

THE  
INVESTMENT  
ASSOCIATION

# IA RESPONSIBLE INVESTMENT FRAMEWORK FINAL REPORT

18 November 2019



## ABOUT THE IA

The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

The UK is the second largest investment management centre in the world and manages 37% of European assets.

Investment Association (IA) members hold in aggregate, one third of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account.

More information can be viewed on our website.

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# INTRODUCTION

## RESPONSIBLE INVESTMENT IS AT THE HEART OF OUR INDUSTRY. WE STRIVE TO DELIVER LONG TERM SUSTAINABLE INVESTMENT RETURNS FOR OUR CLIENTS.

There has never been a greater focus on how well investment management firms deliver for their customers and for the wider economy. That to us means making investments that are a driving force for change – for our clients, their beneficiaries and the world we all live in.

We know that we can't achieve this alone. We also know that responsible investment is no longer a special product, or even an option.

It's a necessity, which our member firms deliver in a diverse and ever-evolving way.

The greater the number of investors that adopt this perspective, the faster positive change will happen.

With the launch of our first ever industry-agreed Responsible Investment Framework and supplementary definitions, we have come together to bring clarity and consistency to the way we describe these products to our clients and to make it easier for all savers to understand the opportunities available to them.

This is a major collective step forward and we plan to build on it by working with policy makers, regulators, our customers and all relevant market participants on further signposting of responsible investment products and promoting awareness about the role investment management can play in bringing about a sustainable world.



# 1. EXECUTIVE SUMMARY

This report accompanies the launch of the first industry-agreed framework for common approaches to responsible investment (“Responsible Investment Framework”). The Framework categorises, and provides standard definitions for, the different components of responsible investment.

The report is intended to provide context, guidance and uses for the Framework as well as outline next steps and raise outstanding questions. Specifically, it:

- »» Sets out the key issue that industry sought to address: the lack of a common language and framework with which to define and categorise different responsible investment approaches carried out by investment managers **(Section 2)**;
- »» Gives an overview of the industry-wide consultation that the Investment Association (IA) carried out at the start of 2019 **(Section 3)**;
- »» Provides more detail on the Responsible Investment Framework **(Section 4)**, including:

  - Industry response to the consultation and the Framework’s subsequent development;
  - Intended uses of the Framework.
- »» Raises outstanding questions on the disclosure of sustainability indicators **(Section 5)**;
- »» Sets out next steps, including on the proposed UK retail product label **(Section 6)**;



## 2. KEY ISSUE: LACK OF A COMMON LANGUAGE AND FRAMEWORK

At the start of 2018, the lack of a common language and framework with which to describe different approaches to responsible investment was identified as a key barrier to the promotion and development of responsible investment in the UK, as well as a key missing piece in our engagement with policy makers. To address this, the IA's Sustainability and Responsible Investment Committee agreed to take forward a work stream on standards and definitions.

**THROUGH THIS WORK IT BECAME CLEAR THAT THERE IS "NO-ONE-SIZE-FITS-ALL" APPROACH TO RESPONSIBLE INVESTMENT.**

Responsible investment is a varied, evolving, and growing marketplace encompassing a wide range of diverse approaches and products designed to meet investors' different responsible investment goals, including:

- » To maximise long term returns by supporting and challenging companies to identify and manage environmental, social and governance (ESG) risks and opportunities deemed to have an impact on their long term future;
- » To achieve particular sustainability outcomes (for example, investment in renewable energy); and/or
- » To reflect a particular set of values or beliefs.

TO HELP INVESTORS BETTER UNDERSTAND WHAT IS ON OFFER TO THEM, CLEAR PRODUCT CATEGORISATION IS NEEDED TO NAVIGATE THE DIFFERENT APPROACHES TAKEN BY INVESTMENT MANAGERS TO RESPONSIBLE INVESTMENT. THIS RELIES UPON COMMONLY USED TERMINOLOGY AND ITS USE IN THE CONTEXT OF AN AGREED FRAMEWORK.

## 3. THE CONSULTATION

At the start of 2019, the IA launched an industry-wide consultation seeking views on:

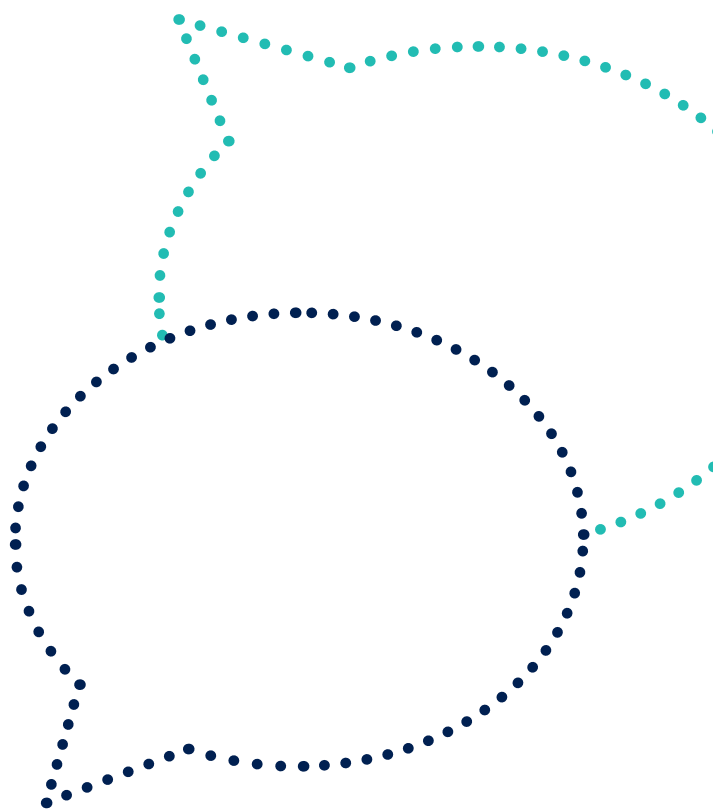
1. A proposed framework categorising, and providing definitions for, common approaches to responsible investment;
2. Proposal for a UK retail product label; and
3. Investment managers' use of disclosure frameworks for environmental, social and governance considerations, as well as on sustainability indicators and metrics.

### 3.1 INDUSTRY-AGREED DEFINITIONS

The first part of the consultation put forward a framework entitled “Common Approaches to Sustainability and Responsible Investment”. This framework was populated with terms that built on the Global Sustainable Investment Alliance (GSIA) definitions for sustainable investing.<sup>1</sup> The GSIA definitions have been in use for over a decade and provided a helpful starting point for the development of the IA's industry-agreed definitions.<sup>2</sup> There was nonetheless a clear steer from members to revise and re-organise the GSIA definitions into a framework to make them more easily understandable for a wider audience and to help future-proof them.

<sup>1</sup> 2018 Global Sustainable Investment Review, GSIA, p.7 [http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR\\_Review2018.3.28.pdf](http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf)

<sup>2</sup> The IA published data on responsible investment using the GSIA definitions in its Investment Management Survey 2018-2019.



## 4. DEVELOPING THE RESPONSIBLE INVESTMENT FRAMEWORK

### 4.1. INDUSTRY RESPONSE

The consultation received significant response and engagement, with just shy of 60 responses altogether. Of these, 44 responses were from member firms, representing £5 trillion of assets under management. The consultation received a further 15 responses from a range of external stakeholders, including other industry associations, a UK Government taskforce and asset owners.<sup>3</sup>

Following the close of the consultation, the IA focussed its attention on revising and building industry consensus on the proposed framework and undertook a period of intense engagement with members to refine it. Below are a number of key considerations that arose through this process.

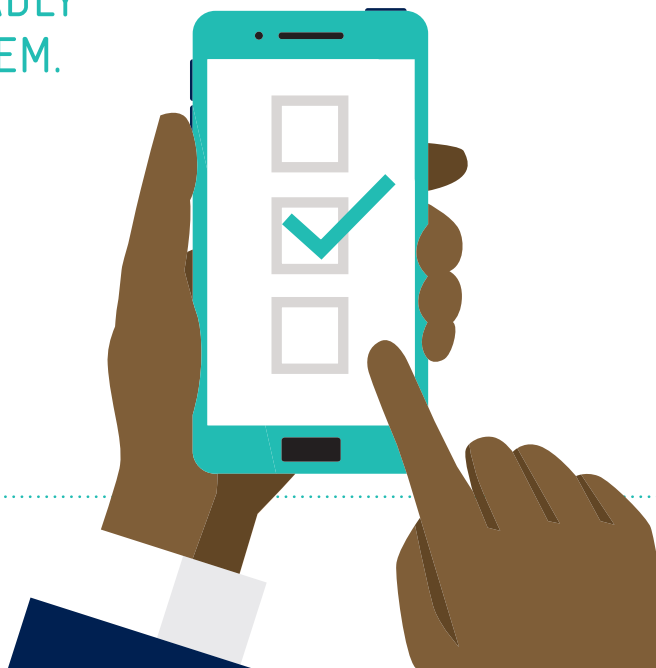
#### 1. Language Adjustments and Use of the term “Sustainability”

THERE WAS SIGNIFICANT SUPPORT FOR THE DEFINITIONS, AS SET OUT IN THE PROPOSED IA FRAMEWORK FROM JANUARY, WITH **93%** OF FIRMS AGREEING OR BROADLY AGREEING WITH THEM.

One of the main drivers behind revising the GSIA definitions had been to use terminology that could be easily understood by a wide range of audiences. As such, members sought to avoid using potentially misleading language in the Responsible Investment Framework. For example, a significant minority (36%) of firms made the point that we should replace the term “sustainable” with “responsible” when referring to firm-level approaches that include ESG integration and stewardship. Additionally, whilst the proposed framework had originally been given the title, “Common approaches to Sustainability and Responsible Investment”, “sustainability” was later removed.

“Responsible Investment” was adopted as an appropriate term to encompass the full suite of approaches within the Framework.

By contrast, “Sustainability” itself is understood to refer to certain goals to which responsible investment approaches can contribute. Sustainability could be used to refer to environmentally sustainable goals, socially sustainable goals or goals to do with economic sustainability, including the resilience of financial systems. To take the United Nations Sustainable Development Goals (SDGs) as an example, we might consider environmental sustainability in terms of climate action (SDG 13); social sustainability in terms of the alleviation of poverty (SDG 1) or gender equality (SDG 5); and economic sustainability in terms of decent work and economic growth (SDG 8) or industry, innovation and infrastructure (SDG 9).



<sup>3</sup> See Appendix for list of non-member respondents to the survey



## 2. Layout of the Framework and Level of Detail

Clearly, the way in which words are presented on a page has an impact on how they are understood and this was one of the main reasons for making a distinction between firm-level and fund-level approaches.

**JUST OVER 80% OF FIRMS AGREED OR BROADLY AGREED WITH THE DISTINCTION BETWEEN FIRM-LEVEL AND FUND-LEVEL APPROACHES.**

A note was also added to the Framework to clarify that the different categories are not mutually exclusive and that they correspond to different components of a firm's approach (and not to different buckets of funds necessarily).

For example, Firm A might tick the following firm-level components:

- *Stewardship*
- *ESG integration*
- But not *Exclusions*

Firm A, for its sustainable water fund, for example, might tick the following fund-level components:

- *Stewardship*
- *ESG integration*
- *Exclusions*
- *Sustainability focus*
- But not *impact investing*

Explicit examples were also added to illustrate what might be included under the different categories.

## 3. Making Explicit Links to Existing Initiatives

In an effort not to duplicate the work of existing initiatives where terms are already well understood and widely adopted, explicit links to such terms were added to help coalesce around these terms and bring consistency to the landscape, namely:

1. The UN Principles for Responsible Investment's (UN PRI) definition of "ESG Investing";
2. The Global Impact Investing Network's (GIIN) definition of "Impact Investing"; and
3. The Financial Reporting Council's (FRC) definition of "Stewardship".



## 4.2. THE RESPONSIBLE INVESTMENT FRAMEWORK

Below is the Responsible Investment Framework. In appendix is its accompanying glossary.

# IA RESPONSIBLE INVESTMENT FRAMEWORK

**NOTE:**

The components below are not mutually exclusive. They will typically be used in combination with one another. "Fund-level components" is a short-hand and can also refer to segregated mandates and individual investment strategies.



## FUND-LEVEL COMPONENTS



### EXCLUSIONS

EXAMPLES INCLUDE:

ETHICAL/VALUES-BASED/  
RELIGIOUS

NORMS

POOR SUSTAINABILITY

ESG ASSESSMENT



### SUSTAINABILITY FOCUS

EXAMPLES INCLUDE:

SUSTAINABILITY THEMED

POSITIVE TILT

BEST IN CLASS



### IMPACT INVESTING

EXAMPLES INCLUDE:

SOCIAL BOND FUNDS

PRIVATE IMPACT INVESTING

SDG FUNDS



### STEWARDSHIP

APPROACH AND ACTIVITIES SPECIFIC TO INVESTMENT STRATEGY



### ESG INTEGRATION

APPROACH AND ACTIVITIES SPECIFIC TO INVESTMENT STRATEGY

## 4.3. USES OF THE FRAMEWORK

The Framework does not represent a standard or a label in and of itself. It was set up to create a set of industry-endorsed definitions, applicable to all asset classes, of common approaches to responsible investment carried out by the IA membership.<sup>4</sup> It has been designed to serve as a tool to allow any firm to be able to articulate its responsible investment approach(es).

Any quality assurance or vetting standards would be a separate and dedicated piece of future work.

**In short, the Responsible Investment Framework is intended to have multiple uses, including:**

- 1. Through the use of a common language, enable industry to better explain to all audiences (including policy makers and clients, both institutional and retail) how investment managers deliver responsible investment for their clients and contribute to sustainability through investments;**
- 2. The IA's own use – including gathering industry statistics;**
- 3. General use by IA members.**

### 4.3.1 A COMMON LANGUAGE FOR RESPONSIBLE INVESTMENT

We have seen that investors are showing increasing interest in where their money goes and how it is invested.<sup>5</sup> However, identifying responsible investment approaches that align with these considerations is not straightforward.

The Framework is intended to help explain to investors the different components of responsible investment that make up responsible investment approaches available today.

This is an important step in the identification of responsible investment products and services that suit investors' different preferences.

Together with the glossary, the Framework is designed to bring clarity and consistency to responsible investment and, where possible, draw on examples of widely-adopted terminology, for example UN PRI's definition of "ESG integration" and GIIN's definition of "impact investing".

The IA will also be undertaking further work to help investors and advisers navigate the responsible investment fund universe more easily. This includes the language used in fund documentation to set out objectives and wider investment strategies, building on previous IA work with the Wisdom Council in this area.

"The RI framework sets out a common language and framework that beneficiaries can use to assess and understand how their Asset Managers are integrating ESG into the investment process. We are truly supportive of having a clearer message for our clients as transparency is key to Carmignac. This framework will drive the industry to be active stewards and be more client focused so to manage investment return that is sustainable for the long term."

MAXIME CARMIGNAC, MANAGING DIRECTOR,  
CARMIGNAC UK BRANCH

<sup>4</sup> IA Consultation, January 2019, p.6

<sup>5</sup> For example <https://www.morganstanley.com/ideas/sustainable-investing-growing-interest-and-adoption>

**“ESG is now mainstream. However, there is a great deal of ambiguity and inconsistency in how responsible investment terminology is used and understood. The Investment Association framework is a timely and helpful basis for investment managers to clearly communicate their responsible investment approaches and for clients to better understand what they are buying.”**

MARK VERSEY, CIO, REAL ASSETS, AVIVA INVESTORS AND CHAIR  
OF THE IA SUSTAINABILITY AND RESPONSIBLE  
INVESTMENT COMMITTEE

### 4.3.2 IA STATISTICS

The IA collects data on funds under management (FUM) and on gross sales and redemptions from its members for each of their funds on a monthly basis and at a share class or fund level. The aggregated data is published as part of our market insights work on fund flows.

Combining these FUMs and fund flows with the IA's database of fund characteristics allows the IA to produce statistics on the basis of different fund characteristics, including responsible investment components.

Now that the Responsible Investment Framework has been published, the IA will be asking firms from January 2020 to denote which of their funds should be tagged as having responsible investment components in accordance with it. This will enable the IA to publish statistics on funds with responsible investment characteristics later in 2020.

The IA will also be collecting responsible investment data on segregated mandates and firm-level data on stewardship, ESG integration and exclusions for its annual Investment Management Survey in 2020.

As an interim measure, the IA market insight team will be publishing statistics on funds that are tagged as having adopted at least one of the following GSIA categories: Negative Screening, Norms based Screening, Positive Screening, Sustainability Themed Investment or Impact Investing.<sup>6</sup>

### 4.3.3 GUIDANCE ON POSSIBLE USES FOR IA MEMBERS

Firms are encouraged to adopt the framework to help bring clarity and consistency to investors on the approaches they take to responsible investment.

In so doing, firms may wish to consider the following:

- a) Firm/fund level – firms should consider how they are applying the concept of “firm-level” in relation to stewardship, ESG integration and exclusions. If this is applied at entity-level and not group level, this will need be communicated clearly.
- b) Firms may wish to use the framework to communicate with clients and/or other stakeholders including policy makers to indicate how they carry out responsible investment.
- c) Firms may wish to map their current responsible investment products and services against the framework.
- d) Accountability – firms should consider the accountability structures they have in place in relation to responsible investment policies and strategies. For example, do they include one designated individual or do responsibilities sit across teams?
- e) Transparency – firms should consider what, how, where and how often they are communicating information to clients and/or publicly in relation to responsible investment approaches.
- f) Firms may wish to create new products according to the framework.

<sup>6</sup> In January 2019, the IA asked members to identify which of their funds are run according to each of the GSIA definitions as part of an annual data gathering exercise. This was in preparation for a move away from the previous ‘Ethical funds’ system, based on flagging by EIRIS. After verification of responses through examination of fund documentation, where possible, the member responses were incorporated into the IA's database of fund characteristics as an interim means of identifying responsible investment approaches according to the existing GSIA definitions.

## 5. DISCLOSURE OF SUSTAINABILITY INDICATORS



The third part of the consultation sought a clearer view of how investment managers are using existing frameworks to disclose:

1. How firms have embedded environmental, social and governance considerations into their investment processes, for example, the UN Principles for Responsible Investment (UN PRI) or the Sustainability Accounting Standards Board Standards (SASB); and
2. How firms disclose against frameworks of environmental or social indicators and metrics, for example, the UN Sustainable Development Goals (SDGs) or the Global Impact Investing Network's IRIS+ Metrics.

At the time of the consultation's launch, there were already growing expectations on investment managers to disclose the "non-financial outcomes" or "environmental and social impacts" of their investments – irrespective of whether investment managers were pursuing a dedicated responsible investment strategy or not.

This included calls from Members of the European Parliament for investment managers to disclose "sustainability risks", defined as including negative risks posed by investments on the environment and society. Such expectations stem in large part from recognising that all investments have some form of impact on society and environment – whether negative or positive, intentional or incidental.

Since the IA's consultation was launched, there have been significant policy developments in this area including the drafting of new requirements for firms with over 500 employees to disclose their "principal adverse impacts" through "sustainability indicators".<sup>7</sup> Despite these new requirements coming into force over the next three years, the nature of disclosing such impacts in a meaningful way continues to pose significant challenges for industry and policy makers, not least because there is no one single framework to communicate them.

The IA carried out its stock-take of disclosure frameworks to understand better which frameworks have proven effective to date. Insights from this part of the consultation will provide significant input into ongoing policy discussions as well as in the context of our industry's commitment to developing transparency and consistency in this space. We note that the European Securities and Markets Authority (ESMA) is expected to publish a consultation in relation to "sustainability indicators" for the disclosure of "adverse impacts" in Q1 2020. This is expected to be an important forum in which to share industry insights.

<sup>7</sup> According to Recital 20 of the EU Disclosure Regulation, principal adverse impacts should be understood as "those impacts of investment decisions and advice that result in negative effects on sustainability factors". According to Article 2 (24) of the same, sustainability factors mean "environment, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters."

## 6. PROPOSED UK RETAIL PRODUCT LABEL

Helping clients navigate the UK funds universe effectively remains a key priority for the IA and the wider industry. Some of this will be achieved by clear language, including fund objectives. The IA has already undertaken work in this area and will do more in 2020.<sup>8</sup>

On the responsible investment characteristics of funds specifically, a UK retail product label was identified as a possible means of providing a shortcut for investors to understand whether an individual fund is adopting a responsible investment approach. It is also seen as a means of drawing attention to responsible investment expertise based in the UK for global export.

There was support for the label's proposed parameters:

- » **Approach (including scope):** 85% of firms supported a label at fund-level.<sup>9</sup>
- » **Target audience:** 72% of firms agreed or broadly agreed with retail as the target audience.<sup>10</sup>
- » **Measures of success:** 78% of firms supported the number of funds engaging with the label as a measure of success. A quarter of firms proactively suggested that consumer awareness and trust in the label be included as an additional measure of success.

The consultation unearthed a number of further considerations when developing such a label:

- » **Collaboration:** 86% of firms were supportive or broadly supportive of the IA producing a label. Of these, a third was supportive on the condition that the IA coordinate with other bodies, including UN PRI, The European Commission and ISO/BSI.
- » **Voluntary status of the label:** 84% of firms supported a voluntary label. Of these, 35% supported a voluntary label on the condition that verification is mandatory.

THERE WAS SIGNIFICANT SUPPORT FOR THE LABEL PROPOSAL. **80% OF FIRMS AGREED OR BROADLY AGREED WITH THE NEED FOR A UK RETAIL PRODUCT LABEL. BRINGING CLARITY TO INVESTORS WAS THE SINGLE MOST CITED REASON FOR ESTABLISHING A NEW LABEL (39% OF FIRMS).**

"Any industry needs to ensure that it uses the same definitions for its key phrases and concepts, so this Framework is a useful step. What is even more important is that the investment industry continues to strengthen responsible investing practices, particularly to accelerate action on the climate emergency and the multitude of other social and environmental problems in society."

ROELFIEN KUIJPERS, HEAD OF RESPONSIBLE INVESTMENTS AND HEAD OF GLOBAL CLIENT GROUP FOR IRELAND, SCANDINAVIA AND UK, DWS

<sup>8</sup> [https://www.theia.org/system/files/private-downloads/2019-05/m1m\\_f9c\\_20190218-fundcommunicationguidance.pdf](https://www.theia.org/system/files/private-downloads/2019-05/m1m_f9c_20190218-fundcommunicationguidance.pdf)

<sup>9</sup> 50% of firms supported a label at fund level only (i.e. not firm level).

<sup>10</sup> The remaining 28% questioned retail as the target audience predominantly because they felt institutional clients would also benefit from a label.

# CONCLUDING REMARKS AND NEXT STEPS

## CLEARLY, INTEREST IN RESPONSIBLE INVESTMENT IS GROWING

– from the investment management industry, policy makers and regulators, our customers, and society overall. This can be driven by various different motivations, including:

- » To maximise long term returns;
- » To achieve particular sustainability outcomes (for example, investment in renewable energy); and/or
- » To reflect a particular set of values or beliefs.

But ultimately, this increased focus also comes from a growing awareness that we all – as individuals, investors, policy makers and businesses – have a part to play in promoting a more sustainable economy and planet.

The lack of a common language has been a significant barrier to date to the promotion and growth of responsible investment.

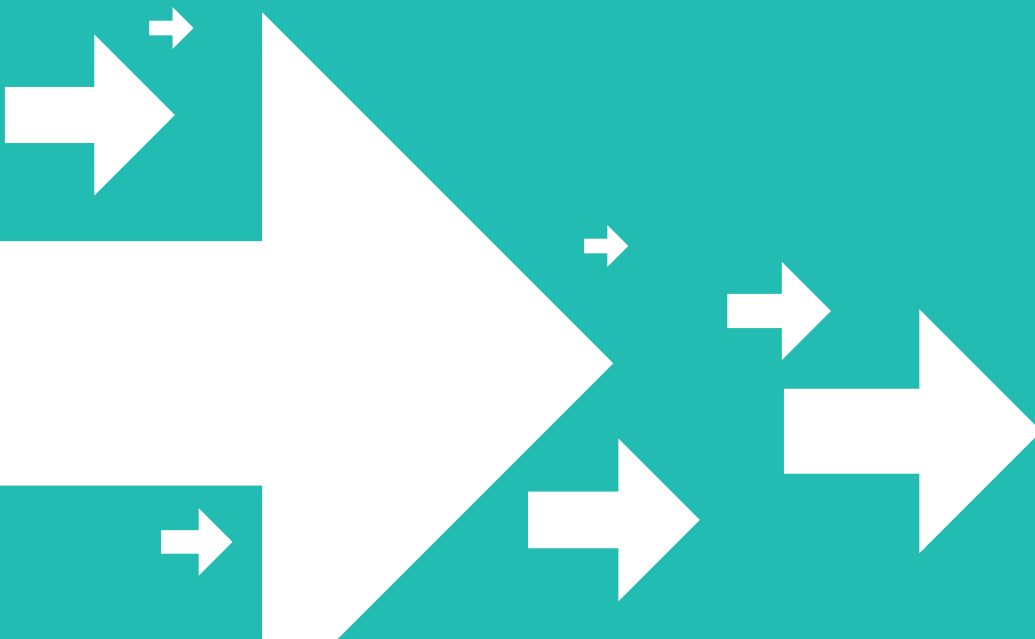
With the creation of the Responsible Investment Framework, we have come together to bring clarity and consistency to the way we describe responsible investment products and services to our clients and to make it easier for all savers to understand the opportunities available to them.

## NEXT STEPS

As we look towards 2020, we look forward to continuing to facilitate industry collaboration with all key stakeholders to help promote and develop responsible investment. We envisage this to include:

- » Wider socialisation of the Framework;
- » Publication of industry statistics in line with the Framework;
- » Establishing a new Working Group to consider:
  1. Use of language in relation to responsible investment in fund documentation (prospectus, KIID) with regard to non-financial objectives guidance in FCA Policy Statement PS 19/4;
  2. Reporting on sustainability, including on “principal adverse impacts” with respect to the incoming EU Disclosure Regulation;
  3. Further exploration of a UK retail product label.

We are grateful to everyone who has contributed to our work to date. In particular, we would like to thank all firms and organisations who responded to the consultation as well as those who have since played an active role in developing the Framework. A list of contributors can be found at the end of this report.





# APPENDIX: GLOSSARY

Below is the glossary to accompany the Responsible Investment Framework shown in Section 4.2 of this report.

## COMPONENT:

### Stewardship<sup>11</sup>

#### Definition:

The Investment Association adopts the definition of “Stewardship” according to The UK Stewardship Code 2020 of the Financial Reporting Council.

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”<sup>12</sup>

#### Explanatory Note:

*Stewardship is shown on both a firm level and a fund level to reflect that, whilst firms will adopt their approach to Stewardship at a firm level, stewardship activities will differ across funds, asset classes and geographies.*

## COMPONENT:

### ESG Integration<sup>13</sup>

#### Definition:

The Investment Association adopts the definition of “ESG integration” according to the UN PRI:

“The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions”<sup>14</sup>

#### Explanatory Note:

*ESG Integration alone does not prohibit any investments. Such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and taken into account.*

#### Firm Level

*ESG integration can be adopted as a firm-wide policy and, in such instances, reflects a firm’s commitment to integrate ESG considerations, which will include both risk and opportunities.*

#### Fund Level

*The precise ways in which ESG considerations will be taken into account in investment analysis and in the investment decision-making process will differ in practice between different investment funds, mandates and strategies. Therefore, the Framework reflects ESG integration undertaken at a firm level (typically articulated by a firm-level policy) as well as the practical application of ESG integration to specific funds, mandates or strategies.*

<sup>11</sup> Global Sustainable Investment Alliance (GSIA) Equivalent: “Corporate Engagement and Shareholder Action: the use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.”

<sup>12</sup> [https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code\\_Final2.pdf](https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Final2.pdf), p. 4. The Investment Association reserves the right to review its alignment with the FRC definition at any time.

<sup>13</sup> GSIA Equivalent: “ESG Integration: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis”

<sup>14</sup> [https://d8g8t13e9vf2o.cloudfront.net/Uploads/d/t/z/maindefinitionstoprireportingframework\\_127272.pdf](https://d8g8t13e9vf2o.cloudfront.net/Uploads/d/t/z/maindefinitionstoprireportingframework_127272.pdf) p.5. The Investment Association reserves the right to review its alignment with the UN PRI definition at any time.

## COMPONENT:

### Exclusions<sup>15</sup>

#### Definition:

Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of:

- Sector
- Business activity, products or revenue stream
- A company; or
- Jurisdictions/countries.

#### Examples:

- Investment approach that applies ethical/values-based/religious exclusions: Investment approach that excludes investments on the basis of ethical, values-based or religious criteria, for example, gambling, alcohol, or pork.
- Investment approach that applies norms-based exclusions<sup>16</sup>: Investment approach that excludes investments on the basis of not complying with international standards of conduct, for example, the UN Human Rights Declaration.
- Investment approach that applies exclusions on the basis of poor sustainability: Investment approach that excludes investments on the basis of sustainability considerations, for example, fossil fuel companies.
- Investment approach that applies exclusions on the basis of ESG assessment: An investment approach that excludes the worst performing companies relative to peers on the basis of ESG assessment, for example, on the basis of ESG ratings.

#### Explanatory Note:

Other terms used to refer to exclusions may include “exclusionary approaches”, “negative screens” and “screens”. Unlike the term “divestment”, which involves selling ownership of something, exclusions refer to the strategy having not invested in something from the start.

Exclusions determine that a fund or mandate does NOT invest in certain things. It does not constitute an approach that is characterised by proactively allocating capital to specific assets.

It may involve excluding investments from a certain sector or investments that derive a portion of their income from the sale of certain specified products.

Exclusions may be applied at both a firm and a fund level.

#### Firm Level

Exclusions that apply across the entire firm/group.

#### Fund Level

Exclusions that are specific to a particular investment approach e.g. to a fund or are set by a client in a particular mandate.

<sup>15</sup> GSIA equivalent: Negative/exclusionary screening: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria

<sup>16</sup> GSIA Equivalent: Norms-based screening: screening of investments against minimum standards of business practice based on international norms

## COMPONENT:

### Sustainability Focus

#### Definition:

Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).

#### Examples:

- Sustainability Themed Investing<sup>17</sup>: An investment approach that specifies investments on the basis of a sustainability theme/themes. Examples might include climate change mitigation, pollution prevention, sustainability solutions and approaches that relate to one or more of the UN Sustainable Development Goals (SDGs).
- Best in Class<sup>18</sup>: An investment approach that includes investments based on certain sustainability criteria to focus exposure on sector-leading companies. Best in Class approaches can vary from selecting from amongst the best performing companies (e.g. the lowest carbon / most energy efficient energy producers) to excluding the worst performing companies relative to peers.
- Positive Tilt: A portfolio that overweights investments that fulfil certain sustainability criteria and/or deliver on a specific and measurable sustainability outcome(s), relative to a benchmark (e.g. FTSE 100, S&P 500), for example, half the carbon intensity of the benchmark.

#### Explanatory Note:

*Adopting a Best in Class approach can mean having exposure to companies from sectors that may not typically be considered “sustainable”. A Positive Tilt approach may also mean this. A Positive Tilt is typified by having less exposure to these kinds of companies than a traditional benchmark (e.g. FTSE 100, S&P 500).*

<sup>17</sup> GSIA Equivalent: Sustainability themed investing: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)

<sup>18</sup> GSIA Equivalent: Positive/best-in-class screening: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers

## COMPONENT: Impact Investing<sup>19</sup>

### Definition:

The Investment Association endorses the Global Impact Investing Network's (GIIN) definition of Impact Investments:

"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."<sup>20</sup>

### Examples:

- Social bond fund: A fund that invests in bonds, whose funding is ring-fenced for projects or initiatives that have the intention to generate positive, measurable social and environmental impact alongside a financial return, for example, one or more of the Sustainable Development Goals (an "SDG fund").
- Private impact investing: Investing directly in unlisted projects, companies or initiatives that have the intention to generate positive, measurable social and environmental impact alongside a financial return, for example, one or more of the Sustainable Developments Goals (an "SDG fund").
- SDG Impact Funds: Funds where impact is measured against the UN Sustainable Development Goals (SDGs). This can be achieved, for example, through listed equities, a social bond fund or private impact investing.

### Explanatory Note:

According to GIIN, "there are four key elements:

*Intentionality: Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.*

*Financial Returns: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.*

*Range of Asset Classes: Impact investments can be made across asset classes.*

*Impact Measurement: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments."*

<sup>19</sup> GSIA Equivalent: "Impact/Community Investing: targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose"

<sup>20</sup> Global Impact Investing Network (GIIN), "What you need to know about impact investing" <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>. The Investment Association reserves the right to review its alignment with the GIIN definition at any time.

# LIST OF CONTRIBUTORS

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AllianceBernstein	Jupiter Asset Management Ltd.*
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Artemis Fund Managers Ltd.	Liontrust Fund Partners
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AREF ESG & Impact Investing Committee  
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CFA Society UK

Taskforce on Growing a Culture of Social Impact  
Investment in the UK (now superceded by the Impact  
Investing Institute)

Investment Property Forum

KPMG

PIMFA

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