

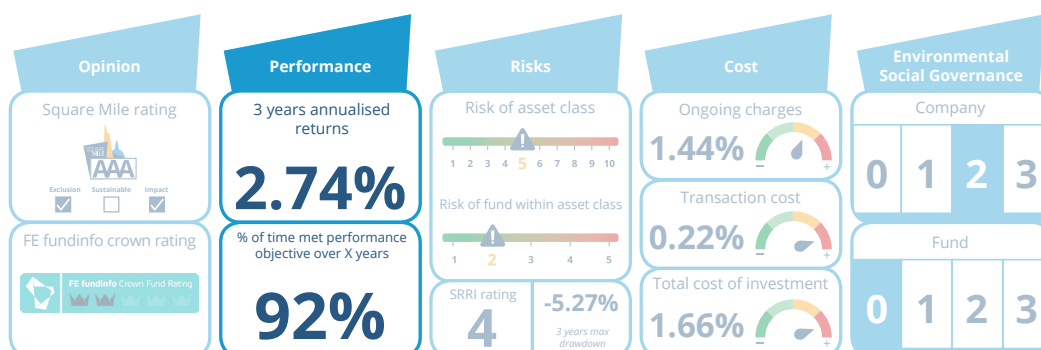
FOR PROFESSIONAL INVESTORS ONLY

# Fund Dashboard: Methodology

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# Performance



Source: Square Mile and FE fundinfo

The following methodology was created in order to provide insight into the fund's historic success rate relative to the fund's objective. The diversity of different fund objectives matches a range of different investment needs. It is therefore important to capture this diversity and put it into a framework which would enable a useful comparison between different funds' objectives and their historic ability to produce their desired result.

The success rate calculation follows the following steps:

The fund's objective is sourced from either the formal fund objective or if the formal objective does not provide sufficient or clear enough metrics, the expected outcome as defined by Square Mile.

1. The objective is analysed and then mapped to one of eight basic objective types
2. The fund's historic performance is measured against a relevant benchmark
3. This paper will describe each step with an insight into various data inputs.

## Objective description

The first step of the success rate calculation involves assigning an appropriate objective or expected outcome to a fund. By default, the fund's formal objective is used with the successive calculations being based on this. However, when the fund's formal objective is too vague and therefore impossible to derive any objective type then Square Mile's Expected outcome is assigned, and the calculation will be based on this.

For example, a vague objective could be worded as: "The fund aims to achieve capital appreciation". In this event, the fund would be analysed to identify an expected outcome, which in its description would include specifics including but not limited to benchmark, performance target, investment time horizon and risk boundaries.

When the fund presents multiple objectives, rather than attempting to describe how to weight the importance of each outcome, the primary objective is highlighted and used in further analysis steps. For example, funds which are dedicated to income distribution will tend to be given an objective of either targeted or relative yield.

## FUND DASHBOARD: METHODOLOGY

The following methodology was created in order to provide insight into the fund's historic success rate relative to the fund's objective. The diversity of different fund objectives matches a range of different investment needs. It is therefore important to capture this diversity and put it into a framework which would enable a useful comparison between different fund's objectives and their historic ability to produce their desired result.

The success rate calculation is done in the following steps:

The fund's objective is sourced from either the formal fund objective or if the formal objective does not provide sufficient or clear enough metrics, the expected outcome as defined by Square Mile.

Objective type	Example description of what strategy is trying to achieve.
Target Return	The fund targets a return of 5% p.a.
Relative Return	The fund seeks to achieve a return higher than the benchmark.
Target Yield	The fund targets an income of 5% p.a.
Relative Yield	The fund seeks to achieve an income higher than the benchmark.
Target Volatility	The fund seeks to keep the volatility risk below 5% p.a.
Relative Volatility	The fund seeks to provide lower volatility than the market.
Track Performance	The fund aims to track the benchmark.
Risk-adjusted performance	The fund aims to provide greater risk-adjusted returns than the benchmark.

All objective types except for "Track Performance", are based on a specific timeline which can be described as the suggested investment time horizon for the fund e.g. 5 years or 3 to 5 years. When the time horizon is stated as a range, the longer of the two time frames is used depending on the relevant history of the fund. For example, for a fund with a relevant history of 4 years with a time horizon of 3 to 5 years, the calculations would be based on a 3 year time frame until it has a 5 year history available. The time frame used in the calculations is shown in the text, found above the percentage figure, as: "% of time met performance objective over X years".

### Objective success calculation

Each success rate is reported as a simple percentage figure calculated as:

$$\text{Success Rate} = \frac{\text{(Times the fund met the stated objective)}}{\text{(Total relevant fund history)}}$$

Since the success rate is not normalised to any peer group or alpha generation method it can give the perception of considerable success or failure. It is therefore important to understand what the fund aims to achieve through the fund's formal objective or Square Mile's expected outcome, as certain objectives or outcomes might be more challenging to achieve. For example, a target of achieving performance greater than the market is considered to be more challenging than matching the performance of said market.

The calculations for each objective type, shown in the table above, are done differently but can be broadly grouped into five classes depending on the category of the time series used in the calculations.

On occasion, when the fund has changed its mandate significantly, and therefore its objective or outcome has been changed, only the most recent and relevant fund history is used for success rate calculations.

### Total return, accumulation calculations

The accumulation objectives such as “target return” and “relative return” compare funds’ total return net of costs to either an absolute return target or a return relative to a benchmark, respectively. The benchmark’s return is calculated using a total return time series where the benchmark is an index. If the data for the right index is unavailable, the next most suitable time series is used, which may be a tracker fund’s total return net of costs data.

The success of these objectives is considered when the performance has been greater or equal to an absolute or relative target return. The calculation is repeated every month for each time period stated within the objective or the expected outcome.

### Yield, income calculations

The income objectives such as “target yield” and “relative yield” compare the fund’s yield to either an absolute yield target or target relative to a benchmark, respectively. The success of these objectives is considered for both fund and benchmark (where applicable) using a 12 month dividend yield net of tax (not costs). The calculation is repeated every month for each 12 month rolling period.

### Volatility, risk targeted calculations

The risk targeted objectives such as “target volatility” and “relative volatility” compare a fund’s historic volatility to either an absolute volatility target or single volatility limit(s) which may be relative to a benchmark. The total return net of costs is used for each fund’s volatility calculation, whereas benchmark volatility is calculated using a total return time series where the benchmark is an index. On occasion, when the data for the right index is unavailable, the next most suitable time series is used, which may be a tracker fund’s total return net of costs data.

The success of these objectives is considered, when the fund’s volatility is not greater than the volatility target, or when the fund’s volatility is not greater than the stated limits, respectively. The calculation is repeated every month for each time period stated within the objective or the expected outcome.

For risk targeted calculations involving the Square Mile expected outcome, the volatility limits have been based on the long-term capital market assumptions for risk, sourced from the fund providers themselves. These assumptions are then translated into volatility bands relative to the global equity markets and are declared within the Square Mile expected outcome, for example: “We believe a reasonable expectation for the fund is to achieve capital growth whilst providing an annualised level of volatility, over five years, of between 30% to 50% of global equity volatility”.

### Risk-adjusted metric, risk-adjusted calculations

The risk-adjusted objectives compare a ratio of the fund’s return to volatility with the benchmark’s ratio of return to volatility. The total return net of costs is used for a fund’s return and volatility calculation, whereas the benchmark’s return and volatility is calculated using total return time series where the benchmark is an index. On occasion when the data for the right index is unavailable, the next most suitable time series is used, which may be a tracker fund’s total return net of costs data. The success of this objective is considered, when the fund has been providing equal or greater risk-adjusted return than the benchmark. The calculation is repeated every month for each time period stated within the objective or the expected outcome.

### Daily tracking difference, tracker calculations

The risk-adjusted objectives compare a ratio of the fund’s return to volatility with the benchmark’s ratio of return to volatility. The total return net of costs is used for a fund’s return and volatility calculation, whereas the benchmark’s return and volatility is calculated using total return time series where the benchmark is an index. On occasion when the data for the right index is unavailable, the next most suitable time series is used, which may be a tracker fund’s total return net of costs data. The success of this objective is considered when the fund has been providing equal or greater risk-adjusted return than the benchmark. The calculation is repeated every month for each time period stated within the objective or the expected outcome.

Daily tracking difference, tracker calculations

### Share class selection

For each fund there could be as few as one investable share class or as many as 30 different share classes, each with different costs and investor outcomes. The performance analysis is performed on a single chosen share class for each fund deemed the most widely available to advisers, as defined by platform availability within the appropriate peer group. This is done to make comparisons more relevant as well as to avoid funds with many share classes skewing the performance analysis for less represented funds.

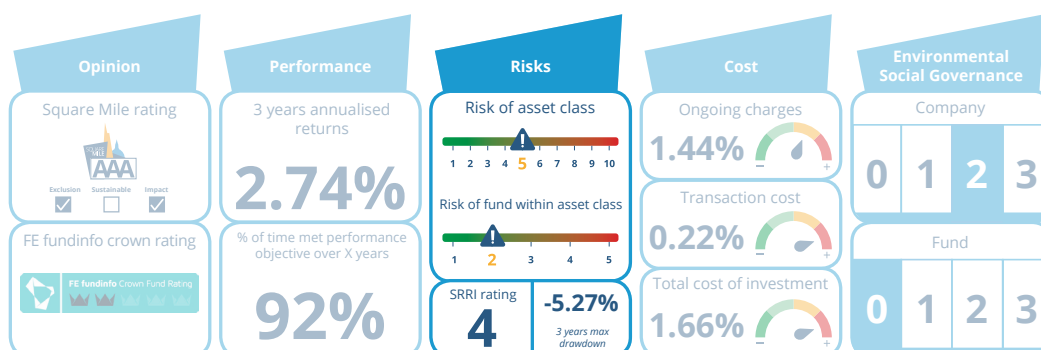
The rules for share class selection are listed as follows, in the order of importance:

- Share class is required to be "Clean" and sterling denominated.
- Distribution, for fixed income funds preference is given to income distribution share classes.
- Platform availability, share classes which are more widely available receive preference.
- History length, funds with longer history are favoured.
- Cost, cheaper share classes, as determined by "Total cost of investment" are preferred, however the cheapest share class might not necessarily be selected due to other stated reasons by the Asset manager i.e. minimum subscription.

The share class which satisfies the majority of these criteria is selected and used to construct appropriate peer group. On occasion, when the chosen share class becomes "closed" or restricted to fewer investors, the next recommended share class is selected.

The chosen share class for each fund is referenced and can be seen when viewing funds on the [Academy of Funds website](#).

# Risks



Source: Square Mile and FE fundinfo

The following methodology was created in order to provide insight into a fund's long term risk expectations relative to other asset classes as well as a short term indication of how much risk this fund has experienced relative to other strategies within the fund's asset class or defined peer group.

The level of risk an investor is willing to accept is one of the main determinants of the future performance they might expect. The risk ratings can be used independently as a broad metric to screen and select funds that best reflect the required underlying risk profile.

At the same time, it is important to note that other considerations should also be taken into account when selecting a fund. Although risk ratings group together funds with a similar risk profile this does not guarantee that the desired level of return will be achieved. An investment may cause loss of capital in any situation, regardless of risk levels.

The Fund Dashboard risk rating system uses a set of metrics to identify different levels of risk at two stages:

1. The risk of an asset class relative to other asset classes.
2. At a fund level, the risk of funds relative to their peer groups.

Each rating informs the user of the relative risk an investor would be subjected to when selecting a general asset class, a fund within an asset class and a balanced multi-asset portfolio composed of different asset classes in a diversified manner.

In both "asset class" and "risk within asset class" approaches, risk levels are split into a scale ranging between 1 to 10 and 1 to 5 respectively. Each level of risk has its own defined expected volatility characteristics, with a score of 1 representing the safest profile and 10 the riskiest for asset class or 5 being the riskiest for risk of fund within an asset class.

This methodology explains calculations and inputs behind both "asset class" risk score as well as fund risk score labelled as "risk of fund within the asset class".

## Asset class risk score

The asset class risk score was designed to give an insight into a relative level of risk an investor could be exposed to when selecting a particular strategy. The calculation begins with identification and characterisation of different asset classes within the fund universe.

### Universe creation

Firstly, we considered the universe of mutual funds available in the Investment Association (IA) universe. This collection was split into 44 distinctive peer groups, or asset classes containing, as of 31st May 2020, a total of 2,990 funds. No consideration was made of the fund's domicile or its legal structure. Funds which have not yet been assigned to an IA sector and which reside within IA Unclassified group have been omitted from the following process.

The resulting peer groups, which are loosely based on IA's sectors, can be found listed in Appendix 1. We hope that by keeping close to these classifications, it would more relatable and therefore practical when choosing an investment. For more information on IA sectors please click [HERE](#).

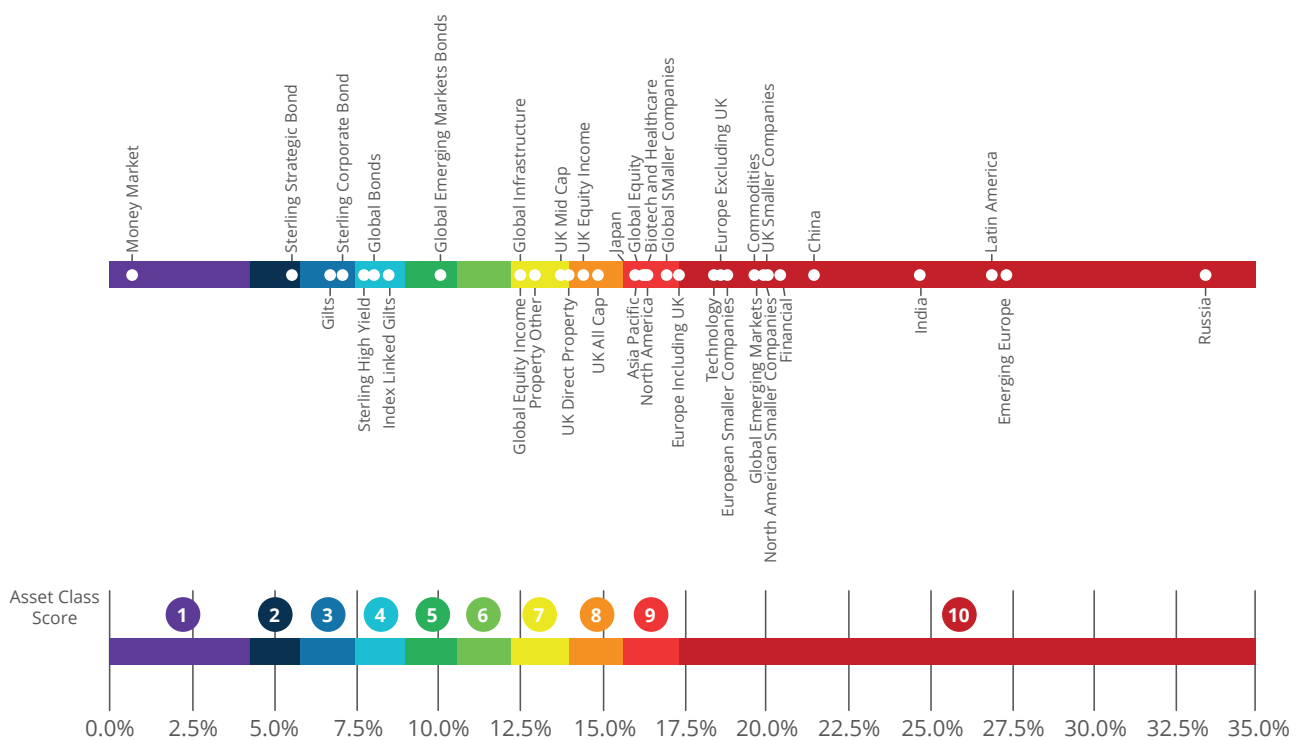
The asset classes and peer groups are reviewed on a quarterly basis. During the review, the suitability and content of each peer group is reviewed. Funds that have been launched since the last review will be added if they were not previously included during regular Fund Dashboard updates.

### Asset class risk assignment – Single asset strategies

Each asset class is given a risk score based on the long term volatility expectations an investment would experience. The purpose of the rating is to provide insight into the relative levels of risk, compared to other asset classes, when selecting an asset class to invest in. Linking funds to an asset class or risk level allows a more meaningful comparison between similar single strategy funds or multi-asset strategies respectively. It also provides a more forward looking and robust measure of the volatility expectations. For example, although emerging market bonds share similar levels of volatility to global equities their individual drivers of risk and risk management are different. Therefore, it is prudent to assume that in the long term these drivers would impact the two asset classes in a different way and would eventually manifest themselves in price volatility.

Each risk score exists within bounds created by the Square Mile's strategic asset allocation process. As a consequence, it is possible to indirectly compare the risk of a single strategy investment to a multi-asset proposition. This also can be used as an informative map of asset class "positions" relative to diversified portfolios and multi-asset funds.

Every single asset peer group's historic levels of risk is mapped onto risk range bands derived from the strategic asset allocation process, as shown in Figure 1. Asset classes which displayed levels of risk greater than 9 have been given a broad score of 10.



An example showing approximate positions of various asset classes relative to each other and on single risk range, divided into different risk level buckets.



### Asset class risk – Multi-asset strategies

Risk scoring multi-asset strategies on an asset class basis requires a more detailed analysis of the underlying holdings in addition to a mechanism for capturing the tactical allocation positions taken over time. A more pragmatic approach, therefore, would be to compare historic volatility of these strategies to existing risk bands, based on a standard strategic asset allocation process. This enables the user to compare risks between individual strategies and when investing in a diversified multi-asset portfolio. Due to the consequences of diversification, it is not possible to achieve the same risk score attributed to the diversified portfolio by simply taking a weighted average risk of underlying individual strategies. Although the final risk scores cannot be used directly to calculate “overall” risk of a portfolio, they can still give an estimate of the risk an investment could be exposed to. For example, an investor focusing on investments in the lower risk range would not be likely to end up with a portfolio that exhibits high risk characteristics.

### Asset class risk – Multi-asset strategies - mapping

The process of risk mapping multi-asset strategies is reliant on both strategies’ performance history as well as set of comparative indices which differ in their risk profiles. Square Mile’s strategic asset allocation process is used to create a set of 10 risk profile indices. Each index is derived from capital market assumptions of expected return and volatility for core asset classes such as: cash, UK Corporate Bonds, Gilts, UK Equity, Europe ex UK Equity, North American Equity, Japanese Equity, Pacific ex Japan Equity and Emerging Markets Equity. The capital market assumptions are updated on an annual basis.

Once a set of comparative risk indices has been calculated, every multi-asset fund’s volatility journey is mapped onto risk bands created by the risk indices, to determine which risk profile is most suitable. Although the multi-asset funds tend to be closely correlated with the risk indices, due to volatility being driven mainly by macro market events, they may at times exhibit misalignment. This could be due to the fund manager’s tactical positioning or the strategy mandate changing its risk tolerance. A period of the last 5 years is used for each the fund’s risk mapping, in order to make risk assignment robust to short term changes and at the same time responsive to longer term changes.

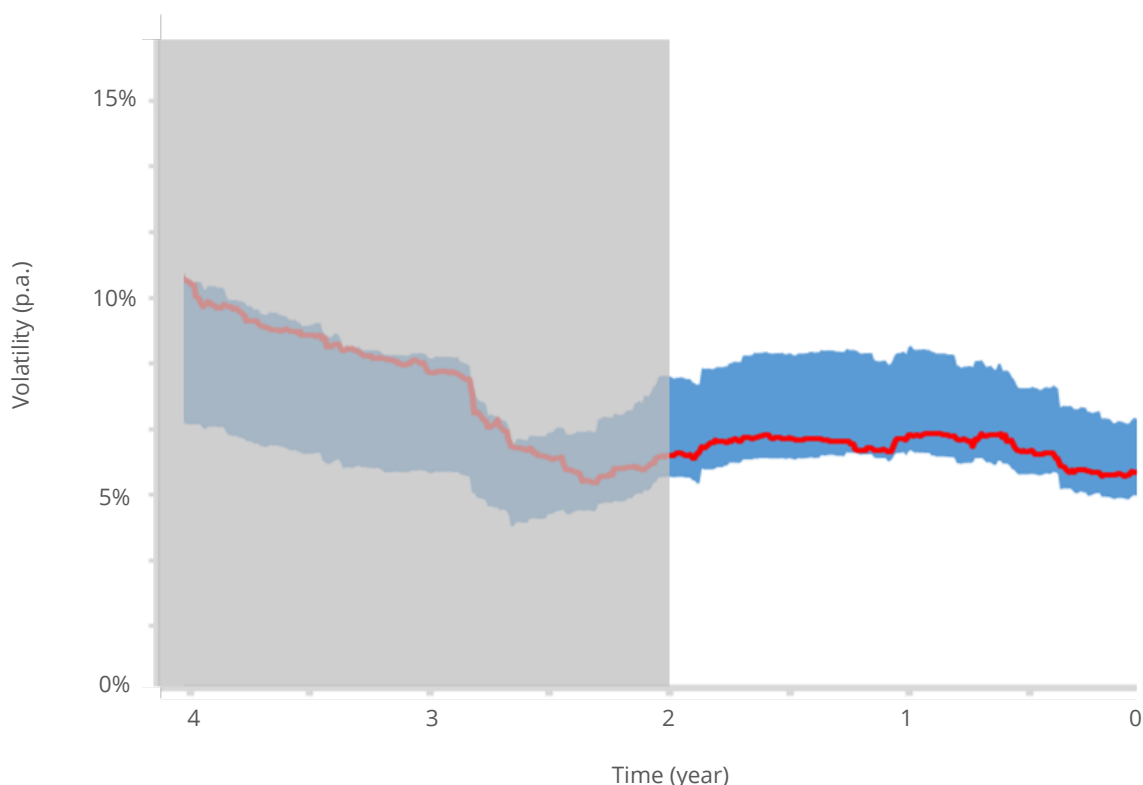


Figure 2. An example of risk mapping a fund, with a risk band displayed in blue, the fund’s 3 year rolling volatility shown in red. Only the non-shaded area, representative of funds 5 year history is used.

### Asset class risk – Multi-asset strategies – peer groups

An additional outcome of risk rating multi-asset strategies is the construction of multi-asset peer groups. Classifying single asset strategies is relatively simple, however multi-asset funds can consist of any number of different investment classes. The multi-asset peer groups are therefore defined by different levels of risk exhibited by their constituents.

### Asset class risk – Absolute return strategies

The previously outlined methodologies relate to strategies which are bound to certain markets. Absolute return funds tend to provide returns that are unrelated to any particular market and therefore it is less relevant to compare their relative risk to other asset classes. Instead the main risk comparison for the absolute return funds is an assessment of their relative risk to other absolute return funds found within their peer group.

### Asset class risk - summary

The “risk of asset class” score is designed to be viewed with the corresponding fund risk score labelled as “risk of fund within the asset class”. It is possible that in the shorter term some funds, within neighbouring asset classes, would display risk characteristics which would result in their actual levels of risk overlapping. Thus, each asset class risk score serves as a long term expectation of risk and therefore we would expect the funds within each asset class to behave similarly within their assigned peer group.

### Risk of a fund within the asset class

The fund’s risk score, labelled as “risk of fund within the asset class”, compares the risk of the fund with other similar funds as defined by their peer group. Since a majority of the risk that a fund is subjected to is dependent on the asset class it is invested in, the purpose the fund risk score is to assist in understanding a range of different styles and strategies these funds may be exhibiting. However, it is worth noting that the asset class score is based on longer historic data, spanning more than a single market cycle. Moreover, the risk the fund manager might be taking can change tactically over time. Hence, we would expect the fund risk score to be more dynamic than the asset risk score and as such more indicative of the relative levels of risk the investment was exposed to.

The risk at the fund level is defined as both the likelihood of experiencing negative returns as well as the severity of those returns. This measure can also be described as ranking funds, within a peer group, based on the frequency and magnitude of their worst returns, based on historical experience. For example, two funds with the same average return would achieve two different risk scores if their return profile is different i.e. they might exhibit different probability of rare events also known as a “fat tail risk”.

### Fund risk - calculation

The fund risk score methodology uses historical weekly returns including dividends over the last three years in order to build a picture of the fund’s return profile, which includes statistical measures such as standard deviation, mean, skew and kurtosis. While using backward-looking measures limits the reliability of the future risk forecast it does allow us to compare how different funds with a similar strategy behaved in the same market environment. The asset class risk score is designed to be a more direct indication of future risk expectations. Once a risk score has been computed for all eligible funds within the peer group, these results are normalised to form a 1 to 5 scale which represents funds’ “risk within the asset class”.

The neutral score of 3 is given to funds which exist in the middle of the absolute risk scale, while scores of 1 and 2 are given to funds which exhibit smaller levels of risk. Consequently, funds with risk scores of 4 and 5 tend to be riskier. At each subsequent risk grade, the investment is exposed to more extreme levels of risk. Each consecutive risk grade within the same asset class describes an equal increase in the amount of absolute fund risk. In other words, the difference in absolute risk between grades of 1 and 2 is the same as between grades of 2 and 3. The size of this increase is dependent on the composition of the asset class itself. For example, difference in absolute risk observed between increments of a uniform asset class, UK Gilts, would be smaller than in a more diverse asset class, like Global Equities which displays a much wider range of different risk profiles.

Funds within a peer group which experienced extremely low or high levels of risk, which caused them to fall out of the 90th percentile range, have been automatically given a minimum risk score of 1 or a maximum score of 5 respectively. This tolerance band acknowledges funds which have performed below and above expected behaviour within their asset classes, thus warning of heightened risk. As a result of the tolerance bands, the final scoring of the funds becomes more reliable as it is less skewed by extreme cases.

### Fund risk – summary

The fund risk score describes risk relative to other funds residing within the same peer group or asset class giving a short-term snapshot into the behaviour of various funds. The funds which are less risky are labelled with low scores of 1 and 2, while riskier funds are given scores of 4 and 5. The funds with a neutral score of 3 take a median level of risk, characteristic to their designated asset class or peer group.

### Qualitative Risk Assessment

In addition to Fund Dashboard's Risk Scores, Square Mile also completes a more qualitative risk assessment, which provides more context to the fund's risk score. This risk assessment discusses 8 risk types: equity, interest rate, credit, exchange rate, liquidity, emerging markets risk, derivative and manager risk. Each risk type is graded on three levels from not significant to potentially significant and significant.

Many funds will have very defined and discreet risks but inevitably some funds will be 'borderline'. We will refer to the fund's prospectus for guidance but the prospectus tends to highlight all the potential risks that the fund may face, now or in the future. In contrast we aim to highlight the risks that we believe managers are actually assuming in their day to day operations in running funds. The guide to some of these factors can be seen below.

### Equity Risk

A modest level of equity exposure can materially affect the potential volatility of a fund. Any equity exposure up to around 30% might be considered as 'Potentially Significant' and beyond this as 'Significant'. The degree of hedging (explicit and implicit) within the fund may be a factor in our grading assessment.

### Interest Rate Risk

Interest rates are used in discounting the future cash flows of virtually all investments (gold may be an exception). Interest rates are seen as a key risk for fixed income investments, though the degree of significance depends on the nature of the exposure. Multi-asset approaches are likely to have significant exposure unless risks are explicitly hedged.

### Credit Risk

Credit risk incorporates bond default risk (a bond's failure to meet its interest/capital obligations) and bond downgrade risks (reduction in credit rating).

### Exchange Rate Risk

We have restricted ourselves to considering exchange rate risk in the security's currency denomination. We have ignored many UK equity funds' exposure to foreign equities (the IA sector classifications permit 20% to be invested abroad). Equity funds investing in predominantly non-UK regions are considered to have 'Significant' risk unless actively hedged.

Multi-asset funds tend to establish foreign holdings to diversify risks within their portfolios so we would recognise this exposure in our grading. Broadly speaking, 20-40% foreign exposure is graded as 'Potentially Significant' for these.

### Liquidity Risk

Liquidity has a nasty habit of drying up when it is most needed and unfortunately it is very difficult to measure consistently. This measure's grading is largely left to our analysts' discretion. Our analysts will consider the liquidity available across the portfolio and how this might change in adverse market conditions and if the fund suffers sudden large redemptions.

### Emerging Market Risk

Broadly speaking, emerging market exposure of below 5% is considered 'Not Significant' and beyond 20%-30% as 'Significant'.

### Derivative Risk

Derivative risks are often latent but when they arise, they can have significant impact. This is a risk which is difficult to measure objectively and the grading is largely left to our analysts' discretion. We consider counterparty risk as a function of derivative risk.

Many funds operate within the UCITS regime and may be permitted to use derivatives. However, not all managers have historically utilised these powers and show little inclination to do so in future. We have marked such funds as 'Not Significant' though the managers may change their strategy with no notice.

### Manager Risk

Often the lead manager is an important component of the Square Mile fund rating. We use this segment to highlight key person risks. Note that the total absolute risk in a fund is largely determined by the fund's investment strategy. The manager is more influential in determining the performance/risk relative to funds investing in similar assets.

### Summary

In summary, the Fund Dashboard's risk scoring is displayed in two parts: asset class risk score and fund's risk score. The asset class score gives a forward-looking indication of risk relative to other respective asset classes or strategies. The fund risk score focuses on single funds residing within each asset class peer group. Both risk scores give an overall picture of risk focusing on both long-term expectations through the asset class score and short-term risk profile classification through the fund risk score. An additional qualitative risk assessment is provided for each Square Mile rated fund which supplements the risk scoring methodology highlighted above.

Since the measures explained in this paper are based on historical performance they might not fully reflect the future risk expectations and therefore they should not be used as an expression of future performance.

### Share class selection

For each fund there could be as few as one investable share class or as many as 30 different share classes, each with different costs and investor outcomes. The risk scoring analysis is performed on a single chosen share class for each fund deemed the most widely available to advisers, as defined by platform availability within the appropriate peer group. This is done to make comparisons more relevant, as well as to avoid funds with many share classes skewing the analysis for less represented funds.

The rules for share class selection are listed as follows, in the order of importance:

- Share class is required to be "Clean" and sterling denominated.
- Distribution, for fixed income funds preference is given to income distribution share classes.
- Platform availability, share classes, which are more widely available receive preference.
- History length, funds with longer history are favoured.
- Cost, cheaper share classes, as determined by "total cost of investment" are preferred, however the cheapest share class might not necessarily be selected due to other stated reasons by the asset manager i.e. minimum subscription.

The share class which satisfies the majority of these criteria is selected and used to construct an appropriate peer group. On occasion, when the chosen share class becomes "closed" or restricted to fewer investors, the next recommended share class is selected.

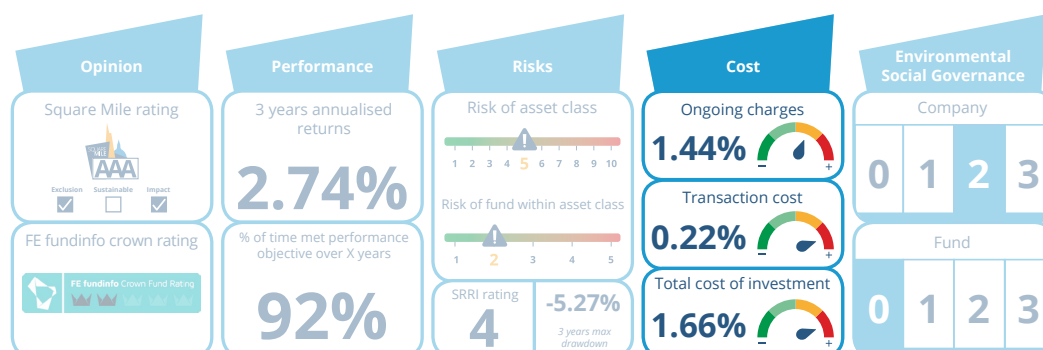
The chosen share class for each fund is referenced and can be seen when viewing funds on the Academy of Funds website by clicking [HERE](#).

Appendix 1

The table below illustrates coverage of different asset classes considered, as of 31st of May 2020.

Peer Group	Number of funds	Peer Group	Number of funds
Absolute Return	126	MENA	5
Asia Pacific	120	Money Market	11
Biotech and Healthcare	15	Multi Asset 1	7
China	41	Multi Asset 2	133
Commodities	41	Multi Asset 3	83
Emerging Europe	14	Multi Asset 4	118
Europe Excluding UK	127	Multi Asset 5	109
Europe Including UK	54	Multi Asset 6	102
European Smaller Companies	27	Multi Asset 7	37
Financial	14	Multi Asset 8	23
Gilts	32	Multi Asset 9	4
Global Bonds	209	North America	146
Global Emerging Markets	132	North American Smaller Companies	18
Global Emerging Markets Bond	78	Property Other	40
Global Equity	311	Sterling Corporate Bond	99
Global Equity Income	54	Sterling High Yield	46
Global Infrastructure	17	Technology	18
Global Smaller Companies	13	UK All Cap	241
Index Linked Gilts	17	UK Direct Property	31
India	22	UK Equity Income	88
Japan	79	UK Mid Cap	16
Latin America	19	UK Smaller Companies	53

## Costs



Source: Square Mile and FE fundinfo

The following methodology was created in order to provide insight on a fund's fee and cost structure as well as to provide context to these figures by comparing the fund's costs to other funds within the relevant peer group and fund management style.

The cost calculation is done on three levels Firstly the ongoing charge figure (OCF) is considered, followed by calculation of transaction costs and the total cost of investment.

1. The **ongoing charge figure (OCF)**, is well recognised across the industry and will include expenses such as: annual management charge (AMC), audit, regulatory and other administrative fees.
2. The **transaction costs** are a total of both Transaction Cost Ex-Ante and Incidental Cost Ex-Ante, as defined by MiFID II. These costs are meant to provide a further insight into the overall cost of investing in a particular fund.
3. The **total cost of investment** is a sum of the two previously mentioned metrics: the ongoing charge figure (OCF) and transaction costs, where available. It is meant to summarise the total expected cost of investing into the fund. Costs which are not included in this analysis are any platform charges.

Every cost calculation for each fund is then compared on the value-o-meter against other funds within the same peer group. The reporting standards vary and certain costs, such as transaction costs, may not always be available. The following comparison is therefore limited to the reported costs.

The comparison is formulated as a percentile rank for each fund within a shared peer group i.e. the lower the percentile rank of a fund, the "cheaper" the fund is compared to other similar funds. On the dashboard scale, cheaper funds are shown by the arrow pointing towards the left-hand side of the meter. The following "Value for Money" section, present on the [Square Mile Academy website](#), is used to comment on the fund's relative cost in terms of the fund's historic and expected performance profile.

### Peer group selection

The value-o-meters provide a useful comparison between a fund's cost relative to other similarly structured products i.e. peer groups. The peer groups are also utilised when looking at the "the fund risk within the asset class" metric within the dashboard. The cost analysis also differentiates between active and passive styles of fund management i.e. the cost of an actively managed fund is compared to costs of other actively managed funds present within the same peer group.

### Share class selection

For each fund there could be as few as one investable share class or as many as 30 different share classes, each with different costs and investor outcomes. The cost analysis is performed on a single chosen share class for each fund deemed the most widely available to advisers, as defined by platform availability within the appropriate peer group. This is done to make comparisons more relevant as well as to avoid funds with many share classes skewing the cost analysis for less represented funds.

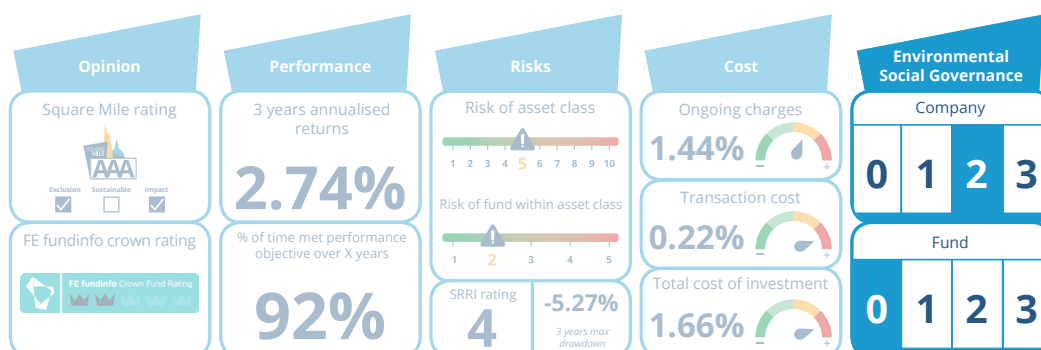
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The share class which satisfies the majority of these criteria is selected and used to construct an appropriate peer group. On occasion, when the chosen share class is “closed” or restricted to fewer investors, the next recommended share class is selected.

The chosen share class for each fund is referenced and can be seen when viewing funds on the [Academy of Funds website](#).

# Environmental, Social and Governance



Source: Square Mile and FE fundinfo

The consideration of ESG factors is of growing importance in asset management. Successful approaches are increasingly being used to great advantage both to enhance returns and, perhaps more importantly, to understand and manage risk. Furthermore, the consideration and integration of ESG factors is of interest to many investors.

The consideration of ESG factors is increasingly being integrated into investment processes. We have developed an approach to analysing and articulating the various approaches to ESG integration which inform our research process. We hope this will help investors to better understand how their investments are managed.

We analyse ESG integration at two levels for each of the funds which we rate.

Firstly, at the company level, we seek to understand if and how an asset manager integrates the consideration of ESG factors in its investment processes. We assess the policy, resources, monitoring and assessment of ESG factors, risk management, engagement and voting practices. We want to know to what extent these are applied consistently across the business and its investment processes, or left to individual teams and managers to determine their own approach.

Secondly, at the individual fund level, we seek to understand if and how ESG factors are considered in the management of individual funds. We assess how ESG factors are used as an input into the process, which factors are considered, how they impact the research, portfolio construction and risk management processes.

This is a qualitative assessment. Every company and fund is different, and we assess each on its own merits. We use primary data, sourcing it directly from the companies and managers involved and seek evidence to support the assessment. We then overlay this with our experience and expertise as analysts in order to cut through the terminology and make sense of the facts.

We grade each company and fund on a scale of 0-3, in accordance with the definitions below. These scores are not necessarily linear.

## Company level ESG Integration

0	The company does not have an explicit, or discernible approach to, the consideration of ESG factors.
0+	The company has begun work to identify the methodology to be used for introducing ESG factors.
1	The company has some, but limited, consideration of ESG factors across some of its investment teams but these are not a formal part of its investment process.
1+	The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.
2	ESG factors are considered formally but are not instrumental within all of the company's investment processes.
2+	Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.
3	ESG factors are fully integrated and are instrumental to the company's investment processes.



### Fund level ESG Integration

0	There is no discernible approach to, or consideration of ESG factors in the fund's investment process.
0+	The fund manager has begun to evaluate how they may incorporate ESG into their investment process.
1	ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.
1+	ESG factors are available to the fund managers as an input to their analysis, but they are not compelled to consider them as a factor when making investment decisions.
2	ESG factors are actively considered by the fund's manager as an important part of the investment process , but do not drive the final investment decision.
2+	The manager is taking demonstrable steps to fully integrate ESG into the management of the strategy.
3	ESG factors are fully integrated and are instrumental to the management of this strategy.



### Important Information

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