



# **Climetrics**

**The Climate Rating for Funds**

## **GUIDE FOR FINANCIAL ADVISORS**

This guide is for financial advisors who want to use Climetrics ratings in advising their customers on more environmentally sustainable funds.

**CDP Europe | March 2021**

## Your key target audience

Sustainability fund ratings available in the market today differ in what they measure and how they work. Climetrics® rates funds for their **environmental** performance, including issues related to greenhouse gas emissions, water security and deforestation.

The Climetrics rating may be best suited for clients who:

- ▼ deeply care about climate change and related issues, such as deforestation.
- ▼ have already adopted a more climate-friendly lifestyle, for example, by purchasing renewable electricity or local food.
- ▼ believe that their personal action matters and that collectively, investors can have a positive influence on the environmental performance of companies.
- ▼ want to avoid significant environmental harm with their investments.

### Climetrics and the financial performance of funds

Climetrics does not directly assess the potential impact of climate change on the expected financial performance of funds. However, it can serve as a proxy indicator for a fund's current exposure to future climate risks or opportunities. Hence, it may also be used with clients concerned by financial risks or those looking to seize investment opportunities from climate change.

## The Climetrics story

Climetrics is run by CDP, a global **non-profit organisation** founded in 2001 with the mission to focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact.



The idea of a climate rating for investment funds came from a small group of people led by a former fund manager in 2014. At the time when sustainability fund ratings were still unheard of, she had the early vision of using the influence of the fund industry to shift the economy towards a more sustainable model.

The creation of Climetrics was funded by the European Union through Climate KIC, its main climate innovation initiative. The rating was launched in 2017 in partnership with ISS ESG.

### Climetrics' business model

Climetrics ratings are free-to-search online for investors and financial advisors. Asset managers and other institutional financial market intermediaries pay license fees to Climetrics for professional use of the ratings and underlying data. CDP's commercial income from Climetrics is used to fund the Climetrics operations and to advance CDP's charitable mission.

## Describing the Climetrics leaf ratings

The below talking points and description of the rating scale might be useful to describe Climetrics in client conversations.

- ▼ The rating primarily reflects the environmental performance of investee companies, i.e., how *they manage material risks* related to greenhouse gas emissions, water security and commodity-driven deforestation.
- ▼ In addition, Climetrics also looks at how well the fund's *asset manager* scores on public climate action, such as through climate risk disclosure and active ownership<sup>1</sup>.
- ▼ The final leaf rating describes a fund's overall performance against all other funds in the available universe (*'best-in-universe' approach*).
- ▼ Funds do not need an environmental exclusion policy to achieve a good rating. However, Climetrics strongly penalises certain climate-harmful investments in its scoring.
- ▼ Funds without an explicit sustainable investment strategy may also achieve a high rating.

For detailed information about how we rate funds, please visit our [website](#) and request a free copy of our rating methodology document.

Climetrics rating scale	Fund characteristics
	Typically, the higher the rating, the more the fund invests in companies with better environmental <i>transparency</i> and <i>performance</i> <b>and/or</b> in companies that offer <i>climate-friendly products</i> . Higher rated funds are also less exposed to companies involved in fossil fuel extraction or non-renewable power generation.
	
	
	On average, the asset manager score of higher rated funds is also higher.



Best rated funds have a high share of companies with strong environmental transparency and performance **and/or** those offering climate-friendly products. These funds typically have very little to no exposure to direct fossil-fuel exploration or non-renewable power generation.

Best rated funds are run by asset managers demonstrating strong public action on climate change. Many top-rated funds have a dedicated ESG or climate change investment focus.

<sup>1</sup> Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies.

## Portfolio company examples

Sometimes it can be helpful to illustrate rating results with some company examples. The portfolio assessment in Climetrics is backed by a bespoke company scoring methodology. Here are some well-known companies along with their Climetrics company scores and short explanations.

Company	CDP activity	Score <sup>2</sup>	Explanation
<b>Tesla</b>	Alternative vehicles	40%	With its electric cars, the company essentially offers a climate-friendly technology. However, the company did not report environmental information to CDP, including on water consumption and related material risks, in 2020.
<b>Volkswagen</b>	Automobiles	76%	The company ranks only slightly above average for the climate friendliness of its products. However, it has ambitious climate protection goals and reported comprehensive environmental data and strategies to CDP.
<b>L'Oréal</b>	Personal care & household products	92%	The company is mainly exposed to risks related to water security and commodity-driven deforestation (e.g., through its indirect use of palm-oil). It reported comprehensive environmental data and mitigation strategies on these material issues to CDP.
<b>Starbucks</b>	Food & beverage amenities	53%	Coffee company Starbucks is also mainly exposed to risks related to water security and deforestation. It provided some basic to medium level disclosure on these issues to CDP.
<b>Royal Dutch Shell</b>	Oil & gas refining	17%	The company disclosed greenhouse gas (GHG) information and strategies to CDP but failed to do so for material water and deforestation issues. It has GHG targets for its direct operations but is still mainly active in the oil and gas business and a large owner of fossil fuel reserves.
<b>Vestas Wind Systems</b>	Other renewable energy equipment	79%	As a wind turbine manufacturer, Vestas' score is driven by its core product offering. At the same time, the company discloses environmental information to CDP and has an ambitious greenhouse gas emissions reduction target.

<sup>2</sup> All scores as of January 2021

## Asset manager examples

The asset manager score is an important element of the Climetrics fund rating. Only funds run by asset managers demonstrating a certain level of public action on climate change can achieve the highest 5-leaf rating. This integrated asset manager score is currently unique among sustainability fund ratings. Therefore, we present below some examples of asset managers, their scores and related actions.

Asset manager	Country	Score <sup>3</sup>	Explanation
<b>Legal &amp; General</b>	UK	100%	The UK's largest asset manager is a member of key investor initiatives including <a href="#">IIGCC</a> , <a href="#">ClimateAction100+</a> and the <a href="#">FAIRR initiative</a> . L&G disclosed publicly to <a href="#">UN PRI</a> on climate risk integration, is a member of the <a href="#">Net Zero Asset Managers</a> initiative, a <a href="#">CDP Signatory</a> and a <a href="#">TCFD</a> supporter.
<b>Comgest</b>	France	85%	French asset manager Comgest is a member of the ClimateAction100+ and the FAIRR initiative. Comgest disclosed publicly to UN PRI on climate risk integration, is a CDP Signatory and TCFD supporter.
<b>DWS</b>	Germany	70%	German fund manager DWS supported almost 90% of climate change shareholder resolutions <sup>4</sup> , is a member of IIGCC, the <a href="#">CERES</a> investor network and ClimateAction100+. DWS did <i>not</i> publicly disclose to UN PRI on climate risk integration, but it is a member of the Net Zero Asset Managers initiative, a CDP Signatory and TCFD supporter.
<b>BlackRock</b>	USA	65%	The world's largest asset manager BlackRock supported 7% of climate change shareholder resolutions, but is a member of all four regional networks of the <a href="#">global investor coalition on climate change</a> , disclosed publicly to UN PRI on climate risk integration and is a CDP Signatory and TCFD supporter.

<sup>3</sup> All scores as of January 2021

<sup>4</sup> Data on proxy voting is currently only scored where publicly available (Source: ISS-ESG, with data sourced from the SEC NPX filings and other public disclosures)

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## Please contact us for more information

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**CDP** is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with over 590 investors with \$110 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 10,000 organizations around the world disclosed data through CDP in 2020, including more than 9,600 companies worth over 50% of global market capitalization, and over 940 cities, states and regions, representing a combined population of over 2.6 billion. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit [cdp.net](https://www.cdp.net) or follow us [@CDP](#) and on [LinkedIn](#) to find out more.

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