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8b CONDUCT OF BUSINESS (COBS) – MANAGEMENT

This chapter covers investment management COBS issues for the Firm only.

IMPORTANT: ARs are not permitted to conduct investment management activity or act with discretion in respect of investment decisions.

8b.1 Suitability Management Decisions

[COBS 9A.2.1 R](#) requires the Firm, where it makes a decision to invest/trade, to ensure the decision made is suitable for the client's circumstances, investment objectives and attitude to investment risk.

The Firm is authorised to manage investments for Professional Clients (investment management is not Eligible Counterparty business). The client must be categorised as either a **Per Se** Professional Client or an **Elective** Professional Client in line with COBS 3.5. Where the Firm provides an investment service to a **Per Se** Professional Client it shall be entitled to assume that in relation to the products, transactions and services for which it is so classified, the client has the necessary level of experience and knowledge for the purposes of point (c) of [COBS 9A.2.4 UK](#).

These assumptions would normally be detailed in relevant agreements.

At the point a client is first taken on and its client category is determined as an **Elective** Professional Client, the client's knowledge and experience is assessed in the context of the service and/or financial instruments then contemplated. For MiFID business, as per [COBS 3.5.3 R](#) the quantitative test must also be satisfied. This status must be regularly reviewed and in particular before providing advice/acting with discretion, the Firm must ensure that the service and/or financial instrument currently being contemplated does not fall outside that originally contemplated (in relation to which the client's knowledge and experience was assessed).

If the client does not possess sufficient knowledge and experience, then the Firm cannot continue to categorise that client as an **Elective** Professional Client for the new contemplated service and/or financial instrument – the Firm may continue to categorise them as **Elective** Professional Clients for the original service and/or financial instruments.

The Firm's clients include funds it manages and those funds' investors. Funds will normally qualify as **Per Se** Professional Clients. A fund's investors will need to be assessed and confirm via the Professional Client notice whether it is a **Per Se** or **Elective** Professional Client before investing.

8b.2 Best Execution

The Firm is required to provide best execution, [COBS 11.2](#). The Firm is not obliged to provide best execution when dealing with Eligible Counterparties ([COBS 1 Annex 1 Application](#)) but is obliged to when executing or transmitting orders on behalf of Professional Clients.

[COBS 11.2A.2 R](#) obliges the Firm to ensure all reasonable steps are taken to obtain, when executing orders, the best possible result, i.e. the terms are those most favourable to its client.

[COBS 11.2A.20 R](#) requires the Firm to have in place an order execution policy (OEP) that delivers terms that are most favourable to its client. The Firm's OEP is retained as a standalone policy document, separate to this Manual – Appendix E.

8b.2.1 Client Order Handling

[COBS 11.3](#) does not apply to Eligible Counterparties ([COBS 1 Annex 1 Application](#)), but it does apply to Professional Clients. Since the Firm does not normally 'execute orders' (or if a broker does this as the client's agent), COBS 11.3 does not apply to the Firm in these circumstances, and these obligations would lie with any broker [COBS 11.3.13 G \(2\) and \(3\)](#). If relevant, the Firm is obliged to ensure orders are passed to brokers promptly and accurately recorded and allocated where applicable ([COBS 11.3.2A UK](#)). Further detail on client order handling is contained within the OEP.

8b.2.2 Record-Keeping – Client Orders and Transactions

Article 74 of the MiFID Org Regulation states: An investment firm shall, in relation to every initial order received from a client and in relation to every initial decision to deal taken, immediately record and keep at the disposal of the FCA at least the details set out in Section 1 of Annex IV to the Regulation (reproduced at [COBS 11.5A.4 UK](#)) to the extent they are applicable to the order or decision to deal in question.

Article 75 of the MiFID Org Regulation states: 'An investment firm shall, immediately after receiving a client order or making a decision to deal to the extent they are applicable to the order or decision to deal in question, record and keep at the disposal of the FCA at least the details set out in Section 2 of Annex IV' (reproduced at [COBS 11.5A.5 UK](#)).

8b.3 Personal Account Dealing (PAD)

[COBS 11.7A.5 UK](#) obliges the Firm to have in place and to maintain adequate arrangements relating to personal account dealing, aimed at preventing conflicts of interest, market abuse and inappropriate disclosure of otherwise confidential information about clients by partners and other members of staff. These arrangements are captured in Chapters 3 and 4 of this Manual and in Appendices D, F, H and J.

8b.4 Valuation of Complex Illiquid Instruments

The Firm understands that it is important that investment managers are not able to influence the valuations of any funds that they manage. Any funds are valued by a third party, i.e. the fund(s') administrators. Additionally, it is important that the activities of the administrator are aligned with those of the Firm and that both parties understand the role and importance of the other. Reconciliations between the parties are carried out regularly.

The valuation methodology that must be used to value assets in a portfolio is typically set out in the incorporating documents for the fund/vehicle, such as the Limited Partnership Agreement where the fund/vehicle is a limited partnership. A common valuation methodology used are the International Private Equity and Venture Capital (IPEV) Guidelines.

ARs must keep records to demonstrate that asset valuations have been calculated accurately using the correct methodology including for valuations used in investor reports and material revaluation events notified to Midmar.

8b.5 Reporting to Clients

8b.5.1 Introduction

[COBS 16A](#) requires the Firm to provide clients with certain occasional and periodic information.

[COBS 16](#), relating to non-MiFID provisions, does not apply to Eligible Counterparties ([COBS 1 Annex 1 Application](#)).

8b.5.2 Periodic Reporting

When managing investments, clients must be provided with a periodic statement.

[COBS 16A.4](#) requires the Firm, as an investment manager (performing portfolio management), to provide periodic reports to Professional Clients. [COBS 16A.4.1 UK](#) requires the Firm to supply to its investment management clients details of executed transactions (i.e. contract notes) if the client so requests.

[COBS 16.3.10R](#) specifies that in relation to non-MiFID business the Firm does not need to provide periodic statements to a client habitually resident outside the UK if the client has so requested or the Firm has taken reasonable steps to establish that the client does not wish to receive it.

The Firm must retain a record of periodic statements for 3 years from the date of despatch.

8b.5.3 Occasional Reporting

The Firm provides investment management services only therefore the COBS rules relating to occasional reporting do not apply ([COBS 16A.3](#)).

8b.5.4 Statements of Client Financial Instruments or Client Funds

The Firm is not authorised to hold or administer client assets or money. The Firm is not, therefore, required to comply with the provisions of [COBS 16A.5](#).

8b.6 Stewardship Code

The Firm is required to disclose whether it has signed up to and follows the Stewardship Code on Corporate Governance for institutional investors or if it does not follow the Code, to explain its alternative arrangements. This information is disclosed on the Firm's [website](#).

8b.7 Shareholder Rights Directive (SRD II)

The first SRD, SRD I, came into force in 2007 and was implemented in the UK through amendments to the Companies Act 2006. SRD II made amendments to SRD I and came into force in 2017. As before, the UK implemented relevant aspects of SRD II through amendments to the Companies Act 2006 but also through the passing of a number of new statutory instruments, such as the Shareholder Rights Directive (Asset Managers and Insurers) Instrument 2019, which amended parts of SYSC 3 and 10 and COBS 2 for relevant firms. SRD II requires asset owners (institutional investors) and asset managers to make disclosures about their long-term investment strategies, their arrangements with each other and their engagement with the companies they invest in. The rules seek to improve transparency by enhancing the flow of information across the institutional investment community, and by promoting common stewardship objectives between institutional investors and asset managers.

The Directive also recognises that certain persons (related parties) may have an influence on companies they invest in, and that the nature of transactions with related parties (RPTs) may affect shareholders' assessment of company valuation. The requirements build on the accounting framework set under International Financial Reporting Standards. SRD II requires companies with shares admitted to trading on regulated markets to disclose and have other safeguards in place for material transactions with related parties.

Some of the key SRD II requirements listed in [COBS 2.2B](#) and [DTR 7.3.8R](#) include requiring firms to:

- Publicly disclose their shareholder engagement policies, and annually publish how they have implemented such policies.
- Disclose to asset owners the manager's shareholder engagement activities.
- Disclose related party transactions at the latest at the time of the transaction (For UK companies with shares admitted on a regulated market).

The transparency requirements applying to asset managers includes MiFID investment firms, AIFMs (excluding small AIFMs), UCITS management companies, self-managed UCITS funds and FCA-regulated insurers. Whilst this may not cover the full universe of institutional investor, any SRD II requirements should be considered alongside the Financial Reporting Council's requirements under the Stewardship Code. Therefore the Firm publishes a combined [Shareholder Engagement Policy](#) on its website which is reviewed at least annually.

8b.8 Sustainability Products

To enhance trust and transparency in sustainable investments products and minimise greenwashing, the FCA implemented the Sustainable Disclosure Requirements and Investment Labels Regime, known commonly as the SDR regime. The main aspects of this regulation are:

1. An anti-greenwashing rule (covered in Chapter 7)
2. Four sustainable investing product labels (see below)
3. Naming and marketing rules (see Chapter 7)
4. Disclosures (see Chapters 7 and 8)
5. Distribution requirements (for retail investors, but please see Chapters 7 and 9).

The rules for the regime are contained in the FCA's [ESG Sourcebook](#).

8b.8.1 Scope and Application of the SDR Regime

The FCA's policy states that the regulation will apply to:

1. UK firms that manage investment funds (UCITS and AIFMs, both full-scope and small AIFMs)
2. UK firms that distribute investment products to UK-domiciled retail investors.
3. FCA-authorized firms (domiciled in the UK) that make sustainability claims in their marketing about their products and services (anti-greenwashing rule).

This Regulation applies to Managers in the traditional sense, therefore, relevant ARs need to work closely with Midmar where it acts as the manager to establish clear allocation of responsibilities to ensure all relevant requirements are met. (For ARs that wish to use a sustainability label, see process below.)

With these four new labels, UK-domiciled funds will fall under one of three categories:

1. sustainability-labelled funds,
2. non-labelled sustainability funds, or
3. other funds without, or with minimal, sustainability characteristics.

Overseas funds and overseas firms are not in scope, although UK distributors of overseas products are required to make it clear that these products are not subject to the UK's SDR regime on labelling and disclosure. UK funds *are* in scope.

Unauthorised AIFs not listed on a recognised exchange *are* in scope but the following exemptions are available:

- non-UK AIFs,
- closed-ended AIFs that make no further investments after 22/07/2013
- Social Enterprise Funds, and
- Qualifying Venture Capital Funds (RVECAs)

A consultation paper was published in April 2024 containing proposals to extend the SDR regime to portfolio management, which is defined as a service provided to a client which comprises either:

- managing investments, or
- private market activities of either advising on or managing investments on a recurring or ongoing basis in connection with an arrangement, the predominant purpose of which is unlisted securities.

The consultation period is now closed and a policy statement with responses and final rules is expected in Q2 2025. It is considered likely that the regime will be extended to include portfolio management, as this would align it with the EU's SFDR (Sustainable Finance Disclosure Regulation). However, the proposed scope of the SDR regime for portfolio management does not include services where clients are based overseas and there is also a carve out for portfolio management provided to a client that is a fund, alternative investment fund manager or management company for or on behalf of a fund (i.e. where the portfolio manager acts as the delegate of a fund manager).

8b.8.2 Sustainability Labels

Four new investment labels have been introduced that aim to help investors navigate differing sustainability-focused investment strategies and mitigate greenwashing risk. These labels are for products seeking positive sustainability outcomes and that pursue a sustainability objective.

Use of the labels is voluntary and firms will not be forced to apply labels. However, non-labelled products that claim sustainability characteristics will have to clearly state that the product does not use a label and why. (See chapter 7.7.6.2 of this Manual.)

The four labels are:

1. **Sustainability Focus** – investments in assets that are currently environmentally and/or socially sustainable.
2. **Sustainability Improvers** – investments in assets that aim to improve their environmental and/or social sustainability over time (i.e., the assets may not currently be sustainable).
3. **Sustainability Impact** – investments in assets with the aim of achieving a pre-defined positive and measurable environmental and/or social impact.
4. **Sustainability Mixed Goals** – investments in a combination of the above sustainability objectives.

When deciding which label could be the right fit, firms should consider:

- The sustainability profiles of the assets to be held or held within the fund and whether the assets are already sustainable or are in the process of transitioning to being more sustainable.
- Whether the fund will have a single focus or if there will be a mix of assets; and
- Whether the fund is capable of meeting the required 70% threshold, which requires a product to invest at least 70% of its assets in accordance with a defined sustainability objective.

Once a firm has identified the most appropriate label for its product, it must then consider if it is able to meet the general and specific label requirements on an ongoing basis.

8b.8.2.1 General Label Requirements

To use a label, a product must meet the following criteria:

1. **Explicit Sustainability Objective** – the product must have an explicit sustainability objective that:

- a. Aligns with one of the specific sustainability labels; and
 - b. Is clear, specific and measurable.
2. **Investment Policy and Strategy** – the product must have at least 70% of its assets invested in accordance with the sustainability objective, and:
 - a. those assets must be selected with referenced to a robust, evidenced-based standard that is an absolute measure of environmental and/or social sustainability as applicable to the relevant label.
 - b. any other assets must not conflict with the sustainability objective.

By robust, the FCA means it should stand up to scrutiny, and by evidenced-based, the FCA means it is derived from or informed by objective and relevant body of data or other evidence.

Firms should select assets using a methodology or approach that is applied in a systematic way, and that can be used for both determining the environmental and/or social sustainability characteristics of the product's assets and the ability of those assets to contribute to positive environmental or social outcomes.

The methodology or approach may be based on, or determined by, an authoritative body (e.g., a government or regulator), industry practice (e.g., a third-party data or analytics service provider) or a proprietary methodology (developed in-house by the firm).

The FCA's Policy Statement (PS23/16) provides examples of standards that may qualify as robust and evidence-based:

- General environmental and/or social criteria. For example, the standard may set a minimum threshold for the percentage of revenue, or the percentage of expenditure on operations, capital or research and development associated with environmental or social matters relevant to the product's sustainability objective.
- Taxonomy-based. For example, the standard may directly reference an authoritative taxonomy relevant to the sustainability objective of the product, such as the EU taxonomy for sustainable activities, or the forthcoming UK Green Taxonomy.
- Emissions profiles. For example, the standard may set a minimum absolute threshold of GHG emissions or carbon emissions intensity for assets.

However, exceptions to the 70% standard are permitted where the fund is designed to build the initial portfolio over time and has yet to fully invest in assets or where the manager is taking action (such as under its Escalation Plan) to bring assets back in line with the relevant sustainability objective.

Other minimal deviations to the 70% threshold are also permitted, but firms should consider where this could materialise and build in buffers to reduce the likelihood of the threshold being breached.

Funds that just employ exclusions, negative screening, ESG integration, or basic ESG tilts alone will not qualify for a label. Funds just employing one or several of these approaches will need to enhance their strategies by adding a sustainability objective, setting relevant KPIs, and meeting other requirements specific to each label.

Governance is seen as an enabler of environmental and social outcomes, rather than an end in itself. So, products investing in assets with good governance alone would need to do more to qualify for a label.

3. **Link Between Objective and Outcomes** - The manager must include a link between the sustainability product's sustainability objective and a positive environmental and/or social outcome.
4. **Negative Outcomes** - Firms must determine (and disclose) whether any material negative environmental and/or social outcomes may arise in pursuing the sustainability objective.
5. **Key Performance Indicators (KPIs)** - The product must have KPIs that demonstrate progress towards achieving the sustainability objective, at product level and/or individual asset level. The FCA has not prescribed any KPIs for firms to use as the most relevant KPIs are likely to depend on the specific sustainability objectives for each product. However, it encourages firms to use industry frameworks and best practice to the extent relevant for their products' sustainability objective. It also reminds firms that they must take reasonable steps to ensure that any data used to meet the labelling requirements is accurate and complete.
6. **Independent Assessment** - Firms must obtain or undertake an independent assessment of the robust, evidence-based standard for sustainability to confirm that it is appropriate for selecting the product's assets. The assessment can be obtained from a third party or undertaken by the firm, provided that the individual or function is independent from the investment process, and in either case, that the individuals responsible for carrying out the assessment are appropriately skilled. Firms will need to disclose the basis on which the standard is considered appropriate and the function or third party (not naming individuals) that carried out the assessment. Firms should ensure they maintain records to demonstrate the independence and skills of the independent assessor.
7. **Resources and Governance at both Firm and AR levels** - Firms must have in place appropriate resources, governance, and organisational arrangements, appropriate to and consistent with the sustainability objective. This includes, but is not limited to, ensuring there is adequate knowledge, expertise and understanding of the product's assets at both adviser and manager level and that there is a high standard of diligence in the selection of any data or other information used (including when third-party ESG data or ratings providers are used) to inform investment recommendations (by ARs) and decisions (by Midmar or another manager) for the product. It is likely that the undertaking by key members of staff of courses or certificates in relevant areas of sustainability would assist the Firm and its ARs in meeting part of this requirement.

Conflicts of interest must also be considered as well as existing obligations for governing bodies of having sufficient knowledge, skills and experience, commit sufficient time and act with honesty, integrity and independence.

8. **Investor Stewardship** - Firms must have a documented Stewardship Strategy that supports the product's objective and which sets out the activities that are expected to be undertaken and the outcomes that are expected to be achieved. Whilst firms are not required to demonstrate a causal link between activities and outcomes, appropriate resources must be allocated to execution of the stewardship strategy. It is accepted that outcomes may not be achieved on an annual basis, so disclosures should provide sufficient contextual information to effectively convey that outcomes may not be achieved in the short term.

Points for firms to consider when developing stewardship strategies:

- Firms should track, monitor and record the impact of stewardship activities on the operations of investee companies. This should then feed into analysis of how stewardship has supported the fund's objective.
- Whilst not applicable to the firm or its ARs, the points listed in [COBS 2.2B.6R](#) could be used as a base on which to create the Stewardship Strategy.

- Where stewardship plays a significant role in the sustainability product's investment policy and strategy, firms may consider disclosing KPIs related to the outcomes achieved or that measure progress towards the product's sustainability objective.

In the regulatory hosting model, the stewardship strategy will mainly apply at fund level and will, therefore, require ARs to document a strategy on behalf of the fund and ensure compliance with the strategy can be demonstrated. The strategy should also be subject to periodic review, at least annually, and findings from these reviews sent to Midmar as manager for incorporation into its annual report (see sub-section later in this chapter).

9. **Escalation Plan** – Firms must have an escalation plan (at portfolio level) setting out the escalation measures that may be taken if the assets within the portfolio do not demonstrate sufficient performance against the sustainability objective and/or KPIs. The plan should set out the anticipated timescales for addressing any matters that may result in insufficient performance against the sustainability objective.

Whilst divestment is a potential escalation measure, the SDR does not necessarily require divestment from assets as part of the escalation plan. The SDR permits softer measures such as interaction with investee boards. However, it does require the manager to assess whether the relevant label, or any label, remains appropriate (assuming the fund remains invested in that particular asset) and to make the required notifications, where applicable.

The escalation plan should not be used to address breaches of the SDR regime in general or wider FCA rules.

In the regulatory hosting model, Midmar will have a general, overarching escalation policy and relevant ARs will have label-specific escalation plans. Where an AR proposes action under its escalation plan, Midmar as manager will need to provide advance approval of proposed action.

8b.8.2.2 Specific Label Requirements

ESG 4.2.12 to 19(R) sets out the specific requirements that apply to each label and must be complied with on an ongoing basis. Annex II of the policy statement provides examples for illustrative purposes of the specific requirements for each label. In summary these are:

- **Sustainability Focus** - This label is for products with a sustainability objective consistent with an aim to invest at least 70% in assets that are environmentally and/or socially sustainable, determined using the robust, evidence-based standard that is an absolute measure of environmental and/or social sustainability.
- **Sustainability Improvers** - This label is for products with a sustainability objective consistent with an aim to invest at least 70% in assets that have the *potential* to improve environmental and/or social sustainability over a defined time period, and that are determined by their potential to meet the robust, evidence-based standard of sustainability. Firms must obtain robust evidence for selecting those assets, which could include the use of forward-looking metrics transition plans or other credible information that demonstrates sustainability transition.

Firms must also identify the period of time in which the product and/or its assets are expected to then meet the standard, including short and medium-term targets for improvements appropriate to the investment horizon of the product.

Stewardship plays a key role in this category with the stewardship strategy designed to help accelerate improvements in environmental and/or social sustainability.

- **Sustainability Impact** – This label is for products with a sustainability objective consistent with an aim to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome (and invest at least 70% of their assets in accordance with that aim).

Firms must:

- specify a theory of change setting out how they expect their investment activities and the product's assets to contribute to positive impact
- specify a robust method for measuring and demonstrating the positive impact of both their investment activities and the product's assets.

The impact category aims to directly achieve positive impact, therefore a key feature of this category is that firms will need to measure and report on how their investment activities contribute to achieving the impact (i.e., their investor contribution) as well as how the assets are achieving the impact. Firms may contribute to positive impact through investment activities such as engagement with the product's assets, participating in new rounds of capital raising, or directing new capital to projects and activities that offer solutions to environmental and/or social problems. The FCA encourages firms to refer to existing frameworks and guidance for impact investing.

- **Sustainability Mixed Goals** - This is for products with a sustainability objective to invest at least 70% in accordance with a combination of the sustainability objectives for the other labels. Firms must identify (and disclose) the proportion of assets invested in accordance with any combination of the other labels. However, requirements for each of the other labels must be met. For example, for a product invested in assets that are already sustainable and assets that have the potential to improve over time, a firm may use the Sustainability Mixed Goals label but will need to meet the specific criteria (and associated disclosures) for the Sustainability Focus and Sustainability Improvers labels, respectively, for the proportion of assets that are sustainable or improving.

8b.8.3 Ongoing Requirements

Under ESG 4.2, there are several ongoing requirements for managers.

The manager must ensure that:

- the requirements in ESG 4.2.4R (General features of a sustainability product using a sustainability label) continue to be met;
- the sustainability product's investment policy, strategy and escalation plan under ESG 4.2.9R(2) and ESG 4.2.9R(6) are updated as appropriate;
- the independent assessment obtained under ESG 4.2.9R(3) remains valid;
- the manager (and AR) continues to maintain appropriate governance and resources in accordance with the requirements under ESG 4.2.9R(7); and
- in respect of the hosting model, the Fund/AR continues to maintain an appropriate investor stewardship strategy and that the strategy and relevant resources are applied in accordance with the requirements under ESG 4.2.9R(8);
- it takes reasonable steps to ensure that the data it is relying upon in order to meet the requirements under ESG 4.2 is accurate and complete (including using proxies and assumptions where appropriate).

The manager and AR must:

- monitor whether pursuing the sustainability product's sustainability objective could result in negative outcomes that have not already been identified under ESG 4.2.9R(1)
- monitor whether the sustainability product is investing in assets that pursue its sustainability objective and identify any new assets that have not already been identified under ESG 4.2.9R(4); and
- monitor the ongoing performance of the sustainability product in achieving its sustainability objective, measured against the product's KPIs set out under ESG 4.2.4R(3).

When ensuring the above ongoing requirements are being met, the manager and AR must:

- apply, as appropriate, their escalation plans under ESG 4.2.9R(6) where the product's assets do not demonstrate sufficient performance against the product's sustainability objective and/or the KPIs under ESG 4.2.4R(3); and
- subject to ESG 4.2.25R, ensure that, if a sustainability product ceases to meet the general or specific criteria with respect to using a sustainability label, the manager and AR take action to restore compliance as soon as reasonably practicable.

Where action to ensure continued compliance with the general and specific label criteria are not sufficient, the manager must:

- revise or cease the use of a sustainability label as soon as reasonably practicable; and
- take the steps set out under ESG 4.1.13R as follows:
 - give written notice to its clients who have invested in that product that the sustainability label has been revised or ceased and the reasons for that revision or cessation as soon as reasonably practicable;
 - publish the revised sustainability label (or the fact that the manager has ceased to use a label) and the reasons for the revision or cessation on the relevant digital medium for the business of the manager in a prominent place on the specific webpage or page on a mobile application or other digital medium at which the sustainability product is offered, as soon as reasonably practicable before that change takes effect; and
 - ensure that pre-contractual disclosures and reports prepared by the manager under [ESG 5.4](#) and [ESG 5.5](#) are updated as soon as reasonably practicable, in accordance with the requirements under [ESG 5.1.3R](#) where relevant.

Managers will also need to carry out a review of their use of a label at least every 12 months. Therefore, under the host model, ARs will also need to conduct an annual review and report its findings to Midmar for incorporation into Midmar's annual review. If compliance can't be restored in a reasonable period of time and the label is no longer appropriate, Midmar may need to revise or cease use of a label and comply with the relevant notification requirements to clients and to the FCA.

In ensuring the criteria are met on an ongoing basis, firms may make updates e.g., to their investment policy and strategy, independent assessment, and escalation plan. Firms should consider if making updates in one area may impact another.

8b.8.4 Disclosures and Reporting

UK funds using a sustainability label or that use sustainability-related terms in product names and marketing for products without a label must produce disclosures (consumer-facing, pre-contractual and ongoing product-level disclosures) so that investors consumers have consistent information across all products that use sustainability related terms.

Firms must keep these disclosures under review and update them as appropriate when revising or ceasing to use a label.

As Midmar and its ARs are not permitted to deal with retail clients, the rules for consuming facing disclosures do not apply.

In addition to product-level disclosures, the SDR requires all UK managers with more than £5 billion in assets under management to make annual entity-level disclosures as part of a sustainability entity report. Although firms, such as Midmar, which are out of scope of entity level disclosures and the sustainability entity report are encouraged to make these disclosures voluntarily, Midmar considers that, in respect of the host model for unauthorised AIFs not listed on a recognised exchange, compliance on a voluntary basis is not possible at this time without causing a number of conflicts and breaches including in respect of proprietary information and other confidential data. However, the Firm recognises that the FCA will keep the threshold for entity level disclosures and reporting under review and may lower this as the regime evolves.

8b.8.4.1 Pre-contractual Disclosures

These disclosures will be made either in a fund prospectus, prior disclosure document or sustainability product report (Part A) depending on the type of firm producing the disclosures.

The disclosures must be clearly identifiable in the pre-contractual materials, which may be achieved by including the information in a dedicated section.

Disclosures relating to the label and sustainability objective, or statement clarifying that the product does not have a label, must be located in a prominent place in the pre-contractual materials.

In its Policy Statement, the FCA has listed the information that needs to be disclosed by for labelled (L) and non-labelled (NL) sustainability products – see table below. The FCA has also published good and poor practice [examples](#) of pre-contractual disclosures under the SDR regime.

L	Label	The label used for the product
NL	Statement	Statement clarifying that the product does not have a label and why
L	Sustainability objective	The sustainability objective; where the investment strategy to pursue the objective may result in a material effect (including expected effect) on the financial risk and return; the link between the objective and positive environmental and/or social outcome; and where pursuing that objective may result in material negative environmental and/or social outcomes.
L NL	Investment policy and strategy	Details of the investment policy and strategy for the product, including how the manager determines the assets the product invests in (eg, the criteria it applies to determine sustainability characteristics)
L		The robust, evidence-based standard of sustainability, including the basis on which the standard is considered appropriate and the function or third party that carried out the independent assessment (without naming individuals)
L		The proportion of assets invested in accordance with the sustainability objective and the types of assets that are held for other reasons, and why.
L		How the index providers' methodology aligns with the product's sustainability objective (where relevant)
L	Sustainability metrics	Details of the policies and procedures, and the KPIs, that the firm will use to monitor and demonstrate performance towards the sustainability objective
NL		Details of any other metrics a consumer may find useful in understanding the investment policy and strategy for the product
L	Investor Stewardship	Details of the investor stewardship strategy and resources to support achievement of the sustainability objective, including how that strategy will be applied and, where relevant, whether the firm is a signatory to the UK Stewardship Code
L	Escalation plan	Any actions the firm will take in accordance with its escalation plan
L	Category-specific disclosures	Specific disclosures associated with the relevant labels: <ul style="list-style-type: none"> ▪ Sustainability Improvers (eg, expected timescales for improvement and the types of evidence relied on), ▪ Sustainability Impact (eg, the theory of change and method to measure and demonstrate impact) and ▪ Sustainability Mixed Goals (eg, the proportion of assets invested in accordance with each sustainable investment category and the specific disclosures associated with each category)

Pre-contractual disclosures are largely a static document. The FCA does not expect firms to make changes to these disclosures as a result of these rules, other than when first using a label, or revising or ceasing to use a label, as relevant.

8b.8.4.2 Ongoing Disclosures

Ongoing disclosures must be made annually from when a firm starts to use the label for a product. They must be made in a Sustainability Product Report (Part B), which builds from the TCFD product report where firms are in scope of the TCFD-aligned disclosure requirements, or on demand where public disclosures are not appropriate, such as for unauthorised AIFs not listed on a recognised exchange. Midmar and its ARs will, therefore, only be required to comply with the on-demand disclosure requirements.

Where disclosures need to be provided on-demand, firms must respond to one request for the information per 12-month period (at a calculation date agreed with the client or at the most recent date the up-to-date information is available within the 12-month reporting period). Firms must provide the information to the client within a reasonable timeframe and in a format that meets the information needs of the client.

Midmar believes that the most straightforward approach to on-demand disclosures would be to provide the information in the table below as standard in periodic investor reports.

L NL	Basic information	Date of the report
L	Label	The label used for the product
NL	Statement	Statement clarifying that the product does not have a label and why
L	Sustainability objective	Details of the sustainability objective, progress towards achieving the objective, the proportion of assets invested in accordance with the sustainability objective and the types of assets held for other reasons (and why)
L NL	Investment policy and strategy	Details of how the product is invested in accordance with its investment policy and strategy on an ongoing basis
L	Sustainability metrics	Details of the product's performance against KPIs
L NL		Details of any other relevant metrics that a consumer might find useful in understanding the investment policy and strategy for the product
L NL		Contextual information and historical annual calculations for the KPIs and/or metrics (as relevant)
L NL	Material deviations	Details as to how the firm's approach to the product materially deviates from its entity-level approach (where relevant)
L	Investor stewardship	Details as to how investor stewardship has been applied, including activities undertaken and outcomes achieved (or expected to be achieved). These may include cross-references to Stewardship Code reporting, provided that information relevant to the product is clearly signposted.
L	Escalation plan	Details of matters escalated
L	Category-specific disclosures	Specific disclosures associated with the relevant labels: <ul style="list-style-type: none"> Sustainability Impact (eg, progress that the product is making towards achieving a positive impact)

8b.8.5 Timescales

The implementation dates of the various parts of the SDR regime are set out in the table below. However, should a firm use a label earlier than a date below, the pre-contractual disclosure requirements and naming and marketing rules will come into force from the date the label is first used, and ongoing disclosures will come in 16 months from first use of the label. However, on-demand disclosures to eligible clients will come into force from 2 April 2026.

For unlabelled products using sustainability-related terms, the naming, marketing and pre-contractual disclosures will come into force on 2 December 2024 and ongoing disclosures will come into force 12 months from when the terms are first used.



8b.8.6 Labelling Process for ARs

If an AR or TPMM firm wishes to use a label for a product it should inform its Primary Contact who will arrange a call. The AR/TPMM firm must review the relevant areas of this Manual and Annex II of the Policy Statement ([PS23/16](#)) before that call. The aims of this call are for Midmar to ascertain how much progress the AR/TPMM firm has made with the requirements and for next steps and timescales to be agreed.

ARs and TPMM firms must not use a label until a notification to the FCA has been made by Midmar and the notification has completed, which will trigger the release of the trademarked label graphic for use in all product-related material and relevant communications.

Midmar will only make a notification to the FCA when it is satisfied that the AR/TPMM firm is able to comply with the relevant SDR requirements on an ongoing basis.

Before Midmar can make a label notification, it must make an AIF notification in order to obtain the Product Reference Number (PRN) which is needed for the notification. Where a firm has a PPM, this will need to be updated with the pre-contractual disclosures before the AIF notification can be submitted. It's advisable for the majority of the requirements listed below to be well progressed by the time of the AIF notification because it is the same FCA team, the Fund Authorisations Team, that deals with AIF and label notifications and they may raise questions related to the SDR regime as part of the AIF notification.

Midmar can only submit a label notification to the FCA when it has assessed the following as meeting the required standards - some of this information might be best presented in a summary deck or paper:

1. Confirmation of the label it proposes to use
2. The explicit sustainability objective for the product with an explanation of the link between the objective and a positive environmental and/or social outcome.
3. How the product will meet the general and specific criteria for the relevant label by providing full details of:
 - a. Robust, evidenced-based standard
 - b. KPIs and other metrics used to assess suitability of an asset for investment and details of how the product and individual assets will be monitored against the KPIs and objective
 - c. Independent assessment process
 - d. Escalation process
 - e. Investor stewardship strategy
 - f. A list of staff members, advisers or other third parties involved in the product and details of their relevant knowledge and expertise
4. Updated investment due diligence, recommendation and investor reporting processes
5. Evidence of compliance with pre-contractual disclosures
6. Template on-demand disclosures
7. Template annual product report to Midmar

Whilst use of a label requires an FCA notification rather than application, reports suggest the process is more like an application with the FCA raising numerous questions and requiring updates and amendments to documents before the label image is released and the notification process completed.

For further information:

- FCA's [Policy Statement 23/16](#), which includes the final rules. Annex 2 of the PS (pages 98-121) provides a particularly good overview of the regime.
- [ESG sourcebook](#) under Business Standards of the FCA's Handbook
- Fund legal advisers