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Are companies really making progress on ESG? Read our long-term analysis to find out

In a landmark study of data going back 14 years, LGIM will provide a unique perspective on ESG progress across geographies, industry sectors and engagement themes.

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Fragmented, inconsistent or unavailable environmental, social and governance (ESG) data remains a thorn in the side of our industry. Gaps and inconsistencies in long-term ESG data can make it difficult to discern overall progress, or to compare how different countries or sectors stack up.

Yet as the data has steadily improved, it's increasingly possible to paint a truly long-term picture of ESG progress at the index level, and to sift the data to provide meaningful and highly granular analysis of the various trends that together make up the overall direction of travel.

In a landmark study of ESG data going back 14 years, we've done exactly that, lifting the veil on global ESG progress.

Our forthcoming whitepaper, titled *Insights from 14 years of ESG data: A long-term study of ESG score changes across regions, sectors and themes*, will provide a breakdown of the evolution of the inputs that power LGIM's ESG scores.

Below we summarise some of the key findings of the report, plus five broad conclusions we present based on the analysis.

Geographical trends: global and regional differentiation

The global aggregated LGIM ESG score surged 50% from 2009 to 2023 (our full history of data).

North America, which represents the biggest share of the global benchmark, displayed consistent growth in its combined LGIM ESG score, which rose by 47% over the full 14 years.

Europe ex-UK did even better, starting from a higher base and showing a marginally greater overall rise of 50%.

Among the global ESG frontrunners, Japan stands out as an exemplar of rapid and robust ESG advancement. Japanese corporations have demonstrated an exceptional doubling of their ESG scores, albeit having started at a lower base than any other region. Over the full period, Japan's combined LGIM ESG score rose a remarkable 112%.

EMs, meanwhile, have embarked on an upward trajectory since the COVID-19 pandemic, contributing to the global shift towards sustainable practices and responsible business operations.

Sector trends

We performed a deep dive into sectors across all equity

benchmarks. Examination of the sectoral ESG landscape reveals intricate patterns and differentiations, similar to the regional benchmarks.

Among the sectors that stand out are utilities and materials, which displayed pronounced improvements in their environmental scores over the past 15 years.

This evolution is intrinsically linked to the global call for an energy transition and the pressing need to reduce carbon footprints.

Trends in engagement themes

Having looked at the ESG trends with geographical and sector lenses, we investigated the themes that emerged based on our historical data.

The historical data show that the biggest increase within the various ESG themes comes from social diversity. This is followed by disclosure (transparency), emission and transition themes, with the environmental domain followed by human capital and labour rights.

Social diversity captures one of the most significant shifts, reflecting an increased focus on gender equality. Since 2009, there has been a dramatic shift in boardrooms across the globe. The representation of women in leadership positions, specifically on boards, has jumped from 13% to 30%.

Lessons from the past and for the future

Throughout our journey with the LGIM ESG scores and integration into systematic investment processes, we've made several important observations:

1. Awareness leads to action: The continuous growth of ESG scores over time demonstrates that when companies and investors

become aware of environmental, social and governance issues, they are likely to come under public pressure to take action.

2. Transparency builds trust:

The rise in our transparency scores reveals that openness and clear communication are being prioritised. Companies have realised that stakeholders, including investors and consumers, value transparency, which fosters trust and can enhance a company's reputation, making it more appealing to both investors and consumers.

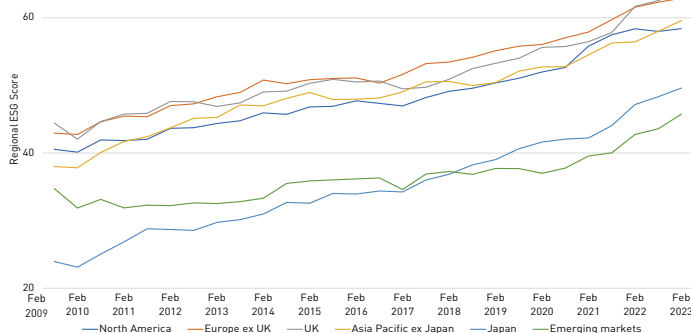
3. Diversity is crucial: One of the most notable shifts has been in the role of women in leadership. The significant growth in the percentage of women on boards indicates the increasing recognition of the value of diverse perspectives in decision-making.

4. Regional variances matter: Different regions have different challenges and priorities. While Japan and the UK showed remarkable improvements, it's evident that each region's historical, cultural and economic context plays a role in determining its ESG trajectory.

5. Sustainable practices are the future: Companies are recognising that to remain viable over the long term, addressing global challenges such as climate change, and seeking opportunities within these challenges, is not only desirable, but necessary.

Read our forthcoming whitepaper to drill down into the detail, and learn how we believe today's ESG frameworks must evolve to deliver the next chapter of positive global change.

Regional LGIM ESG scores



Source: LGIM data as at September 2023.

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