



ESG ACCORD

Your compliance, ESG & Sustainability, in accord

ESG & Sustainable MPS

DEEP-DIVE industry report

For advice firms, MPS providers and broader industry participants

ESG Accord is a member of the Association of Professional Compliance Consultants.

ESG Accord is a member of the UK Sustainable Investment and Finance Association. This publication is intended merely to highlight issues, it is not meant to be comprehensive, nor is it regulatory advice. Should you have any questions on issues raised here or on other areas of ESG or Sustainability, please contact us admin@esgaccord.co.uk

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Foreword:

Gwil Mason

Senior Associate, ESG Policy and Advisory, FCA

UK consumers are increasingly demanding financial products taking sustainability or ESG factors into consideration. The FCA 2020 [Financial Lives Survey](#) found that 80% of consumers would like their money to “do some good” as well as providing a return. 71% said they would like to invest in a way that protects the environment, while another 71% said they would avoid making unethical investments.

Financial services firms are responding to this demand. According to [Bloomberg](#), global ESG assets are on track to reach \$50 trillion by 2025, up from \$22.8 trillion in 2016. The UK’s own market is both expanding and diversifying rapidly. [Fund EcoMarket](#), a UK-based comparison site, lists over 800 funds with over 50 distinct sustainability strategies, themes or objectives.

The FCA welcomes this growth. Diversity of products can also be highly beneficial to consumers, if it reflects product innovation and healthy competition between providers that helps consumers better match products with their needs and preferences. However, without common standards, clear terminology and accessible product classification and labelling, there is a risk that consumers become confused by the array of choices available and are unable to assess product suitability.

To address this, in November 2021 the FCA released [Discussion Paper 21/4](#) on sustainable labels for investments products and new sustainability disclosures. The classification and labelling system will help consumers quickly and intuitively understand the sustainability characteristics of different products, helping them better navigate the product landscape. The FCA has also established a Disclosures and Labels Advisory Group – on which ESG Accord sits – to advise on implementation of this important work. We expect to consult on more concrete proposals this Summer.

However, other market participants have their own roles to play. Advisers, acting as the interface between consumers and products, have a particularly important function in ensuring that the sustainability preferences expressed by consumers are reflected in the advice given to, and ultimately the products bought by, consumers.

In our Paper we committed to exploring how best to introduce specific sustainability-related requirements for these firms and individuals. Building on existing rules, a key aim will be to confirm that advisers take sustainability matters into account in their investment advice and understand investors’ preferences on sustainability to ensure their advice is suitable.

But it could also be reasonably argued that ESG is already in scope when giving investment advice. Advisers must act in a client’s best interest and collect all necessary information when providing advice to understand their investment objectives. The suitability rules within our Conduct of Business Rules (COBS 9A) already require firms that provide advice to consider, among other things, a client’s investment objectives. The rules set out certain information on objectives that firms are required to consider – but this is not intended to be an exhaustive list.

In this context, and as advisers increasingly recognise the need to include consideration of ESG matters in their suitability assessments, we welcome this publication from ESG Accord. This will help advisers continue to build capacity in this area, in line with both their existing obligations and the FCA’s developing work in this area. We would be very keen to hear from advisers on this – what works, what frameworks they consider helpful, and what are the key challenges they face.

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Executive Summary:

**Lee Coates OBE, Elly Dowding, ESG Accord Ltd.
March 2022.**

The ESG & Sustainable investment world has shifted into a new phase. Advisers are facing regulatory and reputation drivers for transparency and trust. There is a time pressure to act now for climate action. The wealth transfer shift is of financial enormity; everybody's clients will be affected. Additionally, the timing of the wealth transfer is coinciding with the global economy transitioning to one which is low carbon and sustainable.

What is the issue?

Client and regulatory pressures mean that advisers have to incorporate ESG and Sustainable values questions into their advice process. This increases the amount of due diligence needed to ensure that, under PROD and COBS rules, client needs are matched to the most appropriate products and investment options. The ESG and Sustainable investment market (ESG, Responsible, Impact, SDGs, Ethical etc) is expanding rapidly with both new launches as well as fund management groups repurposing large numbers of existing funds to incorporate, at the very least, an ESG process.

The additional time needed to undertake the additional level of due diligence work, when advisers are increasingly 'time poor', can place additional burdens on Senior Management to ensure that the advice being provided fully meets client needs - as well as the forthcoming Consumer Duty rules. With many hundreds of 'new' ESG and Sustainable offerings being launched each year, advisers need a way to focus on the client relationship rather than monitoring this expanding market. Fund Managers and Discretionary Managers believe they can help by offering a Model Portfolio Service (MPS). Due diligence will, of course, be needed on each of the ESG and Sustainable MPS solutions (see Appendix 1).

The solution – our ESG & Sustainable MPS Report

Advisers need quality and comparable data to give best practice advice and retain clients. By using this report, advisers will be able to focus on the needs of their clients, matching the most appropriate MPS to each client's values.

Advisers can leave it to the DFMs to constantly monitor new fund launches and fund repurposing, ensuring that the best and most appropriate funds are held in their MPS.

'Good' compliance can give advisers peace of mind via independent, reportable & granular processes. Our MPS report helps Advisers match the most appropriate MPS to each client's ESG & Sustainability objectives and preferences.

Sound due diligence can help to reduce greenwashing as it enhances transparent communication - both internally within a firm and as a dialogue conduit between Manufacturer and Distributor. Granular questioning of funds raises market participation and the flow of information. These solutions help to deliver best practice outcomes across the full ESG & Sustainable spectrum.

Who is the report for?

The report contains valuable, comparable and timesaving information for UK Financial Advisers and Para-planners. Due to the 'deep dive' approach to our questions and data gathering, the report it is also of high relevance to MPS providers and other broader industry participants.

What is in the report?

The Report contains comprehensive information on ESG and Sustainable MPS products. It is focused mainly on the products that have been developed for financial advisers and which are available via Platforms.



Continued... What is in the report?

We asked 76 questions spanning the ESG & Sustainable spectrum. The questions were produced with reference to the [FCA Guiding Principles for Authorised ESG & Sustainable Investment Funds](#). Providers were asked to complete the sections relevant to their MPS solution.

We did not impose a limit on the information that could be provided. We believe that ESG and Sustainable finance isn't a tick-box exercise; it is all about intentionality, process and competence. Our due diligence questions gave providers the opportunity to speak directly to advisers, and their clients, about how and why they do what they do.

We make no apologies for building in subjective information rather than the more common "do you or don't you do X" approach seen in many reports. We actively embrace the principle of 'show and tell' and this can be seen in many of the informative responses from fund managers. Whilst it is always important to gather hard facts, when it comes to client values, sometimes the soft facts make more sense to clients, and they can make informed, meaningful choices in partnership with their financial adviser.

The 76 Due Diligence Questions are spread across 8 headings. The information is cumulative, so answers tier upwards and/or span across multiple headings. These 8 headings are:

- General questions - questions produced with reference to the FCA Guiding Principles ESG - funds with an ESG process
- ESG – basic ESG related questions
- ESG+ Underpins – for funds using an ESG process including a 'responsible underpin'
- Responsible - funds with a positive sustainable investment strategy or themes

- Impact & SDGs - funds designed with SDGs as a framework or with the intention of dual capacity to generate positive, measurable social and environmental impact alongside a quantifiable financial return
- Ethical - funds which may span across all headings and incorporate a conventional ethical investment approach
- Engagement - Engagement is the active part of stewardship and a pivotal part of [HM Government Greening Finance: A Roadmap to Sustainable Investing](#). Engagement is active dialogue with a specific and targeted objective such as transitional or enabling activities, or ambitions and goals
- Talking Points - this section contains pointers for some key talking points where you providers can showcase their MPS
- Additional Info – providers were able to place any information here not covered by questions in other sections and is an opportunity to make their case for why investors should use their MPS product

Breadth of the Report:

- 30 MPS providers fully completed our Due Diligence Questionnaire (DDQ)
- 17 MPS providers did not respond to our request to complete the DDQs. We advised all providers beforehand that if we did not receive a completed DDQ, we would attempt to complete a DDQ on their behalf from publicly available data
- 5 MPS providers asked not to appear in the report

Full List of MPS Providers covered by the Report can be found in Appendix 2.

Note: we made no charge for inclusion in the report, so the only commitment from providers was the time needed to complete our detailed DDQ



How to use the report

Due to the breadth of the Report and the volume of data provided, it has not been practical to deliver the Report as either a digital PDF or in hard copy format. Instead, we have built an online version which, for ease of use, has a number of built-in filters and print facility included.

The filters correspond to the ESG Accord compliance process to help advisers obtain clients ESG & Sustainable preferences and objectives (see Appendix 3). The filters allow advisers to select one, or multiple areas from the full spectrum of ESG and Sustainable Finance, then compare entries. Individual company searches are also available for use with clients where all of the information provided by the DFM is available to discuss with the client.

We have also included a group filter query for MiFID II related criteria.

About ESG Accord

We work with firms at the forefront of building ESG & Sustainable advice into their advice process. We offer an affordable and comprehensive ESG & Sustainable compliance and advice framework alongside consultancy services (See Appendix 3). Our Services and processes seek to address the ESG & Sustainable compliance gap which can hinder transparency, market participation and ultimately best practice outcomes within firms.

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Appendix 1:

Q&A

Why MPS over/alongside CIP?

It is not really about which one is better, it is about which one is practical. For Adviser firms with an existing CIP, it would seem natural to run an ESG CIP alongside. The problem, however, is twofold; an ESG CIP alone just isn't good enough and the work involved in finding suitable funds is enormous.

ESG isn't enough – offering an ESG CIP is fine, of course, but what about those clients who want Responsible, Sustainable, Impact, SDG alignment or Ethical options? It would be a failure of TCF, PROD, COBS and Consumer Duty to simply ignore these other areas. Looked at another way, having only an ESG option could be viewed as effectively shoehorning all clients into a single option

Finding suitable funds – in the last two years there have been hundreds of ESG/Sustainable funds launched and on top of these perhaps hundreds more established funds have been retrofitted with ESG. That is a huge number of funds to review and keep on top of, even once the firm has worked out what sort of due diligence process they will need to ask the right questions. Whilst the existing due diligence process will be a starting point, reviewing ESG funds involves a raft of new questions to draw out the important USPs of each ESG and the corresponding processes.

As an alternative to the above complications, a good MPS provides advisers with the time to spend on delivering advice, rather than allocating significant time and resources to researching hundreds of funds that are currently available and the hundreds more to come. Focusing due diligence on ESG and Sustainable MPS solutions of course involves due diligence, but it is more about the processes applied by DFMs in building their MPS and, of course, there are far fewer MPS options to review.

Our ESG and Sustainable MPS Report is a vital part of a firm's due diligence process in matching the views and values of clients to the most appropriate MPS provider.

Why did we limit the breadth of the Report?

Quite simply, we have produced the report for financial advisers. As such, an ESG/Sustainable MPS which is primarily offered directly to the public is outside the scope of the report.

Recognising the fact that most advisers are placing clients' assets on a platform, it was a key aspect of the Report that the MPS is available on as large a number of platforms as possible.

Why is the Report only available on-line?

Size! It was originally intended that we would produce a normal PDF-based Report, which is the standard format. However, with over 40 MPSs reviewed, 76 due diligence questions and completely free format, unlimited size answers, any PDF-based report would be completely unwieldy.

How will the report information be kept up to date?

There are two aspects to this question:

- 1) The Report will be fully updated once a year, which will give existing entrants the opportunity to update their entries and give new entrants to the MPS space the chance to be involved. We make no charge for MPS providers to be included in the Report (thanks to our sponsors) so the only barrier for a DFM to be included is the time needed to complete our Due Diligence questionnaire and send it back.
- 2) We have a regular Newsletter which provides useful and insightful information on what is happening in the world of Sustainable Finance. In each Newsletter there is a section called *MPS Report Hub*. Any DFM involved with the Report is offered the opportunity to provide useful updates and information on their MPS proposition.

What questions do I need to ask clients?

This could be a 'how long is a piece of string' question, but thankfully we have a simple solution. Our full **Compliance Framework** provides advisers with a comprehensive suite of documentation, client education material and different questionnaires to meet the full spectrum of sustainable financial advice. The full framework is priced at a very competitive **£395**.

Further details of our Compliance Framework can be found [here](#)

What if I have further questions?

That's easy – drop us an email at admin@esgaccord.co.uk



Appendix 2:

Full List of MPS Providers covered by the Report

MPS Provider		DDQ completed by:
Brewin Dolphin Limited	Sponsor	MPS Provider
Brooks Macdonald Asset Management Limited	Sponsor	MPS Provider
Copia Capital Management	Sponsor	MPS Provider
EQ Investors Ltd	Sponsor	MPS Provider
LGT Vestra	Sponsor	MPS Provider
Psigma Investment Management Limited	Sponsor	MPS Provider
Ranthbone Greenbank	Sponsor	MPS Provider
Sarasin & Partners LLP	Sponsor	MPS Provider
Tribe Impact Capital	Sponsor	MPS Provider
Waverton Investment Management	Sponsor	MPS Provider
7IM		MPS Provider
abrdn		MPS Provider
Alpha Beta Partners		MPS Provider
Betafolio		MPS Provider
Binary Capital		MPS Provider
Blackfinch Asset Management		MPS Provider
Canaccord Genuity Wealth Management		MPS Provider
Castlefield Investment Partners LLP		MPS Provider
EBI Portfolios		MPS Provider
Financial Express Investments Ltd		MPS Provider
Hawksmoor Investment Management		MPS Provider
P1		MPS Provider
Pacific AM		MPS Provider
Parmenion		MPS Provider

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PortfolioMetrix		MPS Provider
Rivers Capital Mgmt		MPS Provider
Sparrows		MPS Provider
SquareMile		MPS Provider
Tatton		MPS Provider
Whitechurch		MPS Provider
Affinity Private Wealth		ESG Accord*
AJ Bell		ESG Accord*
Albert E Sharp		ESG Accord*
Casterbridge Wealth		ESG Accord*
Charles Stanley Asset Management		ESG Accord*
Crossing Point Investment Management Ltd		ESG Accord*
Fusion Asset Management LLP		ESG Accord*
GDIM		ESG Accord*
IBOSS Asset Management Limited		ESG Accord*
MAIA Asset Management		ESG Accord*
Morningstar Investment Management Europe Ltd		ESG Accord*
Progeny Asset Management		ESG Accord*
Rockhold		ESG Accord*
Rowan Dartington & Co Ltd		ESG Accord*
Sanlam Wealthsmiths		ESG Accord*
TAM Asset Management		ESG Accord*
Voyager Asset Management		ESG Accord*
Beaufort Investments - You Asset Mgmt		Declined to appear in 2022 Report
Cantab Asset Management		Declined to appear in 2022 Report
King & Shaxson Asset Management Limited		Declined to appear in 2022 Report
Momentum		Declined to appear in 2022 Report
Titan		Declined to appear in 2022 Report

*17 MPS providers did not respond to our request to complete the DDQs. We advised all providers beforehand that if we did not receive a completed DDQ, we would attempt to complete a DDQ on their behalf from publicly available data

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Appendix 3:

ESG Accord compliance framework & services

ESG Accord provides advice firms with an affordable and comprehensive packaged ESG & Sustainable compliance framework.

The combination of our specialist compliance framework and due diligence support helps advisers successfully identify client's ESG & Sustainability objectives and preferences and match the most appropriate funds/MPS to each client's ESG & Sustainability objectives and preferences. This results in a joined up suitability process.

Our framework spans client preferences across ALL funds (including those not promoted as ESG or Sustainable). We view the whole investment space as a spectrum.

We believe ESG & Sustainability is a best practice and suitability imperative. 'Good' compliance can give advisers peace of mind via independent, reportable & granular processes. Our compliance framework is designed to help advisers follow existing regulatory processes so they can rest assured that all advisers are handling ESG & Sustainability preferences and objectives in a standardised and reportable way in line with the PROD, COBS and Consumer Duty requirements. Firms signing up to ESG Accord also benefit from our regular regulatory updates in this fast moving space.

ESG Accord provides:

- Innovative ESG and Sustainable Finance compliance framework & consultancy services for Advice Firms, Networks, Nationals and Family Offices
- Independent industry reports:
 - ESG & Sustainable MPS Report - NOW LIVE
 - ESG & Sustainable Tax Efficient VCT/EIS/SEIS/BPR Report - ETA Q3 2022
 - ESG & Sustainable Multi-Asset Funds - To be confirmed Q4 2022
- Consultancy services, training & proposition development for Fund Groups, DFMs, VCTs and EIS

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