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For UK Professional Clients Only

## Aon's Guide to ESG Ratings

2025

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## Introduction

**Aon's ESG rating process is a subcomponent of our investment due diligence process and of our overall rating view for an investment strategy.**

The rating assesses the extent to which fund managers identify, assess and mitigate financially material ESG risk factors into their investment decision-making processes within the investment strategy.

The proprietary ratings help our clients make informed investment decisions and compare strategies alongside other investment and operational due diligence considerations.

The rating process is undertaken for all new and existing investments where considered applicable, with ratings monitored on an ongoing basis. Aon's specialist Investment Manager Research ("IMR") team is responsible for assigning and reviewing the ESG ratings.<sup>1</sup> Our ratings are regularly reviewed to reflect any changes in a strategy's level of ESG integration and development. Our ESG ratings fall into one of four categories: Advanced, Integrated, Limited, and Not Applicable.

### Summary

Advanced	The fund management team demonstrates an advanced awareness of potential financially material ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The fund management team has taken limited steps to address financially material ESG considerations in the portfolio.
N/A (Not Applicable)	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance.
NR (Not Rated)	An evaluation of ESG risks is not yet available for this strategy.

*\*The ESG rating represents Aon's Investment Manager Research Teams (IMR) interpretation of the relevant teams' ability to identify and mitigate potentially financially material ESG risks in the context of the strategy's stated investment objectives. The ESG rating does not assess the sustainability profile of the underlying companies or issuers within the investment strategy.*

# How We Determine our ESG Ratings

We expect managers to have a rigorous concept of financial materiality grounded in industry-based standards.

Regarding our process, we utilise due diligence questionnaires that all fund managers complete as an initial step.

We review manager supplied documentation supplemented with Aon questionnaires where we require more information coupled with any responsible investment policy and process documents related to our 'Five-Factor' assessment approach, detailed in the following section.

Importantly, we are evidence-based and will seek to challenge and verify claims regarding the extent of ESG integration alongside any stated differentiation points.

ESG ratings are finalised through our ratings debrief process, where proposed ratings are carefully peer-reviewed and voted upon by a minimum panel of three members of the manager research team.

Following the ESG rating evaluation, the rating will be refreshed via the team's ongoing monitoring process. The process involves regular dialogue with the manager throughout the year alongside deeper dive meetings as required. Ratings are reviewed at least annually.

## Aon's 'Five-Factor Framework'

We believe a common cross-asset assessment framework is required to bring together a cohesive approach to ESG integration while capturing each asset class's features.

We have developed a framework based on five critical aspects of ESG risk mitigation highlighted in the diagram below. These core assessment areas are examined across all products and multiple asset classes to ensure a unified approach across our clients' portfolios. The framework is intended to help our clients compare strategies with greater clarity and a common lens.



Source: Aon Investment Manager Research

To ensure that our process captures the nuances and unique considerations of ESG across various asset classes, each asset class will use a more tailored 'rating aid', which is based on a core template that further refines the Five-Factor Framework as appropriate, and also allows for asset class specifics.

The practical implementation of stewardship varies across the asset classes currently, although we note that the stewardship conversation continues to evolve at pace. Output from the Aon Engagement Programme will feed into manager stewardship considerations, as appropriate.

Combining the Five-Factor Framework and the specific asset class rating aids results in an evaluation process that consistently scores investment strategies according to our responsible investment beliefs and estimates of best practices. In addition, the framework remains flexible enough to allow for each asset class's idiosyncrasies and evolving market practices over time.

The rating aids are reviewed periodically to ensure that they continue to reflect our latest thinking on best practice and remain in keeping with market developments.

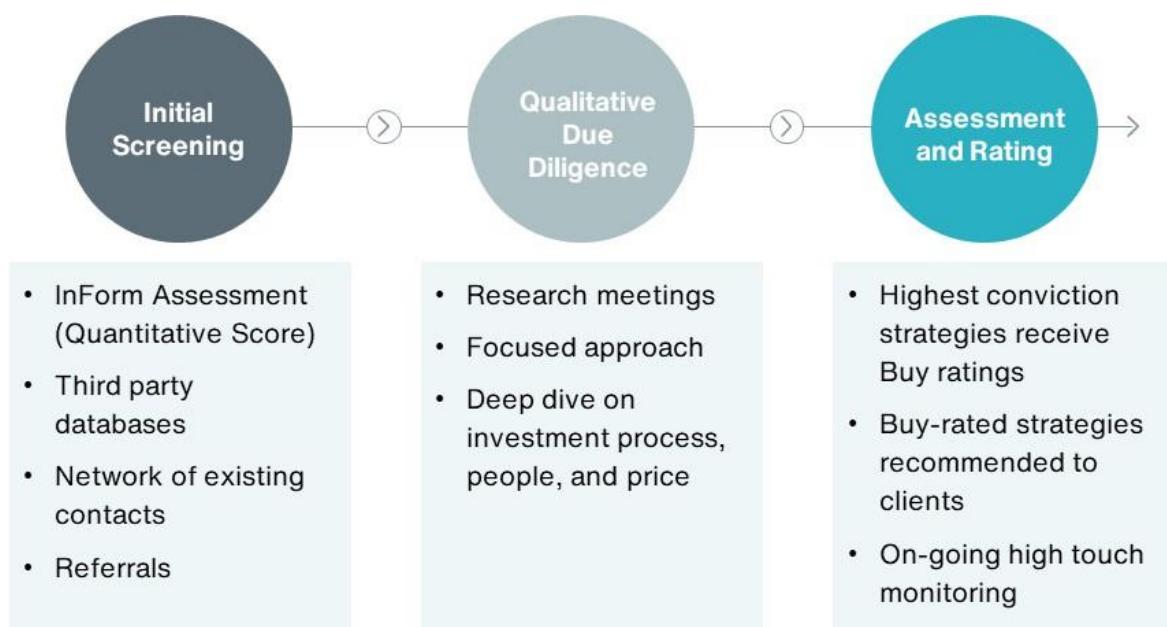
## How ESG Ratings Inform Overall Ratings

This section explains what our rating categories mean, what factors we look at to determine our ratings and how our ESG fits within the overall rating. Our research has the same two stages for all asset classes:

**Identify:** This includes various methods to screen the universe, including, where appropriate, the "InForm" process, which is a quarterly quantitative screen of over 20,000 products. It identifies Investment opportunities with the most significant potential to add value.

**Evaluate:** This is a more rigorous evaluation, due diligence and rating process. It includes an in-depth assessment of operations by our senior research professionals.

The following diagram illustrates our continuous process of evaluating investment managers:



## Identify

Once we find a strong potential investment, we apply a quantitative framework through our rigorous InForm model to evaluate business, staff, process, risk, performance, terms and conditions, responsible investment, and operations.

We produce an initial rating after looking at more than 20 individual categories. Our research professionals can quickly identify investment products with the most substantial potential.

Within this initial rating, we produce InForm ESG Ratings. The quantitative ESG assessment provides an indication of the degree of how well asset managers integrate ESG into their investment process using data sourced from eVestment.

Factors considered include the following:

- **Policies** – Scope and granularity of policies and levels of disclosures (e.g., engagement policy, voting policies etc.)
- **Staff** – Level of resources, governance, senior oversight and accountability and incentives of product management team.
- **Process** – Breadth and depth of Environmental, Social & Governance (ESG) integration and evaluates process efficacy and application.
- **Stewardship** – Voting, engagement, and collaborative efforts where relevant and financially material.

Firm and fund levels factors carry a weight of 20% & 80% respectively within the ESG model and 10% of the overall InForm model.

## Evaluate

The second stage is a rigorous examination and rating process. This is an expanded evaluation of the eight factors below. We meet the investment manager to vet the firm and its capabilities. Among other factors, we look at:

- **Business.** Profitability, stability and spread of ownership, client base, remuneration policy.
- **Staff.** Quality, depth of resource, team dynamic, staff turnover.
- **Investment Process.** Competitive advantage, repeatability, skill, implementation.
- **Risk.** Embedded in process, independent verification, a mix of measurements.
- **Performance Analysis.** Consistent with stated process, risk-adjusted, persistency.
- **Terms and Conditions.** Client service, fees, and best practices in documentation.
- **ESG.** Integration and appreciation of ESG issues.
- **Operational Due Diligence.** Operational controls, valuation of assets, independent directors, third-party vendors.

All ratings are formed using qualitative assessments and detailed due diligence conversations with managers. Each component except ESG and Operational Due Diligence is assessed as follows:

<b>4 = Strong</b>
<b>3 = Above Average</b>
<b>2 = Average</b>
<b>1 = Weak</b>

Following the rating of each component, our overall **rating definitions** for our qualitative assessment are summarised below:

Rating	What does this mean?
<b>Buy</b>	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products.
<b>Buy (Closed)</b>	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors.
<b>Qualified</b>	A <u>number of</u> criteria have been met and we consider the investment manager to be qualified to manage client assets.
<b>Sell</b>	We recommend termination of client investments in this product.
<b>In Review</b>	The rating is under review as we evaluate factors that may cause us to change the current rating.

In addition to the investment due diligence, any buy-rating is subject to successful operational due diligence Aon's Operational Risk and Solutions (ORSA) team.

The ODD factor is assigned a rating and can be interpreted as follows:

<b>A1 Pass</b>	No material operational concerns – the firm's operations largely align with a well-controlled operating environment.
<b>A2 Pass</b>	The firm's operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice.
<b>Conditional Pass (CP)</b>	Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm's rating.
<b>Fail</b>	Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings.

In 2024, over 2,300 meetings were held with managers covering traditional and alternative asset classes. After we have completed full due diligence, the product is scored and rated through a formal voting process. Each manager must pass our operational due diligence process to receive a "Buy" rating.

For more information, or to discuss Aon's ESG Ratings in more detail, contact:

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