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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

SDR: the five latest developments and what they mean for Advisers

November 2024

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Our February Sustainable Disclosure Requirements ("SDR") article: key dates and takeaways for advisers", set out details that Advisers needed to consider when it comes to the FCA's SDR. Since February, the first of the FCA's regulations has been implemented, with the Anti-greenwashing rule coming into effect on 31 May 2024. The 2 December deadline for the Naming and Marketing rules is now fast approaching. In the remainder of this article, we provide an update on the SDR and what the implications are for Advisers.

SDR Background

The SDR aims to give greater transparency and improve retail clients' trust in funds that are being marketed as "sustainable". The policy requires any UK domiciled retail-based funds with a sustainable related objective to either:

Align to one of the following four Sustainability labels: ○ Focus ○ Improvers ○ Impact ○ Mixed Goals	OR	Continue to not use a label, but comply with the SDR's product and marketing rules, including stating the reasons why a label hasn't been adopted

In both cases, there are several statements and disclosures which the fund managers are required to prepare. For those that wish to adhere to a label, the FCA's policy statement also set out several criteria which managers must be able to adhere to, with the criteria varying according to which label has been chosen.

Five latest developments

The investment profession's consensus is generally supportive of the SDR's intentions. However, there is also a view that the FCA's labelling criteria are challenging and it will take time for Advisers, DFMs, and Investment managers to reflect fully on how (or if) they will implement or recommend these labelled offerings and how the market, including end-retail client appetite, will evolve.

Given this uncertainty, to date, we have seen:

1. **Relatively few managers have looked to adopt a label**. A November PA Future article states, "we are aware of only around 20 funds that have had the approvals of fund documentation for a label". Albeit in a separate PA Future article, the FCA's Sasha Sadan stated there are "enormous pipeline" of funds seeking a label. That said, we are aware of many funds that will, at least initially, be unlabelled.

2. **Funds that have adopted labels look to have adopted the "Focus" and "Impact" label.** This, of course, may change over time, but it could be that these labels are thought to be the ones that retail customers will identify with most readily.
3. **Several funds will be unlabelled but have changed name with the aim of giving greater clarity to their approach** e.g. the Vanguard ESG Developed World All Cap Equity Index fund (UK), is to become Vanguard ESG Screened Developed World All Cap Equity Index Fund (UK).
4. **The FCA has offered "limited temporary flexibility" for firms to comply with the Sustainable Disclosure Requirements' (SDR) 'naming and marketing rules' until 5pm on 2 April 2025.** The FCA stressed this would only be in "exceptional circumstances", applying only where a firm had submitted a completed application for approval of amended disclosures for that fund by 5pm on 1 October 2024, is currently using one or more of the terms 'sustainable', 'sustainability' or 'impact' (or variations thereof) in the fund name and is intending either to use a label or change the name of the fund.
5. **The FCA has also extended the time to which portfolio managers e.g. DFMs, have to adhere to the new regulations.** The FCA will provide further information in Q2 2025, with the implementation deadline included as part of that update. This extension is to give portfolio managers time to reflect to the labels that will be available to them from investment managers.

Summary of the key dates and actions for Advisers, DFMs, and Investment Managers

In table below, we have sought to summarise the key actions and deadlines which are in place. As a reminder, SDR applies to UK domiciled funds, any non-UK domiciled fund does not fall within these regulations.

Regulation	Advisers	Portfolio manager e.g. HRIS MPS	Investment Managers
Anti-greenwashing	**Applicable now**	**Applicable now**	**Applicable now**
Labelling of RI related funds/ portfolios	N/A	No requirement currently. The FCA will provide an update in Q2 2025	Must be in place by 2 December 2024, potential flexibility to extend to 2 April 2025 if manager has requested an extension from the FCA.
Requirement to issue associated fund disclosures	**Yes,** if selling single UK domiciled funds with an RI related objective i.e. even if the specific fund is unlabelled (timing is dependent upon investment manager e.g. they may have requested an extension – see far right-hand column). No, if funds sold as a portfolio (see column to the immediate right) or if funds are not UK domiciled.	No requirement at this time. The FCA will provide an update in Q2 2025	Must be in place by 2 December 2024, potential flexibility to extend to 2 April 2025 if manager has requested an extension from the FCA. The disclosure requirement applies to labelled funds and unlabelled funds which have a responsible related objective.

Key takeaways for Advisers

- **SDR impacts advisers**. It's important that time is taken to understand potential implications now and in the future. Advisers should consider what training is required.

- **Anti-greenwashing came into effect on 31 May 2024**. Time should be taken to consider how any suitability related claims stack up against the FCA's "4 C" Framework" (see table across).

- **Advisers are subject to product disclosure requirements for any recommendation into specific funds which use a label or claim to involve 'sustainability'** **See table on previous page.** This means that Advisers actions should:

  - Ensure the new labels and/or consumer-facing disclosures are shared with investors when promoting sustainable investment funds to retail investors.
  - Make sure any labels displayed are up to date and ensure clients are made aware that any Offshore funds are not subject to the UK SDR regime.

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

Fair and meaningful in relation to any comparisons to other products or services

Source: FCA's Guidance Consultation on Anti-Greenwashing rule.

How HRIS is helping Advisers

- **Over 100 years of investment experience and strong culture.** Hymans Robertson (HRIS' parent), with c.£350bn of assets under influence, has a history of supporting some of the largest Institutional Investors in the country and helping clients win Responsible Investment related awards. Hymans Robertson has also experience it can share of running Responsible Investment related activities associated with its own business, including achieving B Corp accreditation and the Hymans Robertson Foundation generating over £1m for charities.
- **Access to expertise.** Hymans Robertson has an experienced and large Responsible Investment team of 12. This means we can call on our in-depth research, get access to senior members of asset managers, select appropriate sustainable related funds, and are able to challenge managers accordingly on all investment matters.
- **Manage model portfolios that have clear objectives.** We offer model portfolios with clear responsible investment related objectives. Our target market definitions are robust, and our communications use clear language which is key, given the SDR and anti-greenwashing regulations.
- **Provision of training and support for future proofing.** We're aware that the precise implications of SDR will continue to evolve. We work with Advisers to provide CPD-standard SDR training, focusing on matters including regulatory background and what it might mean for Advisers and their businesses.

We'll provide further updates over the coming months. In the meantime, please get in contact with your HRIS Relationship Director.