

The Regulator Attacks Greenwashing



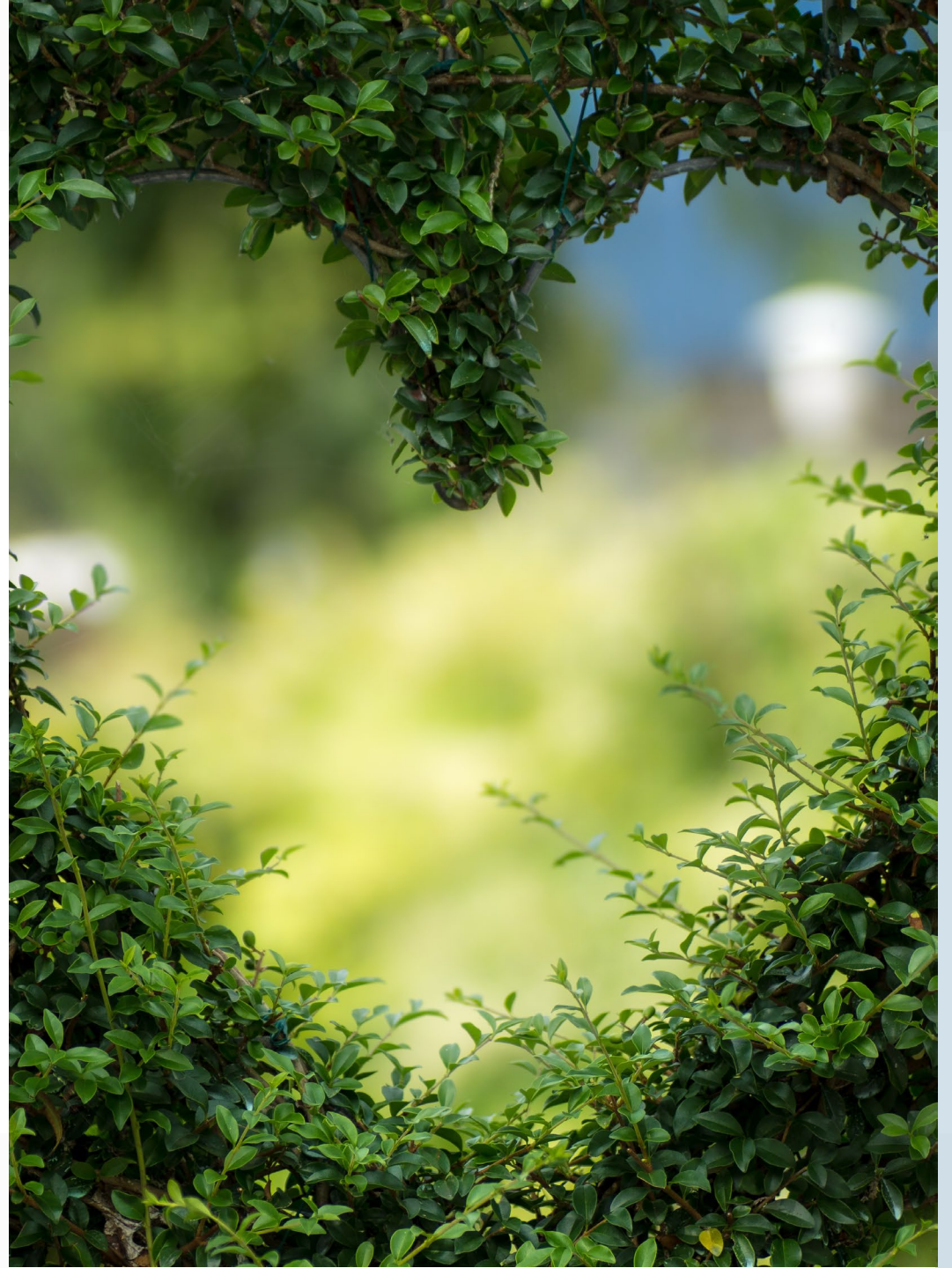
May 2024



Introduction

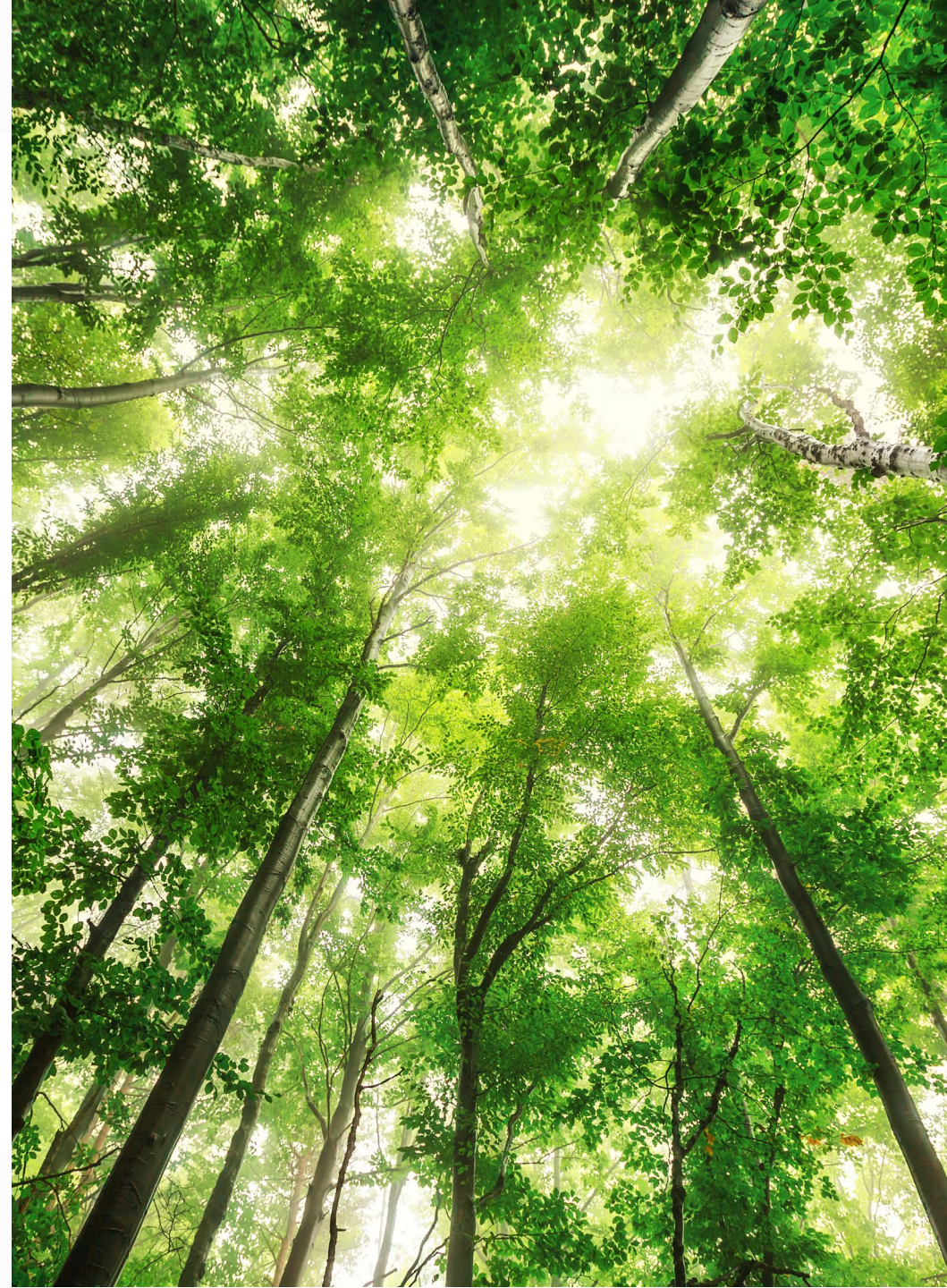
The Financial Conduct Authority (FCA) has announced new rules to ensure a green label on a fund is more than just marketing puff.

It was perhaps no coincidence that the FCA published a new set of rules on sustainable funds just as COP28, the UN global conference on climate change, got underway in late November. Interest in all forms of sustainable investing has surged in recent years, with an estimated \$18,400 billion of assets currently managed globally under the environmental, social and governance (ESG) banner. By 2026, that figure is expected to reach \$34,000 billion.



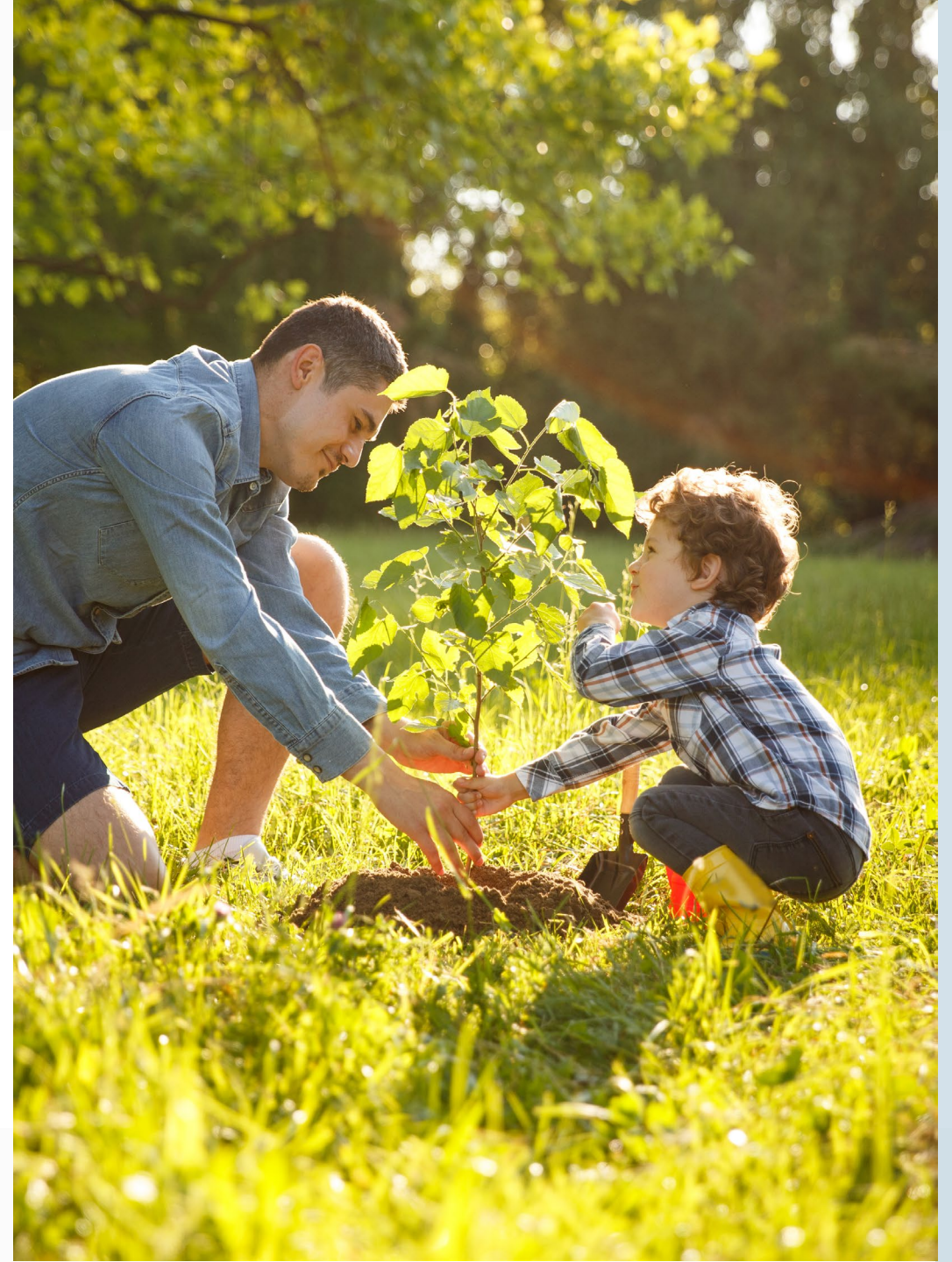
The ESG boom has encouraged the launch of many new green, ESG, and sustainable investment products. That surge has prompted what the FCA noted last year as “...growing concerns that firms may be making exaggerated, misleading or unsubstantiated sustainability-related claims about their products; claims that don’t stand up to closer scrutiny (so-called ‘greenwashing’).”

That potential gap between marketing claim and investment reality has seen regulators around the world take action. The rules issued by the FCA in late November are but the latest weighty example aimed at consigning greenwashing to history.



One interesting aspect of the FCA's approach is that it has created a quartet of product labels to help investors understand how their money is being used:

- **Sustainability Focus:** A fund using this label must aim to invest in assets that are environmentally and/or socially sustainable. The FCA requires the manager to use “a robust, evidence-based standard” to gauge sustainability – mere words and aspirations will not be enough.
- **Sustainability Improvers:** For this label, a fund's objective must be to invest in assets that have the potential to improve environmental and/or social sustainability over time. Again, the measure of environmental and/or social sustainability must be solid and evidence-based.



- Sustainability Impact: In this category, the fund must aim to achieve a pre-defined positive measurable impact in relation to an environmental and/or social outcome
- Sustainability Mixed Goals: This label covers funds that blend the three approaches outlined above. Such mixed funds must meet the specific label requirements of each category in which the fund is invested.

These labels will not roll out until the end of July 2024. Even when they do appear, advice on fund selection will still be necessary as the labels give no clue about the manager's investment expertise and record.



The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.



Wake Up Your Wealth

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