UKSIF
UK Sustainable Investment and Finance Association

Good Money Week

Sustainable Investment

What it is and how you can get involved?

Section 1

Introduction to Sustainable Investment

What is sustainable investing?

Investment professionals consider many factors that can influence the financial performance or global impact of an asset when making their decisions. Sustainable investing describes an approach to considering the long-term viability of an investment where environmental, social and governance ('ESG') factors are considered alongside the financial metrics in investment decisions. This might either consider how ESG factors influence the financial performance of the investment or seeking to achieve specific environmental or social goals by making the investment.

Sustainable investing approaches can differ significantly depending on the financial institution and regulation in a specific country.

Why is it important and what does it aim to achieve?

Investors are traditionally concerned with achieving financial returns with environmental and social factors associated with sustainable investing, such as climate change or labour rights, considered peripheral to this outcome. In recent decades, a growing understanding from investors on the climate and social conditions that impact financial performance of companies, as well as the economy at large, has seen greater integration of these issues in their decision-making.

Example: the gig economy is well known for its insecure working conditions for the food delivery or taxi drivers. For investors who already have a stake or are planning to invest in companies involved in the gig economy, considering changes in working conditions resulting from evolving employment regulations is key to avoiding financial loss.

At the same time, more people recognise that the way they invest their money could drive positive change in the real world alongside receiving financial returns. This can be achieved by investing for specific real-world outcomes (impact investing) or filtering out companies or industries involved in controversies or breaching international human and labour rights agreements (screening).

Examples of business activities that can be a focus by an impact fund can include; social enterprises focusing on affordable education, food, microfinance, healthcare, or funding renewable energy projects. Investing in companies engaged in these activities provides them with the financial resources necessary to achieve positive environmental or social change projects. "Negative" or values-based screening aims to avoid investing in certain sectors or products such as alcohol, tobacco, and military weapons.

Key Terms

ESG refers to Environmental, Social and Governance factors, which can be considered in the process of making investment decisions. Common ESG factors include:

- Environmental: climate, nature and biodiversity, pollution.
- Social: equality, human rights, labour rights, modern-day slavery, diversity, consumer protection.
- Governance: corporate boards, executive compensation, risk management.

Ethical investing typically involves investments in business activities promoting positive social change or actively excluding companies involved in producing or selling tobacco, alcohol, controversial weapons, and other controversial activities. Sometimes this approach is also referred to as **Socially Responsible Investing (SRI).**

Impact investing refers to investment strategies pursuing specific environmental or social outcomes alongside financial returns.

Individual Savings Account (ISA) is a type of UK savings account that is structured to help individuals save or invest money in a tax-efficient way. The UK government sets a limit on the annual amount you can save in an ISA and in 2024, the limit is £20,000. The main difference between an ISA and any other savings account is that it offers tax-efficient interest payments or capital gains.

Responsible investment can refer to a range of investment practices involving sustainability, ESG, SRI or impact considerations.

Stewardship involves various ways in which investors can exercise their influence in pursuit of sustainable outcomes. For example, communicating their preferences to the companies they invest in **(engagement)**, **voting** on, or submitting **shareholder resolutions** to express approval or disapproval of a company's management strategy.

Divestment in the sustainability context involves disposing of an investment in a particular company due to its poor sustainability-related behaviour. For example, if a company failed to reduce its carbon emissions following investor engagement efforts on the topic.

Greenwashing refers to instances where sustainability-related marketing and communications includes statements or claims which do not clearly or accurately describe the sustainability performance of a company or a product and can therefore be misleading.

Corporate Sustainability refers to corporate practices aiming to improve the environmental, social and governance outcomes of their own operational practices.

Actively managed investment funds involve a fund manager making decisions on what companies to invest in or divest from to achieve enhanced returns compared to a particular benchmark.

Passively managed investment funds aim to recreate financial returns of a particular benchmark by replicating the holdings of that benchmark. For example, a passive fund tracking the FTSE100 index will invest in stocks comprising the index in similar proportions. Exchange-traded funds (ETFs) are a popular type of passively managed funds.

Company shares refer to units of ownership in a company. Buying shares provides investors with the rights to vote on strategic matters in Annual General Meetings (AGM) and receive potential financial returns through dividends or increases in the share price.

Bonds are financial instruments that represent a loan provided by investor to a company or government (the borrower). The borrower is expected to repay the value of the bond with interest after a specific amount of time (maturity date) to investors.

Section 2

Types of financial products

Current and savings accounts:

Banks offer services which allow consumers to receive and make payments (current accounts) and save money (savings accounts). As a bank customer, your deposited money forms part of the banks' funds which can be lent to individuals and businesses. To achieve profits, banks charge fees for the services they provide and interest on the money they lend.

Savings accounts is a popular choice for many consumers due to the stability and safety they provide relative to investments (which can increase or decrease in value). Key financial features consumers need to consider when choosing a savings account include:

- interest rates (higher interest rates are more beneficial);
- rules regarding the minimum time period the savings should remain in the account; and
- whether a notice should be given prior to withdrawing the funds.

Mortgages:

A mortgage is a type of loan from a bank (or another authorised provider such as a building society) for the purpose of buying property. A mortgage loan requires the consumer to pay back the loaned amount with interest, typically monthly over a set period. If the consumer cannot continue their repayments, the bank can take control of the property and sell it.

If sustainability is a priority, consider the bank's approach to environmental and social issues. For example, whether it invests in highly polluting or controversial industries (such as fossil fuels or tobacco). Given the important role banks play in the economy, their approach to sustainability issues such as climate change can be highly influential – the Church of England Pensions Board has recently been engaging with global banks on their role in addressing climate change. Choosing a bank with a strong sustainability policy and commitments demonstrates support for a sustainable financial ecosystem. Increasingly, dedicated 'green' or sustainable savings accounts are being introduced by banks and building societies, where funds deposited in these accounts are only used to invest in sustainable assets such as green energy or social enterprise. Using these services will ensure that consumers' money will not be used to support economic activities that are harmful to the society or the environment. Some financial institutions are also offering 'green mortgages', which provide consumers with preferential terms (such as a lower mortgage rate) if they buy an energy efficient or make an existing property more efficient.

What to ask your bank or building society?

- Is there a bank-level sustainability policy?
- Do you have any sustainability-related lending preferences? For example, requiring compliance with relevant industry standards or international frameworks or restrictions around issues like companies or projects significantly harming the environment or involved in production or sale of controversial weapon)?
- Does the bank or building society offer any sustainable savings accounts? If yes, what are their objectives?
- Does the bank or the building society offer green mortgages? If yes, what are their requirements?

Pension funds

Pension funds also called **retirement** accounts, are a type of savings account specifically designed to support an individual's financial needs during retirement. If a consumer and their employer contribute to a pension, the money is likely to be managed by a financial institution such as a pension fund manager, who invests that money in the financial markets aiming to achieve financial return.

This can involve investing in passive or active funds, managed by asset managers, on behalf of the pension scheme. Consumers wishing to explore sustainable investing options for their pension can start with reviewing the relevant pages of the pension scheme's website or contacting their representatives directly. If no sustainable investing options are currently available, consumers can consider contacting the pension scheme with a suggestion to develop sustainable investing offerings in the future or explore alternate pensions funds.

What to ask your pension fund manager?

- What are your sustainability policies and commitments?
- Do you offer pension savers any sustainable investment options? If yes, what are their objectives and what approach to sustainability (such as ESG, SRI, Impact, or others – see Key Terms) is used to achieve them? If not, are you planning to introduce sustainable investment options in the near future?
- What are the top 10 assets the fund is currently invested in?
- How much of my pension is invested in controversial industries (depending on consumer preference, this could include fossil fuels, tobacco, and others)?

See the *'Overview of sustainable fund labels'* section for more information on sustainable funds.

Personal investments (e.g. through an Individual Savings Account):

In addition to earning interest by keeping money in a bank account, consumers can invest in different assets within the financial markets. These assets might be company shares, company or government bonds, and passive or active investment funds. As the value of these assets can increase over time, the goal is to profit from the growth in value compared to the initial price paid. While this approach allows for greater potential gains than simply keeping money in a bank savings account, it is also riskier because the price of assets can also fall resulting in a loss for the investor.

If a consumer would like to make sure that their money is invested in companies aligned with their values and sustainability preferences, they will have to research and identify the sustainability approach of the fund or a company they are planning to invest in. To find information on the funds' investment approach, including sustainability considerations, search for the fund's **key investor information** documents or a 'prospectus', which are usually available online. Information on a company's approach to sustainability can be found on their website, or in their annual or sustainability reports. By directly investing or owning shares in a company, a consumer can become a shareholder who can influence companies by expressing their sustainability preferences in shareholder proposals or by voting for proposals submitted by others at the annual general meetings.

See the *'Overview of sustainable fund labels'* section for more information on sustainable funds.

What to ask your financial adviser or fund manager about the sustainability approach of an investment fund?

- What types of assets does this approach cover (e.g. company shares or bonds)?
- Why was this approach chosen for this fund?
- If the sustainability approach includes stewardship and potentially divestment, is there a clear escalation process which describes the stewardship approach and when divestment would be considered?
- What data is considered before making an investment decision?
- What are the plans to increase investments in solutions to the climate crisis; human rights; other sustainability issues?

Overview of sustainable fund labels

Sustainability-focused funds usually include the relevant terminology in the fund name (e.g. ‘Sustainable’, ‘ESG’, ‘Ethical’, ‘Impact’). The UK financial regulator has introduced specific labels for sustainable investment funds to provide consumers with more clarity on sustainable investments. These labels will begin to take effect from July 2024 and be fully implemented by early 2025.

Sustainability Impact:

this fund aims to achieve a defined positive measurable impact in relation to an environmental and/or social outcome and invest at least 70% of assets with that aim.

Sustainability Focus:

where a minimum of 70% of the fund’s assets must be environmentally and/or socially sustainable, according to a robust, evidence-based standard.

Sustainability Improvers:

this fund aims to invest at least 70% in assets that have the potential to improve environmental and/or social sustainability over time, according to a robust, evidence-based standard.

Sustainability Mixed Goals:

this fund invests at least 70% of assets with a combination of sustainability objectives and approaches described by the other labels.

Section 3

Financial advice and UK-specific resources

Consumers can also contact a qualified financial adviser for expert advice on their pensions, savings, and other financial planning considerations. In the UK, advisers are required to discuss the client's investment preferences and objectives; the clients can then communicate their sustainability-related preferences to the adviser who will make recommendations taking those preferences into account.

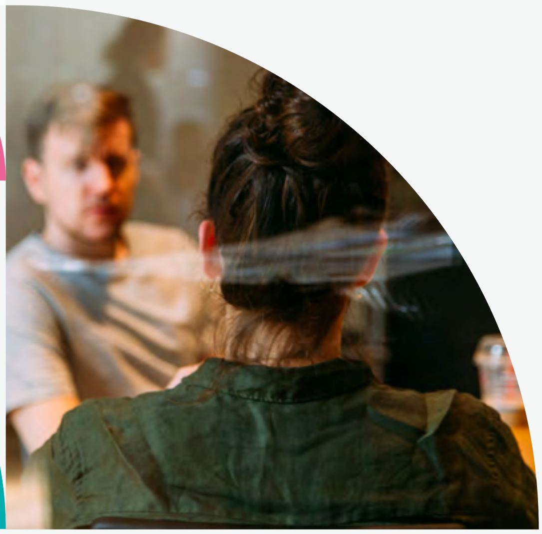
When seeking financial advice, one difference consumers may come across is if an adviser is considered 'independent' or 'restricted'. While both require approval by the UK's financial regulator and must be similarly qualified, there is a key difference:

- An independent financial adviser (IFA) is an adviser who can advise on a full range of available financial solutions and products, as they have no affiliations to any one financial institution.
- By comparison, a restricted (or authorised) financial adviser (FA) can only advise on a smaller pool of products they are authorised to, rather than the whole of the market.

To find out whether your financial adviser is "independent" or "restricted", it is best to ask and request confirmation in writing whether they provide restricted or independent financial advice.

What to ask your financial adviser?

- How can I integrate my sustainability preferences and values in my investment decisions?
- How will my sustainability preferences impact the risk and return of my portfolio?



UK-specific resources:

- FCA Financial Services Register
- Consumer rights with financial services
- MoneyHelper (government-supported money and pension guidance)
- Money.co.uk – An introduction to ESG investing
- FCA sustainable investment labels and anti-greenwashing
- UKSIF's Find a Financial Adviser directory
- Make my Money Matter

DISCLAIMER

Important Information

This material is for general information purposes only. It does not constitute investment or financial advice and does not take into account any specific investment objectives, financial situation or needs. Before making any investment decision you should consider, with the assistance of a financial adviser, your individual investment needs, objectives and financial situation.

We have taken reasonable care to ensure that this material is accurate, current, and complete and fit for its intended purpose and audience as at the date of publication. No assurance is given or liability accepted regarding the accuracy, validity or completeness of this material and we do not undertake to update it in future if circumstances change.

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