



Fund Rating Methodology

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1 Introduction

Climetrics is a climate rating that measures how well a fund supports the transition to a lower carbon, climate-resilient economy. It independently rates thousands of actively managed funds and ETFs and its ratings are free-to-search, providing investors with transparency on climate change-related risks when comparing funds. It uses data and research from CDP, ISS ESG and other sources. The ratings are calculated using the database of FEFundinfo (yourSRI) for fund information¹.

2 Changes to the previous version

Version 2.7 contains the following changes compared to the previous version 2.6 from June 2021:

Section	Description	Previous	New
Annex 1	Change in the company scoring methodology		Integration of World Benchmarking Alliance (WBA) total scores in company scoring methodology
Annex 2	Change in the asset manager scoring methodology		<ul style="list-style-type: none">▪ New sub-category 'industry collaboration' (indicators previously tracked under 'collective engagement')▪ Two new optional activities added in the corporate engagement sub-category▪ New mandatory policy engagement indicator added in the collective engagement category▪ Introduction of sub-category weights in the collective engagement category.▪ Montreal Pledge and PDC removed from the commitment category

¹ Climetrics may collaborate with other platform providers in the future.

3 What Climetrics measures

Climetrics measures how well companies in a fund's portfolio disclose and manage material risks and opportunities linked to climate change, water security and deforestation. It measures performance as well as impact of the companies invested by a fund.

Climetrics also considers funds' ESG investment policy and the level of public action taken by the asset manager to support global transparency and engagement initiatives around climate change.

The rating follows a best-in-universe approach, meaning that each fund is compared to thousands of other funds in the available universe. As such, Climetrics rates funds for how well they support the transition towards a low carbon, more climate resilient economy. Funds investing in companies without a meaningful impact on climate, water or forests typically do not achieve top ratings

Climetrics ratings are accompanied by additional peer group quartile rankings. The rankings reflect a 'best-in class' approach to fund scoring meaning that a fund's performance is compared against that of its peers, i.e., funds with a similar investment style, market capitalization exposure or geographical focus. The peer group ranks help investors select more climate-friendly funds in those peer groups that tend to score poorly under the best-in-universe approach, for instance, emerging market funds.

4 Relation to existing climate disclosure frameworks

The Climetrics methodology is strongly aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It integrates TCFD-aligned CDP scores for companies in its evaluation of portfolio holdings, and tracks asset managers' TCFD-based reporting through the PRI reporting framework.

The integration of water security and deforestation data in the Climetrics rating is consistent with the emphasis on natural capital disclosure in the EU's guidelines for reporting climate-related information and the Climate Disclosure Standards Board framework (CDSB).

5 Methodology overview

All funds are scored across three different levels, each focusing on a different aspect of the investment process value chain (see chart 1). The primary focus is on fund's portfolio holdings (as more fully described below). This is to assess actual investment decisions taken by the funds regarding climate change.

Besides the holdings analysis, the Climetrics scoring methodology also includes an assessment of the asset manager's public action on climate change and rewards funds which have an explicit ESG investment policy. This intends to address different aspects of the investment process (e.g. corporate engagement).

Chart 1: Scoring levels and corresponding weights



Score Averaging

The Climetrics rating captures a fund's portfolio history. All reported full holdings over the previous 12-month period² are included in the calculation of the final portfolio holdings score.

² As reported via Refinitiv. Please note that reported holdings via Refinitiv vary in timing and frequency.

6 Scoring levels

Portfolio holdings score

A fund's portfolio holdings score is the weighted average of the underlying holdings' Climetrics company scores.

Where a company score is not available, percentage weights of companies with scores are normalized to 100%. Cash and short positions are excluded. At least 60% of a fund's assets under management must have a Climetrics company level score for the fund to receive a Climetrics rating. Climetrics does not rate the sovereign bond or derivatives exposure of funds.

Table 1: Portfolio holdings score calculation

	Weight	Climetrics company score	Normalised Weight	Normalised Weight x Score
Company A	20%	75	24%	18
Company B	35%	58	41%	24
Company C	30%	27	35%	9
Company D	15%	N/A	0%	N/A
Total				51

Climetrics does not apply strict exclusion or inclusion criteria at the portfolio level, except that a 5-leaf rated fund must have a minimum portfolio score greater or equal to 60. The final portfolio holdings score is the average of all portfolio holdings scores over the preceding 12 months.

Company universe

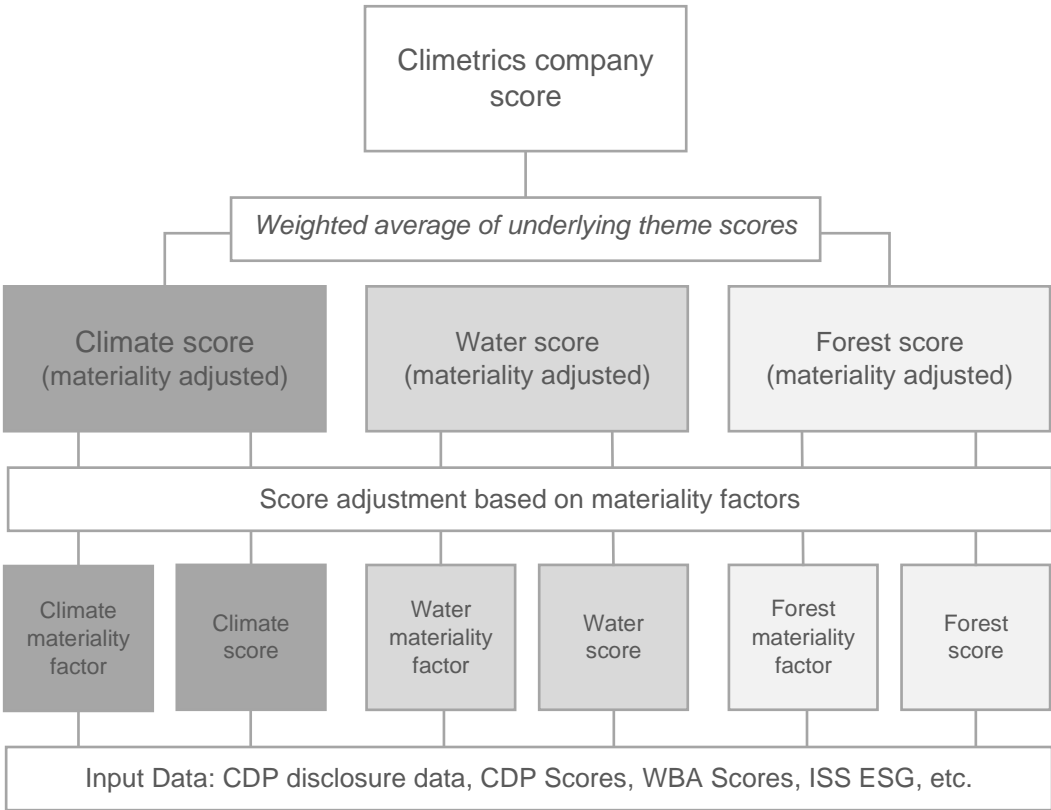
Company scores are calculated for all companies of the CDP disclosure sample, i.e. close to 6900 companies receiving the annual disclosure request on behalf of CDP investor signatories.

Company scores

A bespoke methodology to score companies on climate-related risks and opportunities and impact is used in Climetrics. The methodology uses data from

CDP, ISS ESG, WBA³ and other sources. The data are used to calculate thematic company scores and materiality factors for climate, water security and deforestation.

Chart 2: Components and calculation of the Climetrics company score



In each thematic area, company scores are calculated on a scale from 0 to 100 (see Annex 1 for further details). Specific materiality factors which define how material a theme is for a company are then used to derive materially adjusted company scores. A high materiality factor allows for both higher and lower net scores, whereas a low materiality factor limits the net score toward the middle of the 0-100 range. This way, net scores reflect companies' relevance for the transition to a lower carbon, climate resilient economy and how well they manage their climate-related risks and opportunities. The final Climetrics score of a company

³ WBA benchmarks are compiled in conjunction with CDP using [ACT methodologies](#). ACT stands for 'Assessing low-Carbon Transition' and is an initiative which supports and assesses how ready an organization is to transition to the low-carbon economy using a future-oriented, sector specific methodology. It was founded by [CDP and ADEME](#). WBA scores are used, if available, in the automobile, oil & gas, and electric utilities sectors. The scores are publicly available at: <https://www.worldbenchmarkingalliance.org/climate-and-energy-benchmark/>

is the materiality weighted average of its underlying thematic net scores. The scores are not normalized at the sector or industry-level.

Asset manager score

Besides portfolio construction, asset managers can take strong climate action through shareholder advocacy, public engagement, and disclosure. Climetrics scores asset managers for their public action and statements on integrating climate change into their governance and investment processes.

A detailed overview of the indicators applied, along with their respective weights used in the calculation of the asset manager score can be found in Annex 2. A minimum asset manager score of 60 is required for any fund to be awarded with a 5-leaf rating.

Fund investment policy score

Funds with an explicit ESG policy are considered to have a higher likelihood of good environmental stewardship and for enhanced integration of climate change factors into investment decision making.

Climetrics awards 50 points to funds with an explicit ESG policy as reported via the Refinitiv database⁴. 100 points are awarded to those funds carrying any of the European SRI labels shown in Table 2.

Table 2: European SRI labels used at the fund investment policy level

Label Name	Issuer	Country
Label ISR	French Ministry of Finance	France
Energy and Ecological Transition for Climate	French Ministry of the Environment, Energy and Marine Affairs	France
FNG Label	Gesellschaft für Qualitätssicherung Nachhaltiger Geldanlagen mbH	Germany
Towards Sustainability Initiative	The Belgian Financial Sector Federation	Belgium
Nordic Swan Ecolabel	Ecolabelling Sweden, (state owned non-profit)	Sweden
Umweltzeichen Österreich	Republic of Austria	Austria

⁴ Based on self-reported data

7 Rating calculation

For each fund, individual level scores are multiplied by their respective weights to calculate a numeric score on a scale from 0 to 100. To assign ratings based on these scores, a normal distribution is assumed. In addition, certain threshold criteria apply for top-rated funds, which have a 5-leaf rating.

Based on their scores, all funds are ranked by percentile rank in descending order. The Climetrics rating is assigned as follows:

Table 3: Climetrics ratings distribution

Rating	Percentage distribution
1 leaf	Lowest 10%
2 leaf	Next 22.5%
3 leaf	Next 35%
4 leaf	Highest 32.5%
5 leaf	Threshold criteria apply

Threshold criteria

Funds with a 4-leaf rating will receive a 5-leaf rating if both of the following threshold criteria are met:

- (1) The portfolio holdings score of the most recent portfolio must be greater than 60; and
- (2) The asset manager score must be greater or equal to 60.

8 Peer group quartile rankings

Peer group quartile rankings are a measure of how well a fund performs against all funds in its peer group. A 1st quartile peer group ranking means that a fund is among the best 25% of all funds within its peer group. Peer group ranks are based on Refinitiv Lipper peer group classifications and only assigned if there are least 10 funds rated in any peer group.

Table 4: Peer group quartile ranking

Peer group quartile rank	Quartile distribution	Description
1 st	Highest 25%	The fund is among the best 25% within its peer group
2 nd	Next 25%	The fund is among the best 50% within its peer group
3 rd	Next 25%	The fund is among the worst 50% within its peer group
4 th	Lowest 25%	The fund is among the worst 25% within its peer group

9 The fund universe

The Climetrics rating covers actively managed funds and ETFs available for sale in Europe, the US and Asia. *YourSRI.com* is the service provider for all fund calculations and defines the fund universe for Climetrics. Funds are primarily selected based on funds' assets under management and full holdings availability. Fund data is supplied to yourSRI.com by Refinitiv.

To receive a Climetrics rating, at least 60% of a fund's assets under management must have a Climetrics company score and the latest full holdings data must be less than 12 months old.

10 Frequency of calculations

The Climetrics ratings are calculated and updated on an ongoing basis and may change each time new fund holdings information or other data becomes available. New holdings data counts towards the calculation of the 12-month average portfolio holdings score, which is used in the calculation of the final Climetrics rating.

Annex 1: Company scores

Table 4: Metrics used in the calculation of thematic company scores

Theme:	Climate change score*			Water security score			Deforestation score		
Category	Metric	Scoring	Weight	Metric	Scoring	Weight	Metric	Scoring	Weight
Past performance	Average annual change in Scope 1&2 GHG emissions intensity (time-series analysis over a period up to four years) (ISS ESG data)	0 points ($\geq +1\%$); 60, 70, 80 or 100 points (-1% to $\leq -7\%$)	20%	-	-		-	-	
Current disclosure & management	CDP score (climate change)	0 – 100 (F to A)	70%	CDP score (water)	0 – 100 (F to A)	100%	CDP score (forests), weighted average**	0 – 100 (F to A)	100%
	Quality of self-reported Scope 1&2 GHG emissions (ISS ESG Trust Score)	0 - 100		-	-		-	-	
Forward-looking ambition	CDP Temperature Rating	0 – 100 ($>4^{\circ}\text{C}$ to 1.5°C)	10%	-	-		-	-	
Fossil fuel & green technology exposure	Low-carbon technology provider	100	60% (if applicable, other weights are adjusted lower)	-	-		-	-	
	Fossil fuel reserves, extraction, refining & marketing	0		-	-		-	-	
	Large coal power production capacity	0		-	-		-	-	

* For companies from the automobile, oil & gas and electric utilities sectors ranked by the World Benchmarking Alliance (WBA), the WBA total score normalized on a scale from 0 – 100 is used as the final climate change score.

** Weighted average across up to four deforestation sub-scores (each linked to one of four agricultural commodities)

Weightings of thematic scores in the calculation of the final company score: The final company score is the materiality weighted average of (materiality adjusted) thematic scores (see chart 2). Weights range from 25% (lowest materiality) to 100% (highest materiality) for climate change scores and 12.5% to 50% for water and forest scores (i.e. the climate score is always double-weighted). Where water and/or forest is not material, there is no theme score and weights are allocated to other themes.

Materiality factors

Companies are assigned materiality factors on a scale from 1 to 4. For climate change, materiality factors are based on an assessment of each company's absolute GHG emissions and the emissions intensity (GHG emissions / revenue) associated with its main business activity. This analysis includes reported and estimated Scope 1, 2 and 3 GHG emissions. Irrespective of the results of the GHG emissions analysis, the highest materiality factor is assigned to companies providing green or brown products and services (see also Annex 2 for reference).

For water and deforestation, materiality factors are defined based on the CDP analysts' proprietary research and analysis into business activities and their associated impacts. For example, the water materiality is based on a water impact assessment conducted on over 200 business activities. Each activity is assessed on two criteria: firstly, its dependence on relatively high volumes of freshwater withdrawal and/or consumption and secondly, its water pollution/degradation potential. This assessment is done across three areas of the value chain, covering direct operations, supply chain and product use. Activities are scored across all six indicators and summed to obtain an overall water impact score for each activity.

Whereas all companies in the Climetrics universe receive a materiality factor for climate change, only a subset of companies receives materiality factors for water and deforestation as these issues are not material for all companies. Materiality factors are used to calculate thematic net scores and, where applicable, in the aggregation of thematic net scores into the final Climetrics company score (see chart 2).

For more information about the Climetrics company scores, please contact one of our team at climetrics@cdp.net

Annex 2: Asset manager scores

Table 5: Categories, metrics and weights of the Climetrics asset manager score

Category	Proxy Voting ⁵	Industry Collaboration	Collective Engagement	Disclosure	Commitments	Corporate Disclosure Support
Weight (Case 1)	Not applicable	10%	35%	30%	15%	10%
Weight (Case 2)	25% (if applicable)	7.5%	26.25%	22.5%	11.25%	7.5%
Climate metrics	Aggregated level of support (in %) across funds for shareholder resolutions on climate change & the environment	Member of the Global Investor Coalition on Climate Change (GIC) ⁶	<p>Signatory / member of ANY of the following corporate engagement initiatives (80% weight):</p> <ul style="list-style-type: none"> Climate Action 100+ FAIRR CDP Science-Based Targets Campaign CDP Non-Disclosure Campaign <p>AND</p> <p>Signatory of the <i>Global Investor Statement to Governments on the Climate Crisis</i> (Investor Agenda policy advocacy), (20% weight)</p>	Public response to climate-related disclosure indicators of the PRI reporting framework (Y/N)	<p>Signatory / member in ANY of the following commitment initiatives:</p> <ul style="list-style-type: none"> Net Zero Asset Managers Initiative SBT for Finance 	<p>Signatory to CDP</p> <p>OR</p> <p>Supporter of Task Force on Climate-related Financial Disclosures</p>
Scoring	0 – 100	0, 100	0, 20,80,100	0, 100	0, 100	0, 100
Data Source	ISS-ESG, sourced from the SEC NPX filings and other public disclosure	Public websites	Public websites	UN PRI	Public websites	CDP / TCFD

⁵ Only applicable if proxy voting data available.

⁶ The Global Investor Coalition on Climate Change (GIC) is a joint initiative of four regional groups that represent investors on climate change and the transition to a low carbon economy: AIGCC (Asia), Ceres (North America), IGCC (Australia/NZ) and IIGCC (Europe).

About Climetrics

Climetrics is the first rating that provides a holistic assessment of a fund's climate-related risks and opportunities. It independently rates thousands of actively managed funds and ETFs and its ratings are free-to-search, providing investors with transparency on climate change-related risks when comparing funds. Climetrics looks inside each fund, measuring its portfolio holdings' exposure to climate risks and opportunities, as well as the fund's investment policy and the asset manager's public action on climate change. It was developed by two recognized climate specialists, non-profit CDP and ISS-ESG. The project was catalysed and funded by Climate-KIC, the EU's main climate innovation initiative.

About CDP

CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US\$96 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 7,000 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2018. This is in addition to the over 750 cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition. Visit www.CDP.net or follow us @CDP to find out more.

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