

# Introduction to Legal & General’s ESG factsheet scores

A guide to the rationale and methodology behind our factsheet measures

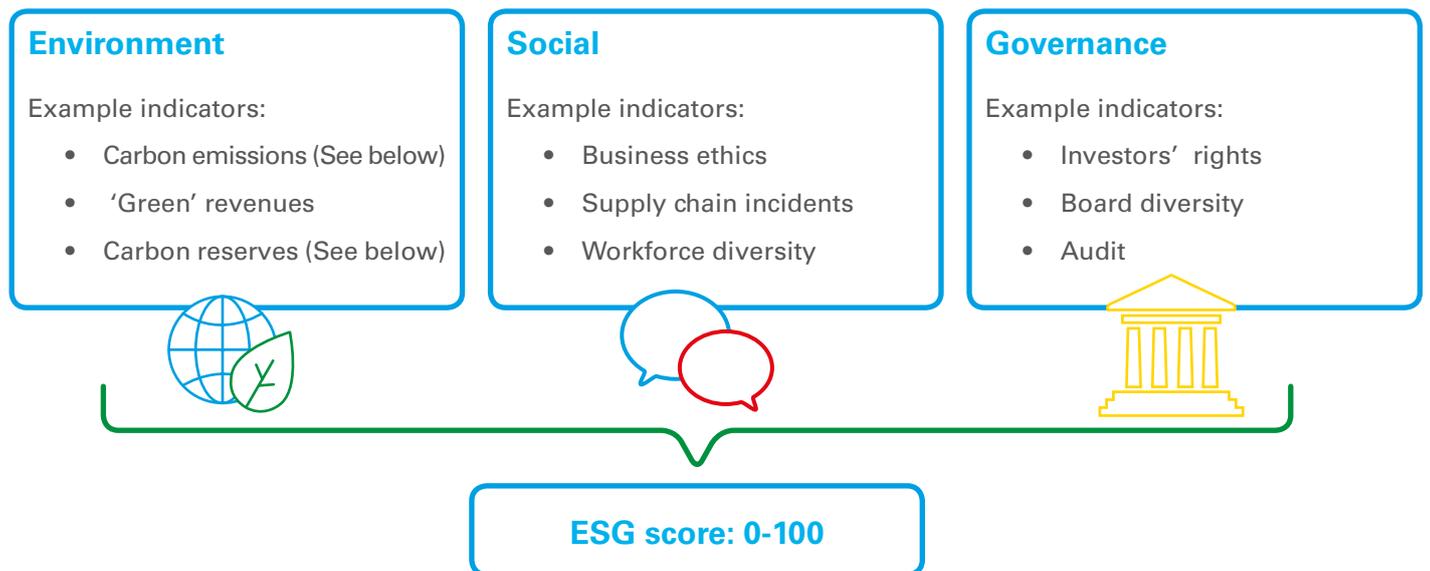
The way companies are run can affect an investor’s financial outcomes. We have developed a number of measures which can be used to assess the companies held in our funds to determine how well managed these companies are. There are three distinct metrics which we show on the funds’ factsheets:

- **Environment, social and governance score**
- **Carbon emissions**
- **Carbon reserves**

## ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) SCORE

We score companies on the basis of environmental, social and governance factors to better understand the companies in which we invest.

Using a number of indicators, we have given each of these companies a score between 0 and 100 based on these measures:



For active funds, where managers individually select the investments, these scores help identify which companies and sectors pose risks to future returns and which may be an investment opportunity.

In certain Future World index-tracking funds, we can use these scores to create new indices which invest more in

those companies with higher scores (above 50) and less in those which score lower (below 50).

The scores also help us direct our engagement efforts with companies to encourage them to improve their business practices and to raise the standards of the market.

## CARBON EMISSIONS

We take into account how much carbon dioxide (CO<sub>2</sub>) a company is responsible for emitting. This score is calculated by the size of emissions divided by how much money the company makes, as larger businesses will naturally need more energy.

## CARBON RESERVES

Carbon reserves are the fossil fuels which, if used, will become the carbon emissions of the future. Companies

that own reserves of coal, oil or gas pose two risks to your investments. First, if companies were to burn all of the fossil fuel reserves they own, this would cause a major increase in global warming and damage to society and the economy. The second risk is that as we move towards using more renewable forms of energy, these reserves become increasingly worthless and so companies are weighed down by reserves they cannot sell.

### INTRODUCING THE CLIMATE IMPACT PLEDGE

We believe that climate change will have a material impact on the global economy and the long-term sustainability of companies. The pledge is a targeted engagement process where we meet with those companies we have identified as critical to meeting the aims of the Paris Agreement to limit climate change<sup>1</sup>. Where these companies fail to meet our minimum standards, they will not be held by the Future World funds until they improve their standards (subject to individual fund guidelines). In parallel, LGIM will vote against the re-election of their board chairs across all funds where we hold voting rights.

### FUTURE WORLD PROTECTION LIST

As one of the world's largest investment companies, we believe we have a duty to both our clients and wider society to ensure the long-term success of the companies in which we invest. Therefore across certain funds, we choose not to invest in those companies which we believe could pose a major risk to your future returns<sup>2</sup>:

- Controversial weapons manufacturers
- 'Pure' coal miners - companies where coal extraction forms the largest part of their revenues
- Perennial violators of the United Nations Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies

### LEGAL & GENERAL INVESTMENT MANAGEMENT

At Legal & General, we are aware of the responsibilities that come with the money you have entrusted us to manage on your behalf. We seek to raise the standards of the companies and markets in which we invest, as we believe this can add value and reduce risk for your investments. Our investment management company is Legal & General Investment Management (LGIM). LGIM integrates environmental, social and governance (ESG) considerations into our investment processes in order to be a responsible investor.

1. The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

2. If a company improves its standards, we may later remove it from the Future World Protection List

## Important Information

This document should not be taken as an invitation to deal in any Legal & General investments. Investing in financial markets exposes investors to risk. The value of investments and any income from them may fall as well as rise and investors may get back less than they invest. Past performance is not a guide to future performance. Funds investing in equity markets have a greater risk of being volatile than Funds which invest in most other asset types, particularly in the short term. An increase in medium to long-term interest rates may reduce the value of investment in funds sensitive to interest rate changes. Exchange rate changes may cause the value of any overseas investments to rise or fall. The value of property is generally a matter of valuer's opinion rather than fact.

Details of the specific and general risks associated with Legal & General's range of funds are contained within the Key Investor Information Documents and can be accessed on our website [www.legalandgeneral.com/investments](http://www.legalandgeneral.com/investments)

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