

PRACTICAL COMPLIANCE

Sustainability Investing

PREPARED BY

Ian Ashleigh

Risk & Compliance Consultant



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SUSTAINABILITY INVESTING

Sustainability investing is set to be a hot topic in 2019 with environmental issues taking centre stage across many different aspects of our lives.

In the financial services industry, we have fund managers talking about obtaining environmental, social and governance information from companies as being one driver for investment decisions.

ESG, as it is referred to, is likely to be the acronym de jour in the New Year. The other acronym to watch out for is SRI, or socially (or sustainable and) responsible investment.

What does this mean, and what questions should you be asking your financial adviser? First, let's break down the acronym:

- **Environmental** covers global environment issues, such as investing in renewable energy or the overall impact a company and its products has on the environment;
- **Social** looks at how companies deal with 'people' issues such as fair pay and equal opportunities for their employees, how they deal with suppliers and local communities; and
- **Governance** relates to the way the Board and Senior Management operate - the 'tone from the top' which will percolate through the entire organisation. Common topics include executive remuneration and Board structure.



As part of their 'know your client' activity, many leading Financial Advisers have, for many years, been asking clients and prospective clients if they have a preference for investing in ethical funds.

This was typically understood as meaning avoiding, say, arms, tobacco, alcohol etc and failed to recognise that issues like sustainability were also part of their client's DNA.

This was always seen as esoteric investing and clients were almost discouraged from investing ethically because of what was seen as a performance trade off.

With the rise in popularity of model portfolios within advisory firms, asking for ethical funds is seen by some as even more of a chore because your adviser will need to construct a bespoke portfolio for you rather than using a standard model portfolio.

With the expansion and growing diversity of fund options - there are now over 40 such options - there are now tools available to help financial advisers build portfolios that incorporate the often-overlapping areas of sustainability, ethical, ESG and responsible investment strategies.

This is increasingly becoming part and parcel of the consideration of investment committees when constructing model portfolios for clients.

With the development of this area, in part due to increasing awareness of environmental risks, sustainability investing looks likely to become an integral part of all conversations between financial advisers and their clients. However, if you're a consumer, please don't be afraid of starting the conversation - we aren't quite there yet!

How can we help?

Compliance Matters UK Limited offers cost effective and practical guidance in respect of governance, risk and compliance to firms regulated by the FCA.

Contact us on:

Tel: 07768 422 213 or
email: ian@compliancematters.co.uk
to discuss any needs you may have.



www.compliancematters.co.uk

Email: contact@compliancematters.co.uk

Tel: 07768 422 213

Compliance Matters UK Limited is registered in England:

Registered Number 5017344

VAT Registration number 133 5220 53

Registered address: 41 Cavalier Way, East Grinstead, West Sussex, RH19 4SE