

A LEGAL FRAMEWORK FOR IMPACT

Sustainability impact in
investor decision-making



Project Background: The Rationale

Financial investments and economic activity drive outcomes on issues including climate change, sustainable development and human rights. This is true whether sustainability impacts are intended or not.

Investors need to understand and manage their sustainability impacts where necessary to achieve financial returns for beneficiaries, or where they have the objective of contributing to achieve sustainability goals.

- **Investments are not sufficiently aligned with global goals**, including those set out in international treaties like the Paris Agreement.
- In some circumstances **it is necessary for investors to address sustainability impacts in order to manage ESG risks and opportunities and deliver financial returns**. But doing so is not currently considered part of mainstream investment practice.
- To address this, **investors need to take action to increase positive impacts** (and decrease negative impacts) from their investments.

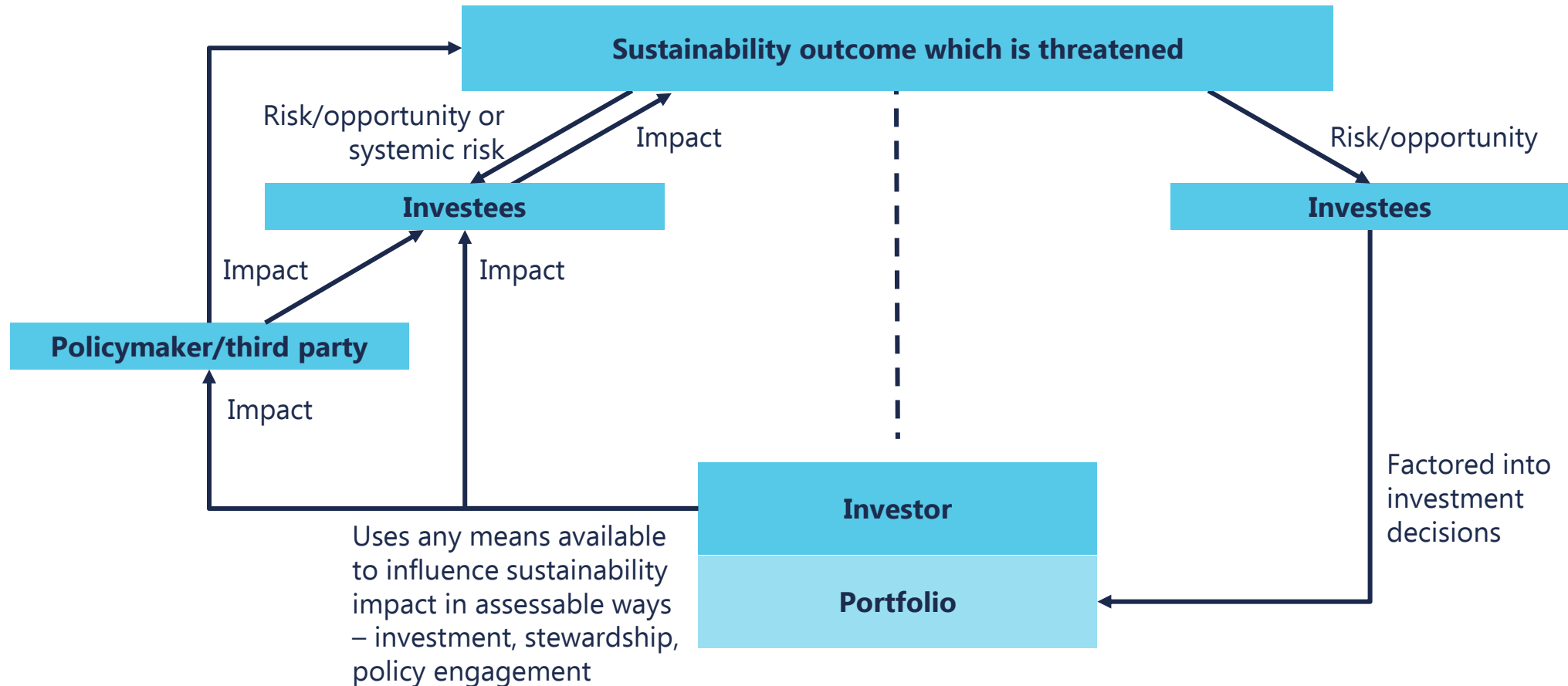
The [Legal Framework for Impact](#) project (LFI) explores how the global investment sector could strengthen its response to ESG issues by pursuing positive sustainability impact in the real world.

- LFI supports a shift from ***“how do investors manage the effect of ESG risks/opportunities on their portfolios?”*** to also address ***“how can investors ensure portfolios have positive impacts in the world?”***

Achieving investors' goals: what is IFSI?

IFSI tackles cause of portfolio risk (i.e. 'inside out' and likely systemic focus)

'Standard' ESG adjusts portfolio to respond to risk (i.e. 'outside in' and investee-specific focus)



What does the law say?

- **Financial return is generally regarded as the primary purpose and goal for investors**
- **Investors will likely have a legal obligation to consider IFSI where it can help in pursuing their financial objectives**
- **In some circumstances, investors can pursue sustainability goals for reasons other than achieving financial return goals (i.e., in parallel to them)**
- **Investors are legally required to pursue sustainability impact if the objectives of the financial product commit them to do so**

Key findings from A Legal Framework for Impact

- **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 pursue 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 do so.**

... However, the report also found 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.



UK Specific report: A Legal Framework for Impact: Integrating sustainability goals across the investment industry

Our policy recommendations to embed sustainability impact goals in duties

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