

Sustainable investments

Moving forward from 2025



Julia Dreblow discusses a year of great change in sustainable investing

This article explores some of the data we gathered on Fund EcoMarket, the sustainable, responsible and ethical investment database during 2025 – focusing on what site users were most interested in and what changed during the year. It then explores the debate over defence and the ongoing evolution in this area.

Starting with what people were most interested in - unsurprisingly perhaps, searches for information relating to the FCA's Sustainability Disclosure Requirements (SDR) labelling regime led the way in 2025.

The Sustainability Focus label was our most commonly searched filter, followed closely by Sustainability Impact, Improvers, and Mixed Goals. 'Working towards adopting a label' was 10th, and 'Unlabelled with sustainable characteristics' was 16th - suggesting that users recognised the relevance of both sustainably labelled and unlabelled options for clients with an interest in sustainability - although 'Not eligible to use a label' was 33rd.

Search trends

These new SDR filter options pushed our long established SRI Styles filters down the table a little, but their most common filters were Sustainable Style (7th overall), Environmental Style (11th), and Ethical Style (15th).

The highest 'individual issue' specific searches - used to match investment options to specific client preferences were:

- Armaments manufacturers avoided (14th)
- Coal, oil and gas majors excluded (22nd)
- Tobacco excluded (29th)

These indicate a continued interest in exclusions that is somewhat at odds with the 'positive' focus of the SDR regime, however, they do not, in my view, indicate a major shift in opinion.

Looking back at (calendar year) 2020 database usage - before Russia's invasion of Ukraine and the introduction of SDR labels – all three ranked between 13th and 17th place, indicating longstanding concerns.

Fund changes in 2025: additions, removals and renaming

However, much has changed since the introduction of SDR, which has become pretty 'high maintenance' for these funds.

Name Changes

We recorded a massive 354 fund (or other option) name changes in 2025 – presumably largely because of the SDR Naming and Marketing rules.

These were spread across a range of strategy types and products (onshore and offshore). The highest three SRI Styles that saw changes were:

- Sustainable Style options saw 39 name changes (up from 23 in 2024)
- Sustainability Tilt strategies saw 86 changes (up from 19)
- ESG Plus strategies saw 38 changes (up from nine)

This is interesting because the options we classify as 'Sustainable Style' are those we believe have a clear, positive focus on sustainability – holding assets that are unlikely to be queried by clients with a deep interest in sustainability (not that you can ever be certain). The Sustainability Tilted and ESG Plus strategies are respectively more likely to focus on underweight and overweight positions and ESG risk management – alongside some exclusions and stewardship strategies.

The big shift in the 'tilted' cohort is notable because it points to many funds with more nuanced strategies, where there is typically a greater emphasis on alignment to benchmarks, needing to rebrand in order to comply with the new rules.

New funds and closures

2025 also saw an unwelcome drop in the number of entries on our database. During the year we added 61 options and removed 159, mostly as a result of closure, so the total was down by 95 at the year end. Notably, closures included three Impact labelled funds.

SDR-labelled, unlabelled and out of scope

By contrast, the number of labelled funds rose during 2025 – hence all the searches.

We recorded 134 SDR labelled funds as at 31 December 2025, of which 120 were visible to users - as 14 managers asked us not to publicise their labels.

Breakdown of visible SDR-labelled funds and other relevant options as at end 2025:

- 75 Sustainability Focus Label
- 25 Sustainability Impact Label
- 14 Sustainability Improvers Label
- six Sustainability Mixed Goals Label
- 193 Unlabelled with sustainable characteristics (CFD)
- 406 Out of scope (eg overseas funds, portfolios etc)

The 193 'Unlabelled with sustainability characteristics' options include many ethical funds and funds that have a strong and often longstanding focus on sustainability - but chose not to adopt a label. These are required to produce Consumer Facing Documents (CFDs) as they promote sustainability characteristics.

We are also aware of 274 funds, which we do not list, that have produced CFDs. Most of these do not appear to have strong sustainability credentials.

So what does this mean? I worry that this is potentially confusing for users of this information. I would never discourage producing additional sustainability information - but once advisers, clients or portfolio managers look beyond the 134 labelled options the extent to which a fund is designed for people who care about environmental and or social issues risks is not immediately clear (SDR was intended to help) – although it is probably good for traffic on our free to use (thanks to partnerships) database.

Greenhushing, partly in response to the new anti-greenwash rule – but also perhaps geopolitics - also risks making due diligence even more complex.

Exploring defence investment

Another big story in this area recently has been the appropriateness of defence assets. With 'Armaments manufacturers avoided' being our most searched individual 'issue', debates raging in the media, and an MP

recently quoted saying that ‘defence is an ethical investment’ I will aim to shed some light. As is often the case, perspectives and language matter – and opinions vary.

Having worked in this area for three decades I knew the people who built its first UK retail ethical fund, which was built to reflect Quaker (where the name ‘Friends’ comes from) and Methodist teachings. Neither group wanted to profit from the armaments industry - and working with Friends Provident they eventually launched the Stewardship funds in 1984 as an investment solution for likeminded individuals.

In other words, ethical investing emerged from longstanding ethical principles, and was intentionally different from ‘the mainstream’.

Alongside excluding the defence sector, the fund also avoiding companies involved in human rights abuses and the Apartheid regime, deforestation, gambling and tobacco – much of which we now refer to as environmental and social issues. The first US ethical fund was launched a few years earlier specifically by and for people who opposed the Vietnam war.

Many such funds still exist. They remain known as ‘ethical investments’.

The fact that some people don’t like this will not change what these funds are about any more than denying climate change will reduce global temperatures.

The wider landscape has however changed greatly over recent years. Integrating ESG risk into investment analysis has become mainstream and many fund managers cite the (perhaps understandable) lack of transparency in the defence sector as an investment risk. Russia’s invasion of Ukraine, and events across the pond, have unsurprisingly led many to conclude that the UK and others must increase defence spending - although the difference between buying equities and allocating public money to defence is rarely explored.

The PRI is currently revisiting this area, and rightly so, and we can expect responses to vary. I doubt many, if any, ethical funds will shift their positions because of their core purpose and commitments made to clients. Many sustainable funds may agree, perhaps citing the fact weapons manufacturers are unlikely support ‘Paris Alignment’ or deliver positive environmental outcomes. Many also have longstanding client commitments. Other strategies, such as tilted funds, may evolve slightly or significantly, perhaps focusing on supply changes, and probably for financial reasons. Indeed, this has begun.

Far from being unhealthy this variety and the possibility of change is consistent with the

way this market has evolved. Changing attitudes have always shaped policy development. However, this is more newsworthy now because of the phenomenal growth and success of such strategies. Although to be clear – the FCA and SDR take no position on armaments.

World Economic Forum Global Risk report

The increased interest in defence also shows in the World Economic Forum’s recently published Global Risks report where ‘Geopolitical confrontation’ topped respondents’ short-term (two years) concerns. The next three major risks are Misinformation and disinformation, Societal polarisation and Extreme weather events.

The WEF’s longer term (10 year) top four risks were Extreme weather events, Biodiversity loss, Ecosystem collapse, Critical change to Earth systems - and Misinformation and disinformation. These illustrate why although many corporates are now quieter about environmental risks they are generally unlikely to reverse their strategies.

Moving forward together

These all point to far greater alignment on ESG-related risks than some suggest - particularly when you factor in public concern, which has consistently been around 70% for years (the latest FCA FLS found 72% want to ‘make money and do some good’). The Institute of Actuaries has also warned investors that increasing global temperatures make ‘system collapse’ entirely possible. So, in short, SDR and other rules are likely to continue to evolve – and the path

may not be smooth - but there are many reasons to be confident that sustainable investment will continue to grow. Media attention may be elsewhere, but market dynamics have changed and companies are responding, which means there will be winners and losers.

Advisers, commentators and others may need to recognise that client preferences will, however, remain inconsistent as they are variously shaped by science, faith, lived experience or a combination (hence the 250+ options on our database). However, ignoring them should not be an option – particularly for a service industry.

The extent to which asset owners and managers can help reduce major risks is perhaps harder to gauge, in part because frameworks are set by Governments. However, given their ‘materiality’ it is good to know that many are actively considering this - which is why I welcome the Investment Association’s new report ‘Realigning Stewardship: delivering sustainable value through stewardship’.

It is hard to argue against the desirability of ‘sustainable value’ – although presumably someone will.

Our recent blogs contain links to all the information and reports mentioned above: <https://www.fundecomarket.co.uk/help/>

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