



UNCTAD Sustainable Fund Award 2023

I. About the award

Sustainable equity funds, which integrate ESG, climate change and sustainable development consideration into their asset allocation process, plays an important role in channeling investment in sectors that are critical for achieving the Sustainable Development Goals (SDGs), such as green energy, sustainable infrastructure, agriculture, health and education. It is estimated that there are more than 7,000 sustainable funds globally, with \$2.5 trillion of assets under management.

However, the global sustainable fund market faces credibility issues and concerns related to "sustainability washing" due to a lack of transparency and standards. Moreover, many of these funds are not invested in developing economies, where sustainable development investments are most needed.

To promote the development of high-quality, impactful sustainable funds, especially those investing in SDG-related sectors and in developing countries, the UN Sustainable Fund Award recognize the best-performing sustainable funds that demonstrate a high level of sustainability and impact while outperforming their financial benchmarks.

The **2023 UNCTAD Sustainable Fund Award**, with a theme on climate investment, recognizes the achievements and impact of global equity funds dedicated to investing in climate mitigation and environment protection. Up to four winners will be awarded.

The Award will be announced at the ceremony at the UNCTAD World Investment Forum on 17 October 2023 in Abu Dhabi, the UAE.

II. Eligibility criteria

All sustainable equity mutual funds (excluding ETFs) that report a systematic adoption of ESG or SDG factors in their asset selection process, along with a visible focus on climate investment, were eligible for consideration for the Sustainable Fund Award, if they met the following criteria as of 31 December 2022:

- They must have a 3-year performance history;
- They must have a minimum of \$20 million in assets; for funds that invest solely or mainly (over 70% of their assets) in developing markets, they must have a minimum of \$5 million in assets;
- Their three-year financial performance should outperform their respective benchmark.
- Their holdings must be accessible in leading global fund databases or relevant fund documents.

III. Evaluation methodology

UNCTAD's Sustainable Institutional Investment Programme, with support from independent experts, will analyze the sustainability of all eligible funds (about 3,800). Each fund will receive a weighted sustainability score, and the top 12 sustainable global funds and the top 10 sustainable emerging market funds with the highest scores will be short-listed as candidates for the award. These short-listed funds will then be submitted to an international expert committee to select the final winners.

The weighted sustainability score comprises the following components:

- **ESG rating (30%):** An average of ESG ratings from leading public and private ESG rating companies, using data provided by Conser, a Swiss independent ESG data company.
- **Climate sustainability (40%):** Candidates for the Award will be judged by their climate sustainability, i.e., the percentage of assets invested in climate-positive technology (including renewable energy, clean technology, and environmental protection).
- **Transparency (30%):** The quality of sustainability disclosure at the product and company level concerning the strategy, policies, and procedures of sustainability integration, based on publicly available information on the website of fund providers or related fund documents (refer to annex I for the methodology).
- **Negative Impact factor:** The total score will be adjusted by a negative impact factor, which imposes a penalty of one point for every percentage of the fund's exposure to fossil fuels, five sensitive sectors (weapons, alcohol, tobacco, gambling, and pornography), and international norm-related risks (such as human rights, business ethics and environmental issues).

In addition, to be qualified for the shortlist, each fund must meet the following conditions:

- An ESG rating of 6 and above.
- Zero exposure to weapons, gambling, pornography, tobacco, and alcohol.
- Zero exposure to international norm-related risks, including risks related to human rights, environment, business ethics issues.
- Zero exposure to fossil fuels.
- Outperforming its respective benchmark in the last three years' returns.

IV. The Award Selection Committee and the selection of the winners

An Award Selection Committee, comprising independent international experts, will be formed to review the short-listed funds and determine the winners by voting.

UNCTAD will provide the Committee with a comprehensive set of sustainability data for each short-listed fund as inputs for their judgement. The data include:

- Aggregated sustainability scores and inputs for the assessment.
- Impact on climate, including exposure to clean tech and fossil fuel.
- Investment in key SDG sectors.
- Exposure to sensitive sectors and international norm-related risks.
- Assessment of sustainability disclosure quality.
- Any other relevant quantitative or qualitative information resulting from UNCTAD's due diligence.

Each Committee member will vote for 6 funds (including up to 3 emerging market funds) in consideration for the Award.

The top four funds will be the winners of Award. In the event of a tied vote, the Committee will review the voting results and select the winners by either reaching a consensus or conducting a second round of voting.

The Committee members act with complete impartiality, objectivity, and independence, making decisions in their own capacity.

Each member undertakes to disclose any mandate and/or contractual or other relationship with the provider of a short-listed fund(s) that could result in a potential conflict of interest, and has a duty to abstain from voting for the fund(s).

Annex I. Sustainable Fund Award – sustainability disclosure ratings methodology

| Rating indicators | 0 | 1 | 2 | 3 | 4 |
|---|----------------|---|--|--|--|
| I. Sustainability disclosure at the fund level (max. score = 15; x = not applicable) | | | | | |
| 1. Availability and visibility of sustainability information on the website | No information | Limited information, such as a written paragraph on the website | Detailed information, such as dedicated webpage and downloadable documents | X | X |
| 2. Clarity of overall strategy and objectives | No information | General statement, commitment or mandate | X | Strategy and objectives supported by specified areas (themes, sectors, etc.) | Strategies and objectives with quantifiable targets/dates (eg. % of investment/divestment) |
| 3. Clarity of approach to sustainability (including screening and evaluation criteria) | No information | Basic broad screening criteria | X | Specific screening process (e.g. exclusion or best-in-class) | Impact-based criteria |
| 4. Clarity of due diligence and potential risks | No information | Any reference to sustainability risk | Any mention of a due diligence process | Detailed description of risk modelling/ scenario analysis and/or due diligence | X |
| 5. Transparency of portfolio holding | No information | Limited disclosure (e.g. top 10 holdings) | Full list of portfolio holdings | X | X |
| II. Sustainability disclosure at the company (fund provider) level (max. score = 15; x = not applicable) | | | | | |
| 1. Availability of a sustainability report (or a chapter on sustainability in the annual report) | No information | Limited information (limited reporting in an annual report) | Full information (dedicated sustainability/responsible investment report) | X | X |
| 2. Availability of a sustainability segment on the company website | No information | Limited information (one or two brief paragraphs) | Well-developed webpage(s), or with downloadable report etc. | X | X |
| 3. Clarity of the overall sustainability strategy, objectives and goals | No information | General statement, policy, commitment or mandate | X | Strategy and objectives supported by specified areas (eg. Themes, sectors) | With quantifiable targets/dates (eg. % of investment/divestment) |
| 4. Clarity of approach to sustainability | No information | Reference to international benchmarks | X | Description of internal policies and processes | X |
| 5. Clarity of overall sustainability performance | No information | Some statement on monitoring & evaluation | X | Any quantitative assessment | Externally audited |