LGIM steps up pressure on companies to address climate change

- Engagement with consequences programme shows positive results with many companies and sectors, while ‘laggards’ are voted against and removed from the Future World Fund range

Legal & General Investment Management (LGIM) has today released its second annual ranking of climate change ‘leaders and laggards’, following engagement under its Climate Impact Pledge.

Introduced in 2016, the Climate Impact Pledge is LGIM’s commitment to engage with the largest companies across six sectors identified as key to meeting global climate change goals: oil and gas, mining, electric utilities, autos, food retail and financials.

This year’s results reveal improvements in the average scores of all six sectors, with sectors under most public scrutiny, such as oil and gas, utilities and autos, making great strides in disclosures and targets. The increase in average scores has also been seen across all the main regions analysed, including in the US, UK, Europe and Asia Pacific.

However, LGIM’s research also uncovered a significant divergence between the leaders and laggards within the same sectors, as well as signs of stagnation within sectors such as financials and food retailers. The divergence within the US is particularly stark as companies face a dichotomy between the federal stance on the Paris Agreement and other global, state-level and local initiatives to address climate issues.

Driving change through constructive dialogue and impactful results

Since 2018, public concern about the danger of climate change has risen to an even higher level, with alarming scientific evidence that reinforces the urgency of the issue.

LGIM reports fruitful dialogue with companies under the Pledge has led to tangible actions and changes in board-level discussions about building resilient strategies in the face of fast-changing political, technological and consumer trends. As part of LGIM’s responsibility as a constructive long-term investor, the Pledge aims to “name and fame” companies that have taken a lead in each of the sectors.

In June 2018, LGIM voted against and divested out of eight companies from the Future World fund range for persistent inaction to address climate risk. Since then, it has successfully engaged with all eight companies and, as a result of positive outcomes, Occidental Petroleum and Dominion Energy have been reinstated.

Despite the positive momentum, however, there remains more work to be done. Following LGIM’s updated assessment in 2019, five new companies will be voted against and divested from the Future World range due to unsatisfactory results: ExxonMobil Corporation, Hormel Foods, Korean Electric Power Corporation, Kroger and Metlife. These names are in addition to China Construction Bank, Rosneft Oil, Japan Post Holdings, Subaru, Loblaw and Sysco Corporation, all of whom remain engaged but who have yet to take the substantive actions to warrant re-instatement.

Meryam Omi, Head of Sustainability and Responsible Investment Strategy at LGIM said, “Our Climate Impact Pledge showcases that engagement can be a powerful tool if it is consequential. Talks without action are no longer fit for purpose given the urgency to address climate change. We are enormously encouraged by the progress made by many of the companies. Companies at the bottom
are catching up, while leaders continue to break new ground. But we know much more is needed, and will continue to push companies to build business models fit for a prosperous, sustainable future.”

-ENDS-

Notes to editors

The leaders and laggards

LGIM’s assessment takes into account a wide range of indicators, from governance structures through to business strategy, targets and lobbying activities, to get a well-rounded view of companies’ exposure to climate risks and opportunities. The over 80 companies covered by the Pledge include approximately half of the market capitalisation of six key sectors. Companies under the Pledge have been chosen due to their scale and public profile and their potential to raise the bar for their respective sectors. The ‘leaders and laggards’ include:

- **Oil and gas:** Equinor has agreed to provide more details around how its future investment plans in oil and gas exploration are consistent with the Paris Agreement. Royal Dutch Shell has adopted comprehensive emission targets, linked to executive pay, which include not just emissions from Shell’s operations, but also from the burning of its oil and gas products. Divestment candidate Exxon Mobil has not, however, met some of our key minimum requirements, including on emissions reporting and targets.

- **Mining:** In 2018 Rio Tinto became the first major miner to own no coal assets. This was followed by a step change in lobbying. BHP Billiton has similarly indicated that coal is to be ‘phased out, possibly sooner than expected’, with the company having ‘no appetite for growth in energy coal regardless of asset attractiveness’.

- **Electric utilities:** Xcel Energy is the first major US utility to announce plans to go 100% carbon-free, pledging to close its last coal plants a decade ahead of schedule. Korean Electric Power Corporation was the lowest scoring company in its sectors, particularly on measures of strategy and board composition. The company also showed a lack of willingness to engage and as a result has been divested from the Future World Fund range.

- **Autos:** Daimler has committed to a zero-emissions new car fleet by 2039. For its Mercedes subsidiary, it aims for EVs to make up half of total sales in little over a decade. An industry first, this is coupled with the introduction of targets for full carbon emissions. There have been no new company divestments in this sector, but Subaru remains amongst those companies divested from following last year’s rankings. Whilst it has shown a willingness to engage and has made a formal commitment to the Paris Agreement, there are still significant areas for improvement.

- **Food Retail:** LGIM commends Danone and General Mills for adopting comprehensive emissions targets. The sector has however made up a significant proportion of both last year’s and this year’s divestment candidates, amid concern that it is failing to show strategic awareness of the risks associated with climate change. Hormel Foods and Kroger are among the names divested from this year, following low scores on governance and strategy and a lack of engagement. Sysco and Loblaw will remain divested from, with substantive changes still required.

- **Financials:** A number of companies are making positive improvements. Westpac, Citigroup, Commonwealth Bank of Australia and BNP Paribas are piloting climate change scenario analysis, with insurers Axa and Allianz also conducting scenario analysis on assets as well as introducing stringent restrictions on coal investments and insurance. Metlife is among the
divestment candidates in this year’s ranking following no response to engagement attempts, low scores in most categories of assessment, lack of robust climate governance, poor risk disclosure and limited visibility over climate related opportunities. Both China Construction Bank and Japan Post Holdings will remain divested from due to a lack of sufficient disclosures on high-carbon sectors and emissions.

Further information:

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Notes to editors

Legal & General Investment Management:

Legal & General Investment Management is one of Europe’s largest asset managers and a major global investor, with total assets under management of £1trillion¹. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

¹LGIM internal data as at 31 December 2018. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.