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DEVELOPMENT PLATFORM

SUSTAINABLE INVESTING

GUIDE 2021

In association with

AEGON
AXA Investment Managers
PICTET Asset Management
PIMCO
Pru part of M&G plc
Vala

Aegon and responsible investment

As an investment provider and responsible business, we think holistically and long term. ESG is ultimately about protecting and growing our customers' savings, as well as contributing to a more sustainable world.

Challenges such as climate change are global and systemic in nature, requiring bold action from governments and the private sector. At Aegon, we have committed to net-zero carbon emissions for our pension default funds by 2050, and a 50% reduction by 2030.

We're continuously enhancing our ESG approach. Our responsible investment framework articulates our approach to ESG and sets a minimum standard for fund managers on our platform to adhere to. We currently have around 200 ESG funds to choose from on our platform. What's more, we've added dedicated ESG components to our pension default funds, improving their sustainability profiles. And to help you and your clients navigate the impact of climate change on savings, our website has useful responsible investment guides and insight.

In short, responsible investment is a top priority for us, with exciting proposition developments to come in 2022.

Find out more

Climate change - the impact on advice

Our responsible investment customer hub

Our responsible investment framework

Our investment proposition

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Continue

AXA Investment Managers (AXA IM)

AXA Investment Managers (AXA IM) is a responsible asset manager, actively investing for the long-term to help its clients, its people and the world to prosper. Our high conviction approach enables us to uncover what we believe to be the best global investment opportunities across alternative and traditional asset classes, managing approximately €866 billion in assets as at the end of June 2021.

AXA IM is a leading investor in green, social and sustainable markets, managing €574 billion of ESG-integrated, sustainable or impact assets as at the end of March 2021. We are committed to reaching net zero greenhouse gas emissions by 2050 across all our assets, and integrating ESG principles into our business, from stock selection to our corporate actions and culture. Our goal is to provide clients with a true value responsible investment solution, while driving meaningful change for society and the environment.

At end of December 2020, AXA IM employs over 2,440 employees around the world, operates out of 27 offices across 20 countries and is part of the AXA Group, a worldwide leader in insurance and asset management.

Find out more

Contact details

Please contact us on: LONClientServices@axa-im.com

Continue

Pictet-Nutrition fund: Investing in the future of food

Faced with a growing world population and climate change, the food industry was already under severe strain even before Covid-19 struck. Covid-19 has disrupted the food sector's supply chains and is set to change consumer eating habits for good

Looking ahead however, the pandemic could help revitalise it. If food producers and distributors move quickly to deploy advanced technology and innovation to meet growing consumer appetite for food that is healthier and more sustainable, the industry will be fit to meet the demands of the 21st century.

The Pictet-Nutrition fund invests in companies that are developing solutions to help secure the world's future food supply. The fund takes a wholly positive approach, aiming to benefit from solutions, not problems – we do not invest in commodities or speculate in shortages in food. Rather, we focus on companies involved in helping to secure the world's future food supply and that therefore represent sustainable long-term opportunities for investors.

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Continue

PIMCO

At PIMCO, we believe the size of bond markets and recurring nature of debt issuance position fixed income as a driving force in financing a more sustainable future.

We seek to foster growth and change in ESG fixed income investing. This includes driving market innovation, focusing on industry standards, engaging with issuers, and partnering with clients.

PIMCO's ESG Investing Process: The Three E's

1 Exclude

Restrict investment in issuers fundamentally misaligned with sustainability practices –by prospectus and in practice

2 Evaluate

Emphasize best-in-class ESG issuers and prime ESG engagement candidates in portfolio construction

3 Engage

Collaborate with issuers to change ESG-related business practices

For more information about ESG at PIMCO and how we engage with bond issuers, industry groups and clients, read our ESG Investing Report

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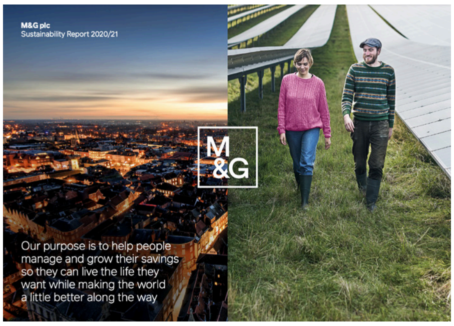
Pru
part of M&G plc

Prudential

As part of M&G plc, we're committed to putting sustainability at the heart of everything we do to ensure we remain able to deliver on our purpose of helping our customers live the lives they want while making the world a little better on the way, and we continue to try to deliver stronger returns for all stakeholders in the long term.

We have recently published a sustainability report which includes a 10 point sustainability plan for the company, of which the growth of planet focused funds is part of. The launch of PruFund planet in 2021 is another example of how we're delivering against this plan.



For more information about our sustainability, ambitions and targets as a company take a look at the M&G sustainability report

Learn more about
PruFund Planet

Continue

Vala

Venture builders & investors

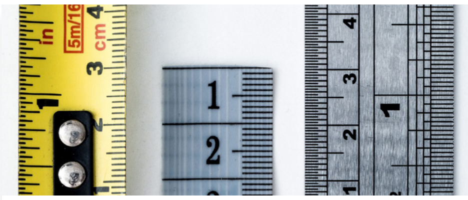
Vala has been disrupting the EIS industry since 2017, by going further to build exceptional businesses and delivering an altogether better approach for investors and financial advisers. Ultimately it gives the investor a greater chance of significant returns.

We believe early-stage businesses are the UK's most important engine of innovation and value creation. So, we make it our mission to back, build and embolden ventures that can have an impact in their markets and on society. We aim to put capital to work where it is needed most: to mentor founders, optimise products, create go-to market strategies, and bring together outstanding teams.

Vala's **Sustainable Growth EIS** targets high investment returns from businesses solving some of the planet's thorniest climate change challenges. There's never been a better time to invest in sustainable ventures: consumer demand is rising; governments are legislating to hit tough targets; technological advancements are outpacing existing solutions meaning large corporates are being forced to acquire disruptive companies; and investors are demanding sustainable returns from large Funds

Find out more

Five reasons why there's never been a better opportunity for sustainable start-ups



Unpicking the jargon of responsible investing

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CPD

1 hour of unstructured CPD

By reading this document you will:

1. **Understand** the background, challenges and issues related to climate change, ESG and sustainability in terms of the involvement, initiatives and objectives of vanguard countries and their governments and also, the investment strategies initiated by some of the leading global investment firms.

2. Be able to **explain** the timescales and key milestone dates; the roadmaps in place (such as Green Finance); regimes (Sustainable investment labelling) and HM Treasury and regulator guidance as regards to investment and fund labelling.

3. Be **aware** of green gilts and other climate-focused or sustainability-linked savings products; plus, an awareness of the different data providers and methodologies used in respect of information that informs choices regarding ESG- and sustainability-related investments.

4. **Explore** how advisers show evidence of their own due diligence on Discretionary Fund Managers (DFMs), the quality and source of information and opinions garnered in respect of ESG, Sustainability and Responsible Investments.

5. Understand the main issuers and instruments in which to **invest**; the advantages of using a fixed income over equity strategy and those investment firms offering the best approach, strategy and advice; using on-trend analysis and thematic investing that look at specific sectors, geography as well as value, people and process chains with an environmental and sustainable lens.

6. Be able to explain how investment firms **engage** with stakeholders in regards to responsible investment and sustainable solutions.

7. Understand that many aspects of **Sustainable Investing** are still evolving – including the very definitions and applications of ESG and the Clean Economy itself – and that the (bond) market for sustainable investments is complex and will take time to be more readily understood by the wider investor base.

Contents

INTRODUCTION

The issue of sustainability has dramatically risen up the agenda for financial advisers and financial planners in recent years as indeed it has for business, the economy and society at large.

With such a breadth and depth of change, increasingly advisers and the companies they partner with are seeking ways to frame these shifts in ways which can be communicated to clients and incorporated into investment processes.

Along with all the fanfare about the Government's pathway to net zero published in late October, it has been confirmed that the regulator will be bringing in regulations with a direct application for advisers around suitability and sustainability after several months when things had gone rather quiet. The Treasury and FCA will now both work on this project, though we still await details.

We are also learning more about extensive plans for financial services providers with more rigorous regulations. Asset managers and insurers will have to substantiate their sustainability claims. There are plans for a domestic UK taxonomy while the final 'phase three' of the financial services section of the plan has the stated ambition of 'shifting financial flows'.

Most recently the FCA has published a discussion paper concerning fund labels and climate disclosures for both funds and fund managers

Many of the terms used were already becoming increasingly established in advisers' minds. So sustainable and/or responsible investing are broadly accepted as an overarching terms.

Environmental, Social and Governance factors are likewise increasingly familiar - including the acronym ESG though approaches, applications and descriptions continue to evolve.

Impact investing is also established as an investment approach having migrated from the world of philanthropic investing to become a better understood and even mainstream approach, which can sit separately from ESG or be combined with it.

While the investment world is changing so is the universe of potential investments and assets. Businesses are setting themselves climate targets in particular – but that is often in anticipation of more rules and regulations, with many new agreements from COP26 set to lead to new targets, rules and laws.

Some of the new rules are of direct relevance to financial services firms. For example, there is already regulatory pressure on banks and insurers to disclose climate change risks. Some deal with new requirements and standards for businesses across almost every sector of the domestic and global economy.

Variously, international bodies and nation states are aiming to set out important new standards - to take one important example defining bonds that fit sustainable or green investing criteria.

The politics and policies are also shifting dramatically with the international climate change conference COP26 in Glasgow aiming to make even more progress on climate change.

Yet the picture can be confusing, partly because there is no one regulation, law or initiative that encompasses all topics involved or that commands full international support either, despite many high-level agreements.

Besides regulation, some change is being driven by businesses themselves, some by consumer behaviour and some enabled by technology. Indeed, in many ways, the ideal for those seeking significant change is that all three operate in parallel.

Of course, there have also been setbacks and bottlenecks. High-level measures and political promises are very likely to prove more controversial when it comes to implementation.

Our approach with this guide is to set out some of the main points and developments in recent months and years including some of the foundational thinking at the UN and the latest UK initiatives.

We suggest a glossary of terms, though with the caveat that there is still a lot of variation at time of writing.

We look at some adviser approaches to embedding and communicating sustainability and set out the thoughts and approaches from some of our sponsors ranging across portfolio construction, risk management and developments directly concerning asset classes including both public and private markets.

We also spoke with a number of sector experts to help generate a practical question and answer section.

The overall aim is to give you a guide you can refer to in future and which will hopefully better inform your thinking on these matters.

Section 1
THE CONTEXT

POLITICS AND THE GLOBAL DEBATE

The political will, particularly for climate change action but also sustainability more generally was viewed as being under threat from the stresses and strains of the pandemic. Instead these issues have gained momentum amid promises to "build back better" and indeed the increasing acceptance of climate targets. At the same time, there have been some headline-grabbing reverses as well.

For example, the recovery from the pandemic has pushed energy resilience higher on to the political agenda as prices have risen. Campaigners for the energy transition may see this as a mixed blessing as it has demonstrated the price of reliance on fossil fuels but also the risk of intermittent supply from renewables such as wind.

Yet it is clearly of huge significance that the leaders of the US and China have now embraced the need for change and are embracing net zero targets.

We look at a few of these events and announcements below with links for further reading.

COP26

UN CLIMATE CHANGE CONFERENCE UK 2021
IN PARTNERSHIP WITH ITALY

COP26 in Glasgow seeks to build on previous meetings though especially Paris.

It aims to achieve the following:

1. **Secure global net zero by mid-century and keep 1.5 degrees within reach with ambitious 2030 emissions reductions targets** by accelerating the phase out of coal, curtailing deforestation, switching to electric vehicles and investing renewable.

2. Adapt to protect communities and natural habitats, protecting and restoring ecosystems, building defences, warning systems and resilient infrastructure and agriculture.

Continue

3 Mobilising finance with developed countries making good on their promise to mobilise at least $100bn in climate finance per year from 2020.

4 Finalise the Paris Rulebook - the rules that make the Paris Agreement operational.

An explanatory document has been produced by the House of Commons library.

It builds on Paris or COP21, which met in 2015. Paris remains the most important meeting to date. It set out several aims the most important being the following -

Long-term temperature goal (Art. 2) – The Paris Agreement, in seeking to strengthen the global response to climate change, reaffirms the goal of limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees.

UN climate change website

China's climate goal

China has finally set out a goal of net zero admittedly far into the future.

In late 2020, President Xi Jinping of China adopted a target of carbon neutrality by 2060 as reported by the BBC.

In September 2021, Xi said China would no longer build coal power stations for other countries in a speech to the UN. Concerns remain about domestic coal-fired power station building of course.

Continue

USA signs back up to Paris

The USA's rhetoric has changed significantly with the election of a new President. President Biden in one of his first acts signed the US back up to the Paris agreement.

We would point out that following this dramatic shift some of the Biden programme has struggled to get on to the statute book with the Senate on a knife-edge between the two major parties.

Some infrastructure plans have not proved as green as they might have been including funding for new technologies. Yet the intention is certainly clear. To give a couple of examples, in April 2021, the Whitehouse announced a new target for the United States to achieve a 50-52 percent reduction from 2005 levels in "economy-wide net greenhouse gas pollution".

In September 2021, the administration announced plans to fund work into sustainable aviation fuels with the aim of bringing about a drop of 20% by 2030 when compared to what it calls business as usual.

Declaration for Enhanced Climate Action in the 2020s

At the end of the COP26 summit, the US and China issued a Declaration for Enhanced Climate Action in the 2020s.

This committed them to maximizing the societal benefits of the clean energy transition, policies to encourage decarbonization and electrification of end-use sectors, key areas related to the circular economy, such as green design and renewable resource utilization, deployment and application of technology related to carbon capture.

→ Methane

The United States has announced the U.S. Methane Emissions Reduction Action Plan and to do the following before COP 27.

develop additional measures to enhance methane emission control, at both the national and sub-national levels.

China intends to develop a comprehensive and ambitious National Action Plan on methane, aiming to achieve a significant effect on methane emissions control and reductions in the 2020s.

Continue ▶

CO2 emissions

The two countries intend to cooperate on:

- Policies that support the effective integration of high shares of low-cost intermittent renewable energy, transmission policies that encourage efficient balancing of electricity supply and demand across broad geographies, distributed generation policies that encourage integration of solar, storage, and other clean power solutions closer to electricity users and energy efficiency policies and standards to reduce electricity waste.

The United States has set a goal to reach 100% carbon pollution-free electricity by 2035.

China will phase down coal consumption during the 15th Five Year Plan and make best efforts to accelerate this work.

Deforestation

The two sides intend to engage collaboratively in support of eliminating global illegal deforestation through effectively enforcing their respective laws on banning illegal imports.

International Energy Authority estimates scale of the challenge

The IEA once regarded – perhaps a little unfairly - as very much a creature of the fossil fuel industry has issued a series of warnings amid calculations about the speed of transition necessary to meet climate goals. It published a major report in May 2021 entitled Net Zero by 2050: A roadmap for the Global Energy Sector. It is a complicated report but the following sums up the scale of the challenge.

> “ Building on the IEA's unrivalled energy modelling tools and expertise, the Roadmap sets out more than 400 milestones to guide the global journey to net zero by 2050. These include, from today, no investment in new fossil fuel supply projects, and no further final investment decisions for new unabated coal plants. By 2035, there are no sales of new internal combustion engine passenger cars, and by 2040, the global electricity sector has already reached net-zero emissions.

Continue

UN Sustainable Development Goals and Principles for Responsible Investment

We certainly cannot include all the global initiatives, but we wanted to set out briefly the UN sustainable development goals and the Principles for Responsible Investment and note the EU's taxonomy project. These initiatives tend to be regarded as foundational documents and increasingly asset managers are paying heed.

The UN SDGs are important in that they are cast much wider than simply achieving the narrow goal of net zero and combatting climate change important as that is. Increasingly asset managers are noting whether their strategies may contribute to the goals.

> “ The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

What is interesting is that increasingly asset managers are incorporating the SDGs into their thinking including creating investment strategies addressing several SDGs.

In 2019, the House of Commons Library assessed the UK's progress in meeting the SDGs, finding a very mixed picture.

Alongside the SDGs, the Principles for Responsible Investment seek to encourage the world's asset managers to run their investments, as the name suggests, in a responsible fashion, much of this focused around ESG.

It is based around **six principles** included below:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

The PRI signatories now represent $100 trillion in assets under management, an extraordinary figure.

The SDGs and PRI are increasingly linked.

For example, in June 2020, the PRI published a new five-part framework – Investing with SDG outcomes to inform how the PRI can help deliver in the SDGs above.

Continue

The EU's taxonomy for sustainable activities

A huge amount of European Union legislation and regulations have been passed with the UK mostly in support of meeting those goals, but not necessarily following them in detail.

Yet one initiative which could have global implications is the EU's work on taxonomy which sets out to create an agreed set of definitions.

To quote the EU's Europa website: "The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed."

The taxonomy regulation came into force on 12 July 2020 with six aims.

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

To be frank, the taxonomy remains very complicated. We have included a link to a presentation explaining it from the Official Journal of the European Union.

To give a flavour however, the taxonomy suggests that companies can raise money on the bond market, which are aligned with the taxonomy, even if their main activities are not aligned, in part to encourage the transition to sustainability.

Such a bond would be deemed green. If a bond fund has 70 per cent of its investments in such bonds, then it can have an overall 'green' label as well.

It will be interesting to see is whether EU definitions set the template for the wider global industry or at least have a substantial influence on others including the UK.

Section 2

WHAT ABOUT UK FINANCIAL SERVICES?

REAMS OF REGULATION – LOTS OF AMBITIOUS PLANS

The UK has finally published its net zero strategy with a strong financial services emphasis which we examine below. *(The full economy-wide proposals are summarised in the appendix)*

Greening Finance:
A Roadmap to Sustainable Investing

The Treasury has published a new Green Finance roadmap aimed at improving their approach to green finance alongside economy-wide Sustainability Disclosure Requirements (SDR).

It has three phases:

1. **Informing investors and consumers** – addressing the information gap for market participants, ensuring a flow of decision-useful information on environmental sustainability from corporates to financial market participants.

2. **Acting on the information** – creating expectations and requirements that this sustainability information is mainstreamed into business and financial decisions, for example in risk management and investor stewardship.

3. **Shifting financial flows** – ensuring that financial flows across the economy shift to align with the UK's net zero commitment and wider environmental goals.

Continue

We include some of the important points made in the roadmap.

→ A robust ESG market

> “ The market for sustainable investments is complex and evolving. Some ESG factors will not be covered by the UK Green Taxonomy or International Sustainability Standards Board but may nevertheless be the subject of firms’ claims to consumers. The report notes the FCA has already set out its expectations regarding design, delivery and disclosure of ESG and sustainable investment funds.

The roadmap and SDR will go much further in several areas.

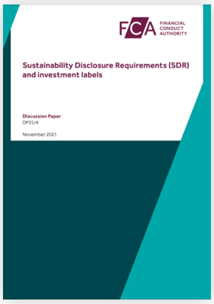
→ Substantiate sustainability claims:

Building on the FCA’s existing expectations, asset managers/owners and investment products will be required to substantiate ESG claims they make in a way that is comparable between products and is accessible to clients and consumers. They will also need to disclose whether and how they take ESG-related matters into account in their governance arrangements, and in their investment policies and strategies.

→ Minimum safeguards:

The UK’s Green Taxonomy requires sustainable investments to satisfy minimum safeguards relating to basic good business practice. The SDR will require disclosure against these minimum safeguards and any related metrics. Over time, the planned International Sustainability Standards Board’s standards will expand beyond climate to cover broader sustainability issues. In the meantime, the government and regulators will encourage disclosure against established voluntary standards.

Continue ▶



Sustainability Disclosure Requirements (SDR) and investment labels discussion paper

The FCA has now published a discussion paper outlining its thinking regarding the following sustainable investment labels:

- consumer-facing disclosures for investment products
- client- and consumer-facing entity (i.e. firm level) and product-level disclosures by asset managers and FCA-regulated asset owners

In terms of disclosures, listed issuers, and asset managers and asset owners will be required to report on their sustainability risks, opportunities and impacts aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD – details below) across the economy, then expanding the scope to cover wider sustainability topics beyond climate change.

But it is the labels which are likely to be of most interest. Interestingly, the regulator is currently minded to have a responsible category with lighter requirements potentially coinciding with what might be regarded as ESG integration. It is also going to be interesting to see it create a sub-class to consider funds investing in firms embarking on the transition.

Three types of sustainable funds plus two other categories:

1 Sustainable

a Impact

Products with the objective of delivering net positive social and/or environmental impact alongside a financial return. Minimum criteria: Intentionality, theoretical ability to deliver and measure additionality through investment decision-making and investor stewardship, impact measurement and verification.

b Aligned

Products with sustainability characteristics, themes or objectives and a high proportion of underlying assets that meet the sustainability criteria set out in the UK Taxonomy

c Transitioning

Products with sustainability characteristics, themes or objectives that do not yet have a high proportion of underlying assets meeting the sustainability criteria set out in the UK Taxonomy

Continue

2 **Responsible**

Impact of material sustainability factors on financial risk and return considered to better manage both risks and opportunities and deliver long-term, sustainable returns. No specific sustainability goals. Minimum criteria: ESG integration, evidence of ESG analytical organisational capabilities and resources, demonstrable stewardship.

3 **Not promoted as sustainable**

Sustainability risks have not been integrated into investment decisions. No specific sustainability goals.

What about rules for advisers?

The roadmap issued by the Treasury on 18th October 2021 clarified plans to extend sustainability regulations to include financial advisers.

In a previous guide, we noted that EU-based advisers will be required to have conversations with clients about sustainability as part of suitability conversations with the relevant regulations having been adopted by the EU this year and coming into force next summer.

The UK was expected to largely follow suit.

However, there had been silence from the UK about its plans, likely because it wanted to set out a distinctive course, post Brexit. Helpfully, we now have confirmation but still lack many details.

> “ HM Treasury and the FCA are exploring how best to introduce sustainability-related requirements for financial advisors. A key aim will be to ensure that they take sustainability matters into account in their investment advice and understand investors' sustainability preferences to ensure suitability of advice. Details of the proposals are subject to further consideration and will be set out on a different timescale to proposals for financial market participants. The proposals will be subject to consultation and cost benefit analysis.

Continue

SOME OTHER UK FINANCIAL INITIATIVES TO DATE

FCA FINANCIAL CONDUCT AUTHORITY

Requirements for financial companies and shares listed in the UK

A lot of the FCA's work on climate change reporting to date has been coordinated with other regulators and Whitehall departments with the Task Force on Climate Related Financial Disclosures (TCFD) which was first developed in 2017 as a focus for driving change.

Its main prongs were governance, strategy, risk management and metrics and targets.

The FCA then created a new rule for firms with premium listed shares around such disclosures in their reporting including:

- whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures in their annual financial report

- where they have not made disclosures consistent with some or all of the TCFD's recommendations and/or recommended disclosures, an explanation of why, and a description of any steps they are taking or plan to take to be able to make consistent disclosures in the future.

- where they have included some, or all, of their disclosures in a document other than their annual financial report, an explanation of why

- where in their annual financial report (or other relevant document) the various disclosures can be found

This very much set in train a system of comply or explain – where firms must say what they are doing regarding climate change or explain why they are not – an approach that sees increasing pressure on firms over time with increasing emphasis on complying.

The FCA now proposes to extend this to all standard listed shares and to introduce new measures for all asset managers, life insurers and regulated pension providers.

Continue

FCA letter to CEOs warns about fund labelling

In July 2021, the FCA wrote to asset management bosses in a 'Dear CEO letter' expressing concern about ESG labelling and sending an important shot across the bows of some firms. It also included several important principles, which we relate below. It is also referred to in the roadmap above. This may be seen as a relatively unconventional approach to setting out regulations but may indicate that government and regulators are keen to accelerate the process.

Criticisms

> Consumers are placing significant value on ESG-related investment opportunities. It is therefore essential that funds marketed with a sustainability and ESG focus describe their investment strategies clearly and any assertions made about their goals are reasonable and substantiated. We have seen numerous applications for authorisation of investment funds with an ESG or sustainability focus.

> A number of these have been poorly drafted and have fallen below our expectations. They often contain claims that do not bear scrutiny. Also, we would have expected questions raised at the authorisation stage to have been asked (and addressed) in the product design phase. Such applications are likely to fail to meet the applicable requirements as set out further in the annex to this letter. We expect to see material improvements in future applications.

Overarching principle

A fund's ESG/sustainability focus should be reflected consistently in its design, delivery and disclosure. A fund's focus on ESG/sustainability should be reflected consistently in its name, stated objectives, its documented investment policy and strategy, and its holdings. We expect authorised investment funds pursuing a responsible or sustainable investment strategy and that claim to pursue ESG/sustainability characteristics, themes or outcomes to consider the overarching principle, supporting principles and key considerations.

Continue

Principle 1

The design of responsible or sustainable investment funds and disclosure of key design elements in fund documentation References to ESG (or related terms) in a fund's name, financial promotions or fund documentation should fairly reflect the materiality of ESG/sustainability considerations to the objectives and/or investment policy and strategy of the fund.

Principle 2

The delivery of ESG investment funds and ongoing monitoring of holdings

The resources (including skills, experience, technology, research, data and analytical tools) that a firm applies in pursuit of a fund's stated ESG objectives should be appropriate. The way that a fund's ESG investment strategy is implemented, and the profile of its holdings, should be consistent with its disclosed objectives on an ongoing basis.

Principle 3

Pre-contractual and ongoing periodic disclosures on responsible or sustainable investment funds should be easily available to consumers and contain information that helps them make investment decisions ESG/sustainability-related information in a key investor information document should be easily available and clear, succinct and comprehensible, avoiding the use of jargon and technical terms when everyday words can be used instead.

In response, the Investment Association also responded to the letter with its own guidance - [IA Eversheds Sutherland Guidance on FCA Guiding principles on ESG sustainable fund design, delivery, disclosure 20210920.pdf (theia.org)]

Continue

Green gilts

Advisers may have noted that the Government is now issuing green gilts and other sustainability-linked savings products. It was outlined as part of a Green Financing Framework paper in June 2021.

> HM Treasury will issue the UK's first sovereign green gilt in 2021 by the UK Debt Management Office. HM Treasury intends to follow up with a series of further issuances to build out a green yield curve. Additionally, the UK will launch a world-first green retail product: the Green Savings Bonds via National Savings and Investments (NS&I) – the UK Government's retail savings organisation – to enable individuals to support green projects.

The first Green Gilt raised £10 billion in September 2021.

Section 3

PRACTICALITIES FOR ADVISERS

1 Do advisers have sufficient access to research and information to inform recommendations addressing ESG and sustainability?

The sources of information are clearly increasing as is the sheer volume of information but experts say the picture is still developing.

Clive Waller, director of *CWC Research* says:

> “ As we well know, the data providers (MSCI, Refinitiv, Sustainalytics) use different methodologies and there is tiny correlation between their results. Moreover, the disclosure of non-financial data is voluntary and can be fiction. This will change over time with SFDR, TCFD and other initiatives, regulation and legislation.

Steve Kenny, chief distribution officer, *Square Mile Investment Consulting and Research* says:

> “ There is no guidance as yet to verify what advisers need to measure against or the data they should request. The asset managers are slightly further ahead – in that they know what is required by the EU – the FCA have said the UK regs will be comparable and there has already been a consultation paper on what underlying securities will be required to disclose on climate and then what is expected of the asset managers. The Greening Finance paper does give a clear steer on timelines for the Asset managers, there is a clear sense that if the way capital is deployed is changed that will change corporate behaviour faster than regulation. At present, this is a best endeavours situation, where some are making a more earnest effort than others, and until we have firm regulatory guidance it is difficult to be overly critical of what is being provided. However, this does not excuse anyone involved from completing their due diligence to ensure they are comfortable and can explain what is in the tin!

Continue

Waller adds:

> Advisers need to know exactly what research methodologies asset managers employ and with how many companies (40,000 listed globally). They need to know what is quantitative and what is qualitative and what do they actually do in the qualitative research. Do they ring up or visit? Do they use own data or third party? If the latter, who?
>
> Advisers cannot do this themselves, so they need a data partner, such as FE fundinfo, Morningstar, Square Mile etc. Some of the DFMs have research that is possibly OK. The adviser needs to do appropriate due diligence on the chosen partner.
>
> There is much greenwashing. One asset manager told us they bought Boohoo for the ethical fund as they believed they could change their behaviour!
>
> Too many ethical investors in terms of funds/consultancies/advisers see ESG as a way to flog their wares.

2 Is demand increasing among advisers?

Waller says:

> Yes, but from a low base. Those that are passionate about sustainability say clients are gagging to buy the stock. Generalists say there is little interest. No doubt interest is growing and will continue to, but some figures quoted are the stuff of dreams. Please remember, there is no definition of an ESG fund.

Kenny says:

> It is increasing, but we are starting to see ESG fatigue as the theme has had so much coverage with practically every fund group talking about it. However, it is also true to say that there is a huge increase in clients asking about Responsible Investment and that is only likely to increase further post COP26.

Continue

> “ The good news is that research shows the public trust the advisers, but are more cynical about asset managers. The adviser community should draw on some of the information from independent players in this space, such as Square Mile and SRI Services to name but two examples, where they can access experienced, well-researched opinion.

3 How does an adviser communicate these propositions to the client?

Kenny says:

> “ It requires advisers to decide how they wish to integrate ESG and Responsible Investment into their proposition. This will require them to amend their fact find to be amended to include questions on clients’ ESG and Responsible Investment preferences. There also needs to be an understandable narrative that the clients can relate to.
>
> The adviser needs to decide whether the ESG option is an ‘opt in’ or ‘opt out’, that is to say that clients opt out of the traditional CIP solutions into an ESG equivalent or that they are offered ESG as the default option which they opt out of.

Waller says:

> “ The adviser has to have a clear proposition to take to the client. If the adviser tries to be all things to all men, FOS will have a field day. Our research indicates that most clients are generalists who care about the climate change issues but who care about their retirement fund more. We suggest that the ESG proposition is published. Those wanting specialist or ethical fund advice should be pointed at specialist advisers or DFMs.
>
> Pure ESG is about risk. Schroders, as an example, apply ESG screens to all stock transactions, looking for those at risk because they fail ESG tests, placing risk on the share price. This might keep many clients happy.

Section 4

SPECIALIST VIEWS ACROSS THE WORLD OF ASSET MANAGEMENT

BONDS ARE THE FOUNDATION OF A SUSTAINABLE RECOVERY

Lorenzo Brunelli
Fixed Income Strategist focusing on ESG strategies

PIMCO

Transitioning the global economy to a net-zero emissions future will require trillions of dollars of investment, representing a significant opportunity for investors. With the global bond market almost double the size of the equity market, and the recurring nature of debt issuance, fixed income investors can be a driving force in financing a more sustainable future.

Issuers must come to the market on a frequent basis for refinancing and this factor is a strong incentive for companies to actively engage with bond investors. As one of the world's leading fixed income investors, we are able to leverage our existing and long-standing relationships through our engagement platform as bonds come to market.

The desire for these issues to be successful, we have found, is a strong reason for bond issuers to accept engagement meetings and to discuss ESG issues.

Bonds for change

ESG fixed income is an asset class that aims to provide the typical benefits that investors have with a traditional allocation in fixed income, with the added benefit of influencing and driving positive change amongst issuers in the bond markets.

There are many different types of green bonds, social bonds, sustainability bonds, and even sustainability-linked bonds. The beauty of fixed income is the possibility of driving the sustainability agenda forward across a variety of instruments. At PIMCO, we are actively involved in industry groups and policymaking circles that seek to innovate and develop new financial instruments. Due to our size, we are in a position to advise them on shaping market standards.

Continue

ESG Implementation

ESG investing can be implemented in a variety of ways.

Some investors choose negative screenings to rule out the worst offenders. Other investors instead, look for integration or a best-in-class approach. So, instead of a negative screening, using positive screening, and really emphasising the strongest ESG issues in the portfolios.

Others look for niche strategies - an impact bond portfolio or thematic bond portfolio focusing on a very limited number of areas perhaps climate change. But what PIMCO is seeing are investors combining a number of these approaches.

An Active Approach

Our approach is to collaborate with issuers which we believe can generate a greater impact than simply excluding issuers with poor ESG metrics. By investing in corporates and sovereigns willing to improve their practices, we believe we can drive greater change than through exclusions alone.

Our goal is not just to find the best opportunities in the market, but to create them for investors by engaging with issuers.

As an active manager, we have always believed in engaging with issuers as part of our proprietary research and this is a crucial part of our three-step process to build ESG dedicated portfolios – the other two pillars being exclusion and evaluation.

We exclude by governance terms and in practice, issuers fundamentally misaligned with sustainability principles.

We evaluate, using our proprietary and independent ESG scoring system, as we seek to optimise portfolios to emphasise issuers with industry-leading ESG practices.

At PIMCO we are committed to leading the way in ESG fixed income through innovative strategies for clients, engagement with bond issuers, and industry collaboration to elevate market standards.

Continue

NUTRITION – FEEDING THE WORLD AND FEEDING IT BETTER FOOD

Gillian Diesen

Product specialist in the thematic equities team

PICTET Asset Management

The starting point for this is saying: 'We're living in a world today, in which food systems are really at the heart of some of our biggest environmental and social challenges'.

We have this growing global population for which we have to provide more and more food, in a context of climate change, with fewer and fewer natural resources available to us.

Food production is very resource intensive and responsible for a huge amount of our greenhouse gas emissions, water use, land use.

We have a global health crisis of malnutrition with some 2 billion or so people who do not have sufficient access to food, or nutrition and another 2 billion who are overweight, and who suffer from overconsumption of empty calories with health problems like diabetes and heart disease.

It is why we think addressing our food systems is something that we need to do today, because it's the single biggest lever that we have to address at the same time, these environmental and the social challenges. We need to look at the entire food value chain from farm to fork.

The strategy falls into our thematic range; the starting point is always the same. We identify these long-term secular growth trends that are fundamentally changing the way that we live, not just 20, 30 years from now, but 30 plus years from now, and then invest in companies as closely related as possible to that theme.

We're not looking for firms in a specific sector or geography or of a certain size. We care about looking for companies whose fundamental activities and the drivers of that - cash flows and revenues, earnings and profits are from things helping to improve sustainability, access to food and improvements in the quality of the food that we produce and eat.

Continue

We break that down three main buckets. The first is upstream so ag tech and that's really this whole idea of more yield with more efficient resource use. Things like precision farming, vertical farming, sustainable agriculture.

Then logistics – midstream - where we're looking at things like food distribution, all about that access. But also food waste solutions, because we waste roughly a third of all food we produce along this value chain.

Finally, you've got downstream, and which is the food itself. The food products and supplements, that we as consumers eat directly. Things which have a better nutritional profile, less sugar, less fat, and ultimately enabling these new generation food products, whether that is a plant based or fortified foods probiotic.

Continue

A BROAD APPROACH FOR PRUFUND. A SPECIALIST APPROACH FOR THOSE WHO WANT IT

Catriona McInally
Business development manager

Pru
part of M&G plc

We approach ESG from a common sense view - well-governed businesses run in a sustainable way will, over time, deliver better outcomes for customers as well as stronger, more resilient returns. First and foremost, ESG is about reducing risk.

As a company we set two priorities for climate change and diversity and inclusion across our policies. For us, sustainable means being viable for the long term. It also means taking action to address the long-term challenges we're all facing while looking at the risks and opportunities that provides.

The Prufund asset manager, the Treasury and Investment Office, is a long-term investor and always have been. We need to weigh up the outcomes of where we invest, not just for existing customers today, but for the next generation.

We've always considered ESG factors as a way of looking at material financial impact. We take all those factors into consideration when we're developing our top line strategic asset allocation, looking at risk and return assumptions including for certain countries.

Also, poor governance equals a higher risk premium and higher volatility assumptions. When we decide where we are investing, ESG is also a key component with manager oversight.

With the new Prufund Planet range, we've been able to apply our tried and tested asset allocation principles whilst also reflecting our requirements in terms of exclusions and impact.

To convert an existing fund to something that you could specifically call an ESG fund is quite difficult. But with the Prufund Planet range, we've been able to include different types of exclusions and have different types of funds.

We use the Impact Management Project framework which helps categorise the funds based on their intention. So, what is the intention of the founders? If the intention of the funders is to do harm, then it wouldn't be included.

Maybe the intention is to reduce risk - so ESG, risk focused or to generate a positive outcome. And we would categorise our funds using that framework. And that's something I think a lot of advisers are liking, because it keeps it really simple. This is the problem advisers have. Everyone is telling them what to do but nobody is telling them how to do it.

Continue

ENGAGEMENT ON FIVE FRONTS

Hilkka Komulainen
Head of Responsible Investment

Our approach is that we have a purpose for our business, which is to help people achieve a lifetime of financial security. Everything we do around responsible investment is effectively about how we make that purpose come to life.

We can invest in sustainable solutions, such as ESG screened or ESG integrated funds. We can also divest if we think a company is not well positioned for the transition to low carbon and if we don't think that they're managing risk on our on our behalf when it comes to things like climate change. All of that relates to our products and solutions, the kind of funds we develop and how we make sure that our policyholder's capital is risk managed.

We have another four levers that all relate to how we can engage in the market to have an impact.

We are a large customer to some of the world's largest asset managers - BlackRock, HSBC, JP Morgan, Schroders. We can hold them accountable when it comes to responsible investment and sustainability, being part of the dialogue and really putting our customers' interest at the heart of that conversation.

We can engage with our underlying portfolio so we can exercise our rights as a shareholder. We are a universal owner and effectively have exposure to every single listed company out there.

So, we can participate in this overall movement with investors asking companies for more transparency, asking them to be more ambitious, because all of that ultimately manages our risk. If we get some of our oil and gas holdings to get themselves into a low carbon trajectory, it is an investment risk that's better managed on our behalf so it's worth doing.

On voting engagement, we can either engage collectively – joining coalitions like Climate Action 100 Plus or we can talk to our managers about how are they engaging on our behalf and instruct them better.

We can engage with and support customers, advisers, and consultants to help them better understand the options that are available. I think there's a lot of interest in the retail space along the lines of 'I want to invest my savings sustainably' and we can support those conversations.

We can also advocate for policies that create a level playing field for investors that want to see a sustainable transition.

Continue

INTEGRATION HAS BECOME CORE

Chris Iggo
Chief investment officer for core investment

It feels like there has been a tidal wave of sustainability and climate-focused products but there's not a lot of clarity. We've gone into a new phase that is beyond ESG data and scoring and ESG reporting. Not quite impact becoming mainstream, but there's a desire from both the demand side and the supply side for products to be offered with clearer objectives. So not just saying this is a sustainable fund, buy it and you'll be fine.

It needs to be 'what are the actual objectives of this strategy?' And let's not be shy about saying it's a core strategy, but we do take into account ESG considerations in our stock selection and asset allocation.

It is a very patchy situation – some asset managers are doing it better than others. As a European based house, with a Luxembourg range, we are subject to the European taxonomy and the Sustainable Finance Disclosure Regulation.

That's really pushed us to thinking about clear objectives and avoiding greenwashing accusations.

Where we're at now is that ESG integration is just standard. The way we would define that is, when we build portfolios, in the selection of the securities that we invest in, we go through a process to assess the ESG profile of that company.

That's based on data, which comes from a variety of sources. That's an issue in itself, because there's not a lot of standardisation. But because asset managers think they're really smart, they will have their own methodology for taking the underlying data and manipulating it to come up with a score that they think best reflects the ESG profile.

As I talk to multi-managers and fund selectors, they're confused as well, and they often end up unpicking it all and putting in their own scoring, so there's a lot further to go in terms of standardisation. But integration has to be based on that.

The consideration of whether to invest in a company or not, is still driven by the financial expectations. But ESG is an additional filter to the universe. You end up with a portfolio which should be superior to the benchmark, in terms of the overall ESG profile – which becomes a kind of the core bedrock of offerings.

Continue

SUSTAINABLE BUSINESSES IN PRIVATE MARKETS MAKE THE GREATEST IMPACT

Jake Wombwell-Povey
Investment director

We're targeting early stage, UK EIS qualifying businesses, which in turn are targeting specific sustainability outcomes as a core part of their business model - companies like Good Club trying to reduce waste associated with shopping. Oxwash are reducing the waste that's associated with laundry. We have a climate risk intelligence platform to help financial services providers manage physical assets such as wind farms where you can understand the climate risk involved and make improved decisions.

We see this as ESG plus, because we put the companies through our ESG platform, in a partnership we run with The Sustainability Group to understand what their products and services do in terms of the environment, customers, society.

Read more about how The Sustainability Group is helping companies prove that 'doing good' creates value.

Jonathon Spanos
Head of venture investments

Early-stage businesses present a perfect opportunity for investors, to ask the question what kind of sustainability credentials do we have? That EIS mechanism should be used as a way of actually helping to shape companies going forward where these kind of tax efficient products can actually help build back better.

Section 5
ADVISER APPROACHES

Damien Lardoux
Head of Impact Investing at EQ Investors

The EQ Positive Impact Portfolios have a dual mandate: maximising risk-adjusted performance and positive impacts in tandem. They are suitable for clients who would like to have their investments managed with the aim of creating a positive socio-environmental impact while maximising financial returns through strategic or tactical capital allocation decisions. It is not enough to simply limit damage to the environment and avoid causing social ills. We intentionally go further than that. Our Positive Impact Investment strategy focuses on investing in companies providing solutions to the world's greatest environmental and societal challenges through their core products and services.

Now and with COP 26, the key focus is on climate change. The IEA estimate that around $4 trillion of investment is required annually to achieve net zero and to stay within a 1.5-degree scenario: between now and 2050 that is more than $100 trillion. This influx of capital with a supportive policy backdrop will be a crucial driver of investment-led growth. The EQ portfolios are already investing in businesses that are front-runners in their industries and lead low-carbon innovation - they are providing key products/services into large, and growing markets. Focusing on companies providing solutions to climate change and companies financing the climate transition through green bonds for example is key to align our economies to the Paris Agreement.

We communicate the approach to clients by publishing regular blogs on the topic. We also publish an annual impact showcasing our approach and the underlying companies we invest in and we have developed an impact calculator to help bring the impact to life.

Anna Pollins
Managing director (partnerships) at Fairstone

We're an independent, whole of market national advice business. We have an investment framework for our advisers, which says, if you're recommending funds, you need to make sure the research covers x, y and z.

We create tramlines, but advisers can still recommend the whole of market within that that framework and articulation. We've partnered with certain DFMs to provide risk-targeted solutions across the MPS spectrum. That includes an impact solution with Tribe.

Continue

We call it responsible investing in the broadest sense. There's lots of shades of green. On the subjective side, the top-down stuff, that can be based on client demand. If it is values based, there are certain solutions that provide screens and remove certain areas of the market. But it's very subjective. You can get more passive solutions with this approach because you can just do some automatic screenings.

What I describe as sustainable, looking at investing with companies that have got ESG practices, we would describe it as a "more good, less bad basis". ESG ratings aren't definitive at the moment, there is no standard of universal view on exclusions and sectors.

We take the view that bottom up is more objective. You get impact in the purest sense - only investing in companies that hit the ESG risk factors.

In terms of our own solution with Tribe, if you genuinely want responsible investing in its purest form, this is the only one we can kind of put our name to. There are lots of other solutions out there and they're not wrong. But this is the only way we can confidently say that it would deliver.

The way we position this with our advisors is for them to think what's driving the client's decision? What are they trying to achieve? Be mindful advisers of what you're buying and what's under the bonnet.

We have done some education recently on the kind of things to talk to clients about. Consider to what extent are they willing to restrict the universe? Is cost a massive concern? Are they comfortable with the kind of 'more good, less bad' approach rather than being purist?

To avoid the greenwashed solutions, advisers need to understand the holdings. What are the exclusion policies? What processes are in place with the fund manager? What would trigger a sale?

TERMS AND DEFINITIONS

A significant amount of work has been done by many organisations as they set out to grapple with establishing accepted terms for ESG, sustainability and impact.

We may still be on the road either to establishing a consensus globally or we may end up with something of a multi jurisdiction, multi-source situation.

Below we borrow from some of the work already done (acknowledging the source where appropriate).

E, S and G

Environment	This covers how organisations impact and are impacted by climate change and broader environmental issues like biodiversity. Reporting on climate change is rapidly becoming mainstream. Global reporting standards are emerging that are underpinned by international agreements on underlying climate policy. Beyond climate, the data needed to drive wider environmental objectives is less developed – although this is changing through initiatives like the Task Force on Nature-related Financial Disclosures (TNFD).
Social	This includes factors ranging from modern slavery to international development. Investors have long considered these matters in their investment decisions and many engage actively with investee companies on these topics. Globally agreed reporting standards may take longer to emerge, but there are existing frameworks which may provide a basis for future global standard setting.
Governance	Covers the means by which a company is controlled and directed, most usually through a Board of Directors. It is the longest established area for investor engagement and extensive disclosure is already provided by companies through existing company law and other requirements.

All three definitions above are from the government's own roadmap

Continue

Best in class/positive screening

Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, and that achieve a rating above a defined threshold.

ESG integration

The structural integration of information on ESG factors into the investment decision-making process.

The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions." (PRI)

ESG momentum

ESG momentum is a term used to describe how companies are changing their ESG characteristics through time. Those with positive momentum are improving their ESG practices and some studies suggest it can drive returns.

It will be interesting to see if the ESG momentum term shares common ground with the sustainable transitioning category being proposed in the FCA paper on labels and disclosures for UK funds.

Engagement

A long-term active dialogue between investors and companies on ESG and sustainability matters especially, but not exclusively, in terms of passive investing.

Exclusions

Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of sector, business activity, products or revenue stream, a company or country.

Greenwashing

The practice of trying to make people believe that a company or perhaps even country is doing more to adopt sustainability than it really is, often for public relations reasons.

Continue

Impact investing

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

The Investment Association adopted from the Global Impact Investing Network's (GIIN) definition

The FCA discussion paper has more to say about impact suggesting several sub-categories for impact and it will be interesting to see if it increasingly enters the thinking in the industry.

Enterprise impact

The impact achieved by the companies and projects in which the product invests. Investee companies inherently generate an impact through their services, goods and organisational characteristics, and especially their productive activities.

Financial impact

The impact that the investor can achieve by financing sustainable activities. For example, investors might fund certain economic activities at concessionary rates or fund activities that would otherwise fail to be financed.

Non-financial impact

The impact the investor can achieve by non-financial means. This includes lobbying for higher regulatory standards or setting best practices in a specific industry and, importantly, stewardship and engagement activities.

Negative screening

Negative screening is the process of finding companies that score poorly on environmental, social and governance (ESG) factors relative to their peers. These companies can then be avoided when constructing a portfolio.

Positive Tilt

A portfolio that overweights investments that fulfil certain sustainability criteria and/or deliver on a specific and measurable sustainability outcome(s), relative to a benchmark.

Continue

Stewardship

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Investment Association adopted from The UK Stewardship Code 2020 of the Financial Reporting Council

Sustainability focus

> "Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).

Investment Association

Sustainability themed investing

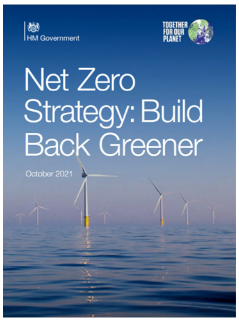
An investment approach that specifies investments on the basis of a sustainability theme/themes. Examples might include climate change mitigation, pollution prevention, sustainability solutions and approaches that relate to one or more of the UN Sustainable Development Goals (SDGs).

Thematic investing

Investing in themes contributing to sustainability. Sustainability-themed investments contribute to addressing social or environmental challenges by investing in companies offering solutions to these issues. Important issues include population growth, rising wealth in the developing world, natural resource scarcity, energy security and climate change.

APPENDIX

UK initiatives outside of financial services



The UK net zero strategy

The strategy aims to unlock £90 billion in investment in 2030 on its path to ending its contribution to climate change by 2050 has been unveiled by the UK government.

It includes:

An extra £350 million adding to £1 billion commitment to support the electrification of UK vehicles and their supply chains.

£620 million for targeted electric vehicle grants and infrastructure, particularly local on-street residential charge points.

Work to kick-start the commercialisation of sustainable aviation fuel (SAF) made from sustainable materials such as everyday household waste, flue gases from industry, carbon captured from the atmosphere and excess electricity.

Ambition to enable the delivery of 10% SAF by 2030 with £180 million to support the development of UK SAF plants.

£140 million Industrial and Hydrogen Revenue Support scheme to accelerate industrial carbon capture and hydrogen.

Two carbon capture clusters - Hynet Cluster in North West England and North Wales and the East Coast Cluster in Teesside and the Humber will be backed by £1 billion.

Continue

An extra £500 million towards innovation projects to develop the green technologies bringing the total funding for net zero research and innovation to at least £1.5 billion.

£3.9 billion of new funding for decarbonising heat and buildings, including new £450 million 3-year Boiler Upgrade Scheme.

£124 million boost the Nature for Climate Fund helping meet commitments to restore approximately 280,000 hectares of peat in England by 2050 and treble woodland creation in England.

£120 million towards the development of nuclear projects through the Future Nuclear Enabling Fund.

There is also a rather significant passage suggesting that the UK may commit to carbon pricing.

"Current pricing of electricity and gas does not incentivise households to switch from gas boilers to electric heat pumps, as it affects the level of household savings possible. Expanding carbon pricing to gas and reducing policy costs in electricity bills would improve price incentives. The Heat and Buildings Strategy confirms that the government will look at options to shift or rebalance energy levies away from electricity to gas over this decade. This will include looking at options to expand carbon pricing and remove costs from electricity bills while limiting any impact on bills overall. A Fairness and Affordability Call for Evidence will be launched, with a view to taking decisions in 2022."

Announcement

Net zero strategy

Continue

The Chancery Lane project

Not all initiatives are entirely government driven. For example, the Chancery Lane project is an initiative from UK lawyers to embed net zero and climate change into legal contracts.

It aims to create new, practical contractual clauses ready to incorporate into law firm precedents and commercial agreements to deliver climate solutions. It could be a very big deal in terms of property development, supply chains and more.

Road transport strategy

In November 2020, the Government announced the end of the sale of new petrol and diesel cars in the UK by 2030. It has two phases:

1. **Step 1** will see the phase-out date for the sale of new petrol and diesel cars and vans by 2030.

2. **Step 2** will see all new cars and vans be fully zero emission at the tailpipe from 2035.

Between 2030 and 2035, new cars and vans can be sold if they have the capability to drive a significant distance with zero emissions (for example, plug-in hybrids or full hybrids), and this will be defined through consultation.

It is likely that the plans may prove controversial the closer the various deadlines get.

CONCLUSION

Advisers who have taken an interest in the area of responsible investing and sustainability may be increasingly frustrated by the lack of detail from Treasury and regulators. It is very likely that in the coming weeks and months, those details will be filled in, in terms of what advisers are expected to do and what disclosures and actions will be expected from the companies and funds they recommend. We suggest that advisers will welcome some rules and guidance, so that it becomes clear what they are expected to do. Then they can get on with explaining the changing environment to clients.

COP26 Final Word

COP26 ended controversially with concerns that the world is not on track to keep warming to 1.5C and a weakened pledge on coal.

Countries have agreed to strengthen their emissions-cutting targets for 2030. Coal power generation will be "phased down" not "phased out". Twenty countries including Italy, Canada, the US and Denmark promised to stop public finance to overseas fossil fuels by the end of 2022.

More than 40 world leaders - including from the US, the EU, China and India - have agreed on a plan to speed up affordable and clean technology worldwide by 2030 involving clean power, zero emission cars, near-zero emission steel, hydrogen power and sustainable agriculture.

The UK government announced financial firms controlling about 40% of global assets - $130trn (£95trn) - have signed up to 2050 net-zero goals including limiting global warming to 1.5C.

More than 100 countries representing 85% of the world's forests have signed up to a pledge on limiting deforestation with £14bn of funding.

The Clydebank Declaration for green shipping corridors has committed 22 countries to creating at least six zero-emission maritime routes by 2025.

34 countries committed to stopping the sale of non-electric vehicles by at least 2040.

The US and EU have launched an initiative to cut methane from fossil fuels and livestock.

UN report on COP26

UK report on COP26

Comprehensive Sky News report

Guide author

John Lappin

John Lappin is a financial journalist who reports and sometimes commentates on financial services, financial advice and sustainability. Among other things, he is the former editor of Money Marketing, consumer investment title Mindful Money and specialist investment website Global Investment Megatrends.

Adviser Home

DEVELOPMENT PLATFORM

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