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**EPISODE 5:**

# Mapping the Morningstar Process

*with Alyssa Stankiewicz*

**Robert Morier:** Welcome to the Dakota Live! Podcast. I am your host Robert Morier. The goal of this podcast is to help you better know the people behind the decisions. We introduce you to Chief Investment Officers, Manager Research Professionals, and other players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live content, please check out dakota.com to learn more about their services. And before we get started, I am going to read a disclosure just very quickly. This content is provided for informational purposes, and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker who is not affiliated with Dakota. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace. The comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today. So again, if you're not familiar with Dakota and their Dakota Live! content, please check out dakota.com to learn more about their services. I'm very excited to introduce our guest in a few minutes who's really at the center of this sustainability ecosystem. But before we do, what have you been seeing with Dakota clients and your audience in terms of ESG. And what role has it played for them as they've been thinking about sustainability?

**Dakota:** Yeah. I'm sure you heard this last week from Russ's comments, but I think without a question ESG is not a trend. It's becoming more and more in focus. And will only be increasingly, so over the next several years. And I think as investment sales professionals, it's very important for us to understand how allocators, different pools of capital that we're calling on are incorporating ESG into their process, into their investment mandates, and really just how they think about ESG investing. And it's so complex, because it can take so many forms, right? And I'm excited to hear from Alyssa today because she's, obviously, the pro in the space. And so it'll be interesting to hear her comments, but I think on the traditional side, you see a lot of investment managers. You see dedicated ESG managers and funds. And then you see investment managers launching sustainable funds or ESG funds or applying an ESG lens to existing philosophies and strategies. And I think what we've seen on the traditional side is more and more actively managed ESG funds. It's becoming more and more prevalent, we're seeing it more and more. I think the easiest way to access ESG within your equity exposure is probably in passive ETFs. Now we're seeing these actively managed funds emerge, and like I said, we're only going to see more and more of it. And then on the alternative side, there's so much innovation and just opportunity within private equity, venture, and even infrastructure, when it comes to the energy transition space or investing in women-founded firms or women-led firms. So many ways to think about ESG on the alternative side, especially, that I think that's one of the reasons we have seen so much opportunity within the alternative sleeves at these different pools of capital. So interested to hear Alyssa's comments today. Like I said, she's the pro. So yeah. Looking forward to hearing from her.

**Robert Morier:** And that's great. Thanks so much. That's a great segue to our guest Alyssa Stankiewicz. Alyssa, thanks so much for being here today. How are you?

**Alyssa Stankiewicz:** Thank you so much for having me. I'm doing well. It's great to chat.

**Robert Morier:** Good. Well, happy holidays. So which office are we in today?

**Alyssa Stankiewicz:** We're in Chicago. The headquarters.

**Robert Morier:** But now, is Chicago home for you or are you are still based in San Francisco? What's the latest?

**Alyssa Stankiewicz:** I'm still based in San Francisco. My team recently expanded here in Chicago. And so we're doing some on-site training.

**Robert Morier:** So that seems like it's been the trend in sustainability expansion. It seems like every sustainable and ESG team, whether it's an alternatives asset manager, as Anna had mentioned, or manager research teams like yourself, Alyssa. It seems like the growth is nonstop. Are you all seeing the same?

**Alyssa Stankiewicz:** Absolutely. I think we're seeing an increase in product proliferation, like Anna was just saying. We're also seeing increasing demand from investors for clearer answers on what asset managers are doing, what funds are doing when it comes to sustainable investing. And so it's a really fascinating time in my opinion, to be at the crux of these conversations and get to provide transparency on a rapidly evolving landscape every day.

**Robert Morier:** Well, thank you so much. Well, we have a lot of questions for you and only so much time. So before we get into our conversation, I want to share a bit more about your background for the audience. Alyssa is the Associate Director of Sustainability Research at Morningstar. Her responsibilities include researching best practices in sustainable investing, improving transparency across the US sustainable funds landscape for investors, developing and enhancing the Morningstar ESG Commitment Level framework, which is a qualitative assessment of ESG integration and asset management.  Alyssa is a rising star in the Morningstar universe of manager research professionals, having published multiple research reports on behalf of the company. And you are officially a rising star. You were recently recognized by our industry when she was rewarded this year's Investment News Rising Star Award at the Women to Watch Summit for being an emerging leader in the financial advice industry. Congratulations.

**Alyssa Stankiewicz:** Thank you. Thank you so much.

**Robert Morier:** Well, we're very excited for you. So congratulations. If you're not familiar with Morningstar, they are a publicly traded financial services firm providing a variety of investment research and investment management solutions. Their research and recommendations in evaluating asset managers and funds are some of the most influential in the asset management industry. In addition to its research, Morningstar also manages over $265 billion in assets as of the end of March 2022 through its asset management division. And I'm just going to tell the audience a little bit about what life was like for you before Morningstar, Alyssa. But we're going to ask you about your background. You did do consultancy work for FreshTracks Capital where she assessed the social, environmental, and economic impact of 20 years of venture investments in start up companies and the initiative for local capital, where she developed a framework for a pooled income community fund, which returned capital to local entrepreneurs. Alyssa accomplished all of this while achieving her MBA at the University of Vermont Grossman School of Business, where she successfully delivered her MBA capstone project to Xponance-- an asset manager here in Philadelphia. Helping develop the firm's ESG investment policy framework for ESG integration. And finally, Alyssa graduated with a BA in linguistics from Earlham College. And as she mentioned earlier, she now calls San Francisco home. So I'll say it again because it's warranted. Congratulations on all of your success. It sounds like even though it's only been a few years, it's been a lot of momentum.

**Alyssa Stankiewicz:** Thank you so much.

**Robert Morier:** Well, you talk a lot about people's backgrounds. And before every podcast gets going, I give the biography. But we rarely talk about what it took to kind of get to school or get to where people are today in terms of some of the conventional versus the unconventional routes that people take. I think it's safe to say, Alyssa, you had a relatively unconventional route to your MBA. But we'd love to hear more about it.

**Alyssa Stankiewicz:** I would be happy to share. I also agree that I think it was a pretty unconventional route to this work. I think the unsurprising part of what I'm doing today is the focus on sustainability. I think from a very early age, I was interested in exploring sustainability. I was interested in trips in the outdoors, I'm also a skier. I was really happy working in the garden. And so I was obviously really happy to learn about and connect with nature and the broader environment. I think the other part that in retrospect is a little unsurprising is the finance aspect of what I'm doing today. If I may be pretty honest here, I always found math pretty easy. I found it enjoyable. I loved spreadsheets from the first moment that I started working with them. I didn't necessarily, though, see finance as a world for me. And so when I went to undergrad, I focused on linguistics and Spanish. Like you said, I focused on Spanish, Arabic, Latin, and Italian. I actually didn't take a math class in undergrad at all. I tested out of it. But then I kept finding myself drawn to business management. So in high school, I started working at this company called American Flatbread. It's in Waitsfield, Vermont. It's a local organic pizza restaurant, but it's also so much more than that. They have a garden on site. So I mentioned gardening earlier. It's literally a farm to table operation. And I think what I saw in that company was its ability to provide a really strong environmentally rooted product. And to treat its employees exceptionally well. And I saw what that meant in terms of their business success. I saw how closely intertwined those factors were with the durability of the business itself. I managed that restaurant for a few years. And I decided I wanted to formalize my understanding of business management. So I looked into MBA programs, and I found the sustainable innovation MBA program at the University of Vermont. Obviously, this program was aligned with my values. And it sought to capitalize on business as a force for good in the world. So it was definitely a meeting of my interest.

**Robert Morier:** What did you see happening in Vermont that made you excited about entering investment management? I have to admit, I do not have that love or that shared love of mathematics and Excel spreadsheets. I also went to the University of Vermont and found my way into finance.

**Dakota:** I was a finance major. I cannot say. I've always been a big fan of math. But I did have interest in finance. And that's why I chose it as my major. But I like to think finance isn't all math. There's a lot more that goes into it. And Alyssa is a perfect example of that.

**Robert Morier:** Yeah, absolutely. So at Vermont when you were there, , what did you see happening in Vermont in their sustainable MBA program? Because we're seeing more of those programs pop up all over the country, whether it's Penn State or Drexel University where I teach. It seems like sustainability has really kind of become the academic topic du jour. So what did you find when you arrived there, and what were some of the key attributes that you took away?

**Alyssa Stankiewicz:** Sure. So from a personal career development perspective, I think the structure of the program, which provides one curriculum for all students and provides that really holistic education, allowed me to explore finance as a possible career path for myself once again. So that was really helpful. It was a small cohort. We had close relationships with our professors. They were actively encouraging us to pursue different interests and really try to push the needle forward in terms of how we thought about traditional business management.

**Dakota:** I have to say, it's really cool that you have this unique background, because you really don't see it very often. You see a little bit of it, but not something that's kind of so unattached to finance. I mean, your MBA, obviously, was the segue into what you're doing now. But before that, your experience was pretty different. And I think it's really cool to see that investment management companies, firms within our industry are interested in hiring people with those backgrounds.

**Robert Morier:** We were talking before we started recording that one of the key tenets of DEI - diversity, equity, and inclusion, is looking at candidates with unconventional backgrounds. A lot of times, it's the unconventional resume that gets put to the side first, where the pile of what is the more traditional route tends to be who gets hired at these firms. So just that in mind. And the restaurant business in particular, which is an interesting area. It requires a lot of different skills. So I'm sure you're a jack of all trades in a lot of different ways. But is that something that you found that Morningstar was looking for? Have they been focused on that unconventional background?

**Alyssa Stankiewicz:** Definitely. I interviewed at a number of places after completing my MBA. And Morningstar was the place where I, even though it was in Chicago and I was from Vermont, I felt the most comfortable here. I was fortunate to join a team that was roughly 50/50 male and female, which is exceptional in this industry. I felt very welcome for my diverse background. I asked a lot of questions during the interview process about the background of the people I met with. And we have folks here who are senior analysts, strategists, senior members of our team that have PhDs in theology that we're teachers and professors for years before they joined manager research. I saw a strong interest in humanities backgrounds. There's a lot of writing that goes into this job. And so I think the hiring team here was definitely aware of the opportunity for hiring people with humanities or language-based backgrounds and being able to teach the nuts and bolts of finance after hiring them. I also saw really strong career development opportunities here and a really strong network for career development. And the other thing I wanted to say, actually, about hiring people with language and humanities backgrounds is that I think a lot of what Morningstar tries to do is we try to break down the jargon in the industry. We try to make our research accessible to investors. So being able to communicate about things in a way that your parents or your aunts and uncles understand pretty clearly, I think, is a huge edge for what we do.

**Robert Morier:** When you were at Vermont, you had done a practicum, kind of your capstone with Xponance. For those who aren't familiar with Xponance, they're a women minority-owned asset manager based here in Philadelphia, offering a variety of different asset classes, including emerging manager programs, which I know is something that Dakota has been spending a lot of time with. Alyssa, what did you take away from that experience? Particularly as that may have been your first cut at integrating ESG into an investment process.

**Alyssa Stankiewicz:** What I really took away from the Xponance practicum, and we tackled a number of different deliverables over the course of that summer. But the one I really sunk my teeth into was developing a proprietary ESG integration framework for a large cap equity fund. And I got to develop and back test that system using a number of different ESG data providers. I used the FASB materiality map. And so I looked at different opportunities to optimize securities in that portfolio and how that would have affected returns. And so that exercise, for me, I think, was a great learning experience, but it also served as a great proof point that the results of my exercise showed that integrating ESG where material would have improved that backtested performance. So that was a great proof point for me coming into the industry.

**Robert Morier:** And you ended up taking some of that research into a contest, the Wharton Total Impact Portfolio Challenge in Philadelphia. You and your fellow students ended up winning that. You ended up beating a lot of the Ivies. So Yale, Stanford, Wharton, and more. So was that part of the adoption that you had integrated into that final pitch? I think you were pitching to a fictional family office.

**Alyssa Stankiewicz:** I was. Yes. It was a multi-asset portfolio that sought to target five different impact themes. I may not remember all of them right now, but I remember, climate action and gender equality were some of those predominant themes, that was a really wonderful exercise to explore, even what ESG can look like in different asset classes and what it can look like in actively managed funds versus passive funds. In particular, there's one part of the philosophy that underpinned that presentation that I still reflect on today. I still find it to be a useful framework for thinking about ESG impacts sustainable investing. And part of the philosophy that we included was thinking about collaborative impact versus direct impact. Because I'm sure you guys are all aware. Everyone would love to say that they're an impact investor in this space that they're delivering real world impact. And that can be really challenging to do authentically, especially, in the listed equity space. So if I may, speaking to direct impact first, that's the kind of impact that I think most investors expect from an impact investing strategy. So that's connecting the investment dollars themselves to real world tangible outcomes on the ground. And that is achievable in some of the funds that I'm covering now from the manager research perspective. But generally speaking, it's in the fixed income space. It's a few specific bonds, including, not limited to, green-labeled bonds. But it can be really challenging to claim that kind of impact authentically in listed equities. So what we think of there is collaborative impact. And that actually gets at active ownership. So that's the company engagement proxy voting activities that portfolio managers are carrying on on behalf of their investor clients as part of their fiduciary duty. So maybe I'm jumping a little all over the place here. But collaborative impact being this concept that through your investment dollars, you're actually voting for the kind of companies that you want to see succeed. And you're doing so while trusting that your portfolio manager is representing your views and your values in their conversations with those investee companies and in their voting practices on shareholder and management-proposed resolutions, which increasingly, include environmental and social priorities explicitly.

**Robert Morier:** It sounds like it's a deeper level of fiduciary responsibility. The way that you just described it. And it's more than just watching out for returns. It's actually watching out for something that's a little bit bigger than just the portfolio. But I think at the same time, it's not a foreign concept to most of the portfolio managers that I talk to. I mean, they have, for a long time, considered governance related resolutions to be part of their fiduciary duty. Just voting the proxy is explicitly part of your responsibility. And so it's dealing with increasingly complex proposals that are coming to the space on environmental and social priorities. And just the understanding of those issues is evolving so quickly. So it's still representing your client's interests. Maybe the context of the conversation has changed a little.

**Dakota:** Thanks, Alyssa. I think this is a good segue. You're starting to talk a little bit about your role at Morningstar. And I'd love to spend some time just talking about your role there and the evolution of that role over time. So you started as a manager research analyst in the multi-asset and alternative strategies. Can you talk about Morningstar's approach to manager research? The process, what are some of the key aspects of the rating system, both from traditional and sustainable perspective.

**Alyssa Stankiewicz:** I think from the traditional perspective, one thing that I would like to clarify I feel like it's a common misconception in the industry is that the Morningstar rating, the 1 to 5 stars that you see on many if not all funds, is separate actually from what we do in Morningstar manager research, which is the Morningstar analyst rating. The Morningstar rating is actually a backward-looking reflection of how well the fund has performed. And that rating system is comprised of five different pillars. So it's the people, the process, the parent, and then price and performance. People, process, and parent are the pillars that we are evaluating that are actively driving the rating itself and price, I'll get to in a second. Those are the ones that we're evaluating in manager research. And I can talk a little bit about what our evaluation process looks like too. Performance is a pillar of the rating, but it's not driving the rating because, of course, we don't want to be tied to past performance. Price is systematically embedded into all of the Morningstar analyst ratings. And so that can differ by share class. It's just an automatic deduction from our expected net of fee alpha, or sorry, from our expected alpha for a particular strategy. We get at our internal expectation of alpha using those other three pillars that I talked about. People, process, and parent. So to arrive at those ratings, we take a look first, at all of the data that Morningstar has, all of the data that's publicly available about a fund's process, the team that's running the fund. And yeah. What competitors are doing in the space. And then we actually have conversations with the asset managers themselves, often with the analysts on the strategies to understand specifics and the nitty-gritty of what they're doing in positioning the portfolio, why they made certain decisions, how they're positioning the portfolio moving forward. Team changes, things like that. Following those conversations, we have an internal ratings process where we're filling out this comprehensive note. We're making a pitch to a rating committee. And then we're vetting that proposal and arriving at a decision, which is then published.

**Robert Morier:** It sounds like a comprehensive process. So as we're managing expectations for our audience, it sounds like happens terribly quickly.

**Alyssa Stankiewicz:** It's not a very quick process. We do have a process for expediting the internal process when there's been a material development. And so that may be that we issue an analyst note on the strategy and then expedite the re-ratings process internally. Otherwise, I think we tend to update these strategies on an annual basis.

**Robert Morier:** So when you went into the lead sustainability analyst role for US managers, what were you coming into in terms of what the expectations were from Morningstar for the asset managers, and then just your own process. What were the, I guess at its essence, what were the goals that you were all looking to accomplish as it pertained to integrating sustainability into this research process that you just very eloquently described to us?

**Alyssa Stankiewicz:** Thank you. One of the things which I took over, one of the responsibilities I took over in that role was something that Morningstar has been doing for a very long time, which is tracking fund development and fund flows in the US sustainable funds landscape and reporting on a quarterly and annual basis. And so I inherited a wealth of knowledge from John Hill. And then I sought to continue that work just to shine a light on active, passive, different trends and themes that we're seeing emerge across the landscape for investors. The other major responsibility that I took on at that point was focused on the Morningstar ESG Commitment Level, which you mentioned very briefly at the beginning. That's a new and emerging evaluation. It's a qualitative forward-looking evaluation that launched officially in September of 2020. And then we published our first batch of those ratings in November of 2020. And so a large share of my time now is focused on maintaining and evolving and improving upon and expanding that coverage model under the ESG Commitment Level.

**Dakota:** So now as the associate director of sustainability research in the US at Morningstar, and congratulations on all your success and promotions within the firm it's really exciting to see that, but what are your expectations and best practices for investment managers when it comes to sustainable investing?

**Alyssa Stankiewicz:** One thing that's sort of a baseline expectation, which the industry is still occasionally reckoning with, is that funds that say they're doing something about sustainability should be doing what they say. And so to a certain extent, that's not something I would consider best practice by any means. I think that's just a baseline expectation. That being said, I think we could have a whole separate conversation about the terminology and how we decide whether a fund manager is doing what they say they're doing. But before I get too into the weeds on that, I think to answer your question for best practices, it may be helpful to refer to the ESG Commitment Level for asset managers and what we're seeing from the leaders there. So the ESG Commitment Level is a four-part rating scale. We have leader firms, advanced firms, basic firms, and low firms. And from the leaders, which is what we would classify as best practice, we often see that these firms got an early start in sustainable investing. Many of these were dedicated ESG or socially responsible firms from day 1. But they haven't rested on those laurels. So they've taken that philosophy, and they've built out innovative frameworks for evaluating ESG risks and opportunities. They've developed strong talent internally and externally. And they're really the ones that have been at the forefront of defining what sustainable investing looks like. Defining the measurement and evaluation process for sustainable investing. And really setting the bar pretty high. Those firms tend to be strong advocates for the investors in their sustainability-focused funds. So they tend to have a strong level of support for key ESG shareholder resolutions, which we track internally. They have really robust engagement and proxy voting policies that make it clear what their priorities are for investee companies when it comes to environmental and social issues. So a successful engagement with a company shouldn't come as a surprise to the company itself. It shouldn't be all of a sudden, we have this expectation that you're going to have a certain percentage of women on your board. They should really be previewing those expectations and supporting the companies and getting to those metrics. And then we also see those portfolio managers and those asset managers actively following up with investee companies. Actively raising the bar for those conversations year over year.

**Robert Morier:** Well, it sounds like the ESG Commitment Level framework that you just described. So thank you for taking us through that. It's improving or helping to improve transparency among asset managers and it seems like it's requiring a lot more of asset managers to better understand where they're coming from before they can talk about what they are. The regulatory environment is also helping with that as well, typically, through fines. So which we've seen most recently with a few asset managers who had to adhere to their policies a bit better. So as you see this improving transparency environment for your customers in the context of the asset managers that we speak with and that are coming to you, how do you see that transparency evolving from what it is today? So I guess if you had to think about the Commitment Level framework, what do you see is the end goal for that particular measurement as it relates to what asset managers are attempting to do in terms of affecting both the collaborative and direct impact that you described?

**Alyssa Stankiewicz:** Sure. So I think the major task at hand for the industry right now when it comes to improving transparency in this space is being really clear about what we mean by the terms that we're using in describing our process of evaluating asset managers and marketing these funds to clients. And I think there are a number of driving forces behind that need for increasing transparency. So one of them that you pointed to is the regulatory environment. Morningstar has commented pretty openly on the SEC's proposals for increasing ESG fund disclosures. Generally speaking, we welcome increased and systematized disclosure on ESG in fund prospectuses. Another big push that we're seeing is from improving investor understanding of these terms. And I think that's leading to more sophisticated conversations with advisors with portfolio managers where really everybody at the table can be talking about the same thing and clarifying what the investor is looking for and what type of strategy the advisor should be recommending based on those risk tolerances or goals for their investment portfolios. Another big push that we're seeing is actually from what's been termed the anti-ESG sentiment or backlash in the US. And to be honest, I've been asked to comment on this a lot. I think that there's a possibility that the anti-ESG backlash actually becomes very useful for the ESG investing movement itself to the extent that it does force fund managers and asset managers to become really clear about what they are and aren't doing when it comes to ESG and sustainable investing. And so overall, buttoning up those definitions, I think, can certainly be a big win for investors.

**Robert Morier:** That's helpful. You had mentioned earlier that you're tracking fund flows. I was listening in on eVestment's universe call that they do on a quarterly basis where they talk about fund flows and where research is happening. And it seems like its clear asset interest in ESG has continued. But some regions in the world, like North America, are down from their peak. I think North America's peak was 2017. So down almost 20%. So you've mentioned this anti ESG-backlash. Do you do you think that ESG-focused flows are going to face headwinds as a result of the, I guess we could call it the criticism, that they're receiving? It sounds like it, to your point, it should be for the good. Meaning, the criticism should lead to some more optimistic views as to what can really be done and what people are really doing. But it seems like there's some near-term headwinds. So how do you broach the near-term reality versus the long-term optimism?

**Alyssa Stankiewicz:** It's been a tough year for ESG funds for a number of reasons. Anti-ESG criticism is one. The other is, obviously, the war in Ukraine and the energy crisis. And so as far as my outlook for sustainable funds, I am optimistic actually. I think that the sustainable investing industry, especially, has been pretty quick in responding to those headwinds. Whether it be through clarifying what investors should expect in terms of performance in different market environments from these strategies. Whether it be buttoning up definitions in the face of criticism about unclear language. Whether, in some cases, not so much in the US, but definitely overseas, it be fund managers actually reclassifying the funds that they're offering to make it clearer to investors what the goals are or aren't. And so to a certain extent, I don't want to say all of the headwinds are behind us. But we've come through a lot this year. And I think we have still continued to see strong growth in the sustainable investing market in the US. And so I think at least so far, ESG-focused, sustainability-focused investors haven't been dissuaded is what the data is showing. So one way that we measure that in terms of our fund flows is we look at the organic growth rate of the sustainable funds market versus the broader US open-ended and exchange-traded funds universe. And even when sustainable funds saw outflows in the second quarter, their organic growth rate actually remained less negative, shall I say, than the overall US open-ended and exchange-traded universe. So I think what we're seeing from that data is that the sustainable funds landscape is actually starting to act a lot more like the US market in general. And so I think it's natural to see some ebbs and flows in terms of demand. But I haven't seen anything that looks like a persistent concern in terms of demand for ESG-branded products. The other thing I would note is I think this year has been a great reminder that there's no investment style that outperforms in every market. And that's true for sustainable investing too. So just one more thing that we're clearing up for investors this year.

**Robert Morier:** It sounds like a lot of education going on.

**Alyssa Stankiewicz:** Thank you. I enjoy it.

**Robert Morier:** It's not just North America that's seen a relative slowdown in terms of flows into ESG. Non-US markets have also been susceptible to some of these outflows as well as you had mentioned. Do you continue to see differences between sustainable investment practices outside of the United States relative to here in the US? I spent a fair amount of my career in Europe. And they always seemed a little bit ahead of the curve, particularly in the Nordic markets and some of the lower continent. So I would assume that you're seeing some non-US managers who have US-registered mutual funds that are going through your process. I know Anna has some clients who are based overseas as well. So it would be interesting, I think, for both of us to better understand some of those key differences and maybe what we can be learning or how we could be sharing.

**Alyssa Stankiewicz:** Absolutely. So I think the major differentiator is the regulatory environment. The EU has made it pretty explicit that the goal of some of their regulation is to actually increase flows to sustainable investments. That's a really different stance, I think, than any regulators have taken in the US. So regulators in the US seem a lot more focused on increasing transparency and empowering investors to make their decisions, whatever they may be. There's no sort of prescriptive mandate to increase flows or demand for sustainable investments themselves. That said, I think as part of that initiative in the EU, they're also making a lot of progress in clarifying these terms, like I keep talking about. And in exploring what's feasible and what's useful from a disclosure perspective. So I think we're seeing US regulators too looking at the EU to learn from what they've been doing and reactions to their disclosure requirements. And so I think we saw some hint of that in the SEC proposals earlier this year. It's been really fascinating-- yeah. It's been really fascinating to watch the differences. The other difference that I can point to in terms of the EU versus the US is asset manager policies and expectations around sustainable investing. So we've put out a few pieces of research regarding the ESG Commitment Level and proxy voting policies and engagement policies. And in general, it's not a blanket statement, European asset managers seem ahead of the curve in things like clarifying their expectations on biodiversity, clarifying their policies on fossil fuel and coal divestment. Rolling out ESG-branded products. And so I think what you're seeing there too is a difference in investor demand for those types of products and those types of activities from asset managers.
Dakota: We touched on this a little bit already, but I was wondering if you could just maybe expand on your comments around the flow picture in the US sustainable funds market and we talked about the headwinds a little bit as well and what some of those are. But maybe just expand on how you think the universe might be impacted based on the current market volatility.

**Alyssa Stankiewicz:** I would be happy to.

**Robert Morier:** So as you're looking, we can tell our asset managers that it's time to sharpen your investment policy.

**Alyssa Stankiewicz:** Yeah.

**Robert Morier:** As it pertains to your, so if you are an asset manager listening to this podcast and you are not familiar with your investment policy statement as it pertains to ESG get familiar ASAP.

**Alyssa Stankiewicz:** Absolutely. Yeah. Make your policies clearer and more robust for investors. I think that's the best way to empower investors to choose the product that's right for them. That's the best way, even to preview your expectations to investee companies. We're absolutely a big fan of disclosure over here. One other thing that we're seeing increasingly from some of the leading asset managers is blanket disclosure of specific ESG metrics for all funds. So reporting on things like carbon intensity for your fund. Overall ESG scores may be the diversity breakdown for your portfolio and how that stacks up to the benchmark, how that stacks up to peers, how that stacks up to your other funds. So really putting more information out there, providing the education that's necessary to allow investors to more easily navigate your funds lineup as an asset manager and to compare your fund with your competitors. So as I said, it's been a tough 2022 for some of our sustainable funds. That said, it's been a tough 2022 all over. I don't think it's been a challenge just for sustainability-focused funds. We actually saw earlier this year that sustainable funds posted their first quarter of outflows in the second quarter in the US. That's their first quarter of outflows in more than five years. Going back more than five years, it's actually tough to make a comparison to the current universe just given how rapidly the number of products available has expanded over that time. So we did see the first quarter of outflows. But again, we always try to right size those flows through the organic growth rate. And maybe I'll explain briefly what that is. It's actually the net flows that funds or landscape a universe of funds sustains during a period of time as a percentage of the total assets at the start of that period. It's more useful over a longer period of time. So that the data is a little less noisy. And so I calculated this on a quarterly, semiannual, and annual basis for sustainable funds versus the broader US open-ended and exchange-traded fund universe. And what we saw during the second quarter, so I know this is a little old at this point, I looked at it on a semi-annual basis. So the first half of 2022. The US sustainable funds market grew actually by 2.5%. So that's despite the flows that we saw in the second quarter. And by contrast, the total universe of US open-ended and exchange-traded funds actually shrunk over that same period of time by 0.39%. And so we looked at that on an annual basis from July 2021 through June 2022. Sustainable funds grew by 13%. So that's pretty remarkable growth compared with the US landscape, which only grew by 1.4% over that same period of time. So this is something we'll continue to track and report on. Because I think it can be really challenging for investors to grapple with. We saw a few, let's say, a few billion in outflows in sustainable funds, but we saw hundreds of billions, trillions in outflows in the overall US universe. It's hard to conceptualize what that means for the investors.

**Robert Morier:** All right, Alyssa. Go back in time. You're at the University of Vermont. You're getting your MBA. And if you knew then what you know now, what would you be telling yourself and other students about the realities of asset management and sustainable investing? Because I know when you're in the classroom, I see it often at Drexel, I think it's this feeling like you can make a lot of changes right away. But as we talked about just in regard to the sales process, things take a long time. So if you had to go back, what are some of the things that you've learned over the last few years that you may have wished you knew when you were sitting in that classroom in Burlington, Vermont freezing?

**Alyssa Stankiewicz:** Sure. Sure. I would be happy to. So that actually gets a little bit at one of the reasons that I got into investment management in the first place. Was I saw this opportunity to take my understanding of what sustainably-managed businesses can do for their local communities and to magnify that exponentially through the capital markets. And so I saw an opportunity, I think, to really drive sustainable change, leveraging that power. And that's something that I think I've had to revise a few times after joining the asset management industry, if I may. And I think that's been for better and for worse. I think it's not a ship that's going to turn rapidly on a dime, but it's also not a ship that's not open to new ideas. And so I really think that I got lucky in terms of my timing joining Morningstar. I joined in November of 2019. And 2020 was the year when Kunal Kapoor, our CEO, set out sustainability as one of our major priorities. And so really, I think my timing was kismet. And it's been really, I think, wonderful and valuable to be at the crux of all those conversations as the industry evolves. And so something that I've learned about the asset management industry is that there's a strong focus on clarity. There's a strong focus on proof of an investment process and thesis. And I think there's also an openness to fresh ideas to try to drive alpha for investors. So it's been wonderful. I'm really grateful to be in the space that I'm in right now and to be empowered to be independent about my opinions and open about my research with the end investor in mind. So I guess my other nugget of advice for my MBA self is focus a lot on the culture of the company that you're joining. I think this gets actually back to my experience with Xponance too. Is understanding the importance of being in a company that supports you and values your diverse background and wants to develop you as an individual. I think you can go really far in an environment like that.

**Robert Morier:** Well, thank you so much, Alyssa, for sharing all that. We're grateful for your time today. We were happy to have you on the podcast. We learned a lot today about Morningstar, manager research, your background, and the sustainability landscape. So thanks for taking us through all that. So if you want to learn more about Alyssa and the work she's doing at Morningstar, please visit their website at [www.investor.morningstar.com](www.investor.morningstar.com). You can find this episode and past episodes on [Spotify](), [Apple](), Google, or your favorite podcast platform. We're also available on [YouTube](), if you prefer to watch while you listen, which Alyssa learned at the beginning of this podcast. So we're grateful as well for you sticking with us on camera as well as on audio. And again, thanks for being here.