CROSSING THE

ESG EVENT HORIZON

AN ADVISER'S GUIDE

THE LANG CAT

THIS IS A SPONSORED PAPER

This is a paper about the issues behind ESG investing. It was a complex study to write and involved some research that we wouldn't have been able to fund ourselves. That makes us very grateful to Schroders for agreeing to sponsor us.

We don't talk about Schroders' products or propositions in this paper, and nor do we talk about anyone else's. In fact, we don't talk about specific products or services at all. As a result, we don't believe there are any potential conflicts of interest we need to alert you to. Schroders are quoted once in the paper and we link to one other paper they have produced, and that's it. They neither had nor sought any editorial control over the paper; what you read here is all us.

What we do talk about are the independently researched views of 316 advice professionals and 1,807 real-life consumers, overlaying that with a good dose of the lang cat's own analysis. Our main purpose in so doing has been to provide a helpful resource for advice professionals and a thought-provoking read for others in the sector.

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INTRODUCTION

Eee. Ess. Gee.

Never before have three little letters been responsible for so much discussion in the financial services sector[1]. As 2021 (2020's evil twin) gets underway, the idea of ESG, sustainable or responsible investing – and it's safe to say terminology is something we'll be returning to shortly – is rising up the agenda everywhere. Everyone has a hot take; everyone is launching something; no-one can ignore it.

The coronavirus pandemic has sharpened public policy focus around the issues that give ESG its name. On the environment it's given a glimpse of how a landscape with less pollution could look and on the social and governance side of things it's highlighted imperatives such as the need for accessible healthcare and sustainable supply chains. But ESG's star was already rising before The Great Unpleasantness began.

In the UK alone, assets under management in responsible investment funds grew 89% between January 2019 and June 2020, according to the Investment Association. The IA also reported that net retail sales were four times higher in the first half of 2020 than in the same period a year earlier[2]. Looking ahead, PwC has estimated that the share of European assets held in ESG investments could leap from 15% today to 57% by 2025, putting downward pressure on assets that don't make the ESG grade[3].

ESG, then, is entering the mainstream in a way that compels everyone helping anyone to invest for their financial future to understand what it means, where it's going and what we should be doing with it.

But with ubiquity comes challenge and that's what we're here to explore. As we've dug in to this subject, spoken to key people across the sector and constructed our research, we've identified five themes that merit further discussion. They are: clarity, demand, conflict, gravity and influence.

While we have our own views, we also needed to speak to the people who matter most to get properly inside what clients want and how advisers are currently responding. That's why this paper is anchored around research covering 316 advice professionals and 1,807 consumers.

We think, then, that *Crossing the ESG Event Horizon* can serve several purposes:

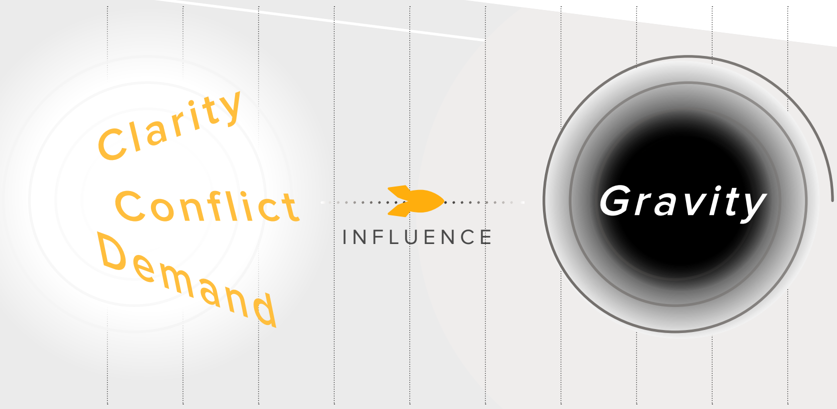
- If you're a relative ESG newcomer interested in getting up the learning curve, you're welcome to have a skim through and there's a bit right at the back (page 26) just for you.
- If you'd like to have a look at fresh consumer and adviser research, then we've got you covered with a big section starting on page 8.
- If you're interested in the lang cat's analysis - whether you agree with us or not - then you may wish to pay particular heed to the sections starting at page 6 and page 20.

Let's get the (low carbon) show on the road.

[1] *conveniently forgets RDR for purposes of introductory hyperbole*
[2] The Investment Association – Investment Management in the UK 2019-2020 - page 86
[3] Financial Times – ESG funds forecast to outnumber conventional funds by 2025 – 17 October 2020

CROSSING THE EVENT HORIZON...

Theoretical astrophysics has it that a white hole in space is impossible to get into; its anti-gravitational force pushing you away from its path. By contrast, a black hole exercises such strong gravitational pull that once you cross its event horizon there's no going back. That about sums up the arc of the ESG journey, from niche to mainstream. But in this case the black hole's a nice one, obviously.



SETTING THE ESG SCENE

Let's start with a question you might feel embarrassed to ask.

What exactly is ESG?

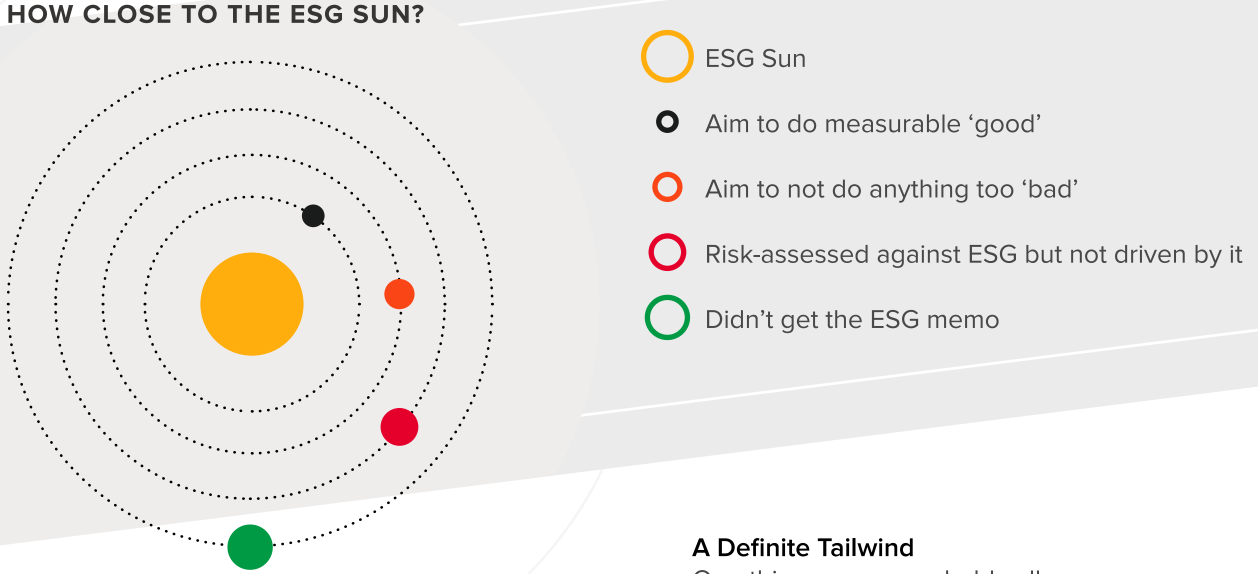
This is in fact a very good question that many of us are secretly still trying to answer while not letting on that we don't know. Although it's not the whole story, global investment services provider MSCI defines ESG as "the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process" and that's as good a description as we're going to get for now.

It's Complicated ...

Why doesn't MSCI's definition sort it out once and for all? The trouble is that ESG's become a catch-all phrase used to cover a whole range of investing approaches. Added to that, an investment solution doesn't have to be labelled ESG, ethical, green or whatever to have an ESG dimension. For some asset managers, ESG factor assessment is a thing they do and is baked into their investment process as standard.

If you've been hanging around ESG for any length of time it's likely 'shades of green' has already been dabbed on your buzzword bingo card. And it's a useful concept. If you're constructing an ESG-friendly CIP or matching a client to a solution for their goals around issues like climate change and social justice, you'll want to understand where different investment options sit on the broad spectrum of ESG-ness.

HOW CLOSE TO THE ESG SUN?



A Big Old List of Jargon and a History Lesson

If you'd like a primer to get you going before diving into the meat[4] of this paper, we've compiled a list of ESG-related terminology. It's at the back (page 26) and we hope you find it helpful. The fact we've needed to include it illustrates a serious point: the vast majority of advisers in our research agreed to some extent that the confusing and often conflating terminology around ESG is a barrier to its adoption.

While you're at the back you'll also find a little history lesson that will give you a sense of where the idea of ESG began and how it's gathered such momentum today.

A Definite Tailwind

One thing we can probably all agree on, on account of sheer column inches if nothing else, is that ESG is being propelled forward by a significant tailwind, to borrow a piece of jargon from our asset manager friends. At a time when the value of everyone in the supply chain is under the microscope, that tailwind undoubtedly includes a good gust of commercial interest from those same asset managers along with others who have been honing an ESG specialism and waiting patiently to arrive in the sun.

Based on our research, many advice professionals have already recognised and embraced ESG as a factor to be built into client propositions. Others are less convinced it's anything more than a passing fad. Whatever your personal views, there's a good chance regulation may eventually intervene to push all of us beyond the ESG event horizon.

We Need To Talk About Europe ...
The launch of the UN Sustainable Development Goals in 2015 (please attend double history at the back if you're not already familiar with these) triggered a wave of sustainability-related regulation from the EU and into the UK. Initially, much of it was aimed at institutional investors but the focus is now shifting to the retail investment market, with particular reference to disclosure, advice and suitability. Two key EU initiatives[5] to be aware of from an advisory perspective are:

- **The Sustainable Finance Disclosure Regulation (SFDR).** This is due to come into force in March 2021. It includes new sustainability disclosure requirements for asset managers. Funds are divided into three categories for this purpose:

  - those that integrate sustainability factor assessment into their investment process

  - those that have sustainability characteristics (so might currently be labelled as sustainable or ESG for example but focus more on excluding 'bad' things rather than pursuing a particular sustainability agenda)

  - those that have sustainability objectives (broadly speaking, impact funds that do pursue a particular sustainability agenda).

  SFDR aims to reduce the risk of 'greenwashing' where claims are made without any real substance behind them.

- **Amendments to MiFID II.** Proposals for these are at an advanced stage in the EU process and once implemented (as we wrote this we believe they should be in place by end 2021) will see advisers required to ask clients directly about their sustainability preferences "and take them into account when assessing the range of financial instruments and insurance products to be recommended"[6].

We have, of course, left the EU and in theory that means UK equivalents for these regulations may never emerge. So why highlight them at all? It's a direction of travel thing. Any asset manager that distributes Europe-wide will have to comply with SFDR regardless. And while it's a little less clear cut from the adviser perspective, the FCA is pro-international alignment on matters of sustainable finance[7].

[4] Diving into meat is generally not recommended in any case
[5] There are several more that it's worth knowing about too. If you want to read about EU regulation on sustainable investing we found this paper from Schroders' Head of Policy Research, Anastasia Petraski, a very helpful read.
[6] European Commission - Communication COM(2018) 97 – page 6
[7] You might be interested in FCA Director of Strategy Richard Monks' speech on *Building trust in sustainable investments,* delivered in October 2020.

Expert perspectives:
Sheila Nicoll, Head of Public Policy, Schroders

> *"You can get the mood music. You can get the feel of the direction very clearly from where the EU is. It will be done in a slightly different order and possibly in a slightly less prescriptive way but that's the kind of thing you can expect in the UK."*

> *"If it's too prescriptive you end up with a box ticking exercise going on and it's not in your hearts and minds ... [so] it may be that any rules we eventually get out of the UK affecting advisers are rather more you need to figure some of this out for yourselves, because we need this to be something that is in the DNA of your business and because your clients are demanding it, rather than because it is something the regulators are demanding."*

THE LANG CAT'S FIVE BIG THEMES

So it's all been very pleasant so far. We've taken a brief look at what ESG is, why it's not going away and signposted you to some background reading on its history and terminology. Let's deal with some of the more awkward stuff.

Throughout our work preparing this paper we kept coming back to one core conclusion. The manufacturing side of financial services has done what it's always done – gone straight to product mode without fully understanding the underlying issues and without a clear understanding or consensus among the people that matter - customers and their financial advisers.

That conclusion, combined with the buzz around ESG throughout financial services, raises a number of critical worries for us. And it's with that in mind that we present the lang cat's five big themes for ESG-watchers (and doers) in 2021 and beyond.

BIG THEME 1
CLARITY

There is a lack of consensus as to what ESG means in a practical sense.

So, it's the obvious one to kick off with. The combination of sector noise, competing priorities and potentially conflating language has created a (vegan) word soup, inhibiting day to day practical progress. In particular:

- Too many things are grouped under the ESG banner. For example, a corporation enhancing and publicising its gender diversity policy is a fundamentally different thing to a consumer wishing to screen out a particular investment type. Both may be discussed in the same ESG breath.
- Absent that coherent understanding and consensus of what good looks like, it is torturously difficult to make an informed comparison of investment solutions branded as ESG. If experts struggle, how can the investing public make sense of it?
- The natural solution is to plug in tools, software and ratings agencies to do the heavy lifting. But for these to function, users also need to have clarity about how these work and confidence in what they are attempting to do. We're some distance from that yet. See Boohoo[8]. See Tesla[9].

BIG THEME 2
DEMAND

There is a significant disconnect between sector noise and tangible demand.

In Wave 2 of *State of the Adviser Nation*, our annual omnibus research into the UK's advice sector published in February 2020, we highlighted that the level of demand for ESG solutions (not that a client would use that language) was low. We believe:

- Customers use advisers to devolve responsibility of choice to an expert. We're sceptical of the volume of advised clients who would proactively raise the concept of sustainable investing until ESG becomes truly mainstream.
- Everything we talked about in BIG THEME 1 reads across to this too. The lack of clarity in the sector is a potential inhibitor to demand and growth, both from those investing directly and those seeking advice.
- Most of us make compromises in life and look the other way to some degree when it suits us. We don't see why this should be different when it comes to ESG, even when the issue does go truly mainstream. The quantum of demand from people so invested in the issues that they are prepared to prioritise them above all other considerations will remain relatively low: they will be the noisy few.

BIG THEME 3
CONFLICT

There is a particular tension between the use of investment products and individual suitability. An end state driven by individual client beliefs may be neither achievable nor desirable.

The advised sector, spurred on by regulation and platform technology, has evolved from one-to-one investment product recommendations to one-to-many relationships between advisers, platforms and centralised investment propositions.

In parallel, the sector continues to evolve into a consultative, life-coaching, objective-oriented planning environment, in which investment and other 'products' serve a purpose but take a back seat in terms of the adviser-client relationship.

Depending how it develops, ESG investing could threaten this. If the measurement and implementation of individual sustainability beliefs is mandated, that brings product-centric recommendations back into the foreground and could strain even the suitability of those at the seams.

BIG THEME 4
GRAVITY

We do have to find a way through these challenges. We are approaching the ESG event horizon and significant change is now a given.

Despite our concerns raised in the first three BIG THEMES, there's no escaping the gravitational pull of ESG. There are two driving forces behind this.

First, the wider societal, political and environmental concerns around sustainability, equality and other such lofty goals are now a force of nature and part of everyday life. We're far too far down the road for that to not have a significant ongoing impact on the investment sector.

Secondly, whichever way the UK finally lands in terms of EU directive equivalence, the direction of travel for regulation is now set and reinforced by some powerful commercial interests. Some degree of impact on adviser suitability processes is inevitable.

BIG THEME 5
INFLUENCE

There's a clear order of influence for embedding and normalising the shift to ESG.

Differing degrees of control over capital flows and commercial interest set a clear hierarchy within the investment and advice sectors for who will make a demonstrable impact[10] shaping the 'new normal' for ESG and when. They'll each cross the event horizon at different times and in different ways, but they will cross - whether they like it or not.

We'll explore each of our big themes again later. But first, we need something to test them against.

[8] FT Adviser - Boohoo issues highlight ESG 'minefield' for advisers – 7 August 2020
[9] One adviser responding to our research noted that, at one stage, Tesla was simultaneously in the bottom 10% of all companies for ESG with one rating agency and 'A' graded by another.
[10] Sorry

CONSUMER & ADVISER VIEWS

We aren't CFAs and we don't run ESG funds – which is a blessing all round, although someone needs to stand up for the fourth quartile, we suppose. What we do specialise in is speaking to the people who everyone else relies on to keep them in business: the advice community and the clients they serve.

In this case we've researched the issues around ESG, aiming to give readers an insight into:

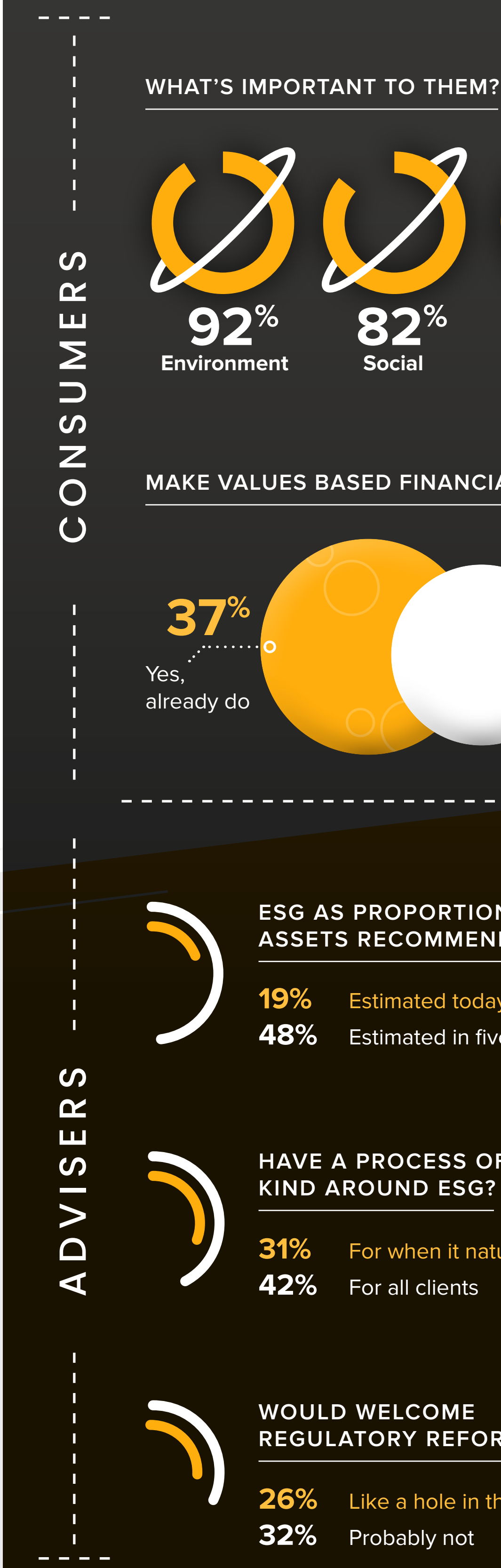
- What matters to consumers who may one day be looking for financial advice.
- How the advice community is thinking, feeling about, and responding to all this noise.

We've highlighted some key findings here and will get into the detail on the following pages. As with all research we could have sliced and diced the data we've captured in any number of ways but even the most dedicated reader will have a limit. If you see anything in here that you'd like to explore a bit further, or any angles of interest we haven't covered on the face of it, please feel free to get in touch and we will see what we can do.

METHODOLOGY

Our **consumer research** was carried out with the assistance of YouGov. The fieldwork took place on 2 and 3 November 2020 using an online survey. The total sample size was 4,121 adults, which was then filtered to a target group of 1,807 with a personal income of £25,000 or more and/or a household income of £35,000 or more. The results have been weighted and are representative of all GB adults (aged 18+). On questioning, 38% of the target group told us they had at some stage taken professional financial advice.

Our **adviser research** was carried out with the assistance of our own fair hands, also online. The fieldwork took place between 29 October and 8 December 2020. Our survey was answered by 316 advice professionals. Of those, 72% told us they worked for a directly authorised advice business and a further 13% that they were part of a network. The remaining 15% were scattered across restricted advisers, those working in a vertically integrated advice environment, service providers and, of course, that perennial favourite of survey categories, 'other'.



88%
Governance

DID COVID-19 MAKE THEM CARE MORE?

42% Environment

41% Social

43% Governance

DO VALUES COME INTO BUYING DECISIONS?

83% YES
(at least sometimes)

BELIEVE THEIR MONEY CAN MAKE A DIFFERENCE?

63% YES
(at least to some extent)

AL DECISIONS?

30%
Covid's made it more likely

WOULD PAY AN EXPERT TO HELP?

26% Yes

18% Undecided

N OF
DED

y
e years

BELIEVE THAT GOING ESG CONSTRAINS RETURNS?

25% Markets innit, can't predict

56% No

F SOME

urally arises

ARE RATINGS/SCREENING SERVICES SUFFICIENT?

36% Have used them

84% Of those, unsure to some degree

RM?

he head [11]

BIGGEST RESPONSIBILITY FOR EMBEDDING ESG?

31% Lies with us

41% Lies with asset managers

ADVISER CAMPS...

Up for it

“ *Important* *Progressive* *Essential* *Future-proof* ”

Nope

“ *Over-hyped* *Bullsh*t* *Yet another fad* *Snakeoil* ”

Scratching head

“ *Opaque* *Unclear* *Confusing* *Alphabet soup* ”

[11] We paraphrase. And for clarity we'd asked about the MiFID II proposals to bake ESG into know your customer and resulting suitability assessments.

DEMAND SIDE

We chucked a couple of statistics into our introduction on the exponential growth of ESG and here are a couple more now to reinforce the point. Global assets under management in funds investing according to ESG principles climbed above the $1 trillion mark in the first half of 2020, according to Morningstar[12]. In the UK specifically, data from Calastone show that more new money flowed into ESG funds between April and July 2020 than in the previous five years combined[13].

Pushing at an open door

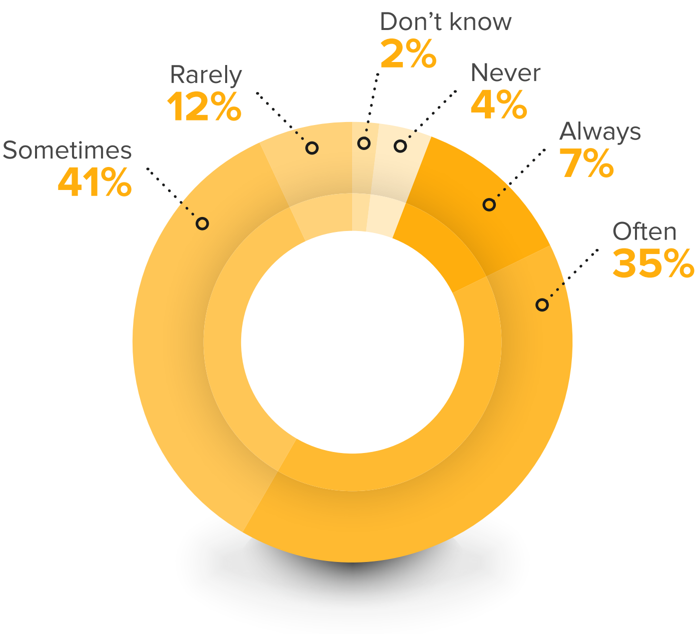
If this isn't evidence of some kind of demand, we don't know what is and it couldn't be clearer from our research that consumers do care about the broad issues represented by ESG.

More than 9 out of 10 respondents (92%) said that 'protecting the environment and preserving our planet for future generations' was important. Almost as many felt this for 'holding national bodies and corporations to account on protecting the environment and improving society' (88%) and 'improving society by promoting diversity, equality and fair treatment for all '(82%) didn't follow far behind (despite being significantly less popular with males (76%) than females (91%)).

Walking the talk

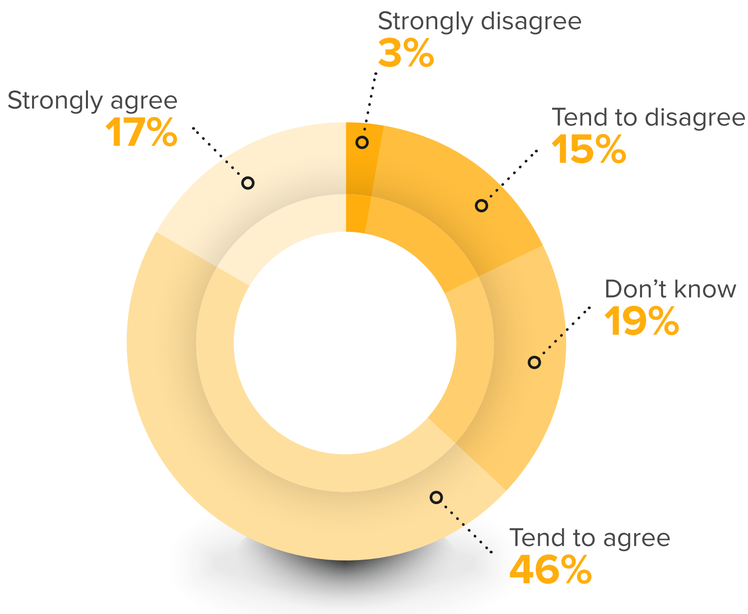
Good intentions, of course, don't always translate into actual behaviour. But we do see some tallying of the numbers here. A total of 83% of respondents claim their personal ethics influence their buying decisions at least sometimes.

In general, which ONE of the following closely describes how often, if at all, your personal ethics influence what goods or services you buy, and where you buy them from?



That's not miles off the proportion that say they care about ESG issues. Somewhat against stereotype, 18-24 year olds were much more likely than over 55s to admit that their ethics 'rarely' influenced their buying choices (25% vs 9% respectively).

To what extent do you agree or disagree with the following statement: How we each decide to save and invest our money (investing in line with our personal ethics) can make a positive difference to the world.



Things shift a bit when we turn to saving and investment choices. While a significant majority do believe their decisions can make a difference, nearly a fifth are more cynical, with 18% saying they disagree.

And when it comes to actually putting your money where your mouth is, a far lower figure of 37% say they currently save and invest in line with their personal ethics (rising, again somewhat against stereotype, to 47% for the over 55s). This strongly suggests there is an opportunity to be grasped.

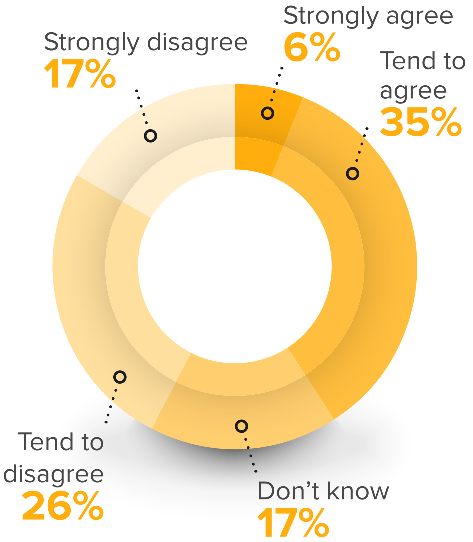
Some ifs and buts

Having said that there are limits to how far some consumers would go in support of their values.

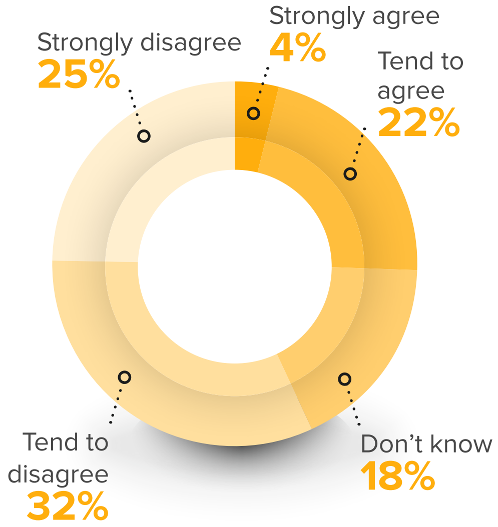
While four in 10 told us they either agreed or strongly agreed that they would accept a lower return to know their savings and investments reflected their ethics, they are marginally outnumbered by those who disagreed. Most likely to disagree were those aged 45 to 54. We suggest it's no coincidence that this is when many of us (speaking for your authors anyway) become more focused on how far our retirement funds might stretch.

[12] CNBC – Sustainable investment funds just surpassed $1 trillion – 11 August 2020
[13] Financial Times – ESG funds attract record inflows during crisis – 10 August 2020

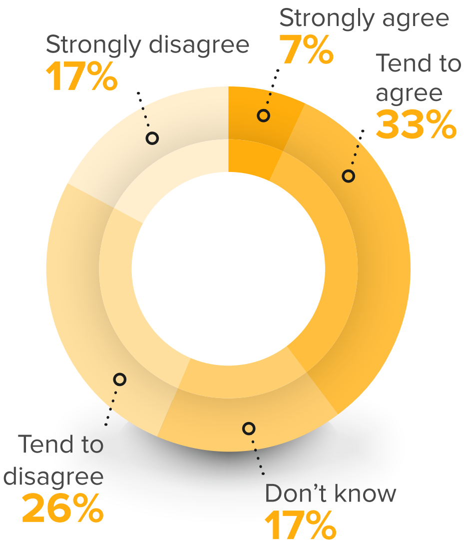
I'd pay a bit more in charges to know my savings and investments reflected my ethics.



I'd pay a financial adviser to help make sure my savings and investments reflected my ethics.



I'd accept a lower return on investment to know my savings and investments reflected my ethics.



The question of whether investors would pay more in charges was also split virtually down the middle (41% agree vs 42% disagree), with older age groups again more likely to disagree (47% among those aged 45 or over).

But our respondents were less convinced about paying for financial advice. Just 26% considered this a step they would take.

Depending if you're a glass half full or a glass half empty kind of person you might see that as an opportunity or a challenge. Looking at the age splits, more than 6 in 10 of over 45s (62%) disagreed with the idea of paying an adviser to line their savings and investments up with their values. Doing so was most popular amongst the 18-24 year olds (31%). Who says wisdom comes with age?

Does ESG cost more?

We saw conflicting evidence here - 54% of advisers told us they thought ESG did cost more. Recent research from Morningstar suggests it doesn't, finding that the average fee for ESG funds in October 2020 was 0.57% compared to 0.71% for non-ESG[14].

Does ESG constrain returns?

Most advisers (56%) don't think so and a further 25% fall into the 'we can't predict markets' camp on it. In probably unsurprising news for a hot, current trend, it's fairly easy to turn up research that suggests ESG can have a positive impact on performance. In just one recent example, Fidelity found that stocks with higher ESG ratings outperformed those with weaker ESG ratings in eight of the first nine coronavirus-wracked months of 2020[15].

Ultimately investing, like sustainability, is a long-term game and the priority for any professional will be to match clients to well diversified portfolios that fit their personal goals and risk vs reward profile.

[14] FT Adviser – Fund fees down 31% - 8 December 2020
[15] Fidelity International – Putting sustainability to the test: ESG outperformance amid volatility – 4 November 2020

Covid turning point?

We've seen ESG investment inflows head upward during the pandemic and it does seem to have had a quite significant influence on broader consumer views. Almost half (47%) of our respondents said it had made them more likely to choose businesses to buy from based on ethics and their treatment of people and almost seven in 10 (68%) more likely to support local businesses.

On the savings and investments side of things, most of our respondents said the pandemic had made them no more or less likely to invest in line with their principles. But coming up for a third (30%) reported being more likely to put their money where their mouth is now. There's a marked age impact here - 40% of 25-34 years olds fell into the more likely camp, falling sharply for 35-44 (28%) and 45-54 (25%) year olds.

So, a turning point? It's almost certainly too early to tell if these apparent shifts in view towards ESG values stick once we're all released back into the (vaccinated) wild. But the figures for the younger age groups here are interesting and taken with their views on advice should not be ignored.

SUPPLY SIDE

It's been a privilege to get such a detailed insight into what the advice profession makes of ESG and how it is responding. A big thank you to everyone who took the time to help us out. We've made a donation on your behalf to two worthwhile causes – The Samaritans and NHS Charities Together.

As we'll see, most advice professionals are not sitting on their hands and there are views aplenty. The verbatims we've collected suggest a three-way split between those (the majority) who are positive and up for the whole ESG thing, those who couldn't see it far enough and those who find it all a bit difficult to navigate. We suspect a considerable overlap between this last group and the other two.

“ ”

Vitally important for the future.

“ ”

A better way to invest for ALL stakeholders.

“ ”

Inevitable, but it doesn't really interest me.

“ ”

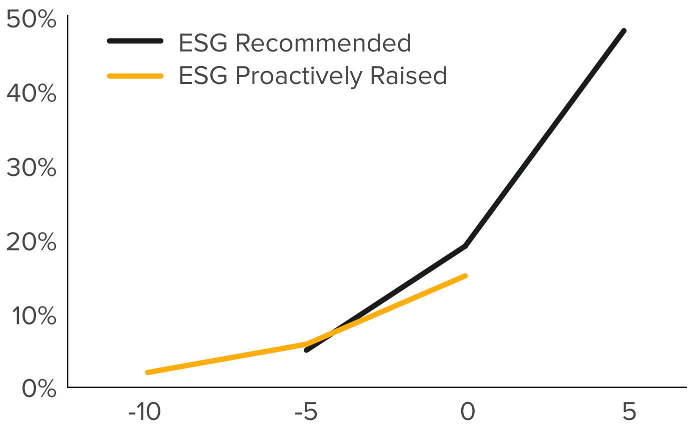
The latest fund manager con.

“ ”

Confusing and often illogical.

Responding to demand

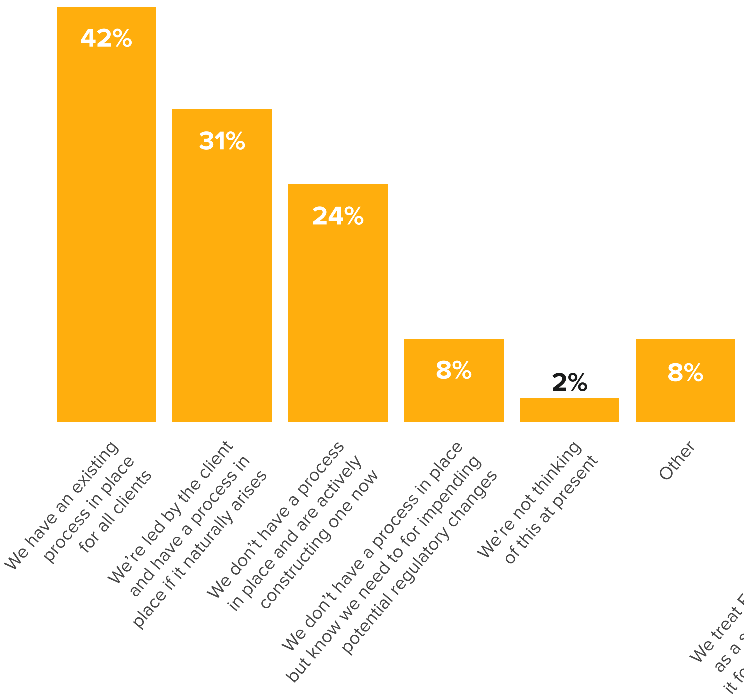
While views on ESG are mixed, our respondents do expect demand to rise and sharply too. They estimate that the proportion of ESG investments recommended five years ago was 5%, is 19% today and will rise to 48% five years from now. They also reckon around 15% of clients proactively raise ESG today, compared to 2% a decade ago and a shade under 6% five years ago.



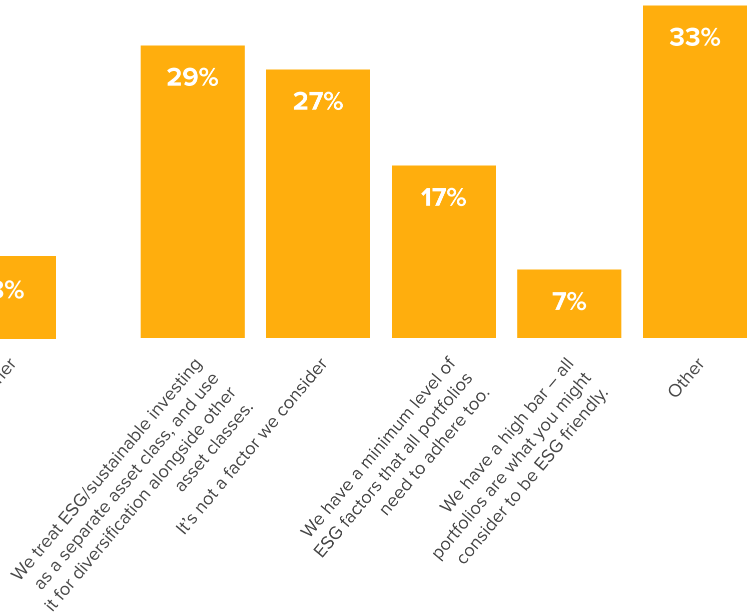
While around 30% told us that their clients by and large 'don't care about this sort of thing' the expectation of an uptick in demand, combined with direction of regulatory travel is very much reflected in the level of engagement firms report in the processes department. A combined total of 73% already have some degree of process around ESG at the fact-finding and suitability discussion end of things and 23% report they are actively constructing a process now.

We confess to being surprised by this. Even if those in the pro-ESG lobby were more motivated to take part in the survey, the size of the majority is pretty conclusive. It suggests that ESG is already being taken pretty seriously by most in the advice profession and rising up the agenda for many more. More cynical readers might suggest that the 30% or so who said they had a reactive process might be gilding the lily a bit, or that their reactive process might be to run, not walk, in the opposite direction as if from an explosion of some sort. But we prefer to think the best of folk.

In the context of assessing ESG requirements for clients in your fact-finding and suitability discussions, which of the following best describes your firm?



To what extent does your firm currently account for ESG credentials when constructing portfolio recommendations for your clients? (Select all that apply)



We have a process but are actively improving it both for regulatory and proposition reasons.

We're evolving [process] now to be more proactive and robust.

Generally, a portfolio is either ESG or it isn't.

We run a separate ESG CIP for interested clients only.

If a client wishes to invest in an ESG portfolio, the whole portfolio has to be ESG friendly. If not the whole portfolio is a 'mainstream' investment portfolio but could contain ESG elements by happenchance.

The 'others'

Of our respondents, 80% run a CIP (which we define as being a set of processes that ultimately leads to a range of investments that are then repeatedly recommended) and they report the usual range of solution types to which clients may be matched, from multi-asset funds to bespoke discretionary portfolios. When we asked about the extent to which ESG credentials are taken into account in constructing portfolio recommendations for clients, you can see above what came back.

The proportion of 'other' responses and the verbatims that came with them tell a story of difference where many 'ESG folk' can expect to proceed seamlessly down a separate leg of the process flow chart and end up in a separate ready-made solution, labelled as ESG. But there is evidence of firms moving to a more integrated approach too.

We are actively looking to 'upgrade' our current CIP by switching in more ESG proactive funds in place of existing holdings.

We're about to introduce it as a minimum standard for all portfolios.

We think this is a natural function of where ESG is on its accelerating journey from niche to mainstream and the practical challenges advisers face in trying to match clients - who may have quite specific and nuanced views on certain issues - to a solution that's more or less tailored to them.

Recognising the challenges

80% agree that confusing and conflating terminology is hampering progress

44% feel they don't have the tools or materials to make an informed choice for clients

43% think recommending bespoke client by client solutions is an unmanageable situation

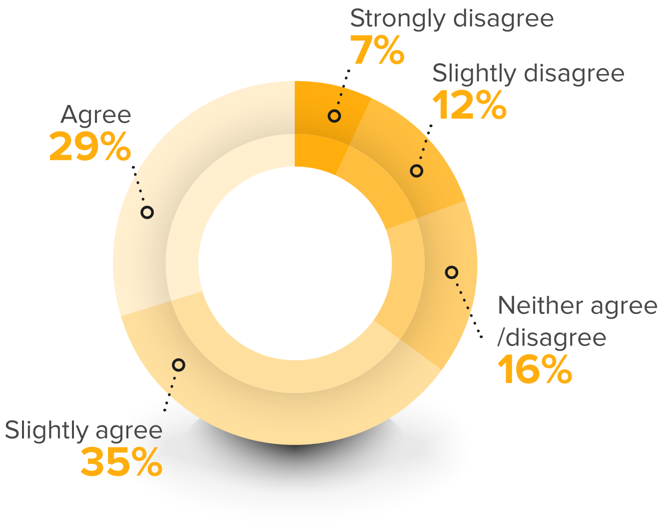
60% see the answer in asset managers transitioning to ESG factor assessment as standard

Something's happening here ... or is it?
We needn't talk about Europe for a second time (head back to page 5 if you need a refresher) but while around four in 10 do admit to not being clear on the detail and three in 10 to not being clear on the practical implications for their firm, the potential ESG regulatory stick still hovering in the EU vapour trail is not overly troubling 65% of our respondents.

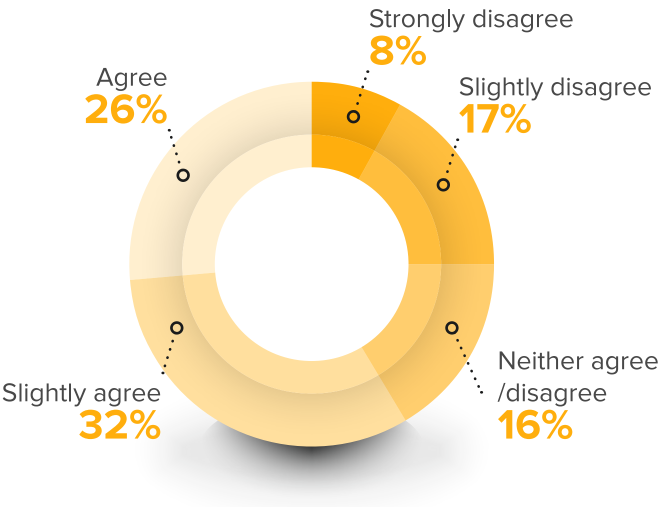
We might have been surprised by this had 73% not already highlighted their ESG processes. In a profession hide-bound by regulation we were definitely not surprised by the combined 58% who were less than enthusiastic about the prospect of more regulatory reform.

Next we're going to present you with a series of statements that look at the potential regulatory changes requiring firms to have a process in place to assess clients' requirements from an ESG perspective. Tell us to what extent you agree with the following

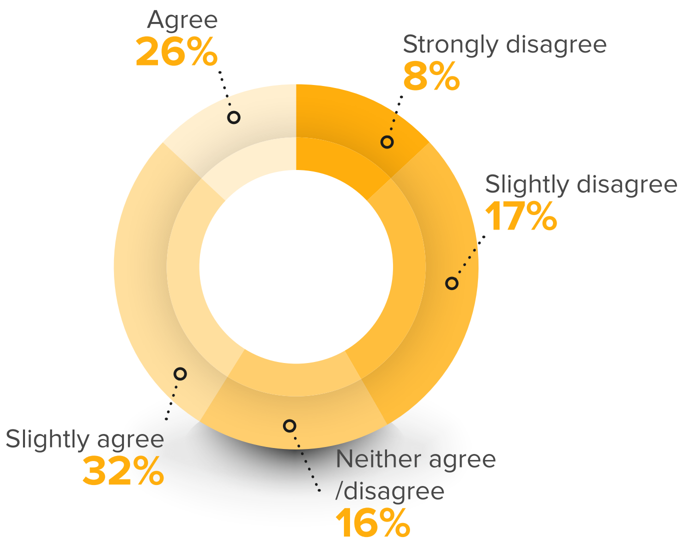
We feel in a good place with this as we have an existing process in place or are about to



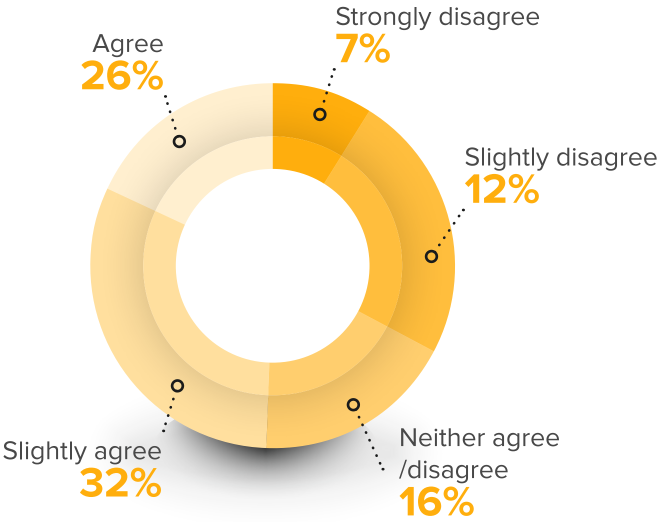
The last thing we need is more regulatory reform



I feel clear in my mind about what the new regulations are



I feel clear in my mind about what the potential practical implications are for my firm



This is an area which is not so easy for us to assess.

Can't do much until providers give guidance.

Providers seem to be a bit behind on this and compromises are occasionally made to prioritise fund access.

Mainly confined to Asset Managers at present. Perhaps all companies should have an ESG Statement alongside their Modern Slavery Statement but there again, how many factors can we consider?

Aaaargh! Sorry, but seriously. I've just spoken to a new client, who, it turns out, has lost 20% of his pension to some highly speculative investments which were "sold" to him 6 years ago, by a firm which has of course gone out of business … this is where the FCA should be looking, not at unnecessary lily gilding which will have no impact on client outcomes other than to push up the prices IFAs have to charge to stay in business.

Not too sure how a one-man business can confirm ESG credentials of a large organisation, there needs to be some meaningful 'support', such as ratings.

Choose your friends wisely

Our respondents ranked corporate behaviour highest in degree of relative importance on ESG – 38% ranked it as the most important with a further 25% doing so for asset managers embedding ESG factors into their processes (arguably a variation on that corporate theme).

When we asked more specifically about how important corporate ESG credentials were for provider, platform, DFM and asset manager due diligence more than four in 10 said they saw this as either a 'critical' or 'important' part. Another 36% saw it as a small factor, leaving just a fifth who said they don't bring it into the equation at all. A selection of the verbatims we collected give an insight into some of the associated real-world challenges in doing this though.

Expert perspectives:

Mark Sanderson, Chief Operating Officer, Praemium

It's integral to running a good platform … making sure my business is doing the right thing … thinking about my carbon footprint, making sure I've got gender diversity in my business and racial diversity in my business … then I come down to the rest of it.

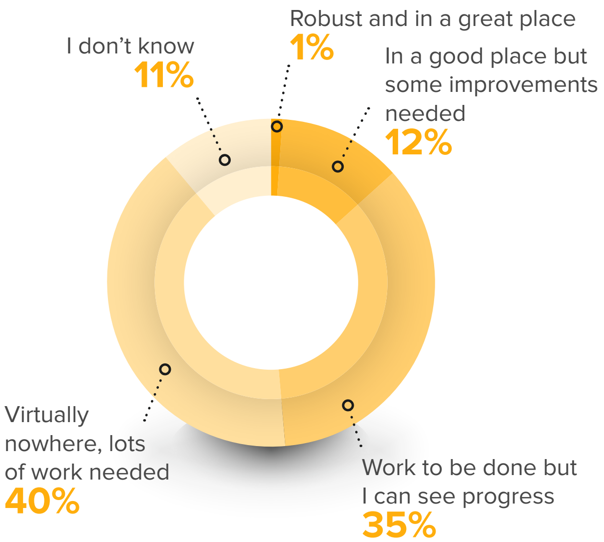
Not waving but drowning
In fact, we see a pattern emerging of good intentions among many advice professionals around ESG but high barriers to integrating it effectively.

Asset managers - we're picking on them again as they are so central to all of this - are generally adept at putting a good spin on things. So how do advisers ascertain the extent to which ESG factors are really embedded in asset manager investment processes and wider culture? How can they be sure a solution labelled ESG doesn't have any unexplained Boohoo style nasties lurking inside? Are asset managers developing their own in-house ESG methodologies and scoring systems or relying on a small handful of third-party providers as a proxy for deep ESG integration?

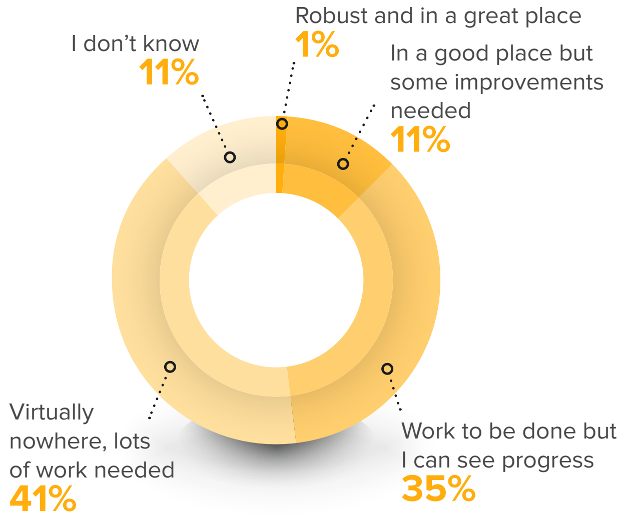
Life ring anyone?
When we asked for views on the types of tools and materials advisers might reach for to stay afloat in the foamy seas of ESG our respondents returned a definitive 'trying but could be better'.

Let's think about the information and technology required to help you as an advice firm to identify the relative ESG credentials of providers, products and investments. We're interested in your views of how the following are currently geared up to help you with this

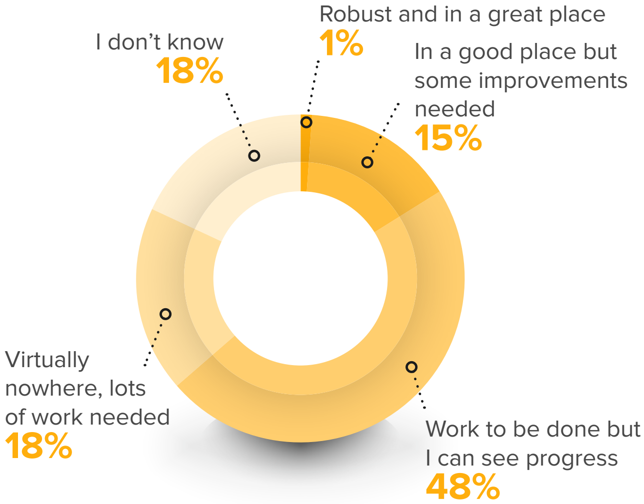
Information/reporting on existing holdings on platforms



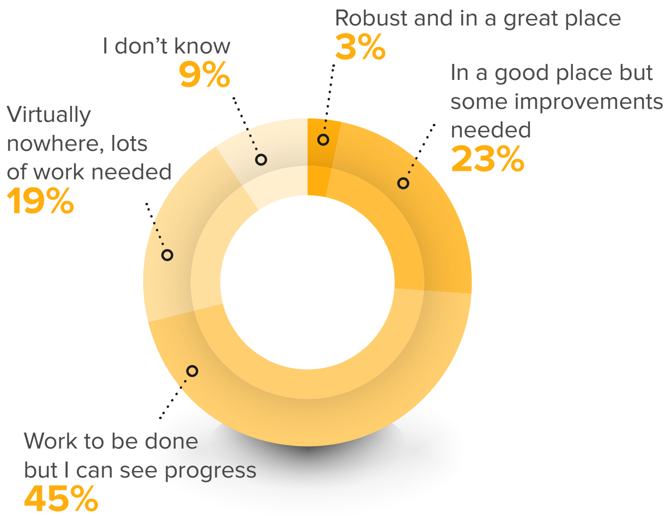
Tools/screening for researching on platform



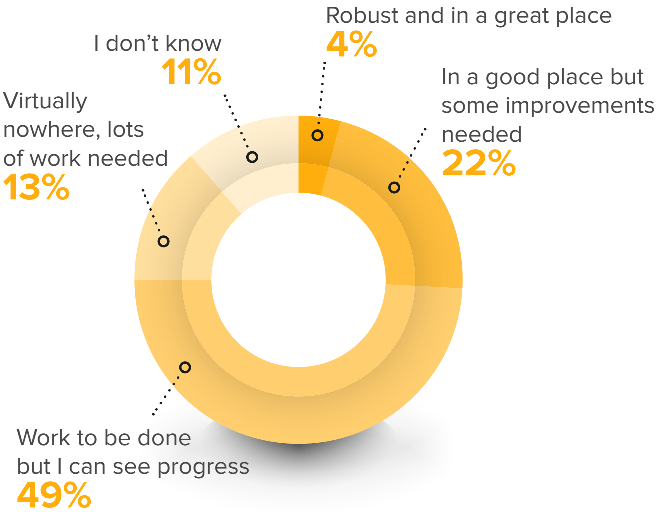
Ratings agencies



Asset manager information (eg. factsheets, KIIDs, prospectuses)



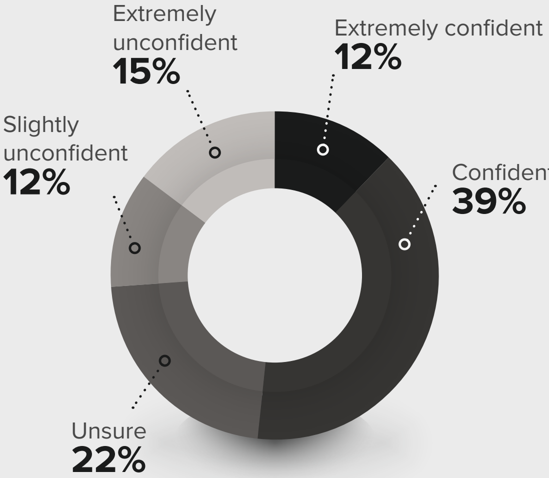
Research tools (Morningstar/FE etc)



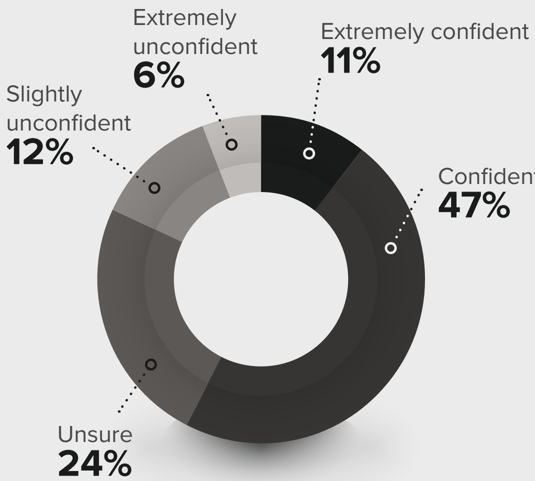
This may help explain why at the investment solution end of things respondents were most likely to be confident picking something off the shelf from a DFM or asset manager (that 'others' thing again). But upwards of 40% were still either unsure or unconfident in what they were doing here.

Set aside your current processes and investment choices for a moment and imagine you're about to research and recommend an ESG solution for a client. How confident would you feel researching the current sector for...

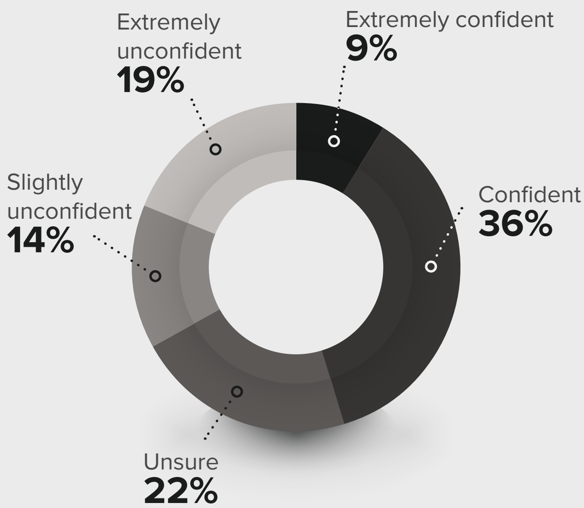
An off the shelf DFM range of ESG portfolios



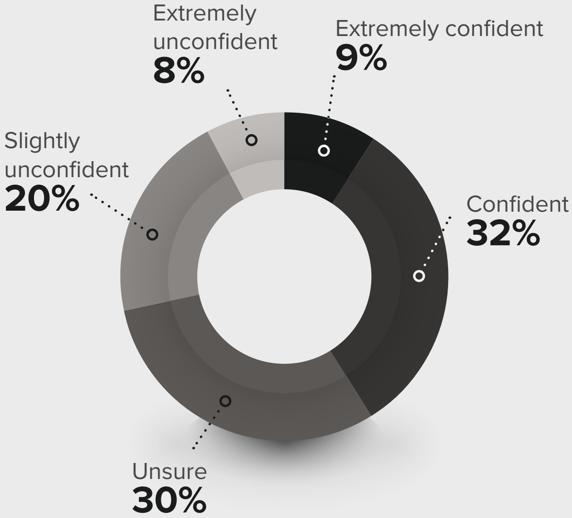
An off the shelf asset manager range of portfolios, funds or single fund solution



Your own fund or stock picking based on screening/ESG criteria



Looking for a tool or service to help you pick or screen for ESG investments



A little deep dive on ratings and screening services

Only roughly a third of respondents told us they'd used an ESG ratings or screening service. The most commonly mentioned were Ethical Screening, FE[16], Fund EcoMarket, Morningstar, Rayner Spencer Mills, and Worthstone.

Of this already minority group, only 21% were extremely confident these types of services were doing a good job. The majority (60%) were only 'slightly confident' and verbatims give some insight into why.

> *The nature of ESG data is unreliable in how it is gathered, scored, and evaluated. It is inherently subjective and based on limited information.*

> *Some way to go as different data providers … use different jargon.*

> *Without common taxonomy and set standards for ratings etc this is challenging.*

> *Ratings are inconsistent and unclear, we are building internal workarounds.*

Those (just under two thirds) of respondents yet to dip their toe in the ratings and screening services water were thoroughly unconvinced. Only 15% reported any degree of confidence at all. The remaining 85% were at best unsure, with just over a third actively lacking in confidence.

If you've looked into ratings and screening services for ESG in any depth these results are likely no surprise. They all take different approaches and prioritise different things. It's currently all a bit of a minefield from the adviser perspective.

Expert perspectives:
Stephen Mitchell, Head of Proposition, FE Fundinfo

> *The correlation between any two providers averages 0.16. That is the mathematical equivalent … of close your eyes and throw your dart at a dartboard … There isn't a right or wrong so … the way forward is to … make sure you explain to the advisory firm that they need to engage in this and make a decision knowing what they are buying as a rating.*

> *It's not that we're unconfident in understanding what the client wants, but actually finding a fund/portfolio that reflects that and isn't a wolf in sheep's clothing is the issue.*

> *I'm unsure not because I don't know what I'm doing but because I don't believe the tools and information available is robust enough yet.*

Looking to the future

By now we can probably all agree that while the green shoots of ESG are most definitely rising for the advice profession, it's still a bit wild out there. It will take some careful cultivation before everyone can be surveying more ordered, fertile and productive fields. We're sure they'll be there, somewhere over the event horizon … As to who should be responsible for pushing ESG over that horizon and into the mainstream, 41% of respondents told us they thought this was for asset managers to lead and 31% that it lay with them, the advice profession.

We'll leave the last research section words to some of our respondents.

Where do you think ESG will be in a few years time?

Mainstream. Hopefully not talking about it other than the companies who do it badly getting pilloried in the Mail.

I hope that ESG investing will just be known as investing in the future.

Much more mainstream although with a dogged group refusing to accept that it's not a fad.

Same place - well-intentioned, confused and angst-ridden!

In a bin ...

Lesmahagow.

Better research tools or a guide on where to start with ESG research.

That it is treated with the contempt it deserves and dies on the vine.

What one thing would make your day-to-day ESG life easier?

An industry wide standard client guide to explain ESG investing.

For certain descriptive terms to have actual legal meaning so fund managers/providers can't use them unless they actually meet a set criteria.

Fewer labels with commonly agreed meanings" "Better independent tools for screening funds, models and ESG propositions.

Is there anything the sector could do to convince you to place more business in ESG?

No.

Nope, we believe it is the only way forward.

I think it will happen naturally.

*Less marketing bullsh*t more actual evidence of impact.*

Sure - some hard, objective, fact-based evidence that ESG focused investments deliver better returns. Sorry to say this, Greta, but for me, it's all about the money - because that's what my clients are hiring me for (at the moment).

Make everything easier to understand.

Make it easier to target the investment solutions to the end investors actual preferences.

[16] Strictly speaking it's FE Fundinfo for this purpose.

REVISITING THE BIG FIVE THEMES

There's nothing like a good dose of real-world views to bring things into focus. It's now time to return to the lang cat's five big themes for ESG watchers (and doers). This time we'll have a bit more of a poke around what might be involved in getting us over the event horizon to the sustainable promised land.[17]

BIG THEME 1 CLARITY

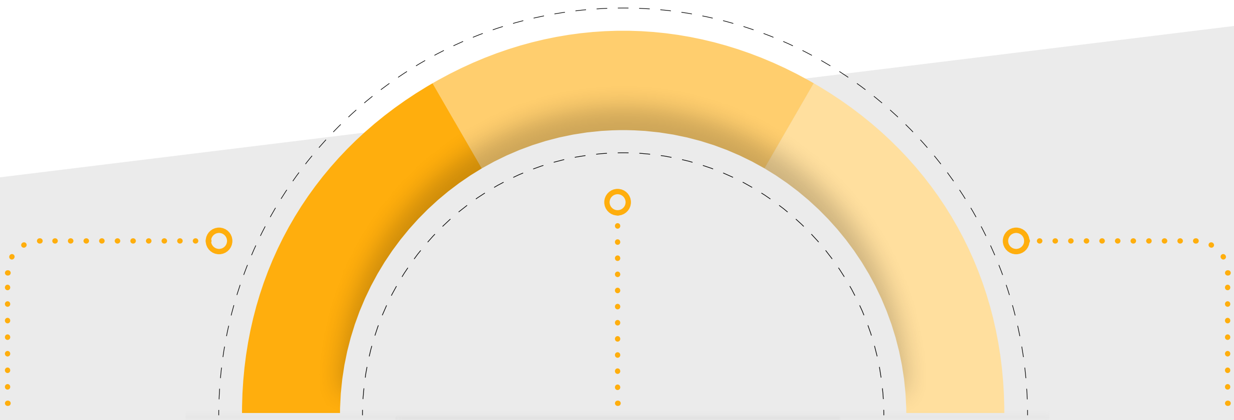
There is a lack of consensus as to what ESG means in a practical sense.

If, as we proposed earlier, ESG has become an unhelpfully amorphous mass, we think our first job is to break the issue down, simplify it and build it back up from there. A good place to start with that is to understand that ESG, in the context of retail investing, functions on three distinct levels.

So far so good. But consider again that our research highlights a significant proportion of advice firms having little or no faith in the screening and ratings services needed to navigate through the myriad choices in the asset management sector.

Would a new-found clarity and understanding of terminology help? Yes, at least in part. It's certainly a recognised issue in all quarters and from an EU Taxonomy[18] to the Investment Association's Framework for Responsible Investing, a lot of good work is already underway to try and bring more uniformity into how ESG factors are described. But there is a deeper issue at play here.

The more conversations we had across the sector, the more it became clear to us that imagining a perfect end state, with systemic research and software (whether it be screening or ratings or suchlike) cutting through all the sector noise and operating consistently is a fool's



GOVERNANCE & CULTURE
This covers the extent to which everyone in the supply chain walks the walk as well as talks the talk **at a corporate level.** It's a particularly relevant factor when it comes to selecting panels and preferred partners. How committed can an asset manager, platform or software provider be to facilitating an ESG led investment process, for example, if it isn't committed to being a good corporate citizen itself?

PRODUCTS & SERVICES
This is about **defining specific products and services in the context of ESG** and fully understanding their characteristics. It runs from the range of available investment solutions, through ratings and other research tools to assess how these match to different client criteria, to the extent to which platform partners support access to all of these things, in a way that promotes business efficiency from the adviser perspective.

INDIVIDUAL SUITABILITY
This is about the **process of understanding** what really matters to a client from an ESG perspective and how this interacts with their broader financial goals, needs and risk profile to (1) set their overall financial plan and (2) match them to suitable products and services for implementing it. For example, are they more into avoiding certain sectors or criteria, or do they actively want to maximise their positive social impact? We'll talk more about the practicalities of this in BIG THEME 3.

errand. The reason? Humans are humans. That means each advice firm, each client, each member of a software house responsible for rating investments and each employee of an asset management company responsible for deploying capital will have their own views. Remember what our ratings expert had to say earlier:

Expert perspectives, revisited:
Stephen Mitchell, Head of Proposition, FE Fundinfo

> *There isn't a right or wrong ... the way forward is to offer choice, make sure you explain to the advisory firm that they need to engage in this and make a decisiovn knowing what they are buying as a rating.*

ESG from space, then, may become a slightly less amorphous mass, but it will always be an aggregate view of thousands upon thousands of individual value-based assessments. This isn't a failure. It's a natural outcome of basic human psychology. But remember what we said on page 6 about the core problem of the sector manufacturing things before it understands them? That's it right here.

The way forward? We have to approach the notion of ESG investing with pragmatism at all times. It's a stuffy old conclusion, but the way through all of this is education, and you'll have to educate yourself whether you're an investor or an adviser, to ensure you're not being sold to. Understand what your software of choice is doing. Understand what the ratings services differ. And be faithful to your own views.

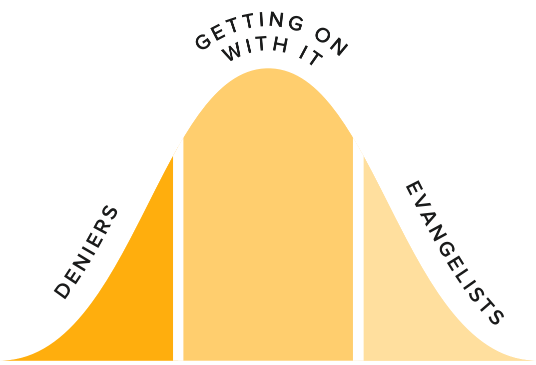
BIG THEME 2
DEMAND

There is a significant disconnect between sector noise and tangible demand.

Our consumer research suggests the great majority of people care about ESG in a general sort of way. No-one wants to look bad, right? But it also suggests there is a relatively limited appetite for financial advice around ESG. Just a quarter said they would pay for a financial adviser to help ensure their savings and investments reflected their personal ethics, with the greatest reluctance found in the age groups closest to retirement.

There are some more positive signs of interest amongst younger age groups. We feel confident that resolving some of the issues around terminology and having access to better information to measure the impact of deploying capital in different ways can act to grow that interest over time. (It's at this point we sound the lang cat cliché klaxon and suggest there will be a generational shift once millennials obtain enough capital and become advised clients. With the earliest millennials just turning 40, it won't be long.)

From the perspective of the advised sector, our various bits of research (not limited to this exercise) highlight a clear bell curve. At one end you have evangelists, walking the walk by designing their own investment propositions and defining themselves as ESG advice specialists. At the other end, you have the deniers: more sceptical and dismissive on the whole 'ESG thing'. In the middle sits the biggest segment by far, simply trying to navigate this new lexicon with honest endeavour, as best they can.



This all paints a rather muted picture of actual demand for ESG-flavoured investment choices but we think it's worth separating out active versus passive (no, not that type) demand here. Yes, we are sceptical that there will be queues of well-informed, advised and self-directed customers with clear notions of matching principals to their pennies. But the wider regulatory and societal stuff we'll talk about in BIG THEME 4 and the order of influence we'll look at in BIG THEME 5 means ESG isn't going anywhere and in some shape or form is going to become investment business as usual.

[17] Because that's what's over the event horizon – and you can't prove otherwise.
[18] You can get the EU skinny on this here.

BIG THEME 3

CONFLICT

There is a particular tension between the use of investment products and individual suitability. An end state driven by individual client beliefs may be neither achievable nor desirable.

So you're an adviser; you've got a client who's interested in ESG and your discussions have given you a firm idea of where their interests lie and how that fits into their wider investor profile. Now you need to work out how all that slots into your own processes.

Framing the ESG conversation

How you get to finding out your client is interested in ESG without opening a can of potentially very risky worms for yourself is a massive subject on its own and one to return to another day. This description of the Australian experience sums up the risks for us. And need we mention Boohoo and Tesla again?

Expert perspectives:

Mark Sanderson, Chief Operating Officer, Praemium

> *Consumers care about fossil fuels and human rights ... but what managers were selecting against was weapons and tobacco. So there was this mismatch between what people thought they were getting and what they actually were.*

But wait a minute. Consider that the overwhelming majority of firms – 80% among our sample for this piece of research, 86%, according to our latest and more general State of the Adviser Nation research - run Centralised Investment Propositions. The notion of stepping inside that CIP in order to fulfil bespoke beliefs and philosophies is at odds with where the supply side of the technology sector has manufactured itself to as we stand.

The kit to run mass bespoke CIPs in the context of specific underlying holdings just doesn't exist in the mainstream. And understandably so, when you consider that the overwhelming majority of holdings in CIPs are collectives. What would the algorithm look like that screens one particular stock from a fund with 20+ holdings? Structurally, it isn't feasible.

There is technology out there ...

While kit for mass customisation doesn't exist in the UK retail mainstream and seems unlikely to be a thing any time soon for the reason we've just outlined, the technology to support it in principle does exist. Standard Life's Investment Hub has functionality for lockouts and substitutions for example, although it isn't specifically designed for ESG. Looking overseas for another example, Praemium's Australian platform does offer lockouts and substitutions around a customer's individual ESG preferences. But there are still some familiar challenges.

Expert perspectives:

Mark Sanderson, Chief Operating Officer, Praemium

> *There's a reliance there between research companies and platforms that the quality of that information is good enough ... so that when the adviser executes the action on behalf of the investor that it has the effect the consumer wants.*

It's natural then that the most common outcome suggested by our research is for firms to have multiple CIPs in order to facilitate a broad church ESG 'segment', typically a packaged asset manager fund range or DFM model portfolio.

We see this pattern holding for the foreseeable. We've become accustomed to the notion of primary and secondary platforms but we reckon that we'll see far more discussion of primary and secondary CIPs going forward. And our next theme may reveal where that ultimately ends up.

Pragmatism again
When we first introduced BIG THEME 3, we talked about the advice profession's evolution towards a consultative, life-coaching, objective oriented planning environment. In a very satisfying kind of way this may actually hold the key to navigating through some of this complexity.

Expert perspectives:
Jeannie Boyle, Executive Director, EQ Investors

> *Talking to clients about their values and beliefs is absolutely core to what we're doing. If you're starting a financial planning relationship, I want to know everything about you, I want to know what makes you tick because that's how I can help you plan a good life…but ultimately it's our job to help clients understand why diversification is important.*

Well, corporate disclosure on ESG issues is steadily improving, sustainability reporting is becoming more consistent and metric sets are increasingly comprehensive. Big data now allows for more effective interpretation of non-financial information and its integration into investment processes. And as issues such as those we discussed around ratings agencies invite scrutiny, market forces and regulatory demands will drive rapid development of more sophisticated and consistent research and assessment tools. Just remember that thing we said about pragmatism in BIG THEME 1.

Wherever you sit, we see a future where it's less about investment ranges being packaged and labelled as ESG, and more about ESG simply becoming the norm, where a degree of reporting of 'how ESG' or 'how sustainable' your solution is deemed to be, becomes standard practice alongside other standard data metrics. This may be enough to meet the needs of a great many individuals who simply 'care' about the issues in a non-specific way, leaving the way for a smaller number of more specialised, issue-led investment choices and helping drive some much-needed clarity in the sector.

BIG THEME 4
GRAVITY

We do have to find a way through these challenges. We are approaching the ESG event horizon and significant change is now a given.

As we've hinted at, much of the noise we see around ESG can be explained quite simply as 'companies trying to be seen to do the right thing'. This is a societal trend as much as anything and isn't going away anytime soon, save for some kind of counter-culture revolution. And that would be a very different paper. Back in the prelapsarian days of page [x] we also covered how the regulation tailwind is inevitably blowing all investment recommendations towards a more sustainable future.

Both factors combine to form an irresistible force of nature which we believe is guaranteed to change the way we view investment options to some degree. What does that mean in practice?

Expert perspectives:
Oliver Oehri, Co-Head ESG Product Group, FE Fundinfo

> *15 years ago I was the philanthropic guy, 5 years ago I was the niche guy and now they call me the compliance guy. Time is up. In the next year. You have to be positioned [on ESG]. Otherwise it's just be compliant and not a USP anymore.*

BIG THEME 5
INFLUENCE

There's a clear order of influence for embedding and normalising the shift to ESG.

This is where the power of money dictates who is pretty much already at the event horizon in a plush leather SpaceX or Virgin Galactic seat (with high class snacks) and who is still rootling around the second-hand garages for a one-man inter-stellar craft.

True influence comes from those who can direct the most capital, beyond governments. Many consumers will become (and in fact already are) ESG investors through workplace pensions for example. Beyond that it becomes about commercial interests and attitudes within the sector, including where advisers sit on that bell-curve we looked at in BIG THEME 2. The individual consumer, as is so often the case when it comes to real-world influence, trails sadly at the rear.

Our adviser research backs this in a tangential way, with asset managers and then advisers themselves topping the leader board for whose responsibility it is going to be to make this whole ESG thing work.

THE LANG CAT'S
ORDER OF ESG INFLUENCE

ORDER ONE
The folk who control big institutional mandates (pension funds etc)

ORDER TWO
Those making capital decisions at asset management firms

ORDER THREE
Large advice firms with their own fund ranges

ORDER FOUR
Specialist advice firms designing their own ESG portfolios

ORDER FIVE
Mainstream advice firms directing flow to packaged ESG ranges

ORDER SIX
Advice firms being sent to the event horizon by compliance

ORDER SEVEN
Individuals, going it alone

SOME FINAL WORDS

Love it, loathe it, sceptical about it or still confused by it, ESG investing is here to stay. And so too are key questions and challenges that need to be worked through for it to flourish.

Now, our main aim in this exercise wasn't to heal the world and usher in a new dawn for ESG investment. It was chiefly to help advice professionals and other interested parties get some real-world insight into where the market's at now and what does need to get better if ESG's (we believe) desired journey towards 'business as usual' isn't to stall.

For our final act, we return to the three distinct levels of ESG we highlighted as part of BIG THEME 1 and offer our closing thoughts on each.

GOVERNANCE & CULTURE

From carbon footprints to modern slavery statements to diversity policies and beyond, matters ESG are now being addressed as standard at corporate level, with each and every large corporation in particular desperate to display their relative ESG credentials.

To what extent this is important to you as a firm is entirely up to you, much like our consumer research and their individual purchasing decisions. Most firms we surveyed said ESG credentials played a part in their due diligence of prospective partners, but only a large minority said it was an important aspect and a fifth didn't consider it at all. It feels inevitable that its relative importance will rise as time moves on.

Asset managers, service providers, platforms and others on the manufacturing side need to make it easier for that due diligence to be carried out effectively. Advisers, depending on their worldview, have a vital role to play here in demanding better disclosure and information.

PRODUCTS & SERVICES

Advisers have a mind-boggling selection of off-the-shelf solutions to choose from, but little clarity and consensus in the sector to help the decision-making process, with faith in research and screening software and ratings low.

Ultimately there is a clear and present danger of disconnect between the products that asset managers are developing and the practicalities for advisers of researching and recommending these at the level of confidence and reliability they need.

Central to this is the current proliferation of conflating and competing terminology. From our research it's clearly damaging for the sector, representing a real obstacle to growth and potentially trust. People are working hard to fix it, but this fix can't come soon enough.

INDIVIDUAL SUITABILITY

The notion of catering for individual philosophies and beliefs within an advised process is at odds with centralised investment propositions and where the sector has manufactured itself to in early 2021.

As the ESG event horizon nears, we think the natural evolution and gravitational pull of the sector will flush this out over time. Investment solutions that are perceived to be 'standard' will evolve into 'cleaner' versions of themselves as corporate standards increase. This will pave the way for clearer, more specialised solutions for the minority who truly seek a more personalised outcome.

In the meantime advisers will, as they always seem to do, find pragmatic ways to navigate their way through for clients and for their own businesses.

CLOSING

Just as 'e-commerce' marched steadily from niche activity to organisational driving force through the 1990s and 2000s, our Mystic Moggy inside the lang cat has a clear vision of ESG doing the same.

We throw down the feline gauntlet for asset managers, service providers, research agencies, platforms and regulators to work together in developing a coherent framework that supports advisers and consumers better and also turns noise into pragmatism for ESG investing.

That word pragmatism does keep coming back. We close by stressing that irrespective of how sophisticated a place suitability requirements, screening technology, disclosure requirements and other such parts of the supply and demand side get to, we will always be at the mercy of individual value-assessments from now until our last revolution of the sun.

Let's be pragmatic about progress and not let perfect get in the way of better.

THAT JARGON & HISTORY BIT AT THE BACK

YOUR BIG LIST OF JARGON

Carbon footprint	A measure of the impact that an individual, product, service or an organisation has on greenhouse gas (carbon dioxide) emissions.
Engagement	Investing in companies with the aim of improving their behaviour and policies. May include companies associated with poor ethical practices.
Environmental factors	The E in ESG, covering issues such as climate change, pollution, energy efficiency and waste management, and the broader impacts that a company's operations and products have on the living world.
ESG integration	The systematic inclusion of ESG factors in the analysis of investments and companies.
Ethical investment	The practice of choosing investments based on belief systems or moral values.
Fund ESG ratings	Third party scoring systems that seek to indicate the ESG credentials of a particular fund, based on an assessment of the ESG credentials of its underlying holdings.
Governance factors	The G in ESG, referring to the rights and responsibilities of the different stakeholders and how well an organisation is run. Covers issues including executive pay, bribery and corruption and board diversity.
Green bonds	Bonds issued to fund projects with positive environmental and/or climate benefits.
Green funds	Funds that invest in companies and technologies considered positive for the environment.
Greenwashing	Funds or products promoted using misleading or inaccurate claims as to their environmental benefits or credentials.
Impact investing	Defined by the Global Impact Investing Network (GIIN) as "investments made with the intention of generating positive, measurable social and environmental impacts".
Impact measurement	The measurement of the positive or negative impact of a company's activities.
Negative screening	Excluding companies engaged in specific activities considered damaging, such as gambling, tobacco, alcohol, pornography and child labour.
Positive screening	Focusing on companies engaged in positive activities for the community or the natural world, like recycling, environmental technology, public transport and education.

Responsible investment	A general term for investing that aims to incorporate ESG factors into investment decision-making.
Shareholder activism	Taking an active role as a share owner to push for change at a company and/or influence its behaviour; increasingly used to demand improvements in companies' ESG practices.
Social impact bonds	Bond issues where proceeds go towards addressing specific social problems or improving social outcomes, such as projects in areas of positive social impact like education and health.
Social factors	The S in ESG, covering areas including human rights, working conditions, community responsibility, employee relations and exposure to issues such as exploitation and slave labour.
Socially responsible investment (SRI)	Another umbrella term, widely used in the investment industry itself, referring to an investment approach that incorporates ESG integration and analysis at any level.
Sustainable investment	Another general phrase used to describe investing that aims to incorporate ESG factors into investment decisions.
Thematic investing	In ESG, this refers to investing in companies engaged in a particular trend or theme related to ESG factors, such as renewable energy, water management, climate change and access to healthcare.
UNPRI	UN's Principles for Responsible Investment, offering a framework for incorporating ESG issues into investment practice. Followed by more than 3,000 signatories, including some of the world's biggest pension and investment houses.
UN SDGs	The UN's Sustainable Development Goals, a set of 17 targets and goals that can be used by investors to measure a company's impact.

YOUR HISTORY LESSON

It's taken over 250 years for today's idea of ESG to develop. Popular sources[19] suggest it all began in the 1750s when the Quakers banned members from buying or selling slaves. The Methodists then followed on with a set of principles for the use of money, based around not doing harm to your neighbour.

Fast forward to the 1970s kitten-hood of many lang cats and things began to pick up pace considerably. Since then, public sentiment, public policy and various associated industry and regulatory developments have all combined to bring us the backdrop to ESG as we know it now. It's an oft-told story you may or may not be familiar with.

London, UK, 2000
Occupational pension schemes must now declare whether they took account of any social, environmental or ethical factors when making investment decisions.

Paris, France, 1999
The OECD Principles of Corporate Governance are published for the first time.

Boston, US, 1997
The Global Reporting Initiative (GRI) is formed to promote the transparency of organisational impacts on issues such as climate change, human rights and corruption.

London, UK, 1992
The Cadbury Report on 'Financial Aspects of Corporate Governance' sets out recommendations designed to mitigate corporate governance risks and failures.

Boston, US, 1989
Non-profit organisation Ceres is founded by investment and corporate influencers in response to the Exxon Valdez oil spill, to drive change in corporate environmental practices.

London, UK, 1984
The UK's first ethically-screened investment vehicle, the Friends Provident Stewardship fund, is launched.

London, UK, 1983
The Ethical Investment Research and Information Service (Eiris) is founded with the aim of providing environmental, social and governance research to investors.

Boston, US, 1982
Trillium Asset Management, the first independent investment adviser focused entirely on SRI, is created for clients wanting to invest in line with their values.

Detroit, US, 1977
The Sullivan principles, demanding equal treatment of employees regardless of race, are created in order to put economic pressure on South Africa in protest against apartheid.

Washington DC, US, 1972
The Investor Responsibility Research Center (IRRC) is created to provide data on corporate governance and social responsibility.

New Hampshire, US, 1971
The first socially responsible investment fund, Pax World Fund, is launched.

Detroit, US, 1970
The Campaign to make General Motors Responsible is formed, with the aim of the disclosure of policies on auto safety, pollution control and diversity.

London, UK, 2001
The FTSE4Good Index series for ESG investors is launched.

Global, 2005
The term ESG is coined in 'Who Cares Wins', a report arising from a UN-led study aimed at identifying ways to integrate environmental, social, and governance concerns into capital markets.

London, UK, 2006
The creation of the UN's Principles for Responsible Investment provides a framework for incorporating ESG issues into investment practice.

London, UK, 2010
The first UK Stewardship Code is published.

Worldwide, 2015
In a year that marks a milestone in pushing ESG towards the mainstream:

- **New York, US:** Sustainable Development Goals are published by the UN, effectively providing investors with a set of 17 targets to measure the ESG impacts of their investment decisions.[20]
- **Paris, France:** 195 countries sign the first ever legally binding agreement to keep the increase in global average temperatures "well below" 2 degrees Celsius and aiming to limit it to 1.5 degrees.
- **Basel, Switzerland:** The Financial Stability Board creates the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.
- **A pivotal global report:** Fiduciary Duty in the 21st Century, concludes that "failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty".[21]

Sacramento, US, 2016
CalPERS, the largest public pension fund in the US, adopts a five-year plan to incorporate ESG principles into its investment process.

Brussels, Belgium, 2018
The European Commission issues its Action Plan on Sustainable Finance.

New York, US, 2018
BlackRock's Larry Fink says the world's biggest asset manager won't support companies that fail to make positive contributions to society.

Brussels, Belgium, 2019
The European taxonomy for environmental sustainability is published aiming to help standardise terminology.

Brussels, Belgium, 2020
The European Commission publishes its Action Plan for Financing Sustainable Growth.

19 Wikipedia. Do give £2 for this very worthwhile cause.
20 You will see these presented as graphics in many, many shiny reports from asset managers and if you are not already familiar, you can find out more about them here.
21 You can access that report here.

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