Moving the needle on net-zero: expanding our climate engagement reach

L&G broadens its climate engagement reach; integrating new baseline expectations and calling for a faster, smoother transition on a global scale

Legal & General, today announced the results of its eighth **Climate Impact Pledge** (CIP) – its annual engagement programme to raise market standards and encourage companies to play their part in achieving the goals of the Paris Agreement. This year Legal & General Investment Management (LGIM), part of L&G's asset management division and one of the world's largest asset managers[1], has engaged with more companies on climate issues than ever before; introducing baseline expectations for three sectors; and adding two companies to its divestment list. While findings of the Climate Impact Pledge point to improvements, LGIM believe companies need to do more to play their part in efforts to mitigate climate change risks.

Through its investment stewardship approach, LGIM engages with companies seeking to address systemic risks linked to climate change across the global economy and markets, as well as clients' portfolios. With forecasts indicating that global temperatures will rise by more than 2˚C, significantly missing the Paris Agreement objective to limit warming to 1.5˚C by 2100, this year saw significant expansion of LGIM's engagement outreach. LGIM also introduced baseline expectations for three emissions intensive sectors:

- Methane emissions disclosure by the oil and gas industry;
- No expansion of thermal coal mining or power generation capacity for the mining and utilities[2] industries.

The Climate Impact Pledge assesses over 5,000 companies across 20 'climate critical' sectors. These assessments can lead to vote sanctions, which are typically a vote against the company chair. Within this universe of companies, LGIM engages directly with a group of 100 'dial movers', identified for their size and potential to galvanise climate action in their sectors. Where the rate of progress is too slow, vote sanctions and even divestments can be applied.

While there has been progress across Climate Impact Pledge constituents this year, the global pace of transition remains insufficient. LGIM therefore continues to apply its approach of 'engagement with consequences' – where, this year, the number of companies identified as subject to voting sanction increased and **Glencore**, a mining company, and **TJX**, a retailer, have joined its divestment list.

Michelle Scrimgeour, CEO, LGIM: "With the world recently experiencing its first annual average temperature overshoot of 1.5˚C, the message is clear: there is much more to do to mitigate climate change, and we need to act now.

"I have been encouraged by progress over the last 12 months, with many of the companies with which we have engaged making significant strides in important areas. However, it is clear that the pace of the transition is neither smooth enough nor fast enough. It is not the role of the asset management industry alone to tackle climate change: this is a whole of system transition, the pace of which is influenced by global public policy, regulatory standards and the nature of energy demand. Radical collaboration is therefore key – to drive aligned action and decarbonisation on a global scale."

2024 at a glance

During the 2024 proxy season, LGIM engaged over 2,800 companies on climate – more than ever before. A total of 492 companies were identified as subject to vote sanctions against the chair of the board, up from 342 in 2023.

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[1]Willis Towers Watson: Thinking Ahead Institute – The world's largest 500 asset managers Report, October 2023 (link).
[2]Electric Utilities, and Multi-Utilities (except water and gas utilities).

The Climate Impact Pledge covers 86% of the total carbon emissions attributable to LGIM's corporate debt and equity holdings[3].

From the quantitative assessment of 5,000+ companies captured in LGIM's universe of emission-intensive sectors, 106 companies were identified as being subject to voting sanctions for not meeting its new baseline expectations, while an additional 349 companies were identified as being subject to voting sanctions for not meeting LGIM's minimum climate change standards. LGIM also raised expectations of the number of minimum standards Japanese companies needed to meet from one to three.

LGIM also targeted over 100 'dial mover' companies to meet and discuss its transition expectations. It may apply voting sanctions against 37 of these companies, down from 43 in 2023, indicating notable progress in the group of companies with which it meets.

The 2024 season also saw LGIM co-file its first shareholder resolution in Japan, at Nippon Steel – the largest steel maker in Japan and one of the largest globally in terms of production – calling on the company to become a regional leader on climate-related lobbying disclosures.

Engagement with consequences

This year, LGIM is divesting from Glencore, a mining company, and TJX, a retailer, with both companies failing to sufficiently address concerns raised in recent years. This raises the number of divestments through the Climate Impact Pledge to 16, applying across funds covering around £176 billion in assets under management, 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[4].

Climate Impact Pledge divestments are used to signal not only to the companies, but the wider sector and market, that there has been insufficient progress made in mitigating climate change risks. LGIM continues to engage with companies on its divestment list and will take companies off the list when sufficient progress is made.

The divestment from Glencore follows extensive engagement with the company since the first Climate Impact Pledge launched in 2016. LGIM filed a shareholder resolution at Glencore last year, requesting that the company disclose how its projected thermal coal production aligns with the Paris Agreement and efforts to limit the global temperature increase to 1.5°C. LGIM remains concerned that Glencore has not disclosed plans for thermal coal production that are aligned with a net zero pathway.

LGIM remains concerned over TJX's absence of a zero-deforestation policy and insufficient disclosure of material Scope 3 emissions that fail to account for its material value chains' emissions.

Although LGIM did not remove any companies from its divestment list this year, some, such as Loblaw, Invitation Homes and COSCO Shipping Holdings, demonstrated progress. LGIM will continue to engage constructively with these companies.

Stephen Beer, Senior Manager Sustainability and Responsible Investment, LGIM: "The role of stewardship has never been more important – it is a critical lever in the global effort to reach net-zero.

"We find that as time progresses, our conversations with companies can become harder-edged; not necessarily more difficult, but more focused. We use tools such as voting and divestment to encourage companies to meet our expectations on net-zero, while also sending a clear signal to the wider market. While divestment is one of the many stewardship tools we use as a mechanism for driving change, we see it as a last resort and by no means the last stage of engagement. Our engagement will continue, and where companies make sufficient progress, they will be reinstated.

[3]As at December 31 2023. Percentages are calculated by looking at corporate equity and debt holdings only. Percentages are calculated for the aforementioned holdings where carbon data can be found. Carbon data is from ISS, using ESG data and reporting enrichment to map to issuers of corporate bonds.

[4]Companies are divested from selected funds with £176 billion in assets (as at 31 December 2023), 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 £1.159 trillion, LGIM internal data as at 31 December, 2023. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong (2018-2019 only) and LGIM Singapore from July 2023. The AUM includes the value of securities and derivatives positions.

“Ultimately, whilst we are focused on a net-zero objective, there is no one size fits all approach; our engagement approach is nuanced, it is about listening to companies and understanding the challenges they face, as well as the potential opportunities ahead, in accelerating the pace of the transition at a global scale.”

Highlighting progress

The Climate Impact Pledge ratings highlight progress in corporate activities when it comes to the management and measurement of climate risk. Significant improvements in ratings were observed since 2023 in companies’ climate disclosure and Scope 3 reporting themes, followed by net zero ambitions. Climate lobbying and climate governance also witnessed notable progress.

At a regional level, markets demonstrated an increase in their average CIP score, except for China and the US. While European countries still lead the pack, Brazilian and Australian companies saw notable improvements.

Whilst progress since 2016 has been noted, the Climate Impact Pledge continues to indicate that the pace of the transition must accelerate if the world is to achieve net-zero carbon emissions by 2050 and mitigate seismic consequences to our planet, global financial prosperity, and companies’ ability to generate sustainable financial returns.

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Notes to Editors

About Legal & General plc

Established in 1836, Legal & General is one of the UK’s leading financial services groups and a major global investor, with £1.2 trillion in total assets under management (as at FY23) of which c40% (circa £0.5 trillion) is international.

We have a highly synergistic business model, which continues to drive strong returns. We are a leading international player in Institutional Retirement, in Retail Savings and Protection, and in both public and private markets through our Asset Management division. Across the Group, we are committed to responsible investing and dedicated to serving the long-term savings and investment needs of customers and society.

As at 7 June 2024, we estimate the Group’s Solvency II coverage ratio to be 224%.

As at 11 June 2024, Legal & General has a market capitalisation of £14.6 billion.

About Asset Management

Established in June 2024, L&G’s asset management division combines deep expertise in asset management and origination with global distribution capabilities to deliver positive outcomes for our clients, which include individual savers, pension scheme members and global institutions, investing alongside L&G’s own balance sheet. As a global investor, we are present where our clients need us – from Hong Kong and Singapore, to major European financial hubs, to Chicago – operating under the Legal & General and LGIM brands.

We provide investment solutions across the full spectrum of asset classes, ranging from index-tracking and active funds to liquidity and liability-based risk management strategies. Through our private markets platform, we utilise our rich heritage and extensive network of partners to offer access to a wide range of purposeful alternative investment opportunities, including specialist real estate, clean energy, infrastructure, venture capital, unlisted equities and private credit.

Our division is underpinned by our enduring commitment to responsible investment, dedicated to creating long-term, sustainable value for our clients and partners.

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