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Legal & General
INVESTMENT MANAGEMENT

Sustainability Policy

Legal & General Investment Management (Holdings) Limited

This document sets out the sustainability policy for Legal & General Investment Management (Holdings) Limited ('LGIM(H)') which is adhered to by entities[1] in the LGIM(H) group (together 'LGIM Companies').

The purpose of this policy is to set out a framework as to how LGIM Companies integrate sustainability risks and opportunities into the investment decision-making process and consider principal adverse impacts of investment decisions on sustainability factors.

This policy is in line with the requirements set out in the EU Sustainable Finance Disclosure Regulation ('SFDR'), in particular under Articles 3 (Transparency of sustainability risk policies) and 4 (Transparency of adverse sustainability impacts at entity level).

SUSTAINABILITY RISKS INTEGRATION

1. Identification of sustainability risks

The LGIM Companies recognise that the world faces growing sustainability risks; these risks mean environmental, social or governance ('ESG') events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of an investment. The policy therefore approaches sustainability risks from the perspective that ESG events might cause a material negative impact on the future value of clients' investments.

The LGIM Companies believe consideration of sustainability risks reflects a key part of our role to act in the best interest of our clients. This includes (i) appropriately taking account of how sustainability risks could impact on our clients' investments, and (ii) accurately pricing in material ESG information, so that these can be considered alongside all other components of fundamental investment analysis.

To fully understand sustainability risks and opportunities, investors need access to relevant, comparable, consistent and verifiable ESG data across markets, regardless of size, geography or asset class. Therefore, the starting point for the identification of sustainability risks is to set clear expectations to listed investee companies as to what information they should disclose. Such expectations are set out in the LGIM Companies' guide to ESG transparency which can be accessed at: {A guide to ESG Transparency}

The LGIM Companies' internal processes for identifying sustainability risks are largely supported by the Global Research and Engagement Groups which bring together representatives from the investment and investment stewardship teams in every region and asset class, and play a core part of the LGIM Companies' determination of the exposure of sectors and companies to ESG risks and opportunities.

2. Integration of sustainability risks

Integrating financially material ESG considerations into the investment processes can help mitigate sustainability risks and improve long-term financial outcomes. This is why the LGIM Companies embed sustainability factors in the investment decision-making process with the aim of benefiting the widest set of stakeholders as possible.

The LGIM Companies' integrated framework for responsible investing across both public and private assets is primarily based on active engagement with collaborative active investment research across asset classes. The key aspects of the approach taken by the LGIM Companies have been set out as follows:

[1] This policy has been adopted by LGIM Managers (Europe) Limited, authorised by the Central Bank of Ireland as a UCITS management company and as an alternative investment fund manager with "top up" permissions which enable the firm to carry out certain additional MiFID investment services. The policy is currently being adopted by other entities within the LGIM(H) group.

- Active engagement with investee companies on matters including, but not limited to, climate change, remuneration and diversity;
- Applying a common global strategy with respect to the use of voting rights, and setting expectations of investee companies with regards to planning, management and disclosure of sustainability issues. These principles impact voting decisions, and for certain themes such as climate, gender and racial diversity there are structured voting and engagement processes in place;
- By seeking to influence regulators and policymakers; and
- Active collaboration with other investors and stakeholders in investee companies as to the on-going application of sustainable principles.

2.1 Index strategies

In respect of index strategies, sustainability risks cannot influence a decision to invest in a particular security, as this is constrained by the objective of the relevant product to track an index. However, the LGIM Companies engage with investee companies on sustainability matters, as set out above. A key pillar of this approach is active ownership whereby the LGIM Companies use our scale to encourage investee companies to consider sustainability risks, develop resilient strategies, think longer-term and consider our stakeholders. Engagement activities normally focus on specific material ESG issues and involve formulating an engagement strategy for such issues with the aim to track and review the progress of companies during this process.

Beyond the aspects set out above, sustainability risks may be integrated into some strategies on a product level using tools available to the LGIM Companies (including ESG scoring, tilting and exclusions), via index construction or design of investment strategies that explicitly consider sustainable investments.

2.2 Active strategies

In addition to the above, the LGIM Companies' approach in respect of active strategies relies on the three core pillars of ESG integration:

- Investment research: applying forward-looking ESG analysis using proprietary tools to identify material ESG factors and make informed investment decisions in an effort to avert sustainability risks and seek out sustainable opportunities;

- Active engagement: the Global Research and Engagement Groups bring together the sector expertise from across active investment and investment stewardship teams to streamline engagement activities; and

- Exclusions: firm-wide exclusions may prohibit certain investments which can be applied on variety of issues.

2.2.1 Investment research

As part of the investment research process, material ESG factors are identified using both top-down and bottom-up approaches. The top-down research analysis performed by sector experts identifies long-term, thematic shifts and structural changes which help determine the resiliency of sectors and the companies within them. This is complemented by bottom-up company and country-specific research. ESG factors are fully embedded into the bottom-up research process which involves evaluating the ESG credentials of companies alongside traditional financial metrics in order to manage sustainability risks.

The LGIM Companies also developed a proprietary research tool called Active ESG View to bring together granular quantitative and qualitative inputs by evaluating sector-specific ESG factors. The Active ESG View supports research capabilities by providing an overview of how companies manage potential, sector-specific ESG risks and opportunities, so that these can be considered alongside all other components of fundamental investment analysis. The outputs of Active ESG View on specific investments are considered on a comprehensive basis. While there may be aspects of an investment that are identified using certain indicators and metrics, those aspects may be balanced by other quantitative and qualitative factors. Therefore, an investment is always evaluated overall, considering all relevant factors.

The Active ESG View tool captures an extensive range of key metrics, including those specifically related to climate metrics, ranging from carbon emissions, water & waste management, supply chain and environmental policies and controls. These metrics enable the LGIM Companies to evaluate how investee companies are responding to environmental challenges. The Active ESG View tool also incorporates data to highlight the percentage of revenues that relate to intrinsically ‘green’ activities.

2.2.2 Active engagement

Active engagement is a fundamental aspect of the LGIM Companies’ ESG integration as encouraging higher standards in investee companies mitigates the impact of sustainability risks on clients’ portfolios. To support this process, the LGIM Companies established the Global Research and Engagement Groups to bring together the sector expertise from across active investment and investment stewardship teams who are responsible for (i) identifying the themes which are likely to have the greatest impact on their sector in both the short and long term, and (ii) assessing the impact at an investee company level.

The output from the groups strengthens and streamlines engagement activities enabling the LGIM Companies to collectively set goals and targets at a company level with one voice, agnostic to asset class or investment style.

2.2.3 Exclusions

Firm-wide exclusions may prohibit certain investments which can be applied on variety of issues (including exclusion of investments in companies involved in the mining and extraction of thermal coal). The Future World Protection List is a set of exclusions of those investee companies that the relevant LGIM Companies believe have failed to meet the minimum standards of globally accepted business practices. As at the date of this policy, the criteria for exclusion includes (without limitation) (i) involvement in the manufacture and production of controversial weapons, (ii) coal miner companies where coal extraction forms the largest part of their revenues, and (iii) perennial violation of UNGC. These criteria may change over time. The Future World Protection List is applied to certain products only, and is also used to drive engagement with the relevant investee companies.

2.3 Real assets

Real assets investments have a pivotal role to play in creating a more resilient and sustainable future. In order to manage and mitigate sustainability risks, ESG considerations are integrated into every stage of the investment process.

As a significant lender in private markets, the relevant LGIM Companies seek to drive ESG disclosure and performance standards to assess ESG risks as part of the due diligence process on borrowers, by identifying and managing issues that are most material to the relevant assets.

In our real estate investments, sustainability already sits alongside location, tenant, building size and building quality as a key factor forming part of the investment process, as follows:

- Due diligence process and acquisition phase: prior to acquisition all potential assets undergo a sustainability assessment to identify sustainability risks and improvement plans. This includes (without limitation) assessment on carbon, energy, waste management, water, flood risks, contamination, renewable energy as well as an audit on net zero carbon liability.

- Operational performance of existing assets: an Asset Sustainability Plan is maintained for each property under management, which is established on purchase by the relevant managing agent that details and prioritises all possible measures to improve its environmental and social footprint. Further, an environmental management system is used to maintain ISO14001 certification for all managed assets which is reviewed and externally verified annually. All identified risks and actions are recorded and tracked.

In addition, the relevant LGIM Companies are committed to achieving net zero carbon for the real estate platform by 2050 or sooner. Further information on the net zero carbon strategy (including the pathway to net zero greenhouse gas emissions) for our real estate investments can be found here: {strategy}

PRINCIPAL ADVERSE IMPACT ASSESSMENT

1. Due diligence process

As part of the research process, the LGIM Companies consider principal adverse impacts of investments across investment strategies. This policy approaches principal adverse impacts from the perspective of the harm that investment positions might do to sustainability factors, and the steps to be taken to mitigate that harm considering the LGIM Companies' responsible investing framework.

The LGIM Companies identify principal adverse impacts in accordance with our framework to mitigate sustainability risks. The LGIM Companies use a proprietary screening process which assesses companies' involvement in incidents or events with negative ESG implications. The screening process incorporates the following type of metrics and indicators when performing due diligence on investee companies for the purpose of identifying principal adverse impacts:

- Environmental indicators: a number of environmental controversies, including (without limitation) in relation to use of energy, greenhouse gas emissions, biodiversity, water use and waste

- Social indicators: a number of social issues including (without limitation) in relation to human rights, labour relations and community relations.

The indicators are then used by the LGIM Companies to identify investee companies that could cause principal adverse impacts on sustainability factors (the '**PAI Violator List'**). The LGIM Companies continuously assess the types of indicators that they find most suitable for identifying principle adverse impacts in accordance with the relevant regulatory requirements. The indicators may be prioritised in the investment decision-making process by reference to the LGIM Companies' ESG values.

2. Actions in relation to principal adverse impacts

The LGIM Companies have a variety of toolsets available to them to take action where they identify principal adverse impacts. The key component of this relies on the LGIM Companies' investment stewardship capabilities that are applied across all investment strategies and asset classes. In addition, in respect of the LGIM Companies' active strategies there are further tools available to take action in relation to principal adverse impacts.

2.1 Investment stewardship and active engagement

Following the identification of principal adverse impacts, the LGIM Companies' policy is to take action through active engagement with investee companies that could cause material harm to sustainability factors. A key pillar of this approach is active ownership whereby the LGIM Companies use our scale to encourage investee companies to consider sustainability risks, develop resilient strategies, think longer-term and consider our stakeholders. Engagement activities are used as a tool to drive progress and influence positive change, and normally focus on specific material ESG issues and involve formulating an engagement strategy with regards to such issues, with the aim to track and review the progress of companies during this process.

In addition, the LGIM Companies apply a common global strategy with respect to the use of voting rights, and setting expectations of investee companies with regards to planning, management and disclosure of sustainability issues. These principles impact on voting decisions, and for certain themes such as climate, gender and racial diversity there are structured voting and engagement processes in place.

A number of policies and processes guide the LGIM Companies' engagement activities, set out the approach to investment stewardship and outline the expectations of investee companies. The Global Corporate Governance and Responsible Investment Principles set out the approach and expectations with respect to key topics that are essential for an efficient governance framework, and for building a sustainable business model. Further related policies that can be found on the LGIM website include:

- Engagement Policy
- Global Corporate Governance and Responsible Investment Principles
- Climate Change Policy
- Corporate Governance and Responsible Investment Policy - UK
- Corporate Governance and Responsible Investment Policy – North America
- Corporate Governance and Responsible Investment Policy – Japan
- Controversial Weapons Policy
- Conflicts of Interest Policy

2.2 Active investment research

In respect of active strategies, the above-mentioned metrics and indicators form an essential component of the overall active research process and assessment for adverse principal impacts. The LGIM Companies developed a proprietary tool called Active ESG View which brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within an investee company.

The Active ESG View evaluates sector-specific ESG factors, spanning 60+ specific sectors and sub-sectors. As part of this process, raw ESG data is normalised for each sector by taking idiosyncrasies into account which is then used to increase or decrease weightings for each environmental, social and/or governance factors to create an overall assessment of the investee company. The Active ESG View tool also indicates where an investee company has been involved in a controversy or in violation of the UN Global Compact.

The Active ESG View tool is used by the relevant LGIM Companies to identify and mitigate sustainability risks, as well as identifying principal adverse impacts that investee companies could cause to sustainability factors. As such, the Active ESG View enables the relevant LGIM Companies to consider such impacts as part of the investment decision-making process. The outputs of Active ESG View on specific investments are considered on a comprehensive basis. While there may be aspects of an investment that are identified using certain indicators and metrics, those aspects may be balanced by other quantitative and qualitative factors. Therefore, an investment is always evaluated overall, considering all relevant factors.

2.3 Governance around principle adverse impacts

Following the identification of principal adverse impacts, the PAI Violator List is considered by the Investment Oversight Committee to enable the LGIM Companies to further assess and potentially challenge investments in companies appearing on the PAI Violator List.

3. Adherence to responsible business conduct codes

The LGIM Companies have an internal framework of policies, procedures and standards that promote appropriate behaviours across all business activities, including:

- LGIM Code of Ethics
- Personal Account Dealing Policy
- LGIM(H) Conflicts of Interest Policy
- Regulator Relationship Policy
- Breaches Escalation Guide
- SM&CR, Certified and Code Staff attestations
- Cyber and IT policies
- HR Disciplinary, Grievance and Harassment and Bullying Policy
- Technology Risk Guidelines
- Remuneration Policy

The LGIM Companies believe that an on-going adherence to, and the development of, strong responsible investment standards, regulations and frameworks, are a fundamental aspect of our strategy. As such, they are a signatory of the UN Principles for Responsible Investment and committed to implementing its six principles to incorporate and report on ESG activities. In addition, the LGIM Companies support the UN Global Compact, the UK Stewardship Code, the UK Corporate Governance Code, the Japanese Corporate Governance Code and Stewardship Code, the Malaysian Stewardship Code, the Paris Green Bonds Statement and the CDP Investor Program.

Some of the LGIM Companies also have membership as active participants, and supporters of the Aldersgate Group, the Asian Corporate Governance Association (ACGA), the Assogestioni (Italy), the Climate Action 100+, the Corporate Governance Forum, the Corporate Reporting & Auditing Group, the FAIRR Initiative, the Harvard Institutional Investor Forum (US), the Council for Institutional Investors (US), the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN), the Investment Association, the Investor Forum, the Investor Stewardship Group (US), the Investors for Opioid and Pharmaceutical Accountability (observer), the Japan Stewardship Initiative, the One Planet Asset Manager Initiative, the Sustainability Accounting Standards Board (SASB), the Taskforce on Climate-related Financial Disclosures (TCFD), the Transition Pathway Initiative, the UNEP Finance Initiative, the US Diversity Coalition, the 30% Club Investor Group, the 30% Coalition (US) and the 30% Club Investor Group Japan.

Additionally, LGIM(H) has signed up to the Net Zero Asset Managers Initiative with a commitment to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C. They also commit to support investing aligned with net zero emissions by 2050 or sooner. More information on our approach to climate change in investment and engagement activities can be found here:
https://www.lgim.com/uk/en/responsible-investing/

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