FLASH NOTE

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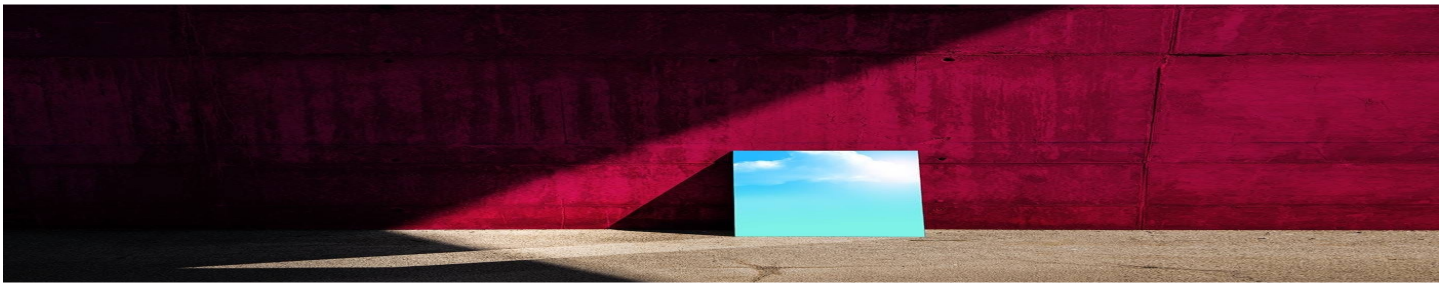

How do sustainable finance regulations protect savers?

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After the 2008 financial crisis, the European Union strengthened the regulations governing financial investments to improve transparency for retail investors. The regulatory arsenal has expanded since then to protect the interests of savers, especially in relation to sustainable investment.

Fourteen years ago, US investment bank Lehman Brothers went bankrupt, triggering a major financial crisis. While the collapse of this institution brought down several players in the finance sector, as well as industrial companies and countless savers, it also underscored the fact that financial instruments were becoming increasingly complex and opaque.

This prompted the European Union (EU) to embark on a major shift in regulatory policy to protect the interests of retail investors. The aim was to improve transparency in relation to the financial investments on offer in the 27 member states and so better protect savers by supplying solutions that truly met their needs. After all, with a wide array of investment solutions on offer, investors need to be sure that the money they invest will meet their stated aim and reflect their preferences.

Better information

Transparency of information is key to protecting savers. In 2014, the European Commission introduced a number of related measures in its Markets in Financial Instruments Directive (MiFID 2). These entered into force in 2018.

When they provide services, banks, management companies, investment companies and financial investment advisers must supply clients with detailed information about the proposed products. For equities, bonds, investment fund units and SICAVs (open-ended investment companies), product characteristics such as the risk level, investment horizon and target market must be specified.

Clients are also informed of the existence and amount (or calculation method) of remuneration and fees paid to or by third parties. Clients are provided with this information via a document called the key investor information document (KIID).

Getting to know clients better

The second type of protection involves getting to know the client (KYC). Suppliers of financial products are required to offer products suited to the client's investor profile.

To define their profile, the client must complete a "suitability" questionnaire when entering into a business relationship with an adviser to assess how much they know about finance, their risk appetite, their financial situation and their investment objectives. Since August 2022, the questionnaire has also covered the client's sustainable investment preferences.

Better understanding your attitude towards responsible investment

This questionnaire is used to define the client's investor profile and determine the type of products and services that can be provided to them. This ensures that clients are offered advice tailored to their profile, reflecting their knowledge and experience of investment, their financial situation and their objectives.

An action plan for sustainable finance

Sustainable finance – i.e. any financial activity where the aim is to serve the interests of the community over the medium to long term – is the EU's latest hobby-horse and the subject of a vast action plan. The public sector cannot finance the energy transition alone, so the EU is seeking to channel private capital towards sustainable investment.

Once again, this relies in part on sustainability information regarding financial investments. The SFDR (Sustainable Finance Disclosure Regulation), in force since 10 March 2021, now requires asset managers and investment advisers to publish information on how sustainability risk is taken into account. It also compels them to disclose the principal adverse impacts of their investments. This should allow investors to compare products and choose the product best suited to their personal objectives.

To this end, the regulation requires asset management companies such as Carmignac to classify their funds on the basis of the objective pursued, and the following three objectives in particular:

- article 9 for products with quantifiable sustainable investment objectives at the heart of their investment process;
- article 8 for funds that promote environmental and social characteristics;
- article 6 for funds with no sustainability objective.

Subsequently, an environmental initiative called the European "Taxonomy" has been introduced. This establishes an EU-wide classification system for identifying economic activities objectively considered "green".

Learn more about the European Taxonomy

Through these various regulations, the EU is seeking to ensure that savers receive clearer and more transparent information that will help them better understand the solutions on offer. By making it easier to compare financial products, these regulations are helping households to invest in accordance with their objectives.

What is the situation at Carmignac?

To address the challenges of sustainable investment and the matter of transparency, we are assessing the adverse impacts of our investments on the three ESG pillars: the environment, social issues and governance. We also have a fund range that allows our clients to take concrete action while adhering to their investment objectives.

Furthermore, 90% of our assets under management incorporate environmental or social characteristics or have a sustainable investment objective. And 13 of our 32 funds have at least one recognised socially responsible investment (SRI) label (SRI label and Towards Sustainability label).

To visualise how to optimise your savings based on your investment objectives

Learn about our various investment strategies