LGIM(H) Coal Policy

FOR INVESTMENT PROFESSIONALS ONLY

Summary

Through the implementation of this Coal Exclusion Policy, Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiaries will exclude from their discretionary investments those companies that are involved in the mining and extraction of thermal coal1 as set out in the “Policy Scope” below.

We view coal’s current role in the energy mix to be incompatible with the global commitment, made under the Paris Agreement, to limit the increase in the global average temperature “to well below 2°C above pre-industrial levels” and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. LGIM is committed to supporting the objectives of the Paris climate goals.

The high emissions intensity associated with burning coal means that rapid cuts will be needed to meet the global climate target. We expect coal to be a decreasing part of the energy mix, and working in the best interests of our clients, we believe it is important to capture this transition within the portfolios that we manage on behalf of our clients.

Context and background

- There is a significant gap between the emission reductions necessary to restrict warming to the levels set out in the Paris Agreement and the current state of emissions. To achieve this ambitious target, we must therefore meaningfully shift our methods of generating and consuming energy globally.
- The largest proportion of human-related greenhouse gas emissions[2] (primarily carbon dioxide and methane) comes from burning fossil fuels for energy. Of energy emissions, around half come from coal.[3]
- 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.[4]

Policy scope

Coal classification and revenue threshold

- This policy applies to companies involved in the mining and extraction of thermal coal. The scope of this policy does not extend to metallurgical coal.[5]
- Screening will be carried out and exclusions will be applied to those companies that generate 30% or more of their revenues from coal mining and extraction.

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[1] Thermal coal is used for power and heat generation. Through this policy we are evolving our approach to investment restrictions on coal, setting the trajectory towards meeting the recommendations of the Science Based Targets Initiative (SBTI), which include phasing out investments in coal by 2030 and ceasing investments in companies that generate 5% or more of revenues from coal and are investing in new coal capacity.

[2] Carbon dioxide, methane, nitrous oxide and three groups of fluorinated gases

[3] IEA, https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions

[4] More information can be found here on how we view the emerging market dynamics of coal and coal-firedpower/heat generation

[5] Metallurgical coal is generally used in industrial processes, such as steelmaking – where low-carbon substitutes are not yet economically viable (in the absence of a carbon price). We distinguish between metallurgical and thermal coal in the exclusions we apply.

Excluded companies

LGIM(H)'s coal exclusion list has been developed in conjunction with a third-party service provider and will apply to:

- publicly listed, private and state-owned companies
- the corporate entity only, not the company's parent owner

LGIM(H) may inform companies on the exclusion list of its policy and will encourage them to reconsider involvement in the thermal coal sector where relevant.

Excluded instruments

- LGIM(H) and its subsidiaries will not invest in equity or fixed income instruments in companies on its exclusion list in accordance with the section headed "Application to LGIM(H) subsidiaries" below.

- This policy and the exclusion list shall be applied by LGIM(H) or the relevant subsidiary (as the case may be) subject to any applicable contractual, legal and/or regulatory obligations.

Application to LGIM(H) subsidiaries

This policy applies to the discretionary investment management decisions taken by subsidiaries ofLGIM(H) for their respective clients and those subsidiaries include:

- Legal & General Investment Management Limited ('LGIM') located in London;
- Legal & General Investment Management America Inc ('LGIMA') located in Chicago; and
- Legal & General Investment Management Asia Limited ('LGIM Asia') located in Hong Kong.

The LGIM(H) subsidiaries detailed above are appointed investment managers to a number of clients, including pooled investment product providers which are affiliated with LGIM(H) and/or segregated clients.

Subject to the sections below, this policy shall apply to both:

- pooled funds, including: (i) collective investment schemes in respect of which a subsidiary or associated company of LGIM(H) is the manager, and (b) the unit-linked pooled insurance fund of Legal and General Assurance (Pensions Management) Limited (also known as the Long-Term Fund); and
- segregated mandates (being, funds that are managed on a segregated basis);in each case, as set out below.

More information on the pooled funds to which this policy applies is available upon request.

Pooled funds

This policy applies to:

- all investments made on behalf of our clients (over which we have full discretion) in active equity and fixed income funds;
- **all index funds which apply our Future World Protection List ("FWPL") of exclusions**;
- where the FWPL does not apply but an index's methodology and rules preclude investment in coal companies, exclusions may differ in scope to those under this policy; and
- **all multi-asset funds**; however, where these funds buy an index fund, there may be an economic exposure to issuers on our coal exclusion list.

This policy will be applied to any directly held securities purchased through these funds.

This policy will apply to all active pooled funds as part of multi-asset strategy both on a pooled and segregated basis.

Where a unit-linked fund wraps an externally managed fund, this policy will not apply to that externally managed fund; however, the external manager may have their own coal exclusion policy.

We will also seek to apply this policy to all newly-launched LGIM-designed products.

Segregated mandates:

From February 2021, LGIM encourages the adoption of this policy in segregated investment guidelines although the client has the ultimate decision as to whether to adopt this policy.

It should be noted that:

1. segregated portfolios comprising derivative and/or currency hedging overlays may have economic exposure to indices that are not applying this policy; and
2. this policy shall not be applied to the investment guidelines of segregated index mandates unless this policy is included in a customised index.

Implementation process

LGIM has engaged a third-party service provider to identify companies involved in thermal coal, as outlined in this policy, and to support in the development of an exclusion list. The list is reviewed twice a year and where new companies are identified, we will seek to divest holdings within the 90 days following the ratification of the updates at our governance committee. Where names are removed from the list, they are then once again eligible for investment following ratification.

Internally, we implement processes and monitor compliance of this policy. As we continue to focus on delivering for clients In line with LGIM's commitment to net zero, our approach to coal exclusions will evolve which will lead us to review and update this policy accordingly. We welcome questions from external stakeholders.

How to contact us

For any queries about this policy, please contact:InvestmentStewardship@lgim.com

This policy will be reviewed by LGIM's Responsible Investment Group and the Chief Investment Officer on an annual basis. We reserve the right to update this policy from time to time, including to reflect good industry practice.