

June 2022

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Capital at risk.



LGIM's policy on coal

Summary

Through the implementation of this Coal Exclusion Policy, Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiaries will exclude from investments those companies that are involved in the mining and extraction of thermal coal¹ as set out in the Policy Scope below.

We view coal's current role in the energy mix to be incompatible with the global commitment, made under the Paris Agreement (an international treaty on climate change), to limit the increase in the global average temperature, "...to well below 2°C above pre-industrial levels", and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. LGIM is committed to supporting the objectives of the Paris climate goals.

The high emissions intensity associated with burning coal means that rapid cuts will be needed to meet the global climate target. We expect coal to be a decreasing part of the energy mix, and working in the best interests of our clients, we believe it is important to capture this transition within the portfolios that we manage.

Context and background

There is a significant gap between the emission reductions necessary to restrict warming to the levels set out in the Paris Agreement and the current state of emissions. To achieve this ambitious target, we must therefore meaningfully shift our methods of generating and consuming energy globally.

The largest proportion of human-related greenhouse gas emissions² (primarily carbon dioxide and methane) comes from burning fossil fuels for energy. Of energy emissions, around half come from coal.³

Thermal coal is used for power and heat generation. Substitutes that replace the need for coal-fired generation are available in the form of technologies such as renewables, gas and nuclear. A faster-than-expected shift away from coal could have a disproportionate impact on companies generating a high proportion of their revenues from thermal coal.⁴

¹ Thermal coal is used for power and heat generation. Through this policy we are evolving our approach to investment restrictions on coal, setting the trajectory towards meeting the recommendations of the Science Based Targets Initiative (SBTI), which include phasing out investments in coal by 2030 and ceasing investments in companies that generate 5% or more of revenues from coal and are investing in new coal capacity.

² Carbon dioxide, methane, nitrous oxide and three groups of fluorinated gases.

³ IEA, <https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions>.

⁴ More information can be found [here](#) on how we view the emerging market dynamics of coal and coal-fired power/heat generation.

Policy scope

Coal/oil sand classification and revenue threshold

This policy applies to:

- Companies involved in the mining and extraction of thermal coal. The scope of this policy does not extend to metallurgical coal⁵
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of their revenues from coal mining and extraction
- Companies involved in thermal coal power generation:
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of revenues from coal-fired power generation
 - Where a company has set out a clear Paris-aligned plan to phase out coal by 2030 in OECD, and by 2040 in non-OECD, we retain the ability to invest
 - Where a company has non-coal subsidiaries, we retain the ability to fund specific issuing entities
- Companies that derive more than 20% of revenues from oil sands (sand and rock material that contain crude bitumen)
- Additional capacity exclusions will be applied to portfolios implementing LGIM's Future World Protection List (FWPL)

New investments and coal phase out

- For funds we have committed to manage in line with net-zero emissions, LGIM will exclude, in addition to the above, companies making new investments in thermal coal and oil sands
- Across all LGIM funds, we will use active and escalating engagement with the aim of ensuring no new thermal coal generation is developed and no further oil sand resources are exploited
- Across all LGIM funds, we will use active and escalating engagement with the aim of ensuring that phase-out of existing unabated capacity and activity is undertaken in line with net zero pathways. This will take into consideration the need for a just transition in countries or regions where there is significant economic dependence on thermal coal power or mining

Excluded companies

LGIM(H)'s coal exclusion list has been developed in conjunction with a third-party service provider and will apply to:

- Publicly listed, private and state-owned companies
- The corporate entity only, not the company's parent owner

LGIM(H) may inform companies on the exclusion list of its policy and will encourage them to reconsider involvement in the thermal coal sector where relevant.

⁵ Metallurgical coal is generally used in industrial processes, such as steelmaking, where low-carbon substitutes are not yet economically viable (in the absence of a carbon price). We distinguish between metallurgical and thermal coal in the exclusions we apply.

Excluded instruments

- LGIM(H) and its subsidiaries will not invest in equity or fixed income instruments in companies on its exclusion list in accordance with the section headed 'Application to LGIM(H) subsidiaries' below
- This policy and the exclusion list shall be applied by LGIM(H) or the relevant subsidiary (as the case may be) subject to any applicable contractual, legal and/or regulatory obligations.

Application to LGIM(H) subsidiaries

This policy applies to the discretionary investment management decisions taken by subsidiaries of LGIM(H) for their respective clients and those subsidiaries include:

- Legal & General Investment Management Limited (LGIM) located in London
- Legal & General Investment Management America Inc (LGIMA) located in Chicago
- Legal & General Investment Management Asia Limited (LGIM Asia) located in Hong Kong

The LGIM(H) subsidiaries detailed above are appointed investment managers to a number of clients, including pooled investment product providers which are affiliated with LGIM(H) and/or segregated clients.

Subject to the sections below, this policy shall apply to both:

- pooled funds including:
 - a. collective investment schemes where a subsidiary or associated company of LGIM(H) is the manager
 - b. the unit-linked pooled insurance fund of Legal and General Assurance (Pensions Management) Limited (also known as the Long-Term Fund)
- segregated mandates (funds that are managed on a segregated basis)

In each case, the policy is set out as below. More information on the pooled funds to which this policy applies is available on request.

Pooled funds:

- This policy applies to:
- **all investments made on behalf of our clients (over which we have full discretion) in active equity and fixed income funds**
- **all index funds which apply our Future World Protection List (FWPL) of exclusions.** Where the FWPL does not apply but an index's methodology and rules preclude investment in coal companies, exclusions may differ in scope to those under this policy
- **all multi-asset funds.** However, where these funds buy an index fund, there may be an economic exposure to issuers on our coal exclusion list

This policy will be applied to any directly held securities purchased through these funds.

This policy will apply to all active pooled funds as part of multi-asset strategy both on a pooled and segregated basis.

Where a unit-linked fund wraps an externally managed fund, this policy will not apply to that externally managed fund. However, the external manager may have their own coal exclusion policy.

We will also seek to apply this policy to all newly launched LGIM-designed products.

Segregated mandates:

From February 2021, LGIM encourages the adoption of this policy in segregated investment guidelines although the client has the ultimate decision as to whether to adopt this policy.

It should be noted that:

- segregated portfolios comprising derivative and/or currency hedging overlays may have economic exposure to indices that are not applying this policy
- this policy shall not be applied to the investment guidelines of segregated index mandates unless this policy is included in a customised index

Implementation process

LGIM has engaged a third-party service provider to identify companies involved in thermal coal, as outlined in this policy, and to support the development of an exclusion list. The list is reviewed twice a year and where new companies are identified we will seek to divest holdings within the following 90 days. Where names are removed from the list, they are then once again eligible for investment.

Internally, we implement processes and monitor compliance of this policy. We welcome questions from external stakeholders.

How to contact us

For any queries about this policy, please contact:

InvestmentStewardship@lgim.com

This policy will be reviewed by LGIM's Responsible Investment Group and the Chief Investment Officer on an annual basis. We reserve the right to update this policy from time to time, including to reflect good industry practice.

Important information

Legal & General Investment Management

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London

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