

LGIM's ESG scores

LGIM has developed its own scoring methodology by which we assess companies on their environmental, social and governance (ESG) strengths. Through this scoring system – designed to introduce greater transparency – we believe we can help drive positive long-term change in the companies in which we invest, and indeed in the broader investment market. The scores are subject to continuous review and development.

What is ESG?

Environmental (E), social (S) and governance (G) are the three major factors by which investors assess the operations of a company.

'Environmental' covers how a company interacts with its environment, 'social' explores a company's relationship with its customers, employees, suppliers and the communities in which it operates, while 'governance' addresses areas such as leadership and the board's ability to keep management accountable for the execution of key strategies.

What is the purpose of LGIM's ESG scores?

There are three core purposes to our ESG scoring:

- To raise market standards through continuous discussions with the companies in which we invest. If companies repeatedly fail to engage, or discuss ESG considerations with us, we may vote against company resolutions or alternatively, support shareholder proposals, with the aim to improve standards. LGIM aims to stay abreast of ESG developments in all of the financial markets in which it invests.
- To aim to create market-leading investment solutions.
- To encourage companies to improve their ESG profile through greater transparency.

How are LGIM's ESG scores created?

While there are 30 key metrics or indicators used to build our company scores, these can be summarised in the graphic below.



The scores are updated twice a year, in March and September.



Environment:

LGIM is committed to addressing climate change. When assessing companies, we consider the greenhouse gas (GHG) emissions that a company directly and indirectly emits, we look at the levels of embedded carbon in any fossil fuel (e.g. coal) reserves a company might have, and we examine if a company derives profits from any low-carbon services or green technologies.



Social diversity:

We believe that a well-run company should seek to promote a diverse workplace, where all employees are valued and rewarded appropriately. Gender is our preferred prism through which to judge social diversity, due to the breadth of data available globally. We focus on the percentage of women on the board, women at executive level, women in management and women in the workforce – we see 30% as a bare minimum across all four indicators. Ethnic diversity is also an issue LGIM seeks to promote and assess in greater detail going forward

Human capital:

People are the most important assets for any company; attracting, retaining, and motivating those assets is key to future success. That is why we focus on discrimination policy, bribery and corruption policy, freedom of association policy (we view employees being able to freely join unions as being central to a healthy work culture) and supply chain policy – we expect companies to have strong policies for their relationships with suppliers.





Board composition:

The board of directors ultimately sets corporate strategy and direction; the right composition of the board is key to a company being led in the right way. We look at the independence of the chair, how many independent directors there are on the board and how regularly the board is refreshed (to avoid 'group think' setting in).

Audit oversight:

Accurate and reliable financial information is the bedrock of investment decision-making and effective corporate governance, which is why we place such importance on audit oversight. We focus on the expertise of the audit committee, its independence, and the extent to which a company's financial statements paint a 'true and fair' picture of its financial performance and position.

Investor rights:

The ability of shareholders to vote is a cornerstone policy of ownership of company shares. We believe in the principle of 'one share, one vote' as it is a fundamental right of shareholders, so we look at whether a company adheres to this. We also focus on the percentage of a company's shares that are actually available for trading – we encourage this number to be at least 50%.



Transparency:

In addition to our ESG metrics, we assess companies on their overall transparency. For example, is a company's ESG reporting up to standard? Has it been externally verified? We also look at reporting of greenhouse gas emissions, along with disclosure of taxes paid, quality of background information on board directors, and disclosure of executive pay policy and practices.

Reliable, timely, consistent and verifiable data are absolutely essential for the market to better assess companies, and as a result, lead to targeted discussions on issues, we believe, are critical for a company's positive transformation.

Third-party data providers

The data that inform LGIM's ESG scores come from four highly regarded third-party providers: HSBC, Sustainalytics, Refinitiv and ISS ESG.

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative



Key risks

Past performance is not a guide to the future. 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.

Important information

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. Views expressed are of LGIM as at April 2022. 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. 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.