Begin

Can you tell your ‘E’ from your ‘S’ and ‘G’?

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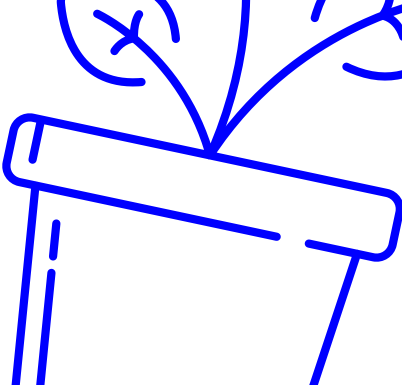
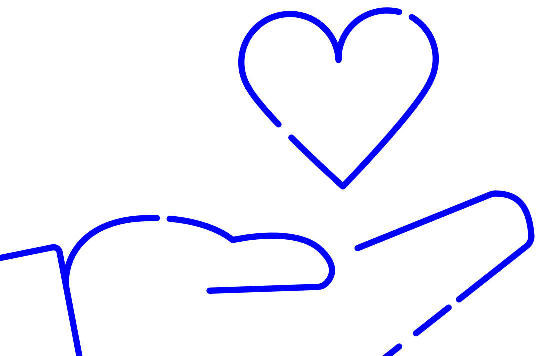


Can you tell your ‘E’ from your ‘S’ and ‘G’?

Sustainability and a desire to live in a more sustainable way, both personally and professionally, are topics we are hearing about more and more in our day-to-day lives. More frequently we are hearing about the many issues our world is facing, including climate change, inequality, and a lack of financial wellbeing and inclusion. There is a growing effort amongst policy makers and international bodies to put in place solutions to help alleviate these issues. Financial institutions, particularly wealth and investment managers, are also tackling what part they have to play in taking better care of our world and as fiduciaries of large pools of capital for investors & retirees globally.

In the investment world, sustainability and ESG (Environment, Sustainable and Governance) factors continue to be a driving force for positive change. There have been significant efforts by policy makers and regulators to drive capital towards sustainable investment regulation. With all of this change it can be hard to keep informed and well-versed on terminology that is used when discussing sustainable investment. With that in mind, we have taken some of the more common terms that are used today when discussing sustainable investment and will try to demystify these for you.



Sustainability

Sustainability is when the needs of the present generation can be met without compromising the ability of future generations to meet their own needs. In doing so, the aim is to achieve a balance between economic growth, social wellbeing and environmental care.

ESG factors

A set of non-financial factors that a company uses in their analysis process to identify material risks and growth opportunities related to sustainability

Environmental – the environmental impact of a company. Factors such as carbon emissions, energy efficiency, recycling practices, water pollution and supply chain sustainability.

Social – the social impact of a company in terms of their relationships with employees, customers, suppliers, and stakeholders.
Factors such as equity, inclusion and diversity metrics measure how the company promotes social good within its operations.

Governance – the governance around policies that balance a company’s financial goals with its social and environmental responsibility. This includes executive pay and political contributions, tax strategy and diversity on the board of directors.

ESG investment strategies may consider the following key issues in the investment process, alongside financial factors:

Environmental

- Carbon emissions
- Water Stress
- Opportunities in clean tech

Social

- Privacy and data security
- Controversial sourcing
- Community relations

Governance

- Business ethics
- Pay figures
- Tax transparency

EU Sustainable Finance Disclosure Regulation (SFDR)

The EU Sustainable Finance Disclosure Regulation (SFDR) came into force on the 10th March 2021. The regulations were introduced with the objective of implementing a harmonised approach in respect of sustainability-related disclosures for European investment funds. When fully implemented the disclosure regulations hope to enable greater transparency for investors and to allow for a direct comparison on investments when considering sustainability.

Greenwashing - Greenwashing arises when a company provides misleading or inaccurate information about their sustainability credentials, making it appear that the company is more sustainability focused than it truly is. Greenwashing by a company can be intentional and can also occur unintentionally.

Responsible investing - An investment approach that focuses on incorporating environmental, social and governance factors into investment decisions through ESG incorporation and active ownership/stewardship.*

ESG incorporation

This involves considering ESG issues when building a portfolio. ESG incorporation can be achieved using different approaches as follows:

Integration –Specifically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.

Screening – Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics.

Thematic – Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.

*https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article

Active ownership/stewardship* - Where investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices.

These are just some of the many terms that have developed as the area of sustainability and ESG investing has grown. There are many more terms and the differences between them can at times be very nuanced. So we recommend that you:

- carry out your own research to ensure that how an investment is described aligns with your personal goals.
- ask questions if you are unclear on meaning of some of this terminology and keep asking until you are comfortable you understand.

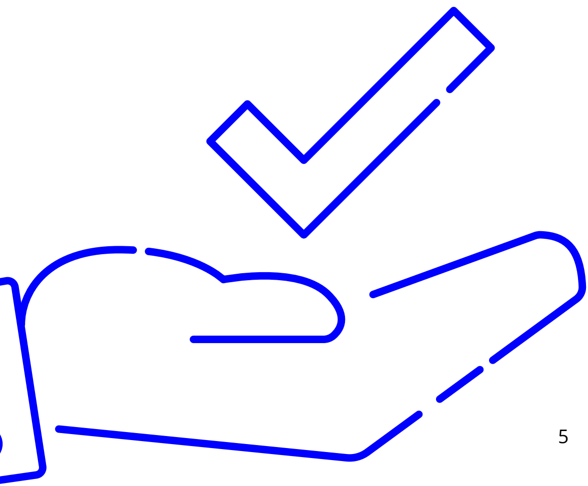
*https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article

Summary

Sustainable investing is a great way to bring about positive social & environmental change by combining capital and the investors' desire to make a sustainable impact through their savings and investments. However, investing in this manner is not without its challenges, indeed greenwashing is currently a hot topic.

Getting the balance right between enthusiastically embracing sustainability versus overstating the sustainability claims of products or services, intentionally or unintentionally, is proving difficult for all industries, investment management included. However, regulation and industry practices are improving.

Making positive change starts with understanding. If sustainable or ESG investing is something that is of interest to you, be sure to discuss the options available to you with your advisor.



New ESG 2023 Regulation

The **EU Sustainable Finance Disclosure Regulation (SFDR)** is a significant piece of new regulation that **requires financial services providers and owners of financial products to analyse and disclose environmental, social and governance (ESG) considerations in a public way.**

- SFDR Level 1 requirements came into effect on the 10th March 2021.
- SFDR Level 2 requirements came into effect on the 1st January 2023.

SFDR was introduced to bring transparency to investment products with sustainability-related claims, to improve the investors' ability to compare products, and to help investors better understand the impact of their investment decisions from an ESG perspective. In short, the EU hopes it will channel investment capital towards more sustainable companies and activities.

What are the new Level 2 requirements?

Level 1 SFDR Fund Classifications:

Increased level of disclosure required →		
Article 6 funds	Article 8 funds	Article 9 funds
All managed funds	***Light green funds***	***Dark green funds***
No integration of sustain-ability.	Promotes, among other characteristics, environmental or social characteristics, or a combination of both but this is not the main focus of the fund.	Investment in economic activity that contributes to an environmental objective. The main focus of the fund is on sustainability.
Can include stocks that are excluded from ESG funds, such as tobacco and coal producers, and should be clearly labelled as non-sustainable.		Fund manager may be required to track an EU climate transition benchmark.

The Level 2 requirements are designed to build on the Level 1 requirements, as seen in the table above. They aim to provide investors with more detail on how their investment relates to various sustainability risks, sustainability factors and technical disclosures.

To find out more about our commitment to **ESG** and sustainable investing, visit bankofireland.com/sustainableinvesting

The new Level 2 requirements explained

There are 4 requirements that need to be adhered to in order to meet SFDR Level 2:

1) Transparency about adverse impacts on ESG factors (Principle Adverse Impact (PAI))	The need to provide a clear and reasoned explanation of how a ‘Financial Product’ considers PAI on sustainability factors; and also including this information in the annual report. This also requires detailed information at the ‘Financial Product’ level on sustainability factors.
2) Pre-contractual product disclosures	The need to now complete a mandatory pre-contractual disclosure template. There are also greater reporting requirements around funds that are classified as Article 8 (see table on previous page) funds with more detail required on asset allocation, investment strategy, sustainability indicators etc.
3) Website product disclosures	The need to now publish online information about sustainability and the integration of this into investment decisions. Any funds that do not consider sustainability risk in their investment decisions need to clearly state why and whether they intend to incorporate such factors in the future. All ‘Article 8’ funds must, from 1st January 2023, publish the investment strategy, split of ESG and non ESG assets, due diligence of underlining assets with ESG criteria etc online.
4) Product disclosures in periodic reports	Every year going forward, all Article 8 and Article 9 funds must complete an annual mandatory disclosure template covering the extent to which ESG criteria are met.

Where any new documents are required, the regulations spell out very specifically the layout and composition of these new documents.

Summary

This new regulation is part of a broader initiative by the EU in its bid to switch to sustainable growth and reach net-zero emissions by 2050. It is also supported by the 'EU Taxonomy' approach which is a framework to classify environmentally sustainable economic activities.

All investors need full clarity on what they choose to invest in and how that investment is playing its part in creating a more sustainable world. The main aim of the SFDR regulations is to make the sustainability profile of funds more comparable and better understood by all.

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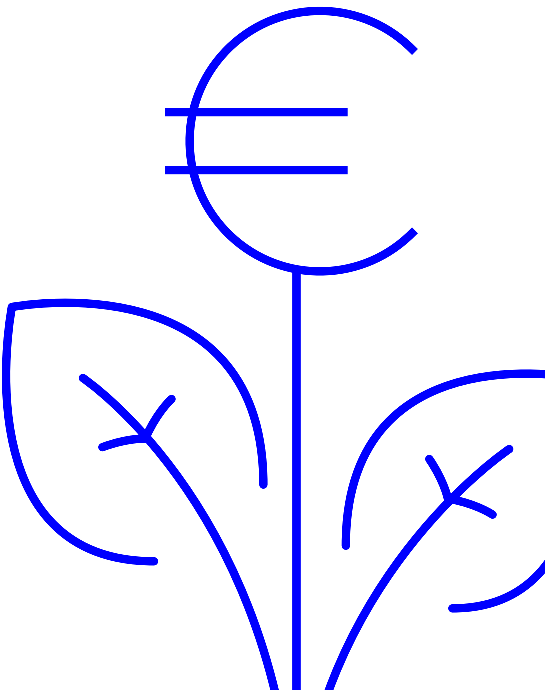

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