

For Professional Advisers only

Square Mile Responsible Ratings Q&A

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 Square Mile Investment Consulting & Research Limited



What is the rationale behind Square Mile's new Responsible ratings?

There is no doubt that there is a significantly increased public awareness of a wide range of issues affecting the climate, environment and society as a whole. In response, there is a growing interest from individuals in addressing these issues, and consumers are increasingly making lifestyle choices to reflect this. Finance is no exception and investors are more aware than ever of the power for good that their investments can have.

However, we believe that with the proliferation of investments claiming to adopt a responsible approach comes an increased pressure on investors who must sort through both the terminology and funds to find the right approach for them.

How do you define a responsible approach to investment at Square Mile given the broad application of the term?

Our Responsible ratings will be awarded to funds which we believe are best-in-class in their field and which fall into one of three categories:

- Exclusion: funds which exclude companies or other entities which have a negative impact on society or the environment;
- Sustainability: funds which encourage and reward positive change;
- Impact: funds which seek to include companies or entities which have a positive impact on society or the environment.

We acknowledge that each of these approaches, or a combination of them, are attractive to differing types of investors and we therefore make no judgement call on which might be the most valid. Our Responsible ratings recognise those funds which our analysts believe have a positive impact on their own financial wellbeing, and also on the wellbeing of the world around them. As with all funds within the Academy of Funds, every fund that carries a Responsible rating will have its adherence to exclusion, sustainability or impact, or a combination of these, clearly labelled.

By what process do you identify funds that qualify for a Responsible rating?

Our new ratings follow the same robust assessment process that we apply to our existing rated funds. We assess each fund against the outcome which its manager articulates that they are trying to achieve. It is therefore highly likely that funds qualifying for Responsible ratings will share many characteristics shown by all other funds within our Academy of Funds. These characteristics include a well-articulated philosophy that seeks to exploit identified market inefficiencies, a proven and repeatable process, a sound management team, a stringent risk management framework and a cost which fairly reflects all of these other considerations.






How do you measure the success of a fund that adopts a responsible investment strategy?

To receive a Responsible rating, a fund must meet the financial and non-financial objectives which the manager has articulated, falling within the three broad categories we have identified (exclusion, sustainability and impact). This might not always be measurable by traditional means and so our qualitative assessment recognises the fact that benchmarks may be less relevant, timeframes for delivery may be longer and risks may be different from similar funds that do not have a responsible approach.

Will the Responsible ratings be graded depending on your view of how well they meet responsible criteria?

The Responsible ratings will be ranked along the same scale as our existing ratings for funds within the Academy of Funds with a range of grades: A, AA, AAA, P+ (Positive Prospect for funds which are compelling propositions, but where the manager or strategy has not been thoroughly tested in a full market cycle) and R (Recommended, for funds that meet the highest standards in their fields but cannot be readily differentiated from their direct peer group, such as passive funds). These grades express our confidence in a manager's ability to meet their objectives. Square Mile's Responsible ratings will be reserved for funds that have a responsible outcome or target incorporated into their objectives.

Examples of the new Responsible ratings logos follow:

	<p>Assigned to funds in which we have the greatest confidence that the fund over an investment cycle will meet its stated objectives.</p>		<p>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>
	<p>Assigned to funds in which we have a high confidence that the fund over an investment cycle will meet its stated objectives.</p>		<p>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</p>
	<p>Assigned to funds which we have confidence that the fund over an investment cycle will meet its stated objectives.</p>		

Square Mile's ESG Integration Fund Assessments grade funds on a zero to three scale – why have you not included a similar scale for Responsible ratings? Do you anticipate that all funds with Responsible ratings will have the highest score in the ESG Integration assessment?

Responsible ratings and ESG Integration assessments are complementary but distinct initiatives. The Responsible ratings are awarded to funds which we feel are at the top of their field, based on the processes we have outlined above. ESG Integration assessment for Funds provides a snapshot of the extent to which every fund within the Academy of Funds adopts a level of ESG awareness into its processes. We would anticipate that many funds receiving a Responsible rating will attain a high ESG Integration assessment, but this may not always be the case, depending on the approach employed.

How frequently will you review Responsible ratings to ensure funds' adherence to their stated objectives?

The review cycle for these funds will be no different to that of our normal funds where we aim to review each fund on a quarterly basis and to meet the manager, or a member of their team, at least twice a year.

Are those funds which have qualified for Responsible ratings new to the Academy of Funds or are they already constituents of it?

We have assessed all funds within the Academy of Funds that have adopted a responsible approach to investment and awarded Responsible ratings to those which we feel are best in class in delivering financial returns and meeting objectives that aim to have a positive impact on the environment and society. In addition, 5 funds have been admitted to the Academy of Funds at the launch of this initiative. We will as a matter of course be adding further funds which we feel display the characteristics as defined by our assessment process that mark them out to qualify for inclusion.

How many funds have qualified for Responsible ratings? How many were existing constituents of the Academy of Funds?

At launch, 13 funds within the Academy of Funds have qualified for a Responsible rating with a further 5 new funds joining the Academy of Funds with Responsible ratings. However, this is an ongoing process and we expect to add a much wider variety of funds over the coming months. We are constantly monitoring the market for funds and strategies that are worthy of consideration.

Square Mile's ESG Integration assessment for companies offers a view on all asset management companies within the Square Mile Academy of Funds. Is it therefore possible for a fund to receive a Responsible rating despite being offered by a company with poor ESG credentials?

In short, yes. Responsible ratings and ESG Integration assessment, while complementary, have distinct objectives. Responsible ratings identify funds which our research processes have identified as being best-in-class in their field. ESG Integration assessment for funds and companies offers advisers a full picture of their clients' investment partners from an ESG perspective. Based on this guidance, they can build a portfolio that closely meets an individual's specific ESG preferences.

Who are the leads at Square Mile on this initiative and what are their credentials in assessing funds' responsible characteristics?

The process in establishing funds' responsible characteristics has been completed by the team. The methodology has been developed by the senior leadership team in the research unit, but all analysts are involved in the evaluation. Along with the Responsible ratings, the roll out of ESG Integration demonstrates the importance we place on assessing the ESG credentials of asset management companies and the funds they offer and is part and parcel of our research and due diligence. It is fully integrated into our analysts' processes rather than being led by a segregated division.

Did you seek external counsel when refining your process?

We spoke to a number of asset managers and clients to ensure that our approach and the concept behind it was sound. We wanted to ensure we had road-tested our thinking and not created a white elephant, but rather something that would help advisers to meet their clients' investment goals.

How do your Responsible ratings differ from those offered by your peers?

It is not our place to draw comparisons with other ratings in the market, however Responsible ratings come as a direct response to our clients who have sought our expertise and opinion on the various responsible strategies available. We believe our approach builds on a well-established and highly regarded process in analysing funds' ability to deliver on their objectives by introducing an equally important responsible element to the analysis.



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