

# Cooler Future Fund Review and Selection Process

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Cooler Future's investment platform offers a [curation of investment funds](#) that have sustainability as their objective. This means that the funds' investment strategies address critical environmental challenges, including climate change, access to water, pollution, biodiversity loss, and exhaustion of natural resources, among others.

## 1. Determining the initial universe of funds

The starting universe of funds consists of open-ended sustainability and impact funds.

First, the funds are categorised according to their **main investment theme**. To exemplify, these include:

- Energy
- Water
- Circular economy
- Biodiversity
- Forestry
- Sustainability

Thematic categories are used at a later stage to compare funds against their peers and to determine the most suitable funds in each thematic category.

Funds may have been labeled as Article 9 (impact funds) or Article 8 (sustainable funds) according to the EU's [Sustainable Finance Disclosure Regulation](#) (SFDR) – but official labeling is not a requirement for a fund to be eligible.

## 2. ESG screening and exclusions

Funds are screened for ESG (Environmental, Social and Governance) controversies on a holding/company to identify funds that fulfill Cooler Future's ESG criteria.

The same criteria is applied to all investment themes to maintain comparability across all funds. It's also worth noting that Cooler Future does not have control over the security selection or portfolio construction of the funds offered by other financial institutions. Therefore, some of funds' holdings may include individual companies that are not fully compliant with all of Cooler Future's own ESG screening criteria.

Typically, there can be anywhere from 40 to 150 holdings in each fund. Each holding is **screened** for their involvement in **activity- and conduct-related ESG controversies**.

- **Activity-related controversies** are those where a company has industry ties or revenue streams coming from ESG-excluded activities, like fossil fuel generation, selling and producing guns and other weapons, alcohol, tobacco, fur production and non-pharmaceutical animal testing, gambling, pornography, etc.
- **Conduct-related controversies** refer to the company's own conduct and unethical behaviour: e.g., the company not being socially responsible, violating labour and human rights by using child labour, for example, or having severe allegations in corruption, tax fraud, etc. Or, if the company is violating minimum standards of business practices established by international norms, such as [the 10 Principles of the UN Global Compact](#).

Cooler Future's ESG screening is used to identify the portion of holdings in each fund that is in compliance (or non-compliance) with any of the Cooler Future's selected ESG screening criteria.

For each fund, a percentage of companies (determined by company's weight in the fund) compliant with Cooler Future's ESG screening criteria is calculated for **severe** and **nonsevere controversies**.

- **Severe controversies** consist of activities related to fossil fuels, thermal coal, oil sand and shale oil gas reserves, weapons, nuclear power, severe violations of human rights, labour rights and/or violations of the UN Global Compact's 10 Principles, as well as involvement in severe environmental controversies (e.g. toxic waste, danger to biodiversity, water mismanagement, harming climate, etc).
- **Nonsevere controversies** consist of gambling, furs, alcohol, non-pharmaceutical animal testing, pornography, tobacco, GMOs, and any severe social- and governance- related controversies.

To be eligible for [the Cooler Future platform](#), **at least 90% of holdings** in the fund (measured in company's weight in the fund) need to **comply with severe ESG criteria**. In the case of nonsevere ESG controversies, **at least 70% of holdings** need to **comply with nonsevere ESG criteria**.

**This minimum criteria** is used to narrow down the list of funds and investment products offered on the platform. The minimum criteria ensures that we would not select funds worse than that. Yet, the funds ultimately selected fulfill the criteria to a much higher extent than just the minimum criteria.

To apply a 100% compliance with Cooler Future's strict ESG screening criteria across investment themes is currently not a viable expectation from publicly-traded mutual funds. Often the companies that fail severe ESG criteria are for example companies that exceed the maximum 5% revenue threshold set for fossil fuel generation. This can be the case for energy production companies with demonstrable evidence of transition to clean energy.

For a final ESG screening, we also rely on external ESG ratings from notable data providers and rating agencies, such as CDP and MSCI. Generally, in our selection, funds should have an ESG rating of **AAA or AA** ([MSCI](#)) and a Climetrics rating ([CDP](#)) of **3 or higher** (scale of 1-5, where 5 is the best). Funds that do not fulfill this ESG-rating minimum criteria are not initially eligible for the Cooler Future platform.

### 3. Impact screening

After the ESG screens, the funds are screened for impact metrics. The core metrics are consistent across all funds, mostly focusing on environmental and climate matters. Some metrics can vary depending on the thematic focus and investment objective of the fund.

Some of the **core impact metrics** are the following:

- Carbon footprint (tonnes of CO<sub>2</sub>e per million € invested)
- Carbon intensity
- Water footprint (megalitres of water per million € invested)
- [CO<sub>2</sub>e](#) reduced
- Ex-post rate of decarbonisation (%)

The core metrics are consistent across all funds, mostly focusing on environmental and climate matters. While footprint metrics, for example, provide a snapshot of the environmental impact that the companies in the fund have through their operations, we also consider the so-called "**handprint**" **metrics**: the wider positive impact that the companies in the fund may create through their own products, services, and solutions.

**Additional impact metrics**, such as **avoided emissions**, **renewable energy generated**, **water saved or recycled**, are calculated for funds where such metrics are relevant given the fund's thematic focus.

### 4. Financial screening

Although historical returns are no guarantee of future performance, we examine the asset manager's historical performance, current strategy and portfolio allocation to build a holistic understanding of the strategy and the asset manager's ability to carry out that

strategy. The criteria reviewed include the risk & return, [volatility](#), diversification across sectors and geographies, specific risk concentrations, fee structure, and [Sortino Ratio](#), a measure of risk-adjusted return.

## 5. Peer comparison and shortlisting

Peer comparison is done within each investment theme by using the above-mentioned **ESG, impact and financial screening metrics as criteria to rank** the funds in order of performance.

Any shortlisted funds need to **fulfill the ESG minimum criteria** as stated above. In general, the preference is given to funds with minimum exposure to severe ESG controversies.

When it comes to **impact metrics**, the general preference is to select funds with lower-than-peer footprints and/or higher-than-peer handprints.

In terms of **financial metrics**, funds with higher *risk-adjusted return*, *lower portfolio risk concentrations*, *lower portfolio turnover*, and consistency of the funds *stated strategy vs. observed strategy* (attribution) are ranked favourably.

As a result of peer comparison across ESG, impact and financial metrics, the number of potential funds is usually **narrowed down to 5-7 highest ranking funds per theme**, selected from tens or several hundreds of funds per theme and an overall universe of 2,000+ sustainability and impact funds.

The most attractive funds according to peer comparison are shortlisted for a detailed fund review.

## 6. Detailed fund review

At this stage, funds are reviewed in more detail for their **strategy, holdings-specific performance, sustainability-** and **climate-related disclosure**.

Asset manager's sustainability and climate change related track record and ambition are reviewed based on asset managers' **disclosure, commitment and engagement efforts** and involvement in the climate investment space. In practical terms, this means reviewing to what extent asset managers are involved in solving climate issues. For example, if asset managers are signatories or form part of [CDP](#), [Task Force on Climate-related Financial](#)

[Disclosures](#) (TCFD), [Climate Action 100+](#), [Net Zero Asset Managers Initiative](#), among other commitments.

The preference is to select funds from **asset managers with active ownership and engagement practices, transparent climate and impact reporting**, as well as a good **track record and reputation** in sustainable investing.

Following the detailed fund review, typically a shortlist of 3 funds per theme remains.

## 7. Fund selection

Final fund selection is based on **ESG, impact and financial criteria** as well as **overall strategic fit** of the fund's asset manager. Funds selected for Cooler Future platform are generally expected to excel in their thematic investment approach.

## 8. Performance tracking

When investment products are added to Cooler Future, they become part of a continuous review process where their ongoing performance is tracked against the initial selection criteria. Any significant deviation from the initial ESG, impact or financial criteria could lead to a fund's exclusion from our platform if we notice that the fund and fund holdings no longer align with the requirements.

Impact- and ESG-related performance is constantly reassessed by closely following the fund's strategy and updates in its portfolio (generally on monthly and quarterly basis).