

PAS 7342:2025

Sustainable investment funds – Design, implementation, monitoring and communication of sustainability attributes – Specification



Department for
Energy Security
& Net Zero





Publishing and copyright information

The BSI copyright notice displayed in this document indicates when the document was last issued.

© The British Standards Institution 2025
Published by BSI Standards Limited 2025

ISBN 978 0 539 16422 0

ICS 03.060

No copying without BSI permission except as permitted by copyright law.

Publication history

First published March 2025

Contents

Foreword	iii
0 Introduction	v
0.2 What is sustainable investing?	vi
1 Scope	1
2 Normative references	1
3 Terms and definitions	2
4 Sustainable investment fund naming	6
5 Objectives	7
5.1 General	7
5.2 Assessing appropriateness of objectives	8
5.3 Monitoring objectives	8
5.4 Updating or reviewing objectives	9
5.5 Key performance indicators (KPIs)	9
5.6 Assets that do not align to fund objectives	10
6 Fund-level sustainability policies	11
6.1 General policy requirements	11
6.2 Fund policy – Issues	14
6.3 Fund policy – Approaches	16
6.4 Stewardship policies and strategies	18
6.5 Stewardship activity – Documentation and reporting	20
7 Sustainable investment fund labelling	21
8 Evidence	22
8.1 General	22
8.2 Collating evidence	23
9 Fund and fund manager governance and resources	24
9.1 Resources	24
9.2 Governance and monitoring processes	24
9.3 Breaches	25
10 Monitoring	26
10.1 Monitoring appropriateness of strategy	26
10.2 Monitoring accuracy of disclosures	26
10.3 Monitoring adherence to fund objectives and policies	26

11 Disclosure and marketing 28

11.1 Sustainable fund communication and marketing..... 29

11.2 Communicating the delivery of improvements 31

11.3 Communicating assets that do not align to sustainability objectives..... 32

11.4 Communicating fund labels..... 32

11.5 Communicating success 32

11.6 Communicating with distributors 33

Annexes

Annex A (informative)

Issues/approaches policy summary 34

Bibliography..... 36

Standards publications..... 36

Other publications 36

List of tables

Table A.1 – Issues/approaches policy summary..... 34

Table A.2 – Example policy summary..... 35

Foreword

This PAS was sponsored by industry organizations, including Guernsey Finance, Impax Asset Management, IP Group, Royal London, and Scottish Widows, and by the Department for Energy Security and Net Zero (DESNZ). Its development was facilitated by BSI Standards Limited and it was published under licence from The British Standards Institution. It came into effect on 31 March 2025.

Acknowledgement is given to Julia Dreblow (Riches), SRI Services, as the technical author, and the following organizations that were involved in the development of this PAS as members of the Steering Group:

- CFA Society UK
- Baillie Gifford
- Consumer and Public Interest Network
- Department for Energy Security and Net Zero (DESNZ)
- Granito Group
- Impax Asset Management
- IP Group
- Legal and General Investment Management
- MSCI ESG Research
- P1 Investment Management
- Scottish Widows
- SRI Services
- T. Rowe Price International Ltd
- WHEB Group

Acknowledgement is also given to the members of a wider review panel who were consulted in the development of this PAS.

The British Standards Institution retains ownership and copyright of this PAS. BSI Standards Limited, as the publisher of the PAS, reserves the right to withdraw or amend this PAS on receipt of authoritative advice that it is appropriate to do so. This PAS will be reviewed at intervals not exceeding two years.

This PAS is not to be regarded as a British Standard. It will be withdrawn in the event it is superseded by a British Standard.

The PAS process enables a standard to be rapidly developed in order to fulfil an immediate stakeholder need. A PAS can be considered for further development as a British Standard, or constitute part of the UK input into the development of a European or international standard.

Relationship with other publications

This PAS is part of the sustainable finance programme, which includes the following standards:

- PAS 7340 (withdrawn), *Framework for embedding the principles of sustainable finance in financial services organizations – Guide*
- PAS 7341, *Responsible and sustainable investment management – Specification*

Use of this document

BSI permits the reproduction of PAS 7342:2025, Table A.1. This reproduction is only permitted where it is necessary for the user to record findings on the table during each application of the document.

Information about this document

This publication can be withdrawn, revised, partially superseded or superseded. Information regarding the status of this publication can be found in the Standards Catalogue on the BSI website at knowledge.bsigroup.com, or by contacting the Customer Services team.

Where websites and webpages have been cited, they are provided for ease of reference and are correct at the time of publication. The location of a webpage or website, or its contents, cannot be guaranteed.

Copyright is claimed in definition 3.23. Copyright holder is Financial Conduct Authority, 12 Endeavour Square, London E20 1JN. Used with kind permission of FCA.

ROYAL LONDON is a registered trade mark of The Royal London Mutual Insurance Society Limited.

Presentational conventions

The provisions of this document are presented in roman (i.e. upright) type. Its requirements are expressed in sentences in which the principal auxiliary verb is "shall".

Commentary, explanation and general informative material is presented in smaller italic type, and does not constitute a normative element.

Where words have alternative spellings, the preferred spelling of the *Shorter Oxford English Dictionary* is used (e.g. "organization" rather than "organisation").

Contractual and legal considerations

This publication has been prepared in good faith, however no representation, warranty, assurance or undertaking (express or implied) is or will be made, and no responsibility or liability is or will be accepted by BSI in relation to the adequacy, accuracy, completeness or reasonableness of this publication. All and any such responsibility and liability is expressly disclaimed to the full extent permitted by the law.

This publication is provided as is, and is to be used at the recipient's own risk.

The recipient is advised to consider seeking professional guidance with respect to its use of this publication.

This publication is not intended to constitute a contract. Users are responsible for its correct application.

Compliance with a PAS cannot confer immunity from legal obligations.

0 Introduction

0.1 Background

This PAS is part of a suite of standardization documents relating to sustainable finance that have been developed in conjunction with industry and the Department for Energy Security and Net Zero (and before that, the Department for Business, Energy and Industrial Strategy).

PAS 7340 provided an introduction to, and guidance on, the theme of sustainable finance, defining sustainable finance as the application of financial services to achieve the goal of sustainability, including the consideration of environmental, social and governance (ESG) criteria in business or investment decisions. This has now been withdrawn and replaced by BS ISO 32210.

PAS 7341 covers responsible and sustainable investment management, setting out requirements for a firm-level approach to responsible investment management and how such requirements can be translated into considerations for a sustainable investment approach.

PAS 7342 builds on these requirements, specifying how sustainable investment fund managers are to design, implement, monitor and communicate sustainability attributes.

This PAS recognizes the complexity of sustainability, including the fact that different fund managers focus on different areas of the sustainability agenda and approach issues, risks and opportunities in different ways. As such, it sets out a framework to help fund managers develop and implement sustainable investment fund policies that they can document and communicate to clients.

PAS 7342, whilst building on PAS 7340/BS ISO 32210 and PAS 7341, reflects the significant increase in interest in sustainable investment in recent years, the challenges the area faces, and recent regulatory developments. Greenwashing (see 3.11), in particular, has become a major challenge for the investment community, with much debate around what does and does not constitute a sustainable investment fund and whether clients have been misled by managers overstating their environmental and/or social credentials. This PAS focuses on how to prevent sustainable investment clients from being misled. However, it does not dictate where sustainable funds invest or the specific sustainable investment policies that direct investment selection and client communications.

The Financial Conduct Authority (FCA) responded to greenwashing criticisms in 2022 with the Sustainable Disclosure Requirements and investment labels consultation, CP22/20 [1]. This was finalized in November 2023 in the Sustainability Disclosure Requirements and investment labels policy statement, PS23/16 [2]. The FCA's view, and that of other regulators, is that steps need to be taken to ensure that clients are not misled and that sustainable investment funds are managed in line with their promoted strategies. The FCA's work in this area makes it clear that sustainable investment funds are covered by longstanding regulatory principles, such as the requirement to be clear, fair and not misleading, as well as newer principles, such as contributing to the achievement of net zero targets if a fund claims to do so. This PAS has been informed by this work and aims to build on it in terms of the design, implementation, monitoring and communication of funds that are intended to focus on sustainability and contribute to the advancement of higher sustainability standards.

It is not, however, only the United Kingdom that is concerned about the lack of clarity in this area and how that might impact on the ability to deliver net zero globally by 2050. These challenges are international. This PAS, therefore, aims to enable other regimes, such as the EU's Sustainable Finance Disclosure Regulation (SFDR) [3], to operate alongside this framework, with the focus of the PAS being fund management mechanics and communication, not the selection of individual assets.

The ambition of this PAS is driven by two core principles:

- a) the need to support sustainable investment funds in articulating and meeting the sustainability policies and goals that they claim to target and so contribute to wider goals, such as net zero and the United Nations Sustainable Development Goals [4], referred to here as real-world outcomes; and
- b) the need for clients' reasonable expectations to be met (not misleading clients).

In the context of this PAS, it is also expected that asset management organization good practice is adhered to, for example the Financial Reporting Council UK Stewardship Code [5], Task Force on Nature-related Financial Disclosure recommendations [6] and International Sustainability Standards Board reporting, and that of relevant engagement initiatives, such as the Principles for Responsible Investment and Glasgow Financial Alliance for Net Zero.

0.2 What is sustainable investing?

Sustainable investment strategies are investment methodologies that go beyond the pursuit of short-term profit. They integrate environmental and/or social sustainability considerations into investment selection, decision making and asset management processes, to support the delivery of positive environmental and/or social outcomes.

Sustainable investment is primarily about making investment decisions that are aligned to published sustainability objectives and strategies. However, engagement is also a key component of many sustainable investment fund strategies and might impact investment decisions. Such strategies typically respond to major sustainability risks, such as climate change and nature loss, often in addition to other areas of concern and interest to clients. Many sustainable investment funds also have stewardship strategies, which focus on asset managers encouraging investee companies (or other asset types) to adopt higher standards for the benefit of investors and other stakeholders who are concerned about sustainability issues.

Sustainable investment fund managers are expected to understand systemic risks and so adhere to good practice and behave as true owners or stewards of investee assets. Sustainable investment fund managers often work to raise sustainability standards because few, if any, companies or other assets are perfectly sustainable. Strategies and mechanisms vary between fund managers and asset types, but include dialogue, also referred to as engagement, and shareholder voting.

NOTE 1 *This PAS takes the position that a commitment to high sustainability standards is beneficial, and that the pursuit of higher standards is entirely consistent with fiduciary duty. Implicit in this position is the view that unsustainable practices have increasingly negative consequences on society and economies, and increasingly undermine investment performance.*

Sustainable investment strategies focus on the environmental and social sustainability attributes of investable assets with the aim of supporting or advancing the delivery of positive real-world outcomes. What businesses (or other assets) do or make is typically central to investment decision making; however, the way a company operates and is managed, or governed, is also important.

Sustainable investment funds might invest in a single asset type or employ multi-asset strategies. Fund strategies might focus on assets with specific attributes or combinations of attributes, such as sustainability leadership, the provision of solutions to current or emerging environmental or social challenges, or sound employment and/or supply chain operations.

Sustainable investment fund managers are expected not to invest in assets with poor sustainability standards or those causing significant harm, such as major polluters or companies involved in human rights abuses, and where concerns exist fund managers are expected to review the appropriateness of an asset with a view to engaging or exiting, depending on the situation. Most therefore have exclusions or areas where they will not invest. Funds targeting improvement need to demonstrate scope for improvement and a reasonable expectation that activity aimed at delivering specific improvements might succeed. Sustainable funds ought not to invest in assets that conflict with their published sustainability objectives and strategies.

NOTE 2 *Focusing on improvement is an area of interest to many sustainable investment fund managers because of the social and environmental benefits associated with encouraging existing businesses to reduce their negative impacts and transition to higher sustainability standards.*

Strategies vary and can be required to meet relevant regulatory frameworks in the countries where they are promoted and/or sold. Sustainable investment funds or fund portfolios can apply to be specifically named, or labelled, in line with regulatory requirements.

Funds that take into consideration sustainability issues but are not promoted as sustainable investment funds (and do not choose to use predefined labels) also need to have clear communications and not to mislead clients.

Sustainability and ESG research can be gathered, managed and amalgamated with other relevant investment information in many different ways as part of investment strategies and decision-making processes.

In addition to delivering on their published sustainability objectives, sustainable investment funds typically take into consideration how to mitigate ESG risks in order to safeguard funds or enhance performance. Funds that focus primarily or entirely on the management or mitigation of ESG risks are not covered by this PAS, as that practice is increasingly business as usual and serves a different purpose from the forward-looking strategies that are integral to sustainable investment funds.

Sustainable investment funds can focus on short-, medium- and/or long-term environmental and social risks and opportunities.

Sustainable investment funds can be new funds, funds that were launched with a sustainability (or similar) remit, or funds that have been adapted to focus on sustainability issues.

Intentionally supporting or enhancing the delivery of positive real-world impacts and outcomes, whilst delivering financial returns, is central to the purpose of sustainable investment funds. This needs to be reflected in how a fund operates and is promoted. A focus on sustainability and, in particular, supporting the delivery of positive real-world solutions, benefits and impacts requires funds to have relevant structures, process, resources and management procedures in place. Fund managers need to be able to articulate the way environmental and social issues are understood, interpreted, managed and integrated into fund management.

There are many ways fund managers can do this. The FCA's SDR labelling regime focuses on the following:

- Funds that are promoted as impact funds are expected to provide additional information on how positive real-world impacts are delivered and measured.
- Funds focused on delivering improvements are expected to provide information on how improvements are delivered and prove that their activity is credible.
- Funds focused on selecting assets that already meet published sustainability criteria need to explain their selection and review processes.

All sustainable funds need to describe where they typically invest, and why, by publishing either all of their holdings or example holdings that are a true reflection of the fund strategy on an annual basis.

Sustainable investment funds can be designed to specialize in a single social or environmental issue or sector, or a number of issues or sectors. The issues taken into consideration by the fund and the way in which managers deal with them (the approach taken by the manager) are documented in a fund's sustainability policies. Sustainability policies form the basis of external communications that enable clients, advisers, portfolio managers and other intermediaries to understand what the fund does and where it will typically invest and not invest, so they can decide whether the fund suits an individual investor's personal preferences.

0.3 Aims of this PAS

PAS 7342 specifies how managers of sustainable investment funds are to communicate the sustainability-related aspects of their investment selection and management policies and processes.

This PAS does not aim to encourage, endorse or promote any single strategy. Sustainability is a complex and fast-evolving area; this PAS aims to encourage constructive innovation focusing on core principles but is not prescriptive about the issues or approaches that are to be adopted.

***NOTE** This PAS is not to be considered as representing any form of financial advice or guidance for individual investors.*

The purposes of this PAS are to:

- a) provide practical support, clarification, examples and notes indicating good practice, rather than setting out what is acceptable from a regulatory perspective, and;
- b) set out requirements for fund managers and assist intermediaries such as portfolio providers and financial advisers in the assessment of such funds and their representation and delivery to clients.

It is good practice to communicate a sustainable investment fund's objective, aims, and key points of differentiation, as well as its strategies, how the fund operates, and broadly where the fund invests. Fund manager strategies are and will remain diverse, as investment risks and opportunities, as well as client interests, vary. Sustainable investment fund strategies are expected to be dynamic, as sustainability challenges and considerations are rapidly evolving, so it is anticipated that fund strategies can change over time. This PAS focuses on enabling clear communication of demonstrable points of differentiation so that clients are not misled.

The relationship between fund-level investment selection and stewardship (engagement), which is typically across a fund manager's entire assets, varies. Fund literature and reports set out the approach adopted by individual funds and fund managers.

In order that clients are not misled and that sustainable investment contributes positively towards any goals or intended outcomes described in fund literature, such as supporting the delivery of net zero greenhouse gas emissions by 2050, effective documentation, disclosure and communication are essential. In addition to addressing greenwashing, this PAS aims to aid consistency of decision making and help clients make well-informed choices so that they can support the reallocation of investment capital and stewardship activity if they wish.

Where fund strategies take into consideration issues that complement but are not necessarily referred to as sustainability issues, such as ethical, values-based or governance issues, there is an expectation that these will be dealt with in an equally professional and transparent manner as sustainability considerations.

Clients need to be able to expect a consistent approach across all fund assets unless fund information indicates otherwise. Where exceptions exist for risk and fund management reasons, such as holding cash, these need to be disclosed, and funds need to check that such assets do not conflict with the fund policy. The way in which such decisions are made needs to be transparent, clear, fair and not misleading.

1 Scope

This PAS specifies requirements for the design, implementation, monitoring and communication of sustainable investment fund sustainability attributes.

NOTE *This relates to individual funds whether investment is held in a single asset type, multi-asset or portfolio of funds, unless indicated otherwise.*

It covers requirements on the processes by which a fund is designed, managed and presented to the market, including:

- a) the design, documentation and implementation of sustainable investment strategies, including the naming of such strategies;
- b) designing and communicating sustainable and related responsible investment-specific aims, objectives, outcomes and intentionality (e.g. explanation of the policies that influence investment selection decisions, intended impacts, outcomes, published fund objectives or other stated aims);
- c) communication of sustainable and related responsible investment-specific elements of the investment decision making and management process, including (but not restricted to) investment selection, stewardship activity, governance and ongoing monitoring;
- d) demonstrating governance of investment selection, management and review processes, including screening, asset selection and stewardship and engagement processes; and
- e) aiding the verification of sustainability-related elements of fund strategies, categorization and labelling.

It also covers requirements for the fund manager on how to:

- 1) demonstrate to intermediaries (e.g. financial advisers and portfolio managers) and individual investors that a fund meets its published sustainability objectives and criteria; and
- 2) respond to sustainable investment enquiries and complaints.

This PAS does not cover the accuracy of fund information and any supporting documents provided by fund managers, or how the validity of that information is to be assessed by potential investors.

This PAS is intended for use by fund managers.

This PAS might also be of interest to intermediaries, such as discretionary managers, wealth managers, portfolio planners, independent financial advisers, fund platforms, and both retail and institutional investors.

2 Normative references

The following documents are referred to in the text in such a way that some or all of their content constitutes provisions, or limits the application, of this document.¹⁾ For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

BS ISO 32210, *Sustainable finance – Guidance on the application of sustainability principles for organizations in the financial sector*

PAS 7341, *Responsible and sustainable investment management – Specification*²⁾

¹⁾ Documents that are referred to solely in an informative manner are listed in the Bibliography.

²⁾ This document contains an informative reference to PAS 7341:2020.

3 Terms and definitions

For the purposes of this PAS, the terms defined in BS ISO 32210, PAS 7341 and the following apply.

3.1 additionality

delivery of products or services that would not have been possible without the involvement of the fund manager

3.2 aim

stated real-world, environmental or social goal, or beneficial change, that the fund manager aims to contribute to through the assets they invest in and do not invest in, alongside the delivery of financial performance

NOTE Sustainability aims complement fund objectives but can be broader, longer term or more system level focused.

3.3 approach

way in which a fund addresses sustainability or ESG issues

NOTE Typically, this means positively oriented stock/security selection strategies, exclusion strategies and stewardship activity. Information on how these are combined is also important, as multiple issues are relevant to most businesses and are combined differently by different fund managers. For example, fund management literature might state: "Part of the approach we take to climate change is to avoid fossil fuel companies."

3.4 asset

item of property

NOTE This is often shares and bonds, but can also include, for example, government loan security and cash.

3.5 breach

situation where a fund's published policy has not been adhered to in full

NOTE This might be intentional or unintentional. For example, an unintentional breach might occur if a fund invests in a company that merges or demerges, in which case it might no longer be appropriate for investment for that fund. Similarly, an accident or supply chain problem might occur that needs to be addressed by a fund manager.

3.6 criteria

specific requirements or instructions relating to sustainability characteristics or thresholds that support decision making

NOTE 1 These are commonly referred to as being decision-useful.

NOTE 2 For example, when a fund can only invest in assets which generate at least 25% of their revenue from products or services relating to environmental or social solutions.

3.7 de minimis limit

designed tolerance or allowable level of exposure to an otherwise excluded activity or behaviour such that exposure to excluded activities is limited

NOTE 1 For example, a fund might avoid companies that profit from the manufacture or sale of tobacco products but allow investment in supermarkets, provided their sale accounts for less than 10% of the company's turnover (or other measure). In this case, tobacco production would be an absolute exclusion, whereas retail sales would have a 10% de minimis limit.

NOTE 2 Many major companies have exposure to a range of different business areas either directly or through their subsidiaries.

3.8 engagement

strategy or activity that involves fund managers proactively working with the companies or other investee assets to encourage better management of sustainability issues with the aim of enhancing long term sustainability and financial outcomes

3.9 fund manager

organization and employees of the organization responsible for managing investments on behalf of clients

3.10 fund strategy

strategy that articulates the way a fund operates, its aims and objectives, and how the fund manager plans to achieve them

NOTE For a sustainable investment fund, this comprises sustainability considerations, and financial and other relevant information.

3.11 greenwashing

overstatement of environmental or social characteristics for business benefit

NOTE Any claims made about the sustainability characteristics of a product or service are expected to be consistent with the sustainability characteristics of that product or service. Any reference to sustainability characteristics is expected to be fair, clear and not misleading.

3.12 impact

direct and typically finite and measurable environmental or social change that occurs over a specified time frame, which is associated with an investment

NOTE Impacts might be positive or negative. There is an expectation that sustainable investment funds intentionally seek to support the delivery of positive environmental and/or social impacts as well as financial returns. Examples might be units of renewable electricity generated or the number of patients receiving healthcare.

3.13 impact fund

fund that has policies and processes in place which direct investment into assets that contribute to, support, accelerate or enhance specific positive and measurable environmental or social outcomes alongside financial returns

NOTE 1 Not all impact funds can use an impact fund label; for example, if they are out of scope of a specific regime.

NOTE 2 Not all funds that place emphasis on delivering positive real-world outcomes choose to use the term impact fund.

3.14 intentionality

investor's intention to have a positive social or environmental impact through investment alongside a financial return³⁾

3.15 look-through asset

underlying individual asset held within a portfolio, or similar product, that invests in other investment funds

3.16 objective

specific, measurable, intended fund outcome

***NOTE 1** Sustainable investment fund objectives identify both financial and (environmental or social) sustainability goals.*

***NOTE 2** Objectives are published in fund documentation in line with regulatory requirements.*

3.17 outcome

profound long-term effect or ultimate objective with which a given impact is associated

***NOTE** There is an expectation that sustainable investment funds intentionally support and/or contribute to the delivery of positive environmental and/or social outcomes. Examples might be a stable global climate or increased health and longevity. The terms "impact" and "outcome" can be used interchangeably.*

3.18 policy

information setting out the environmental and/or social sustainability issues (and other areas such as governance and ethics, where applicable) that a fund takes into consideration and the approach the fund manager takes to each issue

***NOTE** Policies are precise and comprehensive, aligned to fund objectives and, where possible, include sustainability criteria that are useful for investment decision making.*

3.19 portfolio manager

named individual or business entity that manages and is responsible for an investment strategy which can comprise individual assets or investment funds

3.20 sustainability issue

topic, concern, risk and/or opportunity considered by fund managers to be sustainability related

***NOTE** These are primarily environmental or social issues; however, governance is also important. These are expected to be articulated in a fund's sustainability policy and strategy.*

3.21 sustainability

responding responsibly to the finite nature of environmental resources with regard to the needs of current and future generations

***NOTE 1** A sustainable activity is one that can continue indefinitely as it is not dependent on the use of resources that cannot be replaced.*

***NOTE 2** In the context of sustainable investment, sustainability comprises both environmental and social considerations. This interpretation is derived from the 1987 United Nations Brundtland Commission Report [7].*

³⁾ Global Impact Investing Network, What you need to know about impact investing. Available from <https://thegiin.org/publication/post/about-impact-investing>.

3.22 sustainability objective

statement of intention to undertake activities with the aim of directly or indirectly improving or pursuing positive environmental and/or social outcomes

[SOURCE: FCA Sustainability Disclosure Requirements, PS23/16, Annex A [2]]

3.23 sustainable investment

alignment of an investment strategy to forward looking environmental and/or social sustainability objectives alongside financial goals

NOTE Assets are selected based on the products or services they offer and/or other sustainability attributes.

3.24 sustainable investing

process of undertaking sustainable investment (3.23)

3.25 sustainable investment fund

fund that is managed in line with a sustainable investment strategy

3.26 theory of change

documented mechanism by which a fund manager seeks to contribute to the achievement of a stated real-world goal or beneficial change through the assets they invest and do not invest in, and their engagement activity