



L&G Model Portfolios

ESG Approach Explainer



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As part of the investment process for our L&G ESG Screened and Selected Model Portfolios, we apply ESG principles by investing in underlying investments which are screened or selected for their ESG credentials as described below. Underlying investments may be ‘screened’ (to exclude companies involved in certain sectors or business activities) or ‘selected’ (to include investments that use an ESG-integrated selection process).

Our ESG Screened and Selected Approach

Our L&G ESG Screened and Selected Model Portfolios aim to increase exposure to building block funds investing in assets or issuers associated with better environmental, social and governance (ESG) practices. Better ESG practices are deemed to include, but not limited to, companies or issuers taking steps to reduce their carbon footprint, diversify their workforce and increase numbers of independent directors on the board. ESG Screened and Selected Model Portfolios seek to achieve this by aiming to invest at least 75% in other funds which fall into one of the four categories set out below (noting that this proportion may temporarily fall below this level, for example, when managing risk or increasing cash exposure in volatile markets).

ESG screened and selected building block funds include:

1. Funds that belong to the L&G Future World product range and/or incorporate certain Future World principles, such as:

- a) the exclusion of companies on the L&G Climate Impact Pledge divestment list. The Climate Impact Pledge divestment list includes companies, which after a certain period of engagement continue to not perform well against our climate assessment, are unresponsive to engagement recommendations or keep falling behind in meeting our minimum standards. For index-tracking funds that apply the L&G Climate Impact Pledge divestment list, exposure to such companies may be reduced rather than fully excluded, if the anticipated tracking error percentage of such funds is exceeded (as described in their prospectus). For further information on the L&G Climate Impact Pledge, please refer to [Climate Impact Pledge 2025](#).
- b) the exclusion of companies in accordance with the L&G Future World Protection List (“FWPL”), which seeks to align with market practice and client expectations for responsible investment products, as set out in the FWPL methodology. These include:
 - perennial violators of the United Nations Global Compact,
 - certain companies involved in the manufacture and production of controversial weapons, and
 - certain companies with involvement in mining and extraction of thermal coal, thermal coal power generation or oil sands which have not set out a clear plan aligned with the Paris Agreement to phase out thermal coal in accordance with specific criteria.

The FWPL methodology uses various assessment criteria, including revenue thresholds to identify companies which should be excluded from the investment universe. Only companies that meet the criteria are excluded, consequently the underlying funds may still hold companies involved in the above activities which do not fully meet the FWPL methodology criteria. The FWPL does not exclude all companies involved in nuclear or conventional weapons. For further information on the FWPL please refer to [Future World Protection List 2025](#).



c. the application of our in-house proprietary methodologies such as tilting based on the L&G ESG Scoring system, whereby exposure is increased to companies with higher ESG scores and decreased to companies with lower ESG scores, or alignment to the L&G Net Zero Framework. The ESG scores are determined using a number of focused metrics that aim to evaluate a company's performance across a range of environmental, social and governance themes. Such themes include factors such as carbon footprint, diversification of workforce and the number of independent directors on company boards. It is possible that the benchmark indices, which the underlying index funds aim to replicate, may still hold companies with lower ESG scores. However, the overall ESG score of the respective benchmark indices will be higher than the overall ESG score of their respective parent indices.

2. Funds outside of those captured above, which enhance their ESG profile by increasing investment in companies or government issuers that demonstrate strong ESG characteristics (such as an aim to reduce greenhouse gas emissions intensity by a specified amount or consideration of equal employment policies), and/or reducing, though not necessarily removing, investment in those with lower ESG characteristics, using proprietary and external ESG research. This may include but not limited to funds tracking a benchmark index that is designed to increase exposure to companies that demonstrate better ESG practices by tilting towards companies awarded higher ESG scores and away from those awarded lower scores. The ESG characteristics of underlying indices tracked by these funds are reviewed for alignment with the overall investment approach of L&G ESG Screened and Selected Model Portfolios.

3. Funds with exposure to assets that in our view can deliver clear sustainable characteristics, such as green bonds or instruments providing exposure to renewable energy infrastructure. Using renewable energy infrastructure as an example, we may consider characteristics such as renewable energy generation capacity, the L&G ESG scores and our proprietary temperature alignment tool.

4. Funds other than those described above, provided they meet our minimum criteria as determined by either our proprietary ESG scoring methodology applicable to companies, or our proprietary ESG scoring methodology applicable to sovereigns. We establish minimum criteria according to the relevant asset type and sector. The proprietary nature of these ESG scoring methodologies means that they may evolve over time.

Engagement

We may actively engage with companies on specific ESG issues and to drive improvement in a company's ESG profile across L&G building block funds. There we undertake stewardship activities with the goal of raising standards on certain environmental, social and governance themes that we believe: (i) to be financially material to its products; (ii) that often pose systemic risks and opportunities; and (iii) are areas where we believe we can influence change. Such themes include key issues such as climate change, nature, diversity, executive pay and human rights. We aim to influence these issues at a market wide level, not just at an individual company or individual strategy level. In the case of climate engagement, as part of the L&G Climate Impact Pledge, if, following a reasonable timeframe, engagement does not result in an improvement in the issues identified, then L&G building block funds may disinvest from that company in accordance with the L&G Climate Impact Pledge divestment list, within the allocated tracking error percentage.

Sustainability Metrics

We have identified the following metrics which may be useful when considering the sustainability characteristics of our L&G ESG Screened and Selected Model Portfolios:

1. Percentage of ESG screened and selected building block funds held in each model portfolio;
2. Proportion of assets in each of the four sub-categories of ESG screened and selected building block funds as described above



These metrics will be available on relevant model portfolio factsheets that can be found on our website. Next to day-to-day portfolio-level oversight conducted by portfolio managers, an additional oversight will be provided by the L&G Responsible Investment Oversight Committee (RIOC). RIOC's members include Executive Committee and senior leadership colleagues across Investments, Responsible Investment and Stewardship, Investment Risk, Compliance, Investment Oversight and Client Service Operations. The role of the RIOC is to provide oversight of L&G portfolios that implement responsible investment methodologies, confirm adherence to these methodologies and escalate non-compliance to the Investment Oversight Committee and Executive Committee where necessary.



Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Past performance is not a guide to future performance. At times, especially over shorter timescales, lower risk-profiled model portfolios, and investments included in them, may fall in value by more than higher risk-profiled model portfolios, and investments included in them. Details of the specific and general risks associated with the model portfolios mentioned in this document are contained in the applicable fact sheet for each model portfolio. Whilst L&G has integrated Environmental, Social, and Governance (ESG) considerations into its investment decision-making and stewardship practices, this does not guarantee the achievement of responsible investing goals within funds that do not include specific ESG goals within their objectives. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Important information

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This document does not explain all of the risks involved in investing. No decision to invest should be made without first reviewing the Target Market Assessment, which can be obtained from the Client Relationship Manager.

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