


For professional advisers only

# Square Mile's Responsible Investment Ratings Guide

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 Square Mile Investment Consulting & Research Limited



Square Mile and 3D Investing share a common aim; to help advisers identify the right fund or fund manager to help meet their client's aspirations, liabilities and, in the case of Responsible Investment (RI), convictions. However, as with all investments, we recognise that our clients have broad and differing needs in this space, with some seeking guidance or opinion and others requiring independent and objective verification of a fund's credentials and credibility. Thus, in recognition of this, Square Mile and 3D Investing have maintained their distinct though complementary approaches to fund research, with the former offering an in-depth qualitative analysis of funds and fund groups and the latter an extensive and evidence-based audit.

It should be noted that, although complementary, these are distinct evaluations and are totally independent. At Square Mile, we have established both ESG Assessments and Responsible ratings. The former seeks to provide a broad overview of the extent to which ESG analysis is, and has been, integrated into a fund and fund group's processes. These assessments are applied to all funds and fund groups within the Academy of Funds, regardless of whether they are Responsible investment products or not. The Responsible ratings, meanwhile, seek to help advisers to identify Responsible investment funds that we believe can meet both the financial and Responsible elements of their objectives. The ratings are currently based on three broad categories of mandate: exclusion, sustainability, and impact.

The 3D accreditations evaluate how and if a fund or fund group is meeting its Responsible Investment objectives. Indeed, the 3D Fund Certification can be awarded to any Responsible Investment fund and provides an independent verification that a fund's RI claims are being met and how they are being achieved. This enables funds and asset managers to be compared in a systematic and objective manner by way of consistent profiling. The 3D Impact Rating, however, can only be awarded to Certified funds that meet a minimum threshold of positive impact. This is determined by identifying the proportion of the fund invested in companies whose core products and/or services are providing solutions to social and environmental challenges, how the fund is avoiding investment harmful activities and understanding whether or not there is documented evidence of the fund manager and/or group effecting and leading change amongst investee companies and in a wider context.



**Square Mile ESG Assessment**

An assessment of ESG integration for all funds in the Academy of Funds.



**Square Mile Responsible Ratings**

A combined financial and responsible rating.



**3D Corporate Certification**

An asset manager level verification of commitment to RI and RI capability across the group.



**3D Fund Certification**

An independent audit of a fund's standing on doing good, avoiding harm and leading change. No financial assessment.



**3D Impact Rating**

A subset of 3D Fund Certification for funds focussed on positive impact. Same process as fund certification but with an additional impact rating.

## What to expect

### 3D Investing Accreditations:



The 3D Fund Certification can be awarded to any fund within the RI space and provides an independent verification that the fund's RI claims meet a set of minimum standards, such as a clear strategy, resources to meet the strategy and evidence to prove that. It is based on the critical scrutiny of the fund's holdings and has the credibility of being underpinned by objective data and being subject to critical analysis. The output is a high quality, data rich report on the fund, which evidences how the fund meets its RI objectives, and also profiles the fund according to the 3D framework of "doing good", "avoiding harm" and "leading change".



The 3D Corporate Certification provides an independent audit of the quality of ESG standards of the Asset Manager. It provides independent evidence that the Asset Management group 'walks the walk' in terms of ESG and RI and helps to identify leaders in RI. No rating is applied to the manager - instead the RI capability is presented in a way which allows groups to be compared on a range of objective and subjective criteria. The output is a high quality, data-rich report on the asset manager, which provides an annual audit/evaluation of their processes and practices.

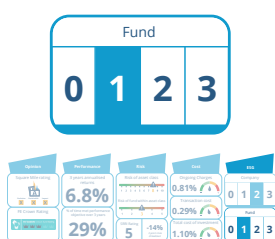


The 3D Impact Rating is an additional rating for certified funds that meet a minimum threshold for positive social and environmental impact. An Impact Rating can be thought of as an informed opinion based on detailed analysis of objective data – namely the composition of a fund at security level. The Impact Rating will only be awarded to those funds where the majority of the holdings are demonstrating a significant positive contribution to the relevant UN Sustainable Development Goals (SDGs) via their core products and/or services. In addition, the fund must also be able to evidence that its negative contributions to the UN SDGs and to the environment and society more broadly are limited and that it is leading change through collaborative and investee engagement. In doing so, a fund will be demonstrating clear compatibility with the three 3D pillars of "doing good", "avoiding harm" and "leading change".

## Square Mile ESG Assessments and Responsible Ratings:



The Square Mile ESG company assessment is based on the analysis of information submitted in a qualitative questionnaire and interviews completed by the senior members of the Square Mile research team with the leadership team of the group, usually the CIO, Head of ESG and the Head of Distribution. The output is available on the Fund Dashboard, with an accompanying paragraph detailing Square Mile's assessment provided as a click through. This process is undertaken annually.



The Square Mile ESG fund assessment is the distillation of the qualitative opinion of the Square Mile sector analysts as to how integrated ESG analysis is within a fund's investment process. It forms a standard and critical component of all Square Mile fund reviews, both initial and ongoing. This view is arrived at through interviews and from information gathered from a supplementary questionnaire which is sent to every manager. The level of ESG integration is reviewed as part of the ongoing monitoring of the fund. The output is only available on the Square Mile Fund Dashboard and in the fund factsheets, with a paragraph available on a click through.



The Square Mile Responsible Ratings are based on the three categories of exclusion, sustainability and impact. These Ratings are awarded to the funds which Square Mile believes to be best in class in their field and which deliver from both a financial and RI perspective. We assess each fund against the outcome which its manager articulates that they are trying to achieve and it is likely that funds qualifying for Responsible Ratings will demonstrate many of the same characteristics shown by other funds in the 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. The research is broad-based and qualitative and is dependent on us getting to know and thoroughly understand our managers, how they think and operate.

*The key difference between the 3D Fund Certification and Square Mile ESG Assessments is that the latter are applied to all funds in the Square Mile Academy of Funds, not just responsible funds. They seek to understand how fund managers across the board are integrating ESG analysis into their processes and the extent to which they are applied. The 3D Fund Certification, meanwhile, seeks to consider the integration of ESG analysis as part of a broader assessment of the fund's Responsible Investment credentials.*



### **Important Information**

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