L&G's Sustainability Policy

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Introduction

This document sets out the sustainability policy for L&G - Asset Management Limited, which is adhered to by entities in the L&G - Asset Management Limited group).

The purpose of this policy is to set out the framework by which L&G integrates sustainability risks and opportunities into the investment decision-making process and to consider the principal adverse impacts (PAIs) of investment decisions on sustainability considerations. Our Sustainability Policy reflects the structure of our Investment, Investment Stewardship and other teams across the firm, as well as the nature of L&G as a global business.

This policy makes relevant disclosures under the EU Sustainable Finance Disclosure Regulation (SFDR), in particular under articles three (Transparency of sustainability risk policies) and four (Transparency of adverse sustainability impacts at entity level).

Negative impacts on sustainability considerations are also called adverse impacts, with the most significant adverse impacts being referred to as principal adverse impacts (PAIs). This policy illustrates how PAIs are identified, prioritised and addressed within our approach to integrating sustainability risks and opportunities. The consideration of these sustainability-related factors is embedded across L&G through our beliefs, processes and portfolio management. We also include summaries of L&G's engagement policies and description of our adherence to international business codes and recognised standards.

Integration of sustainability risks, opportunities and principal adverse impacts

At L&G, we believe environmental, social and governance (ESG) factors – such as climate change, social inequality and executive pay – are financially material and create both risks and opportunities. We see responsible investing as the incorporation of ESG considerations into investment decisions.

Responsible investing is core to our approach: our very purpose at L&G is to create a better future through responsible investing.

L&G recognises that the world faces growing sustainability risks: risks that environmental, social or governance ('ESG') events or conditions could cause material negative impacts on the value of investments. At the same time, L&G also recognises that by adopting a sustainability focus there are opportunities for material benefits and contribution to positive outcomes to the sustainability risks, not only risk mitigation.

The process of integrating sustainability risks and opportunities begins with their identification. L&G integrates considerations of sustainability risks and opportunities in our active ownership activities, through exclusions applied in respective portfolios and by using financially material ESG criteria to inform capital allocation in index, active and real assets financial products.

As part of its approach to responsible investing, L&G also aims to mitigate the negative impacts of our investment decisions on sustainability considerations. The most significant adverse impacts: PAIs, can occur in different areas, such as environmental, social and employee matters, human rights, corruption, and/or bribery matters. L&G incorporates consideration of the PAIs in line with nature of the financial products managed. This policy describes our approach to sustainability risks, PAIs and the governance thereof. L&G's PAI statement can be found here.

1. Identification of sustainability risks, opportunities and PAIs

L&G believes the consideration of sustainability risks reflects a core part of our fiduciary role to act in the best interest of our clients.

This starts with identifying key macroeconomic sustainability risks that could result from inaction in response to the world's environmental or societal challenges. We also believe opportunities arise from long-term sustainability-related structural changes that can be value-creating for investment portfolios. We combine an analysis of these macro drivers with sector-level and issuer-level analysis to determine whether and how companies and assets are positioned in respect of the sustainability risks that are most relevant to them.

L&G's global stewardship themes are based on environmental, social and governance issues that direct most of our sustainability-oriented research and engagement. These encompass climate change, low-carbon solutions, biodiversity, board accountability, tax, cyber security and privacy/ data security, health, transparency, income inequality, executive pay, and diversity. These themes represent high-level topics, under which further adverse impacts and areas of focus can arise, including human capital management issues, modern slavery and deforestation.

L&G's internal processes for identifying and prioritising sustainability risks, PAIs and opportunities are supported by the Global Research and Engagement Groups (GREGs) which bring together representatives from the Investment and Investment Stewardship teams across regions and asset classes. The GREGs enable L&G to connect top-down macro and thematic views with bottom-up analysis of corporate and sector fundamentals to understand the materiality of sustainability risks and opportunities and prioritise them accordingly. Combining the capabilities of the Investment and Investment Stewardship teams also enables L&G to scale and coordinate our engagement efforts with companies at board and executive management levels, across all asset class and investment styles.

We believe that to fully understand sustainability risks and opportunities, investors need access to relevant, comparable, consistent and verifiable ESG data across markets, regardless of size, geography or asset class.

Therefore, L&G communicates clear expectations to listed and private investee companies as to what information they should disclose, as well as engaging with occupiers across its directly owned real estate portfolios.

2. Integration of sustainability risks and opportunities; consideration of PAIs

L&G believes sustainability risks and opportunities can be financially material and that integrating ESG considerations is essential in order to mitigate sustainability risks, identify sustainability opportunities and strengthen long-term returns.

L&G manages sustainability risks and considers negative impacts of our investment decisions on sustainability factors through the variety of measures outlined in the next pages.

2.1 Active ownership and engagement

L&G seeks to use our scale and influence to tackle a wide variety of ESG issues that we believe could impact the value of our clients' investments.

Through active ownership, we strive to effect positive change in the companies and assets in which we invest. Our Investment Stewardship and Investment teams exercise voting rights across our entire book and engage with companies, policymakers and other stakeholders to deliver positive change on topics including net-zero emissions, ethnic diversity and gender diversity.

Our investment stewardship focuses on client outcomes and broader societal and environmental impacts in its engagements with companies and policymakers.

This spans consideration of systemic risks and macro developments through to company specific issues, implemented using the following three-step approach:

1. Identify:
    - Through rigorous research, identify key ESG issues
    - Integrate consideration of these into our investment processes, strategies and solutions
2. Engage:
    - Actively engage with investee companies on ESG issues
    - Work with policymakers, regulators, industry peers and our stakeholders as we seek to raise overall market standards
3. Escalate:
    - When necessary, we will vote against and even divest from companies

- Withhold investment from companies that fail to meet our minimum standards

The goals for engagement within our global stewardship themes can range from increasing disclosure on key sustainability-related information, to setting universal requirements such as near-term net zero targets, to seeking specific outcomes such as reducing business activities in controversial weapons.

Our voting policies range from minimum expectations such as requiring financial expertise on the audit committee, to clarifications around variable pay performance targets, links to stakeholder experience and ESG measures, and voting to oppose combined chair/CEO roles and all-male boards. Our Corporate Governance and Responsible Investment policies (global and regional) set out our expectations of investee companies and outline our approach to voting and engagement. Our policies on climate change and biodiversity provide more detail on L&G's approach and commitments to tackling these issues, and how this will affect our expectations of companies. All of our policies are fully compliant with Shareholder Rights Directive II and available online.

Votes are cast according to our instructions guided by L&G custom policies and effected through an electronic voting platform. We do not automatically follow recommendations of proxy advisers and have put in place a 'custom' voting policy with specific voting instructions.

These instructions apply to all markets globally, with minimum best practice standards that we believe all companies should observe, irrespective of local regulation or practice.

L&G's Climate Impact Pledge is the targeted engagement and voting campaign we began in 2016 to address the systemic issue of climate change. Under the Pledge, we vote against all companies that do not meet our published expected standards. By linking our votes to specific data points aligned with our principles-based approach, we aim to exert our influence consistently across markets. However, we also recognise the importance of deeper individual engagements, and select a number of companies for in-depth engagement. These companies are influential in their sectors, but in our view are not yet leaders on climate change. In most cases they have the means not only to embrace the net zero transition, but to have a significant and positive trickle-down effect across their sectors and value chains by doing so.

Further related policies can be found on L&G's Investment Stewardship page.

2.2 Exclusions

Exclusions may prohibit certain investments across a variety of issues. L&G employs exclusions at different levels.

- The most widely implemented exclusions across L&G entities are prescribed by the Controversial Weapons Policy and Coal Policy. These are deemed to be the most significantly harmful activities – and are therefore implemented for all non-U.S. pooled active funds and certain pooled index funds, as well as certain segregated mandates, as per our clients' requests. U.S. pooled funds apply these policies as permitted under the funds' offering and governing documents, and at the portfolio managers' discretion

- Certain funds also implement the Future World Protection List (FWPL), a set of exclusions of those investee companies that relevant L&G entities believe have not met minimum standards of globally accepted business practices, such as the UN Global Compact. Further details on the Future World Protection List can be accessed here
- Certain funds implement investment exclusions that result from companies failing to meet our minimum expectations as part of our Climate Impact Pledge. Further details on the Climate Impact Pledge and sanctioned companies can be accessed here
- Other exclusions may be additionally applied to specific funds consistent with individual fund objectives and their disclosure documents
- Exclusions based on the FWPL are also applied across L&G Real Assets (refer to section on Real Assets on page 11)

2.3 Index strategies

Sustainability risks and PAIs cannot influence a decision to invest in a particular security within index strategies unless they are specifically incorporated in the objective of the relevant product to track a particular index within prescribed parameters.

However, L&G engages with investee companies within index portfolios on sustainability matters, consistent with the active ownership approach set out in section 2.1. In addition, L&G has developed index solutions with specific sustainability objectives, as outlined below.

Where sustainability risks and PAIs are specifically integrated into certain index strategies at a portfolio level, the tools available to L&G include selection, tilting and exclusions based on ESG criteria, as well as sustainability-related thematic exposures, via index construction or design of investment strategies that explicitly consider sustainability risks and/or opportunities, or target sustainability themes.

In this vein, L&G has developed a proprietary L&G ESG Score that is used in certain index strategies to assess companies in line with our voting policies and principles. Certain index funds incorporate the L&G ESG Score in their index methodology or strategy as a means of selecting, tilting or excluding issuers. The L&G ESG Score comprises ESG data points that address a range of indicators, many of which, directly or indirectly, overlap with the PAIs, including greenhouse gas emissions, biodiversity, violations or policy gaps in relation to UN Global Compact, and OECD Guidelines for Multinational Enterprises and board gender diversity.

We conduct due diligence on index providers and the index methodologies that we use in index strategies with sustainability characteristics and seek to offer more choice to investors.

L&G continues to work with index providers to broaden and enhance the offering of indices with sustainability characteristics or targeting sustainability-related themes.

2.4 Active strategies

L&G's approach to embedding sustainability considerations across active strategies relies on proprietary capabilities to identify and analyse material ESG factors and make informed investment decisions to manage sustainability risks, consider PAIs and seek out sustainable opportunities.

The GREGs identify material ESG factors using both top-down and bottom-up approaches. ESG factors are embedded into the issuer-level research process evaluating the ESG credentials of companies alongside traditional financial metrics to identify sustainability risks and opportunities. Portfolio managers review issuer-level research as part of their security selection and portfolio construction process.
To support this process, L&G has a proprietary research tool Active ESG View to inform portfolio managers on issuer ESG information combining our proprietary GREGs analysis with multiple external research inputs. The Active ESG View brings together granular quantitative and qualitative inputs such as the materiality of sustainability risks and opportunities in sectors, company ESG data, engagement criteria and proprietary forward-looking company analysis.

The ESG themes that are considered include: climate change; water and waste management; labour management; health and safety; community practices; board robustness; and investor rights. This supports investment teams in deepening their understanding of how companies manage potential sector relevant ESG risks and opportunities, to be considered alongside all other components of fundamental investment analysis. L&G has also developed a specific due diligence process on issuers' management of certain PAIs in Active Strategies portfolios, leveraging the GREGs to conduct proprietary forward-looking assessment of certain issuers' willingness and ability to address PAIs identified using external ESG data. Where issuers are assessed to be insufficiently committed to or implementing remediation measures, they are deemed to contribute PAIs on sustainability factors.

L&G continues to evolve this due diligence process as ESG data improves in terms of consistency, reliability and availability. This due diligence process incorporates metrics including, as at the date of this policy:

- Environmental indicators - environmental-related controversies, including energy, greenhouse gas emissions, biodiversity, water use and waste
- Social indicators - social issues including human rights, labour relations and community relations

The Active ESG View Portfolio Viewer module allows portfolio managers to identify and address the aggregate ESG positioning and risks of the portfolios they manage, such as portfolio exposure to companies with poorer ESG credentials or issuers that potentially have significant negative impact on the environment or society.

The extent to which ESG risks and PAIs are considered within the investment process depends on the specific portfolio's objectives and policies. Where financial products have investment objectives or policies that include making sustainable investments or promoting environmental or social characteristics, portfolio managers will implement the relevant ESG investment strategy to achieve the respective objectives or policies. However,

where funds do not have specific sustainability objectives or policies, portfolio managers will take financially material ESG factors alongside financial factors into account in making their investment decisions.
All pooled active funds and certain segregated mandates implement exclusions as prescribed by our Controversial Weapons and Coal policies, as set out above.

2.5 Real assets

Our real assets portfolio covers real estate, infrastructure equity and private credit.

In terms of sustainability considerations, each of these asset classes is governed by its respective responsible investment policy and processes that are adopted by the relevant business areas and reviewed frequently to ensure it meets evolving regulatory requirements. In order to manage and mitigate sustainability risks in our real assets investments, ESG considerations are integrated across the stages of the investment and asset management process.

2.5.1 Private credit

L&G's private credit investments cover infrastructure, real estate, corporate and alternative debt.

As a significant lender in private markets, L&G seeks to drive better ESG disclosure and transparency as part of its due diligence process on borrowers, by identifying ESG issues that are most material to the assets.
Being long-term debt investors, we engage on ESG issues with the borrower, generally in the pre-investment stage while terms and loan structure are being negotiated to increase disclosure terms and drive more positive outcomes. Where possible, we work with borrowers to structure transactions to minimise ESG risks and incorporate regular ESG reporting. Integration of ESG across our investment and asset management process is outlined in our Private Credit Responsible Investment Policy.

As part of our ESG screening and exclusions, we seek to restrict our investments for these activities, which directly address certain PAIs:

- Controversial weapons
- Thermal coal
- Violators of the UN Global Compact (UNGC)
- Fossil fuel extraction via tar/oil sands
- Tobacco

2.5.2 Real estate

In our real estate investments, sustainability sits alongside location, tenant, building size and building quality as a key factor forming part of the investment process:

- Due diligence process and acquisition phase: prior to acquisition all potential assets undergo a sustainability assessment to identify sustainability risks and improvement plans. This includes an assessment on carbon, energy, water and waste management, forward looking flood risks, contamination, renewable energy as well as net zero carbon liability audits

- Operational performance of existing assets: an asset sustainability plan is established for each asset upon acquisition and is maintained under management. This provides details and prioritises all possible measures to improve its environmental and social footprint. Further, an environmental management system is used to maintain ISO14001 certification for all managed assets which is reviewed and externally verified annually. All identified risks and actions are recorded and tracked. Energy and utility performance is targeted and managed using an online sustainability data platform and through quarterly sustainability reviews at fund level
- Integration of ESG across our investment and asset management process is outlined in our Real Estate Responsible Investment Policy. The policy has been put in place to ensure that opportunities are fully realised and key risks within each focus area are effectively managed. Management procedures are in place to generate and manage strategic targets in the following core areas of our real estate operations to ensure that we manage environmental, social and economic impacts, and maximise opportunities in a consistent and systematic manner:
  - Acquisition and transactions
  - Tenant screening
  - Fund management
  - Asset management
  - Property management
  - Development and refurbishment

The integration of ESG across our directly owned real estate portfolios is outlined in our Real Estate Responsible Investment Policy.

3. Organisation and governance structure

Underpinning L&G's approach to integrating sustainability risks in our investment process is a governance structure that provides oversight and accountability.

The L&G - Asset Management Limited Board has ultimate responsibility for L&G' sustainability-related policies. The L&G Executive Committee provides the management oversight of the implementation of those sustainability policies. The Responsible Investment Group is an advisory group to the L&G Executive Committee on these policies, frameworks and other ESG related matters. The Executive Risk Committee considers sustainability-related risks identified in the L&G Enterprise Risk Framework. For the UK and Europe (other equivalent processes apply in the US), the Product Governance Committee ensures that products meeting the naming and construction framework are applied across L&G and the Responsible Investment Oversight Committee monitors how sustainability risks and opportunities are integrated in strategies that have explicit responsible investing objectives.

4. Adherence to responsible business conduct codes

L&G has an internal framework of policies, procedures and standards that promote appropriate behaviours across all business activities, including:

- L&G Code of Ethics
- Personal Account Dealing Policy
- L&G - Asset Management Limited Conflicts of Interest Policy
- Regulator Relationship Policy
- Breaches Escalation Guide
- SM&CR, Certified and Code Staff attestations
- Cyber and IT policies
- HR Disciplinary, Grievance and Harassment and Bullying Policy
- Technology Risk Guidelines
- Remuneration Policy

L&G believes that ongoing adherence to and the development of strong responsible investment standards, regulations and frameworks, are fundamental to our commitment to embedding sustainability. Demonstrating this commitment, L&G is a signatory to the UN Principles for Responsible Investment and implementing its six principles to incorporate and report on ESG activities.
L&G reports in line with the Task Force on Climate-Related Financial Disclosures under Legal & General Group's Climate Report. L&G is a signatory to the UK Stewardship Code, submitting on an annual basis to the UK Financial Reporting Council our annual report on the implementation of the Code's 12 Principles.

Additionally, L&G has signed up to the Net Zero Asset Managers Initiative with a commitment to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C and a commitment to support investing aligned with net zero emissions by 2050 or sooner.

Important information

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Key Risks
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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L&G Global

Unless otherwise stated, references herein to "L&G", "we" and "us" are meant to capture the global conglomerate that includes:

- European Economic Area: LGIM Managers (Europe) Limited, authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended) and as an alternative investment fund manager (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (as amended)
- USA: Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser)
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- Singapore: issued by LGIM Singapore Pte. Ltd. (Company Registration No. 202231876W) which is regulated by the Monetary Authority of Singapore.

The L&G Stewardship Team acts on behalf of all such locally authorized entities.

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