



Nick Miller
Head of Department, Asset Management Supervision
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

26 July 2021

Dear Mr Miller,

Re.: Authorised ESG & Sustainable Investment Funds: improving quality and clarity

WHEB Asset Management is an authorized fund manager (AFM), headquartered in London and of which I am the non-executive Chair.

Over the past ten years, the team at WHEB has built a boutique investment business focused solely on investing in the equities of listed companies that provide solutions to critical sustainability challenges. Our mission as a business is to ‘advance sustainability and create prosperity through positive impact investments’.

Opportunities and risks from rapid growth in ESG & sustainable investment funds

I write in response to the letter addressed to me as an AFM Chair concerning ‘Authorised ESG and Sustainable Investment Funds: improving quality and clarity’.ⁱ As you make clear in the letter, ESG and sustainable investment funds have experienced very rapid growth in the past year or so.

For those of us who have been in this market for over a decade, this growth is extremely welcome. The scale of the social and environmental challenges that we face requires nothing less than the full engagement of the entire capital market. According to recent research, sustainable funds attracted 52% of all net new flows in 2020.ⁱⁱ However, while fund flows are very strong, only 11% of total net assets domiciled in Europe at the end of 2020 were sustainable funds.ⁱⁱⁱ Globally this figure is still less than 6%.^{iv}

Pleasing though this growth undoubtedly is, for the financial sector to play its part in enabling the wider decarbonization of the economy and support the shift towards sustainability, much more growth is required. Your letter also clearly underscores the risks posed by this growth and in particular the risk that AFMs undermine trust in the market for ESG and sustainable investment funds through poor communication and practices. We share the FCA's apprehension on this point.

A principles-based approach

We strongly support the principles-based approach set out in the letter. The ESG and sustainable investment market is in a period of great dynamism. This is evident in the absolute growth of assets under management. It is also clear in the tremendous innovation taking place in the market and in underlying investee business models and technologies. Adopting high-level principles with detailed guidance on what this means in practice will, in our view, enable innovation to continue that delivers real value to investors and real progress in addressing underlying social and environmental challenges. In contrast, more prescriptive approaches risk stifling this innovation.

In exchange though, we agree that there should be a requirement for AFMs to provide transparency about fund objectives and policies, how these are implemented through an investment process and the resulting fund composition. The more central the concepts of ESG and sustainability are to the fund's objectives, the more detailed and far-reaching these disclosures should be.

WHEB's approach

At WHEB, we see transparency and accountability as essential principles in ensuring that our investors have a full understanding of how we interpret and apply the concept of sustainability in asset management. We've sought over the years to have a 'radical' approach to transparency and have led the market in developing new tools such as our 'impact calculator'^v as well as our 'impact report'^{vi} and 'impact map'.^{vii} We publish our full fund holdings with an explanation of why each deserves a place in our investment strategy and have an independent advisory committee that scrutinizes each investment for consistency with our investment philosophy. We even publish the summary minutes of these meetings.^{viii}

Future of regulation

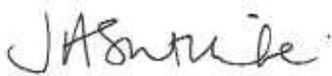
For many years, ESG and sustainable investment languished as back-waters for much of the AFM market. It is instructive that the FCA itself only developed a definition of 'greenwashing' in 2019. Hitherto presumably the market's general antipathy towards sustainability meant that there was no need for the term, let alone an official definition!

This has all changed and the FCA's involvement is clearly now necessary and welcome. We would urge you to continue to develop regulation on the basis that is set out in this initial letter.

We fully support a principles-based approach that allows market participants to innovate freely in the development of new financial products that better deliver against their clients' expectations. Moreover, we entirely recognise and embrace the requirements of us as an AFM to be transparent about how we apply these principles in our work.

We'd be happy of course to share more of our thoughts and experience on these issues.

Yours sincerely,



Jayne Sutcliffe
Non-Executive Chair, WHEB Asset Management

CC: Seb Beloe, Partner – Head of Research, WHEB Asset Management
George Latham, Managing Partner, WHEB Asset Management

ⁱ <https://www.fca.org.uk/publication/correspondence/dear-chair-letter-authorised-esg-sustainable-investment-funds.pdf>

ⁱⁱ <https://zeb-consulting.com/en-DE/press/european-sustainable-investment-funds-study-2021>

ⁱⁱⁱ Ibid

^{iv} Morgan Stanley, 'Sustainable Investing: Quarterly Tracker', 23rd July 2021

^v <https://impact.whebgroupp.com/impact-calculator/>

^{vi} <https://impact.whebgroupp.com/impact-reports/>

^{vii} <https://impact.whebgroupp.com/impact-map/>

^{viii} <https://www.whebgroupp.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/>