

LGIM's policy on biodiversity



As a global investor, Legal & General Investment Management (LGIM) is committed to addressing the issue of biodiversity loss. We believe that recognising the potential risks from biodiversity loss is firmly part of our fiduciary duty of managing our clients' assets.

Summary

Biological diversity is the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems, and the ecological complexes of which they are part. It includes diversity within species, between species, and of ecosystems.¹

Biodiversity provides and supports everything in the natural world we need to survive, yet biodiversity loss is one of the greatest challenges we currently face.

Between 1970 and 2016 there has on average been a 68% decrease in population sizes of mammals, birds, amphibians, reptiles and fish.² This decline is occurring at a rate greater than any other time in human history.³ Up to a million species are now threatened with extinction, many within decades.⁴

Biodiversity loss and why it matters to investors

Biodiversity loss presents a major global systemic risk, as more than half of the world's gross domestic product (GDP) – around \$44 trillion – is either moderately or highly dependent on nature.⁵ The natural world depends on biodiversity. It's been estimated that the cost of failing to act by 2050 would lead to a cumulative loss of USD10 trillion,⁶ while around one in five companies globally face significant operational risks as a result of collapsing ecosystems.⁷

Through their investment portfolios, clients may be exposed to direct or indirect biodiversity risks including:

- physical risk – for example, the loss of/insufficient access to raw materials
- litigation and reputational risks – such as companies being involved in illegal deforestation through their value chain
- the risk of increasing regulation – for instance the UK's Environment Bill being strengthened to halt biodiversity loss by 2030
- systemic risk – as outlined above, and as recognition grows of the linkages between the environment and health

1. Convention on Biological Diversity, 1982.

2. WWF Living Planet Report, 2020.

3. Average abundance of 20,811 populations representing 4,392 species monitored across the globe. The white line shows the index values and the shaded areas represent the statistical certainty surrounding the trend. WWF & ZSL, 2020.

4. IPBES Global Assessment for Biodiversity and Ecosystem Services, 2019.

5. World Economic Forum, 2020.

6. HSBC Paradise Lost, 2020.

7. Swiss Re Group, Institute Biodiversity and Ecosystem Index, 2020.

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The degradation of oceans, forests and other ecosystems undermines nature's ability to provide many goods that societies and economies need to thrive.

LGIM therefore believes it's vital that companies pro-actively consider and address issues of biodiversity to generate sustainable outcomes and value for all stakeholders. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) identifies seven drivers of biodiversity loss⁸ and companies need to pay attention to these factors as wider stakeholders raise the expectations on corporations to act responsibly.

LGIM has a crucial role to play in holding investee companies to account for understanding the biodiversity risks and opportunities that they are exposed or contributing to, and in providing relevant disclosure on these issues. In addition, in our role as an owner and manager of direct investments, we recognise our responsibility to protect and enhance biodiversity.

This is particularly important for real estate and infrastructure investments. We're working towards strengthening our engagement and collaboration with occupiers and other stakeholders on this topic to develop a co-ordinated approach. With adequate information, we will be able to integrate biodiversity risk, opportunity and impact into investment management.

We have also entered into a global partnership with Lewis Pugh, the environmental campaigner and endurance swimmer, whose swims highlight the precarious state of natural world – in particular ocean biodiversity – and the damaging effects of climate change.

Lewis is calling on all nations to protect 30% of the world's oceans by 2030 and to cut their emissions significantly. This is an urgent mission that we fully support.

Finance for biodiversity pledge

In 2021 LGIM signed the pledge

As a signatory, by 2024 at the latest we commit to:

- collaborating and knowledge sharing
- engaging with companies
- assessing impact
- setting targets
- reporting publicly

Our Biodiversity Policy is the first step in formalising LGIM's approach to delivering on our commitments

⁸ <https://ipbes.net/global-assessment>

LGIM's approach

Our approach to biodiversity encompasses a number of different avenues, including:

- developing our capacity to assess biodiversity risks and opportunities
- working with policymakers
- engaging with the companies in which we invest and with wider stakeholders
- reporting to clients

Developing our capacity to assess biodiversity risks and opportunities

We see it as our responsibility to provide the right framework to address ESG risks and opportunities in every part of our business, and this includes those related to biodiversity.

At the highest level, overall responsibility for ESG risks, in so far as they are material to investments, lies with LGIM's CEO who has oversight of relevant risks as reported through a series of risk and investment committees, such as:

- **LGIM's Investment Stewardship Committee**, with overall responsibility for the evolution and implementation of investment stewardship and responsible investment policies, including those related to biodiversity loss. Our CEO, CIO, Director of Investment Stewardship and independent non-executive directors are members.
- **Global Research and Engagement Groups (GREGS)**, set up to unify our engagement efforts and help determine exposures to ESG risks and opportunities, including biodiversity. The groups consist of over 70 analysts focused on tackling emerging ESG issues across a range of sectors which are agnostic about the capital structure. These include supply chains, biodiversity, and climate change
- **Responsible Investment Group**, a senior executive decision-making body which oversees the integration of ESG across all aspects of LGIM's business, and across different asset classes
- **Index Solutions Committee** which oversees the integration of ESG criteria into index portfolios

We have developed a variety of proprietary ESG tools, used across different asset classes and investment strategies, with the ability to incorporate relevant ESG metrics. These tools are used to support fund managers, develop new investment solutions, assist the investment stewardship team in its engagements with companies, and help clients understand more about the ESG profile of portfolios.

While metrics such as those related to water and deforestation are increasingly available, there remains a paucity of comprehensive and specific data on a company's impact on, and exposure to, biodiversity. We recognise that more needs to be done to support companies and investors in identifying and accessing relevant biodiversity data, and it is with this in mind that we have become an observer member to the Taskforce for Nature-related Financial Disclosures (TNFD).

The TNFD seeks to provide a framework for corporates and financial institutions to assess, manage and report on their dependencies and impacts on nature. It also seeks to aid the appraisal of nature-related risk and the redirection of global financial flows away from nature-negative outcomes, towards nature-positive outcomes. We support this initiative and the need for more robust data tools and reporting. As this improves, we will seek to incorporate relevant biodiversity data into LGIM's proprietary ESG tools and scores.

Policy engagement

As a global system-wide issue, biodiversity loss requires a market-wide approach. That is why engagement with governments and regulators is so important.

For many years, policymakers have been acutely aware of the importance of developing strong biodiversity-related policies in their respective markets, and they continue to have a significant role to play in addressing biodiversity loss. From the current dominant paradigms that undervalue biodiversity, to solutions that could address biodiversity loss – all are highly dependent on policy support.

We are supportive of the Convention on Biological Diversity and have been emphasising the need for national and international policy ambition around biodiversity issues. We have done this by engaging with policymakers in the UK, EU, and globally both directly and collaboratively with other investors, think-tanks and civil society. This has been carried out through various forums, including our membership of the Institutional Investor Group on Climate Change (IIGCC), the UN Principles for Responsible Investment (PRI), the Investors Policy Dialogue on Deforestation (IPDD) and the FAIRR initiative.⁹

Our work to date has included pushing the European Commission to align taxonomy with biodiversity targets and reform the Common Agricultural Policy in a way that encourages biodiversity. Alongside other investors, we have engaged directly with both the Indonesian and Brazilian governments on deforestation and written to state-legislatures in the US to support deforestation policies for public procurement. Recognising the important links between biodiversity and climate change, we have also written to the G20 calling on nations to enact ambitious policies and disclose effective targets for greenhouse gas reductions in agriculture.

We will continue to work with both regulators and governments to encourage them to establish and enforce policies related to biodiversity and to ensure that these reflect the interconnected nature of biodiversity loss and climate change.

Company engagements

LGIM seeks to protect clients' assets through raising market standards and best practice. One of the ways we do this is through the expectations we set of investee companies in public markets. Our engagement with company boards and executive directors are central to advancing on all facets of ESG, and biodiversity is no exception. We expect companies to build strategies that enable them to adapt and to thrive within the rapidly evolving political, societal and environmental backdrop. While we have been incorporating deforestation into our stewardship activities since 2016, we recognise that more needs to be done to address biodiversity as a standalone issue at both company and system-wide levels.

As part of our commitment to address biodiversity, we will therefore engage directly and collaboratively (with other investors and investor groups) with companies that have a high impact and/or dependency on biodiversity and ecosystem services. This will not only allow us to further assess potential risks to the sustainability of these companies, but also to push for greater transparency and progress in the market.

As a first step, we expect companies to assess their impact and dependencies on biodiversity with a view to managing risk, as well as mitigating and, over time, reversing negative impacts. We encourage companies to commit to having an overall positive impact on biodiversity. We expect companies to take into account direct as well as indirect activities of their supply chains. We will be seeking greater disclosure from investee companies in

⁹ A collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive livestock production.

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line with TNFD and Sustainability Accounting Standards Board requirements. We will also use biodiversity-related ESG information to set our expectations of companies on issues of governance and strategy.

We will draw on all the tools we have as stewards of our clients' assets to positively influence this critical issue, providing feedback to companies on their progress. In line with our voting policies, we will vote on shareholder resolutions related to biodiversity. To date, such resolutions have typically referred to deforestation, packaging and pollution, water usage, and pesticides.

We expect to vote in line with best practice on addressing drivers of biodiversity loss and during 2022, LGIM will develop additional sector-specific and time-bound expectations of investee companies as part of our biodiversity engagement programme. This will include setting out our approach to escalation on this important topic. As market standards develop in this arena, LGIM will adapt our engagement strategies to reflect these.

Reporting

We are committed to communicating our efforts to our clients. Biodiversity now forms part of our regular ESG reporting channels for listed portfolios, which are published quarterly and annually on our website.

We are firm believers in improving market information on ESG issues. That's why we have become an observer member to the Taskforce for Nature-related Financial Disclosures (TNFD).

We will also look to publish thought-leadership pieces on the topic to inform investee companies and our clients and to help to drive the conversation forward.

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