



Fund Rating Methodology

Version 2.5

March 2021

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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 CSSP AG/yourSRI.com for fund information¹.

2. Changes to the previous version

Version 2.5 contains the following changes compared to the previous version 2.4 from October 2020:

Section	Description	Previous	New
Table 2: European SRI labels used at the fund investment policy level	LuxFlag SRI labels were replaced by the Towards Sustainability Initiative label	LuxFlag Environment LuxFlag ESG LuxFlag Climate Finance	Towards Sustainability Initiative
Table 4: Metrics used in the calculation of thematic company scores	Original scale description added to score column	Score	Score (original scale)
Table 4: Metrics used in the calculation of thematic company scores	Category Future looking targets & Commitments was replaced by category Forward-looking ambition. Metrics Science-based target and RE100 commitment were replaced by CDP Temperature Rating	Future looking targets & Commitments: Science-based target RE100 commitment	Forward-looking ambition: CDP Temperature Rating
Table 4: Metrics used in the calculation of thematic company scores	'past performance' (GHG intensity performance) metric adjusted	3-year average reduction in Scope 1&2 GHG emissions intensity* (ISS ESG data)	Average annual change in Scope 1&2 GHG emissions intensity (time-series analysis over a period up to four years) (ISS ESG data)
Table 4: Metrics used in the calculation of thematic company scores	Scoring for the category 'Past Performance' was adjusted with higher level of granularity.	0 or 100	0 points ($\geq +1\%$); 60, 70, 80 or 100 points (-1% to $\leq -7\%$)

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

Table 4: Metrics used in the calculation of thematic company scores	Weights for the calculation of thematic scores added to the table.	-	Weights in %
Table 4: Metrics used in the calculation of thematic company scores	Footnote removed – GHG intensity performance now scored for all companies.	* Scored only for companies with high level of Scope 1&2 GHG emissions intensity; includes an assessment of the quality of reported Scope 1&2 GHG emissions.	-
Table 4: Metrics used in the calculation of thematic company scores	New description of score aggregation methodology.	<p>Weightings</p> <p>Under climate change, a dynamic weighting of metrics is applied depending on applicability of the metric(s) for a specific company. For example, the green / brown technology metrics are not applicable to all companies. In these cases, the weights of the remaining metrics make up 100%. In general, the CDP Score and the green/brown technology score are key drivers of the final climate change score.</p>	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.
Table 5: Categories, metrics and weights of the Climetrics asset manager score	Climate metric for Collective Engagement – Investor Agenda removed	Investor Agenda	
Table 5: Categories, metrics and weights of the Climetrics asset manager score	Climate metrics for Commitments – new initiatives added		<p>Net Zero Asset Managers Initiative</p> <p>SBT for Finance</p>

Table 5: Categories, metrics and weights of the Climetrics asset manager score	Climate metrics for Corporate Disclosure Support – new initiative added		Supporter of Task Force on Climate-related Financial Disclosures
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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.

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](#).

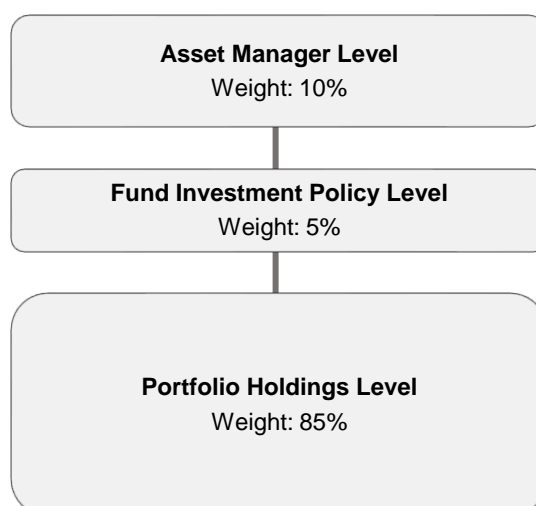
The integration of water security and deforestation data in the Climetrics rating is consistent with the emphasis on natural capital disclosure in the [EU’s guidelines for reporting climate-related information](#) and the Climate Disclosure Standards Board framework ([CDSB](#)).

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

6.1. 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

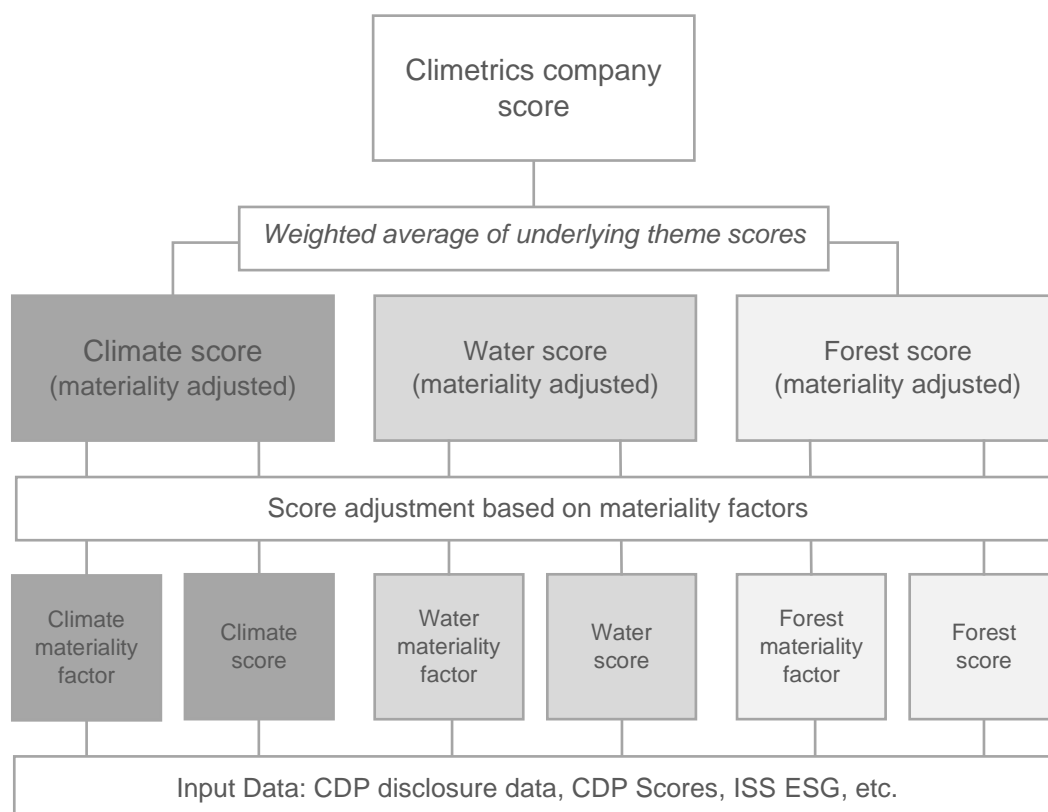
Company scores are calculated for all companies of the CDP disclosure sample, i.e. close to 6900 companies receiving the annual disclosure request on behalf of CDP investor signatories.

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

6.2. 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.

6.3. 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 database³. 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

³ 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. 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.

9. 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 (original scale)	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; (0 - 100 scale for auto manufacturers)	60% (if applicable, other weights are adjusted lower)	-	-		-	-	
	Fossil fuel reserves, extraction, refining & marketing	0		-	-		-	-	
	Large coal power production capacity	0		-	-		-	-	

* 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 ⁴	Collective Engagement	Disclosure	Commitments	Corporate Disclosure Support
Weight (Case 1)	Not applicable	35%	35%	15%	15%
Weight (Case 2)	25% (if applicable)	26.25%	26.25%	11.25%	11.25%
Climate metrics	Aggregated level of support (in %) across funds for shareholder resolutions on climate change & the environment	Signatory / member in ANY of the following engagement initiatives: <ul style="list-style-type: none"> ▪ Global Investor Coalition on Climate Change (GIC)⁵ ▪ Climate Action 100+ ▪ FAIRR 	Public response to climate-related disclosure indicators of the PRI reporting framework (Y/N)	Signatory / member in ANY of the following commitment initiatives: <ul style="list-style-type: none"> ▪ Montreal Carbon Pledge ▪ Portfolio Decarbonization Coalition (PDC) ▪ Net Zero Asset Managers Initiative ▪ SBT for Finance 	Signatory to CDP OR Supporter of Task Force on Climate-related Financial Disclosures
Scoring	0 – 100	0, 100	0, 100	0, 100	0, 100
Data Source	ISS-ESG, sourced from the SEC NPX filings and other public disclosures	Public websites	UN PRI	Public websites	CDP / TCFD

⁴ Only applicable if proxy voting data available.

⁵ 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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