

An ethical charter for responsible investors

Michelle Scrimgeour explores how asset managers have to adapt to the evolving responsible investment regulations and changing client views

“The largest asset managers must acknowledge that they represent millions of clients who do not all share the same ethical values.”

I wrote those words in December 2019. A lot has changed in the world since then and I am sure many of us have reconsidered some of our own values in the light of events we have witnessed or experienced through that time, from the effects of the global pandemic, to the tragedy of raging wildfires, to the reality of ongoing racial injustice.

As asset managers, I believe our views should evolve with those of the societies in which we operate. We must strengthen our positions on issues including healthcare, climate change and ethnic diversity.

In such ways, our industry can drive positive change at the companies in which we invest and ultimately in society more broadly.

The point about our clients nevertheless stands. My personal view of what is acceptable on a given topic may be different from that of others: it is simply not possible for asset managers to reflect every individual's ethical stance in every portfolio they manage.

Our role is to help our clients meet their objectives within the parameters they set us. We will advocate for what we believe is right and we seek to advise and

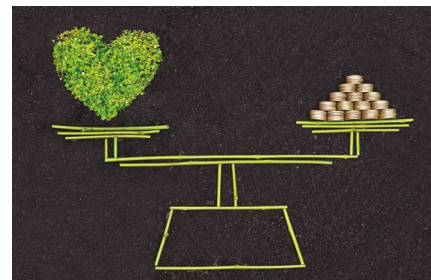
to influence but we do so as a fiduciary manager and agent on our clients' behalf.

Except in single-themed portfolios (such as strategies focused on clean water), it is very difficult to avoid companies or topics that may be sensitive to someone. This means that when we offer clients a balance between broad market exposure and an improvement in a portfolio's ESG profile, some clients or observers will challenge that. We have not and will never deliberately misclassify any of our products; the recurring nature of conversations about what constitutes investing responsibly makes clear to me that we as an industry must do better in communicating our perspectives and processes.

Many of our clients are still early on their ESG journey, so we need to help them understand the complex decisions we take. Our responsibility is to manage assets in line with our mandate, identifying key issues with material financial implications while being transparent about what we are doing.

One of the challenges for asset managers is that not only are clients' views on ESG still emerging and disparate, but that ESG regulations are also evolving and often inconsistent across borders. At some point, there will be more baseline industry benchmarks, but we are not there yet.

I am encouraged by the development



of such standards in the climate debate, from COP26 to the Net Zero Asset Managers Initiative and Glasgow Financial Alliance for Net Zero.

We need more consistency on the 'S' and 'G' too, to help remove the guesswork for clients and ensure the conversation is about the real challenges we face – how to transition to a fairer, greener and more sustainable world while keeping economies growing.

With that in mind, I offer some opening commitments that we could all make as asset managers:

- To invest responsibly, by using our influence to raise standards for the benefit of all.
- To operate sustainably, by embracing diversity and inclusion and by working with peers and other organisations on systemic issues.
- To treat clients ethically, by seeking to help them meet their objectives through transparent investment strategies.

To return to my comments from over 18 months ago: “People have different ethics, but everyone benefits from a more sustainable financial system.”

Let's build that system together.



Written by LGIM CEO,
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