RSMR

Sustainable & Responsible Investing

GUIDE

RSMR SRI RATED FUND

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Contents

Introduction

A decade or so ago ethical or sustainable and responsible investing (SRI) might have just involved an investor asking their adviser to exclude any funds with holdings in the tobacco or arms industries and the adviser would have been left to complete their research without recourse to any impartial assistance.

Today, the area of ethical investing or SRI commands a much more professional approach. The investment community's understanding of the importance of sustainability issues has improved and fund choice has grown significantly. As a result investors are able to demand greater sophistication and expect to find funds that meet both their financial and their SRI goals.

Although the market is dominated by institutional funds, the value of UK retail funds reached £20 billion in August 2019, with retail net inflows of £232m for the year, according to the Investment Association. However this is by no means a UK or European screened or themed 'fund' phenomenon. The diversity and international scale of this trend is clearly illustrated by recent figures from JP Morgan which estimates that the total asets under management of funds with an ESG integrated process or ones that are managed sustainably is $30.7tn.

As part of this transformation we are now seeing green and ethical investment embraced by pension funds, insurance products and ISAs. With such a wide breadth of SRI options available, a growing cross-section of society is investing in such options as they provide the ability to invest in a way that suits their personal aims – which often include wanting to make a difference on social or environmental issues as well as wanting to achieve a decent return.

But questions remain for advisers, such as:

- Have adviser propositions evolved to reflect this growing interest within their Treating Customers Fairly (TCF) obligations?
- Is there a practical process or model for advisers to adopt?
- How to select funds that will meet clients' SRI criteria whilst also being robust from an investment process perspective?

For some individual investors details of a fund's SRI strategy can play an important part in where they may choose to invest.

Clients who are interested in responsible investing can have highly diverse goals. As such, green and ethically minded investors cannot be seen as an homogenous group any longer and in fact the funds available today are far from homogenous. This presents a challenge for advisers. Not only must they ensure that the funds selected meet the clients specific SRI aims, but they must also aim to ensure that financial and risk-related objectives are met.

The increased sophistication of this area has meant that many advisers have avoided this issue whenever they can, feeling that it is too difficult to find appropriate funds.

This guide brings together the knowledge and expertise of two companies which approach ethical and 'sustainable and responsible' investment from different perspectives.

Here at RSMR we have been assessing and rating retail investment funds for financial advisers for many years, and Julia Dreblow of sriServices has worked to develop and promote the ethical and SRI market since the 1990s.

By drawing on both sets of experience and bringing together two different but complementary viewpoints this unique guide addresses the three main challenges of advising in this area:

- understanding what is available
- working out how to integrate SRI into the advice process
- selecting appropriate fund options.

The guide offers an introduction to how the SRI market works – including how to segment funds by their approach to SRI and suggests an SRI advice process. We also have a pre-researched list of funds that have come through the RSMR analysis process – all of which are classified according to the sriServices 'SRI Styles' system.

For each of the funds, we have put together a detailed fund factsheet including our SRI Rated Fund designation. These factsheets summarise the fund information together with comment on the fund management process, and also our opinion on the fund and how it could be used.

RSMR R SRI RATED FUND

We have a separate rating for those SRI funds that have met our criteria. This enables us to rate funds which may not be suitable for our mainstream rated fund list, but are strong funds within the SRI universe. You will find the SRI Rated Fund logo on our factsheets and also on literature from the relevant fund groups.

Incorporating SRI into the advice process can bring a range of benefits to advisers. It can help enhance their overall Client Service Proposition, offer a potential point of differentiation, help build stronger client relations and enhance TCF propositions. It will also help those advisers who are working towards achieving the Adviser ISO (ISO22222) and related British Standards certification schemes (British Standard BS 8577) which include the requirement for advisers to discuss SRI aims. All of this means that a robust investment selection process, including an assessment of SRI requirements, is increasingly viewed not only as bringing business benefits – but also as an indicator of best practice.

Richard Essex Financial Planner at Grayside FS says:

"At Grayside we actively promote the concept of socially responsible and ethical investing and we have found many of our clients respond positively when this is discussed at our meetings. Over the last few years we have developed an approach to ensure we discuss this concept with all clients and we are able to utilise the portfolios that RSMR have created for us.

Use of the RSMR list gives us a broad choice of options and the RSMR SRI fund rating creates further opportunities for promoting the SRI concept which can only be good for advisory firms and clients alike."

This guide was put together in collaboration with sriServices and we hope you find it useful. For more information about RSMR and sriServices, please see the appendix to this report and visit our websites.

Continued Professional Development (CPD)

This guide has been created to help advisers better understand the area of SRI investments. The content can be considered for both structured and unstructured CPD hours, depending on how this activity addresses each individual's personal development needs.

Structured CPD is the completion of any formal learning activity designed to meet a specific learning outcome (this is what an individual is expected to know, understand or do as a result of their learning).

Unstructured CPD is any activity an individual considers has met a learning outcome, but which may not have been specifically designed to meet their development needs.

Overall Learning Objectives

- To understand the SRI market.
- To understand the main approaches to SRI investing.
- To understand how consideration of SRI investing can be built into your advice process.
- To be able to identify and explain the main SRI styles.
- To understand the key issues to take account of in selecting funds.

The SRI Market

In the past, ethical investing and SRI have been seen as being on the periphary of mainstream advice, often regarded as the remit of specialist advisers and only for a small client segment with specific requirements. Clients interested in this area of investment were expected to have clear ideas of what they would and would not invest in and to be satisfied with a small range of broadly similar funds.

A number of factors have combined to change this, in particular a growing awareness of environmental issues such as climate change and an increasingly understanding of social issues and human rights. As a result, people are increasingly interested in reflecting their opinions and lifestyle choices through the way they invest.

Some are purely financially motivated, others are driven by specific personal values. The fastest growing group however is of those investors who draw on elements of both and also recognise that management of environmental, social and governance issues can impact business success. Today's interested investors should therefore not be confused with the often misleading stereotype of the early 'ethical investor'. This larger, more diverse group of 'responsible investors' have a wide range of opinions and often want to invest positively in forward looking companies that they believe will achieve decent investment returns.

This shift was supported by Schroders research in April 2019 which indicated that:

- 57% of people will consider sustainability issues when investing.
- 60% of people who hold investment want their pensions or savings to have some positive impact on the world beyond just making money.
- Generation X (people born between 1965 and 1979) are the most engaged when it comes to sustainable investing.
- 87% of all investors believe climate change impacts their investments and therefore enironmental issues are the biggest sustainability concern.

The SRI market has also changed significantly over the recent years. We are increasingly experiencing the integration of environmental, social and governance (ESG) factors into mainstream investment analysis and the widely adhered to Stewardship Code has contributed towards investment managers embracing the 'responsible ownership' agenda by publishing their response to the code and increasing dialogue and voting activity.

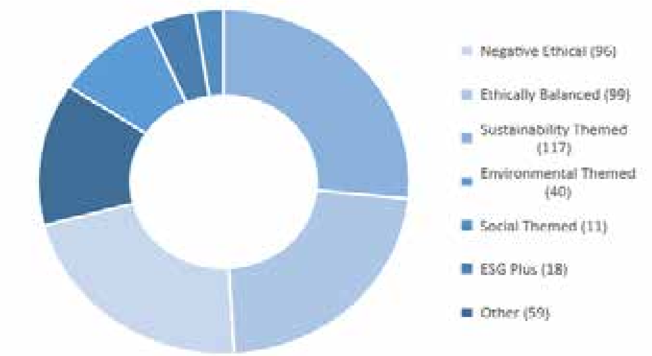
Specific 'ethical' and 'themed' options have also changed. Research into the funds listed on our partner firm sriServices' Fund EcoMarket database tool, in October 2019, showed the retail, onshore OEIC, life, pension and investment trust market segment are split across a wide range (further on page 12) of approaches as follows:

- 74% of those surveyed did not know where to get advice about sustainable and ethical investments
- 64% were not aware that there are sustainable and ethical investment options available for all types of investment product.

It would seem therefore that many investors recognise the importance of SRI as an investment strategy and are likely to welcome advice in this area.

Whilst accepting this approach some investors may see these investments as core to their strategy whilst others will only seek exposure to SRI funds for a part of their portfolio.

It is diverse views such as these that an adviser needs to draw out during the fact finding process so that they can be fed through into their investment recommendations. By doing so advisers can integrate sustainable and responsible investment aims into investment strategy and so respond to clients' aim to meet both financial and other often less tangible goals.



From the 440 funds surveyed, the diversity of options and strategies is also clear, showing that although there are commonly found policies none are represented by all funds in the group. The most commonly selected policy areas from across the six different fund specific 'SRI Styles' findings were as follows:

53 exclude both alcohol and tobacco
80 have sustainable policies
87 avoid arms manufacture
45 have animal welfare policies
53 invest in clean energy/renewables
64 limit exposure to carbon intensive industries
63 have social policies
43 have health and wellbeing policies
26 have plastics policy
33 have deforestation and palm oil policies

RSMR and sriServices are members of UKSIF, the UK Sustainable Investment and Finance Association.

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By the end of this section you will understand the diversity of the SRI market.

CPD CONTINUED PROFESSIONAL DEVELOPMENT

Introduction to SRI

SRI can be defined as 'any investment that takes significant account of social, ethical, environmental or governance issues' no matter what asset type or investment vehicle it falls within. In the retail investment market 'SRI' is often used interchangeably with the term 'ethical investment', although the latter is more appropriate for fund options which focus significant attention on ethical issues (see below).

Interest in SRI is growing as matters of this kind are increasingly viewed as important both to business and to our everyday lives. A number of these issues are also viewed as increasingly likely to impact on investment returns over the coming years.

Example SRI Issues

Environment

Environmental challenges, such as; climate change, pollution, fracking, biodiversity, environmental management, waste, the use of natural resources – including water, forestry, mining

Social

Issues that relate to people, such as; human rights, labour standards, child labour, equal opportunities, food supply, obesity and slavery

Governance

Issues relating to company management, such as; board structure, executive remuneration, bonuses, avoidance of bribery and corruption

Ethical

Values-based and ethical concerns, such as; tobacco, armaments, pornography, alcohol, irresponsible marketing or advertising, animal welfare

The number of SRI issues a fund considers can have a significant impact on where it might invest. Yet it is how those issues are dealt with, referred to as a fund's 'SRI approach' that often has a greater impact on investment strategy.

This means it is not possible to work out where a fund might invest (or who it might be appropriate for) simply by knowing which issues it considers. To start this process it is necessary to understand the funds 'SRI strategy' which includes both the issues it considers and the approaches it applies to those issues.

There are a range of approaches that can be taken to investing, with different funds operating in different ways. The main approaches, which can be combined in many ways, are outlined here.

SRI Approaches

Responsible Ownership and engagement involves institutional shareholders taking greater interest in their responsibility as part owners of companies. Following the introduction of the FRC Stewardship code (first published in July 2010) it is increasingly common for fund managers to vote all their shares and report on their related activity.

Activity commonly involves dialogue with investee companies which may be followed by votes against company management at AGMs or EGMs. The purpose of such activity is to encourage companies to improve their practices in areas where investors believe environmental, social or governance (ESG) related risks and/or opportunities could be managed better for the benefit of shareholders.

Responsible ownership and engagement strategies mainly relate to 'mainstream' investments that fund managers own and expect to retain. This approach may be applied alongside ethical strategies – however companies in such funds generally manage ESG issues relatively well.

Thematic investment and positive screening strategies both involve directing investment towards companies (or other organisations) that meet a fund's 'positive' SRI objectives. Such a fund may set out the themes or business attributes it considers to be positive, beneficial or desirable – such as helping us to make the necessary shift towards more sustainable lifestyles – and invest accordingly.

Impact on investment decisions can vary significantly. Some funds focus on a single sector or issue, although most are broad based – focusing on a range of longer term challenges and opportunities that face business. Some invest in a narrow range of industries; others invest widely in companies that achieve certain standards. Themed funds such as Environmental funds and Sustainability funds generally have positive approaches of this kind – although some also have areas that they avoid. Screened ethical options often apply this approach to some areas.

Avoidance or 'negative screening'. Avoiding companies (or other investments) that are involved in activities that a fund manager has defined as 'unacceptable' or 'unethical' is a major feature of ethically screened funds.

Negatively screened ethical funds typically have a list of business practices that are considered to be unacceptable and set exclusion criteria to reflect these views. Negative screens and other exclusion criteria often relate to values based ethical issues but may also relate to environmental, social or governance issues.

The impact on investment strategy varies from fund to fund. Some funds exclude companies with only minor involvement in excluded activities whereas others are less strict and balance the positive benefits of companies against their negative attributes.

The way in which issues and approaches are combined varies greatly and there is now a wide range of options available to investors. The issues that are important to investors can also change over time, for example e-cigarettes, fracking and Arctic drilling are emerging issues that are now being considered by some managers.

Although there are no hard and fast rules about how these funds should be grouped together, they can be clustered into a small number of 'SRI Styles' based on their approach to ethical, social and environmental issues. These are outlined in the following section of the guide to help advisers identify relevant options for their clients.

For a more detailed introduction to SRI strategies see **www.sriservices.co.uk/about-sri**

It is of course important to remember that SRI factors are not the only relevant aspects of SRI investment strategies. Generic factors impact SRI funds as much as they do any other fund. Factors such as asset types, the market capitalisation of the stocks held, geographic spread and timing affect all funds – as do investment aims (e.g. growth or income), benchmarking decisions, fund manager skill and charging structures.

For an adviser to recommend an SRI fund they need to understand both 'generic' and 'SRI' factors – as neither offers a complete picture on its own. In this guide, we have considered both these aspects to put together information and a suggested fund list that is robust and user-friendly.

Fund manager SRI information sources

For investors who are interested in SRI there are two types of information supplied by fund managers that may be of use:

Information about the fund management company which sets out any specific or companywide responsible investment, engagement or corporate responsibility related activity including whether or not ESG issues are in any way integrated into mainstream analysis. Information of this kind paints a picture of the kind of company a potential investor is investing through.

Fund specific information – which sets out where an investor's money will be invested and how any published ethical, social or environmental themes or screens work.

By the end of this section you will understand the main approaches taken to SRI investing.

The Advice Process

There is a lot of debate around the performance of SRI and ethical funds. Much of this commentary works on the basis that green and ethical funds are broadly similar, which is unhelpful given the variety that we know exists.

The IA compares 'ethical' funds with others on occasions and their approach is broadly pragmatic. They have long since commented that there is no significant difference between these and other funds – which may account for the continuing debate as, like other investments, some funds do better than others and performance varies over different time periods.

In thinking through how to view this market advisers may find it useful to consider how it is dealt with elsewhere. Across the institutional and pensions markets the debate has largely moved on. Many major investors are looking at how best to integrate Environmental, Social or Governance (ESG) factors into investment strategies – not whether or not to do so. Engagement strategies are widely used and full ESG integration across mainstream portfolios is increasingly popular – primarily for risk mitigation reasons. Funds that focus on ethical issues are generally viewed as more appropriate for individual investors or organisations with defined value sets.

Advisers may also wish to consider the benefits of funds using ESG research that is often missed by other fund managers. So even where an SRI strategy reduces investment choice funds may benefit from deeper company analysis and stock selection.

Integrating SRI into the advice process

Integrating sustainable and responsible investing into the normal advice process is not complex. The first step is to introduce an appropriate question into the fact find which will identify whether or not it is an area to be pursued.

An adviser who is talking with an interested client must first understand which aspects of SRI are of interest to their client – and why. Different discussions may ensue with different clients. Some may be drawn to SRI because they have a view of the performance benefits of particular strategies, others may be for reasons of personal values or beliefs.

The following diagram summarises the key steps in the SRI advice process:

Step 1

Initial SRI Fact Find Question
Action: Ask as part of your regular fact finds – 'Are there any social, ethical, environmental or religious issues you would like to take into account while considering where to invest?'

Step 2

Identify SRI Aims
Action: Identify key areas of interest, themes or Styles of interest. If required - carry out supplementary SRI fact find. Document findings for audit trail purposes.

Step 3

Combine SRI and Regular Fact Find information
Action: Consider SRI aims alongside other investment & product goals as identified during the main fact finding process. Consider the balance between SRI and other aims.

Step 4

Identify preferred options
Action: Carry out (or outsource) due diligence and research on relevant fund options.

Step 5

Recommendations
Action: Discuss options with clients and make recommendations

Step 6

Review
Action: Agree and implement review schedule

This can be broken down further into the key actions that have to be considered for each stage in the process:

Pre-Meeting

- Include an SRI fact find question in your standard fact find to identify which clients are interested in SRI. (The question in step 1 above meets the adviser ISO requirements).
- Set up a process for identifying clients' SRI aims (eg SRI fact find questionnaire)
- Set up a system for combining clients' SRI aims with their other financial needs as identified during the fact finding process.

Client Meeting

- Identify and document client SRI aims, focussing on areas of greatest interest to client.
- Consider SRI aims alongside relevant financial, risk, compliance and TCF considerations to start thinking through relevant options and combinations.
- Consider the balance between SRI (including 'responsible ownership') and non-SRI options, bearing in mind it may be appropriate to 'mix and match' the two.

Post Meeting

- Check your audit trail is complete – document SRI aims and how they filter through to relevant investment options.
- Consider what additional SRI related situations may trigger a client review and set up data feeds/information sources for information updates if required.

Whether or not a client should invest in a particular themed, screened or responsible engagement fund will depend entirely on their situation. For some individual investors details of SRI strategy can play an important part of where they choose to invest. Others may care more about other factors. In either case an adviser should ask an initial 'SRI fact find question' as part of their regular fact finding process and be able to deal with clients who express an interest. Indeed being able to do so is regarded as 'best practice' and is a requirement of ISO (ISO22222) and the related certification schemes BS8577 and BS8453 – meaning that in order to achieve such standards advisers must discuss this area with their clients.

This means an adviser needs to know enough about SRI options to be able to talk around the subject and offer appropriate advice. The growing interest in SRI issues also means this can open up opportunities for business.

Additional Help

sriServices offers a free on-line 'Fund EcoMarket' database tool for advisers via www.fundecomarket.co.uk . The tool is designed to help with Steps 2 & 3 of this process and allows advisers to identify SRI funds that are available within specific product and investment areas with funds grouped by their SRI style.

The tool includes an optional client 'SRI StyleFinder' fact find questionnaire to help advisers identify the SRI style or styles a client is most likely to be interested in.

All entered data can be saved to pdf or printed in report form for use by the adviser as part of their audit trail.

CPD — CONTINUED PROFESSIONAL DEVELOPMENT

By the end of this section you will understand how SRI investing can be built into your advice process and where to find more help with specific questions to ask and issues to discuss with your client.

Choosing Funds – SRI Styles

Having established that SRI options should be considered, the adviser then needs to move on to selecting funds. This can be complex, given the diversity of funds available, and so we start by looking at the types of funds in the market today, and categorising them so that they can be compared and then matched to client preferences.

SRI funds consider a diverse range of ethical, social, environmental and governance issues which they approach in many different ways. Some funds focus on ethical values, some concentrate on business and societal risks and opportunities – others combine the two. All aim to maximise performance within the terms of their SRI strategies.

SRI strategies vary because fund managers have different views and objectives – and of course different funds are intended to target different investors.

Working out which funds are likely to appeal to which clients can be complex if the adviser chooses to review each issue and approach individually. To help make the SRI market easier to understand sriServices have developed a system of 'SRI Styles'. These styles segment the major retail SRI fund options into groups that have broadly similar SRI aims and strategies.

'SRI Styles' relate to a fund's dominant SRI characteristics (issues and approaches), not their investment strategies – which are best considered separately.

There are areas of crossover between many of the 'SRI Styles', For example, most funds take environmental concerns into account; not just those that are environmentally themed. Additionally, most avoid significant exposure to tobacco, armaments and other negative selection criteria, either as a result of implicit or explicit avoidance strategies. It is therefore important to focus on the dominant features and where appropriate consider more than one SRI style.

An adviser will find it useful to talk about these styles as they reflect the most common fund strategies and also the most common client aims although checking fund specific details is valuable for many clients.

The following eight major styles have been identified by sriServices as the options available to individual investors:

Sustainability Themed

Ethically Balanced

Negative Ethical

Environmentally Themed

Social Theme

Faith-Based

Responsible Ownership

ESG Integration

We now look at these 'Styles' in a little more detail:

Introduction to sriServices' SRI Styles

Sustainability Themed Funds

These funds focus on the sustainability agenda when considering where to invest. Strategies vary – some funds focus on specific issues or industries (e.g. water, health, education, transport, resource scarcity) whereas others hold 'best in sector' companies across all (or most) industries. Sustainability themed funds typically hold forward-looking companies, with strong or market leading credentials and favour companies that are well placed to benefit from regulatory, legislative and societal change.

Ethically Balanced Funds

Balanced Ethical funds are ethically screened funds that balance the positive and negative aspects of company behaviour across a range of ethical, social and environmental issues. They are likely to combine a number of SRI approaches, invest in most sectors and favour well managed market leaders or 'best in sector' companies – whilst avoiding laggards. They tend to be less 'strict' (sometimes termed 'lighter green') and have fewer absolute values based negative exclusions than 'Negative Ethical' funds.

Negative Ethical Funds

Negative Ethical funds' primary approach is the strict avoidance of a range of activities that do not meet more traditional, ethical or 'values based' standards. They are likely to also screen according to environmental and social criteria, excluding companies that do not meet the fund's policies. They may have positive selection criteria but these do not override the fund's negative screens. These funds tend to explicitly avoid more companies than any other approach.

Environmentally Themed Funds

Environmentally Themed funds significantly integrate environmental opportunities and risks into their investment decisions. Environmental funds may focus on a range of environmental themes or specialise in a single issue relating to areas such as climate change or resource scarcity, favouring companies with market leading strategies. Some environmental funds consider social and ethical issues alongside environmental criteria.

Social Theme

This is a new, emerging style. This style involves combining positive investment selection alongside ethical exclusion criteria. Positive selection involves identifying investments that are considered to bring social benefits - such as targeting specific social outcomes or community benefits.

Faith-Based Funds

Faith-Based funds are an emerging but very limited group of funds that invest in line with a specific set of religious values. This style has similarities with the more traditional Negative Ethical options as their core focus is avoidance.

Responsible Ownership

Responsible Ownership and engagement options are conventional fund options to which an additional 'overlay' applies. This typically involves investment companies using their rights as an investor to encourage stronger environmental, social and governance practices. This normally takes the form of dialogue with senior management, voting at AGMs and EGMs and (less commonly) shareholder resolutions.

Such work may be carried out in-house or through an external agency – often in collaboration with other investors. Activity is normally focused on key holdings and areas that are considered to be most likely to benefit from the fund manager's recommended changes. Activity of this kind does not normally drive stock selection decisions and will only take place when a manager believes change will be in the best interest of investors. This approach is now widespread across the world.

ESG Integration

Responsible Ownership and engagement options are conventional fund options to which an additional 'overlay' applies. This typically involves investment companies using their rights as an investor to encourage stronger environmental, social and governance practices. This normally takes the form of dialogue with senior management, voting at AGMs and EGMs and (less commonly) shareholder resolutions.

By the end of this section you will understand the main SRI styles in order that you can identify which may be most relevant to your client.

Choosing Funds

Having considered the SRI Fund Styles outlined in the previous section, the aim of the fund selection process used to create our list of SRI Rated Funds for this guide is to provide a range of quality SRI options spanning these various styles from a range of fund management groups.

This process is based on the methodology that we use for all our fund analysis (a copy of which can be found as an appendix to this document) amended slightly to take account of the range of funds available and their specific characteristics.

The process used can be summarised as follows:

Initial Fund Universe	Initial Fund Filter	Research	Final Fund List
Funds listed within the Investment Association (IA) sectors	Funds identified as having a specific SRI/ethical focus Exclude funds without a retail investor focus (e.g. Charity funds) Initial statistical screen to filter out consistently poor performing funds Group funds by SRI Style	Information about the overall investment process Information about the individual fund's SRI policy and approach	Select funds of sufficient quality covering a range of asset classes and geographical regions, listed by SRI Styles Award SRI Rated Fund designation

Defining the fund universe

The first part of the process is to determine the initial investment fund list on which to conduct further research. Our starting point is funds listed within the Investment Association (IA) sectors, which are then filtered so that all those with a specific SRI / ethical focus are identified. In order to ensure we compare funds with their peers, we then group the funds by their SRI style before the next stage.

Quantitative Research

A number of filters are then applied to the initial fund universe. As this guide is for retail investors, we only consider funds with a focus on the retail investor, which means that we exclude certain funds such as charity funds and also those funds with a high minimum initial investment amount.

The next stage is to then apply a series of statistical screens, looking at a range of performance and risk measures. Here we are looking to exclude the funds that have performed badly and also to better understand the risks being taken and how this affects the performance of the funds. Given the range of funds considered, each is looked at in the context of its IA sector and its SRI style, thereby ensuring that we compare a fund with its appropriate peer group.

More detail on the quantitative screens applied can be found in the methodology in the appendix.

Qualitative Research

The qualitative research is arguably the more important part of the process. Here we look at the fund as a whole with the purpose of understanding how it works in detail, and how its objectives and fund process relate to the performance and risk we have seen in our quantitative research.

The qualitative assessment is based on a thorough understanding of the fund. Much of the information is obtained through a detailed questionnaire completed by the fund management group, but we also obtain information from a variety of other sources.

In this part of the process we consider how the fund is run, the resources in place to manage the fund and the expertise of key individuals. We also look at how the fund management team make stock decisions and what risk measures and controls are in place. Again, more detail on this can be found in the methodology document.

It is important to note that our methodology allows the flexibility to include funds that have not met the risk or performance criteria we set. This is important in many areas as a fund may be run in such a way that means it will have periods of underperformance or it may be in a sector to which it is not really comparable. Our process is to understand the fund and understand why it has performed in the way it has. Where we can see clear reasons for any underperformance, and still see reasons for using the fund, then it may still be included.

This flexibility is particularly important in the area of responsible investing as the funds will, by their nature, have a more limited universe of stocks to select from and may also be subject to other constraints that could affect their performance. A strong fund process and well defined stock selection criteria together with a commitment to the SRI market can override the other qualitative criteria.

Ownership and ESG Integration

In the previous section we outlined what responsible ownership and ESG integration options are and how they operate. As this strategy typically forms part of a fund manager's regular investment management processes we have included a list of the fund management groups who operate in this way along with a list of the asset types this SRI strategy relates to. Advisers should visit our website (www.rsmgroup.co.uk) to identify the funds that we currently rate from those managers.

Final SRI Rated Fund List

The final fund list comprises those funds that we feel are well run and have a robust, repeatable process that has resulted in performance in line with expectation and with the risks taken.

The purpose of this is to provide advisers with a usable list of funds, all of which have met a minimum standard. It is important to note that there will be other funds outside this list that may be suitable depending on the risk profile of the client and their specific needs and preferences.

In compiling the list we have taken into account a number of additional qualitative factors. Clearly a different set of factors would have resulted in a different set of funds and advisers must ensure that they understand the process we have gone through in constructing this list and that this fits with their sales and advice process and is suitable for their clients.

The funds are all given our SRI Rated Funds designation.

When considering using SRI funds it is worth taking a view of a fund's SRI strategy and considering how any differences between that fund and its non-SRI peers may impact returns over the likely lifetime of the investment. This may include considering for example, whether sustainability issues are likely to become more or less important (and therefore useful) over that timescale, or how focusing on (or avoiding) particular sectors may impact performance or risk. The conclusions drawn should then be matched with the level of interest expressed by the client and their individual aims.

Our SRI Rated Funds

We have reviewed the SRI funds according to the methodology outlined in the previous section and those that have met our required standards have been awarded our SRI Rated Fund designation. A summary of the funds that we currently rate, grouped by their SRI category, can be found in our SRI Matrix, which is available on our website. Also available are detailed factsheets on each of the rated funds detailing the overall investment process and the specific SRI/ ethical considerations.

RSMR SRI RATED FUNDS

For an up to date list of all the funds currently rated from these providers, please go to www.rsmgroup.co.uk where you can also access fund information to help you select the most appropriate fund. Relevant entries also appear on Fund EcoMarket (www.sriServices.co.uk) indicating where engagement options should be available within direct product and asset types. Both lists are subject to regular review and will change over time.

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Style (provided by sriServices)	Fund Management Company	Fund Name	OCF*	IMA Sector
Environmental Themed	Jupiter	Ecology	0.78	Global
Environmental Themed	Pictet	Global Environmental Opportunities	1.22	Global
Ethically Balanced	Eden Tree	Amity European	0.81	Europe Ex UK
Ethically Balanced	Eden Tree	Amity International	0.81	Global
Ethically Balanced	Eden Tree	Amity Sterling Bond	0.70	Sterling Strategic Bond
Ethically Balanced	Eden Tree	Amity Short Dated Bond	0.42	Sterling Corporate Bond
Ethically Balanced	Eden Tree	Amity UK	0.79	UK All Companies
Ethically Balanced	BMO	Responsible Global Equity	0.80	Global
Ethically Balanced	BMO	Responsible UK Income	0.80	UK Equity Income
Ethically Balanced	Rathbone	Ethical Bond	0.67	Sterling Corporate Bond
Negative Ethical	AXA	Ethical Distribution	0.77	Mixed Investment 20%-60% Shares
Negative Ethical	Kames	Ethical Cautious Managed	0.79	Mixed Investment 20%-60% Shares
Negative Ethical	Kames	Ethical Corporate Bond	0.54	Sterling Corporate Bond
Negative Ethical	Kames	Ethical Equity	0.78	UK All Companies
Negative Ethical	Quilter Investors	Ethical Equity	0.90	Global
Negative Ethical	Royal London	Ethical Bond	0.52	Sterling Strategic Bond
Negative Ethical	Standard Life	UK Ethical	0.90	UK All Companies
Negative Ethical	Unicorn	Ethical UK Income	0.81	UK Equity Income
Responsible Ownership	SVM	All Europe SRI	1.27	Europe Inc. UK
Social Themed	Threadneedle	UK Social Bond Fund	0.45	Sterling Corporate Bond
Sustainability Themed	Brown Advisory	US Sustainable Growth	0.91	North America
Sustainability Themed	Liontrust	Sustainable Future Absolute Growth	0.93	Flexible Investment
Sustainability Themed	Liontrust	Sustainable Future Cautious Managed	0.93	Mixed Investment 40%-85% Shares
Sustainability Themed	Liontrust	Sustainable Future Defensive Managed	0.93	Mixed Investment 20%-60% Shares
Sustainability Themed	Liontrust	Sustainable Future European Growth	0.93	Europe Ex UK
Sustainability Themed	Liontrust	Sustainable Future Global Growth	0.93	Global
Sustainability Themed	Liontrust	Sustainable Future Managed	0.92	Mixed Investment 40%-85% Shares
Sustainability Themed	Liontrust	Sustainable Future UK Growth	0.91	UK All Companies
Sustainability Themed	Liontrust	Sustainable Future Corporate Bond	0.65	Sterling Corporate Bond
Sustainability Themed	Quilter Cheviot	Thesis Climate Assets	1.20	Mixed Investment 40%-85% Shares
Sustainability Themed	Sarasin	Responsible Global Equity	0.97	Global
Sustainability Themed	Sarasin	Responsible Global Equity (Sterling Hedged)	0.98	Global
Sustainability Themed	Sarasin	Food & Agriculture	0.98	Global
Sustainability Themed	Stewart Investors	Global Emerging Markets Sustainability	0.98	Global Emerging Markets
Sustainability Themed	Stewart Investors	Indian Subcontinent Sustainability	1.11	Specialist
Sustainability Themed	Stewart Investors	Worldwide Sustainability	0.89	Global
Sustainability Themed	WHEB	FP WHEB Sustainability	1.08	Global

* from FE Analytics

NOTES

The following Fund Management Groups have funds on the RSMR Rated Fund List that apply Responsible Engagement strategies to the following asset types: Aviva, who engage on all equity assets. BMO, who engage on all equity, bond and property assets. First State, who engage on their equity, fixed interest and property assets. Jupiter, who engage on all equities and some bonds. ASI, who engage on UK equity and property assets. (source-sriServices Fund Manager Survey - all information correct at time of going to press)

Note - Due to the restricted fund range available, we do not currently rate any clean technology, specialist or faith based funds.

Issue No 19 - Oct 2019

Factsheets

Factsheets are available on all our SRI Rated Funds.

These can be downloaded from our Hub – rsmr.co.uk

Portfolio Construction

This guide is primarily focussed on the inclusion of an element of responsible investment as part of a client's overall portfolio and we feel the choice of funds aligned to the various SRI Styles will allow advisers to recommend an SRI strategy with greater confidence and competence.

If you require a set of SRI portfolios, please contact us on 01535 656555 or email enquiries@rsmr.co.uk with details and we will be happy to provide an indication of the costs involved.

By the end of this section, you will understand some of the issues to take account of in selecting funds, and what support is available to help you to do this.

Conclusion

This guide brings together a wealth of information and tools to provide a totally independent view on SRI as an investment strategy, together with an independent analysis and rating of SRI funds.

In spite of the many challenges facing all investment markets over recent years, the SRI market has continued to grow and even demonstrated significant outperformance against 'mainstream peers' in some years. As a result there are many different ethical, social and environmental issues that can now be integrated into investment decisions in a variety of ways. Some strategies relate to increasingly important business and societal issues – others are more about reflecting investors' personal (or organisational) values or beliefs.

Given the growing importance of SRI issues – and its inclusion in the best practice Adviser ISO – taking SRI aims into account ought to form part of the investment decision process for all clients who have an interest in this area.

This guide will help address these issues and will help improve your knowledge and understanding of SRI and how to integrate it into your advice process. In addition, we believe that you will be better able to discuss this area more regularly with your clients and be better equipped to meet the growing demand that clearly exists.

The list of SRI Rated Funds and fact sheets that accompany this guide provide advisers with a choice of funds that have met our fund methodology within their identified sriServices 'Styles'. We are confident these provide a useful starting point for exploring this dynamic market and that the SRI Styles system helps you to shortlist relevant funds more effectively and efficiently than before.

Additional information and reading sources are also listed in the Appendix.

We hope you find this guide useful and we welcome any feedback to help us to make improvements for future editions.

Robin Ghosh
RSMR
www.rsmr.co.uk

Julia Dreblow
sriServices
www.sriServices.co.uk

Appendix – About the Authors

Rayner Spencer Mills Research

www.rsmr.co.uk

Experienced, professional and trusted; Rayner Spencer Mills Research is an independent company established in 2004.

After many years working in the financial services market, we felt that the rapidly changing environment presented a unique opportunity to set up our own company to deliver quality independent research and ratings. Our work, whether for advisers or providers is made with total impartiality and without any conflict of interest.

Working across the whole financial services marketplace we deliver specialist research, analysis and support to a diverse range of financial advisers and planners helping them to ensure they deliver sound advice to their clients backed by rigorous and structured research and due diligence. In addition, our fund ratings are now recognised as the 'badge of quality' when selecting funds.

We also work with all the leading providers across the financial services sector offering our straight-forward and pragmatic advice to help fund groups, life and pension companies and platform operators add value to improve their business performance and efficiency.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your business and your clients.

Robin Ghosh

Robin joined RSMR in 2018 as Investment Research Manager & Portfolio Manager for the Rfolios discretionary portfolio service.

He has been in the industry for nearly 20 years. After starting his career in Leeds at a firm of stockbrokers he moved in 2004 to BWD Rensburg, which later became Investec Wealth & Investment, as a discretionary investment manager. He managed the portfolios for a wide range of private clients, trusts and charities. Then, after a brief spell as a wealth advisor, he joined the wealth management arm of a regional law firm, managing the investments for a number of families, their pensions and trusts. There, he was also part of the research team and asset allocation committee member that was responsible for maintaining the firm's investment models.

sriServices

www.sriServices.co.uk

sriServices is UK's only independent company devoted entirely to advancing retail (individual investor) Sustainable and Responsible Investment (SRI). We provide specialist SRI support that helps improve awareness of SRI through the partnerships, online tools and the provision of information.

Our aim is to fill the 'SRI information gap' by bringing together and interpreting 'ethical, sustainable and responsible' investment information.

We run two main websites:

- **www.sriServices.co.uk** offers online SRI support materials and news for a financial advisers. This site explains our SRI Styles segmentation system - as used in this guide and on our Fund EcoMarket database.

- **www.FundEcoMarket.co.uk** is a comprehensive database tool and information hub. It enables users to filter and search SRI options by name, product, asset type, SRI Style, ethical policy and 'additional SRI information'. Fund EcoMarket is accompanied by our SRI fact find tool 'SRI StyleFinder'- which helps clients to identify their preferred SRI Styles.

sriServices was 'Highly Commended' in the 2015 Corporation of London Sustainable City Awards - Sustainable Finance category. Fund EcoMarket was also shortlisted in 2016.

Julia Dreblow BA Hons, DipPFS.

Julia was formerly the SRI Marketing Manager at Friends Provident, having started her career as a broker consultant with NPI in 1989. Julia was an UKSIF board director from 2002 – 09, where she chaired their Retail Sub-Committee and helped set up what is now called 'Good Money Week'. Julia now works with a number of well known financial services companies and and is active across a wide range of mainly adviser facing media.

Appendix – Research Methodology

The screening process is researched using fund analysis tools which we combine to evaluate the data. For quantitative screening we primarily use Financial Express for our data analysis combined with other external data checks and our own proprietary filtering system.

The qualitative part of the process combines a fund questionnaire, which is completed for every manager that we add to the recommended lists and contact with the groups and managers.

Our questionnaire covers all the main areas that we feel requires detailed documentation with any additional information sourced from the management groups. In addition to what is identified further below some of the other areas we collect data on are:

- Fund technical data – objective, sector and asset allocation, charges etc
- Range of investable assets
- Team structures and CVs
- Manager incentives
- Macro and Micro influences
- Decision making processes
- Buy and sell disciplines
- Company visits
- Turnover
- Attribution analysis
- Risk monitoring
- Fund Style
- Fund differentiators
- Research tools

The quantitative screening comprises the following measures:

Quantitative Screening

In all the following areas, funds are compared against set benchmarks and their peer group.

Performance

Fund performance is a good indicator of the ability of the fund manager, particularly when viewed over a range of different market conditions. By assessing performance on a discrete yearly and rolling three-year basis, we gain a good understanding of how the fund has performed, and therefore the strength of the fund management team in different investment conditions.

The discrete period analysis provides us with an opportunity to isolate performance and investigate performance anomalies. It also allows us to understand how the fund is likely to perform under certain market conditions which is important when combining funds for portfolios. We are now also able to identify manager performance across different roles as well as in the current position which helps us improve our longer term overview.

We measure performance over the most recent three years on both a discrete basis and a cumulative basis. Longer term performance is relevant if we can identify that the current manager/team is responsible; otherwise we focus on the more recent data as we believe this is more appropriate. Performance is compared against the average for the sector, with funds that do not perform ahead of the average in at least two of the various data points being eliminated from the lists, subject to the qualitative overlay. Further filtering takes place when we mix in the qualitative information.

Volatility

Volatility is one of a number of statistical measures that we look at to further understand the funds and how they operate. We consider the funds in relation to their benchmark and sector and also in relation to their objectives.

Specifically we consider Sharpe ratios, information ratios, value at risk and maximum loss and measure each fund against its peers in order to find the funds performing in line with expectations.

Volatility measures are used in particular to assess risk in terms of relative positioning as well as in absolute terms. This allows us to judge the extremes of positions that fund may take which is important in building a balanced list of funds as well as when combining them in portfolios.

Again, we compare the funds against the average for the sector, but we also consider these measures in the context of the fund's investment aims and objectives. This may mean that funds that fail these measures may still be used if we feel this is understandable given the focus of the fund.

TER

The charges taken by the fund manager can impact substantially on the fund returns, particularly in flatter markets. We use the total expense ratio as our preferred measurement of the charges and look for mainstream funds to have a TER of under 2%.

Fund Size

Fund size is considered, as we want to ensure that the funds we are suggesting have sufficient 'buying power'. For example, in the Corporate Bond market, some companies will only offer their Corporate Bonds to the key fund managers.

The minimum fund size depends on the sector – for established funds in the mainstream sectors (Balanced Managed, Cautious Managed, Corporate Bond, UK Equity Income, Europe, UK All Companies, Global Equities) we would generally look for a minimum size of £50m, however this would be reduced to £30m for sector funds (Specialist, Asia ex Japan, Japan, Global Emerging Markets, North America). We are not restricted by this policy and will consider funds (new launches, for example) that fail this criterion if they fulfil a majority of other requirements.

Conversely, a fund can become too big, and too cumbersome to deliver strong returns against its initial objective. This is also something we would consider when recommending a fund.

Qualitative Screening

The qualitative screen allows us to look in more detail at the how the fund actually operates.

Fund Manager Background

We need to ensure that the fund management has sufficient expertise in the area in which it is operating. This involves making a judgement on the relevant experience of the team and also the roles and responsibilities within the team. It is also important to understand these roles and responsibilities so that, if a fund manager leaves, we can make a reasonable assessment of how this will affect the fund management by knowing who will take over and their relevant experience.

Fund Philosophy

This helps us to place the fund relative to their peers in terms of how the fund is managed in broad terms and what scope the managers have to deviate from the principles set. For example a fund may have a more flexible philosophy complementing a relatively strict process and we would need to understand which would have greater control in extreme market conditions. It also helps us to understand the general stance of the group as well as the individual funds characteristics.

Fund management processes

Much of the qualitative research is around how the fund operates, and how robust the fund management process is. This involves gaining a full understanding of how the fund is managed, what would trigger the manager to buy or sell a particular stock, what they are looking for in the stocks that they hold etc. We also look at how they monitor the fund holdings on an ongoing basis and how decisions on the fund are made.

Risk Controls

The risk controls that are in place are also considered. It is essential that risk is managed according to a robust process and in line with any published risk tolerances.

Manager Resources

The resources that the fund manager has available to them can be important in the success of the fund. We therefore look at what research capabilities there are within the fund management team (clearly important in finding new investment opportunities) and also at whether or not any research is bought in (this can be good as it can provide an alternative view, however in some cases it can indicate a lack of resource within the team). We also look at the fund managers other responsibilities. For example if the fund manager has to input heavily into other funds, then this can mean a lack of focus on the core fund, which may also affect future performance.

Monitoring Process

Selecting the funds is of course only part of the process – the ongoing monitoring of the holdings and the procedure for making changes is equally important in determining potential returns. We therefore consider the process used in monitoring existing holdings – what would trigger a review of a stock, or a sell, and how are such decisions reached.

About us

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality and without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector, offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency, whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative range of ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research, your success

RSMR

RSMR RATED FUND · RSMR SRI RATED FUND · RSMR FUND RANGE · RSMR INVESTMENT TRUST

"Our familiar 'R' logo is now recognised as a trusted badge of quality"

sri services

This Guide is produced in collaboration with sriServices who have supplied the SRI information and interpretation.

The data and information in this document does not constitute advice or recommendation. We do not warrant that any data collected by us, or supplied by any third party is wholly accurate or complete and we will not be liable for any actions taken on the basis of the content or for any errors or omissions in the content supplied.

All opinions included in this document and/or associated documents constitute our judgement as at the date indicated and may be changed at any time without notice and do not establish suitability in any individual regard.

Experienced. Professional. Trusted.

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