Climate-related financial disclosures report L&G PMC Investment Pathway Option 1 Invest B3

Fund launch date
24 September 2020

Fund size
£14M

Fund code
B243

This report from Legal & General has been produced in line with recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). The first section of the report helps us to measure and manage the impact of our investments on the environment. The second section helps us to understand the risks and opportunities that climate change may have on your pension.

Section 1 – Emissions and climate data for L&G PMC Investment Pathway Option 1 Invest B3

This section of the report contains data for carbon dioxide (CO2) emissions, and other greenhouse gases (GHGs), that when emitted into the atmosphere are responsible for the greenhouse effect (global warming) on the planet. Carbon dioxide equivalent (CO2e) is a standard way to compare the emissions of different greenhouse gases. The choice of this metric and the below measurement and scenarios follows best practice recommendations from the TCFD.

Please refer to the **'how we measure and calculate'** section for more details on the metrics below. We aim to use language that's easy to understand. Where we've had to use terms that you may not be familiar with we've provided definitions. The terms will be highlighted in **brown** and an explanation of their meaning can be found in the **'terms explained'** section.

To provide context for the below metrics, 1 tonne of CO2e approximately represents:

Return flight from London to New York
Source: Planetair travel calculator

138 meat-based meals
Source: Carbon Equity

To capture 1 tonne of CO2 approximately 50 trees must grow for one year
Source: Climate Neutral Group

Total Carbon Emissions

1,328
Metric tonnes CO2e
Asset Coverage: 67%

The total greenhouse gas/carbon emissions of the Fund, in tonnes of **CO2e**. It includes Scope 1 and Scope 2 emissions.

Scope 1 Emissions

1,100
Metric tonnes CO2e
Asset Coverage: 67%

These are greenhouse gas emissions owned and controlled directly by the companies that the Fund invests in. For example, emissions through company vehicles, company office space and equipment, and the energy used in production of goods or services.

Scope 2 Emissions

228
Metric tonnes CO2e
Asset Coverage: 67%

These are emissions that the companies, which the Fund invests in, make indirectly via consumption of purchased heat, steam or electricity, all of which are produced on its behalf and owned by another.

Weighted average carbon intensity (WACI)

324
Metric tonnes CO2e per £1m of company revenue
Asset Coverage: 90%

Weighted average carbon intensity is a standard measurement to understand emissions after adjusting for the size of a company. This metric portrays the amount of carbon produced relative to the varying sizes of companies held within the Fund.

Carbon footprint

127
Metric tonnes CO2e per £1m of our investment
Asset Coverage: 88%

A carbon footprint demonstrates activities that result in greenhouse gas emissions. This metric highlights the Fund's carbon footprint relative to activities and market value.

Implied temperature alignment

2.8°C
Asset Coverage: 78%

This is the suggested global climate temperature outcome the Fund is compatible with, by the year 2100. The approach reflects the link between companies' carbon emissions and global warming outcomes. The **Paris Climate Agreement** aims to limit global warming to well-below 2°C, ideally 1.5°C.

Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

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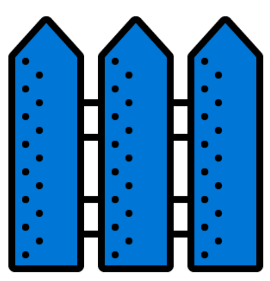
How we measure and calculate metrics

Assets that are measured for climate reporting
Pension money can be invested in one or more funds containing one or more asset classes. Asset classes include things like equities (company shares), bonds (loans to governments and companies), property and cash. Assets can only be measured for climate reporting where relevant and where sufficient climate data is available to do so.

Therefore according to data availability the asset classes measured are:

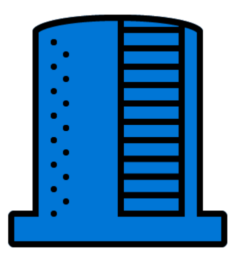
- Equities and corporate bonds for the 'total carbon emissions', 'scope 1 emissions' and scope 2 emissions'.
- Equities, corporate bonds and government (sovereign) bonds for 'weighted average carbon intensity', 'carbon footprint' and 'implied temperature alignment'.

However, some equities or bonds may not be included where meaningful data can't be provided or where they are not included in the asset mix of the fund. Whilst some metrics measure the same assets, the data availability may vary per metric. The asset coverage figures provided in the metrics, on the previous page, show the percentage of assets that provided meaningful data and are eligible for this type of climate reporting. The data is sourced and provided by our investment management business, Legal & General Investment Management (LGIM).



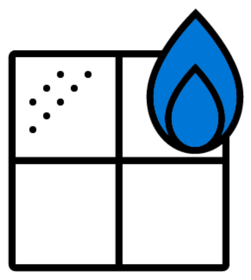
How we calculate: Total Carbon Emissions

Total including Scope 1 and 2 emissions. We measure this for companies that we hold within a fund's asset mix, through bonds and/or equities. It is based on the share of emissions we will hold in a particular company through the amount of investment held. This is done by calculating the company's overall emission total against the percentage share we have in that company as part of a fund's holdings. The amount of carbon dioxide equivalent (CO_2e) calculated per company is then combined into an overall total for the percentage of eligible assets.



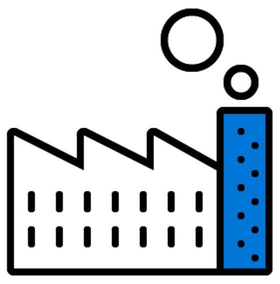
How we calculate: Scope 1 emissions

By using the same calculation method for total carbon emissions, we measure this for the proportion of companies that we hold within a fund's asset mix, through bonds and/or equities, for their scope 1 emissions.



How we calculate: Scope 2 emissions

By using the same calculation method for total carbon emissions, we measure this for the proportion of companies that we hold within a fund's asset mix, through bonds and/or equities, for their scope 2 emissions.



How we calculate: Weighted average carbon intensity (WACI)

We measure a tonne of carbon dioxide equivalent (CO_2e) emissions per £1million revenue (income generated from company as sourced in year-end financial statements). The overall total is a **weighted average** of all companies and sovereigns (various types of bonds, which are long and short term loans to local and national governments) included within a fund. WACI gives an emissions intensity metric based on the amount of carbon produced for each £1m of revenue generated by the companies invested in.

Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

Section 1 – Emissions and climate data for L&G PMC Investment Pathway Option 1 Invest B3

How we calculate: Carbon Footprint

To calculate the carbon footprint associated with this Fund, we take the 'total carbon emissions' figure (which includes data on carbon emissions from a company's operations and purchased energy) and calculate a **weighted average** against the overall market value of all companies and sovereigns (various types of bonds, which are long and short term loans to local and national governments) within a fund. This is a way to measure emissions relative to market size. Carbon Footprint also acts as an emissions intensity metric, which is the volume of emissions (metric tonne of carbon dioxide, CO_2e) per £1million of enterprise value. By looking at an intensity value you can adjust for the size of a fund to compare the funded emissions for different fund sizes.

How we calculate: Implied temperature alignment

Based on a combination of historical and forward-looking data, activities and targets, a score is calculated for each of the underlying equities, corporate bonds and sovereign/government bonds held within a fund, then combined to give the implied temperature alignment of the overall fund.

Terms explained

CO_2e
CO_2 stands for carbon dioxide. The 'e' stands for equivalent. CO_2e is a metric that allows comparison of emissions from various greenhouse gases to the equivalent measure of carbon dioxide.

Asset coverage
The percentage of the fund's asset classes that were measured. The asset classes that can be measured are equities (company shares) and government and corporate bonds. Some funds may include one or more of these asset types.

Paris Climate Agreement
To address global warming, the international climate change treaty, the Paris Climate Agreement, aims to limit and hold the world's average temperature rise to well-below 2°C (ideally 1.5°C) by the year 2100. Currently, the Earth is already about 1.1°C warmer than it was in the late 1800s (pre-industrial).

For context, global stock markets imply an average temperature rise of 2.95°C. This is according to the Science-Based Targets initiative (SBTi) 'Taking the Temperature' report:
https://cdn2.assets-servd.host/science-targets/production/files/SBTi-TakingtheTemperatureReport2021.pdf

Weighted average
A weighted average accounts for the relative importance and size of the different assets that are included. We will hold varying levels of assets within a fund, for example we may hold more shares in one company over another. We use a weighted average to allow for the different importance of the carbon data for assets according to size held, based on the market value at the reporting date. This weighted average paints a clearer picture than an equally split average would.

Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

Section 2 - Climate scenario and risk analysis: Multi-Asset Funds

To address global warming, the international climate change treaty, the Paris Climate Agreement, aims to limit and hold the world's average temperature rise to well-below 2°C (ideally 1.5°C) by the year 2100. Currently, the Earth is already about 1.1°C warmer than it was in the late 1800s (pre-industrial).

To help achieve this, the aim is to achieve net zero carbon emissions globally by 2050. Net zero means cutting carbon dioxide (CO_2) to as close to zero as possible, with remaining emissions re-absorbed or removed from the atmosphere, by oceans, forests or carbon capture technology for instance. At the same time, it also requires deep reductions in other greenhouse gases, particularly methane.

This means that we need to move to an economy built on sustainable actions that result in less environmental impact, known as transitioning to a low-carbon economy. This will bring associated transition risks and opportunities. In addition to ongoing risks from the changes in extreme weather events, a successful adjustment will involve significant changes to climate-related policy, regulations and law; use of technology; and business and government strategies.

Depending on how well businesses and governments transition, this will have a ripple effect on areas like reputation and trust, business and market performance, supply and demand of materials and goods.

Against this backdrop, the following scenario analysis, based on climate scenario modelling from Legal & General Investment Management (LGIM), helps us to explore a range of possible climate futures and understand the potential climate-related risks for this asset class. This section relates to this asset class and is not just applicable to the named fund in this report.

We consider three temperature scenarios for this assessment as shown in the following pages. The scenarios have a forecast time horizon to 2050, with narratives defined by their probable temperature outcome in 2100 (compared to pre-industrial temperatures in the 1800s). These are possible pathways, rather than predictions or probabilities. They are an exercise in what could happen, not in predicting what will happen.

Scenario analysis is provided for the representative asset class based on the dominant proportion of assets - Corporate Bonds, Equity, Sovereign Bonds and Multi-Asset. Cash, Derivatives and Private Equity do not have scenario analysis detail at this time.

Opportunities

While we have identified potential risks, companies and governments that can effectively plan and participate in the move to a more sustainable economy over the next 10 years - creating a decade of delivery – can also create opportunities. A number of opportunities exist to gain market share and public trust, reduce costs and emissions, while benefiting the planet. In particular, we should expect to see some opportunities for companies with capabilities in electric vehicles, green fuels, technology, renewables and critical minerals.

Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

Section 2 - Climate scenario and risk analysis: Multi-Asset Funds

WELL-BELOW 2°C ORDERLY TRANSITION SCENARIO

Immediate, ambitious policy and investment action to address climate change succeeds in limiting global warming to well-below 2°C.

	POTENTIAL RISKS	POTENTIAL FINANCIAL IMPACTS
Short Term: 1-3 years	• Reputational damage and increased scrutiny from public and regulators over level and merit of climate-related activities.	• Medium level of financial exposure to climate risk for equities (company shares), which may impact performance.
Medium Term: 4-10 years	• Increased frequency and severity of extreme weather events. • More policy measures. • Companies failing to adapt to technological change and the move to a low-carbon economy. • Legal cases against large corporates and governments on their climate-related strategies and emissions. • Emissions-intensive companies may face reputational risk from their inaction and continued contribution to global warming.	• Use of **carbon pricing** for high-emissions. • Companies will need to manage increased costs against potential reductions in demand. • Shifts in market sentiment and demand patterns, impacting economy and performance of bonds (loans to businesses and governments) and equities (company shares). • **Stranded assets** within funds that no longer produce income. • Successful legal cases will have financial impact on those involved and may stall policies and projects.
Long Term: over 10 years	• Increased frequency and severity of extreme weather events. • Carbon prices continue to rise. • Demand changes and trade barriers. • Failure to adopt **low-carbon technologies**.	• Business interruptions and impact on profits, economic impacts, damage to infrastructure and supply chain issues from extreme weather events. • Financial implications for equities (company shares). • In some extreme cases, may lead to delays in loan payments for some corporate and government bonds. • Significant profit losses for companies and governments that don't respond to technological and policy changes.

Terms explained

Carbon pricing

A carbon price is the price that a company would have to pay for each tonne of CO2e emitted.

Stranded assets

This means an asset (such as a coal-fired power plant) that once had value or produced income but no longer does. This is usually due to some kind of external change, including changes in technology, markets, regulations and societal behaviours.

Low-carbon technologies

These are technologies that produce low levels of CO2 emissions, or no net emissions. Examples include wind turbines, solar power, ground source heat pumps.

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Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

Section 2 - Climate scenario and risk analysis: Multi-Asset Funds

WELL-BELOW 2°C DISORDERLY TRANSITION SCENARIO

Policy and investment action to limit global warming to well-below 2°C is delayed by 10 years, resulting in much more disruptive change from 2030.

	POTENTIAL RISKS	POTENTIAL FINANCIAL IMPACTS
Short Term: 1-3 years	• Reputational damage and increased scrutiny from public and regulators over level and merit of climate-related activities.	• Medium level of financial exposure to climate risk for equities (company shares), which may impact performance.
Medium Term: 4-10 years	• Increased frequency and severity of extreme weather events. • Social disruptions with calls for action on delayed policy measures. • Failure to respond to required technological changes. • Emissions-intensive companies may face reputational risk from their inaction and continued contribution to global warming.	• Delays in policy could lead to a more economically disruptive environment. • Potential impact on performance of bonds (loans to governments and companies) and equities (company shares) owing to reputational damage or failure to take advantage of sustainable 'green' growth opportunities.
Long Term: over 10 years	• Increased frequency and severity of extreme weather events. • More rapid and disruptive **carbon price** increases. • Demand changes and trade barriers. • Rapid scale-up of renewables leads to supply bottlenecks and companies competing for resources. • Failure to adopt **low-carbon technologies.**	• Business interruptions and impact on profits, economic impacts, damage to infrastructure and supply chain issues from extreme weather events. • In some extreme cases, may lead to delays in loan payments for some corporate and government bonds. • Significant economic and profit losses for companies and governments that don't respond to technological changes.

Terms explained

Carbon pricing

A carbon price is the price that a company would have to pay for each tonne of CO2e emitted.

Low-carbon technologies

These are technologies that produce low levels of CO2 emissions, or no net emissions. Examples include wind turbines, solar power, ground source heat pumps.

Climate-related financial disclosures report
L&G PMC Investment Pathway Option 1 Invest B3
Fund Code: B243

Section 2 - Climate scenario and risk analysis: Multi-Asset Funds

4°C HOTHOUSE WORLD SCENARIO

Global failure to act on climate change means emissions continue to grow at historical rates

	POTENTIAL RISKS	POTENTIAL FINANCIAL IMPACTS
Short Term: 1-3 years	• Reputational damage and increased scrutiny from public and regulators over level and merit of climate-related activities.	• Medium level of financial exposure to climate risk for equities (company shares), which may impact performance.
Medium Term: 4-10 years	• Increased frequency and severity of extreme weather events and failure to adapt to new weather patterns. • Emissions-intensive companies may face reputational risk from their inaction and continued contribution to global warming. • Failure to adapt to technological changes.	• Potential impact on performance of bonds (loans to governments and companies) and equities (company shares) owing to reputational damage or failure to take advantage of sustainable 'green' growth opportunities.
Long Term: over 10 years	• Increased frequency and severity of extreme weather events. The higher the warming, the higher the risk. • Rising sea levels and higher average temperatures. • Potential for mass climate-related migration, social unrest and political instability.	• Business interruptions and impacts on profit, economic impacts, damage to infrastructure, supply chain issues, higher insurance premiums from extreme weather events. • Decreased economic productivity and output due to chronic climate change impacts. • General geopolitical risk of social backlash, where emissions-intensive companies could lose business and trust.

More information on our approach to climate risk management, governance and strategy, within pension funds is available in the supporting Legal & General entity report section of our website legalandgeneral.com/tcfd

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