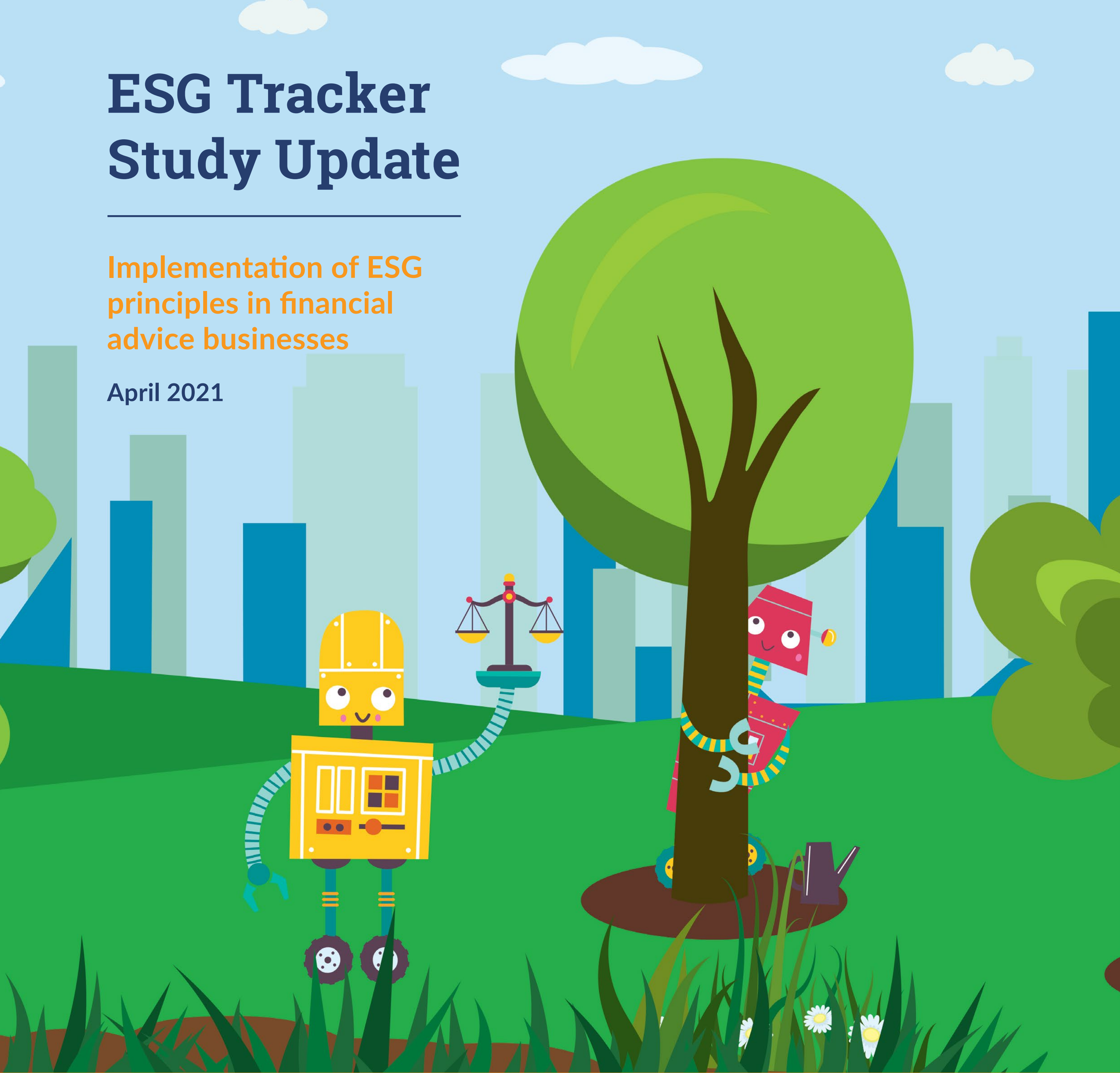
NEXTWEALTH

ESG Tracker Study Update

Implementation of ESG principles in financial advice businesses

April 2021

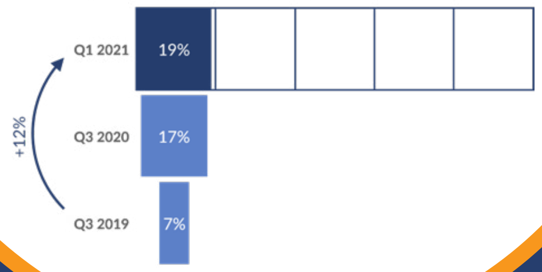


Executive Summary

Client interest:

- ESG or ethical/impact/ sustainable comes up in one fifth of client conversations, up three-fold since 2019.
- While the rate of growth in client-driven interest in ESG has slowed, most advisers expect it will come up in more client conversations in future.

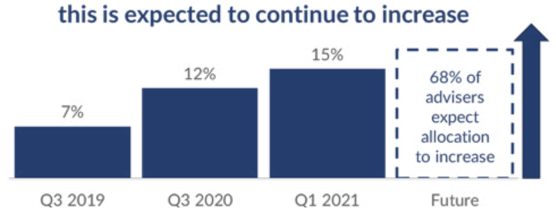
ESG is raised in 1 in 5 client conversations



Adviser Adoption

Nearly all advisers have clients invested in ESG funds or solutions.

Client allocation in ESG grows to 15% and this is expected to continue to increase



Adoption of an ESG integrated investment proposition is a result of a mix of factors, including regulatory change and client demand. The most common driver we heard was that the advisers in the business were pushing for this change themselves, due to a desire to do good or to future proof the business for changing client needs.

Adviser Process

- 83% of financial advisers include a question in the fact find or KYC about the client's ESG or ethical/impact/sustainable investing principles. The big progress over the past six months is the move from only proactively discussing ethical requirements, many advisers are now also asking about the client's interest in sustainable investing or ESG.
- Most advisers said there are no barriers to adopting an ESG integrated process. Among those that cited barriers, most common concerns included a dearth or overabundance of products, a lack of client demand and the ability to research or rate funds and solutions.

Investment Proposition

- Most advisers say they prefer to use badged products to meet the needs of clients with specific needs rather than more generic ESG integrated funds and solutions. Most of the advisers we interviewed believe that in time, all funds and solutions will have a degree of ESG integration but in the short-run, the preference is for specifically badged funds.
- Some advisers said they feel there is a price to be paid for an ESG integrated fund or solution. Several told us that passive solutions aren't able to meet specific needs and so advisers must recommend an active fund where they might have otherwise recommended a passive solution.

Influencers

- FE fundinfo and Morningstar came out again as the top investment research providers that advisers will turn to in doing ESG research for clients. FE fundinfo overtook Morningstar in our most recent survey.

1. FE fundinfo
2. MORNINGSTAR
3. RSMR
4. SQUARE MILE INVESTMENT CONSULTING & RESEARCH

Contents

Introduction

The ESG Tracking Study is a sponsored research report that tracks implementation of ESG principles in financial advice businesses. The report tracks adoption of ESG funds and portfolios among advisers and their clients, the integration of ESG principles in the advice process and the sources advisers rely on when building ESG portfolios. This is an update to the report first published in October 2020 and will be repeated annually.

ESG – an acronym for environmental, social and governance - is an approach to investing that takes these factors into consideration alongside financial factors as part of an investment process.

Interest in ESG investing rose sharply in 2020 and continues to climb. Major asset managers are mostly signatories to UN Principles for Responsible Investing (UNPRI), an international network of investors who have agreed to incorporate six aspirational principles into decision-making and ownership practices. While these asset managers say that these principles are incorporated into all investment decisions, the application in a retail context is somewhat muddled, in part because of inconsistent terminology.

Some retail investors want their investments to do good, most want them to do no harm. Identifying the values against which a client wants to invest is challenging enough. Matching those values to a portfolio is even trickier, much less reporting how that portfolio matches a client's needs on an on-going basis.

ESG investment volumes can only be on an upward trajectory, eventually becoming the norm rather than the exception. Advice firms learned from the Retail Distribution Review that getting on the front foot and proactively making changes, rather than being forced to do so at the point of new regulation, brings business and client advantages.

By tracking the rate of adoption and identifying hurdles, we hope that this annual report helps to ensure that the investment and advice technology industries support advice firms in their ESG journey to deliver a new proposition with confidence.

Sponsors

We would like to thank our sponsors, who kindly supported this research. Without their financial support and input into the research this project would not have been possible. Please do consider looking at their ESG investment proposition to see if it aligns with your own needs.

Research Methodology

This report is written based on both quantitative and qualitative research:

- Online survey of 203 financial advisers in March 2021
- In-depth phone interviews with 12 financial advisers, 17 asset managers, 3 fund research and ratings agencies and 5 investment platforms in February and March.

Client demand continues to rise but the rate is slowing

There is a lot of research suggesting that investor appetite for ESG investing is strong and growing. We draw on the robust FCA Financial Lives survey, using the wealthiest segment of UK adults from that study (£50k or more of investable assets) to define the current level of awareness and demand among retail investors[1].

- 81% of retail investors have heard of responsible investing. Investors in the higher wealth band are more interested in responsible investing compared with the population as a whole.
- 16% of retail investors say they have "invested in this way" before.

The FCA data reveals awareness is rising as is appetite to invest according to values. Our research with advisers confirms this trend.

Figure 1: % of client conversations in which ESG or ethical/impact/sustainable investing is raised

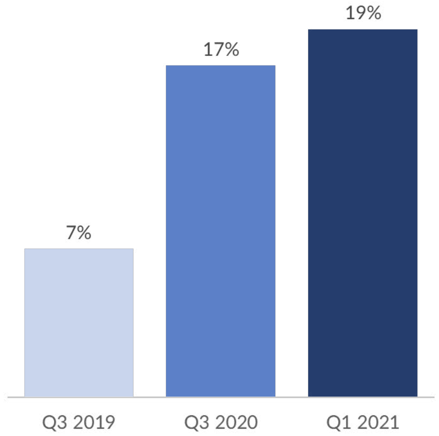
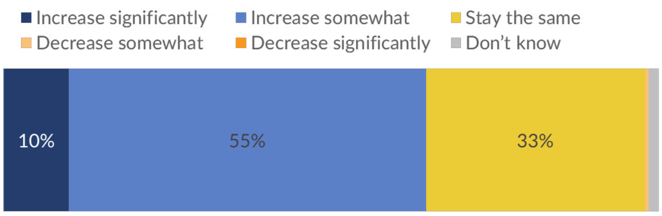


Figure 2: % of client conversations by # of client-facing advisers

	Sole-traders	2-10	10+
% of client conversation	12%	18%	21%

Figure 3: Anticipated change in the frequency of conversations on ESG or sustainable/ethical/impact investing changing in the next 12 months



- ESG or ethical/impact/sustainable investing is raised by advisers in nearly one fifth (19%) of client conversations, up almost three-fold since October 2019 (was 7%).
- The rate of growth in client-driven interest has slowed but continues to rise.
- The topic of ESG or ethical or sustainable/ethical/impact is far more likely to be raised in client conversations with advisers working in larger firms. While it comes up in 21% of client conversations for advisers working in firms with 10 or more client-facing advisers, that compares to only 12% for sole traders. Advisers speak of the time-consuming and confusing "rabbit hole" of researching ESG options and this may explain the reticence of smaller firms, who lack the research and support capacities of their larger rivals.
- Two thirds of advisers anticipate conversations about ESG to become more frequent in the next 12 months. 10% say that the frequency will increase significantly.

[1] https://www.fca.org.uk/publications/research/financial-lives

Adviser adoption

Use of ESG funds and solutions from financial advisers continues to rise:

- Nearly all – 96% - financial advisers responding to our survey say they have clients invested in ESG or sustainable/ ethical/impact funds or solutions. The continued rise in adoption is illustrated in Figure 4.
- An average of 15% of client assets are invested in ESG or sustainable/ethical/impact funds or solutions, up from 12% six months ago and nearly doubling since Q3 2019.
- 68% of financial advisers expect to see a continued increase in assets invested in these funds and solutions.

Figure 4: % of firms with client assets in ESG or sustainable/ ethical/ impact solutions

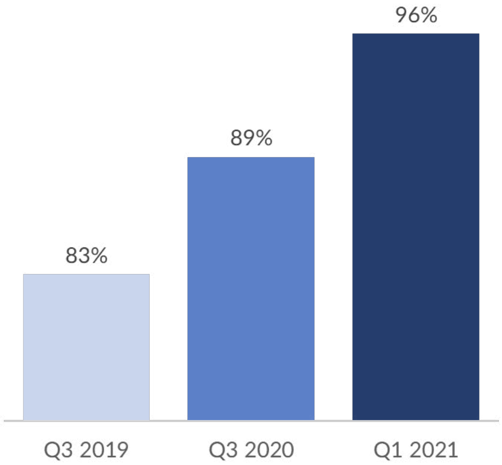


Figure 5: % of client assets in ESG or sustainable/ ethical/ impact solutions

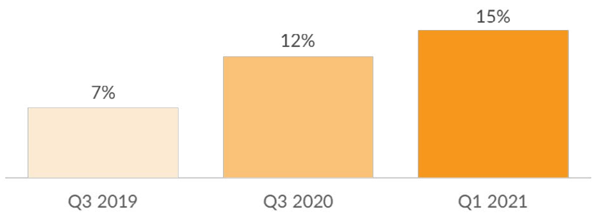
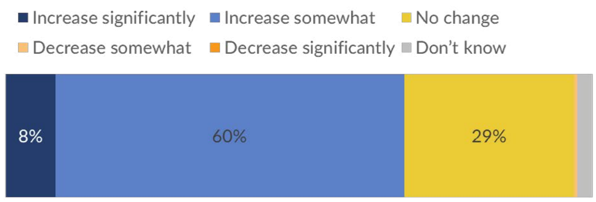


Figure 6: Anticipated increase in % of client assets in ESG or sustainable/ ethical/ impact solutions in the next 12 months



Drivers of adviser adoption

While client demand continues to rise, few financial advisers said that clients are driving the change in their business.

Among the twelve financial advisers we interviewed in depth for this report, three said the firm would be pushed by regulatory change to adopt an ESG integrated investment proposition, two said client demand would drive the change and the rest said the change is already coming from within the firm.

Among those moving toward full integration of the investment proposition as a result of a push from within the firm, this was often driven by a belief that it is the right thing to do, either for moral reasons or to future proof the business.

Magus Wealth recently made their Global Sustainable model the default model for clients. Amanda Mayes of Magus Wealth told us that the move was led by two planners and one of the business' owners. The firm's view is that *"we can all play our part, we can all have an impact."* Rather than client demand, the change was seen as the right thing to do.

Alasdair Walker of Handford, Aitkenhead and Walker put it this way:

> *There's an investment argument to be what I would consider on the right side of history. So that comes from us as the advisers.*

A few financial advisers made the point that adoption of an ESG integrated investment proposition is critical to the future of the business – for recruitment of employees, attracting new clients and being able to respond meaningfully when clients raise the issue. One adviser we spoke to said that a potential client doing a beauty parade chose her firm because of their ESG credentials – the conversation in the initial meeting had been about values not just money.

Peter Chadborn of Plan Money said adopting ESG investing principles was part of future proofing the business:

> *"I would say it's a combination of adviser and client that is driving it. From an adviser's point of view, from a firm point of view, a big motivation is future proofing. Because if a client asks a question, the adviser sitting there, whether that's me or a colleague, and they're scratching their head, you don't look very good. So, you've got to have answers to these things. ... to not have a response to a sustainable investment question is not an option."*

Danny Cox said that for Hargreaves Lansdown the shift has been more nuanced, driven by client interest, regulatory change as well as a shift in the business toward the Sustainable Development Goals.

> *"For many years, there's been lots of noise and no real action from the clients in terms of investment. We're now starting to see that change. But also, it's regulation. You've got TCFD coming up and we've just signed up for PRI. We aligned ourselves to the UN Sustainable Development Goals a couple of years ago. ESG is important for colleagues and prospective colleagues as well. So I can say the three pillars approach is how we're looking at it."*

While our interviewees offer a range of views, we believe that regulatory change is having and will continue to have the biggest impact. Financial adviser adoption of ESG integrated solutions jumped between 2019 and 2020 due to the threat of regulatory intervention. ESG related reporting requirements continue to mount for listed businesses and asset managers, pushing forward ESG adoption at the product level. Our conversations with the regulator suggest that a requirement, similar to what was proposed under MiFID II, to require the adviser to take account of the client's interest in sustainability as part of a product recommendation, may come into effect in the UK in due course.

Adviser process

Client conversations about the client's interests in ESG or ethical/impact/sustainable investing typically happen in the fact find and in on-going review meetings.

KYC and fact find

We have seen significant progress in the approach financial advisers are taking in assessing a client's interest in investing according to ESG principles.

- 83% of advisers include a question about the client's interest in ESG, ethical, impact or sustainable investing in the KYC or fact find, up from 78% six months ago.
- More importantly, the terminology used in the KYC process has evolved significantly. While in 2020, most advisers only asked about ethical considerations, in this update, we have seen a significant jump in advisers using terminology relating to sustainable, and ESG in addition to 'ethical'. While in the past, many advisers used this more as a question to rule out any ethical considerations, these conversations are becoming wider in scope.

Figure 7: ESG, ethical, impact or sustainable investing questions in your 'know your customer' process

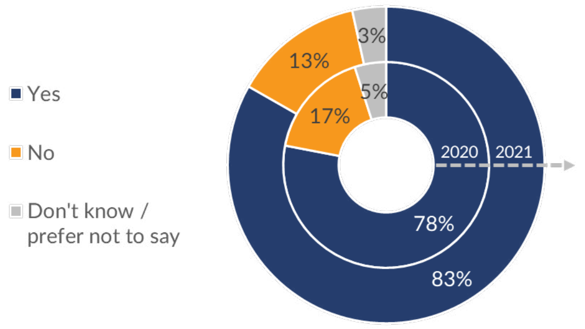
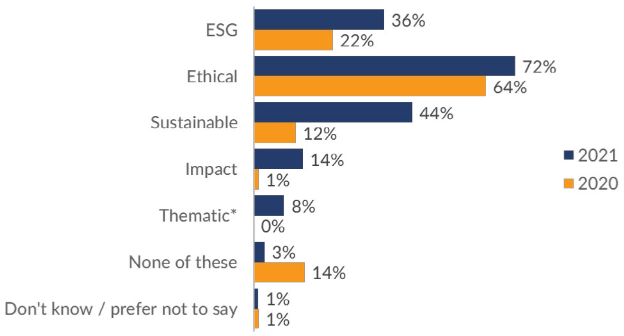


Figure 8: Adviser terminology in the KYC process question on ESG, ethical, impact or sustainable investing



*Note: Thematic was not an option provided to 2020 survey respondents

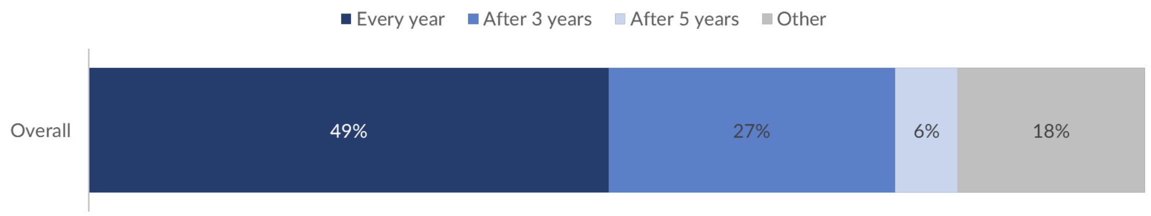
We asked a spokesperson for the FCA whether asking the client about wishes regarding sustainable/ESG investments and understanding the sustainability criteria incorporated in the recommended products could be included under the current know your client and suitability regulations. He did not deny that this was possible.

On-going reviews

We wanted to know the frequency and extent to which financial advisers review their clients' financial plans. This is an important consideration when it comes to ESG adoption. A client's interest in ESG, ethical, sustainable and impact investing is covered by most financial advisers in the KYC and fact find and this is leading to an increase new client money to ESG integrated products and solutions. On-going reviews should lead to a more gradual shift of existing wealth to ESG integrated products.

In our survey for this report, half of advisers said they do a full fact find with clients each year.

Figure 9: Frequency of client full fact find



In our phone interviews with financial advisers, the results were mixed. The need for a full fact-find varies and financial advisers emphasised their use of professional judgement and strong client relationships to help them determine when full reviews are needed.

Danny Cox of Hargreaves Lansdown described the situation this way:

> *"We offer an optional review service for clients. 78% of them don't sign up for that. And the 22% that do sign up for an ongoing review service are reviewed every year, and we update their circumstances at that annual point. Broadly speaking, as a starting point, with all the platform tools and services available, most people don't need an annual review."*

Alasdair Walker of Handford, Aitkenhead and Walker explained that his firm includes the client's ethical considerations in the risk assessment. This is rechecked each year and fully re-tested every 3-5 years.

> *"I would say three to five years, and it's really client specific. We recheck risk profile and for various reasons, the ethical investment question falls in risk profile. We recheck and restate the risk profile annually. But we don't necessarily retest annually, I would say three to five years for most people is the time to go."*

Nick Lincoln from Values to Vision Financial Planning said that the fact find process is more organic as the relationship builds over time:

> *"It is kind of a myth that when you have a new client or prospect you do the fact find in one go. It's an organic thing. A fact find is an organic store of knowledge about a client."*

Best practice, given growing client interest and awareness of ESG, ethical, sustainable and impact investing, is to ask all clients about their interest in this approach to investing. This should be included in any review meetings.

Barriers to ESG integration into the client proposition

We asked financial advisers if there are barriers or concerns holding them back from adopting ESG integrated funds or solutions. Most, 61%, said no. The word cloud below illustrates the topics mentioned most often by those who did identify barriers. We also categorised these as follows:

- Product: 9% of financial advisers named a barrier relating to the product, typically product availability (either too much or too little) and inconsistent coverage of asset classes. A few advisers also flagged the potential for concentration risk in client portfolios, in particular into tech stocks.

> *"Poor choice of funds to choose from in comparison to the whole market. Also, there tends to be an overlap in the underlying holdings, so you have to be careful not to overexpose clients to one company or sector i.e. financial."*

> *"Higher allocation to technology which can increase risk and volatility."*

- Client: 7% of advisers said the main barrier to adoption is related to the client, typically a lack of demand or lack of understanding of ESG investing among clients.

> *"I'm just not seeing the appetite from my clients."*

This was echoed in our qualitative interviews:

> *"I think a lot of clients would take some convincing. I'm not sure it's on most of our clients' agenda at all."*
>
> **– David Penney, Penney, Ruddy & Winter**

- Research and ratings: 6% of advisers cited barriers related to product research and ratings. Several comments related to the lack of availability of good tools to help with the research and filtering process. Others identified the challenge of a lack of resource within adviser firms to take on this additional research. One adviser in particular noted the challenge to research posed a lack of consistency:

> *"Difficulty with comparison of solutions, as there doesn't seem to be a 'standard'."*

The concern about the consistency and credibility of data for research came up in our qualitative interviews too.

> *"Validation of data" ""Am I making my decision while in possession of all the facts?""*
>
> ***Petronella West, Investment Quorum***

- Scepticism: 5% of comments were from advisers expressing scepticism of ESG solutions. These could have been mainly grouped under product, but we felt they deserve a specific mention as we also came across some scepticism in our qualitative interviews. Two advisers specifically mentioned greenwashing. Others didn't call out greenwashing specifically but questioned motivations from providers to promote ESG solutions: ***"I feel that the Fund Management Industry is trying to create another money earning sector for them, however, the client interest is literally nil."***

One respondent issued this reminder to providers that this isn't a sales opportunity but is part of a wider need to understand client objectives and requirements:

> *"It appears the thrust is from providers and this appears to be a sales approach rather than help and assistance in understanding of why we should adopt the approach. If a client is interested it's their choice and they will be guided by us but how would we know."*

Our phone interviews revealed some sceptics. We thought this comment from David Penney from Penney, Ruddy and Winter particularly interesting:

> *"I'm not sure that giving someone a different investment portfolio actually solves any of those problems [climate change]. I'm not sure the issue of climate change and the environment are really down to buying and selling existing shares in a company and so I think that ESG investments and ESG as an issue more generally are two separate things."*

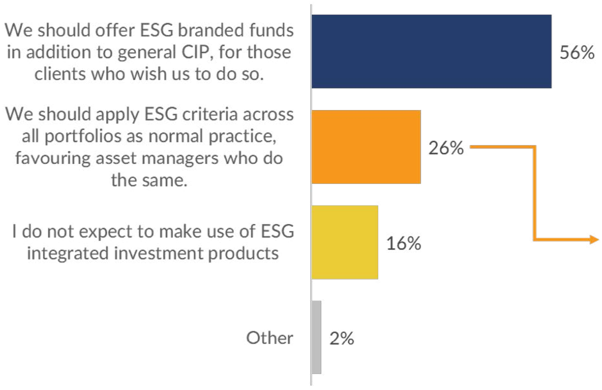
Investment proposition

Having determined the client's ESG preferences, the financial advice firm must now reflect those preferences in an investment portfolio.

Core or satellite

One of the key questions on the mind of asset managers and DFMs is whether financial advice businesses will offer an ESG badged investment proposition alongside the core proposition (satellite) or whether they will apply ESG criteria as part of the consideration across all funds and portfolios (core). It's a critical question for providers wanting to be selected for inclusion in those portfolios.

Figure 10: Which of the following statements best represent your view of the integration of ESG or sustainable/ethical/impact into investment products?



	LEVEL OF ASSETS UNDER FIRM'S ADVICE		
	Less than 50m	£50m - £249m	£250m or more
n=	*80*	*79*	*34*
We should offer ESG branded funds in addition to general CIP, for those clients who wish us to do so.	54%	61%	44%
We should apply ESG criteria across all portfolios as normal practice, favouring asset managers who do the same.	23%	25%	**41%**
I do not expect to make use of ESG integrated investment products	20%	14%	9%

Figure 10 shows:

- Among the financial advisers that responded to our survey, over half prefer ESG branded funds and solutions to sit alongside a core CIP. A quarter expect to apply ESG criteria across all portfolios. But the results vary significantly when looked at by size for firm, as illustrated in Figure 10.
- While across all respondents only a quarter prefer full integration of ESG across the CIP, this is true of 41% of advisers in larger firms, with £250m+ in AUA.
- We also note that while 15% of advisers overall say they do not expect to make use of ESG integrated products, this is true for only 9% of advisers in those larger firms.

While there is much uncertainty among advisers on this question, in our in-depth interviews, most advisers told us that they believe that in the fullness of time, ESG criteria will apply across all portfolios. There is no doubt that in the near term, advisers are favouring branded or badged products that focus on ESG, thematic, impact or ethical investments, especially when trying to meet a specific client need. In fact, most of our interviewees said they recommend specific ESG solutions to clients with a particular requirement.

“I don't think that we will split out a specific ESG portfolio. And the reason for that is that everything you read there's no doubt that either flavour of the month or regulatory pressure or environmental concern is forcing the whole food chain of the management of the capitalist system through any ESG enlightenment." Ian Shipway, HCWM

"At the moment, we have discrete responsible investment portfolios, but rapidly and increasingly ESG is percolating through the whole of the investment proposition." Peter Taylor, Helm Godfrey

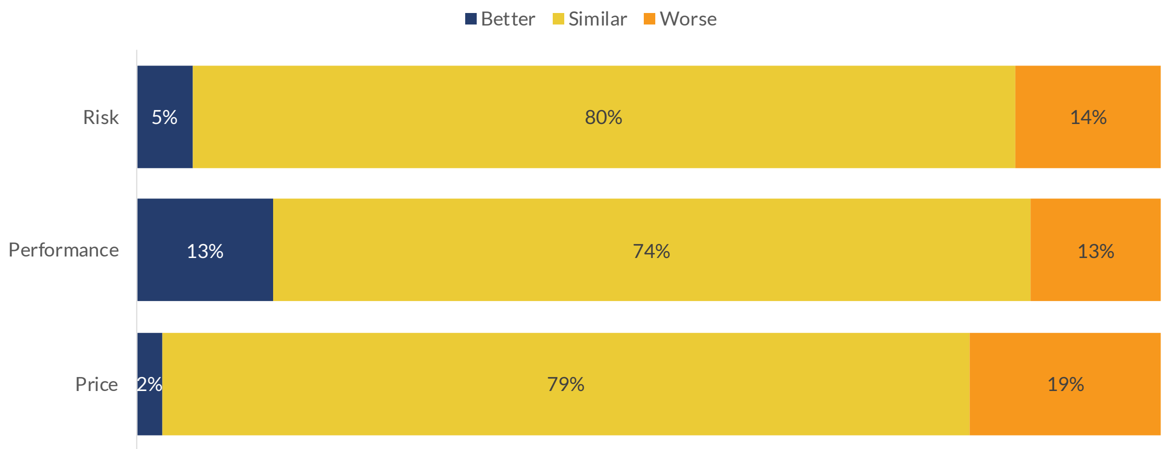
"I think we're at the point where it's becoming good window dressing for the asset managers, which probably means we're close to a tipping point. It has to be window dressing first before it becomes core to the process.” Alasdair Walker, Handford, Aitkenhead & Walker

Perceived trade-offs

There is mounting evidence that ESG investing can in some cases yield superior returns, nevertheless our research in 2020 found that both investors and advisers believe there are trade-offs when it comes to investing according to ESG principles.

We asked financial advisers whether they felt that ESG or sustainable/ethical/impact investing products are positioned better, worse or similar to other similar products on risk, performance and price. Figure 11 below shows that the vast majority of advisers believe ESG integrated products are similar in these respects to conventional options.

Figure 11: ESG or sustainable/ ethical/ impact investing products positioning in comparison to other similar options



Price was the only factor with a much greater weighting to 'worse' than better – with 19% saying 'worse' and only 2% saying 'better'. Our qualitative interviews suggest that this is a result of the need to use more active funds rather than ESG funds being more expensive. Advisers consistently told us that passive funds have strong credibility on stewardship and governance but, as Amanda Mayes of Magus Wealth told us, *"that's table stakes."*

One adviser told us that some of his peers and colleagues say that ESG is the way for active managers to get *"back into the game"*. He explained that at the moment for a credible ESG proposition, *"...it has to have quite a heavy active overlay and it just doesn't work with a basket of index trackers. We're used to solutions that are around 20 bps and anything getting over 30 seems a bit pricey and of course ESG funds are coming in at much higher than that. But that's something we've just got to get used to." Peter Chadborn, Plan Money*

Paradigm Norton and EQ Investors, by contrast, have developed ESG portfolios made up of tracker funds:

"The ESG portfolio uses index and systematic funds and is more sustainable or responsible than our current offering" Clémence Chatelin, Paradigm Norton

"The ambition of the ESG indices just didn't marry up with where we wanted them to be. But there's been lots of innovation going on. And we were able to build a portfolio called the 'future leaders' portfolios, which you can now invest in, which we think is probably the best out there." Jeannie Boyle, EQ Investors

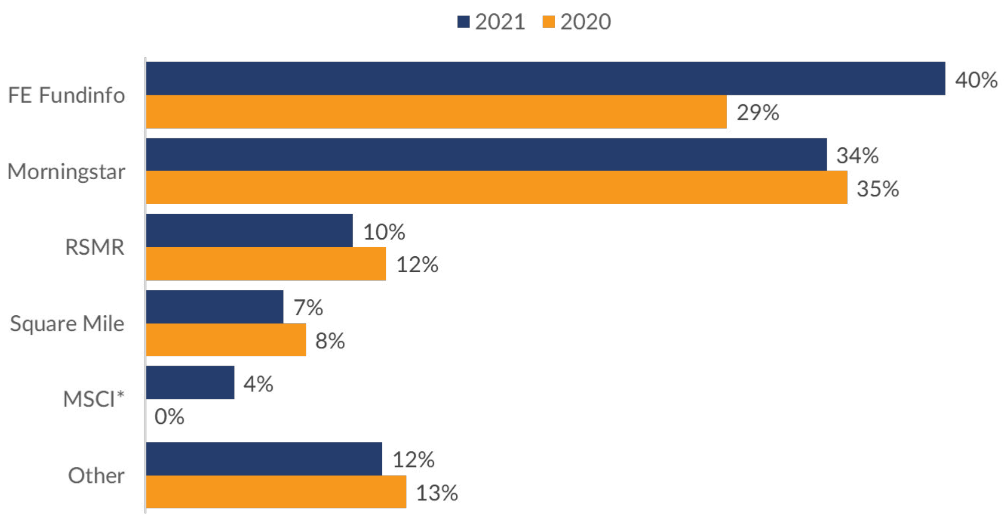
The influencers

In this section, we identify the firms that are influencing financial advisers in their decision-making for ESG integration into the investment proposition.

Although the companies that bear influence on ESG research are the same as those for conventional fund research, the share of influence is different. Financial advisers told us in our survey six months ago that they are most likely to turn to fund research and ratings agencies when developing ESG or sustainable/ethical/impact investment propositions.

Among the fund research and ratings agencies, FE fundinfo and Morningstar were again the top picks. FE fundinfo overtook Morningstar compared with six months ago. FE fundinfo's position in our last report was a bit of a surprise considering they had not yet launched their ESG proposition. They have since bought CSSP (Center for Social and Sustainable Products), a firm that offers ESG analysis and reporting.

Figure 12: Providers used when researching ESG Solutions



*Note: MSCI was not an option provided to 2020 survey respondents

Regulatory change

It is reasonable to assume that the FCA will introduce regulation not dissimilar to the EU and that this will demand that the adviser is not only aware of the views of the client on ESG and sustainable investment, inter alia, but will also have an understanding of the criteria and methodology adopted by the product provider, e.g. asset manager or life company, in respect of ESG or sustainability. The FCA is considering on-shoring parts of SFDR.

The focus to date in the UK has been on disclosures from listed companies. We expect the next phase will be toward disclosures from asset managers to allow for easier comparisons between funds and solutions. While the UK has diverged from the EU in the short term, we expect the approaches to look more similar in the longer-term.

Action to take after reading this report

- Decide as a firm if you are deeply concerned about environmental, social and governance issues and committed to action. This will help to determine how far you want to go on the road to integrating ESG investing principles into your core centralised investment proposition. Our research suggests most clients want to do 'no-harm' but aren't yet at the point of wanting to 'do good' with their investments. Integrating ESG considerations into your own offering will meet most clients' requirements.
- Include a question in the fact find and in review meetings to determine clients' interest in sustainable or ESG investing. Consider an open-ended question to spark a broader conversation: *"what are you trying to achieve with your wealth?"*
- Review your firm's due diligence process for selecting funds and solutions for your investment proposition. Refer to the checklist in Appendix 1 of this report.
- Find an expert: If you are not an ESG investing specialist, consider partnering with an expert when for clients with specific needs. This might be an introduction to a specialist adviser or a partnership with a specialist DFM.

Conclusion

The comparison drawn between ESG adoption and RDR made by some advisers in our interviews for this report we think is an accurate depiction of where the advice market stands currently.

The 'new model advisers' back in 2010-11, who were able to look forward to where the industry was heading, got ahead of the rules and introduced fee-based models before they were required. These advisers adjusted much more readily and confidently than those who resisted until there was no other option.

> *"We need to have a proposition, forget what regulation is trying to get us to do. We need to have a proposition, don't we? And we're viewing this a bit like, cast your mind back to RDR. And there were firms that were kind of dragged kicking and screaming towards it; other firms that are ahead of that saying, Well, actually, this is just a little bit of a sense check, because we're heading in this direction anyway. We're a bit like that now with ESG, where we're doing what we think is right."*

Wider consumer, media and government focus on sustainability will drive up the numbers of clients who arrive at their introductory meeting or their annual review with questions about ESG investing and firms need to be prepared for this.

It was encouraging to see that 61% of firms are not currently feeling held back on their journey, however for the 39% who are, and particularly those smaller firms who en masse hold a large share of client assets, provider and tech firms need to step forward to make ESG investing more accessible.

A great deal of the take-up of ESG products will depend on how the option is presented to clients, and currently the lack of consensus, perceived lack of transparency, and the frustration of an added layer of complexity involved in developing an ESG proposition will hold some advice firms back from embracing it enthusiastically.

Specifically, firms need support on: how to accurately elicit clients' views; match those views to suitable product; review portfolios for a meaningful ESG score without needing to manually drill down to individual fund level, and monitor for ongoing ESG 'drift'.

RDR was a difficult shake-out for many but ultimately it raised professional standards and encouraged trust and transparency. ESG has the potential to be the next catalyst to improve investment selection and portfolio management processes as well as build faith in retail investment management and financial planning as an industry focused on the future and the needs of its clients.

Appendix 1: Financial adviser due diligence checklist

Financial advisers will need to evidence that they have done their due diligence on any ESG investment proposition that is offered to clients. With a lack of agreed standards and varying degrees of transparency, this can be difficult. Whether you use a DFM, fund manager, fund research or specialist consultancy, you need to evidence that you understand the data they use and how they are used. We have offered example questions and things to look for in the responses.

What data are used?

Different ESG-specific ratings providers have different approaches and different scores. Understanding at a basic level the approach to these ratings is important to avoid future surprises. This will be particularly important if the adviser relies on a fund research house, such as FE fundinfo or Morningstar. Understanding the approach of Sustainalytics, in the case of Morningstar, is important.

How are those data used?

Fund managers will often use the underlying data rather than an ESG score and combine that with other data sources and in-house data.

Is the fund manager a signatory to any major global agreements?

Fund managers should as a minimum be signed up to UN PRI (Principles of Responsible Investing) and many also be signatories of the UN Global Compact. Advisers might be advised to check that signatories are abiding by the principles in their fund research.

PRI rating

Signatories to the PRI will be able to share their PRI rating against the median.

Coverage

Number of analysts, number of companies rated, number of companies actively engaged in the past year

While large players will have larger numbers or analysts and greater coverage, these numbers can offer insight into the firm's commitment.

Transparency

Does the firm publish their voting record at company meetings? Does it have a published ESG policy or stewardship policy? Does it publish the number of actively engaged companies in the past year? Does it publish results of its engagement efforts?

Appendix 2: Terminology

There is a great deal of inconsistency in the terminology used by providers, regulators and industry bodies. We provide a summary of the options to support advisers in navigating this complex landscape.

Simplistically, funds and solutions can be divided into general and specialist.

Specialist themes:

- ESG (although this can sit in both camps)
- Ethical
- Impact
- Responsible
- Sustainable
- Thematic

The specialist funds are comparatively straightforward. Paradoxically, the mainstream funds present a great challenge for the adviser.

Mainstream funds:

- **No ESG integration:** An asset manager may offer funds that do not attempt to integrate ESG criteria in any way whatsoever.
- **ESG integration as a risk factor only:** A significant proportion of asset managers adopt this. ESG factors will be considered with regard to every stock purchase decision as a risk factor. In some cases, the fund manager can ignore this risk; in others there must be an exceptional reason to do so. In short, ESG factors are merely one of the many risk factors to be considered. Such a fund would not appear to follow the PRI criteria.
- **ESG integrated according to UN SDG and PRI criteria:** In these funds, all aspects of E, S and G are considered and applied where appropriate. It is probable that adviser seeking to follow SDG and/or PRI will recommend these funds or appropriate specialist funds. These funds also meet the requirements of the IA Responsible Investment Framework.

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