

The path ahead: Navigating ESG regulation in an evolving landscape



Amelia Tan

Head of Responsible Investing Strategy



Andrzej Pioch

Fund Manager

- Advisers are facing an increasingly complex universe of sustainability regulations
- Proliferating sustainable strategies make product selection increasingly challenging for advisers and their clients
- LGIM's simplified sustainable offering focuses on substantiated, real world outcomes

The ongoing evolution of sustainability regulations offers investors and asset managers alike a range of potential improvements in the responsible investing arena. However, these regulations can pose their own set of challenges, creating an 'alphabet soup' of regulations such as SFDR, SDR, TCFD and more.

At LGIM we're committed to helping you navigate these changes. Read on for our latest guide on understanding and applying these regulatory changes.

What are the key objectives of sustainability regulations?

The major regulatory regime for sustainable investing that will impact UK advisers and wealth managers is the Sustainable Disclosure Requirements (SDR), with detailed rules potentially available as early as the end of 2022. This broadly follows the EU's Sustainable Finance Disclosure Regulation (SFDR), which came into effect in 2021.

Sonali Siriwardena, Global Head of ESG at law firm Simmons & Simmons, advises that both SDR and SFDR strive to:

1. Deploy private capital towards sustainable objectives, and help solve a range of environmental and societal challenges
2. Provide guardrails to integrate environmental, social and governance (ESG) factors into financial decision-making in a clear, consistent and credible way

To get us there, the Financial Conduct Authority (FCA) expects that asset managers will identify, manage and disclose sustainability risks, and that funds with sustainability-related objectives deliver the outcomes they promise. In the FCA's own words, "we want consumers to be able effectively to navigate the market for sustainable financial products and have enough information to assess which products meet their needs and hold firms to account for their sustainability claims".

Recognising the important role that financial advisers play in providing consumers with sufficient information to assess which products meet their needs, a recent discussion paper from the FCA also shows that the regulator is considering how investors should be asked about their preferences as part of suitability assessments.

What does this mean for advisers?

Thinking back to the implementation of the UK's Retail Distribution Review (RDR), we saw a significant shift in how advisers assessed their clients' risk profiles. We similarly expect SDR to impact how advisers assess clients' risk profiles, which will in turn impact asset allocation choices.

The rise of investor demand for sustainability-oriented strategies has also led to a proliferation of product choices from asset managers, which will at times be difficult for advisers to navigate.

However, with greater disclosures arising from regulations such as SDR and the Taskforce on Climate-Related Financial Disclosures (TCFD) mandated by the FCA, it will become apparent which asset managers are credible and which are not, particularly on climate issues.

How can LGIM support advisers?

At LGIM we help investors make sense of this rapidly changing landscape by seeking to:

1. Simplify our responsible investing offering	2. Pivot our solutions towards real world outcomes	3. Provide evidence of these outcomes by quantifying our targets
---	---	---

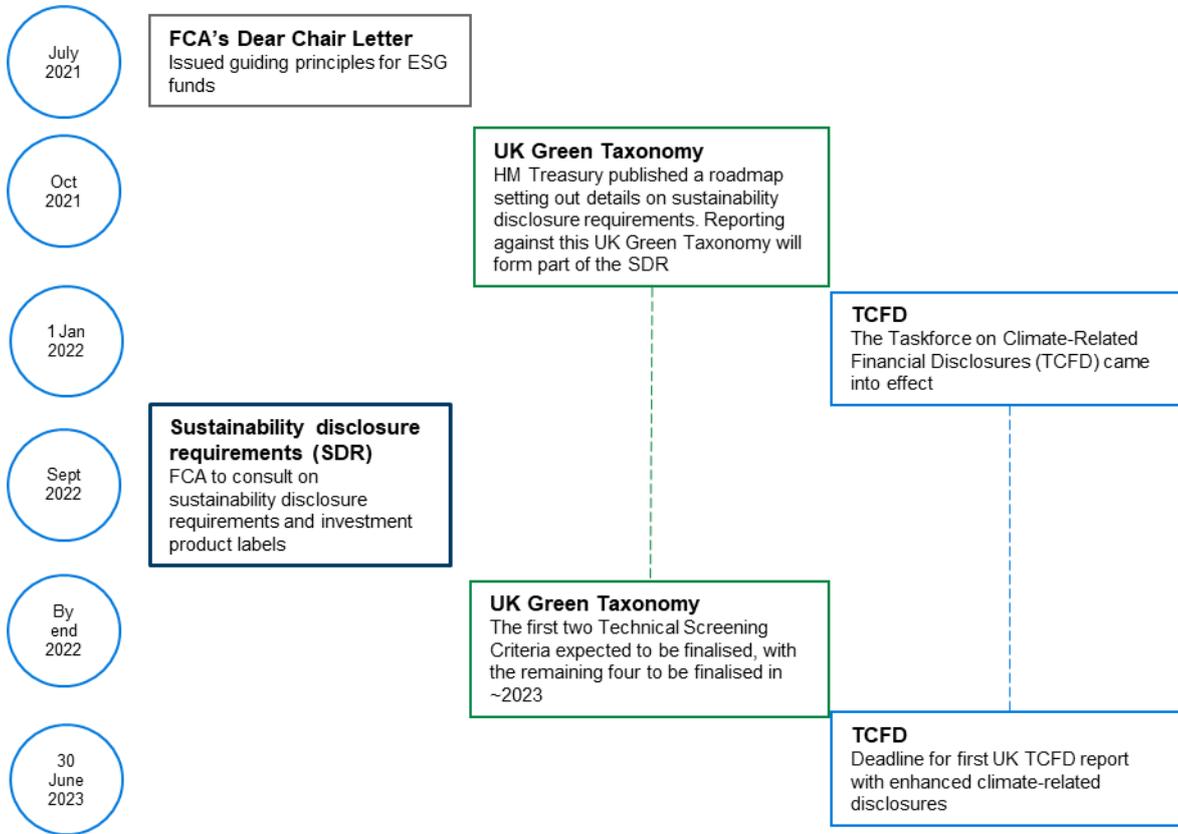
This means offering a range of strategies for advisers either looking for sustainable building blocks or more comprehensive solutions:

Active	<p>In our Active Strategies, we have created Global Research & Engagement Groups, which unify our Investment and Stewardship teams to inform our macro view on key ESG themes and a fundamental understanding of companies' sustainability-related commitments and performance.</p> <p>➤ View our Active Strategies</p>
Index	<p>In our index strategies, we have combined our engagement priorities with capital allocation to drive a proprietary index approach, which we refer to as 'engagement with consequences'. We also incorporate forward-looking metrics such as temperature alignment to capitalise on improving analytics, so that clients who want an efficient exposure to ESG factors can participate more effectively.</p> <p>➤ View our index strategies</p>
Multi-Asset	<p>Finally, our range of risk-targeted multi-asset funds combines both active and index strategies with the aim of delivering well diversified and cost-effective proposition. Our Future World ESG Multi-Index Funds in particular aim to give advisers and their clients the opportunity to further integrate ESG considerations into their dynamically-managed and cost effective, risk-targeted solutions.</p> <p>➤ View our Future World ESG Multi-Index range</p>

The path ahead

Ultimately, the pace and reach of these sustainability regulations cannot be understated, and we expect that UK advisers and their clients will – and should – increasingly demand more sophistication and clarity from asset managers when it comes to sustainability. We are here to support you in this transition.

Milestones for UK sustainability regulations:



Learn more

- Read LGIM's latest [Climate Impact Pledge](#), the targeted engagement campaign we began in 2016 to address the systemic issue of climate change
- Discover our [ESG product ranges](#), including multi-asset, thematic and Active Strategies
- Get in touch with your LGIM representative

This piece is adapted from a panel session at LGIM's Sustainability Summit 2022, with thanks to Sonali Siriwardena, Global Head of ESG, Simmons & Simmons.

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

The information contained in this document (the 'Information') has been prepared by Legal & General Investment Management Limited, Legal and General Assurance (Pensions Management) Limited, LGIM Real Assets (Operator) Limited, Legal & General (Unit Trust Managers) Limited and/or their affiliates ('Legal & General', 'we' or 'us'). Such Information is the property and/or confidential information of Legal & General and may not be disclosed by you to any other person without the prior written consent of Legal & General.

Important information

Legal & General Investment Management

One Coleman Street

London

EC2R 5AA

Authorised and regulated by the Financial Conduct Authority. Legal & General Investment Management does not provide advice on the suitability of its products or services. Ultimate holding company - Legal & General Group plc.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the Information, or any other written or oral information made available in connection with this publication. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. No part of this or any other document or presentation provided by us shall be deemed to constitute 'proper advice' for the purposes of the Pensions Act 1995 (as amended). Any limited initial advice given relating to professional services will be further discussed and negotiated in order to agree formal investment guidelines which will form part of written contractual terms between the parties.

Past performance is no guarantee of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission.

The risks associated with each fund or investment strategy are set out in this publication, the relevant prospectus or investment management agreement (as applicable) and these should be read and understood before making any investment decisions. A copy of the relevant documentation can be obtained from your Client Relationship Manager.

Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute

The path ahead: Navigating ESG regulation in an evolving landscape

or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.

The Information is provided 'as is' and 'as available'. To the fullest extent permitted by law, Legal & General accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information. Without limiting the generality of the foregoing, Legal & General does not accept any liability for any indirect, special or consequential loss howsoever caused and on any theory or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised of the possibility of such loss.

Third Party Data:

Where this document contains third party data ('Third Party Data'), we cannot guarantee the accuracy, completeness or reliability of such Third Party Data and accept no responsibility or liability whatsoever in respect of such Third Party Data.

Publication, Amendments and Updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you. Legal & General reserves the right to update this document and/or the Information at any time and without notice.

Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

Telephone Recording

As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Financial Conduct Authority (or such successor from time to time)) and will be provided to you upon request.

Legal & General Investment Management Limited. Registered in England and Wales No. 02091894. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No. 119272.

Legal and General Assurance (Pensions Management) Limited. Registered in England and Wales No. 01006112. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, No. 202202.

LGIM Real Assets (Operator) Limited. Registered in England and Wales, No. 05522016. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No. 447041. Please note that while LGIM Real Assets (Operator) Limited is regulated by the Financial Conduct Authority, we may conduct certain activities that are unregulated.

Legal & General (Unit Trust Managers) Limited. Registered in England and Wales No. 01009418. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No. 119273.

D003929