



# MASTERTRUST

Independent Board of Trustees

Legal & General WorkSave Mastertrust

## Climate Policy

October 2021

## Introduction

Climate change is one of the world's most significant challenges and addressing it is a key responsibility for this generation. Scientific evidence illustrates that we need to act now to reduce carbon emissions to avoid disastrous consequences for our environment and our economies.

This report summarises the trustees' policy around climate change and describes how we comply with the new climate-related regulations introduced by the Taskforce for Climate Related Financial Disclosures (TCFD) prior to publication of our first TCFD report next year.

We've set out the investment principles for both the Legal & General WorkSave Mastertrust and Legal & General WorkSave (RAS) Mastertrust in one document. The term 'Mastertrust' refers to both arrangements.

We consider that climate change represents a material financial risk to the Mastertrust as it has the potential to disrupt economic, financial and social systems. The impact of this risk is currently unknown as it depends on a number of factors including government policy and our approach in this fast-moving area will develop accordingly.

## Objectives

The Mastertrust's objective is to reduce the likelihood that climate-related risks impact on the value or performance of the scheme's assets. Our long-term goal is for 100% of sole governance default assets to be compatible with the net zero emissions ambition by 2050 or earlier, in line with the Paris Agreement. Under the Paris Agreement global leaders have agreed to keep global temperatures to well below 2°C above pre-industrial levels.

To meet this objective the trustees will:

- Assess their portfolio on climate change risk where it is practical to do so and incorporate this into its investment decision making process.
- Monitor and review fund managers in relation to their beliefs on climate change approach and policies.
- Participate in collective initiatives collaborating with other investors.

## Climate-related investment beliefs

To support this objective, we've set out the beliefs that are factored into the operation of the Mastertrust below:

- 1. Climate change, and its direct and indirect impact, poses a significant macro-economic risk for long-term investors.**
- 2. In the long term, investments which consider a range of environmental, social and governance (ESG) factors, including climate change, will likely be more able to manage risk and maximise opportunities without compromising returns.**
- 3. Climate risk is a significant risk which should be taken into account to ensure all risks and opportunities are captured in terms of the impact on investments.** The trustees look at environmental issues and climate forms part of that.
- 4. The varying timeframes within which the effects of climate change materialise can mean that the risk implications are often sector and region-specific, and ultimately dependent on the type of the portfolio.**

As such, the climate-related risks and opportunities may differ across the default arrangements, depending on asset allocation and stage of retirement journey.

- 5. Stewardship of assets is critical.** The trustees believe that a policy of engagement with companies to manage expectation and encourage change is preferable to a policy of divestment. However, we recognise that there may be circumstances where divestment is appropriate where engagement has not produced the desired impact.

## Oversight of climate-related risks and opportunities

In support of these beliefs the trustees undertake the following activities:

- Ask that their investment managers integrate ESG issues into their investment processes, covering the selection, retention and realisation of investments. This is to better assess the long-term sustainability of the performance of companies in which our members' savings will be invested.
- Identify climate-related risks, including physical and transition risks, and climate-related opportunities. They also identify the impact these risks and opportunities will have on the scheme's investments. This is ongoing and review of the risks and opportunities takes place every year as part of the disclosure process, and as a constant part of the fund monitoring process.
- Receive regular updates on the work asset managers are doing regarding their stewardship activities. In relation to LGIM, this includes reviewing climate risks and opportunities affecting key companies, sectors and regions in the portfolio as a whole and also in each popular investment strategy. We also request regular updates from external fund managers, where a minority of our funds are invested, on their approach.
- Have committed to reach net zero across our sole governance default strategies and will monitor climate-related risks over the relevant short, medium and long-term horizons. As set out in our roadmap to net zero we intend to use five and 10 year targets for the reduction of the carbon emissions intensity of the default funds (to be rolled forward every five years),

against an overarching objective of net zero by 2050 (30 years). A five-year horizon is sufficiently tangible to operate effectively as a planning horizon – to set out goals, establish a plan to implement and review at least annually the progress towards those goals. Find out more here: [L&G Workplace Pensions and L&G Mastertrust set out roadmap to net zero by 2050: Legal & General \(legalandgeneralgroup.com\)](https://www.legalandgeneral.com/insights/workplace-pensions-and-mastertrust-set-out-roadmap-to-net-zero-by-2050)

- Will measure the carbon exposure of the Mastertrust's portfolio. The trustees are developing the metrics they will use as measurements and reports will be provided to our Investment Committee (IC) regularly and discussed annually by our Trustee Board.
- Have reviewed and updated their trustee governance processes to ensure that the management of climate-related risks and opportunities (CRRO) is embedded within all their decision making. As part of this review the Trustee Board has delegated the identification and monitoring of CRRO to the IC. The IC will receive regular reports to support them in fulfilling this role but will escalate the approval of CRRO to the Board, who will then subsequently receive a climate update at least annually.

The IC shall have responsibility to determine current and new risks and opportunities with the support of Legal & General Investment Management (LGIM), the Investment Consultant and external fund managers. The IC will need to assess CRRO in each popular strategy over the short (e.g. five years), medium (e.g. 10 years) and long-term (e.g. 30 years). The IC will undertake the necessary work to establish and determine how the risks will be monitored and assessed on an ongoing basis, as well as ensuring they are provided adequate reporting and analysis. The IC will recommend any changes and updates to the Board for approval.

- Have undertaken additional training on ESG and climate to ensure they can sufficiently manage the approach of their investment managers in this important area. Maintenance of knowledge will continue to be monitored and include annual training for the full Trustee Board. The trustees have also added the following two items to their board skills matrix to support them in ensuring they continue to have sufficient knowledge and understanding in this area:
  - Awareness and understanding of the identification, assessment and management of the risks and opportunities relating to climate change and other ESG factors.
  - Awareness and understanding of the principles and recommendations of the Task Force for Climate Related Financial Disclosures (TCFD), including the ways in which The Pensions Regulator expects those principles and recommendations to be applied to large UK pension schemes, and have set their investment adviser objectives which include managing climate-related risks and opportunities.
- Have adopted and will maintain and evolve our processes for identifying, assessing, and managing climate-related risks, integrating these risks into our overall risk framework.

We expect employers who have shared governance (bespoke) arrangements to consider the principles outlined in this document when reviewing and recommending any changes to their bespoke investment strategies. For each shared governance popular strategy, the trustees plan to ask the employer and its investment adviser to explain what approach is taken on climate-related risks and opportunities in the investment funds that are used in the section. The trustees and their investment adviser take that explanation into account in their review and approval of the funds that are used in each new or changed shared governance section.

The trustees plan to ask each employer and its investment adviser to update their explanation every three years. The trustees and the Mastertrust's investment adviser will consider the most recent update in their periodic reviews of each section's investment funds, and in their overall analysis of the Mastertrust's approach to climate-related risks and opportunities.

### **Monitoring/Reporting**

The trustees recognise that the monitoring and assessment of exposure to climate-related risks is developing and the metrics and tools available to us may evolve. We will monitor changes in market practice to ensure that we are aware of changing best practice.

The trustees will monitor exposure to climate-related risks within their portfolios on an annual basis, considering exposure to carbon reserves, overall carbon intensity and alignment with future climate scenarios.

The trustees will report on progress on actions undertaken to address climate risk in line with the framework set out by the Taskforce for Climate Related Financial Disclosures. We intend that our first report will be in respect of the 2020/21 scheme year.

In maintaining and acting on this policy, the trustees will take advice from the Mastertrust's investment adviser and maintain a dialogue with the investment managers.

### **Transparency**

The trustees will publish details of their activities in relation to climate-related risks at [Legal & General - Mastertrust \(legalandgeneral.com\)](https://www.legalandgeneral.com)