JULIA DREBLOW
DIRECTOR, SRI SERVICES

Thought Leadership

SUSTAINABLE INVESTMENT AND ESTATE PLANNING

Many people with estate planning needs will have investments in equity or bond funds and it is increasingly likely that they will have opinions on environmental and social issues also. Whether or not they will have joined the dots between the two is probably 50:50 - however for many good reasons people increasingly do and sustainable investment and related areas are now more popular than ever.

Funds with names like 'sustainable', 'responsible', 'ethical' and 'ESG' (which stands for 'environmental, social and governance') - have made significant progress since the COP21 2015 Paris Climate Agreement was signed as it shifted the business landscape dramatically. (It is likely that COVID has accelerated interest also – but its longer-term investment implications are yet to emerge).

In June 2019 the UK became the first major economy to commit to 'net zero' carbon emissions by 2050, BP surprised many by making the same commitment in February 2020. And in October 2020, China also caught many unaware by committing to 'net zero' by 2060. All of these have profound implications for investors.

Financial regulators will have a key role in making country level targets achievable and have been working on new frameworks and rules. The Bank of England and Prudential Regulation Authority (PRA) were first off the mark, notably with the development of the Task Force on Climate-related Disclosures (TCFD), but the FCA is now increasingly involved also.

The financial services regulator's strategy cannot be finalised until the government spells out what 'equivalence' and 'matching the ambition of the EU sustainable finance plan' mean - but as the UK is hosting the next UN climate talks 'COP 26' in Glasgow, in November 2021, we can reasonably expect some action.

Current FCA activity in this area is largely focused on improving existing regulation. Specific areas of interest include consistency of fund messaging and approaches (including name, strategy, holdings, stewardship), the way ESG criteria - including impact measurement – are described in fund objectives, the clarity of fund information and reporting (relating to both stock selection and stewardship activity) and the use of data. Once bedded down these should make fund strategies easier to understand - and trust.

In the meantime, our open-source Fund EcoMarket database will help you to recognise different SRI styles, screens, themes and fund approaches. When researching funds keep in mind that there are almost as many legitimate fund strategies as there are personal opinions. This area is far from being 'black and white'.

Getting started however can be as simple as a question like 'What do you care about?' It is simple enough, but with one's legacy in mind it could prove to be far more interesting and with far more profound implications than almost any other you might ask.

As for deciding whether or not to get involved in sustainable investment – if you or your clients are in doubt - I'd suggest either speaking with their children (or anyone under 30) – or perhaps less painfully given the context, setting aside some quality lockdown time with David Attenborough.