



*By Meryam Omi,
Head of Sustainability and
Responsible Investing Strategy,
Legal & General Investment
Management*

Investing for the world you want to live in

As a leading global investor, we have a responsibility to manage, safeguard and help grow the value of our clients' assets

One way to do this is to ensure that the companies in which we invest are prepared for the future. Our independent Corporate Governance team uses Legal & General Investment Management's (LGIM's) scale and influence to encourage companies to develop resilient strategies, think longer term and consider all stakeholders. We work towards improving wider market standards, policies and regulations because we believe that good governance protects and enhances long-term prospects for our clients. We take our responsibility to act as good stewards and influence change seriously, devoting significant resources to this effort.

Climate change – a hot topic

A key focus area over the past year has been climate change. Investors are increasingly concerned about their investments being negatively impacted by changes in regulation, technology and consumer demand, as well as increasingly adverse weather patterns.

The Paris Agreement was adopted in December 2015, where we saw 195 countries all pledging their commitment toward the shared goal of keeping the global average temperature rise well below 2°C from pre-industrial levels.

Investors are also increasingly realising the need to address the long-term financial risks and opportunities

What is financed today drives the world we build for the future

associated with climate change and the shift away from traditional energy models.

All companies, whether they emit carbon or not, need financing. They require banks, pension funds and insurance companies to buy their shares and debt. How they invest and allocate capital holds the key to a world in which temperatures only rise by 2°C rather than 3 to 4°C. What is financed today drives the world we build for the future. That's where we come in.

LGIM tries to ensure that companies are addressing the transition to a low-carbon economy. Our mainstream index funds are required to hold all the companies in a benchmark index, and this scale gives us influence. We have for many years focused on using engagement, both with these companies as well as policymakers, to drive change and hold companies to account on the issue. Last year, for our clients that wanted to express a stronger stance, we evolved our approach to incorporate the twin powers of engagement and divestment.

Introducing the Future World Fund

In 2016, together with a major UK pension scheme, we launched the Future World Fund in order to help investors address the long-term financial risk of climate change, turning our existing approach into a real-world solution for our clients.

The fund is an index-based strategy which incorporates a climate 'tilt', giving investors greater exposure to companies that generate green revenues and that are more likely to benefit from the transition to a low-carbon economy. The tilt reduces exposure to companies with worse than average carbon emissions and fossil fuel assets, whilst maintaining broad sector exposures.

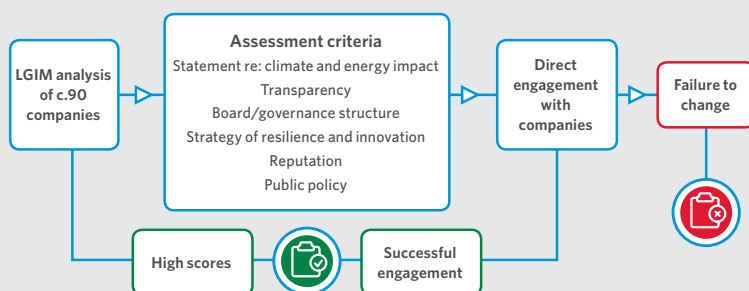
Evolving our approach – the Climate Impact Pledge

The Future World Fund takes our approach to climate change one step further by incorporating LGIM's Climate Impact Pledge. For the first time, we have gone beyond solely engaging with companies and we now have a vehicle to hold them to account on climate issues.

After one year of engagement, some of the companies that fail to meet our minimum standards will be removed from the portfolio. In funds where we are unable to contractually divest, we will vote against the Chair of the board of the same companies. This approach means that our Pledge has a direct link to all of the assets that LGIM manages globally.

How it works:

We believe that the combined approach of ranking, engaging, voting and divesting where possible can send a powerful message that investors are serious about tackling climate change. With over \$1 trillion of assets under management on behalf of our clients, our collective voice can carry a lot of weight.



The time to act is now – a clear message to companies

Over time, the intention is to improve the standards and practices in these companies to make them more resilient to policy changes, more successful in providing low-carbon solutions and, ultimately, more prosperous as companies. In the long term, our clients who hold stakes in these companies should benefit from their financial success.

We hope to dispel the misconception that ESG-focused strategies must compromise returns in order to achieve their broader goals. As investors continue to re-evaluate the suitability of their investments in the context of their broader values and beliefs, LGIM is determined to play a key role in helping our clients invest for the future they want to live in. ■

The value of any investment and any income taken from it is not guaranteed and can go down as well as up, and investors may get back less than the amount originally invested.

Legal & General Investment Management Ltd, One Coleman Street, London, EC2R 5AA www.lgim.com

Authorised and regulated by the Financial Conduct Authority.



UNA-UK thanks Legal & General Investment Management for its generous support for Climate 2020