

# A truly global sustainable fund

By Mike Fox – Head of Sustainable Investments

In a time of constant ‘me too’ fund launches, why should you care about the launch of the Royal London Global Sustainable Equity Fund? Well, for starters it is distinctly different from other sustainable global equity funds.

While Royal London Asset Management (RLAM) has a long and successful history in sustainable investing, we haven’t launched a new sustainable fund for eight years. Indeed, our Sustainable Leaders Trust was launched in 1990, and our Sustainable World and Sustainable Diversified Trusts each celebrated their 10th anniversaries last year. We have focused instead on evolving our sustainable investment process and developing our research resources to deliver consistent top-quartile performance.

It’s a great privilege to launch a new fund and we’ve put a great deal of thought into this. We wanted to ensure it was sufficiently different from our existing funds and enhanced investor choice, yet retained the expertise and focus that has informed the success of our current range. We believe we’ve got this balance right and have benefited from the experiences – good and bad – of other global fund launches. Without being trite, we think of this as ‘last-mover advantage’.

Our new fund will expand our existing product range using the same equity-only structure as our UK fund, Sustainable Leaders, and be truly global. This will make the fund attractive to wealth managers and complement the existing Sustainable World Trust, which offers a mixture of equity and debt for those seeking less volatility and more income than a pure equity global fund.

## Truly global

Another important differentiator is our decision to use the MSCI All Countries World Index (ACWI) as the fund’s benchmark, rather than the MSCI World Index. This brings into play 26 emerging markets (EM) countries as well the 23 existing developed markets (DM). This is far more than a technicality: it creates a much larger opportunity set to seek out the best sustainable companies globally, including in technology-rich, high-growth countries like South Korea, China and India. It also dials down the US from 64% to 56% of the index, giving a more balanced portfolio that reflects global equity weightings.

Some may fear this materially increases the risks of the fund compared to more prosaic DM-only funds, yet I believe this fails to understand the impact and value of sustainable investing. The world is changing. How emerging markets develop is crucial for its sustainability. It has become increasingly clear that EM countries will no longer follow the traditional development path of their developed counterparts. This dynamic is creating new risks and new opportunities for companies and investors.

Previously, investors have drawn hard lines between developed and emerging markets, but the geographic distinctions between EM and DM companies are increasingly blurring. Many EM companies have significant DM operations and revenues, and vice versa. It is increasingly difficult to define companies this way.

As examples, Dutch consumer goods behemoth Unilever generates 45% of its sales from Asia & Africa, while

semiconductor bellwether Taiwan Semiconductor Manufacturing Company derives 60% of its revenues from the US. Despite the best efforts of President Trump's tariffs and coronavirus to disrupt global trade, this confluence between DM and EM is set to continue.

Also, as environmental, social and governance standards gradually improve in emerging markets, the ACWI benchmark 'future proofs' the fund with the flexibility to invest in the world's best sustainability ideas regardless of where they are listed. If it sounds a little over-ambitious to go global in one jump, we have been investing in global equities for our Sustainable World and Sustainable Diversified Trusts for over a decade.

## Diversity and challenge

It may seem bold for the asset management arm of a UK insurance company to claim that it has a distinctly diverse and culturally open-minded investment philosophy. However, while our offices aren't geographically spread, we have worked hard over many years to create a genuinely open-minded investment process and diverse research resource.

Our investment inputs come from all parts of RLAM. Equally as importantly, we have worked hard over many years to develop a democratic and challenging research process, with the whole team's opinions valued equally. Our resources are notably diverse across gender, culture and nationality, bringing a far higher level of insight and open-mindedness. It is hard to describe and even harder to prove, but I believe our performance to-date is largely attributable to this carefully-nurtured culture.

This is backed up by active engagement with our external and independent advisory committee, which comprises leading experts across different disciplines relevant to sustainability. Again, it is made up of people from different backgrounds –

this has broken down a lot of the inherent cultural bias that could otherwise have affected our investment thinking. While advisory committees are relatively common for sustainable funds, we believe we have a far higher level of engagement with and challenge from ours. Speaking personally, I have learned so much from working with our committee and feel that I'm a far better fund manager as a result.

I'm also delighted that George Crowdy has recently joined RLAM to co-manage the Global Sustainable Equity Fund with me. George came from Janus Henderson, where he was a member of the Global Sustainable Equity team. He will also play a key part in the ongoing rollout of our sustainable investment process.

## Constant and consistent

So, there are real differences between the new RL Global Sustainable Equity Fund and our existing sustainable fund range. Yet there are considerable similarities that we hope will be reassuring to existing clients.

We haven't changed our sustainable investing philosophy or our investment process. We will continue to draw on the wider investment expertise at RLAM as well as channelling the deep research resources, and allowing ourselves to be actively challenged by our external advisory committee.

We have the confidence, however, to apply these core skills and processes to a wider opportunity set to offer a truly global sustainable equity investment fund, and to deliver similar standards of performance to our existing fund range.

*This article first appeared in the Citywire 'ESG in focus' e-zine.*

*Mike Fox manages Royal London Asset Management's risk-rated sustainable fund range. Find out more about our full range of sustainable funds, including the newly-launched Royal London Global Sustainable Equity Fund, at [rlam.co.uk/sustainable](http://rlam.co.uk/sustainable)*

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