

May 2023 | LGIM Future World Protection List

For retail clients and consumers. Capital at risk.



LGIM's Future World Protection List

Methodology



We believe that well-managed companies are more likely to deliver sustainable long-term returns. Assessing companies on their management of environmental, social and governance (ESG) issues is an important element of risk management, and therefore part of investors' fiduciary duty, in our view.

Companies are intrinsically linked to the economies and societies in which they operate. Investors are collective owners of companies and we therefore believe that we have a responsibility to the market as a whole. By incorporating ESG factors into investment decisions, we believe investors can safeguard against future risks and gain the potential for better long-term financial outcomes.

As one of the world's largest investment companies, we believe we have a duty, both to our clients and wider society, to ensure the long-term success of the companies in which we invest.

The Future World Protection List allows clients to go further in integrating ESG factors into their investment strategy. The list may be used in funds and investment strategies as determined by Legal & General Investment Management (LGIM).

Companies are incorporated into the list if they fail to meet minimum standards of globally accepted business practices. Securities issued by such companies will not be held in funds that apply the Future World Protection List.

The Future World Protection List includes companies which meet any of the following criteria:

- **Involvement in the manufacture and production of controversial weapons:** Antipersonnel landmines, cluster munitions, biological and chemical weapons – evidence of involvement in the core weapons system
- **Perennial violators of the United Nations Global Compact (UNGC), an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies:** Companies assessed as being in violation of one or more principles for a period of 36-months or more¹
- **Involvement in mining and extraction of thermal coal, thermal-coal-power generation and oil sands:** companies generating 20% or more of revenues from these activities

The methodology will be formally reviewed on an annual basis by the LGIM Investment Stewardship team. Any changes to the methodology will be subject to a formal overview and approval by senior management.

¹ We use data for the identification of companies in breach of the principles provided by a well-known and highly respected ESG data provider.

Methodology overview

Controversial weapons

Rationale

Controversial weapons are those that have an indiscriminate and disproportionate humanitarian impact on the civilian population, the effects of which can be felt long after military conflicts have ended and often result in multi-generational humanitarian suffering. Such weapons include, but are not limited to, antipersonnel landmines, cluster munitions, biological and chemical weapons. There are a number of international conventions and treaties that have been developed with a view to prohibiting or limiting the use and availability of these weapons. The manufacture or production of such weapons is illegal in a number of jurisdictions globally and companies' involvement brings reputational risk and censure.

Methodology

We use data for the identification of companies involved in the manufacture or production of controversial weapons from a well-known and highly respected ESG data provider.

Companies that are involved in the manufacture or production of cluster munitions, antipersonnel landmines, and biological and chemical weapons will be incorporated into the Future World Protection List. Companies incorporated into the list are those that manufacture or produce the core weapons system or components or services of the core weapons system considered to be tailor-made and essential for the lethal use of the weapon. Additionally, if companies are involved in the production, maintenance/service, sale/trade or research and development in relation to the core weapons system, they will also be incorporated into the list.

UN Global Compact

Rationale

The United Nations Global Compact (UNGC) is a set of globally agreed standards on human rights, labour, the environment and corruption which was created for the purpose of encouraging businesses worldwide to adopt environmentally and socially responsible policies. Companies whose activities breach such principles may present increased investment risks due to lax governance and management of their own operations, which can lead to grave reputational damage and potential future liabilities.

Methodology

We use data for the identification of companies in breach of the principles provided by a well-known and highly respected ESG data provider.

Companies that are in breach of at least one of the UNGC principles for a continuous period of three years (36 months) or more will be considered persistent violators of the UNGC principles and incorporated into the list.

Thermal coal mining and power generation, oil sands

Rationale

The largest proportion of human-related greenhouse gas emissions (primarily carbon dioxide and methane) comes from burning fossil fuels for energy. Of energy emissions, around half come from coal. The high emissions intensity associated with the burning of coal means that rapid cuts will be needed to meet the global commitment made under the Paris Agreement. Thermal coal is used for power and heat generation. Substitutes that replace the need for coal-fired generation are available in the form of technologies such as renewables, gas and nuclear. A faster-than-expected shift away from coal could have a disproportionate impact on companies generating a high proportion of their revenues from thermal coal. When it comes to oil sands, the emissions footprint in aggregate is materially higher than the oil-industry average. LGIM's view is that the oil sands industry is unaligned with a net-zero world, and highly economically vulnerable to it.

Methodology:

We use data for the identification of companies involved in thermal coal from a well-known and highly respected ESG data provider.

Companies that generate 20% or more of their revenues from mining and extraction of thermal coal, thermal coal power generation, and oil sands will be incorporated into the Future World Protection List. This does not extend to metallurgical coal.

For companies involved in thermal-coal-power generation, the following exceptions apply;

- Where a company has set out a clear Paris-aligned plan to phase out coal by 2030 in Organisation for Economic Co-operation and Development (OECD) countries, and by 2040 in non-OECD countries, we retain the ability to invest
- Where a company has non-coal subsidiaries, we retain the ability to fund specific issuing entities

Update and publication of the Future World Protection List

The list is updated on a semi-annual basis, in May and November, using data collected on the first business day after 31 March and 30 September in accordance with the methodology stipulated above.

Important information

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