L&G – Asset Management Limited Policy on Coal and Oil Sands

For professional and retail investors only. Capital at risk.

Overview

Through the implementation of this Coal and Oil Sands Policy, L&G - Asset Management Limited will exclude from investments those companies that are involved in the mining and extraction of thermal coal and oil sands 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 pursue efforts to limit the temperature increase "… to 1.5°C above pre-industrial level". We believe that the Paris Agreement climate goals are important to mitigating systemic risks associated with climate change, which will potentially be detrimental to long-term returns and hence, we are committed to supporting the energy transition. The energy transition refers to the global shift from high-carbon energy sources, such as coal, to low-carbon alternatives in order to meet climate goals, reduce greenhouse gas emissions, and mitigate the long-term risks of climate change.

The high quantities of greenhouse gas emissions caused by the burning of coal imply that rapid cuts will be needed to align with net zero carbon emissions by 2050. 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[1].

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 emissions[2] 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. Additionally, a faster-than-anticipated transition away from coal could have a disproportionate impact on companies that rely heavily on thermal coal for their revenue.

When it comes to oil sands, the total amount of greenhouse gases produced is materially greater than the average in the oil industry. As such, investing in oil sands is not considered to be aligned with the goal of a net-zero world.[3]

[1] Thermal coal is used for power and heat generation.
[2] Carbon dioxide, methane, nitrous oxide and three groups of fluorinated gases.
[3] IEA, The Oil and Gas Industry in Net Zero Transitions, 2023.

How the policy is applied

Coal/Oil Sands 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.
- 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, and
    - Do not have a clear plan aligned with the Paris Agreement to phase out coal by 2030 in in countries that are part of the Organization for Economic Co-operation and Development (OECD) and by 2040 in non-OECD countries.
- Screening will be carried out and exclusions will be applied to those companies that:
    - Generate 20% or more of their revenues from thermal coal-fired power generation, and
    - Do not have a clear plan aligned with the Paris Agreement to phase out coal by 2030 in in countries that are part of the Organization for Economic Co-operation and Development (OECD) and by 2040 in non-OECD countries.
    - If a company has non-coal subsidiaries[7], we retain the option to fund those specific non-coal subsidiary 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 carbon emissions we will exclude, in addition to the above, certain companies making new investments in thermal coal and oil sands[8].
- Across all L&G funds, we will engage with companies where relevant 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 L&G funds, we will use active and escalating engagement where relevant with the aim of ensuring that phase- out of existing unabated capacity and activity is undertaken in line with net zero pathways. This will

[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] Companies with thermal coal mining or power generation expansion plans that are wholly dedicated to a specific industrial facility are currently not excluded.

take into consideration the need for a “just transition”[9] in countries or regions where there is significant economic dependence on thermal coal power or mining.

Excluded companies and assets – scope

The exclusion list has been developed using information from a third-party service provider and public listed, private, and state-owned companies that are on the list will not actively be invested in. It should be noted that this exclusion applies to the entity that is involved in the coal and oil sands activity, rather than the company’s parent, and it applies to equities and bonds. This policy does not apply to sovereign bonds, which are debt instruments issued by a country’s government.

How this policy is applied to other areas of L&G

The policy is used by L&G business areas in Europe, America and Asia. It is used in both pooled and for segregated mandates as follows:

Pooled funds

Pooled funds combine investor funds together, using them to purchase a variety of investments under one umbrella.

Non-US funds

The policy applies to all investments made within all non-US pooled active funds, i.e. funds where we select the stocks in which to invest, and certain non-US pooled index funds, as well as certain segregated mandates, as per our clients’ requests

US mandates

US pooled funds apply these policies as permitted under the funds’ offering and governing documents and for certain segregated mandates as agreed with the client.

Segregated mandates

- These are portfolios that are managed as a customised account, selecting investments on behalf of individual clients and tailored to their financial objectives. The way the policy is applied depends on the following: The client ultimately decides whether to adopt the policy
- Segregated portfolios that use derivative and/or currency hedging overlays (an investment strategy that provides exposure beyond those provided by the underlying portfolio assets, which may relate to currency or other types of assets) may have economic exposure to indices that don’t apply the policy
- The policy isn’t applied to investment guidelines of segregated index mandates unless included in a customised index

[9] 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)

Implementation process

We used a third-party to identify companies involved in thermal coal and oil sands, as defined above, and to support us in the development of an exclusion list. The list is reviewed twice yearly. Where new companies are identified as being involved in thermal coal and oil sands, and thus should be added to the list, we will seek, where possible, to remove any of their holdings from the portfolios to which this policy applies, within the following 90 days.

We monitor compliance with the policy.

Process of appeal

For any queries about the policy, please contact:

RI&Stewardship@lgim.com

Important information

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates (‘Legal & General’, ‘we’ or ‘us’) as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy.