Climetrics
The Climate Rating for Funds

CDP
DISCLOSURE INSIGHT ACTION

Climetrics Guide for Financial Advisors

June 2023

This guide is for financial advisors who want to use Climetrics in advising their clients on more environmentally sustainable funds.

For more details on how the rating works, please refer to the Climetrics methodology document available on our website.

Climetrics

Your key target audience

Sustainability fund ratings available in the market today differ in what they measure and how they work. Climetrics® uniquely looks at the ***environmental*** performance of funds, including issues related to greenhouse gas emissions, water security and deforestation.

The Climetrics rating may be best suited for clients who:

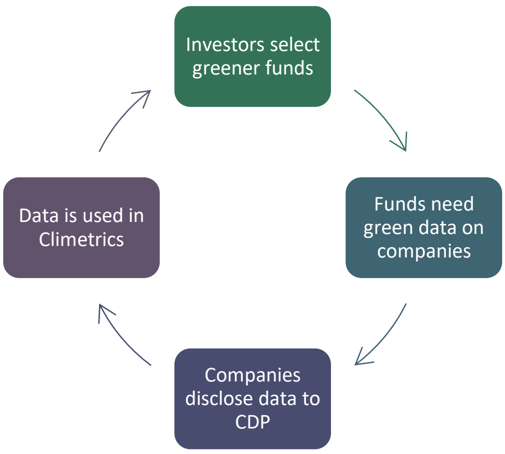
- deeply care about climate change and nature loss;
- have already adopted an eco-friendlier lifestyle, for example, by purchasing renewable electricity or local produce, or using more sustainable modes of transport;
- believe that their personal action matters and that collectively, investors can have a positive influence on the environmental performance of companies; or
- want to avoid significant environmental harm with their investments.

What Climetrics can do for your clients

For those looking to reduce the negative impact of their investment on the environment

Fund ratings such as Climetrics evaluate funds which trade securities in the secondary market. Therefore, your clients' direct and immediate effect on nature from choosing highly rated funds may be minimal.

However, Climetrics can facilitate a **substantial downstream impact**: The higher the demand for funds based on environmental criteria, the more fund managers will require better environmental transparency and performance from the companies they invest in. Companies will respond to this increased collective shareholder pressure.



Climetrics reinforces this mechanism by using data from CDP's global disclosure platform, which holds the largest self-disclosed corporate environmental database in the world. More than 18,700 companies worth half of global market capitalization disclose to CDP across climate, water security and/or forests.

Climetrics **enables your clients to join this important movement** that seeks more transparency and environmental performance from companies through shareholder action.

For those concerned about financial risks from climate change and/or looking to seize investment opportunities

Despite the more visible impacts of climate change, financial markets still struggle to assess future environmental risks. Accordingly, Climetrics **does not predict** how climate change will affect the funds' future performance.

It is also not designed to rate well only those funds that avoid environmental risks (e.g., by investing in low-emitting companies and sectors). Rather, it favors funds that invest in important companies that seek to reduce their *future* negative impact. With that, **it aims to reduce *future* environmental risks** by *supporting the ecological transition* of the economy.

At the same time, Climetrics can be a **tool for identifying investment opportunities** in the environmental transition. It typically gives high ratings to funds that invest in low carbon solutions across various sectors, not just renewable energy. Advisors can use Climetrics to find green tech funds with 5-leaf ratings, but they should also conduct further research to ensure they match their clients' needs.

Who is behind Climetrics?

Climetrics is **run by CDP**, a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests.

The creation of Climetrics was **funded by the European Union** through Climate KIC, its main climate innovation initiative.

Today, Climetrics is **supported by** [Clarity AI](), a leading sustainability technology company. Clarity AI is the calculation engine of Climetrics. It contributes fund data and produces the rating based on the CDP's fund rating methodology.

Describing the Climetrics leaf rankings

The below talking points and description of the rating scale might be useful to describe Climetrics in client conversations.

- Climetrics evaluates how well a fund's portfolio companies disclose and perform on environmental issues that matter.
- Climetrics reflects how the companies in a fund manage important impacts and risks related to greenhouse gas emissions, water security and commodity-driven deforestation.
- The leaf rating of Climetrics describes a fund's overall environmental performance against all other funds in the available universe (*'best-in-universe' approach*).

It is also worth noting that funds do not need an environmental exclusion or investment policy to achieve a good rating. However, Climetrics strongly penalises certain climate-harmful investments in its scoring.

For detailed information about how we rank funds, please visit our website and request a free copy of our methodology document.

Climetrics rating scale	Fund characteristics
	A higher rating indicates that the fund invests more in companies that manage relevant environmental risks well or offer more climate-friendly products. Higher rated funds are also less exposed to companies involved in fossil fuel extraction or non-renewable power generation.
	Highly rated funds have a high proportion of companies that manage relevant environmental risks well or offer more climate-friendly products. These funds typically have very little to no exposure to direct fossil-fuel exploration or non-renewable power generation.

Portfolio company examples

Sometimes it can be helpful to illustrate ratings results with company examples. The portfolio assessment in Climetrics is backed by a bespoke company scoring methodology. Here are some well-known companies along with their Climetrics company scores and short explanations.

Company	CDP activity	Score[1]	Explanation
Tesla	Alternative vehicles	39%	With its electric cars, the company essentially offers a climate-friendly technology. However, it continues to underperform on climate governance, target setting and disclosure, including on disclosing water security risks.
Volkswagen	Automobiles	56%	Although the company has ambitious climate protection goals and reported comprehensive environmental data and strategies to CDP, its ACT ranking[2] reflects that it needs to update its scope 3 targets to align with a 1.5-degree scenario.
L'Oréal	Personal care & household products	94%	The company is mainly exposed to risks related to water security and commodity-driven deforestation (e.g., through its indirect use of palm-oil). It reported comprehensive environmental data and mitigation strategies on these material issues to CDP.
Starbucks	Food & beverage amenities	55%	Coffee company Starbucks is also mainly exposed to risks related to water security and deforestation. It provided some basic to medium level disclosure on these issues to CDP.
Royal Dutch Shell	Oil & gas refining	17%	The company disclosed greenhouse gas information and strategies to CDP but failed to do so for material water and deforestation issues. In addition, the company's ACT ranking reflects the current lack of credibility behind its 2050 net-zero strategy.
Vestas Wind Systems	Other renewable energy equipment	66%	As a wind turbine manufacturer, Vestas' score is driven by its core product offering. Although the company discloses environmental information to CDP and has an ambitious greenhouse gas emissions reduction target, it does not disclose on water security risks.

[1] All scores as of June 2023

[2] 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.

Please contact us for more information

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