# The big 4-o

## Julia Dreblow explains that this summer marks an anniversary that, to her mind, has not had the attention it deserves

**I need to be careful how I frame this, as I do not wish to add to the confusion around terminology, however, 2024 is the 40th anniversary of the UK's first retail ethical fund. The strategy took six years to gain approval from the Department of Trade (as was) – but once approved it became the first opportunity individual investors in the UK would have to invest in line with their personal concerns. (The world's first ethical fund, PAX World, was launched in the USA in opposition to the Vietnam War.)**

The Stewardship fund was launched by Friends Provident, which had previously been Quaker-run. Stewardship combined some obviously (Quaker and Methodist) faith-related exclusions, like avoiding armaments manufacture, pornography, gambling and alcohol with environmental and social exclusions, such as; avoiding illegal deforestation, companies that supported the South African apartheid regime - and major polluters (plastics and persistent organic pollutants).

This fund was referred to as 'ethical' – a term that remains popular in retail investment today but has always caused concern in institutional circles. The fund, or more precisely - suite of funds - as the Unit Trust (now OEICs), Life and Pension funds were all launched at around the same time, remain available today.

They are now split in two, thanks in part to the financial crisis, when Friends Provident Life Office exited investment management. Friends sold their F&C asset management arm, which is now part of Columbia Threadneedle. Their range is now branded 'Responsible'. The larger part of Stewardship's assets, and the brand, later became part of Aviva.

The split was a concern to people like myself and the EIRIS team, who had supported the funds since before they were launched, as we wanted the franchise to remain strong. However, it can now be argued that this delivered a net benefit, as two franchises emerged from one.

That period was, however, a shock, as the area had enjoyed significant success in the mid-Noughties in part thanks to favourable markets but also following the July 2000 amendment to the 1995 Pensions Act, which put SEE (social, ethical and environmental) investments into law for the first time, and effectively launched the responsible ownership concept. (Stewardship researchers had engaged with companies almost since inception, often on risk, however, this became a separate product 'reo®' in late 1999).

But I digress. Prior to 1984, the year that gave us Live Aid, the Union Carbide disaster in Bhopal and the identification of AIDS, investing for anything other than profit was not an option for individuals. Stewardship broke that mould - and was swiftly followed by others.

### So, where are we today?

There are now an estimated $30 trillion dollars in ESG strategies, according to Bloomberg. All have elements of those

early strategies including considering ESG risk, having 'responsible ownership strategies' and/ or excluding companies. Some aim to support systemic shifts. Others focus more on preserving current asset values. Many combine both.

In terms of numbers, focusing on OEICs, for ease, we classify the 331 funds we list on the Fund EcoMarket database into 'SRI Styles' (the term 'SRI' being its old UK meaning' – sustainable and responsible investment). Of these, five focus (ie deep dive) on social issues, 22 concentrate on environmental issues and 32, in our view, lead with 'ethics' (which overlaps with social). We classify 82 as being 'Sustainable' – having a clear focus on the area and positive selection strategies. And there are a further 96 which have a 'Sustainability Tilt' and 132 that are listed as 'ESG Plus' - where we believe immediate risk and alignment to benchmarks play a strong part, but additional strategies indicate potential appropriateness for interested clients. In other words, the market is vibrant and, like opinions, funds vary.

**Is ethical investment now the same as sustainable investment?**

Most of these strategies have elements of the three core approaches in this area: positive selection, exclusions and responsible ownership (now often - and slightly confusingly - called 'stewardship'). Likewise, none ignore environmental, social or governance issues. It is the balance that varies.

For example, of the 331 OEIC funds (noting that not all managers respond to our surveys and we also list many SICAVs, so these numbers are only indicative); 237 funds 'exclude tobacco', 221 'exclude armaments manufacturers' – and 180 have 'gambling avoidance' policies, while 207 also 'exclude coal, oil and gas majors'. And as all these numbers exceed 32, our 'ethical' cohort, it is clear ethical issues are not restricted to that group.

However, 40 years on, and while ethical and sustainable funds have much in common there are some differences. Ethical funds typically have more values-led exclusions and are not normally expected to include 'intentionality' – the express aim of helping to deliver a sustainable future (a core element of SDR). Of the 114 funds we list as 'aim to deliver positive impacts or outcomes', only 13 are classed as 'ethical'.

Having met Stewardship's founders, I find this differentiation tough, as they were incredibly passionate about changing the world – but narratives and norms shift – and may do so again.

**What has and has not changed in 40 years**

Much has clearly changed since 1984 – technology being a great example.

However, while many new initiatives have emerged there is still a very long way to go if we are to deliver a safe and circular economy. Many of the issues Stewardship's 'Founding fathers' (yes, they were all male) worried about are now much urgent. We may label them differently now - but deforestation (now widened to biodiversity loss), pollution (plastics and chemicals remain problematic, although climate change is now often centre stage) and human rights (diversity, inclusion, equality, modern slavery and poverty) remain far from solved.

There have been successes, however. Fewer people are in poverty today, thankfully. Ozone depletion is no longer as terrifying as it was - and whale numbers are up - although coral reefs are dying because of acidification.

So, in spite of impressive AUM, we must conclude that on far too many issues most investors are insufficiently engaged. Few appear to have grasped the interconnectedness of people, the planet and financial systems, and the knife edge we are currently balanced on - in spite of the efforts of the Institute of Actuaries and others. Painfully, many have also recently abandoned Climate Action 100+ because of political pressures.

Surprisingly perhaps, an area that I do not believe has changed much, in the UK at least, is public opinion.

I may be an impossible optimist in this regard, but research carried out ahead of Stewardship's 20th anniversary, when the area was referred to as SEE (social, ethical and environmental) found that, '91% of respondents believe it is important that companies take social, ethical and environmental issues seriously' and '76% of people would prefer to buy from companies who try to reduce the negative impacts of their activities on society and the environment'.

No research is perfect, but those numbers are pretty similar to the 2022 FCA Financial Lives research, which found '74% agreed environmental issues are really important to them', and '79% agreed businesses have a wider social responsibility than simply making a profit'.

Figures of this kind are why the legal, financial and physical infrastructure is now being built to transition to a sustainable future - including sustainability reporting moving towards being more like financial reporting, under IFRS.

**Where are we now?**

November 2023 saw the introduction of a new sustainability disclosure and labelling regime (SDR), a widely applauded set of UK rules aimed at supporting retail investors who care about sustainability. The anti-greenwash rule was introduced in March - to address opportunism and the overstatement of sustainability credentials - across all regulated firms. The new labelling rules became live in July and the Naming and Marketing rules take effect in December.

Labelled funds are required to have a positive sustainability objective, which looks set to make labelling difficult for many ethical funds. And there are other challenges too, like SICAVs not yet being included. Getting funds approved is also proving challenging as there appear to be crossed wires in places. It is too early to tell how popular the labels will be initially, however, as they settle down I remain confident that they will become a valuable tool for retail clients and advisers.

And with regard to intermediaries – the work of the Adviser Sustainability Group remains ongoing and we hope to report later in the year.

Like many, this matters far beyond the financial services industry. Atmospheric parts per million of $CO_2$ were 344 in 1984. Statista tells us this is now 426. And records continue to be broken and things are not going well. 2023 was the warmest year on record, and Copernicus reported 22 July 2024 was the hottest day ever recorded, breaking the record - set the previous day. And, while I am writing this, the FT published an article on 'Water shortages in the Med', alongside their 'The Uninsurable World' series. The report says losses in excess of $100bn have been incurred - for the fourth consecutive year - in 2023.

Which is why it matters that regulators are now involved.

Imagining how we might deliver good client outcomes, as Consumer Duty demands, without addressing sustainability challenges is not something I am capable of. So, although we may still be working through some of SDR's practicalities, its cost will - over time - be a drop in the ocean compared to the cost of failure to address major risks – whether viewed through a moral, scientific or financial lens. It is also small fry compared to the challenges faced by Stewardship's founding fathers. I just hope we can hold on to their vision and optimism.

Sources
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