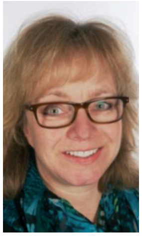
# A taste of things to come



## Julia Dreblow provides a flavour of Good Money Week 2017 and suggests that the SRI market is set to offer more choice than ever before

**October 2017 saw the UK Sustainable Investment and Finance association (UKSIF) convene the ninth annual Good Money Week, the consumer-facing programme that promotes sustainable, responsible and ethical investment.**

In collaboration with their partners, UKSIF produced information about the SRI area for charities, faith groups, financial advisers and young people. A wide range of partner events also took place, including conferences organised by UKSIF, Standard Life, sriServices and many others.

Two common strands this year were the changes in tone and the context, with fund managers being more 'on the front foot' and shifts in the regulatory backdrop.

Some of this year's Good Money Week research offers useful background. In September, YouGov was commissioned to research 882 investors on behalf of Liontrust, Rathbones and M&G, and found the following:

- 47% want to both make money and make a positive difference to the world – against 39% of UK investors who are only concerned about making money.
- 57% of the UK public with a pension believe investment managers have a responsibility to ensure holdings are managed in a way that is positive for society and the environment.
- Demand for fossil fuel free funds is rising – 40% want a fossil fuel free option, up from 35% last year and 32% in 2015.

Allowing for the nature of market research, these figures point to a big difference between demand and actual investment – which although growing remains at 1.2% of net OEIC inflows according to the Investment Association. This contrast makes today's environment all the more interesting – as a number of fund managers are placing greater emphasis on 'purpose' (rather than on their often excellent performance) – and policy-makers are increasingly recognising the diverse benefits of this area. Although interconnected, I will consider the different aspects separately.

### Impact – punching its weight

Over the last few years we have seen greater inclination among SRI fund managers to set out how their funds can contribute to positive societal and environmental change. Their methods include avoidance (i.e the rise of 'fossil free' options), positive stock selection (i.e the rise of sustainability themed funds and social impact options) and responsible ownership (i.e the rise of dialogue, voting and investor stewardship). Each of these concepts dates back many decades, however they appear to be more 'on message' today than ever before.

This year's highest profile development has been the focus on positive 'impacts' – highlighting the beneficial outcomes resulting from particular investment strategies. Organisations such as Ethex, ClearlySo, Bridges Venture, Triodos and Abundance have, for some time, offered interesting ways of investing in projects that target measurable

social and/or environmental benefits, plus respectable returns. However, their structures mean they tend mainly to suit wealthier investors. What has changed recently is that the focus on setting out positive 'impacts' has spread to collectives, with some SRI fund managers starting to measure benefits such as carbon or water saved and jobs created. Examples of companies with funds on this track include EdenTree, Impax, Liontrust, Sarasin, Rathbones, Triodos, Threadneedle, Jupiter, Standard Life, Royal London and WHEB.

Indeed, the choices are sufficiently numerous that 'impact' is starting to appear on the DFM radar – where EQ Investors recently devoted a report to the topic – and to which newcomer Tribe Impact Capital owes its existence.

The benefits of articulating and (where possible) quantifying the additional 'positive impacts' of investing in a particular fund are beyond doubt, as it moves the area closer to what many clients want to see. Further developments in this area seem likely.

### Variations on a good theme

Positive aims and impacts are clearly harder to explain than avoidance strategies and the challenge for intermediaries is how to understand, trust and then explain the different strategies. For many of us in the field, its diversity is its beauty. For others though it can be a barrier. Two very different fund groups help illustrate that there is no single right way to run positive investment strategies:

- Impax was founded in 1998 with the purpose of enabling clients to benefit from the opportunities presented by a diverse group of often smaller, innovative, 'sustainability solutions' focused companies. The remit of their entire business is clear and they now manage over £7bn.
- Royal London's sustainable investment team (formerly of CIS) manage around £1.7bn of sustainability themed and ethical funds, and help integrate material ESG risks across the group's assets (over £100 bn). Its sustainability funds invest in most sectors, holding some of the world's largest (and occasionally controversial) multinationals. Its strategy focusses on identifying companies that demonstrate leadership across environmental, social and governance issues (which they view as an indicator of good management) relative to their peers.

Both managers enjoy regular access to senior company management, discuss problem areas with companies if they arise, and have a proven ability to generate decent returns. Neither approach is entirely unique as other managers share these methods, but they illustrate why it is worth understanding the fund manager's aims before advising clients.

### Mission: possible

Historically, the regulatory 'backdrop' has done little to enable investors to consider the environmental and social implications of where they invest. It is in this context that I am pleased that today's policymakers appear to be recognising fund managers' ability to reflect clients' interests and help address environmental and social issues, where there is a will (and a business case) to do so.

I have written previously about climate risk so won't dwell on it, suffice to say that the Paris Climate Agreement was a major catalyst. The related work of the Task Force for Climate Related Financial Disclosure (FSB TCFD) and the Institute of Actuaries (IFoA) is helping to switch the management of climate risk from 'optional' to 'obligatory' for all investors, including notably pensions.

Other developments include the EU's High Level Expert Group (HLEG) on Sustainable Finance, the EOS PRIIPS work, BEIS green finance plan, recent Law Commission recommendations, the Pensions Regulator's guidance and the recent (October) DWP consultation on 'costs, charges and where we invest'. In addition, Tracy Crouch MP (from the Office for Civil Society) expressed her support for this area at a Good Money Week roundtable event and helped produce the Department for Culture Media and Sport report 'Growing a Culture of Social Impact Investing in the UK' (the Corley report – November 2017).

The common thread is that the backdrop to this area is shifting and further developments appear likely.

### SDGs – a welcome addition

A further development that is gaining traction is the United Nations Sustainable Development Goals (SDGs), launched in 2015. Although not specifically designed for investors, the SDGs highlight many areas where they can accelerate progress. This includes areas such as food (particularly farming and fisheries), climate, education, employment practices, waste management, health, clean energy and water management.

This framework of 17 goals (with 169 targets) aimed at "ending poverty, protecting the planet and ensuring prosperity for all" makes sense for sustainability themed and ethical funds to use as a point of reference. However, there are challenges. Complexities aside, the SDGs are a 15-year plan (some funds are twice this age) and do not readily map across to existing SRI strategies – which represent ongoing commitments to existing, often very loyal, clients. At odds with some in this area I regard the SDGs as welcome, but not necessarily game-changing, particularly for existing fund providers.

### Labels and taxonomies

The challenges around investors using the SDGs point to a further issue: the 'labels' and 'taxonomies' of the area I refer to as 'SRI' (sustainable and responsible investment) and others call ethical, ESG, responsible or socially responsible investment (another given name is 'non-financial', a term I strongly disagree with because in any free market, wherever opinions differ, there is always scope for financial risk). There is no doubt that terminology presents a challenge, so I am cautiously optimistic that labels or a framework may emerge that address this thorny topic. However, over recent months I have spoken with a number of smart people who are in search of 'the' name or 'the' taxonomy, each with their own opinions. And therein lies the problem.

The strategies we see today have emerged at different times, for different purposes and are designed to meet different client aims. Their reasons for existence – and what funds and fund managers do – actually does vary. And sensibly so, because aims and opinions differ. Labels, by contrast, often reflect points in time.

The top level approaches in this area have remained unchanged since the adviser guide I co-authored with UKSIF around 15 years ago: avoid, support, influence. I now refer to these as 'screening, thematic investment and engagement' to map them across to fund strategies. Experience indicates that additional information is essential. Fund EcoMarket (referenced in the Corley report) has offered classifications for UK retail SRI funds for a few years. When new funds have launched and other funds closed, classifications have occasionally been altered in order to remain relevant. Its eight 'SRI styles' are supplemented with information on fund policies and features, as well as explanations of the crossover between the styles and the variations within them.

I will happily support any workable solution, but the risk/benefit calculation is finely balanced. Over-simplification risks misleading investors and undermining trust, while prescriptive structures risk stifling innovation. (Would 'impact measurement' have moved across to funds if they were encouraged to adhere to predefined remits?)

In a sector that is continually snowballing – collecting new ideas and methods along the way – putting it into a pigeon hole will not prove easy. The difficulties associated with producing a lasting, internationally acceptable methodology that makes sense across all markets should not be underestimated, but with some flexibility it might just be possible.

### Anything but vanilla

All the indications are that clients, regulators and policymakers are becoming more interested in how investment interacts with social and environmental issues. In parallel, fund managers are getting better at articulating the benefits they offer over and above (dare I say) 'plain vanilla' strategies.

I can't be sure that all of the issues mentioned will be settled by the next Good Money Week, but I am confident that the area will be bigger, better and offer more choice than ever before by then.

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