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Response by email to cp24-8@fca.org.uk

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Response to FCA CP24/8 Extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management

We, the Association of Real Estate Funds[1] (AREF), welcome the opportunity to respond to the above consultation (the "consultation") on extending the Sustainability Disclosure Requirements (SDR) to portfolio management.

We support the FCA's work in addressing the risks of greenwashing and increasing transparency in the sale and marketing of sustainability-related products. We share the view that the application of a general anti-greenwashing rule and the introduction of naming and marketing rules, product disclosures and a labelling regime for funds in the existing SDR will increase investor confidence in sustainability-related products. This confidence should facilitate greater capital flows towards sustainable investments over the medium term.

We also see the value in the FCA's proposal to extend the SDR to firms providing portfolio management services. Given the broadly complementary services offered by fund managers and portfolio managers, it is appropriate to apply broadly the same sustainability-related rules to these two areas of the investment industry. This will provide consistency for investors and ensure that fund managers and portfolio managers both benefit from the marketing opportunities presented by the SDR.

This has particular relevance for the real estate sector. The UK's built environment is estimated to be responsible for 25% of the UK's greenhouse gas emissions[2].

We are delighted with the continuing and constructive engagement with the FCA and the Transition Plan Taskforce (TPT) which recognises the need for regulatory solutions to consider real estate.[3] Our real estate sector's credibility depends on harmonising ESG metrics and setting benchmarks which facilitate transition planning.

Proposed scope of the extended SDR

Most of our members would be out of scope of the SDR extension as proposed by the FCA. Our members are principally focused on managing funds and providing portfolio management services to professional clients rather than providing wealth management services and model portfolios to retail investors as primarily addressed by the scope of the consultation. The involvement of our members in portfolio management is unlikely to extend to the average retail

[1] The Association of Real Estate Funds (AREF) represents the UK real estate funds industry and has over 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

[2] UK Government Environmental Audit Committee's article "Emissions must be reduced in the construction of buildings If the UK is to meet net zero, MPs warn"

[3] FCA SDR and investment labels Policy Statement PS23/16 specifically refers to real estate within examples of SDR investment labels.

TPT Guidance for Asset Owners and Asset Managers reference ESG metrics for real estate.

investor – the focus of the consultation – and so we agree with the consultation proposal that services offered to clients overseas or to a client that is an Alternative Investment Fund Manager should be out of scope of the extended SDR. Notwithstanding this consultation proposal, we suggest it would be helpful if the FCA were to provide guidance in the scenario that these services (i.e. offered to clients overseas or to a client that is an Alternative Investment Fund Manager) may find their way into model portfolios or more broadly portfolio management services delivered to retail clients.

Where our members offer portfolio management services to clients in the UK, we agree with the FCA's proposed scope that (1) the labelling regime should apply to offerings for both retail and professional investors and (2) offerings to professional investors should be excluded from the naming and marketing rules. Given the sophisticated nature of products available to professional investors, it would not be proportionate to impose the full SDR – including the naming and marketing rules – on firms offering services to professional investors. Doing so would provide little additional clarity to these investors, but it would impose unnecessary administrative burdens and compliance costs on firms. In practice, those costs would ultimately be borne by investors.

Sustainability of labelled products

In relation to the scope of the proposed extension, we believe there could be greater clarity given the consultation paper states:

"*While investing in funds that already have labels will demonstrate that the fund has a sustainability goal and is meeting high standards to deliver on that goal, a label is not an absolute measure of sustainability." (FCA, CP24/8, 23.04.24, p.19)*

This suggests that managers should not assume labelled funds are automatically sustainable in character or suitable to be included in sustainability-related portfolios. We understand labelled funds may have different strategies to the overall strategy of a portfolio but where fund and portfolio strategies do align, we consider that funds should be considered automatically sustainable and so suitable to be included in a portfolio. . It would mean that a label would fail to give the clarity and certainty on a product's sustainability characteristics for which it was designed. We consider it would be beneficial for managers and investors if the FCA were to provide guidance on the above quoted sentence from the final policy statement.

Portfolio management offerings for professional clients

In paragraph 3.12 of the consultation paper, the FCA propose including portfolio management offerings for professional clients in scope of the labelling part of the regime. The FCA welcomes views on whether there is appetite for portfolio managers to use labels for professional clients including when offering bespoke portfolio management services.

We take the view that the use of such labels will be market-led, and it is challenging at this stage to predict the anticipated usage.

If you would like to discuss any aspect of this response further, please contact either myself (prichards@aref.org.uk) or Jacqui Bungay (jbungay@aref.org.uk), Head of Policy at AREF. Our members invest in real estate and other real assets, in the UK and in other jurisdictions; they are always willing to assist the FCA by sharing their wealth of knowledge and expertise.

Yours sincerely

Paul Richards

CEO, The Association of Real Estate Funds