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## 3D Fund Profile – Sarasin Responsible Corporate Bond

1 January 2020

Our View

This fund has a clear thematic bias, and as a result, has the second highest exposure amongst bond funds to companies providing solutions to social and environmental challenges. This is combined with an ESG matrix to avoid controversies and to raise the exposure to companies with a relatively good environmental and social performance. The fund does have exposure to a number of companies which raise significant ethical concerns, but overall, there is a strong net positive impact. Although the fund is relatively new, it continues a pre-existing strategy, proven over several years. Sarasin have devoted considerable resource to sustainable investing and this is reflected in the way that this fund is managed.



Investment Strategy & Fund Composition

The strategy can best be summed up as an active, long-term investment approach that integrates environmental, social and governance factors into stock analysis. There is also an over-arching aim to invest in businesses that produce goods and services for the benefit of society. The fund targets a premium yield from credit exposure. No significant duration position is taken relative to the index. The thematic approach is reflected in the focus on solutions to social and environmental challenges. The average credit rating is A2, a result of the low risk approach.



*The integration of ESG in the Investment Research Process*

Unlike the majority of bond funds, this portfolio is not dominated by financials and has a relatively high component in solutions to social and environmental challenges, most notably social housing, transport and water.

## Avoidance of Controversies

The fund has limited exclusion criteria and has significant exposure to fossil fuel power generators and to banks and insurers.



The fund invests in banks and insurance companies that have lend and invest money, largely regardless of the purpose of the underlying business.



The fund avoids the extraction of thermal coal and tar sands (>10% or revenues), but invests in fossil fuel utilities and airports.



The fund invests in nuclear power generation.

## Risk Management

The fund invests in investment grade sterling bonds and as such represents a relatively low risk to capital. The average credit rating is A2 and the fund is well diversified with over 130 holdings.

FUND RISK LEVEL 1 / 5

## Environmental, Social & Corporate Governance

**Internal Resource:** ESG analysis is undertaken by the fixed income team, and an in-house stewardship team of 4 (3 analysts plus 1 head of stewardship) provide additional analysis and consultation.

**ESG Practice:** An ESG Matrix is used to assess companies, each aspect having a weight of 20 to 50% of the total rating, depending on the industry. 5-10 key issues are defined for each sector. Controversies and reputational risks of companies are

systematically recorded and reflected in the company's rating.

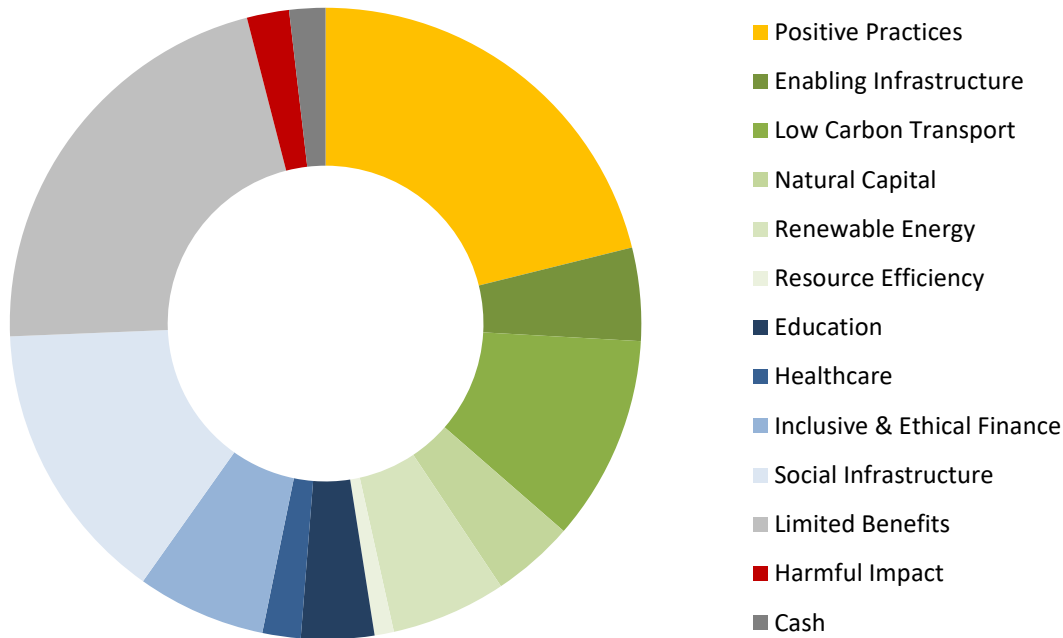
Limited exclusion criteria are also applied and there is a preference for positive themes.

**External Screening:** MSCI ESG, RepRisk, Governance International

**Engagement:** Engagement is undertaken by Sarasin & Partners in London. This includes thought leadership and policy outreach.

## Social Impact

More than 75% of the fund is invested in stocks with a positive social or environmental profile - a high proportion for a bond fund. This reflects the thematic preference for green bonds, water, social bonds, social housing, public transport, renewable energy, charities, education, mutual organisations, environmental infrastructure, energy efficiency, health and social care, community services and sustainable infrastructure.



\* Positive Solution - > 50% of revenues (net of any revenues that have a negative impact) in solutions (see notes below).

Positive Practices – core operations deliver major SDG benefits that are most material to their business.

Limited Benefits – SDG benefits are unquantified or small relative to company size.

Harmful Impact – Company operations hinder SDGs

## Transparency

All Holdings publicly stated: Annual report provides a full listing of holdings

Impact Report: No

Strategy Statement: Yes, the investment process and ESG criteria are clearly explained.

Validation: UN PRI Signatory

Engagement: A short report is available with details of key votes as well as comprehensive details of each vote cast. These are predominantly on corporate governance issues.

Justification of Holdings: Limited information available on request

## Financial Confidence

As its name suggests, the fund predominantly invests in sterling corporate bonds with a high credit rating but has the flexibility to invest up to 30% in non-sterling bonds and up to 10% in high yield and index linked bonds. The fund invests in a subset of the bonds used where the responsible mandate does not apply. Internal ESG analysis is embedded in the core credit process, with a focus on identifying ESG factors that could lead to financial loss. This takes the form of an ESG score that looks like a credit rating.

The fund has a short track record but follows a strategy that has been used for over 30 existing segregated mandates over a period of several years. This strategy has delivered consistent returns in line with the benchmark. The actual performance to date has been in line with the benchmark.



% change since launch net of fees to 31 December 2019. Source: Sarasin & Partners LLP

## Key Facts

<b>Manager</b>	Sarasin Investment Funds
<b>Launch Date</b>	14 <sup>th</sup> November 2016
<b>Structure</b>	OEIC (UCITS)
<b>ISIN Code</b>	GB00BYMB5T28
<b>Currency</b>	£
<b>Size</b>	£190.5 million
<b>Sector</b>	Sterling Corporate Bond
<b>Benchmark</b>	ICE BofA ML Stg Non-Gilt Index
<b>Number of holdings</b>	148
<b>Historic Yield</b>	3.72%
<b>Ongoing Charges</b>	0.62%
<b>Average Rating</b>	A2
<b>Duration</b>	7.8
<b>Last Updated</b>	31 December 2019

## Important Notes

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



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



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



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



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



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

The above reflects consideration of the following:

**Avoidance of Controversies** – our assessment of the likely avoidance of ethical controversies, based on an analysis of all stocks in the portfolio, checking them for ethical controversies or common ethical concerns. Areas of controversy include mining, fossil fuels, unscrutinized finance, intensive agriculture, nuclear power, alcohol, tobacco, armaments, tax avoidance and human rights abuses.

### ESG Rating

- \* ESG used as risk tool, predominantly focussed on corporate governance
- \*\* Exclusion policies applied
- \*\*\* Integration into investment process with internal ESG specialists
- \*\*\*\* Systematic engagement strategy on environmental and social issues including targets and progress monitoring
- \*\*\*\*\* Systematic evidence of positive ESG impacts of portfolio versus the benchmark

### Social Impact Rating

- \* 0-20% Solutions Based
- \*\* 20-40% Solutions Based
- \*\*\* 40-60% Solutions Based (75-95% infrastructure funds)
- \*\*\*\* 60-80% Solutions Based (100% Infrastructure funds)
- \*\*\*\*\* > 80% Solutions Based or high % of unlisted

A solutions based company is defined as deriving >50% of turnover from one or more of clean air and water, healthcare, inclusive and ethical finance, low carbon transport, renewable energy, resource efficiency, social infrastructure, safety and security, education and sustainable food.

### Transparency Rating

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

### Financial Confidence Rating

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

## About Ethical Money

Ethical Money provides research and communication services to help investment managers and advisers to deliver a high quality and distinctive service for the socially motivated investor.

## Important Information

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