Responsible Ratings Methodology

There is no doubt we live in a fragile world which is becoming increasingly concerned over its future. There is increasing focus on wider societal issues like climate change and plastic pollution, which has spurred on the idea of conscious consumerism in the world of asset management.

In recognition of this, we have developed the Square Mile Responsible ratings as a way to help advisers identify funds that can fulfil their clients' aim to invest in funds which have a positive impact on their own financial wellbeing, and also on the wellbeing of the world around them.

We recognise that not all the benefits and costs are monetary, and an ever-growing number of investors are seeking funds that have a dual objective; positive financial returns and the ability to contribute to a positive outcome for society or the environment. However, finding funds which meet these objectives may not be straightforward. It is for this reason that we have looked to complement our existing ratings process by introducing Responsible ratings. These ratings will denote a fund which is best in class in its area and will fall into one of these three broad categories:

1. **Exclusion:** excluding companies or other entities which have a negative impact on society or the environment

2. **Sustainability:** rewarding and encouraging positive change and leaders in sustainability

3. **Impact:** inclusion of entities which have a positive impact on society or the environment

The introduction of Square Mile Responsible ratings is an evolution of our current ratings methodology, and is fully integrated into our research team's process, as we do not believe that responsible investment should be viewed separately from more 'mainstream' funds.

Our new ratings will follow the same robust assessment process that we apply to our existing rated funds. We assess each and every fund that we look at against the outcome which the manager articulates that they are seeking to achieve, and we would expect the funds qualifying for a responsible rating to have many of the same characteristics we expect from all of the funds that we recommend to our clients. This includes a clearly articulated philosophy that looks to exploit identified inefficiencies, a proven and repeatable process, a sound management team, an environment conducive to meeting the fund's objectives, solid portfolio construction, a stringent risk management framework and a cost which fairly reflects all of these other considerations.

For a fund to achieve a Responsible rating we would expect it to offer a result which, whilst not always measurable by traditional means, meets the responsible investment aspiration of the client, in addition to the financial goals. This could come in many forms but should largely fall within the three categories of responsible funds that we have identified. Our ratings are an expression of the manager's ability to meet both the financial and responsible parts of their goals.

We are aware that the usual ways of measuring funds may need to be adapted in some cases, and that benchmarks may be less relevant, timeframes may need to be longer and risks may be different from similar funds not employing an overly responsible approach. We will assess each and every fund on a case-by-case basis, gaining a thorough understanding of the fund's responsible outcomes and its ability to deliver these. Whilst we view ESG (Environmental, Social and Governance) factors as a separate assessment, it is undoubted that they are often a valuable input in helping to frame our understanding of the fund/ asset manager's approach to responsible investment.

In summary, the responsible ratings will enable our analysts to recognise and acknowledge these funds to deliver more than financial returns, by assessing the ability of such funds to meet both their financial and positive societal or environmental outcomes.

Responsible ratings run along the same scale as our standard ratings, with gradations which express our confidence in a manager's ability to meet their objectives. The only difference between the two scales is that responsibly rated funds will have a responsible outcome or target incorporated into their objectives or mandate, and our expression of confidence is in the manager's ability to meet both aspects of their objectives.

AAA – Assigned to funds in which we have the greatest confidence that the fund over an investment cycle will meet its stated objectives.

AA – Assigned to funds in which we have a high confidence that the fund over an investment cycle will meet its stated objectives.

A – Assigned to funds which we have confidence that the fund over an investment cycle will meet its stated objectives.

R – RECOMMENDED – Some funds meet the highest standards in their fields, however, beyond this the funds cannot be readily differentiated between each other. An example would be passive funds. Such products will be assigned a recommended rating.

P+ – POSITIVE PROSPECT – Funds which our researchers have identified as up and coming interesting propositions. However, the manager, their strategy or their process is new and has not been thoroughly tested in all market environments. As a result we are not in a position to provide a full fund rating. Instead we are producing a qualified rating to highlight the fund's potential but also recognise Square Mile's reservation