Net Zero statement for Shropshire County Pension Fund

At LGIM, we believe that well-governed companies that manage all stakeholders, including the environment, are more likely to deliver sustainable long-term returns. We view the consideration of ESG issues as part of risk management, and therefore part of our fiduciary duty. As one of the world's largest asset managers with a long history of corporate engagement on the most material long-term issues, we aim to use our scale and ability to make a real, positive impact on the companies and markets in which we invest and on society as a whole.

Climate change is one of the greatest systemic risks we face today and achieving net zero by 2050 will be crucial in helping steer the world towards a more certain future. We have an opportunity to use our influence to help achieve the transition to net zero, while also producing positive, sustainable economic and environmental returns for our clients.

As a signatory to the Net Zero Asset Manager Initiative, we have committed to work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management. We have put in place an interim Net Zero AUM target of 70% by 2030.[1]

Managing climate risk, delivering on our net zero commitments and helping our clients deliver on theirs' requires working collaboratively with multiple internal and external stakeholders. Offering Net Zero aligned investment products and engaging with investee companies are two core components of our strategy.

Drawing on industry best practice, we have therefore set out LGIM's key requirements for a fund or investment portfolio to be considered net zero aligned.[2] We are constructing active and index portfolios with embedded climate strategies, which include defined decarbonisation targets and objectives aligned to global climate pathways.

However, to deliver diversified investment portfolios and to reach the end goal of a net-zero economy, decarbonising the real economy is essential; this means achieving emission reductions across the sectors and companies in which we invest.

It is why the net-zero challenge is broader than merely excluding high-emitting sectors. All companies generate some emissions – either directly through their operations or indirectly through their value chain. Some high-emitting companies will have an important role in developing and investing in solutions. While select exclusions have a role to play, unilaterally divesting holdings is, therefore, not guaranteed to lead to the decarbonisation of the real economy and indeed could impede necessary investment in climate solutions.

The L&G Low Carbon Transition Developed Equity Index Fund is designed for investors seeking growth from equity indices, with a similar risk profile, while also aiming to reduce the carbon emissions intensity by roughly 70% compared with the relevant market-cap benchmark. The funds also seek to achieve sufficient decarbonisation over time to reach the goal of net zero carbon emissions by 2050.

The funds go further than just congratulating the companies with the strongest climate-friendly credentials. The scores that feed into the underlying index design are generated from a range of information and data sources and are aligned with LGIM's engagement and voting activities. They are also public, creating a powerful incentive for companies to improve their behaviour.

Engagement with investee companies to achieve real economy emissions reductions is critical. As a firm, we are recognised for using our scale and the weight of our votes in advocacy and engaging with policy makers, regulators, and companies on climate change. LGIM's longstanding climate engagement programme, the Climate Impact Pledge is now in its fifth year. We are systematically holding companies in 15 climate-critical sectors accountable –

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[1] For this first interim target LGIM has excluded Government securities and Derivative assets due to lack of clear industry methodologies to account for these asset classes. The public report will outline both this 70% figure and a 38% target figure for LGIM, which would be our target including derivatives and government securities.

[2] These can be found in the accompanying document, available here: https://www.lgim.com/uk/en/insights/our-thinking/esg-and-long-term-themes/reaching-net-zero-lgims-approach/

through our votes and divestment decisions– on their climate ambitions and disclosures. Our aim is to encourage companies to align their business to a net-zero emissions trajectory, in line with the 1.5C target and voting against and divesting those that fall behind. Through this targeted engagement programme, we have been able to affect real change and help steer companies towards better practices, including reducing carbon emissions.

Financial institutions and companies need to play their part in driving down global emissions and redirecting the capital flowing through the global economy towards a 1.5-degree world. This is why LGIM is demanding the companies in which it invests in meet the minimum standards on climate issues. Such action is not just good for the planet, it's good for the bottom line and so for LGIM's clients. Successful firms look to the future and it's clear that the future of the global economy is green.

In order to reach net zero, we are not committing to large-scale divestment across all our funds. As a firm, our house view is that engaging with companies leads to better outcomes for clients and the market as a whole. Through our approach to investment stewardship, we seek to improve companies' standards by engaging with them and using our voice. However, when combined with engagement and voting, targeted exclusions can also be a very powerful tool, such as implemented in the L&G Low Carbon Transition Funds. For certain activities, where engagement is considered to provide limited scope for change; where activities present investment risk and or where they are in breach of International Conventions and Treaties, LGIM may apply company-wide exclusion policies.

In terms of a divestment approach to oil and gas companies, we believe that the products of the oil and gas industry will be required for decades, and some, such as biofuels and hydrogen, might even see an increase in demand as the world transitions to a low-carbon economy. Blanket divestment from fossil fuels can also overlook the fact that the risks and opportunities might often lie in the same sector – some utilities with coal plants are also major developers of renewable energy, for example. As a result, we have chosen to reduce but not completely eliminate oil and gas exposure within our funds, including the L&G Low Carbon Transition Funds, whilst reserving the right to implement further exclusions and reductions. Prioritising the most 'carbon-efficient' oil and gas companies results in significant improvements in funds' environmental metrics whilst maintaining diversification. Without further policy measures, investors unilaterally divesting holdings are unlikely to contribute to the decarbonisation of the real economy. We will continue to advocate for policies towards a more sustainable economy, including working with the UK government to support the COP26 climate conference in Glasgow.