**More Carrot written responses to Questions 1.1 – 1.9**

First, we would like to sincerely thank ESMA for the opportunity to provide these comments.

We offer these comments as a communications firm that has created a unique niche in the EU and UK fund industries. Using a proprietary methodology, we create disclosure documents that are written for retail investors yet also meet all legal and regulatory requirements. Our work with asset managers is entering its 12th year, with clients ranging from top cross-border asset managers to boutique players.

When it comes to consumer usability, disclosure documents pose significant challenges. The regulations are complex and cannot be relaxed in the name of usability. Yet there is just as little flexibility on the consumer side: most individuals have a very limited “attention budget” for informational documents as a group. This affects readability, but much more important is how it affects engagement. Unless readers engage, all efforts in creating readability are wasted.

We agree with those who believe the current SFDR annex template falls short of retail-level usability and engagement. At the same time we have some sympathy here, since the first iteration of any new disclosure regime must necessarily focus on substance and on adjudicating the many needs and views of major stakeholders. In addition, good retail communication is not, nor should it be, a primary duty of legal, compliance or regulatory professionals. With a regime as complex as SFDR, the settling of questions of substance will take time. Our comments therefore focus mainly on the changes that would be comparatively easy to implement and would also yield noticeable communications benefits.

These comments mainly address questions 1.1 – 1.9, as they are the most relevant for communications issues:

1. Our main comment is that we believe all stakeholders would be helped by allowing a degree of graphic flexibility with the annex template. The template would continue to provide a minimum standard, but firms that wished to invest in making their annexes more engaging and space-efficient would have the opportunity to do that, subject to regulatory approval.
2. Whether as areas to provide the graphic flexibility or as modifications to the template itself, we would suggest the following changes in the interest of better engagement and readability:

* Rather than a series of tick boxes at the beginning, a simple bullet list of the statements that apply to the fund in question would be easier to read and likely to increase engagement.
* In such a bullet list scenario, giving the sustainable objective information a different graphic treatment from the portfolio commitments. For many consumers, the policy commitments are a more direct way of understanding and comparing funds.
* Dropping the icons. Icons are less effective for navigation than was thought when they became popular in the 1990s. This is in part because some common icons (such as factory, money, people and charts) have become used so widely, with so many different meanings, that they no longer hold any specific meaning. Appropriate graphic and information design can compensate for any loss of visual appeal.
* Changing from question-format headings to short descriptive labels. In documents intended for one-time or non-comparative use, question-format headings can make sense (in an FAQ, for instance). In documents used for comparing products, the repeated questions, especially if long, become tiresome to readers.
* Replacing the asset allocation chart by a table showing the minimum or range of commitment to various types of assets. Green investing (to use the broadest term) is still a comparatively new topic to consumers, and its complexity remains confusing and alienating. If the graphic is to be retained, we would suggest it be turned 90 degrees clockwise so that it reads as an “umbrella chart” rather than a “flow chart”, as the nature of the information here is of sets and subsets rather than a process.
* Shortening glossary definitions and moving them to a box at the end of the annex. While positioning glossary definitions next to the first appearance of the defined term is very user-friendly in principle, it does not always yield good results in practice. Where multiple defined terms appear close to each other in the text, some definitions are displaced from their position, sometimes to a different page. In other areas the definitions column is empty, reducing space use efficiency.

1. Condense the sections and subsections to reduce overlap in the responses. The current section design does an excellent job of making sure all relevant information is brought out. However, it does so at the expense of creating content that is both fragmented and duplicative. For readers, this creates dissatisfaction, as no one in search of information wants to read repetitions of what they have just read a moment earlier. For asset managers, it significantly increases the volume of content that must be developed and coordinated and increases the chance for inconsistencies to creep in. Here is an anonymised and lightly edited example from an actual annex — fairly representative, in our experience — where a reader wanting information on E/S investments would need to find, read, and mentally organise and condense 13 sections (some with headlines, some with subheads, some unmarked):

It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 10 of sustainable investments . . .   
**X** with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy   
**X** with a social objective   
**What environmental and/or social characteristics are promoted by this financial product?**

The Fund promotes the environmental characteristic of climate change mitigation by excluding investments in companies with ties to fossil fuels or to certain other energy-intensive sectors. For the avoidance of doubt, the Fund does not seek to make investments that contribute to climate change mitigation within the meaning of the EU Taxonomy.

In addition, the Fund considers social characteristics by applying exclusions on companies whose core business activity involves weapons or civilian firearms or that have any tie to controversial weapons.   
**What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

**1. Environmental characteristics**  Compliance with the environmental exclusionary screens is measured using the exclusionary criteria and the percentage of the Fund’s investments that breach the exclusionary screens.

**2. Social characteristics** Compliance with the social exclusionary screens is based on the exclusionary screens and the percentage of the Fund’s investments that breach the exclusionary screens.   
. . .  
3. Iii. **positive contribution to environmental or social objective:** this test seeks to ensure that Companies classified as sustainable investments are classified based on their net positive alignment with the UN SDGs (which shall primarily be determined using alignment scores obtained from third party data providers).

**Does this financial product consider principal adverse impacts on sustainability factors?**

. . .   
PAIs are also considered with respect to the other investments of the Fund consistent with the environmental and social characteristics promoted by the Fund, and incorporate consideration of the following PAIs through exclusions:

PAI indicator 4: exposure to companies active in the fossil fuel sector

PAI indicator 14: exposure to controversial weapons (using third-party data with a methodology that complies with the Sustainable Finance Disclosure Regulation (“SFDR”) definition)

**What investment strategy does this financial product follow?**

. . .  
The environmental and social characteristics promoted by the Fund are incorporated within the investment guidelines and subject to ongoing monitoring by the Investment Adviser

**What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

**1. Environmental characteristics**  The Fund promotes the environmental characteristic of climate change mitigation by excluding investments in any company that the Investment Adviser determines to have any tie to fossil fuels (such as oil, gas and coal) or any company in the following sectors or industries: energy, utilities (excluding renewable electricity and water utilities), or metals and mining.

**2. Social characteristics**  The Fund considers social characteristics by applying the following binding screens: the Fund’s investments will not knowingly include any company whose core business activity involves civilian firearms or weapons, or has any tie to controversial weapons.

[flow chart notes]

**#1 Aligned with E/S characteristics** includes the investments of the Fund used to attain the environmental or social characteristics it promotes.

**#2 Other** includes the Fund’s remaining investments, which are neither aligned with the environmental or social characteristics nor qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.

The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

The environmental and social exclusions are expected to apply to at least 90% of the portfolio. The Investment Adviser anticipates that the remainder of the Fund will be made up of investments held for ancillary liquidity, including cash and money market instruments, with this proportion not expected to comprise more than 10% of the Fund’s assets. No minimum environmental or social safeguards are applied to such investments.

**How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Not applicable – the Fund does not use derivatives to attain its environmental or social characteristics.

**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

Not applicable – the Investment Adviser does not take account of the EU Taxonomy in its management of the Fund and as such the Fund’s sustainable investments do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.

**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

A minimum of 10% of the Fund’s assets are expected to be classified as sustainable investments, as defined under the SFDR. Among these, the Fund expects a minimum of 1% of its assets to be classified as sustainable investments with an environmental objective and 1% as sustainable investments with a social objective which can both vary independently at any time.

**What is the minimum share of socially sustainable investments?**

As noted above, a minimum of 10% of Fund assets are expected to be classified as sustainable investments. Among these, the Fund expects at least 1% of its assets to be classified as sustainable investments with an environmental objective and 1% as sustainable investments with a social objective, both of which can vary independently at any time.

**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

This Fund holds cash and money market instruments for ancillary liquidity. These are included in the “#2 Other” category. No minimum environmental or social safeguards apply to such investments.

**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

Not applicable

We have have created SFDR annexes where the complete discussion of a given issue appears only once (in one section or another, as may prove optimal), with pointers to that discussion where relevant. If condensing sections is not practical at this point, we believe it would be helpful to companies and users alike to affirmatively state that the pointer approach is an option.

1. Add a clear diagram or sidebar showing, at a very high level, the relationships among the various rules, standards and entities associated with green investing. One of biggest communication challenges with SFDR is the fragmented terminology of the world of green investing. There are the EU’s SFDR and Taxonomy, the UN’s Guiding Principles and PAIs, the OECD’s Guidelines, as well as index providers and private providers of ESG data, analysis and ratings. Coming soon will be the FCA’s SDR. To these are added other terms: ES, ESG, sustainability, sustainable investment, sustainable investment objective, do no significant harm, exclusion, stewardship and the Paris agreement (organised by the UN but generally spoken of as separate), among others.   
    This tangle of terms had no single creator; even less is it under any form of overall coordination or management. One result is that how these terms connect or overlap is a mystery to virtually all retail investors. Until someone steps forward to offer a simple, clear understanding not just of what these terms mean but of how they relate to each other, retail investors will remain in hopeless confusion, to the detriment of efforts to encourage sustainable investing. No amount of improved clarity in other areas can make up for the communications damage caused by this issue.
2. Reduce the discussion of a fund’s structural characteristics. Retail investors generally want to know the “bottom line” — how green is this fund and what sort of risks and rewards they might expect. How the fund gains these attributes is beyond the attention budgets of most consumers. We believe incorporating the suggestion of bullets into the proposed dashboard would be helpful here.

We understand that it may not be feasible, or in some cases even permitted, for ESMA or any other regulatory body to easily implement some of the above changes. But we hope ESMA will bear in mind the need to realistically assess usability and especially engagement. It is worth noting that both readability scores and traditional forms of readability testing provide no information about engagement. Both already assume an engaged reader: scores because they include no metric for engagement, testing because in engaging people to participate in a test one eliminates the possibility of knowing if they would have engaged with the document on their own.

We would be happy to elaborate on any of these comments and to address any communications questions ESMA may have.

In closing we would only add that as considerable as our comments and criticisms are, we strongly believe that merely by instituting a standardised and mandatory presentation of this difficult yet vital subject the EU has shown significant leadership and has already traveled the most difficult part of the road to consumer-friendly disclosure.