GUIDANCE ON ESG FUNDS AND MODEL PORTFOLIOS IN ADGM

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1. SCOPE AND PURPOSE OF THIS GUIDANCE

Scope

1.1 This Guidance applies to:

(a) Domestic Funds;

(b) Model Portfolios; and

(c) Foreign Funds,

which choose to hold themselves out as having environmental, social and/or governance ("**ESG**") characteristics, collectively, referred to as "**ESG Investment Vehicles**" in this Guidance.

1.2 The general principles set out in this Guidance are also applicable to other Authorised Persons that provide financial services or raise investor funds while purporting to have ESG characteristics.

Purpose

1.3 The purpose of this Guidance is to:

(a) clarify the expectations of the Financial Services Regulatory Authority ("FSRA") for the management and marketing of ESG Investment Vehicles;

(b) mitigate the risk of greenwashing, as described below, such that ESG Investment Vehicles are marketed in a manner that is clear, fair and not misleading; and

(c) encourage disclosure of ESG-related information by ESG Investment Vehicles in line with global best practices.

1.4 This Guidance does not create a broader ESG-labelling framework similar to the FSRA's existing framework for the designation of ADGM Green Funds or Portfolios, or ADGM Climate Transition Funds or Portfolios. Electing to promote an ESG Investment Vehicle as having an ESG focus is at the discretion of the vehicle and its manager.

1.5 This Guidance supports the FSRA's existing regulatory framework, by illustrating how the FSRA's expectation that communications to investors are clear, fair and not misleading applies to ESG-related products and services. This will support market participants that offer or plan to offer products and services with ESG characteristics by providing additional clarity.

1.6 Unless otherwise defined or the context otherwise requires, the terms used in this Guidance have the same meanings as defined in the Financial Services and Markets Regulations 2015 ("**FSMR**") and associated Rulebooks.

2. KEY TERMS USED IN THIS GUIDANCE

2.1 It is important to establish a common understanding of the key terms used in this Guidance. While the term "**ESG**" is frequently used, other similar terms may be used interchangeably by stakeholders, including "**sustainable**", "**responsible**", and "**socially responsible**".

2.2 The term **ESG** may be broken down into three separate components, each of which broadly refers to policies, products, practices, aims and strategies that are intended to result in certain desired outcomes. Examples of desired outcomes that may be pursued are provided below.

(a) **Environmental**

- reducing air, water and land pollution;
- slowing down or reversing the progress and effects of climate change; and
- promoting biodiversity and the preservation of natural habitats.

(b) **Social** - benefitting society in areas such as human rights, labour standards, health and safety, social inclusion, education, gender equity, diversity and empowerment.

(c) **Governance** – advancing the accountability, transparency, integrity and ethics of organisations by encouraging them to adopt better corporate governance, anti-corruption measures and measures to combat financial crime, and promoting greater stakeholder engagement.

Greenwashing

2.3 "Greenwashing" is defined by IOSCO as *"[t]he practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products"*[1]. Greenwashing may occur in relation to any aspect of a product's ESG profile, including misrepresentations around its name, investment policy, investment strategies, ESG impacts, ESG targets, ESG performance metrics etc. Greenwashing may distort the information that investors use in order to make investment decisions, which may result in them investing in assets that are not aligned with their goals or ambitions. This may create confusion for investors and risks impacting investor confidence in ESG investing more broadly.

Additionality

2.4 In order to better understand the objectives of an ESG Investment Vehicle, it is important to understand the concept of "**additionality**". Additionality refers to the additional ESG benefits that occur as a direct result of deploying an ESG investment strategy and has been described as a way of associating "value" in this area with an ESG strategy.

[1] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf, November 2021

ESG investment strategies

2.5 An ESG Investment Vehicle may pursue an ESG investment strategy of its choice. The FSRA does not require an ESG Investment Vehicle to categorise itself by any of the following, better known, ESG investment strategies.

(a) **ESG Integration**

(i) ESG Integration is the "*[o]ngoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns*"[2].

(ii) ESG Integration incorporates ESG data and information into investment decisions to enhance risk-adjusted returns. A common feature of the investment strategy is the belief that companies performing better on ESG criteria are likely to produce higher financial returns.

(b) **Screening**

(i) Screening involves "*[a]pplying rules based on defined criteria that determine whether an investment is permissible*"[2].

(ii) Screening involves a process of determining whether particular assets from the universe of possible investments are eligible or not to be included in a portfolio. In the context of ESG investing, managers may screen for investments based on ESG criteria. Screening may involve "**negative screening**", "**positive screening**", and "**best in class screening"**.

(iii) **Negative screening**, also known as **exclusion investing**, involves the outright avoidance of certain assets on the basis of predefined ESG criteria, essentially filtering the investable universe for undesired ESG criteria, e.g. excluding tobacco companies.

(iv) **Positive screening** involves the selection of certain assets based on predefined ESG criteria, such as selecting carbon neutral companies. Positive screening filters the investable universe for desirable ESG criteria.

(v) **Best in class screening** involves selecting certain assets on the basis of their performance on predefined ESG criteria relative to their peer group, for example, selecting companies that have higher than average employee diversity scores.

(c) **Impact Investing**

Impact investing involves "*[i]nvesting with the intention to generate positive, measurable social and/or environmental impact alongside a financial return*"[2].

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2 Please see Definitions for Responsible Investment Approaches: https://rpc.cfainstitute.org/-/media/documents/article/industry-research/definitions-for-responsible-investment-approaches.pdf, November 2023

(d) **Thematic Investing**

Thematic investing involves "*[s]electing assets to access specified trends*"[2]. The underlying hypothesis aims to benefit from the expected allocation of resources to forecasted trends, for example, by investing in assets that may benefit from a move towards sustainable agricultural practices.

Stewardship

2.6 Through practices that fall under the umbrella term "stewardship", investing institutions may be able to influence the behaviour and decisions of those companies and organisations they invest in as a result of managing clients' capital. They may do this by using their proxy voting rights on company matters or by deciding to deploy more capital in a company or to divest from it. They may also do this through "soft power", such as by allying with fellow investing institutions to encourage companies to advance their own practices in relation to ESG factors.

2.7 In relation to ESG considerations specifically, some commentators and market participants consider stewardship to be a standalone ESG strategy in and of itself. For example, an ESG fund might purchase shares in a company with the express intention of using voting rights to influence company policy on ESG-related issues. The FSRA believes that an ESG Investment Vehicle should seek to engage with companies and exercise appropriate stewardship to deliver positive ESG outcomes as a matter of course. Accordingly, the FSRA does not view stewardship as a distinct ESG investment strategy but, rather, standard good practice by the managers of an ESG Investment Vehicle.

3. UNDESIRABLE OR MISLEADING NAMES

3.1 The FSRA has regulations and rules that require reasonable steps to be taken to ensure that statements or disclosures to investors are clear, fair and not misleading, nor deceptive. These requirements apply to both Authorised Persons and investment products.

3.2 It is important to note that these requirements extend to an investment product's name as that is likely to set investor expectations regarding what they are investing in and the assets they may gain exposure to. An investment product's name is also likely to suggest what the primary focus of the investment is and what distinguishes it from other investment products. It is, therefore, of the utmost importance that an investment product's name does not mislead investors.

3.3 In relation to Funds, pursuant to Section 117 of FSMR, the FSRA has the power to direct the Fund Manager to change the name of a Fund if it is undesirable or misleading. For Model Portfolios, the FSRA has the power to take regulatory action against an Investment Manager or Fund Manager who has not taken reasonable steps to ensure its communications with investors, including in relation to the names of Model Portfolios, are clear, fair and not misleading.

3.4 An ESG Investment Vehicle will often use general terminology such as "ESG", "sustainable" or "responsible" in names or other communications with investors. Use of such broad labels can be confusing where applied inaccurately, for example where it is erroneously used to mean only one or two of the individual "E", "S" or "G" components.

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3.5 *Misleading names of products or services* - the name of an investment product or service should not mislead with regard to its focus and investment objectives. An investment product or service should not use an ESG or seemingly equivalent name unless ESG or sustainability-related objectives and strategies form a core focus for the product or service.

3.6 *Use of broad-meaning terms* - terms that may be used synonymously with ESG, e.g. "sustainable" and "socially responsible", are often used broadly and may have different connotations for different investors. As such, when broad-meaning terms are used in the name of an ESG Investment Vehicle, clarifying disclosures should be provided to investors that adequately explain how the investment objectives of the product or service link back to and are consistent with its name. The FSRA encourages managers to make disclosures to investors in plain language to further understanding.

3.7 *Use of the term "ESG"* – particular care should be taken in using the term "ESG" where all three "E", "S" and "G" components are not included in a product or service's investment objectives and policy. Where only one or two ESG component factors are relevant, it may be preferable to use alternative terminology to ensure clarity and mitigate any greenwashing risk.

4. ESG INVESTMENT STRATEGIES

4.1 As noted earlier, there are a number of ESG investment strategies that an ESG Investment Vehicle may deploy, either in isolation or as a combination. An explanation of the distinguishing features of the ESG strategy or strategies used is necessary to inform investor expectations around the approach to selecting underlying investments and the types of assets to be found in the investment product portfolio, for example, the sectors or geographies that the underlying investments may be selected from. Failing to specify clearly which ESG investment strategy is in operation may fail to meet the FSRA's overarching requirements, which is that communications with investors must be clear, fair and not misleading.

Category error

4.2 The term "category error" in the context of an investment product or service is where the investment strategy is poorly described or understood, or both. For example, where an investor expects that the use of the term "ESG" means that an investment product or service will follow an impact strategy, when in fact it is following an ESG integration or exclusion strategy. In such instances, investors' expectations may not be met given the differences between the strategies and the intended outcomes.

4.3 Category error is most likely to occur in the case of an impact investing strategy, which may result in investments in companies with an aim to influence their movement towards the achievement of particular goals. For example, an impact fund may invest in a company that lacks board diversity, with the aim of influencing a move towards a more diverse board.

4.4 This may create confusion for investors in terms of their expectations of the assets that a fund may hold based on the name of the fund or broadly expressed objectives of the fund. Investors may assume that the strategy includes a screening strategy when that is not the case and so investor expectations are not aligned with the assets held. For example, an investor may assume that an environmentally-focussed fund would not hold any oil and gas securities given the environmental focus, when the investment or fund manager may be pursuing an impact strategy by purchasing oil and gas securities with the objective of engaging in proxy voting efforts to bring down the issuers' carbon footprint.

4.5 It is possible that more than one ESG investment strategy is employed by an ESG Investment Vehicle. For example, a screening strategy to filter the investable universe initially followed by an impact strategy. It is also possible that over time an ESG Investment Vehicle may evolve its strategy, although this would need to be communicated to investors.

4.6 In addition, some ESG Investment Vehicles may retain the discretion to invest in assets that are not consistent with the ESG strategy they are pursuing. For example, a fund that screens issuers that have publicly-disclosed and credible net zero transition plans may, nonetheless, have included the discretion to invest up to 10% of its assets in companies that have not disclosed net zero transition plans.

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4.7 *Where to disclose the ESG investment strategy* - in the case of a Domestic Fund, the ESG investment strategy should be clearly specified in the investment objectives and restrictions as stated in its Constitution and/or most recently published Prospectus. In the case of a Model Portfolio, the ESG investment strategy should be clearly stated in the Discretionary Portfolio Management Agreement. In both cases, the ESG investment strategy should be clearly spelled out in relevant sales and marketing material.

4.8 *Prevention of category error* - an ESG Investment Vehicle should identify and communicate the ESG investment strategy employed in a manner that is clear, fair and not misleading. This should include sufficient detail on the screening, selection and prioritisation aspects of the investment process. It should also provide investors with a clear idea of the types of assets that may be acquired by the ESG Investment Vehicle. There should be clarity on the ESG factors or screens that will be used, how they are evaluated, i.e. whether qualitative or quantitative analysis is conducted and any relevant thresholds, where applicable. ESG investment strategies should aim to avoid using vague ESG factors that cannot easily be analysed.

4.9 *Use of multiple ESG investment strategies* – where an ESG Investment Vehicle uses more than one ESG investment strategy, information should be provided to investors on all the strategies it uses and the prioritisation or interplay between the varying strategies in portfolio asset selection.

4.10 *Incongruence between ESG investment strategy and underlying holdings* – an ESG Investment Vehicle should set minimum thresholds[3] for investments aligned to its sustainability-related goals and disclose such thresholds to investors. Where an ESG Investment Vehicle does not set such minimum thresholds, it should communicate clearly to investors that it has not done so

[3] As an example, in its guidelines for funds' names using ESG or sustainability-related terms, the European Securities and Markets Authority outlines an expectation that if a fund has any ESG-related words in its name, a minimum proportion of at least 80% of its investment should be used to meet the environmental or social characteristics or sustainable investment objectives.

and the underlying rationale. Where an ESG Investment Vehicle retains the ability to invest a portion of its portfolio in assets that may not be consistent with the overall ESG values that it is pursuing, full disclosure should be provided to investors on what proportion of such assets this applies to, when it applies and what type of assets it can invest in.

4.11 *Disclosures in plain and simple language* - disclosures around the ESG investment strategy to be pursued by an ESG Investment Vehicle should be made in plain and simple language and aim to ensure investor understanding. The disclosures should explain how the investment strategy will fulfil an ESG Investment Vehicle's ESG objectives, the ESG factors being used, the types of assets that may be held, and clarify terms that may not be universally or well understood, particularly in the case of retail investors.

4.12 *Use of indicators and metrics* - where an ESG investment strategy aims to achieve measurable ESG impact, the FSRA expects that an ESG Investment Vehicle employing that strategy will provide clear disclosures around:

- the outcomes, indicators or metrics that are being targeted;
- the timeline for achievement of such targets; and
- its strategy towards achieving those targets and its progress in achieving those targets.

The indicators and metrics used to set the ESG targets should be relevant, reliable, and comparable. Where there is discretion to change targets in response to evolving circumstances, such discretion should be appropriately communicated, and any exercise of such discretion should be promptly disclosed to investors.

On an ongoing basis, we expect an ESG Investment Vehicle to:

(a) monitor and evaluate the performance of the vehicle against the relevant ESG indicators or metrics on a regular basis;

(b) disclose any limitations, assumptions or uncertainties in its measurement and reporting of ESG indicators or metrics;

(c) collect and report data that is accurate, complete, and timely;

(d) verify and validate any claims made by the issuers or offerors of the underlying assets in order to assess progress towards disclosed target metrics;

(e) where appropriate, develop and implement a measurement and management system that measures the impact on performance against ESG factors over the entire investment cycle, from pre-investment to exit; and

(f) where practical and appropriate, seek to validate the impact and progress of the ESG Investment Vehicle against the specified ESG factors through independent audit, evaluation or certification, with suitable regularity.

4.13 *Impact strategy* – where an ESG Investment Vehicle intends to follow an impact strategy, it should clearly define and communicate this strategy to investors. In doing so, investors should be made aware of the ESG issues or challenges that the ESG Investment Vehicle aims to address, the target beneficiaries or stakeholders, the expected outcomes and impacts, and the indicators and metrics to measure and report performance and/or effect. Where appropriate, an ESG Investment Vehicle should demonstrate how its impact strategy incorporates the views and interests of affected communities and stakeholders into the design and implementation of the investment strategy.

4.14 *Additionality* – we encourage an ESG Investment Vehicle to consider adopting the concept of additionality in developing its ESG investment strategies and associated disclosures to investors, which should consider and disclose the following information.

(a) How its investment strategy is creating or enhancing a positive ESG impact that goes beyond what would have occurred in the absence of the deployment of such strategy. Where an ESG Investment Vehicle adopts a strategy of exclusionary investing, it should seek to demonstrate how that investment strategy may yield positive ESG impacts.

(b) Evidence to support its claims that its ESG investment strategy has provided or will provide additionality, particularly in the case of an impact strategy, supported by a rigorous and credible methodology for assessing the level of additionality that has been achieved or is being sought.

(c) Where applicable, an assessment and mitigation of any potentially negative or unintended ESG impacts of the ESG Investment Vehicle's investments.

4.15 *Stewardship* – where an ESG Investment Vehicle undertakes stewardship to influence certain outcomes in line with its ESG targets, it should:

(a) explain its rationale for engaging with particular investee companies to influence change in their behaviours;

(b) provide details regarding the ESG Investment Vehicle's approach to stewardship, including the aims of the ESG Investment Vehicle's approach;

(c) explain how those stewardship activities are aligned with its objectives, with examples of progress; and

(d) provide updates on its progress or case studies of successful engagement(s) where it has undertaken stewardship activities.

If proxy voting is an active part of an ESG Investment Vehicle's stewardship activities, we encourage it to provide details of its proxy voting policies and procedures to investors, and to consider making its proxy voting records available to them. The aim of this would be to facilitate transparency and support a greater understanding of how the ESG investment strategy will be implemented through stewardship in practice.

Other examples of disclosures that an ESG Investment Vehicle can provide to investors regarding stewardship activities may include its stewardship policy and/or engagement policy, seats occupied or directors nominated to a company's board of directors, shareholder resolutions or statements submitted, and engagement with other investee companies or third parties on stewardship-focussed initiatives.

5. ESG TAXONOMIES

5.1 In its existing regulatory framework for Green Funds, Climate Transition Funds, Green Portfolios and Climate Transition Portfolios, the FSRA advocates the use of independent, third-party, published and credible taxonomies as a basis to select assets which are environmentally sustainable or, in the case of climate transition, in the process of becoming so. The FSRA provides examples of such taxonomies in its supplementary guidance[4]. We encourage that a similar approach be applied to an ESG Investment Vehicle's selection of assets.

5.2 The use of a published, credible, independent, third-party taxonomy for the purpose of asset selection is preferable in order to help clarify the practical meaning of "ESG" in the context of that product or service. Where an ESG Investment Vehicle does not use an established ESG taxonomy, it is more likely that there will potentially be a mismatch between an investor's individual interpretation of ESG and that applying to the ESG Investment Vehicle. This is a particular risk in terms of social issues, where the concept of a 'positive' social outcome may mean different things depending on culture, political persuasion or religious orientation.

5.3 There are a number of taxonomies in relation to environmental aspects that enjoy a high level of recognition, however, stakeholders may not always be aware of credible, independent and published taxonomies that address social or governance aspects, or that consider ESG factors as a combination (i.e. E + S + G, together).

Guidance

5.4 *Taxonomy as a basis to establish common understanding* – the FSRA is of the view that an ESG Investment Vehicle should employ the use of an appropriate ESG taxonomy or an internationally accepted standard or framework[5] as the basis upon which to determine what ESG investing represents in the context of its investment objectives and policy. It should be noted that the Guidance above is not relevant where an ESG Investment Vehicle uses an ESG benchmark or index as a basis for selecting assets, which is addressed in section 7 of this Guidance.

5.5 *Selection of a taxonomy* – an ESG Investment Vehicle should consider the following when selecting an ESG taxonomy:

(a) The coverage and granularity of the taxonomy, standard or framework, i.e. whether it:

- covers some or all of the "Environmental", "Social" and "Governance" aspects and to what extent;
- applies to all or specific sectors or activities; and

[4] Supplementary Guidance – Sustainable Finance Regulatory Framework, July 2023

[5] Examples of internationally recognised ESG taxonomies or standards/frameworks that address ESG factors as a combination can include the EU's taxonomy for sustainable activities or the UN Sustainable Development Goals

- provides detailed and quantifiable criteria for the classification of assets and economic activities.

(b) The credibility, legitimacy, independence and extent of the recognition of the ESG taxonomy, standard or framework, i.e. whether it:

- has been developed and published by a reputable and authoritative institution or body;
- is based on robust and transparent methodologies and data sources; and
- is widely used and accepted by other investors, stakeholders and the markets.

In addition, the processes and justification for the selection of that ESG taxonomy, standard or framework should be appropriately documented.

5.6 *Disclosure* – after selecting an ESG taxonomy, an ESG Investment Vehicle should disclose its choice of ESG taxonomy to investors in applicable documentation and marketing materials.

6. THIRD-PARTY ATTESTATION

6.1 Third-party attestation is a feature of the FSRA's Rules on Green Funds, Climate Transition Funds, Green Portfolios and Climate Transition Portfolios. While recognising that there may be additional costs associated with obtaining third-party attestations, the FSRA supports the use of third-party attestation as a way to provide assurance to investors and other stakeholders that an ESG Investment Vehicle is being managed in accordance with its objectives and that its claims are clear, fair and not misleading. This is in part because it may be particularly challenging for investors to establish whether the assets in a portfolio are consistent with the chosen ESG taxonomy.

6.2 Such attestation would not be necessary for an ESG Investment Vehicle in relation to the assets it selects from or that track an ESG benchmark or index (see section 7). This is because of the limited benefit that third-party attestation brings to verifying whether investment assets are either a part of or tracking an ESG index. The FSRA does not, therefore, see the value in requiring a specialist third-party to undertake this relatively straightforward task.

Guidance

6.3 We encourage an ESG Investment Vehicle to:

(a) on an ongoing basis, and at least annually, appoint a third-party to attest that its assets are consistent with the ESG taxonomy chosen;

(b) take reasonable steps to ensure that the third-party chosen to provide the attestation:

- has the required skills, resources and experience to provide the attestation;
- is independent and not subject to any conflicts of interest; and

- has been provided with all documents, records and information necessary to conduct the attestation;

(c) ensure that it refers to the use of a third-party attestation provider in the relevant Fund documentation or Discretionary Portfolio Management Agreement, as applicable; and

(d) document its activities in relation to sub-paragraphs (a) and (b).

6.4 The Fund Manager of an ESG Investment Vehicle that is a Qualified Investor Fund may elect instead to provide such attestation itself.

7. USE OF THIRD-PARTY ESG BENCHMARKS AND INDICES

7.1 Globally, many funds and portfolios use ESG benchmarks or indices to select assets that conform to their investment objectives. At present, not all ESG benchmarks/indices have asset selection methodologies that are based on quantifiable criteria, established in relation to published regulations, or that use universally understood criteria. While many ESG benchmarks/indices provide a valuable contribution to ESG investment, many have also been criticised by financial services regulators due to issues relating to data quality, the inability of regulators or investors to verify or audit the underlying data, reliance on hard-to-clarify concepts, and potential conflicts of interest.

7.2 Notwithstanding their current limitations, the FSRA believes that there is a role for ESG benchmarks and indices, particularly as their use may enable lower-cost ESG Investment Vehicles to be provided and potentially help expand the availability of ESG Investment Vehicles.

Guidance

7.3 Where ESG benchmarks or indices are used to select investments, an ESG Investment Vehicle should, for each ESG benchmark or index used:

(a) disclose its name and nature, as well as the name of the provider(s);

(b) provide a description of the methodology used to create it, the data and data sources used to select underlying constituents, any level of subjectivity involved and any limitations thereof;

(c) ensure, and be able to demonstrate, that it is used in a manner that supports and does not detract from the ESG Investment Vehicle's investment objectives and strategy;

(d) regularly review it to ensure it continues to adhere to applicable rules, discontinuing its use where it does not comply with those rules; and

(e) clearly identify and disclose any potential or realised conflicts of interest arising from the use of such ESG benchmark or index.

8. DISCLOSURE AND MARKETING

8.1 An ESG Investment Vehicle should not exaggerate its ESG-related features or practices. ESG-related information should be disclosed in a manner that is clear, fair, and not misleading. Our expectations, as set out in this Guidance, address various areas in which the risk of greenwashing arises.

8.2 In addition, we encourage industry participants to contribute to industry-led efforts to achieve improved alignment on definitions and commonly used terms.

Guidance

8.3 *Greenwashing* – we expect an ESG Investment Vehicle to, at a minimum:

(a) accurately describe the extent to which an ESG Investment Vehicle is focussed on ESG factors or goals and be clear about which of the ESG factors or goals it is focussed on;

(b) provide appropriate qualifications, limitations or explanations when making ESG-related claims;

(c) not make ESG performance-related claims that might be considered misleading where those claims:

- exaggerate or misrepresent such performance;
- cherry-pick data or information to show ESG performance in a positive, but possibly misleading light;
- are vague in nature and may be misinterpreted; or
- suggest direct causal links between the ESG Investment Vehicle's strategies and positive ESG outcomes, i.e. they imply additionality, where such links do not exist or are not demonstrable; and
- not suggest that being a signatory or party to ESG-related initiatives indicates, by default, that ESG-factors are applied across the board for all its investment-related activities.

8.4 *Plain and simple language* – an ESG Investment Vehicle should endeavour to provide disclosures in plain and simple language. In particular, the description of investment objectives and strategies provided to investors should include a plain language description of the processes and criteria used by the ESG Investment Vehicle that could reasonably be expected to be understood by those investors. ESG-related terms that are used, but that may not be well or commonly understood, should be clearly explained in disclosures.

8.5 *Risk factors* – an ESG Investment Vehicle should disclose relevant risks in investor documents, particularly those that are pertinent to or arise from the pursuit of its ESG objectives and strategies. In particular, where there is a risk that ESG factors may impact the potential for return, this should be disclosed to investors.

8.6 *Suitability* – an ESG Investment Vehicle should ensure appropriate disclosures are provided to investors around the characteristics and types of investors for whom the investment is suitable. If there are investors for whom the investment product or service is not suitable, this should be adequately highlighted. Further to the Guidance above about not conflating the "E", "S" and "G" components inappropriately in the name of a Fund or Model Portfolio, an ESG Investment Vehicle should ensure that suitability-related disclosures do not conflate the separate aspects of ESG. If an ESG Investment Vehicle is focussed on particular ESG aspects, the suitability disclosure should adequately differentiate the particular types of investors for whom the product is appropriate given its ESG focus.

8.7 *Educating investors* - we encourage ESG Investment Vehicles, as well as other financial services industry participants, to provide or direct investors to resources regarding the topic of ESG investment strategies, including, where appropriate, this Guidance.