

# LEGAL & GENERAL FUTURE WORLD ESG UK INDEX FUND - GBP

INVESTMENT RESEARCH NOTE  
MARCH 2024

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

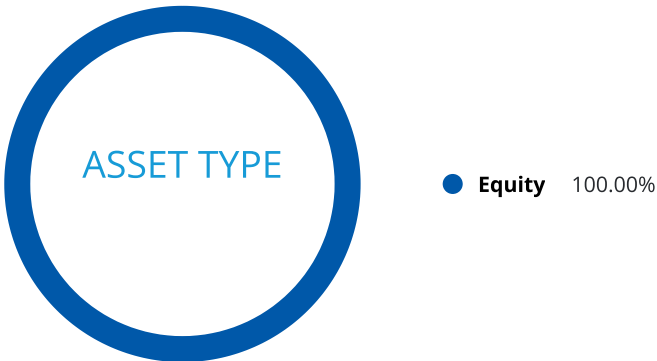
# DESCRIPTION

## SUMMARY

LGIM are a significant force in both index management and ESG within the UK fund management industry. As of June 2020, Total Index AUM was £442bn, of which £124bn was in the UK. LGIM have been managing index assets since 1986. The origins of their ESG offering can be traced back to 1972 and LGIM has built up a strong reputation, particularly in terms of Governance issues.

The LGIM ESG UK Index Fund is a passive index tracker, with a ESG tilt and was launched in April 2019 and the AUM as of Aug 2020 was £239m. it is managed by the LGIM Index team, with input from the dedicated internal LGIM ESG research team as well as external ESG analytical providers. This is a 'tilt and nudge' philosophy, where the fund uses a mix of exclusions and ESG scores to 'tilt' the portfolio away from low ESG scoring firms and towards higher scoring ones. The emphasis is mainly on the scoring rather than the exclusions, so investors should be aware that the fund will have a partial but not full weighting in holdings that might normally not feature in more active ESG products. The 'nudge' element is to use the scale and resources of LGIM to engage and change behaviour of companies to then improve the company's ESG score.

Based on the internal Collidr ESG scoring system, we would classify this as a 4 (out of 4), reflecting the use of ESG metrics to determine allocations for all holdings and the wider engagement policy of LGIM on ESG issues.



## INVESTMENT PROCESS

The process can be split into 3 parts - Enforce, Enhance and Engage. The investment universe (effectively the FTSE350) is put through an exclusion filter to screen out companies that fail hurdles around pure coal mining, manufacture of controversial weapons, persistent breaches of the UNGC and LGIM's own internal Climate Impact Pledge. Whilst sounding comprehensive, in practice this process screened out only 2 out of 324 companies. The process is set to be overhauled and tightened up in Jan 2021, but that only increased the exclusions to 4.

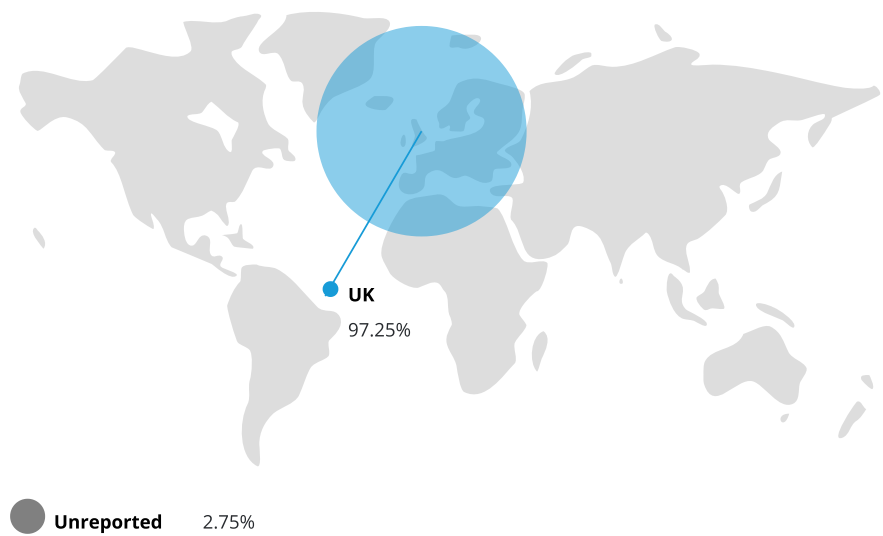
The second stage can be split into 2 parts. The internal ESG team provide a score for companies base on 24 criteria spread across Environmental, Social, Governance and Transparency, weighed 30% each with Transparency at 10%. Analysis of the individual criteria would suggest that some Governance issues also bleed into the Social analysis and that overall this scoring system is more Governance led when compared to the ESG processes which may be more focused on sustainability.

These scores (which are reviewed every 6 months) are then used to 'tilt' the portfolio towards higher scoring stocks and sectors and away from (but not excluding) low scoring ones. The higher the ESG score, the greater the tilt. So RELX, which scores 78/100 has a 195% weighting as of Sept 2020. What this means in practice is a Index product which may appear "less bad" than the index to a ESG focused investor, but where the fund will still have significant exposure to sectors such as Energy. The overall sector allocations are less aggressive than many other UK ESG products and potential investors will need to be comfortable with this. The top 10 holdings will include mega-caps such as RIO, but with a 'tilt' away from the benchmark weighting - in this case, it is set 79%. Even BATS gets an allocation, though this will cease in Jan 2021 with the new exclusion policy.

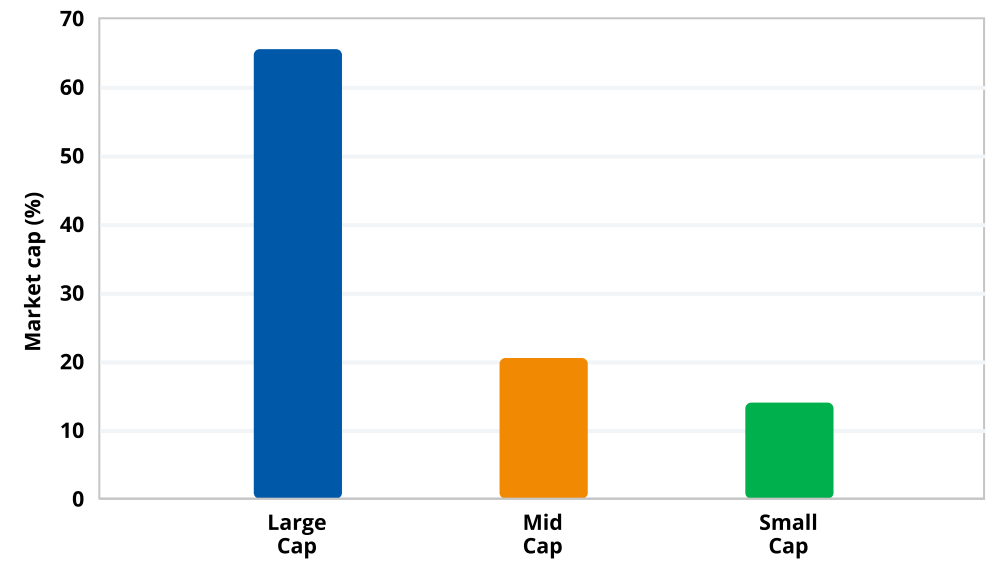
The final part is Engage, where LGIM actively engage with companies to change their behaviour and so improve their ESG scores. This can be achieved by themselves or in tandem with other shareholders. This can cover a number of approaches, from conversations with individual companies, trade associations or regulators, as well as publicly calling out poor corporate behaviour. LGIM also actively vote against resolutions at AGMs where necessary.

# AGGREGATED NET EXPOSURE

## REGIONAL EXPOSURE



## EQUITY MARKET CAP (%)



Not Applicable



Not Applicable

# OVERALL PERFORMANCE

● L&G Future World ESG UK Index GBP I Acc    ● FTSE All-Share Total Return GBP

## GROWTH (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



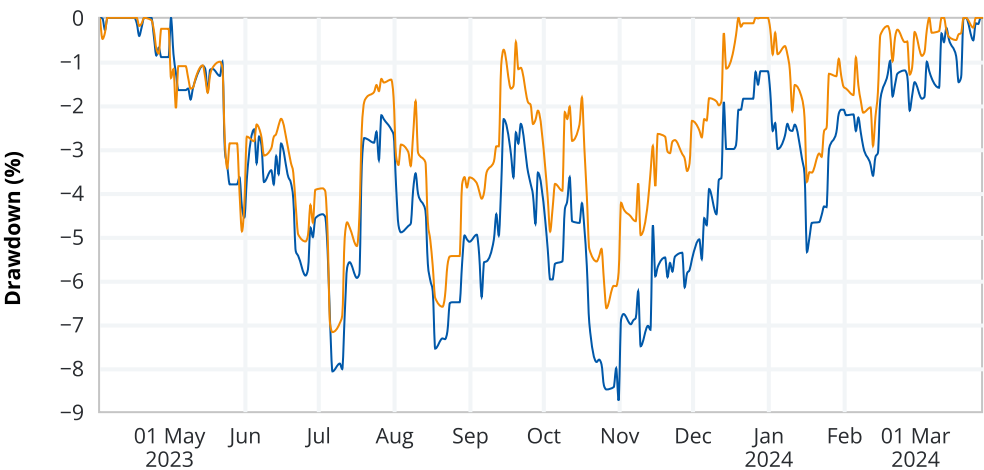
## GROWTH (%) - FROM INCEPTION

16 Apr 2019 - 29 Mar 2024



## DRAWDOWN (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



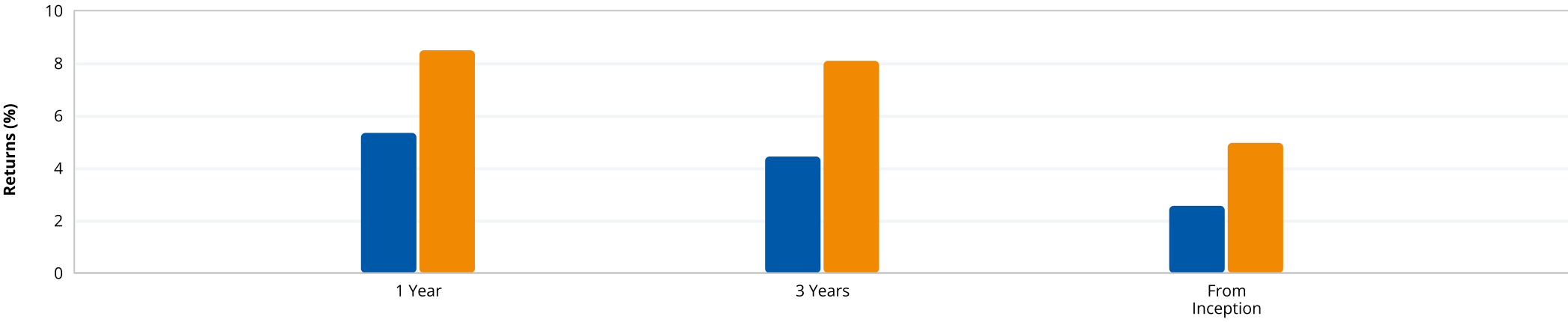
## DRAWDOWN (%) - FROM INCEPTION

16 Apr 2019 - 29 Mar 2024



# RETURNS

● L&G Future World ESG UK Index GBP I Acc      ● FTSE All-Share Total Return GBP



## MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	-0.89	0.33	3.41										2.83
2023	4.01	1.91	-3.03	2.70	-3.42	-0.26	2.12	-2.58	1.61	-4.63	2.44	4.81	5.26
2022	-1.84	-1.43	3.19	-0.80	-0.42	-5.33	4.67	-2.71	-6.55	2.20	7.10	-1.76	-4.47
2021	-0.66	1.98	3.93	3.68	1.55	0.04	-0.06	2.10	-0.56	1.03	-2.01	4.07	15.94
2020	-1.87	-9.08	-15.56	8.70	1.66	0.18	-3.31	1.26	-1.90	-4.76	14.60	2.05	-10.77
2019				0.90	-2.93	3.61	2.70	-2.84	2.07	-1.95	2.19	2.26	5.90

## ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	INCEPTION
L&G Future World ESG UK Index GBP I Acc	5.34	4.44	2.56
FTSE All-Share Total Return GBP	8.49	8.09	4.96

## CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	INCEPTION
L&G Future World ESG UK Index GBP I Acc	5.30	13.85	13.28
FTSE All-Share Total Return GBP	8.43	26.14	26.99

L&G Future World ESG UK Index GBP I Acc

FTSE All-Share Total Return GBP

PERFORMANCE - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024

RETURNS (%)	5.34	8.49
VOLATILITY (%)	10.84	10.29
ALPHA	-0.27 *	
BETA	0.95 *	1.00
CORRELATION	0.97 *	1.00
SHARPE RATIO	0.04	0.33
SORTINO RATIO	0.05	0.49
MAX DRAWDOWN (%)	-8.73	-7.17

\*Calculated over a 3 year period where history permits.

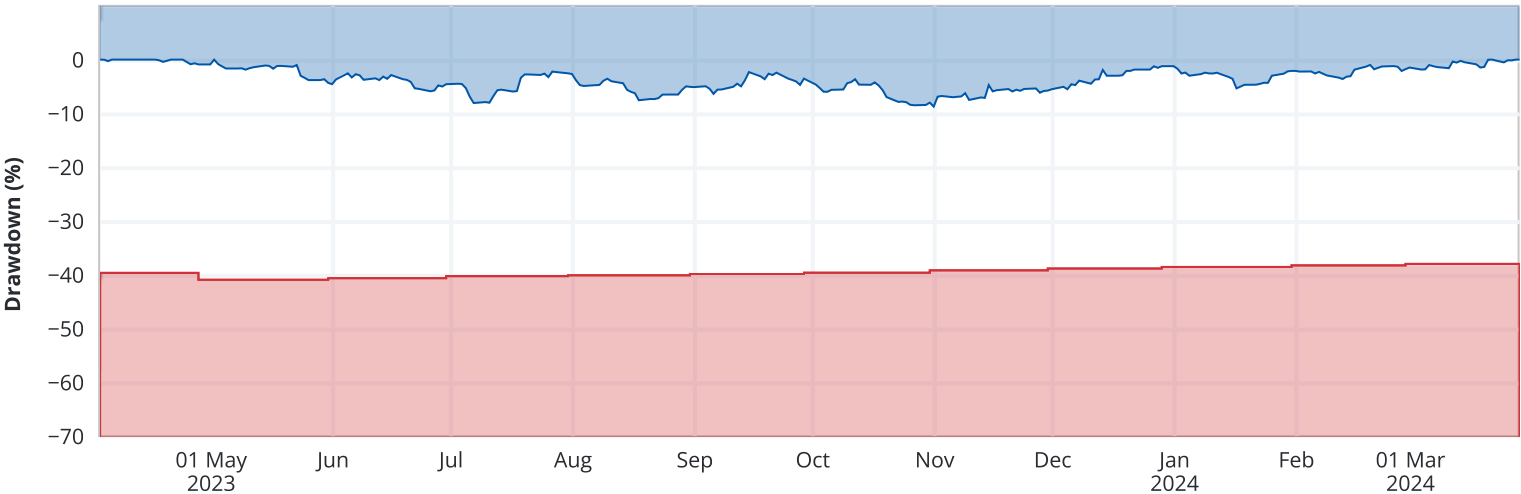
PERFORMANCE - FROM INCEPTION

16 Apr 2019 - 29 Mar 2024

RETURNS (%)	2.56	4.96
VOLATILITY (%)	17.23	17.24
ALPHA	-0.19	
BETA	1.01	1.00
CORRELATION	0.97	1.00
SHARPE RATIO	0.05	0.18
SORTINO RATIO	0.06	0.25
MAX DRAWDOWN (%)	-34.57	-35.32

SIMPLE STRESS TEST DRAWDOWN (%)

3 Apr 2023 - 29 Mar 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

# DISCLAIMER

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