Systemic stewardship principles

Our views of best practice for investment managers

March 2025

At LCP, we believe some of the biggest investment risks we face today, including climate change, are systemic in nature. In our view, investors should use their influence to undertake systemic stewardship, not only to protect individual holdings within their investment portfolios and overall portfolio value, but also to help protect the economy and the stability of financial markets on which future investment performance will depend.

We believe all participants in the investment chain have a role to play in addressing systemic risks via systemic stewardship, including asset owners, asset managers, advisers and insurers.

This note sets out our views on best practice in systemic stewardship for investment managers. We expect to evolve our thinking over time and update this note accordingly.

Definition of systemic stewardship

Systemic risks affect a whole sector, market or economy, rather than a small number of issuers. These are therefore risks that cannot be avoided by diversifying a portfolio or divesting from high-risk issuers. Examples of systemic risks include climate change, nature loss, socio-economic inequality and antimicrobial resistance.

For the purpose of this document, systemic stewardship is stewardship undertaken by investment market participants to address systemic risks through systems-level change. In other words, through seeking changes that affect many actors simultaneously, for example by changing the rules, incentives and norms that guide their behaviour.

Systemic stewardship activities include engagement with policymakers, regulators and industry bodies to address systemic risks. It does not include policy advocacy work that does not seek to address systemic risks.

Systemic stewardship (as defined here) does not include engagement with individual issuers on systemic risks. Whilst engagement with individual issuers is important, we believe this needs to be complemented by systems-level engagement to be an efficient and effective way of addressing systemic risks.

Prioritisation of systemic stewardship activities

We would expect investment managers to focus their systemic stewardship on risks that could significantly affect the long-term financial returns of their clients. We believe such systemic stewardship is consistent with managers' duties to serve their clients' interests. For example, we consider that addressing systemic issues is consistent with UK pension trustees' fiduciary duty[1].

We believe systemic stewardship should seek to address topics beyond financial regulation and those that affect managers' operational activities. It could include high-level policy activity such as supporting calls for clarity regarding plans for meeting national climate targets. It could also include contributing to more detailed activities where the manager has particular expertise. For example, providing the investor perspective when governments are developing policies to encourage investment in the net zero transition, or analysts with expertise in a particular sector could contribute to developing industry standards relating to systemic risks.

Sometimes there is a need for proactive systemic stewardship, rather than just responding to consultations. This might include highlighting where a systemic risk

[1] See Financial Markets Law Committee report, Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change: https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf

is not receiving sufficient policy attention, or where the policies in place to address a systemic risk are not being effective.

We would normally expect it to be appropriate for managers to use a range of methods and engage with a variety of parties, chosen based on consideration of what would be appropriate and effective to help achieve their objectives. For example:

- Systemic stewardship activities could include contributing to industry groups that develop standards, methods and tools for addressing systemic risks, such as the Paris Aligned Investment Initiative or the Taskforce on Nature-related Financial Disclosures.
- It could also include writing to ministers, meeting with officials, responding to consultations, publishing thought pieces, speaking at events and participating in roundtable conversations – where relating to systemic risks. This might be done unilaterally or in collaboration with others.
- The relevant parties for engagement will vary, particularly according to region, but could include government ministers (at regional, national or supranational levels), civil servants, regulators, central banks, standard setters (eg ISO, ISSB), stock exchanges/listing authorities, and supranational groups and organisations (eg G20, UN bodies, development banks).
- Systemic stewardship activity might take place across a range of jurisdictions, for example those where the manager holds material assets or has significant numbers of clients, and therefore might have greatest influence.

Best practice principles

We encourage managers to demonstrate that they meet the following principles or are working towards them. We hope that asset owners will find them useful in setting expectations for their managers' systemic stewardship and assessing how well their expectations are met.

- **Policy positions**
    - Acknowledge the importance to investors of addressing key systemic risks, including climate change, and publish clear policy positions relating to them
    - Seek to protect long-term financial returns on behalf of clients by protecting the environmental, social and economic systems that underpin financial markets
    - Base positions on up-to-date evidence and/or specialist technical knowledge
- **Strategic approach**
    - Adopt a strategic approach to systemic stewardship, supported by the CEO/board and underpinned by a coherent theory of change
    - Identify the most material or relevant systemic risks to focus on – don't spread activities too thinly across a large number of topics
    - Review the choice of risks regularly (eg annually) to ensure relevant emerging risks are considered
    - Consider sphere of influence and select parties for engagement within that, based on the likelihood of meaningful and impactful engagement
    - Select appropriate methods and channels for influence, which might include identifying suitable partners for collaboration
    - Align systemic stewardship with other activities, including company voting and engagement, to ensure consistency in high-level messages to different stakeholders
    - Have clear aims for engagements, linked to the manager's strategic objectives, to facilitate progress monitoring (see below)
- **Governance framework**
    - Have a robust governance framework that covers systemic stewardship activities
    - Maintain an internal record of all interactions with policymakers, regulators, industry bodies and other systemically important stakeholders
    - Establish clear oversight mechanisms for systemic stewardship, with board or senior management level ownership of the process

- Document this governance framework and publish a summary of it

- **Consistency**
  - Ensure direct and indirect systemic engagement activity is in line with the manager's stated policy positions and commitments
  - Identify, and seek to resolve, any material inconsistencies between the manager's policy positions and those of any trade associations and industry groups they belong to
  - Leave any trade associations and industry groups where there is material misalignment which cannot be resolved
  - Consider consistency of engagement requests across jurisdictions where this is appropriate
- **Collaboration**
  - Collaborate with others to address systemic risks such as climate change and biodiversity loss – individual engagement is unlikely to be sufficient given the scale of action required
  - Support key, high level policy asks, such as by signing investor statements which align with the manager's policy positions, so that policymakers and others hear consistent messages
- **Progress monitoring**
  - Regularly monitor progress of systemic stewardship activities against their aims in order to review the effectiveness of the approach taken
  - Consider escalation or alternative approaches if aims are not met within a reasonable timescale
  - Periodically review overall approach to systemic stewardship, including its effectiveness at addressing the systemic risks of focus, and update it where appropriate
- **Appropriate resourcing**[2]
  - Apply appropriate resource to systemic stewardship, commensurate with the strategic aims – this could include funding of external tools and organisations in addition to allocation of staff time
  - Ensure sufficient number, expertise and seniority of people working on systemic stewardship
- **Disclosure of activity**
  - Publicly disclose main systemic stewardship activities and any outcomes (where possible)[3]
  - Publish consultation responses for transparency

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[2] We suggest overall resourcing for stewardship activities is in line with the recommendations of the 2024 report from the Principles for Responsible Investment and the Thinking Ahead Institute and, within that, at least 25% is used for systemic stewardship. We regard this as a minimum, noting that the appropriate level will depend on the manager's investment approach and theory of change.

[3] We note the confidential nature of some policy engagement activities and that it is unlikely to be possible to isolate the impact of the manager's engagement from other factors.

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