-22” paradox exists when an adviser to an ESG fund or ETF is considered an **ESG investing champion** while at the same time considered an **ESG business management villain.**

Advisers to ESG Mutual Funds and ETFS

Our mutual fund/ETF sample size of 25 is 15.5% of 180 unique advisers to US ESG mutual funds and ETFs. The actual ESG ratings for the 28 unique advisers have been developed into a composite score that we compared to the overall market and to the population of pure play mutual fund advisers. We kept the individual scores for each adviser confidential.

We found that advisers to Morningstar funds rated 5-stars for sustainability had much greater ESG sensitivity in their business model than others in the market and to other mutual fund advisers. Morningstar advisers earned 3 ESG-stars from Convergence at 6.4x their public fund adviser peers (20.%/3.1%).

ESG Sensistivity Scores and MStar 5-Star ESG Scores - Public Fund Advisers						
ESG Sensitivity Score	**#**	**%-Sample**	**Market**	**Sample/Mkt**	**PublicFund Peers**	**Sample/Peers**
Three Stars	5	20.0%	0.60%	**33.3x**	3.1%	**6.4x**
Two Stars	13	52.0%	4.6%	**11.3x**	33.0%	**1.6x**
One Star	7	28.0%	25.2%	**1.1x**	63.9%	**0.4x**
Total	**25**	**100%**			**100%**	

Advisers to ESG Private Funds

We were able to identify 69 advisers to private funds that use ESG investing principles. Of this number 28 are pure play private fund advisers. We selected a sample of 3 private fund advisers of the 28, or 10.7% The actual ESG ratings for the 3 unique advisers have been converted into a composite score that we compared to the overall market and to the population of pure play private fund advisers. We kept the individual scores for each adviser confidential.

The three advisers in our test sample did not earn ESG Sensitivity Stars. This suggests that there is a potentially wide gap in the ESG sensitivity scores among pure play private fund advisers. This is unlike 5-star rated mutual funds and ETF advisers who have stronger ESG scores than their peers.

ESG Sensistivity Scores and MStar 5-Star ESG Scores - Private Fund Advisers						
ESG Sensitivity Score	**#**	**%-Sample**	**Market**	**Sample/Mkt**	**Private Fund Peers**	**Sample/Peers**
Three Stars	0	0.0%	0.60%	**0.0x**	2.7%	**0.0x**
Two Stars	0	0.0%	4.6%	**0.0x**	19.8%	**0.0x**
One Star	0	0.0%	25.2%	**0.0x**	48.6%	**0.0x**
No Stars	3	100.0%	70.0%	**1.4x**	28.9%	**3.5x**
Total	**3**	**100%**	**100%**		**100%**	

The Convergence Take on the E-S-G Catch-22 Paradox

Our early research into the subject suggests the “Catch-22” ESG paradox exists. It is less prominent in advisers to mutual funds/ETFs than in advisers to private funds.

Conclusion

ESG sensitivity scores of investment advisers in the United States are low. Advisers to retail investors, including advisers to BDCs, make up 38% of the market and have the lowest ESG sensitivity scores, with only 1 out of 12,203 advisers, or less than .01%, earning a 3-star rating. Growth in ESG investing can be found in advisers to private funds and public funds, with advisers in these two peer groups earning a 3-star rating at 5.2x greater than the market. This makes sense because public funds are required to have independent fund directors on their fund boards and advisers to private funds run institutional money and are experts at knowing how to raise capital from their clients. Advisers that run ESG sensitive businesses and apply ESG investing principles in running their funds simply make more money because they raise more institutional capital.

The ESG "Catch 22" paradox exists. Only 5, or 20%, of advisers whose ESG funds earned Morningstar's 5-star "Sustainability Rating" earned Convergence's 3-star ESG Sensitivity score and no adviser to private funds boasting an ESG sensitive fund earned a single ESG star. So, on one hand, these advisers are embracing ESG investing principles in the funds they advise, but on the other hand are failing to apply ESG principles in how they run their business. In other words, the "Catch-22" paradox exists for asset managers.

ESG sensitivity scores are influenced by investor type. ESG sensitivity scores are highest among advisers to Institutional Investors. For example, advisers to Private and Public Funds earning 3-ESG stars is 5.2x greater than the market and conversely, the lowest among advisers to high net worth and individual investors.

None of this should surprise investors. Where there is money to be made, you will find smart and ambitious advisers. If there is less money to be made, well then, advisers are less likely to show-up for the ESG party, regardless of the moral arguments for ESG investment and management sensitivity. Yet, the details driving our observations in this paper can and should be used by all types of investors when deciding which advisers will get your valuable capital. Will you invest with the ESG investing champions or the ESG business management champions? Or will you appreciate the "Catch-22" paradox presented in this paper and make the "Goldilocks" decision, which requires you to be patient and find the adviser who is "just right", meaning they are ESG investing and business management champions.

There is a role to be played by Fund Administrators and other fintech firms. Get involved in helping your clients understand their position amongst peers. By sharing this data and providing them with implementation support you will help them raise capital and improve the stickiness of your relationship.

About Convergence

Convergence provides its clients with "data as a service" solutions ("DaaS") by collecting, normalizing, structuring and enriching raw and unstructured data into meaningful "insights." Our "insights" are designed to support our client's business objectives. Our "insights" are often infused with data science to create highly accurate predictive analytics. Our "insights" help our clients grow revenue, improve efficiency and identify and manage risks. We were founded in 2013 by subject matter experts who held leadership positions in the world's leading asset management firms. Learn more about Convergence at www.convergenceinc.com and contact John Phinney jphinney@convergenceinc.com or George Evans gevanas@convergenceinc.com.

Schedule 1: Definition of Each Study Group and E-S-G Factor Tests Described

Group 1 Scoring – Pure Play Advisers to Private Funds - Source Data Form ADV Part 1A Item 5D (f) Pooled investment vehicles (other than investment companies and business development companies)

- E - We identified an Adviser as either a signatory to UNPRI or UN Global Compact or have identified a term object within the Advisers Brochure listed in the prior email)- They get 1 point if either is present.
- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified.
- G -We identified a fund advised by an Adviser that lists an independent director – An independent director is defined as a director or officer named to a private fund that is not an affiliated entity or person. They get 1 point if they have one or more funds with independent Directors.

Group 2 Scoring - Pure Play Advisers to Mutual Funds - Source Data Form ADV Part 1A Item 5D (d) Investment companies

- E - We identified an Adviser as either a signatory to UNPRI or UN Global Compact or have identified a term object within the Advisers Brochure listed in the prior email)- They get 1 point if either is present.
- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified.
- G – Mutual funds have independent directors on their Board, so they earn a point.

Group 3 Scoring – Pure Play Advisers to High Net Worth and Individual Clients - Source Data Form ADV Part 1A Item 5D (a) Individuals (other than high net worth individuals) and b) High net worth individuals

- E - We identified an Adviser as a signatory to UNPRI or UN Global Compact - They get 1 point if either is present.
- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified.
- G - We identified a term object within the Advisers Brochure listed in the prior email) - They get 1 point if any terms are present.

Group 4 Scoring – Pure Play Advisers to Institutional Investors - Source Data Form ADV Part 1A Item 5D (c) Banking or thrift institutions, (g) Pension and profit sharing plans (but not the plan participants or government pension plans), (h) Charitable organizations, (i) State or municipal government entities (including government pension plans), (j) Other investment advisers, (k) Insurance companies, (l) Sovereign wealth funds and foreign official institutions, (m) Corporations or other businesses not listed above, or (n) Other

- E - We identified an Adviser as a signatory to UNPRI or UN Global Compact - They get 1 point if either is present.
- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified.
- G - We identified a term object within the Advisers Brochure listed in the prior email) - They get 1 point if any terms are present.

Group 5 Scoring – Advisers to Multiple Client Types - Source Data Form ADV Part 1A Item 5D (all)

- E - We identified an Adviser as a signatory to UNPRI or UN Global Compact - They get 1 point if either is present.

- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified.
- G - We identified a term object within the Advisers Brochure listed in the prior email) - They get 1 point if any terms are present. If the adviser has a mutual fund, they earn a point and if they have an independent director on their Board they earn a point.

Group 6 Scoring – Pure Play Advisers to Business Development Companies - Source Data Form ADV Part 1A Item 5D (e) Business development companies

- E - We identified an Adviser as a signatory to UNPRI or UN Global Compact - They get 1 point if either is present.
- S - We identified a female C-Suite Executive in ADV Schedule A - They get 1 point if a female is named to any of the positions we have identified .
- G – BDCs have independent directors on their Board so they earn a point.

Schedule 2: End Notes and References

---

[i] Asset Managers refers investment advisers registered with the SEC and State securities regulators.

[ii] Investment Companies - Generally, an "investment company" is a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. An investment company invests the money it receives from investors on a collective basis, and each investor shares in the profits and losses in proportion to the investor's interest in the investment company. The performance of the investment company will be based on (but it won't be identical to) the performance of the securities and other assets that the investment company owns. The federal securities laws categorize investment companies into three basic types: Mutual funds (legally known as open-end companies); Closed-end funds (legally known as closed-end companies); UITs (legally known as unit investment trusts).

[iii] Non-investment companies are not registered investment companies and are often referred to as private investment funds. A Private Investment Fund is an investment company that does not solicit capital from retail investors or the general public. Members of a private investment company typically have deep knowledge of the industry as well as investments elsewhere. To be classified as a private fund, a fund must meet one of the exemptions outlined in the Investment Company Act of 1940. The 3C1 or 3C7 exemptions within the Act are frequently used to establish a fund as a private investment fund. There is an advantage to maintaining private investment fund status, as the regulatory and legal requirements are much lower than what is required for funds that are traded publicly. Private Funds include what are commonly referred to a Hedge, Private Equity, Real Estate, Venture Capital, Securitized Assets, Liquidity and Hybrid (Other) funds.

[iv] Other types of Advisers include adviser to retail investors, institutional investors through separately managed accounts, business development companies and advisers to multiple fund types,

[v] Forbes, March 1, 2021 - https://www.forbes.com/advisor/investing/esg-investing/

[vi] Forbes, May 12, 2021After The Pandemic: ESG Investing Trends For 2021 And Beyond

[vii] The Impactivate. April 18, 2021 - Can the US Catch Up to Europe on ESG Investing? - https://www.theimpactivate.com/can-the-us-catch-up-to-europe-on-esg-investing/

[viii] Hans Taparia (@hanstap) is clinical associate professor at the New York University Stern School of Business. https://ssir.org/articles/entry/the_world_may_be_better_off_without_esg_investing

[ix] We divided the 32,368+ Advisers into study groups comprising; Group 1 - Non-Exempt Advisers to Private and Mutual Funds, Group 2 – Non-Exempt Advisers to High Net Worth and Individual Clients, Group 3 – Non-Exempt Advisers to Institutional Investors via separately managed accounts, Group 4 – Business Development Companies and Group 5 – Hybrids (a mix of all the above). We measured the ESG sensitivity within each peer group using the 3-factors described above.

[x] Wikopedia - https://en.wikipedia.org/wiki/Sensitivity_and_specificity

[xi]https://corpgov.law.harvard.edu/2020/09/21/esg-disclosures-frameworks-and-standards-developed-by-intergovernmental-and-non-governmental-organizations/

[xii] A pure play adviser only advises the client type described. For example, a private fund adviser's clients are only private funds.

[xiii] https://www.morningstar.com/esg-funds?page=3, https://www.nerdwallet.com/article/investing/best-esg-funds
https://www.investopedia.com/articles/active-trading/090115/top-5-impact-investing-firms.asp
https://money.usnews.com/investing/funds/slideshows/best-esg-funds-to-buy?slide=9
https://www.kiplinger.com/slideshow/investing/t041-s001-15-best-esg-funds-for-responsible-investors/index.html