THE GOOD GUIDE TO AVOIDING GREENWASH

GOOD WITH MONEY

MORE MONEY, FEWER PROBLEMS

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Foreword - Why new anti-greenwashing rules matter

by Julia Dreblow
Vice Chair of the FCA's industry-led Advisers' Sustainability Group

Most of us are now well aware of the potentially existential risks presented by climate change and the damage we have caused to nature - and care about the interconnected social challenges, too.

But while many people have worked out that big businesses are all too often part of the problem, far fewer equate these with their own pensions, ISAs and bank accounts - unless, of course, they're reading a publication such as this!

And those who are aware have all too often felt shortchanged by financial products claiming to be 'sustainable', 'responsible', 'ESG' or 'ethical' over recent years.

Looking at investing in particular, there are many great funds that make a meaningful positive impact on people and the planet. But all too often, investment funds have confused or fallen short of their clients' reasonable expectations by making lofty, vague and unsubstantiated claims.

These are, in brief, the issues the Financial Conduct Authority (FCA)'s new 'Sustainability Disclosure Requirements' and labelling regime (SDR) aim to address.

The first regulatory change will be the new anti-greenwash rule, which from May 31 will aim to end the over-exaggeration of sustainability credentials. This will apply to all financial products offered by any UK FCA-regulated firm - from investment, to pensions, to banking and more.

The second, from July 31, will be the introduction of a fund labelling regime that aims to differentiate between funds that clearly have the intention of supporting and encouraging positive change - and those that do not. There will be four new labelling options, to allow for different sustainable fund strategies.

Newly labelled funds will be allowed, for example, to put different levels of emphasis on investing in assets that meet predefined sustainability standards, assets that could realistically and usefully be 'improved,' and strategies that make impact-related claims.

In order to avoid confusion, there will be new rules for both labelled and unlabelled funds. These include requirements to ensure fund names, marketing messages and disclosures are appropriate and not misleading – both before and after someone has made an investment.

The new rules are principles based, which means they can be applied to a wide range of investment strategies that focus on different aspects of the sustainability puzzle. But they will also have teeth.

It is early days, however. Some parts of the SDR are yet to be finalised and other elements will take a while to come into effect. The new rules are not a magic wand. They won't move markets or deliver a fair, just, and swift transition overnight - but they are, in my view, an important step in the right direction.

They are setting foundations from which we hope to improve trust in sustainable financial products, and facilitate greater investment into assets that can help solve problems, and build - sometimes literally - a cleaner, safer future.

Julia Dreblow is founder of SRI Services, and the Fund EcoMarket database. She is a Disclosure and Labels Advisory Group (DLAG) member, a group set up at COP26 to help guide the FCA in this area. Julia is also vice chair of the FCA's newly convened 'Advisers' Sustainability Group.'

The rise of greenwash - and what's being done about it

By Lori Campbell
Editor of Good With Money

Demand for financial products that make a positive difference in the world has rocketed in recent years, driven largely by the increasingly visible signs of climate change and social issues exacerbated by Covid-19.

This is, of course, a good thing. And it NEEDS to happen. Sustainable finance can be a powerful force for positive change. It could be the deciding factor in whether the world is able to fix the climate crisis, protect nature, and improve inequality - or not.

But while public desire to get behind finance that does good in the world has grown at speed, its ability to drive these important changes is being held back by the simultaneous rise of 'greenwashing'. This is where financial providers mislead well-intentioned customers by making inflated claims about the sustainability credentials of their products.

It makes it much harder for everyday financial consumers and investors (unless they want to spend hours researching and comparing providers and funds) to feel confident their money is going to the right places - and kept away from the bad.

A **recent study** by sustainable bank Triodos reveals the worrying influence of greenwashing on consumers. It shows that more than half (55 per cent) of Brits who consider themselves to be 'green' savers and investors unwittingly have money with providers that fund fossil fuels.

The GOOD news is that this is starting to change. This year, the UK's regulatory body, the Financial Conduct Authority (FCA), is bringing in tough new rules that aim to crack down on greenwashing and give consumers the confidence to put their money to work for positive change.

It won't be an instant fix, but it's an exciting and much-needed framework that will help investors - even those with little or even no experience - to choose sustainable investments that DO what they say they will.

FCA Director of ESG Sacha Sadan said the rules will "raise the bar" by setting robust regulatory standards that place the UK "at the forefront of sustainable investment internationally".

He added: "Greenwashing misleads consumers and erodes trust in all ESG products. Consumers must be confident when products claim to be sustainable that they actually are."

The **FCA's own research** found that 80 per cent of investors want their money to "do good and deliver a return," but 70 per cent thought many investments that claim to be sustainable actually are not.

Therefore, the FCA says, its aim with the new measures - known as the Sustainability Disclosure Requirements (SDR) - is to ensure "financial products that are marketed as sustainable.. do as they claim and have the evidence to back it up."

But while the rules themselves are crucial, it's equally important that people looking to invest (or use any financial product) sustainably understand what they mean and how to use them. That's why we created this guide.

In the following pages, we will walk you through the new package of rules and what they mean - jargon-free as always! - so you can feel confident in making informed choices about which financial providers and products best align with your needs AND values.

The guide also includes articles from our co-sponsors - all sustainable finance specialists - on the issue of greenwash and the new rules.

- **Triodos Bank: Sorting the truth from the greenwash**
- **EQ Investors: Clamping down on greenwashing**
- **WHEB Asset Management: The exciting potential of impact investing in listed equities**
- **Ethex/Energise Africa: Why direct investing = transparent impact**

What is the new package of rules?

The main rules that will affect sustainable investors include:

1. **An anti-greenwashing rule** for ALL FCA-authorised firms (including banks, financial advisers and pension providers as well as investment managers) to ensure any sustainability-related claims are "fair, clear and not misleading".

2. **Naming and marketing rules** for investment products, to ensure the use of sustainability-related terms is accurate.

3. **Four sustainability labels** to help investors easily identify sustainable investing products that meet their needs and values.

For now, the new SDR will apply only to UK firms and their UK-based investment products marketed in the UK - they will NOT cover funds based overseas.

Sorting the truth from the greenwash

By Roger Hattam
Head of Retail Banking, Triodos Bank UK

When you save or invest your money with a bank or financial provider, it's a relationship founded on trust. Trust that they will keep your deposit safe and live up to the claims being made about the brand or product.

This is especially true when it comes to claims around sustainability. More and more brands are keen to highlight their environmental and social responsibility.

But when it comes to financial products and services in particular, a lack of clear guidance on what makes something genuinely sustainable can make it hard to trust such claims – and to spot the truth from the greenwash.

Our recent survey found that 59 per cent of us are concerned about greenwashing and would actually be willing to switch providers if banks fall foul of the upcoming anti-greenwashing rule from the FCA.

We also joined forces with Ethical Consumer to look at how people's expectations matched up to their financial providers' environmental standards. The research found that the

majority (55 per cent) considering themselves to be 'green' savers or investors actually have their money with providers ranked as 'worst' for the environment.

These findings demonstrate the worrying truth about how well-intentioned citizens are being misled on how their money is being invested. In an industry dominated by opaque sustainability marketing, it is time for much higher transparency.

There are millions out there wanting their money to align with their values. However, this is not yet matched with real industry commitment to clearly signpost what that money is funding through a provider's loans and investments.

A welcome step

As a bank with sustainability integrated into the core of our business model, we support the need for clear requirements around greenwashing and regulations that will make it easier to find genuinely sustainable products and services.

Indeed, we have publicly called for such regulation for years and as a European bank, have proactively engaged with the EU's Sustainable Finance Reporting Directive (SFDR) since it was announced in 2018. All of Triodos Investment Management funds have been classified as Article 9 funds, the most sustainable category.

The introduction of the FCA's UK sustainability disclosure and labelling regime is an important step in the right direction. If consumers – and organisations of all kinds – know they can trust sustainability-related claims, this will ultimately increase confidence in the sustainable finance market and encourage greater flow of capital into products that can genuinely drive positive change.

However, some words of warning. 'Greenwashing' is a well-recognised term, but it is not commonly understood to encompass social issues as well as environmental ones, although that seems to be the intention of this new regulation. This could lead to confusion as to the scope of the rule.

Also, while the guidance will make it harder for financial services firms to make unsubstantiated claims relating to sustainability, it does also place the burden of proof on those doing good. And it is not yet clear if it will increase the requirements for overall transparency that would enable informed choices between products with positive and negative environmental impacts.

For now, the burden is on organisations like us to prove we do what we say we do – but where are the requirements for others to demonstrate 'no harm' or stricter minimum standards? It does mean there is a risk that it just creates more '**greenhushing** '.

Genuinely sustainable options

The best way to get an idea of whether a product is genuinely sustainable is to look at a bank's lending and investment portfolio as a whole. Are financial providers transparent about where they lend money and what kind of organisations they support? Are environmental or social claims substantiated and applied across their operations and not just on specific products offered?

As well as actively screening out negatives – such as never investing in fossil fuel companies – to truly invest in people and the planet, banks need to actively fund areas that are changing the world for the better. At Triodos, we have led this charge and set the standard for using our customers' money to drive positive change, whether through funding renewable energy, nature conservation or community-run housing.

With the final guidelines now out, we hope that the new rule will bring positive change in the financial industry and encourage the transparency that is so desperately needed.

www.triodos.co.uk

The anti-greenwashing rule

Growing consumer demand for sustainable investment has led to a flurry of financial services providers trying to beef up their green credentials.

The FCA says this has led to concerns that some firms are making "misleading or exaggerated sustainability-related claims about their investment products."

The anti-greenwashing rule applies to ALL FCA-authorised firms who make sustainability claims about their products, not just investment managers. This includes banks, financial advisers, investment platforms, and pension providers.

Under the anti-greenwashing rule, any claims about the sustainability of an investment product MUST be:

- Consistent with the sustainability characteristics of the product or service.
- Clear, fair and not misleading.

The FCA says: "It gives us an explicit rule on which to challenge firms if we consider they are making misleading sustainability-related claims about their products or services and, if appropriate, take further action."

In practice, the effect of the anti-greenwashing rule, and the other rules should mean:

Sustainability references should be:

- **Correct** and **capable** of being substantiated.
- **Clear** and presented in a way that can be understood.
- **Complete** - they should not omit or hide important information and should consider the full life cycle of the product or service.
- **Comparisons** to other products or services are **fair** and **meaningful.**

The anti-greenwashing rule forms the foundation of the naming and marketing rules, which are aimed at investment managers.

The naming and marketing rules

One of the biggest hurdles for people looking to invest for good has been the seemingly interchangeable labels used by the industry such as responsible, sustainable, ethical, impact and ESG.

FCA [research] found that “across all levels of experience, consumers felt that some of the current sustainable investment information lacked conciseness, was untrustworthy and contained jargon.”

This has left many potential sustainable investors either too confused to take any meaningful action with their money - or open to greenwashing.

Under the new naming and marketing rules, only labelled products will be allowed to use the terms “sustainable,” “sustainability,” and “impact” in their names. “Impact” will be exclusively for those using the Sustainability Impact label.

Non-labelled products can use other sustainability-related terms such as “ESG”, “green”, and “low carbon” only IF they can demonstrate that at least 70 per cent of the portfolio aligns with these terms.

They must also meet the same disclosure standards (information that’s made public) that are applied to labelled products, and provide a statement to explain why the product does not have a label.

Clamping down on greenwashing

By Louisiana Salge
Head of Sustainability at EQ Investors

The term “greenwashing” was coined in the 1980s to describe outrageous corporate environmental claims. Three decades later, the practice has grown vastly more sophisticated.

Often these false or exaggerated claims are made to mislead increasingly ethically minded consumers, and to improve brand reputation.

Recently, adverts from Shell, Repsol and Petronas were banned by the UK advertising regulator for touting investments in renewable energy without mentioning the extent of each company’s polluting activities.

Now, the FCA is clamping down on greenwashing in the financial sector.

New anti-greenwashing rule

The FCA has issued a stand-alone anti-greenwashing rule that will apply to all its regulated firms, including banks, financial advisers, investment platforms, and pension providers. The rule is being rolled out alongside a larger set of regulations aiming to create greater clarity for consumers over what is, and is not, sustainable investing.

The anti-greenwashing rule is simple:

'Sustainability-related claims about financial products and services need to be clear, fair, and not misleading.'

As the complexity of solutions increases, coupled with growing investor demand for doing well by doing good, this clarity is needed more than ever.

Why it's so important

Currently, any investment fund or portfolio can use terms like ethical, ESG (environmental, social and governance), green, climate, or impact without any mandatory minimum standards. It's also rare to see sustainability reporting attached to such investments – in these cases you never know whether claims have been delivered upon. This has resulted in significant well-intentioned capital going to unambitious places and damaging trust in sustainable investing.

At EQ Investors we manage a range of sustainable portfolios that have unique aims, suitable for a range of sustainability preferences. Despite the absence of regulation, we have been providing sustainability and impact reporting for several years. We believe this is the only way you can genuinely avoid allegations of greenwash and build trust. Our B Corp certification also helps show that we are a business governed to deliver genuine positive impacts.

What you can expect

The anti-greenwashing rule will 'go live' from 31 May 2024. From then on, when working with a financial adviser or an investment manager, any communication about sustainable, green or ESG investments should include a clear explanation of the approach, any technical terms should be explained and supported by reporting on delivered outcomes.

This is positive news if you want to best align your investments with sustainability goals. It also shines the light on less ambitious investments, helping lift the bar, and moving us closer to a financial system that actually works for people and planet.

www.eqinvestors.co.uk

The four sustainability labels

The new sustainability labels are designed to give people confidence that a sustainable investment product is doing what it says it is.

The four labels will also help investors to understand the different objectives and approaches of sustainable products, and make informed decisions about which ones suit them best.

The labels are:

- Sustainability Impact ™
- Sustainability Focus ™
- Sustainability Improvers ™
- Sustainability Mixed Goals ™

Sustainability Impact ™

Invests mainly in solutions to sustainability problems, with an aim to achieve a positive, measurable impact for people or the planet.

For example: A clean energy impact fund that finances the construction of wind farms.

- Its objective is to increase the use of renewable energy and access to it in less developed areas.
- Environmental impact metrics are tracked, such as the level of carbon emissions avoided.

Sustainability Focus ™

Invests mainly in assets that focus on sustainability for people or the planet.

For example: An educational achievement fund which focuses on investing in companies that improve young people's educational achievement through the use of technology and innovation.

- It uses screening to avoid companies with unsustainable business plans.
- It links its investments to activities that support Goal 5 of the United Nations' Sustainable Development Goals - Gender Equality.

Sustainability Improvers ™

Invests mainly in assets that may not be sustainable now, but aim to make measurable improvements to their sustainability for people or the planet over time.

For example: A fund that invests mostly in financial institutions in emerging economies (developing countries) that are committed to improving their sustainability standards.

- It engages with companies through stewardship to help bring about positive change.
- It has a policy in place to hold companies to account if this stewardship is not achieving the intended improvements.

Sustainability Mixed Goals ™

Invests mainly in a mix of the other three labels - assets that either focus on sustainability problems, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet.

For example: A green energy fund that invests in some companies already producing clean energy and others looking to scale up.

- It has the same sustainability objectives as each of the other three labels and sets out the proportions of its investments to be held in each category.

What standards must funds meet to get a label?

There is no hierarchy to the labels (no label is considered to be better than the others), and firms can choose whether or not they want to use one.

The labels are ONLY for **investment products** that are **actively seeking positive sustainability outcomes**. Funds that simply exclude damaging industries or use basic ESG (environmental, social and governance) screening will not qualify for one.

“Positive sustainability outcomes” refers only to people and planet - in other words, it covers the E (environmental) and S (social) of ESG, but not the G (governance). Products investing in companies with good governance would need to do more to qualify for one of the labels. The FCA says: “We consider governance to be an enabler of environmental and/or social outcomes, rather than an end in itself.”

Labelled funds must have at least 70 per cent of their assets invested in line with the label’s sustainability objective. Plus, assets in the remaining 30 per cent must not conflict with this objective.

Funds that use labels will also need to give investors clear and simple information, including:

- What its sustainability goal is
- Its approach to achieving it
- Annual updates on progress towards the goal

How many funds are likely to carry a label?

Research by Morningstar predicts that approximately 300 funds - with assets of around £110 billion - will choose to use one of the four labels. This represents about eight per cent of all UK-based funds.

Its data also suggests that **Focus will be the most used label**, making up almost half (47 per cent) of all labelled products. Morningstar says this is because asset managers seem to have “the best understanding of Focus and the strategy that will qualify for it”.

Meanwhile, Mixed Goals is expected to make up about 31 per cent of labels, Improvers 12 per cent and Impact 11 per cent.

Morningstar predicts that “practically all the UK funds carrying the words ‘sustainable’, ‘sustainability’, or ‘impact’ in their names [will] opt for a label,” primarily because it is likely to benefit their business and they won’t want to risk being accused of greenwashing.

Improvers and Impact - smaller but powerful

The fact there are likely to be less funds using the Improvers and Impact labels, doesn’t make them any less important.

The Improvers label recognises the need to build portfolios for sustainable investors that reflect the current state of the world - and how to get where we need to be.

So these funds will include some companies that are sustainable, but many more that are transitioning and aspire to be sustainable one day.

With the Impact label, fund managers have to demonstrate how they are achieving a measurable impact both at the investor level (through engagement, for example) AND at the asset level (what you are investing in).

Morningstar says it will be particularly challenging for fund managers to show evidence of impact in the listed equities market (shares in companies that are listed on the stock exchange), which will lead to fewer funds holding this label.

Guide sponsors WHEB Asset Management plans to use the Sustainability Impact label for its FP WHEB Sustainability Fund from the earliest opportunity in July 2024 (see their article below).

Hortense Bioy, global director of sustainability research at Morningstar, told Good With Money: “The FCA has put a lot of thought into this labelling regime after carefully listening to consumers and taking into account industry feedback. The success of the labels will ultimately depend on the quantity, quality, and variety of the products that will use a label.”

The exciting potential of impact investing in listed equities

By Seb Beloe
Partner and Head of Research at WHEB Asset Management

Morningstar Research predicts that the Sustainability Impact label will be used by the smallest **number of firms**, while FCA research found it was the **most positively received** by potential investors.

The label is expected to house a range of different fund types and asset classes including investment trusts, private markets and property. The sector we are most passionate about is the power of impact investing in listed equities (stocks and shares) - and their critical role in a transition to a more sustainable future.

What is impact investing?

The past few years have witnessed an explosion of interest in sustainable and responsible investing and integrating environmental, social and governance (ESG) issues into investment. While this enthusiasm has been tempered in recent months, interest remains strong in sustainability investing generally, with a growing interest in impact investing.

In the main, ESG is directed at meeting new compliance (regulatory) requirements or as a tool for managing investment risk. In contrast, impact investing is an investment philosophy that seeks to deliver a positive sustainability impact alongside a positive financial return.

Impact sits at the heart of the investment decision and requires active 'investor contributions' (in the form of stewardship and engagement) to amplify this positive impact.

We believe that all investments have an impact: some negative and some positive. Impact investing has the dual aim of producing a financial return while evidencing the positive sustainability impact of the investment.

This impact is explained through a clear 'theory of change,' which connects the investment in the underlying holding with the problem that is being tackled.

As an example, we invest in Smurfit Kappa, which collects, manufactures and sells recycled cardboard. Recycled cardboard is a preferable packaging material in many applications with lower environmental impacts compared to other materials. We measure the company's positive sustainability impact in tonnes of waste recycled and tonnes of CO^2 emissions avoided.

We also engage with their management as part of our 'stewardship' approach to further improve their social and environmental impact on topics including: biodiversity impacts, carbon reduction targets, community relations and gender diversity.

The potential of impact investing in listed equities

In order to have big global impacts, you need big global companies, matched with big global markets. As Sir Ronald Cohen put it "There is no other way to cope with the scale and severity of social and environmental issues other than to attract investment capital from the $200 trillion of investable assets in **our financial system**".

Investing in listed equities means investing in these publicly traded stocks and shares. By 2019, listed equity and debt accounted for around one-third of impact investments, becoming two of the fastest growing asset classes for purpose-led investors.

A benefit of impact investing in listed equity markets is that these markets are available to small and larger investors alike and offer scale, liquidity and enhanced transparency. For example, they can be accessed via tax-efficient vehicles like ISAs.

They are also public companies so are subject to disclosure regulations and governance requirements including access to corporate information. This can help tackle 'impact washing'.

Without means to allocate purpose-led capital to the largest – public – markets, we are concerned that impact investors will fail to deliver the scale of global solutions our communities and planet require.

The FP WHEB Sustainability Fund

The FP WHEB Sustainability Fund focuses on the opportunities created by the transition to healthy, zero-carbon and sustainable economies.

- **Specialist boutique.** As a mission-driven, specialist boutique we have a total focus on positive impact, and an ambition to remain at the forefront of the rapidly growing impact investing movement.
- **Established pioneers.** The WHEB strategy was designed more than 18 years ago, and the team are considered pioneers and thought leaders in impact investing, ESG integration and impact measurement.
- **Intentional focus on solutions and positive impact.** We focus on finding companies where the impact case is the investment case, aligning our clients' investments with companies which are enabling and therefore benefiting from the transition to a zero-carbon and more sustainable economy.
- **Rigorous approach to ESG integration.** Sustainability is 'built-in' to our investment strategy as a source of investment return, rather than 'bolted-on'. How a company addresses ESG risks and opportunities is an integrated part of our investment analysis.

We welcome the FCA's new SDR regulations and anticipate they will make it easier for investors to align their investments with their values. We will be applying for the **Sustainability Impact** label for our Fund.

For more information on our Fund:

Visit our fund page:
https://www.whebgroup.com/impact-investment-funds/sustainability-fund-oeic

Read our commentaries and opinion pieces on environmental and social impact themes and wider issues relating to impact investing: **https://www.whebgroup.com/our-thoughts**

See how we have been reporting impact since 2014:
https://www.whebgroup.com/reporting-impact-investment

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The value of units in FP WHEB Sustainability Fund may increase or decrease and you may not get back the amount originally invested. **Past performance is not a reliable guide to future performance. Your capital is at risk.**

What other countries are doing

As countries around the world get more serious about their sustainability efforts, their respective authorities are placing greater demands on the investment industry.

Here are some of the main developments around the world:

In Europe

In March 2021, the European Union (EU) introduced the Sustainable Finance Disclosure Regime (SFDR), which applies to firms and products within the EU. The SFDR classifies funds as grey, light green, or dark green.

A grey, or 'Article 6', fund does not integrate any kind of sustainability into its investment process. It could include so-called 'sin stocks' such as tobacco companies or thermal coal producers.

A light green, or 'Article 8', fund must have "environmental and/or social characteristics", as well as good governance.

A dark green, or 'Article 9', fund must have sustainable investment or a reduction in carbon emissions as its objective. The fund must only include holdings that "do no significant harm".

However, the SFDRs have faced criticism for being 'too open to interpretation' and leaving the door open for greenwashing. In April 2023, **confusion over the language in the SFDR** led asset managers to downgrade funds holding $193 billion (£153 billion) of assets from Article 9 funds to Article 8 funds.

The European Commission is now **consulting on the future** of Article 8 and 9 funds, including a proposal to introduce more precise labels.

The FCA has said that as the UK is the first to introduce formal investment labels, it is keen to work with the EU on how they could be used effectively there.

Investments based in the the EU are also subject to:

The EU Taxonomy. This outlines six environmental objectives and four overarching conditions that a financial product must meet to qualify as 'environmentally sustainable'.

The Corporate Sustainability Directive (CSRD). This new legislation, which came into force this year, requires all large companies in the EU to publish regular reports on their environmental and social impact activities.

In the US

Compared to Europe, the US has less advanced regulations to address greenwashing. However, in September 2023, the US Securities and Exchange Commission (SEC) updated its 20-year-old "names rule" to help crack down on greenwashing and other misleading marketing practices by investment funds.

The "**names rule**" change expands the types of names that can be considered deceptive or misleading if a fund does not invest at least 80 per cent of its assets in line with that name.

In Asia

Within the Association of Southeast Asian Nations (ASEAN), 13 countries have developed taxonomies for sustainable finance practices. This is on top of the regional sustainable finance taxonomy put in place by the ASEAN. Countries leading the charge include Singapore, Malaysia, Japan and Hong Kong.

The need for standard rules across the world

From creating labelling rules and taxonomies to raising the bar on sustainability reporting standards, governments around the world are starting to fight back against investment providers that are seen as misleading their clients.

The result is a regulatory environment that unfortunately can be complex and confusing.

The FCA has said it is keen to show other countries that it is possible to introduce rules that both protect consumers AND help the sustainable investment market to grow.

It says it will continue to engage with its international counterparts as they develop similar rules and with HM Treasury as it considers how to approach overseas funds.

Ultimately, there is a need for trusted, standardised rules across the world.

The FCA says: "We have sought, as far as possible, to achieve international coherence with other regimes – notably the Sustainable Finance Disclosure Regulation in the European Union and proposals by the Securities and Exchange Commission in the United States."

How to match your money to your morals

One of the easiest ways to invest in funds making a positive difference to the world is through a stocks and shares ISA. Think of this as a basket that holds your chosen investments.

Through your ISA, you can invest up to £20,000 per year, tax-free. You can either choose your own funds to invest in or, if you're not confident or lack experience, go for a ready-made portfolio (this is a collection of funds chosen by experts).

With so many providers and platforms claiming to offer sustainable investments, it can help to look for one that specialises in this area.

Ones we like include:

EQ Investors, with its Positive Impact, Climate Action and Future Leaders Portfolios. EQ Investors has a '**Good Egg' mark** from Good With Money, which means it can prove it makes a positive difference to people and the planet as well as to its customers.

Triodos Bank - another Good Egg firm - with its Pioneer Impact Fund, Global Equities Impact Fund, Sterling Bond Impact Fund and Future Generations Fund. You can invest in these funds directly through the Triodos website or use a third party platform such as The Big Exchange, AJ Bell or Hargreaves Lansdown, or ask your Independent Financial Adviser. The Future Generations Fund is currently exclusive to the Triodos website.

WHEB Asset Management - The FP WHEB Sustainability Fund, for UK residents only, targets long-term growth by investing exclusively in companies providing solutions to sustainability challenges. It is multi-thematic and invests in global listed equities. You can

invest in this fund directly through the WHEB website, use a third party platform such as The Big Exchange, AJ Bell or Hargreaves Lansdown, or ask your Independent Financial Adviser.

The Big Exchange, a platform which only offers funds that make a positive impact on the environment and/or society.

Alternatively, you can choose a platform that allows you to filter your search by sustainable funds. Good options include AJ Bell, Hargreaves Lansdown and Interactive Investor.

If you are keen to invest directly in projects that interest you - as part of a diversified investment plan (i.e. don't put all your eggs in one basket!) - you could look at the Innovative Finance ISA (IFSA) - see our Good Guide to the Innovative Finance ISA **here**. Good choices for this include:

Ethex, a not-for-profit platform, offers investment crowdfunding to directly fund extraordinary projects in the UK that are tackling social and environmental issues. Many of the investments on Ethex can be held within an IFISA.

Its sister firm **Energise Africa** enables ordinary people to invest in bonds issued by impactful companies in emerging economies that are taking action to achieve the United Nations' Sustainable Development Goals (SDGs). Examples include solar energy access, green logistics and sustainable transport initiatives. Find out more in Ethex and Energise Africa's article on **page 29**.

For other ways to green your money with trusted providers, see our top **ethical current accounts**, **savings accounts**, **financial advisers** and **pension funds**.

Who will the new rules apply to?

The **anti-greenwash rule** will apply to all UK financial products marketed by FCA-regulated firms.

The **naming and marketing rules** and **sustainability labels** are specifically for UK-based investment products marketed by FCA-regulated investment firms. The FCA recently announced that these rules are being extended to include portfolio managers. Currently, they will NOT apply to pensions, financial advisers, or discretionary fund managers (someone who buys and sells investments on your behalf).

The FCA says the launch of the rules is just the beginning and it is looking to eventually extend them across the whole of the financial market.

ETFs will not be covered under the new rules

Currently, funds containing Exchange Traded Funds (ETFs) - which passively track a basket of companies deemed to be sustainable or having a low negative impact - will NOT qualify for the new SDR. This is because ETFs are usually registered overseas and not in the UK.

The FCA is looking to expand the rules, but for now, 'ethical' funds containing ETFs from apps such as Wealthify, Moneyfarm and Moneybox will not be able to carry a sustainability label.

Why direct investing = transparent impact

By Lisa Ashford
CEO of Ethex and Chair of Energise Africa

According to a recent survey we conducted, less than half of respondents (44 per cent) felt that they knew where the money they save or invest is being used. This is despite most of them (67 per cent) saying they want to save or invest it in a way that will have a positive impact.

This is a clear indication that the UK's financial services industry faces a genuine problem with clarity of impact, and even the most well-meaning investors might struggle to see the impact they are making because they are confused about what banks and investment companies use their money for.

The problem with measuring your money's impact

As yet, there are no clear guidelines for measuring impact in investment, and we understand it can be a tricky area to evaluate, as the outputs of impactful organisations or projects cannot be compared like for like. We welcome the new anti-greenwashing rules referred to in this publication as a step in the right direction, as we know greenwashing only exacerbates the problem for investors, where we see funds labelled as 'green' or 'ethical' investing in activities that are clearly neither of these. A 2023 report from Common Wealth(1) found that some top 'ESG' labelled funds were investing heavily in coal, oil and gas.

So what are investors to do?

Growing a green portfolio

At Ethex and Energise Africa, we always advocate building a diverse portfolio of impact investments, as part of your overall investment strategy. The benefits of this are two-fold, as you will not only be spreading the potential risk of your investments, but you will also be extending and diversifying the impact of your money.

We think that direct impact investments should form an essential part of that impact portfolio - one where there is no question of the effect your investment is helping to create.

The direct approach

The mission of both our impact investing platforms is clear - to make it easier for everyday people to invest directly into organisations and projects that are creating a demonstrable social and environmental impact. In this way, investors know exactly where their money is going, how it is being used, and what impact it is creating.

Ethex only lists investment opportunities from organisations that have been specially hand-picked because they have a positive and ethical mission at their heart. In the ten years since we launched, we have helped more than 200 projects raise more than £120 million in funding from our community of 20,000+ investors.

Ethex investors have funded numerous community energy projects around the UK, collectively saving more than 900,000 tonnes of CO2 from entering the atmosphere over the lives of the projects they support, that's the equivalent of powering over 177,000 average homes (2). They have also backed affordable housing projects that have created around 570 new beds for people in the UK at risk of homelessness, according to Ethex's **10 years of impact report**.

Energise Africa lists opportunities to invest in organisations that are accelerating the achievement of the UN Sustainable Development Goals in emerging economies and making this accessible for everyone, with investments starting at just £50. Investors on the platform have helped more than 850,000 gain access to solar energy, saving over 190,000 tonnes of CO2 each year.

Connecting communities with solutions

What's so exciting about what we do is connecting real people with the opportunity to take action to make a real difference within their communities or even on the other side of the world. The money invested in these projects has a ripple effect that can create an even bigger impact over time, helping communities to grow and create environmental, social and economic benefits for everyone.

Find out more about investing for tangible impact. Impact that creates renewable energy and cuts carbon emissions, impact that creates safe homes for vulnerable people, impact that makes our communities stronger and fairer. Visit the **Ethex** and **Energise Africa** websites.

Don’t invest unless you’re prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.
Take 2 mins to learn more

1. **Common Wealth Report**
   https://www.common-wealth.org/publications/sustainable-esg-funds-hold-over-1-5-billion-in-coal-oil-and-gas-bonds

2. **Calculated using 5.067 metric tons of CO_2/home/year.**
   https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator-revision-history

Approver: ShareIn FRN 603332 (30/05/2025)

Timeline of when the new regulations come into force

- **31 May 2024:** Anti-greenwashing rule
- **31 July 2024:** Firms can begin to use labels
- **2 December 2024:** Naming and marketing rules come into force

How will these rules be enforced?

The anti-greenwashing rule and naming and marketing rules: The FCA is expected to be proactive in terms of enforcement. There is no 'warm up' period as financial firms have been given a long run-up to the introduction of the rules as well as detailed guidance. Firms that don't adhere to the rules will leave themselves open to investigation by the FCA as well as legal claims from consumers if they can prove they have been mis-sold a financial product.

The sustainability labels: The FCA will not formally approve the use of labels on funds. It will be left to investment managers themselves to determine which funds they think should fall under the different labels.

The FCA says that if a firm chooses to label a product then it remains responsible for its correct classification. Although there is no approval process as such, the FCA will review, and may challenge, the application for any fund. It will also take action if it sees that a firm is not adhering to the rules.

What can you do if you suspect greenwashing under the new rules?

If you suspect that a financial provider is greenwashing under the new rules, you can report your concerns to the FCA either by **telephone or an online form**.

Conclusion: What does this all mean for the future of sustainable investing?

By Lori Campbell
Editor of Good With Money

The new package of rules aims to rebuild financial consumers and investors' confidence in putting their money to work for good and, in turn, boost the market for sustainable finance.

Importantly, they aren't just designed for now - they're a framework for the future. As the FCA says, they "are a starting point for a regime that we will expand and evolve over time."

The rules not only ensure companies report their current sustainability practices, they also push them to plan for a sustainable future. They reward transparency, drive accountability and act as a catalyst for companies to align their behaviour with global sustainability goals.

Hopefully this guide has shown you how to use the new rules to put your money into financial products and investments that GENUINELY match your ethical values.

So, armed with these tools, get cracking, avoid the greenwash, and help make the world - and your future - a better place.

About Good With Money

Good With Money is a money website with a difference: it is all about how your money can do more good for people and planet, as well as line your pocket.

It created the Good Egg mark, a licence for financial services companies which make a positive impact.

Sign up to the weekly newsletter for the latest reviews and deals here.

Contact details

Want to get in touch with us, or any of the providers in this guide?

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WHEB Asset Management

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