

The changing nature of DC investments

Supporting critical nature and social outcomes

The estimated \$4 trillion annual funding gap to achieve the United Nations Sustainable Development Goals (UN SDGs) by 2030¹ presents a formidable challenge, but it also creates a compelling opportunity for innovative financial solutions.

We believe Defined Contribution (DC) pension schemes and responsible investment strategies can and are playing a critical role in bridging this gap.

With DC assets accounting for 59% of total global pension assets (based on the seven largest pension markets in 2024*), they represent a significant pool of long-term capital.

Given their horizon and scale, in our view, incorporating financially material sustainability criteria in DC pensions can help deliver long-term value for DC savers and drive positive outcomes.



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The emerging market opportunity

More than half of the \$4 trillion annual funding gap relates to developing countries' energy investment needs, estimated at \$2.2 trillion per year. Emerging markets in particular need to seek alternative forms of financing to reach the UN SDGs.

Recognising this, we have launched a Nature and Social Outcomes strategy, focused on nature conservation and sustainable development development projects in emerging markets.

An initial \$247million investment has been made directly from our DC business. Investment is through the Lifetime Advantage Funds (later stage of retirement glidepath), Future World Multi-Asset Fund and the Retirement Income Multi-Asset Fund, which form part of the Target Date Fund range.

This initial investment on behalf of our DC members brings L&G's total commitments to nature conservation and sustainable development in emerging markets, via private debt financing, to over \$1.1 billion, as at March 2025.

The strategy will deploy capital on a global scale through projects that aim to deliver strong commercial returns alongside positive nature and social outcomes – such as socially beneficial infrastructure to support education, healthcare, and access clean water, as well as habitat and biodiversity conservation.

1. Source: UN Trade & Development (UNCTAD): [Investment policies for the energy transition: Incentives and disincentives](#)
* [Global Pension Assets Study - 2024 - Thinking Ahead Institute](#)



With over half of the world's GDP, moderately or highly, dependent on nature², the need to support the world's ecosystems is more pressing than ever.

In its 'Nature Risk Rising' report, the World Economic Forum warns that:

- '25% of our assessed plant and animal species are threatened by human actions, with a million species facing extinction, many within decades'
- 'businesses are more dependent on nature than previously thought, with approximately \$44 trillion of economic value generation moderately or highly dependent on nature'
- 'construction, agriculture, and food and beverages are the largest highly nature-dependent industries, with an economic value roughly twice the size of Germany's economy; China, the EU and the US have the highest absolute economic value in nature-dependent industries'
- 'there is potential for a win-win-win for nature, climate, people and the economy if business and economic actors can respond with urgency to protect and restore nature and start regularly identifying, assessing, mitigating and disclosing nature-related risks to avoid potentially severe consequences'

2. Source: PwC: [Managing nature risks: From understanding to action.](#)

Investing for nature and social outcomes – our futures depend on it

The Private Markets investment team completed its first direct investment for the strategy in December 2024, investing in Ecuador's second debt conversion for nature.

This initiative, led by the Republic of Ecuador and The Nature Conservancy, is the first of its kind to support forestry and freshwater conservation, rather than marine projects.

The partnership will provide significant gross savings over the life of the transaction, unlocking around \$460 million to facilitate the Biocorridor Amazónico programme. This aims to protect 4.6 million hectares of forest and 18,000km of freshwater, as well as benefitting indigenous populations and communities.

Source: The Nature Conservancy: <https://www.nature.org/en-us/newsroom/ecuador-announces-debt-conversion-for-amazon-conservation-tnc-nature-bonds/>

The Nature and Social Outcomes strategy will leverage innovative financing methods that benefit from credit enhancement through multilateral guarantees and insurance, such as use of proceed bonds, debt conversion bonds and outcome bonds.

Examples of these methods are listed below for illustrative purposes. The investment examples don't currently sit within the strategy.

1. Use-of-proceeds lending

As the name suggests, proceeds are used exclusively for UN SDG-linked financing of projects with dedicated environmental and/or social benefits.

Investment example

Financing approximately 60 local sustainable development projects in the Republic of Côte d'Ivoire, including those in sanitation, education, health, and transport. This transaction is part of the country's development plan to transform its economy into that of an upper-middle-income country by 2030.

The use-of-proceeds loans can only be allocated to eligible sustainable development projects with a third party auditor conducting audits every six months, ensuring the effective use of funds. One such project allocated funds to Cocody University Hospital, for the Improvement of Maternal and Child Health Services in Greater Abidjan.

Projects are fully insured by the African Trade Insurance (ATI) for both principal and interest.

L&G participated in this transaction.

Source: L&G, 2024

2. Debt-conversion bonds

This approach enables sovereigns to restructure their debt while allocating a portion of the savings to support nature conservation efforts, as well as sustainable and social development projects.

Conservation efforts are audited by conservation charities, ensuring funds are used appropriately. Long-standing relationships and expertise in asset management and sustainability is crucial to participating in these types of deals. This ensures better understanding and greater levels of transparency on the appropriateness of the funding, sustainability commitments, governance and pipeline of the projects, and reporting requirements.

Investment example

In November 2021, The Nature Conservancy and the Government of Belize announced the completion of a debt conversion transaction, exchanging \$553 million of Belize's international bonds for a \$364 million loan. This transaction will allow Belize to lower its debt obligation and extend its debt maturity profile, while funding a marine conservation program.

The debt conversion is projected to generate \$180 million in marine conservation funding over 20 years. This includes a \$24 million endowment, expected to grow to almost \$100 million over the loan term, and a \$4 million annual funding commitment to marine conservation.

Belize has committed to several marine conservation milestones aiming to protect 30% of ocean areas by 2026, with half designated as high biodiversity protection zones. These milestones are time-bound and delays in achieving the commitments will result in increased payments under the conservation funding agreement. Political risk insurance is provided by U.S. International Development Finance Corporation (DFC). L&G participated in this transaction.

L&G participated in this transaction.

Source: The Nature Conservancy, 2022: <https://www.nature.org/en-us/about-us/who-we-are/how-we-work/finance-investing/naturevest/belize-debt-conversion-case-study/rhinos-and-support-local-communities>

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We regularly survey 5.5 million DC pension members. This analysis and research feeds directly into how our investment funds are designed and managed. We know from previous research that many of our members want their investments to support society and the environment, as well as deliver financial returns.

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3. Outcome bonds

Outcome bonds are a type of financial instrument where the return on investment is directly linked to the success of specific development projects or conservation targets.

These bonds harness private capital and transfer project performance risk to investors, who are rewarded if the underlying activities achieve their intended outcomes.

Generally, investors will forego coupon payments and instead will receive a 'conservation success payment'.

These bonds not only support conservation or sustainable development but also offer investors the potential for enhanced returns compared to traditional bonds, while benefiting from the credibility and partial protection provided by the issuing entity.

Investment example

Investment to support protecting and increasing black rhino populations in two protected areas in South Africa, the Addo Elephant National Park and the Great Fish River Nature Reserve. Rhinos play a crucial role in South Africa's wild ecosystems, which is critical to other species and the economy of the region, through tourism and jobs. However, black rhinos are critically endangered due to poaching and loss of habitat.

This five-year, \$150 million World Bank Sustainable Development Bond includes financing from the Global Environment Facility (GEF).

Investors stand to receive a success payment at maturity, linked to the growth rate of the black rhino population at the two parks, paid by the World Bank with funds provided by the GEF. The growth rate is independently calculated by Conservation Alpha and verified by the Zoological Society of London.

L&G did not participate in this transaction.

Source: The World Bank, 2022: <https://www.worldbank.org/en/news/press-release/2022/03/23/wildlife-conservation-bond-boosts-south-africa-s-efforts-to-protect-black-rhinos-and-support-local-communities>

Key risk

Investment examples for illustrative purposes only. These are historic investments that have been made by L&G (where stated) on behalf of our clients. There is no guarantee that these investments continue to be held or will be managed or held by L&G or our clients in the future. The above information does not constitute a recommendation to buy or sell any security.

Solving the risk and relationship puzzle

Risk and relationships are critical considerations when investing in emerging markets.

The Nature and Social Outcomes strategy provides the opportunity to invest in emerging markets with investment-grade credit risk, typically with multilateral guarantees or insurance – insuring the credit risk of the country and allowing the credit rating to be elevated broadly in line with the guarantor.

Guarantees and insurance 'wraps' can help to mitigate emerging markets sovereign risk, while investors interested in taking greater exposure can gain 'unwrapped' exposure, bolstering returns. This approach allows investors to allocate to nature and social development in emerging markets, while benefiting from an improved credit rating and potentially higher returns.

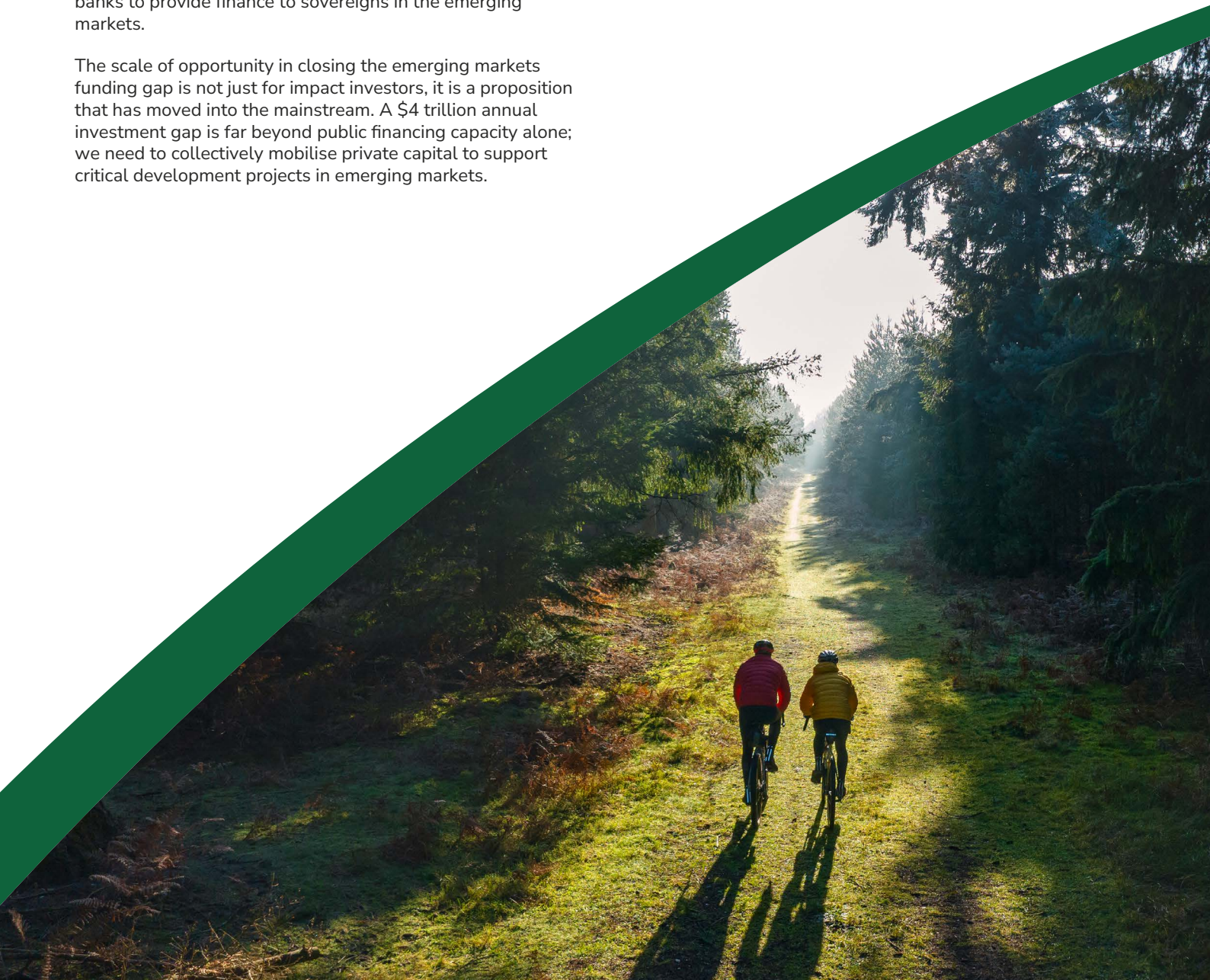
We are leveraging long-term industry relationships with charities, and traditional and development banks, ensuring access to diverse investment opportunities. We have worked on transactions partnering with government agencies, development finance institutions, and multilateral development banks to provide finance to sovereigns in the emerging markets.

The scale of opportunity in closing the emerging markets funding gap is not just for impact investors, it is a proposition that has moved into the mainstream. A \$4 trillion annual investment gap is far beyond public financing capacity alone; we need to collectively mobilise private capital to support critical development projects in emerging markets.

Early exposure to a fast-growing market

As many DC retirement savers have investment horizons that stretch out for decades, we're always seeking investment opportunities that offer the potential for long-term returns. The launch of our Nature and Social Outcomes strategy and allocation of DC capital helps our UK DC members gain exposure to a fast-growing and impactful part of the global debt market.

It's a great example of the increasingly diverse range of assets that DC schemes can invest in, combining the need to unlock financing where it is often most needed, with the aim of delivering positive returns for members in retirement.



Contact us:

For further information about the Asset Management business of L&G, please visit am.landg.com or contact your usual L&G representative.



Key risk

It should be noted that diversification is no guarantee against a loss in a declining market.

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. The risks associated with each fund or investment strategy should be read and understood before making any investment decisions. Further information on the risks of investing is available from [L&G's Fund Centres](#).

While we have integrated Environmental, Social, and Governance (ESG) considerations into our 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 our objectives.

Important information

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