

# 3D Fund Profile:

## Sarasin Responsible Corporate Bond Fund

June 2021



POWERED BY SQUARE MILE 

## OUR VIEW



This fund has a clear bias to responsibly themed investments which, when combined with the analysis of a proprietary ESG scoring system, results in a relatively high exposure to companies providing solutions to social and environmental challenges and which demonstrate sound/ strong internal policies and practices.

Therefore, there is a general avoidance of controversies and a strong net positive impact and, even though the fund falls below our guideline threshold for an impact rating, it qualifies for an A rating by virtue of its leadership amongst fixed income funds in investing in sustainable solutions. Although the fund is relatively new, it continues a pre-existing strategy, proven over several years.

RI DIMENSION	RATING
<b>PROCESS</b>	
RI Capability	3D Gold
RI Strategy	3D Bronze
RI Reporting	3D Bronze
<b>OUTCOMES</b>	
Investment in SDG Solutions	3D Silver
Controversy Avoidance	3D Silver
Leading Change	3D Silver

See below for an explanation of the ratings. Full details can be downloaded at [www.squaremileresearch.com](http://www.squaremileresearch.com)

## APPROACH

Ethical Screening  Responsibility  Engagement  Sustainability  Impact

### Key Approach: Responsible Practices

*A fund with a Responsible Practices approach considers the operational practices of the companies in which it invests and supports 'best practice' in its respective industries. It also encourages companies to improve their environmental and social performance.*

This is an actively managed, corporate bond fund which “provides exposure to a diversified portfolio of responsibly screened corporate bonds and other carefully selected instruments. It offers the opportunity to benefit from attractive returns while making socially responsible investment decisions.”

The investment approach applied to the fund combines traditional fixed income analysis with a high-level exclusions policy, a robust proprietary ESG screening process and an element of proactive security selection based on social and environmental themes.

Sarasin has built a well-established infrastructure for Responsible investing (RI) and much of this is readily adaptable for fixed income securities. Whilst the toolkit available to a responsible lender is different to that of an equity investor (bond investors don't vote in company AGMs, for example), Sarasin's expertise in RI is evident in this fund via its multi-faceted approach.

By the group's own admission, Sarasin did not intend for this fund to be an exclusive “green bond” or “ESG bond” fund, instead it seeks, through its process, to reduce exposure to ESG risks and take advantage of opportunities to invest in strong ESG performers. These, it believes, are crucial elements in obtaining exposure to better quality securities and performance outcomes.

In this fund, the fund managers and their colleagues are active and engaged lenders aiming to make choices that are responsible to the environment, to future generations and to the vulnerable in society.

## RI CAPABILITY

### Rating:



Sarasin has built up an impressive RI capability, driven by a genuine desire to be amongst the leaders in this space. The group has a pedigree of managing mandates with a high degree of stewardship, as well having a diverse client base which includes charities. This capability has percolated throughout the organisation and includes highly talented and knowledgeable staff and access to impressive external and proprietary research tools and systems.

### RI Staff:

The fund is headed up by Tony Carter and Mark Van Moorsel, both experienced and able fund managers. From a Responsible perspective, the fund is supported by the group's Head of Stewardship, Natasha Landell-Mills and four specialists in her team.

### Advisory Committee:

There is no external advisory committee involved in this process. However, Sarasin's Chair of the Investment Strategies Group provides input and oversight.

### External Data Sources:

MSCI, ISS as well as various external broker reports, independent research and commissioned academic research.

### Certifications/Validations:

Signatory of the UN PRI - A+ rated (as of 2020) for the fourth consecutive year)

Signatory of the UK Stewardship Code

### Memberships:

Sarasin is a member of the following: Task Force on Climate-related Financial Disclosures (TCFD), Institutional Investors Group on Climate Change (IIGCC), Signatory of the Paris Pledge for Action, Climate Risk Reporting with ClientEarth, Climate Action 100+ (CA100+), The Climate Disclosure Project (CDP), Fair Animal Investment Risk & Return (FAIRR), Plastic Solutions Investor Alliance (PSIA), Ellen MacArthur Foundation Plastics Initiative, 30% Group Investor Initiative, Workforce Disclosure Initiative (WDI), Collaboration with ShareAction, Interfaith Centre on Corporate Responsibility (ICCR), The Local Authority Pension Fund Forum (LAPFF), International Corporate Governance Network (ICGN), Asian Corporate Governance Association (AGCA), Council of Institutional Investors (CII), Australian Council of Superannuation Investors (ACSI), Show of Hands Initiative on Shareholder Voting, Investor Advisory Group of the Financial Reporting Council (FRC), Signatory of the UN Principles for Responsible Investment (PRI), Investors Coalition on Audit, Oxford Martin School Investment and Engagement Principles, Investors coalition on International Financial Reporting Standards (IFRS), Corporate Reporting and Auditing Group, convened by the Investment Association

### Rating:



This fund is a focused corporate bond portfolio, combining traditional fixed income analysis with three additional layers of proprietary Responsible investment methodology:

#### 1. Negative exclusions

After ensuring the exclusion of securities involved in activities banned by international treaties, the fund managers apply a negative screen to avoid investment in companies which are materially engaged in certain sectors, including the production or distribution of tobacco, alcohol, armaments, gambling, and adult entertainment.

#### 2. Qualitative ESG analysis

Analysts review the ESG risks pertaining to a debtor from a creditor’s perspective. The factors considered vary by sector. However, there are some common elements, such as the commitment to a financial profile that supports the interests of the investor. The key considerations for each ESG component are as follows:

Environmental	Social	Governance
Climate change	Labour relations	Ownership structure
Resource input	Supply chain labour standards	The board
Waste output	Product safety	Internal controls
Indirect exposures	Regulatory scrutiny	External controls
Indirect effects	Political environment	Attitude to bondholders
	Data breach risk	Ratings policy & history
		Litigation Risk & overhang

Source: Sarasin & Partners

The managers analyse the ESG-focused risks that are associated with the issuer’s business, with the emphasis being placed upon the consideration of how these might impact the credit rating or risk of default. Each of the three columns is scored (in aggregate consideration of the constituent factors) from 10 (no impact on the probability of default) to 0 (potential event of default and low expected recovery rate).

Each of the ESG columns is then weighted on a sector basis and adjusted for stock specific considerations. For example, a bank is scored with a 20% weighting to E, 30% to S and 50% to G. However, an adjustment would be made for, say, a Building Society to reflect its mutual status.

The final security score is the average ESG components score multiplied by the relevant weighting. Any security which exceeds a score of 3 out of 10 will be eligible for the inclusion in the portfolio. However, securities which score less than this can still be included but are subject to a “red flag deep dive” process which involves further interaction with the Sarasin Stewardship Team to see if there is satisfactory engagement occurring in the equities side of the business and an improving ESG trend.

#### 3. Impact Investments

The fund managers will focus on investing in assets from a wide range of environmentally or socially beneficial activities, including charitable enterprises, education and student housing, housing associations, public transport, renewable energy, and green bonds.

There is no stipulation as to how much of the portfolio must invest in these “target assets.” However, Sarasin states that nearly 50% of the portfolio (by holdings) is classified in these target impact sectors.

## RI Reporting

### Rating:



Sarasin has a reasonable level of reporting for this fund, although it is not comprehensive and leverages off of Sarasin's broader company wide ESG reporting.

The Stewardship Report is available online and provides a good summary of the ESG exposures of the fund and illustrates this with specific stock examples. The group also publishes a quarterly voting and engagement report, which summarises its voting activities and provides some insights into the success of Sarasin's corporate governance stances on the equity side of the business.

It also publishes some topical Responsible investing material and has provided a justification of holdings thesis for all the portfolio, although the majority of this is based on ESG scoring methodology, rather than impact theses.

Justification of Holdings: Yes

ESG Report: Yes

Engagement Report: Yes

Impact Report: No

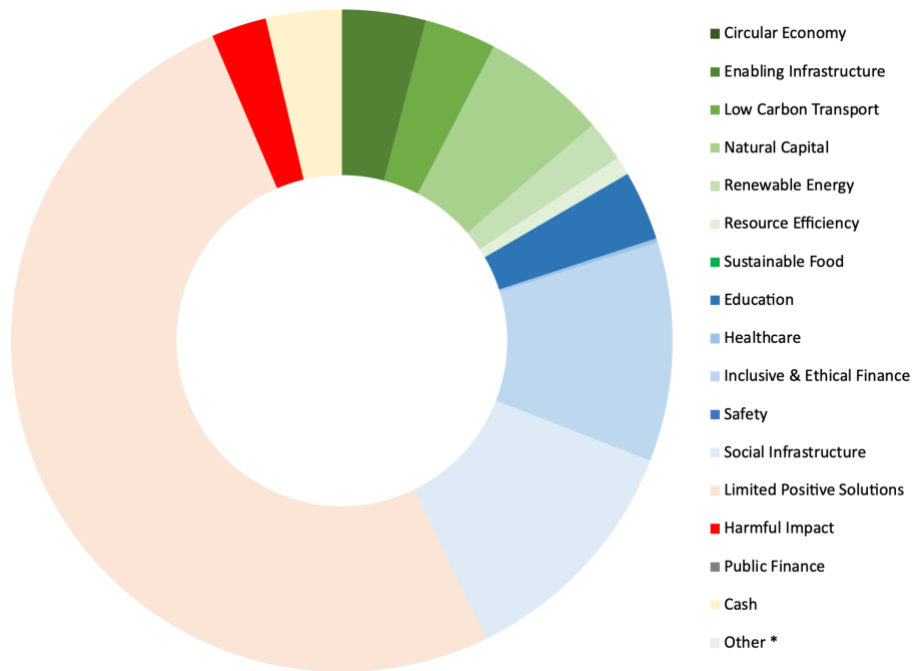
External Validation: No

## INVESTMENT IN UN SDG SOLUTIONS

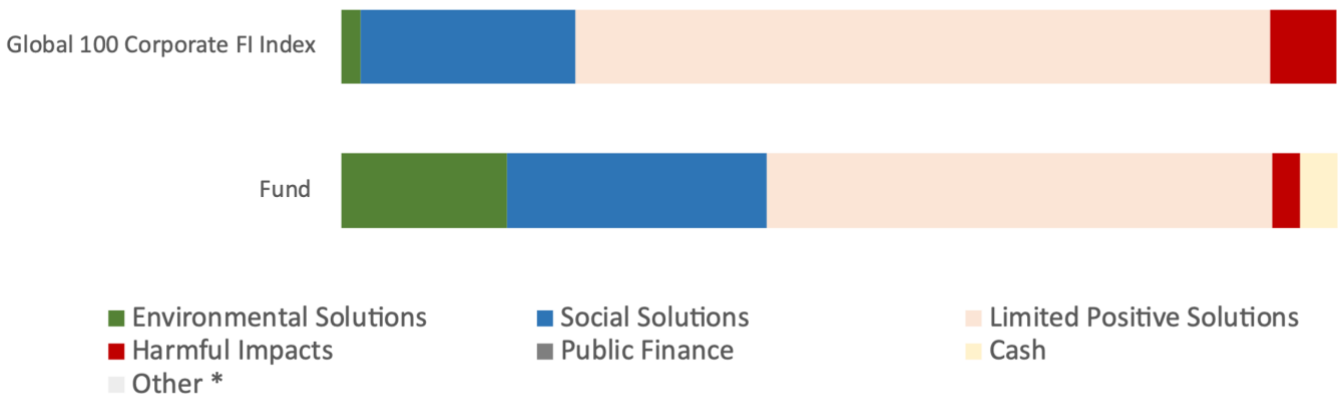
### Rating:

**3D Silver**

Currently, this fund holds 42% of its portfolio in securities of companies that derive more than 50% of their revenues from solutions to social and environmental challenges. Although this doesn't meet the threshold for an impact rating, we have recognised that this is significantly above the norm for a corporate bond fund.



Source: Sarasin IM & Square Mile Research



Source: Sarasin & Partners/ Refinitiv

## AVOIDANCE OF CONTROVERSIES

### Rating:

**3D Silver**

This fund applies a high level initial exclusionary screen to its potential universe of investments and has strong ESG analysis systems which are evident throughout the investment decision making process.

Furthermore, there are good oversight protocols in place at a committee level at Sarasin which input into the universe of available securities. Nonetheless, there are revenue rules applied at a sector level (e.g., alcohol) which are quite generous (20%) and the exclusions screen is not comprehensive. Therefore, there is some controversial exposure in this fund.

For example, EDF Energy generates a considerable amount of revenue from nuclear power (53%), whilst GE has exposure to animal testing and herbicides and a subsidiary (GE aviation) which has 13% of revenues from manufacturing defence force aircraft parts. SSE and Tennessee Valley Power, meanwhile, generate material revenues from fossil fuels.

The fund also invests in airports with associated environmental concerns of noise pollution and contribution to climate change.

Moreover, within the financials exposure of the portfolio, a number of the securities are involved in investment or lending without rigorous ethical criteria.

### EXCLUSIONS

ADDICTION	Alcohol <input checked="" type="checkbox"/>	Gambling <input checked="" type="checkbox"/>	Tobacco <input checked="" type="checkbox"/>
ANIMAL WELFARE	Animal Testing (All) <input type="checkbox"/>	Animal Products <input type="checkbox"/>	Meat & Dairy Production <input type="checkbox"/>
ENVIRONMENT	Inorganic Fertilisers <input type="checkbox"/> Pesticides <input type="checkbox"/>	Mining <input type="checkbox"/> Tropical Forests <input type="checkbox"/>	Nuclear Power <input type="checkbox"/>
FOSSIL FUELS	Power Producers <input checked="" type="checkbox"/> Exploration & Production <input checked="" type="checkbox"/>	High Carbon Industries <input checked="" type="checkbox"/> Petrochemicals <input checked="" type="checkbox"/>	Distribution <input checked="" type="checkbox"/> Service Industries <input checked="" type="checkbox"/>
HUMAN WELFARE	Human Rights (Companies) <input type="checkbox"/>	Human Rights (Countries) <input type="checkbox"/>	Military Weapons <input checked="" type="checkbox"/>



## LEADING CHANGE – Engagement, Voting & Advocacy

Rating:

 **Silver**

### Engagement

Sarasin has a strong pedigree in engagement, stewardship, and advocacy in respect of RI. Sarasin reports that for this fund, it has engaged with over 90% of the fund's holdings in each of the ESG categories. However, it doesn't engage with supranational debt issuers and also doesn't report on the number of successful engagements for this fund.

### Advocacy

Sarasin is active in several high-profile organisations and collaborative institutions and has leadership roles in some of these. It is particularly involved in a number of climate-related initiatives and has published a number of white papers, thought leadership material and has been involved in making representations to a House of Commons Select Committee.

### Voting

As bond holders, no voting rights are bestowed in relation to this portfolio.




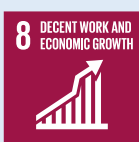
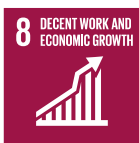


## Key Facts as of 31 December 2020




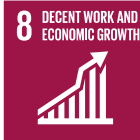



Manager	Anthony Carter & Mark Van Moorsel
Launch Date	14/11/2016
Structure	OEIC
Domicile	UK
ISIN Code	GB00BYMB5T28
Currency	£
Size	£ 379 million
Sector	IA Sterling Corporate Bond
Benchmark	ICE Bank of America Merrill Lynch Sterling Non-Gilt Index
Number of holdings	187
Ongoing Charges	0.61%

## IMPORTANT NOTES

### Avoiding Harm

Each stock in the portfolio undergoes a check against a comprehensive range of ethical issues that are considered to hinder the SDGs. The following are identified as controversial activities:

Controversy	Description	SDG Impact	Negative Contribution to SDGs
<b>Alcohol</b>	Production of alcoholic beverages	 3 GOOD HEALTH AND WELL-BEING	Low – as the product is widely used without addiction
<b>Animal Welfare</b>	Animal testing for pharmaceuticals, healthcare or cosmetics products; meat production	 3 GOOD HEALTH AND WELL-BEING	Low – this is an important issue for many people, but views are mixed and this is not directly addressed in the SDGs
<b>Armaments</b>	Weapons related contracts	 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	High – weapons directly lead to loss of life
<b>Business Ethics</b>	Breach of marketing codes; Aggressive business practice; Tax avoidance	 8 DECENT WORK AND ECONOMIC GROWTH	Low to High – depends on extent of issue and importance to the company
<b>Employment</b>	Zero hours contracts; child labour; Bad safety record	 8 DECENT WORK AND ECONOMIC GROWTH	Low to High – depends on extent of issue and importance to the company
<b>Finance</b>	Banks, insurers and investment companies with no exclusion policies on lending/investment beyond adherence to international norms and very limited issues.	 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Low (direct impact) – impact is indirect and impacts can be mixed with both positive and negative outcomes.
<b>Fossil Fuels</b>	Exploration and production of oil and coal; Exploration and production of gas	 13 CLIMATE ACTION	High- direct and major contribution to climate change.







Controversy	Description	SDG Impact	Negative Contribution to SDGs
<b>Gambling</b>	Gambling providers		High – gambling is highly addictive and detrimental to health and well-being
<b>High Carbon Users</b>	Carbon intensive industries including air transport, cement production, non-electric vehicle production and sale		High – these industries make a major contribution to climate change
<b>Intensive Farming</b>	Production of non-renewable agricultural inputs; Production of food involving intensive methods; Use of genetically modified organisms		Debatable – the definition of sustainable agriculture is flexible. Products that can be shown to harm wildlife have a high impact as do products based on non-renewable resources
<b>Mining</b>	Mining operations		Debatable but potentially high – Mining almost inevitably involves environmental degradation and there are also major human rights issues.
<b>Nuclear Power</b>	Production of nuclear power		Low – opinion is divided on nuclear power and it is seen as a positive in some quarters
<b>Power production and distribution</b>	Generation, wholesaling or distribution of power from fossil fuels		Low- impact is indirect and the companies can also have positive impacts
<b>Tobacco</b>	Manufacture of tobacco products		High – tobacco is a very addictive product and has very negative health impacts

## Investment in SDG Solutions

Each investment is assessed as to how its core product or service contributes to the SDGs. A threshold of 50% of revenues is applied, whereby a company is only considered to provide a solution to a social or environmental challenge if more than 50% of its revenues are derived from one or more of the listed solutions. The whole weighting of an investment is attributed to the solution from which the most revenues are derived. For example, if 2.45% of a fund is invested in Company A and Company A derives 45% of its revenues from healthcare and 20% from resource efficiency,

then 2.45% of the fund is regarded as contributing to healthcare. Each solution is mapped to the most appropriate SDG with solutions including the following:

Solution	Description	SDG alignment	
Circular Economy	Waste management and recycling, environmental consultancy, product manufacture with high recycled content		
Education, jobs and learning	Educational publishing, educational establishments, training		
Enabling infrastructure	Platforms and technologies that are key parts of moving to a sustainable world – e.g. electrical transmission networks, cloud infrastructure		
Healthcare	Medical Equipment, Pharmaceuticals, Health Services		
Inclusive and ethical finance	Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance, inclusive payment systems		
Low carbon transport	Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure		
Natural capital	Water Supply & Sanitation, Water Filtration, Air Filtration, Forests		
Renewable energy	Solar, Wind, Biomass, Hydro		

Solution	Description	SDG alignment	
Resource efficiency	Energy Efficiency, Natural Resource Efficiency		
Safety & Security	Cyber security, building and automotive safety, food safety		
Social infrastructure	Social & affordable housing, Care Homes, Hospitals, Dental & GP Surgeries, Schools, Libraries & Universities, Police stations, law courts		
Sustainable food	Food storage, food safety, non-intensive farming, wholefoods, organic & high welfare food manufacture, precision agriculture		

## 3D Impact Ratings \*

The 3D Impact Rating can be thought of as an informed opinion based on detailed analysis of objective data. A holistic view is taken of the fund to arrive at an overall conclusion based on consideration of multiple factors, with funds of the same rating having different strengths and weaknesses. The rating is an expression of confidence in the social and environmental impact of the fund, with typical attributes (one factor may be partly compensated by another) including the following:

	<b>Avoid Harm</b> <i>Negative contribution to SDGs</i>	<b>Do Good</b> <i>Direct positive contribution to SDGs</i>	<b>Lead Change</b> <i>Indirect influence</i>
	No exposure to stocks that make a high negative contribution to SDGs	> 50% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some evidence of positive influence on investee companies
	No exposure to stocks that make a high negative contribution to SDGs	> 66% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some measurement of impacts and influence + evidence of engagement to raise standards on RI issues
	No exposure to companies which make a high negative contribution to SDGs. Any negative contributions to SDGs are minimised	> 90% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Systematic measurement of impacts and influence + comprehensive engagement to raise standards on RI issues + participation in collaborative initiatives

\* For more details of the 3D process and methodology please visit <https://www.squaremileresearch.com/Our-services/Research/3D-Investing>

## Certification Rating Guidelines

	Gold	Silver	Bronze	Standard Not Met
<b>RI Capability</b>	Major resource (proportionate to size of organisation) including internal RI specialists; ability to produce detailed, granular RI reports and to make qualitative judgements.	RI Resource is significant and includes internal RI specialists and proprietary RI systems	RI resource is sufficient for effective delivery	RI resource is limited with a lack of senior level commitment.
<b>RI Strategy</b>	Sophisticated RI strategy which considers both the impacts of products and services of investee companies and their operational impacts; a clear engagement strategy; and a theory of change.	Rounded strategy which considers RI impact in terms of the operational practices of investee companies and of their products and services.	Clearly articulated RI strategy.	No clear strategy beyond ESG integration.
<b>RI Reporting</b>	Excellent standard of RI reporting with a high level of evidence. Typically, this would include impact and engagement outcomes.	Good standard of RI reporting which may include detailed carbon reporting, annual RI Review, Engagement Report and Impact Report.	Some systematic RI reporting.	No systematic RI reporting.
<b>Doing Good - Investment in SDG Solutions</b>	Systematic reporting of positive impacts, with >66% of the portfolio invested in social and environmental solutions.	> 50% of the portfolio is invested in social and environmental solutions.	Clear evidence of above average positive impact (operational practices or core products & services) when compared with the benchmark index.	No clear evidence of positive impact (operational practices or core products & services) when compared with the benchmark index
<b>Avoiding Harm - Controversy Avoidance</b>	No exposure to companies which make a high negative contribution to SDGs. Limited exposure to different types of controversy with indirect, debatable or low negative contributions to SDGs.	Exposure to multiple types of controversy with an indirect, debatable or low negative contribution to SDGs; or isolated exposure to companies that make a high negative contribution to SDGs. Stocks meet any stated exclusion criteria.	Exposure to stocks that make a high negative contribution to SDGs, but meet stated exclusion criteria.	Stocks do not meet stated exclusion criteria and have significant exposure to stocks that make a high negative contribution to SDGs.
<b>Leading Change – Engagement, Advocacy &amp; Voting</b>	Clear targets and systematic reporting of success on engagements with significant E & S component; Rationale for voting published; companies informed of reasons for voting against or abstaining; Leadership in educative, promotional or collaborative RI initiatives	Systematic engagement with an Intention to influence for benefit of wider stakeholders; Some evidence of E & S in voting policy; Extensive participation in educative, promotional or collaborative RI initiatives	Systematic engagement with evidence of wider stakeholder benefits; Full disclosure of voting; Participation in educative, promotional or collaborative RI initiatives.	Engagement lacking evidence of wider stakeholder benefits or systematic reporting; Voting not undertaken for ALL shares, or incomplete reporting on voting; No promotion of RI or participation in collaborative initiatives.



### **Important Information**

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