



# Sustainable Development Goals: a blueprint for a better future

How LGIM reflects the UN's SDGs  
in its investments

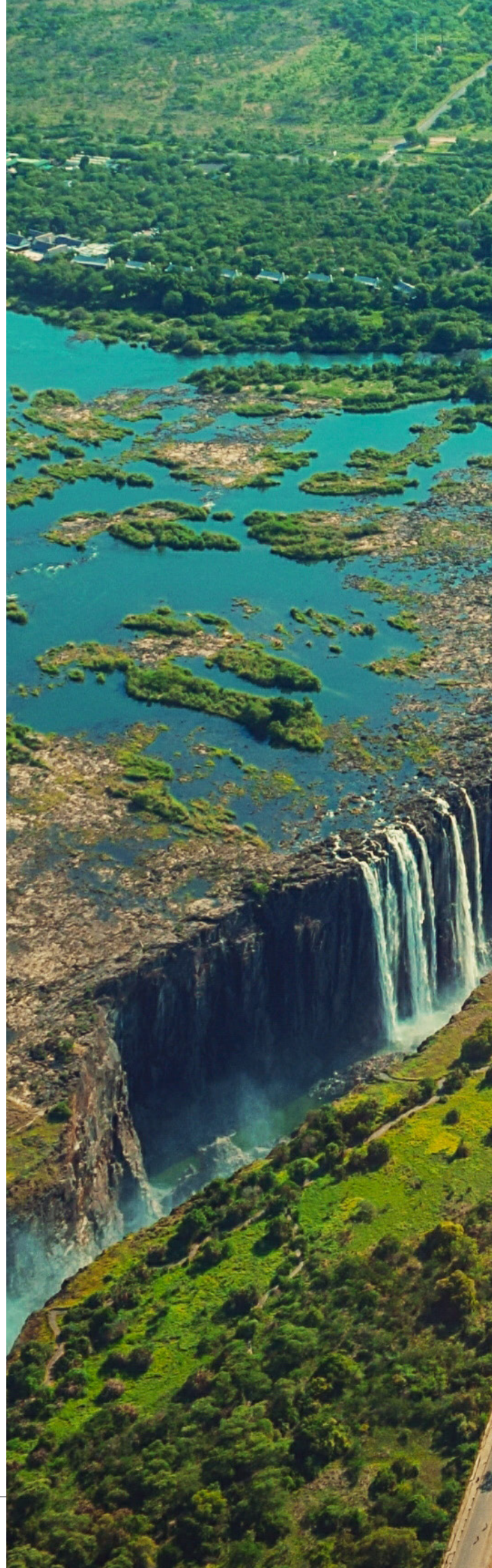


The Sustainable Development Goals (SDGs), set by the United Nations, are a framework for articulating some of the most pressing social, economic and environmental issues that could threaten the livelihood and wellbeing of everyone on the planet unless they are addressed urgently.

The SDGs matter to investors because, of the estimated \$2-3 trillion of annual investment in developing countries required to meet them, a significant proportion will have to come from the private sector.

However, the SDGs were designed with policymakers rather than financial markets in mind, so investors seeking to align their portfolios with the goals may need to consider how best to reflect them.

This paper sets out our thoughts on this important topic.





## The Sustainable Development Goals consist of 17 goals to be achieved by 2030:



**1.** No poverty



**10.** Reduced inequalities



**2.** Zero hunger



**11.** Sustainable cities and communities



**3.** Good health and well-being



**12.** Responsible production and consumption



**4.** Quality education



**13.** Climate action



**5.** Gender equality



**14.** Life below water



**6.** Clean water and sanitation



**15.** Life on land



**7.** Affordable and clean energy



**16.** Peace, justice and strong institutions



**8.** Decent work and economic growth



**17.** Partnerships for the goals



**9.** Industry, innovation and infrastructure











# How does LGIM support the SDGs?



LGIM fully supports the objectives of the SDGs, but for the aforementioned reasons we do not claim to be managing assets directly according to them. Instead, many of the SDGs' principles and themes are embedded in our approach to responsible investment. We believe there are four specific ways in which our efforts can be linked to the principles of the SDGs.

## 1. Focus on the topics where we can effect positive change

Our long-term engagement themes are structured to bring about systemic change in the following areas:








SDG	LGIM theme	LGIM goals
 <b>#7</b> Affordable and clean energy	<b>Climate change</b>	Accelerating the transition to a clean and affordable energy system
 <b>#12</b> Responsible consumption and production		Sustainable food systems
 <b>#13</b> Climate action		Climate-focused strategies
 <b>#5</b> Gender equality	<b>Diversity</b>	Promotion of women at board, management and worker levels  Inclusive workplace
 <b>#3</b> Good health and well-being	<b>Health</b>	Fair and equitable healthcare system
 <b>#8</b> Decent work and economic growth	<b>Income inequality</b>	Employee rights, pay gaps and fair working conditions
 <b>#10</b> Reduced inequalities		
 <b>#12</b> Responsible consumption and production	<b>Transparency</b>	Promotion of better disclosure framework and transparency standards by companies

### Engagement in practice

In 2020, together with the Access to Medicine Foundation and AXA Investment Management, we wrote an open letter calling on all governments and pharmaceutical companies to embrace the principles of collaboration and solidarity in their response to COVID-19, including by sharing intellectual capital across the industry and with research institutions to facilitate the development of the most effective technologies and by setting affordable treatment prices based on different countries' ability to pay to empower rapid government procurement.

## 2. Work to report and minimise negative impacts of investments

We believe that measuring and reducing negative impacts is a key element of our approach. We have generated proprietary environmental, social, and governance (ESG) scores that reflect the minimum standards we expect companies to meet. As well as engaging with all companies in which we invest to raise standards, we use the scores in certain ESG strategies to reduce exposure to companies that fall short of our expectations. The indicators highlighted below are some of the ways in which we can assess companies against SDGs, which we complement with qualitative research.

SDG	ESG theme	LGIM indicator
 <b>#7</b> Affordable and clean energy	<b>Environment</b>	Climate Carbon emissions intensity Green revenue Fossil fuels reserves
 <b>#5</b> Gender equality	<b>Social</b>	Social diversity Women on board (%) Women in workforce (%) Women in management (%) Female executives (%)
 <b>#3</b> Good health and well-being		Human capital Bribery and corruption policy
 <b>#8</b> Decent work and economic growth		Human capital Freedom of association Discrimination policy
 <b>#10</b> Reduced inequalities		Supply chain Scope of social supplier
 <b>#16</b> Peace, justice and strong institutions		Controversies Employee incidents Business ethics incidents Social supply chain incidents
 <b>#16</b> Peace, justice and strong institutions	<b>Transparency</b>	Disclosure ESG reporting standard Verification of ESG reporting CDP participation Tax disclosure Remuneration disclosure

### Engagement in practice

We have asked FTSE 100 and S&P 500 companies to have at least one director from a minority background on their board by the end of 2021, and from 2022 we will start voting against their chair of the board or of the nomination committee if there is still no ethnic diversity at board level.

### 3. Create products aimed at advancing SDGs

The ESG scores described above are integrated into LGIM's Future World strategies, which both link capital allocation to positive steps on our key metrics and reduce exposure to companies whose activities often have a disproportionate impact on ecosystems, civilian lives and human health more broadly. These scores are complemented by a separate methodology to support the stock- and bond-selection process for our actively managed strategies.

In addition to these broad approaches, we have explicitly designed some strategies with a positive outcome in mind. These include reductions in carbon emissions or an increase in 'green revenues' relative to a benchmark, as well as strategies focused on clean water (SDG #6: Clean water and sanitation), healthcare breakthroughs (SDG #3: Good health and well-being), and clean energy and battery technology (SDG #13: Climate action). LGIM's Real Assets division is furthermore committed to supporting clean energy, urban regeneration, affordable housing, and resilient infrastructure.



“ LGIM manages  
**£174 billion**  
in ESG strategies

”

Source: LGIM internal data,  
as at November 2020








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.

## Our ESG scores drive meaningful engagement










## 4. Press policymakers to develop regulations to achieve SDGs

Reforming and strengthening the global regulatory and legislative environment is essential to accelerating progress against the complex and interrelated challenges that the SDGs highlight. LGIM has focused its engagement with governments and regulators on several areas that are critical for both functioning markets and for promoting sustainable, inclusive and resilient economic growth.

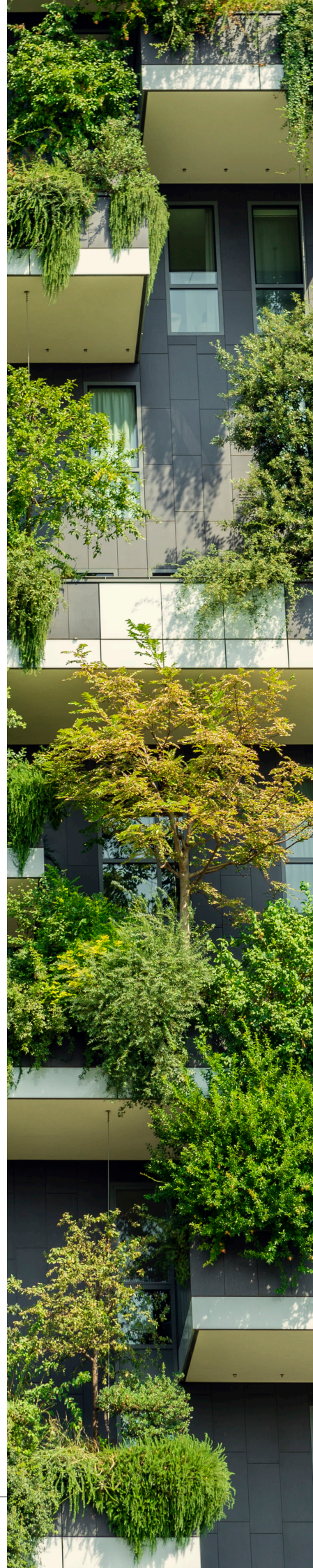
	SDG	LGIM goal	Illustrative examples of engagement
	<b>#7</b> Affordable and clean energy	<b>Green and sustainable finance</b>	UK: the 'Green Finance Strategy', TCFD reporting for Pension Trustees, the 2050 net-zero commitment and the sector pathways to achieving it.
	<b>#12</b> Responsible consumption and production		EU: the Sustainable Finance Action Plan and the European Green Deal; regulations such as the Taxonomy, the Non-Financial Reporting Directive, and the Sustainable Finance Reporting Directive.
	<b>#13</b> Climate action		
	<b>#17</b> Partnerships for the goals		
	<b>#16</b> Peace, justice and strong institutions	<b>Transparency and disclosures</b>	Engagement with: the EU's review of the Non-Financial Reporting Directive (NFRD); the transposition of the European Shareholder Rights Directive II into the UK; proposals for mandatory TCFD reporting across the investment chain; and regulation to restrict audit firms providing non-audit services to their clients given the conflict of interest it creates.
	<b>#10</b> Reduced inequalities	<b>Corporate governance standards</b>	Revised Japanese and UK Stewardship Codes, and the revised German and UK Corporate Governance Code.
	<b>#16</b> Peace, justice and strong institutions		



	SDG	LGIM goal	Illustrative example of engagement
	<b>#5</b> Gender equality	<b>Diversity</b>	UK: Financial Reporting Council and pay ratio disclosure regulation.
	<b>#8</b> Decent work and economic growth		US: Securities and Exchange Commission on strengthening Human Capital disclosures.
	<b>#10</b> Reduced inequalities		
	<b>#16</b> Peace, justice and strong institutions		
	<b>#17</b> Partnerships for goals	<b>Global coordination</b>	Activity to build off the EU's sustainable finance work in Asian markets.
	<b>#2</b> Zero hunger	<b>Sustainable food, production and land</b>	Engagement with the Brazilian government on high deforestation rates in the Amazon.
	<b>#15</b> Life on land		

### Engagement in practice

In 2020, following steps by the Brazilian government to loosen environmental protections, LGIM joined a new investor coalition to lobby the government directly to take steps to halt deforestation in the country. Following an engagement campaign, the Brazilian government announced a moratorium on setting fires in the Amazon; we will watch developments closely. Going forward, the remit of the investor group will expand to focus engagement efforts in Southeast Asia too.



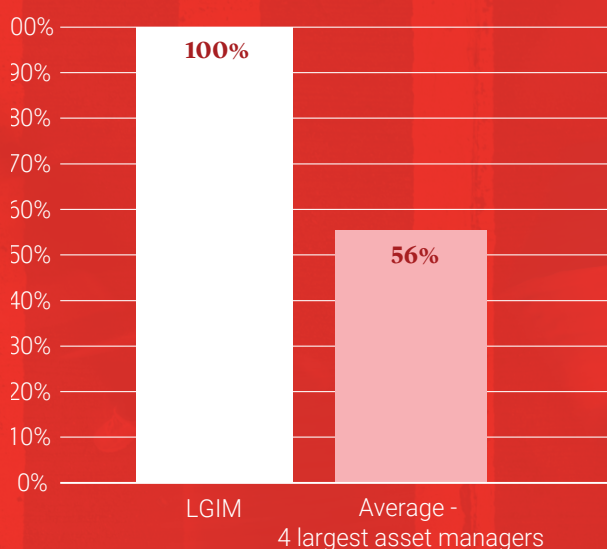


In each of these four areas, LGIM is committed to supporting the SDGs. While care must be exercised in importing into finance a framework primarily intended for policymakers, we will continue to reflect the ambitions of the SDGs through engagement with companies and regulators to drive progress on systemic issues such as climate change or financial inequality, through transparency in reporting on the ESG profile of investments, and through the development of investment solutions which explicitly target positive ESG outcomes.

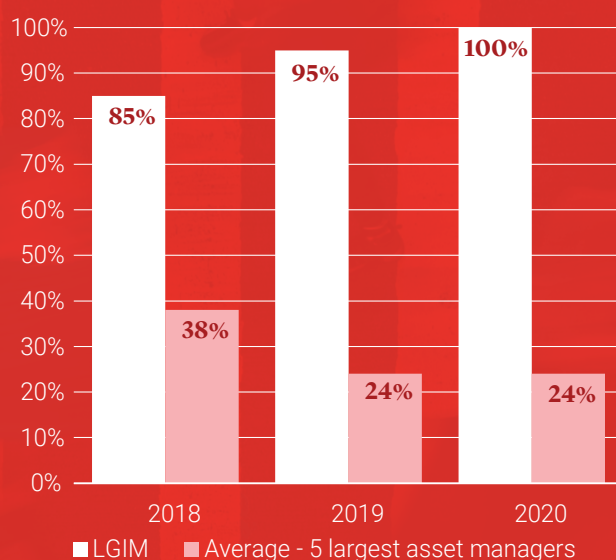
## We make full use of the tools to at our disposal

### A strong voting stance in key SDG areas

Support for diversity resolutions<sup>1</sup>



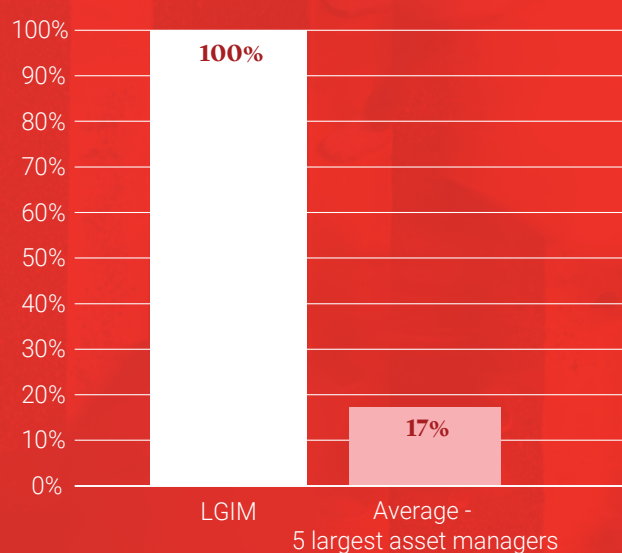
Support for 'climate-critical' resolutions from LGIM vs. 5 largest asset managers<sup>2</sup>



1. ShareAction – Voting Matters (2020), analysis of asset manager voting during 2020 proxy calendar. Data for 5th largest AM voting on diversity was not included in the study.  
 2. Climate 50/50 Project - Asset Manager Climate Scorecard (2018), Majority Action – Climate in the Boardroom (2019), Climate in the Boardroom (2020).



## Support for resolutions on human rights<sup>2</sup>



...and are recognised by our approach<sup>3</sup>

# A+

ranking for responsible investment strategy and active ownership by the **UN Principles for Responsible Investment**

3. Source: UN Principles of Responsible Investment (PRI). The report and data is as of 2021. The PRI Principles are voluntary and an aspirational set of investment principles. PRI signatories disclose their responsible investment policies and procedures through a detailed reporting framework. Compliant signatories' ESG credentials are reviewed on an individual and peer-relative basis, and they ultimately are assessed scores in respective categories on an alphabetical scale from "A+" to "E". More information can be found on their website: [unpri.org/pri](https://unpri.org/pri). A copy of LGIM's assessment report can be found here: <https://www.lgim.com/landg-assets/lgim/capabilities/investment-stewardship/2021-assessment-report-for-legal-general-investment-management-holdings.pdf>.

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