

Press release

11 June 2018

Legal & General Investment Management takes action on climate change risks

*Praises companies taking positive action and removes laggards from the Future World Funds**

Legal & General Investment Management (LGIM) has today revealed the corporate leaders and laggards on climate change, following the first engagement period under its Climate Impact Pledge.

LGIM introduced the Climate Impact Pledge in November 2016, focused on accelerating the progress companies are making in addressing climate change and transitioning to a low-carbon economy. LGIM has initially focused on engaging with 84 of the world's largest companies across different sectors and geographies identified as pivotal in meeting the 2°C target set in the Paris Agreement.

These companies have since been assessed, scored and ranked against more than 50 indicators, including whether they have a corporate statement that formally recognises the impact of climate change, whether they are fully transparent on their carbon contribution and whether the board composition is diverse and robust enough to drive innovation and change.

Driving results through engagement

LGIM's first engagement period ran from April 2017 to April 2018. Almost three quarters (74%) of the 84 companies responded to letters from LGIM, resulting in meetings with 61% of the companies. We believe these conversations contributed to a number of positive moves by firms**, including Toyota, Wells Fargo and Australia's Commonwealth Bank.

Since LGIM began the engagement process in April 2017, climate scores for US companies have improved, with median Japanese, Australian and South Korean companies also improving. In contrast, median French, UK and German companies have not.

The rankings have also revealed contrasting approaches by sector, with utility companies both some of the best and worst performers. Oil and gas companies, utilities and auto-manufacturers saw overall improvements in their scores over the engagement period.

Leading the charge

LGIM's assessment also revealed those companies that are making significant progress and leading initiatives to address climate risk***. These include:

- **A leader in public policy:** Spanish utility **Iberdrola**, one of the largest electricity companies in the world, has called for ambitious EU emissions reductions and has lobbied for the EU to raise its carbon price (a reform that is now underway).
- **A leader in business strategy:** Oil and gas major **Total** has stated that it will put a climate-compliant 2°C scenario at the centre of its strategy. Having already made significant investments in clean energy and battery manufacturers, the company will increase its focus on renewables and natural gas.
- **A leader in transparency:** The biggest listed bank in France, **BNP Paribas**, discloses the carbon content of the power plants it finances. It also plans to reduce this in line with the global averages needed to reach the 2°C objective. The company has also recently announced that it will no longer finance the development of 'extreme' fossil fuels (coal, tar sands).

- **A leader in its statement on climate change:** The multinational food and drink company **Nestlé** has set targets to reduce greenhouse gas emissions by 2020, in line with the Paris Agreement. The company discloses these 2020 targets and how it is performing against them.

Further examples are available in the notes to editors.

Taking action against laggards

As part of the pledge, LGIM committed to vote against companies that have shown persistent inaction to address climate risk and divest its Future World range from these companies. As at the start of June, the Future World funds did not hold the following companies:

- China Construction Bank
- Rosneft Oil
- Japan Post Holdings
- Occidental Petroleum
- Dominion Energy
- Subaru
- Loblaw
- Sysco Corporation

LGIM will also vote against the re-election of the chair at these companies across LGIM's complete range of equity funds.

Meryam Omi, Head of Sustainability and Responsible Investment Strategy at LGIM said, "Climate change is a significant issue for society and investors, and we have a limited amount time to act. Our role is to ensure companies in different industries transition successfully, and therefore we are committed to helping them do that with our Climate Impact Pledge.

"Our overriding goal is to help protect our clients' investments. We engage with companies to positively influence their governance, strategy and transparency. Divestment is a consequence but it is not the aim. We want to show that the transition to a low-carbon economy is possible and work with companies towards this goal."

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Notes to editors

*Future World Funds include:

- Future World Fund, a multi-factor global equities index fund that incorporates a climate ‘tilt’ to address the investment risks associated with climate change.

- L&G Future World Equity Factors Index Fund - a unit trust version of the above fund - The L&G Future World Gender in Leadership UK Index Fund¹ (‘GIRL’ fund) GIRL fund is a UK-focused fund and therefore did not invest in any of the companies on our exclusion list.

**Positive Results through Engagement

- The board of Toyota, the world’s largest carmaker by market capitalisation, endorsed the 2°C Paris target. The company has also announced plans to make all cars available as either electric or hybrid models by 2025, and has verified independently more of its greenhouse gas emissions
- Wells Fargo, the US bank, has pledged to invest \$200 billion in climate action and sustainability by 2030
- Australia’s Commonwealth Bank has committed to phase out its lending to coal plants

***The leaders and laggards

Category	Leaders	Significant improvements since 2017
Statement on climate change	Nestlé	Daimler AG
Transparency	Statoil, Bank of America Merrill Lynch, BNP Paribas	Kraft Heinz
Board governance	BHP Billiton	Toyota
Business strategy	Total	Commonwealth Bank
Public policy	Iberdrola	EDF

LGIM assessed 84 companies on over 50 indicators. The best and worst performers in the main categories are listed below.

Statement on climate change

Leader: Nestlé has set targets to reduce GHGs by 2020, in line with the Paris Agreement. The company discloses these 2020 targets and how it is performing against them.

Laggard: Russia’s Rosneft Oil has produced a sustainability report which does not mention “climate change” a single time in its 144 pages. For investors, this provides little reassurance that the company is planning for a world that must use less of its main product.

Transparency

Leaders:

Norwegian energy company Statoil has been reporting its total emissions since 2014.

Bank of America Merrill Lynch has been publishing the carbon intensity of its US utility portfolio since at least 2012.

BNP Paribas, the biggest listed bank in France, discloses the carbon content of the power plants it finances. It also plans to reduce this in line with the global averages needed to reach the 2°C objective. The company has also recently announced that it will no longer finance the development of 'extreme' fossil fuels (coal, tar sands)..

Laggard: China Construction Bank remains the world's largest funder of coal mining and plants. While the company has increased its lending to green projects, it does not disclose the total GHG emissions associated with its business.

Board Governance

Leader: BHP Billiton, which we supported in its recruitment process for a new chair of the board. Unusual for its sector, the company has publicly discussed "the growing regulatory and societal pressures" that are making coal unattractive.

Laggard: CK Infrastructure Holdings, for which we voted against reappointing the chairman. We considered the company lacked sufficient levels of independence on the board, and its directors served in too many external roles.

Business strategy

Leaders:

Oil and gas major Total has stated that it will put a climate-compliant 2°C scenario at the centre of its strategy.

BHP Billiton has disclosed the earnings impact of various climate scenarios across the different sectors where it operates.

The silent majority: In our analysis, more companies scored better on individual criteria relating to climate risks and opportunities, highlighting a need to join these up into a coherent picture. This is precisely the role of scenario analysis, which increasing numbers of shareholders and regulators are beginning to demand globally.

Companies can no longer claim that increased disclosures will harm their competitive edge. If an oil major can publicly talk about oil demand peaking within less than a decade, there is no excuse for companies not to be forthcoming about risks and opportunities. It is the absence, not the presence, of disclosures that worries us as long term investors.

Public Policy

Leader: Spanish utility Iberdrola, one of the largest electricity companies in the world, has called for ambitious EU emissions reductions and has lobbied for the EU to raise its carbon price (a reform that is now underway). By going from being mostly fossil fuel-powered to having 60% renewable generation capacity in less than a decade, Iberdrola is 'walking the walk'. It is also talking the talk, being ranked as a True Climate Policy Leader by InfluenceMap, our data provider for this category.

Laggard: The second largest utility in the US, Southern Company, has opposed emission standards and climate legislation in the US.

Legal & General Investment Management:

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets of £983.3 billion¹. 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.

¹LGIM internal data as at 31 December 2017. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.