



Press Release

LGIM reveals positive impact of engagement to address climate change

Annual Climate Impact Pledge reveals a 35% reduction in the number of companies not meeting minimum standards over the past year

- *Successful engagement has led to LGIM reinstating one previously divested company into a range of sustainability-focused funds*
- *LGIM to divest two companies from this same range of funds for failing to respond satisfactorily to engagement efforts; a further 12 companies remain on the exclusion list*
- *During the 2022 proxy season, 80 companies are currently subject to voting sanctions for not meeting LGIM's minimum climate-change standards*

London, 14th June 2022 – Legal & General Investment Management (LGIM), one of the world's largest asset managers, has today released its annual Climate Impact Pledge report, revealing positive momentum to address climate risk, across approximately 1,000 companies included in its annual assessment.

Over the year, LGIM has seen the number of companies subject to its voting sanctions for not meeting minimum climate change standards, decrease by over 35%, from 130 companies last year, to 80 this year, reflecting the positive impact of LGIM's approach and the global momentum behind climate action. Of the 80 companies subjected to voting sanctions throughout the 2022 proxy season, the oil & gas, REITs, banking, and mining sectors are amongst those most sanctioned.

Originally launched in 2016, this is the second Climate Impact Pledge report under LGIM's strengthened approach announced in 2020, which saw LGIM commit to expanding its assessment to around 1,000 global companies in 15 climate-critical sectors, which are responsible for more than half of greenhouse-gas emissions from the world's largest listed companies.

LGIM also identified 59 companies for deeper individual engagement. These companies, which are particularly influential within their sectors, are yet to fully embrace the transition to net-zero emissions but have the potential to have a significant positive effect across their sectors and value chains by doing so. 31 of the 59 companies identified have now set a net-zero target, a more than doubling since 2021.

LGIM is also pleased to announce that Japan Post Holdings has been reinstated following progress on a number of areas of engagement – in particular the disclosure of scope 3 emissions associated with investments and the publication of interim and 2050 net-zero targets.

During 2022, LGIM will further expand the reach of the programme and raise the expectations of companies' management of climate risks and opportunities.

Catherine Ogden, Sustainable and Responsible Investment Manager, Legal & General Investment Management (LGIM), commented: "Our Climate Impact Pledge began as a programme focused on 80 companies, with divestment sanctions associated with a single fund. It has now expanded to around 1,000 companies, with potential exclusions applied to over £87bn of our assets. While we continue to be encouraged by the rapid growth in the number of companies with climate commitments, we are observing a lack of detailed net-zero transition plans to support these targets. In 2022, we will continue to press companies to establish robust decarbonisation strategies,

with granular interim roadmaps to 2050, to accompany their public announcements. However, the momentum behind the net-zero transition is unmistakable and the trajectory we are seeing is encouraging.”

Engagement with consequences

Drawing on approximately 65 different data points, and leveraging its proprietary climate modelling tool – LGIM Destination@Risk – as well as third part data, LGIM assesses companies against five key pillars:

1. **Governance:** how is the oversight of climate issues exercised at the board level and communicated to investors?
2. **Strategy:** what policies do companies have in place, and what policies are they lobbying governments for?
3. **Risks and opportunities:** how much of companies’ current earnings comes from ‘green’ activities, and how much of potential future earnings is at risk in the low-carbon transition?
4. **Scenario analysis:** what level of global warming are companies’ plans aligned to?
5. **Metrics & targets:** how ambitious are companies’ emission targets, and how do they compare to past performance?

However, despite the positive momentum, LGIM has announced that under the pledge, it will divest its holdings in China Resources Cement and Invitation Homes, effective from 31 May 2022 across select funds¹, for failing to meet its engagement requirements.

Although progress has been made by some of the companies previously divested, CCB, ICBC, MetLife, AIG, KEPCO, PPL, Exxon Mobil, Sysco, Hormel, Rosneft², Loblaw and China Mengniu Dairy remain on LGIM’s exclusion list having so far taken insufficient action to justify re-instatement.

Encouraging progress across regions

With the intention of improving climate accountability across sectors, LGIM has previously committed to voting against companies globally that do not meet at least one of its minimum standards, or three minimum standards for companies in North America and Europe. These standards include minimum requirements such as:

- Having board members with responsibility for climate issues
- Comprehensive climate disclosures and greenhouse gas reduction programmes
- Relevant disclosure of scope 3 emissions
- Demonstrating a year-on-year reduction in emissions intensity

This year’s report reveals a strong upward trend in terms of average climate scores across geographies. For example, Japan saw a 25% increase vs. last year, while Emerging Markets saw a 21% improvement. However, the overall score for Emerging Markets remains the lowest at a regional level, with just 12% of companies in emerging markets meeting all of LGIM’s minimum standards.

North America and Asia Pacific (ex-Japan) also recorded increases (10% and 9% year on year respectively), yet remain laggards when compared to Europe, with just a fifth of companies meeting all of the minimum standards outlined.

The rankings have also indicated steady progress from a sectoral perspective, with utilities and cement offering the joint highest rating, closely followed by shipping and autos.

Michelle Scrimgeour, Chief Executive Officer, Legal & General Investment Management (LGIM), added: “As a founding signatory of the Net Zero Asset Managers Initiative, we are committed to working in partnership with our

¹ Companies are divested from selected funds with £87bn (€103bn, \$118bn, ¥14tn, CHF 107bn) as at 31 Dec 2021 in assets (as at 31 December 2021), including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G MasterTrust.

² Rosneft was previously divested from Climate Impact Pledge-aligned portfolios and, as of June 2022, still features in the list of sanctioned companies as a continued divestment. Where we hold other Russian companies, this is due to being unable to sell positions while trading is closed to foreign investors.

clients to reach net-zero greenhouse gas emissions by 2050. One of the key means by which we, as investors, can support the low-carbon transition is by acting as responsible stewards, engaging with the companies in the portfolios we manage, and exercising our vote. Our Climate Impact Pledge is a key part of how we undertake that engagement. Whilst we are encouraged by the progress that we have seen, we must continue to raise the bar.”

-ENDS-

Press contacts

Further information:

✉ LGIMprteam@lgim.com

🌐 www.lgim.com

Notes to editors

Key risks:

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security. Views expressed are of LGIM as at 7 June 2022.

Further information:

Andrew Gates

Senior PR Manager

📞 0203 124 4363

✉ LGIMprteam@lgim.com

www.lgim.com

Christian Zarro

International PR Manager / LGIM PR team

📞 0203 124 4233

✉ LGIMprteam@lgim.com

🌐 www.lgim.com

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About Legal & General Investment Management

Legal & General Investment Management is one of Europe’s largest asset managers and a major global investor, with total assets under management of £1.42 trillion (€1.69 trillion, CHF1.75 trillion, \$1.92 trillion and JPY221 trillion)³. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

For more than 50 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property, and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

¹LGIM internal data as at 31 December 2021. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

