Legal & General Investment Management
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ESG investing remains a top priority for DC members, despite cost-of-living crisis

- *LGIM research finds almost three quarters of DC members would be willing to pay higher fees for increased exposure to ESG private market assets such as renewable energy infrastructure and affordable housing, if they can deliver proof of performance*
- *Findings come amid industry debate about the role of private markets in DC pensions, following on from the Mansion House Compact over the Summer*

13 November 2023 – New research released today by Legal & General Investment Management ('LGIM') has found that demand among Defined Contribution ('DC') pension scheme members for ESG investing remained resilient in 2023, despite the financial pressures caused by ongoing global instability and the cost-of-living crisis.

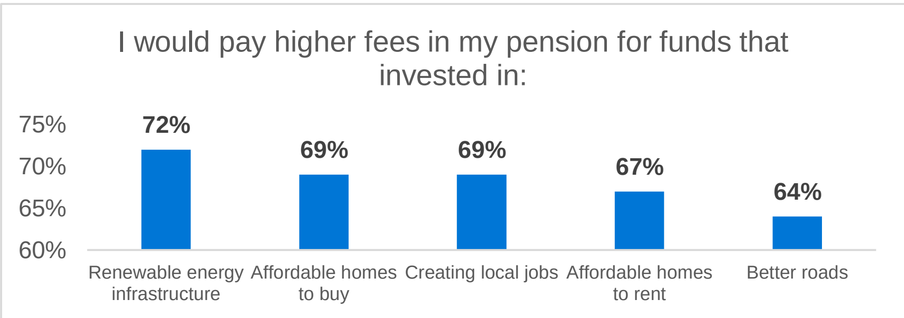
The survey of over 4,000 UK members – the largest LGIM has conducted on the topic – reveals that although nine in 10 pension savers have felt financially squeezed this year as a result of higher prices, this has not had a negative effect on member demand for investing in ESG through their pension. In fact, 65% reported that inflation had made them think harder about the need to invest in renewable energy and sustainable food production, in order to increase the UK's long-term economic resilience.

Genuine member demand for illiquid assets, but performance is key

LGIM's latest ESG DC member research comes during a period of debate and reflection for the pensions industry around the role of illiquid assets in seeking to deliver better overall retirement outcomes for DC members. Private markets typically cost more to invest in than public markets, we believe these have the potential to provide members with increased diversification and alternative drivers of return.

In July, Legal & General ('L&G') was one of nine founder signatories to the Mansion House Compact, a voluntary statement of intent to increase DC pension scheme investments in unlisted equities by 2030. L&G signed up to the Compact on the basis that it believes that increasing DC allocations to a variety of private market assets (including unlisted equities) could have the potential to aim to deliver better overall value for money for DC investors when incorporated into a diversified portfolio.

Strikingly, a clear majority of the members LGIM surveyed said they would be willing to pay higher fees to invest in private market assets that can help deliver better ESG outcomes. Demand for exposure to renewable energy infrastructure led members' list of priorities here, followed by social investments such as investing to build affordable homes and create local jobs.



Source: Legal & General Investment Management (LGIM) survey in June 2023 of the views of 3,634 defined contribution workplace pension members in the accumulation phase, on environment, social and governance investing. Respondents were split across generations and genders and across the UK.

However, member appetite for illiquid assets was tempered by the need for private markets to demonstrate robust performance. Less than a quarter (22%) of those in Generation Z said they would be willing to pay more to invest in illiquid assets irrespective of performance, falling to 7% among Baby Boomers.

Trustees, take note – Generation Z want ESG action through their pensions

With more Gen Z members (those born between 1997 and 2012) entering the workforce and becoming auto-enrolled every year, pension scheme trustees, employers and providers are increasingly going to have to reflect on their attitude and desired approach to ESG investing.

While on average, 80% of members across all generations said they worried a great deal or a fair amount about climate change and global warming, Gen Z members were the least tolerant of the continued use of fossil fuel use – a resounding 93% want to see their pension reduce its exposure to investments in fossil fuels.

When asked how well they thought pension funds which had net zero targets might do in the long-term, 72% of Gen Z members thought they'd do better than funds without a target. This was significantly higher than the figure across all generational groups, where a much lower 55% thought these funds would outperform.

On whether leadership on ESG issues would factor into their decision as to whether or not to consolidate their pensions with a particular pensions provider, more than eight in 10 (83%) of Gen Z members said it would, compared with an average across all generations of 75%.

'Engagement over divestment' remains the preference among members

Across the generations surveyed, DC members reported a preference for using the power of pensions to engage with companies to change poor ESG behaviours – up to a point.

More than half (55%) of members said they want to see their pension provider engaging with companies on improving their environmental practices and only divesting from them if this doesn't work, compared with 33% who would prefer to avoid companies with a poor environmental record altogether.

Members were less forgiving of companies which aren't performing well in terms of their social practices, such as their record on modern slavery. Less than half (45%) of members thought their pension provider should keep investing with them to effect change and only divest if they don't improve. A sizeable 43% wouldn't want their provider engaging with companies with a poor social record at all.

Reflecting on LGIM's latest ESG member research, Rita Butler-Jones, Head of Defined Contribution (DC) at Legal & General Investment Management (LGIM) said:

"Despite the financial pressures and systemic challenges we are currently seeing around the world, it's clear that ESG remains central to many members' attitudes about how they want their pension to be invested.

"A high proportion of members are open to greater allocations to ESG private market assets such as renewable energy and affordable housing sends a clear message to the pensions industry. The onus is on us to demonstrate where we believe illiquid assets can play a meaningful role in aiming to deliver better overall member outcomes – and in the process, unlock the potential power of DC capital to invest in the UK and beyond.

"The attitudes of the Gen Z members we spoke to are particularly notable. They may be the pensioners of tomorrow, but they want us to take action today to ensure that they have a brighter future to look forward to. Trustees, employers and providers need to pay close attention and ensure that the voices of those now entering the workforce are being heard."

Legal & General is the largest DC pension provider in the UK, looking after the retirement savings of over five million members with over £146 billion in AUM.[1]

- ENDS -

Notes to editors

Further information:

[1] Data as at 30 June 2023.

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About Legal & General Investment Management (LGIM)

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.2 trillion[2] ($1.5tn, €1.3tn, CHF 1.3tn). We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

For more than 50 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.

Methodology

We performed quantitative research using a questionnaire for 4,678 defined contribution workplace pension savers. The survey was completed in June 2023. Our respondents were split across generations and genders and across the UK and Ireland. This press release refers to UK figures for those in the accumulation phase. A separate report is available for our research into the ESG views of Irish DC scheme members.

Type of saver	No. respondents
UK accumulation	3634
UK decumulation	500
Ireland	544

We define the generations as:

- Baby Boomers: Born between 1946 and 1964
- Generation X: Born between 1965 and 1980
- Millennials: Born between 1981 and 1996
- Generation Z: Born between 1997 and 2012

Key Risk Warnings

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[2] LGIM internal data as at 30 June 2023. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

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