Legal & General Group plc

Targets aligned to the Net-Zero Asset Owner Alliance (NZAOA) Target Setting Protocol[1]

Background

The Legal & General Group plc (L&G) 2021 Climate report, found here, provides investors and other stakeholders with an understanding of our exposure to climate-related risks, our strategic resilience to these risks, and the climate-related opportunities we have identified. It also contains the set of decarbonisation targets and activities relating to our portfolio of proprietary assets on the group balance sheet.

In addition, L&G joined the UN-convened Net-Zero Asset Owner Alliance (NZAOA) in May 2021, with commitments to (amongst others):

- set intermediate individual targets, in line with the Alliance's Target-Setting Protocol, within 12 months of joining
- publish intermediate individual targets
- disclose annually and publicly on progress towards intermediate individual targets, including on investment portfolios' emissions profile and emissions reductions
- report intermediate individual targets and annually on progress towards intermediate individual targets, via the internal Alliance reporting template/tool for aggregation and publication in the Alliance progress report.

Further information on the alliance is found here.

This report contains additional and complimentary targets, in line with our NZAOA commitment above, to our headline suite contained in the 2021 Climate report.

Introduction

Our NZAOA commitments focus on three areas:

'Sub-Portfolio' targets: Sub-portfolio targets cover asset classes where credible methodologies and sufficient data coverage exist today.

Engagement targets: Engagement targets track our engagement activities and progress with individual corporates, identifying the 20 highest emitting company holdings in our portfolio which do not already have Paris-Aligned business transition commitments.

Financing Transition commitments: Commitment to annually disclose transition-focussed financing activity and engage with the NZAOA's financing working track.

[1] In line with the 2021 Target Setting Protocol: https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf

Sub-portfolio target

L&G are committed to alignment with the 'Paris' objective in line with global efforts to limit warming to 1.5°C. Our 2021 Climate Report contains targets for the carbon intensity of our portfolio of proprietary assets on the group balance sheet in order to monitor alignment with 'Paris', including reducing our full portfolio GHG emission intensity by 18.5% by the start of 2025 and by 50% by 2030, from a baseline of end 2019.

In alignment to the NZAOA target setting protocol, we have now introduced an additional target, solely focussed on the subset of asset classes defined below:

L&G commit to an 18.5% CO2e emission intensity reduction by start of 2025 (from base of end 2019) across their combined traded bonds & equities, real estate and infrastructure (debt and equity holdings) asset classes.

Our 2019 baseline score for this subset of asset classes[2] (covering 72% of our £83bn of group proprietary assets qualifying as Scope 3 – investment emissions[3]) is 95 tCO2e/£m [4], compared to a score of 91 tCO2e/£m [5] on our full portfolio.

The end 2021 sub-portfolio score has reduced by 20.7%, slightly more than the full portfolio reduction of 18.9%, noting that our 2021 scores will have included a material reduction due to temporary Covid-19 impacts which we expect to at least partially unwind during 2022.

Note: Disclosure of climate and emissions data is evolving and remains a 'best endeavours' analysis. We rely on third-party data and there are still large segments of the listed company universe where we are forced to rely on estimated rather than actual emissions data, or where there is no data at all. We will continue to encourage companies to measure and report their emissions through our engagement activities.

[2] As at end 2019, excluding sovereigns, supras, sub-sovereigns, lifetime mortgages, non-real estate and infrastructure private debt & equity, cash, derivatives and operating assets captured in our operational footprint
[3] As at end 2019, excluding cash, derivatives and operating assets captured in our operational footprint
[4] Measured on an "Enterprise Value Including Cash (EVIC)" basis. Note this score has been adjusted for data sourcing and methodology changes since end 2019 for consistency with the end 2021 score.
[5] Measured on an "Enterprise Value Including Cash (EVIC)" basis. Note this score has been adjusted for data sourcing and methodology changes since end 2019 for consistency with the end 2021 score.

Engagement target

L&G, through our investment management business, LGIM, continues to build on our market-leading corporate engagement on climate through our award-winning Investment Stewardship team. As for our portfolio decarbonisation targets, LGIM's engagement approach is described within our 2021 Climate Report, including expansion of the Climate Impact Pledge in 2020 and continuing to meaningfully engage on climate issues with global companies, representing c.60% of all GHG emissions from the largest listed companies as of April 2021.

Linking L&G's proprietary asset portfolio to LGIM's engagement activities, L&G have explicitly requested target engagements from LGIM, through the Group Environment Committee, as follows:

L&G, through LGIM, commit to increase the number of annual engagements with L&G's investment portfolio top 20 emitters, which do not already have Paris-Aligned business transition commitments, from 8 in 2019 to 20 by 2025.

This target focusses on the number of companies engaged on the topic of Paris-aligned climate business transition commitments, on an annual basis. The number of engagements with each company each year is subject to LGIM discretion and dependent on individual company progress.

We have defined companies as having Paris-aligned transition commitments if:

1) they have an SBTi-approved science-based target or
2) they: a) are scored as "Below 2 Degrees" on the Transition Pathway Initiative (TPI) benchmarking tool, and b) have an "Implied Temperature Alignment" score of 2 degrees or less from our internal Destination@Risk tool.

The list of 20 companies will remain static where appropriate, although will be subject to annual review and amendment in the event of exposure maturity, divestment, or other extenuating circumstances, within the target setting period.

Note, the above is a small subset of LGIM's wider climate-focussed engagement activities, as explained in LGIM's Active Ownership report, including LGIM's Climate Impact Pledge and as a member of Climate Action 100+.

Financing transition commitment

As stated in our 2021 Climate Report, L&G have invested £1.4bn in renewable energy investments, across listed equity, private equity and infrastructure debt & equity asset classes and continue to look for opportunities to finance the transition. Particularly on the equity side, we invest in early-stage innovative clean technology companies and low carbon renewable energy infrastructure needed to meet UK and global UN climate targets and Sustainable Development Goals.

Outside renewable energy, Pod Point, an electric vehicle charging business in which we hold a c14% stake post its initial public offering (IPO) in 2021, is rapidly building its business to meet increased consumer demand for electric vehicles. We also recently announced a new investment in Sero Technologies, an energy technology and service company, which creates tailored net zero energy retrofit plans for the residential sector. This builds on a 36% stake in The Kensa Group, made in 2020, who are ground source heat pump technology specialists.

For new developments and capital works within real estate, ambitious sustainability targets and requirements such as BREEAM and Soft Landings have been in place for a number of years. In particular, our Cardiff Interchange development will, by targeting BREEAM Outstanding and WELL Platinum, showcase our sustainable commercial real estate development credentials.

To support the continual evolution of climate solution investments:

L&G commit to maintaining representation on the NZAOA financing working track for 5 years.