

# A guide to the Square Mile Responsible ratings

Square Mile and 3D Investing 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.

As with all investments, we recognise that our clients have broad and differing needs within the RI space, with some seeking guidance or opinion and others requiring independent and objective verification of a fund's ability to deliver on its objectives. In recognition of this, Square Mile and 3D Investing have maintained their distinct through complementary approaches to fund research.

*It should be noted that, although complementary, these are distinct evaluations and are totally independent.*



## Square Mile Responsible ratings

The Square Mile Responsible ratings seek to help advisers to identify RI funds that we believe have the best prospects of delivering on both their **financial and Responsible objectives**.

This means for a fund to achieve a Responsible rating it must have a responsible outcome within its objective.



## 3D Ratings

The 3D ratings are awarded to RI funds which have been assessed against the 3D framework of 'do good,' 'avoid doing harm' and 'lead change.'

This enables funds to be compared in a systematic and objective manner by way of consistent profiling.

The Square Mile Responsible and 3D Ratings will assess the RI funds through our different methods of RI analysis. However, both ratings will identify which of the following four broad RI categories the fund sits within. These categories (ethical exclusions, responsible practices, sustainable solutions, impact investing), are designed to help advisers identify funds that we believe have the best prospects of meeting their financial and responsible objectives.

## Responsible Investment



Ethical Exclusions



Responsible Practices



Sustainable Solutions



Impact Investing

## Ratings defined

### Square Mile Responsible ratings

Looking beyond what a fund does and how the underlying portfolio is constructed, we seek to fully understand how it behaves and whether it represents good value for investors, as well its ability to meet their RI aspirations. Assessed against the rigorous Square Mile research framework, Responsible ratings reflect our confidence in the manager's ability to meet both the financial and responsible parts of the fund's objectives.



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 these considerations.

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. The gradations for these ratings are outlined below:



**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.



**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.



**Positive Prospect** - Funds which our analysts have identified as having the potential to be highly compelling propositions. However, there are some elements relating to the strategy where the analysts need more time to be satisfied that the fund merits a full rating. As a result, we award the fund a qualified rating to highlight its appeal, but also to recognise Square Mile's reservations.

## 3D ratings

Using extensive and in-depth evidenced based analysis, we assess RI funds against the 3D Framework of 'do good', 'avoid doing harm' and 'lead change,' the areas which we believe are critical to affecting positive change in relation to the world's most pressing environmental and social challenges.

We believe that this will allow investors to make the most informed investment decision as we are providing an accurate representation of how a fund actually fares from a RI perspective. Thus, enabling them to avoid the 'greenwash' and choose a product which best suits their convictions, aligning their daily actions and choices in respect of society and the environment with how their savings are invested.

### What we look for:

We seek to assess funds across the Spectrum of Capital and feel that our framework and its three pillars of assessment, as well as our data rich fund profiles, enables this. Funds are awarded a score out of 5 for each of the three pillars, with these being totalled to achieve the final score and consequently the fund's rating. In order to ensure consistency and quality of assessment, we have identified some key areas of analysis for each of the pillars, which are defined below as follows, though we will also consider other factors.

Do good	Avoid doing harm	Lead change
Investment in companies offering solutions to global social and environmental challenges and evidence of impact.	Avoidance of investment in companies making a significant negative contribution to society and the environment and those exposed to controversies.	Advocacy and engagement with investee companies both individually and through co-operation with other investors and change activists to encourage best practice and inform opinion.

### The ratings:

#### No rating

**No rating** – The fund did not meet our minimum standards.



**Reviewed** – A reviewed fund may demonstrate some investment in solutions but this will typically not be its primary focus. As such, the evidence of impact outcomes is likely to be limited. There may be some evidence of screening criteria applied but this could be restricted in scope and so there may be some exposure to ethical controversies. Engagement activities and reporting, meanwhile, will usually be focused at a group level.



**Bronze** - A Bronze rated fund will typically have some focus on investment in solutions to social and environmental challenges, as well as some evidence of impact but this can vary in standard and scope. There may be some exposure to ethical controversies. Depending on the RI approach applied, there may also be some systematic engagement.



**Silver** - A Silver rated fund will have a high focus on investment in solutions to social and environmental challenges, as well as systematic reporting on environmental and/or social metrics across the portfolio, which may take the form of portfolio foot printing. Typically, there will be a low level of exposure to ethical controversies due to informal or formal screening policies. The manager will typically demonstrate systematic engagement on social and environmental issues at an individual holdings level and participation in collaborative and educational initiatives.



**Gold** - A Gold rated fund will have a very high focus on investment in social and environmental challenges and a very low level of controversies due to formal or informal screening policies. There will be a clear intention to make a positive social and environmental impact with systematic reporting to demonstrate these outcomes. The manager should also systematically engage on social and environmental issues at both an individual holdings level and as part of collaborative and educational initiatives.

Square Mile and 3D Investing aim to help advisers identify the right fund or fund manager to help meet their client's aspirations, liabilities and, in the case of RI, convictions.

## Contact us

**For further information on any of our Responsible ratings please don't hesitate to get in touch.**

Visit our website: [www.squaremileresearch.com](http://www.squaremileresearch.com)

Telephone: +44 (0) 203 830 8056

Email: [info@squaremileresearch.com](mailto:info@squaremileresearch.com)

20 Old Bailey,  
London,  
EC4M 7AN

Follow us:

[www.squaremileresearch.com](http://www.squaremileresearch.com)

Follow us:

 @SquareMileICR

 Square Mile Investment Consulting & Research Limited



### Important Information

This brochure is for the use of professional advisers only. It is published by, and remains the copyright of, Square Mile Investment Consulting and Research Ltd ("SM"). SM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views and forecasts of SM at the date of issue but may be subject to change without reference or notification to you. SM does not offer investment advice or make recommendations regarding investments and nothing in this brochure shall be deemed to constitute financial or investment advice in any way and shall not constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and SM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. SM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.