Making your investments work harder

2022 has been a volatile year for investors across the board, but the year has also played host to some important developments in sustainable investing. We recently produced our Sustainable Impact Report, which contains more detail on the evolution of sustainable investing, as well as a closer look at the specific investments at work in our sustainable strategies. Below, we discuss some of the themes highlighted in the report.

Financial regulators are coming for greenwashing

One of the (very fair) criticisms levelled against sustainable investing in recent years is that the terminology and labelling of investment products is inconsistently applied, and poorly regulated. Companies, bonds and funds can all be labelled as green, 'ESG' (environmental, social, governance), sustainable, responsible, or ethical, with little or no formal delineation between these terms, and without the need to adhere to any strict rules as a result of their labelling. Not only does this lead to investor confusion (as it is challenging to understand and compare investment products), it has also created the potential for 'greenwashing'.

What is greenwashing?

Greenwashing is a form of deception, where marketing, advertising or PR coverage falsely indicates or exaggerates a company/product's environmental or socially responsible credentials. This could be achieved by the use of misleading labels and language (such as including the word 'green' in a fund's name), or through visual messaging (such as the use of imagery focused on the natural world).

As we speak, new regulation is emerging around the world, designed to tackle these grey areas, put a halt to misleading labelling, and improve investor understanding of sustainable investment products. Regulators in the UK, the EU and the US are all cracking down on vague, misleading or false labelling, aiming to provide greater clarity to investors when it comes to the sustainable credentials of the products in which they invest.

We welcome this clarity, and the greater confidence it should bring to the industry. 'Green bonds', which are issued to finance sustainable projects, are critical for many companies and governments in funding the move to a more sustainable future, so it's important that they can be easily identified.

A record **$517.4bn green bonds** were **issued** in **2021**, **up 74%** (from $297bn) in **2020**

Source: Climate Bonds Initiative

Responsible investing is about more than renewable energy

Quite understandably, renewable energy has long been the poster child for sustainable investing. But while it is critically important to fund the transition to a cleaner future, sustainable investing covers a much broader remit, from reducing social inequality and improving Boardroom diversity, to finding the medical solutions to our gravest health problems. Indeed, the latest report from the IPCC (Intergovernmental Panel on Climate Change) discusses the need for a 'just' transition to renewable energy – one which decarbonises the economy in a fair way, ensuring no one gets left behind.

41%

of the **world population lives** in **countries emitting less** than **3 tonnes CO_2 per person annually**, but a **substantial share** of these people **lack access** to **modern energy** services.*

Source: IPCC, 2019 figures. *Defined as access to clean, reliable and affordable energy services for cooking, heating, lighting, communications, and productive use.

Bringing social responsibility into the heart of sustainable investing also means rethinking the way we've classified investments in the past. This is less about greenwashing, and more about taking a wider-reaching approach. For example, any investment in the transition to cleaner energy would historically have been viewed as a sustainable investment. Today, sustainable investing is a more holistic undertaking.

With this in mind, a wind farm operator is not automatically given a free pass because it ticks the 'E' box in 'ESG' – what about that company's governance, its Board diversity, its industrial accident rate, and its impact on the local community?

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Ben Matthews Investment Director

To meet **'net zero'** commitments, **battery storage capacity** must **expand** by **44 times** by **2030**

Source: International Energy Agency

Investors are continuing to wake up to the knowledge that we can address social issues by putting our money where our principles lie. To take another simple example, at a time when the cost of living is rising, finding affordable housing is becoming increasingly challenging for vulnerable people. By investing in social housing, investors can choose to fund safe, specialist shelter for those who need it, while also seeking a return on their capital.

Source: National Housing Federation

8.5 million people in **England** have some form of **unmet housing need**.

Overcrowding is the **largest housing problem** nationally, **affecting** nearly **3.7 million** people.

Why do we produce an annual impact report?

When people choose to invest their money sustainably, they have a right to see how it has been put to work to create a genuine positive impact. Our Sustainable Impact Report is designed to demonstrate how – and where – our sustainable funds do this.

By outlining some of the features of our sustainable funds in detail, the report highlights how individual investments are able to make a real difference. It also uses independent analysis to rate our funds across a range of sustainability criteria. Our aim is to be accountable and transparent, while bringing sustainable investing to life for our customers.

Click here to read our Sustainable Impact Report.

To find out more please get in touch:

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Assessing the performance of our investment strategies

Our 'target return' performance benchmarks

Most of our investment strategies aim to deliver financial returns at levels linked to the rate of UK inflation (measured by the Consumer Price Index, or CPI). Over any given five-year period, these strategies target returns which are a pre-defined level above the rate of inflation. Our CPI-linked goals are known as the strategies' target return benchmarks, and are designed to help customers evaluate the strategies' performance in a real-world context. These targeted returns range from CPI+1% for our lowest risk (Defensive) strategies up to CPI+4% for our higher risk (Growth) strategies. Our highest risk (Adventurous) strategy is the exception, as it does not use a CPI-linked goal. Instead, this strategy aims to beat the returns offered by the global stock market (represented by the MSCI All Country World Index).

If the strategies deliver total financial returns to investors (after all costs and charges have been taken) equivalent to the total return of their target return benchmarks, we consider the strategies to have achieved their targets.

Our financial market performance benchmarks

The performance of our investment strategies can also be compared to representative indices for two of the main asset types in which most of the strategies invest. These indices are 'MSCI United Kingdom (£) – net total return' (representing the performance of UK shares) and 'BoA Merrill Lynch UK Gilts' (representing the performance of conventional UK government bonds). These indices are known as the strategies' comparator benchmarks, and are designed to help clients evaluate the strategies' performance in a financial market context.

It is important to note that financial returns are not assured: there is no guarantee that the strategies' performance objectives will be met, or that a positive return will be delivered over any time period. When you invest, your capital is at risk.