

PAI Statement



PAI Statement

Legal & General Investment Management (Holdings) Limited, 213800MCLBTNE3X4NH27

Summary

Negative impacts on sustainability considerations are also called adverse impacts, with the most significant adverse impacts being referred to as principal adverse impacts (PAIs). Legal & General Investment Management (Holdings) Limited, 213800MCLBTNE3X4NH27 (LGIMH) considers the PAIs of its investment decisions. The present statement is the consolidated statement PAIs on the sustainability factors affecting LGIMH and all of its subsidiaries.

This statement covers the reference period from 1 January 2022 to 31 December 2022. Reporting considering the reference period on the indicators for adverse impacts as required by Annex I of the Sustainable Finance Disclosure Regulation (SFDR) Delegated Act will be published at the end of June 2023.

This statement applies as of 1 December 2022 and will be reviewed at least annually.

Description of principal adverse sustainability impacts

Our reporting will align with the EU regulatory requirements and relevant LGIM standard policies, e.g. stewardship and exclusions policies.

The table includes all the mandatory and the selected optional SFDR PAI metrics as published by the regulator at the entity level for impacted LGIMH entities. This table will be updated to include quantitative information before 30 June 2023 at the individual entity level, and in accordance with the required content and format of the Regulatory Technical Standards Annex 1.

Adverse sustainability indicator	Metric	Metric type	Asset type	Mandatory /optional
Greenhouse gas (GHG) emissions scope	Scope 1 GHG emissions Scope 2 GHG emissions Scope 3 GHG emissions Total GHG emissions	E	Corporates/investee	M
Carbon footprint	Carbon footprint	E	Corporates/investee	M
GHG intensity of investee companies	GHG intensity of investee companies	E	Corporates/investee	M
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	E	Corporates/investee	M
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a	E	Corporates/investee	M

	percentage of total energy sources			
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	E	Corporates/investee	M
Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	E	Corporates/investee	M
Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	E	Corporates/investee	M
Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	E	Corporates/investee	M
Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	S	Corporates/investee	M

Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	S	Corporates/investee	M
Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	S	Corporates/investee	M
Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	S	Corporates/investee	M
Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	S	Corporates/investee	M
GHG intensity	GHG intensity of investee countries	E	Sovereigns	M
Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	S	Sovereign and supranational	M
Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage,	E	Real estate assets	M

	transport or manufacture of fossil fuels			
Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	E	Real estate assets	M
Investing in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	E	Corporates/investee	O
Number of identified cases of severe human rights issues and incidents	Number of cases of severe human rights issues and incidents connected to investee companies on a weighted average basis	S	Corporates/investee	O
GHG emissions	Scope 1 and 2 emissions generated by real estate assets	E	Real estate assets	O
Energy intensity	Energy consumption in GWh of owned real estate assets per square meter	E	Real estate assets	O

Description of policies to identify and prioritise principal adverse sustainability impacts

Sustainability Policy

This policy sets out the framework with which LGIMH integrates sustainability risks and opportunities into its investment decision-making process and consider the principal adverse impacts (PAIs) of investment decisions on sustainability matters. The Sustainability Policy reflects the structure of our Investment and Investment Stewardship teams and others across our firm, as well as the nature of LGIMH as a global business.

The LGIMH Board has ultimate responsibility for sustainability-related policies. The LGIM Executive Committee provides the management oversight of the implementation of those sustainability policies. The Responsible Investment Group is an advisory group to the LGIM Executive Committee on these policies, frameworks and other ESG-related matters. For UK and European entities (other equivalent processes apply in the US), the Product Governance Committee ensures that products meeting the naming and construction framework are applied across LGIM and the Responsible Investment Oversight Committee monitors how PAIs are integrated in strategies that have explicit responsible investing objectives.

In addition to the PAIs in Table 1 of Annex 1, the following optional PAIs have been prioritised for investments in investee companies:

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- Table 2 of Annex 1 PAI 4 'Investments in companies without carbon emission reduction initiatives': to support the transition to reach net-zero greenhouse gas emissions by 2050 or sooner, it is critical for companies to set decarbonisation targets and plans. We expect this to become a minimum standard for companies, especially those in climate-critical sectors
- Table 3 of Annex 1 PAI 14 'Number of identified cases of severe human rights issues and incidents': human rights are foundational to society and investments companies that are found to be involved in severe human rights issues and incidents should be subject to heightened scrutiny

Description of actions to address principal adverse sustainability impacts

LGIM's internal processes for identifying and prioritising sustainability risks, PAIs and opportunities are supported by the Global Research and Engagement Groups (GREGs), which bring together representatives from the Investment and Investment Stewardship teams across regions and asset classes. The GREGs enable LGIM to connect top-down macro and thematic views with a bottom-up analysis of corporate and sector fundamentals to understand the materiality of sustainability risks and opportunities and prioritise them accordingly. Combining the capabilities of the Investment and Investment Stewardship teams also enables LGIM to scale and coordinate our engagement efforts with companies at board and executive management levels, across all asset class and investment styles.

Engagement policies

Every reporting period, we will conduct a review of the PAIs. When there is insufficient progress, the engagement policies described below may be adapted in terms of the selection of engagement themes, selection of companies for engagement and/or voting, as well as the process during engagements including escalation strategy and objectives setting.

LGIM seeks to use our scale and influence to tackle a wide variety of ESG issues that we believe could impact the value of our clients' investments. Through active ownership, we strive to effect positive change in the companies and assets in which we invest.

Our Investment Stewardship focuses on client outcomes and broader societal and environmental impacts in its engagements with companies and policymakers. This spans consideration of systemic risks and macro developments through to company specific issues, implemented using the following three-step approach:

1. Identify:

- Through rigorous research, identify key ESG issues
- Integrate consideration of these into our investment processes, strategies and solutions

2. Engage:

- Actively engage with investee companies on ESG issues
- Work with policymakers, regulators, industry peers and our stakeholders as we seek to raise overall market standards

3. Escalate:

- When necessary, we will vote against and even divest from companies
- Withhold investment from companies that fail to meet our minimum standards

The goals for engagement within our global stewardship themes can range from increasing disclosure on key sustainability-related information, to setting universal requirements such as near-term net zero targets, to seeking specific outcomes such as reducing business activities in controversial weapons.

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Our voting policies range from minimum expectations such as requiring financial expertise on the audit committee, to clarifications around variable pay performance targets, links to stakeholder experience and ESG measures, and voting to oppose combined chair/CEO roles and all-male boards. Our Corporate Governance and Responsible Investment policies (global and regional) set out our expectations of investee companies and outline our approach to voting and engagement. Our policies on climate change and biodiversity provide more detail on LGIM's approach and commitments to tackling these issues, and how this will affect our expectations of companies. All of our policies are fully compliant with Shareholder Rights Directive II and [available online](#).

Votes are cast according to our instructions guided by LGIM custom policies and effected through an electronic voting platform. We do not automatically follow recommendations of proxy advisers and have put in place a 'custom' voting policy with specific voting instructions. These instructions apply to all markets globally, with minimum best practice standards that we believe all companies should observe, irrespective of local regulation or practice.

LGIM Real Assets is also an active participant in a number of key industry organisations working to promote and progress best practice. In 2019, we scaled up our ambition to deliver buildings that are Paris-aligned, becoming a signatory to the Better Building Partnership Climate Change Commitment and pledging to achieve net zero carbon for our real estate portfolio by 2050 or sooner.

Further related policies can be found on LGIM's [Investment Stewardship](#) page.

References to international standards

LGIM believes that ongoing adherence to and the development of strong responsible investment standards, regulations and frameworks, are fundamental to our commitment to embedding sustainability. Demonstrating this commitment:

- LGIM is a signatory to the UN Principles for Responsible Investment and implementing its six principles to incorporate and report on ESG activities
- LGIM reports in line with the Task Force on Climate-Related Financial Disclosures under Legal & General Group's Climate Report
- LGIM is a signatory to the UK Stewardship Code, submitting our annual report on the implementation of the Code's 12 Principles annually
- Additionally, LGIM has signed up to the Net Zero Asset Managers Initiative with a commitment to supporting the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C and a commitment to support investing aligned with net zero emissions by 2050 or sooner

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