January 2022

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Sustainable Investment Disclosure Requirements and Investment Labels

Isio response to consultation

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Document classification: Public

Question two

Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

Isio response

We predominantly deal with institutional investors and therefore the firms and products which we are able to comment on are those appropriate for investment by institutions such as DB and DC Pension Schemes, Endowments, Charities and Sovereign Wealth funds. We believe that these labels and disclosures should apply to all of these products and firms to make them as informative as possible. The labels appear to cover all ground (as far as possible) so that there is an option for 'not promoted as sustainable' all the way through to impact. Therefore, almost all products should fit into a category.

Question three

Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

Isio response

The initiatives listed are not ones that we regularly engage with. We would ask for alignment with large global initiatives, including UNPRI, TCFD, and the Net Zero Alliances, as well as UK specific definitions captured within the UK Stewardship Code. There should be a focus on clarity of reporting and priority information, an area that the Investment Consultants Sustainability Working Group (ICSWG) has made good progress on and would be good to engage with. We believe it would be beneficial to align initiatives and reduce the regulatory burdens as far as possible.

Question four

Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

Isio response

We are supportive of these labels and believe they give a clear structure to asset managers and asset owners alike. We are supportive of the labelling being more descriptive than those used within the SFDR, and feel the mapping is clear.

Question five

What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.

Isio response

We would consider the following areas as entry-level criteria for a product to be classified 'responsible':

- There's a product-level ESG policy in place, with ESG factors considered within the investment process (i.e. stock selection, due diligence)
- The manager considers material ESG risks within their risk management framework, in particular climate risks are quantified and assessed both at product level and individual holdings level
- The manager has a stewardship policy in place with stewardship priorities clearly reflected in product level voting and engagement activity

- The manager can report on a wide range of ESG metrics for the product (in particular stewardship activity, and TCFD metrics)
- The manager has a dedicated ESG officer/team that works to ensure consistency of ESG integration and stewardship activities across products managing
- The manager engages with the wider community and initiatives on relevant ESG issues

We would also expect the bar for being classified as 'responsible' to be reconsidered annually as best practice within the ESG space continues to evolve. To be classified as 'sustainable' we believe the primary distinction would be around having product level ESG objectives in place, with ESG metrics reported against these objectives and clear evidence of these objectives impacting the underlying holdings.

We would like to see there being a clear intention for a product being classified as 'responsible', rather than simply slotting into the area between 'not promoted as sustainable; and 'sustainable – transitioning'. This would avoid the problem of a firm which has poor ESG credentials but with one impactful investment being classified more generously than it deserves. A threshold for 'having some sustainable investments' would be helpful in order to be classified as 'responsible'.

Question seven

Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics: • intentionality • return expectations • impact measurement • additionality • other characteristics that an impact product should have

Isio response

We agree with these high-level features and feel these are consistent with industry-wide frameworks/definitions.

The one consideration we had was whether, under the 'impact' block, there is a case to distinguish between products that look to achieve market returns versus those that sacrifice return in order to achieve a positive impact. We feel this will help investors better understand these products. There could be consideration of an additional 'philanthropic' label (defined as 'investments are made with the intention to generate positive measurable social and environmental impact whilst potentially scarifying financial returns'). Thought should be given as to where this would sit within the spectrum and how such strategies can be identified.

Question eight

What are your views on our treatment of transitioning assets for:

a: the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?

b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?

Isio response

We are supportive of the distinction between 'transitioning' and 'aligned'. We agree that these classifications will require a minimum threshold. For the 'transitioning' criteria, we felt that there should be consideration of a standard market index's exposure to Taxonomy-aligned activities and then for the exposure to these companies to be materially higher to satisfy the 'transitioning' criteria. This would give a lower bound within the 'transitioning' block

Within the 'aligned' criteria, it is difficult to suggest how the 'high allocation to Taxonomy-aligned sustainable activities' should be set. We felt a sensible approach would be to identify products where the majority (i.e. greater than 50%) of holdings are aligned with the Taxonomy.

For both of these minimum allocation thresholds, we feel that they should be reviewed on an annual basis to reflect ESG best practice and evolving markets e.g. more companies setting decarbonisation targets.

Question nine

What are your views on potential criteria for 'Responsible' investment products?

Isio response

Our views are captured within Q5.

Question ten

Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

Isio response

We believe that, in line with Q2, all products that we focus on for institutional investors would fit within the framework, however there are some products that we feel would not sufficiently meet the entry criteria and so should sit within the 'not promoted as sustainable' block.

To date, we feel these types of products have been classified as 'traditional' or 'conventional' but we don't believe these are appropriate given the market has moved on and we could now consider traditional investing to be 'responsible'. Suggested alternative names for 'not promoted as sustainable' could be 'finance focus only" or 'financial-only'.

Question eleven

How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

Isio response

From the work we have done on such products, we feel products tracking Climate Transition benchmarks should be classified as 'transitioning'. For products tracking Paris Aligned benchmarks, their classification, of either 'transitioning' or 'aligned', is dependent on the minimum allocation threshold decided.

Question twelve

What do you consider the role of derivatives, shortselling and securities lending to be in sustainable investing? Please explain your views.

Isio response

The lack of direct stewardship does mean that the role of derivatives is constrained. We do have clients that gain access to ESG-tilted indices synthetically with the beliefs that an ESG tilt will lead to longer term outperformance, we would consider these to be sustainable investors that are restricted in their ability to directly contribute to global action/change.

Best in class managers are able to assess the ESG credentials of counterparty banks to ensure ESG integration within mandates that use derivatives and shortselling, these managers also engage with these counterparties to initiate change.

Question fifteen

What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

Isio response

Detailed disclosures should be available for those investors that are more engaged.

Within these disclosures we felt it would be appropriate to summarise the product's ESG approach relative to a checklist of the key characteristics across each of the five blocks.

The Investment Consultant Sustainability Working Group (ICSWG) has developed a list of ESG metrics that we expect managers to report on, we feel these should be captured as a minimum within product-level disclosures (see ICSWG list).

We feel where data is reported, there should be comparative information provided e.g. the product's benchmark or peer group to give context. Asset class level guidance of what good looks like would make the disclosures more useful to the investor and improve accuracy of the disclosing firms.

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