



## LEGAL & GENERAL CALLS ON GOVERNMENT TO TAKE URGENT ACTION TO REDUCE EMISSIONS FROM THE BUILT ENVIRONMENT

### An open letter to UK Government from LGIM's Head of Sustainability, Head of LGIM Real Assets and CEO of Legal & General Capital

COVID-19 has demonstrated the damage that natural disasters can inflict on economies. The world is currently on a trajectory of more than 2 degrees Celsius temperature rise, regarded as the limit of safety, beyond which the effect of warming on the climate becomes catastrophic and irreversible. Such a scenario would undoubtedly cause economic disruption and human suffering on a scale even greater than the novel Coronavirus pandemic.

Buildings account for over a third of overall UK greenhouse gas emissions today, with heating and hot water constituting 20%. The UK government, which has committed to meeting net-zero emissions by 2050, recently announced a multibillion pound building and infrastructure package to fuel the country's recovery following the pandemic. This ambition is welcome, particularly the introduction of measures such as the retrofit voucher scheme and investments to improve the energy efficiency of public buildings. But the recovery must be achieved without locking in high-emitting and inefficient buildings for decades to come. As the recovery gets underway, it is crucial that the opportunity to **build back better** is not lost.

#### Responding to the challenge

As an investor, house builder and landlord, Legal & General is taking action to play its part in addressing the challenge of reducing emissions from the built environment.

- By 2030, all homes built by Legal & General's housing businesses will be capable of operating at net zero carbon emissions, and we will strive to understand, monitor and reduce the embodied carbon associated with the construction of our homes.
- LGIM Real Assets has set an ambitious commitment to achieving a net-zero emissions real estate portfolio by 2050. This is part of an industry collaboration of UK's leading commercial property owners under the Better Buildings Partnership's (BBP) Climate Change Commitment to tackle the growing risks of climate change through the delivery of net zero carbon real estate portfolios by 2050
- LGIM's Investment Stewardship team is expanding its flagship climate-related engagement, the Climate Impact Pledge, to the steel and cement sectors – two of the sectors most crucial in tackling the emissions embedded in building materials.

## Net-zero policy direction

However, in order for private sector actors to meet their net-zero ambitions, the government must urgently clear some of the existing policy barriers, and introduce new regulation to provide a clear direction of travel for the industry. Including:

- Reintroducing **net zero-carbon standards** for new homes.
- The £2 billion Green Homes Grant is a welcome step to create a sustainable built environment, but it must represent the start of an ambitious **National Retrofit Strategy** to fund the upgrading of existing homes.
- Implementing **embodied carbon targets** for new public buildings, large public renovations and infrastructure - with a clear trajectory towards net zero standards in the longer term.
- Raising **Minimum Energy Efficiency Standards (MEES)** for non-domestic lettings.
- Introducing urgent legislation to **improve transparency on the operational energy performance** for non-domestic buildings.
- **Reducing the energy performance gap** through transforming mainstream industry initiatives from Design for Compliance to a **Design for Performance** programme – a move towards measuring a building's efficiency based upon actual energy use..
- Incentivising businesses to support their transition towards net zero - through the use of renewable energy on-site.

## The road to recovery

As the UK looks beyond Covid-19, it is faced with a deep economic recession coupled with a longstanding housing crisis. Whilst government may be focused on its 'build, build, build' agenda, it must not lose sight of how this – if not regulated appropriately – will have an irreversible impact on climate change.

Due to the pandemic, global greenhouse gas emissions have hit a sudden plateau, and the world now has unexpected opportunity to continue to bend the curve. The UK's net-zero target must be placed at the heart of the recovery.

Kerrigan Procter, CEO

**Legal & General Capital**

Bill Hughes, Head of LGIM Real Assets

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**Head of Sustainability & Responsible Investment Strategy**

## **LGIM**

### **Notes to editors**

#### **About Legal & General**

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with international businesses in the US, Europe, Middle East and Asia. With over £1.1 trillion in total assets under management, we are the UK's largest investment manager for corporate pension schemes and a UK market leader in pension risk transfer, life insurance, workplace pensions and retirement income.

#### **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 £1.2 trillion<sup>[1]</sup>. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 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.

<sup>1</sup>LGIM internal data as at 30 December 2019. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

#### **LGIM Real Assets**

LGIM Real Assets is a division of Legal & General Investment Management (LGIM), one of Europe's largest institutional asset managers and a major global investor. LGIM manages £1.2tn in assets (as at 31 December 2019), working with a range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors. LGIM Real Assets has AUM of £30.8bn (as 31 December 2019) and is one of the largest private markets investment managers in the UK.

Investing in both debt and equity and across the risk/return spectrum, LGIM Real Assets actively invests in and manages assets across commercial, operational and residential property sectors, as well as infrastructure, real estate, corporate and alternative debt. Taking a long term view in order to future proof its investments, the business continues to lead the industry in ESG performance, considering all environmental, social and governance issues at asset level as well as portfolio level.

#### **Legal & General Capital**

Legal & General Capital (LGC) is the early-stage investment business of Legal & General Group. With a direct investment portfolio of £2.9bn (as at 31 December 2019), LGC invests shareholder capital to deliver attractive financial returns by creating real assets and operating businesses. LGC self-manufactures attractive, Matching Adjustment-eligible direct investments to back Legal & General Retirement's growing annuity liabilities and

creates a portfolio of alternative assets for Legal & General Investment Management. LGC seeks opportunities to deploy its long-term capital into key alternative sectors where there has been a shortage of investment and innovation; supporting future cities, housing and principal investing (including funding for SMEs and early stage enterprises).

## **Further information**

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