

JUNE 2023

The evolution of engagement

Expectations and realities in a
fast-changing world

Sonja Laud, CIO, LGIM

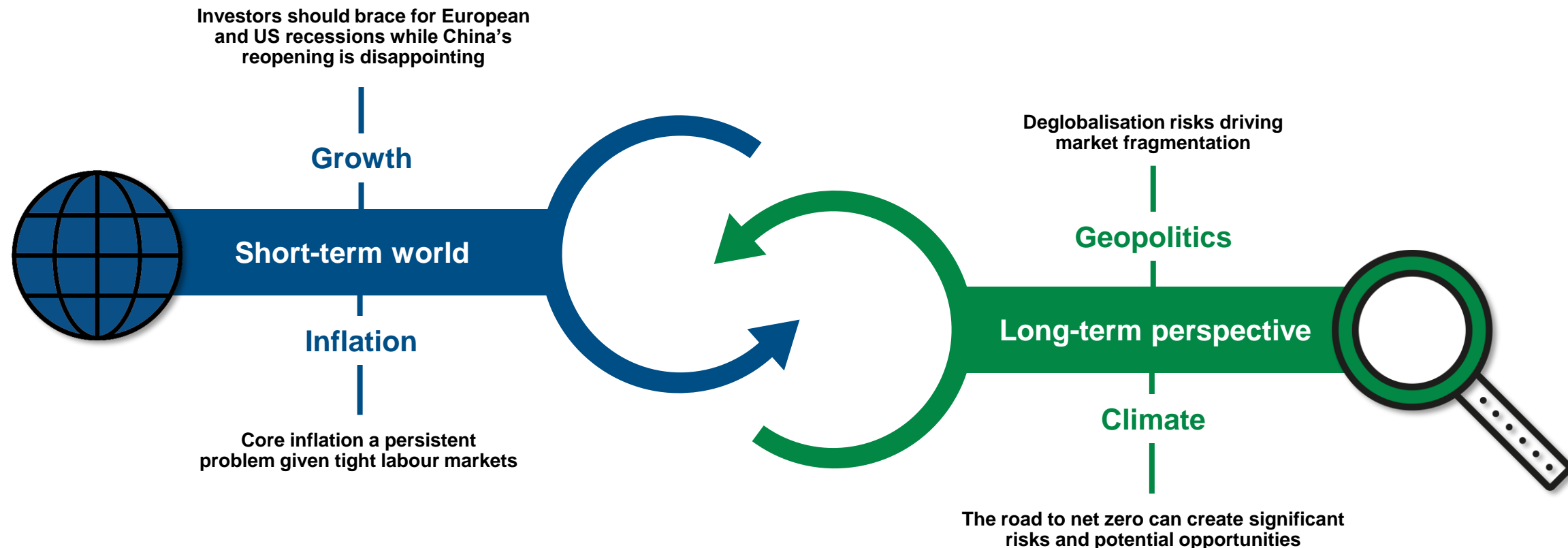


This is a marketing communication. Please refer to the prospectus of the fund and to the key investor information document before making any final investment decisions.

FOR PROFESSIONAL CLIENTS ONLY. NOT TO BE DISTRIBUTED TO RETAIL CLIENTS. CAPITAL AT RISK.

Navigating short-term signals with long-term perspective

We believe investors must contemplate the longer term impacts of possible deglobalisation and climate transition

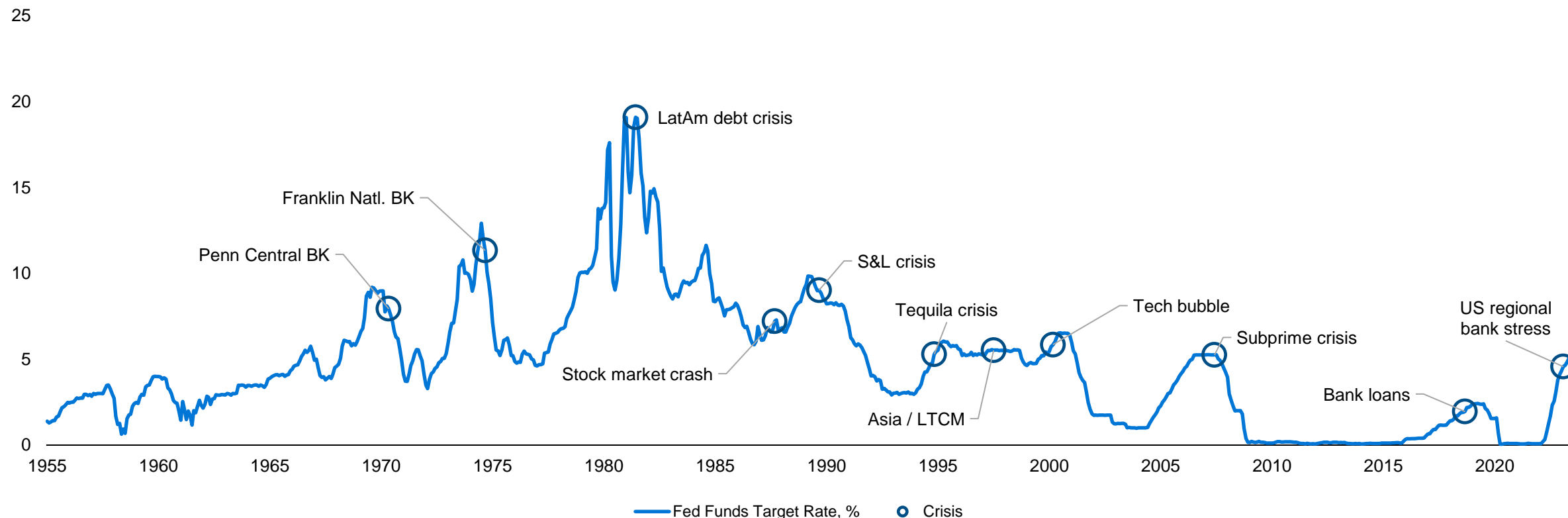


We believe recession risks and macro uncertainty are not well priced in markets

Central bank hiking cycles often collide with a crisis... or not?

The lags in monetary policy often expose unexpected problems, but policymakers have shown the willingness and ability to act to protect depositors and so far avert a major market crisis

Federal Reserve interest rates and financial market crises

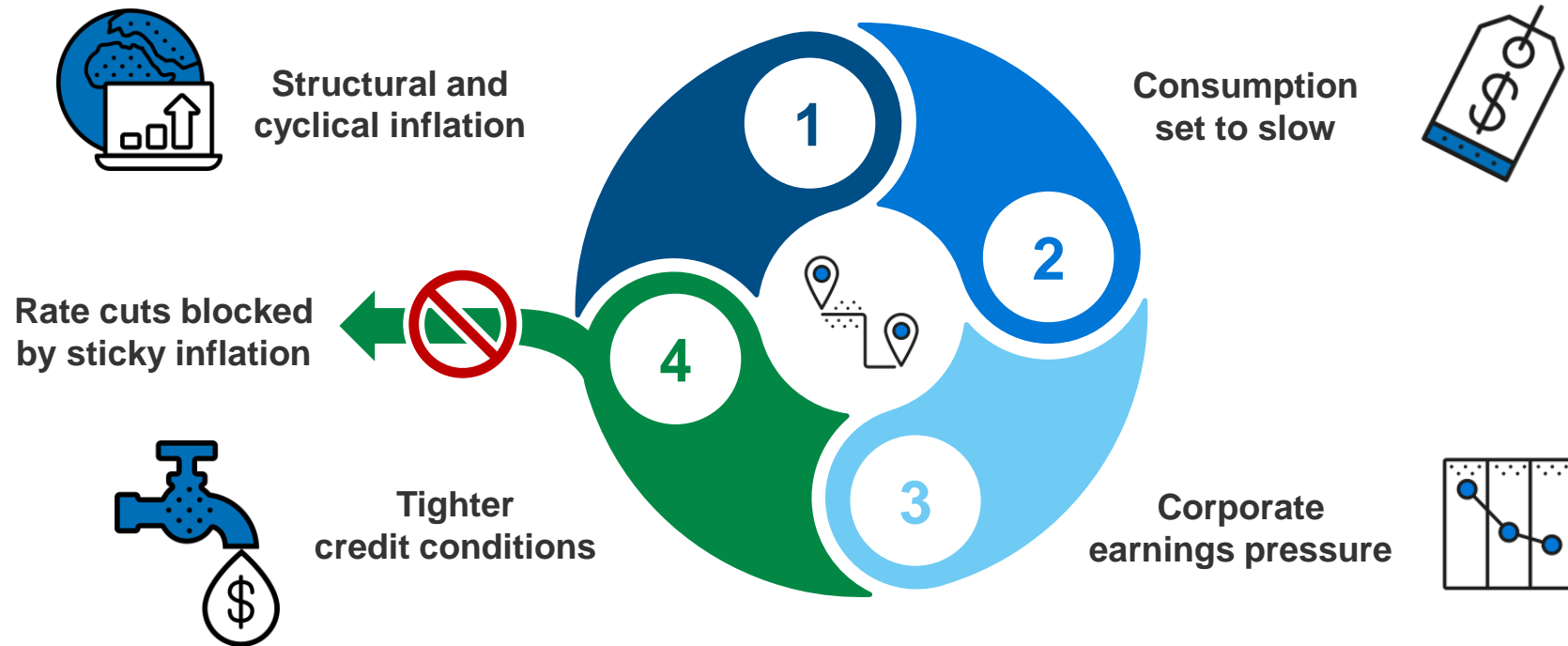


Source: LGIM, Bloomberg, as at 12 June 2023.

3 | **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.**

Inconclusive data points drive market narrative

Central banks walking a tightrope between squeezing out inflation and damaging economic growth

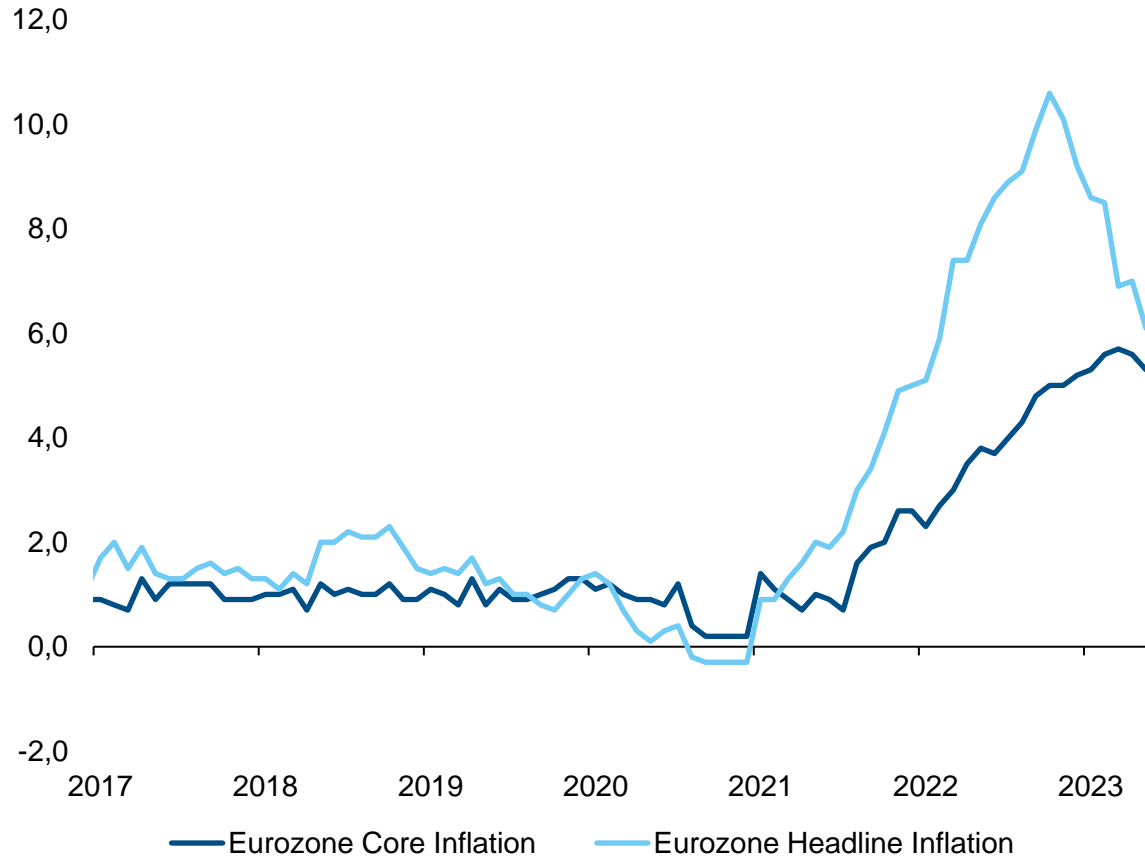


Conditions for stable earnings growth are absent, which we believe will ultimately falter and drive markets lower

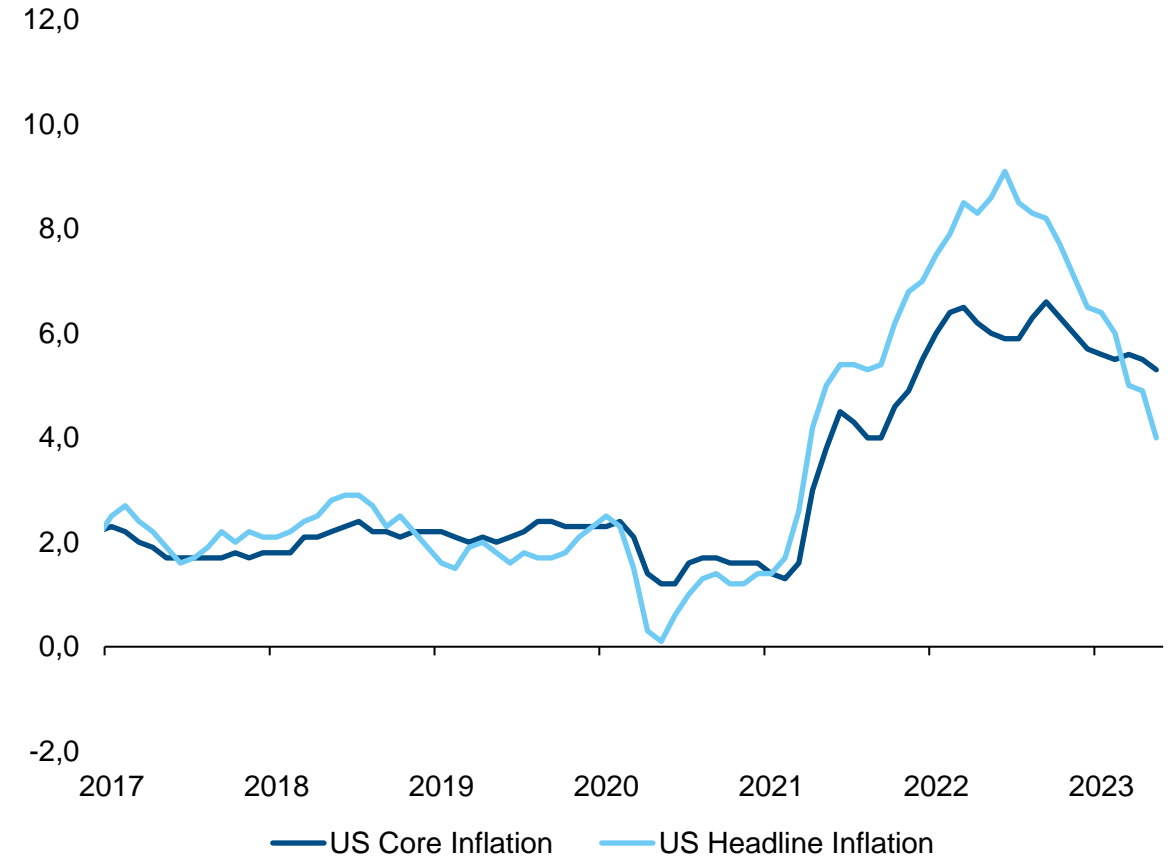
...and inflation? Sticky core despite peak in headline rate

Deceleration in core inflation is not coming through quickly enough to allow central banks to rest

Eurozone headline and core inflation



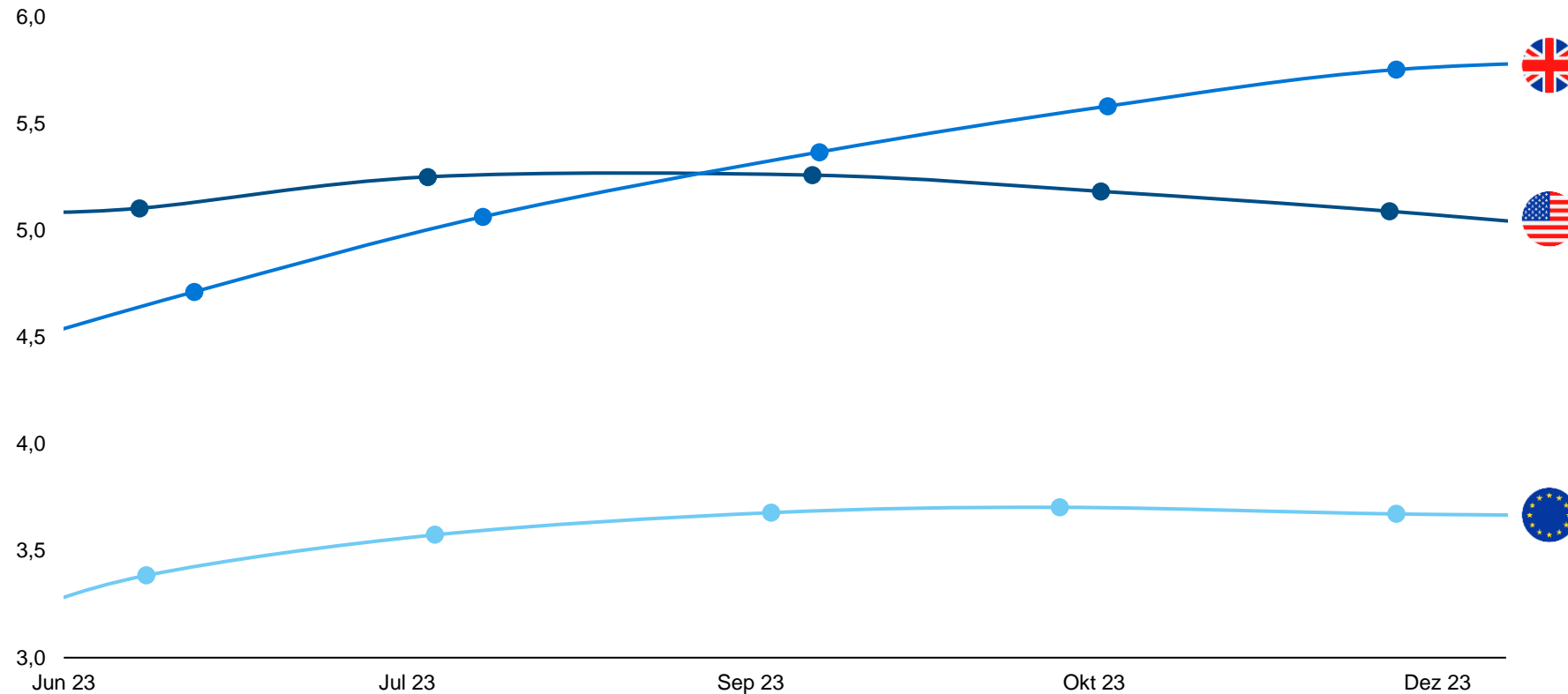
US headline and core inflation



Leading to more rate hikes expected

Central banks are conveying messages that rates will stay high as inflation remains comfortably above target

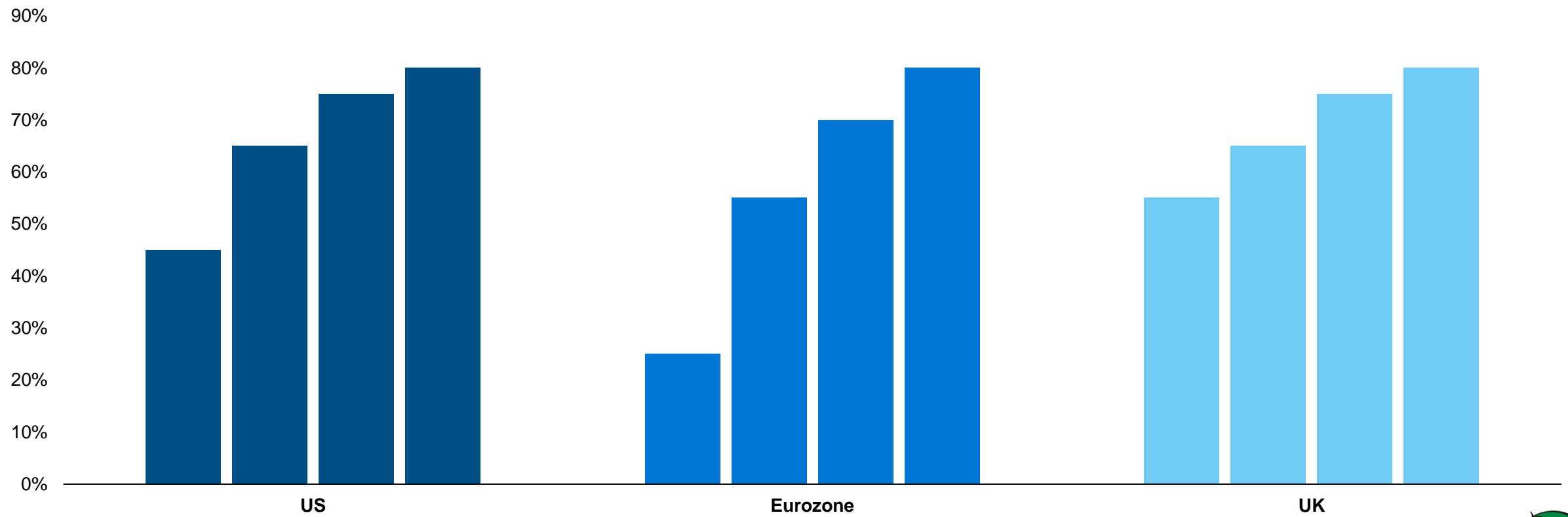
Implied regional interest rates



Avoiding recession would now be a significant positive surprise

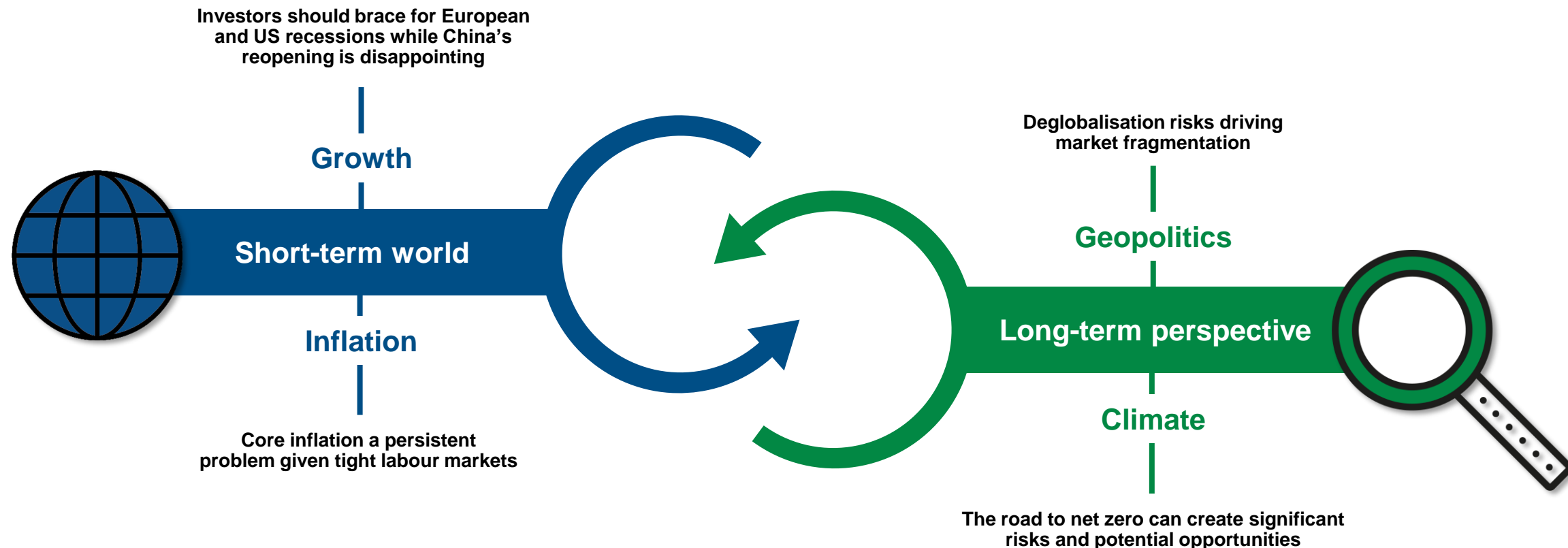
Both UK and Europe saw very mild recessions around turn of year. This does not matter for the forward-looking probabilities where medium term recession risks are high for all regions

Cumulative recession probabilities



Navigating short-term signals with long-term perspective

We believe investors must contemplate the longer term-impacts of possible deglobalisation and climate transition

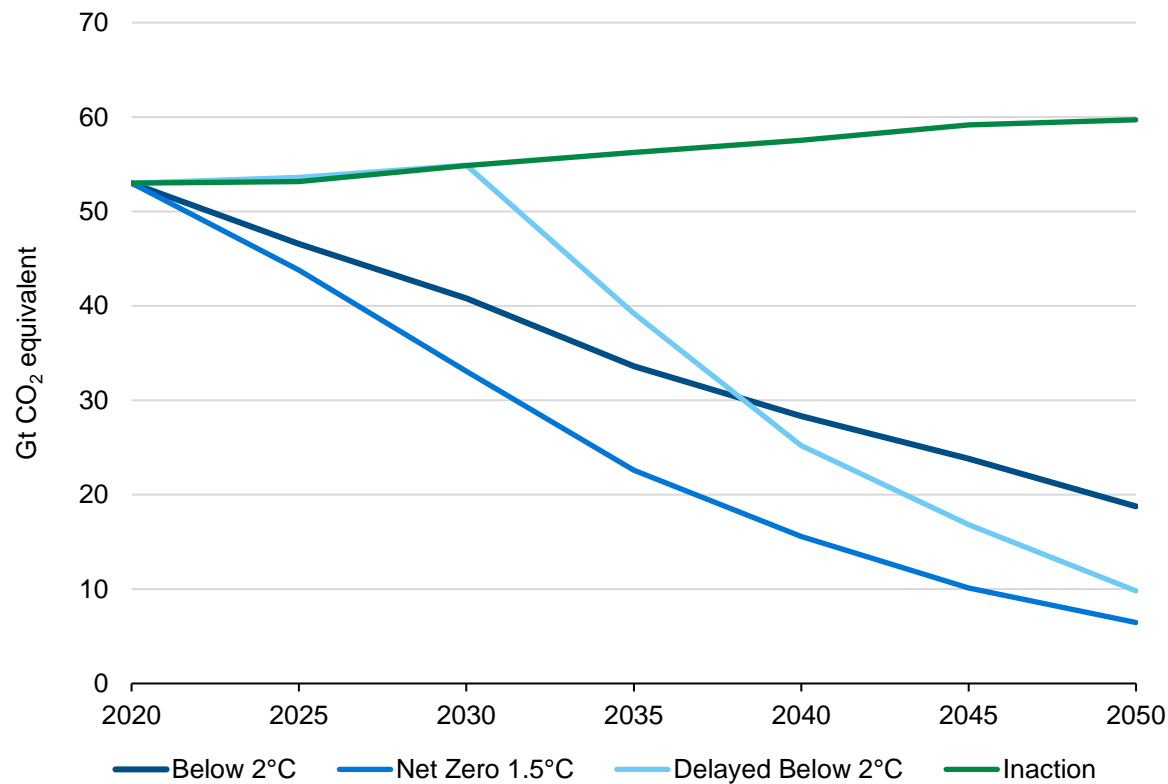


We believe recession risks and macro uncertainty are not well priced in markets

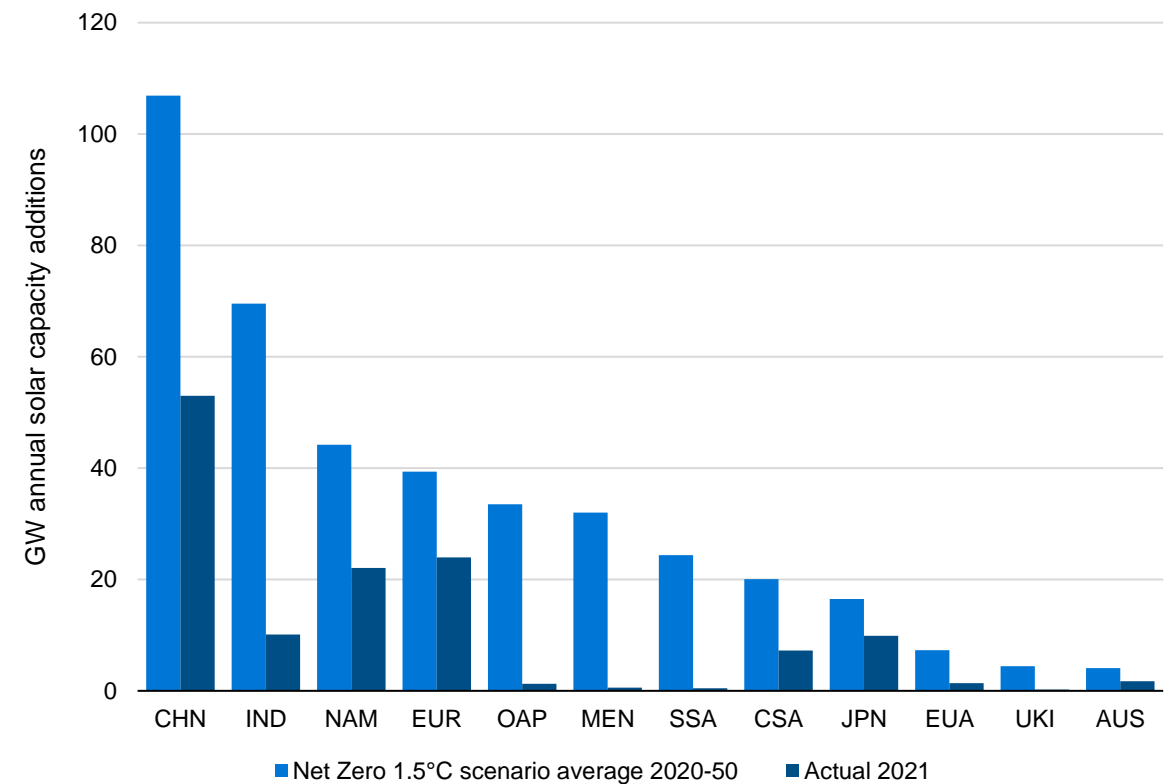
The problem statement: climate scenarios highlight the scale of the challenge

Ambitious climate targets are still feasible in our view – but time is running out to take meaningful action

Global greenhouse gas emissions must fall rapidly



Seismic shift required in renewable energy investments



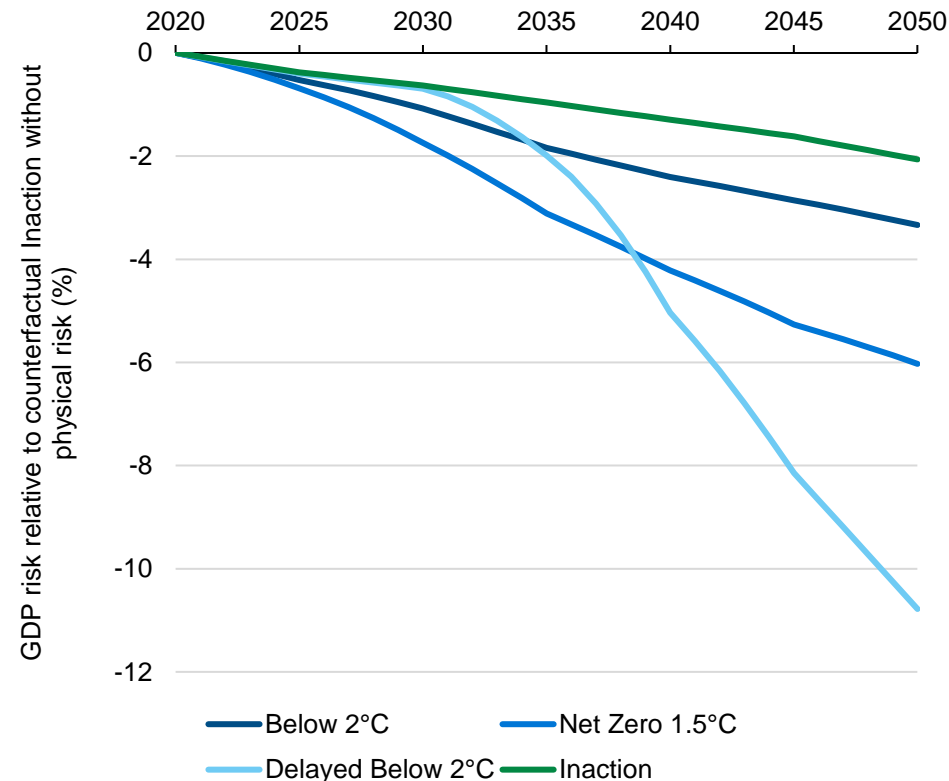
Source: LGIM Destination@Risk.

9 | Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

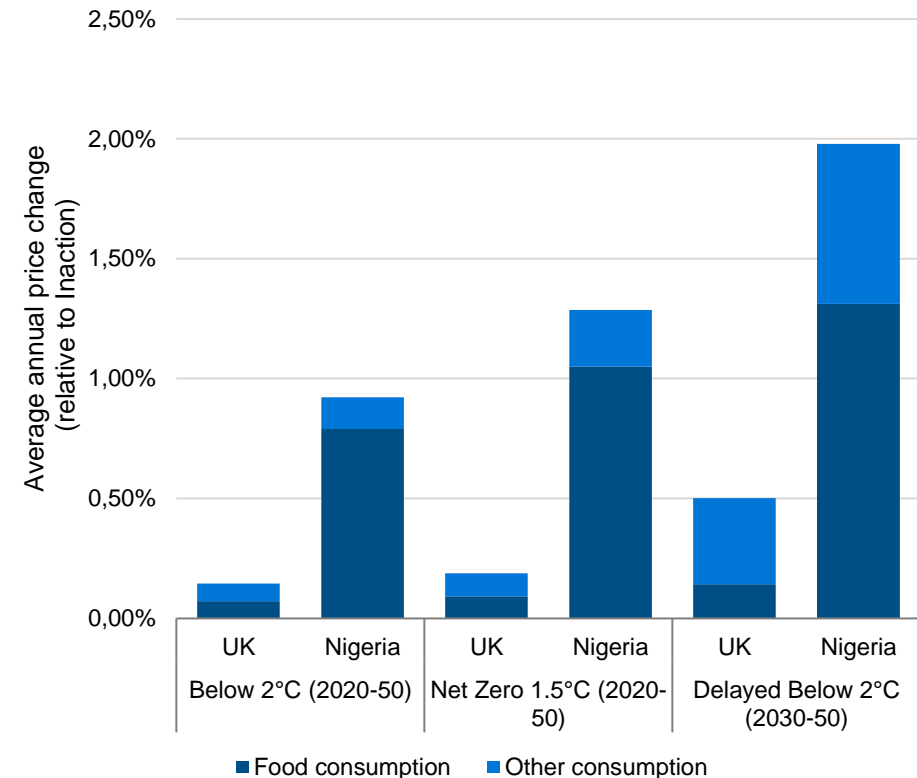
The longer the delay in climate action, the higher the cost

Emerging markets likely to be most exposed to both physical and transition risks according to our modelling

Delayed action is very economically costly



Climate risks are highest in emerging markets



Source: LGIM Destination@Risk

Note that the Inaction scenario is likely to result in much greater risk beyond 2050 as physical climate impacts worsen significantly compared to decarbonisation scenarios.

Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Regulation: rapidly changing but in desperate need of standardisation

Investors are still uncertain on how to align their portfolios and how to effect change in the real world

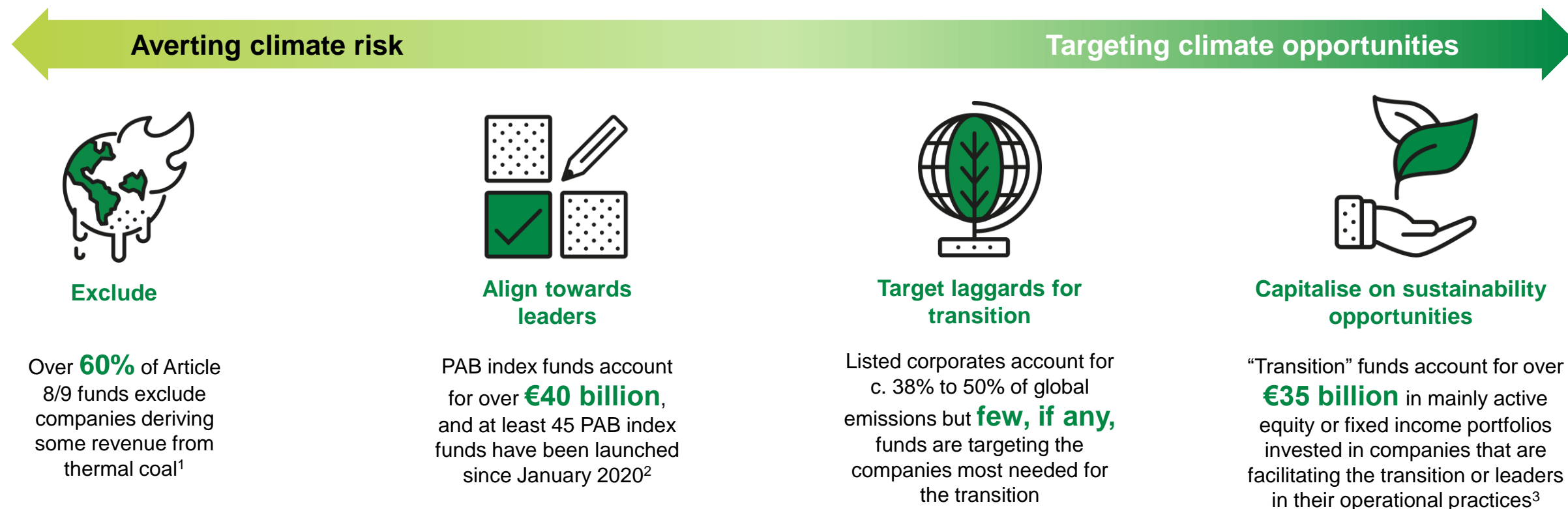
Medium term reduction targets	
PAII	< 10 year reduction target
NZAOA	40% - 60% reduction by 2030 (Listed corporates, infrastructure) 22% - 32% by 2025
SBTi	5 – 15 year reduction target
EU PAB	≥ 50% lower than investable universe 7% year-on-year reduction
Engagement with issuers on their net zero progress	
PAII	At least 70% of financed emissions in material sectors
NZAOA	20 companies with highest owned emissions, or 65% owned emissions
SBTi	Set target (at least 100% of investees to have SBT by 2040)
EU PAB	Not required

Increase investments in climate solutions	
PAII	< 10 year allocation target
NZAOA	Progress is expected
SBTi	Recommended but not required
EU PAB	Recommended but not required
Fossil fuel exclusions	
PAII	New thermal coal and oil sands
NZAOA	New thermal coal, oil and gas
SBTi	Thermal coal phaseout by 2030
EU PAB	Extraction & associated activities: hard coal, lignite, oil and gas Electricity generation: ≥ 50% GHG intensity ≥ 100g CO ₂ e/kWh

■ Paris-Aligned Investment Initiative
 ■ UN NZ Asset Owner Alliance
 ■ Science-Based Targets initiative
 ■ EU Paris-Aligned Benchmark

The client response: different approaches, none holistic

Current investment approaches ignore the largest emitters



Source: LGIM. **For illustrative purposes only.**

Note: Only funds with “transition” in their names were considered. AUM figures may not represent assets invested in thematic funds, such as renewable energy.

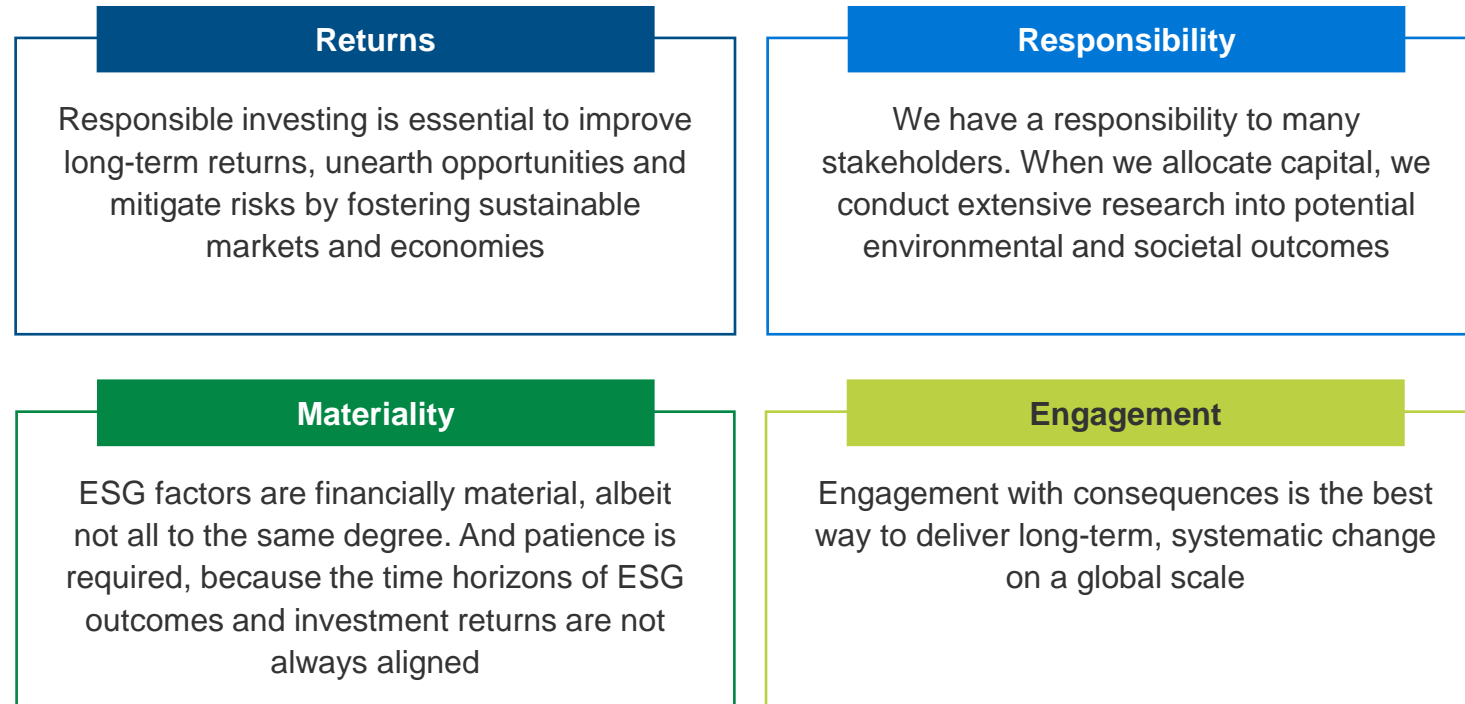
¹ Morningstar, “SFDR Article 8 and Article 9 Funds: Q4 2022 in Review”, 26 January 2023.

² Morningstar, as at January 2023

³ Morningstar, as at January 2023.

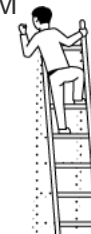
The responsibility of the asset manager

Responsible investing as the standard, adding a third dimension to achieve real world outcomes

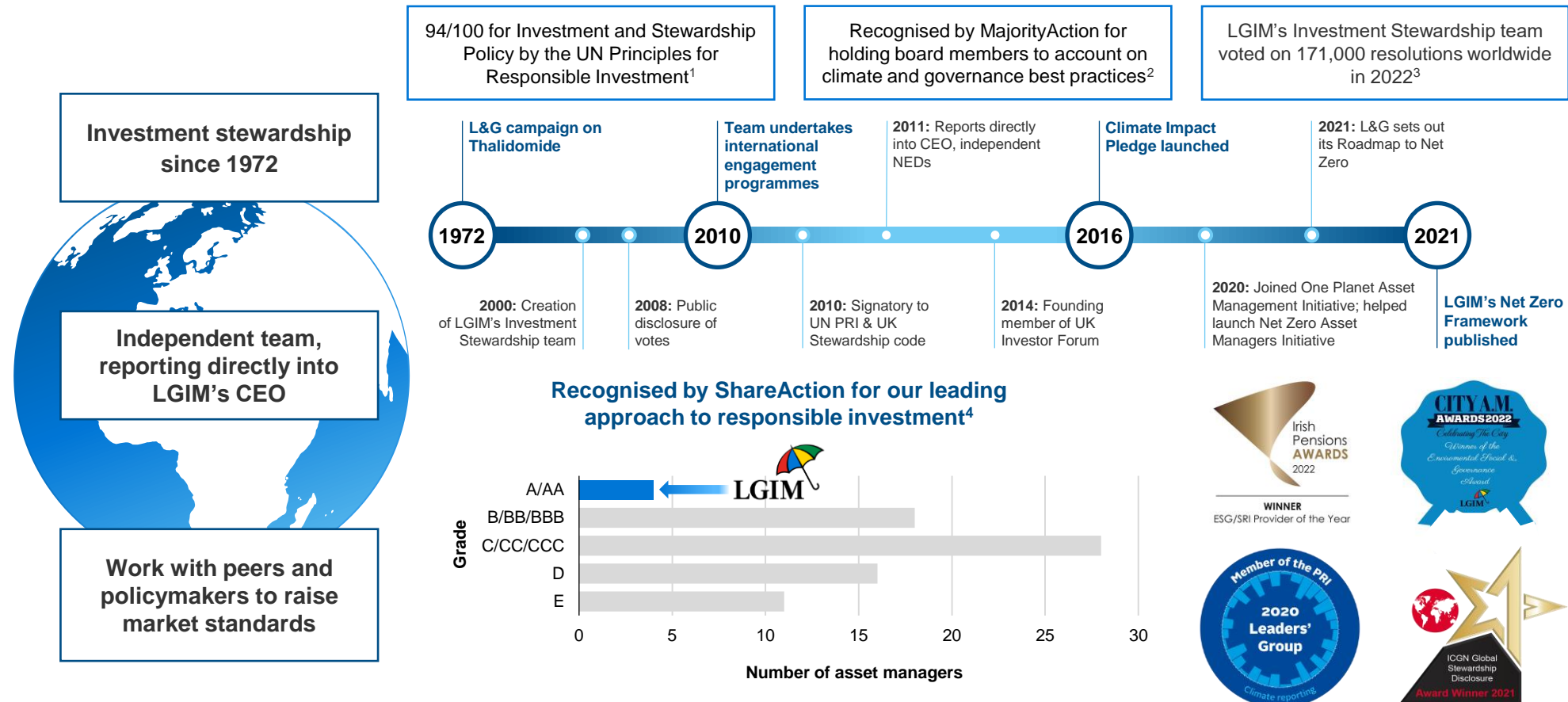


“We’ll continue to lead our industry in pushing for decisive action on era-defining issues, such as the climate emergency.”

Michelle Scrimgeour, CEO of LGIM



From the investment stewardship led 'universal ownership' approach...



¹ Source: UN PRI LGIM Assessment report, 2022: <https://www.lgim.com/landg-assets/lgim/capabilities/investment-stewardship/2021-assessment-report-for-legal-general-investment-management-holdings.pdf>

² Source: Majority Action, 2022: [MajorityAction_CA100_Report2022.pdf \(squarespace.com\)](https://www.majorityaction.com/CA100_Report2022.pdf)

³ Across all assets under management. Voting data on 126-133 represents voting instructions for our main FTSE pooled index funds. Source: LGIM, as at 31 December, 2022.

⁴ Source: ShareAction Point of No Returns 2023: https://api.shareaction.org/resources/reports/Point-of-No>Returns-2023-General-Findings_2023-03-01-115320_htgw.pdf

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. Awards should not be considered a recommendation. Past performance is not a guide to the future.

...towards a collaborative, holistic approach between Research, Stewardship and Investment teams...

Bringing together expertise to aim to deliver engagement-led investing strategies for our clients



Engagement-led investing: Climate Action strategy

Strategy focuses on decarbonising individual companies that are not transitioning fast enough



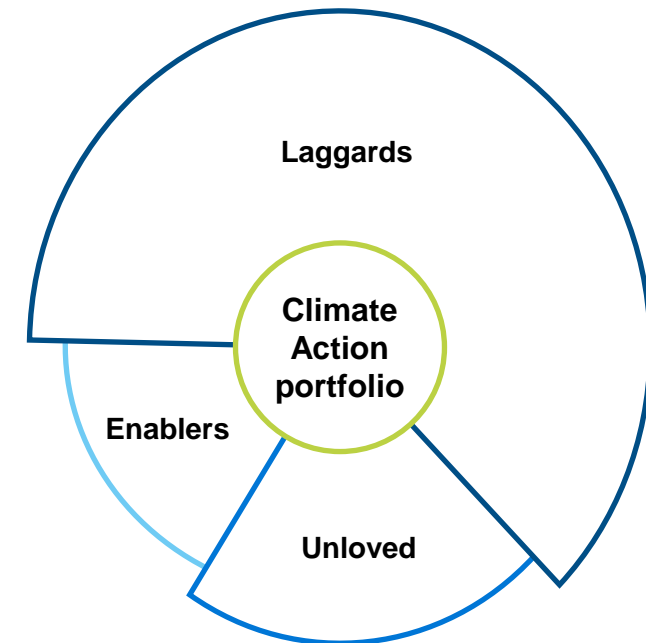
Positive long-term impact on carbon emissions through active engagement



Focused exposure to transitioning companies using our LGIM Destination@Risk model



Quantitative and qualitative investment process to manage risk and deliver returns



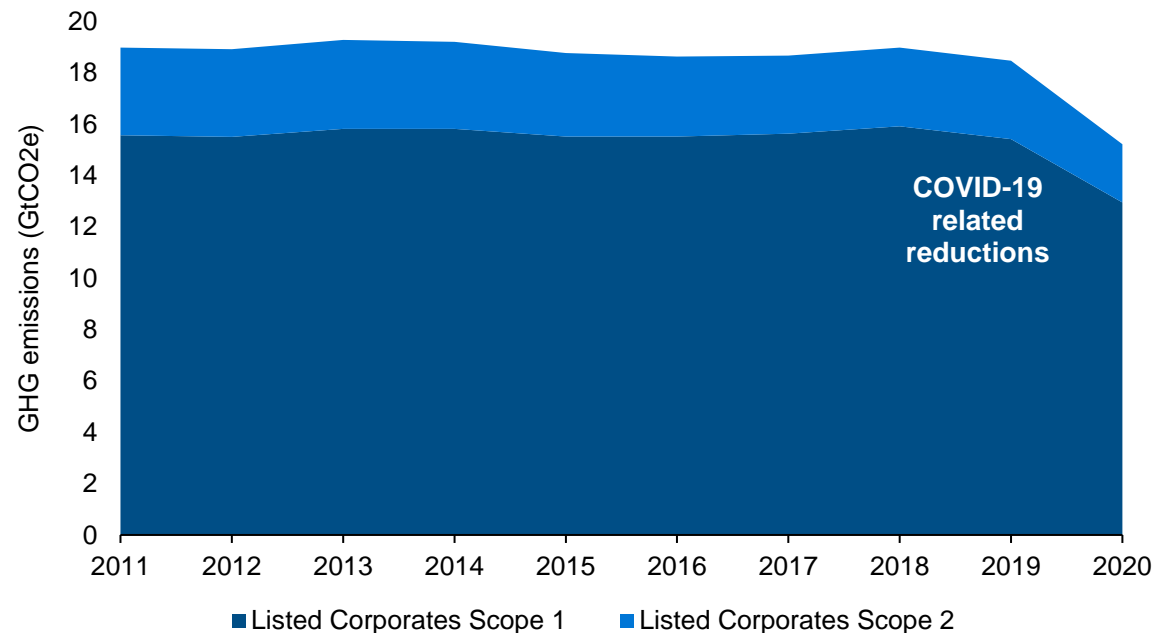
Assess companies based on:

Transition opportunity
Transition performance
Engage-ability
Valuation upside

Investment rationale

Laggards risk missing out on opportunities created by the transition and are at significant risk of financial loss if they do not adjust their trajectory

Total emissions have barely declined over the past decade, even including the impact of COVID-19



Only a minority of companies are decarbonising fast enough to meet the Paris goals

LGIM Destination@Risk analysis

Share of listed corporates' emissions	2011	2020	2030e
Aligned with above 2°C outcome	75%	83%	87%
Aligned with below 2°C outcome	25%	17%	13%

We estimate that the first order direct financial opportunity to investors in engaging with underperforming transition companies can unlock future value of between \$175 billion and \$290 billion USD by 2030¹

The process: identifying potential diamonds in the rough

Combining quantitative and qualitative inputs

Transition performance | Where is the company on its transition pathway?

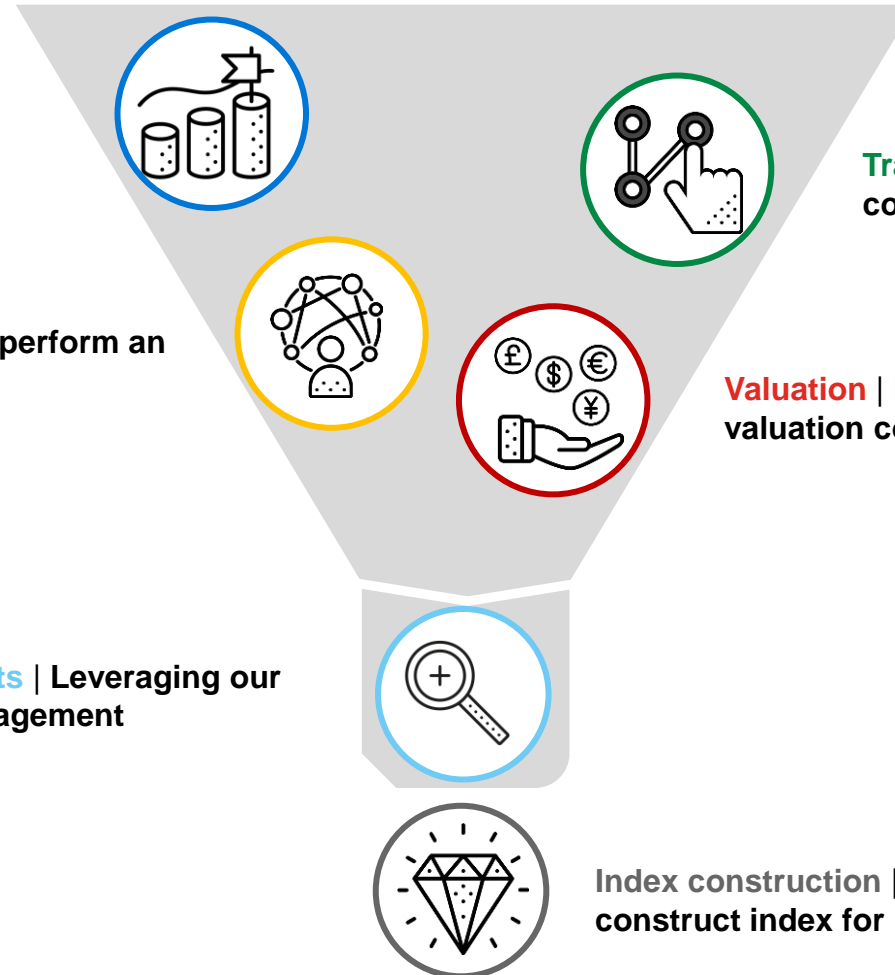
Engage-ability | Are we able to perform an effective engagement?

Qualitative insights | Leveraging our research and engagement

Transition opportunity | What is the size of the company's transition opportunity?

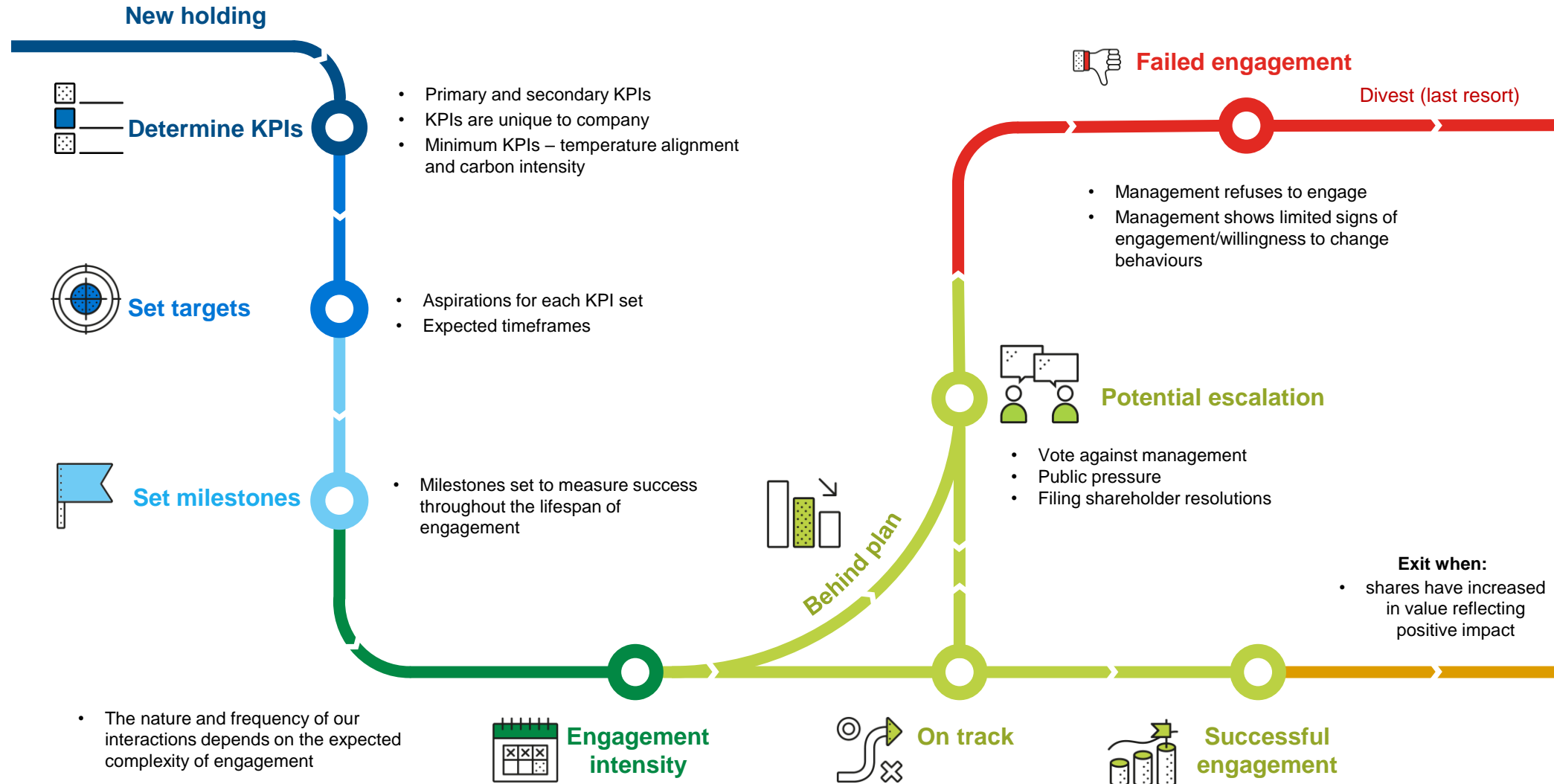
Valuation | How does the company's valuation compare?

Index construction | Optimisation to construct index for replication



Active engagement model

High-touch engagement aiming to deliver material improvement over three to five years



Legal & General Investment Management

LGIM Europe Disclaimer and important legal notice

The information contained in this document (the 'Information') has been prepared by LGIM Managers Europe Limited ('LGIM Europe'), or by its affiliates ('Legal & General', 'we' or 'us'). Such Information is the property and/or confidential information of Legal & General and may not be disclosed by you to any other person without the prior written consent of Legal & General.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the Information, or any other written or oral information made available in connection with this publication. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. No part of this or any other document or presentation provided by us shall be deemed to constitute 'proper advice' for the purposes of the Investment Intermediaries Act 1995 (as amended). Any limited initial advice given relating to professional services will be further discussed and negotiated in order to agree formal investment guidelines which will form part of written contractual terms between the parties.

Past performance is no guarantee of future results. 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.

The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission. A summary of investor rights associated with an investment in the Fund shall be available from www.lgim.com/investor_rights

The risks associated with each fund or investment strategy are set out in this publication, the relevant prospectus or investment management agreement (as applicable) and these should be read and understood before making any investment decisions. A copy of the English version of the prospectus of the Fund and the key investor information document relating to the Fund is available on lgim.com and may also be obtained from your Client Relationship Manager. Where required under national rules, the key investor information document will also be available in the local language of the relevant EEA Member State.

Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.

The Information is provided 'as is' and 'as available'. To the fullest extent permitted by law, Legal & General accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information. Without limiting the generality of the foregoing, Legal & General does not accept any liability for any indirect, special or consequential loss howsoever caused and, on any theory, or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised of the possibility of such loss.

A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.

Third Party Data:

Where this document contains third party data ('Third Party Data'), we cannot guarantee the accuracy, completeness or reliability of such Third-Party Data and accept no responsibility or liability whatsoever in respect of such Third-Party Data.

Legal & General Investment Management

LGIM Europe Disclaimer and important legal notice

Publication, Amendments and Updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you. Legal & General reserves the right to update this document and/or the Information at any time and without notice.

Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

Telephone Recording:

As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Central Bank of Ireland (or such successor from time to time)) and will be provided to you upon request.

In the United Kingdom and outside the European Economic Area, it is issued by Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.

In the European Economic Area, it is issued by LGIM Managers (Europe) Limited, authorised by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (S.I. No. 352 of 2011), as amended) and as an alternative investment fund manager with “top up” permissions which enable the firm to carry out certain additional MiFID investment services (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (S.I. No. 257 of 2013), as amended). Registered in Ireland with the Companies Registration Office (No. 609677). Registered Office: 70 Sir John Rogerson’s Quay, Dublin, 2, Ireland. Regulated by the Central Bank of Ireland (No. C173733).

LGIM Managers (Europe) Limited operates a branch network in the European Economic Area, which is subject to supervision by the Central Bank of Ireland. In Italy, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Commissione Nazionale per le società e la Borsa (“CONSOB”) and is registered with Banca d’Italia (no. 23978.0) with registered office at Via Uberto Visconti di Modrone, 15, 20122 Milan, (Companies’ Register no. MI - 2557936). In Sweden, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Swedish Financial Supervisory Authority (“SFSA”). In Germany, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the German Federal Financial Supervisory Authority (“BaFin”). In the Netherlands, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Dutch Authority for the Financial Markets (“AFM”) and it is included in the register held by the AFM and registered with the trade register of the Chamber of Commerce under number 74481231. Details about the full extent of our relevant authorisations and permissions are available from us upon request. For further information on our products (including the product prospectuses), please visit our website.