For professional investors only. Not to be distributed to retail investors. All investing involves risk.

Climate Impact Pledge 2022

Net zero: Going beyond ambition

Executive summary

LGIM's Climate Impact Pledge is the targeted engagement campaign we began in 2016 to address the systemic issue of climate change.

Our programme initially focused on 80 companies, with divestment sanctions associated with a single fund. It has now expanded to around 1,000 companies, with potential exclusions applied to over £87 billion[1] of our assets, including all our auto-enrolment default funds in Legal & General Workplace pensions and the Legal & General Mastertrust.

This is LGIM's sixth annual Climate Impact Pledge. Our report details the changes since 2021 and outlines LGIM's approach to climate stewardship. In the first half, we present a data-driven overview of how our ratings have evolved across different sectors and regions; in the second, we present case studies of our engagements with companies on our priority list in each sector.

Over the past year, we have seen significant progress across all sectors, as more companies set decarbonisation and net zero ambitions and the number of those we sanctioned for not meeting our minimum expectations decreased by over 35% since 2021.

Highlights include:

Out of the 59 companies we engage directly with, we will divest across select funds from two for failing to respond satisfactorily to our engagement efforts[2]

- A further 12 companies remain on our existing exclusion list
- We will vote against a further seven companies as a sanction

Successful engagement has led us to reinstate one previously divested company into a range of funds[2]

During the 2022 proxy season, 80 companies out of the larger universe of 1,000 are currently subject to voting sanctions for not meeting our minimum climate change standards[3]

In addition to targeted engagement, ahead of the 2022 proxy season, we also published **our criteria** for supporting management-proposed climate transition plans. These include the disclosure of short, medium and long-term targets covering all material scopes of emissions, aligned to a 1.5 °C trajectory for global temperatures.

1. As at 31 December 2021
2. Companies are divested from selected funds with £87 billion in assets (as at 31 December 2021), including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.
3. Voting sanctions apply to companies not meeting minimum standards, in 15 pre-determined sectors and that are MSCI ACWI constituents. Voting sanctions are applied across LGIM's equity holdings.

Foreword

Advancing the climate transition amid global turmoil

Michelle Scrimgeour
CEO, Legal & General Investment Management, and co-chair of COP26 Business Leaders

In the foreword to our last Climate Impact Report, back in 2021, I asked whether we would be able to meet in person at the COP26 climate summit in Glasgow, given the pandemic that was dominating our lives at the time.

Since then, we have seen yet another series of seismic shifts, as two additional, linked crises have emerged – the tragic conflict in Ukraine and a surge in the cost of living. Against this backdrop, some have asked whether the energy transition should remain a priority for investors.

The health of our planet is indivisible from that of the world economy, politics and society. I believe that our work on the energy transition is made more crucial, not despite these other challenges, but because of them.

Nevertheless, we need to remember that this is a transition – a marathon, not a sprint. We need to stay the course and work with all the actors who are part of this monumental shift.

As you know, COP26 did indeed go ahead in person, and I was proud to represent Legal & General as co-chair of the COP26 Business Leaders Group alongside the government minister, Rt Hon Alok Sharma MP, President of COP26.

We made some real progress during the talks, particularly in renewed commitments to halt deforestation and phase down coal. However, as it stands today, companies are not going far enough to meet the goal of constraining global warming to 1.5°C by 2050.

With one estimate showing that listed corporates are responsible for 40% of global emissions,[4] it's imperative that they step up.

As you will read, many of our investee companies are increasingly on board, with a slew committing to net-zero targets, which therefore led us to vote against companies on 35% fewer occasions over the past year than during the previous one. Yet there remains much more to be done, particularly in setting out detailed plans of how to get there. We do not shy away from difficult conversations. The 59 priority engagements and 14 companies on our divestment list are testament to our commitment to continue pressing for higher standards in the market. It's not principles before profit. It's simply good business sense.

Beyond working with policymakers and supporting our clients in transitioning their portfolios to net zero, one of the key means by which asset managers can support the move to a low-carbon economy is by acting as responsible stewards. That means engagement with the companies in which we invest on behalf of our clients.

From a personal perspective, my experience as co-chair of the COP26 Business Leaders Group over the past 18 months has demonstrated the power of bringing together diverse stakeholders from different companies, sectors and geographies to advocate for change. That's why we're proud to be working with governments across the world through initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), the Sustainable Markets Initiative (SMI) and the UK Transition Plan Taskforce (TPT).

So, as we move towards COP27, I'm excited by what we can achieve together – not just as one company, country or investor collective, but as many – to tackle the urgent challenge of climate change.

4. Source: https://www.generationim.com/our-thinking/news/listed-companies-account-for-40-of-climate-warming-emissions/

Why and how we assess companies on climate issues

Our ambition has always been to raise standards across and within sectors

In 2016, LGIM launched the Climate Impact Pledge with targeted voting and investment sanctions for companies, creating an annual ranking of corporate leaders and laggards on climate change.

In 2020 we expanded the programme to about 1,000 global companies in 15 'climate-critical' sectors. We published the first results of this new expanded methodology in June 2021.

LGIM has made a commitment to support the transition to reach net-zero greenhouse gas emissions by 2050 or sooner across all assets under management, as an asset manager broadly invested in the world economy.

In order to achieve our target, we need the market to act on decarbonisation. Engaging on climate change with portfolio companies is therefore critical.

From apparel and airlines to technology companies and utilities, the approximately 1,000 companies in the 15 climate-critical sectors we have chosen are responsible for more than half of greenhouse gas emissions from the world's largest listed companies.[5] To assess them, we draw on around 65 datapoints, leverage LGIM's proprietary Destination@Risk climate modelling tool as well as third-party data, while focusing on **five key pillars:**

1

Governance

How is the oversight of climate issues exercised at the board level and communicated to investors?

Climate governance

Disclosure - TCFD reporting and Scope 3 emissions

2

Strategy

What policies do companies have in place, and what policies are they lobbying governments for?

Company policies

Climate lobbying

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?

Climate value-at-risk

Green opportunities

4

Scenario analysis

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

Paris alignment

5

Metrics and targets

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

Net-zero ambition

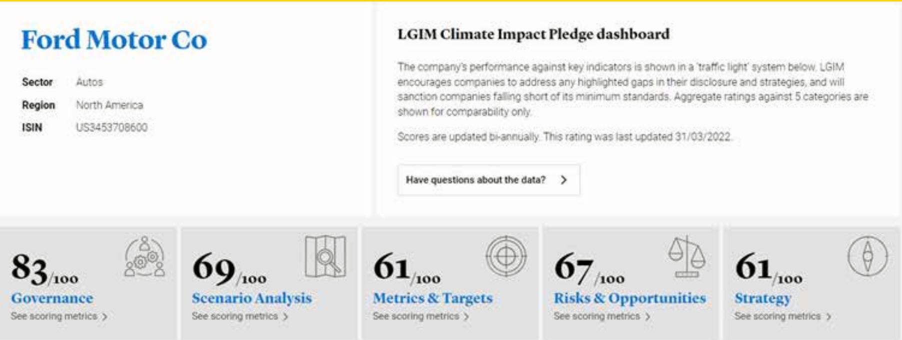
Emissions intensity and trajectory

5. https://www.lgimblog.com/categories/esg-and-long-term-themes/climate-impact-pledge/

In our efforts to demonstrate the same transparency that we expect from the companies in which we invest and to raise standards across the market, we make our climate ratings publicly available under a 'traffic light' system, as detailed below, alongside details of our key expectations and 'red lines' for each sector.

Regulators and legislators globally are now pushing for increased disclosure and following COP26. The focus is turning towards the development of credible transition plans. During 2022, we are further expand the reach of the programme and strengthen our expectations of companies' management of climate risks and opportunities.

Illustrative company ratings under our dashboard*



Illustrative sector guides available on our dashboard

*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.

How our ratings are evolving

Ratings are climbing for countries and sectors around the globe

While Europe still leads the pack, we are seeing a strong upward trend in terms of average scores across geographies. Japan and emerging markets stand out as the regions that have seen the most significant improvements in the past year.

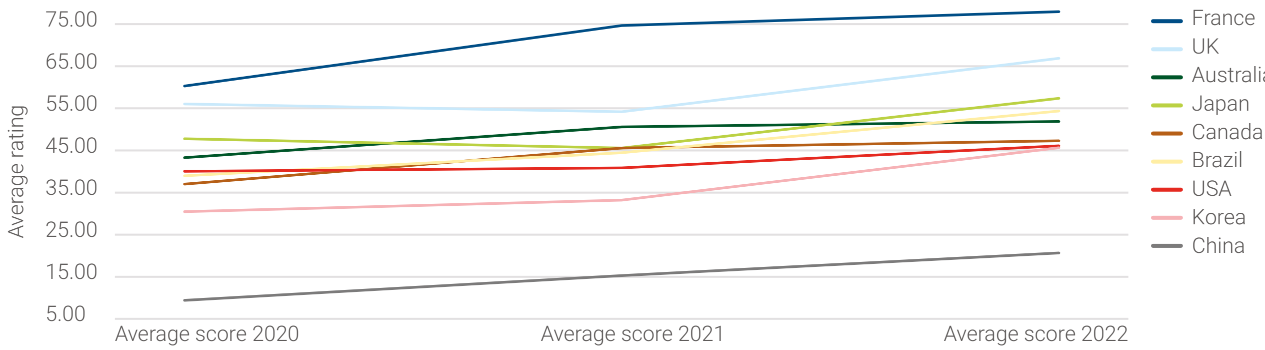
Average ratings (out of 100) in key regions and select countries

	Europe (ex-UK)	Japan	North America	Emerging markets	UK	Asia Pacific (ex-Japan)
April 2022 rating (avg.)	68	57	48	33	68	48
Change since 2021 (%)	+12%	+25%	+10%	+21%	+10%	+9%

Europe still leads the pack, but companies in Japan and in emerging markets are making significant improvements.

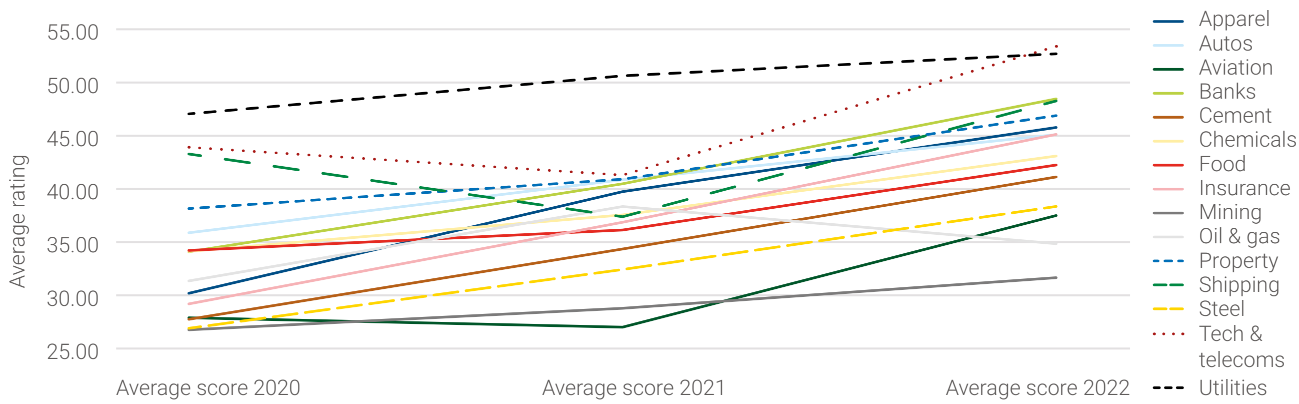
Source: LGIM, as at April 2022.

Average ratings in select countries (2020-2022)



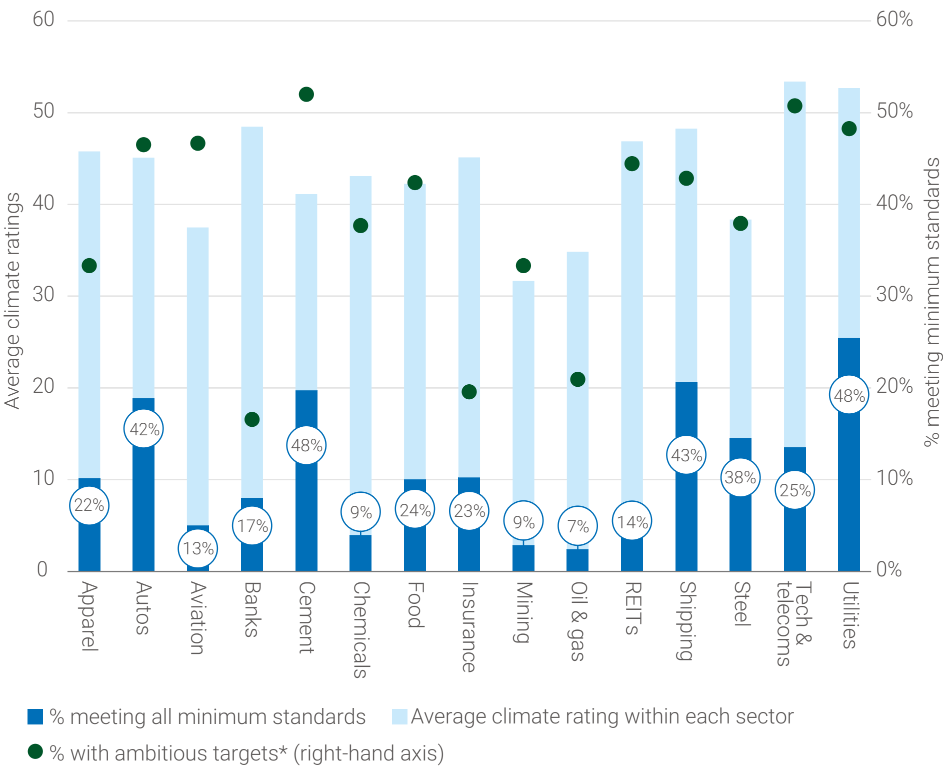
Source: LGIM, as at April 2022. For illustrative purposes only.

Average ratings in climate-critical sectors (2020-2022)



Source: LGIM, as at April 2022. For illustrative purposes only.

Average climate scores and minimum standards in sectors

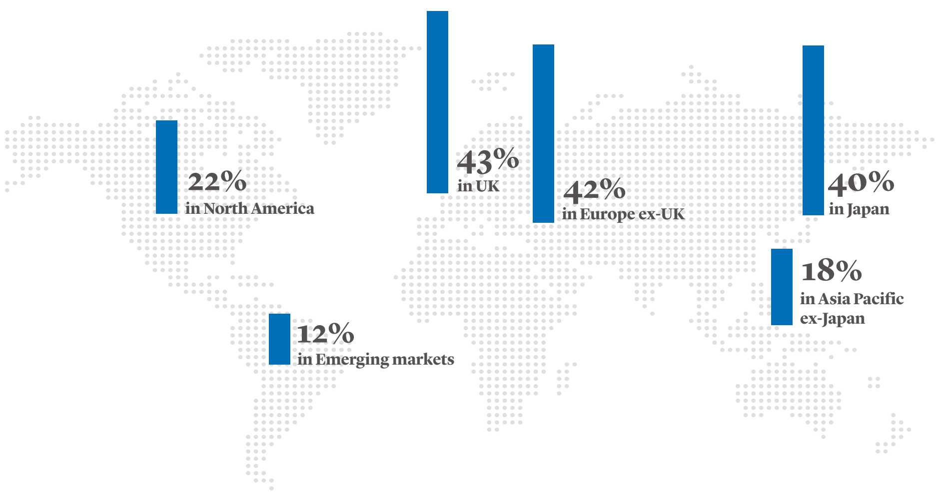


Source: LGIM, as at April 2022. The height of the bar represents the average climate rating within each sector. The numbers in circles denote the percentage of each sector meeting all of our minimum standards. For illustrative purposes only.

Looking across sectors, there has been steady progress. Despite noticeable improvements, extractives, steel and aviation still lag behind.

We recognise that the challenges for these sectors are significant, but still urge companies to collaborate across value chains to find realistic pathways to decarbonisation.

Companies meeting minimum standards by region



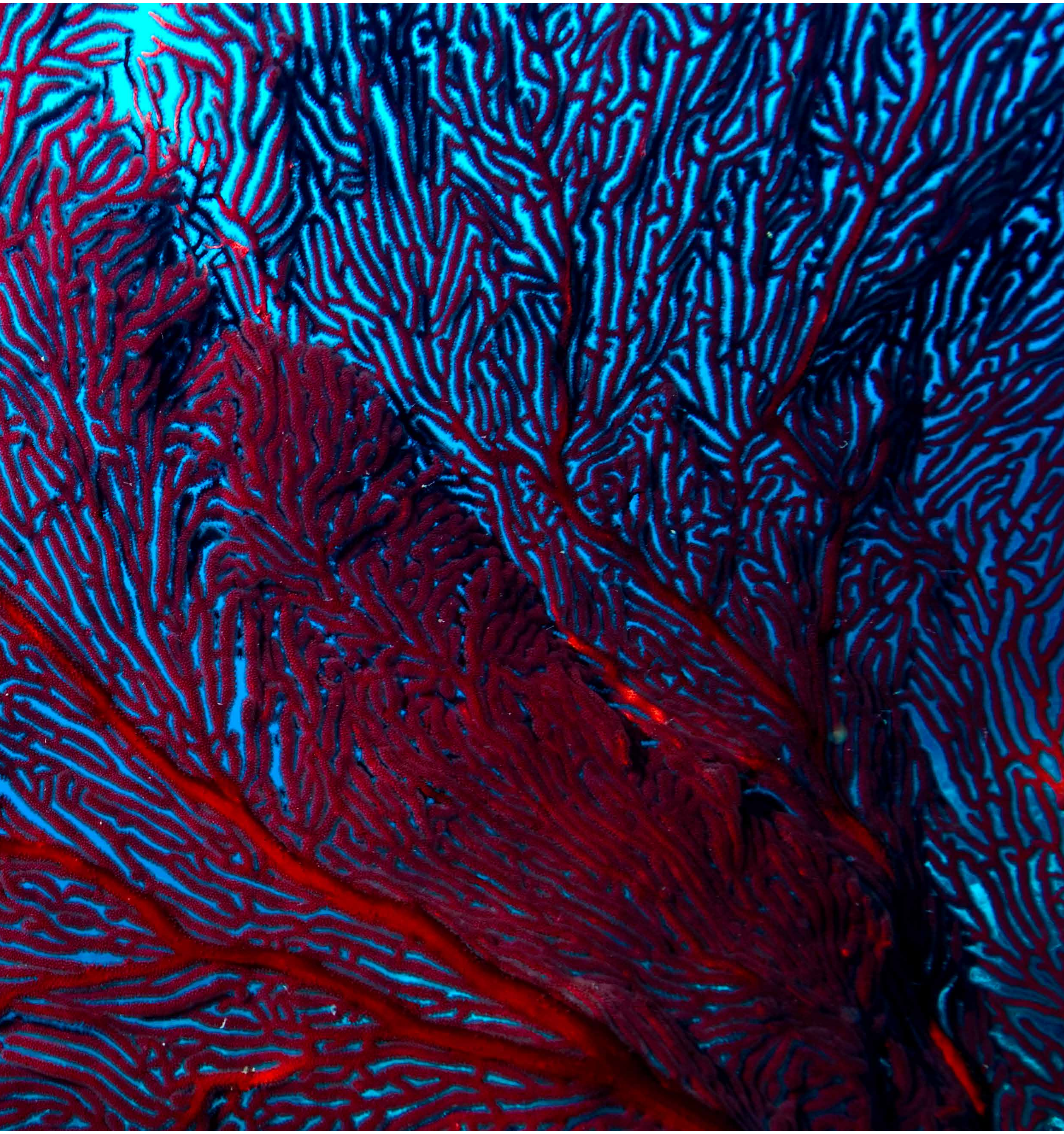
Source: LGIM, as at April 2022

In terms of average ratings, Japanese companies have overtaken North America. Japan and emerging markets were the regions which saw the largest increase since 2021.

However, only 12% of emerging-market companies meet all our minimum standards and only around a fifth of companies in North America and Asia (ex-Japan).

While we continue to be encouraged by the rapid growth in the number of companies with net zero commitments, across sectors and markets, we are observing a lack of detailed transition plans to support these targets.

As 2022 goes on, we will continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps out to 2050, to accompany their public announcements. Ultimately, however, the momentum behind the net-zero transition is unmistakeable: the percentage of companies setting ambitious decarbonisation targets has almost doubled in a year. Even where companies do not yet have net-zero aligned transition plans in place, practices are improving. The number of companies sanctioned for not meeting our minimum expectations has decreased by over 35% since 2021.



Engagement in detail

Translating engagement dynamics into voting sanctions

To help improve climate accountability across sectors, under our expanded policy in 2020 we announced that we would be voting against all companies globally that do not meet at least one – or, for companies in North America, Europe and Australasia, three – of the minimum standards outlined below. We are pleased to note an unmistakable improvement in company practices: in 2021, we sanctioned 130 companies for failing to meet minimum standards, in 2022 that number has decreased to 80.

Minimum voting standards under the Climate Impact Pledge

<table>
<tr><th>Does the company...</th><th>Sectors</th><th>Data provider</th></tr>
<tr><td>Have board member(s) with responsibility for climate-related issues?</td><td>All</td><td rowspan="6">CDP*</td></tr>
<tr><td>Have comprehensive climate disclosures?</td><td>All</td></tr>
<tr><td>Disclose scope 3 emissions from use of sold products?</td><td>Oil & gas, mining, autos, chemicals</td></tr>
<tr><td>Disclose scope 3 emissions from purchased goods and services?</td><td>Apparel, food, autos, chemicals, tech & telecoms</td></tr>
<tr><td>Disclose scope 3 emissions from downstream leased assets?</td><td>REITs</td></tr>
<tr><td>Disclose scope 3 portfolio emissions?</td><td>Banks, insurance</td></tr>
<tr><td>Have an environmental policy?</td><td rowspan="2">All except financials</td><td rowspan="8">Sustainalytics*</td></tr>
<tr><td>Have a GHG reduction programme?</td></tr>
<tr><td>Have a (no) deforestation programme?</td><td>Food</td></tr>
<tr><td>Have sustainability-linked underwriting standards?</td><td rowspan="2">Insurance</td></tr>
<tr><td>Have a responsible investment programme?</td></tr>
<tr><td>Have sustainability-linked credit & loan standards?</td><td>Banks</td></tr>
<tr><td>Consider environmental impact in product design?</td><td>Apparel, autos</td></tr>
<tr><td>Disclose life-cycle assessment (LCA) of emissions?</td><td>REITs</td></tr>
<tr><td>Demonstrate a year-on-year reduction in emissions intensity?</td><td>All</td><td>ISS*</td></tr>
</table>

Source: Sustainalytics, ISS, CDP - 2022

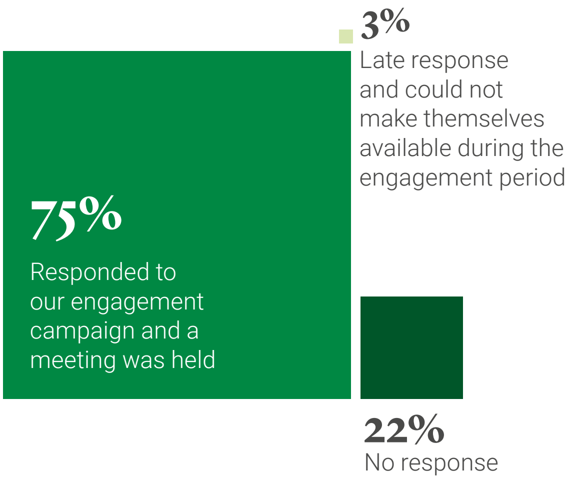
The percentage of companies subject to voting sanctions for not meeting our minimum climate-change standards has decreased by over 35% - highlighting the impact of our approach and the increased global focus on climate change.

By linking the votes to specific data points aligned with our principles-based approach, we aim to exert our influence more consistently and broadly across markets.

However, we also recognise the importance of deeper individual engagements. That is why, across the sectors under our Climate Impact Pledge, we have selected 59 companies[6] for in-depth engagement, in which sector experts from across LGIM's investment teams collaborate with our stewardship team.

These 59 companies are influential in their sectors, but in our view are not yet leaders on climate change. We believe that they have the means not only to embrace the net-zero transition, but to have a significant and positive trickle-down effect across their sectors and value chains by doing so. In the second half of 2021, we updated our assessment framework to put more emphasis on not only net-zero objectives, but also to encourage companies to demonstrate robust transition plans and interim targets on how to get there.

We continue to see positive response rates to our engagement, with three quarters responding:



Source: LGIM, as at April 2022. Response rate in 2021 was 74%.

6. Companies were selected using both a quantitative and qualitative approach. From a starting universe of 15 'climate critical' sectors in the MSCI ACWI Index (approximately 1,000 issuers), those companies with both large market capitalisation, and relatively poor performance on our assessment framework were selected for in-depth engagement.

The following table provides some details on our engagements across sectors, including areas of progress and where challenges remain.

Sector	Our expectations	Recent engagements
Oil & gas	Setting targets for their own operations, and providing information on the alignment of capital expenditure and production plans with climate outcomes.	We are encouraged by the steps taken by key companies in this sector this year, including **Exxon Mobil***, to strengthen their climate transition targets and raise the level of ambition on the road to reach net zero by 2050. However, there remains more to do, particularly around downstream emissions from sold products, and we will continue targeted engagements to push for action in this area.
Mining	Accelerating the move towards transition-enabling metals and minerals and the shift away from fossil fuels.	We welcome the recent commitments made by **Glencore*** with regards to prioritising investments in metals that support the energy transition and strengthening its interim emissions-reduction targets. However, we note that the company's exposure to coal is material and remain concerned about its lack of time-bound commitments to reduce this or exit entirely, given the need to rapidly phase out coal to meet the global 1.5°C target.
Electric utilities	Scaling up renewables and phasing out thermal coal.	We have been pleased to note that **KEPCO*** and **PPL*** have made their emissions reduction targets more ambitious, and **KEPCO*** has set a strong renewables target. However, we have concerns about the pace of the phase-out of thermal coal generation – we continue to stress that thermal coal must be phased out in the OECD area by or around 2030
Steel and cement	Growing rates of recycling and decarbonising industrial processes.	As the largest global cement producer, our engagements in this sector are focused on China. Despite some European peers developing climate transition plans, we remain concerned about the lack of progress in China. This year, we are announcing the divestment from **China Resources Cement*** owing to their failure to evidence a decarbonisation strategy. As with cement, decarbonising steel is challenging and will require collaboration by companies across value chains and the public policy sphere. The availability of scrap steel and the feasibility of utilising green hydrogen also differs between regions.

*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.

Sector	Our expectations	Recent engagements
Chemicals	Investing in alternative feedstocks and decarbonising industrial processes.	The chemicals sector appears to be moving in the right direction, setting net-zero commitments and operational emissions reduction targets. However, more must be done: scope 3 emissions targets are lagging, with some companies only just beginning to calculate these emissions. We'll continue to engage with companies to prioritise the decarbonisation of feedstocks, introduce circular-economy strategies and products which enable a low-carbon transition for other sectors.
Autos	Building alternative powertrains, scaling up charging infrastructure, and improving the range of electric vehicles.	Our engagements with automakers have yielded improvements from the prior year. **Honda*** escalated the ambition of its decarbonisation commitment by aligning it to a 1.5°C scenario. Targets at **Ford*** and **Honda*** are progressing towards SBTi approval, and the sector is embracing timebound targets for the transition towards electric vehicles. We will continue to seek interim targets for progress-measurement purposes.
Airlines	Identifying the fuel of the future.	We recognise the difficulty in decarbonising the aviation sector. Whilst the sector does recognise the need to decarbonise, and there are identifiable leaders within the industry, there are others that have room for improvement. We will continue to engage with laggard companies to encourage them to set operational emissions reduction targets over the short, medium and long term, and pursue new technologies through R&D and policy advocacy.
Apparel	Improving circularity of materials and rooting out deforestation from supply chains.	We appreciated our engagement with **TJX*** and were pleased to see them set new targets around net-zero emissions, renewable energy usage, waste reduction and packaging improvements. We hope this momentum will continue, and eventually result in improvements with scope 3 and deforestation policy disclosures.
Food	Shifting away from high-impact products and decarbonising agricultural supply chains.	Progress continues within the food sector: **Loblaw*** has set net zero targets and is embarking on transition plans; **Hormel Foods*** has committed to submit net-zero targets for SBTi approval. Encouragingly, all food companies are growing their ranges of low-impact products, and some are embracing regenerative farming. However, governance of and progress on deforestation risk across the sector are still not meeting expectations.

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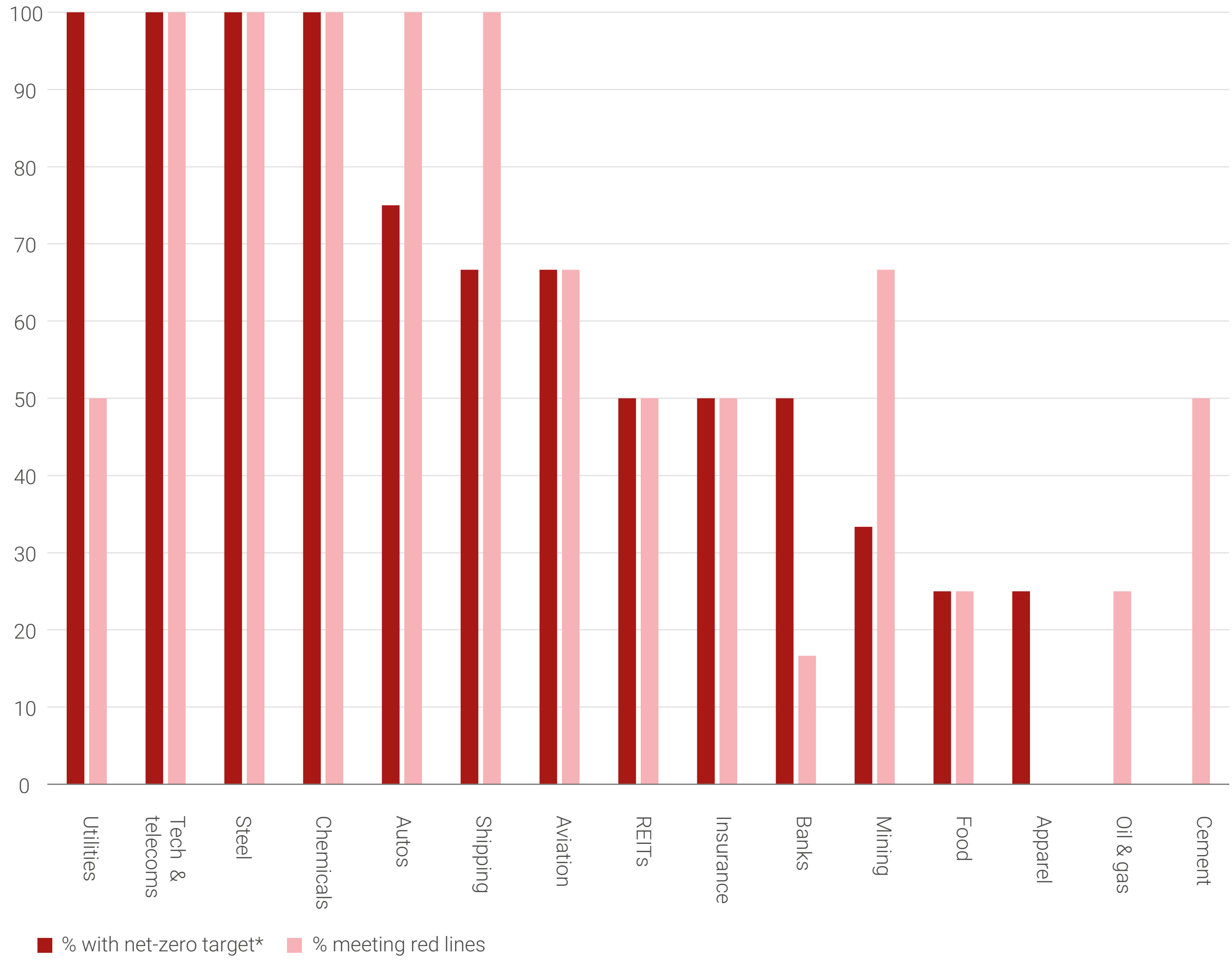
Sector	Our expectations	Recent engagements
Banks	Shifting financing away from 'brown' to 'green'.	2021 saw milestone commitments by the banking sector: with enhanced levels of engagement and disclosure indicating the positive momentum and increased urgency with which the sector is tackling climate change. We will continue to monitor developments closely to ensure that encouraging words are followed by actions such as strong 1.5°C-aligned targets for financed emissions, and improved disclosures on these emissions across sector exposures.
REITs	Adopting operational emissions reductions.	The level of climate risk awareness and management varies widely among real estate sub-sectors, with companies focused on office buildings tending to outperform other speciality REITs. We are heartened by the increased management focus this topic receives; more companies are now trialling methodologies to calculate embodied carbon. Amid sector-wide progress, companies failing to disclose or take action on operational portfolio emissions stand out, leading to us divesting from **Invitation Homes***.
Shipping	Operational innovations to increase fuel efficiency, low-carbon fuel switching, and investment and uptake of low-emission technologies.	While improvements in operational efficiency are important, the key to net zero shipping lies in the development and roll-out of green shipping technologies and supporting infrastructure. We are pleased to see **NYK's*** timeline for the planned integration of net-zero ships into the fleet and to hear how it is readying its shipyards to deliver these. We also welcome **Misc Bhd*** raising the ambition on interim targets, going beyond the requirements set out by the IMO.
Insurance	Shifting investments and underwriting activities from 'brown' to 'green'.	Following five years of dedicated engagement, we were delighted that **Japan Post Holdings*** provided its scope 3 investment emissions alongside 'net zero by 2050' commitments, with expectations of reducing portfolio emissions by 50% by 2030; these supplement their 2021 thermal coal policy. We were pleased to see **AIG*** announce a commitment to net zero by 2050 or sooner across underwriting and investment portfolios, as well as thermal coal restrictions. We look forward to the company's scope 3 disclosures and interim targets.
Telecoms	Decarbonising data centres.	We were encouraged by the openness of Japanese telecoms company **Softbank*** in its first ESG investor conversation. However, we were disappointed by the lack of action on its more material sources of emissions. We will continue to engage with the company and would expect to see improvements in disclosure, as well as an increased recognition of the sector's role in global decarbonisation efforts – and therefore the importance of its actions.

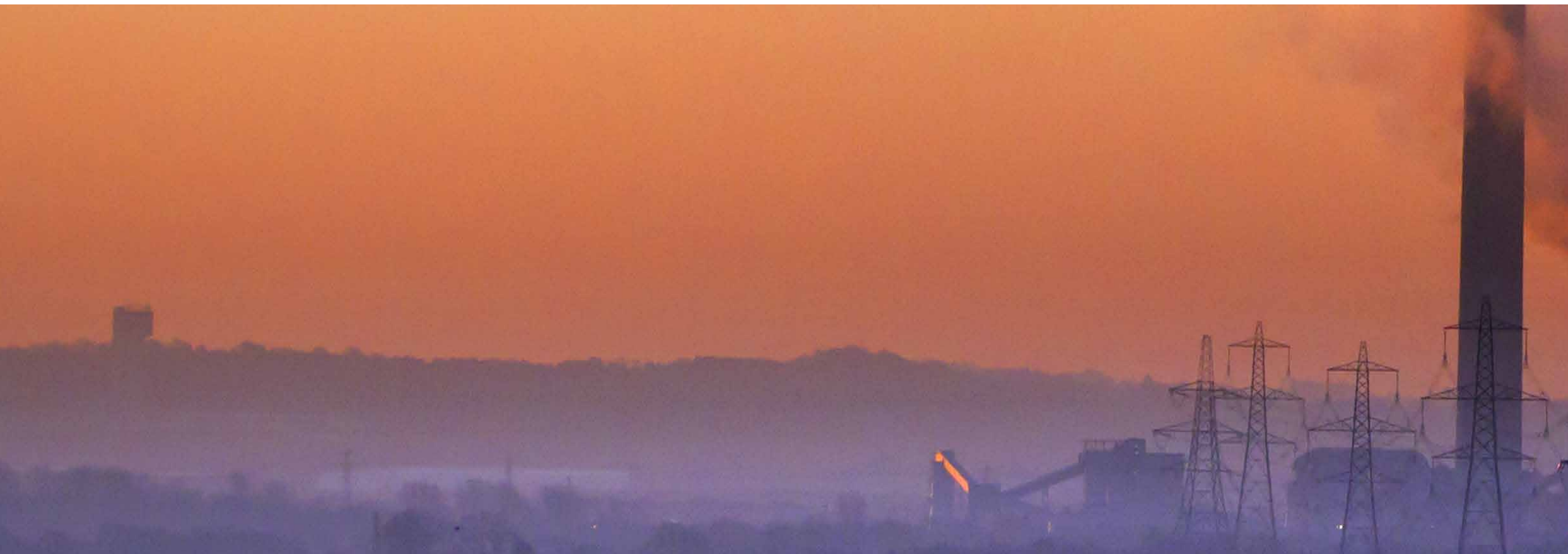
*For illustrative purposes only. Reference to a particular security is on a historical basis. The above information does not constitute a recommendation to buy or sell any security.

31 of the 59 companies that we engage with in-depth have now set a net-zero target, an increase since 2021. However, progress must continue, with many companies still not meeting our 'red lines', as illustrated on the next page.

Minimum expectations and net-zero ambitions for companies on LGIM's direct engagement list



Source: LGIM, as at April 2022. For illustrative purposes only.
*We consider as net-zero targets those that include all material scopes of emissions.



‘Red lines’ for LGIM’s priority engagement companies	Sectors
No operational emissions target	Cement, airlines, shipping, steel, REITs (for property portfolio), tech & telecoms, chemicals, autos
No disclosure of scope 3 emissions	Banks and insurance (associated with investments), mining, oil & gas, apparel, autos, REITs (from property portfolio)
No restrictions around coal underwriting/investing	Banks, Insurance
Plans to increase thermal coal capacity	Mining
No plans for coal phase-out	Utilities
Plans to increase ‘extreme’ oil (bitumen extraction, Arctic oil)	Oil & gas
Lack of a comprehensive deforestation policy	Apparel, Food
Lack of comprehensive regenerative agriculture policy	Food

Where companies have fallen short due to a lack of response to our engagement requests and/or crossing one of our ‘red lines’, this has led to sanctions, as detailed on the next page.[7]

7. Please note these red lines are applied only to the 59 companies targeted for direct engagement.

Sanction list

We are keeping 12 companies on our sanction list** from previous years and adding two more companies this year. We have removed one company from this list and reinstated it in select funds.

Sector	Companies	Rationale	Action
Apparel	Ross Stores	No scope 3 disclosure or deforestation policy in place.	**Vote against**
Aviation	Air China	No operational emissions reduction target in place. We also note that the company has not responded to our engagement request .	**Vote against**
Banks	China Construction Bank	No thermal coal policy in place and no disclosure of scope 3 emissions associated with investments.	**Remain divested**
	Industrial & Commercial Bank of China	Increased engagement with LGIM and responsiveness to investor concerns. ESG-relevant amendments to Articles of Association and action on green finance. However, no thermal-coal policy in place and no disclosure of scope 3 emissions associated with investments.	**Remain divested**
	JP Morgan Chase & Co.	Lack of scope 3 emissions disclosure. Emissions targets for its financing of auto and oil & gas sectors misaligned with that required under a 1.5°C scenario.	**Vote against**
Insurance	MetLife	Thermal coal policy in place. No scope 3 emissions disclosure and no net-zero commitment for underlying investments.	**Remain divested**
	Japan Post Holdings	Thermal coal policy in place and disclosure of scope 3 emissions associated with investments. The company has also published a net zero by 2050 target for its portfolio and an interim 2030 target.	**Reinstate**
	AIG	There has been progress with the company making a 2050 net zero commitment for underwriting and investments and setting out coal restrictions. However, no scope 3 emissions data has yet been disclosed.	**Remain divested**
Cement	China Resources Cement	No operational emissions reduction target in place, no improvement since last year where we voted against the chair due to the same concerns.	**Divest**
REITS	Invitation Homes	No disclosure of emissions from property portfolio or emissions target covering property portfolio's operational emissions. No improvement since last year where we voted against the chair due to the same concerns.	**Divest**
Utilities	KEPCO	Net-zero target in place and ambitious plans for scaling up renewables. Company is cancelling all new coal projects with the exception of two. Plans to run coal until 2050.	**Remain divested**
	PPL	Increased ambition for emissions reduction targets (70% emissions reduction by 2035, and net zero by 2050) but pathway seemingly misaligned with net zero on a global basis as company plans to have coal running until 2050.	**Remain divested**

Sector	Companies	Rationale	Action
Oil & gas	Canadian Natural Resources	Participation in the Oil Sands Pathway to Net Zero initiative to work with other Canadian oil producers to achieve operational net zero by 2050, though no comprehensive net zero commitment and no disclosure of scope 3 emissions associated with sold products.	**Vote against, excluded under LGIM's oil sands policy**
	Exxon Mobil	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 trajectory.	**Remain divested**
	Pioneer Natural Resources	Commitment to reduce operational emissions intensity by 50% by 2030 and become net zero by 2050; 75% methane intensity reduction targets by 2030. However, we note the lack of progress made with regards to scope 3 emissions disclosure.	**Vote against**
	Rosneft***	Not assessed (Russian company).	**Remain divested**
Food	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 trajectory.	**Remain divested**
	Hormel	Progress towards net-zero targets and two product lines sourcing from solely regenerative farms. However no zero-deforestation policy, no targets for scope 3 upstream agricultural emissions.	**Remain divested**
	Loblaw	Net-zero target covering scope 3 emissions from suppliers, however interim scope 3 targets not yet published and no comprehensive zero-deforestation policy in place.	**Remain divested**
	China Mengniu Dairy	Progress on lower-impact products but no deforestation policy published and no targets or disclosure for scope 3 emissions from agricultural products.	**Remain divested**
Mining	Glencore	No timebound commitment to phase out or exit thermal coal.	**Vote against**
Mining	Cosco Shipping	Operational target in place but level of ambition for this target is low compared to leading peers.	**Vote against**

**Companies in this list are/will be divested from selected funds with £87 billion in assets (as at December 31, 2021, including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. References to specific securities are for illustrative purposes only and do not constitute a recommendation to buy or sell these securities.

***Rosneft was previously divested from Climate Impact Pledge-aligned portfolios and, as of June 2022, still features in the list of sanctioned companies as a continued divestment. Where we hold other Russian companies, this is due to being unable to sell positions while trading is closed to foreign investors.

LGIM's commitment to net zero

As part of LGIM's commitment to the Net Zero Asset Manager's Initiative and in partnership with and on behalf of our clients, in November 2021 LGIM set a 2030 target for 70% of eligible assets under management (AUM) to be managed in line with net-zero carbon emissions by 2050.

As a founding signatory of the Net Zero Asset Managers Initiative[8] we have committed to work in partnership with our clients to reach net-zero greenhouse gas emissions by 2050 or sooner across all eligible assets under management. In line with this commitment, in November 2021 LGIM set a target for 70% of eligible AUM to be managed in line with net zero by 2030.[9] In addition, drawing on industry best practice, we have set out LGIM's key requirements for an investment portfolio to be considered net zero aligned. This includes setting targets, adopting a decarbonisation pathway, engaging for change, excluding misaligned companies, and growing 'green' opportunities.

8. Source: Leading Asset Managers Commit to Net Zero Emissions Goal with Launch of Global Initiative – The Net Zero Asset Managers initiative
9. Source: LGIM, 2021

During 2022, we are pleased to have reinstated one company in our funds following progress.[10] We will continue our engagement and collaboration to help increase standards across markets, as an important lever to achieve our net zero ambition as a firm.

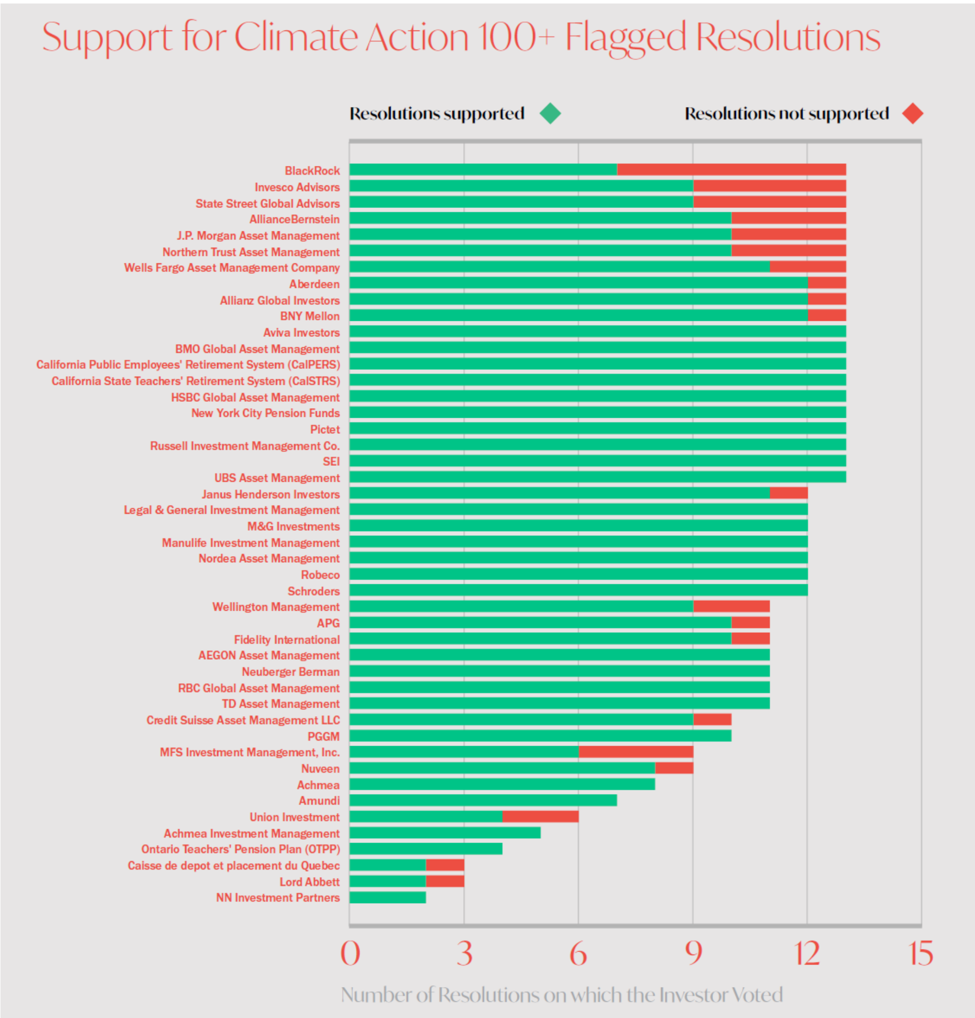
While the private sector must do much of the heavy lifting in terms of emissions reductions, we urgently need the right policies in place for all key industries – from finance to food – to help incentivise a rapid low-carbon transition. To this end, LGIM will continue to engage with policymakers and regulators both in the UK and globally. Indeed, we had a significant presence at COP26 in Glasgow in November 2021, a milestone event in the global journey to net zero. Michelle Scrimgeour will remain in her role as co-chair of the Business Leaders Group through to COP27 in November of this year.

> **“It’s not principles before profit. It’s simply good business sense.”**
>
> **Michelle Scrimgeour**
> LGIM’s chief executive officer and a member of UK Government’s COP26 Business Leaders Group

10. This is based on engagement progress seen during 2021/2022 engagement season.

A proven record of climate stewardship and engagement

Issue advocacy organisation, MajorityAction, recognised us in its 2022 report for holding board members to account for insufficient progress on climate at significant global emitters targeted by the Climate Action 100+ campaign during 2021.[11] We believe voting against a company is a powerful tool to express our views and concerns on key thematic issues such as climate change and diversity, as part of our 'engagement with consequences' approach.



Source: Insightia in Majority Action, 2022. For illustrative purposes only.

11. Source: MajorityAction_CA100_Report2022.pdf (squarespace.com)

Momentum towards a momentous shift

We are seeing a strong drive towards the transition to net zero. More companies are setting ambitious targets, and more are meeting our minimum standard expectations.

However, we must continue to raise the bar: it is not enough to set a long-term target. Companies must also be able to evidence short-and-medium term plans, investments, and collaboration, both across their value chains and with policy makers, to ensure these ambitions are delivered on in time.

Over the course of 2022, we will work to expand the pledge's reach; expanding it to cover more companies under our public assessments and voting policies. We will also review our frameworks to continue pushing for heightened ambition and action within the companies in which we invest on behalf of our clients.

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

Key risks Past performance is not a guide to the future. 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.

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