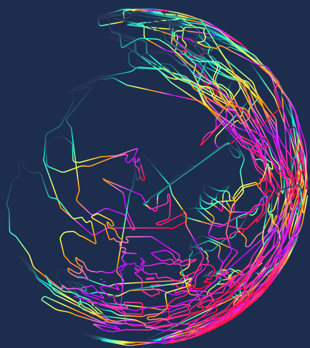
Principles for Responsible Investment

generation foundation

UN environment programme finance initiative

A LEGAL FRAMEWORK FOR IMPACT



UK

INTEGRATING SUSTAINABILITY GOALS ACROSS THE INVESTMENT INDUSTRY

CONTENTS

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EXECUTIVE SUMMARY

Governments around the globe have introduced a spate of policies in recent years to encourage responsible investment. Investors also increasingly recognise that financial returns depend on the stability of social and environmental systems. However, most investors and other financial actors are still failing to play their full role in addressing growing sustainability challenges.

The extent to which legal frameworks support investors' efforts to do so is examined in a 2021 report, A Legal Framework for Impact, authored by Freshfields Bruckhaus Deringer and commissioned by the PRI, the United Nations Environment Programme Finance Initiative and the Generation Foundation.

The report finds that in the 11 jurisdictions analysed, including the UK, investors are broadly permitted to consider pursing sustainability impact goals where this would contribute to their financial return objectives. Specifically, the extensive legal analysis concludes that:

- financial return is generally regarded as the primary purpose for investors;
- investors generally have a legal obligation to consider pursuing sustainability impact goals where that can help achieve their financial objectives;
- in some circumstances, investors can pursue sustainability impact goals for reasons other than achieving financial return goals (i.e., as an ultimate end);
- investors are legally required to pursue improved sustainability impacts if the objective of the financial product commits them to doing so.

However, the report also finds that the way UK investors understand and discharge their duties in practice may be discouraging them from pursuing positive sustainability impacts or even considering doing so. Furthermore, the UK legal framework limits investors' ability to pursue sustainability impact objectives as an ultimate end, rather than in support of financial objectives.

Similarly, our own analysis shows that many UK investors remain hesitant to change their established practices and pursue sustainability impact goals, even when this is required to achieve financial objectives.

Building on the Legal Framework for Impact report, this paper explores how UK policy makers could mainstream responsible investment writ large, helping the country achieve its climate and other sustainability goals.

The UK's existing requirements on responsible investment are focused on disclosures of sustainability risks: investors must report how they manage environmental, social and governance, or ESG, risks to investments, rather than if and how they tackle the sustainability impacts of their investments.

"Many UK investors remain hesitant to change their established practices and pursue sustainability impact goals, even when this is required to achieve financial objectives."

In contrast, leading responsible investors are using a much bigger toolkit to achieve positive sustainability impacts through their investments, with asset allocation, increasingly ambitious stewardship, and engagement with policy makers all brought to bear.

This report examines relevant aspects of the UK legal and regulatory framework and identifies areas where guidance and policies are insufficiently clear, potentially limiting institutional investors' willingness or ability to pursue sustainability impact goals. It then recommends policy measures that would empower investors both to consider sustainability factors and to pursue sustainability impact goals, in particular where these are relevant to financial returns.

POLICY RECOMMENDATIONS

1. Clarify when sustainability impact goals must or can be considered as part of the duties of loyalty, care and prudence
2. Clarify that purpose-related requirements (sometimes described as a duty to act in clients'/beneficiaries' "best interests") entail consideration of sustainability impact goals
3. Ensure stewardship powers are used to achieve sustainability impact goals

POLICY AREAS FOR FURTHER CONSIDERATION

1. Sustainability-related disclosures and labelling/classification for sustainable investment products
2. Competition law
3. Options to enable consideration of certain sustainability impact goals and of individual investors' views on sustainability
4. Guidance for pension schemes on assessing the relevance of social and environmental goals

KEY TERMS

The following key terms are used in this report:

- **Beneficiaries:** the people who derive a financial benefit from asset owners' investment activity.
- **Investor duties:** the duties owed by investors to the individuals or legal entities on whose behalf they act in managing portfolios. These include duties of loyalty, care and prudence and are commonly referred to as "fiduciary duties" regardless of the type of investor involved. In some cases, this term is not technically accurate – not all investors are fiduciaries and, even where they are, their core legal duty to invest may not be a "fiduciary" duty. For this reason, this report uses the term "investor duties".
- **Sustainability impacts:** the impacts of investors' actions on the environment and society. These impacts manifest themselves as the sustainability impacts of investments and can be positive or negative. Positive sustainability impacts are those aligned with global sustainability goals, such as the goals of the Paris Agreement and the UN Sustainable Development Goals (SDGs), as well as with the UN Guiding Principles on Business and Human Rights, the International Bill of Human Rights and International Labour Organization conventions.
- **Sustainability impact goals:** goals set by investors to achieve positive sustainability impacts through their investments.
- **System-level risks:** a catch-all term for systematic risk and systemic risk, both of which have implications for investment performance.
    - **Systematic risk:** risk, transmitted through financial markets and economies, that affects aggregate outcomes, such as broad market returns. The term is interchangeable with "market risk" or "market-wide risk". Because systematic risk occurs at a scale greater than a single company, sector or geography, it cannot be hedged or mitigated through diversification. One example of a sustainability-related systematic risk is the risk of reduced global economic growth due to sustained physical impacts of climate disruption; another is the opportunity cost associated with failing to meet the SDGs.
    - **Systemic risk:** the risk that an event at a particular point in time or a chronic economic condition destabilises the financial system or leads to its collapse. An example of a systemic risk materialising would be a number of "too-big-to-fail" financial institutions defaulting on obligations to their creditors or investors. An example of a sustainability-related systemic risk would be a sudden repricing of assets across the fossil fuel sector, resulting in cascading defaults that destabilise financial markets – this is sometimes referred to as a potential "climate Minsky moment".

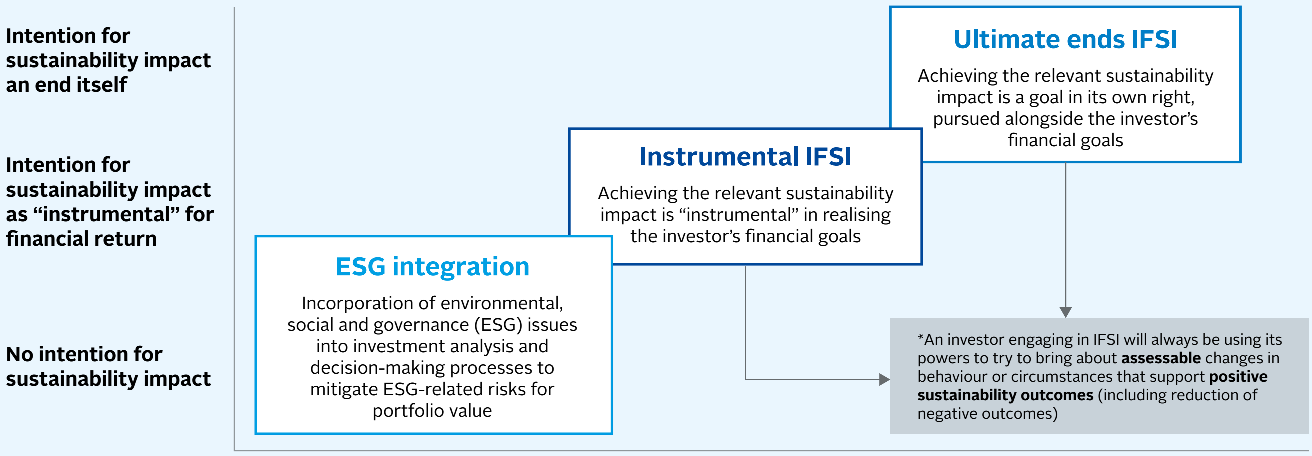
Box 1: "Investing for sustainability impact"

A Legal Framework for Impact, a report published by Freshfields Bruckhaus Deringer in 2021 and commissioned by the PRI, the United Nations Environment Programme Finance Initiative and the Generation Foundation, introduced the concept of "investing for sustainability impact". The concept is not a legally defined expression and is not used in the report as a term of legal art. Instead, it is used in the report's legal analysis to catch, broadly, any activities that involve an investor intentionally attempting (through investment decisions, stewardship or policy engagement) to bring about assessable behaviour changes among investee companies, policy makers or other third parties aligned with positive sustainability outcomes.

The report distinguishes between two types of investing for sustainability impact based on the investor's objectives:

- *instrumental investing for sustainability impact*, where achieving the relevant sustainability impact goal is "instrumental" in realising the investor's financial return objectives;
- *ultimate ends investing for sustainability impact,* where achieving the relevant sustainability impact goal is a distinct goal, pursued alongside the investor's financial return objectives but not wholly as a means of achieving them.

Figure 1: Investing for sustainability impact (IFSI). Source: Adapted from the *Legal Framework for Impact* report



Investing for sustainability impact involves a perspective and a set of practices that extend beyond traditional impact investing. Impact investing has tended to mean directing funds towards activities that have a specific sustainability goal and which would not exist without that targeted capital. In contrast, *investing for sustainability impact* involves investing in larger, more mature and diversified businesses and pursuing relevant sustainability impacts, with an emphasis not just on capital allocation but on stewardship and policy engagement as well.

Traditionally, impact investing has been conducted through specialist impact investing funds or strategies, whereas *investing for sustainability impact* is increasingly seen as a core investment approach that can be applied to broader portfolios. Still, impact investing is an example of one action institutional investors might take in a broader investment approach to achieve sustainability impact goals.

THE CASE FOR SUSTAINABILITY IMPACT GOALS

GLOBAL CONTEXT

The world is facing environmental and social emergencies that pose material risks to the basic quality of life for current and future generations – for example, the crossing of planetary boundaries.

Alongside climate change and biodiversity loss, social issues such as human rights, modern slavery, working conditions, and diversity, equity and inclusion are gaining prominence. The COVID-19 pandemic has exacerbated existing economic inequalities, increased economic insecurity, disrupted supply chains and caused global educational crises. Over time, all of these issues will affect social stability, economic performance and, therefore, investors' financial returns.

"Investors themselves are also increasingly concerned with brewing environmental and social crises and are facing calls for action from clients and beneficiaries."

Governments are taking action to address these sustainability challenges. All countries in the world have now joined the Paris Agreement,[1] which lists among its main aims aligning finance flows with a shift towards low greenhouse gas emissions and climate-resilient development. The Inevitable Policy Response project, commissioned by the PRI, forecasts a further acceleration of policy responses by governments and international bodies to climate change and related sustainability issues, such as a just transition.

Investors have been drawn into the growing efforts to tackle sustainability challenges through a wave of sustainable finance regulation in recent years, at both the national and multilateral levels.[2] But investors themselves are also increasingly concerned with brewing environmental and social crises and are facing calls for action from clients and beneficiaries. As a result, there has been a significant rise in responsible investment activity.[3]

However, responsible investment needs to be adopted much more widely to align investors with global sustainability goals.

SYSTEM-LEVEL RISKS AND FINANCIAL MARKETS

The World Economic Forum has identified **inaction on climate change, human environmental damage, biodiversity loss, erosion of social cohesion and livelihood crises** as some of the most severe global risks.[4] The International Corporate Governance Network has similarly stated that **environmental risks** (such as climate change, water scarcity and pollution), **social risks** (including human rights violations and income inequality) and **governance risks** (such as corruption) pose significant systemic threats to the stability of the global financial system.[5]

Institutional investors, which are required to secure long-term financial returns, have a responsibility to consider whether such system-level risks are relevant to their ability to meet their legal obligations and objectives and, if so, how they can mitigate these threats.[6] Reduced system-level risks – which can be referred to as "better beta" – could improve financial outcomes over the long term.[7]

Diversification, a core tenet of the popular modern portfolio theory, does not address such risks to investors' portfolios. A more effective approach investors might take is to work towards improving the sustainability impacts of their investments (or to *invest for sustainability* impact in the terminology of this report). They can do this through investment decisions, stewardship and engagement with policy makers, acting individually or in collaboration with other investors.

Many investors are already taking this approach. One example is more ambitious stewardship driven by sustainability concerns: as highlighted in the *Legal Framework for Impact* report,[8] the investor-led Climate Action 100+ initiative[9] is increasingly focusing on the outcomes of companies' decarbonisation commitments, and a number of its investor members are setting emission reduction targets for their investee companies. Those investors that are doing so in order to address the financial threats arising from climate change are engaging in *instrumental investing for sustainability impact.*

1 See the United Nations Treaty Collection.

2 See the PRI's regulation database.

3 The PRI's recent actions in support of responsible investment include the launch of Advance, an initiative facilitating collaborative stewardship by institutional investors on social issues and human rights.

4 World Economic Forum (2022), The Global Risks Report 2022

5 International Corporate Governance Network (June 2019), Investor Framework For Addressing Systemic Risks

6 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p.154-p.192)

7 Hawley, J., Lukomnik, J. (2019), Modernising modern portfolio theory

8 Freshfields Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making (p. 38)

9 Climate Action 100+ currently has 700 investors and 166 companies as members.

UK CONTEXT

The UK has been proactive in introducing policies to tackle climate change and encourage responsible investment. The country was the first in the world to legally commit to long-term emission reduction targets, with the initial Climate Change Act 2008 underpinned by successive carbon budgets. In 2019, the UK became the first G7 country to publish a 1.5°C-aligned Nationally Determined Contribution target. In 2021, the Chancellor of the Exchequer announced plans to make the UK the "world's first net-zero aligned financial centre", which involves transition plans for UK financial institutions and government oversight to shift financial flows towards supporting net-zero emissions.[10] In the run-up to COP26, the UK government led multiple campaigns championing commitments and concrete actions by UK regulators, the private sector and civil society to implement the Paris Agreement.

With regards to sustainable finance, in 2019, the UK government published its first Green Finance Strategy, in line with its stated objective to align private sector financial flows with clean and resilient growth. This was followed in 2021 by Greening Finance: A Roadmap to Sustainable Investing, which set out a strategy for the implementation of various regulatory instruments and plans to update the Green Finance Strategy.[11]

As of October 2021, UK pension schemes must make climate-related financial disclosures in line with guidance from the Task Force on Climate-Related Financial Disclosures (TCFD). Meanwhile, the UK's Financial Conduct Authority (FCA) has proposed extending TCFD reporting requirements to asset managers and life insurers among other financial firms.

The UK government has also committed to publishing a transition pathway for the financial sector as a whole, including policies and milestones through to 2050.

While financial policy makers have so far focused on climate-related issues, they are increasingly taking action on other sustainability challenges as well. For instance, the Department for Work and Pensions (DWP) recently announced the creation of a new taskforce to help pension schemes engage with social risks and opportunities in their investments.[12]

The UK has also led on stewardship standards for investors. The voluntary UK Stewardship Code, revised in 2020, sets high stewardship standards for those investing money on behalf of UK savers and pensioners and for service providers that support these investors. In June 2022, the DWP also released guidance for pension schemes on stewardship implementation and reporting.[13] However, stewardship is still often seen as suitable only for some purposes, whereas it should be an integral part of investors' activities.

Policy-making on sustainable finance has slowed down in 2022, as demonstrated by delays in the publication of the first consultation on the UK Green Taxonomy and proposals for Sustainability Disclosure Requirements. This has raised uncertainty over the direction of travel for UK sustainable finance policy.

Box 2: Relevant UK regulators and government departments

- Department for Work and Pensions (DWP) – administers the UK state pension and promotes saving for retirement.
- Department for Levelling Up, Housing and Communities (DLUHC) – regulates the Local Government Pension Scheme and provides relevant guidance.
- The Pensions Regulator (TPR) – regulates and protects work-based pension schemes.
- Financial Conduct Authority (FCA) – regulates the conduct of UK financial services firms, including insurers, investment managers and pension providers, to ensure integrity in UK financial markets.
- Prudential Regulation Authority (PRA) – the UK's prudential regulator for insurers, deposit-taking firms and systemically important investment firms.
- Financial Reporting Council (FRC) – regulates financial and corporate reporting standards and sets the UK's corporate governance and stewardship codes.
- Competition and Markets Authority (CMA) – promotes competition for the benefit of consumers, both within and outside the UK.

10 HM Treasury (November 2021), Chancellor: UK will be the world's first net zero financial centre

11 The Department for Business, Energy & Industrial Strategy issued a call for evidence in May 2022 to prepare for this update. The PRI responded.

12 DWP (July 2022), New taskforce to support pension scheme engagement with social factors in ESG investing

13 DWP (June 2022), Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance

FINANCIAL FACTORS AND NON-FINANCIAL FACTORS

It has become common in discussions about the role of sustainability factors in investment decision-making to assess whether they are "financial" or "non-financial".

"The issue is not whether the factor is financial but whether it is relevant to achieving the investment objectives."

Two points are important here: a UK entity exercising investment-related powers must take into account relevant factors and ignore irrelevant factors, and purpose-related requirements generally mean a focus on financial objectives.[14] A 2014 Law Commission report on the duties of investment intermediaries draws a distinction between factors relevant to increasing returns or reducing risks (financial factors) and those that are not (non-financial factors).[15] This broad distinction has subsequently been adopted by UK regulators in relation to pension funds, life insurers and in market discourse more broadly.

Deciding whether a particular sustainability factor is financial or not is not always easy, and the financial relevance of at least some sustainability factors is not universally understood. For example, a factor that has traditionally been seen as non-financial may have an impact on an investee company's reputation, business model or governance and thus its value – and therefore could be considered a financial factor. In fact, the key question for an investor is whether a given factor has a bearing on its investment objectives, defined in accordance with applicable law and which are likely to be financial but may also include other objectives. From that perspective, the issue is not whether the factor is financial but whether it is relevant to achieving the investment objectives.

The PRI, in keeping with the approach of the *Legal Framework for Impact* report, would argue that factors should no longer be called "financial" or "non-financial", by policy makers in particular. A factor should be considered based on its **relevance** to the investor's proper purpose and objectives.[16] Therefore, guidance should be revisited to that effect.

THE CASE FOR POLICY REFORMS

The UK sustainable finance regulatory framework is focused on disclosures – a good starting point for directing capital towards shared societal goals. However, policy makers also need to address the extent to which investors are contributing to the achievement of those goals in practice. To do so, policy makers and regulators need to develop a clear concept of "sustainability impact" – as opposed to "sustainability risk" – and operate on the basis of that.

"In the absence of more explicit guidance and direction, asset owners and asset managers may remain hesitant to use investment decisions, stewardship and policy engagement to pursue positive sustainability impacts."

The key findings on the UK in the Legal Framework for Impact report include the following:

- The UK legal framework permits or, in certain cases, requires investors to consider *investing for sustainability impact* and act accordingly where that is relevant to pursuing their legally defined investment goals.
- The way investors' duties are understood and discharged in practice may result in investors not pursuing positive sustainability impacts or considering doing so, even when that would be in line with their duties.
- Mainstream investors' ability to pursue sustainability impact objectives as ultimate ends is limited.

In the absence of more explicit guidance and direction, asset owners and asset managers may remain hesitant to use investment decisions, stewardship and policy engagement to pursue positive sustainability impacts. Based on the findings of the *Legal Framework for Impact* report and additional legal analysis commissioned by the PRI, we have identified ways to move forward from the current paradigm.

The recommendations in this report build on existing and planned UK regulations with the aim of accelerating the transition to a sustainable financial system. Specifically, we argue that regulators and policy makers need to clarify in which cases the UK's legal framework permits or requires institutional investors to pursue sustainability impact objectives. Such a clarification would enable investors to systematically consider all the factors that are relevant to financial returns. We also recommend policies on stewardship, sustainability disclosures and the labelling of sustainable products.

14 For more on this, see the section entitled "Duties connected to the exercise of a power" on p. 449-p. 451 in the Legal Framework for Impact report.

15 The Law Commission also said: "While the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be taken into account. We conclude that the law permits trustees to make investment decisions that are based on non-financial factors, provided that: they have good reason to think that scheme members share the concern; and there is no risk of significant financial detriment to the fund."

16 An investor's objectives are narrower than purpose and, unlike purpose, may change over time.

SUMMARY LEGAL ANALYSIS

The *Legal Framework for Impact* report examines a number of rules applicable to **pension funds**, **mutual funds** and **insurance companies** (the three largest sub-categories of asset owners by global AUM), as well as **investment managers**. The rules assessed are those relevant to the consideration of sustainability factors and the pursuit of positive sustainability impacts.

Generally speaking, funds operated and managed under the legal frameworks assessed may be set up with the specific purpose of investing or engaging for positive sustainability impact. However, the legal analysis in the *Legal Framework for Impact* report focuses on the extent to which the pursuit of sustainability impact objectives is possible, under current laws, where the fund mandate is "silent" on the issue. Broadly, the analysis finds the following on the UK:

- **Pension funds** are not under an explicit general duty to invest or engage for positive sustainability impact. However, they may – and in some cases should – consider the sustainability impacts of their activities where that is consistent with their duties, which focus on beneficiaries' financial interests. In other words, pension funds may be permitted or required to consider pursuing positive sustainability impacts in their investment and engagement activities where that is instrumental to achieving the fund's financial objective (i.e., instrumental investing for sustainability impact). In relation to ultimate ends investing for sustainability impact, the law is more restrictive. The application of legal duties by trustees will vary in practice, in line with the structures of defined contribution and defined benefit schemes, as well as other differences in circumstances between pension schemes and members.
- **Insurance companies** are not under an explicit general duty to invest or engage for positive sustainability impact, but directors may need to consider pursuing positive sustainability impacts to discharge their general duties. Their situation is broadly similar to that of pension funds, although they may have greater scope to engage in ultimate ends investing for sustainability impact in some cases.
- **UCITS** management companies are not under an explicit general duty to invest or engage for positive sustainability impact. However, they may need to consider pursuing positive sustainability impacts in working towards their objectives.
- **Investment managers** are not under an explicit general duty to invest or engage for positive sustainability impact. However, they may be permitted or required to consider pursuing positive sustainability impacts where that is consistent with clients' investment objectives. These are generally as stipulated in the investment mandate the client gives to the manager and shaped by the client's own investment duties. As such, the legal position is granular and tailored (i.e., it is not applied in a general way across all clients).

For a detailed analysis of relevant UK laws, see pages 446-509 in the Legal Framework for Impact report.

POLICIES TO EMBED SUSTAINABILITY IMPACT GOALS IN INVESTOR DUTIES

The first three broad recommendations below concern two key, closely related aspects of investors' duties:

- duties of loyalty, care and prudence;[17]
- purpose-related requirements (sometimes described as an obligation to act in clients'/beneficiaries' "best interests"), which include a requirement to exercise a power for the purpose for which it is conferred and a requirement to act within the scope of a power.

Investing for sustainability impact is already permitted or required, consistent with duties of loyalty, care and prudence[18] (see recommendation 1 below) and under purpose-related requirements (recommendation 2). But there is a question as to how far investors understand this, since it is not explicit in the "black letter" of the law – the UK legal framework relies on broad interpretations of regulations, which evolve through practice and precedent. Lastly, stewardship has not always received the same level of attention from policy makers as capital allocation as a tool to achieve positive sustainability impacts (recommendation 3).

Policies and regulations addressing the sustainability impacts of investments should be coherent and compatible with one another. It is also desirable to make it easy for investors to find and understand information on these policies and regulations.

Where relevant, we have addressed our recommendations to a specific regulatory or policy-making body. However, some recommendations may have implications for a range of regulators. Where a regulatory or policy-making body is not specified, we address the UK government and all relevant regulators. These relevant bodies include the Department for Work and Pensions (DWP), The Pensions Regulator (TPR), the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Department for Levelling Up, Housing and Communities (DLUHC).

17 See footnote 60 on p.500 in the Legal Framework for Impact report.

18 Duties of loyalty, care and prudence describe how investors should exercise their duties and powers and to what ends. The concept of clients'/beneficiaries' best interest is key to identifying those goals.

1. CLARIFY WHEN SUSTAINABILITY IMPACTS CAN OR MUST BE CONSIDERED AS PART OF DUTIES OF LOYALTY, CARE AND PRUDENCE

The proposals that follow focus on the duties of pension funds and insurers, although in many cases they apply to other categories of institutional investors as well. Their overall objective is to clarify that, in discharging their duties, occupational pension funds and insurers should **give proper consideration to pursuing social and environmental impact goals** where this could reasonably be expected to help achieve their legal investment purpose and objectives. These proposals can be implemented through guidance from relevant regulators, including the FCA, the PRA, the DWP, TPR and the DLUHC.

CLARIFY THAT EXISTING LAW REQUIRES PENSION SCHEMES TO CONSIDER SUSTAINABILITY IMPACTS WHERE RELEVANT TO ACHIEVING THE PURPOSE AND OBJECTIVES OF THE SCHEME

The authors of the *Legal Framework for Impact* report found that, under existing UK law, pension schemes must consider pursuing sustainability impact goals where that is relevant to achieving their investment purpose and objectives. However, this is not explicit in the "black letter" of the law and so is often misunderstood or overlooked. To resolve this problem, we recommend that TRP, the DWP and the DLUHC, as applicable, set out the following guidance:

- **Clarify the scope of existing regulatory requirements to adopt and disclose investment policies as to "financially material considerations".** Guidance should state that the requirements extend not only to addressing relevant sustainability risks, but also to considering sustainability impacts and, where appropriate, pursuing sustainability impact goals where these may be relevant to the investment purpose and objectives of the pension scheme (e.g., where the impacts affect sustainability-related financial risks).

  DWP guidance and the TPR codes of practice should, for example, clarify that "financially material considerations" within Regulation 1 of the Occupational Pension Schemes (Investment) Regulations 2005 may include sustainability impacts that the trustees consider relevant to the purpose and objectives of the scheme. Guidance for the Local Government Pension Scheme should also make this clear.[19]

- **Clarify that the requirement to consider sustainability impacts encompasses an obligation to consider taking active steps to pursue sustainability impact goals** when doing so could reasonably be expected to help achieve the proper purpose and objectives of the scheme. This would be the case when, for example, the sustainability impacts of a scheme's investments contribute to systemic risks (such as those related to climate change, biodiversity loss and soil degradation). Sustainability impacts such as greenhouse gas emissions contribute to climate change and so to climate-related financial risks, including systemic risks. Emissions should therefore be reduced in order to mitigate the financial risks that may crystallise over the time horizon of the pension scheme.
- **Clarify that, in considering sustainability impacts, pension schemes should take into account not only long-term sustainability impacts but also short- and medium-term sustainability impacts,** since these may affect financial risk and returns over a range of timescales. Pension schemes should consider their investment and (especially for defined benefit schemes) funding time horizons, and the sustainability impacts and risks that may arise at various times up to the likely end of their lifecycle. They should take an equitable approach that recognises the interests of all cohorts of beneficiaries and avoids favouring some over others.

CLARIFY THAT UK INSURANCE FIRMS SHOULD CONSIDER INVESTMENTS' SUSTAINABILITY IMPACTS UNDER EXISTING RULES

Under the Companies Act 2006, directors of UK insurance companies are required "to promote the success of the company for the benefit of its members as a whole" (i.e., the shareholders for a company limited by shares) and, in doing so, to have regard to the impacts of the company's operations on the community and the environment.

Directors of UK insurance firms may need to consider pursuing positive sustainability impacts to discharge their duties, even though they are not under an explicit general duty to *invest for sustainability impact.* Additional regulatory direction on this point would be welcome. For example, existing guidance on managing financial risks arising from climate change clarifies how insurers should address such risks in the management of investments.[20] However, the guidance does not describe how strategies to address such risks may include pursuing positive sustainability impacts.

19 The DLUHC should implement this change by updating its guidance for the Local Government Pension Scheme on preparing and maintaining an investment strategy statement.

20 PRA (2019), Supervisory Statement: Enhancing banks' and insurers' approaches to managing the financial risks from climate change

The PRI recommends that the PRA set out guidance to clarify that:

- **Insurers should take into account sustainability risks[21] and the sustainability impacts of their investments in their investment strategy and decision-making.[22]** This could be achieved by, for example, issuing guidance in PRA Supervisory Statements,[23] including guidance on the content of sections 2 and 3 of the PRA Rulebook on investments and section 3.8 of PRA Rulebook: Solvency II Firms: Conditions Governing Business Instrument 2015.
- **Appropriate investment decisions extend to considering pursuing sustainability impact goals when that is necessary to address sustainability risks.** It should be made clear that the available actions to pursue such goals go beyond simply not investing in assets that carry sustainability risks or reducing exposure to such assets. In many cases, active steps may best be taken collectively with other investors and third parties and include the use of stewardship.
- **Insurers should give proper consideration not only to long-term sustainability impacts but also to short- and medium-term sustainability impacts,** since sustainability impacts may materialise and, in turn, affect financial risk and returns in the short-to-medium term as well.

In its 2020 call for evidence on the review of Solvency II, the Treasury notes that climate change has serious implications for the UK economy, that insurance firms can play an important role in contributing to the objectives of the Green Finance Strategy due to their long-term investment horizons and that the UK's regulatory regime should enable insurance firms to support the government's climate and growth objectives.[24] The PRI agrees that Solvency II should be amended so as to enable insurers to invest in line with these objectives.

PROVIDE IMPLEMENTATION GUIDANCE AND OTHER SUPPORT FOR INSURERS AND OCCUPATIONAL PENSION SCHEMES

We recommend that regulators develop further guidance on the application of the relevant duties for insurers and pension schemes. The guidance should address the ways in which investors consider sustainability impacts and, where appropriate, set and pursue sustainability impact goals.

Therefore, the FCA/PRA/DWP/DLUCH/TPR (as applicable) should:

- **Clarify that the actions available to investors to pursue positive sustainability impacts go beyond decisions to acquire or dispose of certain assets** to all activities by or on behalf of investors in relation to their investments. In particular, regulators should encourage stewardship, including collaborative engagement, by or on behalf of pension funds to improve investees' sustainability impacts (see recommendation 3 on stewardship as well).
- **Provide evidence** that systemic risks including, but not limited to, climate change should no longer be considered so remote or insubstantial as to be irrelevant to pension schemes' financial goals, and provide **easily accessible examples of good practice.** This could be included in guidance about information that should be part of the statement of investment principles (for occupational pension schemes), and in similar guidance for the Local Government Pension Scheme, respectively.
- In addition to the above, **support and encourage efforts by the investment industry and other stakeholders to develop and endorse their own examples of good practice or case studies** of how insurers and pension schemes can assess sustainability risks and impacts, and how they can set and pursue sustainability impact goals.
- **Provide training to pension fund trustees** (and other key investment decision-makers and professionals such as investment advisers, consultants and lawyers). This would ensure they are better-equipped to take sustainability factors into account in their decision-making and to consider pursuing positive sustainability impacts where that is relevant to achieving the purpose and objectives of the scheme. Sustainability impacts should be adequately considered when selecting investment managers, drafting mandates and assessing performance.

21 We use the following definition of "sustainability risk": an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment or on the value of the liability. The definition is taken from amended Delegated Regulation (EU) 2015/35, which supplements Solvency II.

22 For example, in the EU, insurers are required to consider the sustainability impacts of their investments under the prudent person principle.

23 See, for example, PRA (2019), Supervisory Statement: Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

24 HM Treasury (2020), Review of Solvency II: Call for Evidence

2. CLARIFY THAT PURPOSE-RELATED REQUIREMENTS ENTAIL CONSIDERATION OF SUSTAINABILITY IMPACTS

Purpose-related requirements shape the types of objectives investors are allowed to pursue and the steps they may take. These requirements are sometimes described as the "best interests" obligation, which refers to a bundle of specific duties of trustees in relation to the exercise of their powers.[25] Purpose-related requirements oblige decision-makers to exercise their powers for the purpose or purposes for which they were given and not for ulterior or collateral purposes.

"There remains a common (mis)perception that pursuing sustainability impact goals represents a departure from prioritising an investor's proper financial purpose. Not only is this a false assumption, but it also overlooks the fact that in some cases investors need to address sustainability impacts in order to achieve their financial return objectives."

According to the findings of the *Legal Framework for Impact* report, financial return is generally regarded as the primary purpose for investors. The authors also concluded that, under existing UK law, investors should consider pursuing sustainability impact goals where this is relevant to achieving their investment purpose and objectives – in other words, **under existing UK law, sustainability impacts can be highly relevant factors in the proper legal exercise of a power of investment.**

However, the concept of financial interest is routinely narrowly construed and subject to confusion. There remains a common (mis)perception that pursuing sustainability impact goals represents a departure from prioritising an investor's proper financial purpose. Not only is this a false assumption, but it also overlooks the fact that in some cases investors need to address sustainability impacts in order to achieve their financial return objectives.

Regulatory guidance is therefore required to embed the consideration of pursuing sustainability impact goals in the concept of using an investment power for its proper purpose. In particular, investors should be guided to consider whether and how sustainability impacts are relevant to achieving their investment purpose.

Our recommendations are:

- **Clarify, via guidance, that purpose-related requirements already oblige investors to consider pursuing positive sustainability impacts by using their powers of investment and stewardship** (where this is relevant to achieving their investment purpose and objectives). The guidance should highlight the risks that negative sustainability impacts pose to the systems on which economic prosperity and investment returns rely.
- **Guidance should also remind investors to consider the relevance of their sustainability impacts to the success of the scheme or portfolio as a whole,** rather than only to each individual investment. Investors should also consider how the sustainability impact of each investment impacts the whole portfolio.

25 For a detailed analysis of the duties connected to the exercise of a power, see p. 449-p. 451 in the Legal Framework for Impact report.

3. USE OF STEWARDSHIP TO ACHIEVE SUSTAINABILITY IMPACT GOALS

The *Legal Framework for Impact* report found that stewardship – especially in collaboration with other investors – is an essential tool for investors pursuing sustainability impact goals. The issues described below in relation to stewardship activities, costs and collaboration among investors were highlighted in the report as potential barriers to pursuing sustainability impact goals.

"UK financial policy makers and regulators should ensure that stewardship is not treated, as it often is, as an investment activity suitable only for some purposes."

UK financial policy makers and regulators should ensure that stewardship is not treated, as it often is, as an investment activity suitable only for some purposes. Rather, policies should consistently promote the appropriate use of stewardship by investors as part and parcel of discharging their duties and pursuing their objectives – including sustainability impact goals where relevant to their investment purpose and objectives. For example, the UK Green Taxonomy, which is in development, should be promoted as a tool useful not just for portfolio construction but also for identifying companies or sectors where emissions could be reduced through stewardship.

The UK Stewardship Code 2020 established a high, albeit voluntary, standard of stewardship practices among financial actors in the UK.[26] Key to driving long-term improvements in investor stewardship – including the extent to which it delivers positive sustainability impacts – will be gradually raising the floor for stewardship practices established by regulation, while ensuring the code recognises best-in-class practices. Additional reforms – to incentivise greater collaboration and adequate resourcing of stewardship – are also set out below.

A REGULATORY BASELINE FOR STEWARDSHIP

Under Article 3g(1) of the EU's Shareholder Rights Directive II, which has been directly transposed into UK regulation,[27] asset owners and asset managers must develop and publicly disclose a policy describing how they integrate stewardship in their investment strategy or, crucially, publicly disclose an explanation why they have chosen not to develop such a policy.

We recommend that the Department for Business, Energy & Industrial Strategy and the Financial Reporting Council (FRC) clarify in guidance to asset owners and asset managers that they should consider using voting and engagement to pursue positive sustainability impacts or reduce negative sustainability impacts where this is relevant to their investment goals and purpose.

"Supporting the use of stewardship by investors in their pursuit of sustainability impact goals should be a priority in the upcoming update of the UK's Green Finance Strategy."

As the DWP has stated, trustees ought to take ownership of the stewardship policies implemented on their behalf and ensure that anyone engaging with investees on their behalf is aware of their approach to stewardship, including engagement.[28] PRI data shows that, while asset owners are increasingly making sure their managers' stewardship policies align with their own policies or expectations, more granular assessments of asset managers' approaches are less common – including assessments of the extent to which they prioritise systemic sustainability issues. Guidance and support from regulators are needed to improve asset owners' practices in this area.

Lastly, supporting the use of stewardship by investors in their pursuit of sustainability impact goals should be a priority in the upcoming update of the UK's Green Finance Strategy, as there are indications that stewardship is the most reliable way for investors to have a positive sustainability impact.[29]

26 The FRC's revised UK Stewardship Code 2020 outlines 18 principles of best practice in investment stewardship. Asset owners, investment managers and service providers commit to report against these on a comply-or-explain basis when they voluntarily sign up to the code.

27 It has been transposed via FCA rules and the Regulation 2(3)(c) of the Occupational Pension Schemes (Investment) Regulations 2005.

28 DWP (2022), Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance

29 Kölbel, J., Heeb, F., Paetzold, F., Busch, T. (2020), Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact

REMAINING A LEADER IN STEWARDSHIP PRINCIPLES

The UK's Stewardship Code is world-leading, but many UK investors are still in the early stages of applying its principles. As stewardship practices improve across the industry in line with the code, the FRC should ensure the code continues to set high expectations for stewardship practices. As part of this, the FRC may need to provide clearer guidance on areas where investors' practices may be lagging, such as integration of systemic risks into stewardship and stewardship of issuers of securities other than equities.[30]

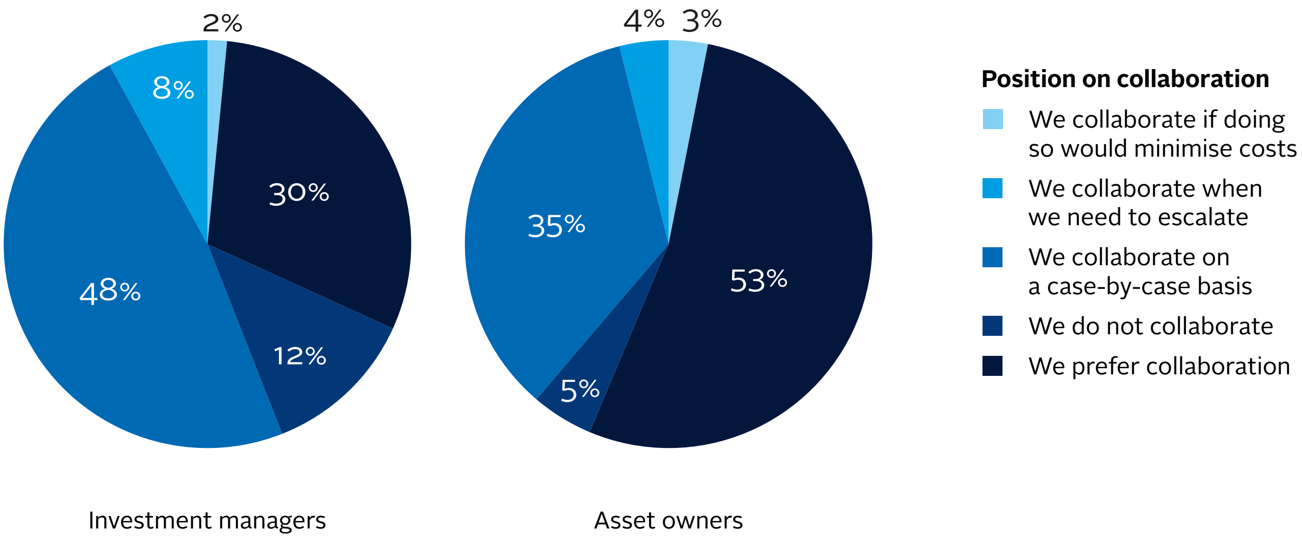
Greater uptake of leading practices could be incentivised by re-introducing tiering of code signatories based on the quality of their Stewardship Report, to highlight those UK investors that are particularly transparent about their approach to stewardship. When assessing the quality of Stewardship Reports, the FRC should take into account the extent to which a given report explains how the investor's stewardship approach addresses both sustainability risks and impacts.

INVESTOR COLLABORATION

The relevant authorities – such as the DWP, the PRA, the FCA and TPR – should clarify that, in pursuing their financial and sustainability objectives, investors ought to consider undertaking stewardship in collaboration with peers, and that collaboration can be an effective way for investors to discharge their duties even if the investor's individual contribution and the financial and wider benefits to the portfolio cannot, by their nature, be precisely measured. As an alternative, a prima facie legal presumption in favour of cooperation on sustainability matters unless there are solid reasons against could be established.[31] (See also recommendations below regarding competition law.)

Collaborative stewardship is a particular area where asset managers' approaches need to be better-aligned with those of asset owners: PRI data shows that more than half of asset owners prefer collaboration, while less than a third of investment managers do.

Figure 2: Main driver of PRI signatories' participation in collaborative stewardship. Source: 2021 data from the PRI reporting framework



30 FRC (2021), Effective Stewardship Reporting

31 See section 1.3, "Collective action to secure sustainability goals", on p.17 of the Legal Framework for Impact report.

STEWARDSHIP COSTS

We recommend that relevant regulators – such as TPR, the PRA, the FCA and the FRC – clarify that the duties of asset owners and managers require them to undertake stewardship, including doing so to address sustainability risks or pursue sustainability impact goals where that is relevant to achieving their investment purpose and objectives. Regulators should also encourage investors to allocate sufficient resources to stewardship, which at present is too often hindered by inadequate resourcing.

Regulators should clarify that investors are permitted to incur reasonable costs in undertaking stewardship, while still acknowledging that investors need to be satisfied that the costs are justifiable and consistent with their duties. Regulators should also provide examples of good practice, showing cases where investors strike a balance between effective stewardship and reasonable costs.

Such measures should encourage greater collaboration among investors on stewardship activities as a way to reduce overall costs and enhance the effectiveness of stewardship.

The PRI is currently in the early stages of exploring the best ways for investors to allocate resources to stewardship. The resulting findings may prove useful to regulators when issuing clarifications or new guidance on stewardship costs. The PRI will engage with regulators on this matter once the findings are released.

Regulators may also find it productive to work with the industry to produce examples/case studies of collaboration and best practice in stewardship more broadly. As a conduit, they could use the Occupational Pensions Stewardship Council, for example.

4. OTHER AREAS TO EXPLORE

What follows is a non-exhaustive list of other potential barriers to *investing for sustainability impact* identified in the *Legal Framework for Impact* report and examples of tools that could help remove those barriers.

Further work by policy makers and other stakeholders is needed to understand the extent of these barriers and develop the most appropriate regulatory tools for addressing them.

SUSTAINABILITY DISCLOSURES AND PRODUCT LABELLING/CLASSIFICATION

This section provides recommendations for regulators on sustainability disclosures and the labelling/classification of investment products. In developing these requirements, the FCA should broadly align with the objectives and approaches of similar rules in other jurisdictions, such as the EU's Sustainable Finance Disclosure Regulation (SFDR), and aim for interoperability, although it should improve on the way the SFDR tackles investors' pursuit of sustainability impact goals. The PRI will also respond to the FCA's planned draft Sustainability Disclosure Requirements once they are released.[32]

When designing rules on the disclosure, labelling and classification of sustainable investment products, the FCA should recognise that all categories of investors may need to take account of sustainability factors in their decision-making and consider pursuing positive sustainability impacts. These steps may be necessary for investors as they may be relevant to achieving a financial return, whether or not the investor has a sustainability objective or makes sustainability claims about its investment products or strategy.

The FCA should ensure new rules do not contribute to confusion or increase the risk of investors either believing they are not allowed to pursue positive sustainability impacts or that their approach to sustainability impacts does not have to be disclosed. At the same time, new disclosure requirements should not create unreasonable or disproportionate challenges for those investors who are actively *investing for sustainability impact.*

At present, there is still a high potential for confusion over products and investment approaches that include, among others, those incorporating financially material sustainability risks/opportunities and those that specifically involve pursuing assessable sustainability impact goals, for financial reasons or otherwise.

32 The FCA has published a discussion paper on potential Sustainability Disclosure Requirements and investment labels (DP21/4), saying it will develop draft rules and issue them for consultation in the second quarter of 2022, but these have not been released yet.

The FCA should:

- Ensure that disclosures, labelling and classification for **all investment products** provide clarity for institutional and retail investors on the following aspects of the products: how the underlying investments are managed so as to take account of sustainability factors, to identify, assess and act upon sustainability-related risks/ opportunities, and to pursue any positive sustainability impacts (including reducing negative impacts). The following should be disclosed:
    - the **policy** for incorporating sustainability factors (including sustainability impacts) – and any goals relating to them[33] – into investment decision-making;
    - the **broad strategy** for achieving any sustainability impact goals;
    - the **specific actions** that will be taken to implement the strategy (e.g., investment decisions, stewardship and engagement with policy makers);
    - the approach to the **monitoring and assessment** of sustainability impacts;
    - **changes in the sustainability impacts** of investments and, where appropriate, the investor's contribution to those changes;
    - the **contribution** to wider sustainability goals – how the sustainability impacts of investments contribute to the goals set by the asset owner or manager, regulators, the national government, or to global goals (e.g., the Paris Agreement, the SDGs, human rights).
- Design the labelling and classification in a way that helps investors understand the different types of sustainable investment products (but which does not create the wrong impression that managers should consider sustainability risks/opportunities and impacts only in products labelled as sustainable investments). For example, investors might want to distinguish between the following products:
    - investment funds investing in companies that are already aligned with net-zero goals (or have an effective transition plan);
    - investment funds that aim to improve investee companies' sustainability impacts, e.g., so they become aligned with net-zero goals;
    - investment funds that take a highly selective approach to investing in companies that generate specific, targeted positive sustainability impacts (traditionally known as impact funds).
- Ensure that the forthcoming Sustainability Disclosure Requirements framework aligns, as a minimum, with the Green Claims Code published by the Competition and Markets Authority (CMA).
- Require investment firms to offer sustainable investment products (defined in accordance with the disclosure/labelling criteria under the forthcoming Sustainability Disclosure Requirements) as one of the default options for retail investors, provided the products meet the suitability test.[34] These products should include strategies that involve pursuing positive sustainability impacts. A transition period could be allowed to enable providers to develop such products. A default option of this kind could increase the likelihood that retail investors are aware of and choose a more sustainable investment option.

33 These goals should be broken down into broad sustainability goals (such as reducing emissions), specific objectives that relate to achieving the goals, and targets that indicate progress towards the goals and objectives.

34 The PACTE law in France, for example, has introduced systematic offering of ESG-labelled funds for new unit-linked life insurance contracts, starting from 2022.

COMPETITION LAW

On 22 January 2021, the CMA issued new guidance on environmental "sustainability agreements" and competition law. Sustainability agreements are arrangements between businesses to work together to take measures such as reduce their carbon footprint or improve the environmental standards of their products. The guidance sets out what businesses and trade associations should consider when cooperating on environmental sustainability initiatives.

Further guidance is required from the CMA to explain whether the concept of "sustainability agreements" extends to agreements between asset owners and asset managers to collaborate on improving the sustainability impacts of their products and services or on broader sustainability initiatives.

On 14 March 2022, the CMA also provided advice to the Secretary of State for Business, Energy and Industrial Strategy on how competition and consumer laws could better support the UK's net-zero and other environmental goals (including climate adaptation).

Neither the January 2021 CMA guidance nor the March 2022 advice specifically cover investor collaboration. We recommend that the CMA's newly launched Sustainability Taskforce explore the possibility of working with the PRA, the FCA Takeover Panel and TPR, among other relevant regulators, to develop formal guidance to facilitate collaboration between investors aimed at improving their sustainability impacts.

We also recommend that the CMA and other regulators monitor the degree to which competition law is a real or perceived barrier to collaboration on sustainability initiatives among investors, by carrying out market studies and surveys, as well as seeking other stakeholder feedback. Building on London's status as a global financial centre and the UK's net-zero ambitions, the country's competition policy could be made into another source of competitive advantage: it may attract investment firms to the UK if it enables them to collaborate on improving their sustainability impacts.

OPTIONS TO ENABLE CONSIDERATION OF SPECIFIC SUSTAINABILITY IMPACT GOALS AND OF INDIVIDUAL INVESTORS' VIEWS

Explore ways of integrating certain sustainability impact goals into the concept of the proper use of investment powers

One option would be to explicitly require investors to consider pursuing certain positive sustainability impacts, specified by regulators. In this case, in addition to pursuing financial goals, investors would be subject to a (rebuttable) presumption that it is in beneficiaries' interests for their money to be managed in ways that produce certain positive sustainability impacts – such as a reduction in emissions – and that investing in line with that presumption (unless rebutted) is a proper use of investment powers. Acting in line with this presumption would enable investors to pursue the specified sustainability impacts as ends in themselves.[35] The intention of such a requirement would be to prioritise certain sustainability goals, but only to the extent this can be achieved without detriment to financial returns.

Encourage investment professionals to take into account retail investors' views on sustainability impacts

Research considered by the authors of the *Legal Framework for Impact* report found that the levels of assets committed to sustainable investing approaches are lower than what might be expected based on preferences expressed by individual investors.

Decision-makers throughout the investment chain may not have sufficient information about individual investors' sustainability preferences to act upon them (for example, in recommending or designing products or strategies). Further, investment professionals may not be sufficiently incentivised to consider individual investors' sustainability preferences in their investment strategies and decision-making. The research considered for the *Legal Framework for Impact* report suggests that the difference between sustainability aspirations and investment practice could be at least partly explained by structural factors of this sort.[36]

Given these findings, policy makers should explore measures that would encourage investment professionals to assess retail investors' views on the extent to which they want their money to be managed in line with achieving positive sustainability impacts, and take those into account in product design and distribution. Such policies should ensure that those responsible for managing the underlying investments retain ultimate ownership of, and legal responsibility for, investment decisions and that final investment decisions balance all relevant factors.

35 The presumption approach is suggested on p.137 of the Legal Framework for Impact report. The presumption approach could operate in a similar way to the policy on organ donation in the Netherlands and the UK, which assumes willingness to donate at death, subject to an opt-out.

36 For more details, see section 4, "Why the difference between positive sustainability attitudes and investment practice?", on p. 61-p. 62 in the Legal Framework for Impact report.

For example, the FCA should act on its stated intention to develop new rules in due course that will require **financial advisers** to ask for a client's sustainability preferences.[37] This should include establishing any preferences regarding the pursuit of positive sustainability impacts. When clients do express such preferences, steps taken to reflect those preferences must be consistent with other investment objectives agreed with clients, including their financial objectives.

Asset owners and **asset managers** could also cooperate on research to establish individual investors' likely attitudes towards sustainability goals generally, with a view to investing in the way most likely to satisfy most individual investors' objectives and preferences.

GUIDANCE FOR PENSION SCHEMES ON ASSESSING THE RELEVANCE OF SOCIAL AND ENVIRONMENTAL GOALS

Policy makers should explore guidance that would help pension schemes assess whether achieving broader societal and environmental goals may improve the quality of life for members and beneficiaries into retirement – if so, these goals may be relevant to their best interests and hence to the scheme's purpose. This should be balanced with the need for pension schemes to consider all relevant issues. Responsibility for the investment of pension funds rests ultimately with the fund's trustees in relation to occupational pension schemes or the administering authority in relation to funds within the Local Government Pension Scheme.

37 In a November 2021 discussion paper, the FCA said: "We recognise the important role that financial advisers play in providing consumers with sufficient information to assess which products meet their needs. We are also exploring how best to introduce specific sustainability-related requirements for these firms and individuals. Building on existing rules, a key aim will be to confirm that they should take sustainability matters into account in their investment advice and understand investors' preferences on sustainability to ensure their advice is suitable. We will develop proposals on this in due course, working with Government." In its response to the discussion paper, the Investment Association said: "Eventually future UK rules should integrate sustainability preferences into the suitability and advice process."

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ABOUT THE PROJECT

A Legal Framework for Impact is a flagship project of the Principles for Responsible Investment, the United Nations Environment Programme Finance Initiative and the Generation Foundation. The project is part of the Investment Leadership Programme, a joint initiative between the Principles for Responsible Investment and the United Nations Environment Programme Finance Initiative, created to accelerate collaboration among leading investors and boost action on achieving key global sustainability objectives. The project aims to identify and overcome the barriers to a financial system that is consistent with achieving the Sustainable Development Goals and limiting global warming to 1.5°C. Freshfields Bruckhaus Deringer were commissioned to produce a report on the extent to which legal frameworks in 11 jurisdictions enable investors to consider the sustainability impacts of their activities. The report provided the first comprehensive analysis of how far the law requires or permits investors to tackle sustainability challenges in discharging their duties – a practice called "investing for sustainability impact" or IFSI. The project is a multi-year work programme and is now focused on five key markets: Australia, Canada, Japan, the European Union and the UK.

ABOUT THE PROJECT PARTNERS

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

The Generation Foundation is a UK registered charity and was established alongside Generation Investment Management LLP, the sustainable investment firm founded in 2004. Its vision is an equitable society in which global temperature rises do not exceed 1.5°C. In pursuit of this, the Foundation operates a proactive grant-making and research programme that focuses on four priority areas: investor climate action; carbon pricing; gender inclusion and empowerment; and action on economic inequality. For further information, please visit www.genfound.org.

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members – banks, insurers and investors – and over 100 supporting institutions – to help create a financial sector that serves people and the planet while delivering positive impacts. UNEP FI aims to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance. https://www.unepfi.org/about/