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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

SDR: the latest developments and what they mean for Advisers

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In this piece, we provide an update on the latest developments on the FCA's "Sustainable Disclosure Requirements ("SDR"), setting out what they might mean for Financial Advisers.

Reminder 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. **The first of the FCA's regulations, the Anti-greenwashing rule, came into effect on 31 May 2024.** This requires claims made by FCA-authorised firms about sustainability-related financial products and services to be `fair, clear and not misleading', and to be consistent with the sustainability characteristics of the product or service.

Latest developments include:

There are **now more than 130 funds with SDR labels,** this represents a notable growth from November last year when it was thought only c20 funds had labels.

Of those with labels, **Focus and Impact continue to dominate.** It is thought "Focus" represent over half of funds with labels (c56%) - these are funds which invest mainly in assets which are sustainable now. The "Impact" label is thought to represent around a quarter of labels (c26%), with "Improvers" and "Mixed goals" representing 13% and 5% respectively. As we noted in a paper last year, the bias towards these two largest labels may be due to these being the ones that retail investors are able to relate to most readily.

Not using a label remains very much an option for managers, advisers and investors. FE fundinfo, in an article last year, stated that there were over 1,000 funds with sustainable related terminology in their names that would likely be looking for a label; in a separate report in April, Morningstar stated there were c300 funds with no label, yet were making sustainability claims. Regardless of which numbers you use, it highlights that, although progress has been made on labels, the SDR's strict requirements have led some managers to take the unlabelled route for their funds. This is a perfectly viable option for fund managers to adopt; it is also perfectly viable for advisers to continue operating without the use of labels (and in turn, given the large number of unlabelled funds, using unlabelled funds broadens advisers and MPS providers investment opportunity sets).

Model Portfolio Services (MPS) regulations have been paused. The Financial Conduct Authority (FCA) has indefinitely paused the extension of the Sustainability Disclosure Requirements (SDR) to Model Portfolio Services (MPS); this decision was taken on the back of the feedback that they received on recent FCA consultations. It is worth knowing, MPS providers are still subject to the anti-greenwashing rules which are outlined above.

Sentiment and performance currently acting as headwinds for sustainable related portfolios. Morningstar estimate that c$7bn was redeemed from global sustainable funds in H1 2025 (c2% of total sustainable assets). The most notable withdrawals were in the US, linked to the ESG backlash associated with the Republican party's election. It is also worth noting that those sustainable related funds, which include some exclusions e.g. controversial weapons, tobacco etc, may also have suffered some underperformance (relative to non-exclusions funds) as a number of "sin" stocks performed strongly over the first half of the year e.g. BAE, Philip Moris etc. Although this final point is not SDR related it is something that needs to be considered when discussing sustainability related matters with investors.

What does this all mean for Advisers, DFMs, and Investment Managers?

In the table below, we have sought to summarise the key actions 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 at this time (nor any plan to in the short-term)**	**Applicable now; albeit managers may elect to adopt an unlabelled route for their funds**
Requirement to issue associated fund disclosures	**Yes,** if selling single UK domiciled funds with an RI related objective e.g. a multi-asset fund with a RI related objective. <u>Note even if the specific fund is unlabelled.</u> **No,** if funds sold as a portfolio (see column to the immediate right) **also no** if funds are not UK domiciled (but, in the case of the latter, there must be a prominent notice alerting investors that the fund is domiciled overseas and is not subject to the UK labelling and disclosure requirements).	**No requirement at this time (nor any plan to in the short-term)**	**Yes** 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 also has 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.

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