The evolution of sustainable investing

The third anniversary of our Sustainable fund range provides an excellent opportunity for reflection and optimism.

As we celebrate this milestone, we take a look back at what's changed in the sustainable investment space over the past three years, and look forward to what could come next.

When we launched our Sustainable Multi Asset Funds in 2019, we could never have predicted the dramatic events that would take place during their opening three years, for financial markets and for the wider world. The COVID-19 pandemic created one of the sharpest stock market falls (and stock market recoveries) in history, and a sea change in the way many of us live and work. Meanwhile, besides the devastating human cost, Russia's invasion of Ukraine has highlighted many uncomfortable truths, including our ongoing reliance on fossil fuels. And, ringing loudly in the background, inarguable warning signals continue to tell us that the health of the planet itself is in jeopardy.

The world our Sustainable range inhabits today is very different to the one into which it was launched just three years ago. Let's take a look at what's changed, and what still needs to happen.

What's changed for sustainable investors?

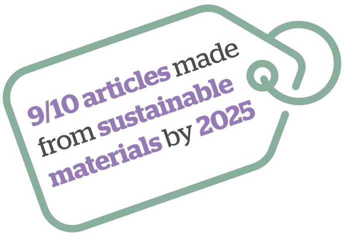
Consumers and shareholders are driving corporate change

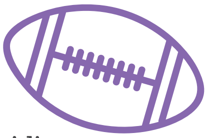
As awareness grows around wider issues of sustainability, we are all becoming more mindful not only of climate change issues, but also of topics like corporate behaviour and social responsibility.

Across the world, consumers and shareholders are increasingly demanding more accountability from the companies that court their money, and considering the impact business activities can have on society, health and political regimes. Corporations across a huge swathe of industries reduced or suspended operations in Russia following the invasion of Ukraine, from fast food and beverages (McDonalds, Coca-Cola, Starbucks) to clothing and cosmetics (Levi's, Zara, Estée Lauder), and technology giants (Apple, Samsung, Sony). Many of these businesses were responding to pressure from shareholders and customers, but some acted before being publicly pushed to do so.

The fashion industry is infamously unsustainable, but is that changing?

Case study: Adidas





Initiatives providing **access** to **fitness** for 5-12 year old **children**

Source: sustainabilitymag.com

Meanwhile, a range of major brands are moving towards more sustainable practices. Sportswear giants (like Nike and Adidas) have made huge commitments to more sustainable manufacturing processes and community initiatives, while leading technology businesses (like Google) in Silicon Valley vie to outdo one another in their positive impact programmes.

Whether these changes represent nimble exercises in public relations or genuine acts of corporate responsibility is arguably irrelevant. The end result is one of action and change, and consumers and shareholders have played a huge role in this evolution.

Policymakers are taking meaningful action

The lifespan of our Sustainable fund range has also played host to a major climate-focused event: COP26, held here in the UK in 2021. It can feel like we've been here before, with the Paris Agreement in 2015. However, today the world is watching ever more closely, with an increasing proportion of the global population finally prepared to accept that climate change represents a planet-wide emergency.

64% of people believe climate change is a global emergency

Source: The People's Climate Vote, UNDP, University of Oxford

The UK has also been instrumental in convincing other leading nations to progress towards making it compulsory for businesses to disclose climate-related risks (in line with recommendations from the Task Force on Climate-Related Financial Disclosures, or TCFD). The UK was the first country in the world to commit to make TCFD-aligned climate reporting fully mandatory by 2025.

Within financial services, important change is also afoot. The UK government has commissioned independent experts as part of the 'UK Green Taxonomy' to help tackle so-called greenwashing – the practice of labelling investments as sustainable/environmentally-friendly without adequate evidence. Meanwhile, the financial service sector's regulator – the Financial Conduct Authority – has published long-overdue guidance on the design, delivery and disclosure of 'ESG' (environmental, societal and governance) factors and sustainable investment funds.

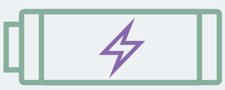
New investment products mean more options for investors

Against this backdrop, and a clamour of public interest, it's little surprise that more sustainable investment products than ever are coming to the marketplace. This means new areas to invest in, improved manager specialisms in areas like impact investing, and increasing options for sustainable investors.

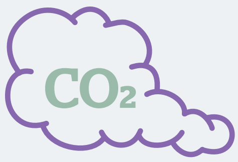
We've always maintained that a sustainable approach can be achieved without compromising on financial returns. Over the past few years, this has been made yet more achievable by the advent of more cost-effective building blocks for investment strategies. A wealth of new 'passively managed' products (which track a market index or a pre-defined basket of investments) is providing investors with new ways to build sustainable investment portfolios.

New themes and holdings in our Sustainable fund range, added since launch:

Biodiversity



Battery storage



Carbon credits

Development bank bonds

> "We can hold ourselves to a higher account, put our money where our values lie, and make ourselves more active by investing in this drive for sustainable change."

What comes next?

The sustainable investment space has already seen dramatic, rapid evolution. But there is further to go. From better regulatory frameworks and an improvement in investor understanding, to more corporate accountability and transparency around reporting standards, we believe that businesses, regulators and policymakers can still do much more.

What's more, so can investors. We've moved a long way beyond simply taking personal steps towards being accountable for the planet and society: reusable shopping bags and ethical consumerism are valid and valuable steps as we strive to make our world more equal, more sustainable and better protected. But we can hold ourselves to a higher account, put our money where our values lie, and make ourselves more active by investing in this drive for sustainable change.

Find out more about our Sustainable investment range here

wealthandasset.handelsbanken.co.uk/our-investment-solutions-asset/sustainable/

Assessing the performance of our Sustainable investment strategies

Our 'target return' performance benchmarks

Our Sustainable 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 strategy (Defensive Sustainable) up to CPI+4% for our higher risk strategy (Growth Sustainable).

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.