

# Zenith Responsible Investment Classification for Investment Products – Manager Guide

## Introduction

Interest in Responsible Investing (RI) has increased materially in both product numbers and traction in recent years. While Zenith believes that the increase in RI strategies is broadly a positive, we have observed that defining how investment managers integrate these practices into their methodologies is an industry challenge.

Zenith believes that individual investors are best positioned to determine the funds that are most closely aligned to their beliefs and values. By creating additional tools to further identify an investment product’s approach to RI, we believe that investors will be able to make more well-informed investment decisions.

To this end, Zenith believes that the first step in providing clients with increased RI insights is to create a robust fund classification system. The aim is to create a uniform framework where investors can broadly understand how the investment manager addresses RI themes and issues in their investment process.

## Introducing Zenith’s Responsible Investment Classification

From 30 September 2020, Zenith will introduce an RI classification across all rated products as follows:

RI Categories	Description
Traditional	Seek to achieve a stated investment outcome, with little to no regard for RI/ESG factors
Aware	Seek to achieve a stated investment outcome, taking into consideration a broad range of factors including RI/ESG
Integrated	Seek to achieve a stated investment outcome, expressly taking into consideration RI/ESG factors which materially alter the Fund's permitted universe and portfolio allocations
Thematic	Seek to achieve an investment outcome that includes an explicit RI/ESG objective - both measurable and reportable
Impact	Aims to generate a positive, measurable social & environmental impact alongside a financial return



Zenith will also display key data on each product regarding RI policies, screening techniques and other considerations. This information aims to enhance investors' understanding of each.

## What does this mean for fund managers?

### Q: Why has Zenith introduced these classifications?

A: While Zenith has researched and rated 'Ethical/SRI' funds as a sub-asset class within equities for many years, increased client demand for additional identification tools has led to the development of these classifications. The classifications are the foundation upon which further RI tools will be developed over time.

### Q: Has Zenith's rating process changed? Does a product's RI classification affect its Zenith rating?

A: No, the ratings process is unchanged and the RI classifications do not have a direct link to product ratings. RI issues are assessed as a component of our ratings process, which remains unchanged.

### Q: Are the RI classifications a reflection of Zenith's assessment of a product's RI implementation approach?

A: The RI classifications are reflective of Zenith's views on how fund managers address and integrate RI issues into a product rather than an assessment of the effectiveness of their RI implementation.

### Q: Does the RI classification correspond to the fund manager or a specific product?

A: RI classifications apply to individual products, not fund managers. As such, there may be dispersion in classifications across products and asset classes for the same manager. Any material RI issues specifically related to the manager are considered in Zenith's fund ratings, independent of the RI classification.

### Q: Is a product penalised if its objective is void of RI elements?

A: No. Our classifications are used as an identification tool rather than an assessment. We recognise that many investors seek outcomes with varying consideration of RI issues and practices.

### Q: Are all funds subject to a Zenith RI classification?

A: Subject to limited exclusions at Zenith's discretion (currently only Investment Bonds are excluded), all funds that hold a Zenith investment grade rating from 30 September 2020 onward will be assigned an RI classification. These classifications will be assigned as each sector report is released. Any ratings issued on an Out-of-Cycle basis will also have classifications assigned at the time a rating is released. RI classifications will be revisited annually at each sector review and these outcomes will be visible in draft reports.

### Q: Does a product's RI classification impact how Zenith uses products in portfolios?

A: A product's RI classification will have no impact on its inclusion or exclusion from existing



portfolios. However, should a Zenith client wish to stipulate a minimum RI classification level in their portfolio, the RI classifications will be referenced by Zenith's portfolio consulting team.

**Q: Who is responsible for these classifications and how are they generated?**

A: Zenith has formed an internal Responsible Investment Committee (RIC) to govern the research, development and application of RI tools for Zenith's clients. Under the oversight of the RIC, Zenith's research team contributes to assigning and monitoring RI classifications. Zenith uses information gathered during direct interactions with managers and external sources such as Principals for Responsible Investment (PRI).

**Q: Are there any fees or charges associated with a Zenith RI classification?**

A: No.

Questions relating specifically to Zenith's RI classification can be directed to [RI@zenithpartners.com.au](mailto:RI@zenithpartners.com.au).