SDR: Investor and adviser awareness, understanding and expectations

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Quantitative research findings – Full report

13 February 2025

THE INVESTMENT ASSOCIATION

The Wisdom Council

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Background and objectives

The implementation of SDR, which affects both funds that qualify for a label and funds with sustainability characteristics which don't, creates challenges both for retail investors and advice firms alike as they navigate the labelling system.

In order to continue to support member firms with implementation, the IA needs to understand these challenges in more detail - what do retail investors and advice firms need to ensure they can make effective decisions on funds?

Building on TWC's findings from the retail investor workshop conducted in July 2024, this research project seeks to unpick the 'information gap' that member firms need to address to ensure consumer and adviser understanding of the SDR regime.

Specifically, we are looking to quantify levels of awareness and understanding of the new labelling regime and the barriers linked to effective communication, particularly of non-labelled funds.

Adviser research objectives

1. Understand adviser sentiment and gauge levels of awareness/preparedness
2. Understand use of labels and impact of SDR on recommendations into funds
3. Understand any barriers to talking to investors about non-labelled funds
4. Appetite for funds with sustainability characteristics
5. Explore adviser information/support needs

Retail investor research objectives

1. Understand levels of awareness around the labelling regime
2. Identify what information is critical for investors in the initial stages of their decision-making journey

Initially, we were also considering the following, but the detail explored in the survey did not allow questions of any depth in this area.

1. Test ways to communicate the:
   - Introduction of the regime
   - Differences between labelled and non-labelled funds
   - Core sustainability and responsible characteristics of the funds.

Considerations underpinning survey design

This report should be read with the following in mind:

- **The focus of the research was to understand awareness and needs among investors open to sustainable investing at some level** (the target audience for the new labelling system).
  Experience tells us that feedback from highly-sceptical retail investors who would never consider sustainable investing is low quality, so this cohort was excluded. While they have tended to account for a small proportion of investors, this does mean that the sample is not wholly reflective of the wider retail investor base.
- **Similarly, we wanted to target advisers with at least some clients with sustainability or ethical preferences.**
  Given the wide availability of sustainable/ethical investment options and that most firms have ESG considerations built into advice processes, we did not consider this to be a limiting factor in building a representative cohort of advisers. There may, however, be a degree of completion bias, which could mean that the overall appeal of sustainability investing is magnified.
- **Please note that questions to advisers were designed to elicit views on awareness of the SDR labelling system and use of funds.**
  We did not set out to explore in any detail attitudes to sustainable portfolios (e.g. MPS) or the role of sustainability considerations in the advice process.

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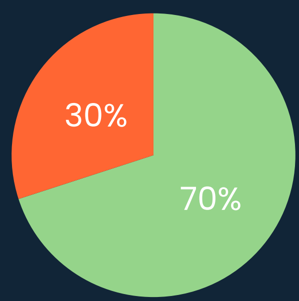
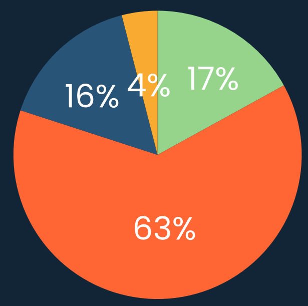
Adviser survey
Methodology and sample

TWC ran a 34-question survey (c.10 min) gathering 261 responses from UK financial advisers who have clients invested in sustainable, ESG, ethical or responsible funds.

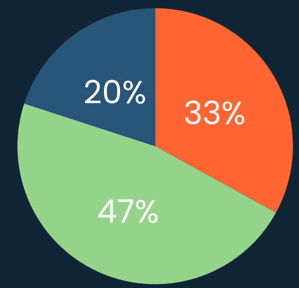
Gender



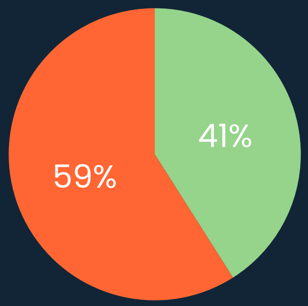
Age



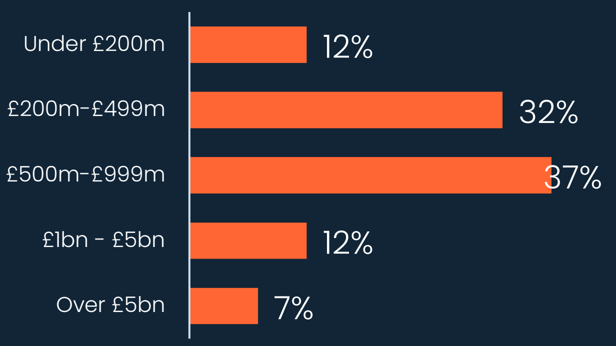
Tenure



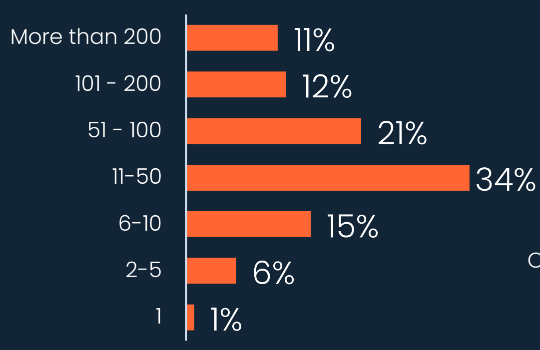
Clients with responsible funds



Firm's AUM



Firm's Size (Nº advisers)



Primary Investment Proposition 1st

- The survey was in the field for 1.5 weeks from 10th to 23rd Dec 2024
- Screened out: Those working as financial advisers for less than 2 years
- 100% of advisers in this survey offer investment advice to clients

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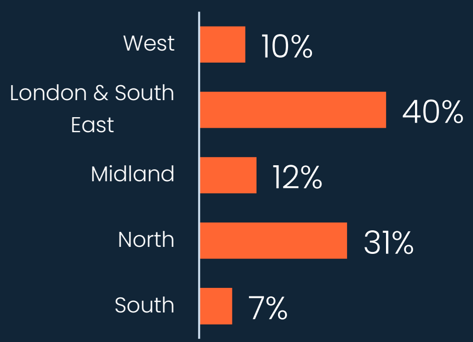
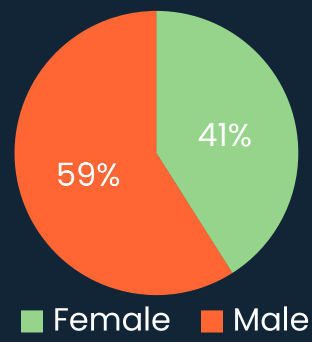
Retail investor survey
Methodology and sample

TWC ran a 29-question survey (c.10 min) gathering 1081 responses from UK retail investors with a propensity to invest sustainably (Responsible Investor segments 1-5).

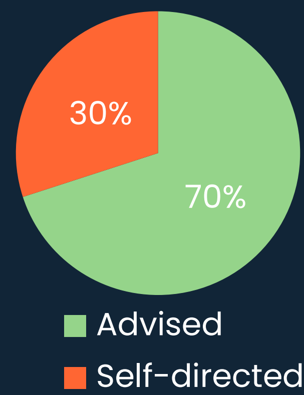
Region



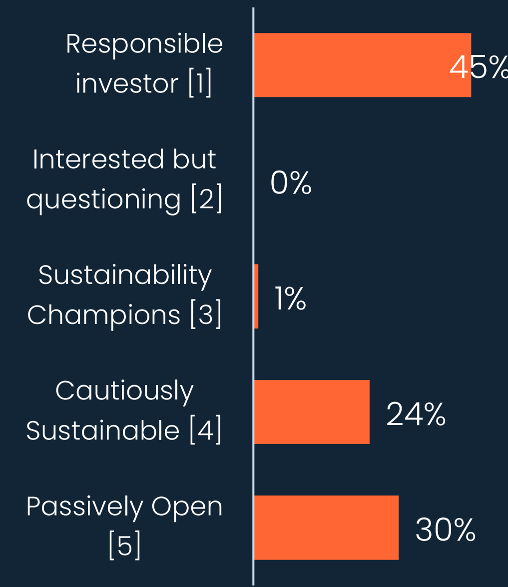
Gender



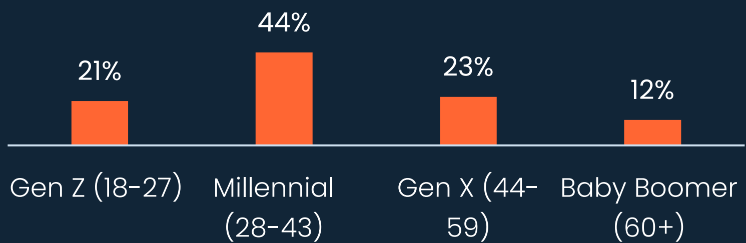
Advise Type



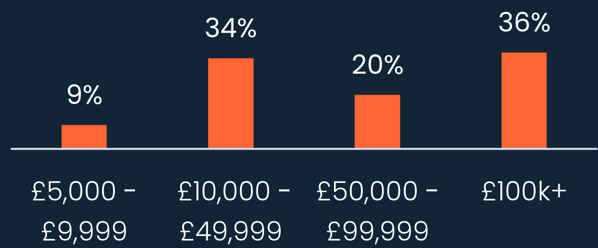
RI Segmentation*



Age



Investible Assets



	1	2	3	4	5
Gen Z	16%	25%	11%	19%	30%
Millennial	42%	50%	67%	45%	47%
Gen X	25%	25%	22%	25%	16%
Baby Boomer	16%	0%	0%	11%	6%
Mean	42.7	32.8	37.8	40.8	36.0

- The survey was in the field for 1.5 weeks from 11th to 23rd Dec 2024
- Screened out: RI segment 6 i.e. those consciously negative toward RI products

*Participants were profiled using TWC's proprietary Responsible Investor segmentation model. See appendix for details

Key findings

High level of SDR awareness and expected utility – and high tolerance for name changes

- Adviser **awareness of SDR and disclosure was high** as you would hope at this stage, with 77% of advisers confident they understand enough about the labels to choose funds appropriate to their clients' sustainable preferences – but **there are mixed levels of understanding of the SDR rules**, notably confusion around classification of ethical and index funds, the FCA's role in monitoring the regime and requirements for CFD's.
- The majority of **retail investors were aware of the labelling system** via their adviser or online investment service and 94% said they would find the labelling system helpful.
- **Most advisers expect to use the new labels to guide fund selection** for clients and expect to be able to screen by label on platforms, though they do not rule out using non-labelled funds if they meet client needs.
- **Advisers expect to use 'Sustainability Mixed Goals' the most** – possibly driven by heavy use of multi asset funds and MPS. 'Impact' also scores well.

Name changes won't necessarily trigger sales

- **Only 6% of retail investors would sell their fund if it didn't qualify for a sustainability label**, though non-labelled funds do trigger the need for more information to allay potential concerns around greenwashing.
- There is a higher percentage **of advisers (1 in 5) who would sell or switch if a fund didn't qualify for a label.**

Appetite for detail among investors and advisers – but without the jargon

- There is **mixed confidence around core sustainable terminology among advisers and investors**. Some niche terms are less surprising, but broader concepts like 'stewardship' were also flagged.
- **Retail investors** expect to go to fund management company websites for fund information, search online or (interestingly) they'd check with the FCA. They **want to know: how their money will be invested and to what end (in simple terms) before taking a decision, and ideally want to see real-life examples of how the fund makes a difference.**
- **Vague words, jargon and a lack of detail create barriers** - similar to findings from our investor workshop, very few have heard of concepts like 'Positive Tilt' or 'Paris-aligned'. The added challenge is that these are also concepts that advisers are less confident explaining.
- Advisers want to see fund factsheets covering key characteristics, the assets a fund will/won't invest in, metrics, goals, policy and strategy. Primary sources of information on funds without a label would be B2B platforms, CFDs and rating agencies. However, **advisers also expect fund providers to do more to help them improve their knowledge**, and to give clearer explanations of sustainable characteristics, in particular for non-labelled funds. **There seems to be an assumption that it will be relatively easy to find details on non-labelled funds.**

Poor relative performance taking the edge off appetite for sustainable investing

- Most **advisers expect to use the new labels to guide fund selection** for clients and expect platforms to use the labels so they can screen for qualified funds – **but do not rule out using non-labelled funds** that meet client needs. The majority of advisers agree the labels are helpful for choosing funds and explaining them to clients (though some feel it has added complexity).
- **Nearly half of advisers 'always' speak to clients about sustainability**, and **92% of advisers see an increased appetite** for sustainable investing from investors. **However, the final decision on whether or not to invest in sustainable solutions comes down to return** – a significant consideration even for those retail investors who are committed to investing sustainably.
- Anecdotally, this focus on returns and investment performance has been heightened by:
    1) Inflation expectations and
    2) Consumer Duty and the emphasis on client outcomes.

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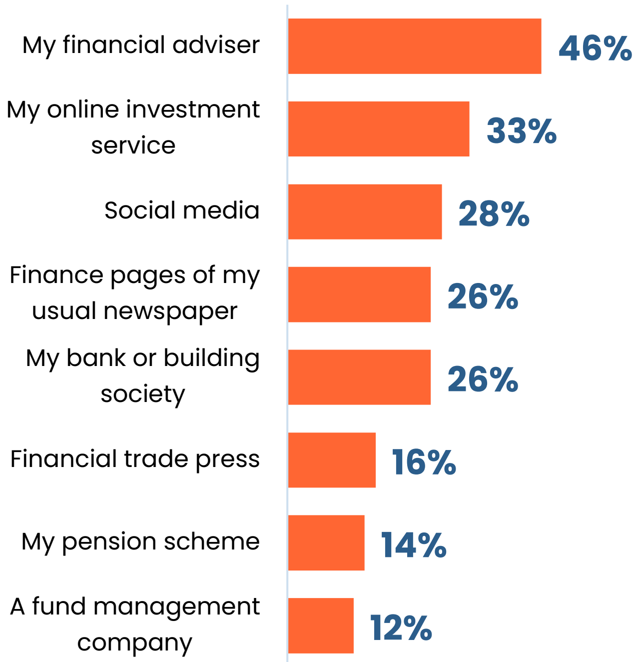
Findings in detail: Retail investors

Reasonable awareness of SDR among investors - largely via their adviser or online investment service

Said **they are** aware of the FCA introducing a labelling system for sustainable investment funds.

Heard about it from….



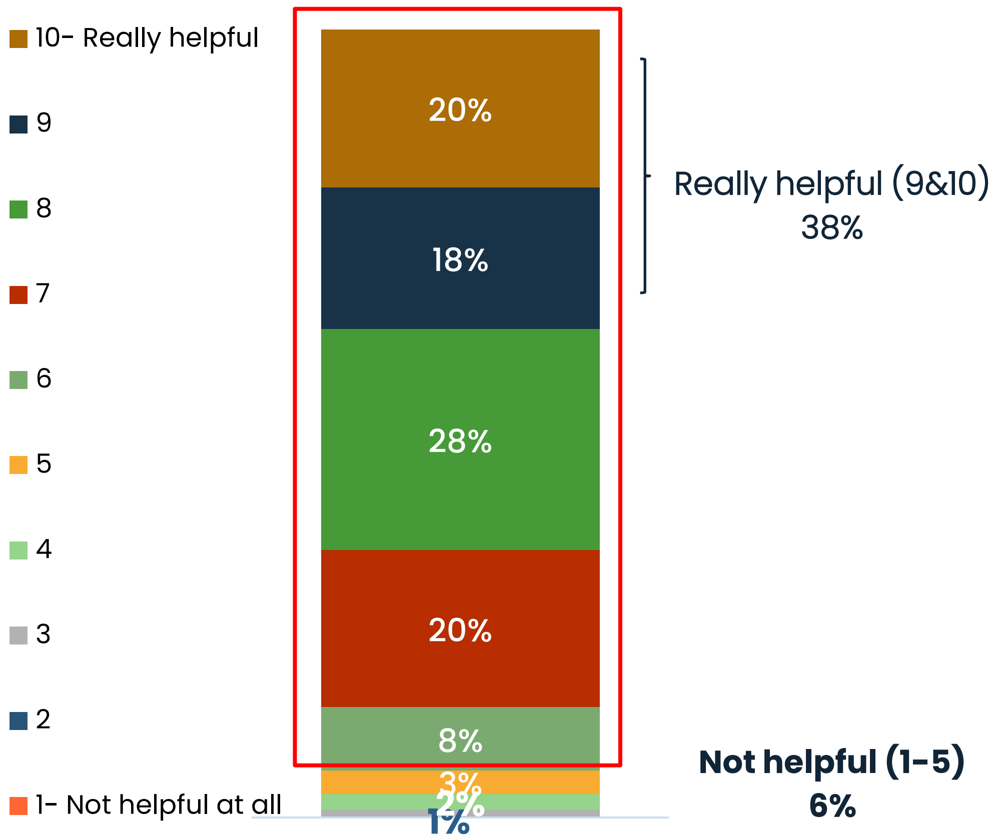
- Those more aware of the labels tend to be younger (63% Gen Z and 63% Millennials v 34% GenX and 26% Boomers), advised (62% v 29%) with high levels of investing confidence, experience and risk appetite (70% high, 14% low risk appetite).
- Social media also counts as a key information source for younger groups (30%+) while baby boomers acquire label regime information mainly from their bank or building society (39%).

Q8. AWARENESS - " Were you previously aware that the financial regulator (the FCA) is introducing a labelling system for sustainable investment funds?" n = 1080 ('Yes' n = 559)

 Q9. LABELLING SYSTEM INFORMATION SOURCE - "How did you hear about it?" n = 559

94% of investors said they would find the labelling system helpful to some degree

Helpfulness



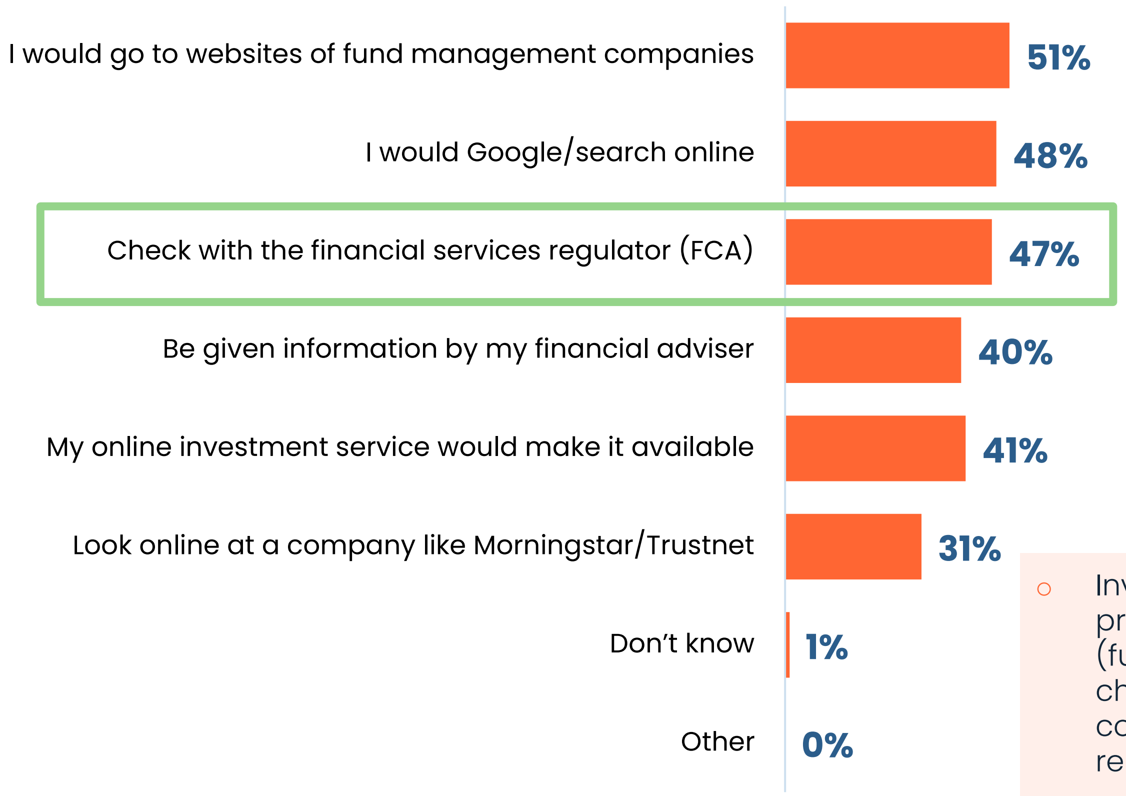
- 41% of investors who said they were previously aware of the labels, think they are really helpful (9&10).

- Millennials & Gen X with high-risk appetite, £100k+ Investible Assets and high levels of investment experience and confidence tend to think the labels are really helpful (9&10).
  - 42% Millennial, 40% Gen X vs. 27% Gen Z & 34% Boomers
  - £100K+ assets 51%
  - High risk appetite 61%

Q10. HELPFULNESS - How helpful do you think these labels are for an investor like you? n = 1080

Investors looking for detail would: go to provider websites, search online or check with the FCA

Where investors expect to find fund information



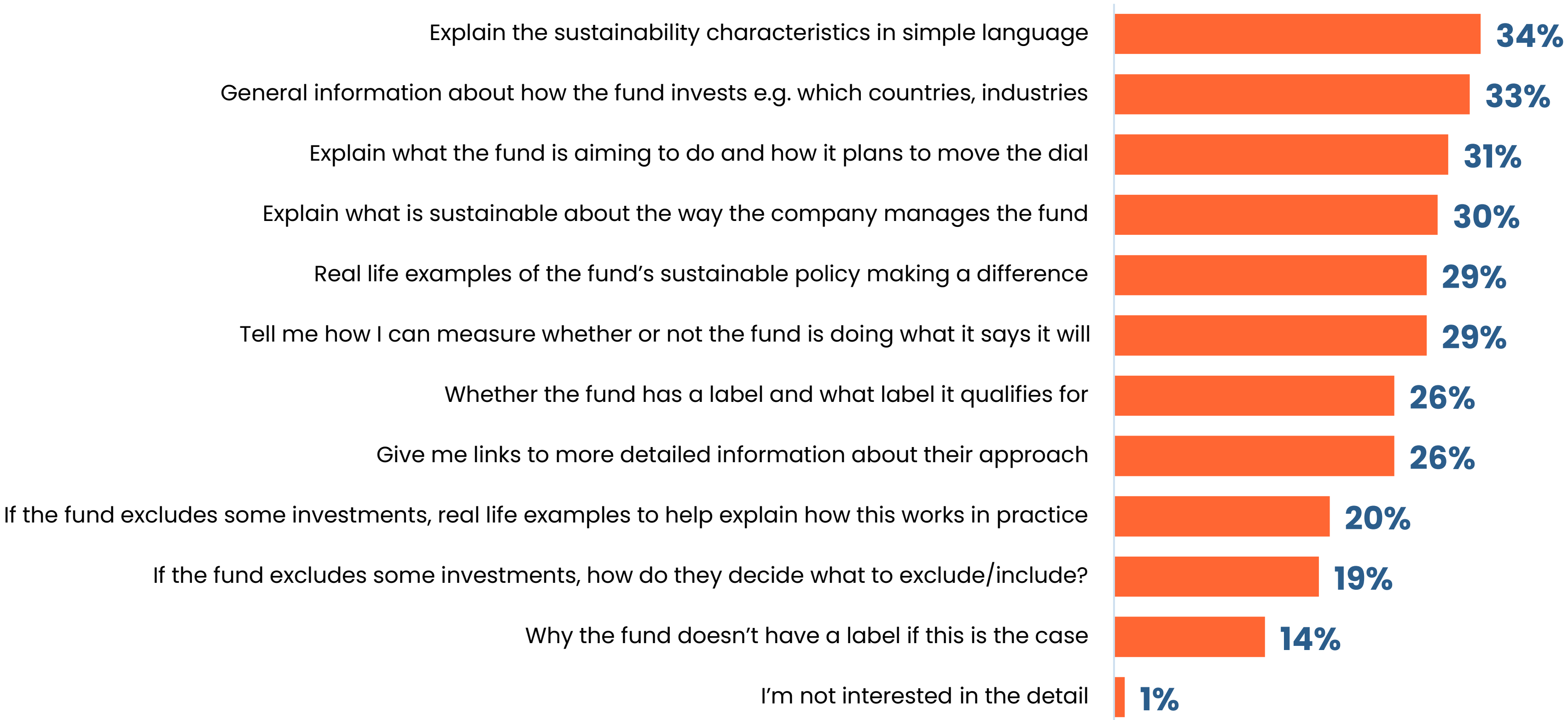
- Female investors are more likely to check with the FCA (51% vs. 45%)
- Investors with limited assets and lower risk appetite rely on Google and online search (60% & 59%).
- Younger cohorts look to Morningstar/Trustnet – third party sources

- Investors who find the labels helpful prefer professional information channels (fund management websites and checking with the FCA), while those who consider the labels less helpful mainly rely on Google/search online.

Q15. SUSTAINABLE INFORMATION SOURCE – "Funds that invest in assets (e.g. company shares, property) with sustainable traits or features that contribute to long-term environmental and social goals have to provide details on how they go about this. How would you expect to find out this information?" n = 1080

Show don't tell: investors want to understand how the funds work and how to measure success (reinforcing our workshop findings)

3 most important things to understand about sustainable characteristics before investors buy

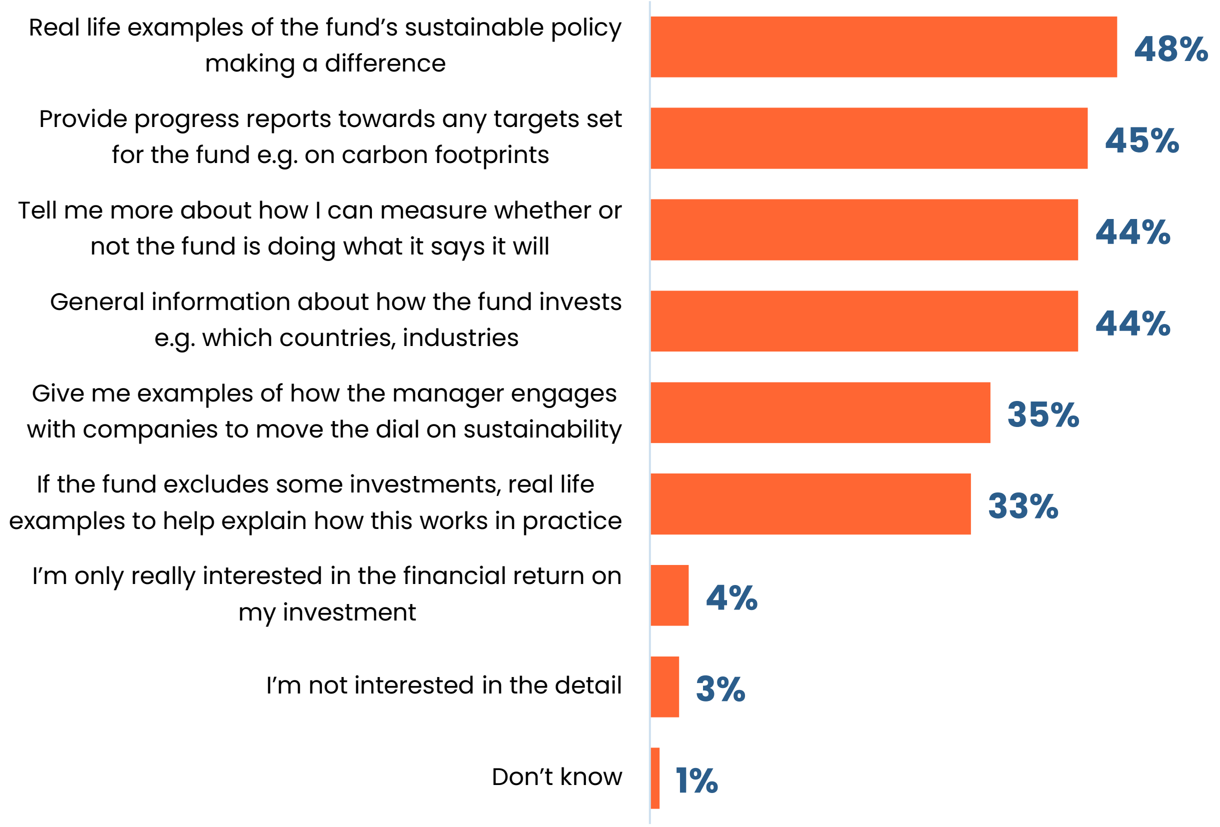


- Explaining sustainability characteristics in simple language is particularly important for respondents with low levels of experience and confidence making investment decisions on their own.
- For investors who find the labels less helpful, how to measure success is particularly important (47% vs. 27%), as well as real life examples if the fund excludes some investments (28% vs. 19%).

Q13. TOP 3 SUSTAINABILITY CHARACTERISTICS - If you were considering investing in a fund in the future, what are the 3 most important things to understand before you buy when it comes to the sustainability characteristics? n = 1080

Show don't tell: investors want real life examples to support statements and progress reports

The kind of information investors want to see once invested

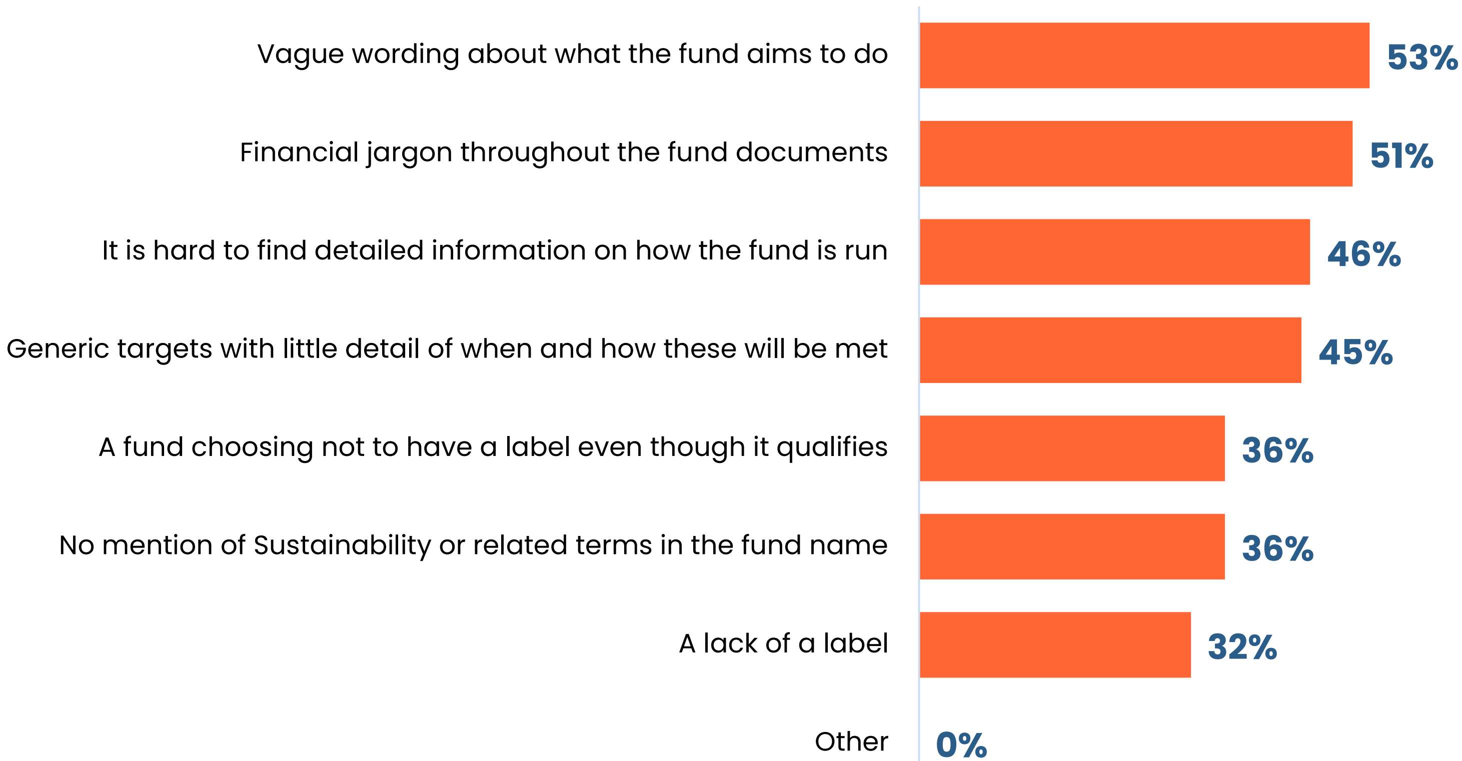


- Understanding progress towards targets and measures of success are important to investors, particularly for Gen X.
- The importance of metrics was a key finding from the workshop phase of this project.

Q16. INFO AND DETAIL EXPECTED – "What kind of detail do you think you would want to see once you had invested in a sustainable fund?" n = 1080

Vague language, jargon and a lack of detail create barriers for investors

Top 3 things most off putting when researching which fund to buy



- Self directed investors, as well as investors with low levels of experience and confidence, find vague words and jargon particularly off putting.

- The younger the investor, the more put off they are by difficulty finding detailed information on how the fund is run

- For investors who find the labels helpful, 'No mention of Sustainability or related terms in the fund name', 'A lack of a label' are the most off-putting factors (40% vs. 28%, 34% vs. 17%)

Q14. TOP 3 MOST OFF PUTTING – "If you were considering investing in a fund (i.e. before you buy), what 3 things would you find most off-putting when researching which fund to buy?" n = 1080

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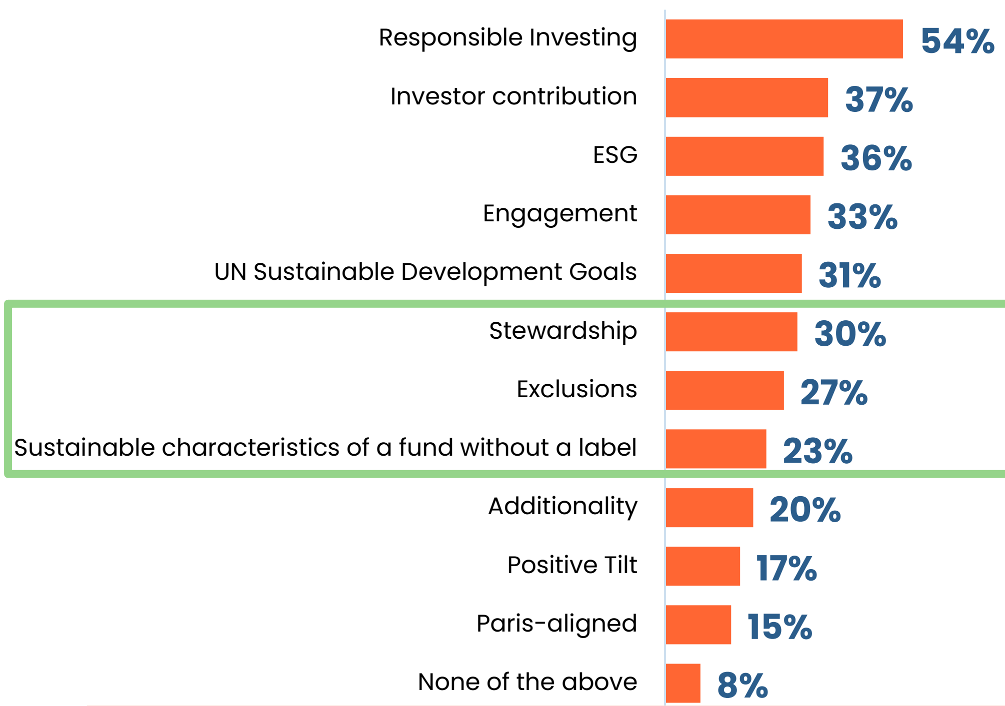
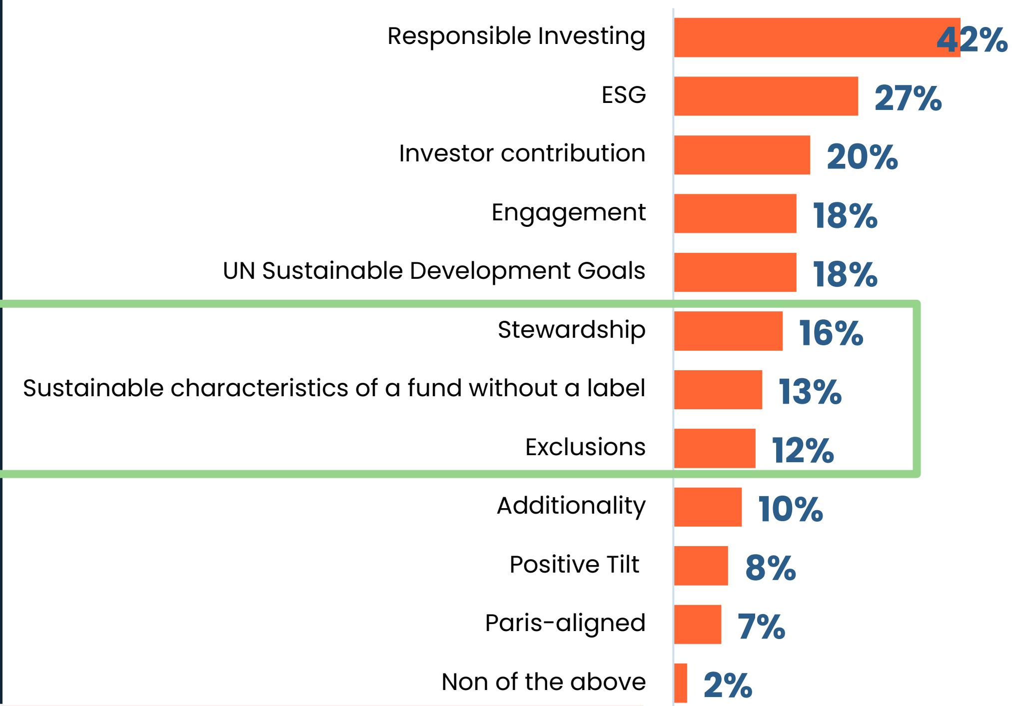
Awareness of key concepts is low and falls as language becomes more specialist

Concepts Awareness - Investors



Concept Importance - Investors



- Females are less aware of these concepts compared to males, particularly ESG (42% vs. 27%).
- Awareness increases among younger investors across all concepts.

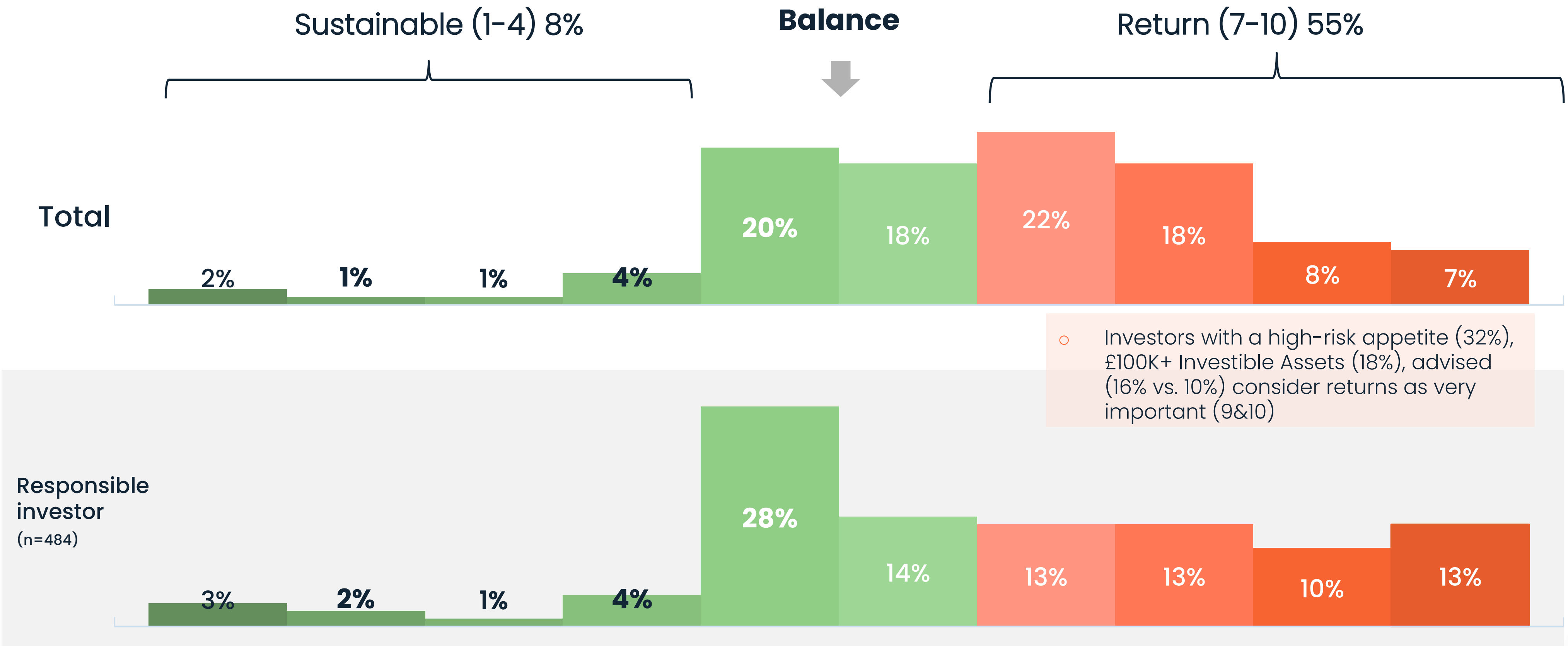
Advisers also flagged a lack of confidence in explaining the terms within the highlight box above, including (perhaps surprisingly) 'exclusions' and 'stewardship'.

Q19. CONCEPT AWARENESS - Have you ever seen or heard of these concepts before? n = 1080

Q20. CONCEPT IMPORTANCE – (Subset: Of the concepts selected in Q19) Which of the following concepts do you feel are important for you to understand when deciding how and when to invest or to make changes to your savings and investments?

Ultimately, returns are more important than sustainable aims for most investors

Sustainability vs Returns



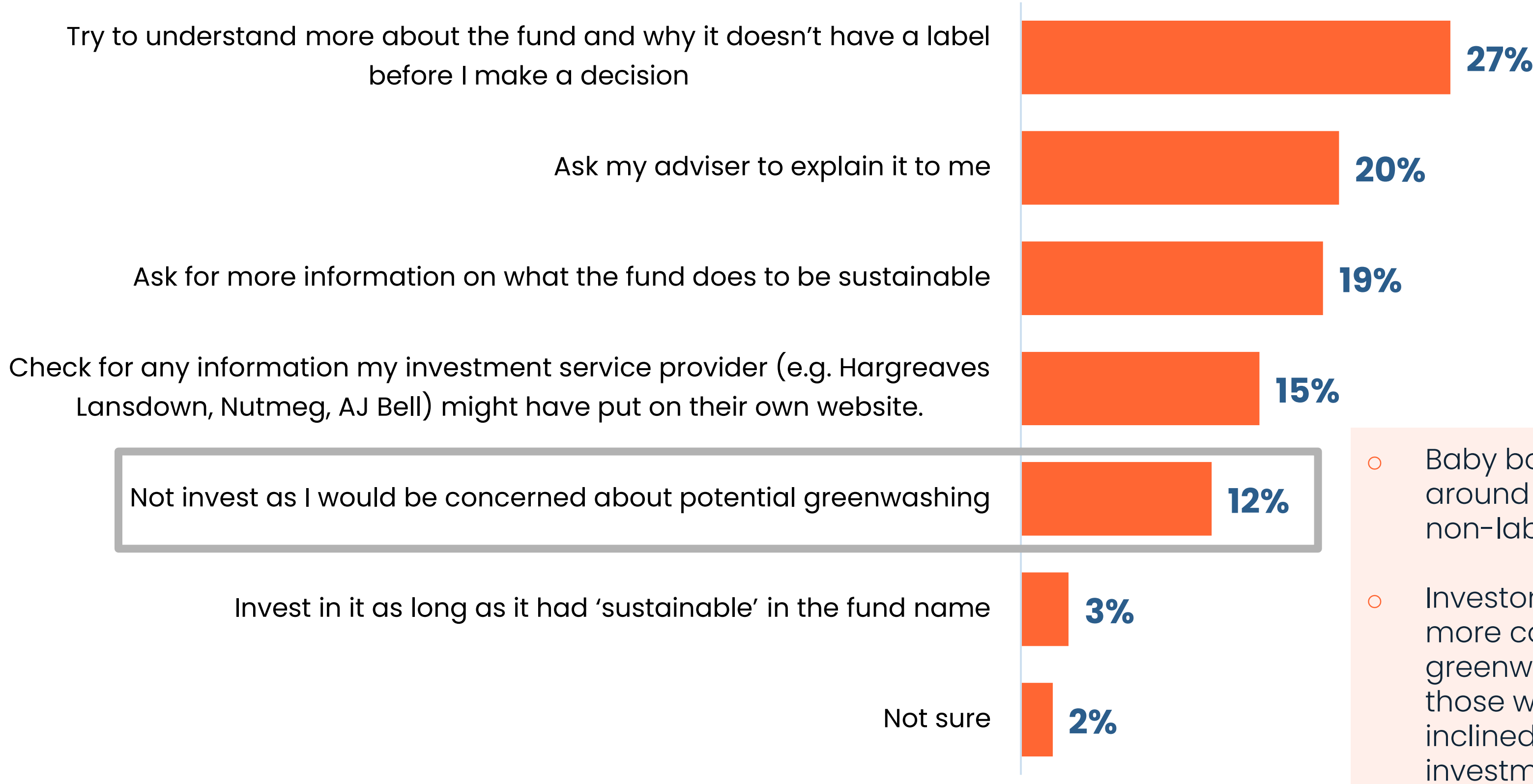
- Investors with a high-risk appetite (32%), £100K+ Investible Assets (18%), advised (16% vs. 10%) consider returns as very important (9&10)

Q12. SUSTAINABILITY VS RETURNS - “Sustainable funds are designed to balance two aims: meet a sustainable goal, deliver a financial return . Considering how important these two factors are to you when choosing a sustainable fund, where would you put yourself on the scale?” n = 1080

Any non-labelled funds trigger the need for more information, but just 1 in 10 expressed concerns about greenwashing

We tested investor reaction to the OFR statement on factsheets:

"This fund is not subject to the UK sustainability disclosure and labelling regime "

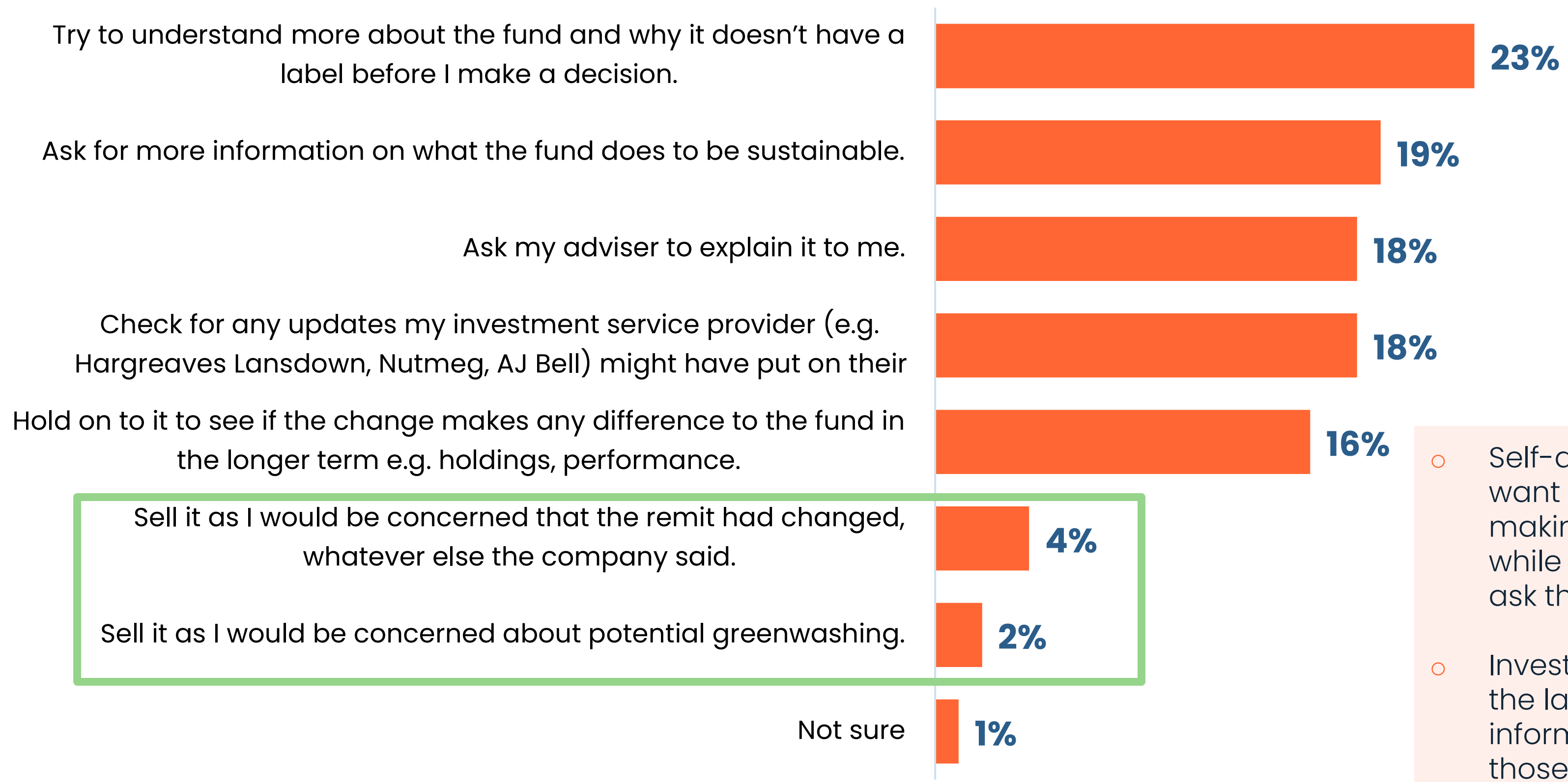


- Baby boomers have more concerns around greenwashing (29%) with non-labelled funds.
- Investors not aware of the labels are more concerned about greenwashing (16% vs. 9%), while those who are aware are more inclined to check with their investment service provider.

Q17. Statement reaction – You are thinking about investing in a fund that considers environmental or social issues in the way it invests. You read the fund factsheet and there is no sustainability label. You see the following wording on the factsheet: "This fund is not subject to the UK sustainability disclosure and labelling regime". What would be your reaction to this statement? n = 1080

Only 6% of investors would sell their fund if it didn't qualify for a label

Investors' response if a fund removes 'sustainable' from its name because it has not met new criteria



- Self-directed investors tend to want to understand more before making decision (32% vs. 19%) while advised investors prefer to ask their advisers (21% vs. 10%)
- Investors who are not aware of the labels would ask for more information (28% vs. 17%) whereas those aware of them are more inclined to sell (8% vs. 3%).

Q11. RESPONSE TO NAME CHANGE - "If you hold a sustainable fund that has not met the new criteria for a label, it may need to change its name to meet the new rules." n = 1080

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Findings in detail: Advisers

Adviser awareness of the labelling regime is high - but with some confusion over details

Labelling regime awareness

86%

Say they are aware of the FCA's new labelling regime.

CFD Awareness

89%

Are aware of the 'Consumer Facing Disclosure' document.

CFDs are expected to be made available for:

All funds with sustainability characteristics, **whether or not they have a label**	63%
Funds **without labels only** to support understanding	18%
Funds **with** labels only	14%
Not sure	5%

- Advisers with more experience have higher levels of awareness of:
  - Labelling regime: Tenure over 5 years, 90%+ vs. 2-5 years 74%
  - CFD: Tenure 5 years+ 90%+ vs. 2-5 years 80%

Q17. LABEL AWARENESS - Are you aware of the labelling regime that has been introduced by the FCA for sustainable funds (SDR)? n = 261
Q18. CFD AWARENESS - Are you aware that there is an additional disclosure document for funds with sustainable characteristics, n = 261
Q19. FUNDS WITH CFDs - Do you expect CFDs to be made available for: called a 'Consumer Facing Disclosure' [CFD] document? n = 232

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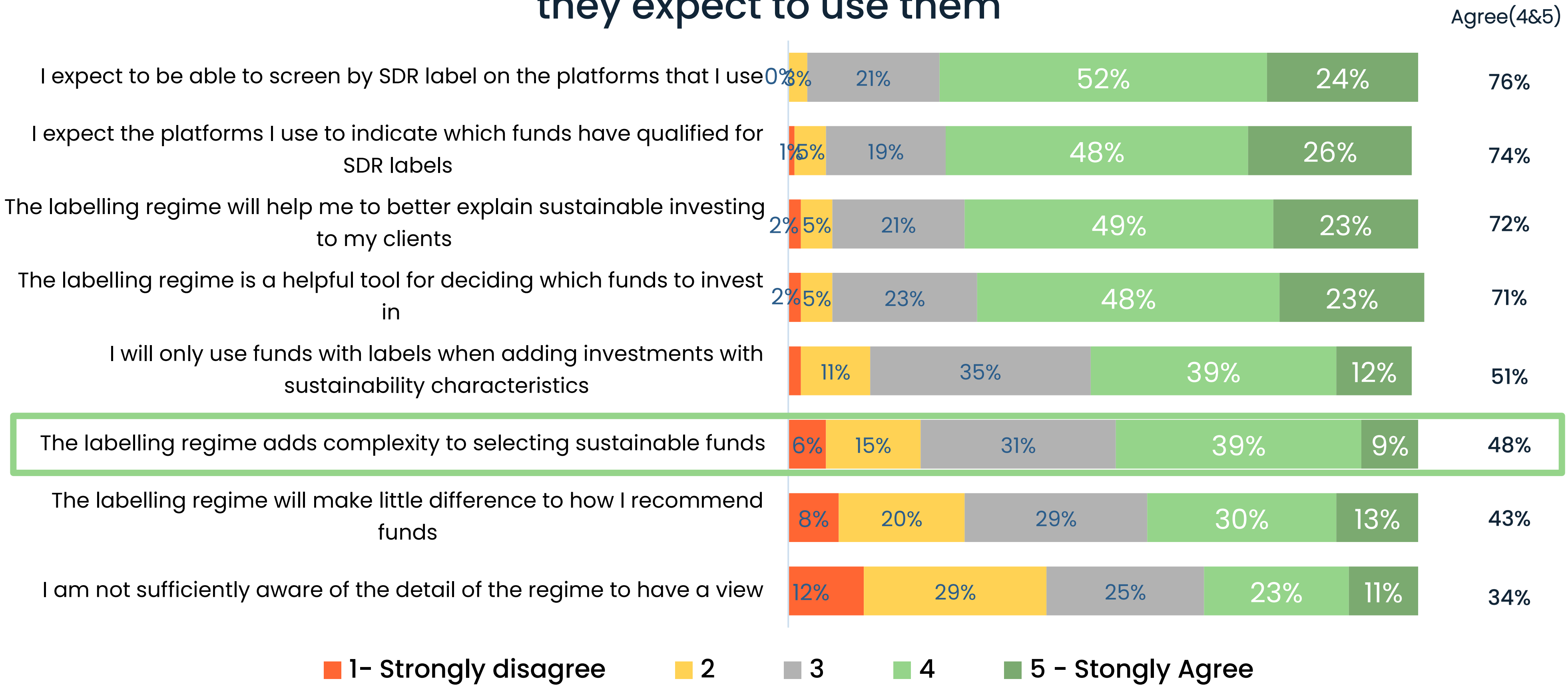
The majority of advisers expect to be able to screen by label and see the regime as helpful in fund selection, though around 1 in 2 feel it adds complexity

Adviser's attitudes to SDR labels and how they expect to use them



○ 48% of advisers agree that the regime adds complexity to selecting sustainable funds

Q24. PERCEPTIONS OF REGIME - "On a 5-point scale, where 1 is strongly disagree and 5 is strongly agree, please indicate the extent to which you agree/disagree with these statements:" n = 261

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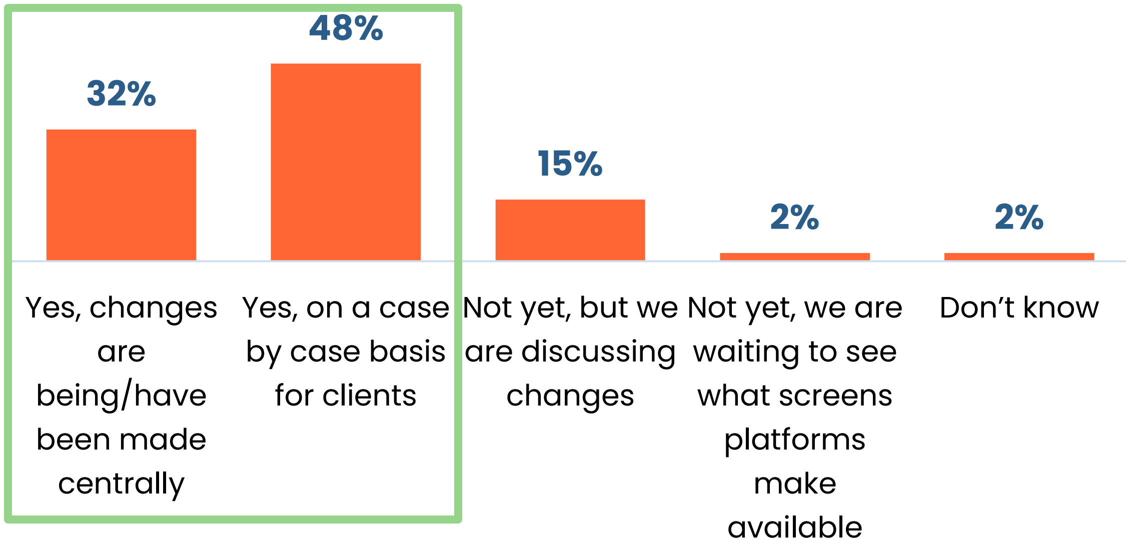
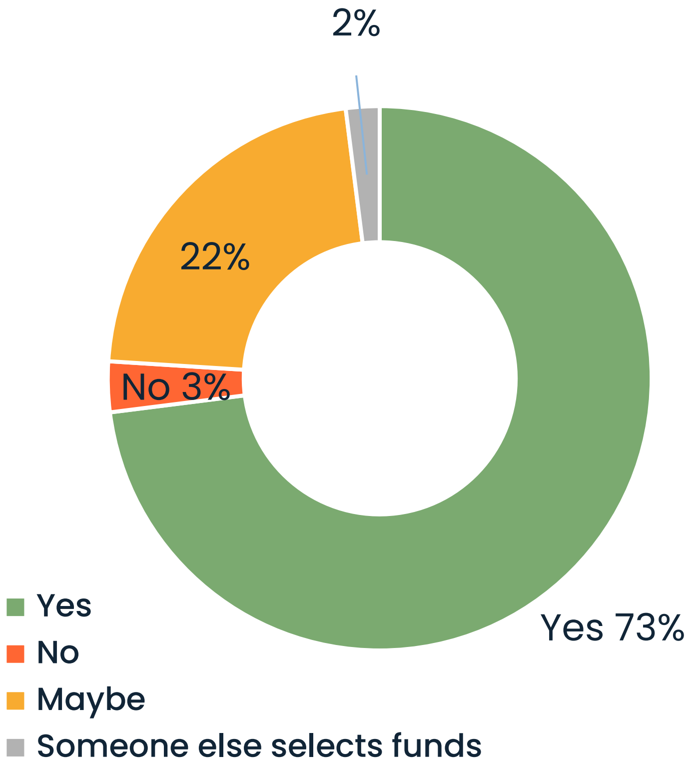
Most advisers expect to use the new labels to *guide* fund selection for clients

Changes made to the universe of sustainable funds that can be recommended to clients



Expected usage of labels to guide fund selection for clients



- Advisers from larger firms see more changes being made to what funds they can recommend (firms with AUM over £1bn-£5bn 87% , size 100+ advisers 91%+ on 'Yes') and they expect to use the labels to guide fund selection (81%).

Q21. IMPACT OF SDR - Has your firm made changes to the universe of sustainable funds that you can recommend to clients on the back of SDR? n = 261
Q22. LABELS USAGE - Do you expect to use the new labels to guide selection of funds for client portfolios? n = 261

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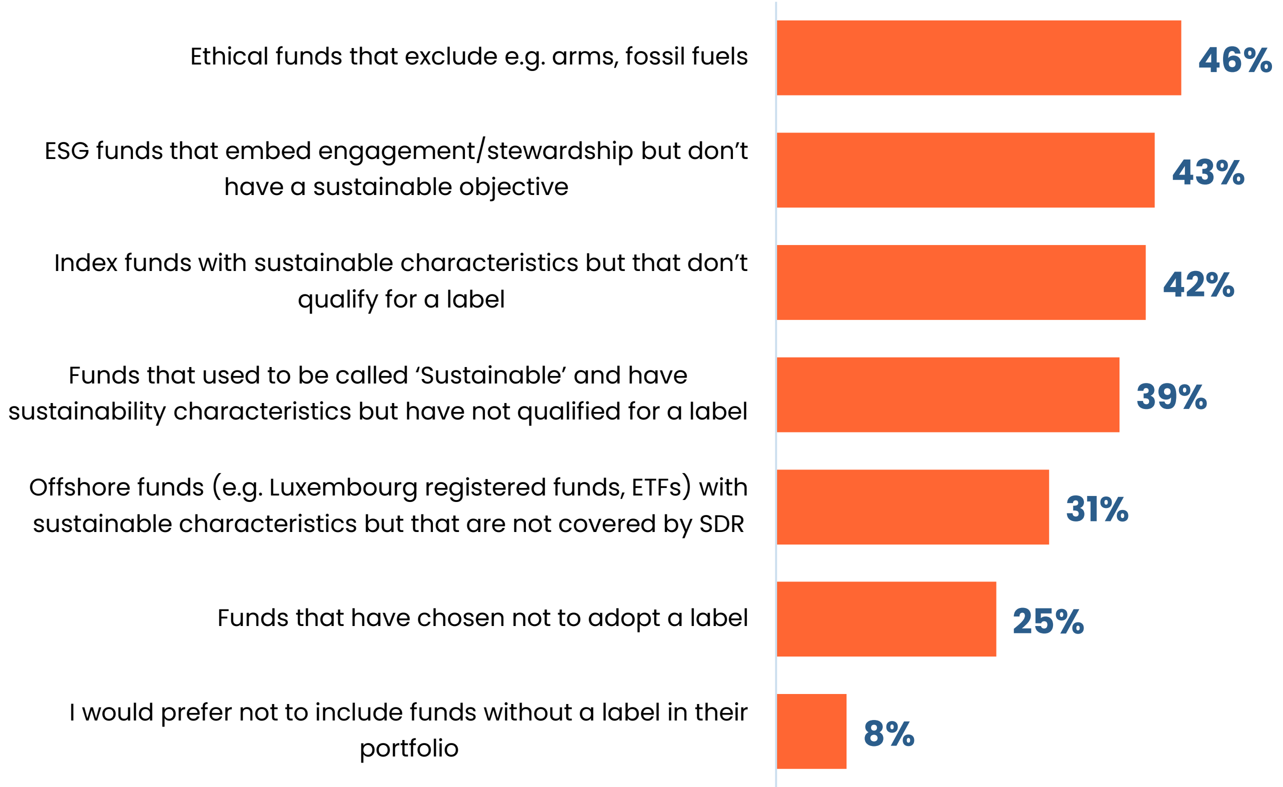
But would still consider including funds that don't qualify for a label…

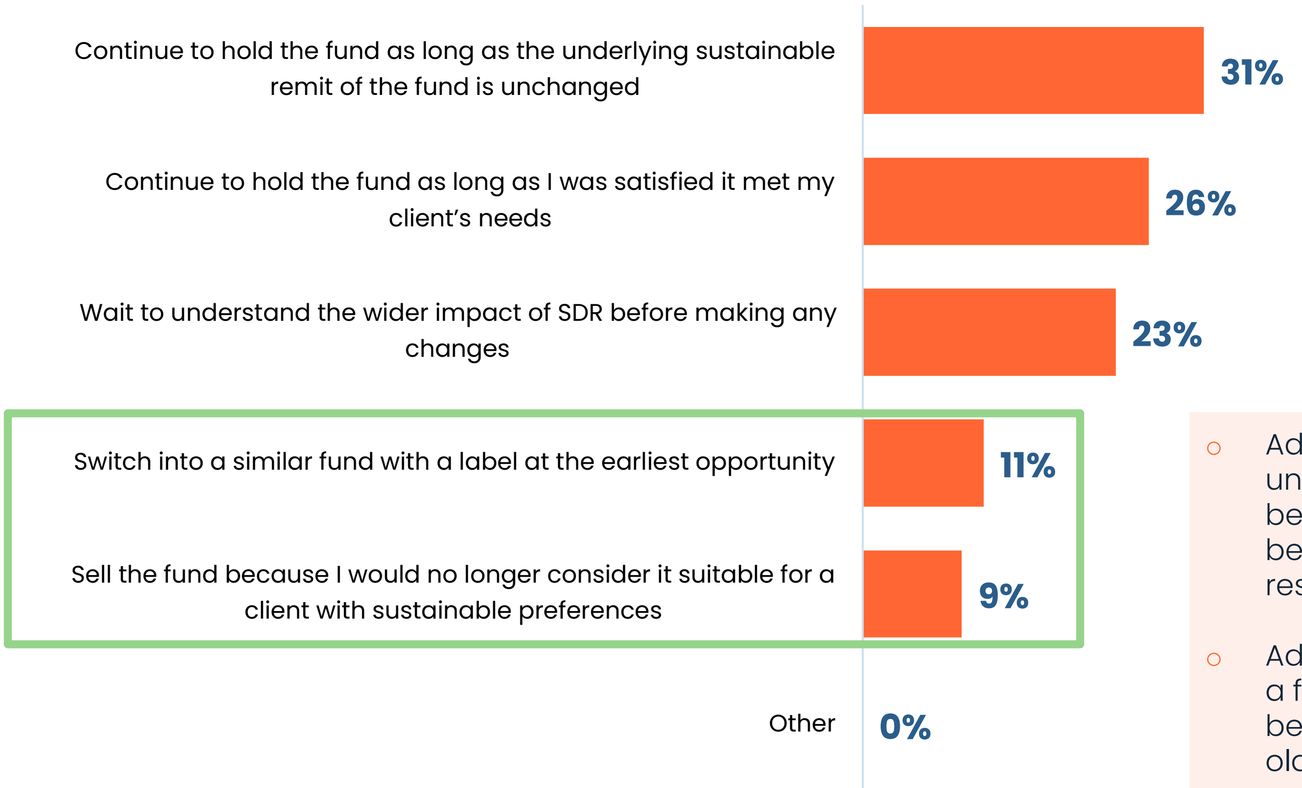
Funds advisers consider suitable for inclusion in sustainable portfolios



Q28. SUSTAINABLE PORTFOLIO COMPOSITION - Looking at funds that don't get a label, which of these types of funds would you still consider suitable for inclusion in a portfolio for a client with sustainable preferences? n = 261

1 in 5 advisers would sell or switch if a fund didn't qualify for a label

Adviser's response if a fund removes 'sustainable' from its name

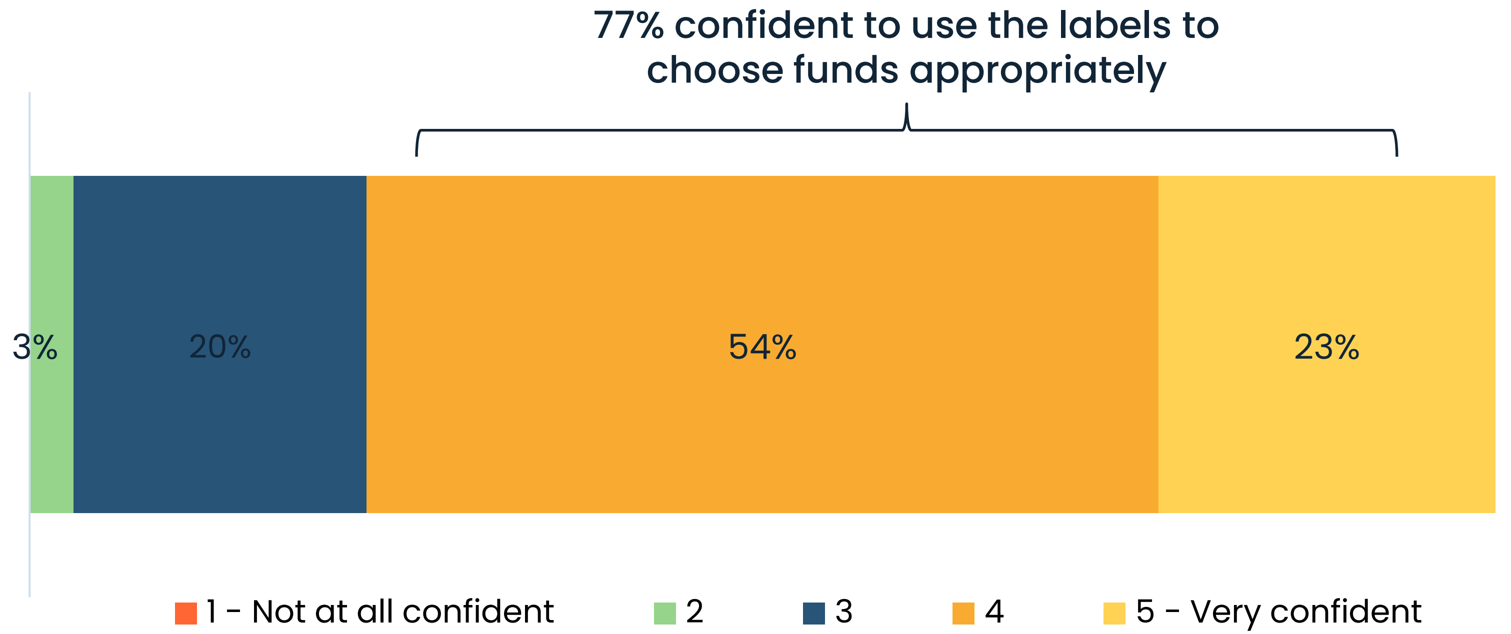


- Advisers who selected 'Wait to understand the wider impact of SDR before making any changes' tend to be less experienced (29% Top 1 response).
- Advisers who selected sell or switch if a fund didn't qualify for a label tend to be more female (32% vs. 15%) and older (33%).

Q27. FUND NAME CHANGES - Thinking about your clients with sustainable preferences, if a fund removes the word sustainable from its name, what would you expect to do as a result? n = 261

77% of advisers are confident they understand enough to choose funds appropriate to their clients' sustainability preferences

Advisers confident in their understanding of the labels

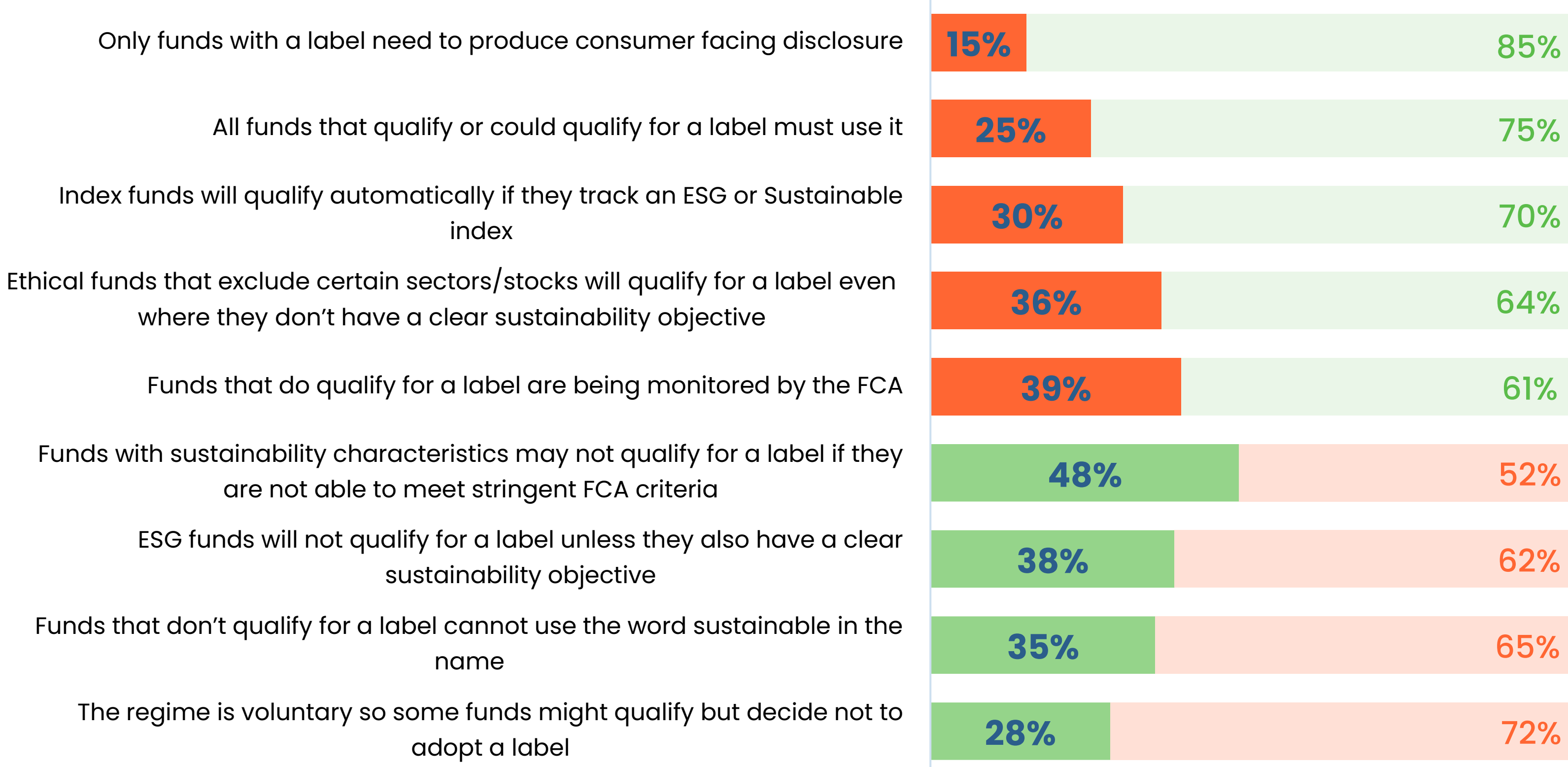


- Advisers who feel confident in their understanding of the labels tend to be more male (81% vs. 68%) from larger firms with AUM over £1bn (94%) and employ 50+ advisers (85%).

Q25_1. CONFIDENCE IN UNDERSTANING - On a 5-point scale, where 1 is not at all confident and 5 is very confident, how confident are you that your current understanding of the labels would allow you to choose appropriately for a client with sustainable preferences? n = 261

However, there is still some confusion around what exactly SDR will mean for funds and disclosures

We created a series of statements about SDR – some false, some true – and asked advisers to select those statements that accurately reflected the SDR regime.



% of advisers who incorrectly selected these false statements (LHS)

(and balancing % who were right not to select this statement)

% of advisers who correctly selected these true statements (LHS)

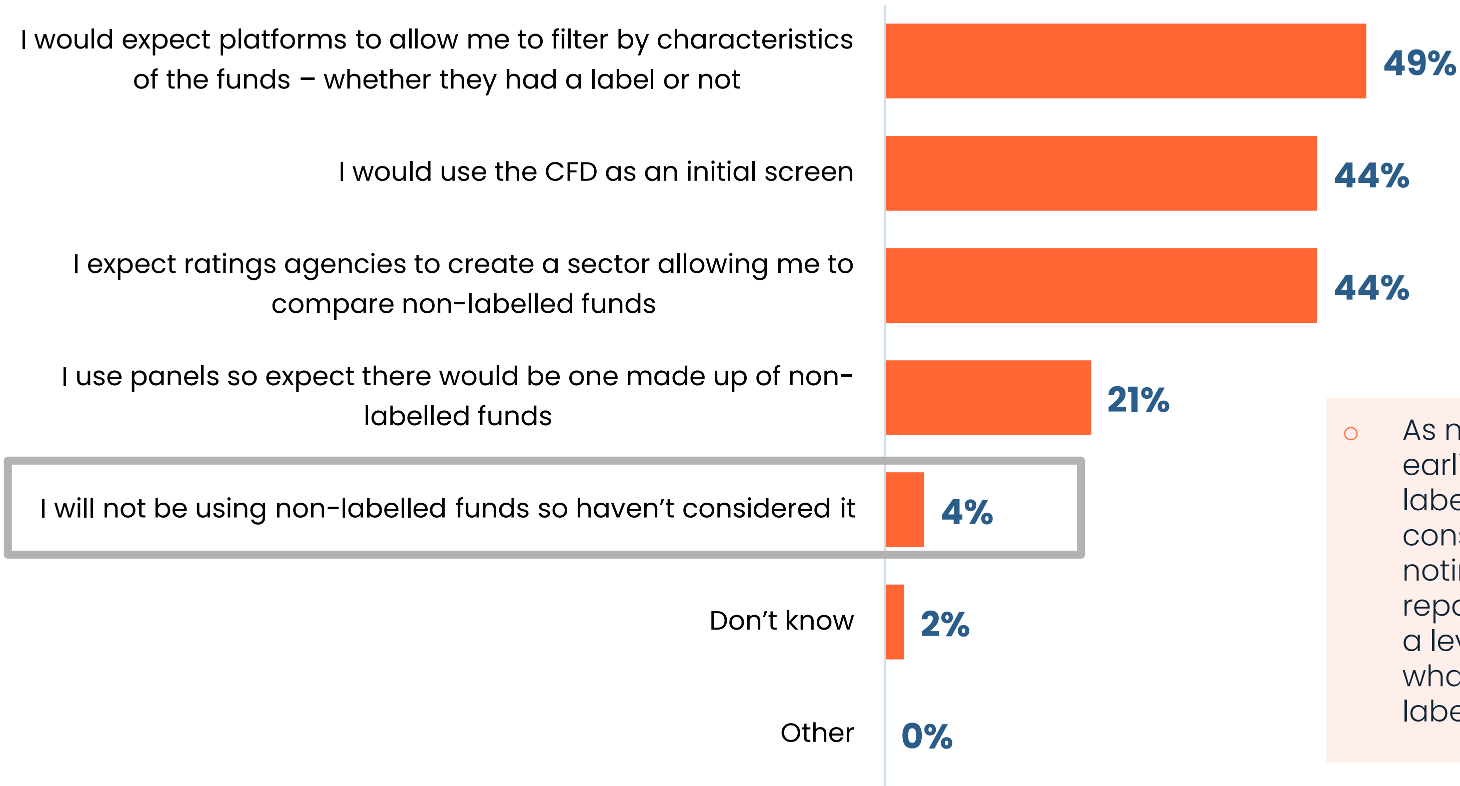
(and balancing % who – incorrectly – did not select them)

Q23. UNDERSTANDING OF REGIME - Select those statements that you believe are correct and that accurately reflect your understanding of the SDR rules. n = 261

LHS refers to the Left Hand Side of the chart

Primary sources of information on funds without a label are mainly platforms, CFDs and rating agencies

Looking at sources that advisers expect to use, there seems to be an assumption that details on non-labelled funds will be readily available – and that they will be able to filter or sort by characteristics at some level

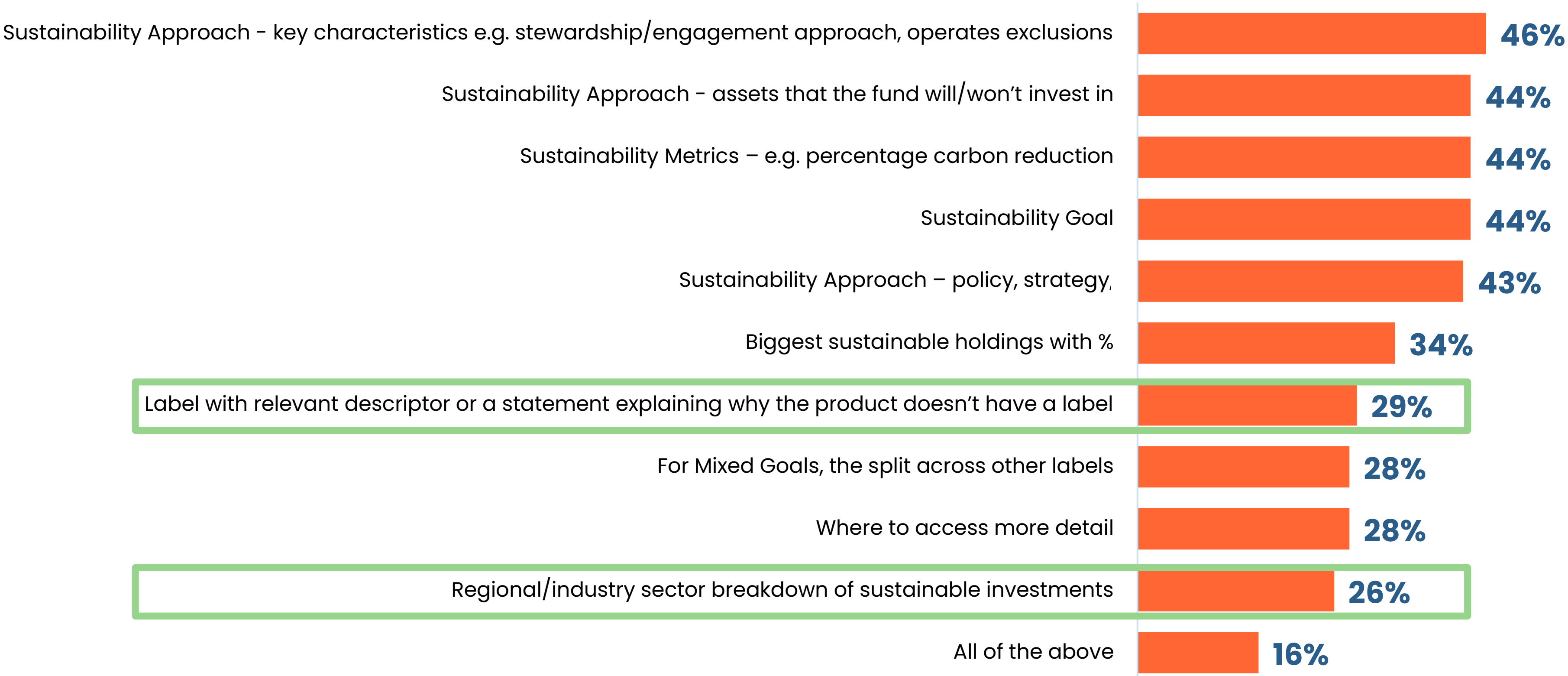


- As noted in responses from earlier questions, non-labelled funds are likely to be considered – it is worth noting, however, that our report findings also highlight a level of confusion about what kinds of funds will get labels under the system

Q29. NON LABELLED FUND INFORMATION SOURCES - If you were to include funds with sustainability characteristics but no label in a portfolio, what would you expect your primary source to be for researching these funds? n = 261

Advisers want to see fund factsheets covering key characteristics in detail

What matters most to advisers using sustainable fund factsheets with clients

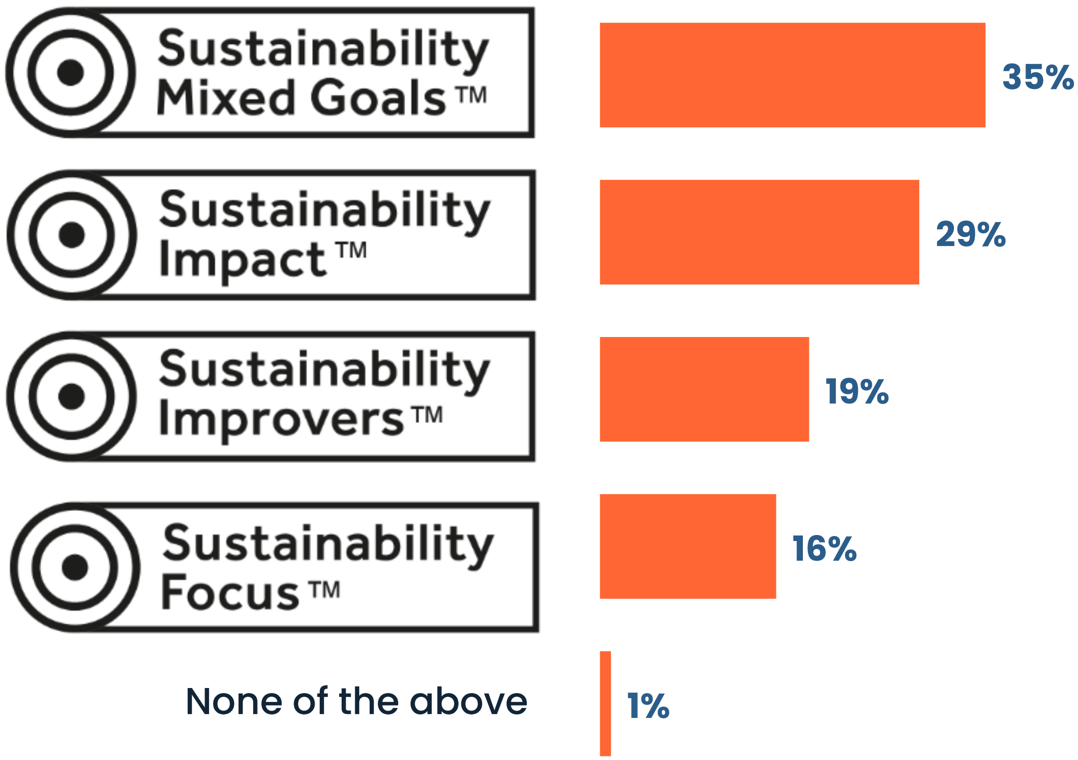


Investors seem to value general information more, and label rationale less – see slides 15&16 (though the questions were not framed in exactly the same way)

Q20. FACTSHEET ADDITIONS - Although they are not covered by the regulation, given that factsheets are often used with clients, what information would you want to see on a fund factsheet. N=261

Advisers see appeal in 'Mixed Goals' and 'Impact', possibly reflecting current usage of sustainable funds

Labels advisers expect to use the most when selecting funds for their clients



A couple of thoughts on results:

- Sustainability Mixed goals was most likely to be selected by heavy users of third party or in house multi asset funds. **There may be an inherent assumption that multi asset funds are likely to get mixed goals labels.**
- We know from other research, that **advisers tend towards 'dark green' funds if they have a client with strong sustainability preferences. Historically, this would have nudged them towards impact funds.**
- More experienced advisers (who also tend to be older) expect to use 'Mixed Goals' - less experienced expect to use 'Focus' and 'Improvers' Labels.
- Female advisers more likely to use Mixed Goals than other labels compared to male (47% vs. 30%) .

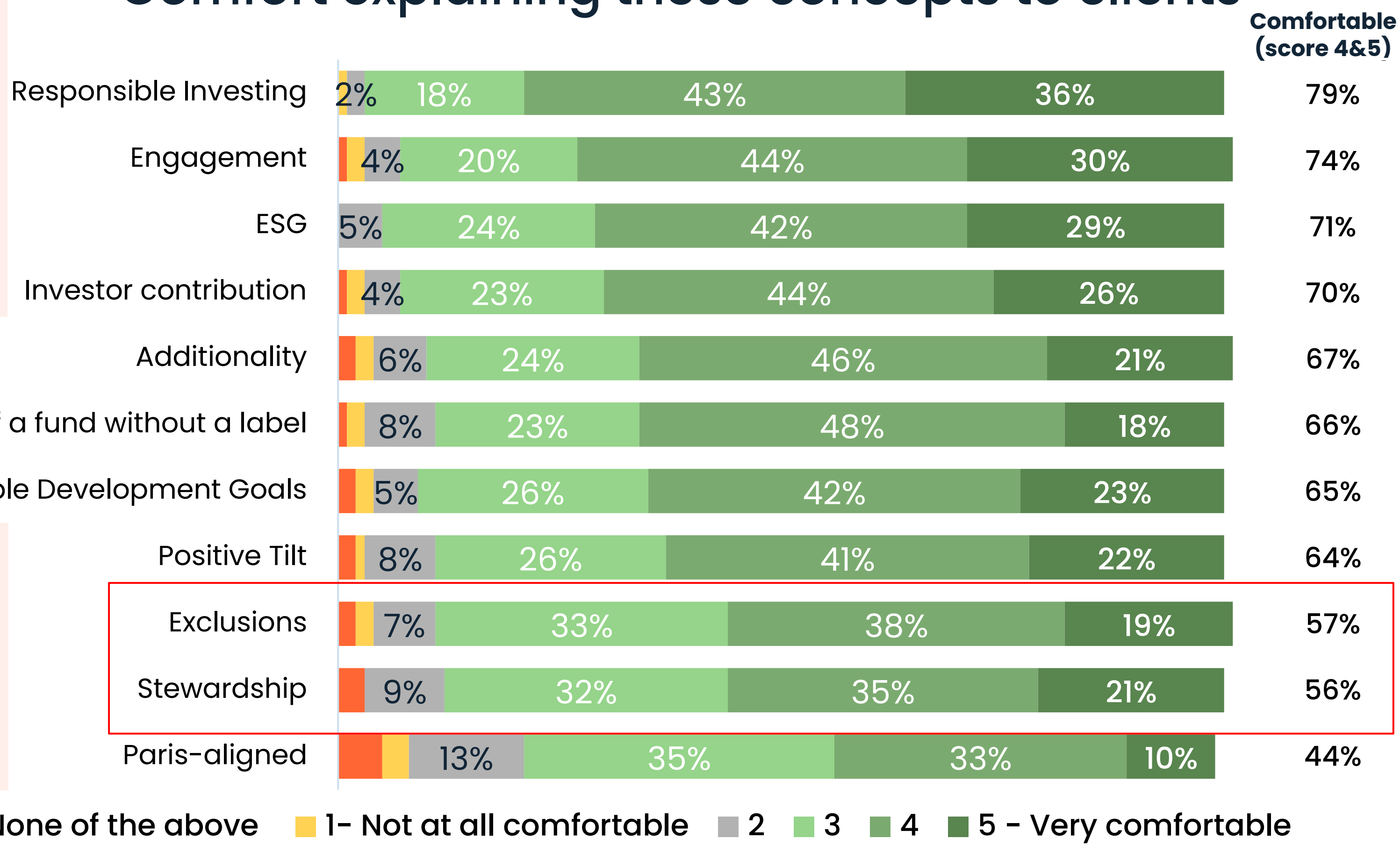
Q25. LABEL ADVISERS EXPECT TO USE - There are four labels that funds can apply for. When selecting funds for your clients that have labels, which category of fund do you expect to use the most? n = 261

Close to half of advisers aren't comfortable explaining core concepts 'Exclusions' and 'Stewardship' to clients (perhaps surprisingly)

From the retail investor survey, less than a third of investors have heard of the following concepts which some advisers are not comfortable explaining:

- Paris-aligned
- Exclusions
- Sustainable characteristics of a fund without a label

Comfort explaining these concepts to clients



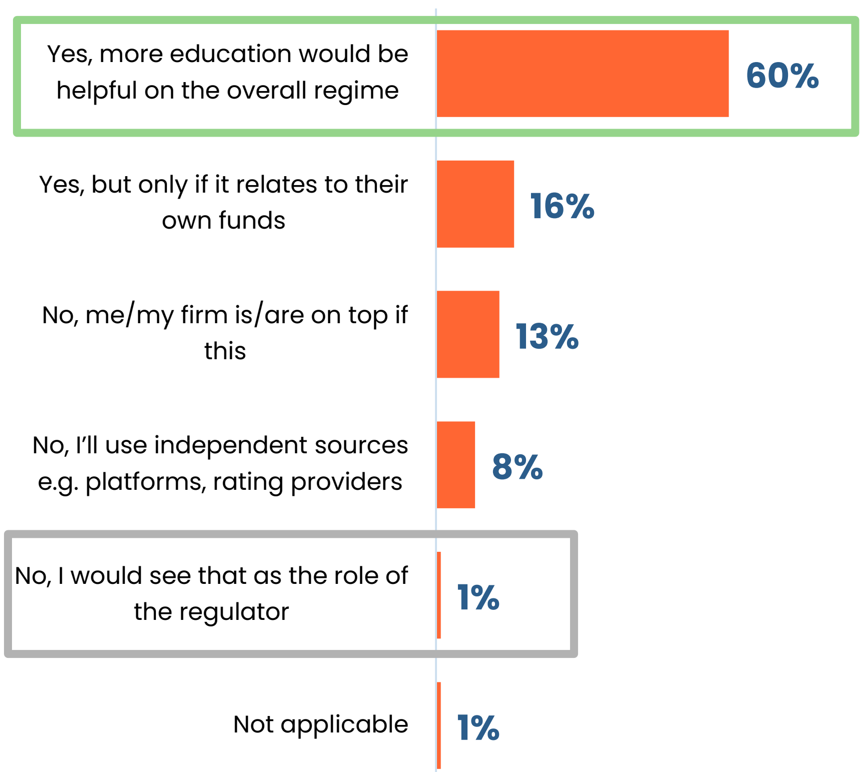
Younger advisers are more comfortable explaining these concepts to clients compared to Gen X and Boomers

- Investor contribution
- UN SDG
- Paris-aligned

Q26. COMFORT EXPLAINING TO CLIENTS - On a 5-point scale, where 1 is not at all comfortable and 5 is very comfortable, how comfortable would you be explaining the following to your clients? n = 261

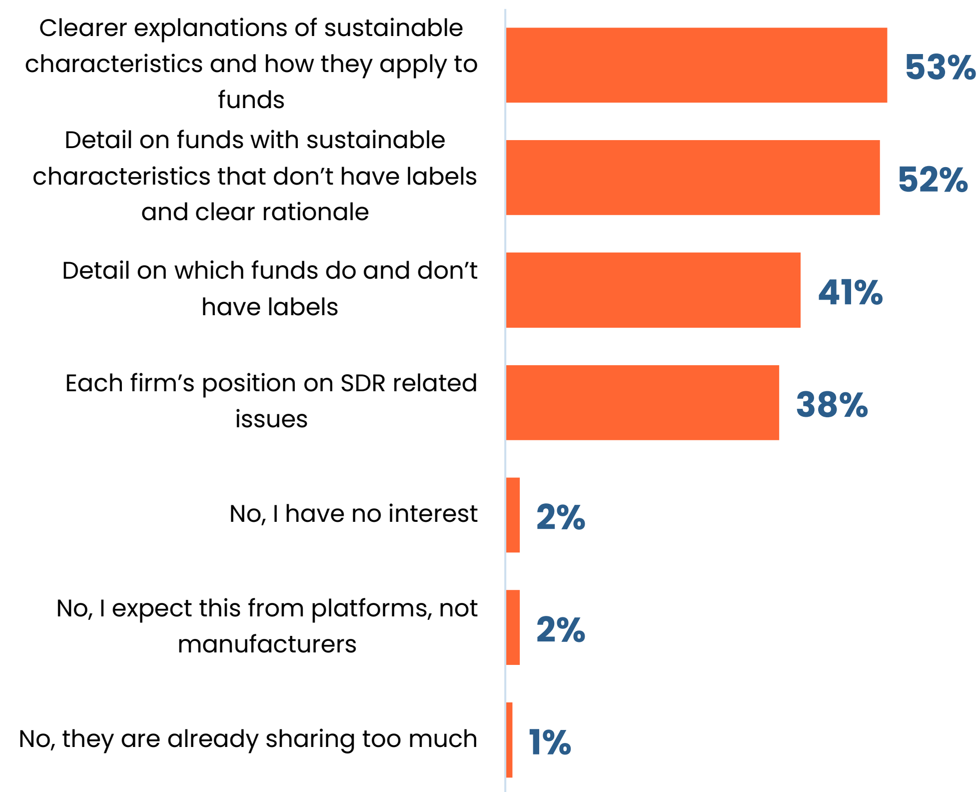
Advisers expect education and support from manufacturers – is there an information gap at B2B platform level?

Support from fund providers



Female advisers expect more education than male (67% vs.57%)

Support from manufacturers

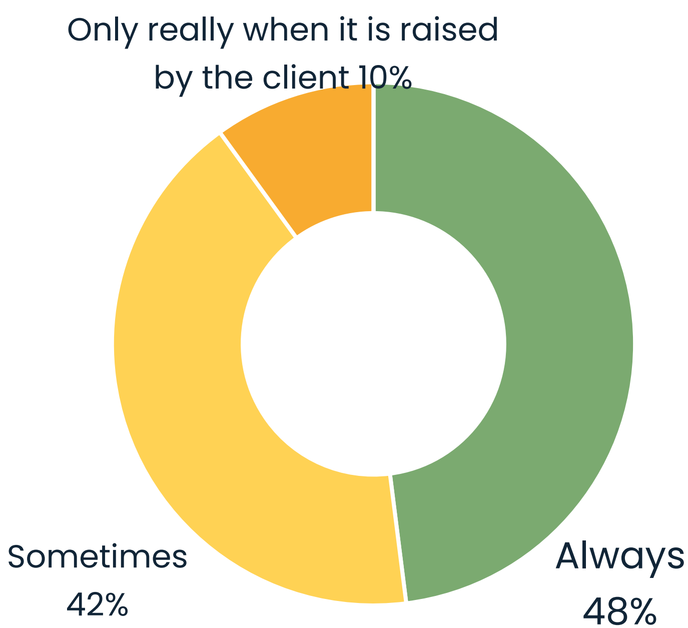


Q30. SUPPORT FROM FUND PROVIDERS - Thinking about how well you understand SDR, would you expect fund providers to do more to improve your knowledge? n = 261
Q31. SUPPORT FROM MANUFACTURERS - Is there any further information or support you would find helpful from manufacturers? n = 261

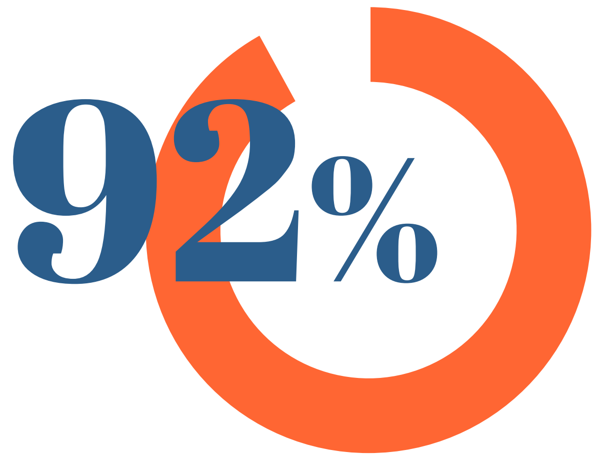
THE INVESTMENT ASSOCIATION

Nearly half of advisers 'always' speak to clients about sustainability and the majority see an increased appetite for sustainable investing

Discussing attitudes to sustainability with clients



Appetite for Sustainable Investing



of advisers say they see an **increased appetite** for sustainable investing.

- More advisers from larger firms 'Always' discuss sustainability with their clients (Firm AUM £1bn-£5bn 61%, £5bn+ 74%).

Q15. ATTITUDES TO SUSTAINABILITY - Do you discuss attitudes to sustainability in any detail with clients as part of the suitability discussion? n = 261

Q16. APPETITE FOR SUSTAINABLE INVESTING - Do you see an increased appetite for sustainable investing amongst your clients? n = 261

Overall, advisers see more clients showing concern about the impact of investing

- Clients are asking about sustainability more often
  - The subject regularly comes up in conversation, with a greater level of awareness, notably among younger/new investors.
  - More clients are prioritizing sustainability in their decision making
- Clients are more exposed to sources of information
  - The topic gets coverage in the media, particularly social media
- Clients have more of a desire to align investing to their personal values:
  - Doing the right thing
  - Reducing their carbon footprint, getting to net zero
  - Environmental and social issues

“ Clients are increasingly interested in where their money is allocated, particularly away from fossil fuels.
MALE, age 37, some clients*

“ It had grown quite a lot over recent years and I find it comes up on a regular basis during both the fact finding of new clients and servicing of existing ones.
MALE, age 62, some clients*

“ Younger clients are more concerned with ethical investments.
MALE, age 40, some clients*

“ Sustainability is at the forefront of individual's agenda and you pretty much can't escape it - it's all around you, from media to social life.
FEMALE, age 35, some clients*

“ We see more and more of our clients wishing to at least consider more ethical, sustainable and green-credential funds.
MALE, age 45, some clients*

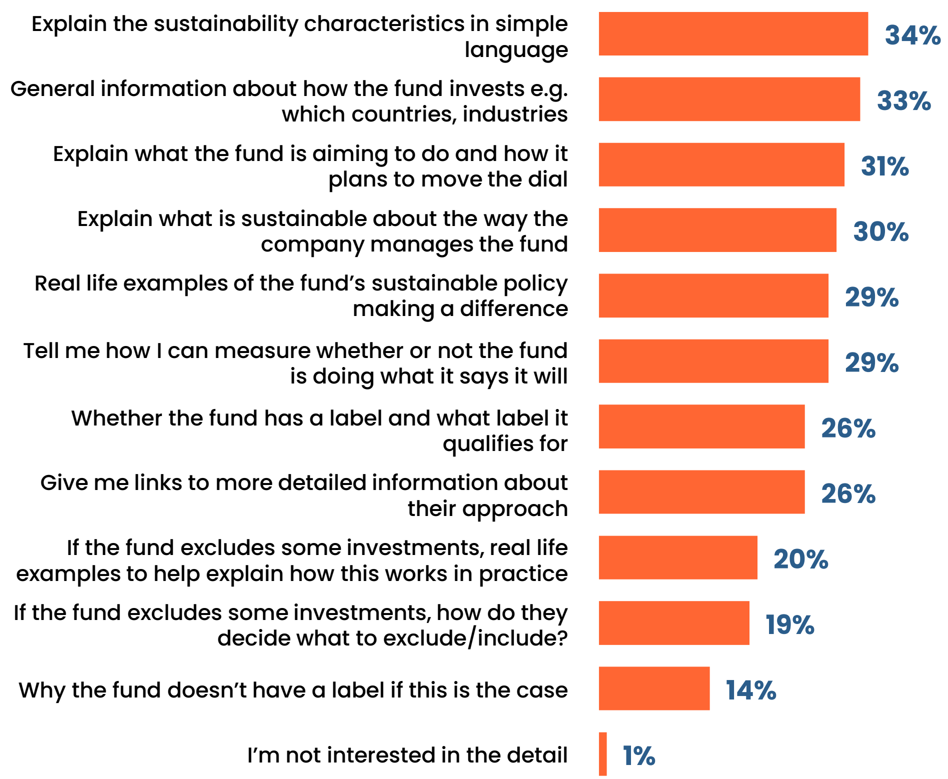
Q16.1 APPETITE RATIONALE – Please briefly explain your answer (to Q16. Do you see an increased appetite for sustainable investing amongst your clients?)

*advisers with clients invested in sustainable, ESG, ethical or responsible funds

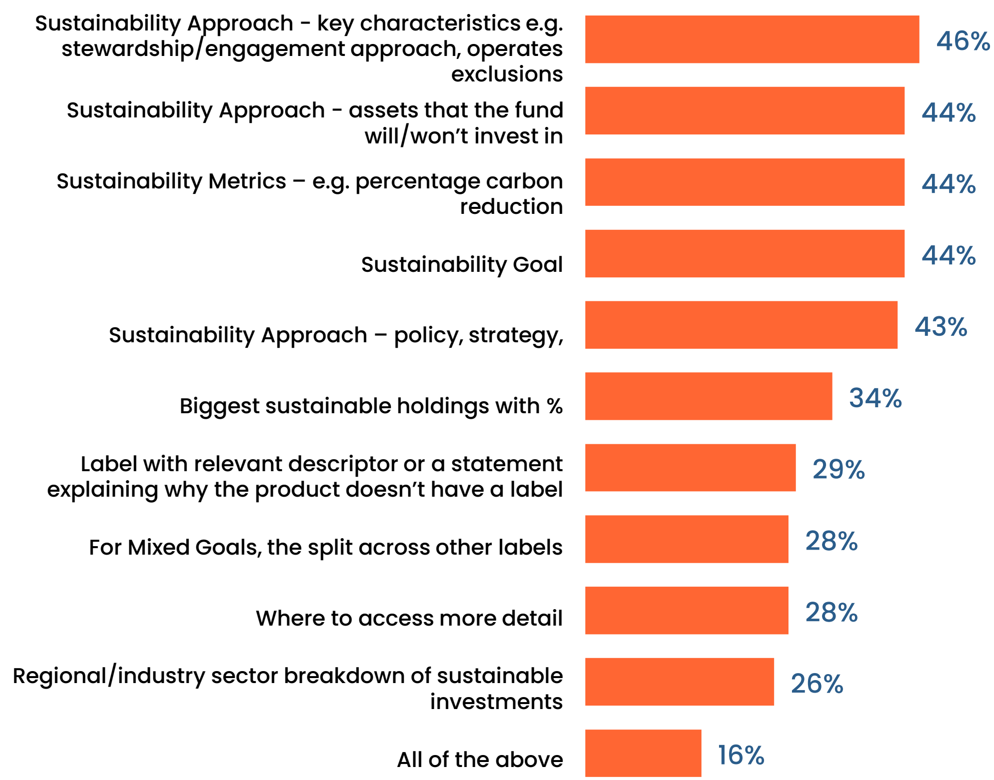
Compare and contrast – specific topics covered with both cohorts

Investors value general information more and label rationale less, while advisers want to get into the detail on sustainable approach

Top 3 things to understand before investors buy



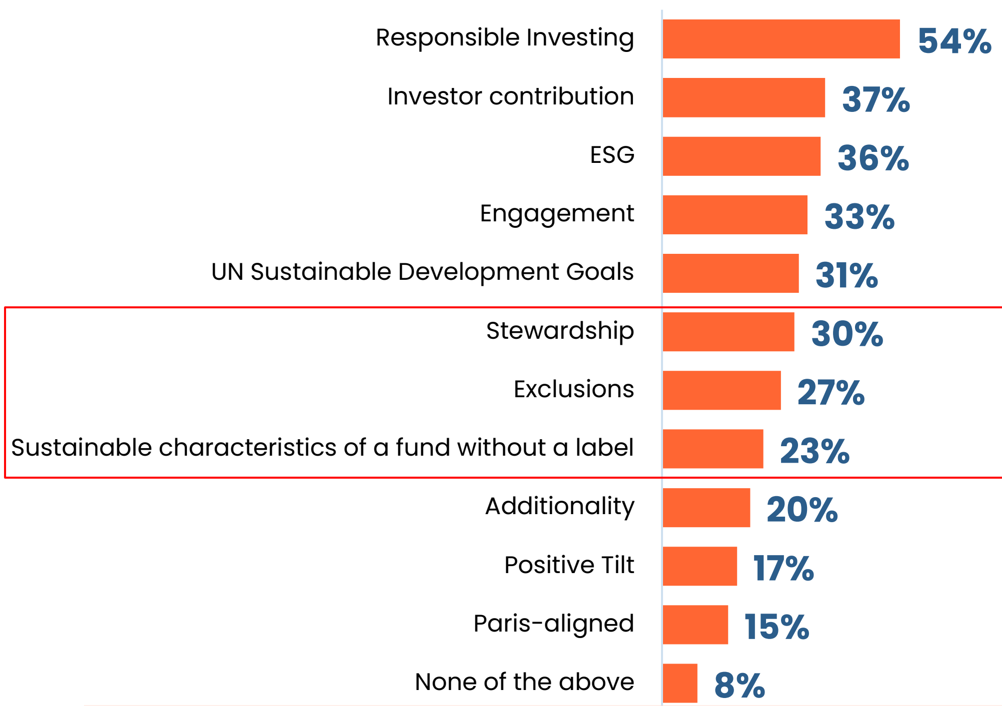
What matters most to advisers using sustainable fund factsheets with clients



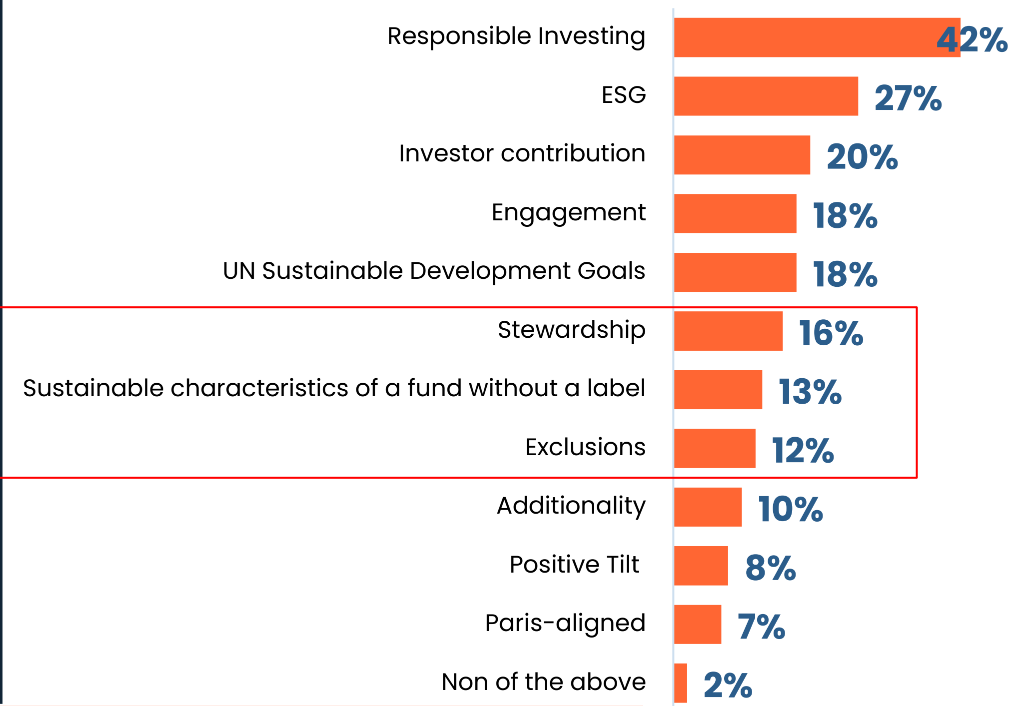
Q13. TOP 3 SUSTAINABILITY CHARACTERISTICS - If you were considering investing in a fund in the future, what are the 3 most important things to understand before you buy when it comes to the sustainability characteristics? n = 1080
Q20. FACTSHEET ADDITIONS - Although they are not covered by the regulation, given that factsheets are often used with clients, what information would you want to see on a fund factsheet. N=261

Awareness of key concepts among investors is low and falls as language becomes more specialist...

Concepts Awareness - Investors



Concept Importance - Investors



- Females are less aware of these concepts compared to males, particularly ESG (42% vs. 27%).
- Awareness increases among younger investors across all concepts.

Advisers also flagged a lack of confidence in explaining the terms within the highlight box above, including (perhaps surprisingly) 'exclusions' and 'stewardship'.

Q19. CONCEPT AWARENESS - Have you ever seen or heard of these concepts before? n = 1080

Q20. CONCEPT IMPORTANCE – (Subset: Of the concepts selected in Q19) Which of the following concepts do you feel are important for you to understand when deciding how and when to invest or to make changes to your savings and investments?

And advisers are not always comfortable explaining terms investors don't understand

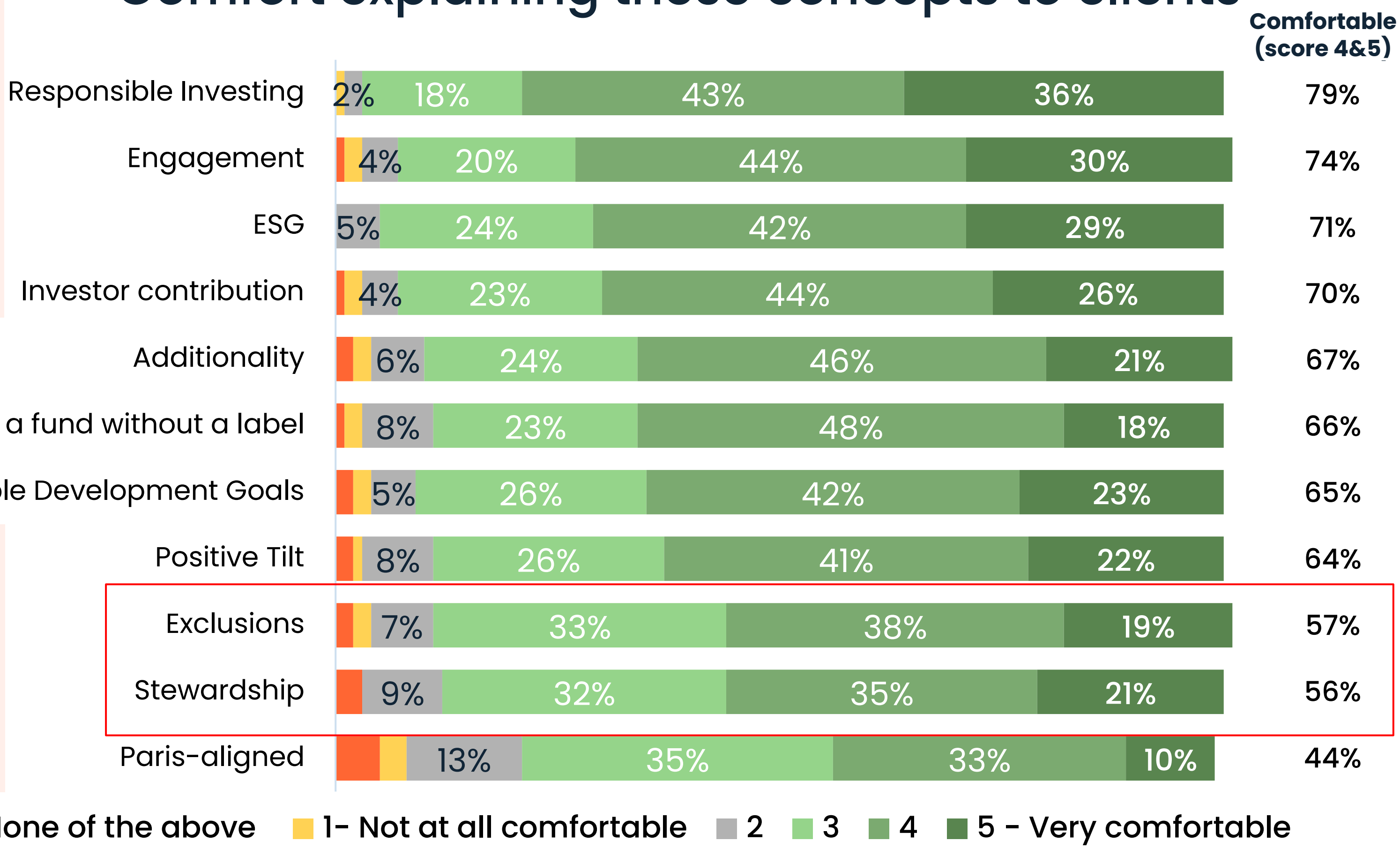
From the retail investor survey, less than a third of investors have heard of the following concepts which some advisers are not comfortable explaining:

- Paris-aligned
- Exclusions
- Sustainable characteristics of a fund without a fund label

Younger advisers are more comfortable explaining these concepts to clients compared to Gen X and Boomers

- Investor contribution
- UN SDG
- Paris-aligned

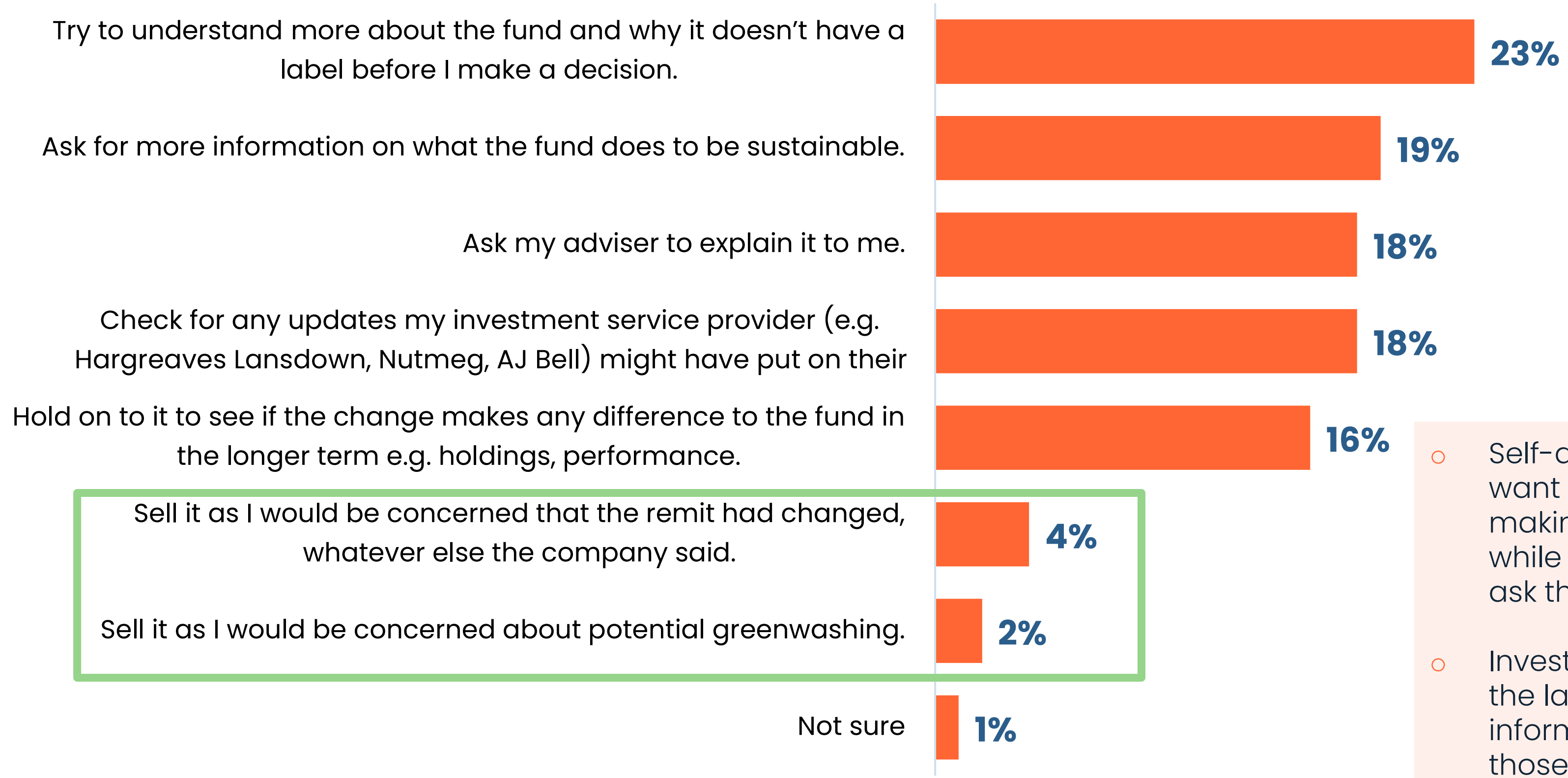
Comfort explaining these concepts to clients



Q26. COMFORT EXPLAINING TO CLIENTS - On a 5-point scale, where 1 is not at all comfortable and 5 is very comfortable, how comfortable would you be explaining the following to your clients? n = 261

Only 6% of investors would sell their fund if it didn't qualify for a label

Investors' response if a fund removes 'sustainable' from its name

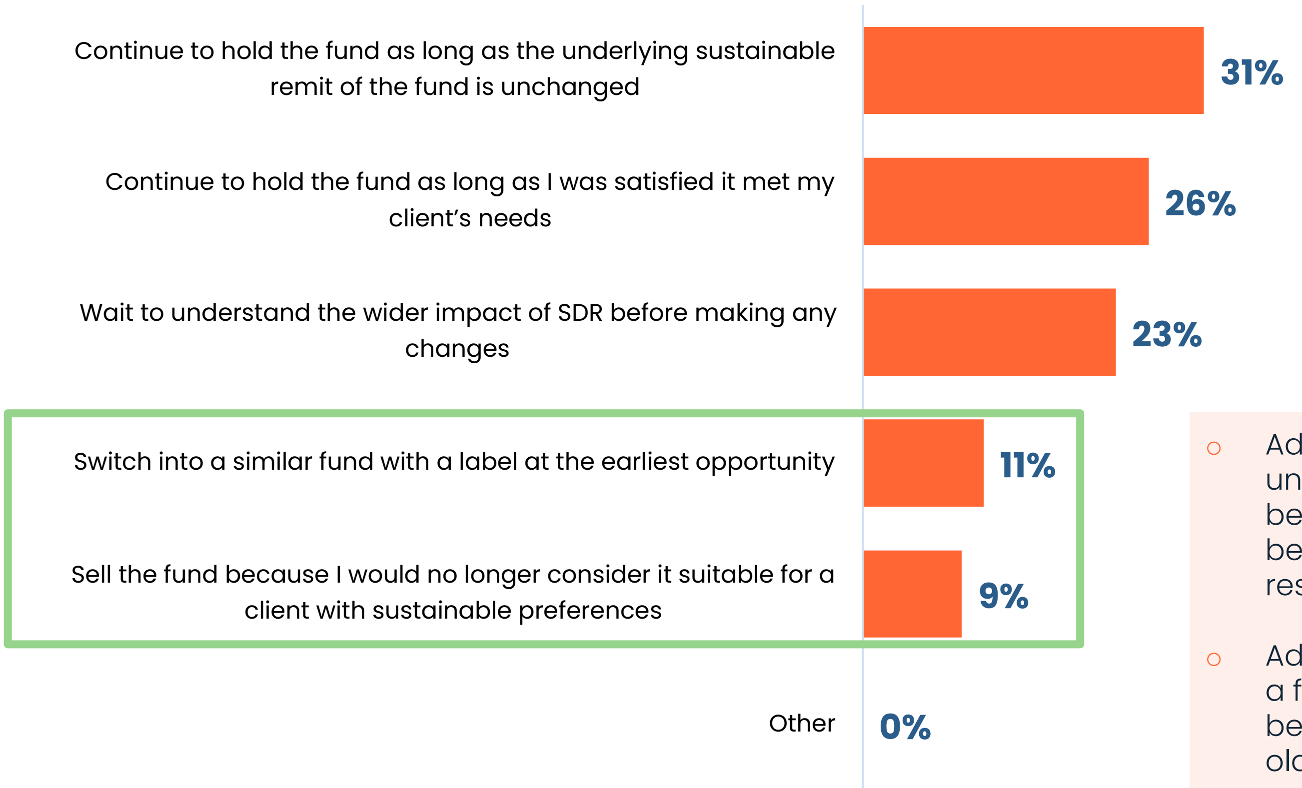


- Self-directed investors tend to want to understand more before making decision (32% vs. 19%) while advised investors prefer to ask their advisers (21% s. 10%)
- Investors who are not aware of the labels would ask for more information (28% vs. 17%) whereas those aware of them are more inclined to sell (8% vs. 3%).

Q11. RESPONSE TO NAME CHANGE - "If you hold a sustainable fund that has not met the new criteria for a label, it may need to change its name to meet the new rules." n = 1080

While 1 in 5 advisers would sell or switch if a fund didn't qualify…

Adviser's response if a fund removes 'sustainable' from its name



- Advisers who selected 'Wait to understand the wider impact of SDR before making any changes' tend to be less experienced (29% Top 1 response).
- Advisers who selected sell or switch if a fund didn't qualify for a label tend to be more female (32% vs. 15%) and older (33%).

Q27. FUND NAME CHANGES - Thinking about your clients with sustainable preferences, if a fund removes the word sustainable from its name, what would you expect to do as a result? n = 261

Conclusions

Investors want to see how the fund makes a difference and are turned off by vague wording and jargon

- Just over half of **retail investors were aware of the labelling system** via their adviser or online investment service and 94% said they would find the labelling system helpful.
- **Retail investors** expect to go to fund management company websites for fund information, search online or they'd check with the FCA (where they won't find detailed information.)
- They **want to know: how their money will be invested and to what end (in simple terms) before taking a decision, and ideally want to see real-life examples of how the fund makes a difference.**
- **Vague words, jargon and a lack of detail create barriers** - similar to findings from our investor workshop, very few have heard of concepts like 'Positive Tilt' or 'Paris-aligned'. Advisers are less confident explaining these concepts too –so clear explanations are important.
- The **no label statement** & **the overseas funds 'warning'** will not necessarily put investors off selecting a fund – they want to know more about the fund's sustainability characteristics before making a decision.
- **The final decision on whether or not to invest in sustainable solutions comes down to return** – a significant consideration even for those retail investors who are committed to investing sustainably.

Name changes won't necessarily trigger sales

- **Only 6% of retail investors would sell their fund if it didn't qualify for a sustainability label**, though non-labelled funds do trigger the need for more information to allay potential concerns around greenwashing.
- In our 2024 workshop, an upfront statement saying that the fund does not have a label because it does not meet the criteria set out by SDR polled better because it was clear

Advisers have a high level of SDR awareness and see labels as useful in client conversations & for choosing funds but understanding is mixed

- Adviser **awareness of SDR and disclosure was high**, with 77% of advisers confident they understand enough about the labels to choose funds appropriate to their clients' sustainable preferences – investors are most likely to have heard about SDR through a financial adviser, so advisers are already talking to clients about labels.
- **There are mixed levels of understanding of the SDR rules**, notably confusion around classification of ethical and index funds, the FCA's role in monitoring the regime and requirements for CFD's. Advisers assume it will be relatively easy to find details on non-labelled funds. An initial CFD data filter might help but the diverse profile of funds will be a challenge.
- **Most advisers expect to use the new labels to guide fund selection** for clients and expect to be able to screen by label on platforms, though they do not rule out using non-labelled funds if they meet client needs.
- **Advisers expect to use 'Sustainability Mixed Goals' the most** – possibly driven by heavy use of multi asset funds and MPS. 'Impact' also scores well. Advisers may not realise that mixed asset funds can sit in other label categories -so more education on the profile of funds in each label category could be helpful.

Name changes won't necessarily trigger sales but advisers are more likely to consider switching or selling.

- **1 in 5 advisers would sell or switch** if a fund didn't qualify for a label. It is important to be clear on why the fund does not qualify in the CFD to build trust.
- **Advisers also expect fund providers to do more to help them improve their knowledge**, and to give clearer explanations of sustainable characteristics, in particular for non-labelled funds.

Key takeways...

- **A focus on clarity, rather than compliance**: through creation, design and approval stages of documentation, firms should not view document production as solely an exercise in compliance.
- **All fund communication in scope:** CFDs as a standalone document unlikely to give the overall picture so firms need to think holistically about information across all documentation.
- Previous IA research has shown that **the 'how' as opposed to the 'what'** can be as important as the information itself. Firms should be clear about how they will measure non-financial objectives, and our research shows that customers want to see how the fund is delivering on these objectives: providing ongoing information to customers will be required by the annual product reports.
- **Strike the right balance between concision and detail:** more digital disclosure will help this balance, allowing interested investors to drill into helpful explanations whilst other investors could simply read the basic information. This is not yet possible for regulated documents but should be considered for factsheets and websites. The research shows that jargon or technical terms can create barriers to understanding and understanding of terms like Paris-aligned and positive tilt are low and require further explanation. Testing the CFDs and other retail communications or sample language with focus groups can yield useful information about how to communicate effectively with customers.
- **Responsibility throughout the distribution chain**: findings show high levels of SDR awareness but more education is needed on the detail. We must consider how this is best achieved, for advisers, advised investors and non-advised investors. Good customer information is a responsibility throughout the retail distribution chain.
- **Link with consumer duty and future retail disclosure regime**: need to consider how the production of information required under SDR aligns with the Consumer Duty and a future CCI regime and the role of the IA, firms and wider stakeholders to consider disclosure regime holistically.

Appendix

Responsible Investor segments 1-5

We used our Wise Society community to recruit a sample of end investors with a propensity to invest sustainably (segments 1-5), using our proprietary Responsible Investor segmentation model.

High

Medium

Low

Propensity to invest in sustainable products

Responsible Investor (1)

- Already invested in RI products
- Sustainable across many areas of their life
- Motivated personally to play role in tackling ESG challenges
- Expects companies to play their role too

Interested but questioning (2)

- High standards, acts sustainably
- Wider view of sustainability than climate
- Wary of 'greenwashing'
- Believes she can contribute to the big issues but can be cynical about finance

Sustainability Champions (3)

- Some awareness of RI products
- Advocate, buys sustainably
- Active in her community to fight climate change
- Believes FS have a key role to play

Cautiously Sustainable (4)

- Wants her money to have an impact but unclear how
- Lower sense of personal responsibility – it's more the role of corporates and government

Passively Open (5)

- Not aware of RI products
- Not really motivated by sustainability - apathetic
- Lower sense of personal responsibility, but also less likely to put pressure on corporates and government

Non-believers(6)

- Consciously negative toward RI products
- Skeptical about sustainability challenges and certainly not actively interested or engaged in their personal lives

Retail investor survey stimuli

Background information given to investors (pre Q8)

A little bit of background on changes to the rules for sustainable investment funds before we ask for your views.

There has been a rise in the popularity of sustainable investing over recent years. As sustainable investing has evolved, the number and types of sustainable funds available to customers has grown.

This prompted the financial regulator (the FCA) to introduce rules for fund providers designed to help customers and their advisers understand what funds are available to them. More information is now available to customers about 1) what each fund is aiming to achieve through adopting a sustainable approach and 2) how best to work out whether or not it is achieving those aims.

The rules cover a few areas:

•An anti-greenwashing rule for all FCA-authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading.
•<u>Naming and marketing rules for investment products, to ensure the use of sustainability-related terms is accurate.</u>
•<u>Four labels to help customers navigate the investment product landscape and enhance customer trust.</u>
•<u>Consumer-facing information to provide consumers with better, more accessible information to help them understand the key sustainability features of a product.</u>
•Detailed information for those who want it - this is targeted at institutional investors and consumers seeking more information both before and after they invest in a fund.
•Financial advisers, online investment services, banks & building societies or other firms that distribute funds to consumers need to ensure that product-level information (including relevant labels) is made available to consumers.

Today, we are going to be focusing our questions on the areas underlined above.

FCA sustainable fund labels given to Investors (pre Q10)*

- Sustainability Mixed Goals: these funds invest mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet. Examples may include a mixture of investments from the labels above (Focus, Improvers and Impact).
- Sustainability Impact: these funds invest mainly in solutions to sustainability problems with an aim to achieve a positive impact for people or the planet. Examples may include renewable energy generation and social housing.
- Sustainability Improvers: these funds invest mainly in assets that may not be sustainable now, but aim to improve their sustainability. Examples may include investments in companies that are on a credible path to net zero by 2050, or are committed to improving social standards such as human rights.
- Sustainability Focus: these funds invest mainly in assets that focus on sustainability for people or the planet. Examples may include activities to support the production of energy, for example, from solar, wind or hydrogen.

*Source: https://www.fca.org.uk/consumers/sustainable-investment-labels-greenwashing#section-investment-funds-that-don-t-have-labels

Adviser survey stimuli

CFDs: Information given as reference to Advisers (pre 20)

A note on CFDs

CFDs will be required for all funds with sustainability characteristics, whether or not they have a label. The CFD should include the following information:

•Label with relevant descriptor or a statement explaining why the product doesn't have a label
•Sustainability Goal
•Sustainability Approach – including policy, strategy, key characteristics, assets that the fund will/won't invest in
•Sustainability Metrics
•For Mixed Goals, the split across other sustainability labels –e.g. 50% Focus, 50% Improver
•Where to access more detail

FCA sustainable fund labels given to Advisers (Q25)*

- Sustainability Mixed Goals: these funds invest mainly in a mix of assets that either focus on sustainability, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet. Examples may include a mixture of investments from the labels above (Focus, Improvers and Impact).
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*Source: https://www.fca.org.uk/consumers/sustainable-investment-labels-greenwashing#section-investment-funds-that-don-t-have-labels

TWC team for this research project

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Head of Investor Governance

With over 30 years' experience in asset management, Dawn has hands-on experience of the commercial and regulatory challenges facing the industry as well as deep investment industry expertise. Dawn currently sits on the FCA's Disclosures and Labelling Advisory Group. Here, she leads our work on investor and fund governance – challenging the industry to 'think customer'. Dawn is especially involved in our work with professional investors, and the Investment Association.

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Elizabeth is an Associate Director at The Wisdom Council. She began her banking career in Switzerland and moved into regulatory risk management and communications roles, working internationally for UBS Wealth Management and Standard Chartered Bank, Singapore and London. Elizabeth manages complex programmes of work across our clients with a particular focus on Governance.

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Carol Huang

Research Manager

Carol has 7 years of experience in market research and consumer insight. She is skilled in both quantitative and qualitative research, spanning various product life cycles. Her expertise includes consumer journey, behaviour analysis, market insights. At The Wisdom Council, Carol oversees our research and ensures its robustness – leading our 2024 Consumer Understanding Barometer Survey.

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The Wisdom Council: who we are

- **Female-founded** and purpose-led
- **11 years' experience** of bringing the voice of the consumer into financial services
- Trusted by **50+** leading financial services firms
- Track record of **fresh thinking** to meet the challenges of the savings and investment industry
- **Award winning** Consumer Duty offer
- Proud to **B-Corp** certified

Our mission:

to give everyone the financial security they deserve by working with our clients to put the **voice of the consumer** centre stage

Certified B Corporation

MRS Evidence Matters™ Company Partner

Consumer Duty Leadership Awards — WINNER Consumer Investments Award 2024 — The Wisdom Council

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The Wisdom Council

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