

# 3D Fund Certification and Impact Ratings: An Overview



## Introduction

There are now a multiplicity of funds claiming to employ some form of Responsible or Sustainable investment (RI). The growth in the market and the diversity of approaches has led to widespread accusation of 'greenwashing'. The 3D certification meets this challenge by providing independent evidence that the fund lives up to its claims in terms of RI, and by profiling the fund according to the 3D Impact Framework. This lends confidence to the fund buyer. Funds that pass a demanding threshold also qualify for a 3D Impact Rating. This identifies those funds which deliver the highest social and environmental impact.

## What we believe

The 3D assessment is based on a threefold philosophy built around making a positive social and environmental impact in line with the United Nations Sustainable Development Goals (SDGs). This philosophy can be summed up as follows:

**Do Good** – by investing in solutions to global social and environmental challenges that make a significant positive contribution to the SDGs.

**Avoid Harm** – by not investing in companies that make a significant negative contribution to the SDGs.

**Lead Change** – through engagement with investee companies, co-operation with other investors and change activists, and through informing opinion.

## 3D Certification and Impact Rating

The 3D certification embraces a whole range of approaches to RI, certifying that each fund has undergone a robust assessment under the 3D framework. It also profiles each fund according to this framework in a transparent and consistent manner so that investors can compare like with like when considering RI funds. Each aspect of the 3D certification receives a score (Gold, Silver, Bronze or Unqualified).

Certification does not represent an overall rating – rather we paint a picture of the fund in a structured way that allows funds to be compared on a range of objective and subjective criteria. However, funds that meet an impact quality threshold are awarded an impact rating of A – AAA.

3D certification and impact rating also provides a platform for funds to be distinguished from the competition.

## 3D Certification Methodology

In essence, 3D certification verifies that the fund meets a set of minimum standards. These include:

- Purpose – clear, well-reasoned strategy
- Resource – ability to deliver strategy
- Evidence - claims match reality

Funds are also profiled according to the 3D framework, although funds are not necessarily expected to score highly on all elements of the 3D Framework. For instance, a fund that is principally about ethical exclusion is chiefly verified on the degree to which it avoids harm, whilst also being profiled on the extent to which it does good and leads change. Although there are many approaches to RI, no one approach is preferred over another and multiple approaches may be adopted by one fund. However, the above principles can be applied across all the different approaches which may include ethical screening, engagement, sustainable, impact and responsible investment. Profiling is based on the following elements:

	Do good	Avoid Harm	Lead Change
Purpose	Clear explanation of any themes and how they contribute to a sustainable world	Clear, specific and comprehensive criteria made publicly available.	Clear theory of change. Rationale and strategy for engagement.
Resource	Internal and external sustainability research capacity, sourcing of data, reporting systems	Internal and external screening systems.	In-house and external ESG systems, tracking mechanisms, integration into investment process, reporting systems
Evidence	Congruence between strategy and 3D assessment of all holdings; Impact Report	Congruence between stated policies and a 3D check on all holdings; External Provider reports.	Comprehensive, results-based engagement reporting

Details of the methodology are provided in the appendices. Each fund is analysed on a stock-by-stock basis to provide independent verification of the extent to which the fund meets its claims. This includes identification of any ethical controversies and a proprietary impact classification of holdings.

## The Value of Certification

3D Certification provides independent verification that the fund's RI claims are being delivered and helps to build confidence in the fund buyer. It is based on critical scrutiny of the content of a fund and has the credibility of being underpinned by objective data.

Certification and an impact rating (if applicable) allows funds to display the certification and impact rating awards, in order to demonstrate the quality and standing of a fund. Certification also entitles the holder to a profile of the fund which provides independent evidence and allows funds to be compared on common metrics. Profiles are then made available to IFA and asset manager partners.

## Certification Process

The process starts with completion of a questionnaire to capture the information we need to make the assessment. This includes full details of all holdings. We ask that fund holdings are as up to date as possible, but a time lag is acceptable. Once analysis has been concluded, a decision on the successful certification or otherwise is given with reasoning. The decision can be challenged but sufficient evidence needs to be provided to change this, and the final decision rests with 3D Investing.

## Licencing Certification

Once a fund has been assessed, the certification and impact rating (if applicable) can be licenced by the fund provider. This entitles the provider to display certification on fund literature, and to a fund profile. There is an opportunity to suggest corrections to the draft profile before the final copy is published. Fund profiles are distributed to IFA and asset manager partners.

## 3D Impact Ratings

The 3D Impact Rating can be thought of as an informed opinion based on detailed analysis of objective data. A holistic view is taken of the fund to arrive at an overall conclusion based on consideration of multiple factors, with funds of the same rating having different strengths and weaknesses. The rating is an expression of confidence in the social and environmental impact of the fund, with typical attributes (one factor may be partly compensated by another) including the following:




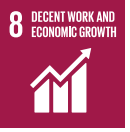
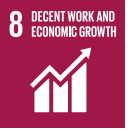

	<b>Avoid Harm</b> Negative contribution to SDGs	<b>Do good</b> Direct positive contribution to SDGs	<b>Lead Change</b> Indirect influence
	Amber or Green rated (see below)	> 50% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some evidence of positive influence on investee companies
	Amber or Green rated (see below)	> 66% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some measurement of impacts and influence + evidence of engagement to raise standards on social and environmental issues
	Green rated (see below)	> 90% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Systematic measurement of impacts and influence + comprehensive engagement to raise standards on social and environmental issues + participation in collaborative initiatives






## Appendix 1 – Avoiding Harm

Each stock in the portfolio undergoes a check against a comprehensive range of ethical issues that are considered to hinder the SDGs. These are identified and the fund is awarded a Traffic Light as an indication of the degree to which funds avoid controversial activities

- Exposure to stocks that make a high negative contribution to SDGs, whereby our confidence in the impact assessment and management is undermined.
- Exposure to stocks which make an indirect, debatable or low negative contribution to SDGs without justification, or isolated exposure to companies that make a high negative contribution to SDGs.
- No exposure to companies which make a high negative contribution to SDGs. Any indirect, debatable or low negative contributions to SDGs are identified and justified.

The following are identified as controversial activities:







Controversy	Description	SDG Impact	Negative Contribution to SDGs
<b>Alcohol</b>	Production of alcoholic beverages		Low – as the product is widely used without addiction
<b>Animal Welfare</b>	Animal testing for pharmaceuticals, healthcare or cosmetics products; meat production		Low – this is an important issue for many people, but views are mixed and this is not directly addressed in the SDGs
<b>Armaments</b>	Weapons related contracts		High – weapons directly lead to loss of life
<b>Business Ethics</b>	Breach of marketing codes; Aggressive business practice; Tax avoidance		Low to High – depends on extent of issue and importance to the company
<b>Employment</b>	Zero hours contracts; child labour; Bad safety record		Low to High – depends on extent of issue and importance to the company
<b>Finance</b>	Banks, insurers and investment companies with no exclusion policies on lending/investment beyond adherence to international norms and very limited issues.		Low (direct impact) – impact is indirect and impacts can be mixed with both positive and negative outcomes.

<b>Fossil Fuels</b>	Exploration and production of oil and coal; Exploration and production of gas		High- direct and major contribution to climate change.
<b>Gambling</b>	Gambling providers		High – gambling is highly addictive and detrimental to health and well-being
<b>High Carbon Users</b>	Carbon intensive industries including air transport, cement production, non-electric vehicle production and sale		High – these industries make a major contribution to climate change
<b>Intensive Farming</b>	Production of non-renewable agricultural inputs; Production of food involving intensive methods; Use of genetically modified organisms	 	Debatable – the definition of sustainable agriculture is flexible. Products that can be shown to harm wildlife have a high impact as do products based on non-renewable resources
<b>Mining</b>	Mining operations	 	Debatable but potentially high – Mining almost inevitably involves environmental degradation and there are also major human rights issues.
<b>Nuclear Power</b>	Generation, wholesaling or distribution of power from fossil fuels		Low- impact is indirect and the companies can also have positive impacts
<b>Power production and distribution</b>	Generation, wholesaling or distribution of power from fossil fuels		Low- impact is indirect and the companies can also have positive impacts
<b>Tobacco</b>	Manufacture of tobacco products		High – tobacco is a very addictive product and has very negative health impacts

## Appendix 2 – Doing Good

Each investment is assessed as to how its core product or service contributes to the SDGs. A threshold of 50% of revenues is applied, whereby a company is only considered to provide a solution to a social or environmental challenge if more than 50% of its revenues are derived from one or more of the listed solutions. The whole weighting of an investment is attributed to the solution from which the most revenues are derived. For example, if 2.45% of a fund is invested in Company A and Company A derives 45% of its revenues from healthcare and 20% from resource efficiency, then 2.45% of the fund is regarded as contributing to healthcare. Each solution is mapped to the most appropriate SDG with solutions including the following:

Solution	Description	SDG alignment
<b>Circular Economy</b>	Waste management and recycling, environmental consultancy, product manufacture with high recycled content	
<b>Education, jobs and learning</b>	Educational publishing, educational establishments, training	 
<b>Enabling infrastructure</b>	Platforms and technologies that are key parts of moving to a sustainable world – e.g. electrical transmission networks, cloud infrastructure	
<b>Healthcare</b>	Medical Equipment, Pharmaceuticals, Health Services	
<b>Inclusive and ethical finance</b>	Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance, inclusive payment systems	 
<b>Low carbon transport</b>	Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure	
<b>Natural capital</b>	Water Supply & Sanitation, Water Filtration, Air Filtration, Forests	 
<b>Renewable energy</b>	Solar, Wind, Biomass, Hydro	

<b>Resource efficiency</b>	Energy Efficiency, Natural Resource Efficiency	
<b>Safety &amp; Security</b>	Cyber security, building and automotive safety, food safety	
<b>Social infrastructure</b>	Social & affordable housing, Care Homes, Hospitals, Dental & GP Surgeries, Schools, Libraries & Universities, Police stations, law courts	 
<b>Sustainable food</b>	Food storage, food safety, non-intensive farming, wholefoods, organic & high welfare food manufacture, precision agriculture	 

## Appendix 3 – Leading Change

Although the direct positive impact of a fund is assessed in terms of its underlying investments, how a manager uses their influence to shape company practice and wider society is also critical. We therefore consider a range of metrics to assess the extent to which a manager leads change in the industry and in its investee companies.

### Direct Influence

Investment managers have great access to company management and are in a position of influence. Through engagement with companies, managers can raise standards and make the case for more sustainable business practices. Although Environmental and Social Governance (ESG) is now almost universal, the extent and depth of this varies markedly. In order to assess the actual influence on corporate practice, we look at:

### Voting

- Does management vote all their shares?
- Is the percentage of votes against management shown?
- What votes have been taken on environmental and social issues?
- Is the rationale for voting shown and are companies informed of this?

### Engagement

- What engagement is undertaken and how much of this relates to environmental and social issues?
- Are targets and results clearly shown and what positive changes have resulted?
- How do managers help investee companies to adopt best practice?
- How widespread is engagement?



## Indirect Influence

There is a limit to what can be achieved through the individual action of one company. Shareholder collaboration is therefore important, as is wider engagement in initiatives and activities that further responsible investment. To this end we look at:

- Promotional and educational activity on responsible investment
- Participation in collaborative initiatives with other investors
- Extent of any opinion forming
- Initiatives to raise standards in the industry

## Appendix 4 – Certification Scoring

An indicative rating is attributed to each aspect of the 3D assessment. This allows consistent profiling of the fund and paints a picture of the fund against the 3D Impact methodology. It is not expected that funds which are not focussed on positive impact will score highly on all aspects and no overall rating is attributed for this reason.

	Gold	Silver	Bronze	Standard Not Met
<b>RI Capability</b>	High level of RI training/ knowledge for all research, investment and sales staff; major resource (proportionate to size of organisation) including internal RI specialists	RI training for all research, investment and sales staff; Resource includes internal RI specialists and proprietary RI systems;	RI training initiated; RI resource is sufficient for effective delivery	RI resource is limited with a lack of senior level commitment.
<b>ESG Practice</b>	Fully integrated ESG, embraced throughout the firm. Compliance with UN Global Compact. Intention to influence. Use of internal ratings.	Fully integrated ESG, embraced throughout the firm. Compliance with UN Global Compact. Use of internal ratings.	Full integrated ESG. Compliance with UN Global Compact.	ESG not fully integrated
<b>Reporting</b>	Full ESG reporting including progress with clear metrics and targets. Quarterly RI bulletins. Regular thought pieces.	ESG, Engagement and Annual RI Report. Clear public statement of ESG policy and strategies. Quarterly ESG bulletins. Thought pieces.	Some form of ESG Report. Clear public statement of ESG policy and strategies	No systematic reporting on ESG or impact.
<b>Controversy Avoidance</b>	No exposure to companies which make a high negative contribution to SDGs. Any negative contributions to SDGs are minimised	Some exposure to stocks which make a negative contribution to SDGs without justification; or isolated exposure to companies that make a high negative contribution to SDGs	Exposure to stocks that make a high negative contribution to SDGs but meet stated exclusion criteria.	Stocks do not meet stated exclusion criteria and have significant exposure to stocks that make a high negative contribution to SDGs

<b>Investment in SDG Solutions</b>	Systematic reporting of positive impacts. >66% of the portfolio is invested in social & environmental solutions.	> 50% of the portfolio is invested in social and environmental solutions.	Clear evidence of above average positive impact (operational practices or core products & services) compared with the benchmark index.	No clear evidence of positive impact (operational practices or core products & services) compared with the benchmark index
<b>Engagement</b>	ESG engagement across all funds. > 25% of engagements related to E and S; high proportion of holdings engaged; Clear targets and reporting on success. Intention to influence for benefit of wider stakeholders.	ESG engagement across all funds. Systematic and progress related reporting. Intention to influence for benefit of wider stakeholders.	ESG engagement across all funds. Systematic reporting with evidence of wider stakeholder benefits.	Insufficient evidence of wider stakeholder benefits or systematic reporting.
<b>Voting</b>	Rationale for voting published; companies informed of reasons for voting against or abstaining; Significant evidence of E & S in voting policy.	Voting for all shares and full reporting on voting including summary of votes against. Some evidence of E & S in voting policy.	Voting for all shares with full reporting.	Voting not undertaken for ALL shares, or incomplete reporting on voting.
<b>Advocacy</b>	Leadership in promotion and development of RI. Membership of industry initiatives. Leadership in educative or collaborative initiatives	Membership of industry initiatives. Extensive participation in educative or collaborative initiatives. Promoter of RI.	Membership of industry initiatives. Participation in educative or collaborative initiatives. Promotion of RI.	No promotion of RI or participation in collaborative initiatives.

## Important Information

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