



2026

Climate Impact Pledge

A decade in review, a future in focus

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While L&G’s Asset Management business, where relevant, has integrated financially material Environmental, Social, and Governance (ESG) considerations into its stewardship practices and investment decision-making, funds that do not include specific ESG goals within their objectives might not pursue responsible investing goals.

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Risk management cannot fully eliminate the risk of investment loss.

For investors. All investing involves risk.

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References throughout this report to developments at investee companies, improvements or other outcomes following engagement are intended to illustrate examples observed over the course of our stewardship activities. Changes in company disclosures, targets, strategies, governance and other practices may result from a range of factors, including company actions, engagement by multiple investors and stakeholders, regulatory developments, technological change and evolving market conditions. Consequently, such outcomes should not be understood as attributable solely or directly to L&G's engagement activities, and no statement in this report should be interpreted as implying sole or direct causation.

This report also contains forward-looking statements, including in relation to targets, ambitions and the future evolution of our CIP. These are subject to change and there is no guarantee that any objective, target or expected outcome will be achieved. Certain information is based on data provided by third parties, which we believe to be reliable but which we have not independently verified and cannot guarantee as accurate or complete.

References to divestment and reinstatement apply only to selected funds, as described in this report, and are subject to applicable limits; they do not apply across all L&G funds, mandates or holdings.

Executive summary

Over ten years, L&G’s Climate Impact Pledge¹ has helped move climate change from the margins to the mainstream of corporate governance, strategy and disclosure among our investee companies.

Through minimum standards, a graduated approach to engagement and voting, and sustained in-depth dialogue, we have sought to raise the baseline of corporate climate practice. This is rooted in our belief that climate change is a financially material issue for our clients’ portfolios: recognising the potential risks and the opportunities presented by a low-carbon transition is key to creating and protecting long-term value. As stewards of our clients’ assets, the pledge provides a structured framework to identify and engage with investee companies on how they are addressing related risks and opportunities. This report reflects on the outcomes achieved and insights gained over ten years of pledge engagement, the context companies are currently operating in, and how these inform our future direction.

As our understanding and expectations have evolved, so too has the assessment framework underpinning the pledge. New topics have been incorporated as knowledge around their materiality has grown, while metrics have been refined, added, or removed to maintain alignment with best practice and improved data availability. From an initial universe of 80 companies in 2016, we expanded the pledge to approximately 1,000 companies in 2020, and to more than 5,000 companies across 20 sectors by 2022. Today, the pledge now covers 80% of the carbon emissions attributable to our corporate equity and debt holdings.²

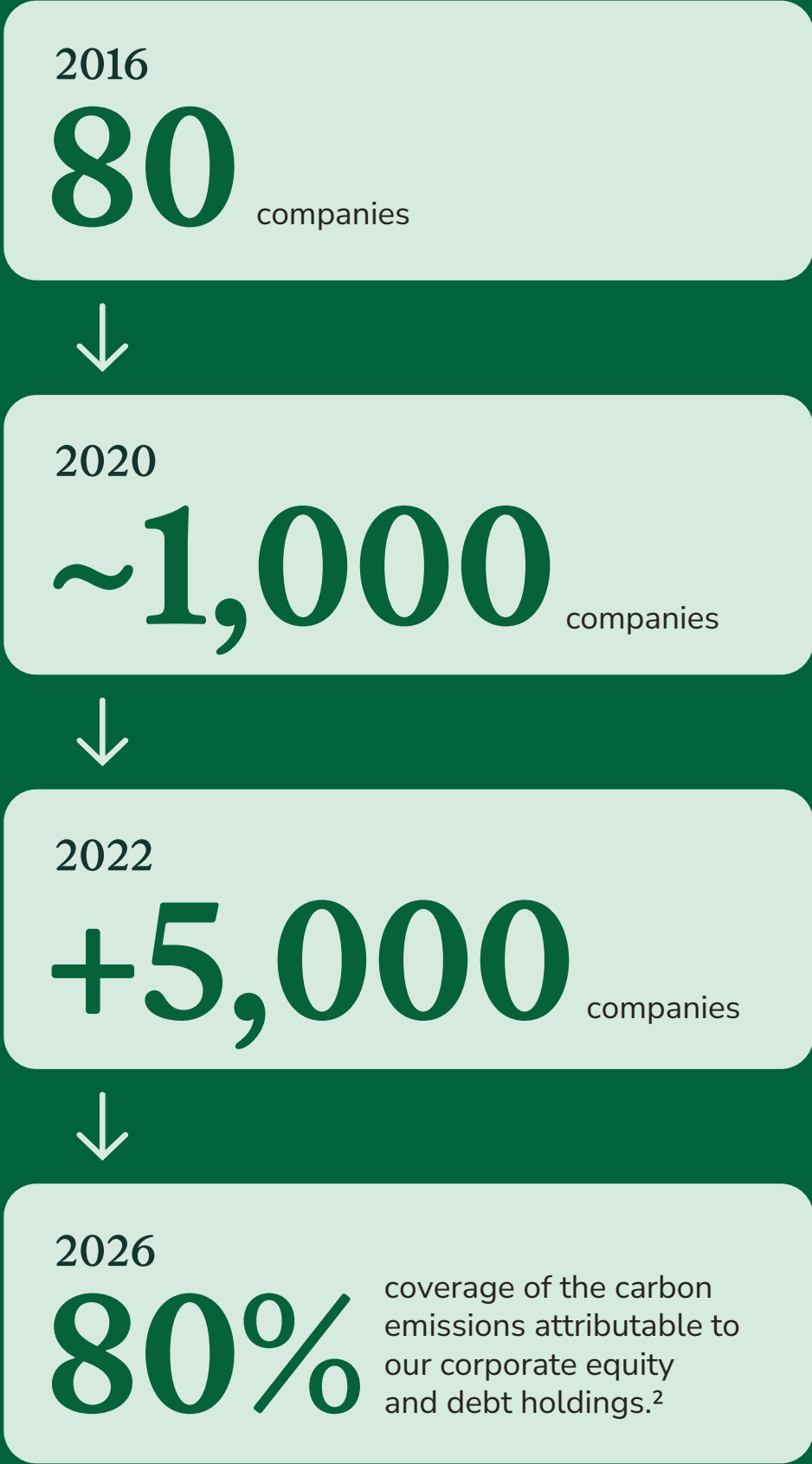
We have continued to hold companies to account where progress has been insufficient. 22 companies have been divested in total,³ and over 1,500 companies identified for a vote escalation, including ~280 companies in the 2026 proxy season.

At the same time, we have celebrated progress: seven companies have been reinstated since 2018 following continued engagement after divestment, and in 2025 we saw a ~50% reduction in companies identified for a vote against because of improvements made against our minimum standards.⁴ We believe that the pledge supports positive change and we are committed to act as a partner to our clients and the companies in which we invest to navigate the transition, seize its opportunities, manage risk and deliver long-term value for our clients.

A decade on, this momentum is clear. However, delivering real-economy transition requires more. The challenge now is no longer just awareness or ambition, but whether the transition can be delivered in practice, at pace and at scale, within real world constraints.

Our experience shows that progress is increasingly shaped not only by company ambition and intent, but also by implementation challenges, sector structures, and system-level factors that can sit beyond individual companies’ direct control. Delivering the transition in a way that protects or enhances long-term value therefore requires greater attention on the factors that enable or constrain a company’s potential for change, including developments across sectors and value-chains, policy frameworks, access to finance, and enabling infrastructure. At the same time, physical climate risks are increasingly likely to influence how companies navigate the transition, highlighting the need for adaptation measures that strengthen resilience and reinforcing the importance of nature and healthy ecosystems in supporting climate adaptation and successful transition outcomes.

We are therefore refocusing the pledge to emphasise unlocking some of the key barriers to transition through both company and system-level engagement, and we will expand our approach to further include adaptation, resilience and nature. Our aim is to continue to move beyond improved disclosures and the development of strategies and action plans, to supporting their implementation and ultimately helping to accelerate progress towards the delivery of net zero commitments.



¹ The pledge is L&G’s corporate engagement programme, through which we encourage companies to address climate – and nature-related risks and opportunities and support the transition to a low-carbon, resilient economy.

² as at 31 December 2025.

³ Companies are divested from or reinstated into selected funds with £236 billion in assets (as at 31 December 2025), including funds in the Future World fund range, our ESG fund ranges and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested. L&G’s Asset Management business’s total AUM was £1,177 billion as at 31 December 2025. The AUM disclosed excludes assets managed by associates (Pemberton, NTR, BTR). The AUM includes the value of securities and derivatives positions and may not total due to rounding.

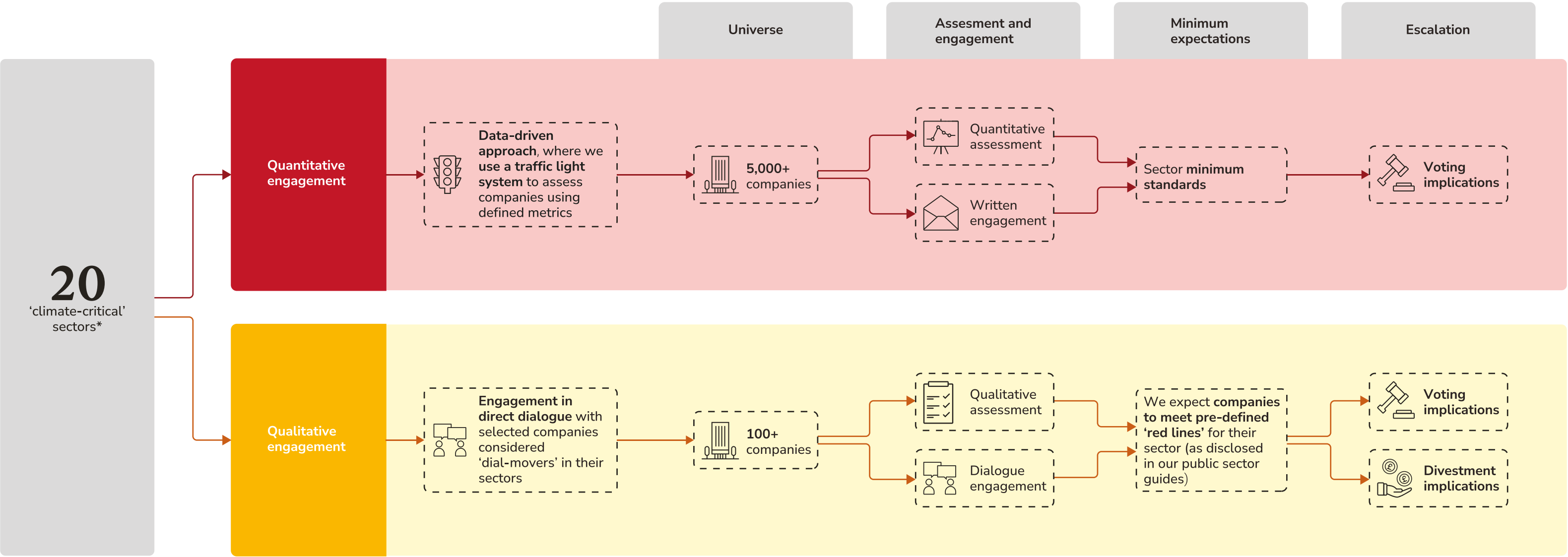
⁴ Minimum standards refer to core quantitative indicators applied across sectors, used for scoring and voting thresholds.

How it works: two-fold approach

Through our pledge, L&G encourages companies to reduce the risks associated with climate change and nature degradation, and to transition to a low carbon and more resilient economy. We ask companies to embed these considerations into their business strategy, which we believe will help to build resilience and drive long-term value creation for our clients.

Through the pledge, we now cover 56% of the total corporate securities by value invested by L&G’s Asset Management business on behalf of clients, and 80% of the total carbon emissions attributable to our corporate equity and debt holdings, as of 31 December 2025.⁵

This includes the assessment of companies across 20 ‘climate-critical’ sectors⁶ responsible for most global greenhouse gas (GHG) emissions from listed companies and which we believe are vital to climate transition at scale, as well as being the most carbon-intensive sectors in L&G’s portfolios.⁷



Source: L&G

⁵ As at 31 December 2025. Percentages are calculated by looking at corporate equity and debt holdings only. Percentages are calculated for the aforementioned holdings where carbon data can be found. Carbon data is from ISS, using ESG data and reporting enrichment to map to issuers of corporate bonds.

⁶ Please see the Appendix for more information.

⁷ Through the sector selection process, we aim to cover as large of a share as possible of global sources of emissions, via the sectors that we as an investor will have exposure to. As part of the sector selection process, we have used emission data to see which sectors (and sub-sectors) are most carbon-intensive to prioritise our engagement efforts among other considerations.

Quantitative engagement

5,000+ climate-critical companies

Centred around the key pillars of the Task Force on Climate-related Financial Disclosures (TCFD) framework, now incorporated as part of the International Financial Reporting Standards (IFRS),⁸ sector-specific metrics underpin our quantitative assessment, with certain indicators designated as **minimum standards**, alongside a small number of **baseline expectations** that apply to emissions intensive sectors.⁹

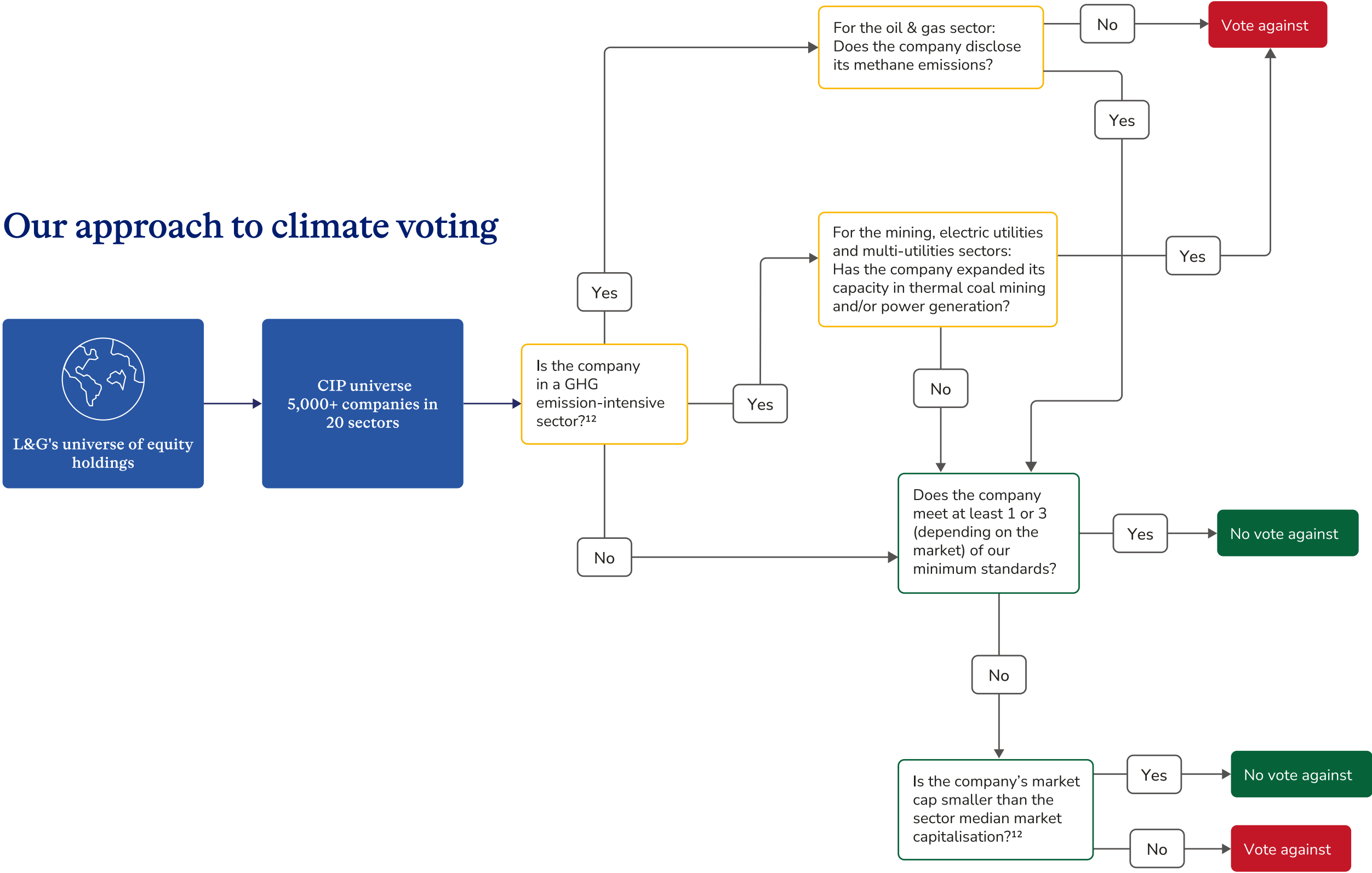
We write annually to companies to communicate their assessment results, highlight areas for improvement, and explain how performance may influence our voting at upcoming AGMs. To support transparency and comparability, we publish our [methodology](#) – including sector minimum standards, indicators and data sources – on our dedicated microsite. This is intended to enable companies and broader stakeholders to better understand and engage with our approach.

Our assessment outcomes are linked to our voting decisions. We have developed a two-step screening process, with voting implications for:

- 1. Companies in emission-intensive sectors that do not meet our baseline expectations.
- 2. Larger companies (above median market capitalisation for their sector)¹⁰ that fall short of the required number of minimum standards for its sector and region.¹¹

Ahead of AGMs, we write to companies at risk of a vote against, directing them to our microsite and clearly outlining our assessment criteria.

Our approach to climate voting



For illustrative purposes only.

⁸ The requirements in [IFRS S2 Climate-related Disclosures](#) issued by the International Sustainability Standards Board (ISSB) integrate, and are consistent with, the four core recommendations and eleven recommended disclosures published by the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#).

⁹ Information on the baseline expectations can be found in the Climate Impact Pledge [methodology](#).

¹⁰ We recognise that relatively smaller companies may have resource constraints and are yet to disclose sufficient climate-related information. We write to them highlighting our published assessment, with our expectations and suggested areas for improvement.

¹¹ Companies in emerging and frontier markets, as categorised by MSCI's market classification, are expected to meet at least one of our minimum standards, while companies in North America, Europe, the UK, Japan, and Asia-Pacific are expected to meet three.

¹² Emission-intensive sectors are defined as oil & gas, mining, electric utilities, and multi-utilities (except for water and gas utilities) sectors.

We sent more than 3,300 letters to our investee companies in 2026, outlining our approach to climate and nature and our related policies.

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Thank you very much for sharing the results of your Climate Impact Pledge assessment with us. We sincerely appreciate the time and effort taken by your team to engage with us and to provide your valuable perspectives as a shareholder. We will continue to advance our initiatives, including efforts to address transition risks, as part of our ongoing commitment to climate-related issues.

”

A large Asian electric utility company

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We reviewed the assessment in detail and have taken note of valuable insights that will support the improvement of our climate actions. Thank you for your engagement efforts and the positive evaluation, both of which we highly value. We remain committed to advancing our sustainability efforts, guided by the constructive input of our stakeholders like you.

”

A large international airline



Qualitative engagement

100+ ‘dial-movers’

Alongside our quantitative assessment of 5,000 companies, our qualitative engagement has evolved to focus on approximately 100 influential ‘dial-mover’ companies. These are selected based on their size, emissions profile, and potential to galvanise action in their sectors, with the objective of encouraging companies to build climate resilience and transition, aligned with a net zero pathway.

The ‘dial-mover’ companies span key regions and value chains, prioritising companies that represent a significant share of our holdings, have high direct or indirect GHG emissions, and offer meaningful opportunities for engagement. Selection is informed by a combination of systematic data analysis and sector expertise and judgement.

Our assessments of these companies are grounded in publicly disclosed information and guided by the expectations set out in our published sector guides, including our clearly defined sector-specific **red lines**.¹³ These assessments are complemented by direct dialogue with companies.

Where a ‘dial-mover’ company falls short of the red lines for its sector, there may be voting implications at its AGM. In making such decisions, we consider not only alignment with our red lines, but also broader progress on climate and nature-related strategies as well as the regional and regulatory contexts in which they operate. Where appropriate, we may also publish our voting intentions ahead of AGMs.

Where progress remains insufficient over an extended period, we may divest from ‘dial-mover’ companies within applicable funds. In such cases, the intention is to continue engagement, with the aim of supporting improvement and enabling future investment, where appropriate. Examples of such progress can be found in the [‘Qualitative Engagement Outcomes’](#) section.

¹³ Red lines refer to specific minimum expectations in each sector as part of the qualitative assessment that we expect companies to meet to avoid a vote implication and potential divestment. For more information, see our [sector guides](#).



10-year engagement outcomes

Over the ten years of the pledge, we have seen market-wide change, with growing momentum across companies and governments to embed climate change into decision-making, public policy, regulation, and corporate disclosure. We welcome this progress. However, we remain mindful of the challenges that persist in achieving the transition at the pace and scale required. As outlined in the second part of the report, these challenges continue to inform the evolution of our engagement approach and priorities.

This positive momentum is reflected in trends observed in our quantitative assessments, progress against minimum standards, and related voting activity. It is also evident in the tangible improvements observed among ‘dial-mover’ companies following direct engagement – developments that, in some cases, have been sufficient to support the reinstatement of previously divested companies.

In the 2026 proxy season, we identified ~280 companies for a vote implication,¹⁴ based on their performance against sector and regional minimum standards, out of more than 5,000 companies assessed across 20 ‘climate-critical’ sectors.

Pledge engagement and voting: a decade in review

	Key milestones	Voting Companies identified for a vote against
2016 – 2020	Launched the Climate Impact Pledge (CIP) and began engagement across 6 sectors.	12
2021	Expanded to 15 sectors; engaged ~60 companies; launched CIP assessment of ~1,000 companies; published CIP ratings and Sector Guides on website.	130
2022	Expanded to 20 sectors; engaged 100+ companies; integrated nature considerations into CIP assessment and voting criteria.	80
2023	Scaled the CIP assessment to 5,000+ companies across 20 sectors.	299
2024	Introduced 'baseline expectations' for emission-intensive sectors, including oil & gas, mining and utilities.	455
2025		245
2026	Refreshed the CIP approach to better reflect regional and sector-specific transition challenges.	280

¹⁴ Under the Climate Impact Pledge, we may vote against a company that does not meet applicable sector- and region-specific minimum standards and is above the median market capitalisation for its sector.

Progress across markets: a regional view

This year’s results present a more nuanced picture. While the overall trajectory of pledge ratings since 2023 remains positive across most key markets, progress has been uneven and reflects a combination of company action, evolving regulatory environments, and changes in disclosure practices.

The pledge score reflects performance across multiple pillars, including disclosure, target setting, governance and implementation indicators. Changes in scores over time therefore capture both underlying company progress and improvements in disclosure and data availability.¹⁵

The chart underscores that progress is not linear. Several markets – including Japan, South Korea and Brazil – demonstrate consistent upward momentum. Others, such as the UK, show strong gains followed by a recent stabilisation. In contrast, Australia shows a reversal after earlier improvements, while the US and Canada remain comparatively stable, with more modest changes over time.

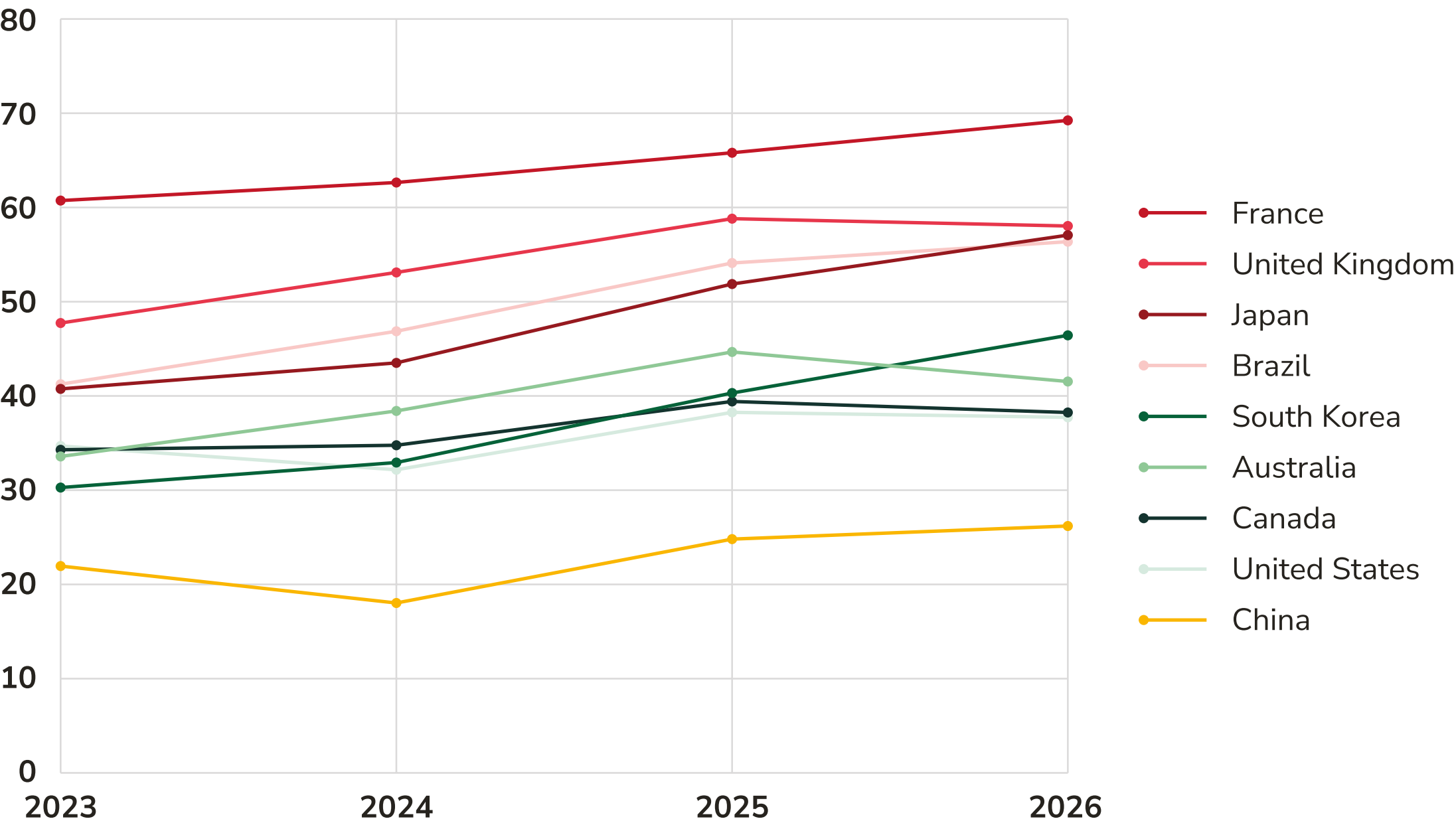
These patterns continue to reflect differences in regional context and regulatory development. France remains the strongest performer, characterised by steady and sustained improvement, consistent with its relatively mature and stable regulatory framework, which has supported progress on climate disclosure, target-setting and transition planning. The UK’s recent stabilisation follows a period of notable improvements in recent years.

Meanwhile, Japan and South Korea display some of the most pronounced upward trends, which may reflect the impact of more recent regulatory developments, including Japan’s embedding of TCFD-aligned disclosure and global standards (Sustainability Standards Board of Japan) into annual securities reporting, and South Korea’s shift towards a more structured, International Sustainability Standards Board (ISSB)-aligned mandatory disclosure regime and a clear regulatory roadmap.

At the other end of the range, the US remains a lower performer alongside China, which, while still lagging in absolute terms, is among the faster-improving markets over the full period.¹⁶

These patterns are broadly consistent with our direct engagement experience across regions. While these developments align with our engagement priorities and policy advocacy over time, isolating the specific impact of engagement on outcomes at a regional level remains complex given the interaction with regulatory and market dynamics.

Average CIP ratings in select countries (2023 - 2026)



Source: L&G, as at May 2026. The line chart shows how the average score evolved from 2023 to 2026 in select countries. The scope of companies for the analysis remains consistent across four years for comparability purposes, covering over 5,000 companies. With climate data becoming more available, our pledge scores have evolved to integrate new data points. **For illustrative purposes only.**

¹⁵ The methodology has evolved over time to reflect changes in market practice, data availability and assessment priorities, and may influence score movements over time. The methodology document for the Climate Impact Pledge can be found [here](#).

¹⁶ Prior years’ performance, from 2020 onwards, can be found in [previous reports](#); however, these are not like-for-like comparisons given the substantial expansion of our assessment universe in 2022.

These developments also reflect our long-standing support for the global adoption of TCFD – and [ISSB-aligned disclosure](#) frameworks,¹⁷ including in Japan and South Korea, complemented by [broader climate policy engagement](#). For example, in South Korea, we have engaged with policymakers and the Asian Investor Group on Climate Change (AIGCC) to advocate for credible energy transition policies, including power market reform and stronger support for renewable investment, with a view to addressing practical barriers to delivery and focusing on investable transition pathways. In Japan, we have combined collaborative policy dialogue with targeted company engagement, contributing to developments such as the introduction of a mandatory emissions trading system from 2026 and greater transparency around corporate climate policy advocacy.

Some year-on-year variation in pledge scores also reflects changes in reporting practices and data availability. In Australia, the decline in the number of scores in the most recent year coincides with a slight reduction in CDP Disclosure participation. While this may have had a modest impact on measured outcomes, it does not necessarily indicate a deterioration in underlying company performance; rather, it highlights how shifts in disclosure approaches – including the transition from voluntary to more standardised and mandatory reporting regimes – can influence results within our framework.

These dynamics reinforce an important point: our ratings capture both underlying company progress and the evolving landscape of sustainability reporting. As markets transition towards more standardised, ISSB-aligned disclosure regimes, periods of short-term volatility in scores should be expected.

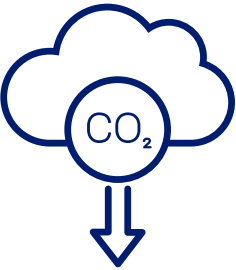
Taken together, the findings underline both the progress made and the complexity of assessing it consistently across regions. Companies operate within distinct policy and regulatory environments, which continue to shape both the pace of improvement and how progress is reflected in reported data.

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Our ratings capture both underlying company progress and the evolving landscape of sustainability reporting.
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¹⁷ As a member of the [ISSB Investor Advisory Group \(IIAG\)](#), we have contributed to the development of the standards and have actively supported their adoption through consultation responses across multiple regions.



Case studies: developments in disclosure

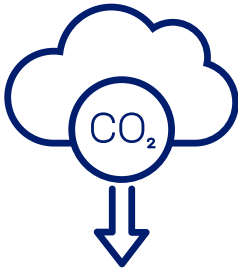


Scope 1 and 2 GHG emissions disclosure

Why it matters:
Scope 1 and 2 GHG emissions disclosure provides a fundamental, comparable baseline for investors to assess operational emissions, exposure to transition risks, and the profile of financed emissions.

What we've done:
We have been requesting companies to disclose this information to investors and monitoring this publicly via our pledge assessment. As a long-standing focus of our assessments and engagement through the pledge, in 2023 we made Scope 1 and 2 GHG emissions disclosure a minimum standard requirement across sectors and regions.¹⁸ These disclosures are also central to both the [TCFD Recommendations](#) and [IFRS S2 Climate-related Disclosures](#), both of which we have been active supporters of over the years.¹⁹

Outcomes:
We are pleased to see that 73% of companies in the pledge universe now meet this requirement, an increase of 6% since 2024.²⁰



Scope 3 GHG emissions disclosure

Why it matters:
Scope 3 GHG emissions disclosure, now incorporated into IFRS S2,²¹ provides a more complete view of a company's value chain emissions – often the most material component of its emissions profile. This information supports investors in assessing climate-related risk, transition exposure, and progress against stated decarbonisation objectives.

Since 2016, Scope 3 GHG emissions disclosure has been integral to our sector guides and expectations for relevant sectors. This includes disclosure of Scope 3 GHG emissions from purchased goods and services, use of sold products, leased assets, portfolio emissions, and embodied carbon.

We have also emphasised the importance of investee companies engaging across their value chains to better understand and address emissions. In parallel, we have actively advocated for more consistent and standardised Scope 3 GHG emissions disclosure requirements through engagement with standard setters and policymakers, recognising their importance for enabling meaningful comparisons across companies and over time.

This has included direct responses to government and market consultations,²² as well as public thought leadership through our [2023](#) and [2025](#) blogs and 2023 [white paper](#).

Outcomes:
While Scope 1 and 2 GHG emissions disclosures have improved meaningfully, progress on Scope 3 GHG emissions reporting remains uneven.

We have observed increased transparency in upstream categories, such as purchased goods and services. However, other categories – most notably emissions from the use of sold products – have seen more limited progress, reflecting [ongoing challenges](#) related to data availability, methodological complexity, and companies' ability to influence downstream emissions.

Case study: Rio Tinto

After our decision to vote against Rio Tinto's* Climate Action Plan in 2022, we engaged with the company to strengthen its approach to value chain emissions. We observed enhanced disclosure of downstream emissions and improved alignment between its targets and broader decarbonisation strategy, and subsequently we voted in favour of its updated [Climate Action Plan in 2025](#).*

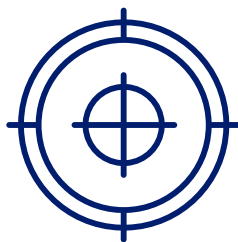
¹⁸ Not meeting this standard could result in a vote implication.

¹⁹ L&G responded to the initial TCFD consultations and advocated for mandatory TCFD reporting. We publicly endorsed the TCFD recommendations upon their release in 2017 and later contributed to the UK Government's cross-industry working group, which developed guidance (launched in 2021), to support the integration of TCFD recommendations into pension scheme governance and reporting.

²⁰ L&G, as at May 2026. The data shows the percentage of companies in the pledge universe meeting this minimum standard. 2024 is used as the baseline for comparison, as this was the first year in which the metric was introduced as a minimum standard. The analysis is based on data availability within the pledge universe of over 5,000 companies.

²¹ [IFRS S2 Climate-related Disclosures](#) requires disclosure of Scope 3 GHG emissions as part of a value chain view of climate-related risks and opportunities. The standard also incorporates proportionality mechanisms and targeted reliefs to address data and measurement challenges. We hope this will support improvements in the quality, consistency and comparability of disclosures over time.

²² Including responding to consultations on: [Exposure drafts: UK Sustainability Reporting Standards](#), [SBTi Corporate Net-Zero Standard V2](#), and [CP26/5: Aligning listed issuers' sustainability disclosures with international standards](#).



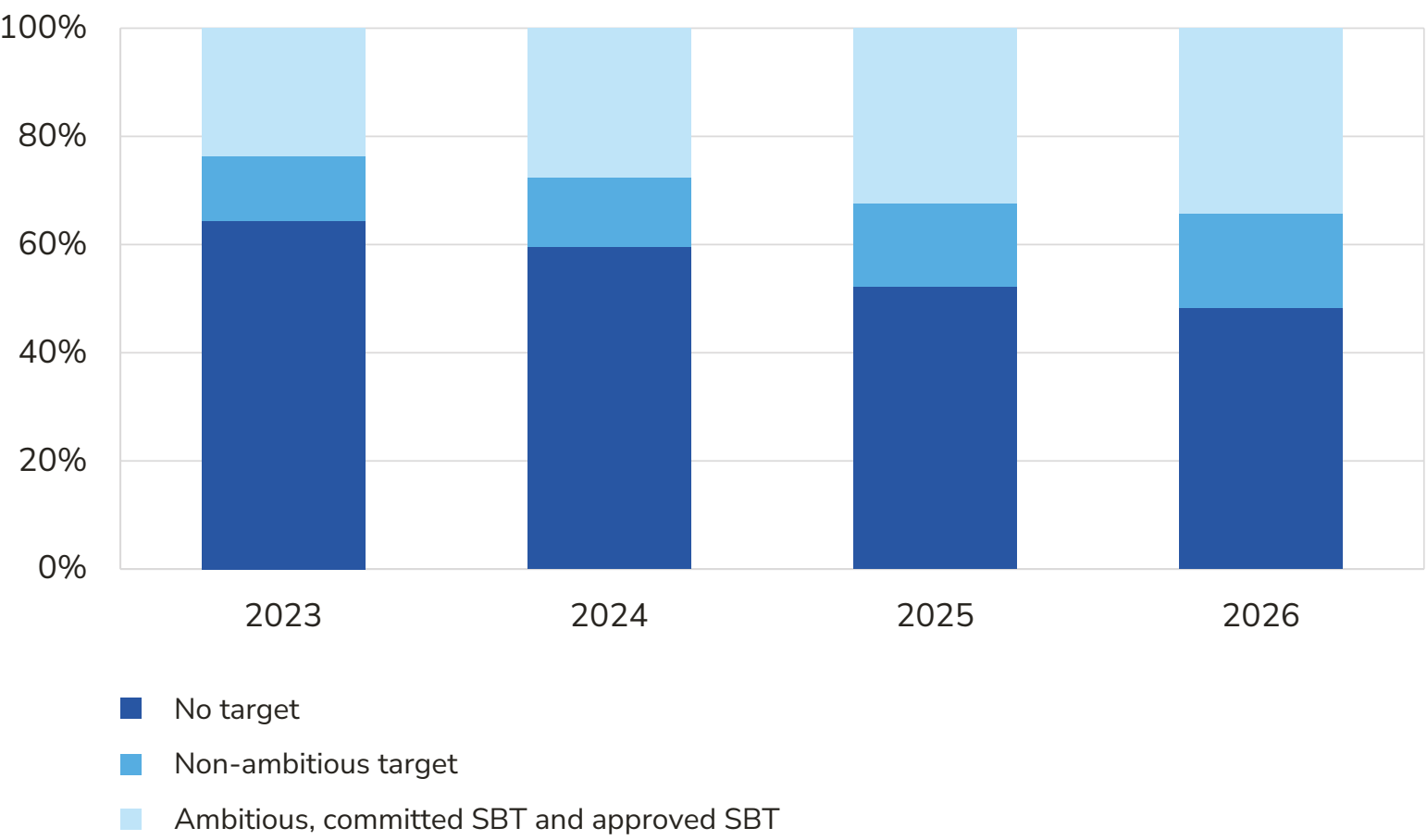
GHG reduction targets

Why it matters:
Climate targets, when supported by robust disclosure, provide a forward-looking indication of how companies intend to manage transition risks and opportunities. Taken together, they also offer insight into the direction of travel of the real economy, enabling investors to assess aggregate corporate action against climate scenarios and the likelihood of achieving global temperature goals.

What we’ve done:
We have consistently encouraged companies to set and strengthen emission reduction targets, focusing not only on adoption but also on their scope, credibility, and alignment with the goals of the Paris Agreement. We monitor this across all sectors through the ‘Issuer GHG reduction targets’ metric, complemented by additional indicators on short – and medium-term GHG reduction targets within relevant sector assessments.

Outcomes:
As illustrated in the chart, we are pleased that the proportion of companies setting emissions reduction targets has increased steadily over time. This has been accompanied by a shift towards more robust and comprehensive targets, with a growing share subject to external validation, including by the Science Based Targets initiative (SBTi).

Breakdown of companies by strength of GHG reduction target (2023-2026)



Source: L&G, as at May 2026. The bar chart shows the percentage of companies with no GHG reduction target, a non-ambitious GHG reduction target, or an ambitious (as defined by ISS), committed or approved (SBTi) GHG reduction target. The analysis is based on data availability within the pledge universe of over 5,000 companies. For illustrative purposes only.



Methane disclosure

Why it matters:
Methane is a significant driver of climate change, responsible for around 30% of the rise in global temperatures since the Industrial Revolution.²³ As a highly potent greenhouse gas with a relatively short atmospheric lifetime, we believe methane is a key lever for limiting near-term global warming, with emissions reductions capable of delivering rapid climate benefits.²⁴

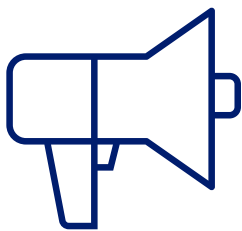
What we’ve done:
We have prioritised methane for several years through our pledge assessments and engagement programme. In 2024, we made the disclosure of methane emissions a baseline expectation for the oil and gas sector,²⁵ with non-disclosing companies subject to a vote implication at the AGM. We also expect companies to demonstrate a three-year trajectory of declining methane emissions as part of our minimum standards. This has been complemented by public policy engagement: in 2024, we were signatory to an [investor statement](#) supporting the effective implementation of US methane regulation; and in 2025 and 2026, we wrote to European Union (EU) policymakers advocating for the timely and robust implementation of the EU Methane Regulation.

Outcomes:
We are pleased to see that as of 2026, 68% of companies within applicable sectors meet our baseline expectation for methane emissions disclosure, with notable increases of 24 percentage points in Europe and 5 percentage points in the US.²⁶

Case study: China Resources Building Materials

During a period of sustained engagement with China Resources Building Materials* we have observed progress in its net zero target setting journey, with the company now aligning itself with national climate policy, targeting a 2030 emissions peak and 2060 carbon neutrality. Having also focused its efforts on near-term decarbonisation the company saw a steady decline of emission intensity per tonne of clinker into 2025.

²³ [International Energy Agency \(IEA\), 2026](#).
²⁴ The energy sector is the second largest source of methane emissions from human activity ([Climate Change Tracker, 2026](#)).
²⁵ Information on the baseline expectations can be found in the Climate Impact Pledge [methodology](#).
²⁶ Methane disclosure is a baseline expectation for the Oil & Gas sector (except oil and gas refining and marketing sub-industry). The analysis is based on data availability within the pledge universe of 5000 companies.



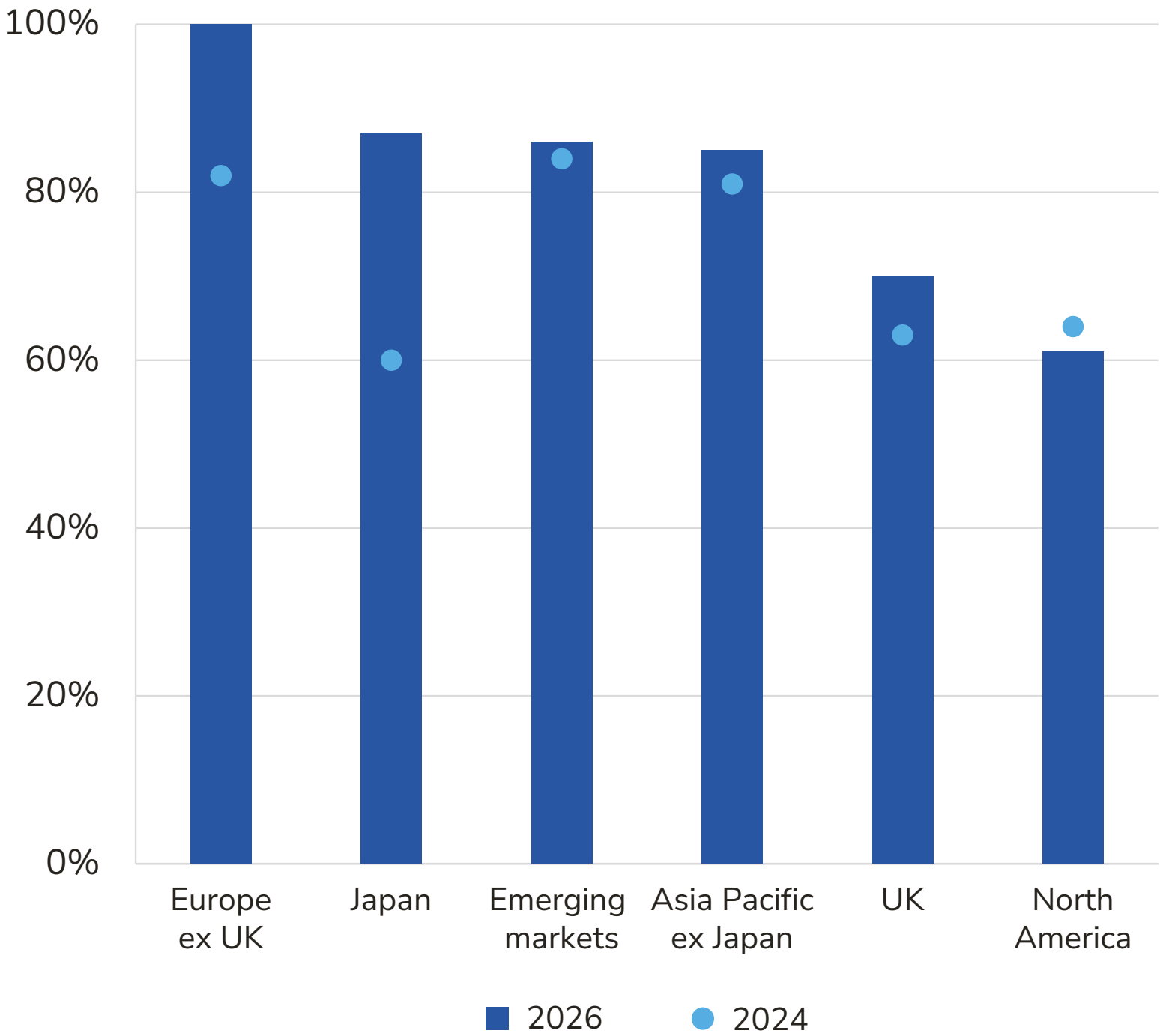
Climate policy advocacy

Why it matters:
Companies can influence the direction of public policy and regulation, making transparency around their advocacy activities essential. Clear disclosure enables investors to assess whether corporate lobbying is aligned with stated climate commitments and global goals, while also providing insight into broader market progress.

What we've done:
We publicly endorsed the Principles for Responsible Investment (PRI)-convened [Investor Expectations on Corporate Climate Lobbying](#) in 2015 and have prioritised this issue since the launch of the pledge in 2016. We integrated expectations for transparency into our sector guides and quantitative assessment tool in 2020, and elevated disclosure to a minimum standard in 2024. This has been monitored through the 'Total Organisational Score' indicator. Alongside company engagement, we have contributed to the development of the Global Standard on Responsible Climate Lobbying²⁷ through consultation responses, participated in webinars on the subject in [Europe](#) and [Asia](#), published our views publicly via the [L&G blog](#), and escalated concerns through the filing of a [shareholder proposal](#).

Outcomes:
Since introducing climate policy advocacy disclosure as a minimum standard in 2024, we have observed an increase in disclosures in most regions. The share of companies in the pledge universe meeting our minimum expectations on climate policy advocacy rose to 80% in 2026, an increase of 6 percentage points since 2024, with the largest improvements seen in Japan and Europe, as shown in the chart.

% of companies assessed on climate policy advocacy in each region that meet our minimum standard



Source: L&G, as at May 2026. The bar chart shows the percentage of companies in applicable sectors that have met our minimum standard on climate policy advocacy in 2026 in select regions, with the points showing the percentage of companies meeting the minimum standard in 2024. The selection of companies for this analysis remains consistent across two years for comparability purposes and is based on the data availability, with data provided by InfluenceMap, and covering over 230 companies of the ~5000 companies in our pledge universe. Asia-Pacific ex-Japan in this chart covers Australia, New Zealand, Singapore and Hong Kong. **For illustrative purposes only.**

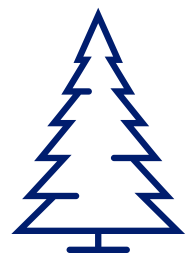
Case study: Toyota*

We have engaged with Toyota over a number of years, both independently and alongside fellow shareholders. Throughout this time, the company’s approach to climate policy advocacy has been a core part of our discussions.

We believe Toyota’s size, and its influence at Japan’s largest business federation and in industry associations, provides it with an important platform, with implications that extend across value chains and the broader economy. As part of our stewardship approach, we have supported shareholder proposals seeking enhanced transparency on climate policy advocacy, including in 2023 and 2024, and pre-declared our support for the 2023 resolution. We have also used director elections as a mechanism for expressing concerns, where appropriate.

We have been pleased with the progress Toyota is making on lobbying disclosures and are encouraged by the company’s proactive response to investor feedback and expectations through various iterations of its lobbying report.

²⁷ [Responsible Climate Lobbying: The Global Standard, 2022.](#)



Deforestation

Why it matters:

Deforestation is a major driver of climate change and nature degradation, contributing significantly to global emissions while undermining ecosystem resilience, water systems, and food security. Its impacts can permeate across sectors and geographies through global supply chains. Companies can be affected, both directly, through dependencies on forests or exposure to forest-risk commodities, and indirectly, through broader systemic risks.

What we’ve done:

Since the launch of the pledge in 2016, deforestation has been a focus of our corporate engagement, particularly within the food sector. We joined the PRI collaborative engagement on forest-risk commodities in 2016, with a focus on sustainable palm oil. In 2020, we formally incorporated deforestation into our quantitative assessment tool, monitoring the indicators of ‘Deforestation Policy’ and ‘Deforestation Programme’. These were elevated to minimum standards in 2021. We have continued to make our views public via support for [investor statements](#) and through our [L&G blog](#). In 2025, we published a [progress report](#) on our multi-year efforts on deforestation.²⁸

Outcomes:

Where data is available, our analysis found that the share of companies with a deforestation policy increased from 61% in 2024 to 71% in 2026, with similar levels of adoption for deforestation programmes.

²⁸ [Deforestation progress report](#), 2025.

Qualitative engagement outcomes

Guided by our universal ownership approach, we leverage L&G’s expertise across markets and sectors to engage constructively with investee companies while holding them to account against our expectations.

The following section highlights the progress made by ‘dial-mover’ companies over the last decade, demonstrating how targeted engagement can support enhanced disclosure and stronger alignment with our expectations, while also identifying areas where further progress is required.

Of the 22 companies subjected to divestment over the last 10 years, approximately one third have made progress that has led to reinstatement in applicable L&G funds, leaving 15 companies currently on the divested list. We have also seen positive steps made across most other companies, as highlighted in this section of the report.²⁹

We have been pleased to hear about China Construction Bank’s* ongoing work to promote green finance through new product offerings.

We have been encouraged to hear about Invitation Homes’* plans to strengthen emissions reporting and their use of asset-level assessments to reduce climate-related risks and we look forward to ongoing engagement.

Reinstated companies since 2018²⁹

Company	Divested date	Reinstated date	Reason for reinstatement
Occidental Petroleum Corporation*	2018	2019	Occidental Petroleum was added to our divestment list in 2018 due to insufficient emissions disclosure and a lack of ambitious carbon reduction targets. During our continued engagement, we observed meaningful progress. This included measuring and disclosing emissions across all scopes, introducing emissions reduction targets for its operations (including methane), and aligning its reporting with the recommendations of the TCFD. The company also committed to regularly assess its portfolio against climate-related risks.
Dominion Energy, Inc.*	2018	2019	Dominion Energy was added to our divestment list in 2018, reflecting gaps in its strategy and transparency at the time, alongside its exposure to higher-cost, carbon-intensive coal assets. The company went on to demonstrate a very positive response, including publishing its first climate report, improving disclosure through CDP, and strengthening governance through the establishment of a board-level sustainability committee. Dominion also publicly supported the Paris Agreement, adopted voluntary targets to halve methane emissions over the next decade, and contributed to broader policy advocacy through its CEO’s participation in business coalitions. Building on this progress, including the subsequent adoption of a net zero emissions target, the company was reinstated in 2019.

²⁹ Companies are divested from or reinstated into selected funds with £236 billion in assets (as at 31 December 2025), including funds in the Future World fund range, our ESG fund ranges and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested. L&G’s Asset Management business’s total AUM was £1,177 billion as at 31 December 2025. The AUM disclosed excludes assets managed by associates (Pemberton, NTR, BTR). The AUM includes the value of securities and derivatives positions and may not total due to rounding.

Company	Divested date	Reinstated date	Reason for reinstatement
Subaru Corporation*	2018	2020	Subaru was added to our divestment list in 2018 due to insufficient climate disclosure, particularly regarding the implications of the energy transition for its business model. The company went on to make significant improvements in both its emissions reduction targets and broader climate disclosures, resulting in Subaru's reinstatement in 2020. Since then, Subaru has continued to strengthen its climate reporting, including enhancements to governance, strategy, and risk management, as well as improved alignment with TCFD pillars. The company has also expanded its disclosure of climate-related targets and emissions data across Scopes 1-3.
The Kroger Co.*	2019	2021	Kroger was added to our divestment list in 2019. The company later made notable improvements and was reinstated in 2021. This included the introduction of a comprehensive deforestation policy and evidencing its implementation via CDP Forests disclosures, alongside the adoption of a 2°C-aligned operational emissions reduction target. The company also demonstrated a shift in strategy by developing a merchandising approach to promote products with a lower climate impact, including plant-based alternatives.
Japan Post Holdings, Co. Ltd.*	2018	2022	Japan Post Holdings was added to our divestment list in 2018 due to the absence of a thermal coal policy and a lack of disclosure of Scope 3 GHG emissions. We carried out dedicated engagement with the company for a period of five years. The company went on to introduce a thermal coal policy, enhancing disclosure of financed emissions, and publishing a net zero by 2050 target for its portfolio, supported by an interim target to reduce portfolio emissions by 50% by 2030. As a result of this progress, the company was reinstated in 2022.

Company	Divested date	Reinstated date	Reason for reinstatement
China Mengniu Dairy Company Limited*	2021	2023	China Mengniu Dairy was placed on our divestment list in 2021 as it lacked a comprehensive deforestation policy and did not disclose Scope 3 GHG emissions or have targets in place to address these issues. These are particularly material for the food sector, where emissions are largely driven by agricultural value chains and where deforestation represents a significant risk. The company later made notable progress, including committing to carbon neutrality by 2050 across all scopes of emissions, alongside the introduction of a deforestation policy and programme. This represented a meaningful step forward and so the company was reinstated in 2023.
COSCO Shipping Holdings Co., Ltd.*	2023	2025	COSCO was added to our divestment list in 2023 due to insufficient ambition in its operational emissions target and a lack of commitment to low carbon fuels, which we view as critical to the sector's decarbonisation. We continued to engage with the company and observed meaningful improvements in both strategy and disclosure. In 2025, COSCO was reinstated following the announcement of a net zero ambition for its shipping operations by around 2050, in line with the International Maritime Organization's updated GHG strategy. The company had also enhanced its disclosures on the use of biofuels, begun investing in methanol-ready and dual fuel vessels, accelerated fleet renewal, and launched a 'Hi ECO' service offering low carbon shipping options using biofuels. These are positive steps, particularly given the constraints associated with its status as a state-owned enterprise; we look forward to the company building on these in the future. However, some gaps remain, including limited Scope 3 GHG emissions disclosure and the absence of a detailed transition strategy, although the company has expanded its dual fuel fleet to 32 vessels.

Progress of divested companies³⁰

Company	Sector	Country	Divested since	Divested company progress	Company	Sector	Country	Divested since	Divested company progress
Air China Limited*	Aviation	China	2023	Air China has remained on our divestment list since 2023 due to a lack of progress, including the absence of an operational emissions reduction target, which we consider a red line for the aviation sector. While the company has made some incremental structural improvements – such as better alignment with reporting frameworks, enhancements to governance structures, and an expanded reporting scope – it continues to lag peers on more substantive areas including target ambition, the development of a credible transition plan, and Scope 3 GHG emissions disclosure.	China Resources Building Materials Technology Holdings Ltd.*	Cement	China	2022	Since our divestment, China Resources Building Materials Technology has aligned itself with national climate policy, acknowledging China’s 2060 carbon neutrality goal and the 2030 emissions peaking target, and has demonstrated improvements in its approach, including a steady decline in emissions intensity per tonne of clinker and increased investment in decarbonisation. While we recognise this progress and the company’s receptiveness to engagement, we expect its carbon neutrality ambition to be brought forward to mid-century, alongside the development of a credible transition plan that includes short-term intensity targets, enhanced transparency on climate-related capital expenditure and climate and energy policy engagement activities.
American International Group, Inc.* (AIG)	Insurance	United States	2021	Since divestment in 2021, AIG has taken steps to strengthen its climate approach, most notably in 2022 when it set a net zero strategy that included a 2050 ambition across underwriting, investments and operations, alongside immediate restrictions on underwriting and investing in new coal, oil sands and Arctic exploration activities. We note recent positive disclosures in relation to Scope 1,2 and 3 GHG emissions and look forward to discussing these and other developments with the company in forthcoming engagements.	Exxon Mobil Corporation*	Oil & Gas	United States	2019	Since divestment in 2019, we note that Exxon has made notable progress in improving its methane disclosures through the Oil & Gas Methane Partnership (OGMP). We continue to engage with the company to address gaps in its disclosure, including enhancing disclosure of the company's financial resilience under net zero scenarios, and to strengthen its operational emissions targets.
China Construction Bank Corporation* (CCB)	Banks	China	2018	We welcome the improvements the company has made since divestment in increased disclosure of green opportunities, expansion of green lending activities, and the establishment of a Green Finance Committee. This is alongside a shift in lending towards lower carbon activities, the introduction of policies for emission intensive sectors, and steps to incorporate climate considerations into its risk management processes. We continue to look for progress on the bank’s reporting of Scope 3 GHG emissions.	Glencore plc*	Mining	United Kingdom	2024	Our decision to divest from Glencore followed sustained engagement, including the filing of a shareholder resolution requesting greater transparency on how the company’s projected thermal coal production aligns with a 1.5°C pathway. A continued absence of disclosure in relation to plans to increase thermal coal capacity have influenced our decision to remain divested.

³⁰ Companies are divested from or reinstated into selected funds with £236 billion in assets (as at 31 December 2025), including funds in the Future World fund range, our ESG fund ranges and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested. L&G’s Asset Management business’s total AUM was £1,177 billion as at 31 December 2025. The AUM disclosed excludes assets managed by associates (Pemberton, NTR, BTR). The AUM includes the value of securities and derivatives positions and may not total due to rounding.

Company	Sector	Country	Divested since	Divested company progress
Hormel Foods Corporation*	Food	United States	2019	Hormel has been on our divestment list since 2019, as it has limited disclosure of upstream Scope 3 GHG emissions and lacks a net zero target. However, we have been encouraged by Hormel’s commitment to align with the SBTi Forest, Land and Agriculture (FLAG) guidance, which marks a positive step toward strengthening its approach to land use and agricultural emissions. We continue to engage with the company on the absence of material Scope 3 GHG emissions disclosure and net zero target.
Industrial and Commercial Bank of China Limited* (ICBC)	Banks	China	2021	We welcome the increased engagement from ICBC since our divestment. We have been pleased to see progress in certain areas of our assessment, including promoting green finance through new product offerings, incorporating climate risk into its risk management framework, and engaging with regulators and international initiatives, including the Network for Greening the Financial System (NGFS), and is a signatory to the UN Global Compact and UNEP Finance Initiative. However, we are still looking for progress on the bank’s reporting of Scope 3 GHG emissions; an area of continued engagement with the bank.
Invitation Homes Inc.*	Property	United States	2022	We have been encouraged by the progress made by Invitation Homes since divestment, including investment in resources to support its decarbonisation initiatives and the disclosure of Scope 1 and 2 GHG emissions. We have also seen early evidence of physical climate risk being integrated into portfolio and asset-level decision making. We continue to engage with the company on providing emissions data for its property portfolio, which represents much of its operational footprint, as well as on renewables as an opportunity and the further development of climate-related disclosures.
Korea Electric Power Corporation* (KEPCO)	Electric Utilities	South Korea	2019	Since divestment, KEPCO has made progress towards aligning with a net zero pathway by committing to sell its overseas coal projects and reduce coal as a percentage of its generation mix significantly by 2038. However, the lack of retirement timeline for its remaining 16 domestic coal units has resulted in its ongoing position on our divestment list. This will require regulatory change, which we are also engaging on in parallel.

Company	Sector	Country	Divested since	Divested company progress
Loblaw Companies Limited*	Food	Canada	2018	Loblaw has demonstrated meaningful progress since our divestment in 2018, establishing SBTi certified, 1.5°C aligned medium term targets for Scope 1 and 2 GHG emissions, alongside an engagement target for Scope 3 GHG and a net zero commitment across all scopes. The company has strengthened its climate transparency through sustained participation in CDP Climate and Forest questionnaires and the publication of a net zero action plan detailing actions across key emissions sources. Loblaw is also taking steps to support lower carbon value chains, including incentivising regenerative agriculture and reduced emissions farming practices through its involvement in the Canadian Alliance for Net Zero Agri food (CANZA). We look forward to ongoing engagement on the absence of a deforestation policy covering all material commodities.
MetLife, Inc.*	Insurance	United States	2019	MetLife has been on our divestment list since 2019 due to the absence of material Scope 3 GHG emissions disclosure and a lack of a net zero commitment covering its investment portfolio. Since divestment, the company has begun to demonstrate incremental progress, including introducing restrictions on thermal coal exposure and some advancement in the calculation of financed emissions, including disclosure of financed emissions for the real estate equity asset class for the first time. We have also seen improvements in climate governance and risk analysis.
PPL Corporation*	Electric Utilities	United States	2021	PPL has been on our divestment list since 2021 due to its plans to operate coal-fired assets through to 2050, which we consider misaligned with a credible net zero pathway. Since divestment, the company has made some progress, including setting a net zero by 2050 target and interim emissions reduction targets. It has also increased disclosure on R&D towards low-carbon initiatives and value chain engagement.

Company	Sector	Country	Divested since	Divested company progress
Sysco Corporation*	Food	United States	2018	Sysco has been on our divestment list since 2018 as it does not have a net zero commitment, lacks a comprehensive deforestation policy, and provides limited disclosure on climate policy advocacy and alignment of trade association activities. The company has made some progress, including introducing elements of regenerative agriculture and responsible sourcing practices, strengthening value chain collaboration, and developing a palm oil policy incorporating no-deforestation principles.
The TJX Companies, Inc.*	Apparel	United States	2024	TJX has begun to strengthen aspects of its operational decarbonisation efforts, including setting targets for its operations to be powered by 100% renewable energy. However, the company still lacks an assessment of its exposure to commodity-driven deforestation which we consider the starting point to setting out a deforestation policy. Additionally, its net-zero ambition remains limited to operational emissions, leaving value-chain emissions unaddressed, while there is insufficient transparency on climate advocacy activities.

Looking ahead

We are evolving our Climate Impact Pledge to reflect both the complexity of delivering transition at the pace and scale required, and the growing importance of adaptation, resilience and nature.

This year’s report shows how climate has become increasingly integrated into corporate governance, strategy and disclosure over the past decade, as evidenced in our company assessments and engagement outcomes. However, this progress is yet to translate into delivery at the pace or scale required: highlighting the growing influence of structural, sector-specific and system-level barriers, both within companies and across the wider systems in which they operate.

In an increasingly complex and uncertain transition environment – shaped by shifting political, economic and geopolitical dynamics – outcomes have been uneven and are likely to become more so. Continued progress will therefore require a more dynamic approach that supports companies in navigating these constraints while also strengthening the systems that underpin the transition. Through the pledge, we aim to encourage actions that improve long-term resilience, mitigate climate-related risks and support sustainable long-term value creation for our clients.

Accordingly, we are evolving the focus of the pledge qualitative engagement to reflect the next phase of the transition:

Concentrating on core levers of change:

To help unlock the scale and speed of change required, we will focus our engagement on the most material sources of emissions and the key constraints slowing transition progress across sectors and value chains. This involves moving beyond minimum standards and red lines to address specific technological, economic and structural barriers, while identifying the core levers of change both within and beyond company control.³¹

Driving change at the system level:

To help address the external constraints holding back progress, we will combine company engagement on core transition actions within management control with more targeted engagement with policymakers, regulators and industry stakeholders. This coordinated approach aims to unlock system-level bottlenecks, focusing on investable transition pathways and addressing practical barriers to delivery.

Focusing on adaptation, resilience and nature:

To help strengthen resilience to the physical impacts of climate change, we will increase our emphasis on adaptation and resilience, and incorporate a more integrated consideration of nature. This builds on our historical work on climate mitigation and physical risk, and reflects the growing understanding of the interdependencies between climate and nature.

³¹ For example, as set out below and in our [Climate Impact Pledge 2025](#) report, our engagement on biofuels across aviation, shipping and logistics has emphasised that scaling deployment is contingent on key value-chain levers, including demand signals, policy incentives, feedstock availability and investment in production capacity.



What this means for our ‘dial-mover’ engagements

We remain guided by our universal ownership stance and engagement model – partnering with companies, constructively holding them to account, and advocating for a supportive policy environment that enables delivery. To better align with these priorities, we are evolving our dial-mover engagement approach in three ways:

1

A two-year engagement cycle:

Dial-mover engagements will move to a two-year cycle, recognising that barriers to transition are often structural and require sustained engagement to address. Progress against engagement objectives, and any associated divestment decisions, will be assessed over this longer timeframe, while allowing for the reinstatement of companies in the interim where sufficient improvement is demonstrated. This two-year engagement cycle began in Q2 2026. While we continue to keep companies under review for reinstatement, no divestment or reinstatements have been announced over this period.

2

Differentiated engagement based on companies’ starting points:

We will engage with companies using two lenses – ‘raise the floor’ and ‘lift the ceiling’ – to better align our engagement objectives with their starting position.

Raise the floor:

Targeting companies that are falling short of our minimum expectations, with a focus on closing foundational gaps. Our minimum expectations have evolved over time, and we will continue to keep these under review. Increasingly, demonstration of transition ambition will need to come alongside clear evidence of implementation, including robust governance and accountability, evidence of capital allocation consistent with transition objectives, and ongoing reporting in line with recognised frameworks.

Lift the ceiling:

Targeting more advanced or system-constrained companies, with a focus on accelerating progress, unlocking bottlenecks, and encouraging leadership to drive market-wide change. Engagement with these companies centres on scaling transition activities, addressing key external constraints, and supporting system-level change across value chains. Insights from these engagements will inform more coordinated policy and industry-level engagement and will be drawn on to encourage a more integrated approach to climate adaptation and nature, where material.³²

3

A sector-led model of engagement tailored to regional nuances:

Building on our existing sector approach, we are placing greater emphasis on explicitly defining the key bottlenecks and enabling conditions for transition within each sector and region. This includes identifying constraints across value chains, the roles of different actors, and the policy, market, and technological factors required to support delivery. Through this approach, we aim to ensure our engagement is aligned with how and where change occurs in the real economy and better targeted at unlocking progress.

³² As an example, for more advanced aluminium companies, engagement will focus on addressing the barriers to scaling low-carbon production, including access to renewable power, the commercialisation of breakthrough technologies, scrap availability and quality, and supportive market and policy frameworks, alongside the steps within companies’ control to progress these.

Existing dial-mover companies and past engagement outcomes will remain an important foundation for how we prioritise and tailor future company engagement.

In many cases, current pledge companies may continue to be engaged, with a clearer distinction between engagement focused on raising the floor and engagement aimed at lifting the ceiling. This also creates scope to refine target company lists over time, including aligning them more closely with sector strategies and regional context, where appropriate, without losing continuity. For companies already divested, prior engagement history will continue to inform our ongoing engagement approach.

Selecting companies for dial-mover engagement is a process that blends data driven analysis with professional judgement, consistent with the approach outlined in our [Active Ownership Report](#) for company selection more broadly. Based on our decade of engagement, as well as our sector, regional and company knowledge, and an evolving understanding of key sector bottlenecks, sector leads evaluate which companies to engage with in their sector.

They consider a number of factors that include:

- The size of L&G’s overall exposure on behalf of our clients
- Market capitalisation
- Regional diversification
- Data, including publicly available data and internal proprietary data such as the L&G CIP Score. Where quantitative data is limited, qualitative insights and team experience play a crucial role, ensuring our approach remains both pragmatic and ambitious.
- Individual companies’ exposure to climate and nature, including their positioning within the value chain and relevance to identified sector bottlenecks.
- Engagement history and the likelihood that our engagement will drive change (‘engageability’), and the company’s influence within its country, industry and value chains

What this means for our quantitative engagements

The pledge will continue as a two-fold engagement programme, combining qualitative and quantitative assessment and engagement. The quantitative assessment tool will remain central, and updated on an annual basis, providing a scalable and transparent baseline to inform engagement, voting and escalation and to provide a stewardship signal to the market.

We will continue to set market-wide minimum expectations, thereby supporting our objective of raising the floor of performance. As the programme evolves, the assessment will reflect a shift from reporting to action, incorporating a greater focus on credible action to deliver real economy transition outcomes as well as progress on adaptation and nature.

As in previous years, we will write annually to companies to communicate their assessment outcomes, highlight areas for improvement, and clarify how their performance may inform our voting decisions at upcoming AGMs.

Sector spotlights

Ten years of engagement have shown that transition pathways are not uniform across sectors. Progress depends not only on company ambition, but also on the interaction between three core enabling conditions: the availability of proven technologies, the financial and commercial viability of solutions, and the strength and consistency of policy frameworks as the underlying enabling environment.

Taken together, these factors determine whether transition strategies can be deployed at scale or remain constrained by system-level barriers. We also recognise that progress varies across the sectors we engage on behalf of our clients. To reflect differences in transition readiness and system dependencies, we group the pledge sectors into the following categories³³:

System-critical sectors:

Sectors that are foundational to the real-economy transition, where progress is essential to enabling decarbonisation across the broader system

Scaling sectors:

Sectors where low-carbon solutions are already proven and increasingly deployable, but which remain dependent on infrastructure, policy frameworks and system alignment to scale

Hard-to-abate sectors:

Sectors where transition pathways remain uncertain, with no clear or commercially viable low-carbon solutions available at scale today

Financial enablers:

Sectors that primarily support the transition through capital allocation and risk pricing – alongside companies’ own capital deployment – enabling decarbonisation across the economy rather than directly reducing emissions (e.g. banking and insurance)

In this section, we highlight a select number of sectors across each of the categories above to illustrate how engagement has sharpened our understanding of the key bottlenecks shaping transition pathways, and how these insights inform our engagement priorities with dial-mover companies.

The sectors presented are not exhaustive.

³³ Starting from the corporate holdings universe of L&G’s Asset Management business, we identified 20 ‘climate-critical’ sectors for inclusion in the pledge programme. These sectors are considered pivotal to the global transition to a low-carbon economy and represent some of the most carbon-intensive areas of our portfolios. A full list of sectors included in the programme is provided in the Appendix.



System-critical sectors

Utilities

Why the sector matters:

Underpinning the global energy system, electric utilities are central to decarbonising the real economy. Electricity and heat account for approximately one-third of global greenhouse gas emissions.³⁴ As this sector decarbonises, it unlocks the potential for others to do so, particularly for certain hard-to-abate industries such as transport, buildings and industry via electrification. Meanwhile annual power demand is expected to grow on average 50% faster than the previous decade, driven by accelerating consumption from industry, electric vehicles, air conditioning and data centres, raising energy security as a core priority, alongside challenges of affordability, reliability and decarbonisation.³⁵ As a result, the near-term strategic priorities and capital allocation decisions of electric utilities are increasingly consequential. Ultimately, the pace and credibility of power sector decarbonisation will determine the outcomes of the broader economy-wide energy transition.

	Engagement focus area	Sector context and constraints
Capital deployment	Engaging with electric utilities to demonstrate credible investment plans and financing strategies for low-carbon generation, grid modernisation, and renewables integration, especially where regulatory approval is a bottleneck.	Delivery is often constrained by system dependencies – particularly legacy generation assets, grid infrastructure, interconnection processes, and supply chains. The credibility of transition plans depends on how effectively companies allocate capital and execute within these constraints.
Governance quality	Encouraging boards to strengthen oversight by ensuring comprehensive physical risk assessments across portfolios and assets are integrated into enterprise risk management, with clear linkage between capital allocation, transition plans, resilience objectives, and long-term trade-offs.	Transition pathways are shaped by regulatory frameworks and system-level constraints, with companies required to have strong corporate governance in place at the board level to balance affordability, energy security, and decarbonisation while managing legacy assets and maintaining system reliability.
Physical resilience	Call on companies to conduct and disclose comprehensive asset-level physical risk assessments, embed these into business risk management processes, and provide transparent reporting on adaptation plans and resilience measures – particularly in markets exposed to extreme climate hazards or grid stress.	Extreme weather risks and grid constraints can delay transition delivery, making resilience and adaptation planning material to execution.
Policy engagement	Where company action is limited by system-level constraints, we complement company engagement with policy dialogue advocating for reforms that enable faster transition, clearer incentives, and investment certainty where national frameworks limit action (e.g. Japan, South Korea, Malaysia).	Outcomes also depend on how national climate commitments translate into credible industrial policy frameworks; where policy provides the overarching framework, with outcomes also shaped by company action.
Value chain coordination	We expect utilities to actively engage across their value chains, and we support this by engaging in parallel with suppliers, banks, investors, insurers, and policymakers to mobilise capital, enable risk transfer, and address bottlenecks in permitting, land use, and technology deployment.	Delivery depends on addressing deployment barriers, including regulatory frameworks, permitting, interconnection processes, and supply-chain constraints, while ensuring projects are bankable with clear risk-return profiles to attract capital flow and through a strengthened role of insurance to de-risk portfolios; enabled through coordination across the system.

³⁴ World Resources Institute, 2020.
³⁵ International Energy Agency (IEA), 2026.

Energy

The energy sector remains embedded in the functioning of the wider economy, underpinning power systems, industrial production, transport, heating, and petrochemical value chains. As a result, its actions shape the pace, cost and credibility of the transition across multiple sectors. Its importance is driven both by its high emissions intensity and its systemic influence: decisions on production, methane abatement, capital allocation, and low-carbon investment can either support or delay progress across the wider transition.

	Engagement focus area	Sector context and constraints
Capital allocation	As outlined in our 2025 case study The role of gas , we believe engagement must increasingly test the assumptions underpinning capital allocation and production strategies, including demand outlooks, policy dependencies and downside resilience in weaker-demand scenarios.	Companies continue to position oil and gas, particularly liquified natural gas (LNG), as supporting affordability, security and industrial demand; however, this can sit uneasily alongside lower-demand transition pathways, potential overcapacity, and exposure to geopolitical volatility. For investors, these dynamics raise material questions around capital allocation discipline, balance sheet resilience, and exposure to long-lived assets.
Governance quality	Challenging boards to strengthen oversight of transition strategy, including, asset resilience and long-term scenario considerations are embedded into decision-making.	The sector’s transition is shaped by a persistent tension between near-term energy system requirements and long-term climate alignment. Early diversification into lower-carbon energy solutions has not always been rewarded by markets, while policy uncertainty and heightened energy security concerns have reinforced the role of conventional supply. Dynamics that further reinforce the need for strong board oversight of strategy, resilience, and long-term scenario considerations.
Methane management and disclosure	Building on our corporate and policy engagement to date, we will focus on strengthening methane management through governance integration, disciplined capital allocation, operational readiness, and improved transparency – aligned with emerging regulatory expectations, including Oil and Gas Methane Partnership (OGMP) 2.0 as the leading disclosure standard. ³⁶	Operational emissions, particularly methane, remain a material and actionable area of risk and opportunity. Leakage and flaring continue to represent both a significant climate risk and a widely recognised, but unevenly implemented, abatement opportunity. While abatement is often technically feasible and low cost, implementation is uneven, making credible methane management an increasingly important indicator of long-term preparedness, operational discipline and regulatory readiness, as well as margin resilience.

³⁶ The Oil & Gas Methane Partnership 2.0 (OGMP 2.0), 2026

Mining

The mining sector supplies the materials crucial to infrastructure, industrial activity, and the low-carbon technologies underpinning the energy transition. Critical minerals are central to this shift: copper and aluminium support electricity networks; rare earth elements underpin key technologies; and batteries rely on minerals including lithium and nickel. Demand for these materials is expected to rise significantly through to 2050, requiring substantial expansion of mining and processing capacity alongside improvements in decarbonising operations, recycling, and resource efficiency. At the same time, the sector reflects a key transition tension. While demand for transition-aligned minerals is growing, mining portfolios sometimes include commodities such as metallurgical and thermal coal, creating inherent challenges in navigating decarbonisation pathways and balancing near-term economic returns with long-term transition alignment.



	Engagement focus area	Sector context and constraints
Capital deployment (responsible supply growth and operational transition)	Encouraging companies to demonstrate how capital allocation supports both the scaling of transition minerals and the management of legacy exposures. Alongside this, engagement will focus on the credibility and delivery of operational decarbonisation strategies, establishing pathways to reduce emissions from trucks and machinery, and developing robust Scope 2 GHG emissions strategies aligned with the realities of grid constraints.	Demand for transition minerals is strong and rising, while delivery is constrained by environmental limits, permitting regimes and the risk-return profile of new investment. Long project lead times, high capital intensity and commodity price volatility continue to challenge investment decisions, while market dynamics do not consistently reward higher environmental or social standards.
Governance quality and strategic integration	Challenging boards to strengthen climate, nature and social considerations into core business strategy, recognising their direct link to long-term value and licence to operate. This includes strengthening oversight of physical climate and nature-related risks, as well as improving transparency on how these factors influence capital allocation and project approval decisions.	Mining operations are increasingly exposed to physical climate risks and nature-related risks such as water stress and biodiversity impacts, which can limit project viability, increase costs, delay development and potentially bring into question long-term asset viability. Where these risks are poorly managed, they can undermine project bankability, weaken risk-return profiles, and expose companies to reputational and licence-to-operate risks. These factors, alongside land-use pressures and community opposition, reinforce that access to resources depends not only on geology, but on a company’s ability to manage risks and maintain its social licence to operate.
Operational emissions and methane management	Engagement will also prioritise improving disclosure and management of methane emissions (particularly from metallurgical coal), including full measurement coverage, clear reduction targets, and credible implementation strategies, alongside strengthening accountability for delivery.	Coal seams naturally contain methane – a highly potent greenhouse gas – which can be released during or after mining operations. Blast furnace production continues to dominate global steelmaking, supporting metallurgical coal demand in the medium term. While breakthrough low carbon steel technologies are essential for long-term decarbonisation, their broad-based deployment will take time. Meanwhile, regulatory measures like the EU Methane Regulation and Australia’s Safeguard Mechanism are increasing regulatory oversight and encouraging investment in abatement. ³⁷
Value chain coordination	Encouraging companies to play an active role in shaping more resilient and sustainable supply systems, recognising their system-critical role in enabling the transition. This includes improving transparency on downstream (Scope 3, Category 10) emissions through clear, quantifiable disclosure of actions and investments taken to decarbonise value chains, particularly in collaboration with customers and end-use sectors.	At a systems-level, outcomes also depend on support for recycling and circularity, and on coordination with customers and end-use sectors to support downstream decarbonisation.
Targeted policy-aligned engagement	In parallel, we will engage companies and policymakers to support stronger and more consistent policies that enable responsible mining supply growth, including those that support circularity, recycling and more predictable permitting pathways, recognising that policy alignment is critical to unlocking system-wide investment.	Outcomes depend on the strength and consistency of policy and permitting frameworks, including support for recycling and circularity, and the predictability of approval.

³⁷ In addition to our engagement with EU policymakers, we have voiced our support for the United Nations Environment Programmes (UNEP) International Methane Emissions Observatory (IMEO) and encourage companies across the value chain to participate in its Steel Methane Programme.

Technology

The technology sector underpins the digital infrastructure, industrial activity, and the optimisation of energy and resource use across the real economy. Digital technologies, including cloud computing, data analytics, and AI, enable efficiency gains and system optimisation across sectors, supporting emissions reductions in transport, manufacturing, and energy systems.

The sector demonstrated early leadership in climate commitments and renewable energy procurement, playing a key role in driving decarbonisation across global value chains. As demand for digital services accelerates, however, its own physical footprint is expanding rapidly. Growth in data centres, semiconductor manufacturing and AI-driven compute is increasing energy consumption, emissions, and water use.

At the same time, the sector is becoming more closely linked to energy system dynamics. Access to clean, reliable and scalable power is emerging as a core strategic constraint, shaping investment decisions and the geographic distribution of infrastructure. As a result, the sector’s ability to scale digital infrastructure responsibly – balancing rapid growth with energy system constraints and environmental impacts – will be critical in determining its overall contribution to the energy transition.

	Engagement focus area	Sector context and constraints
Capital deployment (responsible infrastructure growth and energy transition)	Encouraging companies, particularly hyperscalers, to demonstrate how rapid capacity expansion is aligned with access to clean and reliable energy. This includes how companies manage trade-offs between speed to deployment and decarbonisation, and the role of firm power (including gas) within transition strategies.	As demand accelerates, the constraint is no longer technological capability but the availability and timing of supporting infrastructure, particularly access to clean, reliable and scalable power. In some regions, energy demand is already outpacing low-carbon supply, increasing reliance on fossil-based generation. At the same time, strong commercial incentives to scale rapidly – particularly in the context of global AI competition – are prioritising speed to deployment and access to energy, creating tension between growth and decarbonisation.
Governance quality and operational credibility	Challenging boards to strengthen oversight across the asset lifecycle – from site selection to deployment – by integrating location-based physical risks, energy, and water use into project design, aligning with climate and nature targets. This includes closing gaps between location – and market-based emissions, strengthening renewable procurement credibility, and embedding efficiency gains through chip design and compute optimisation.	The credibility of transition plans depends on effective board oversight in relation to how climate and nature considerations are integrated into business strategy and execution. Differences in emissions accounting can obscure real-world progress and weaken comparability, secondary to the governance of these underlying drivers.
Value chain coordination and system-level engagement	Reflecting the sector’s dependence on broader ecosystem alignment, engagement will increasingly focus across the AI data centre value chain, including hyperscalers, semiconductors, and utilities. Priorities include improving coordination on energy demand and supply, addressing water use and operational impacts, and strengthening collaboration to support clean power deployment and grid modernisation. For semiconductor companies specifically, engagement will prioritise improving the energy efficiency of chips and managing water use within operations, particularly in water-stressed regions.	Transition delivery is increasingly shaped by the interaction between growth dynamics, energy system constraints and coordination across the value chain. Dependencies on grid capacity, permitting processes and water availability for cooling mean that companies cannot address these challenges in isolation. Progress therefore depends on stronger coordination across the data centre and semiconductor value chain, including with utilities, to align energy demand and supply, manage operational impacts and support clean power deployment and grid modernisation. Challenges are reinforced by uneven policy and regulatory framework.

Scaling sectors

Automotive

The automotive sector can be best understood as a scaling sector, where core low-carbon technologies – particularly electric vehicles (EVs) – are already proven and increasingly deployable. Demand for low-emission vehicles is expected to grow rapidly, supported by tightening regulation, improving vehicle economics and shifting consumer preferences. At the same time, the pace of adoption remains sensitive to external conditions.

While higher fuel prices and technological progress have strengthened the case for electrification, deployment continues to depend on supporting infrastructure, supply chain readiness, and policy alignment. As a result, the central challenge is not technological feasibility, but the speed and consistency with which electrification can be scaled across markets and use cases.

	Engagement focus area	Sector context and constraints
Capital deployment (technology scaling and supply chain resilience)	Encouraging companies to demonstrate how capital allocation supports the scaling of electrification pathways. This includes aligning investment towards battery electric vehicles and associated production capacity and strengthening supply chain resilience through the responsible procurement of critical minerals (including lithium and nickel), and the future importance and integration of recycling.	Continued capital allocation towards internal combustion and transitional technologies has slowed convergence around fully electric solutions in some cases. Affordability remains a barrier in some markets without policy support, while supply chain dependencies, including for critical minerals, continue to shape the pace, cost, and resilience of scaling.
Governance quality and strategic alignment	Challenging boards to embed transition into core business strategy, demonstrating how electrification pathways are reflected in capital allocation, product strategy and long-term financial planning. This includes improving transparency on transition bottlenecks, asking companies to clearly articulate barriers (e.g. infrastructure, regulation, cost) and how these are being addressed; ensuring alignment between climate policy advocating activities and climate commitments, including disclosure of trade association memberships and actions taken to address misalignment.	Delivery also reflects delayed alignment on the dominant technology pathway across parts of the sector. Diverging approaches across markets, alongside instances of misalignment between corporate lobbying and public commitments, can weaken policy signals and delay industry convergence, reinforcing the need for clearer board oversight of bottlenecks, strategic alignment and transition credibility.
Value chain coordination and policy engagement	Encouraging companies to play an active role in enabling system-level scaling, recognising that deployment depends on coordination across infrastructure, supply chains and policy frameworks. This includes: supporting policy dialogue and advocacy for coherent, aligned regulatory frameworks, including acceleration of charging infrastructure rollout; engaging across the value chain, including battery suppliers, mining companies, infrastructure providers and downstream users, to address coordination gaps; strengthening disclosure of lifecycle emissions, including Scope 3 GHG emissions impacts, to improve transparency on downstream use and support coordinated decarbonisation across the system.	Concentrated upstream dependencies – particularly in batteries and critical minerals – combined with infrastructure gaps, supply chain constraints and policy uncertainty to limit scaling. Fragmentation across the value chain reduces individual company control, increasing reliance on coordinated system-level progress. Deployment therefore depends on stronger value chain coordination and stable, aligned policy frameworks to enable investment and execution at scale.

Hard-to-abate sectors

Aviation

Unlike scaling sectors, aviation remains structurally constrained in the transition, with emissions continuing to grow alongside global demand and limited near-term decarbonisation options available within the sector itself. While efficiency improvements can contribute at the margin, they are unlikely to offset demand growth, placing increasing reliance on the development and availability of alternative fuels. Sustainable Aviation Fuel (SAF) therefore represents the primary near-term decarbonisation pathway, alongside longer-term technologies such as hydrogen and electric flight. However, these pathways remain dependent on upstream innovation, production capacity and infrastructure development. As a result, the central challenge is not technological ambition, but the speed and coordination with which a viable fuel ecosystem can be scaled across the value chain.

	Engagement focus area	Sector context and constraints
Fuel strategy and commercial discipline (capital deployment lens)	Encouraging companies to demonstrate how SAF is integrated into procurement and capital planning is essential. This can include the use of long-term offtake agreements, participation in buyer alliances, and other demand aggregation mechanisms. Companies should also clearly articulate cost trade-offs, financial implications and the role of airlines in providing credible demand signals rather than directly financing fuel production. Alongside this, companies should enhance the provision of clear, decision-useful disclosure on SAF adoption, including interim targets, procurement strategies, and progress against 2030 milestones.	SAF supply remains constrained by production capacity, feedstock availability, and high costs, reflecting a broader misalignment across the value chain and policy landscape. Fuel producers require long-term demand certainty to invest in capacity, while airlines face cost pressures and limited ability to absorb higher fuel prices without affecting competitiveness. These dynamics make credible demand signalling, procurement discipline and decision-useful disclosure particularly important to the commercial viability of SAF scale-up.
Governance quality and strategic oversight	Challenging boards to integrate transition into core business strategy by demonstrating how reliance on SAF and other pathways is reflected in capital allocation decisions, risk management and long-term financial planning.	Future technologies remain in early stages of development, reinforcing uncertainty around long-term pathways and slowing investment decisions. At the same time, progress depends on how effectively companies align strategy with these constraints, including how reliance on SAF and other pathways is reflected in capital allocation decisions, risk management, and long-term financial planning.
System stewardship and policy engagements	Engaging companies, industry bodies and policymakers – where there are clear opportunities for influence – to address coordination gaps across airlines, fuel producers and technology providers, while encouraging greater alignment of policy frameworks that enable SAF scale up.	Airlines remain reliant on fuel producers, technology developers, and infrastructure players to advance scalable solutions, meaning progress depends on coordination across the value chain. At a system level, outcomes also depend on the strength and consistency of policy frameworks, including mandates, incentives, and carbon pricing mechanisms. Diverging approaches across regions can create uneven incentives and competitive distortions, limiting investment certainty and delaying the development of a scalable fuel ecosystem.



Shipping

Shipping is a critical enabler of the global economy, with over 80% of global trade by volume carried by sea. As global trade continues to expand, reliance on maritime transport is expected to grow. Its transition is therefore central not only to reducing direct emissions, but also to enabling the broader decarbonisation of global supply chains and energy systems. While efficiency improvements continue, they are unlikely to drive transformation at the pace required. The absence of fully mature in-sector technologies places increasing emphasis on the availability and scalability of alternative marine fuels.

	Engagement focus area	Sector context and constraints
Capital deployment (fuel strategy and fleet investment):	Engage with companies to demonstrate how alternative fuels are integrated into procurement and capital allocation decisions, including the use of long-term offtake agreements, strategic partnerships and participation in demand aggregation mechanisms (e.g. green corridors). This includes how companies are managing uncertainty in technology pathways through fleet strategy – covering newbuilds, retrofitting, and maintaining optionality across fuel types while navigating constraints such as long asset lifetimes and limited shipyard capacity.	Delivery remains constrained by fuel availability and challenging value chain economics. Fuel producers require long-term demand certainty to invest in production capacity, while shipping companies face cost pressures and limited ability to absorb higher fuel costs without affecting competitiveness. Infrastructure providers also require confidence in future utilisation and fuel pathways, reinforcing the importance of credible fuel strategy, capital allocation, and fleet investment decisions.
Value chain coordination and policy engagement	Encouraging companies to play an active role in addressing coordination gaps across ports, fuel suppliers, and infrastructure providers, including participation in industry collaborations that support the development of scalable fuel supply and supporting infrastructure. In parallel, engaging companies and industry bodies to support stronger, globally aligned policy frameworks through the International Maritime Organisation (IMO), including transparency on lobbying positions and alignment with net zero pathways, recognising that consistent and credible policy signals are critical to unlocking system-wide investment.	Shipping companies remain dependent on developments across fuel production, port infrastructure, and vessel technology, limiting their ability to unilaterally drive progress and reinforcing the need for coordination across the value chain. At a system level, outcomes depend on the strength and consistency of policy frameworks, with the IMO playing a central role in shaping global alignment. However, evolving and sometimes uncertain policy signals, alongside fragmentation across regions and actors, can delay coordinated progress and weaken investment confidence and timing.
Governance quality and strategic integration	Challenging boards to embed transition into core business strategy and ensure alignment with IMO 2050 commitments ³⁸ , including credible medium-term targets, demonstrating how uncertainty across fuel pathways, policy direction and value chain dependencies is reflected in capital allocation, fleet planning, and long-term financial positioning. This includes strengthening decision-useful disclosure on transition plans, including interim targets, key assumptions, and progress against medium-term milestones, to support clearer understanding of how companies are executing transition plans, and managing risks and trade-offs.	Uncertainty across fuel pathways, policy direction (with regards to IMO Net-Zero Framework ³⁹) and value chain dependencies affects investment confidence, timing and long-term financial positioning. These constraints make it increasingly important for boards to demonstrate how transition is embedded into capital allocation, fleet planning and risk management, including through clearer disclosure of assumptions, milestones and trade-offs.

³⁸ International Maritime Organisation (IMO), 2023.
³⁹ International Maritime Organisation (IMO), 2025.

Financial enablers

Banking

Banks are a critical enabling layer of the real economy, shaping both the pace and direction of decarbonisation through lending, capital markets activity, and risk pricing. As system-level capital allocators and intermediaries, they influence not only the availability of capital, but also the terms and incentives that shape client behaviour across sectors and regions. This positions banks in a dual role: as risk carriers, through their exposure to physical and transition risks, and as enablers of decarbonisation, by financing the technologies, infrastructure and business models required for the transition. The central challenge, therefore, is not simply the articulation of ambition, but the extent to which this influence translates into real-economy outcomes through capital allocation and client engagement. This translation is constrained by structural misalignments. In particular, there is a gap between the short-to medium-term nature of banks’ exposures and the longer-term crystallisation of climate risks in the assets and clients they finance, compounded by the need to manage near-term commercial performance.

	Engagement focus area	Sector context and constraints
Capital allocation and transition outcomes	Assessing how climate ambition is reflected in capital allocation and lending decisions, and the extent to which banks are effectively channelling capital at scale to support transition across sectors, in alignment with both their climate targets and real economy needs.	Progress is influenced by pipeline constraints, commercial dynamics and dependence on client transition pathways. Within this, the credibility of transition strategies depends on how effectively banks align capital allocation and lending within these conditions. This is further shaped by regulatory, market, and data constraints that affect banks’ ability to price risk, scale financing, and support real economy transition.
Client assessment, influence and escalation	Evaluating the robustness of frameworks used to assess client transition plans, how these inform financing decisions, and the credibility of escalation mechanisms where progress stalls.	Financed emissions outcomes remain contingent on clients’ ability to transition, which in many sectors is constrained by technology availability, infrastructure, and underlying economics. Misalignment between globally defined transition expectations and local policy frameworks, taxonomies and development needs can further limit the availability of investable opportunities and constrain how capital is deployed.
Emerging markets transition finance	Encouraging banks to demonstrate how they support transition investment where financing gaps are greatest, while managing regional risk and policy constraints.	Emerging markets constraints – including higher costs of capital, sovereign and currency risk, and more limited project pipelines – continue to restrict the scaling of transition finance where it is most needed.
Climate resilience and adaptation	Understanding how physical climate risk is integrated into lending and risk management, and the extent to which banks are financing adaptation and resilience.	Banks are risk carriers through exposure to physical climate risk, making integration of climate resilience into lending and risk management material.
Data quality and methodologies	Monitoring improvements in financed emissions measurement, including coverage, data quality, and methodological transparency.	Fragmentation across jurisdictions and legal, political, and reputational considerations can constrain transparency and slow execution, reinforcing the importance of stronger data quality and methodological transparency.

Concluding remarks

Over the past decade, the Climate Impact Pledge has demonstrated both the potential and the limits of investor engagement. While corporate ambition, governance, and disclosure have advanced significantly, translating this into real-economy outcomes remains complex and uneven. Delivery at the pace and scale required is increasingly shaped by structural, sector-specific and system-level constraints, many of which extend beyond the control of individual companies and require coordinated action across markets, value chains and policy frameworks.

This challenge is occurring within a broader context of evolving political priorities, economic pressures and shifting policy environments. In some regions, momentum towards globally aligned outcomes has become less certain, with diverging approaches to climate policy and transition pathways. These dynamics do not diminish the importance of the transition for companies, investors, and the economy; rather, they reinforce the need for approaches that are grounded in real-world constraints, responsive to regional context, and focused on enabling delivery.

Against this backdrop, we believe the role of long-term, active stewardship is more important than ever. Through the pledge we will continue to evolve our approach, combining company-level engagement with system-level action to help address key barriers to transition and support progress where it is most material. By focusing on outcomes, strengthening coordination, and maintaining accountability, we seek to encourage actions that improve resilience, mitigate climate-related risks and enable companies to capture opportunities arising from the transition. In doing so, our aim is to support sustainable long-term value creation on behalf of our clients and the wider economy.

Appendix

Sector coverage

Starting from L&G’s Asset Management business’s corporate holdings universe, we have selected 20 ‘climate-critical’ sectors – those we deemed to be key in the global transition to a low-carbon economy and identified as most carbon intensive within our portfolios. The mapping of our sectors to the GICS international classification can be found in our [methodology](#) document.

Pledge sectors	
Aluminium	Glass
Apparel	Insurance
Autos	Logistics
Aviation	Mining
Banks	Multi-utilities
Cement	Oil and gas
Chemicals	Property
Electric utilities	Shipping
Food	Steel
Forestry	Tech and telecoms



Contact us:

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Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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