December 2020

Embedding ESG within the heart of Legal & General Retirement

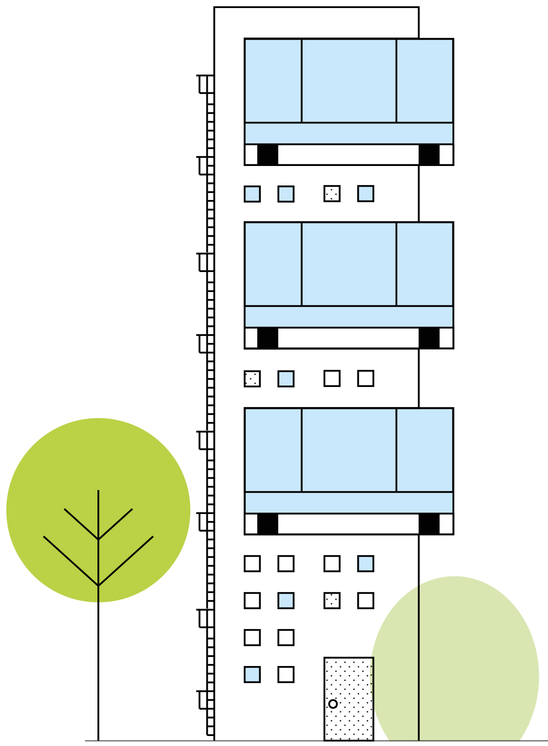
Foreword from Laura Mason

Across the Legal & General Group, Inclusive Capitalism is a key principle that drives our corporate strategy and shapes our culture. Within the annuity business – Legal & General Retirement (LGR) – our application of this principle is straightforward. We take a long-term view of our business and the world around it, we invest, first and foremost, to be able to deliver pensions to our policyholders. Beyond this, with each project, each investment, we also seek to generate a positive impact on our local communities and towns, drive economic growth, and complete what we call the "virtuous circle" of long-term savings and sustainable investment enabling us to deliver stable returns for our shareholders.

Environmental, Social and Governance (ESG) factors and impact investing in the real economy are at the heart of our investment approach. Over the past couple of years we have developed our core ESG principles, which are applied in the management of our £80 billion annuity portfolio.

The ESG objectives for our annuity portfolio are:

- **Environmental Impact -** portfolio decarbonisation and divestment to align with the Paris Climate Agreement, support UK net zero objectives and reduce our portfolio's carbon intensity to half by 2030.
- **Social Impact -** invest in assets which create real jobs, improve infrastructure and tackle the biggest issues of our time – including housing, climate change, fostering an inclusive society and the ageing population. A core part of this is ensuring strong governance and disclosure around ESG issues.
- **Governance -** good investment underwriting requires LGR to identify and manage financial related risks including ESG. LGR aims to process the ESG data it has available in an efficient way to identify, measure and manage the most salient risk factors for our investments and integrate these assessments into the investment process and product design.



This policy document sets out the progress we have made in integrating ESG and our core ESG principles into our annuity portfolio and the governance we have established to support it.

Our approach aligns with the ESG investment policies developed by Legal & General Investment Management (LGIM): our asset manager and an industry leader in ESG. Through LGIM, we also advocate and encourage the uptake of ESG principles by the companies in which we invest and across the wider financial services industry.

I am pleased you are interested in understanding more about the work we have been doing in this space and I hope you will find this policy document interesting and informative. As we have developed our ESG approach, we have been supported by LGIM and the wider Legal & General Group, but we would also welcome a conversation with you, our customer, to explore opportunities where we can work together in driving forward this very important agenda.

Laura Mason

Chief Executive Officer,
LGR Institutional

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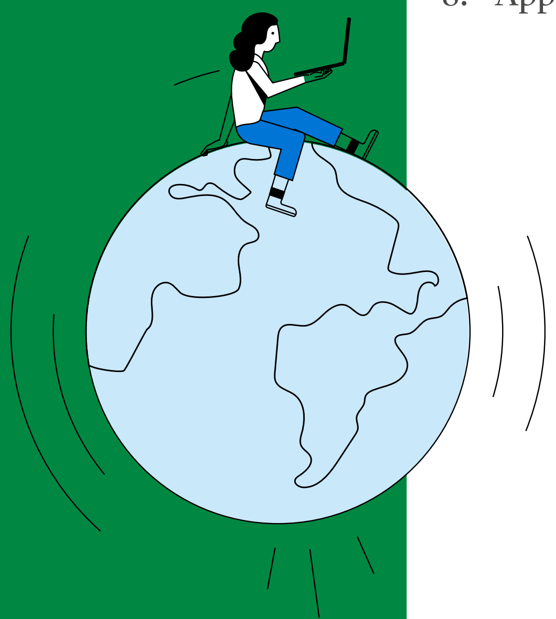

Introduction

This document sets out LGR's ESG policy and how its ESG principles are applied in practice when managing the pension promises we've made. This document outlines the objectives and targets we have set ourselves, both in the near and long-term, and discusses how we are measuring and recording our progress against these and the governance structure established across the Legal & General Group to support this.

We will continue to enhance and evolve our ESG policies as new tools, data, knowledge and best practices become available.

This document is split into seven sections:

- **Section 1** defines LGR's ESG objectives. These objectives are consistent with LGR's longer-term investment beliefs (see Appendix 1).
- **Section 2** provides background on LGR as an asset owner and lists its investment objectives, which shape the practical approach LGR takes to integrating ESG factors and managing risk.
- **Section 3** provides an overview of the individuals and teams across LGR and the wider Legal & General Group responsible for the implementation of the ESG policy.
- **Section 4** describes in detail the initiatives undertaken to address the three objectives outlined in Section 1.
- **Section 5** identifies collaborative projects across the Legal & General Group which impact the implementation of the ESG policy.
- **Section 6** lists the investor initiative involvement across the Legal & General Group.
- **Section 7** lists links to key documents which are referenced in this ESG Policy.

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LGR's policy has been prepared in line with the UN Principles for Responsible Investments (PRI) which are:

Principle 1 We will incorporate ESG issues into our investment analysis and decision-making processes.

Principle 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4 We will promote acceptance and implementation of the principles within the investment industry.

Principle 5 We will work together to enhance our effectiveness in implementing the principles.

Principle 6 We will each report on our activities and progress towards implementing the principles.

1. ESG Objectives

In this section we outline our three primary ESG objectives.

LGR's ESG objectives

Our ESG objectives have been defined based on our current knowledge of investing and ambition for incorporating ESG in our investments, both in the near and longer term. We believe in learning from experience and sharing insights within the Legal & General Group and with the wider investment community. Therefore, these objectives will evolve as better knowledge, data and research becomes available, particularly in the area of carbon emissions and temperature alignment.

Our core investment beliefs are outlined in Appendix 1.

We have three ESG objectives. They are:

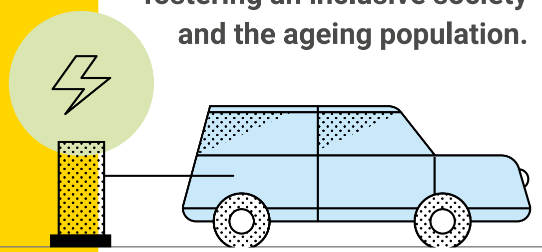
Environmental impact through portfolio decarbonisation: align with the Paris Climate Agreement, support net-zero objectives and reduce our portfolio carbon emission intensity to half by 2030.

Our roadmap for decarbonisation is guided by both the Paris alignment and UK net zero targets. LGR is committed to the Paris agreement, which we interpret to be limiting the increase in global temperature of 1.5C above preindustrial times (1.5C scenario). We fully support the UK's ambition of achieving net zero by 2050. We have taken both into consideration, and demonstrate our commitment to them, in the setting of a carbon intensity trajectory for our own portfolio of assets. Our aim is to reduce our portfolio's carbon intensity (defined as scope 1 + scope 2 emissions per £m of investment) to net zero by 2050. We disclose our portfolio carbon intensity through our annual **Task Force on Financial Related Financial Disclosures** (TCFD) report.

In addition to this, we are also an early adopter of the voluntary disclosures promoted by the UK Government in its Green Finance Strategy, published in 2019. We strongly believe that climate reporting should be made mandatory across financial services. LGR excludes any investment which is a high emission outlier today and has no credible plan to align with the Paris Agreement.

Social impact: invest in assets which create real jobs, improve infrastructure and tackle the biggest issues of our time – including housing, climate change, fostering an inclusive society and the ageing population.

A core part of this is ensuring strong governance and disclosure around ESG issues. We use our investments as a force for good, to create real jobs, better infrastructure and to tackle societal issues such as housing, climate change and ageing demographics. Long-dated annuity liabilities offer LGR the opportunity to invest capital into long term projects with a particular focus on infrastructure and property sectors which are facing a funding gap.



Governance: good investment underwriting requires LGR to identify and manage financial related risks including ESG.

LGR and LGIM aim to process the ESG data it has available in an efficient way to identify, measure and manage the most salient risk factors for our investments and integrate these assessments into the investment process. We measure and mitigate ESG risks in our portfolio at both individual security and portfolio levels. We believe our investments should have good governance structures in place, contribute positively to society and minimise any negative effects on wider stakeholders. We are actively monitoring emerging physical and transition risks from climate change, and the vulnerability of our portfolio to such risks. We do this through forward-looking scenario analysis, using the LGIM-Baringa Destination@Risk Climate Change Scenario & Risk Model.

These three objectives are implemented through a combination of in-house analysis and through our investment management agreement (IMA) with our asset manager, LGIM. LGR does not have voting rights attached to its fixed income investments but does exercise stewardship and engagement through LGIM.

More detail on these objectives can be found in Section 3.

2. Overview of LGR as an asset owner

This section provides an overview of LGR, its portfolio objectives and investment strategy.

Business overview

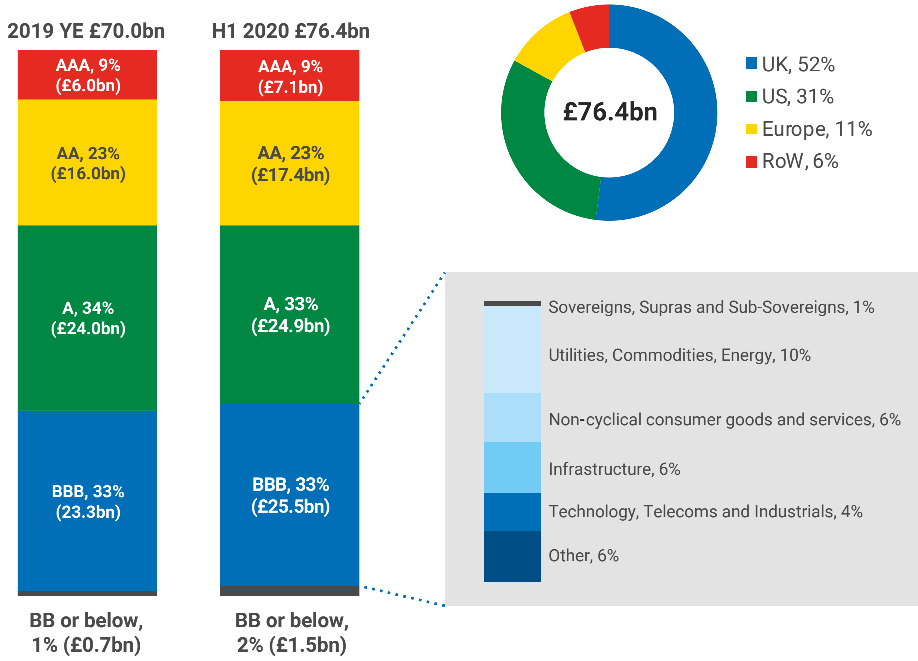
LGR comprises of two parts: LGR Institutional, which transacts worldwide pension risk transfer (PRT) business, and LGR Retail, which transacts individual retirement business. LGR invests the premiums it receives in a combination of fixed income (or similar, fixed cashflow generating) assets, hedging derivatives and reinsurance contracts to provide a safe and secure cashflow which enables us to back pension liabilities. Most of our asset management services are sourced in-house through our asset manager LGIM, which executes LGR's strategic ESG objectives as outlined in Section 1.

The assets which back regulatory and shareholder capital are managed separately to the annuity portfolio. These assets are invested through Legal & General Capital (LGC) in an impact-aware and ESG-aware manner, which further diversifies our portfolio exposure in equity and real asset markets.

For the purpose of this document we concentrate on the assets directly backing liabilities (LGR portfolio); however, we do expand on the role the Legal & General Group plays in shaping the LGR ESG strategy in Section 3.

Investment strategy

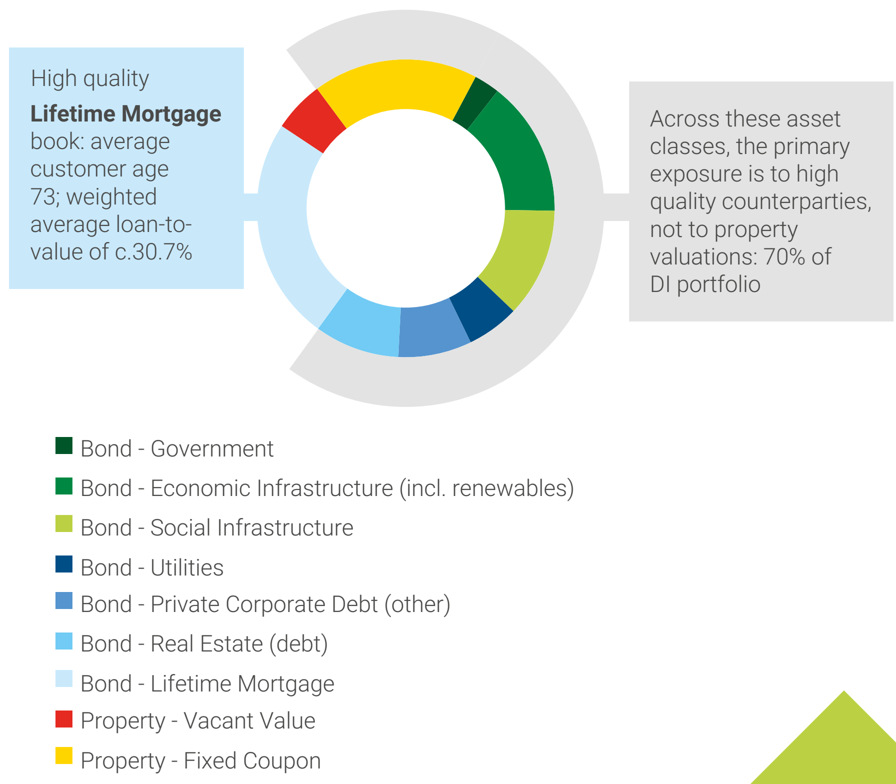
LGR pursues a diversified investment grade global credit strategy. A high-quality fixed income portfolio provides the fixed contractual cashflows that LGR is required to hold for regulatory purposes. On 30 June 2020 the breakdown of the £76.4bn bond portfolio was as follows:



Alongside a diverse investment portfolio – covering different markets and different sectors – the complexity of our direct investment (DI) portfolio enables us to secure a greater return than would be available from just lending on the public credit markets. This is vital in allowing us to offer attractive pricing for PRT clients.Placing long-term capital into real assets can serve a social purpose but requires enhanced due diligence before investments are approved by the Legal & General Group Capital Committee. The composition of the LGR DI portfolio can be seen in the charts below and overleaf:

LGR Direct Investment portfolio: £23.6bn, 29% of total LGR assets

Direct investments by type



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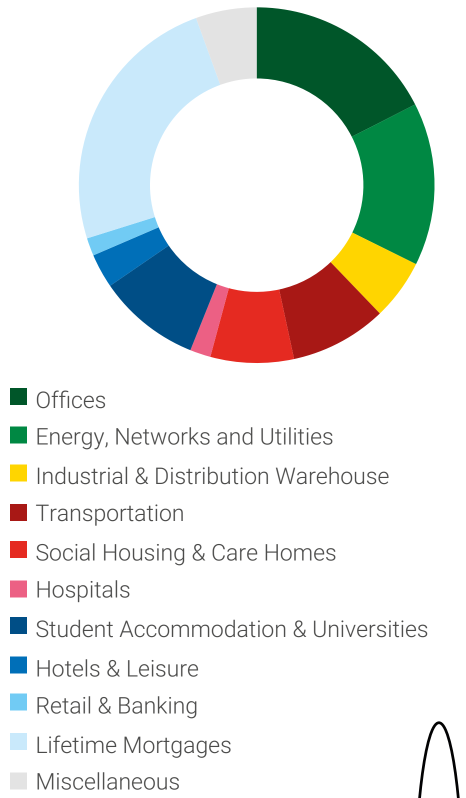
LGR Direct Investment portfolio: £23.6bn, 29% of total LGR assets

Direct investments by sector



As referenced earlier in this document, LGR sources the majority of its asset management services through its in-house asset manager, LGIM. There is an open channel of communication between LGR and LGIM, enabling regular and detailed discussions, including those relating to ESG issues and specific investments. The importance of DI to the business has required LGIM to develop strong internal credit risk capabilities, which incorporate ESG factors.

Broad portfolio objectives

LGR believes that integrating all material information, including ESG factors, into long-term investment decision making can drive positive investment performance and protect the downside.

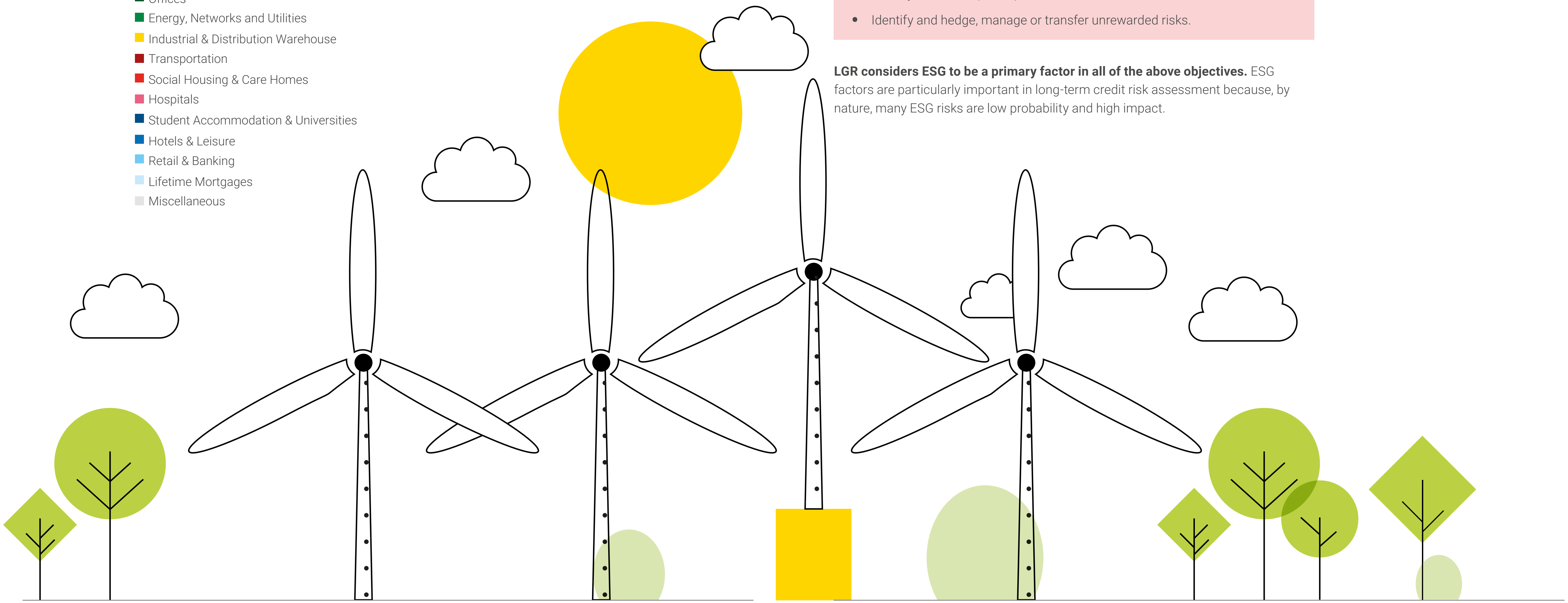
Brief Investment Objectives

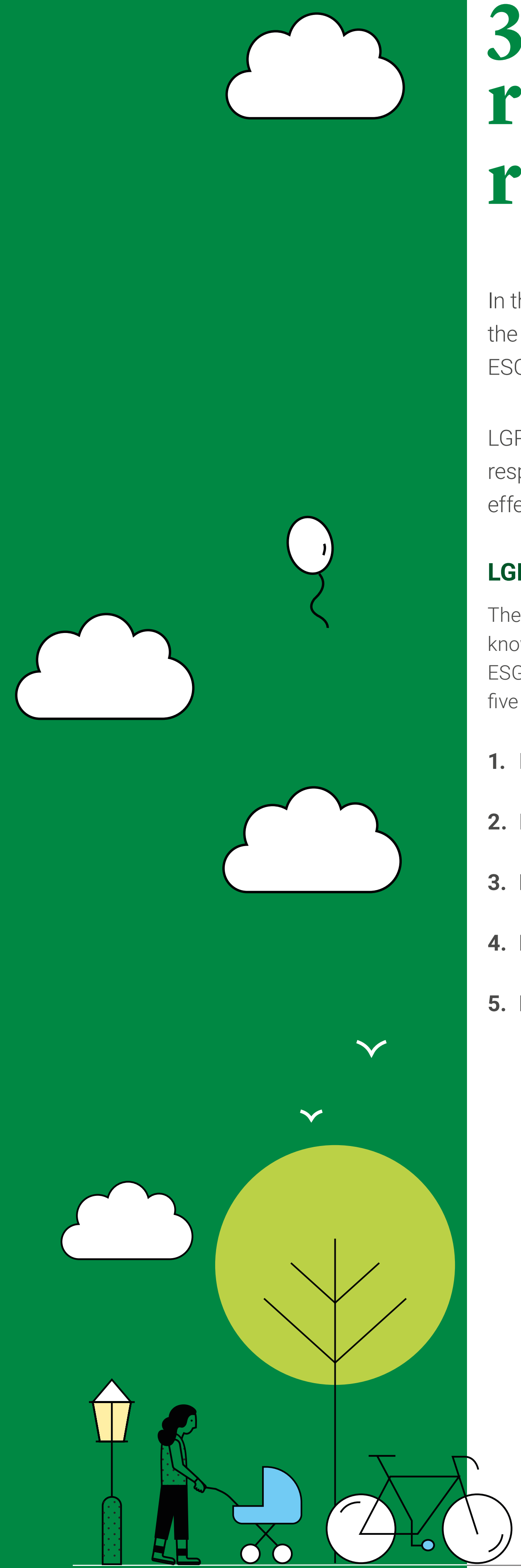
- A full statement of LGR's investment beliefs can be found in Appendix 1, but broadly speaking our investment objectives are to:
- Maintain a stable Solvency II capital ratio.
- Minimise credit defaults and downgrades.
- Generate sustainable IFRS profits.
- Ensure a fully diversified portfolio to manage aggregate portfolio credit risk.
- Earn illiquidity and complexity premium for private real asset investments.
- Identify and develop new private asset classes.
- Identify and hedge, manage or transfer unrewarded risks.

LGR considers ESG to be a primary factor in all of the above objectives. ESG factors are particularly important in long-term credit risk assessment because, by nature, many ESG risks are low probability and high impact.

Regulatory capital

Regulatory capital is a key determinant of the risk we can take with our impact investments, particularly in respect of clean energy or energy transition investments. LGR is working on asset structuring solutions in clean energy to build on the success of our asset creation model in the property sector.





3. LGR ESG roles and responsibilities

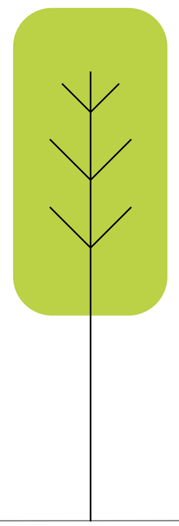
In this section we provide an overview of the LGR ESG ecosystem and outline the key roles and responsibilities for those involved in Legal & General's ESG activity.

LGR believes that a strong governance structure and clearly defined responsibilities are critical to implementing investment and ESG objectives effectively.

LGR ESG ecosystem

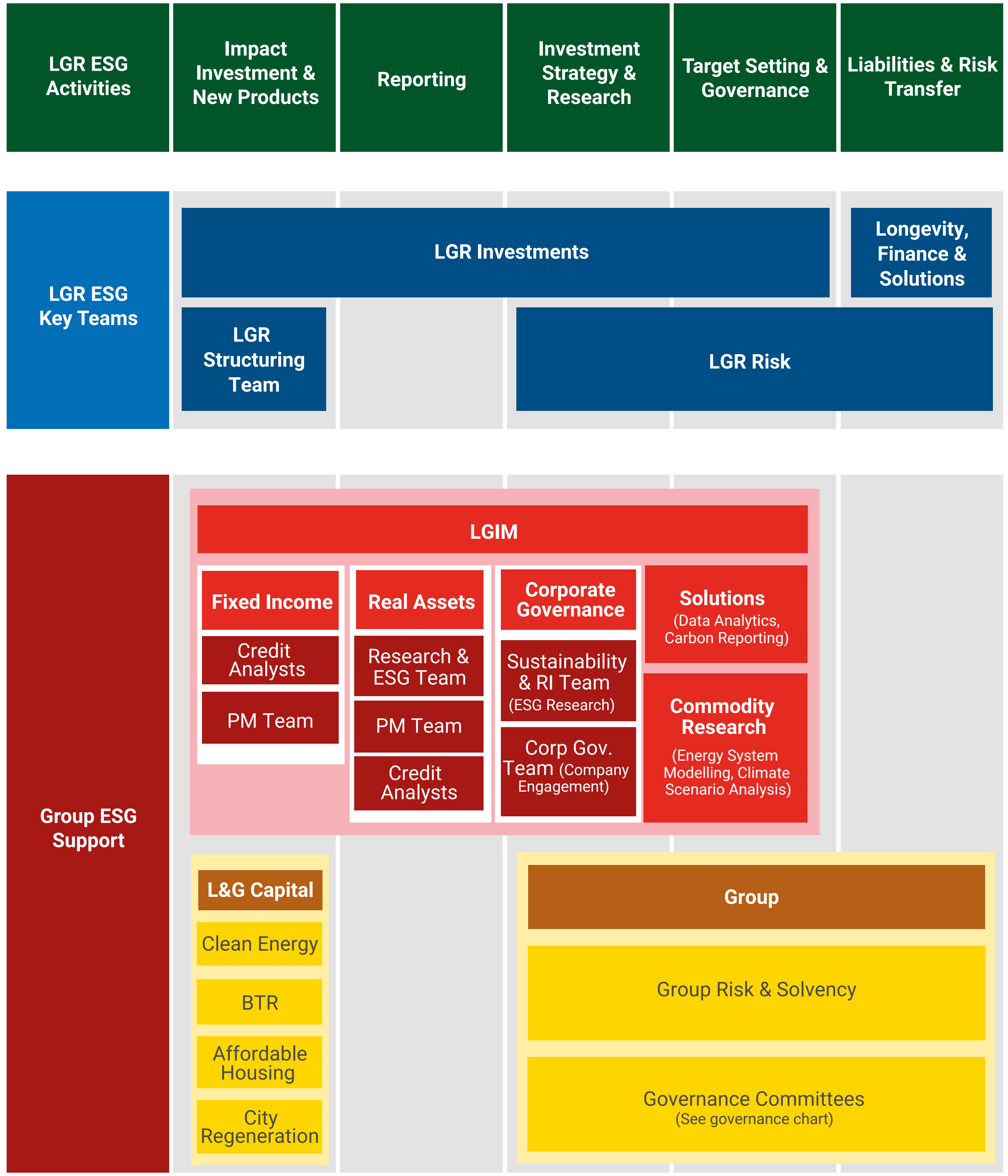
There is an established and functioning ecosystem of roles, responsibilities and knowledge sharing, which enables LGR to pull in the vast amount of information on ESG factors and research from around the Legal & General Group. These fall into five primary activities in relation to ESG:

1. **Impact investments, new products and new assets**
2. **Investment strategy and research**
3. **Reporting**
4. **ESG target setting and governance**
5. **Liabilities and risk transfer**



Within LGR, ESG issues often require input from multiple teams and a collaborative culture. LGR receives a vast amount of support from across the Legal & General Group – including data, expertise, analytics and research – which help shape and inform our investment strategy. This is described in more detail in Section 4. Buy-in from senior management is also essential in enabling cross-collaboration and the achievement of ESG objectives.

Market facing teams interact with clients and the markets; we believe an open dialogue is critical in determining the outputs, data and disclosures we need to provide to support our partners.



Key ESG roles in LGR

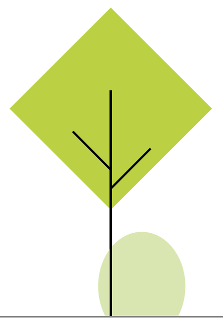
Below is a summary of the key individuals involved in the delivery of LGR's ESG work, and an overview of their roles and responsibilities.

Laura Mason, LGR Chief Executive Officer:	a member of the Legal & General Group Environment Committee and actively engaged in ESG issues. Laura leads several clean energy and real asset initiatives within the Retirements division.
LGR Chief Investment Officer:	responsible for the overall LGR portfolio investment strategy, across both public and private assets. They oversee the integration of ESG and climate risk factors into the strategy and asset allocation.
LGR Chief Risk Officer:	a member of the Climate Risk Subcommittee, responsible for ensuring ESG and climate risks are integrated into the risk oversight framework.
LGR Investments team:	responsible for the implementation of LGR ESG initiatives, incorporating ESG into LGR's investment strategy and portfolio climate risk analysis.
LGR Structuring team:	has a specific focus on expanding the DI opportunity set for LGR's MA portfolio by structuring (MA eligible) assets, for example in the property and infrastructure sectors, in-house to best match our liabilities.
LGR Longevity team:	responsible for investigating the impacts of climate change on the liability side of the balance sheet, with one of the most relevant impacts for LGR being longevity risk.

Action and advocacy for diversity and inclusion at Legal & General

At Legal & General, we strive to make diversity and inclusion part of our everyday conversations and actions. It shapes our approach to our clients, employees and other stakeholders, as well as our position in the financial services industry and wider society. Every member of the leadership team has a formalised objective to embed diversity through their actions.

We have started on our journey and are committed to diversity across all dimensions and strive to be a vibrant business that values and embraces difference, where employees feel they belong and are empowered to deliver business results by harnessing a diverse set of views, while providing a network of communities within Legal & General.



We are responsible for cultivating an inclusive environment. We seek to engage change across LGR and reduce bias; be progressive in our aims to attract a diverse pool of talent, communicate our targeted diversity actions and create a flexible, agile and supportive work environment. We all play an important role in championing and promoting diversity and inclusion.

Steered by the executive team, diversity and inclusion is embedded in our culture from the way we recruit, develop and connect with employees, to how we show our commitment to responsible investing and corporate governance. This is evidenced by our commitment to the following charters and initiatives:

- An early signatory to the Women in Finance charter, an initiative that brings together the government and signatory firms to work together to build a more diverse industry. A link to our 2019 progress report can be found in **Section 7**
- Rolled out 'Dementia Friends' training across the Group as best practice guidance so we can work towards becoming a dementia-friendly company.
- Proud to be a Stonewall Diversity Champion so all staff members can bring their whole self to work.
- LGIM will engage with investee companies on key themes to bring about real, positive change in companies and help to create more resilient societies, namely diversity, health, technology, income inequality and financial inclusion.

A recent example of this is where LGIM have written to all FTSE 100 members as well as those in the US S&P 500 index informing them that they expect each company to have at least one Black, Asian or other minority ethnic (BAME) director by 1 January 2022. Those that fail to act will see LGIM voting against the re-election of the firm's nomination committee chair, who are responsible for board appointments.

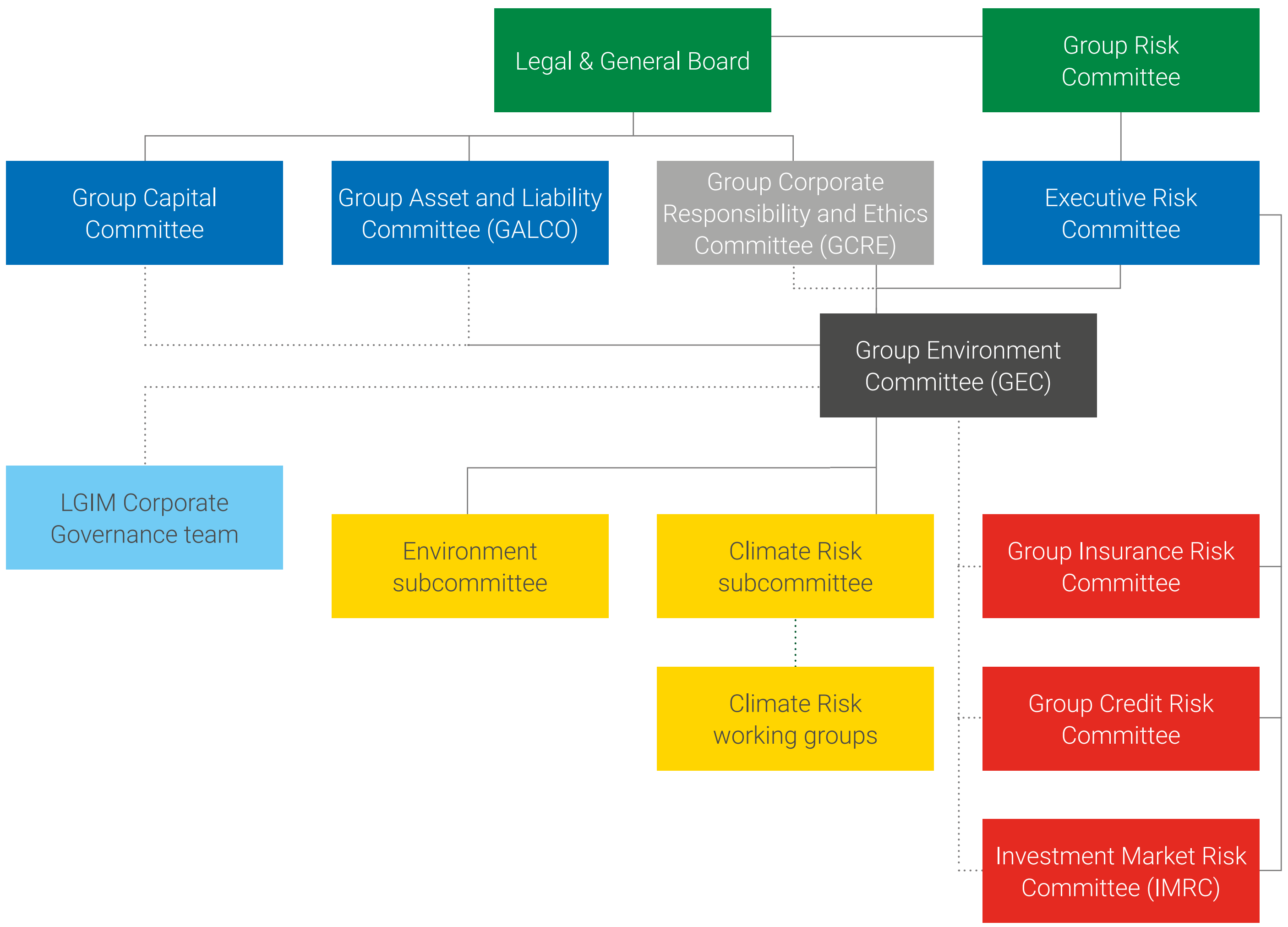
See **Section 7** for a link to Legal & General's latest sustainability and inclusive capitalism report.

Climate change & ESG governance structure

The Legal & General Group has established a governance structure that ensures senior management with responsibility for ESG objectives have effective mechanisms in place to enable them to share and receive information and manage workstreams.

The chart below illustrates the governance structure and to the right is a summary of the roles of senior management in setting and correcting the Group's ESG strategy if necessary.

Group Environment Governance



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Nigel Wilson, Legal & General Group Chief Executive Officer, has spearheaded the Group's engagement on a range of climate change and environmental initiatives. Nigel is actively engaged and takes responsibility for the Group's strategic direction and progress on this important topic. Nigel is determined that Legal & General will play a leading role in pushing forward the ESG agenda, not only through our own policies but in helping to drive change across all industries. To this end, Nigel advises on the government's Social Care Green Paper and Life Sciences Industrial Strategy Implementation Board and is Chair of the Innovation Working Group of England's Climate Financial Risk Forum.

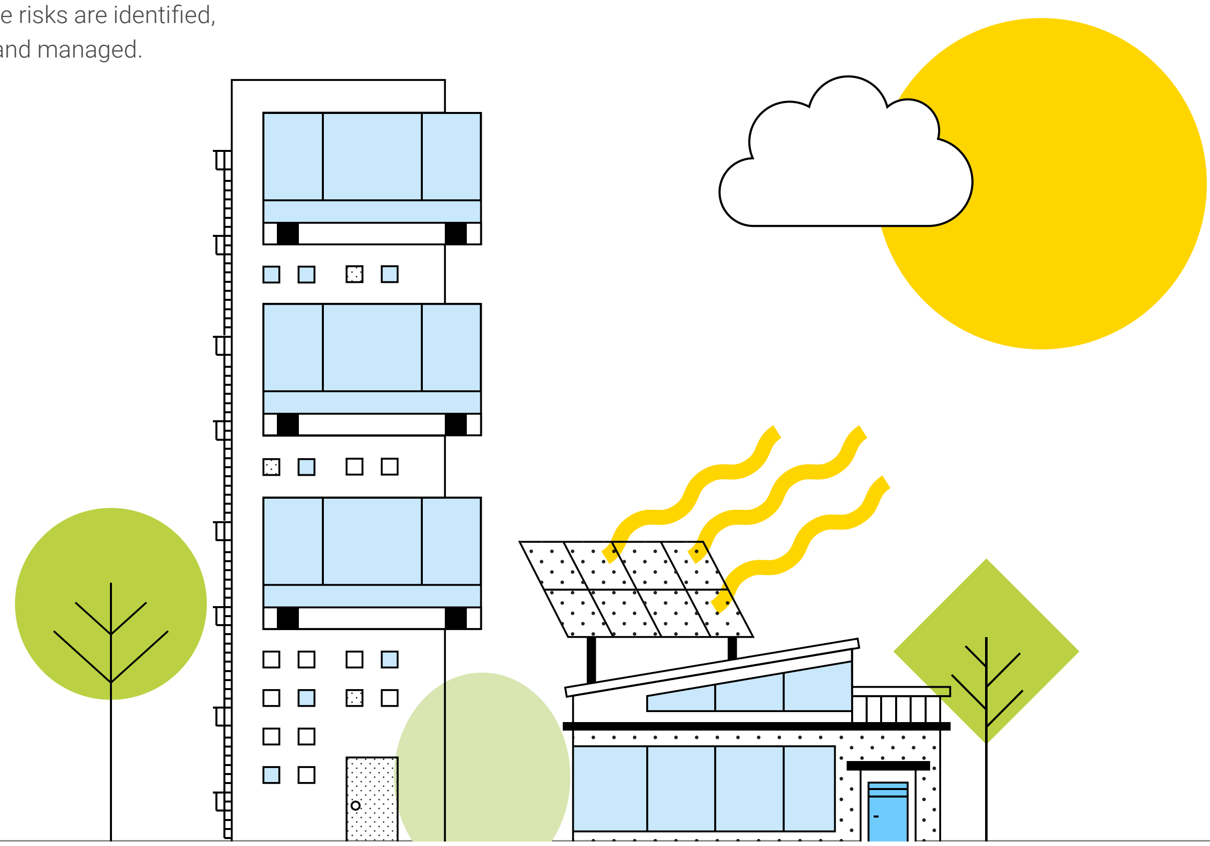
We also consider market risk connected to our investments (including risks arising from climate change). **The Group's Chief Financial Officer,** who is also a Board member, is responsible for how these risks are identified, considered and managed.

Legal & General Group's Chief Risk Officer is responsible for ensuring that an appropriate strategy is in place to understand, identify, measure, monitor, control and report risks from climate change in line with the risk strategy and risk appetite parameters set by the Group Board. The CRO supports business managers in the development of appropriate processes to monitor and report exposures to the risks from climate change.

Legal & General Group's Corporate Responsibility and Ethics Committee (GCRE) has been established by the Board. It is responsible for ensuring compliance with the principles of good corporate governance. Its purpose is to develop and review the Group's strategy and policies in relation to Group-wide ESG risks and opportunities, including climate change.

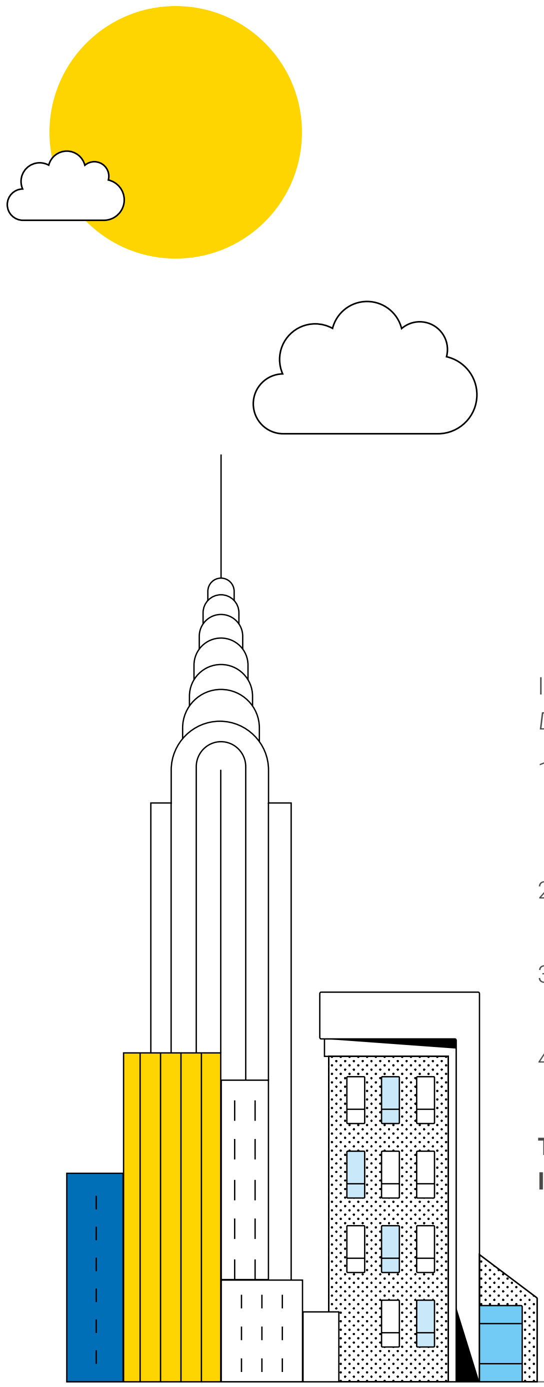
The Chairman of the GCRE (the Group Corporate Affairs Director) reports to the Legal & General Group Board on any significant issue or corrective action, including those related to ESG. The Committee's membership includes the heads of key businesses driving the Group investment strategy, along with heads of Investment Stewardship, Sustainability, HR and Community Involvement.

The Corporate Social Responsibility (CSR) strategy is presented to the Legal & General Board on an annual basis, which gives the Board's executive and non-executive directors the chance to formally engage with the CSR programme at least once a year. The GCRE is then responsible for monitoring and delivering against forward looking targets.



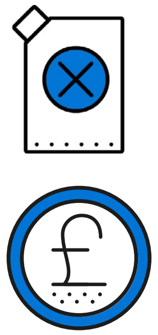
4. LGR ESG initiatives

In this section we describe a selection of initiatives which, in aggregate, represent the progress that LGR has made towards the achievement of its three main objectives as outlined in Section 1. This section also contains more detail on how ESG is integrated into the LGR investment process.



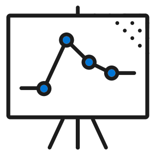
LGR objectives

As outlined in Section 1, Legal & General Group has publicly committed to the following three goals for the Group as part of its five-year strategic plan:



Environment: Portfolio decarbonisation and influencing the transition to a low-carbon economy.

Social impact: creating new investments for the future economy.



Governance: measuring and managing financial related risks including ESG to make society more resilient with our financial solutions.

Independently, through Legal & General's recent *Task Force on Climate-related Financial Disclosures* (TCFD) publications, Legal & General Group has stated that it will:

1. Decarbonise the assets on our balance sheet to align with the Paris objective. We interpret the Paris objective as limiting the increase in global temperature to 1.5C above preindustrial times (1.5C scenario).
2. Advocate for urgent action to mitigate the climate emergency from both governments and the companies we are invested in.
3. Use its influence as a large investor to promote a transition to a low carbon economy.
4. Support the UK Government legislation to achieve carbon neutrality by 2050.

The publicly reported metric in the Group TCFD report is Carbon Emission Intensity (tCO2e per year/£m Enterprise Value (EV)).

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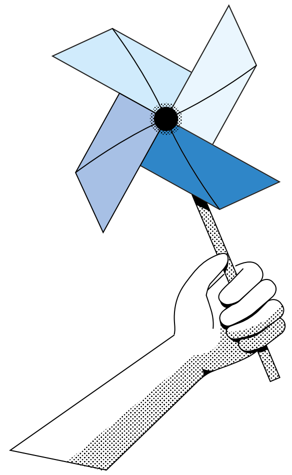


Progress made against these objectives

We have made significant progress against each of these objectives as explored in the remainder of this section.

1. Portfolio decarbonisation: the pathway to Paris alignment for LGR

What are we measuring?

Carbon dioxide is the most significant contributor to man-made global GHG emissions, although methane, nitrous oxide and fluorinated gases also contribute. To align all emissions under the same metric, GHG emissions are measured in units of carbon dioxide equivalents and measured in tonnes (tCO2e).

Scope 1 – All direct emissions from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 – Indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.

How do we define the metric?

We report the greenhouse gas (GHG) emission intensity of the portfolio and there are two components of this metric:

1. The GHG emissions (tCO2e) for each issuer or real asset investment in which LGR is invested. Scope 1 and Scope 2 emissions intensity is directly connected with a given business' operations. We therefore combine the Scope 1 and Scope 2 emissions for our portfolio holdings.

2. A unit of value to normalise the emissions by the size of the company or investment. LGR has elected to use Enterprise Value measured in £m for corporate issuers, GDP for sovereigns and market valuation for each real asset investment as the primary metric from 30 June 2020 onwards.

For each issuer, we calculate a carbon emission intensity (tCO2e/£m). LGR reports a market value weighted emission intensity for its portfolio.

Progress to Date:

Table 4. Portfolio Carbon intensity metrics

Tonnes CO_2e / £1m invested

		Tonnes CO_2e / £m				
Entity		**Dec '18**	**June '19**	**Dec '19**	**Dec '19 Target**	**Dec '20 Target**
Group	CO_2e / £m market cap	313	301	243	Paris Alignment	Paris Alignment
	CO_2e / £m revenues	n/a	354	350	Paris Alignment	Paris Alignment
	CO_2e / £m Enterprise Value	n/a	184	150	Paris Alignment	Paris Alignment
LGR	CO_2e / £m market cap	348	333	260	327	316
	CO_2e / £m revenues	n/a	390	376	–	–
	CO_2e / £m Enterprise Value	n/a	200	159	–	–

How ambitious are LGR's commitments?

LGR has committed to alignment with the Paris Climate Agreement, strongly supports the UK net-zero targets, and has a vision of achieving net zero by 2050, a widely accepted milestone required to achieve a 1.5C scenario.

Net zero is an extremely ambitious target which will require significant changes in many extraneous factors, including companies adjusting their activities, changes being made to infrastructure and possibly the introduction of new technologies.

LGR has used the longer-term decarbonisation requirement implied by the Paris Climate Accord to derive a five-year target for its decarbonisation trajectory: to reduce its portfolio's carbon emission intensity by 18.5% by 2025.

We will continue to update our emission reduction ambitions according to Science Based Targets (SBTs), as the science and investible universe evolves. Our ambitious objectives and active implementation provide trustees with the assurance that buy-in or buyout insurance agreements with LGR are consistent with the evolving science on climate change and will satisfy the TCFD requirements.

What data do we use?

The accuracy and completeness of the carbon data we use is a key priority for us. Multiple data sources are consulted to identify and, where possible, cross-check the emissions for each holding in the portfolio. LGR regularly reviews its data providers. At the time of writing, in October 2020, LGR utilises data from:

- Bloomberg
- Trucost
- EDGAR carbon database for sovereigns
- Direct measurements from property holdings, where available
- Manual research of company filings by the LGIM Real Assets research team
- Carbon emission proxy data for gaps

What are the main approaches to decarbonisation?

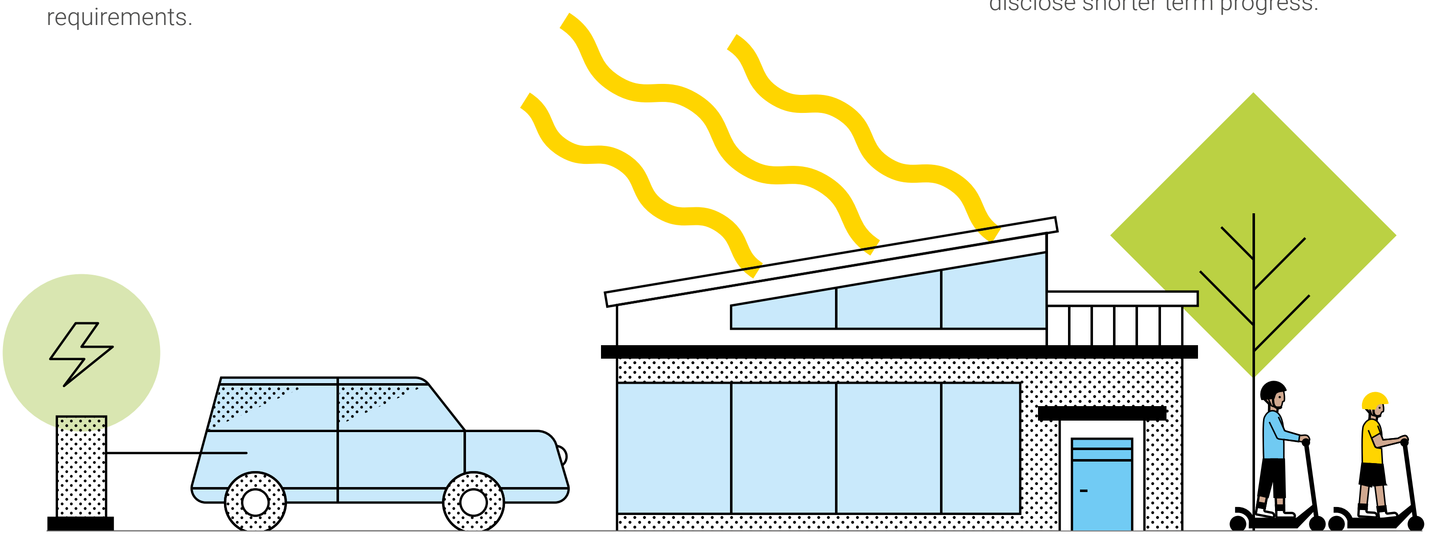
LGR can decarbonise its portfolio in line with the Paris trajectory through three primary mechanisms:

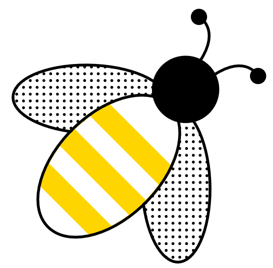
1. **Investing new business premiums** at a lower carbon intensity than our current portfolio, by cutting out the high carbon outliers and increasing investments in clean energy to support the transition.
2. **Increasing portfolio allocation** towards companies that are themselves aligned to the Paris carbon emissions trajectory through use of "exclusion" lists and focusing on companies with specific decarbonisation targets.
3. **Trading out of issuers** (companies) within our current portfolio who are decarbonising too slowly to play a part in a portfolio, which is consistent with the decarbonising pathway set out in the Paris agreement (e.g. recent divestment from Exxon Mobil).

Our primary investment objective is protecting policyholder benefits. Therefore, care and consideration will be taken to ensure that we do not open ourselves up to any unnecessary risks in the portfolio in order to achieve decarbonisation. However, in the current environment we are confident that we can achieve both our investment objectives and meet the decarbonisation goals.

Setting interim targets:

LGR supports the goal of being net zero by 2050 and will use its investments to encourage rapid action to mitigate the worst effects of climate change. We believe that to achieve long term goals, it is important to define intermediate milestones and measure, monitor and disclose shorter term progress.





We therefore have:

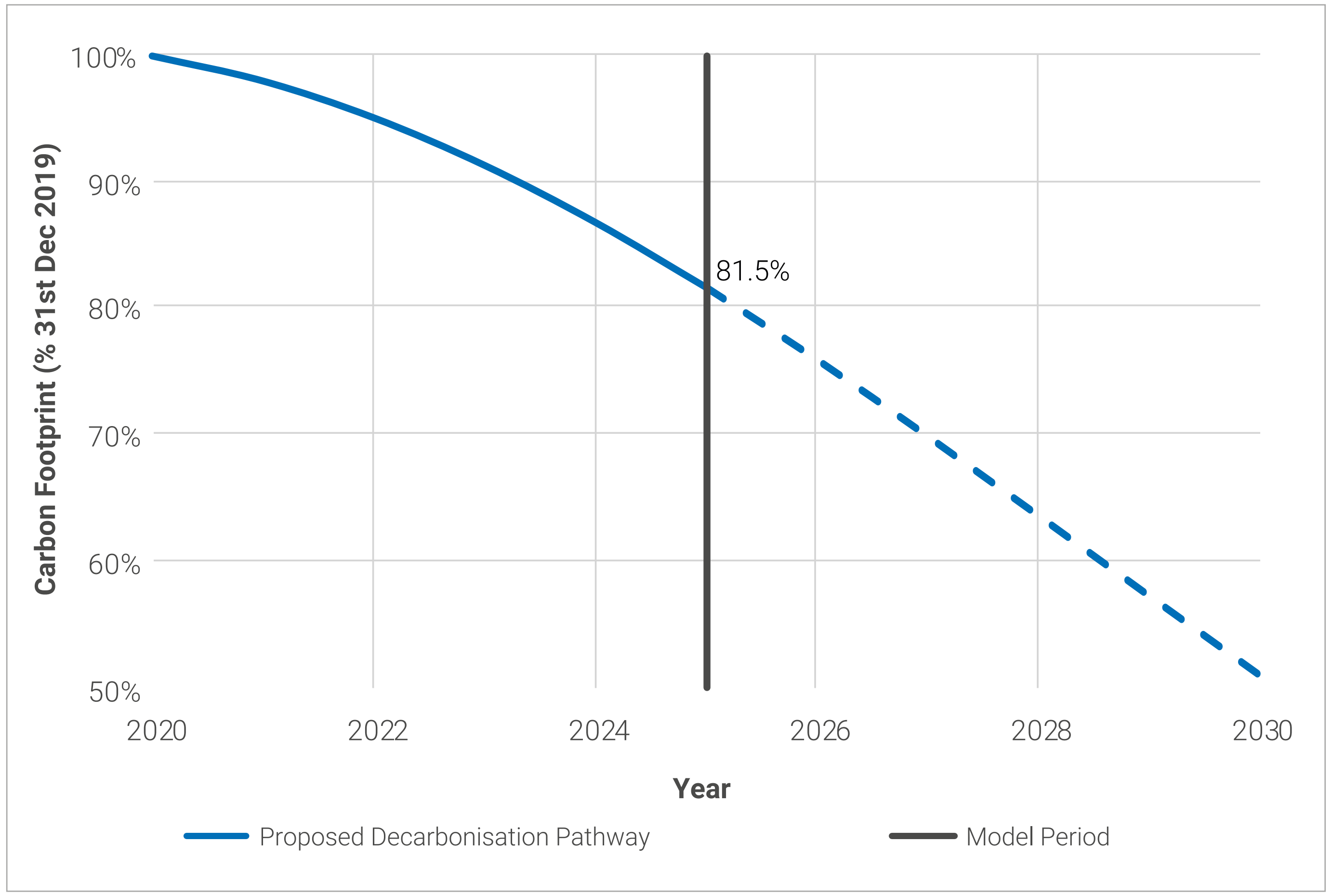
- Conducted a detailed analysis of our portfolio carbon intensity to identify the key drivers.
- Developed a five-year scenario forecast model to test the feasibility of various carbon reduction measures. This incorporates:
  - Business growth projections
  - Investment strategy
  - Financial impacts of trading
  - Forward looking view on company decarbonisation

This forecasting approach has enabled us to set a realistic trajectory for decarbonisation, which is reflective of our existing investment objectives in the portfolio. We believe that climate action objectives need to be fully integrated into our business projections and investment objectives to be effective.

The proposed decarbonisation trajectory for Legal & General's investment portfolio is shown in the graph below. This is expressed as a percentage of the carbon emission intensity as at 31 December 2019.

Publishing ESG metrics

Our portfolio's carbon emission intensity is published annually in the Legal & General Group TCFD report. This is available to trustees to include in Scheme TCFD reports in respect of exposure to LGR.



2. Environmental impact – investing in new products and assets

Clean energy investments

We currently have around £1.1bn of our portfolio invested in clean energy investments. Around 70% of our renewable investments, by market value, have been made in the UK offshore wind sector.

We have a strong desire to grow our investment in this area; however, as an insurer operating in the Solvency II matching adjustment regime, we can only invest in fixed cashflow investment grade assets that can support our long-dated PRT liabilities. The challenge we face in the UK and Western Europe for funding at scale is that a number of deals are structured with a higher proportion of unsubsidised or merchant risk exposure, making it difficult for these to achieve investment grade ratings given our prudent internal rating methodology. The banking market is also very competitive given its greater flexibility on prepayment risk and more aggressive views on credit structures.

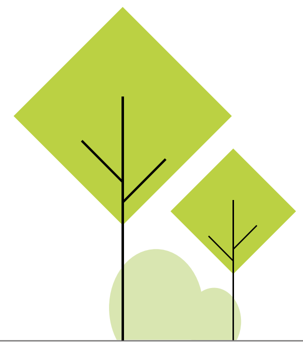
Renewable Energy Direct Investments (31/07/2020)				
	MV (£)	G-Spread	Duration	WARF
Solar Power	278,051,327	169	7.95	196
Offshore Wind	763,760,703	85	7.36	172
Hydro/Geothermal	36,858,756	153	1.78	280
Total	**1,078,670,786**	**109.1**	**7.3**	**182**

We continue to make efforts to increase clean energy investments, directly with our capital arm, Legal & General Capital (LGC).

Laura Mason, the Chief Executive Officer of LGR, has launched an initiative to develop expertise across the Legal & General Group to structure more complex clean energy sector investments and make them suitable for the LGR annuity portfolio. As the renewable energy sector starts to move towards a subsidy-free environment, the assets are being exposed to more risks, just as potential returns are being reduced. For LGR to continue to place capital into clean energy, we need to develop solutions that enable us to fund assets in a more flexible manner, partnering with LGC to structure investments into tranches. We have previously leveraged our Group-wide capabilities for Lifetime Mortgages (LTM), Sale & Leaseback and Build to Rent assets, and this approach is now being explored for the clean energy sector.

Sustainability in the property sector

LGR has made significant investments in the UK property sector, which over time will require funding to retrofit residential properties to align with the Paris Agreement and the UK's net zero 2050 target. LGR has recently launched a Green LTM product which provides cashback to customers who can improve the energy efficiency rating of their homes. By focusing on improving the existing housing stock, Legal & General can demonstrate "additionality" and impact. We are also exploring residential and commercial retrofit funding structures with governments and private stakeholders to provide long term, affordable funding in the area.



LGIM Real Assets, which manages the direct property portfolio on LGR's behalf, has set the following science-based targets (1.5C scenario) for the LGR portfolio:

Net-zero carbon by 2050

2030 Milestones:
Absolute emissions (tonnes of carbon): cut absolute emissions from real estate by 50% by 2030.

Carbon intensity (kgCO2/m2): reduce the carbon intensity of our properties by 60% by 2030.

Energy intensity for electricity and gas (kWh/m2): reduce the energy intensity of our properties by 60% by 2030.

These science-based targets cover the energy we currently purchase (operationally control), the Scope 1 and 2 emissions (see **Section 1**). The emissions associated with our occupiers, Scope 3 (we don't buy or operationally control) is work in progress. We are currently working with a specialist consultancy to estimate these emissions and we will then develop targets as relevant to fit with our net zero trajectory.

Scope 3 – All other indirect emissions from activities of the organisation, occurring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water.

Landsvirkjun sustainability-linked debt

In August 2020, LGR negotiated a private market debt funding for Landsvirkjun, an Icelandic utility company. This agreement meant that the coupon rate of the debt increased if carbon emission reduction objectives were not met. By providing a financial incentive to the company to hit its carbon target, we have been able to leverage our position as a lender to drive active engagement and responsible stewardship around carbon emissions. This is the model through which lenders can begin to have a say on corporate activities.

Social impact within the property sector

Legal & General is seeking new opportunities to fund projects in parts of the property market that have historically been underfunded. We are working closely with the wider Group to develop new assets with the right risk profile to back pension liabilities, through securitisation and structuring. Legal & General has the ability to invest at scale into new asset classes in the property sector and bring about positive changes and investment in local communities as part of our inclusive capitalism strategy.

Examples of Legal & General's property investments:

Affordable housing
- The UK requires up to 100,000 new homes a year, including up to 50,000 affordable homes. Legal & General Affordable Homes, a subsidiary of Legal & General, is active in this market and has a target to provide an additional 3,000 homes by 2022. By putting private pension capital to work, we can help to tackle this shortfall, which is an issue of significant societal importance in the UK.
- Asset structuring techniques are being investigated to develop assets for the LGR Matching Adjustment portfolio in this asset class.

Later living
- Legal & General is providing a genuine option for older people to move into a thriving community through the building of retirement villages. This provision has the potential to have a significant economic impact, both on the housing market and health sector.
- Securitisation of later living developments could enable LGR to deploy capital in this sector.

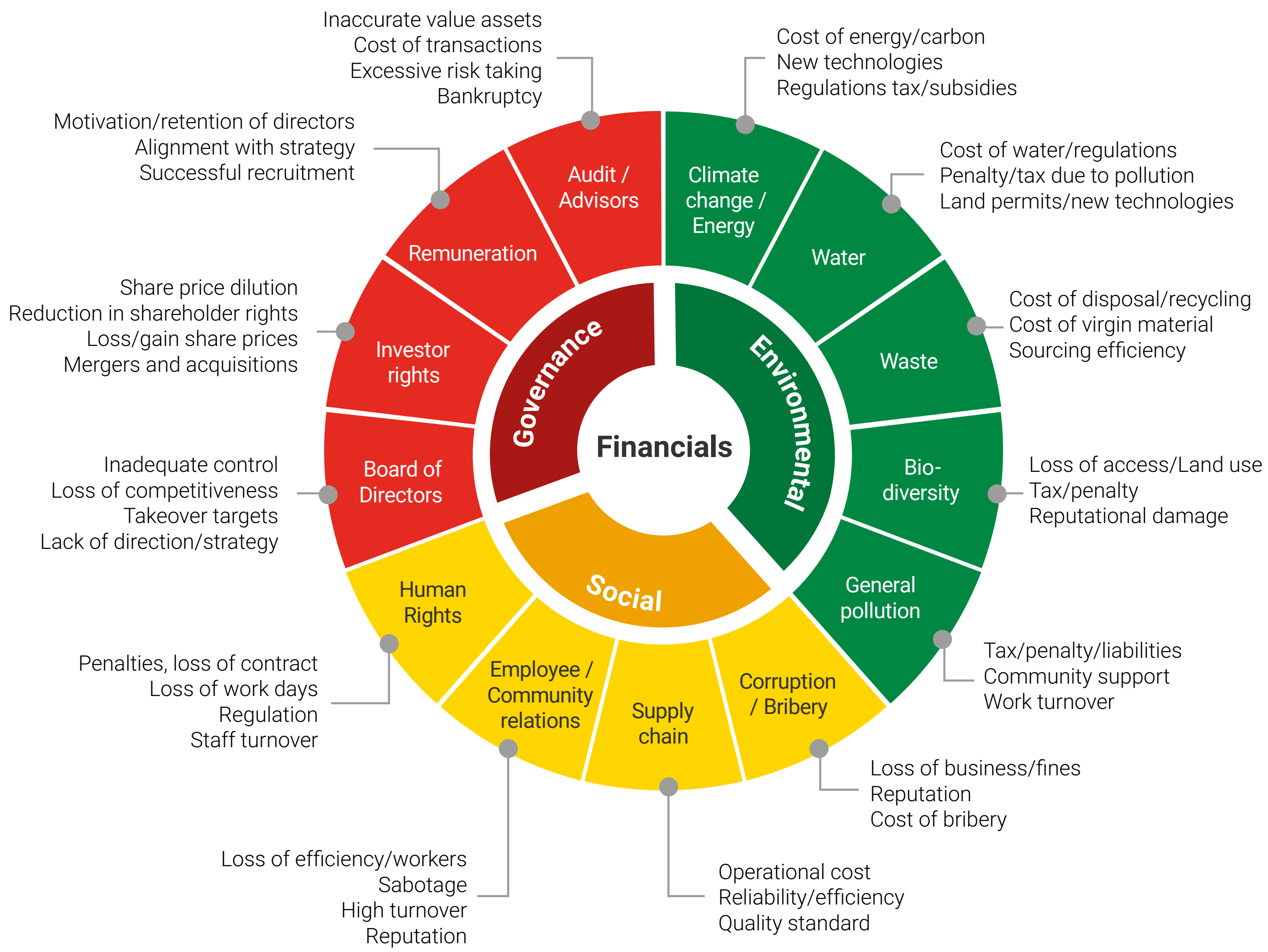
Build to rent (BTR)
- Legal & General is designing rental options in desirable locations that meet the needs and aspirations of residents and local businesses. The properties are designed to be both economically and socially useful on the regional and national scale.
- During 2020, we have conditionally exchanged on our first BTR asset (Sheffield, c.£70m) and are progressing a further c.£300m of live opportunities.

Data centres
- Legal & General's ability to finance the property investments associated with data centre sites enables companies to deliver the infrastructure required for the modern digital economy.
- We are currently working with LGC on opportunities to develop direct funding for an investment grade tenant. The opportunity will be supported with metrics around clear energy supply.

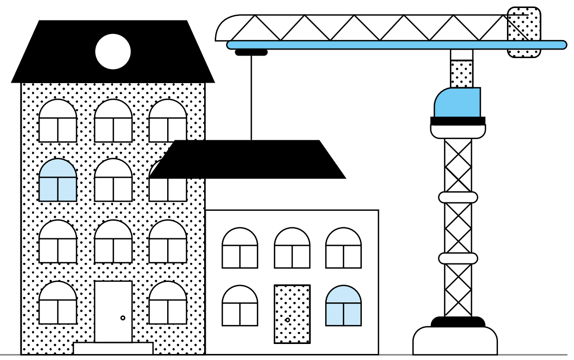
3. Smart ESG integration

The ESG objectives of both LGR and the wider Legal & General Group are shared with our investment manager, LGIM. This ensures that these objectives are fully considered in any decision-making process related to how we manage our investments. LGIM's engagement and leadership in the field of ESG research and data is essential to the successful achievement of our goals.

ESG risks considered in the LGR portfolio management when assessing issuers



The above illustration is taken from LGIM's Responsible Investment Policy (link in **Section 7**)



LGIM integrates ESG factors into the investment process, through the LGIM Active Fixed Income ESG view. This is a quantitative ESG scoring system which is augmented with credit analysts' qualitative views. Credit analysts are able to recommend adjustment to the quantitative scoring to reflect information not captured in the scoring system or as a result of lagged data. The Active Fixed Income ESG view is available to portfolio managers automatically, enabling this to be a go to source of information during the investment process.

The key categories of data incorporated into the quantitative scoring, and therefore into the LGR investment processes, are:

Environmental

- Products
- Carbon emissions
- Water & waste
- Supply chain
- Environmental policies and controls

Social

- Products
- Labour
- Health & safety
- Community
- Supply chain
- Bribery & corruption

Governance

- Board robustness
- Investor rights
- Audit
- Disclosure & policies
- Remuneration
- Tax transparency & lobbying
- LGIM votes against

"ESG Flags" are identified for any data points that indicate a high level of ESG risk relating to any of the indicators listed, ensuring that material risks are not "aggregated away". A raw score for each of the three categories (Environmental, Social and Governance) is obtained by aggregating sector-specific weighting factors. The weighting applied to ESG factors is adapted by sector according to the most important ESG risk factors for that specific sector. This gives the ranking relative to peers. Finally, to account for the differences in ESG scoring between sectors, a sector adjusted ESG score enables comparison of companies in different sectors. LGIM credit analysts incorporate views and scoring adjustments.

Credit analysts access the database for the companies they cover and review the information in detail, identifying salient risk factors for the specific company and sector they are reviewing. An analyst adjustment is recorded in the database, which enables credit analyst views to be overlaid onto the quantitative scoring. This increases the ability for the system to incorporate non-numeric and qualitative information in the ESG risk score. The aggregate information and detailed analyst view are available to fund managers as an automated report through the Active Fixed Income ESG tool. This is presented alongside credit views to factor into portfolio construction and fair pricing view.

In addition, ESG analysts in the corporate governance team engage companies on ESG issues and can provide additional up to date insights and data. (See **Section 7** for links to LGIM Corporate Engagement Policy.)

Negative screening

Companies are excluded if they are not aligned with LGR's investment beliefs. The criteria used in defining these lists represent the minimum ESG credentials, which LGR requires of all its investments:

A. Controversial weapons (no holdings)
   - Issuers who are involved in the manufacture of controversial weapons. The details and exclusion list are found in the LGIM Controversial Weapons Policy (link in **Section 7**).

B. UN Global Compact (no holdings)
   - Issuers who violate the guidance of the UN Global Compact. The details are found in the LGIM UN Global Compact (link in **Section 7**).

C. Coal exclusions (no purchases)
   - Issuers with greater than 30% thermal coal by revenue (as well as by generation and capacity for electric utilities termed the Coal 30/30 list).
   - Issuers with high coal usage, narrowly under 30%, are often picked up in the high carbon emission exclusion list.
   - Having an exclusion list coupled with bespoke escalation supports the portfolio in taking a long term view and continuing to invest in companies that have legacy coal but credible and rapid plans to decarbonise their asset base. The coal limit is currently being reviewed and may reduce in the future.

D. Future World Fund Climate Impact Pledge exclusion list (no net increase in exposure)
   - The LGIM future world fund exclusion list is regularly refreshed and contains companies that have both a poor ESG record and companies who fail to engage with LGIM shareholder stewardship activities. By LGR following this exclusion list, it amplifies LGIM's voice in engagement activities.
   - The details of the issuers excluded are found in the paper Climate Impact Pledge (2020) (link in **Section 7**)

E. A high carbon emission exclusion list (no purchases)
   - Excludes issuers who are in the worst quartile of emitters within the highest carbon sectors, where carbon emissions are a salient factor for both risk, but also in achieving LGRs **portfolio decarbonisation**.

In total, 107 issuers are excluded from the investment universe. LGR monitors exposure to these issuers and has a target of reducing the exposure over time through sales at opportune moments in the market and run-off of positions. We have continued to disinvest from the worst issuers, divesting a total of £160 million in sterling this year from issuers in the Future World Fund Climate Impact Pledge and Group Coal exclusion lists. We have a tracking process in place to accept holdings of excluded bonds in their actual form during PRT transactions and sell them down once received onto the LGR balance sheet, where this represents a valuable service for our clients.

Escalation process (additional ESG considerations for flagged companies)

An escalation process is followed by LGIM for companies with poor environmental credentials. This process requires the fund manager to perform a detailed secondary assessment of the company in question and obtain additional approvals at the Group Environment Committee before the purchase is made. The process is supplementary to the normal ESG information that is available to managers as part of the investment process. LGIM has a dedicated ESG team, which provides the latest ESG insights to fund managers and credit analysts. These insights can be incorporated into the investment process by fund managers and credit analysts through an ESG scoring system, as outlined earlier in this section. Escalation ensures that ESG factors are evidenced in the investment process.

The decision on the buy recommendation sits with LGIM credit analysts, who use their expert knowledge of the sector and the company in question to identify the salient ESG factors for each specific issuer from a risk perspective. The decision on the purchase is at the discretion of LGIM fund managers, except where the escalation process is triggered, which means that Group Environment Committee (GEC) approval is then required.

ESG analysts can give LGR additional insights from their engagement activities with company management on how the company is performing in relation to LGR impact objectives. For many companies, the ESG and credit risk considerations will overlap and therefore open communication channels between the teams is essential in incorporating ESG factors into the overall investment strategy.

Additional governance is automatically followed for non-discretionary private/illiquid investments, with particular attention being paid to ESG issues applied in materials, energy, utilities, transport and industrial sectors.

There are various instances where the escalation process has resulted in us rejecting the purchase of investments that are not clearly aligned with the Legal & General Group's and LGR's ESG objectives.

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LGIM Real Assets – Paris alignment framework

LGIM's Real Assets team has developed an initital framework for Paris alignment, which will inform the flow of deals brought to LGR for our real asset investment pipeline. There is further work underway to develop and evolve the details of this framework. All investments in ESG-exposed sectors (such as energy and transport) are discussed on a deal-by-deal basis with LGR, following a process within which ESG issues and the latest research and thinking are debated.

Examples of real asset investment opportunities within the energy sector include:

Category	Sectors currently offering investment grade private credit opportunities for LGR
Asset creation & capacity promotes transition and achieving the Paris climate outcomes	• Wind • Solar • Other renewables - hydorelectric, geothermal, tidal/marine (relatively small sectors) • Electricity transmission and distribution
Asset with transitional role on the path to a Paris consistent future energy mix	• Gas distribution networks (including liquified natural gas) • Gas-fired electricity in the US (including 'peaker' plants to match intermittent renewable generation) • Energy from waste/biomass (subject to defined sector specific selection criteria) • Carbon trading related investments
Asset creation & continued capacity slows energy transition and makes Paris climate outcomes less likely	• Gas-fired electricity in Europe • Oil • Coal

Other key initiatives to promote ESG integration in our property investments include:

- An Asset Sustainability Plan for each property under management, coordinated with maintenance and refurbishment plans, in order to reduce greenhouse gas emissions.
- Our private credit transactions are assessed through a proprietary ESG assessment framework.
- We include sustainability-related key performance indicators in employees' appraisal targets and property supplier contracts.
- Building on a series of pilot projects over the last three years, we are currently measuring the social value generated across 20% of our assets (by asset value).
- Benchmarking fund performance through industry standards such as Global Real Estate Sustainability Benchmark (GRESB).
- Undertaking advanced physical climate risk assessment in line with recommendations from TCFD.

LGIM property investments – ESG targets

LGIM Real Assets has delivered on its 2020 efficiency targets in its property portfolio and has set more ambitious targets that align with science-based targets, including the Paris Climate Agreement and the UK's net zero objective.

Area of Like for Like ** reductions	Previous target reduction by 2020 against baseline*	End of year 2019 reduction against baseline*
Electricity	20%	21%
Gas	20%	21%
Carbon	20%	21%

***Baseline** is 2010 or first 12 months of ownership
****Like for Like assets** - held for at least 24 months. Assets where the occupancy has changed by more than 40% or where a major refurbishment has been undertaken are removed from like for like

LGIM Stranded Asset Risk (SAR) methodology applied to LGR portfolio management

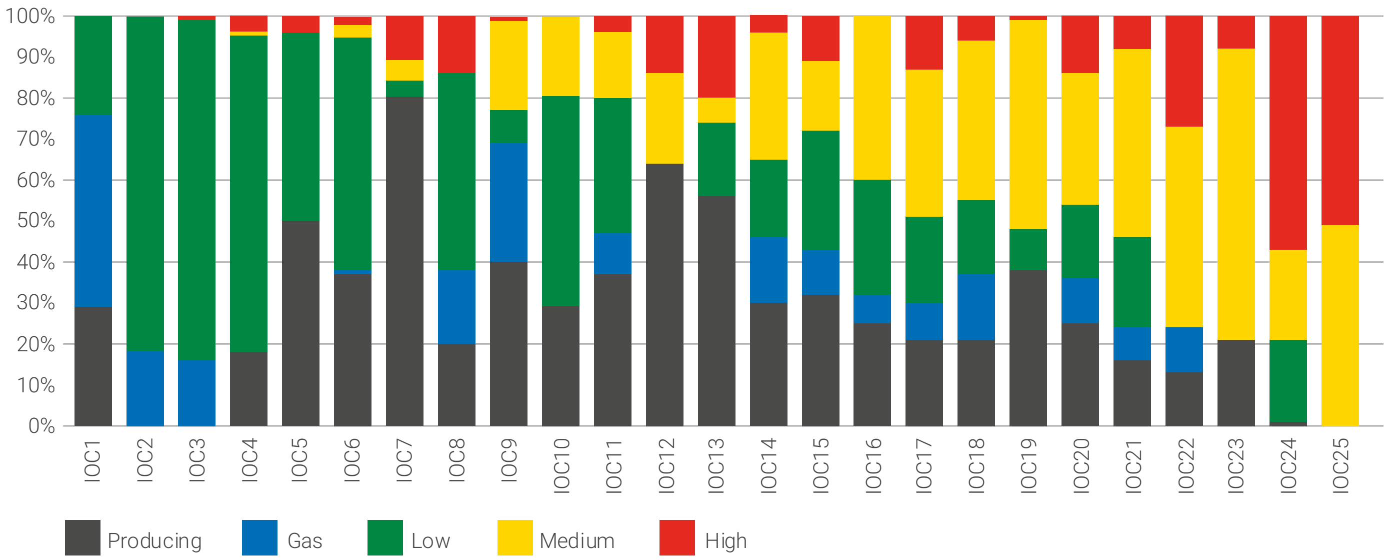
LGIM has developed a stranded asset risk methodology to identify credit risk in the energy sector, which could result from energy transition and a collapse in oil demand. LGR actively engages with LGIM credit analysts to ensure the most up to date research is incorporated into the investment process for LGR assets.

LGR has an exposure limit for the energy sector that is well below the aggregate corporate bond market. Our exposure was c.6% of the portfolio at HY2020.

We acknowledge that an allocation to energy sector investments benefits diversification in the credit portfolio. From an ESG standpoint, we believe some of the energy companies will play an active role in transition to net zero, especially where these companies have large balance sheets and external investor pressure to decarbonise their own operations. We do not favour taking a blanket approach to all energy investments, instead our principle focus is on ensuring we only hold companies with appropriate plans to decarbonise themselves.

Additionally, in order to manage the fundamental credit risks inherent in the sector from energy transition, LGR has actively engaged with LGIM to ensure the Stranded Asset Risk (SAR) methodology framework – developed by energy sector credit analysts – is integrated into the way LGIM's portfolio management team view energy sector risks. This is consistent with the objective of minimising defaults and downgrades in the annuity portfolio. Key outputs of the SAR scoring methodology, illustrated below, show the risk rating for the assets of integrated oil companies. This has been a good predictor of financial difficulty during the Covid-19 oil demand shocks:

Integrated Oil Company (IOC) Stranded Asset Risks - Example



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Engagement and stewardship

We believe that ESG issues are fundamentally important to investors regardless of the type of exposure, and that real change is only achieved through being an engaged and active owner – whether of stocks or bonds. Engagement with borrowers on these issues is increasingly integral to good portfolio management practices, and vital to the achievement of LGR's net zero ambitions. We work closely with LGIM to encourage companies to factor in ESG issues and create sustainable value.

LGIM's Global Research and Engagement Platform was established to identify the most material ESG topics at an industry level, irrespective of asset class. This helps to guide LGIM's research and engagement in the areas that are most likely to impact either the financial or operating performance of the companies in which we invest. The output from the platform strengthens and streamlines our engagement activities across investments and stewardship, to enable us collectively to set goals and targets at a company level with one voice.

LGIM's Global Fixed Income team undertakes around 1,250 engagements a year. LGIM has 25 analysts across Investment Grade, High Yield and Emerging Markets globally. Although it varies from sector to sector, each analyst undertakes around 50 engagements a year with companies, industry bodies, regulators and governments/government entities.

LGIM's credit investment framework is integrated with ESG analysis to inform and guide LGR's portfolio. LGIM undertakes an assessment of E, S and G for each issuer and its proprietary Active ESG View tool is integrated into the credit research process, breaking the investment universe into approximately 70 specific sub-sectors. This provides a detailed map outlining a particular set of ESG risks.

LGIM's Investment Stewardship team engages on behalf all of client assets, explicitly considering both debt and equity exposures. Legal & General considers engagement to be agnostic to the type of investment but from a bond-investor point of view, the only material difference to equities is perhaps less concerns around shareholder rights. Otherwise, the vast majority of themes and issues in which LGIM engage include climate change, remuneration, gender diversity, human capital, audit and cyber security, all of which are capital structure agnostic. Board composition, although influenced by equity holders and shareholder rights, is also relevant to bondholders in ensuring that the board has the necessary expertise and independence to oversee the management and strategy of the organisation.

LGIM's stewardship is ambitious and effective, and has attracted external recognition:

- LGIM has been voted 'Best in Investor Engagement' by UK company secretaries for four consecutive years.
- An independent report by pensions NGO ShareAction released in 2020 ranked LGIM third out of the world's 75 largest asset managers for our approach to responsible investment. One of only five managers worldwide to receive an A rating.
- LGIM's Climate Impact Pledge has also been highlighted as 'best practice' in investor engagement in a review of asset managers by InfluenceMap.
- The Guardian described LGIM as "one of the most outspoken fund managers over the climate crisis"; the Financial Times noted LGIM's "stance is much tougher than across the rest of the industry".

5. How LGR interacts with Group on ESG issues

Legal & General Group

The Legal & General Group has oversight of LGR portfolio's progress towards meeting its ESG objectives. Group is responsible for setting the overarching strategy and LGR is expected to demonstrate its most ambitious climate targets while ensuring all other investment, risk and business objectives are met.

Oversight, risk and solvency expertise

Group Executive C-Suite and Board	Set the overall strategic direction and commitments for the business to meet.
Group Risk & Solvency Oversight	Manage climate risk workstreams and impact investment objectives at the Group level.
Group Credit Risk	Incorporate ESG considerations into the setting of risk limits for single-issuer, sector, country and asset class.
Governance Committees	Provide oversight of LGR's progress on ESG and climate risk integration.

The primary public output of the engagement between LGR and The Legal & General Group is the Group TCFD report which is published annually (link in Section 5). LGR has been actively involved in target setting for the carbon emission intensity of the Group.

Group is LGR's primary conduit to the regulator and is responsible for ESG-related requests, such as preparing the Group response to the PRA Biennial Exploratory Scenario (BES) on Climate Risk in the insurance sector.

Legal & General Capital

LGC manages shareholder assets that are not directly required to meet contractual obligations to policyholders. LGC's focus is investing in Future Cities, including urban regeneration, clean energy and digital infrastructure, housing and SME finance.

Developing new asset classes and impact investing

LGC has a key role to play in developing assets in the economy that develop into opportunities which LGR can finance. The LGR Structuring and Investment teams work closely with LGC to develop assets for the annuity portfolio.

LGC has a higher risk appetite and can take development and construction risks, which may not be suitable for an annuity portfolio. Developing assets in-house gives LGR access to unique impact investing opportunities and Legal & General the chance to finance and develop the assets from inception through to income generating investments, which can be used to pay pensions.

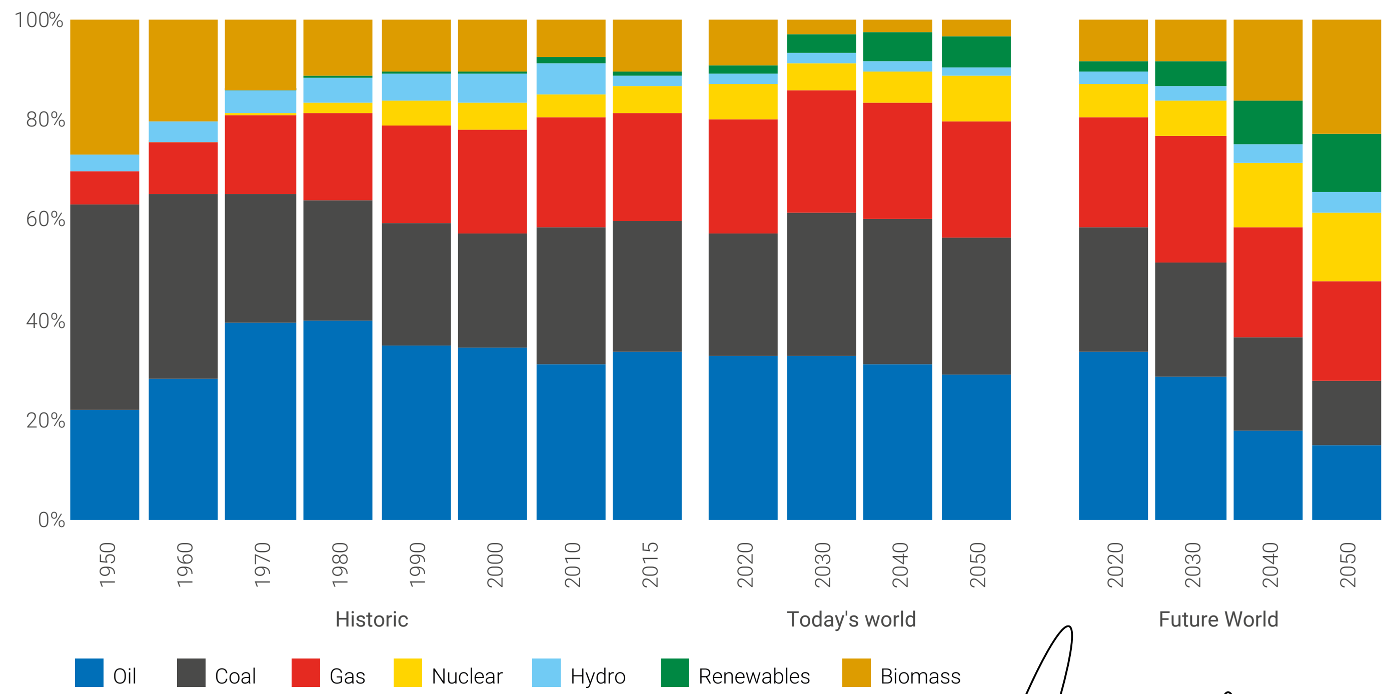
LGC has committed to making all of its new housing stock operational net zero carbon enabled by 2030.

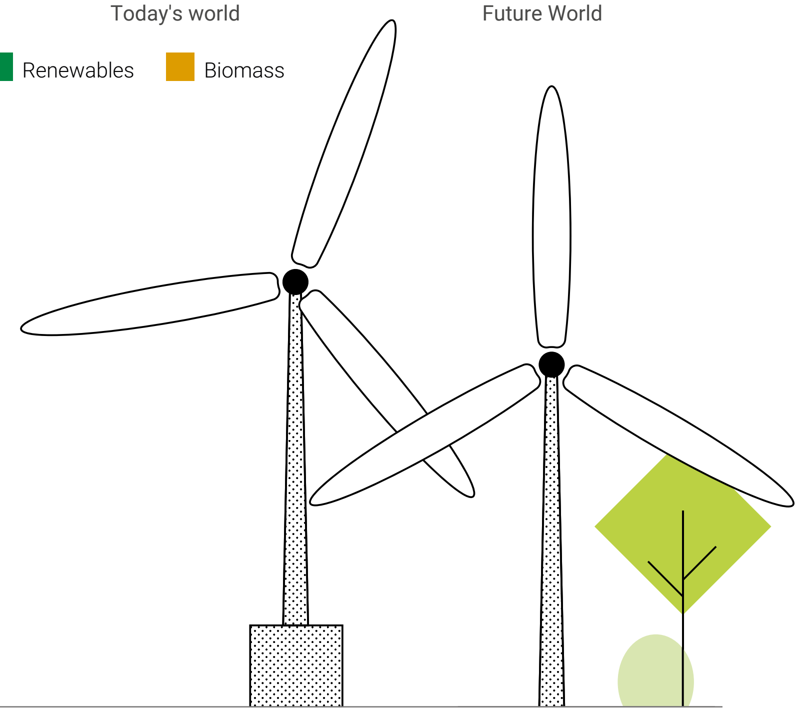
LGIM

Research – energy system modelling (destination model)

LGIM's Head of Commodity Research has led a partnership with Baringa to generate a model of the global energy system. This model enables LGIM to test various technology and carbon cost assumptions to better understand how the energy system will evolve during the ongoing energy transition.

Shown below is the energy mix in a "Today's World" scenario relative to a "Future World" scenario:



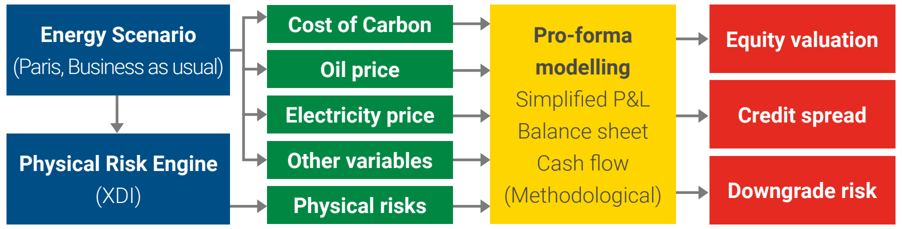


There are six key conclusions from this research, which can be incorporated into LGR's broader strategy for asset creation, real asset impact investments and managing downside energy transition risks. They are:

1. **Huge opportunities for energy efficiency**
   Meeting the world's demands for energy with no change to consumption per capita
2. **Electrification everywhere**
   But how much solar?
3. **Disruption is coming**
   How this will evolve will be dependent on the timing of future policy
4. **What role for CCS?**
   Our least cost pathway is currently reliant on Commission on Safety Standards (CCS), but it is not absolutely required
5. **Oil demand...**
   Uncertainty abounds!
6. **The geopolitical ramifications**
   A significant offset against the rise in costs, the benefit accrues to the emerging world

The next phase of research – climate scenario financial impact analysis model (Destination@Risk model)

The destination model scenario outputs outlined to the left, are used as an input to the Destination@Risk model. Destination@Risk is the financial risk analysis engine, which can be used to test the impact of the energy transition pathway on individual countries, sectors and assets. This model gives us the tools required to identify climate risks in our portfolio, both at the individual issuer and aggregate portfolio level. The Group TCFD report demonstrates how this tool is used to derive climate risk insights.



LGIM is working with Baringa on developing an interactive user interface for the underlying model, which will enable LGIM's analysts and LGR to interact with the scenario outputs and could ultimately be fully integrated into the investment process. To date, the research is already providing insights about the portfolio climate risk exposure. (See the Group TCFD Report 2019 for more details – link in **Section 7**)

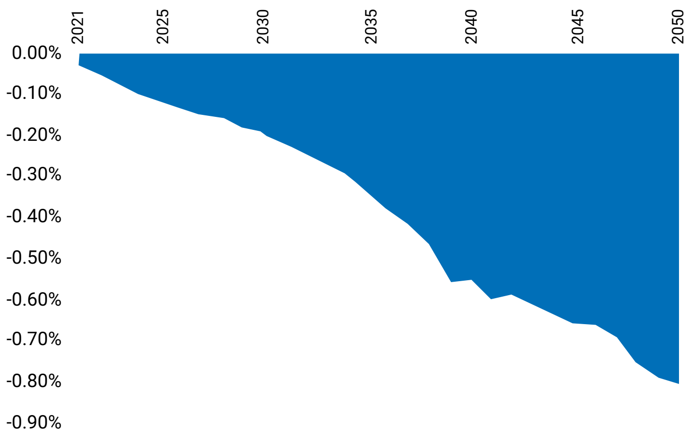
The charts below from our Group TCFD report show the overall impact on the expected annual returns of Legal & General's portfolio under two energy system and climate scenarios.

These risks can be mitigated by careful management of climate risk in the portfolio:

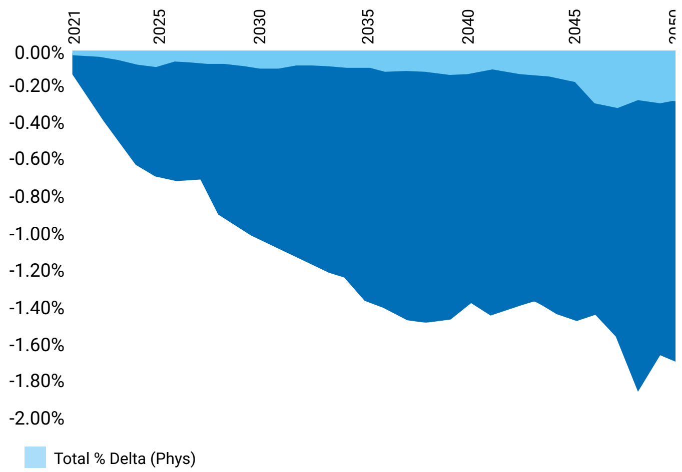
i) "Today's world" or "BAU" shows the destination the energy system will reach if we fail to act and make the necessary changes, and aren't able to co-ordinate a global response, resulting in global warming of 3.5-4°C.

ii) "Future World" or "Paris" shows the destination where rapid decarbonisation of the global energy system is conducted in a co-ordinated and efficient manner, and keeps well within the 2°C limit for global warming.

BAU - Full portfolio transition & physical impacts



Paris - Full portfolio transition & physical impacts



LGIM ESG index scoring

LGR has access to both LGIM's ESG index final score and the underlying data, from which we can derive valuable insights. This score below is one of the inputs used during the escalation process, as described in Section 1.

Data Provider	Indicator	Theme (Sub-score)		Sleeve Score	
Trucost	Emissions intensity	Environment	=	LGIM E	LGIM ESG SCORE
Trucost	Reserves intensity				
HSBC	Climate revenues (%)				
Refinitiv	Females on board (%)	Social diversity	=	LGIM S	
Refinitiv	Women in workforce (%)				
Refinitiv	Women in management (%)				
Refinitiv	Female executives (%)				
Sustainalytics	Bribery and corruption policy	Human capital			
Sustainalytics	Freedom of association				
Sustainalytics	Discrimination policy				
Sustainalytics	Scope of social supplier				
Sustainalytics	Employee incidents				
Sustainalytics	Business ethics incidents				
Sustainalytics	Social supply chain incidents				
Refinitiv	Free float (%)	Human capital	=	LGIM G	
Refinitiv	Equal voting rights				
Refinitiv	CEO-chairman separation	Board composition			
Refinitiv	Independent board members (%)				
Refinitiv	Average tenure of board (years)				
Refinitiv	Non-audit to audit fees (ratio)	Audit			
Refinitiv	Audit commitee expertise				
Refinitiv	Auditor opinion of the accounts				
Sustainalytics	ESG reporting standard	Disclosure	=	LGIM T	
Sustainalytics	Verification of ESG reporting				
Sustainalytics	CDP participation				
Sustainalytics	Tax disclosure				
Sustainalytics	Director disclosure				
Sustainalytics	Remuneration disclosure				

The LGIM ESG score: This covers thousands of companies by aggregating separate scores for ESG factors, with adjustments made for a company's overall levels of transparency with regards to ESG issues.

LGIM developed the scores with the aim of improving market standards globally, while monitoring ESG developments across our entire investment universe. The scores help drive LGIM's engagement process and are aligned with LGIM's voting policy and principles – for example, LGIM is more likely to vote against companies with poor scores at their annual general meetings. The scores enable LGIM to incentivise companies to improve their ESG profile through a transparent methodology.

Primary ESG Data Sources

LGR uses multiple data sources in its ESG analysis, which include third party data providers listed below, research, and findings from LGIM's Corporate Engagement. An academic review of these data sources can be found on the **UN PRI website**

Third party ESG data providers

- Trucost (carbon data)
- XDI (Physical Risk)
- Sustainalytics (Sustainability Data)
- Bloomberg (ESG data)
- Refinitiv (ESG Data)
- HSBC (Green Revenues)

We acknowledge that conclusions are only as good as the data that goes into the analysis, and therefore we regularly review and look for ways to improve the accuracy of our data sources.

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6. LGR's participation in investor initiatives through the Group structure

Listed below are the various industry associations and investor initiatives to which LGR has exposure through the Legal & General Group:

Initiative	Description
International Corporate Governance Network (ICGN) **Member since 2011**	The ICGN is an investor-led organisation which aims to promote better standards of corporate governance and stewardship worldwide.
Institutional Investor Group on Climate Change (IIGCC) **Member since 2011**	The IIGCC is a forum for collaboration on climate change for European investors. We participate in both the Policy and Solutions working groups. We have also contributed to the strategic direction of the organisation as our Head of Sustainability and Responsible Investment, Meryam Omi, was appointed to the board in early 2016. In 2018, LGIM co-authored the IIGCC Guide to Addressing Climate Risks and Opportunities in the Investment Process. This report shares practical tips and examples of good practice so that trustees of asset owner organisations are better equipped to adapt their investment processes not only to underpin more resilient investment portfolios, but to also steer capital in support of the attainment of the goals of the Paris Agreement.
Aldersgate Group	An alliance of leaders from business, politics and civil society, which drives action for a sustainable economy. Legal & General/LGIM use this forum to engage with UK and EU policy-makers – for example, they were instrumental in securing the net zero legislation in the UK.
The United Nations Principles for Responsible Investment (PRI) **Since 2010**	An international network of investors promoting responsible investment. LGIM is involved with a number of their workstreams.
Council of Institutional Investors (CII) **Member since 2011**	The CII is an association of pension funds, investors and other foundations and is a leading voice in the US for good corporate governance and strong shareowner rights. We attend its conference every year and have been involved in several collaborative initiatives led by the CII on various ESG topics.
Asian Corporate Governance Association (ACGA) **Member since 2012**	The ACGA is dedicated to working with financial regulators, stock exchanges, institutional investors and companies to develop and implement better corporate governance practices across 12 markets in Asia.

Initiative	Description
Investment Association (IA) **Member since 2014**	The IA provides a structure for LGIM to discuss corporate governance policy and push for collective engagement alongside a number of UK investment managers. LGIM is involved within the organisation at board level – LGIM's CEO sits on the board of directors – while members of LGIM's Corporate Governance team sit on the IA's corporate governance and remuneration committees, as well as the Sustainability and Responsible Investment Committee.
Investor Forum **Founder and member since 2015**	LGIM is a founding member of the Investor Forum, and our Director of Corporate Governance sits on its board. Membership of the Investor Forum facilitates collaborative engagement with other members and ensures investors speak with one powerful voice.
Taskforce on Climate-related Financial Disclosures (TCFD) **Supporter since inception (2015)**	LGIM has been a promoter of the TCFD and has publicly encouraged investee companies to report in line with the TCFD recommendations. LGIM has recently published its own TCFD-aligned publication as an asset manager, as has Legal & General as an asset owner.
Climate Action 100+ **Member since inception (2017)**	We take part in the "world's biggest single-issue engagement initiative", focused on the largest corporate emitters of greenhouse gas emissions.
Climate Bonds Initiative **Member since 2015**	LGIM is a signatory of the Paris Green Bonds Statement, committing to support the development of green bonds as part of climate finance solutions.
CDP (formerly Carbon Disclosure Project)	LGIM is a part of the CDP Investor Program. We also use data points from CDP as part of our company engagement and analysis.
UNEP Finance Initiative	LGIM participated in the joint project from UNEP FI and the PRI on corporate tax, culminating in the launch of a report entitled **Engagement Guidance On Corporate Tax Responsibility**
Sustainability Accounting Standards Board (SASB) **Involved since 2019**	LGIM sits on the Investment Advisory Group of SASB, intended to promote "consistent, comparable and reliable disclosure of material and decision-useful ESG information".
World Business Council for Sustainable Development (WBCSD) **Involved since 2019**	LGIM is part of the **Alignment Retirement Assets** initiative of the WBCSD.

7. Links to documents

Legal & General's Group Documents

1. Annual Report and Accounts 2019
   a. **https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/?categoryId=2182&year=0**
2. Group Task Force on Climate-related Financial Disclosures (TCFD) Report 2019
   a. **https://www.legalandgeneralgroup.com/media/17720/lg_tcfd_100320-finalpdf-with-link-2-pdf-with-link.pdf**
3. Risk Management Supplement 2019
   a. **https://www.legalandgeneralgroup.com/investors/results-reports-and-presentations/?categoryId=2182&year=0**
4. Women in Finance Charter – 2019 progress report
   a. **https://www.legalandgeneralgroup.com/media/17447/women-in-finance-charter.pdf**
5. Sustainability and inclusive capitalism 2019
   a. **https://www.legalandgeneralgroup.com/media/17877/lg_sustainability_report_2019_v2-2.pdf**

LGIM ESG Policy Documents

LGR receives the majority of its asset management services through LGIM. Listed below are the LGIM ESG policies, which are relevant and applied to the LGR portfolio:

1. LGIM's approach to Responsible Investing
   a. **https://www.lgim.com/files/_document-library/capabilities/lgim-approach-to-corporate-governance-and-responsible-investment.pdf**
2. Corporate Governance and Responsible Investment Policy
   a. **https://www.lgim.com/files/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf**
3. Controversial Weapons Policy
   a. **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgimh-controversial-weapons-policy.pdf**
4. Climate Impact Pledge
   a. **https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu.pdf**
5. LGIM Climate Change Policy - Investing through times of changing climate
   a. **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-climate-change-policy-2019.pdf**
6. Conflicts of Interest Policy
   a. **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/conflicts-of-interest.pdf**
7. UK Stewardship Code LGIM Response to UK Stewardship Code Principles
   a. **https://www.lgim.com/files/_document-library/capabilities/uk-stewardship-code.pdf**
8. LGIM's Engagement Policy
   a. **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf**

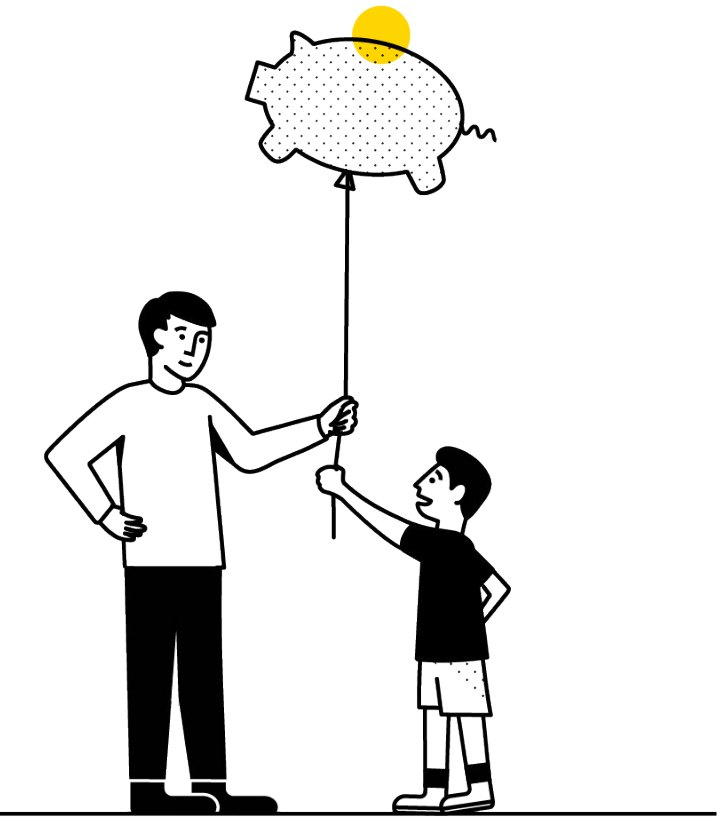
December 2020 | Legal and General Retirement ESG Policy

8. Appendix

LGR's investment beliefs

LGR's strategic investment beliefs, which guide the decisions made in relation to its investment portfolio, are summarised below. ESG and governance are both covered explicitly as core investment beliefs, recognising that LGR views both these factors as having material impacts on portfolio performance.

- **Balance sheet primacy:** the investment strategy should be integrated into the overall capital and risk management strategy of the business. The Solvency II capital position, IFRS position and liability profile should form the basis for establishing investment objectives for the LGR portfolio. LGR believes that an investment strategy that contributes to balance sheet stability provides greater security for policyholders.
- **Risk and diversification:** diversification, in general, reduces risk more than return. LGR believes that investment risks should be limited, monitored and managed. Unrewarded risks should be hedged where economically possible. In managing risks, care must be taken to account for convergence of correlations in extreme market events. LGR appreciates that not all investment risks are quantifiable (for example, reputational risk).
- **Cashflow matching & ALM:** the annuity fund invests premium in fixed income (traded and illiquid), properties backed by long-dated leases and reinsurance assets, overlaid with swaps and other hedging derivatives. This allows LGR to effectively replicate liability cashflows, FX exposure and interest rate and inflation risks within the asset portfolio. **Active credit management** helps reduce exposure to defaults and downgrades through the cycle and is essential to managing ALM, liquidity and the balance sheet effectively. Our belief is that the close relationship with our asset manager, LGIM, and our ability to manufacture assets with LGC is a driver of value in the portfolio, enabling sourcing of well-matched, long-dated asset cashflows.
- **Long-term investment horizon, with short-term flexibility:** the long-term nature of the liabilities is a key consideration and permits LGR to take a long-term investment horizon, which is critical to achieving the **Impact Objectives**. However, particular market conditions may bring short-term metrics to the fore, an example of which is providing attractive pricing to PRT clients. LGR believes that short-term price variation of investments matters and flexibility to take advantage of short-term opportunities can contribute to the achievement of long-term objectives.
- **Inclusive capitalism & the power of real asset investment:** real assets create real world "impact". The long-term nature of the liabilities affords LGR a reasonable illiquidity risk appetite within its annuity fund, allowing the fund to capture illiquidity premium and drive positive economic and social outcomes through its long-term committed capital. Examples of these investments would be universities, clean energy, affordable housing, city regeneration, hospitals and infrastructure.
- **Climate change & ESG risks are mispriced in the market:** the high number of salient risk factors, methodologies, data, investment beliefs and investor sophistication point to insufficient market consensus on fair pricing for climate and ESG risks. This suggests there is likely to be market mispricing of these risks. Consequently, LGR believes that ESG and climate risks will have an appreciable effect on long-term investment returns.
- **Governance:** clear governance processes and effective allocation of responsibility are required to implement the investment beliefs. It is important to be clear about investment objectives, risk tolerance and the timeframe over which results are measured. It is important to ensure that the objectives for fund managers are consistent and not conflicting with the longer-term ESG objectives of the fund.



Contact us

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