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LGIM's policy on climate change

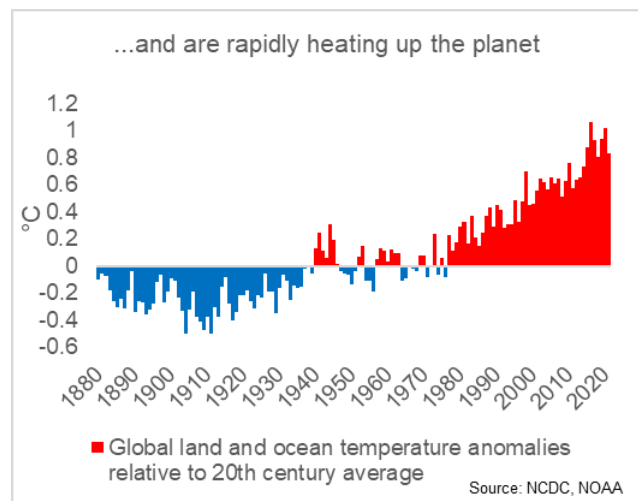
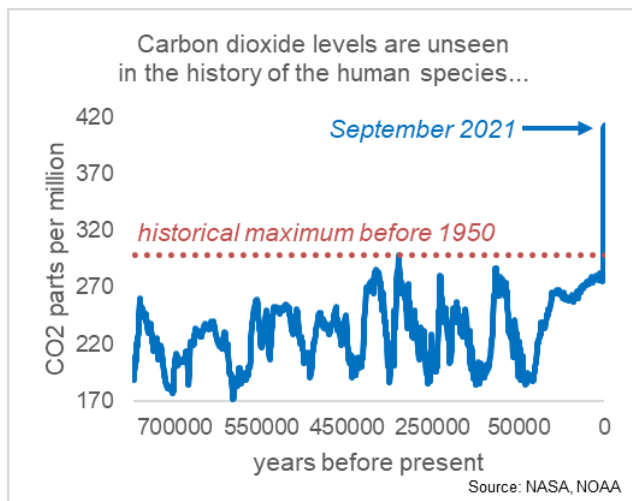


Summary

As a global investor, Legal & General Investment Management (LGIM) is committed to addressing the issue of climate change. We believe that recognising the potential risks from climate change and providing solutions for a low-carbon transition is firmly part of our fiduciary duty of managing assets in the best interest of our clients.

The climate is changing globally. There is overwhelming scientific consensus that greenhouse gases emitted as a result of human activities are causing global warming. The global temperature increase we will experience in the coming decades will have a profound impact on people's lives and, therefore, on our economies.

To minimise the most damaging consequences, governments around the world are pursuing efforts to limit the global temperature increase to no more than 1.5°C above pre-industrial levels as part of the Paris Agreement on climate change. Achieving net-zero global greenhouse gas emissions by 2050 or sooner is increasingly recognised as offering a higher chance of reaching the Paris goals. Meeting this ambitious target is dependent on increased policy support and changes in consumer behaviour, as well as significant upscaling of investment in climate solutions, which we believe presents substantial investment opportunities.



To accelerate the transition towards net zero, our approach involves:

- **Working with policymakers** – to support policy efforts to meet emission reduction targets, to encourage capital deployment at scale, to finance the transition towards a low-carbon economy, and to accelerate investments in climate change adaptation
- **Developing our capacity to assess climate-related risks and opportunities** – to integrate climate risks and low-carbon opportunities in the investment management of relevant portfolios by establishing key indicators and acting on financially material data and information
- **Engaging with the companies in which we invest** – to ensure investee companies' strategies are aligned with the net zero trajectory, to seek assurance that boards consist of individuals who can drive businesses to succeed through the energy transition, and to ensure companies are disclosing appropriate levels of risks and opportunities presented by the implications of climate change
- **Reporting to clients** – to communicate actions taken on their behalf and assist clients in considering the implications for their own portfolios
- **Providing investment solutions that are in line with low-carbon opportunities** – to reach net-zero emissions across all assets under management by 2050 or sooner, working with clients to provide products that are aligned with their investment beliefs and that capture the multitude of investment opportunities that are arising in order to build a low-carbon economy

LGIM's approach

Policy engagements

We recognise that a rise in global temperatures above the 1.5°C threshold could have an adverse effect on many of the long-term assets in which our clients are invested.

For this reason, we strongly support the aim of the Paris Agreement and have emphasised the need for continued national and international policy ambition on the matter. We have done this by engaging collaboratively with other investors and civil society, as well as directly with policymakers in the UK and EU, including through our membership of IIGCC (Institutional Investor Group on Climate Change), the UN Principles for Responsible Investment (PRI), the Aldersgate Group, Climate Action 100+ and other forums. We work together for the following purposes:

- Providing stable, reliable, and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge
- Strengthening regulatory support for energy efficiency and renewable energy where this is needed to facilitate deployment
- Supporting innovation in, and the deployment of, low-carbon technologies including financing clean energy research and development
- Developing plans to phase out subsidies for fossil fuels
- Ensuring that national adaptation strategies are structured to deliver investment
- Understanding the effect of unintended constraints from financial regulations on investments in low-carbon technologies and climate resilience
- Ensuring a fair low-carbon transition, so that the benefits of access to cleaner energy sources are shared, and affected workers and communities are supported

Developing our capacity to assess climate-related risks and opportunities

We see it as our responsibility to provide the right framework to address climate risks and opportunities in every part of our business.

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

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

We have developed proprietary ESG tools, used across different asset classes and investment strategies, which incorporate climate change metrics such as carbon emissions, fossil fuel exposure or 'green' revenues. These tools are used to support fund managers, develop new investment solutions, assist the investment stewardship team in its engagements with companies, and help clients understand more about the climate risks and opportunities in their portfolios.

The varying timeframes within which the effects of climate change materialise can mean that the risk implications are often sector and region-specific, and ultimately dependent on the type of the portfolio we manage:

- Actively managed funds, which incorporate climate considerations through the stock selection process as equity and credit analysts can use bottom-up research to unearth climate risks or unexploited opportunities from the energy transition process
- Index funds, where the main avenue to address the market-wide implications for climate change is through our engagement with companies and policymakers. In select index funds, this is supplemented by the direct incorporation of climate and ESG data into the index construction methodology

LGIM has developed a bespoke climate solutions framework, LGIM Destination@Risk, which allows us to quantify the implications of different climate change scenarios across the global economy, key sectors, and individual securities, including a forward-looking assessment of 'temperature alignment'. The outputs of the framework are used to inform our climate-related engagements, to support our investment process, and to develop climate reporting for clients.

While the ultimate decision to choose a specific mandate lies with the client, we aim to create the right framework to demonstrate to those clients who invest with us how they can begin to address some of the investment risks and opportunities associated with climate change. Partnership with clients, alongside engagements with companies and policymakers, represents a key enabler of **LGIM's commitment to reach net-zero greenhouse gas emissions across all assets under management by 2050 or earlier**¹.

¹ For more details on our net zero commitments, please see: <https://www.netzeroassetmanagers.org>.

Company engagements

Our engagements with company boards and executive directors are key to advancing this dialogue, so that companies build strategies that will enable them to adapt to and thrive within the changing political, technological and environmental backdrop.

As part of our responsibility to be active owners, in 2016 we introduced the **Climate Impact Pledge**. The pledge represents our commitment to address climate change by engaging with some of the largest companies in the world which are crucial to meeting the target of the Paris Agreement.

The companies covered by the pledge are associated with more than half of all greenhouse gas emissions from listed companies. They have been scored publicly for the robustness of their strategies, governance, and transparency. Companies that fail to meet our minimum standards will be removed from select funds, including our **Future World funds**, subject to tracking error constraints. In all other funds where we cannot divest, we will vote against the companies and/or their directors, to ensure we are using one voice across our holdings.

Our engagements have clearly defined expectations rooted in the goals of the Paris Agreement. More information on our minimum standards and engagement 'red lines' are publicly available at:

<https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge>.

Reporting

We are committed to communicating our efforts to our clients. Climate change forms part of the regular ESG reporting channels, including quarterly and annual reports. In keeping with UK government recommendations, we will also be providing fund-level climate reporting for clients covering emissions and non-emissions-based climate metrics². LGIM will also periodically report on its efforts to increase the share of assets managed in line with net zero.

We are firm believers in improving market information on climate change. LGIM was the largest asset manager in the world to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) when they were first released. LGIM and our parent company, Legal & General, have been reporting in line with TCFD recommendations³, and we are asking investee companies to do so as well, as our public climate ratings of companies are aligned with TCFD disclosure categories.

Following the adoption of the Paris Agreement, LGIM has been a consistent supporter of shareholder resolutions calling on companies to improve their climate transparency, greenhouse gas management and climate-related lobbying. To help bring more standardisation in this area, LGIM has also been publicly supportive of efforts to introduce a 'say-on-climate' vote, whereby companies submit their climate transition plans for periodic shareholder approval.

Additionally, we host seminars, attend conferences, and publish thought pieces, guides for asset owners and companies, podcasts and blogs on a range of sustainability themes. Climate change issues are a regular part of our trustee education sessions and flagship client events, and we host regular sessions to assist asset owners in developing investment beliefs on ESG topics. Coupled with the development of climate analytics and the roll-out of carbon data across fund factsheets, we see this as the starting point for an elevated conversation with clients about the investment options available to accelerate the energy transition.

² For more details, see our article: <https://www.lgim.com/landg-assets/lgim/document-library/insights/long-term-thinking/tcf-d-5-step-checklist.pdf>.

³ LGIM's Active Ownership report provides a high-level overview of LGIM's alignment with TCFD disclosures. More detailed information can be found in LGIM's UN PRI Public Transparency Report, as well as L&G Group's annual TCFD report.

Creating low-carbon investment solutions

Our ambition is to accelerate demand for sustainable products, and we have been developing mainstream investment solutions that address climate risks and take advantage of low-carbon opportunities.

Funds in the Future World range incorporate climate considerations throughout the investment process, combining long-term thematic considerations such as the impact of climate change on energy markets, with analysis into how ESG considerations can alter the risk and return profile of individual companies.

We have also developed the **Future World Protection List**, which captures companies that fail to meet minimum standards of globally accepted business practices. This includes thermal coal miners⁴ and perennial violators of the United Nations Global Compact (an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies). Securities issued by companies on the list will not be held (or exposure will be significantly reduced) across select LGIM funds, including Future World funds and LGIM's core exchange-traded funds (ETF) range.

LGIM has also introduced a **coal policy**, applied to all active funds and select index funds⁵.

LGIM is directly supporting the growth of clean energy, with our infrastructure division being a major investor in renewables, including offshore wind, 'smart' grids and charging stations for electric vehicles.

Beyond carbon

While efforts to reduce greenhouse gases represent a major area of focus for LGIM, we recognise the cross-cutting dimensions of climate change as it relates to broader environmental and social challenges.

We believe that action on climate change must be pursued simultaneously alongside efforts to address biodiversity loss and environmental degradation. We are calling on companies to assess their impact and dependencies on biodiversity with a view to managing risk, as well as mitigating and, over time, reversing negative impacts. Our **biodiversity policy** is available on LGIM's website.

We also recognise the importance of considering the social aspects of climate change, including a fair transition. We support global efforts to advance the **UN Sustainable Development Goals** (SDGs). We are using the SDGs as our 'impact' framework – data on companies' alignment to the SDGs forms part of our ESG data tools, used to support fund construction and engagement.

Further information on our approach to sustainability can be found in our [sustainability policy](#) and via our website.

At LGIM, we believe climate change is a financially material issue and we support efforts to align the global financial system with a 1.5°C pathway. We have made a strong commitment to push forward this agenda across the different parts of the investment chain, from our engagement with companies and policymakers through to our own investment process. In doing so, we are working to protect our clients' returns and help create a sustainable future.

⁴ The Future World Protection List is reviewed on an annual basis, with further strengthening of the methodology expected in early 2022.

⁵ For more information, please see our [coal policy](#)

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