



The Big Exchange - Impact Methodology

Many of us in the UK wish to make positive impact as part of our investment choice, supporting both people and planet. We believe the right investments can drive real change by supporting businesses that are working to realise a more balanced, inclusive and sustainable economy. The Big Exchange (TBE) wants to give people the opportunity to create a better world through their financial choices; and encourage the investment community to increase their positive impact.

Currently the two main approaches to investing for a positive impact on people and planet: ESG – environmental, social and governance, and; direct impact investing through assessment of the outcomes of products and services (solutions) - are partial, unstandardized, and generally seen and used separately making it terribly difficult for ordinary investors to find what they are looking for. There is increasing realisation that there is a need for better understanding and comparability across the spectrum of funds.

As part of The Big Exchange, we therefore aim to create, together with Asset Managers and partners, a methodology to enable funds to better account for the entire impact of their holdings, and for The Big Exchange to allow ordinary members of the UK public to understand what it is they are actually investing in.

We aim to make it easier for customers to see and understand the full impact of their investments, as well as to support the transition towards more sustainable business operations. We recognise that this is a journey for everyone.

Overview of impact methodology

The overall framework has therefore been designed to:

- 1) develop criteria for inclusion on the platform
- 2) provide fund assessments in relation to overall impact, and aligned to the United Nations Sustainable Development Goals (UN SDGs)
- 3) be understandable to everyone who saves and invests (not just those deemed to be sophisticated investors)

We have adopted a simple approach, which will develop over time. This recognises the current limitations of available company data, and the need to create a wide enough universe to enable customers to create strong and diverse investment portfolios.

Summary Philosophy

The Big Exchange platform offers funds that deliver positive social, and environmental impact by investing in companies that deliver solutions to social and environmental challenges through their goods and services, or through their business practices and/or business model. We recognise that this move within the finance sector towards more impact investing and reporting is a journey. Different funds and asset

managers are approaching this challenge in different ways, and at different levels. For that reason, we rate funds as Bronze, Silver and Gold to show their level of impact performance and relate this impact to how they contribute to the achievement of the Sustainable Development Goals (SDGs). We have developed an approach which enables us to assess the claims and different methodologies across the complex range of

responsible, sustainable, ESG, thematic and impact funds. In exceptional cases, some funds that do not currently meet the criteria for an award may be awarded a Bronze medal if they have clear and evidenced strategic plans to reorientate their funds over the coming year such that they would then qualify for a medal.

The Medals

The Big Exchange awards Bronze, Silver or Gold medals as follows:



Impact Leaders – *Majority of the fund is invested in companies that make a positive contribution to the SDGs (through products, services, or company processes). Full integration of ESG risks into the investment process, as well as systematic impact reporting*



High Positive Impact – *Majority proportion of the fund invested in companies that make a positive contribution to the SDGs. Funds may or may not have impact reports or ESG integration but have a positive intention to create impact.*



Positive Impact – *The funds have strategic intention to invest in companies that make a positive contribution to achievement of the SDGs, either through better than average ESG integration, or direct stock selection.*

All funds on the platform are assessed through the impact methodology. However not every fund will necessarily be awarded Bronze, Silver or Gold. These unrated funds nevertheless incorporate social or environmental factors into their investment strategy, either through ethical screening, or by integrating these factors into the investment decision-making process.

Examples of Medals

Bronze

- An ethically screened fund that avoids companies that are detrimental to the SDGs *and* that invests in companies whose core products or services make a contribution to the SDGs *and* have some form of systematic Environmental and Social Governance (ESG) or impact reporting.
- ESG Fund that can demonstrate significant outperformance on ESG factors, with clear, systematic reporting and avoidance of major ethical controversies as defined by the UN Global Compact.
- Thematic Fund with significant exposure to companies with a positive SDG impact.

Silver

- Fund with majority of the portfolio invested in companies whose core products or services contribute to the SDGs.
- Fund with clear, systematic impact reporting and where every stock meets a positive impact criterion.
- Thematic Fund with majority exposure to companies with a positive SDG impact.

Gold

- Fund delivers social and/or environmental benefits through core products and services, or through positive corporate practices, contributing to the SDGs, with thorough impact reporting and no major detrimental impacts.

Assessment Process

3D Investing, now a part of Square Mile Investment Consulting and Research, reviews ESG and wider impact-related corporate material, checking each and every stock in the portfolio for their impact in relation to specific positive social and environmental impact themes (which are matched to the related SDGs – see Appendix 2). This assessment considers whether the fund is likely to qualify for inclusion on the Big Exchange and goes on to include a recommendation for an overall impact rating, with the Big Exchange Investment Committee providing oversight.

The report justifies the medal rating based on a specific framework (see below). This framework uses clear metrics whilst allowing some flexibility due to the rapidly evolving nature of impact investing within the retail environment. Over time, the Big Exchange will adapt its methodology as funds, as well as companies, improve their impact reporting – particularly in relation to currently difficult areas of assessment such as resource use, quality of employment, ecosystem impact, or harmful emissions/pollution.

Bronze, Silver or Gold medals are awarded to those funds that create positive impact, with alignment to the SDGs, and which in the majority of cases produce impact reports and show high ESG performance. The medal ratings are the result of combining three areas of impact (the numbering can be used in reference to the further details on pages 4 & 5):

1. Positive Influence

Influencing investee companies to achieve social and environmental benefits that help to meet the SDGs, e.g. highlighting weaknesses in supply chain policy and helping companies to improve their practices in this area.

2. Positive Impact Reporting

Level of transparency including impact reporting, engagement reporting, strategy and rationale for individual holdings

3. Positive Stock Selection

- a) Investment in companies that derive >50% of revenues from products or services that directly constitute solutions to the SDGs, OR;
- b) Investment in companies that exhibit environmental or social leadership (operational impact excellence) in their sector (in other words striving to reduce or eliminate harmful practices, and increase positive practices which create wider positive impact on society and the environment), OR;
- c) Investment in companies through a particular theme or lens which addresses SDG goals using a combination of a) and b), such as clean energy or sustainable infrastructure

Other impacts not captured by the above - e.g. fee sharing with social change organisations; or strategic and evidenced intention to increase impact performance and accountability within the next year - may also influence the medal rating.

Fund profile

The results of the assessment are included within a fund profile which also incorporates a statement on the asset/fund manager to reflect the strategy of the fund, its impact orientation, and all necessary documentation (KIID, Factsheet etc.) that a customer needs to read before making a decision. Furthermore, the fund profile can note what else the fund manager is doing to make a positive impact through their own operations.

Further details of assessment

The Impact Committee is provided with information on the following aspects of a fund's performance:

- Summary of the impact strategy and implementation
- Impact philosophy (including how it assesses the impact of corporate practices, as well as production of goods and services)
- The extent to which the fund positively influences investee companies (see below)
- Level of transparency including impact reporting (if available) (see below)
- Distribution of holdings in positive solutions from goods and services compared with a relevant benchmark index (see below)
- Identification of any potential controversies (see below)
- Any other substantive factors which may affect the medal rating, such as evidence of strategic changes that will result in positive impacts

1. Positive influence on how companies operate

This is a summary of how the fund actively engages with companies on impact and ESG issues and acts a positive force for change, including any collaborative efforts and thought pieces. It also reflects how ESG is integrated within the investment process.

With the aim of funds on The Big Exchange being to provide customers with a way to make a positive impact with their money or savings, we show the extent of the effort the Fund Manager takes to make a positive influence and also, the quality of their output.

In addition to a narrative statement, the assessment shows:

- the Activities undertaken by a fund manager to make a positive influence through this fund on an increasing scale from 0-3:

ESG - not more jargon?!

ESG stands for Environmental, Social and Governance.

These three words seemingly sound meaningless on their own, but investors use these 3 "pillars" to build a framework that takes into account the risks to the **financial value of their investments** from Environmental, Social and Governance factors or issues connected to the investments they choose. Seems sensible, right?

Taking into account ESG alone doesn't create a positive impact but, a by-product of doing so makes a contribution to more sustainable development.

Activities undertaken to engage and create a positive influence (Usually through information provided by Fund Manager)

- No sustainability metrics or criteria
- ESG used as a risk scoring 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 relevance benchmark

- And, the extent and quality of positive influence made by the Fund Manager across three broad areas:

Extent & Quality of Positive influence considers:

- Engagement with investee companies
- Collaboration and advocacy
- The evidence of ESG in stock selection

2. Positive impact reporting and transparency

This details what information is provided to demonstrate the actual impact with links to associated documents such as an impact report, engagement report, rationale for each holding and external assessments.

In addition to a narrative statement, this assessment:

- positions funds on a scale of 0-3 indicating the level of transparency provided by the Fund Manager in order for the assessment to be made. The more information provided as evidence, the better idea a customer can get on the intended impact of their money.

Transparency in reporting and documenting impact approach

- Statutory listing of stocks in report and accounts but nothing more.
- Limited documentation of ethical approach and methodology, topical updates
- Fuller documentation of approach including detailed position papers
- Full, systematic reporting on the degree to which the fund meets its social and environmental objectives
- Justification of all holdings

- And, as more funds produce reports and make attempts to be transparent. Funds submitted to be on The Big Exchange will consider the extent and quality of their impact:

Extent and Quality of Impact approach

- Quality of impact report
- Quality of engagement reporting
- Justification of holdings

3. Positive stock selection

The profile also includes an assessment of the percentage of the fund which is held in companies deriving more than 50% of their revenues from socially or environmentally 'beneficial' activities (through their goods or services) including clean energy, resource efficiency, clean air and water, healthcare, education, public transport, safety, sustainable food and agriculture, social and/or affordable housing and inclusive finance.

These categories of activity are also linked to the relevant SDGs. This is done by:

- 1) Reviewing the complete list of holdings in the fund. Companies are identified that generate over 50% of their turnover from products or services that provide solutions to social and environmental challenges using themes (see Appendix 1).
- 2) Calculating the percentage of the overall fund invested in these identified companies
- 3) Comparing the distribution with that of the benchmark index
- 4) Align the themes with the relevant SDGs

In the case of thematic funds which may align through company processes as well as in areas not covered by the products and services themes, an assessment of impact is made from an analysis of the available literature (for example in providing decent work, or gender equality solutions).

Exposure to controversies

We identify any exposure to activities which may raise concerns amongst investors. No judgement is made but potential controversies are flagged and clarified (more details are provided in Appendix 2).

Fund Profile

A fund profile is produced for each fund on the Big Exchange. This summarises the fund impacts, providing a concise overview of the fund and its impacts for prospective investors. This includes the following:

Overview

- Summary of the impact strategy and implementation
- Big Exchange Medal Rating – Standard, Bronze, Silver or Gold
- Recognition of being a Founder Fund (if applicable)
- Top three SDG themes to which the fund contributes

Details of impact orientation and outcomes:

- Impact philosophy (including how it assesses the impact of corporate practices, as well as production of goods and services)
- The extent to which the fund positively influences investee companies
- Level of transparency (including impact reporting)
- Distribution of holdings in positive solutions from goods and services compared with a relevant benchmark index
- Identification of any potential controversies

Making the fund come alive

- Sample stock profiles demonstrating how impact is delivered in practice

Asset manager profile

- Statement by the asset/fund manager about the fund and its impact orientation
- Examples of how the asset manager is making a positive impact through their own operations

Disclaimer















The fund profile is provided for general information purposes only and should not be seen as advice or a personal recommendation to any investor. Funds included on the platform may not be suitable for all investors and if you have any doubt about the suitability of an investment you should seek independent professional advice.

3D Investing is a trading name of Ethical Money Limited which provides research on ethical and sustainable funds. Ethical Money Limited is a wholly owned subsidiary of Square Mile Investment Consulting and Research Limited.

Founder Partners

Founding partners of the Big Exchange are also recognised for their commitment and crucial role in helping to make the platform a reality. Each fund offered by founding partners is therefore designated a 'Founder Fund'.

Appendix 1

Solution	Description	SDG alignment	
Social infrastructure	Housing –Social, Student, Care Homes; Healthcare – Hospitals, Dental & GP Surgeries; Education - Schools, Libraries & Universities		
Healthcare	Medical Equipment, Pharmaceuticals, Health Services		
Enabling infrastructure	Platforms and technologies that are key parts of moving to a sustainable world. These include electrical transmission networks, cloud infrastructure		
Resource efficiency	Energy Efficiency, Natural Resource Efficiency, Waste Management & Recycling		
Low carbon transport	Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure		
Education and learning	Educational publishing, educational establishments, training		
Clean energy	Solar, Wind, Biomass, Hydro		
Environmental services	Waste management and recycling, environmental consultancy		
Inclusive and ethical finance	Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance		
Natural capital	Water Supply & Sanitation, Water Filtration, Air Filtration, Forests		
Safety	Cyber security, building and automotive safety, food safety		
Sustainable food	Food storage, food safety, reduction in non-renewable inputs for farming, renewable farming alternatives, organic & high welfare food manufacture		

Appendix 2

Type of Controversy	Examples of controversy descriptions	Examples of controversy descriptions (specific)
Alcohol	Production or distribution of alcoholic beverages.	The fund allows investment in companies producing alcoholic beverages but requires leadership in responsible drinking
Animal Welfare	Animal testing for pharmaceuticals, healthcare or cosmetics products; meat production	Animal testing for pharmaceuticals permitted as long as 3Rs policy adopted of replacement, reduction, Refinement
Armaments	Weapons related contracts	Exposure to a company which derives 10% of its turnover from components for fighter aircraft
Corporate Ethics	Breach of marketing codes; Aggressive business practice; Tax avoidance	Nestle (ongoing boycott because of contravention of Baby Milk code)
Employment	Zero hours contracts; child labour; Bad safety record	Amazon (widespread criticism of working conditions in warehouses)
Financial Services	Banks, insurers and investment companies with no exclusion policies on lending/investment beyond adherence to international norms and very limited issues, e.g. cluster bombs.	Widespread exposure to banks and insurers with no substantive restrictions on lending or investment.
Fossil Fuels (indirect and direct)	Exploration and production of oil and coal; Exploration and production of gas; Generation of power from fossil fuels; Services to fossil fuel providers; Energy intensive industries including air transport, cement, fossil fuel cars	Includes exposure to a wind company which also derives 20% of its revenues from coal power.
Gambling	Gambling providers	
Intensive Farming	Production of non-renewable agricultural inputs; Production of food involving intensive methods; Use of genetically modified organisms	Invests in Chinese dairy firm using intensive methods
Mining	Mining operations	Lithium mining used in car batteries for electric cars
Nuclear Power	Production of nuclear power	
Tobacco	Manufacture of tobacco products	