Critics vs clients

Julia Dreblow discusses the odd dynamic that currently exists in and around sustainable investments

Few deny climate change, but there are echoes of a previous era in some of the criticism directed towards ESG - and sustainable, responsible and ethical investments have all too often been caught in the crossfire.

Some attacks have been high profile, including court cases, whereas others have focused more on sowing - and perpetuating – doubts about why investors should respond to issues like climate change, in spite of clear scientific evidence and calculations of 'materiality'.

Some of the challenges the area faces will settle over time - markets evolve – and equities appear to be coming back into fashion (at time of writing!). However, perhaps the more worrying noise appears to originate from those opposing change.

Some of their criticisms of ESG are justified. Some investors have made exaggerated claims, and these have undoubtedly overshadowed genuine efforts to address environmental and social problems. Likewise, the growing army of box tickers and data gatherers are unlikely to win friends - particularly where purpose and quality are light.

Some of this is already being dealt with through regulation, other aspects may have to wait. The UK's SDR regime is dealing with greenwash, and the FCA is soon to regulate ESG data providers, for example.

Deafening silence

However, all too often people and organisations are now 'going quiet' or 'greenhushing' - in spite of the need to respond urgently to ever growing risks.

Some fear this extends to regulatory entities. The evidence appears mixed.

Changes in the UK's revised Stewardship Code, which will take effect in 2026, are worrying some as the reference to environmental and social risks has been somewhat downgraded. The FCA's most recent strategy (2025-2030) presentation also makes no mention of sustainability. However, its annual work plan (2025-2026) refers to its support for the UK Government's strategy to establish the UK as a 'global sustainable finance hub', its ESG Ratings provider consultation, its consulting on International Sustainability Standards Board (ISSB), and transition plan disclosures - and the continuation of its work aimed at aligning a range of international standards. The EU's situation is also shifting – its recent Omnibus package points to

likely simplification of sustainability reporting, for example.

So, are ESG's critics calling the shots? Do they represent the views of the majority of people? And if so – should we head for the lifeboats?

A good place for UK managers and intermediaries to start exploring this is the FCA's 2024 Financial Lives Survey, published in May 2025. The Consumer Investments deck includes data on attitudes to sustainable investment. Some of the commentary around sustainable investing made slightly torturous reading. Support for this area is lower than in 2022, however, the data shown is far more interesting. Interest remains high - pointing to a reversion to 2020 sentiment - rather than anything more concerning (in my view).

Some examples include:

- **72%** of adults who already had investments (or a DC scheme) wanted to **'do some good as well as provide a financial return'** in the 2024 research. This is a clear majority if lower than the 80% identified in 2022 (Slide 76)
- 33% 'strongly agreed', an additional 37% 'slightly agreed' with this aim in 2024.

When asked about their level of interest in **investing positively** (also slide 76):

- 72% of respondents agreed with the statement 'I would like the way my money is invested to do some good as well as provide me with a financial return'
- 65% agreed - 'I would like to invest in a way that is protecting the environment'
- 69% agreed - 'I would like to invest in a way that has a positive social impact'
- 73% agreed - 'I would like to invest in companies that have strong governance practices'.

The highest level of disagreement with any of the statements above was a tiny 7%. In addition:

- **76%** of adults with any investments or a DC pension thought it was **important to be asked if they wish to invest responsibly** in 2024. (Slide 80)
- When asked 'how interested are you in investing in responsible investments in the future?' **54% of respondents** who already had investments or DC schemes, responded positively. This was down from 63% in 2022, but similar to 2020 (57%). (Slide 73)
- By far the biggest decline was among respondents aged 18-34. (From 69% in 2022 to 53% in 2024).
- Interest across age groups was relatively equal in 2024 (unlike in 2022), and there was no significant male (54%) female (53%) difference.

The **two most commonly cited reasons why people did not invest responsibly** were 'having too little money' (22%) and 'not knowing enough to invest responsibly' (21%). (Slide 82):

- **58%** of adults with any investment were **aware** of responsible investment (not significantly different from 2022). (slide 72)

Source: www.fca.org.uk/publication/financial-lives/fls-2024-consumer-investments.pdf

Another interesting source is the UK Government Department for Energy Security and Net Zero (DESNZ) research into (UK) public attitudes. This also shows significant concern for, but slightly reduced interest (since 2022) in, climate change. Their Winter 2024 research highlighted the following:

- 80% of people said they were 'very' or 'fairly' 'concerned' about climate change.
- 69% of people said it is 'overall important' to them that the UK is a global leader in tackling climate change.
- 38% of respondents said they believed the UK is a global leader in tackling climate change.

Google Trends also indicates that the number of searches people have carried out for the terms 'sustainable', 'ethical' and 'ESG' when carrying out finance-related searches are also stable over a five-year period to May 2025 – although there was a spike in 2022.

The core message that (most) people are concerned about climate change, want to invest positively, want the UK to lead and continue to search for such information online should send important signals to corporate leaders as well as Government. Clearly Government, regulators, business and others have a 'licence' to respond to climate change - although few would say this is easy in the current climate, so realistically, some greenhushing may be unavoidable.

Findings published in the most recent Edelman Barometer may help shed light on why this all feels so difficult. The 2025 Barometer found that 61% of people globally were found to 'hold grievances against Government, business and the rich'. Distrust of 'Government, business, media and NGOs' were all widespread. Perhaps this is to be expected?

Companies and others 'going quiet' about what they are doing to address environmental and social challenges is unlikely to improve trust.

More positively, sustainable and responsible fund managers report the companies they invest in continue to take these issues seriously. Change takes time, and most larger companies have long-term strategies that can not be turned on and off at the flick of a switch. The CBI reported 10% growth in the green sector last year, and publisher Environmental Finance is predicting a record $1 trillion of green bond issuances this year, for example.

In other words, things are changing, but talking publicly about progress - which is what needs to be done if industry is to regain trust – is hard.

So, where are we now in the UK investment, life and pensions sustainable investment area?

There remains plenty of scope for being positive here also. SDR was designed to address 'the public trust issue'. Its implementation has been pretty poor on the fund labelling side, but the core elements of the package mostly work well. Ending poor marketing practices and greenwash, while ensuring fund names don't mislead people makes sense. And the FCA has 'paused' its work on extending the labelling regime to portfolios, we are assured it will return. The FCA has chosen to prioritise the MPS review – and we continue to await how the Treasury will deal with SDR labelling for offshore funds.

The number of funds with sustainability labels also continues to creep up. The FCA recently said there are now 130 funds approved to use SDR labels (not all are in the public domain). However, our Fund EcoMarket research indicates the number of funds with strong sustainability strategies that have opted out of using a label is far higher, at 196. (These funds are required to produce additional disclosures under SDR.)

This is a challenge for the FCA and points to some of the shortcomings of the regime.

Most ethical funds have abandoned seeking an SDR label (Liontrust is the notable exception) – despite often investing in companies with high standards. This is a problem because these are some of the most straightforward, popular and well-established options available to retail clients.

In my view, this is an example of the FCA making the regime more difficult than it needs to be - and losing sight of how clients think. Financial literacy is poor and much of what investors publish is baffling to clients - but most people know what they like and dislike in the real world. Being clearer about exclusion, including building them into objectives and KPIs, would add clarity for clients and so improve trust, reduce costs for fund and portfolio managers - and as a result – I believe – help growth in this area.

The 7% of people who the Financial Lives Survey indicated are deeply opposed to 'doing good and making money' may disagree that this makes sense. They and others will deeply oppose capital being reallocated - in the same way they oppose stewardship activity. Criticism is unlikely to end any time soon, no matter what regulators do. The question for investment intermediaries is therefore who to listen to. Critics or clients (and scientists, academics, actuaries…)?

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