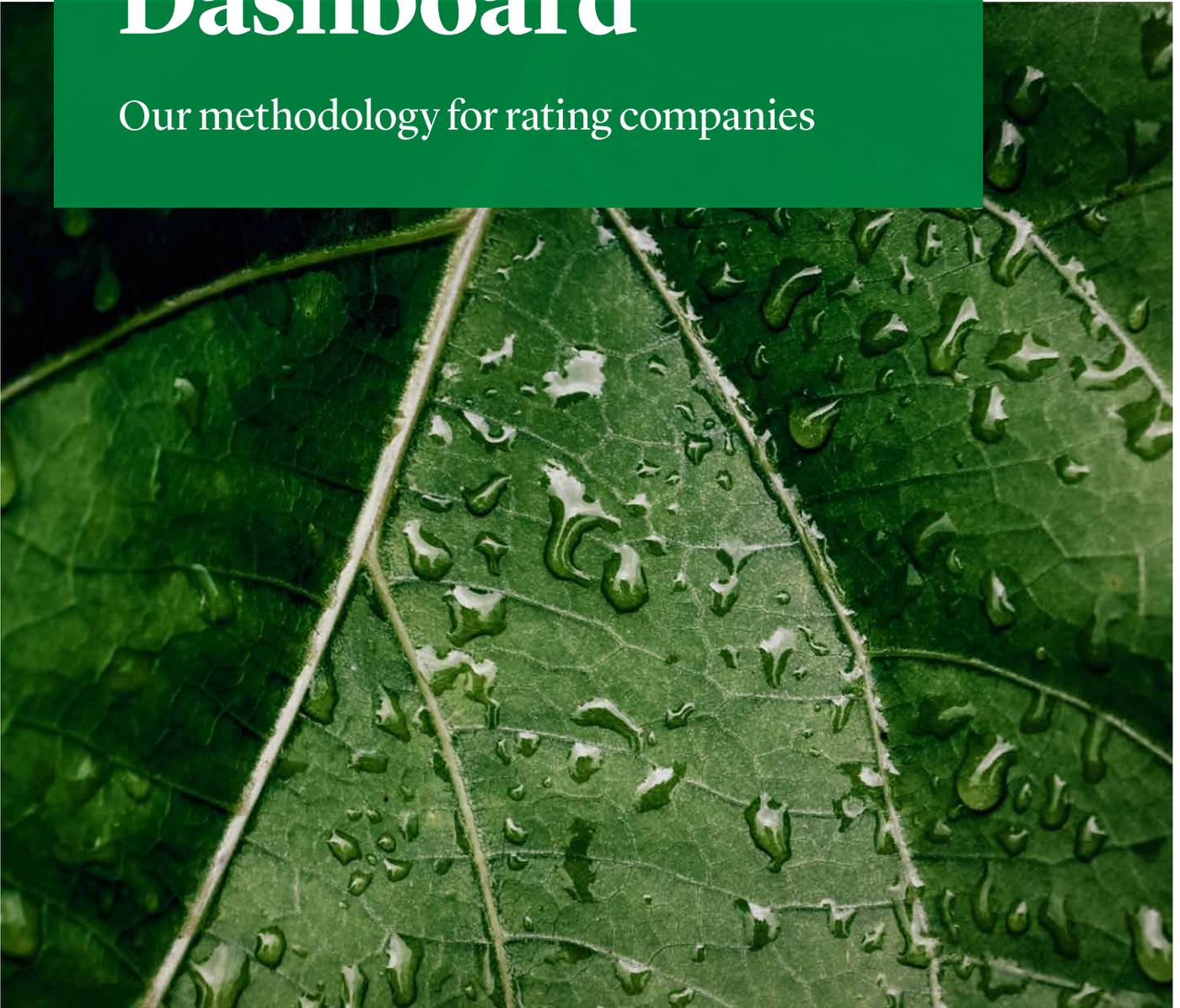


LGIM's Climate Impact Pledge: Dashboard

Our methodology for rating companies



Introduction

LGIM believes that climate change carries significant risks to society and long-term financial stability. The purpose of our ratings is to help drive progress in the market through increased transparency and engagement with consequences under our Climate Impact Pledge (CIP) programme¹.

This document sets out the framework, governance processes and methodology of the updated LGIM Climate Impact Pledge ratings (CIP ratings). The CIP rating is used as a key input into climate-related stewardship activities such as voting and divestment recommendations.

By making our assessments public, we want to encourage companies to address any gaps in their climate disclosures and sustainability strategies, whilst sanctioning companies falling short of our minimum standards.

Data

Data sources: Data for the CIP rating is obtained from third-party sources, in addition to leveraging proprietary data points from LGIM's Destination@Risk tool. The CIP ratings will be calculated every 6 months.

Data sources	
Destination@Risk/LGIM	Sustainalytics
CDP	TruCost
InfluenceMap	TPI (Transition Pathway Initiative)
HSBC	

Data availability: Where a data point is not provided by the third-party provider for a given issuer, it will be treated as not available (N/A). The weighting allocated for N/A data points are re-distributed on a pro-rata basis to the data points that are disclosed. However, when data is not available for an issuer on a CDP indicator, the issuer is penalised (scored 0) as we strongly encourage companies to disclose via the CDP framework.

Data quality: Data needs to meet the following quality checks in order to be considered for inclusion:

Quality	Description
Reliability	The data is available in a quantitative format, reported on a regular basis in a way available for data capture.
Coverage	The data is available for companies globally and is not dependent on their country of incorporation or listing.
Comparability	The data uses the same definitions across companies, countries and year- on- year.
Materiality	The data point is capturing a material climate issue that can impact long-term return or presents a risk if not addressed.

1. For more details on our engagement programme, please see <https://www.lgimblog.com/categories/esg-and-long-term-themes/climate-impact-pledge>

Rating overview

Coverage: Starting from a major global index of companies, we have selected 15 'climate-critical' sectors - those deemed to be key in the global transition to a low-carbon economy. The mapping of our sectors to the GICS international classification is outlined below.

GICS sector	GICS sub-industry	CIP sector
Materials	Construction materials	Cement
	Steel	Steel
Consumer Discretionary	Apparel Retail	Apparel
Chemicals	Commodity chemicals	Chemicals
	Diversified chemicals	
	Speciality chemicals	
	Fertilizers & Agrichem	
Communications Services	Interactive media & services	Tech & Telecoms
	Integrated Telecommunication Services	
Electric Utilities	Electric utilities	Utilities
Energy	Integrated Oil & Gas	Oil & Gas
	Oil & Gas Exploration & Production	
Materials	Diversified metals & mining	Mining
Consumer Discretionary	Automobile manufacturers	Autos
Industrials	Marine	Shipping
Industrials	Airlines	Aviation
Consumer staples	Packaged Food & Meats	Food
Consumer discretionary	Food Retail	
	Restaurants	
Financials	Multi-line insurance	Insurance
	Property & Casualty insurance	
	Life & Health insurance	
	Reinsurance	
Financials	Diversified banks	Banks
Mortgage Real Estate Investment Trusts (REITs)	Specialized REITs	Property
Equity Real Estate Investment Trusts (REITs)	Industrial REITs	
	Office REITs	
	Diversified REITs	
	Residential REITs	
	Retail REITs	
	Mortgage REIT's	
Hotel & Resort REITs		

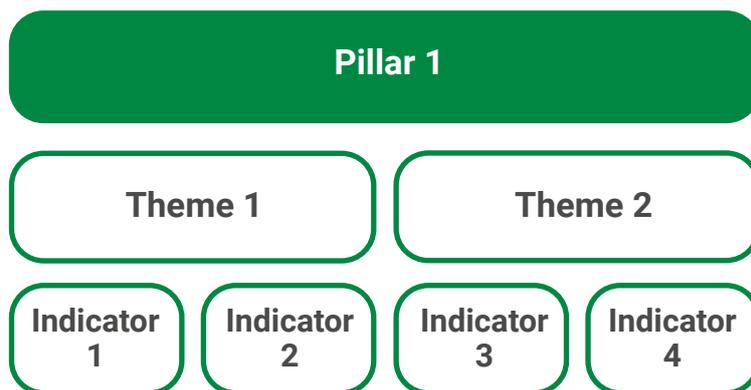
Figure 1

Indicators: Circa 40 individual indicators have been selected for inclusion. Some indicators are sector-specific, whilst others are applied across sectors.

TCFD	Theme	Sector	Data provider	Indicator	
Governance	Climate governance	All	CDP	Board members with responsibility for climate-related issues	
		All	CDP	Integration of climate issues into governance mechanisms	
	Disclosure - TCFD reporting and sector relevant scope 3	All	CDP	CDP letter score	
		Apparel, Food	CDP	Disclosure of scope 3 emissions from purchased goods and services	
		Autos, Mining, Oil & Gas	CDP	Disclosure of scope 3 emissions from use of sold products	
		Banks, Insurance	CDP	Disclosure of scope 3 emissions from use of sold products	
		REITs	CDP	Disclosure of scope 3 emissions from leased assets	
		Apparel, Food	CDP	CDP Forest questionnaire letter score	
Strategy	Company policies	All	Sustainalytics	Environmental Policy	
		All	Sustainalytics	GHG reduction programme	
		Food	Sustainalytics	Sustainable Agriculture Programmes	
		Food	Sustainalytics	Supplier Environmental Programmes	
		Food	Sustainalytics	Deforestation Policy	
		Food	Sustainalytics	Deforestation Programme	
		Insurance	Sustainalytics	Underwriting Standards	
		Insurance	Sustainalytics	Responsible Investment Programme	
		Banks	Sustainalytics	Credit & Loan Standards	
		Banks	Sustainalytics	Corporate Finance - ESG Integration	
		Apparel	Sustainalytics	Eco-Design	
		REITs	Sustainalytics	Real Estate LCA	
	REITs	Sustainalytics	Customer Eco-Efficiency Programmes		
	Climate Lobbying	All	InfluenceMap	Total Organisational score	
		Banks, Insurance	Sustainalytics	UNEPFI Signatory	
		REITs	Sustainalytics	Green Building Memberships	
		Food	Sustainalytics	Food & Beverage Sustainability Initiatives	
		Risks & Opportunities	Climate Value-at-Risk and Green Opportunities	All	Destination@Risk
All				HSBC	Green revenues
REITs	Sustainalytics			Share of Green Buildings	
Banks, Insurance	Sustainalytics			Sustainable Financial Initiatives	
Apparel, Food	Sustainalytics			Sustainable Products & Services	
Scenario Analysis	Paris-alignment	All	Destination@Risk	Implied temperature alignment by 2030	
		All	TPI	Carbon Performance alignment	
Metrics & Targets	Net Zero ambition	All	CDP	Science-based Target for Absolute emissions	
		All	CDP	Science-based Target for emissions intensity	
	Emissions intensity	All	Sustainalytics	Carbon emissions intensity	
		All	TruCost	Absolute emissions trajectory in past 3 years	
		All	TruCost	Emissions intensity trajectory in past 3 years	

Figure 2

The indicators are aggregated to form a theme score, which in turn are aggregated to form the pillar scores. Each indicator is scored between 0 and 100, with 0 corresponding to the minimum score and 100 the maximum possible. **Each indicator contributes equally to a theme, and each theme contributes equally to five pillars.** The choice of pillars reflects the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).



Sanctions and minimum standards: Our indicators capture LGIM’s view of best practices, as well as minimum standards. **Companies scoring negatively on relevant indicators flagged below as reflecting minimum standards are likely to receive voting and/or investment sanctions from LGIM.**

Beginning in the 2021 voting season, LGIM will be voting globally against the reports and accounts of all companies not meeting at least one – or, for companies in North America and Europe, three - of the minimum standards outlined below. We will increase the stringency of our minimum standards and sanctions over time - chairs of companies persistently falling short will receive a vote against during the 2022 AGM season, with further potential divestment implications for some of LGIM’s funds, and public disclosures of companies on our sanction list.

Descriptions of indicators used and the rationale for their inclusion are captured overleaf.

TCFD Pillar: Governance

Theme 1: Climate Governance

Board member(s) with responsibility for climate-related issues

We believe that for companies in climate-critical sectors, climate change and the energy transition pose material risks as well as opportunities, and therefore should be integrated into governance frameworks as the company would with any other key risk.

This indicator captures whether the company has disclosed, via CDP, that there are one or more individuals on the board with oversight of climate change. Companies without board oversight of climate change receive a negative score.

We consider having board oversight of climate change a minimum standard.

Integration of climate issues into governance mechanisms

We believe that for companies in climate-critical sectors, climate change and the energy transition pose material risks as well as opportunities and should therefore be integrated into mainstream governance frameworks and the Board's general oversight functions.

This indicator captures the number of governance mechanisms the company has reported via CDP that climate-related issues are integrated into, for example, the oversight of major capital expenditures, or the incorporation into risk management policies.

Companies which report that climate change is integrated into several governance mechanisms receive a positive score.

Theme 2: Disclosure

CDP letter score

This indicator captures the company's alphabetical score on the CDP Climate Questionnaire. The alphabetical score is an assessment of how comprehensively the company is disclosing via the questionnaire.

The CDP climate is closely tailored to the TCFD framework, which is rapidly becoming the global standard for disclosure of material climate-related financial information. Disclosing via the CDP framework allows investors and other stakeholders to gather climate data on a large number of issuers in a comparable format.

Companies with higher alphabetical scores on their CDP report will receive a positive score.

We consider comprehensive climate disclosure a minimum standard.

Scope 3 disclosure

This indicator captures whether the company is disclosing its most material source of scope 3 emissions.

For several sectors, the most significant part of their overall carbon footprint - and thus an important source of climate-related risks - does not come from their company operations, but from their up- or downstream ('scope 3') emissions, such as those associated with their purchased goods and services, the use of sold products or leased assets, or their investments. We expect companies to provide visibility of relevant emissions along their value chain, as outlined below:

Indicator	GICS sub-industry
Scope 3 - Purchased goods and services	Apparel Retail, Food retail, Packaged food & meats, Restaurants
Scope 3 - Use of sold products	Integrated Oil & Gas, Diversified metals & mining, Automobile manufacturers
Scope 3 - Investments	Diversified banks, multi-line insurance, property & casualty insurance, life & health insurance
Scope 3 - Downstream leased assets	Specialized REITs, Industrial REITs, Office REITs, Diversified REITs, Residential REITs, Retail REITs, Mortgage REIT's, Hotel & Resort REITs

Companies disclosing sector-relevant scope 3 emissions will receive a positive score.

CDP Forest Questionnaire letter score

This indicator captures the company's alphabetical score on the CDP Forest Questionnaire. The alphabetical score is an assessment of how comprehensively the company is disclosing via the questionnaire, which captures, for example, the company's performance on supply chain traceability and certification to root out deforestation.

Companies with higher alphabetical scores will receive a positive score.

All data in the governance pillar is provided by CDP.

TCFD Pillar: Strategy

Theme 3: Company Policies

Environmental Policies

This indicator captures whether the company has an environmental policy, and the strength of this policy (for example whether a company is committed to monitor its environmental performance, to reduce emissions, releases and waste, and whether the policy approved by senior management or the board of directors.)

Companies with a strong policy will receive a positive score, while companies with weak or adequate policies will receive negative or neutral scores.

We consider having an environmental policy to be a minimum standard.

GHG reduction programme

This indicator captures whether the company has a programme in place to reduce greenhouse gas (GHG) emissions, and the strength of this programme. For example, whether the company has GHG reduction targets and deadlines in place, and regularly audits its GHG emissions.

Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

We consider having a GHG reduction programme to be a minimum standard.

Food

One of the key ways to reduce emissions in the food sector is for companies to engage with their supply chain to encourage sustainable agriculture practices and reduce deforestation. This is reflected in the following four indicators:

Sustainable Agriculture Programmes

This indicator captures whether the company has a programme in place to minimise the impact of farming on natural resources and biodiversity. For example, by minimising chemical use and soil erosion.

Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

Supplier Environmental Programmes

This indicator captures whether the company has an environmental programme in place for its suppliers, and the strength of this programme. For example, is compliance with environmental standards included in legally binding agreements with suppliers, and does the company monitor its supplier's environmental performance?

Companies with a strong programme will receive a positive score, while companies with weak or programmes will receive negative or neutral scores.

Deforestation Policy

This indicator captures whether the company has a deforestation policy in place and the strength of this policy. It assesses whether the company has a commitment to achieve zero gross and net deforestation and whether this policy is approved by senior management.

Companies with a strong policy will receive a positive score, while companies with weak or adequate policies will receive negative or neutral scores.

Deforestation Programme

This indicator captures whether the company has a deforestation programme in place and the strength of this programme. For example, does the company have targets related to deforestation management and are there traceability programmes in place for both own operations and direct and third-party suppliers?

Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

We consider having a deforestation programme to be minimum standard.

Insurance

Insurance companies play a critical role in the low-carbon transition, both as underwriters of emissions-intensive or green industries, and as investors and asset owners.

Underwriting Standards

This indicator captures the environmental & social (E&S) standards the insurer has in place for its underwriting activities. For example, whether there is managerial responsibility for the integration of E&S standards and whether the company excludes clients on the basis of environmental, social or governance (ESG) factors. Companies with strong standards will receive a positive score, while companies with weak or adequate standards will receive negative or neutral scores.

We consider having sustainability-linked underwriting standards to be minimum standard.

Responsible Investment Programme

This indicator captures whether the insurer has a responsible investment programme in place and the strength of this programme. For example, are there requirements for investment managers to integrate ESG issues into investment strategies and are there investment exclusions which are based on ESG factors?

Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

We consider having a responsible investment programme to be minimum standard.

Banks

Banks play a crucial role in the low-carbon transition due to their roles as financiers of both emissions-intensive and green industries.

Credit & Loan Standards

This indicator assesses whether banks have detailed and specific standards with regards to ESG for their lending activities, and whether they exclude certain industries from financing for sustainability reasons.

Companies with strong standards will receive a positive score, while companies with weak or adequate standards will receive negative or neutral scores.

We consider having sustainability-linked credit & loan standards to be minimum standard.

Corporate Finance - ESG Integration

This indicator assesses whether the bank has a programme to integrate ESG into its corporate financing activities, and the strength of this programme. For example, are high-risk industries subject to enhanced due diligence, or avoided altogether and does the bank report its high-risk loans as a percentage of the overall portfolio?

Companies with strong practices will receive a positive score, while companies with weak or adequate practices will receive negative or neutral scores.

Apparel

Eco-Design

The most significant part of apparel companies' environmental footprint comes from their up- and downstream scope 3 emissions. This includes the environmental impact of cotton production, deforestation associated with the supply chains of certain polyester alternatives, as well as downstream pollution and waste.

This indicator assesses the extent to which environmental impact is systematically considered at the design stage of products.

Companies with strong practices will receive a positive score, while companies with weak or adequate practices will receive negative or neutral scores.

We consider disclosing the extent to which environmental impact is considered at the design stage to be minimum standard.

Real Estate Investment Trusts (REITs)

For REITs, a large part of the sector's GHG footprint comes from the upstream supply chain – the production of building materials (so-called "embedded carbon" in steel and cement) - as well as the operational emissions once a building is in use by occupants.

Real Estate LCA

This indicator looks at whether REITs conduct a life-cycle assessment (LCA) of emissions to manage their climate impact.

Companies which systematically apply LCA to new real estate projects receive a positive score.

We consider disclosing the use of LCA to be a minimum standard.

Customer Eco-Efficiency Programmes

This indicator assesses whether REITs have an eco-efficiency programme in place for its customers, and the strength of this programme.

Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

Theme 4: Climate lobbying

Total Organisational Score

It is important that companies' official positions on climate change are not contradicted or undermined by the messages they are sending to policymakers, both directly and indirectly, through the trade bodies and other associations they are members of.

This indicator assesses the intensity and nature of a company's lobbying activities related to climate change – whether the company is lobbying for, or against, policy measures to curb emissions, as well as the practices of the trade bodies it is a member of.

Companies that are covered by InfluenceMap research and which lobby both actively and positively for climate policy receive a positive score, while those companies which lobby both actively and negatively against climate policy receive negative scores.

Membership of relevant initiatives

Memberships of climate and sustainability-related industry initiatives signals to investors, policymakers and other stakeholders that a company is actively seeking to address climate challenges and works collaboratively with peers to identify solutions.

UNEPFI Signatory

This indicator captures whether banks and insurers are members of the United Nations Environment Programme Finance Initiative (UNEP FI) – a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development.

Companies which are UNEP FI signatories receive a positive score.

Green Building Memberships

This indicator captures whether REITs are members of sustainability-related building initiatives such as the Better Buildings Partnership.

Companies which are members of the most important initiatives receive a positive score.

Food & Beverage Sustainability Initiatives

This indicator captures whether food companies are members of sustainability-related industry initiatives, such as the Roundtable on Responsible Soy. Companies which are members of the most important initiatives receive a positive score.

All data in the Strategy pillar is provided by Sustainalytics, with the exception of the lobbying organisational score, provided by InfluenceMap.

TCFD Pillar: Risks & Opportunities

Theme 5: Climate Value-at-Risk and Green Opportunities

Climate Value-at-Risk

This indicator captures the impact on a company's earnings in a scenario that meets the goal of the Paris Agreement to limit global warming to well below 2°C relative to pre-industrial times. The data is the output from a climate scenario analysis tool developed by LGIM and energy consulting firm Destination@Risk. Companies with greater Value-at-Risk in a low-carbon scenario receive a lower score.

Green Revenues

Companies which derive revenues from low-carbon services and technologies are assigned a green revenue score, in proportion to the percentage of company revenue derived from 'green' activities. We follow our data provider's classification of green revenue streams, but exclude carbon trading, gas- and nuclear-related activities.

Currently, many companies' disclosures are not sufficiently granular enough to identify green revenue streams. We encourage companies to improve disclosures in this area.

Data for green revenues is provided by HSBC.

Share of Green Buildings

This indicator captures the percentage of the REITs' property portfolio that is invested in sustainable buildings. Companies with a greater share of sustainable buildings receive a positive score.

Data is provided by Sustainalytics.

Sustainable Financial Initiatives

This indicator captures whether banks and insurers have a programme in place to grow exposure to sustainability-related products and services. Companies with a strong programme will receive a positive score, while companies with weak or adequate programmes will receive negative or neutral scores.

Data is provided by Sustainalytics.

Sustainable Products & Services

This indicator captures whether the company offers sustainability-related products or services and the level of revenue from these. Companies disclosing a greater percentage of revenue will receive a positive score.

Data is provided by Sustainalytics.

TCFD Pillar: Scenario analysis

Theme 6: Paris Alignment

2030 temperature alignment

This indicator analyses the company's historical emissions trend to assess what 2030 temperature trajectory the company is currently aligned to. Companies aligned to the goal of the international Paris Agreement - to limit global warming to well below 2 degrees Celsius relative to pre-industrial times - will receive a positive score, with negative scores depending on the degree of misalignment.

The data is the output from a climate scenario analysis tool developed by LGIM and energy consulting firm Destination@Risk.

Carbon alignment

This indicator evaluates how companies' planned, or expected future carbon performance, compares to international targets and national pledges made as part of the Paris Agreement. Companies aligned to a below 2 degrees Celsius trajectory will receive a positive score, those aligned to a 2 degrees trajectory will receive a neutral score and those currently aligned with higher temperatures receive a negative score.

Data is provided by the Transition Pathway Initiative.

TCFD Pillar: Metrics & Targets

Theme 7: Net-zero ambition

Science-Based Targets for absolute emissions

This indicator captures whether the company has absolute greenhouse gas emissions targets, and whether they are certified by the Science-Based Targets initiative (SBTi). Companies with either an absolute or intensity target which is certified by the SBTi receive a positive score.

Science-Based Targets for emissions intensity

This indicator captures whether the company has absolute greenhouse gas emissions targets, and whether they are certified by the Science-Based Targets initiative. Companies with either an absolute or intensity target which is certified by the SBTi receive a positive score.

Data for this theme is provided by CDP.

Theme 8: Emissions

Carbon Intensity

This indicator captures how the company's carbon emissions intensity compares to the mean of its industry. Companies with an emissions intensity well-below the industry mean receive a positive score.

Data is provided by Sustainalytics.

Absolute emissions trajectory in past 3 years

This indicator captures whether the company's absolute greenhouse emissions have been rising, falling or remained static over the past three years. Companies whose absolute emissions have decreased receive a positive score.

Data is provided by Trucost.

Emissions intensity trajectory in past 3 years

This indicator captures whether the company's greenhouse gas emissions intensity has been rising, falling or remained static over the past three years. Companies whose emission intensity has decreased receive a positive score.

Data is provided by Trucost.

We consider demonstrating a reduction in emissions intensity to be a minimum standard.

Contact

We encourage companies to verify the accuracy of the data, which is sourced from third-party data providers as listed. In case of an inaccuracy, we expect companies to first verify their own public disclosures and contact the data providers directly to rectify them. Contact details for our data providers can be found on the Climate Impact Pledge microsite.

Contact us

For further information about LGIM, please visit lgim.com, email climateimpactpledge@lgim.com or contact your usual LGIM representative



Important information

Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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