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Beware Greenwashing

Last October, the FCA issued a discussion paper addressing climate change and its role in financial markets as countries transition towards low carbon economies. The opening paragraph of the paper was stark and perhaps illustrates how seriously regulators and governments are viewing this global threat.

Climate change presents a potentially irreversible threat to the planet. This has been widely recognised by the 181 parties that have signed the 2015 Paris Climate Change Agreement. Climate change is likely to have a significant impact on the UK's economy and financial services markets.

The discussion paper is broad, encompassing many areas such as ensuring firms have adequate controls in place for considering risks, including those from climate change and the transition to a low carbon economy and ensuring companies meet their disclosure obligations.

Of particular interest was the FCA engagement within the area of 'green financial services' and the acknowledgement of the growing demand for products and the need for structure around disclosure, classification and measurement.

At Whitechurch, we are seeing an ever-increasing number of funds and products coming to the market and we have become increasingly concerned about how the expanding range of terminology may be confusing to advisers and their clients. There are many funds out there with 'Sustainable' or 'ESG' in the title but, when you look under the bonnet, they often have exposure to areas which would be a cause for concern for investors interested in this area.

With increasing focus from industry regulators, combined with government support and a desire from the consumer to be more socially responsible, the impact of investing

incorrectly could be significant for those that are unable to illustrate adequate due diligence on their areas of investment.

As a DFM with an established track record in ethical investing, we are naturally pleased to see the significant growth in this area. Our established process and rigorous due diligence ensure portfolios are aligned to the client's views and help us screen out areas of contention. We are however finding that a significant number of new entrants into the ethical space are failing our due diligence and it is becoming apparent that a lot of these new entrants are "jumping on the bandwagon" and using the buzz words of ESG and sustainability to tout their wares.

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With such focus being placed on environmental issues globally, investing in the wrong areas will

be detrimental to maintaining client relationships! Beware Greenwashing and seek out those with a tried and tested process, experience and a track record to mitigate the potential future risks!

We look forward to publishing the 3-year performance of our ethical strategies in April. If you would like to know more about our ethical solutions or how we can help provide a suite of tools to enable you to offer these types of investments to clients, please contact the investment team at investmentteam@whitechurch.co.uk.

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