For retail clients and consumers. Capital at risk.

LGIM’s policy on coal

Summary

Through the implementation of this Coal Exclusion Policy, Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiaries will exclude from investments those companies that are involved in the mining and extraction of thermal coal 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[1] (an international treaty on climate change), 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 quantities of greenhouse gases released due to the burning of coal implies that rapid cuts will be needed to meet the global commitment of net zero greenhouse gas emissions by 2050 made under the Paris Agreement. 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[2].

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 majority of greenhouse gas emissions3 caused by humans (primarily carbon dioxide and methane) come from burning fossil fuels like thermal coal for energy. Thermal coal is used for power and heat generation. There are substitutes available that can replace the need for coal-fired generation, including in the form of renewable energy sources and nuclear technology. A faster-than-anticipated transition away from coal could have a disproportionate impact on companies that rely heavily on thermal coal for their revenue.

[1] An international climate change treaty, called the Paris Agreement, aims to stop the world's average temperature rise to well-below 2ºC, or ideally by 1.5 ºC by the year 2100 and to limit greenhouse gas emissions from human activity to the same levels that trees, soil and oceans can absorb naturally - known as net zero.

[2] 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.

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

Policy scope

Coal/oil sand classification and revenue threshold

We rely on data to determine whether companies derive any revenue from thermal coal and oil sands using a third-party ESG data provider which we have selected based on the quality and coverage of their data.

This policy applies to certain companies which meet any of the following criteria:

- Involvement in thermal coal[4] and/or oil sands[5] by revenue (i.e. sales proceeds). This does not extend to metallurgical coal[6], which is used in steel manufacturing rather than power generation, due to the lack of widely available alternatives.
- Companies involved in the mining and extraction of thermal coal. The scope of this policy does not extend to metallurgical coal, which is often used in steel-making process. This is because low-carbon substitutes are not yet economically viable.
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of their revenues from the mining and extraction of thermal coal.
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of revenues from thermal coal-fired power generation
    - If a company has set out a clear plan aligned with the Paris Agreement to phase out coal by 2030 in countries that are part of the Organisation for Economic Co-operation and Development (OECD), and by 2040 in non-OECD countries, we retain the option to invest; and/or
    - If a company has non-coal subsidiaries7, we retain the ability to fund specific issuing entities
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of revenues from oil sands extraction (sand and rock material that contain crude bitumen)

New investments and coal phase out

- For funds we have committed to manage in line with net-zero emissions, LGIM will exclude, in addition to the above, companies making new investments in thermal coal and oil sands
- Across all LGIM funds, we will engage with companies with a potential for escalation with the aim of ensuring no new thermal coal generation is developed and no further oil sand resources are exploited
- Across all LGIM funds, we will use active and escalating engagement with the aim of ensuring that phase- out of existing unabated capacity and activity is undertaken in line with net zero pathways. This will take into consideration the need for a "just transition"[8] in countries or regions where there is significant economic dependence on thermal coal power or mining

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[4] Thermal coal means a coal used by power plants and industrial steam boilers to produce electricity, steam or both.
[5] Oil sands or tar sands, are sand and rock material that contain crude bitumen—a dense, viscous form of crude oil.
[6] 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.
[7] Non-coal subsidiaries refer to the affiliate companies of a parent company that are not involved in the coal industry and that operate in different sectors or industries other than coal mining or coal-based energy production
[8] A just transition may refer to a vision or process that ensures that the affected people (e.g. workers, local community) are considered within the process of low-carbon energy transition. Just Transition | International Institute for Sustainable Development (iisd.org)

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 shares or debt issued by companies 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 investments where the following LGIM(H) subsidiaries undertake investment decisions on behalf of their respective clients:
- Legal & General Investment Management Limited (LGIM) located in London
- Legal & General Investment Management America Inc (LGIMA) located in Chicago
- Legal & General Investment Management Asia Limited (LGIM Asia) located in Hong Kong

Segregated mandates:

LGIM(H) subsidiaries detailed above are appointed investment managers to segregated mandates for clients (funds that are managed as a customised account, selecting investments on behalf of the individual investor tailored to their financial objectives).

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:

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

Pooled funds:

The LGIM(H) subsidiaries detailed above are also appointed investment managers to pooled investment product providers affiliated with LGIM(H). A pooled investment being a financial product that combines investor funds together, using them to purchase a variety of investments under one umbrella.

Subject to the sections below, this policy shall apply to pooled funds including:

a) collective investment schemes (pooled fund investments) where a subsidiary or associated company of LGIM(H) is the manager

b) the unit-linked pooled insurance fund of Legal and General Assurance (Pensions Management) Limited (also known as the Long-Term Fund)

In each case above, the policy is set out as below. More information on the pooled funds to which this policy applies is available on request.

- 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
- **all multi-asset funds** (funds which aggregate a collection of different funds into one). 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.

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 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 following 90 days. Where names are removed from the list, they are then once again eligible for investment.

Internally, we implement processes and monitor compliance of this policy. 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.

Important information

Legal & General Investment

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Authorised and regulated by the Financial Conduct Authority. Legal & General Investment Management does not provide advice on the suitability of its products or services. Ultimate holding company - Legal & General Group plc.

Key risks
The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Important information
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LGIM Global
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•USA: Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser)
•Japan: Legal & General Investment Management Japan KK (a Japan FSA registered investment management company)
•Hong Kong: issued by Legal & General Investment Management Asia Limited which is licensed by the Securities and Futures Commission.
•Singapore: issued by LGIM Singapore Pte. Ltd. (Company Registration No. 202231876W) which is regulated by the Monetary Authority of Singapore.
The LGIM Stewardship Team acts on behalf of all such locally authorized entities.

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