

Press release

LGIM updates Pathway Funds to integrate environmental, social and governance factors

Aligns member needs to long-term sustainability goals

London, 16 October 2019 – Legal & General Investment Management (LGIM) has today announced enhancements to its L&G Pathway Funds (a range of Target Date Funds) that include further integration of environmental, social and governance (ESG) considerations, as well as better alignment with the Financial Conduct Authority's retirement pathways and LGIM's own 'Four Pots for your retirement' concept.

The changes are in part a response to direct feedback from LGIM's defined contribution pension-scheme members, who have shown increased interest in sustainable investments, as well as wider demographic research conducted as part of the funds' governance process. Recent Government research has also found that more than half (56%) of UK savers would opt for a fully or partially sustainable pension given the choice.¹

As well as integrating ESG considerations, LGIM will also be increasing the allocation to growth assets in the earlier retirement savings phase and de-risking at a more gradual pace. These changes are designed to help deliver an improved level of income in retirement.

Emma Douglas, Head of Defined Contribution at Legal & General Investment Management said: "Our members are telling us that they want their investments aligned to long-term sustainability goals. In our most recent survey of scheme members, 53% said they would engage more with their pension and 57% would feel more positive about their employer if they knew their pension was making a positive impact - as one of the largest pension providers in the UK, we have a key role to play in giving savers this choice. While all our assets are responsibly managed, we are now integrating our Future World Multi-Asset Fund into the investment glide path as this fund explicitly uses ESG criteria and will now be a core component during the growth phase and into retirement.

"We will also better align our Pathway Funds to our evolving retirement proposition. Next year, our retirement framework will be expanded to implement the FCA's retirement pathways and further develop our 'Four Pots' concept. The 'Four Pots for your retirement' concept, launched last year, is designed to provide a simple framework to help members allocate their money across four different spending needs and target an income level to meet their individual retirement goals."

L&G Pathway Funds

Launched in 2015, the L&G Pathway Funds are target date funds designed to create investment 'glide paths' that take pension-scheme members up to retirement and beyond. The Funds target their investment strategy to within a five-year range of members' anticipated retirement dates, giving pension savers and retirees flexibility, allowing for uncertainty in retirement behaviour. The enhancements announced today will be fully implemented by the end of the first quarter of 2020, and include:

- **ESG considerations hold increasing weight**

The Future World Multi-Asset Fund will be adopted as a core diversified growth component. The Fund's building blocks are tilted towards ESG, constructed and weighted by the index provider based on the ESG scoring of the eligible constituents. As part of LGIM's Future World range, the Fund incorporates the Future World Protection List, which excludes companies that fail to meet the

¹ *Investing in a Better World*, Department for International Development & PwC. September 2019

minimum standards of globally accepted business practices, as well as the Climate Impact Pledge, which is a targeted engagement process to invest in companies that are most committed to meeting the Paris Agreement's 2°C global warming target.

- **Increased allocation to growth assets**

LGIM is also increasing the allocation to growth assets in the earliest retirement savings phase to help schemes address concerns about income in retirement. During the earliest phase of the glide path, up until about 30 years from retirement, the funds target higher growth by holding a pure allocation to equities, using the L&G Diversified Multi-Factor Equity Fund. This holding is combined with a two-thirds allocation to the Future World Multi Asset Fund (FWMAF) to provide diversification benefits. As members move into the 'steady growth' phase, at around 20 years from retirement, the holding in the FWMAF increases to 100%.

- **Reflecting shifts in retirement behaviour**

As members approach retirement and move into post retirement, the Fund de-risks from the Multi Asset allocation into the Pre-Retirement Inflation Sensitive Fund, as we expect that many retirees will want to secure a guaranteed income via an annuity at some point during their retirement. This is combined with an allocation to the Retirement Income Multi-Asset Fund, which is designed to deliver income during retirement and allows for continued investment growth.

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.

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Notes to editors

Legal & General Investment Management:

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.1 trillion¹. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

¹LGIM internal data as at 30 June 2019. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions