Intended for retail clients and consumers.
All investing involves risk.

Climate Impact Pledge

An overview

Legal & General

Since 2016, Legal & General Investment Management has encouraged companies to tackle climate change and transition to a low-carbon economy through its Climate Impact Pledge.

This report has been created for Legal & General pension scheme members. It references the Climate Impact Pledge managed by our investment management business, Legal & General Investment Management (referred to as LGIM). LGIM is responsible for the management and day-to-day investment decisions of our internal Legal & General and LGIM funds, used within workplace pensions.

The Climate Impact Pledge is applicable to several of our funds. Please refer to the appendix at the end of the document for the full list. This document refers to the Climate Impact Pledge approach LGIM uses across all the funds that implement it, not just those included in workplace pensions.

As this document outlines, LGIM has selected over 5,000 companies in 20 'climate-critical' sectors – those considered to be key in the global transition to a low-carbon economy (an economy based on sustainable actions that may result in less environmental impact) and those responsible for the most global greenhouse gas emissions. As part of the overall investment mix, your Workplace pension may or may not invest in all the companies included in the full selection. The Climate Impacted Pledge will apply where selected companies are included.

You can log into **Manage Your Account** for more information, including factsheets, relating to your Legal & General pension fund(s). You can also visit your scheme website to view the full range of funds available to you.

The world can't afford to waver

Climate change and its ripple effect on areas like farming and agriculture, food supply, transport infrastructure, buildings and livelihoods have become more apparent. These have the potential to have a financial impact on global markets, and in turn, an individual's pension and investments.

Climate change is not just an environmental issue, it's a socio-economic one too. It will affect people just as much as it impacts our environment. At this critical juncture, it is imperative that we all play our part and step up.

Transitioning to a low-carbon economy (an economy based on sustainable actions that may result in less environmental impact) is more critical than ever.

Policymakers, investors and industry leaders must use every legitimate tool at their disposal in order to lessen the risk posed by climate change and a world that is too warm. Every part of the global economy needs to adjust.

It will become increasingly important to combine emissions reductions with action on deforestation, biodiversity, water, and promoting a circular economy. That is why LGIM incorporates these elements in the Climate Impact Pledge.

The interdependencies between nature and climate are of critical importance.

> "LGIM's Climate Impact Pledge now assesses over 5,000 companies worldwide – across 20 climate-critical sectors.

Acting now

A vital way to address climate change is to reach net zero carbon emissions by 2050 globally. Carbon emissions is one of the key greenhouse gases that, when emitted into the atmosphere, are responsible for the greenhouse effect on the planet.

Net zero means cutting human caused greenhouse gas emissions to as close as zero as possible at a global level to stabilise temperature increases. The aim is to balance the emissions we emit with the capacity of the atmosphere, ocean, forests or carbon capture technology, for instance, to reabsorb or remove these emissions.

An international climate change treaty, called the Paris Agreement, aims to stop the world's average temperature rise to well-below 2°C, or ideally 1.5°C by the year 2100. While LGIM believes the window to achieve a 1.5°C outcome – consistent with net-zero carbon emissions by 2050 – is closing fast, it also believes that change is still possible if we all act now. The world has the means; it just requires the will.

To help address this critical threat, LGIM's Climate Impact Pledge assesses approximately 5,000+ companies worldwide – across 20 climate-critical sectors – on their climate governance, strategies, policies, metrics and targets.

From oil and gas, clothing and airlines to technology, food manufacturing and utilities, LGIM has selected the companies that are responsible for the most global greenhouse gas emissions from listed companies and/or are vital to the transition to a low-carbon economy.

Five new sectors were included last year, which are forestry and paper & pulp; aluminium; glass; logistics; and multi-utilities (multi-utilities relates to companies offering a wide range of utility services). LGIM has also expanded its coverage beyond the largest companies in each sector.

LGIM's Climate Impact Pledge uses a **two-fold** engagement approach

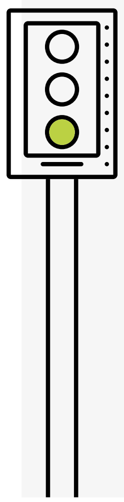
In addition to a data-driven assessment of climate commitments and efforts of these 5,000+ companies to limit carbon emissions to net zero by 2050, LGIM engages directly with a subset of companies to influence and support them to reach this objective. This subset of 105 companies is referred to as 'dial movers', chosen for their size and potential to galvanise action in their sectors.

1 Quantitative: Assessment of 5,000+ companies across 20 climate-critical sectors

LGIM's quantitative engagement, which consists of a data-driven assessment of climate commitments, and efforts to limit carbon emissions to net zero by 2050, is conducted across the 5,000+ companies.

LGIM's assessment draws upon around 70 data points, including its own climate modelling tool (called Destination@Risk), which involves robust measurement of the climate risk embedded in investments and their climate alignment as well as several third-party data providers (Sustainalytics, ISS, CDP for example).

Compliance with individual indicators within these five areas is assessed through a traffic light system.



Red light – Falling below LGIM's global minimum standards for this indicator.

Yellow light – Meeting LGIM's global minimum standards for this indicator, but there's room for improvement.

Green light – Exceeded LGIM's global minimum standards for this indicator.

Companies are scored out of a 100 across five key areas:

1. Governance

How is the oversight of climate issues managed 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 (shift from an economy that depends heavily on fossil fuels to a sustainable, low carbon economy)?

4. Scenario analysis

What level of global warming are companies' plans aligned to?

5. Metrics and targets

How ambitious are companies' emission targets, and how do they compare to past performance?

There are several minimum standards or minimum expectations that LGIM looks for when assessing companies. These include sector-specific questions such as:

Does the company...	Sector
Have board member(s) with responsibility for climate-related issues?	All
Have comprehensive climate disclosures?	All
Demonstrate a year-on-year reduction in emissions intensity?	All
Have an environmental policy?	All except financials
Have a greenhouse gases reduction programme?	All except financials
Have a deforestation programme or policy?	Food, forestry, apparel (clothing)
Have a responsible investment programme?	Insurance
Adopt eco-design for its products?	Apparel, autos, glass
Disclose Scope 3 emissions (indirect emissions that occur in a company's value chain) – Purchased goods and services?	Apparel, autos, chemicals food, forestry, tech and telecoms
Disclose Scope 3 – Use of sold products?	Autos, chemicals, mining, oil & gas (except for oil & gas exploration and production)
Disclose portfolio emissions in the reporting year?	Banks and insurance
Disclose emissions from downstream leased assets?	Property
Have underwriting standards?	Insurance (except life insurance)
Have credit and loans standards?	Banks
Conduct real estate life-cycle assessment?	Property

Through data sources, LGIM measures the 5,000+ companies globally against these minimum standards. LGIM writes to the companies to inform them of its assessment, allowing them to identify and address areas that need improvement, based on their performance against these data points.

Engagement with consequences

As a shareholder, LGIM can vote against companies that are in breach of its climate expectations.

The consequences of a lack of action may include a vote against the company's chair or board, in annual general meetings, if the company:

- fails to meet at least one – or, in North America, Europe, UK and Asia Pacific ex Japan, three – of LGIM's minimum standards[1]
- has a market capitalisation (how much a company is worth as determined by the stock market) above the relevant sector median (the value in the middle of the sector set), and
- does not have ambitious greenhouse gas emissions targets and/or net-zero targets, for example, a 1.5°C-aligned or well-below 2°C-aligned emissions reduction target.

During the 2023 shareholder voting season, **299 companies** out of the universe of 5,000+ were identified as subject to voting sanctions[2] for not meeting LGIM's minimum climate change standards.

Despite record oil and gas profits, **over a third of companies in this sector** failed to meet LGIM's minimum standards and most did not have sufficiently ambitious emissions targets, along with most banks, insurance, and property firms that LGIM assessed.

Newly included sectors – such as aluminium, glass and forestry – lead the way in terms of the scale of their ambition and meeting LGIM's minimum standards.

While about 20 per cent of companies initially fell short of LGIM's minimum standards this year, LGIM allowed relatively smaller companies, and new companies added to the tech and telecom sector, more time to meet its minimum expectations (and so withheld from voting against them) while LGIM continues to assess and engage.

1. LGIM applies different thresholds of minimum standards depending on the market; North America, UK, Europe, Asia Pacific ex-Japan must meet three and Emerging markets and Japan must meet one of LGIM's minimum standards.
2. Voting sanctions apply via equity (company shares) holdings. Voting sanctions apply to companies not meeting minimum standards, in 20 pre-determined climate critical sectors.

2 Dial movers: in-depth priority engagements and exclusions

As part of the two-fold engagement programme, LGIM undertakes priority targeted engagement with a sub-set of companies within the 5,000+ universe. These are referred to as '**dial-movers**', chosen for their size and potential to galvanise action in their sectors.

In 2022, LGIM increased the number of companies it undertakes targeted engagements with to **105**, from 60 in 2021.

Sector experts from across LGIM's stewardship* and investment teams work more closely with these companies to actively progress climate-related strategies and processes.

Dial movers face further qualitative assessment and scrutiny versus LGIM's sector-specific frameworks. For example, LGIM assesses companies on whether they have a net-zero target in place, and whether they are evidencing a strategy to meet these targets. LGIM also considers to what extent companies are collaborating across their supply chain, and if they are engaging proactively with policymakers on the net-zero transition.

Within LGIM's sector expectations, sector-specific 'red-lines' or minimum requirements for investee companies have been identified. Where LGIM has proactively sought or undertaken direct engagement with a company, and the company continues not to meet these minimum 'red lines' after a certain period of time, they will be considered for potential sanction.

LGIM has set a 'red line' for all sectors on the disclosure of climate lobbying activities. This includes trade association memberships and explaining what actions a company will take if the lobbying activities of these associations are not aligned with a 1.5°C scenario. LGIM's sector-specific red lines are:

Sector-specific red lines	Sectors
No net-zero operational emissions target	Apparel (clothing), chemicals, glass, steel, aluminium, cement, shipping, logistics, auto, airlines, multi-utilities, oil & gas, mining, tech & telecom
No disclosure of Scope 3 emissions (indirect emissions that occur in a company's value chain)	Forestry, apparel, chemicals, banks, insurance, multi-utilities, electric-utilities, mining, tech and telecom.
No restrictions around coal underwriting/financing/investing	Banks, insurance
Plan to increase thermal coal capacity	Mining
No plans for coal phase-out (by 2030 in advanced economies and by 2040 globally)	Electric utilities
Lack of a comprehensive deforestation (clearing of forested land) policy – covering no-land conversion policy	Forestry, food, apparel
No disclosure/targets to reduce operation emissions from property portfolio	Property
Lack of time-bound methane reduction/zero flaring targets	Oil & gas

* LGIM's Stewardship team leads LGIM's activity on environmental, social and governance issues.

Engagement with consequences

In addition to using its voting rights[3], LGIM can ultimately make the decision to divest (exclude)[4] investment in the dial mover companies across applicable funds.

This is considered when companies, after a certain period of engagement, continue to not perform well against LGIM's qualitative climate assessment, are unresponsive to engagement recommendations, and/or keep falling behind in meeting LGIM's red lines listed previously.

A decision will be taken whether to divest[4] from the company. The decision is considered and finalised through a robust internal governance process. Resulting actions are then implemented by the relevant investment manager as part of the annual update of the Pledge.

LGIM continues to monitor and engage with companies after they have taken the decision to divest them from relevant funds. Companies can be reinstated back into relevant funds (that adopt the Climate Impact Pledge) if LGIM believes that they have made satisfactory improvements.

This year:

- LGIM voted against 29 of its 'dial-mover' companies
- 12 companies remain on LGIM's existing exclusion list
- LGIM will divest[4] from two additional companies for failing to meet its expectations
- Successful engagement led LGIM to reinstate one previously divested company, China Mengniu Dairy*. The reasons for reinstating the company are:
  - The company has now published a new deforestation policy.
  - It has a carbon-neutrality commitment by 2050, covering all scopes of emissions, which is progressive compared to peers in China.
  - The company has delivered on the red lines LGIM asked of it.

  LGIM will continue its engagement with the company to encourage and monitor further progress.

* For illustrative purposes only. Reference to a particular security is on a historical basis. The above information does not constitute a recommendation to buy or sell any security.

Examples of where LGIM has divested from (excluded) a company

Airline sector: Air China*

Reason: No operational emissions reduction target is in place and the company falls short on most of LGIM's expectations.

Food sector: Sysco* and Hormel*

Reason: (Sysco) Lack of ambitious emissions reduction targets and progress on net zero commitment not aligned with pace required, this decade, to align with a 1.5°C route.

Reason: (Hormel) Net-zero target covering Scope 3 emissions (indirect emissions that occur in a company's value chain) from suppliers. However interim Scope 3 targets not yet published and no comprehensive zero deforestation policy in place.

Banking sector: China Construction Bank*

Reason: No thermal coal policy in place and no disclosure of Scope 3 emissions associated with investments.

Electric utilities sector: Korea Electric Power Corporation*

Reason: Net-zero target is in place and there are plans for scaling up renewables. The company is cancelling all apart from two new coal projects overseas. However, pathway is seemingly misaligned with net zero due to its plans to run coal until 2050.

Shipping sector: COSCO Shipping Holdings*

Reason: An operational target is in place, but the level of ambition for this target is low compared to leading peers. There is no commitment or investment in low-carbon fuels, which is key to sector decarbonisation (lowering carbon).

Oil & gas sector: Exxon Mobil*

Reason: Disclosing Scope 3 emissions and has set 'net zero by 2050' emissions reduction target for its own operations. However, the interim operational target does not reach the ambition expected of a net-zero route.

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3. Voting sanctions apply to equity (company shares) holdings. Voting sanctions apply to companies not meeting minimum standards, in 20 pre-determined climate critical sectors.
4. Companies in relevant funds are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, company holdings are reduced rather than fully divested from. Tracking error is the difference in performance between a fund and its benchmark.

Review process for the Climate Impact Pledge

The Climate Impact Pledge engagement programme is reviewed on an annual basis by the LGIM Investment Stewardship team.

The list of 'dial mover' companies subject to divestment and/or voting sanctions is updated on an annual basis and published in June each year.

Voting takes place at annual company meetings which can be held at any time during the year.

The future is what we make it. Make it count

Appendix

List of pension funds that incorporate the LGIM Climate Impact Pledge

When you check your own pension account you may see fund names starting with 'L&G PMC' and ending with 'G17/ G25/G3' or starting with 'Legal & General Mastertrust' and ending with '3'. These will generally be the same funds as listed below, and the minor wording variances are to reflect differences across our product range and schemes.

- Distribution Fund
- Diversified Fund
- Dynamic Diversified Fund
- Fossil Fuel Free Climate Equity Index Fund
- Future World Annuity Aware Fund Future World Fund
- Future World Fund
- Future World Inflation Linked Annuity Aware Fund
- Future World Inflation Sensitive Annuity Aware Fund
- Future World Multi-Asset Fund
- Global Diversified Credit Fund
- Managed Fund
- Multi-Asset Fund
- Retirement Income Multi-Asset Fund
- Sustainable Property Fund
- Target Date Funds

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