

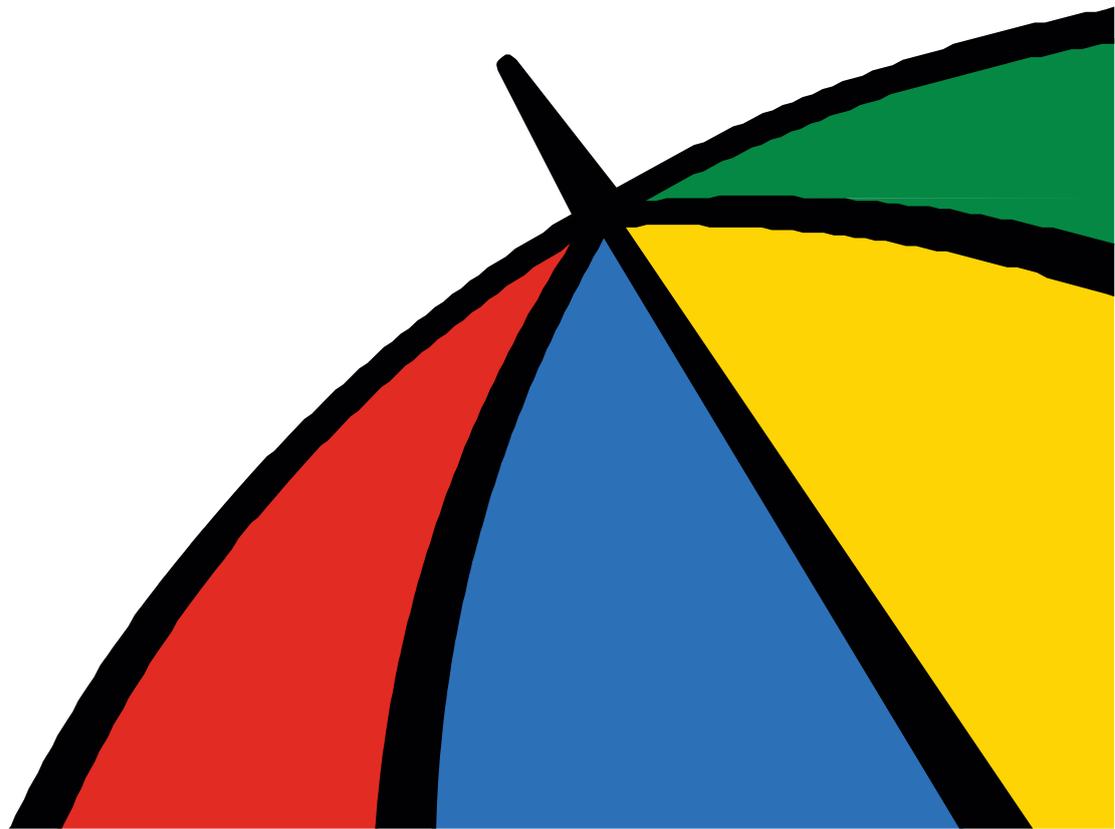
May 2024 | LGIM Future World Protection List

For retail clients and consumers. Capital at risk.



LGIM's Future World Protection List

Methodology



Assessing companies on their management of environmental, social and governance (ESG) issues is an important element of risk management, and therefore part of investors' duty, in our view.

Companies are intrinsically linked to the economies and societies in which they operate. Investors are collective owners of companies, and we therefore believe that we have a responsibility to the market as a whole. By incorporating ESG factors into certain investment decisions, we believe investors can safeguard against future risks and gain the potential for better long-term financial outcomes.

At LGIM, we believe we have a duty, both to our clients and wider society, to seek the long-term success of the companies in which we invest.

The Future World Protection List is comprised of companies which meet the criteria below. The criteria reflects a failure to meet LGIM's minimum standards of globally accepted business practices. Securities issued by such companies on the list are excluded from LGIM services and products that specify the application of the Future World Protection List.

The Future World Protection List includes certain companies which meet any of the following criteria:

- **Involvement in the manufacture and production of controversial weapons:** where there is evidence that companies are involved in the core weapons systems of antipersonnel landmines, cluster munitions, biological and chemical weapons
- **Perennial violators of the United Nations Global Compact (UNGC), an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies:** Companies assessed as being in direct violation of one or more principles for a continuous period of 36-months or more¹
- Involvement in thermal coal² and/or oil sands³ by revenue (i.e. sales proceeds):
 - companies generating 20% or more of revenues from mining and extraction of thermal coal and thermal-coal-power generation
 - companies generating 5% or more of revenues from oil sands extraction
- Expansion of thermal-coal-power generation and/or mining and extraction capacity:
 - companies planning to develop new large-scale coal-fired power plants with capacity of at least 100 megawatts;
 - companies planning to develop new coal mines, extending their coal mines by applying for new permits and/or being involved in coal exploration activities

The methodology will be formally reviewed on an annual basis by the LGIM Investment Stewardship team. Any changes to the methodology will be subject to a formal overview and approval by senior management.

¹ We rely on data for the determination of whether companies in breach of the principles using a third-party ESG data provider which we have selected based on the quality and coverage of their data.

² Thermal coal means a coal used by power plants and industrial steam boilers to produce electricity, steam or both.

³ Oil sands or tar sands, are sand and rock material that contain crude bitumen—a dense, viscous form of crude oil.

Methodology overview

Controversial weapons

Rationale

Controversial weapons are those that have an indiscriminate and disproportionate humanitarian impact on the civilian population, the effects of which can be felt long after military conflicts have ended and often result in multi-generational humanitarian suffering. Such weapons include, but are not limited to, antipersonnel landmines, cluster munitions, biological and chemical weapons. There are a number of international conventions and treaties that have been developed with a view to prohibiting or limiting the use and availability of these weapons. The manufacture or production of such weapons is illegal in a number of jurisdictions globally and companies' involvement brings can lead to reputational damage. Please note for the purpose of the definition of controversial weapons in this list, it does not include nuclear weapons or white phosphorus.

Methodology

We rely on data to determine whether companies are involved in the manufacture or production of controversial weapons using a third-party ESG data provider which we have selected based on the quality and coverage of their data regarding controversial weapons.

Companies that are involved in the manufacture or production of cluster munitions, antipersonnel landmines, and biological and chemical weapons will be included on the Future World Protection List. Companies included on the list are those that manufacture or produce the core weapons system or components or services of the core weapons system considered to be tailor-made and essential for the lethal use of these weapons. Additionally, if companies are involved in the production, maintenance/service, sale/trade or research and development in relation to the core weapons system, they will also be included on the list.

UN Global Compact

Rationale

The United Nations Global Compact (UNGC) is a set of globally agreed principles on human rights, labour, the environment and anti-corruption which were created for the purpose of encouraging businesses worldwide to adopt environmentally and socially responsible policies. LGIM believes that companies whose activities breach such principles may pose greater investment risks as such companies typically exhibit poor governance and poor management of their operations, which has the potential to lead to reputational damage and financial commitments to rectify those breaches.

Methodology

We rely on data to determine whether companies are in breach of the principles using a third-party ESG data provider which we have selected based on the quality and coverage of their data.

The ten principles of the UN Global Compact state that businesses should:

- Principle 1: support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses;
- Principle 3: uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation;

Principle 7: support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies;
Principle 10: work against corruption in all its forms, including extortion and bribery.

Companies that are deemed to be in direct breach, through their own actions or activities, of at least one of the UNGC principles for a continuous period of three years (36 months) or more will be included on the list.

Thermal coal mining and power generation, oil sands

Rationale

The majority of greenhouse gas emissions caused by humans (primarily carbon dioxide and methane) come from burning fossil fuels like thermal coal for energy. The high quantities of greenhouse gases released due to the burning of coal implies that rapid cuts will be needed to meet the global commitment of net zero greenhouse gas emissions by 2050 made under the Paris Agreement⁴.

Thermal coal is used for power and heat generation. There are substitutes available that can replace the need for coal-fired generation, including in the form of renewable energy sources and nuclear technology. A faster-than-anticipated transition away from coal could have a disproportionate impact on companies that rely heavily on thermal coal for their revenue.

When it comes to oil sands, the total amount of greenhouse gases produced is materially greater than the average in the oil industry. As such, we think that investing in oil sands is not aligned with the goal of a net-zero world, and investors are economically vulnerable to it.⁵

We also believe companies should refrain from making new investments in thermal coal mining or power generation using unabated thermal coal⁶. This aligns with the International Energy Agency's (IEA) Net Zero Emissions scenario. While it may take some time to phase out thermal coal use, any new investment today is incompatible with the goal of achieving net zero by 2050⁷ as outlined by the IEA and other similar scenarios.

Methodology:

We rely on data to determine whether companies derive any revenue from thermal coal and oil sands using a third-party ESG data provider which we have selected based on the quality and coverage of their data. To identify companies that are expanding their coal mining and/or power generation capacity, we use the Urgewald Global Coal Exit List (GCEL) as our data source⁸.

Companies will be incorporated into the Future World Protection List if they generate 20% or more of their revenues from the mining and extraction of thermal coal and/or thermal coal power generation, and/or 5% or more of their revenues from oil sands. This does not extend to metallurgical coal, which is used in steel manufacturing rather than power generation, due to the lack of widely available alternatives.

⁴ An international climate change treaty, called the Paris Agreement, aims to stop the world's average temperature rise to well-below 2°C, or ideally by 1.5 °C by the year 2100 and to limit greenhouse gas emissions from human activity to the same levels that trees, soil and oceans can absorb naturally - known as net zero.

⁵ IEA, [The Oil and Gas Industry in Net Zero Transitions](#) 2023

⁶ Unabated thermal coal refers to coal that is burned for power generation without technology to capture or store the greenhouse gas emissions produced during the process.

⁷ The Net Zero Emissions by 2050 Scenario (NZE Scenario) shows a pathway for the global energy sector to achieve net zero CO₂ emissions by 2050, with advanced economies reaching net zero emissions in advance of others. 2021, IEA "Net Zero by 2050: [A Roadmap for the Global Energy Sector](#)"

⁸ The GCEL is available online at <https://coalexit.org>

In addition, companies will be incorporated into the Future World Protection List if they plan to develop new large scale coal-fired power facilities with a capacity of at least 100 megawatts prorated, and/or if they are involved in developing new coal mines, extending their coal mines by applying for new permits and/or coal exploration activities.

For companies with exposure to thermal coal, the following exceptions apply;

- If a company has set out a clear plan aligned with the Paris Agreement to phase out coal by 2030 in countries that are part of the Organisation for Economic Co-operation and Development (OECD), and by 2040 in non-OECD countries, we retain the option to invest; and/or
- If a company has non-coal subsidiaries⁹, we retain the ability to fund those specific issuing entities.

Update and publication of the Future World Protection List

The list is updated on a semi-annual basis, in May and November, using data collected on the first business day after 31 March and 30 September in accordance with the methodology stipulated above.

Between updates, securities may no longer meet the criteria for inclusion on the list and be scheduled for removal from the list at the next semi-annual update. We may invest in such securities prior to the publication of the updated list.

The application of the principles set out above may vary based on various factors and tailored to fit specific circumstances. For example data providers' different methodologies, how a company is organised, and/or the nature of the investment strategy, such as whether a portfolio is focused on stocks or bonds, or actively managed or tracking an index, can determine the application of these principles.

⁹ Non-coal subsidiaries refer to the affiliate companies of a parent company that are not involved in the coal industry and that operate in different sectors or industries other than coal mining or coal-based energy production.

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LGIM Global

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