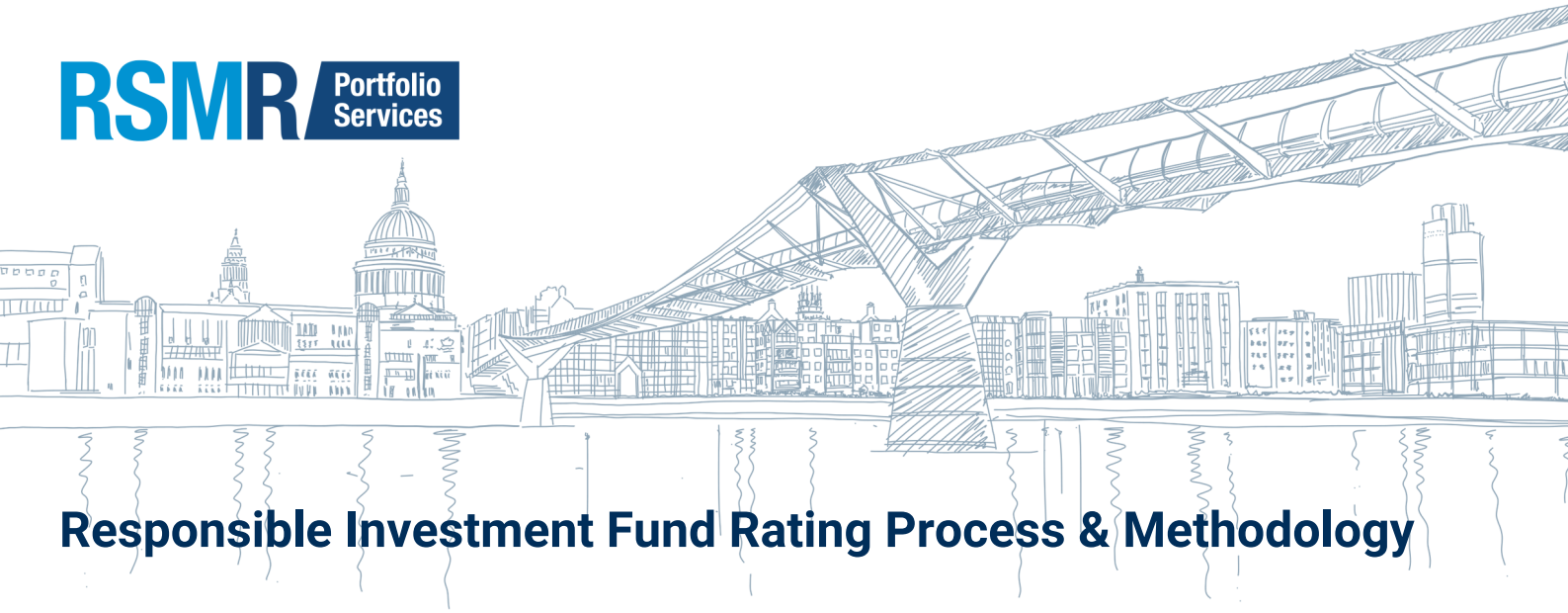
RSMR Portfolio Services



Responsible Investment Fund Rating Process & Methodology

Research Process

The initial fund analysis takes each Investment Association (IA) sector and looks at a range of performance and risk measures that are appropriate to that sector. Funds that display attractive performance and risk characteristics may then be taken forward for further analysis.

Both quantitative and qualitative measures are used to ensure that a fund's performance and risk statistics have been produced by a robust investment and risk management process and by a strong fund manager or team. These factors combine to give us some indication of how a fund may perform in the future.

For the quantitative analysis we primarily use FE Analytics and Morningstar Direct, which is combined with other external data sources. Our qualitative research includes the completion of a detailed fund questionnaire, which may then be followed up with a face to face meeting with the fund manager or management team, should a fund be deemed worthy of more in-depth analysis.

Initial Quantitative Analysis

Each IA sector is reviewed on a quarterly basis. At this review we analyse a range of performance and risk information for all the funds in the sector in order to identify those funds that may be taken forward for further analysis. We use a number of external data sources from which we obtain all our raw fund data.

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

- ### Performance

Fund performance is a good indicator of the ability of a fund manager or fund management team, particularly if you look over a range of different market conditions and different time periods. By assessing performance on a discrete yearly basis we gain a better understanding of how a fund has performed and this helps to identify potential strengths and weaknesses of the fund manager or team in different economic and market conditions.

We measure performance over a range of time periods 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, its own benchmark and other comparable funds, with those funds out of line with expectations being eliminated from the lists, subject to the qualitative overlay.

The discrete period analysis helps us to isolate performance and investigate performance anomalies, both positive and negative. It also allows us to understand how a fund is likely to perform under certain market conditions should they re-occur, which is important when combining funds for portfolios. We can also look at a fund manager or management team's performance in previous roles, often at other companies, in addition to their current position, which provides us with a longer-term picture.

- ### Risk Statistics

We look at a number of statistical risk measures to further understand funds and how they operate. We consider funds in relation to their benchmark and sector and also in relation to their objectives.

These measures are used to assess risk in terms of a fund's positioning relative to its peer group and benchmark, as well as in absolute terms. This allows us to gauge how much risk a fund may take, which is an important consideration when creating a balanced list of funds, as well as when combining funds in portfolios.

- ## Ongoing Charges Figure

The charges taken by the fund manager can impact substantially on a fund's returns, particularly in low return and falling market conditions. We use the ongoing charges figure (OCF) as our preferred measure and look for funds to have an appropriate OCF based on their asset class exposure, aims and objectives and investment strategy.

- ## Fund Size

Fund size is a consideration, as we want to ensure that any fund we are analysing has sufficient 'buying power', i.e. they are able to get access to the companies or research that they need and are able to purchase assets relatively easily. For example, in the Corporate Bond market some companies looking to raise debt may offer their bonds only to the key fund managers.

We typically look for a minimum fund size of £50m, however, we may consider funds (new launches for example) that do not meet these minimum requirements if they fulfil a majority of other requirements that we consider.

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 analysing a fund.

- ## Questionnaire

When we identify a fund that requires more in-depth analysis, we will issue a detailed fund questionnaire for completion by the fund management team. This covers all the main areas that we feel require detailed investigation and where this highlights further areas of interest, we obtain additional information directly from the management groups.

Some of the areas we consider 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

Qualitative Screening

Where a fund looks attractive from an initial research perspective, we then move on to look at the fund from a qualitative perspective. This is a very important part of our research, as it enables us to look in detail at how a fund operates. Some of this information is obtained from the questionnaire mentioned above, but most comes from detailed meetings with the fund management team.

The areas that we look at would include the following:

- ## Fund Manager/Management Team Background

We need to ensure that the fund manager/management team has sufficient expertise in the area in which they are operating. This involves making a judgement on the relevant experience of the manager/team, the roles and responsibilities within the team, what resources they have access to, both internally and externally and the support structure. It is 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 by knowing who is likely to take over and their relevant skills and experience.

- ## 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 whether or not any research is bought in (this can be good as it can provide an alternative view, although in some cases it can indicate a lack of resource within the team itself). We also look at the fund managers other responsibilities, for example, if the fund manager is responsible or inputs heavily into other funds this can mean a lack of focus on the fund being analysed, which may also affect future performance.

• Fund Philosophy

What is the fund manager's/fund management team's investment philosophy, and how does this influence how they manage the fund? Answering this question helps us to identify any inherent investment traits/biases within the process at fund, manager/team and company level and whether managers have scope to deviate from these. This can also help to place the fund within its peer group and within portfolios in terms of how it is managed in broad terms - for example, a fund with a more flexible investment philosophy may complement one with a relatively strict investment process - and also understand how a fund may be positioned in more extreme market conditions.

• Fund management processes

Much of our qualitative research looks at how a fund operates and particularly how robust the investment process is. This involves gaining a full understanding of how a 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, any stock, sector, region, style or market cap biases, the risk management process, etc.

• Risk Controls

The risk management of a fund, including the internal checks and balances and the formal and informal fund parameters, are an important consideration. It is essential that risk is managed according to a robust process and in line with any published risk tolerances.

• Environmental, Social, Governance (ESG)

Ever since RSMR first began researching and rating funds in 2004, we have built our business on an unswerving commitment to providing better investor outcomes. Our comprehensive and forward-looking research approach assesses all the factors that could affect a fund's risk management and investment process, and therefore its performance. To us, ESG factors have always represented potential risks to companies and, as funds invest in companies, ESG needs to be central to our approach for all the funds we assess.

Our philosophy is that:

ESG factors play a core part in the risk management and investment process of all funds we rate with ESG integral to the due diligence process.

At the fund level, each of our bespoke questionnaires, which are sent to asset managers as part of our due diligence process, contains questions that cover ESG factors within the context of the fund and its investment process. ESG factors are one element of a fund's rating assessment and as such we do not separate funds on ESG criteria alone. For Responsible funds, these factors naturally form part of the strategy.

Our questionnaire for fund groups includes 4 key questions to elicit their ESG stance and policy. These questions are:

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
2. Please provide an overview of how ESG is integrated into your business.
3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The questions are intentionally standardised to three core areas so a fair assessment can be made. We are now working with all fund groups in our rating universe to obtain statements in response to these questions which will help our advisory clients understand how each fund group is approaching ESG and so aid better informed discussions and decisions with their clients.

To ensure complete transparency and maintain our impartiality these words will be quoted verbatim from the respective fund group, we will not amend or edit them. This is important because it means that we prevent any potential for misrepresentation and it also allows the fund group to control and drive their own ESG policy and approach which we feel is central to delivering transparency and clarity in line with the FCA guidance.

Firm - There are varying aspects in determining whether the firm itself is a good steward of capital. This can be assessed by considering a variety of factors ranging from, for example, annual reporting, the firm's responsible investment policy or whether there is an independent advisory board. The firms voting record is important at determining how active they are at holding companies to account as well as how integrated ESG risk analysis is in the investment processes firmwide. Proprietary client communications on thought leadership in the area of responsible investment can also be reviewed. This is a fluid area that is evolving as standards increase and as such these examples are not exhaustive.

Fund - At the fund level, we assess the investment process to determine if the fund is delivering on its objective whilst adhering to the responsible investment elements of the mandate. As with all funds, we start with the underlying asset class exposure to compare peer group quantitative analysis. If the fund is of interest, a bespoke questionnaire for responsible investment mandates is requested to be completed. Areas that are of interest specifically at the fund level cover the investment process, whether any parts of the process are outsourced or whether there is sufficient in-house resource to conduct the initial responsible investment elements internally. We are also looking at how committed the manager is to responsible investment, does it form part of their investment DNA, how long have they been active in this space, do they manage other mandates that would not be categorised as responsible investment? In addition, due to our tenure in providing responsible ratings, we are aware of the asset managers and funds that have been active in this space for some time. Combined with the due diligence we undertake, this allows us to identify propositions which are not meeting our required standards to be categorised as responsible.

If, after this scrutiny the sector committee are satisfied with the output, the fund can be put forward to be responsibly rated in isolation or dual rated gaining both a responsible and an active rating. The latter occurs where a fund is deemed to be demonstrating the characteristics within its sector to outperform the peer group whilst being responsible.

Once rated, we can then determine which of the four RSMR Responsible Investment categories the fund resides in:

I. Sustainable – Funds that select and include investments on the basis of responsibly contributing and benefiting the global sustainable economy. This may include referencing the portfolio to one or more of the UN Sustainable Development Goals (SDGs) or the application of a screen.

II. Impact – Funds that can demonstrate that they are aligned to the Global Impact Investing Networks definition of Impact:

"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

III. Thematic – Funds that use macro themes to identify long term responsible structural growth trends.

IV. Ethical – Funds that apply a screen, either positive, negative or both, that may be based on ethics or on a 'best in sector' approach. Each fund will have its own defined screen and may vary between provider.

The funds can then be further subdivided using the SRI Services Categories which categorise funds at a more granular level whilst providing advisers with synergy between both RSMR and SRI Services.

Example of mapping of RSMR Responsible categories to SRI Services Style:

RSMR	SRI Services Style
Thematic	Environmentally Themed
Ethical	Ethical
Impact	Social Themed
Sustainable	Sustainability Themed

Review and Monitoring Process

Selecting funds is, of course, only part of the process – the ongoing monitoring of the fund lists and the procedure for making changes is equally important. As stated earlier, the IA sectors are reviewed formally on a rolling three-month basis. In the case of funds that are already rated, we are monitoring the performance and risk information to make sure that funds are performing and behaving as we would expect given the prevailing market and economic conditions. Should this not be the case then we will conduct further in-depth research, revisiting our original reasons for rating the fund, and if we are not happy with the overall outcome then a fund will no longer be rated. This is in addition to monitoring information on a more frequent basis, including maintaining regular contact with fund management groups and updating our fund information.



RSMR Portfolio Services Limited
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Important Information

This is intended for investment professionals and should not be relied upon by private investors or any other persons. Past performance is not a guide to future performance. The value of investments and any income from them can fall as well as rise, is not guaranteed and your clients may get back less than they invest. RSMR MPS is provided by RSMR Portfolio Services Limited. RSMR Portfolio Services Limited is a limited company registered in England and Wales under Company number 07137872. Registered office at Number 20, Ryefield Business Park, Belton Road, Silsden BD20 0EE, RSMR Portfolio Services Limited is authorised and regulated by the Financial Conduct Authority under number 788854. The use of the RSMR registered Trademark is agreed under licence from Rayner Spencer Mills Research Limited.