

# 3D Investing Methodology

November 2020



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## Introduction

The investment industry has seen a seismic shift towards Responsible Investment (RI), with a multiplicity of funds claiming to invest positively or with impact. The growth in the market and diversity of approaches has led to widespread accusation of 'greenwashing'.

3D Investing aims to meet this challenge by providing independent evidence that a fund and company lives up to its responsible investment claims, by profiling according to the 3D Investing Framework:

Do good	Avoid Harm	Lead change
By investing in solutions to global social and environmental challenges that make a significant positive contribution to the UN Sustainable Development Goals (SDGs).	By not investing in companies that make a significant negative contribution.	By engaging with investee companies, co-operation with other investors and change activists, and through informing opinion.

The following procedure guide is applicable to the following 3D Investing accreditations:



### 3D Corporate Certification

An independent audit of the quality of ESG standards of an asset manager, helping to identify leaders in Responsible Investment.



### 3D Fund Certification

An independent verification of the extent to which funds meet their Responsible Investment objectives



### 3D Impact Rating

An additional rating for certified funds that meet a minimum threshold for positive social and environmental impact.

## Step 1: Identify funds

For a fund to be considered for a 3D Investing rating, it has to have a stated impact, responsible, social or environmental objective (or be a thematic fund based on such an objective) or an exclusionary fund. A fund cannot simply be ESG integrated.

The fund also has to be registered for sale in the UK.

## Step 2: Obtain fund portfolio information and supporting documents

The 3D Certification and Impact Ratings are based on evidence, with all funds undergoing a detailed examination of their holdings in order to identify controversies and the extent of the exposure to social and environmental solutions.

### Portfolio

The current fund holdings and portfolio weights are obtained from the fund manager. The minimum information required is the ISIN code, security name and weighting. We expect that a fund manager should be able to justify any holding in their portfolio and where possible, we request an impact justification for each holding, though this isn't a compulsory requirement.

### Questionnaire

In addition to the portfolio holdings, a detailed questionnaire is required to be completed by the fund manager. It considers:

- Approach: Identifies which types of RI approach is adopted by the fund
- Resources: Ability to deliver strategy, number of RI staff, ESG databases, data subscriptions, RI committees and memberships
- Exclusions: The exclusion criteria employed by the fund
- ESG: ESG framework and application
- Engagement: Data on success of engagements and percentage in E, S and G
- Voting: Considers the extent to which the fund manager exercises votes in companies and importance of E and S in voting
- Advocacy: Considers the degree of collaboration with other shareholders, educational initiatives and thought leadership as well as membership of institutions (e.g. UN PRI)
- Impact Footprint: Extent of measurable impact of the fund, e.g. waste intensity vs. benchmark, water intensity vs. benchmark, carbon intensity vs. benchmark etc.
- Impact outputs: How many megawatts of clean energy has the fund generated, how much carbon avoided? How many people receiving health treatment, how much affordable housing?

### Supporting documents

The fund manager is also asked to provide any supporting documents which provide further evidence and insight into the fund's process.

This will potentially include UN PRI reports, stewardship reports, Responsible Investment reports, impact reports, engagement reports, fund presentations, process documents, ethical criteria statements, marketing documents in respect to ESG integration and any other insights that the fund manager is willing to share.

## Step 3: Match portfolio against 3D Investing Proprietary database

Every stock in the portfolio is cross-referenced against the 3D Investing Company Database. Key to awarding an Impact Rating (and the strength of that rating) is the degree to which a portfolio contains solutions that are aligned with the United Nation Sustainable Development Goals (SDGs).

Where a large proportion of a portfolio contains holdings which map directly to one or more of the SDGs, a fund will likely rate strongly. Where a fund contains material levels of securities which either have a limited positive impact or indeed, a harmful impact, a fund will not rate as well.

This is an extensive database, currently of some 4,000 securities which have been researched and classified on the basis of the 3D Investing classifications outlined below. These categories have been designed to help align a portfolio's composition to an underlying SDG or otherwise:

<b>Circular Economy:</b> Waste management and recycling, environmental consultancy	<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 	<b>Natural Capital:</b> Water Supply & Sanitation, Water Filtration, Air Filtration, Forests	<b>6</b> CLEAN WATER AND SANITATION 
<b>Education, Jobs &amp; Learning:</b> Educational publishing, educational establishments, training	<b>4</b> QUALITY EDUCATION 	<b>Renewable Energy:</b> Solar, Wind, Biomass, Hydro	<b>7</b> AFFORDABLE AND CLEAN ENERGY 
<b>Enabling Infrastructure:</b> Platforms and technologies that are key parts of moving to a sustainable world. These include electrical transmission networks, cloud infrastructure and 3D printing	<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<b>Resource Efficiency:</b> Energy Efficiency, Natural Resource Efficiency, Waste Management & Recycling	<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 
<b>Healthcare:</b> Medical Equipment, Pharmaceuticals, Health Services	<b>3</b> GOOD HEALTH AND WELL-BEING 	<b>Safety:</b> Cyber security, building and automotive safety, food safety	<b>16</b> PEACE, JUSTICE AND STRONG INSTITUTIONS 
<b>Inclusive &amp; Ethical Finance:</b> Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance	<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<b>Social Infrastructure:</b> Housing –Social, Student, Care Homes; Healthcare – Hospitals, Dental & GP Surgeries; Education - Schools, Libraries & Universities	<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES 
<b>Low Carbon Transport:</b> Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure	<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES 	<b>Sustainable Food:</b> Food storage, food safety, Reduction in non renewable inputs for farming, renewable farming alternatives, organic and high welfare food manufacture and distribution	<b>2</b> ZERO HUNGER 

## Avoiding harm

The next stage of the 3D Investing analysis involves identifying controversial activities and practices. Confidence in a 3D Investing impact assessment would be undermined where there is material exposure to securities which make a high negative contribution to SDGs and so typically involve the following activities:

- Agrochemicals
- Alcohol
- Animal Testing
- Armaments
- Coal
- Ethics and Marketing
- Finance & Tax
- Gambling
- Genetically Modified Organisms
- Gas
- Human Rights
- Indirect Fossil Fuels
- Mining
- Nuclear Power
- Oil
- Tobacco

In order to monitor controversies and classify securities into the 3D Investing database, 3D Investing uses data sourced from V.E., (controversies) Bloomberg (revenue sources), as well as publicly available information. This is in addition to information sourced from the completed questionnaire and support documentation provided by the fund manager.

## Step 4: Add missing companies to database and research

Not every security that comes in a portfolio can initially be matched to the 3D Investing database. For example, often fixed income securities in a company have multiple issues and whilst shares may have different regional listings. In this case, we manually cross-check the holding to see if it can be matched against an existing holding. Where a security cannot be matched, this security is researched and then classified into a 3D Investing category on the basis of the findings of this research.

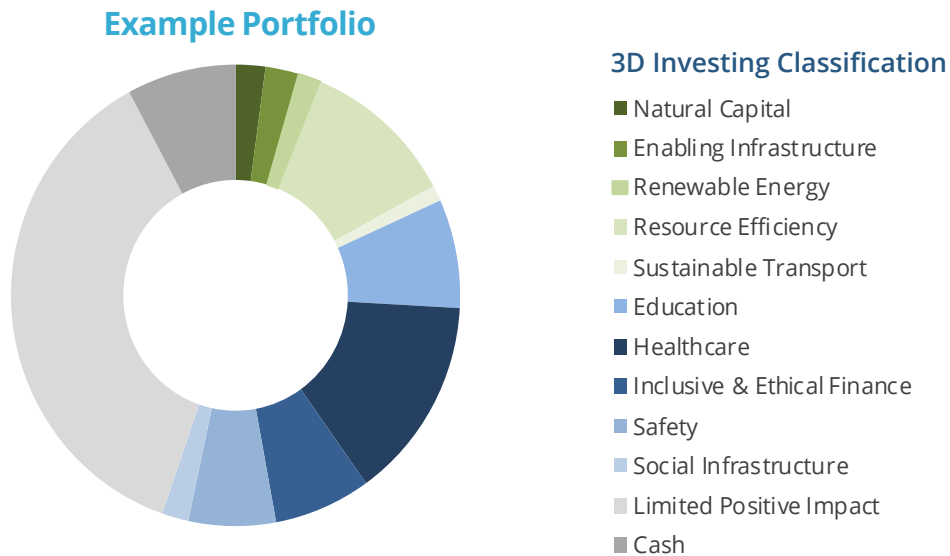
3D Investing always aims to match 100% of a portfolio's holdings to the 3D Investing Database. There may be instances where this is unable to occur. For example, a fund that invests in other funds may require additional work on the underlying holdings of a constituent fund. Similarly, where a fund which tracks an index and has a large number of small holdings (i.e. a large "tail"), the analysis may omit a non-material component of the constituent securities.

## Step 5 – Redo Step 3 adding the missing companies

The classification report is then re-run to take into account any securities which were not initially matched against the 3D Investing database.

## Step 6: Calculate the percentage weights of portfolio into 3D classifications

Once the analysis of the entire portfolio is complete its profile can be readied for rating. The profile gives the percentages of the portfolio as now defined by 3D Investing classifications and the contribution towards the SDGs:



## Step 7: Assign rating

	<b>Avoid Harm</b> <i>Exposure to negative contribution to SDGs</i>	<b>Do Good</b> <i>Investment in positive solutions to SDGs</i>	<b>Lead Change</b> <i>Positive influence on investee companies and wider stakeholders</i>
	No exposure to stocks that undermine our confidence in the fund and that make a high negative contribution to SDGs	> 50% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some measurement of impacts and influence
	No exposure to stocks that undermine our confidence in the fund and that make a high negative contribution to SDGs	> 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
	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	> 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

The final rating is compiled on the overall assessment of positive influence, engagement, transparency, controversies exposure.

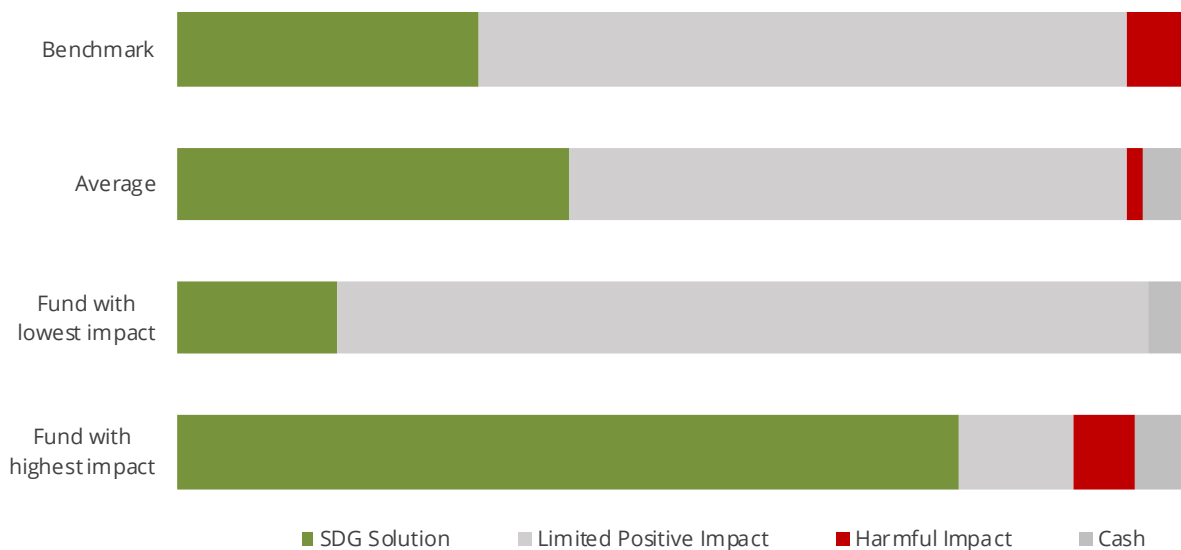
The proportion of the fund exposed to companies which make a positive contribution to SDGs are a material factor in the Impact rating allocation. The boundaries here are > 50%, >66% and >90%.

## Step 8: Issue report and Impact Analysis

The last stage of the 3D Investing process is to issue the final report for the fund. This provides a high-level summary and commentary on each of the following areas:

- Investment strategy and approach
- RI capability
- ESG practice
- Investment in SDG solutions
- Summary of positive outcomes
- Avoidance of harmful activities
- Summary of controversies
- Summary of engagement
- Summary of advocacy and collaborate
- Voting
- Reporting

The report also provides a comparison of the fund (from a 3D Investing classification perspective), against peers and a benchmark:



## Summary

The 3D Investing process is a uniquely forensic one by which a portfolio is examined at securities level. By mapping individual holdings of a fund into classifications which are matched to a specific UN SDG, the veracity of a fund's responsible investing claims can be verified and measured.

The process is evidence-based and draws upon an extensive database of securities which have been classified according to their business activities and effects on society. Any controversial corporate behaviour is monitored via specialist subscription services as well as publicly available sources.

This approach can be consistently applied to any portfolio meaning that 3D ratings and certifications are a reliable and comparable assessment of a fund's RI credentials.



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