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LGIM Real Assets:

Responsible and sustainable investment report 2022

Real actions for real assets

LGIM

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Boxmakers Yard, Bristol

Foreword

> “… we have published our inaugural responsible and sustainable investment report that aims to demonstrate how we create long-term value and positive impact through active engagement and sustainability practices…”

These are exceptional times for investors. The conflict in Ukraine, coupled with a cost of living crisis intensified by rising energy costs, comes at a time when we are still recovering from the effects of COVID-19. Furthermore, the effects of climate change continue to present threats as the world rebuilds, adapts and recovers from the pandemic. Investing long-term capital in what society really needs has never been more important.

Currently, we find ourselves in the early stages of a transition from the consumer economy (which has been flourishing since the 1950s), where the emphasis has been on spending and consumption, to an environment where there is greater emphasis upon conserving what we have for the generations ahead. Our view is that real assets have a big part to play here.

Just 15 years ago, it was relatively unusual for an investor to be concentrating on sustainability, let alone being proactive about it. When I joined LGIM Real Assets, we embarked upon a programme to become a sector leader in sustainability. At the time, in the absence of empirical data, I believed it was appropriate to invest time in this area, believing it would reward our business in terms of investment returns.

As COP27 gets underway, the climate emergency is in the spotlight once more. Against this background, there is real commitment to making tangible progress on implementing our net-zero carbon objectives across our real assets portfolios. The industry is moving, in our view, from once promising to now measurable actions. As one of the UK’s largest investors in private markets we believe we continue to be one of the leaders in this space.

As long-term investors we believe we play a pivotal role, not only in decarbonising investment portfolios on behalf of our clients, but also in shaping the real economy transition by engaging with, and holding, businesses accountable on their net-zero transition plans. Furthermore, we believe there is a greater need to have the right organisational and operating models in place to accelerate our ability to capture and seize new business opportunities. These models also enable us to develop the expertise, achieve operational excellence, and focus on delivery.

Against this background, we have published our inaugural responsible and sustainable investment report to aim to demonstrate how we create long-term value and positive impact through active engagement and sustainability practices across our real assets’ platform. Our report makes use of numerous short case studies to help demonstrate how the actions we have taken align with the relevant United Nations Sustainable Development Goals (SDGs).

Our efforts to lead on responsible investment (of which environmental, social and governance or ESG factors form the core) across our real assets business has been a collective and collaborative team effort. We would like to thank our clients and partners for their continued support in our shared vision of a just transition to net zero and towards a more resilient and sustainable future.

Bill Hughes
Global Head of Real Assets

Responsible and sustainable investing: at the heart of what we do

Legal & General Investment Management (LGIM) is the investment management arm of Legal & General, one of Europe's largest insurance and asset management groups, serving millions of customers worldwide. At LGIM, responsible investing is at the heart of what we do.

To embed our responsible investment beliefs in our strategies across both public and private assets, we have established fully integrated frameworks. Our approach is built on the principles of active ownership. Through our engagement with stakeholders, where possible, we seek to effect positive change in the assets in which we invest, in line with Legal & General's vision of inclusive capitalism.

The LGIM Real Assets (LGIM RA) platform is composed of equity and private credit. Our equity business includes real estate equity, in which we have been investing since 1971, together with our newly formed infrastructure equity capability through our partnership with NTR. Private credit invests across real estate debt, corporate debt, infrastructure debt and alternative debt.

LGIM RA has a pivotal role to play in driving positive change through our investment decisions and active engagement with all our key stakeholders – investors, occupiers, borrowers, local communities and partners across our supply chain. As a long-term real asset investor and asset owner we feel we have a responsibility and fiduciary duty to invest in assets which, we believe, will deliver a more resilient and responsible future. That said, managing £38.5 billion[1] of assets sustainably across real estate equity and private credit portfolios is no easy task.

1. Source: LGIM RA. AUM data estimates as at 30 June 2022 (GAV, including crossholdings).

> **As a long-term real asset investor and asset owner we feel we have a responsibility and fiduciary duty to invest in assets which, we believe, will deliver a more resilient and responsible future**

In order to ensure that we are continuously making progress and hold ourselves accountable to our commitments and targets, we adhere to the following principles.

1. Identify

- Through rigorous analysis, we identify and continuously review material ESG issues to manage risks and seek to achieve positive outcomes from our investments.
- We then identify appropriate solutions and opportunities to generate real world outcomes, often testing potential responses through pilot projects before wider rollout.

2. Engage

- Active engagement with key stakeholders – our occupiers, borrowers and partners in our supply chain provide a real opportunity to deliver positive environmental and social outcomes, given the long-term nature of our investments.
- We work with policymakers, regulators, industry peers and our stakeholders as we seek to raise overall market standards.

3. Integrate and innovate

- We use our six-pillar real asset ESG ecosystem to support the integration of these risks and opportunities into our decision making; using innovative solutions to accelerate progress.
- We set, and continuously review, our targets to monitor progress.

Introducing our six-pillar ecosystem

To maximise our impact across both equity and debt, we view responsible investing and sustainability as an integrated ecosystem around six core pillars.

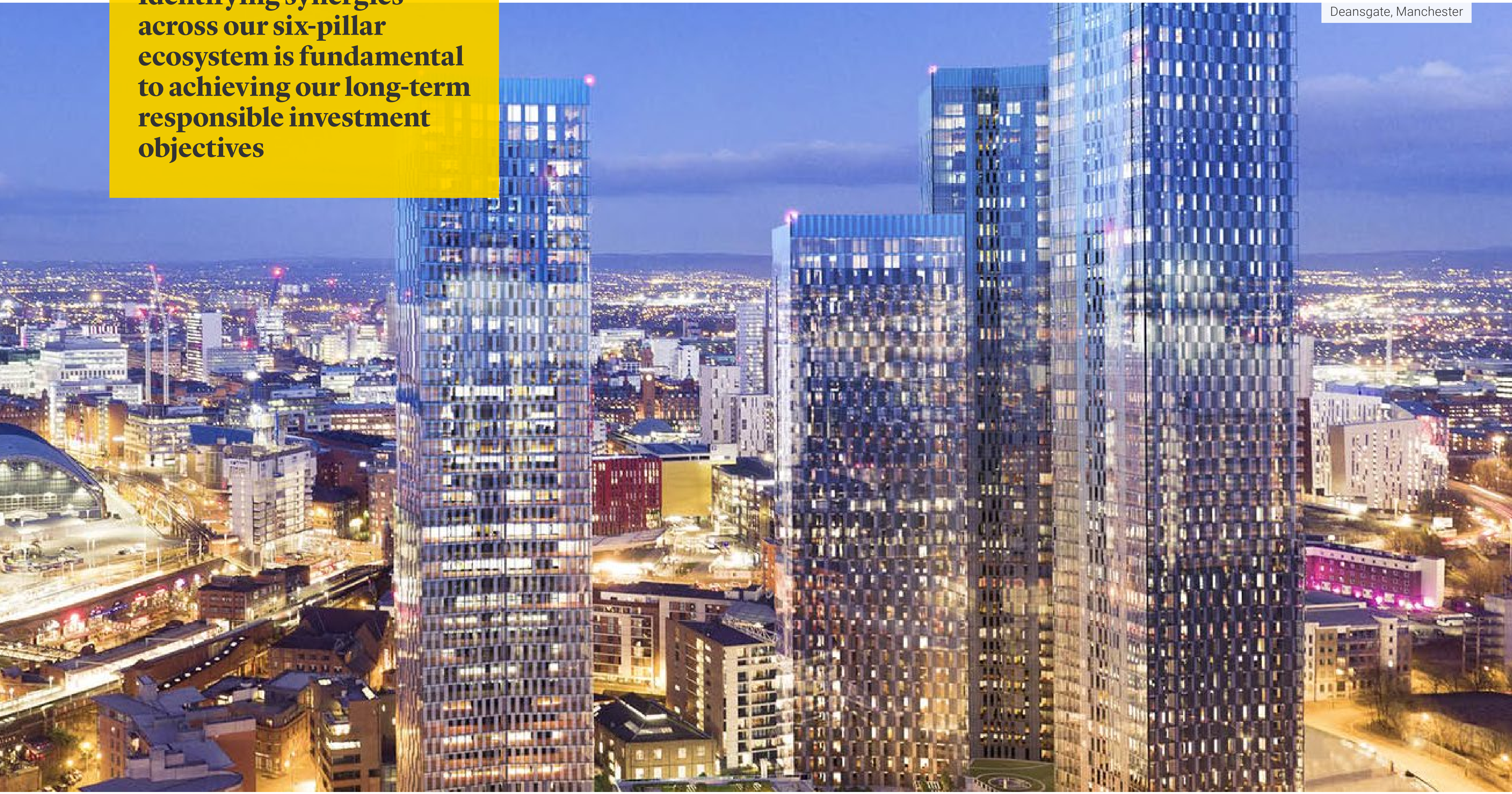
These pillars underpin our strategic focus and support the wider business priorities. Each interlink with each other and serve as an overarching framework to support ESG-related initiatives across real assets.

Managing ESG and climate-related risks is critical to our investment process. Failing to adapt to physical and transition climate risks may result in stranded assets, asset depreciation, reputational or litigation risks.

However, we also believe that we can generate positive social and environmental outcomes and, where possible, we take an impact-led approach to ensure our investments create additionality.

Identifying synergies across these pillars is fundamental to achieving our long-term responsible investment and sustainability objectives leading, we believe, to better risk management, the ability to identify sustainable investment opportunities and contributing to positive outcomes for all our stakeholders.

Identifying synergies across our six-pillar ecosystem is fundamental to achieving our long-term responsible investment objectives



Deansgate, Manchester

Why aligning our projects to the United Nations' Sustainable Development Goals matters

As real assets investors, we're always looking to identify opportunities which help to contribute to real world outcomes.

These opportunities may be achieved by investing in sectors which contribute to more positive outcomes. They also include the delivery of pilot projects to identify new and innovative methods of generating impact for occupiers or communities local to our assets before rolling out across our funds.

To understand the positive contribution that these pilot projects and investments make, **we align their outcomes to the United Nations' Sustainable Development Goals (SDGs)**, where relevant. These 17 goals set out aspirational and challenging targets to be achieved by 2030 and highlight areas considered to be development priorities. As such, they provide a framework to help guide our investments beyond ESG integration as a risk management exercise and towards the identification of positive contributions for stakeholders.

These 17 goals set out aspirational and challenging targets to be achieved by 2030 and highlight areas considered to be development priorities

Source: United Nations

Throughout this report, we've used case studies to illustrate where a project or investment is aligned to one or more SDGs.

Progressing together: why collaborating is key

Engagement is essential when it comes to fostering change across all ESG pillars and achieving positive outcomes.

This means engaging with our occupiers and supply chains across our real estate equity portfolios, our borrowers across private credit, as well as our peers and relevant industry bodies. Steps taken in 2021 included:

Engaging with occupiers

- Enabling our occupiers to have direct access to a range of services, including energy performance information, through our new innovative technology-led tool (occupier tool) Vizta.
- Working closely with occupiers to enhance ESG data collection, e.g., through the installation of Automated Meter Readers (AMRs).

Engaging with borrowers

- Stepping up ESG-related data disclosure through an enhanced ESG assessment process.
- Working with our borrowers to help incorporate relevant ESG metrics into transactions and, in some cases, incentivising borrowers to achieve specific sustainability targets.

Partnering with top industry bodies – aligning with best practice

LGIM RA is a member and active participant of multiple associations and initiatives working on ESG themes. Organisations we work with include:

UK GBC

Bill Hughes, Global Head of Real Assets, is a trustee of the UK Green Buildings Council (UKGBC), whose mission is to improve the sustainability of the built environment. Our real estate equity net-zero commitment and roadmap also follow the UKGBC'S net-zero carbon buildings framework.

BBP BETTER BUILDINGS PARTNERSHIP

LGIM is an active member of, and signatory to, the BBP's Climate Change Commitment. Shuen Chan, our Head of ESG, Real Assets, sits on the board and members of the ESG team actively contribute to several working groups, including those on climate resilience and net-zero carbon.

Infrastructure debt ESG covenant package

In 2021, LGIM RA was part of an industry-led working group to develop a more transparent set of best practice ESG disclosures for borrowers reporting to lenders in the infrastructure debt sector. The aim was also to support lenders' compliance with increasing ESG disclosure regulations.

2. BBP Climate Commitment | Better Buildings Partnership

Integration and collaboration across real assets

Integrating responsible investing and sustainability requires a systematic approach, where ESG is embedded within our operating model, and through sharing best practices and ideas for implementation. As part of this, several key internal real assets working groups have been established to enable more effective collaboration and to drive progress towards meeting our shared ambitions. We also actively contribute to a number of ESG-related working groups across L&G.

The way we work: ESG engagement and collaboration within real assets


Longley House, Brighton

Key internal working groups:

- Real Asset ESG and Operations
- Net Zero Development Group
- ESG Fund Integration Group
- Social Impact Group
- ESG Private Credit Group

Diversity and Inclusion at LGIM RA

We are fully committed to bringing diversity, equity and inclusion to the real assets industry.

Promoting responsible practices and sustainability starts at home. Our aim is to become a business that supports all our people to reach their full potential through our Diversity and Inclusion (D&I) Group in real assets.

The D&I Group was formed to drive better understanding across our platform of how D&I brings both diversity of thought and positive impact that contributes to real outcomes for society and the environment.

Members of the real assets team volunteer to be part of various sub-groups that form the D&I Group and have contributed to numerous positive outcomes for various communities.

This includes supporting charities such as Suited and Booted and Smart Works, which help provide interview attire and support for unemployed men and women. We also partner with Generating Genius, a charity focused on ensuring that talented students from disadvantaged backgrounds are positioned to excel in STEM.

D&I brings both diversity of thought and positive impact that contributes to real outcomes for society and the environment

Delivering positive outcomes: real estate equity case studies

LGIM RA is responsible for £24.1 billion real estate equity assets under management in the UK[3].

As building owners and operators, we believe that we have a central and urgent role to play in delivering the changes needed to reduce carbon emissions in the real estate sector and deliver better-quality, better-performing assets.

Our **responsible investment policy** details our principles, governance and objectives to support the ESG integration required to deliver this, with key developments in our approach to carbon-emission reductions, flood risk assessment, occupier and community engagement, and health and wellbeing, demonstrated through case studies.

We believe the built environment has a central and urgent role to play in delivering the changes needed to reduce carbon emissions

Ralli Quays, Manchester

3. Source: LGIM RA. AUM data estimates as at 30 June 2022 (GAV, including crossholdings).

Net-zero commitment for real estate

In December 2020, we launched our **net-zero roadmap strategy**, as part of our commitment to achieve net-zero carbon across our real estate platform by 2050 or sooner. To further implement our net-zero objectives set out in the roadmap we have introduced the following:

Updating our targets

We carried out a review of our science-based targets to 2030, to align with L&G Group. These covered scope 1 and 2 emissions, associated with the properties we operate, along with scope 3 emissions, associated with the energy use of our occupiers.

Implementing our targets

1. **Net-zero carbon audits for all acquisitions:** Since the launch of the roadmap, we have also started to rollout net-zero carbon audits across targeted existing assets.

2. **Embodied carbon and operational targets on all new developments:** These ensure that all new developments and major refurbishments are completed in line with industry best practice, developed in line with the NABERS specification[4].

3. **Enhanced green clauses on our leases:** These clauses now incorporate our enhanced net-zero requirements, changes to minimum energy efficient standards (MEES) data requirements and enhanced occupier engagement on ESG.

4. NABERS, the National Australian Built Environment Rating System, is an initiative by the government of Australia to measure and compare the environmental performance of Australian buildings and tenancies. In the UK this has been introduced for offices.

Case study

Net zero audit:

Compass West Industrial Estate

Identify and engage

- A net-zero carbon roadmap was developed at Compass West Industrial Estate to identify the required measures to achieve net-zero operational carbon.
- Feasibility of measures, associated costs and timeframe for completion formed part of an agreed implementation plan.

Deliver positive outcomes

- The plan proposed installation of Automated Meter Readers to better understand and reduce energy consumption, remove gas and review feasibility of onsite renewable energy generation.
- Since its completion, all landlord-controlled lighting has been upgraded. We aim for all occupier lighting to be upgraded in early 2023.
- These actions support the fund in meeting its net-zero objectives and provide a positive benefit to occupiers, through energy-saving measures and a more cost-efficient building.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Compass West Industrial Estate, London

North Quay House, Bristol

Case study

Refurbishment not demolition:

North Quay House, Bristol

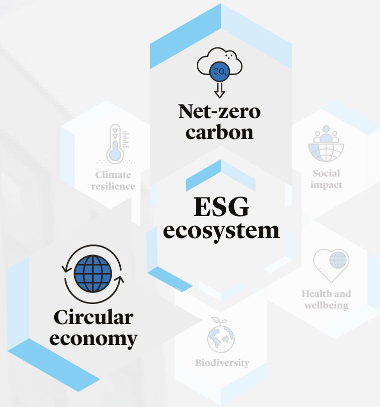
Identify and engage

- North Quay House involved the redevelopment of an existing office building overlooking the Floating Harbour in Bristol city centre.
- A net-zero audit was undertaken for the asset.

Deliver positive outcomes

- Analysis showed that reusing the existing building represented a significant carbon saving relative to demolition and new build, as well as a significant reduction in waste.
- Planned upgrades to the building fabric and systems were also identified to substantially reduce operational emissions.
- By refurbishing and not demolishing the building, the asset is on track to achieve around 30% lower embodied emissions than industry net-zero targets when complete.

Six-pillar ecosystem



Support UN Sustainable Development Goals

Strengthening climate resilience

The physical impacts of climate change are increasing risks for our assets, tenants, supply chains and wider communities.

Having a clear understanding of these risks and increasing portfolio resilience is essential for maintaining the safe and effective operation of our assets. Additionally, we recognise the importance of responding to strengthening climate risk-related regulations and supporting our investors' own disclosure requirements.

We work with global physical climate risk specialists, XDI, to increase our resilience to these challenges, by embedding decision-useful climate risk-related data and metrics into our investment processes. Initial analysis has demonstrated that flood risk is considered the most significant physical climate hazard for our UK-based real assets portfolios, both now and in the future.

To address this, we're working with XDI to assess how our assets may be impacted through more severe and frequent flooding, using a granular bottom-up assessment approach. A more detailed overview of this is provided in L&Gs latest **Climate (TCFD) Report**. Other climate-related hazards, such as an increase in frequency and intensity of extreme heat events, will become increasingly more influential moving forwards. Analysis of additional hazards will be incorporated into our approach as it continues to evolve.

Case study

Climate resilience:

Taking action on UK flood risk

Identify and engage

- In 2021, all of our assets were included in our high-level, forward-looking flood risk assessment process with XDI.
- The granularity of our analysis was enhanced using Unique Property Reference Numbers (UPRNs), enabling analysis of assets at the individual building level.

Deliver positive outcomes

- The preliminary risk scan identified those assets requiring further analysis. Here, we are working through a process with asset managers to capture more granular, asset-specific information, such as building age, floor height and, crucially, any existing flood adaptation measures.
- Once incorporated into the model, this detail will generate a much clearer representation of the risk profile and enable more targeted adaptation strategies for assets still deemed to be at risk.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Dolphin Centre, Poole

A place-based impact approach[5]

We believe that real estate owners and investors have an important role to play in delivering meaningful societal impact.

There is an opportunity to deliver tangible benefits for our occupiers, collaborate with and support local businesses and the community, and deliver more innovative solutions, by embedding a social impact lens across our investments. As such, assessing and integrating social value is a key focus. In 2020, we initiated a pilot initiative using the National TOMs framework[6] to measure the social value across 20% of standing assets by asset value in our portfolio, which was completed in mid-2021.

In parallel with the social value measurement pilot, we have also explored how we can create intentional, additional, and attributable economic, social and environmental benefits across our assets and the communities that they serve. Using the Dolphin Centre in Poole as our model, we focused on **five key areas:**

Understand
the local needs of the place in which the asset is located

Engage
with the local community and local representatives

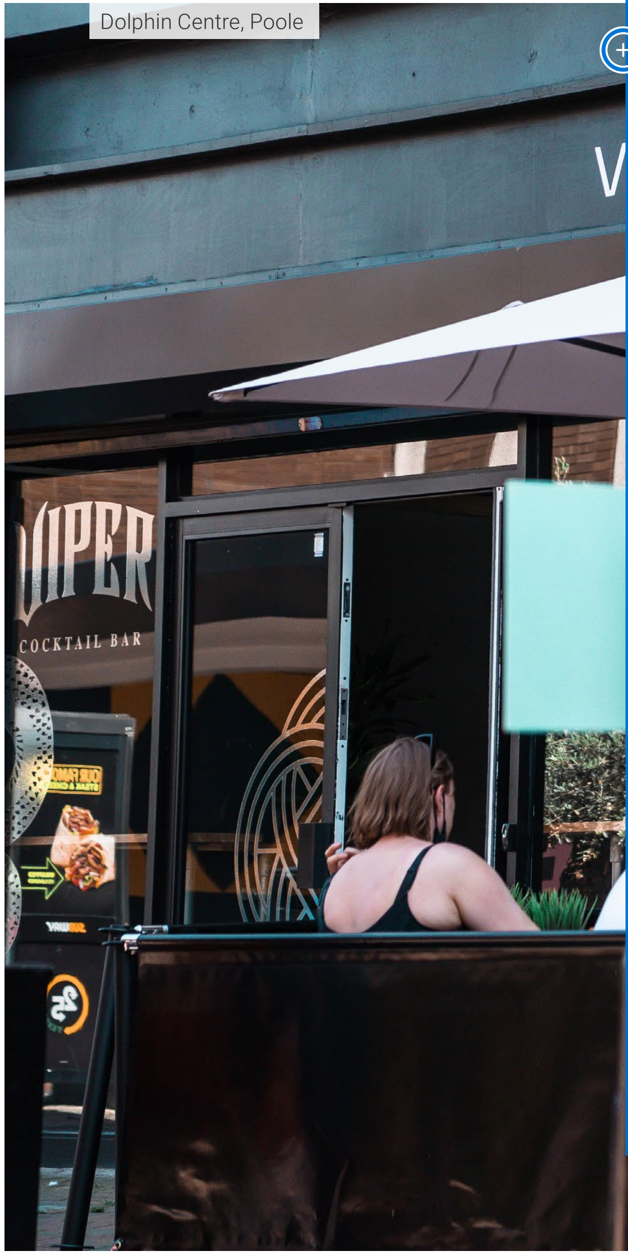
Ensure
the plan is aligned with our commercial objectives

Catalyse
change through partnerships and collaboration

Monitor
and measure the impact, both commercially, socially and environmentally

5. Place-based impact /solutions are those made with the aim of providing both financial and social and/or environmental returns with a focus on addressing the needs of specific places.
6. National Social Value Measurement Framework – or National TOMs (themes, outcomes and measures)– is a method of reporting and measuring social value to a consistent standard, which investors can use to assess the impact of their initiatives and is widely adopted by the UK public sector.

Dolphin Centre, Poole



Case study

Developing a place-based impact approach

The Dolphin Centre, Poole

Identify and engage

- The pilot project was part of LGIM's wider retail strategy that involved reimagining a shopping centre into a mixed use community hub, offering products and services aimed at delivering positive, and more inclusive, environmental and social outcomes for the local community.
- A Community Partnership was established with key local stakeholders to understand local needs, notably an ageing population and lack of suitable employment opportunities.
- A range of smaller sub-projects were then designed, with the aim of:
  - Providing access to affordable space for local businesses
  - Offering an improved local health and wellbeing facility
  - Promoting more sustainable and active means of transport

Deliver positive outcomes

- Launched in April 2021, 10 retail units, with free rent and business rates for two years, were offered to start-up businesses originating from Dorset.
- This created over 30 new jobs and a +16% swing in footfall versus the pre-pandemic trend, aligning with our commercial objectives.
- The centre is now home to the NHS's first UK community diagnostics hub, with additional health and wellbeing hubs currently in design.
- The Poole Adult Skills and Learning Centre was established in the scheme in partnership with the local council.

Six-pillar ecosystem

Support UN Sustainable Development Goals

A focus on health and wellbeing across our assets

We believe focusing on health and wellbeing across our assets leads to improved happiness and satisfaction, productivity levels and mental wellbeing.

As such, we established the following health and wellbeing targets across our new developments and major refurbishments:

- Alignment with WELL[7] criteria – including for base building provision which should support WELL Gold Standard and Platinum certification on fit-outs.
- We aim to achieve BREEAM Excellent ratings for our new build projects and BREEAM Very Good as a minimum for refurbishments.

These targets ensure that a broad range of key themes are integrated into our strategies including indoor air quality, water quality, thermal comfort, as well as lighting and acoustics.

1 Victoria Street, Windsor

7. WELL is a performance-based system for measuring, certifying, and monitoring features of the built environment that impact human health and wellbeing.

Case study

Monitoring indoor air quality:

AirRated

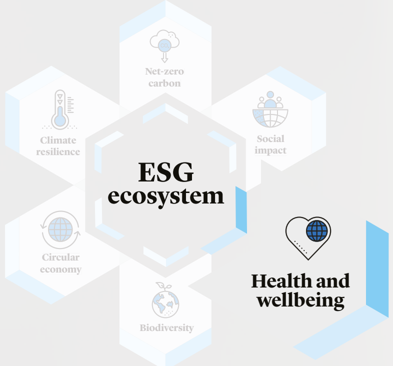
Identify and engage

- In partnership with AirRated, our aim is to help provide occupiers with the best classification of workspace available, through a commitment to the monitoring of indoor air quality across our portfolio.
- AirRated uses the latest innovative sensor technology to collect, and assess, detailed information on indoor air quality (IAQ), before analysing scientific research and industry best practice to generate an AirScore.

Deliver positive outcomes

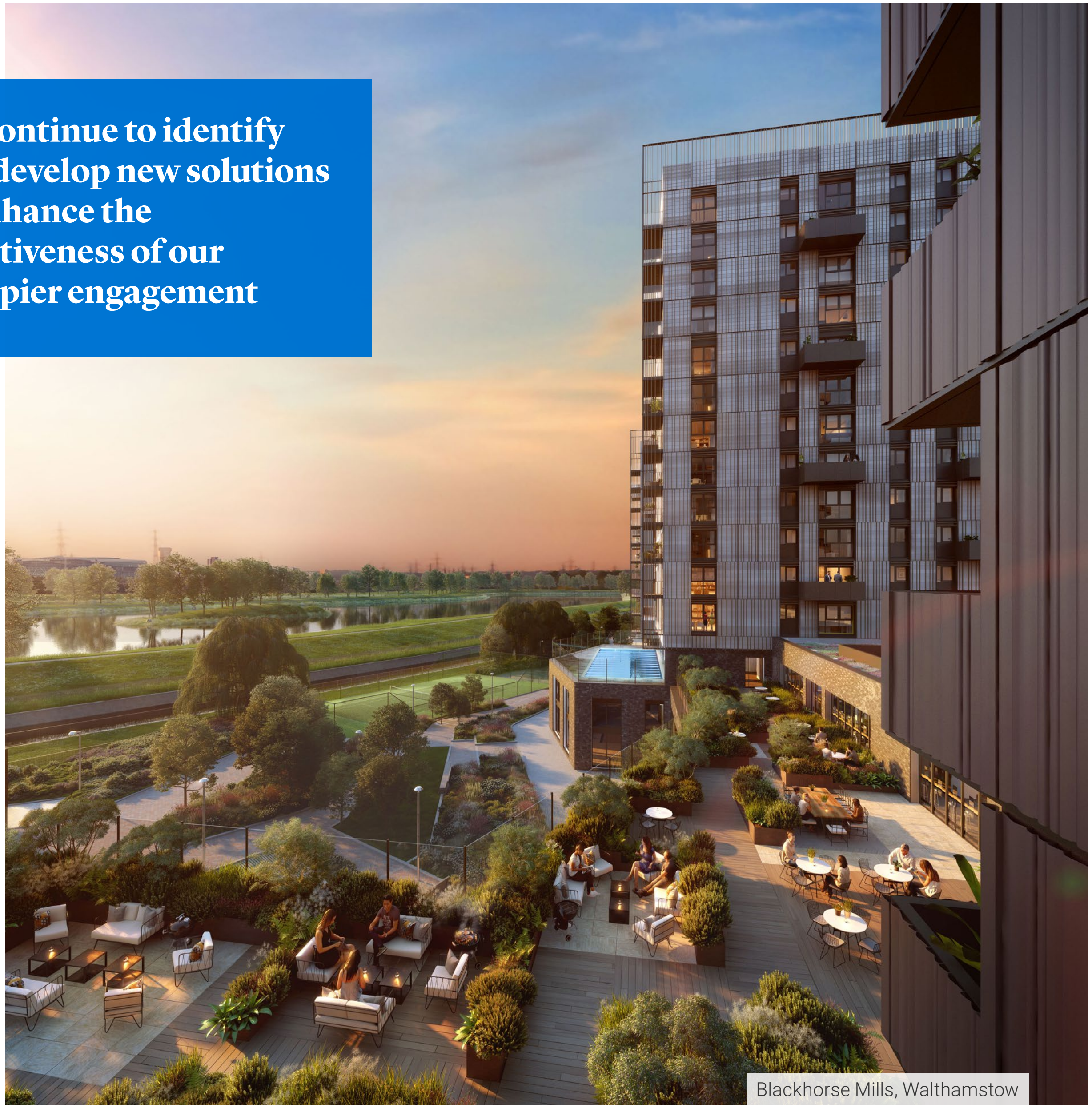
- Of the 16 buildings that have completed the AirScore certification, 25% achieved the top-rated platinum status, and another 44% achieved gold status. Another four assessment projects are underway, including our first leisure park.
- We've then worked with AirRated to use available data in the buildings with IAQ sensors installed. A monthly AirScore has been achieved on five assets, with another 10 planned by the end of 2022.

Six-pillar ecosystem



Support UN Sustainable Development Goals

We continue to identify and develop new solutions to enhance the effectiveness of our occupier engagement



Blackhorse Mills, Walthamstow

Occupiers – playing a central role in building efficiency

Occupiers directly control over 90% of the energy consumption of our portfolio and play a central role in how efficiently buildings are used, irrespective of how well they have been constructed.

Working in partnership with our occupiers will be essential if we are to meet our shared net-zero objectives. We continue to identify and develop new solutions to enhance the effectiveness of our occupier engagement:

- Vizta launch: Our occupier engagement platform, launched in 2021, enables occupiers to access a range of services, including energy performance information.
- Improving data collection process: Solutions are being trialled to better capture tenant data, including the targeted rollout of Automated Meter Readings (AMR) across priority assets.
- Occupier engagement handbook: An internal framework was established for asset managers to support conversations with occupiers around ESG initiatives.

Case study
Enhancing engagement:
Aberystwyth University

Identify and engage

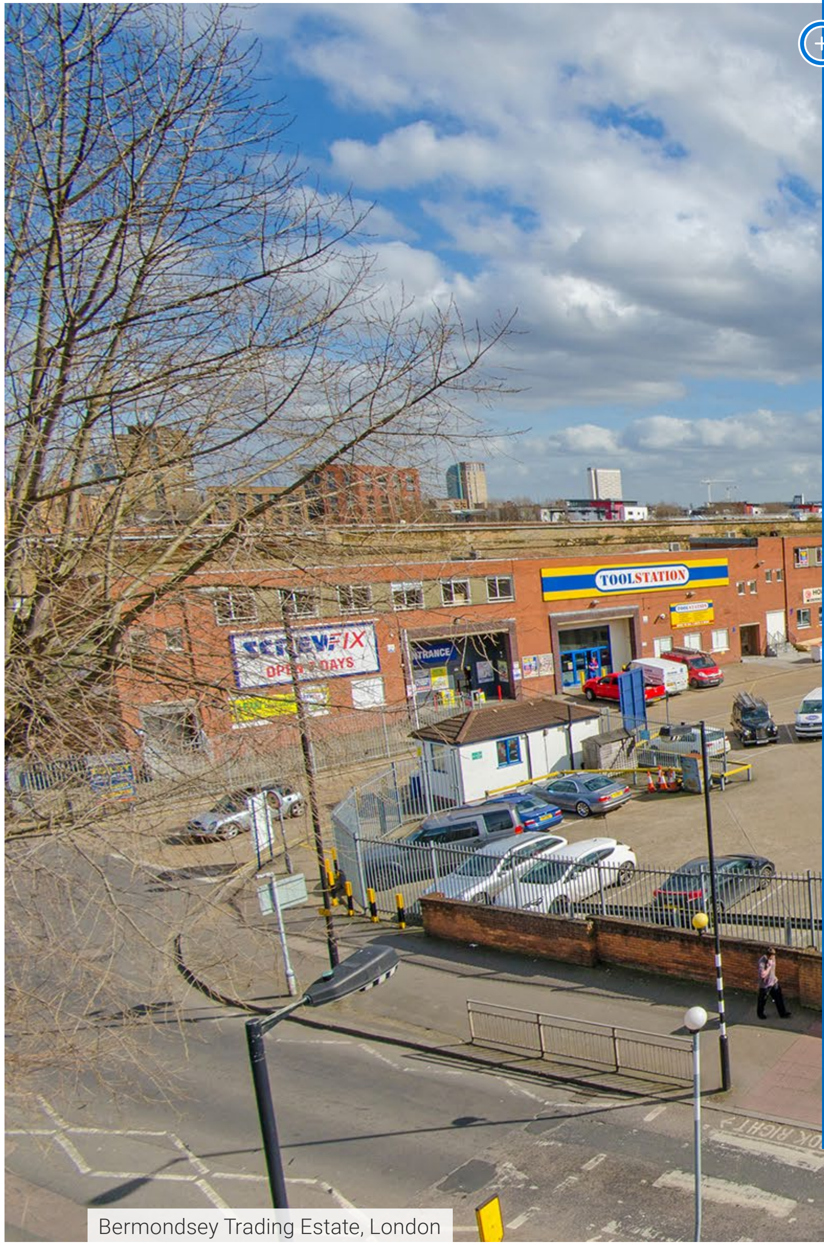
- We've been engaging with Aberystwyth University on its ESG goals since 2021, most notably its commitment to achieving net-zero carbon by 2030, in line with the Welsh Public Sector Roadmap.
- On-campus accommodation and amenities account for 20% of the university's overall energy consumption and are key to meeting its goals.
- This asset is also an example of a single-let Fully Repairing and Insuring (FRI) property, where the occupier is generally responsible for the procurement of own energy supplies and control of all site operations.

Deliver positive outcomes

- We've supported the university by connecting it with our network of specialist sustainability consultants. Together, they have developed a net-zero roadmap audit, as well as an implementation plan.

Six-pillar ecosystem

Support UN Sustainable Development Goals



Bermondsey Trading Estate, London

Case study

Occupier engagement:

Bermondsey Trading Estate

Identify and engage

- A pilot project for Bermondsey Trading Estate, London, saw the installation of data loggers (i.e., devices that record data over time) to capture and analyse the energy supply and demand profile of each occupier. Starting in 2019, we've used the information to increase knowledge of asset-level energy profiles and future-proof the power supply of assets.
- The project has been particularly pertinent given its location within the Ultra Low Emission Zone (ULEZ), which is likely to result in increased demand for electric vehicles (EVs).

Deliver positive outcomes

- For occupiers, the project provided information around methods of reducing energy consumption and power demand, the practicalities of EV rollout and recommendations for increasing use of renewables. This will help improve asset efficiency, while reducing costs and carbon emissions.
- This initial pilot is being rolled out more widely, with estates in ULEZ zones a priority.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Case study

Community engagement across our Build to Rent (BtR) assets

Identify and engage

- Community engagement initiatives have been rolled out across all BtR schemes, with each asset developing a curated programme, benefiting residents and local communities. Events are designed to appeal to a diverse group of people and cover themes such as wellbeing, active lifestyles, music and film.
- The 'Live Well' pop-up market showcases local sustainable business, offering sustainable products and services.
- Each asset supports one local homelessness charity, raising funds and organising volunteering opportunities for residents and the BtR management team.

Deliver positive outcomes

- Over 1,000 people and 50 business attended our Live Well pop-up market in 2021.
- The BtR management team completed 58 hours of volunteering for local charities and community projects in 2021. Additional donation drives were also run, including provision of interview attire for Smart Works, a charity supporting women returning to the workforce, as well as donations to local foodbanks through the Trussell Trust.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Measuring and benchmarking our ESG performance

We have further enhanced our ESG monitoring, analysis, and reporting across our real estate equity funds.

Our ESG data strategy is to achieve full platform data coverage, using automated data to provide real-time analytics. To help deliver on this objective, we are working with a number of key ESG data partners, who help us to monitor and analyse the energy, carbon and utility performance of our assets. Our data strategy will be a key enabler for us in achieving our net-zero commitments.

Since 2014, we have been a member of the Global Real Estate Sustainability Benchmark (GRESB). We submitted 17 funds for the 2022 assessment, for which we received an average GRESB score of 80. This was an improvement on our 2021 results and ahead of our peer group, which scored an average of 71 in 2022.

Carbon reporting

The table below demonstrates energy and emissions data across all real estate equity funds:

	2020	2021
Electricity (kWh)	53,095,906	50,581,844
Gas (kWh)	26,554,834	23,326,683
District Heating (kWh)	0	4,738,722
Scope 1 (tCO_2)[8]	4,883	4,273
Scope 2 (tCO_2) (location based)[9]	12,379	11,558
Total (Scope 1 and 2) emissions (tCO_2)	17,261	15,830
Scope 3 (estimate)[10]	N/A	N/A
Intensity ($kgCO_2/m^2$)[11]	2.2955	1.9270

Source: LGIM RA as at December 2021. (Latest figures available).

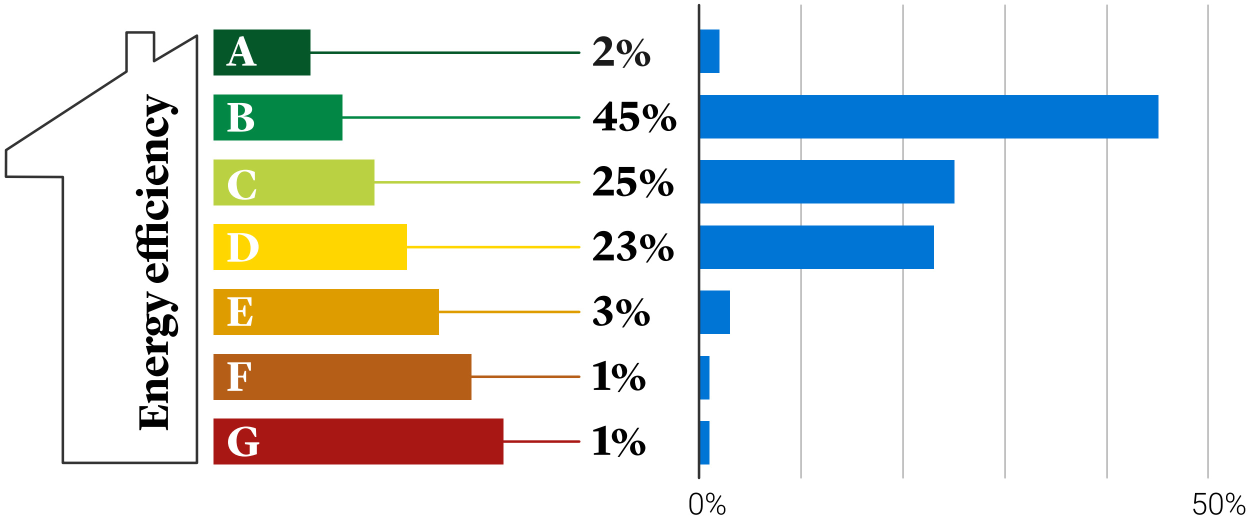
8. Gas carbon emissions are calculated using government conversion factors.
9. Electricity and District Heating carbon emissions are calculated using government conversion factors. Scope 2 emissions are location based for which we use UK national grid emission factors. All electricity purchased by LGIM RA is from 100% natural renewable sources, for which we possess REGO certificates.
10. Scope 3 emissions – The energy purchased by our occupiers represents our scope 3 emissions. We currently obtain only a limited amount of scope 3 data and therefore do not report it at present. We are working to improve the volume and quality of our scope 3 data and have established an occupier engagement programme and a range of new data collection and engagement tools to support this process.
11. Intensity figures are calculated by dividing the total scope 1 and 2 emissions by the total fund net lettable floor area.

EPC analysis

We conduct ongoing analysis of the EPC ratings of our assets, which is particularly important given expected changes to Minimum Energy Efficiency Standards (MEES) legislation.

This includes the proposed requirement for commercial buildings to meet EPC rating B by 2030, with a potential interim milestone of C by 2027. The current EPC distribution of our portfolio is outlined in the chart. There is an ongoing programme of work to ensure that all assets meet the new requirements by the relevant regulatory deadlines.

LGIM RA EPC coverage



Source: LGIM RA as at December 2021. EPCs are available for 99% of our assets.

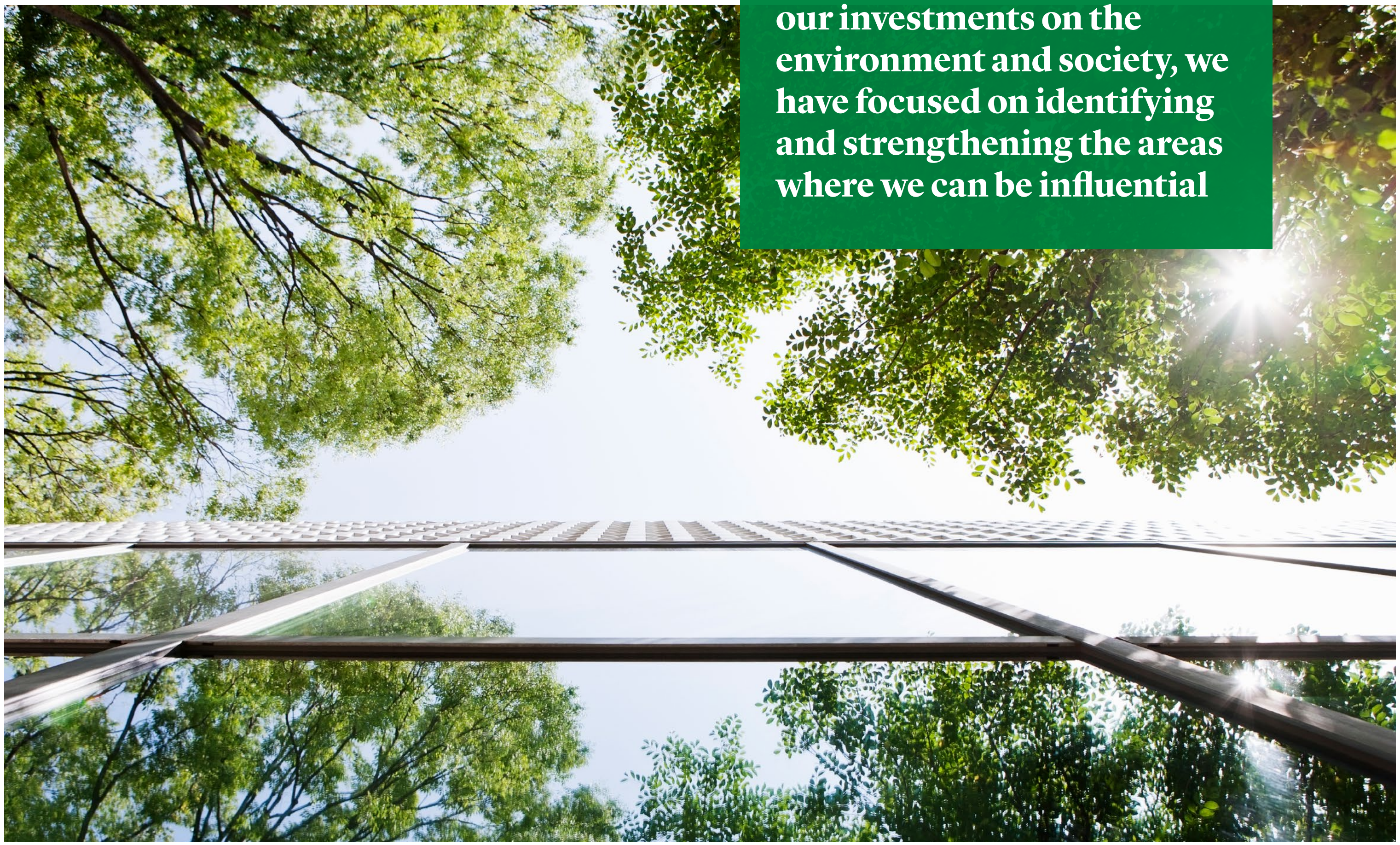
Private credit: increasing ESG influence

LGIM RA actively manages more than £14 billion[12] of private credit investments on behalf of L&G Group and other institutional clients across corporate, infrastructure, real estate, and alternative debt.

As a debt investor in private markets, it can be more challenging to exert ESG influence owing to data quality and consistency constraints and more restricted access to the underlying assets. To maximise the impact of our investments on the environment and society, we have focused on identifying and strengthening the areas where we can be influential, including our pre-investment assessment processes and our approach to engagement throughout the investment lifecycle.

We use case studies to demonstrate where our investments have been contributing to positive outcomes and outline our updated processes to strengthen ESG integration.

To maximise the impact of our investments on the environment and society, we have focused on identifying and strengthening the areas where we can be influential



12. Source: LGIM RA as at 30 June 2022. (GAV, including crossholdings).

Investments in sectors contributing to more positive outcomes

Investments in certain sectors provide opportunities to generate positive environmental and social outcomes for wider stakeholders.

This includes, but is not limited to, investments in renewable energy infrastructure, social and affordable housing, education, and healthcare. The below table outlines the assets under management (AUM) across these sectors and is followed by several illustrative case studies.

Housing associations and social housing:

£1.2 billion[13]

- Investments have been made into housing associations across the UK.
- In several cases, additional requirements have been included in the loan structure to incentivise the borrower to improve the energy efficiency of the housing stock ahead of UK government targets.
- This helps reduce fuel poverty risk for tenants.

Renewable energy:

£1.1 billion[13]

- Assets actively promoting decarbonisation remain key investments, including solar, wind and geothermal energy infrastructure, supporting the much-needed continued 'greening' of the grid.
- Other clean energy infrastructure investments, include smart networks and energy storage assets.

Education

£590 million[13]

- Financing has been provided for existing, and development of new, education facilities across the UK and US.
- Investments have mainly been in universities, with financing also provided to schools.
- In some cases, the loans are structured to support energy efficiency improvements of university buildings in line with their net-zero ambitions.

Healthcare and care homes

£610 million[13]

- Healthcare-related investments have been made across the UK and US, including financing for hospitals, healthcare education facilities, and care home providers.
- The portfolio includes a primary care facility with particularly strong ESG credentials, demonstrated through their community fund grant and ambitious net-zero commitments.

13. Source: LGIM RA as at 30 June 2022.

Landsvirkjun, Iceland

Case study

SDG-linked renewable energy generation

Landsvirkjun

Identify and engage

- The business has made three private corporate credit investments into Landsvirkjun, the largest renewable energy provider in Iceland. An initial green US private placement was followed by two additional investments, including an SDG-linked transaction.

- Landsvirkjun processes approximately 75% of all electricity used in Iceland. It produces electricity exclusively through clean methods: including hydropower plants, geothermal plants and wind turbines.

Deliver positive outcomes

- In addition to supporting the continued production of renewable energy, the SDG-linked transaction also helps to incentivise Landsvirkjun to reach its target of becoming carbon neutral by 2025.

- Performance is measured against a carbon sequestration target. The company has agreed to pay a higher margin if it misses this. It has also committed to being carbon negative by 2030, which is equivalent to offsetting all internal flights within Iceland.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Case study

Supporting the construction of six US schools

Identify and engage

- Financing to support the construction and operation of six new schools in Prince George's County, Maryland. It is believed to be one of the first public-private partnerships involving a public school system in the US and will provide much needed new education facilities to a rapidly growing county.
- The project will involve demolition of four ageing schools and simultaneous construction of six new schools, over an accelerated three-year period.

Deliver positive outcomes

- The new schools will provide a high-quality, modern learning environment for approximately 8,000 students in an area which currently has insufficient available student places.
- It is expected that Prince George's County will save over US$174 million in deferred maintenance and construction costs and provide economic stimulus for the county through the creation of more than 3,000 new jobs and an increase of 2% in local GDP.
- The project is also required to allocate at least 30% of the contract value to local and minority-owned businesses, which is expected to result in US$230 million of procurements.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Case study

Sustainability-linked blue bonds

Belize marine conservation

Identify and engage

- In 2021, we made our first commitment to a blue bond, supporting marine conservation in Belize. The government of Belize worked in partnership with The Nature Conservancy to restructure its external public debt, thereby significantly reducing the country's existing debt service costs, while also securing funding for marine conservation activities.

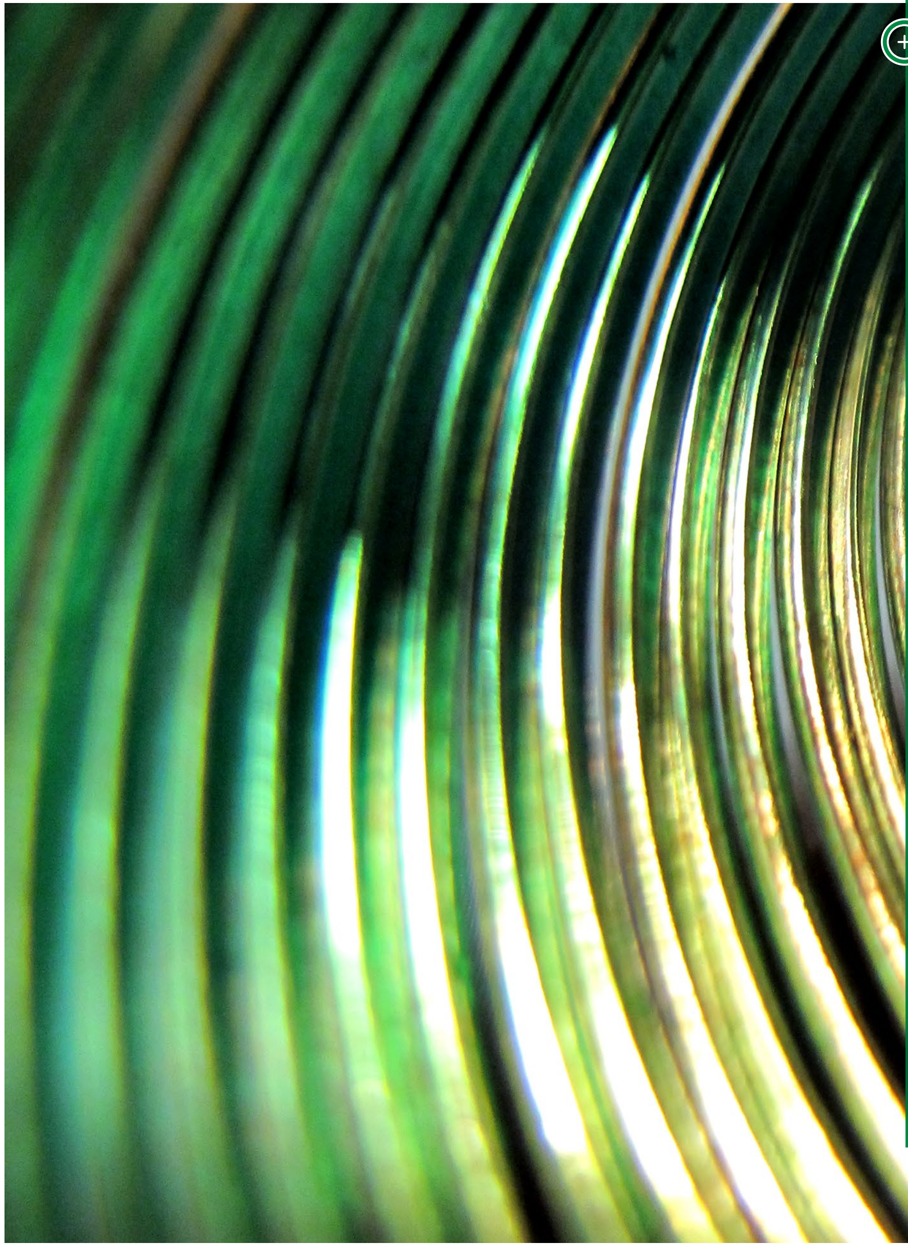
Deliver positive outcomes

- A proportion of the proceeds and interest payments of the loan will go towards protecting essential coastlines of Belize, which accommodate a rich biodiverse barrier reef – the second largest in the world and a UNESCO recognised world heritage site. The reef is also a key driver of Belize tourism, essential for the economy.

- Belize is targeting eight key milestones in relation to the marine conservation, including expanding biodiversity protection zones. In the event that it does not achieve these milestones, it will need to make increased payments to the conservation funding.

Six-pillar ecosystem

Support UN Sustainable Development Goals



Case study

Improving the UK's digital infrastructure

Identify and engage

- We provided financing to a fibre network infrastructure owner which supplies difficult-to-serve and previously underserved customers and communities with access to the highest speed broadband.
- This includes providing infrastructure to student accommodation in high-density student cities with multiple universities, and business parks in low-density areas. The network currently serves more than 250,000 end-users, including 220 university sites and 43 multi-tenant business park buildings.

Deliver positive outcomes

- Investment into fibre and digital infrastructure is essential to supporting the continued growth of sectors like education, technology and creative industries, particularly to those in underserved areas.
- This is even more pertinent in a post-COVID world where hybrid work, learning experiences and cloud services are considered the 'new normal'.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Embedding responsible investing across our key areas of influence

Our approach to ESG integration focuses on key areas where, we believe, we can deliver material change in our consideration of risks and opportunities.

We have continued to develop our pre- and post-investment ESG assessment and monitoring processes. This includes identifying new solutions to overcome data quality and disclosure challenges in private markets and align ESG reporting to industry best practice. We have also introduced new approaches to enhancing borrower engagement across the investment lifecycle.

Strengthening the ESG assessment framework

Our approach to ESG integration encompasses both ‘top-down’ and ‘bottom-up’ approach elements as outlined in our **responsible investment policy**.

- Top-down research identifies long-term, thematic shifts and structural changes
- Bottom-up analysis reviews material ESG factors specific to each transaction

Once an asset has passed an initial screening review, an ESG assessment is a key element of this bottom-up analysis, taking into consideration industry (or sub-industry) views and a more detailed assessment at the company/project level.

This process is informed by sector specific ESG assessment checklists, which have recently been enhanced to better reflect the materiality of different ESG-related indicators across the sectors in which we operate. These checklists are used to collect data to perform a more in-depth analysis, bringing together quantitative and qualitative indicators to reflect a full picture of the ESG risks and opportunities embedded within each company. It is then used on an ongoing basis for monitoring and engagement purposes. Questions vary according to sector or project, but examples include:

Decarbonisation strategy and targets:

What initiatives does the company have in place to reduce and manage the release of greenhouse gas (GHG) emissions?

Community engagement:

Does the company have any initiatives in place to consult and build relationships with the local community?

Board diversity:

What percentage of board members are female? What percentage of board members are from ethnic minorities?

The assessment checklists are also an essential component of our internal proprietary LGIM Active Universe ESG View, an ESG scoring tool. Although this applies primarily to listed companies, it is currently being adapted to enable ESG assessment of unlisted entities.

Cardiff Central Square

Enhancing borrower engagement

Effective engagement in private debt markets is one of the key levers to enacting real change.

Pre-investment, engagement can support the incorporation of ESG factors into deal structures by incentivising progress and targeting ESG-linked projects. Post-investment, it becomes the main lever for improving a borrower's ESG disclosure and credentials.

Improving data quality and coverage

Increased engagement with borrowers pre- and post-investment is being used to improve disclosure and drive more positive outcomes across the portfolio. This is particularly pertinent in private markets where there are challenges around data quality and consistency. To develop this further, rollout of the ESG assessment framework across existing borrowers and for all new investments is currently in progress. The key aims of this are to:

- Improve alignment of ESG data
- Identify key opportunities to better support borrowers on ESG data disclosure
- Streamline engagement with borrowers around ESG risks and opportunities
- Enable more detailed monitoring and reporting across ESG metrics post-investment at an asset and portfolio level

Collaborating with borrowers to embed ESG into transactions

We have worked with borrowers to incorporate ESG into deal structures, this includes the development of sustainability-linked loan structures and the incorporation of ESG reporting covenants.

Sustainability-linked loan structures incentivise a borrower to achieve specific sustainability related targets and have been used across several sectors, including to support housing associations with their net-zero transition.

Borrower engagement here is essential to identifying appropriate indicators and targets that provide a sufficient incentive and contribute to real world positive outcomes.

Green or social use of proceeds loans provide another opportunity for us to embed ESG into loan structures. We are also continually working with borrowers to incorporate ESG related disclosure covenants into loan structures, key to increasing quality and coverage of data disclosure.

We are also part of an industry-led working group formed to develop an infrastructure debt ESG covenant package. This is has allowed us to collaborate with the wider industry in pushing for greater disclosure and standardisation of ESG metrics for both borrowers and lenders.

Phoenix Community Housing, Lewisham

Case study

Borrower engagement:

ESG-linked loan with Phoenix Community Housing

Identify and engage

- We funded an ESG-linked private debt placement with Phoenix, a community housing association in Lewisham.
- Phoenix is the first housing association in London to use the Community Gateway Approach, which enables tenants to take a role in the decision-making of the association.
- They also have a proactive sustainability strategy, underpinned by a commitment towards achieving net-zero carbon by 2050. As part of its sustainability strategy, Phoenix plans to upgrade all properties to EPC C by 2030 in line with the target set by the government through a focused retrofitting agenda.

Deliver positive outcomes

- Proactive engagement with the borrower enabled us to create an innovative sustainability-linked structure, providing potential cost savings linked to decarbonisation targets set ahead of their original commitments. The targets that have been set are further and faster than those set out by the UK government and will speed up the provision of more cost-and energy-efficient homes. If the targets are not met within the agreed timeline, the borrower must allocate the cost savings towards energy efficiency works.

Six-pillar ecosystem

Support UN Sustainable Development Goals

Declining transactions due to ESG concerns

Through our **responsible investment policy** and the processes outlined here, we ensure that ESG criteria are incorporated into the investment decision-making process alongside credit quality, pricing, liquidity and other investment criteria. As such, ESG-related considerations have been highly influential in some of the decisions taken either prior to, or at, the investment committee stage.

- Some transactions have been declined as a direct result of perceived ESG risk in the past year. For example, one owing to its involvement in the tobacco industry and another because its carbon targets and transition plans significantly lagged sector targets and peers.
- In a number of other transactions, ESG has been cited as a significant contributing factor to a deal being declined, alongside other investment criteria. This includes some transactions in the aggregates and transport sectors, and some where key ESG-related documentation was not available.

Managing climate transition risk

To support analysis of, and response to, transition risk, carbon intensity is reviewed at both the asset and fund level to limit exposure to high-carbon assets. This ensures alignment with our responsible investment objectives and supporting a low-carbon transition.

At an asset level, carbon intensity is assessed as part of the investment committee process. LGIM RA has recently signed up to the Partnership for Carbon Accounting Financials (PCAF) and will be ensuring that our approach is aligned to this industry best practice.

Carbon intensity is also assessed within the context of portfolio-level carbon targets. While these targets vary by fund, a summary of recent target updates include:

- Investments on behalf of L&G Group are subject to carbon-intensity constraints aligned with net-zero decarbonisation targets, as outlined in L&G's **2021 Climate (TCFD) Report**. Constraints related to energy infrastructure assets were reviewed and strengthened last year, owing to increased risk of stranding as we transition towards net zero.

Integrating these measures into our investment decision-making enables us to align our portfolios with our commitment to support a low carbon economy and society.

“
Systemic change can only happen at scale and pace through active collaboration. We would like to thank our clients and partners for their continued support in our shared vision of a more resilient and sustainable future.
”

Bill Hughes
Global Head of Real Assets

Contact us

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

Key risks

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. Past performance is not a guide to the future. 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. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.