# SDR and its Role in Managed Portfolio Services

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As the UK's Financial Conduct Authority (FCA) advances the Sustainability Disclosure Requirements (SDR) into managed portfolio services, this critical evolution promises to shape the landscape of financial planning and portfolio management significantly. The integration of SDR into portfolio management services is poised to enhance sustainable investing, emphasising the urgency for financial advisers and investors to understand its implications fully.

## Understanding SDR and its Impact on Portfolio Management

**SDR Labelling and Investment Intentionality**
The FCA's introduction of the Sustainable Disclosure Requirements (SDR) into portfolio management has initiated a significant shift in how sustainability is integrated into popular investment strategies. The SDR labelling regime categorises investments into three primary types: 'Sustainability Improvers', 'Sustainability Focus', and 'Sustainability Impact'. Each category requires portfolio managers to demonstrate investment 'intentionality', replacing the previous emphasis on 'additionality'. This shift mandates that managers provide a clear 'theory of change' for their investments, backed by measurable impact indicators.

**Introduction of Four Investment Labels**
The FCA has introduced four distinct investment labels: Sustainability Impact, Sustainability Focused, Sustainability Improvers, and Sustainability Mixed Goals. These labels are designed to help consumers easily identify and understand the sustainability objectives of their investments.

**Global Influence and Regulatory Compliance**
The impact of the SDR extends beyond the UK, influencing global markets as other jurisdictions begin to establish similar frameworks for regulating sustainability in investments. In the UK, portfolio managers are required to ensure that at least 70% of the gross value of their portfolios meet specific sustainability criteria to qualify for one of the SDR labels. This includes adhering to strict naming and marketing guidelines, particularly for products targeted at retail consumers, to minimise greenwashing and ensure that sustainability claims are accurate and substantiated.

**Implementation Timeline and Oversight**
The FCA has set a clear timeline for the integration of these new standards into portfolio management. The consultation period for these changes concludes on 14 June 2024, with the new rules expected to be in place by 2 December 2024. To monitor the effectiveness of these labels and disclosures, the FCA plans to conduct supervisory activities and a post-implementation review three years after the regulations have been enacted. This structured approach aims to foster greater trust and transparency in sustainable investment products, significantly reducing the risk of greenwashing.
Starting from 2nd December 2025, firms will be required to provide detailed on-demand disclosures to eligible clients, further enhancing transparency and accountability in sustainable investing.

## The Evolution of Managed Portfolio Services in Light of SDR

**Compliance with New SDR Rules**

The introduction of SDR by the FCA necessitates significant adjustments within managed portfolio services. To remain compliant, these services must align their offerings with the stringent criteria set forth by the SDR. This alignment involves a thorough review and modification of existing investment products and strategies to ensure they meet the sustainability standards required under the new regulations.

**Impact on Service Offerings**

The shift towards compliance with the SDR is expected to influence the scope and nature of services offered by financial institutions. This involves not only incorporating sustainability criteria into investment decisions but also ensuring that all marketing and communication strategies are transparent and free from greenwashing. The evolution of MPS in response to the SDR is likely to result in more robust, transparent, and sustainability-focused financial products available to retail investors.

## Comparing the Pre and Post-SDR Scenario for Investors and Firms

**Increased Clarity for Investors:** The introduction of SDR has significantly enhanced the transparency of sustainable investment products. Investors now benefit from standardised disclosures that clearly outline a product's sustainability profile and performance, making it easier to make informed decisions.

**Enhanced Consumer Understanding:** With the implementation of consumer-facing disclosures, retail investors are better equipped to understand the nuances of a product's sustainability impacts and financial returns.

The FCA’s strategy includes a strong consumer focus, aiming to protect investors by providing clear, accessible information about the sustainability of their investments. This approach is part of a broader trend towards increased transparency in the financial sector. By implementing a 70% minimum investment threshold for all labels, the FCA ensures that the majority of holdings within portfolios genuinely contribute to sustainability goals, thereby upholding the integrity of sustainable investment products.

# FAQs

**1. What does SDR regulation entail?**
SDR regulation, as defined by the UK's Financial Conduct Authority (FCA), mandates that financial products marketed as sustainable must live up to their claims and provide supporting evidence. This ensures transparency and accountability in sustainable finance.

**2. When will the SDR be implemented for UK funds?**
The UK Sustainability Disclosure Requirements and Investment Labels Regime, overseen by the Financial Conduct Authority (FCA), is set to launch in July 2024. This will be rolled out in phases until December 2026, affecting managers of funds.

**3. Who is required to comply with SDR?**
SDR regulations and disclosures are mandatory for a wide range of financial services entities within the UK. This includes most types of asset managers and distributors, along with the investment products they handle. Currently, the regulations are applicable only to UK entities.

**4. What is the minimum threshold for the Sustainability Focus category under SDR?**
The minimum threshold for qualifying under the Sustainability Focus category in SDR is set at 70%, which is consistent across all labels.

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**Risk Warnings**


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