



The Spectrum IFA Group

International Financial Advisers

Responsible Investing The Spectrum Approach



With Care, You Prosper

www.spectrum-ifa.com

Our commitment to you

However it is defined, responsible investing is a matter of personal choice. Impartial guidance usually helps with informed (and successful) decision making, as does a clear explanation of the various investment options available - this is our approach to advising clients and forms part of our standard financial planning process.

From 2022, there is a regulatory requirement to consider responsible investing as part of standard financial advice practice across Europe. The Sustainable Finance Disclosure Regulation (SFDR) aims to encourage sustainable investing by highlighting the multiple challenges of managing climate change, achieving decarbonisation, creating a resource efficient economy and reducing societal inequality.

Specifically within financial services, when examining how to implement sustainable investing as sensibly and effectively as possible, there is ongoing regulatory support for accountability and transparency amongst investment advisers, fund managers and financial planners.

At Spectrum we have an important role to play in trying to achieve sustainable investment targets. We also recognise that responsible investing, and therefore responsible investment advice, is not just linked to climate change. Numerous other factors need to be considered.

Whilst we are committed to offering comprehensive solutions for responsible investment, we also believe that all clients should decide freely on how to allocate their capital. For this reason, we include responsible investment discussion in our advice process but do not impose personal or corporate views.

Our process includes questions about how clients consider the environmental and societal impacts of investing and the extent to which personal priorities influence investment decisions. This allows us to better define the depth of responsible investment criteria to be included when advising on portfolio construction.



What is responsible investing?

We believe this term is a good catch-all for the huge range of investment solutions that are now available. Responsible investing should, at its heart, be about investing in good quality companies but through a lens of social, environmental, or moral considerations along with pure financial considerations.

There is a mass of taxonomy and terminology around this area of investing including:

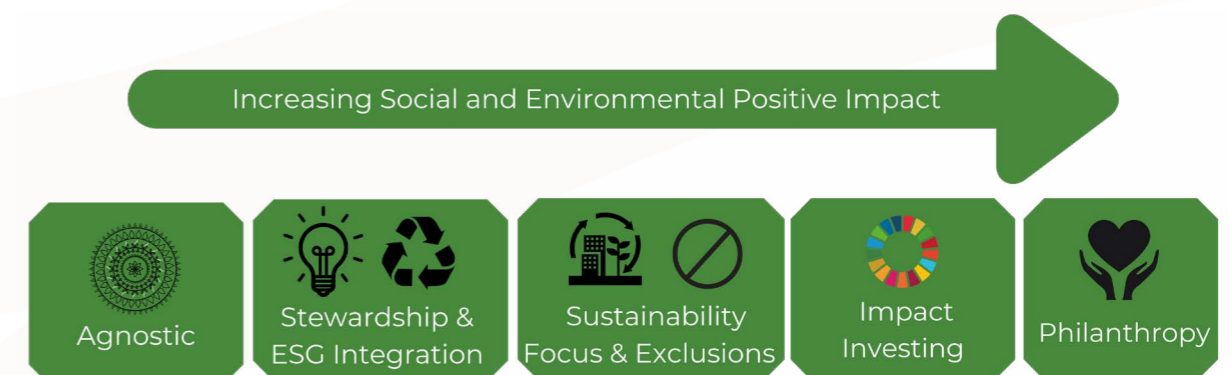
- *Ethical*
- *Green*
- *Socially conscious*
- *ESG (Environmental, Social and Governance)*
- *Sustainable*
- *Impact*
- *Socially responsible investing (SRI)*

The amount of jargon and abbreviations will get worse before it gets better, so we are here to guide you through this as much as we can.

“Building wealth today without borrowing from tomorrow”

We have decided, until more clarity is provided by market participants and regulators, to use the following “Responsible Investing Spectrum” as a guideline for discussions with clients. This is partly based on the UK Investment Association Responsible Investment Framework report.

We will initially ‘label’ the investment solutions we recommend as follows as well as referring to the SFDR articles where published.





Agnostic

Investors might feel completely neutral on the whole issue and so it will be ignored for the purposes of the investment recommendations.

ESG Integration - Environmental, Social and Governance

Environmental refers to a company's use of and impact on 'natural capital' and could include how the business impacts (or is impacted by) climate change, what resources it produces or uses and whether it contributes to pollution or waste.

Social factors include how the company interacts with customers, staff, suppliers, and with the communities in which it operates. This can lead to reputational risk and over regulation but can also allow investment opportunities into micro-finance or low-cost housing solutions, for example.

Governance is how a company is managed, or mismanaged, and would consider board structure, equality, accountability, and remuneration.

Stewardship primarily relates to how a fund manager engages with the companies in which client capital is invested. Voting on shareholder decisions, challenging the board over management, and helping companies improve their overall sustainability, can be an important part of a fund manager's role.

NOTE: It is important to understand that a general ESG Integrated fund solution does not necessarily exclude certain sectors or companies, for example in oil production or distribution, but will refer to the risks associated with this type of investment.

Sustainability Focus and Exclusions

Exclusions - Often known as negative screening, the main approach of ethical funds.

This prohibits the managers from investing in companies or even other funds. The screening can be applied to a specific company, business sector, revenue stream or jurisdiction.

Sustainability Focus - This is a focus firstly on what a company does - does it provide solutions to sustainability issues, for example by reducing carbon dioxide emissions or improving the efficiency of waste management? And secondly how a company operates – has it minimised its own environmental impact?

Impact Investing

Here we have the intention to generate positive, measurable social and environmental impact alongside a financial return.

The intentionality of Impact Investing is what makes it different to ESG Integration solutions – here the company's purpose is aligned with its products and/or services and it actively reports and measures the impact it has on society and the environment.

A fund investing as an impact fund should provide an impact report to its investors showing explicitly what positive change came from their capital.

Problems of responsible investing

Greenwashing

This is a way for a company to give a false impression or misleading statement or claim that a company's products or governance are more environmentally or socially friendly than they are. This can include investment funds with ESG or Sustainability in their name, but which are not intentionally selecting companies through a sustainability lens.

Hopefully, better taxonomy, simpler reporting requirements and regulation will lead to better transparency and less greenwashing.

Measurement, taxonomy and ratings

It is clear to see that there are many different factors to look at when considering the whole gamut of responsible investing and evaluating ESG risks and performance is a complicated task.

There is no single concept for measuring how 'green' a fund or portfolio is... and until there is we have to approach this with a flexible process but stick to the concepts our clients have committed to i.e. does this investment build my wealth without borrowing from the future?

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The UN Sustainable Development Goals may end up as a globally recognised approach to reporting on the 'sustainability' of a company or fund, but we are some way from this at the moment.

In Europe all funds must now report under EU SFDR as Article 6 (let's call this Agnostic) or Article 8 (approximates to ESG Integration) or Article 9 (Sustainable or Impact) and we will refer to this data where available.

For more information about any of these issues or to discuss responsible investing with any of our advisers please don't hesitate to contact us.

Useful links

Investment Association Responsible Investment Framework report

www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframeworkglossary.pdf

UN SDG Programme

<https://sdgs.un.org/goals>

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FRANCE

TSG Insurance Services S.A.R.L.
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R.C.S. Paris B 447 609 108 (2003B04384)
« Société de Courtage d'assurances »
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« Conseiller en investissements financiers », référencé sous le numéro E002440 par ANACOFI-CIF, association agréée par l'Autorité des Marchés Financiers »

SPAIN

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SWITZERLAND

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PORTUGAL

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