Climate Impact Pledge: Expanding our scope in 2023

Raising our expectations – climate lobbying, biodiversity and energy security for a net-zero world

LGIM

Interactive pdf

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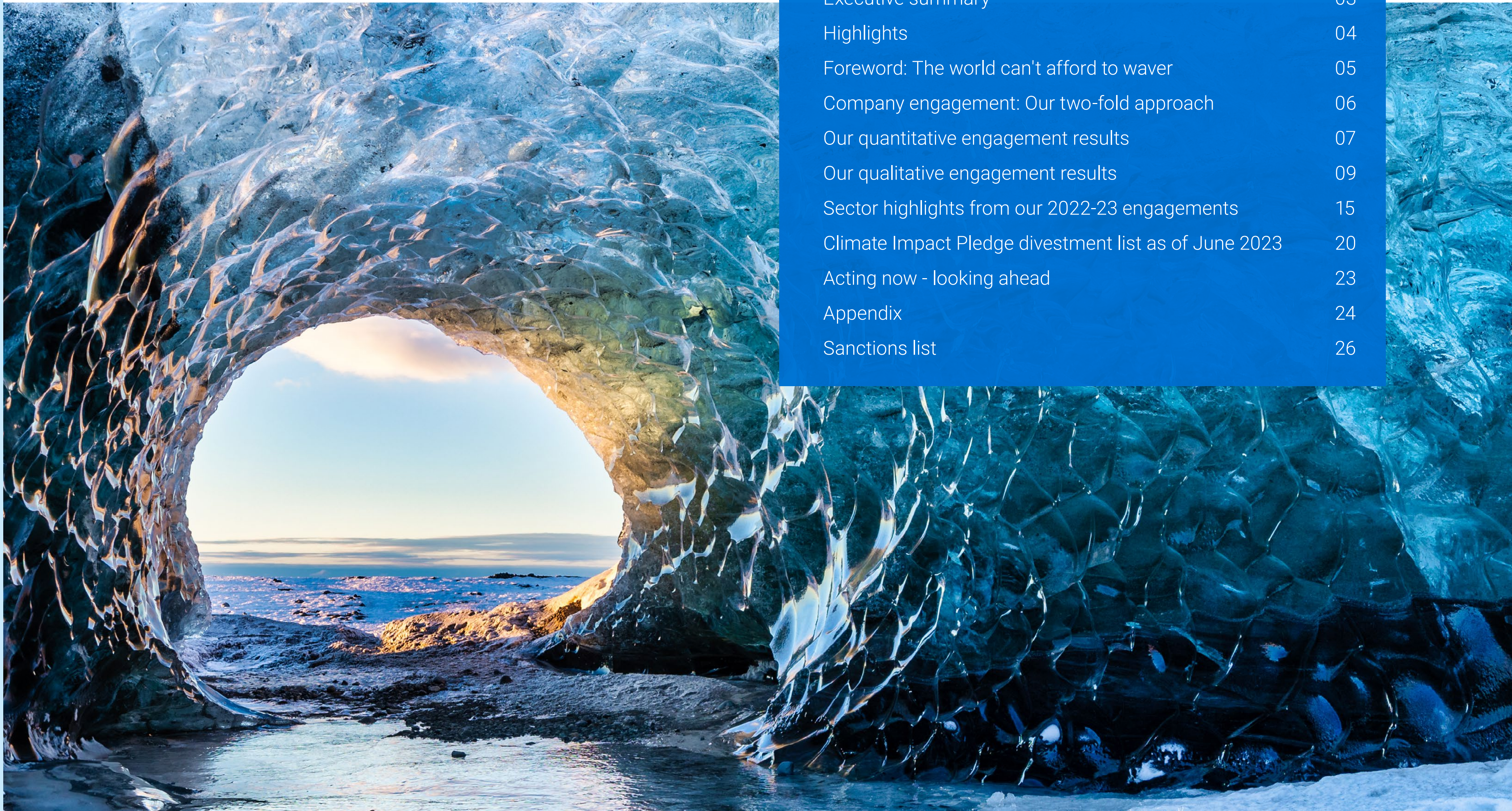

Executive summary

Since 2016, LGIM has **encouraged companies** to tackle **climate change** and transition to a **low-carbon economy** through our **Climate Impact Pledge**.

Climate change continues to be an issue that we believe is critical for our clients' portfolios. We have further expanded the Pledge's scope this year, supporting companies in scaling up their climate ambitions and engaging to drive positive change. We have also held more companies accountable than ever before through voting and investment sanctions.

We now assess over 5,000 companies across 20 'climate-critical' sectors and we can apply exclusions to almost £158 billion[1] of assets. This expansion is a significant step forward from the 1,000 companies across 15 'climate-critical' sectors we covered in 2020. We have almost doubled (to 105) the number of companies that we engage with directly and consider 'dial-movers' in their sectors' net-zero endeavours.

LGIM's Climate Impact Pledge (CIP) now covers 43%[2] of total corporate securities by value that LGIM invests in on behalf of our clients – up from below 10% in 2020 – and covers 67% of the total emissions attributable to LGIM's holdings.[3]

Energy security has remained a global priority over the past year after Russia's invasion of Ukraine but has not changed the need for more action on decarbonisation. Insufficient progress will be costly and more disruptive to the global economy,[4] raising risks for investors. Engaging with companies and setting expectations for their climate action continues to be essential if the urgent need to change is to be addressed.

Throughout the 2023 annual general meeting (AGM) voting season, we continued to scrutinise companies' climate transition plans closely and support shareholder resolutions when appropriate. We have also co-filed shareholder resolutions at **Glencore*** and **ExxonMobil*** AGMs in 2023 due to insufficient progress after years of engagement.

1. As at 31 December 2022. LGIM's total assets under management (AUM) are £1.2 trillion as at 31 December 2022. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.
2. 43.3% LGIM's corporate debt and equity holdings included in the Climate Impact Pledge by value as at 31 March 2023.
3. 67.4% of LGIM's corporate debt and equity holdings emissions are covered by the Climate Impact Pledge. Percentages are calculated by looking at equity and corporate debt holdings only as at 31 March 2023. Carbon data is sourced from ISS, using ESG data and reporting enrichment to map to issuers of corporate bonds.
4. LGIM Blog, Net Zero 2050: More affordable than ever, if we act now

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Highlights

Despite record oil & gas profits, over a third of companies in the sector failed to meet our minimum standards and most did not have sufficiently ambitious emissions targets, along with most banks, insurance, and property firms we assessed

As the pathway to 1.5°C global warming becomes ever more challenging, we have deepened our net-zero engagement and are tightening the net around companies' climate lobbying

To help push biodiversity further up the corporate agenda, we've reflected this in our assessments and net-zero sector guides, while also keeping the pressure on relevant companies to focus on eliminating deforestation

Quantitative: **5,000+ companies** in climate-critical sectors

- During the 2023 proxy season, 299 companies out of a universe of 5,000+ were identified as subject to voting sanctions for not meeting our minimum climate change standards[5]

Qualitative: **100+ dial-movers**

- In addition to our quantitative voting sanctions, we will vote against 29 of our 'dial-mover' companies
- 12 companies remain on our existing exclusion list, covering around £158 billion in assets under management[6]
- We will divest from two additional companies for failing to meet our expectations[7]
- Successful engagement led us to reinstate one previously divested company[8]

5. Voting sanctions apply to companies not meeting minimum standards, in 20 pre-determined climate critical sectors. Voting sanctions are applied across LGIM's equity holdings.
6. Companies are divested from selected funds with £158 billion in assets under management (as at 31 December 2022), including funds in the Future World fund range, LGIM's ESG fund ranges 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. LGIM's total AUM was £1.2 trillion as at 31 December 2022. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.
7. See footnote 6.
8. See footnote 6.

Foreword

The world can't afford to waver

Michelle Scrimgeour
CEO, Legal & General Investment Management, (LGIM)

There has never been a more important moment to address the generation-defining challenge of climate change.

We believe the window to achieve a 1.5°C outcome, consistent with net-zero carbon emissions by 2050, is closing fast. Policymakers, investors and industry leaders must use every legitimate tool at their disposal in order to mitigate the systemic risk posed by climate change. Every part of the global economy needs to adjust. That's why, in the seventh year of LGIM's Climate Impact Pledge, we have asked more from the companies in which we invest on behalf of our clients, taking further steps to encourage them to lower their emissions and align with net zero.

Over the coming pages, you'll also read how we have systematically increased our engagement capacity, raised our expectations of the more than 100 'dial-mover' companies and now cover over 5,000 'climate-critical' firms across 20 sectors. Importantly, we cannot deliver on climate goals without addressing emissions from forestry, agriculture and other change in land use. It is only by understanding some of these challenges that we can reach the right solution – and this is why the next phase of our engagement emphasises the essential role of combating deforestation, biodiversity and nature loss in delivering a credible pathway to net zero.

For more than 20 years, our Investment Stewardship team has campaigned on key issues, from corporate governance to gender and ethnic diversity. As a responsible investor, it is incumbent upon us to signal clearly to investee companies the actions we expect them to take to drive up market standards. We believe that recognising the potential investment risks and opportunity from climate change and providing solutions for a low-carbon transition is firmly part of role as a responsible investor. Initiatives like our pledge play a key role in this activity and demonstrate how we seek to fulfil our purpose: to create a better future through responsible investing.

More broadly, targeting net zero is critical to realising Legal & General's vision of inclusive capitalism, a way of doing business that puts society first. Climate change will affect people just as much as it impacts our environment. At this critical juncture, it is imperative that we all step up. Change is still possible – if we act now. The world has the means; it just requires the will.

Company engagement

Our two-fold approach

Our Climate Impact Pledge is a two-fold engagement programme structured around the Task Force of Climate-related Financial Disclosures (TCFD) framework.[9]

Each stream (quantitative and qualitative) has different inputs, approaches, escalations, and potential sanctions.

We focus on climate-critical sectors, which are responsible for the most global greenhouse gas emissions from listed companies and/or vital to climate transition at scale, as well as the most carbon-intensive sectors in LGIM portfolios.

In **2023...**
We raised the number of **'climate-critical'** sectors we target from **15** to **20**

The new sectors are:

- forestry and paper & pulp, aluminium, glass, logistics, and multi-utilities
- Our coverage has expanded beyond the largest companies in each sector

We outlined the **higher standards** and more **urgent action** that is expected from companies

9. https://www.fsb-tcfd.org/recommendations/

Our quantitative engagement

5,000+ companies in climate-critical sectors

How do we get there?

We narrow down LGIM's entire corporate holdings to 20 climate-critical sectors creating a universe of 5,000+ companies.

Company assessments focus on the five key pillars in alignment with the TCFD framework.

~70 data points leverage LGIM's climate modelling as well as third-party data.

A traffic light system compares companies' climate disclosures and performance using defined data points with some highlighted as 'minimum standards' (linked to voting).

We write to companies to inform them of our assessment and allow them to identify and address areas that need improvement, based on their performance against these data points.

Our assessment is public. We publish information on our 'minimum standards' for each sector, data providers, indicators, and methodology on our dedicated microsite.

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

What's new?

We significantly expanded our quantitative engagement:

- Our universe of securities increased from MSCI All Company World Index to LGIM's corporate holdings
- 5,000+ companies in climate-critical sectors were assessed, with their results published online

Our engagement has consequences:

- We write to companies at risk of a vote against well in advance of their AGM, directing the company to our microsite, which sets out why the company breached our climate expectations
- The consequences of a lack of action may include a vote against the company's chair of the board if it:
    - Fails to meet at least one – or, in North America, Europe, UK and Asia Pacific ex Japan, three – of our minimum standards
    - Has a market capitalisation above the relevant sector median
    - Does not have ambitious greenhouse gas emissions targets and/or net-zero targets[10]
- While about 20% of companies initially fell short of our minimum standards this year, we allowed relatively smaller companies, and also new companies added to the tech & telecom sector, more time to meet our minimum expectations (and so withheld from sanctioning them) while we continue to assess and engage.

10. We consider ambitious to mean a 1.5°C-aligned or well-below-2°C-aligned emissions reduction target.

Our qualitative engagement

100+ dial-movers

Building on our data-based analysis, we engage in direct dialogue with a select number of 'dial-mover' companies.

How do we get there?

- Dial-movers are chosen for their size and potential to galvanise action in their sectors
- Our Investment Stewardship team analyses each company in depth using public information, based on the framework set out in our net-zero sector guidelines that are published on our website
- We encourage companies to align their strategy with net zero and to build climate resilience

What's new?

- In 2022, we increased the number of companies with which we undertake targeted engagements to 105, from 60 in 2021
- We raised our expectations to reflect the latest climate science and industry standards:
    - We expect to see comprehensive, certified net-zero emissions targets, including disclosing a transition plan with short- and medium-term targets
    - Companies must disclose the actions and investments embedded in their plan to reach net zero
    - We expect each company to disclose whether its executive remuneration is aligned with the company's short- and/or medium-term emission targets
    - The Paris Agreement requires a supportive policy environment. In light of this, we 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 its strategy is not aligned with a 1.5°C scenario
- We emphasise the importance of combating biodiversity and nature loss, and integrating social implications, in delivering a credible pathway to net zero:
    - For sectors with a clear link between biodiversity and net-zero strategies, companies should assess their impacts and dependencies with a view to managing risk, as well as mitigating and reversing negative impacts
    - For sectors where the transition could have direct social implications, we expect companies' decarbonisation strategies to incorporate a 'just transition' perspective
- We bolstered our expectations in sectors where the net-zero transition can be accelerated by a circular economy approach, addressing deforestation and land conversion, or conducting water stress testing to mitigate potential risks. Companies should assess the physical climate risks to assets, operations, and value chains, with measures to manage these
- In addition to our new 'red line' on climate lobbying applied to all sectors, we expect companies to meet certain sector-specific 'red lines' (please see Appendix)

Our engagement has consequences:

- If a company fails to meet our 'red-line' expectations for the sector, we may apply a vote sanction at its AGM
- When change is insufficient over time, we may divest from that company in applicable funds

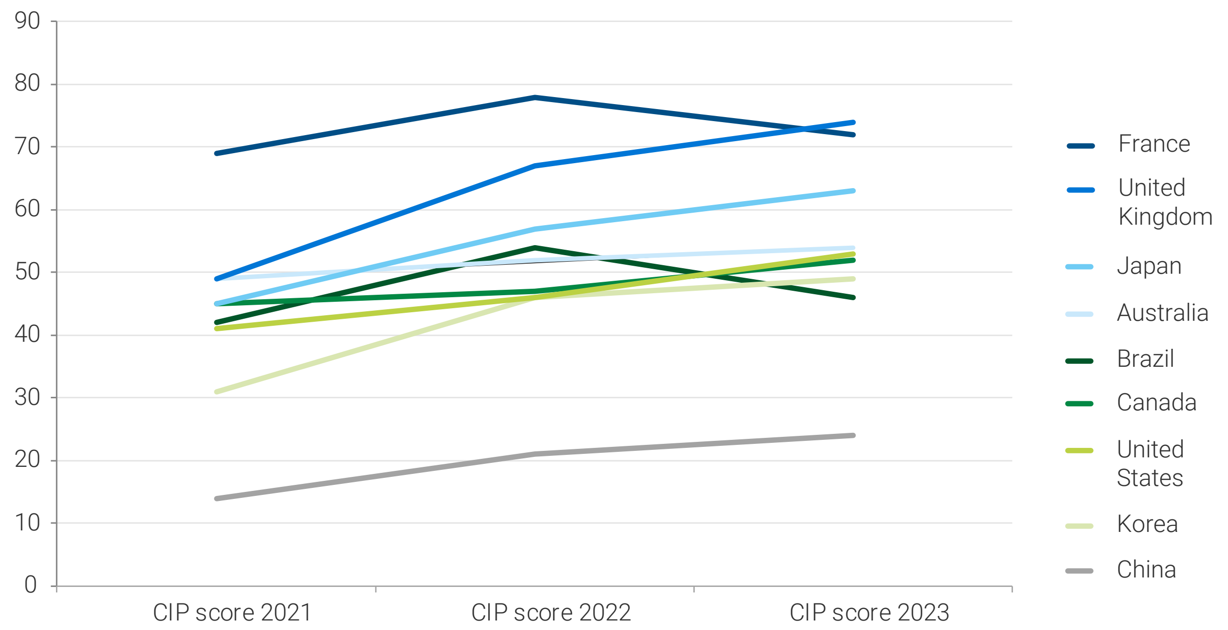
Our quantitative engagement results

How our ratings are evolving

In the chart, we compared the original CIP universe of c. 1000 companies from 15 sectors, based on the MSCI ACWI index, which captures global large- and mid-cap companies (including for 2023's score, to make it comparable with previous years). We see an upward trend among larger companies, with Asian countries showing highest improvements in terms of average scores.

While UK and France still lead the pack, out of select countries shown on the chart, Korean and Chinese companies have seen the most significant improvements. Japan also saw notable improvement between 2021 and 2023. Although the US has improved its average scores year on year, progress remains one of the slowest compared to other geographies.

Historical average CIP ratings in select countries (2021-2023)



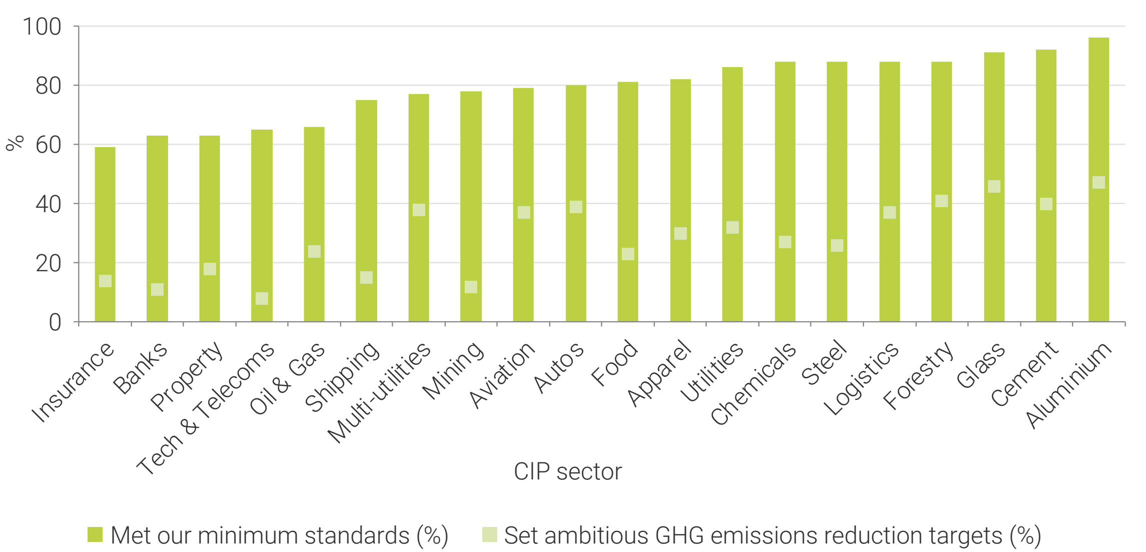
Source: LGIM, as at April 2023. The selection of companies remains consistent across three years for comparability purposes and the scope does not include the expanded universe for 2023 data. With climate data becoming more available, our CIP scores have evolved to integrate new data points. For illustrative purposes only.

Translating engagement dynamics into voting sanctions

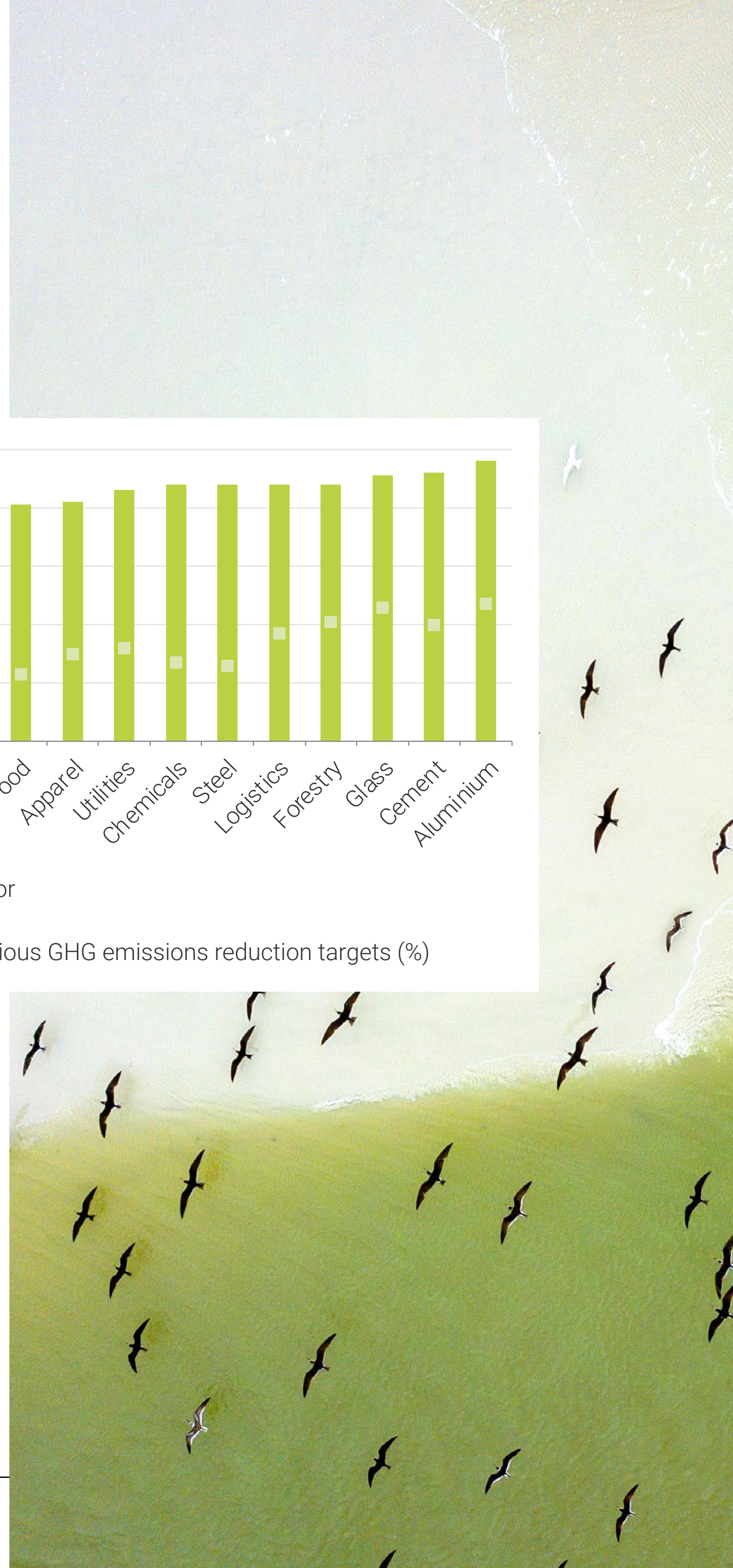
299 companies were identified for AGM voting sanctions; the proportion of companies not meeting our threshold minimum standards[11] is higher than previous years as a result of our expansion in 2022. We will vote against the chair of their board where possible. We have written to these companies to inform them of our approach and expectations and will continue to engage with them.

The sectors that failed to meet our minimum standards are insurance, banks, property, and oil & gas. The proportion of companies with ambitious targets[12] is also lower for these sectors. Newly included sectors – such as aluminium, glass and forestry – lead the way in terms of the scale of their ambition and meeting our minimum standards.

% of companies with minimum standards per sector and those with ambitious GHG emission targets



Source: LGIM, as at April 2023. The height of the bar represents the % meeting minimum standards within each sector. The light green squares denote the percentage of companies in each sector with ambitious targets.[12] For illustrative purposes only.



11. We apply 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 our minimum standards.
12. We consider ambitious a 1.5°C aligned or well-below 2°C aligned emissions reduction target.

Our qualitative engagement results

As result of our in-depth engagement, we are voting against 43 companies, including the 14 companies that we are divesting from that failed to meet our red lines (please see the Appendix).

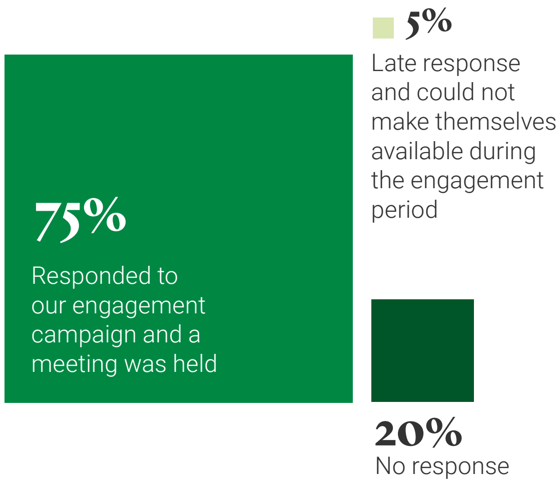
100+ dial-movers: responses

We continued to see positive response rates to our engagements. We had an 80% response rate this year, up from 78% in 2022.

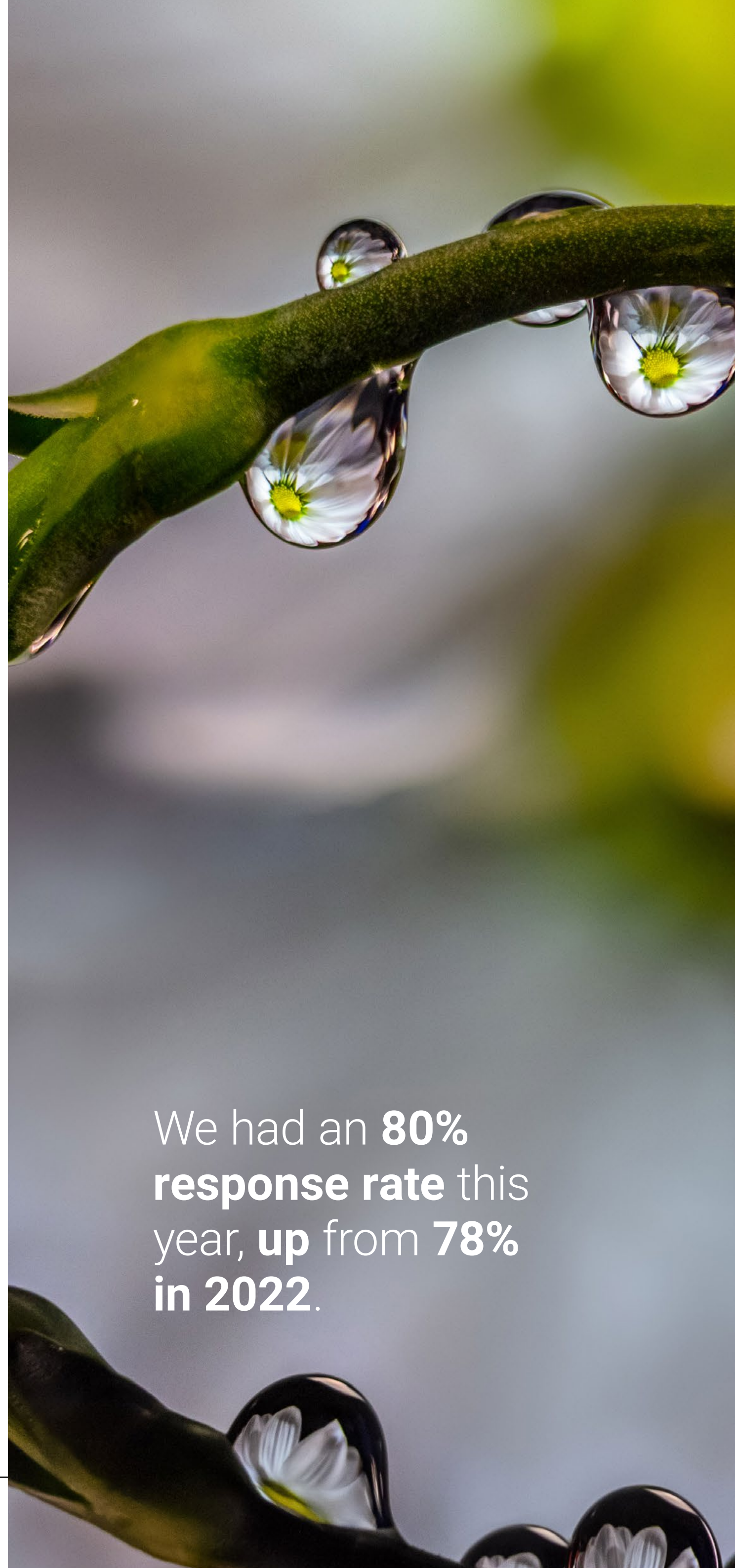
Although we continued to see positive response rates, companies in emerging markets (including China, India and Malaysia) were less responsive to our request to engage on climate issues. Among the 21 non-responsive companies, 62% were in emerging markets. We are exploring ways to improve our dialogue with these companies.[13]

When companies are unresponsive to our engagement requests, we assess their performance using the company's public disclosures and external sources.

2022/23 engagement response rate



Source: LGIM, as of April 2023. Each coloured section represents the % of companies that has not responded, responded and a meeting was held, or gave a late response and were unavailable for a meeting.



13. We engaged with 105 companies, 21 did not respond.

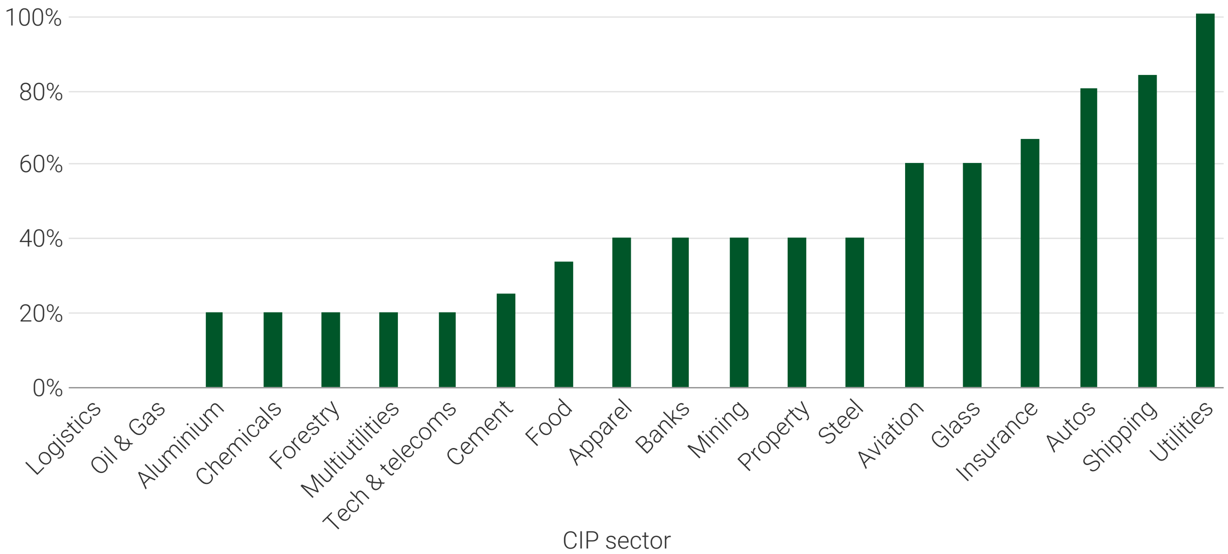
Net-zero targets and companies meeting our expectations

Many companies partially meet our red lines, but the percentage meeting them all remains low.

This is partly because we increased our expectations this year and added a cross-sector red line on climate lobbying, which we expect to see improvements on in future. Hence, we are voting against a total of 43 companies as result of our direct engagement.[14]

Of the 105 companies we approached, 41% disclosed a net-zero commitment or target. Progress varies by sector. Many of the targeted companies in the auto, shipping and electric utilities sectors have set a net-zero target, while challenges remain in materials sectors (aluminium, cement, chemicals) and the oil & gas sector.

Net-zero ambition by sector on direct engagement list



Source: LGIM, as of April 2023. The chart shows the % of companies within each sector that has a comprehensive net zero target aligned to 1.5 C. The number of companies subject to in-depth engagement is 105 (on average five companies per sector)

14. The list of companies subject to voting sanctions as result of our direct engagement can be found in the Appendix.

Sector highlights from our 2022-23 engagements

Sector	Our expectations	Engagement analysis
Oil & gas	Setting operational targets and providing information on the alignment of capital expenditure and production plans with climate outcomes.	While we are encouraged by the immediate actions taken by companies to meet the energy demand, these should not impact the energy transition. Rising commodity prices resulted in record-breaking revenues across the sector. This should allow for more flexibility to allocate capital to decarbonise and diversify.
Electric utilities	Rapidly decarbonising electricity generation and (if applicable) developing a modern and resilient electricity system.	The need to phase out the use of unabated thermal coal remains a priority for companies in this sector. This year, **Fortum*** announced that it will exit coal by the end of 2027, as well as committing to carbon neutrality by 2030 and setting a 1.5°C aligned Science-Based Target (SBT). **Fortum*** also published an update to its Climate Lobbying Report in December 2022, which currently ranks first amongst its CA100+ peers by InfluenceMap.
Multi-utilities	Credible transition plans prioritising the decarbonisation of electricity generation and heating and operational efficiency.	Multi-utility engagements have focused on the credibility of decarbonisation plans for electricity generation and approach to gas infrastructure. Regional regulation is a major driver for change, so we seek to understand how companies are positioning themselves most effectively for an energy transition within their specific constraints.
Mining	Accelerating the move towards transition-enabling metals and minerals and the shift away from fossil fuels.	There will be no energy transition without an increase in the production of critical minerals, alongside the need for decarbonisation and phasing out thermal coal. Progress is underway, especially with aspirational commitments for medium-term operational emission reduction targets, and improved climate-related disclosures – such as those of **Mitsubishi Materials*** this year. However, the significant growth in demand for transition minerals must be addressed responsibly.

New

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Sector	Our expectations	Engagement analysis
Cement	Operational emission reductions from a shift to low-carbon fuels, sourcing renewable electricity and kiln efficiencies. Low-carbon product development with reduced clinker / cement ratios.	This year, we have seen low-carbon product developments from predominantly European producers. We are concerned about the lack of progress in China. We remain divested from **China Resources Cement*** which demonstrated little progress and are sanctioning **Anhui Conch Cement*** as it fell short on many expectations.
Steel	Decarbonising industrial processes and increasing recycling rates.	The decarbonisation of the steel industry requires a supportive policy environment as well as corporate aspiration, so we have added a red line related to the disclosure of climate-related lobbying activities to our sector guides. **Tata Steel*** has improved its climate ambition significantly over the past 12 months, as it has committed to net-zero emissions globally by 2045. As a result, the company now meets this red line, and we hope to continue our engagement with the company as it transitions. We also hope to continue engaging with companies on the development of international certification standards for 'green-steel' production.
Aluminium	Low-carbon products through increased renewable electricity in low heat processing and electrolysis, innovations in anode technology and improved recycling rates of scrap.	Leading practice in the aluminium sector has demonstrated the opportunities for decarbonisation. Companies such as **Norsk Hydro*** and **Alcoa*** continue to develop low-emission products that integrate renewable power, innovative tech and increased recycling rates. Improvement is still needed and this year we are sanctioning several companies for their lack of credible plans to meet demanding decarbonisation targets.
Glass	Electrification of heat furnaces and relevant investments in low-carbon manufacturing facilities as well as increasing the use of recycled material (cullet).	**Verallia*** has a net-zero commitment and has set a medium-term greenhouse gas emissions reduction target that has been approved by the Science-based Targets Initiative (SBTi) in 2022. **Verallia*** also discloses the amount of investments to decarbonise its operation as well as its positive climate lobbying activity through the FEVE (European Federation for Glass Packaging). There is evidence that the company engages with local municipalities to improve the collection and recycling of glass where the infrastructure is not as developed as Europe.
Chemicals	Investing in emission-neutral feedstocks, electrifying energy consumption and decarbonising industrial processes.	We have seen continued progress within the chemicals sector. We were pleased to meet with **CF Industries*** whose research & development is mostly going to green energy projects and is partnering to deploy a new low-carbon ammonia facility. Although further progress is needed in calculating and disclosing Scope 3 emissions and setting ambitious targets, we see companies working collaboratively across the sector to resolve the Scope 3 dilemma, as most challenges remain in the calculation of downstream emissions. We have again been disappointed in the lack of communications from **SABIC Industries***.

New

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Sector	Our expectations	Engagement analysis
Apparel	Improving circularity of materials and rooting out deforestation from supply chains.	Most apparel companies have operational net-zero targets in place. However, we are yet to see targets integrating Scope 3 emissions, given supply chain complexities. We are starting to see moves towards circular systems as companies in this sector create garment collection programmes. For instance, we note **Fast Retailing Co*** has 'RE. UNIQLO' and **Inditex*** has the 'Closing the loop' initiative. Further transparency is needed as there is a lack of disclosure about collected and recycled garments vs. those which are disposed of. We welcome apparel companies like **Fast Retailing Co***, **Inditex***, and **TJX*** setting targets to transition their operations to be powered by 100% renewable energy, though we call for further ambition in their coverage to include the supply chain. We will continue to engage with the sector, expecting improvement in traceability of fibres and monitoring systems as most companies still lag in having a comprehensive zero-deforestation policy.
Food	A comprehensive deforestation policy, together with traceability for key commodities. This should be complemented with a net-zero target covering all three scopes.	Although we continue to see progress with food companies in setting their net-zero ambitions across the full value chain, we still have not seen sufficient improvement in terms of their deforestation commitments and procurement policies. Nonetheless, we are pleased to reinstate **China Mengniu Dairy*** this year after publishing a new deforestation policy and setting a carbon neutrality commitment by 2050, covering all scopes of emissions, which is progressive compared to peers in China. Another company that has improved its climate policies and practices is **Loblaw*** who has responded to CDP Forests questionnaire for the first time and set net-zero by 2050 targets which include all scopes of emissions. We would like to encourage **Loblaw*** and other companies in the sector to improve their Scope 3 disclosure and to set a comprehensive deforestation policy.
Forestry	Setting zero-deforestation and no-land-conversion commitments and creating comprehensive policies as well as increasing the share of production from recycled materials, and scaling up low-carbon products from sustainably managed forests.	We see many companies introducing sustainable forest management practices, applying third party certifications, and calculating and disclosing their material Scope 3 emissions. However, progress is needed in increasing the share of production from recycled fibre and setting comprehensive zero-deforestation and no-land conversion commitments and policy with monitoring systems in place. We note **Klabin*** worked to have its science-based targets aligned to a 1.5°C trajectory and **Sylvamo Corp.*** set a commitment to source 100% of its fibre from sustainable managed forests by 2030.

New

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Sector	Our expectations	Engagement analysis
Autos	Internal combustion engine vehicles (ICE) phase-out targets, building alternative power trains, improving the range of electric vehicles, and scaling up charging infrastructure.	The autos industry continues to move towards electrification and phasing out ICE vehicles. This has been reflected through our engagements this year, with companies such as **Ford*** having ambitious Scope 3 reduction targets. We have welcomed timebound targets on electric vehicle sales and continued efficiency improvements in operations. We continue to push for greater transparency and engage on upstream suppliers and climate lobbying activities, given the importance of regional targets and regulations.
Aviation	More specificity behind sustainable aviation fuel (SAF) investments and finding opportunities to decarbonise on the ground.	Airlines have begun to invest in SAF production. Given the significant technological limitations of decarbonising the aviation sector, SAFs are high priority. We are pleased Deutsche **Lufthansa AG*** and **Delta Air Lines*** set their SBTi-approved medium-term targets and invest in SAFs. Airlines are moving away from relying on carbon credits and offsets.
Shipping	Operational innovations to increase fuel efficiency in the short-term, low-carbon fuel switching and relevant investment in the long term.	There is clear evidence that **NYK Line*** and **MISC*** are investing in and participating in collaborative initiatives to materialise low-carbon shipping fleets. For example, **MISC*** has partnered with several industry players on The Castor Initiative, which is aimed at developing commercially viable ammonia-fuelled tankers.
Logistics	Prioritising ground transportation decarbonisation.	Companies in this space vary, given their different business models. Some have large air fleets, others have pure ground transportation. Business models that are built with a sustainability focus at the core, such as that of **InPost***, allow for faster decarbonisation. Those with more complex operations will need to do much more, from offering sustainable products to decarbonising the ground fleet.
Banks	Shifting financing away from 'brown' to funding the transition to 'green'.	Amid heightened scrutiny on the banking sector, we continue to see decarbonisation of client portfolios as key to ensuring global emission goals are met. Previous years have seen much focus on setting emissions reduction targets for the mid- to long term – often on a sector-by-sector basis; while the sectors covered by the banks' emissions reduction ambitions continue to be developed. We are now seeing an increased urgency, which focuses on the specifics and assessing the strengths of published exclusion policies and decarbonisation actions. After divesting of **ICBC*** in 2021, we note a number of ESG-related changes brought in to its by-laws at the 2022 AGM that more firmly integrate climate risk into governance structures.

New

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Sector	Our expectations	Engagement analysis
Insurance	Shifting investments and underwriting activities from 'brown' to 'green'.	Following five years of dedicated engagement, we were delighted to reinstate **Japan Post Holdings*** last year after the company's disclosure of its Scope 3 investment emissions alongside 'net zero by 2050' commitments; these supplement their 2021 thermal coal policy. As **AIG*** announced a commitment to meet net zero by 2050 or sooner across underwriting and investment portfolios, we look forward to the company's Scope 3 disclosures and interim targets.
Property	Reducing property portfolio's operational emissions and embodied carbon.	The level of climate-risk awareness and management varies among real estate sub-sectors, with companies focused on serviced buildings tending to outperform other speciality REITs. We are heartened by the increased management focus and resources this topic receives; with more companies now moving onto methods and increased industry collaborations to calculate embodied carbon. Amid sector-wide progress, companies failing to disclose at least basic emissions data for their tenants are fast falling behind their peers. We are also pleased to see **Equinix's*** disclosure on its direct and indirect climate lobbying practices.
Tech and telecoms	Decarbonising data centres. Establishing a comprehensive net zero operational emissions target that is SBTi-aligned, and disclosure of material Scope 3 emissions as well as targets to increase renewable energy uptake.	We are pleased **Softbank*** has set a net-zero target across its Scope 1, 2 and 3 emissions, and has targets to increase its renewable energy uptake. However, there remains more to do for others in this sector, to include Scope 3 emissions and to set net-zero targets, as well as carbon neutrality targets. We are also concerned that some of the companies have not undertaken scenario analysis and therefore have not set out a transition plan.

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Climate Impact Pledge
divestment list as of June 2023

We are keeping 12 companies on our divestment list from previous years[15] and adding two more this year. One company has been taken off our divestment list.[16]

Sector	Company	Rationale
Airlines	Air China*	No operational emissions reduction target is in place and the company lags on most of our expectations.
Shipping	COSCO Shipping Holdings*	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.
Electric utilities	Korea Electric Power Corporation*	Net-zero target is in place and there are plans for scaling up renewables. Company is cancelling all apart from two new coal projects overseas. However, pathway seemingly misaligned with net zero due to its plans to run unabated coal until 2050.
	PPL*	Committed to achieving emission reduction targets of 70% by 2035, and net zero by 2050, but pathway seemingly misaligned with net zero on a global basis as company plans to have unabated coal running past 2030.
Oil & gas	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.
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.
	Hormel*	Progress towards net-zero targets and two product lines sourcing from solely regenerative farms. However no comprehensive zero-deforestation policy, no targets for Scope 3 upstream agricultural emissions.

Newly divested companies

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15. Rosneft and Canadian Natural Resources were on our exclusion list previously. However, they have been removed from our CIP engagement list as they are already excluded on other grounds (Russia sanction and coal policy respectively).
16. Where exclusions cannot be applied, we vote against the chair.

Sector	Company	Rationale
Food	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.
Banks	China Construction Bank*	No thermal coal policy in place and no disclosure of Scope 3 emissions associated with investments.
	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.
Insurance	MetLife*	Thermal coal policy in place. No material Scope 3 emissions disclosure and no net-zero commitment for underlying investments.
	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 material Scope 3 emissions data have yet been disclosed.
Cement	China Resources Cement*	No operational emissions reduction target in place, and no improvement since last year.
Property	Invitation Homes*	No disclosure of emissions from its property portfolio or emissions target covering property portfolio's operational emissions. No material improvement since last year.

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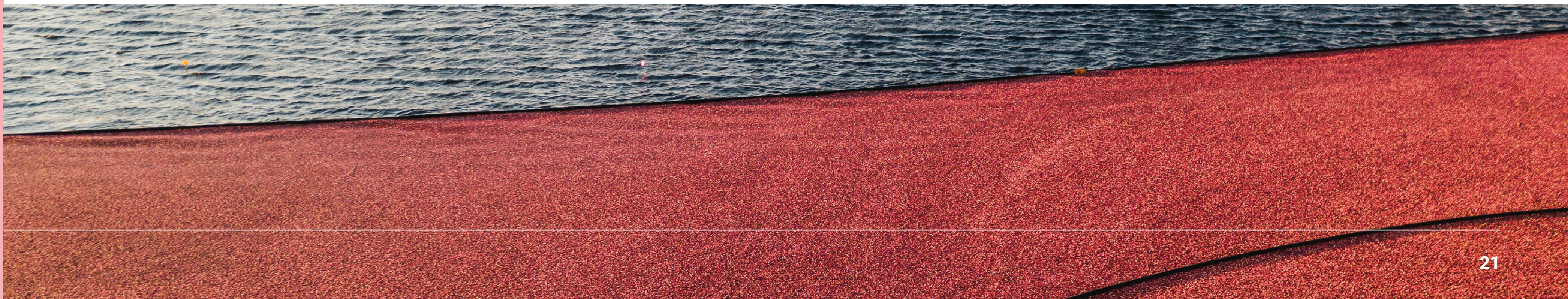

We have been encouraged by the progress **China Mengniu Dairy*** has made since we began engaging with the company, and we have taken it off the divestment list.

The reasons for reinstating the company are:

- The company has now published a new deforestation policy
- The company 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 we asked of them

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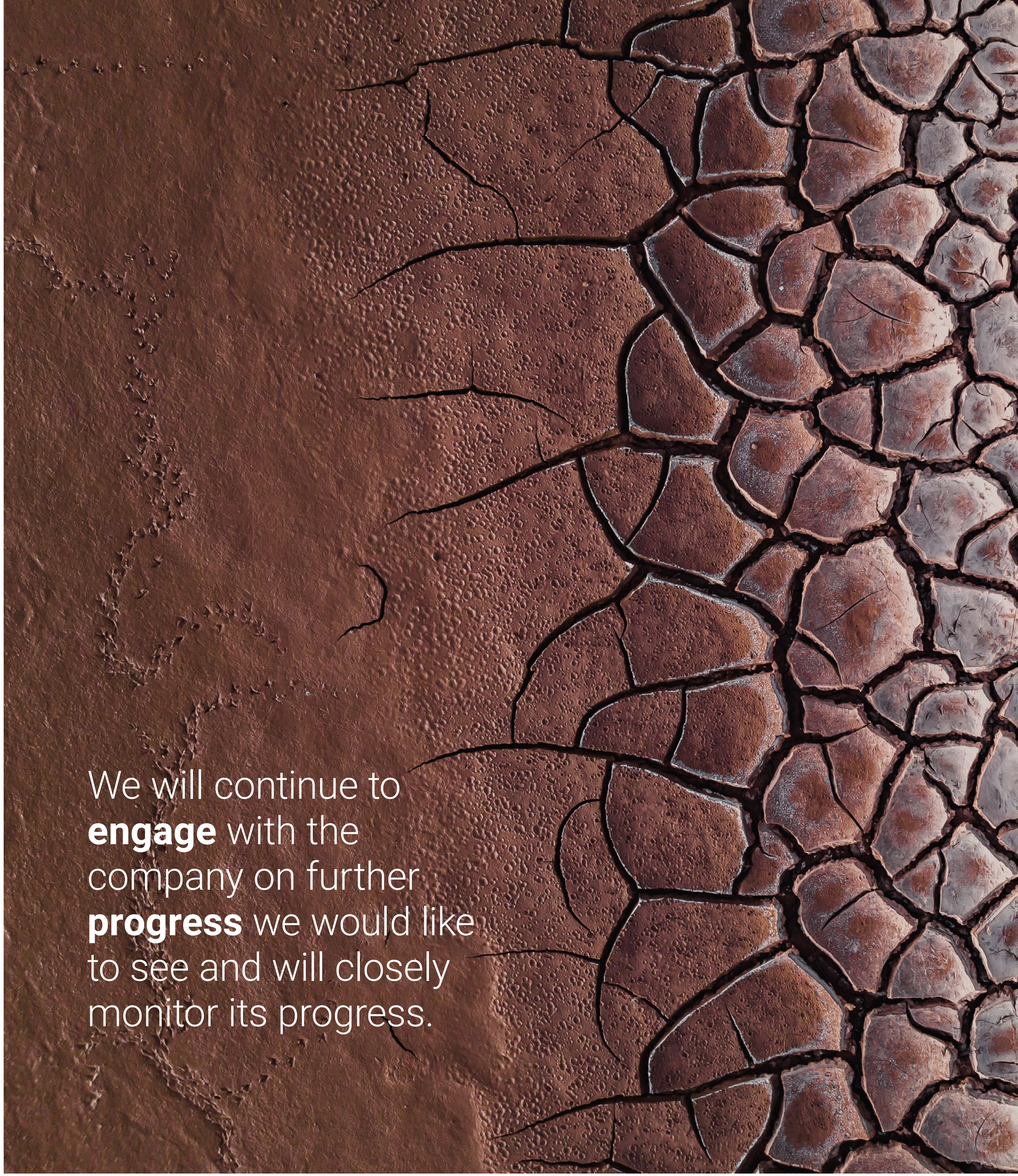

We will continue to **engage** with the company on further **progress** we would like to see and will closely monitor its progress.

Acting now – looking ahead

With a 1.5°C outcome at risk, net-zero deadlines have only become more pressing. We are entering a phase of harder choices. The longer term is not so far away.

Companies are finding it harder to make credible promises to reduce emissions in the decades to come if they are doing too little today.

Companies that refuse to contribute to a net-zero economy, or are slow in doing so, increase risk not only to themselves, but to the global economy and societies worldwide by contributing to a world that is too warm. They also increase risks of more disruptive transition than could be possible. Investors must encourage and help companies to act.

Our assessment shows that many companies across global markets have a lot more to do. We continue to explore how best to engage with companies, especially those less familiar with investor dialogues on climate change or with specific sector challenges.

The interdependencies between nature and climate are of critical importance. A changing climate threatens natural ecosystems and nature loss amplifies global warming by reducing the ability of ecosystems to store carbon.

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

Without immediate and equitable mitigation and adaptation, climate change threatens societies and human wellbeing; the ability of people around the globe to thrive. And without a just transition, support for a net-zero economy is undermined.

Adaptation and 'just-transition' expectations of companies are set to increase significantly.

There is still hope. The transition is achievable. There are encouraging examples of companies making the transition and finding new opportunities emerge. In some sectors at least, companies that lag on climate action will also risk getting left behind by new technological advances. This is the new emerging reality. It means investor engagement is essential, to both reduce risk and benefit from a transitioning economy.

Appendix

Minimum standards

5,000+ climate-critical companies

Does the company...	Sector	Data provider
Have board-level oversight of climate-related issues within your organisation?	All	CDP
Have comprehensive climate disclosures?	All	CDP
Disclose Scope 3 emissions – Purchased goods and services?	Apparel, autos, chemicals, food, forestry, tech & telecoms	CDP
Disclose Scope 3 – Use of sold products?	Autos, chemicals, mining, oil & gas (except for O&G exploration & production)	CDP
Disclose portfolio emissions in the reporting year?	Banks and insurance	CDP
Disclose emissions from downstream leased assets?	Property	CDP
Have an environmental policy?	All except financials	Sustainalytics
Have a GHG reduction programme?	All except financials	Sustainalytics
Have deforestation policy?	Food, forestry, apparel	Sustainalytics
Have deforestation programme?	Food, forestry, apparel	Sustainalytics
Have underwriting standards?	Insurance (except life insurance)	Sustainalytics
Have responsible investment programme?	Insurance	Sustainalytics
Have credit and loan standards?	Banks	Sustainalytics
Adopt eco-design for its products?	Apparel, autos, glass	Sustainalytics
Conduct real estate life-cycle assessment?	Property	Sustainalytics
Demonstrate a year-on-year reduction in emissions intensity?	All	ISS

Sector-specific red lines for 100+ dial-movers

Sector-specific 'red lines'	Sectors
No net-zero operational emissions target	Apparel, chemicals, glass, steel, aluminium, cement, shipping, logistics, auto, airlines, multi-utilities, oil & gas, mining, tech & telecom
No disclosure/targets to reduce operational emissions from property portfolio	Property
No disclosure of material Scope 3 emissions[17]	Forestry, apparel, chemicals, banks, insurance, multi-utilities, electric utilities, mining, tech & telecom
Plan to increase thermal coal capacity	Mining
No restrictions around coal underwriting /financing/investing	Banks, insurance
No plans for coal phase-out (by 2030 in advanced economies and by 2040 globally)	Electric utilities
Lack of a comprehensive deforestation policy (covering no-land conversion policy)	Forestry, food, apparel
Lack of time-bound methane reduction/zero flaring targets	Oil & gas

17. With regard to our red line on Scope 3 emissions, please see more information here.

Sanctions list

100+ dial-movers

In addition to the vote sanctions on our 5,000+ companies in climate-critical sectors, our direct engagement with 100+ dial-movers has led us to identify 43 of these companies as eligible for vote sanctions against the chair where possible, compared with 21 in 2022.

Companies with a double asterisk (**) are subject to divestment, where applicable, and voting sanctions elsewhere.

CIP Sector	Company
Aviation	Air China**
Shipping	COSCO Shipping Holdings**
Auto	Maruti Suzuki*
Banks	China Construction Bank**
Banks	Industrial & Commercial Bank of China**
Insurance	MetLife**
Insurance	AIG**
Insurance	Ping An*
Insurance	Sanlam*
Cement	China Resources Cement**
Cement	Anhui Conch Cement*
Property	Invitation Homes**
Electric utilities	Korea Electric Power Corporation**
Electric utilities	PPL**
Electric utilities	Chubu Electric Power*
Electric utilities	Tenaga Nasional bhd*
Multi-utilities	Petronas Gas*
Multi-utilities	Adani Total Gas*
Oil & gas	Exxon Mobil**
Oil & gas	Woodside Energy Group*

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CIP Sector	Company
Food	Sysco Corp.**
Food	Hormel Foods**
Food	Loblaw Companies**
Food	Kroger Co.*
Food	Restaurant Brands International*
Food	Domino's Pizza Inc*
Mining	Glencore *
Mining	Ivanhoe*
Steel	Nucor Corp*
Apparel	TJX*
Apparel	Goldwin*
Apparel	PouChen*
Chemicals	Pidilite*
Forestry	Louisiana Pacific Corp*
Tech & telecom	Broadcom*
Tech & telecom	Snowflake*
Tech & telecom	Tencent*
Logistics	S.F. Holdings*
Logistics	Fedex*
Logistics	Atlas Air Worldwide Holdings*
Aluminium	Hindalco*
Aluminium	Press Metal*
Aluminium	China Hongqiao Group*

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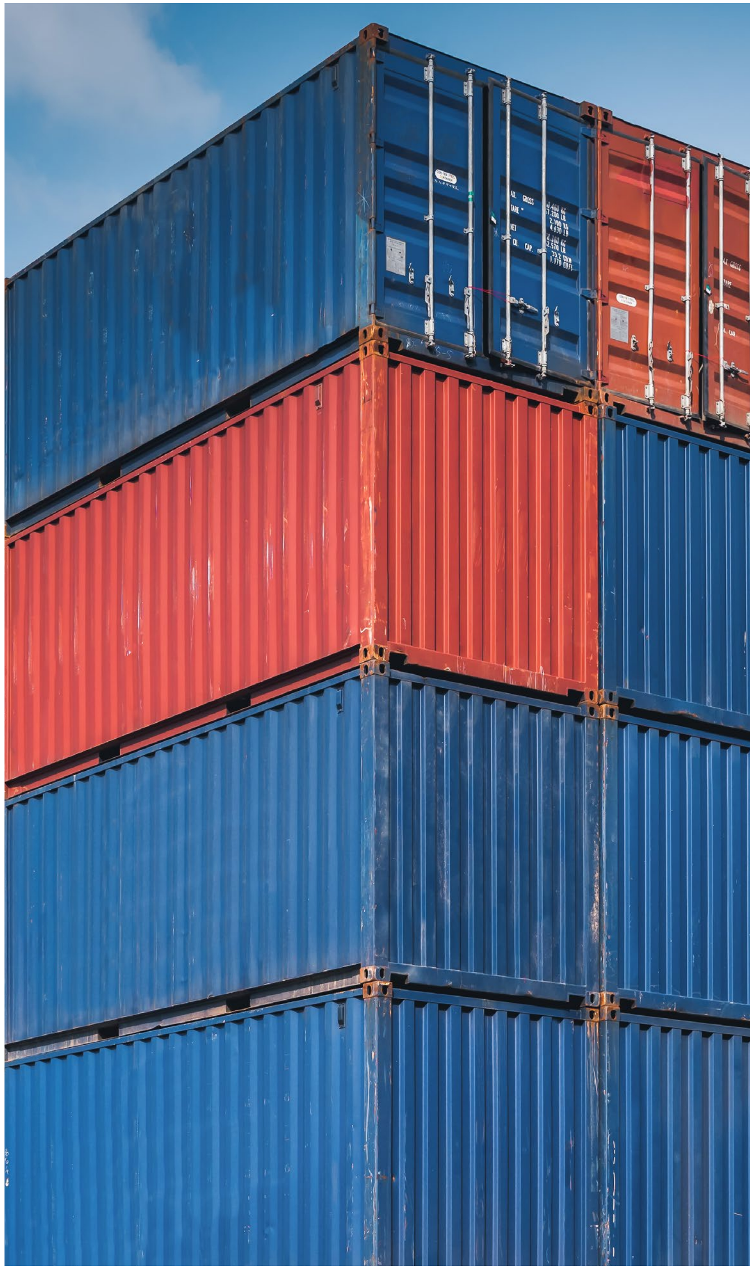

Contact us

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

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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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