



Powered by Ethical Money

## 3D Star Rating - Summary

## Overview

The 3D Star Rating is a short-hand for identifying the ‘best’ investment funds with a positive social impact registered for sale in the UK. It is derived from a combination of quantitative and qualitative data to objectively determine those funds that best meet the three core tenets of 3D Investing – doing good, avoiding harm and making money. It reflects the level of confidence we hold in the funds to meet these objectives and is based on our assessment of funds in five key areas:

- Social impact
- Avoidance of ethical controversy
- Quality of environmental and social governance
- Financial confidence
- Transparency

The overall rating is based on a combination of all of these factors, and is ultimately derived from stock by stock analysis of all of the underlying holdings of the fund.



## Summary – What the star ratings mean

The 3D Star Rating is intended to facilitate quick and easy identification of those funds that best meet the 3D Investing objectives of making a positive social impact, avoiding ethically controversial companies and delivering a decent financial return. The 3D Star Rating is a demanding ranking that seeks to identify the very best funds. As such, a three star rating is far from average and in fact means the fund is likely to be amongst the best in its sector. A five star rating is reserved for the very best funds and is an aspirational standard.

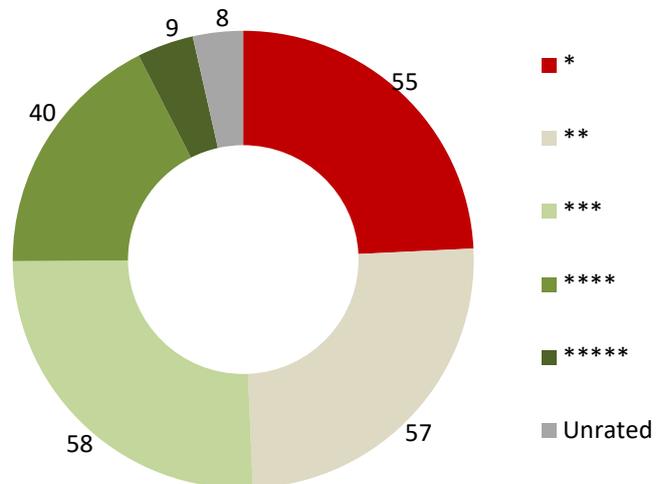
 The fund is a real pioneer in the industry. It has delivered financial returns in line with expectations, excellent levels of transparency, a high social impact and has a low level of exposure to ethically controversial companies.

 The fund carries a high level of conviction for the same reasons as five star funds with a strong social impact, but with a relative weakness in impact, transparency, or sustainability management

 The fund is positively rated where the advantages outweigh the disadvantages, and where the fund might be considered for inclusion in 3D Portfolios.

 The fund may be worth considering, but there are significant weaknesses in terms of financial track record, social impact or avoidance of ethical controversy.

 The fund is negatively rated because of major concerns over its financial track record or stock selection that fundamentally undermines our confidence in the fund.



Star Rating Distribution (no. of funds)

## The universe of funds

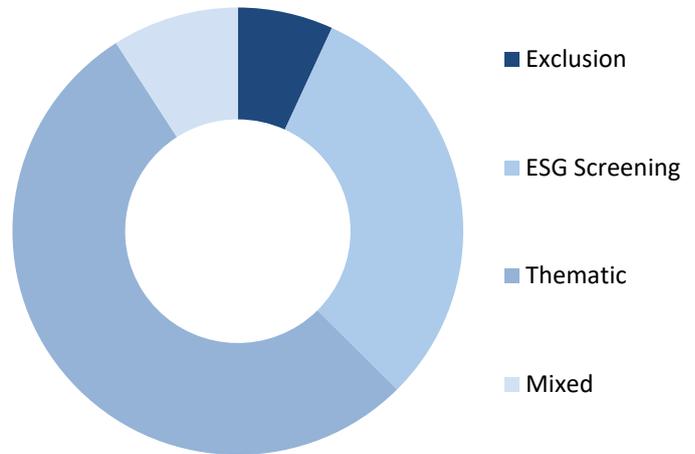
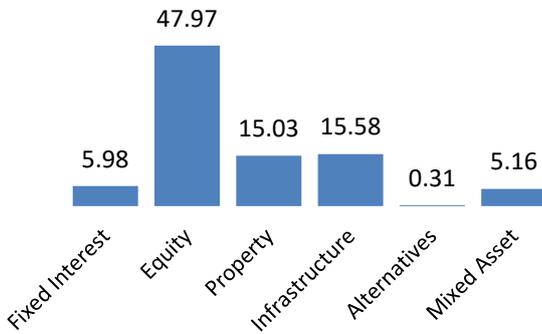
There are 217 rated funds in the 3D investment universe covering equities, fixed interest, real estate and infrastructure. These are all registered for sale in the UK and follow some form of ethical or sustainability mandate. This includes one or more of the following methodologies:

**Negative Screening** – avoiding companies on the basis of pre-determined ethical criteria

**ESG Leader** – Preference for companies that exhibit ‘best practice’ in terms of environmental and social management within their sector

**Thematic** – focus on investment in environmental or social themes

*Fund Distribution by Asset Class (AUM £billion)*



*Fund distribution by Approach (AUM)*

Data as at 23/08/18

### Controversy Avoidance

Whilst there is no such thing as a perfect company and some degree of ethical compromise is inevitable, the inclusion of some companies in fund portfolios raises significant ethical concerns.

Furthermore, there is little point investing in positive solutions, whilst at the same time, investing in companies that are the very source of the problem. We have therefore sought to identify stocks that give rise to serious ethical questions and thereby undermine our confidence in the fund and its generic suitability for socially motivated investors.

High Concern stocks include agrochemicals, oil, shale gas, mining, armaments, companies subject to widespread boycott, human rights violations, intensive agriculture, gambling, tobacco, country bonds with poor human rights records

Medium concern stocks include high carbon industries such as cement, new road construction, fossil fuel car manufacture, air industry; components in military aircraft

Lesser concern stocks include alcohol, animal testing, biofuels, gas, fossil fuel power producers, hunting, oil services, unscreened finance, UK Government gilts

*	Widespread exposure to high concern stocks (> 6 holdings)
**	Multiple exposure to high concern stocks or dissonance with fund objective (e.g. gas in a clean energy fund, unsuitable property in a special-purpose property fund)
***	Isolated exposure to high concern stocks or exposure to medium concern stocks
****	Exposure to other funds with no ethical screening or which have exposure to major concern stocks, or with exposure to lesser concern stocks
*****	Insignificant

## Social Impact

Delivering positive social and environmental benefits is a key pillar of 3D Investing and therefore forms a very important part of the Star Rating. It is based on an objective analysis of the portfolios, determining the proportion of the portfolio that is invested in companies providing solutions to social and environmental challenges as a core product or service (>50% of turnover). Our starting point is the United Nations Sustainable Development Goals (SDGs) from which we determine the industries and sectors that are meeting these goals. A star rating for impact is derived from the proportion of companies in the portfolio that are solutions based.

- \* 0-19.99% Solutions Based
- \*\* 20-39.99% Solutions Based
- \*\*\* 40-59.99% Solutions Based
- \*\*\*\* 60-79.99% Solutions Based
- \*\*\*\*\* > 80% Solutions Based

The Sustainable Development Goals are an aspirational set of 17 goals with 169 targets covering a broad range of sustainable development issues. These include ending poverty and hunger, improving health and education, making cities more sustainable, combating climate change, and protecting oceans and forests. The goals are spearheaded by the United Nations and set out an agenda for sustainable development with targets for the year 2030. We have identified those that are most readily applicable to investment portfolios.

SOLUTION	SDG
Clean Energy : Solar, Wind, Biomass, Hydro	
Education & Learning: Educational publishing, educational establishments, training	
Enabling Infrastructure: Platforms and technologies that are key parts of moving to a sustainable world. These include electrical transmission networks, cloud infrastructure and 3D printing	
Environmental Services: Waste management and recycling, environmental consultancy	
Healthcare: Medical Equipment, Pharmaceuticals, Health Services	
Inclusive & Ethical Finance : Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance	 

Low Carbon Transport: Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure	
Natural Capital: Water Supply & Sanitation, Water Filtration, Air Filtration, Forests	 
Resource Efficiency : Energy Efficiency, Natural Resource Efficiency, Waste Management & Recycling	
Safety: Cyber security, building and automotive safety, food safety	
Social Infrastructure : Housing –Social, Student, Care Homes; Healthcare – Hospitals, Dental & GP Surgeries; Education - Schools, Libraries & Universities	
Sustainable Food : Food storage, food safety, Reduction in non renewable inputs for farming, renewable farming alternatives, organic and high welfare food manufacture and distribution	

## Environmental, Social & Corporate Governance

Given the complexity of ESG issues, we also quantify the level of confidence that we have in the fund’s ability to assess and manage those issues.

This is important as it enables judgement calls to be made, particularly when assessing whether a stock really is a sector leader in environmental or social management. It also ensures that investment is not made in stocks which investors may consider unsuitable.

The star rating for ESG management is determined by the resources available for assessing ESG issues, the quality of the process and the actual outcomes in terms of stock selection.

- No sustainability metrics or criteria
- \* ESG used as risk tool, predominantly focussed on corporate governance
- \*\* Exclusion policies applied
- \*\*\* Integration into investment process with internal ESG specialists
- \*\*\*\* Systematic engagement strategy on environmental and social issues including targets and progress monitoring
- \*\*\*\*\* Systematic evidence of positive ESG impacts of portfolio versus the benchmark

## Financial Confidence

The third dimension of 3D Investing is financial confidence. Any investment is judged by how well it delivers on the financial objectives and sustainable investments are no different in that respect, albeit, maximising return is not the prime motive.

There are many metrics available elsewhere, but we have included a simple measure that can be applied across the wide range of assets. This essentially looks at the track record of the fund over discrete one year periods against the average fund in its conventional sector.

Some allowance is made for absolute performance, since good relative performance is little comfort to an investor if absolute returns have been poor over a prolonged period.

- \* Poor historical performance. Very little confidence in fund
- \*\* Unconvincing track record of less than 3 years, or underperformance against benchmark since launch
- \*\*\* Performance in line with benchmark or consistent level of absolute returns
- \*\*\*\* Consistent above benchmark performance
- \*\*\*\*\* Top quartile performance on a consistent basis over more than 5 years

## Transparency

Transparency is at the very heart of 3D Investing. The nature of the investments and how they contribute to a more sustainable world is just as important as financial returns.

How a fund reports on its impacts and the clarity with which it communicates its sustainability policies is therefore very important.

The quality of the reporting also reveals how seriously the manager takes sustainability. Full justification of every holding and reporting on impact is the Gold Standard for transparency, since it imbues a very high level of confidence in the fund manager's ability to deliver positive sustainability outcomes.

- \* Statutory listing of stocks in report and accounts but nothing more.
- \*\* Documentation of ethical approach and ethical methodology, topical updates
- \*\*\* Position papers, sustainability reporting
- \*\*\*\* Engagement report, very clear criteria, ethical news, descriptions of ethical purchases
- \*\*\*\*\* Impact report & descriptions of all holdings in fund

## About Ethical Money

Ethical Money provides research and communication services to help investment managers and advisers to deliver a high quality and distinctive service for the socially motivated investor. Please contact John Fleetwood in the first instance to see how we can best work with you.

Copyright 04 January 2019 Ethical Money Ltd. All Rights Reserved. The information, data and opinions ("Information") expressed and contained herein: (1) are proprietary to Ethical Money Ltd and/or its content providers and are not intended to represent investment advice or recommendation to buy or sell any security; (2) may not normally be copied or distributed without express license to do so; and (3) are not warranted to be accurate, complete or timely. Ethical Money Ltd reserves its rights to charge for access to these reports. Ethical Money Ltd is not responsible for any damages or losses arising from any use of the above information.

**Telephone:** 01539 26 70 26

**Email:** [info@3dinvesting.com](mailto:info@3dinvesting.com)

**Web:** [3dinvesting.com](http://3dinvesting.com)