



L&G Sovereign Risk ESG score framework overview

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Introducing our Sovereign Risk ESG Score

The L&G Sovereign Risk ESG Score is L&G's proprietary framework for assessing environmental, social, governance, and geopolitical risks at the sovereign level. The score was created to support sovereign bond index construction, portfolio optimisation and ESG risk integration across our fixed income investment process.

The L&G Sovereign Risk ESG scoring framework is intended to complement existing sovereign risk assessment and provide additional insight into material risks and opportunities that may not be fully considered through conventional macroeconomic and financial analysis. The score uses both historic and forward-looking data, driven by our partnership with Verisk Maplecroft, an industry leader in sovereign data and ESG analytics. The Sovereign Risk ESG scores are produced on a quarterly cycle for over 200 countries, spanning all markets.

We review and refine the score methodology on an annual basis and will look to adapt and improve our approach as sustainability-related themes and topics evolve, and as availability and reliability of data improves over time.

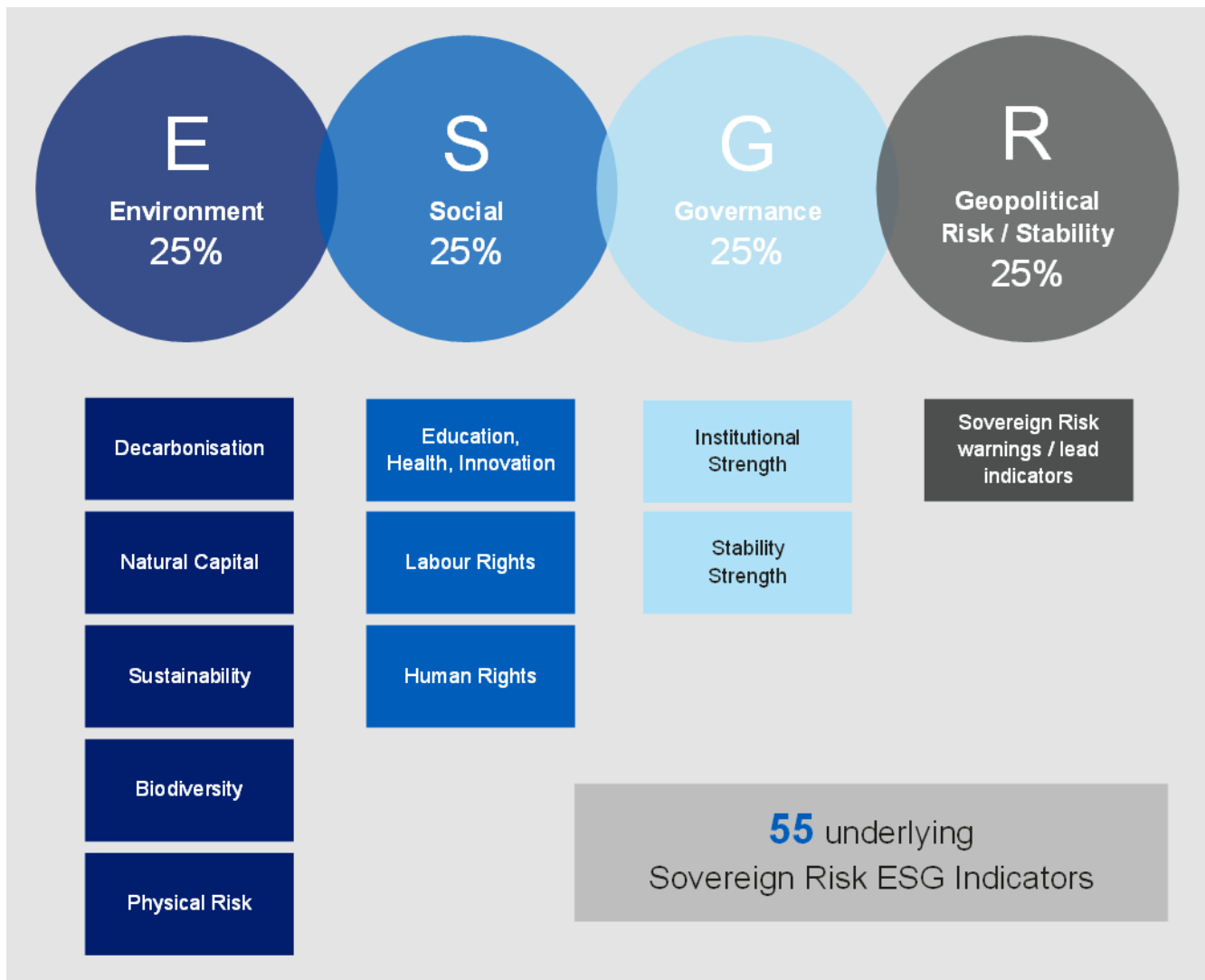
Methodology: how we select indicators and themes

The framework currently consists of 55 underlying sovereign ESG indicators, covering 11 ESG themes (see the boxed wording in the chart below), spread across four equally weighted pillars of environment, social, governance and geopolitical risk/stability.

Indicators and themes are selected based on their materiality to economic resilience, political stability and social cohesion, both in the short and long term. The indicators are chosen to reflect both their materiality to sovereign risk, but also their relevance to broader impacts on people and the environment. Once material risks and opportunities are identified, potential data indicators are assessed on the basis of availability, frequency and reliability. Likewise, indicators that duplicate existing coverage or are highly correlated with other metrics may be excluded or replaced, ensuring balanced signal contribution across pillars and themes.

The framework draws on the objectives of international agreements and initiatives such as the United Nations Global Compact, the Paris Agreement, the Climate Change Initiative, UN Sustainable Development goals, the Organisation for Economic Co-operation and Development, and labour and human rights factors to assess ESG factors that relate to sovereigns. The framework is also informed by established scientific research and recognised scientific concepts e.g. Climate risks under different recognised earth system model scenarios.

Underlying indicators utilise both backward-looking data (e.g. historic greenhouse gas emissions), as well as forward-looking data (e.g. forecasted civil unrest). The third-party data provider's ESG analytics draw on thousands of different geospatial, unstructured, structured and expert-scored subnational and national indicators, and a range of proprietary modelling techniques.



Methodology: score construction

Each of the 55 underlying data indicators are assessed and scored, creating a sub-score at the theme level. Individual themes are then aggregated to form the environmental, social, governance and transparency pillar scores. Overall Sovereign ESG scores are derived from the geometric aggregation of the underlying four pillars. Each pillar maintains an equal weighting of 25% and each theme and underlying indicators are equally weighted within these pillars and themes respectively. The final output score is absolute and presented between 0-10.



Contact us

For further information about L&G, please contact your usual L&G representative.

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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