Transition Investing in Mutual Funds

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Transition Finance

We align ourselves to our Transition Finance Framework, which sets out the assets and activities that qualify under a 'transition' label when we undertake transition finance. Our Transition Finance Framework defines transition finance as any financial service provided to clients to support them aligning their business and/or operations with a 1.5-degrees trajectory and is informed by the 2023 International Energy Agency's Net Zero Emissions by 2050 scenario.

Transition Investing

Just as we have our Transition Finance Framework to guide us in our transition finance activities, we believe it is important for our affluent clients to have their own definition and criteria when undertaking Transition Investing. Our definition of Transition Investing is set out below:

Transition Investing is a sub-set of sustainable investing. It refers specifically to investing with the ambition of supporting and enabling the transition to a low carbon economy. This expands impactful investments to those outside of traditional climate solutions (e.g. renewable energy), to include companies in high-carbon sectors which have credible plans to align or maintain alignment of their business with a net zero trajectory. This can include organisations in sectors such as steel, and cement, but also companies which enable the transition of these sectors (e.g. scrap steel producers).

Transition Investing primarily intends to address two key systemic risks:

Physical risks	Damage from climate events like floods, droughts and other extreme weather.
Transition risks	Regulatory and policy changes such as carbon taxes, technological shifts and the risk of stranded assets in fossil fuels or carbon-intensive industries.

Key considerations: Transition Investing in mutual funds

One of the first places our affluent clients consider when they choose to undertake Transition Investing is via mutual funds. These funds will generally have an ambition to address risks associated with climate change by investing in businesses which provide climate solutions e.g., renewable energy, electric vehicles etc, and businesses in high emitting sectors which are transitioning their business models towards a low carbon economy. With Transition Investing funds becoming more popular with investors, it is critical that these products are properly evaluated to mitigate any greenwashing or transition-washing risks. This is especially important where funds include companies in high emitting industries in the portfolio. Ensuring that asset managers are actively working with their investee companies on credible transition plans is key.

Given the wide range of mutual funds in the market, it can be challenging for investors to know what criteria to consider, especially when considering Transition Investing via mutual funds. We have listed five categories that may assist you in making your choice:

Corporate commitment of asset manager	Does the asset manager walk the talk and is it pivoting to support a low-carbon economy through its own investing activities?
Investment framework	Does the asset manager have a meaningful framework for company selection using science-based targets for the mutual fund?
Portfolio composition	Does the portfolio include traditionally high-emitting sectors and emerging markets given their role in the global climate transition?
Engagement	Does the asset manager have clear engagement plans with investee companies in high emitting sectors on their decarbonisation progress and transition plans?
Portfolio reporting	Does the portfolio have clear, robust, and science-based net zero ambitions and targets? Does it report on progress against these targets?

Whilst this information does not contain any specific advice and is intended to assist you in making independent financial decisions in accordance with your sustainability and transition goals, we hope this is helpful in informing you of our thinking around Transition Investing.

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