SUSTAINABLE INVESTMENT
2023 INVESTMENT THEMES

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REGULATORY LANDSCAPE

Our planet faces critical sustainability challenges, from climate change to the ineffective management of finite resources. In recent years, these challenges have increasingly come to the fore, becoming a topic of significant public focus, attention and debate. One important method for progress in facing these challenges is investment, and sustainable investment has seen rapid growth with over US$2tn now held in global sustainable funds. Some financial institutions have been racing to meet the growing public demand for sustainable investment solutions, creating products in an array of forms that promise to help meet these sustainability challenges.

This has largely been a positive change, providing a plethora of routes for investors to contribute, however, it has brought challenges with the two most notable being:

- With so many options, how can investors identify funds with an investment approach that is aligned with their values?
- How do investors ensure a fund is doing what it says it is and avoid those that are guilty of so-called 'greenwashing'?

There is a significant risk that those making unsubstantiated claims may be eroding trust in the market, potentially slowing progress and limiting the positive impact that the industry has the capacity to generate.

A regulatory framework can play an important role in bringing much needed transparency to this fast evolving and, at times, cloudy area of the investment world. For example, the Task Force on Climate-Related Financial Disclosures (TCFD) product rules require in-scope funds to disclose carbon emission metrics and analysis, giving investors additional data on a fund's environmental impact.

A regime that feels like it is bringing even more of a watershed moment for the sustainable investment industry, however, is the FCA's Sustainable Disclosure Requirements (SDR). The final requirements are not expected until June 2023, but a consultation paper has recently been released which is expected to represent at least the core of the framework.

It will introduce a set of 'sustainable labels' for funds that can demonstrate they align with one of three defined approaches to sustainable investment. The labels will be used to distinguish those funds with a credible approach to sustainable investment from those without. The proposed regulation is strictly focused on strategies that have specific sustainable objectives; however strong a strategy's ESG integration or approach to stewardship, these factors alone would not qualify it for a label.

A suite of disclosures will be required too, to ensure the investment process is clearly and transparently explained to investors. Many of those in the industry - our Quilter Cheviot Sustainable Investment team included - welcome an enhanced regulatory framework and the clarity and tranparency that it should bring investors.

I have attended two sustainable investment conferences this year at which the Director of ESG for the FCA has spoken about SDR, and a couple of thoughts struck me. Firstly, I think he strikes the right tone. He talks about ensuring balance; setting a framework that acts as guardrails to protect investors, whilst not being overly burdensome on the industry and risking stifling investment. Secondly, it is refreshing for a regulatory body to engage so actively with those affected by a new regime.

He opened himself up to questions and candidly discussed the FCA's approach, challenges, and even lessons learnt from the European Union's implementation of the Sustainable Finance Disclosure Regulation (SFDR). This commitment to engagement was further shown by the FCA's use of advisory and working groups to benchmark proposals with representatives from the industry.

I do not think the proposed regime is perfect (yet?) and Quilter will be providing feedback to the FCA through this consultation process, focusing on the practical application of the proposals. However, overall, we welcome the important regulatory developments for the clarity, transparency, and comparability they will hopefully bring to the industry.

Once updated, we expect the additional rules and guidance to provide the guardrails required to ensure investors are protected, whilst supporting the industry to flourish and continue directing capital towards solutions to the critical sustainability challenges we face. When the time comes, we look forward to proudly displaying our sustainable investment label!

Toby Rowe,
Sustainable Investment Specialist

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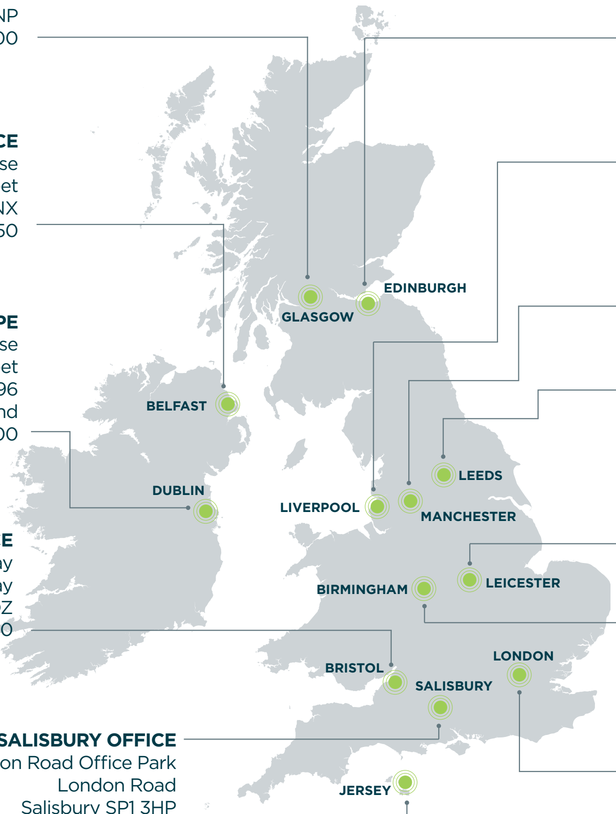

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