

Press release

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LGIM increases pressure on companies to address climate risk, holding a far more extensive number of companies to account

- *LGIM's expanded and ambitious engagement programme seeks to spur net-zero carbon emissions globally by 2050*
- *Climate ratings for circa 1,000 companies will be publicly available – a tenfold increase in analysis and coverage, with voting and investment sanctions applied to 'laggard' companies*

London, 14 October 2020 – Legal & General Investment Management (LGIM), one of the world's largest asset managers, has today released its annual Climate Impact Pledge increasing the ambition of its engagement programme.

Using quantitative metrics, including LGIM's proprietary climate modellingⁱ, climate ratings for over 1,000 companies in key sectors will be publically available under a 'traffic light' system on LGIM's website. More than a ten-fold increase in number of companies covered, the selected companies are responsible for over 60% of the greenhouse gas emissions from listed companies.

Companies identified as falling short of LGIM's minimum standards – e.g. lacking comprehensive disclosure of emissions or key sustainability certifications – will be subject to a vote against and potential divestment from select funds. LGIM intends to 'ratchet up' the stringency of both its standards and sactions over time. This announcement comes as independent analysis highlighted LGIM's strong voting stance, with LGIM being a top supporter of 'climate-critical' shareholder resolutions compared to the world's 12 largest asset managersⁱⁱ.

In 2016, LGIM committed to engage with around 80 of the largest companies in the energy, transport, food retail and financial sectors around the strength of their sustainability strategies. Companies demonstrating best practice were celebrated publicly, whilst LGIM voted against and divested poor climate performers – including **ExxonMobil** - from its Future World range of funds. The programme has contributed to positive steps taken by companies such as **Dominion Energy**, with LGIM announcing Japanese automaker **Subaru** – previously on its exclusion list – will now be reinstated in its Future World funds following improvements in emission targets and disclosures.

Since 2016, consensus has been growing around reaching net-zero carbon emissions globally by 2050 as the safest path to meet the goals of the Paris Agreement on climate change. The growing urgency has been met with significant improvements in the availability of climate data and analytics in the market. In light of these shifts, LGIM is now strengthening its Climate Impact Pledge through expanded coverage and focused company and policy engagement around the net zero challenge.

Michelle Scrimgeour, Chief Executive Officer, Legal & General Investment Management and member of UK Government's COP26 Business Leaders Group, commented: "As governments around the world are set to announce new and ambitious climate policies ahead of next year's COP26 conference, investors must also step up. Through our engagement programme renewed to align with the net zero challenge, we want to help steer companies and our clients towards success in a low-carbon world".

Meryam Omi, Head of Sustainability and Responsible Investment Strategy at LGIM, member of the COP26 High Level Champions Team – Finance added: "Inaction on climate change threatens the long-term stability of the market, but we know engagement with consequences can get companies to change. The challenge is having more speed and scale. That is why we are combining cutting-edge data with in-depth research into key sectors to support companies that are building resilient strategies, and systematically hold to account those that are not".

Lord Nicholas Stern, IG Patel Professor of Economics and Government at the London School of Economics (LSE) and Chair of the Grantham Research Institute on Climate Change and the Environment, commented: 'There is mounting evidence that firms that put sustainability at the heart of their strategy perform better, too. It is vital that asset managers like LGIM must continue to use their influence to accelerate the sustainability revolution across all sectors'.

Commitment to transparency

LGIM's assessment companies on metrics ranging from overall governance through to emissions targets and companies' climate-related lobbying activities. Since 2019, the climate scores under LGIM's original approach have increased across most sectors, while the scores for all sectors have improved since the start of 2016.

LGIM notes positive steps taken in the extractive industries, by companies such as **BHP** and **BP** adopting net zero targets and setting carbon goals for their customers. LGIM has co-led engagements with BP under the ClimateAction100+ investor coalition.

Celebrating reformers, seven of the ten companies that have registered the largest improvements since 2019 had been previously named by LGIM as 'laggards', leading to reinvestment in some cases.

At a regional level, there has been overall progress in the average scores of most countries, with some of the highest year-on-year improvements in Australia, Japan and South Korea. In the US, LGIM finds the number of companies explicitly discussing climate risks and opportunities has grown, despite federal plans to withdraw from the Paris Agreement. However, LGIM's research also uncovered a significant divergence between the leaders and laggards, with sectors such as food retail declining year on year. The environmental impact of food and agriculture remains an area of concern for LGIM, who has recently engaged with the Brazilian government around Amazon deforestation¹.

Whilst welcoming the growing climate ambitions of investee companies, LGIM cautioned against 'greenwashing', noting an increase in their associated reputational risks, as measured by machine-learning-based metrics.

Meryam Omi continued, "Transparency is key – companies must be consistent in what they declare publicly and how they lobby governments behind the scenes. And investors must be transparent about how they assess companies. By making our climate ratings publicly available, we want to encourage companies to address gaps in their disclosures and strategies, whilst adding a layer of public accountability."

The announcement comes shortly after LGIM was selected by the UN Principles for Responsible Investment as part of its 'leaders group' on climate change².

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Notes to editors

The leaders and laggards

ExxonMobil, Hormel, Kroger, Sysco, Rosneft Oil, KEPCO, Loblaw, MetLife, Japan Post Holdings and **China Construction Bank** will remain on LGIM's exclusion list.

Companies and sectors discussed positively in the report include:

- **Utilities** continuing to have the highest score, reflecting the relentless progress of renewable energy. The charge to phase out coal – led by progressive European utilities such as **Enel** – is

¹ <https://www.bloomberg.com/news/articles/2020-07-09/after-snubbing-donations-for-amazon-brazil-hopes-they-ll-resume>

² <https://www.unpri.org/the-pri-leaders-group/4771.article>

now reverberating in markets that had previously resisted change, including some regulated utilities in the US and in South-East Asia.

- **Automakers** pursuing the rapid development of electric vehicles.
- The **mining sector** is increasingly embracing its role as an enabler of a mineral-intensive low-carbon transition - with **BHP** announcing plans to phase out their thermal coal assets and partnerships to support the decarbonization of steel and shipping.
- **Banks and insurance** companies have made notable commitments including **Commonwealth Bank of Australia's** and **Chubb's** vow to halt coal financing and **Lloyds Banking Group's** plans to halve the carbon it finances over the next decade.
- In the **oil and gas** sector, all European oil majors have announced net-zero emissions targets. These include not just their operations, but also the use of their products (by far the largest source of emissions for the industry), with **BP** planning to curb oil and gas production significantly, broadly in line with global climate targets. Such moves mark a remarkable shift for an industry that only a few years ago was resolutely opposed to setting carbon targets
- **Food retail** - the only sector to have declined year-on-year, food retail remains an area of concern, as its scores for verification of greenhouse gas (GHG) data, governance and targets have declined. LGIM has been engaging with food companies about the role of deforestation in their supply chain and the transition of product portfolios towards lower-impact alternatives. However, there are a variety of approaches taken in the industry, with companies such as **Nestlé** modelling the impact of a changing climate on their coffee, cereals and dairy production and **General Mills** bringing regenerative, carbon-storing agriculture techniques in its supply chain.

Legal & General Group Plc, LGIM's parent company, has also pledged to align its balance sheet and overall business with the 1.5°C temperature goal of the Paris Agreementⁱⁱⁱ.

Key Risk Warnings

Reference to a particular security is for illustrative purposes only, 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.

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.

Legal & General Investment Management:

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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 (€1.4 trillion, CHF 1.5 trillion, JPY 166 trillion, \$1.5 trillion)¹. 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 30 June 2020. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions

In 2020, independent NGO ShareAction ranked LGIM #1 among asset managers for its approach to climate change^{iv}.

ⁱ For more details on LGIM's climate modelling capabilities, please see: <https://www.legalandgeneralgroup.com/media-centre/press-releases/lgim-announces-climate-solutions-capability-powered-by-risk-and-alignment-framework-co-developed-with-baringa-partners/>

ⁱⁱ Majority Action, Climate in the Boardroom, How Asset Manager Voting Shaped Corporate Climate Action In 2020, available at https://static1.squarespace.com/static/5d4df99c531b6d0001b48264/t/5f6976e5f6b47e5e50c11430/1600747275103/MA_ClimateintheBoardroom_2020.pdf

ⁱⁱⁱ For more details on L&G Group's commitments, please see <https://www.legalandgeneralgroup.com/media-centre/reports/tcfd-report-2019/>

^{iv} <https://shareaction.org/research-resources/point-of-no-returns/>