Sustainability Report

For the year ending 5 April 2024

Legal & General WorkSave Mastertrust

Legal & General WorkSave (RAS) Mastertrust

Legal & General

MASTERTRUST

Independent Board of Trustees

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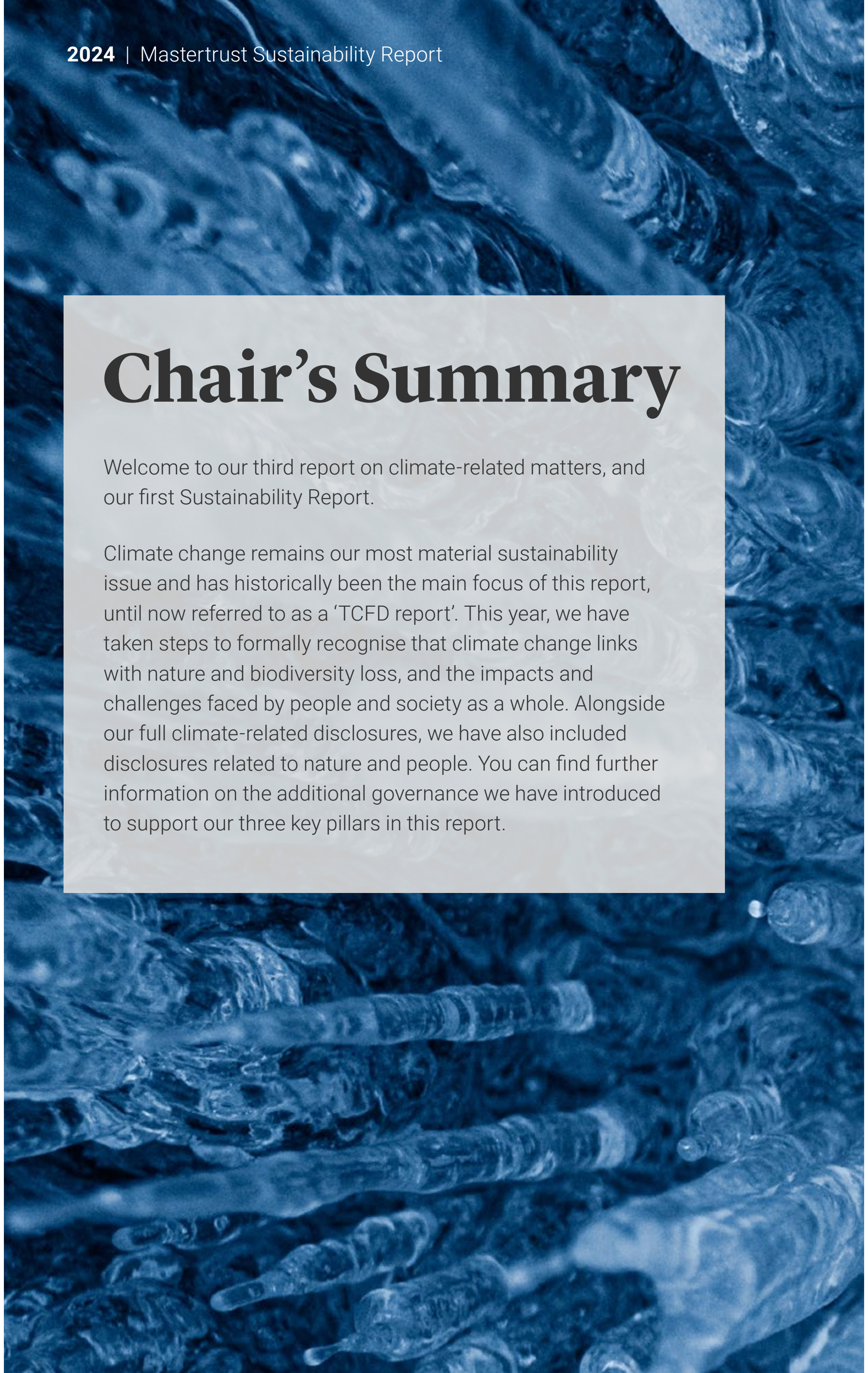
This report has been produced in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). TCFD reporting was established to develop consistent climate-related financial disclosures and designed to improve transparency of how companies, asset managers, asset owners, banks and insurance companies manage their climate-related risks and opportunities. We have used this framework to discuss broader sustainability-related risks and opportunities.

This report covers the reporting period 6 April 2023 to 5 April 2024.

Where we use the term 'Mastertrust' we are referring to both the Legal & General WorkSave Mastertrust and the Legal & General WorkSave (RAS) Mastertrust.

In writing this report the Trustees have engaged with and relied upon information provided by Legal & General's asset management division as our investment manager, Legal & General as the provider, and Hymans Robertson as our independent investment adviser. We have also received guidance from Lane Clark & Peacock (LCP) as part of a review of best practice.

The Chair's Summary provides an overview of this year's assessment, and the rest of the report explains in technical detail the research and analysis that we have considered. If you have any questions about any aspect of the issues raised, please email us at mastertrust_trustees@lgim.com



Chair's Summary

Welcome to our third report on climate-related matters, and our first Sustainability Report.

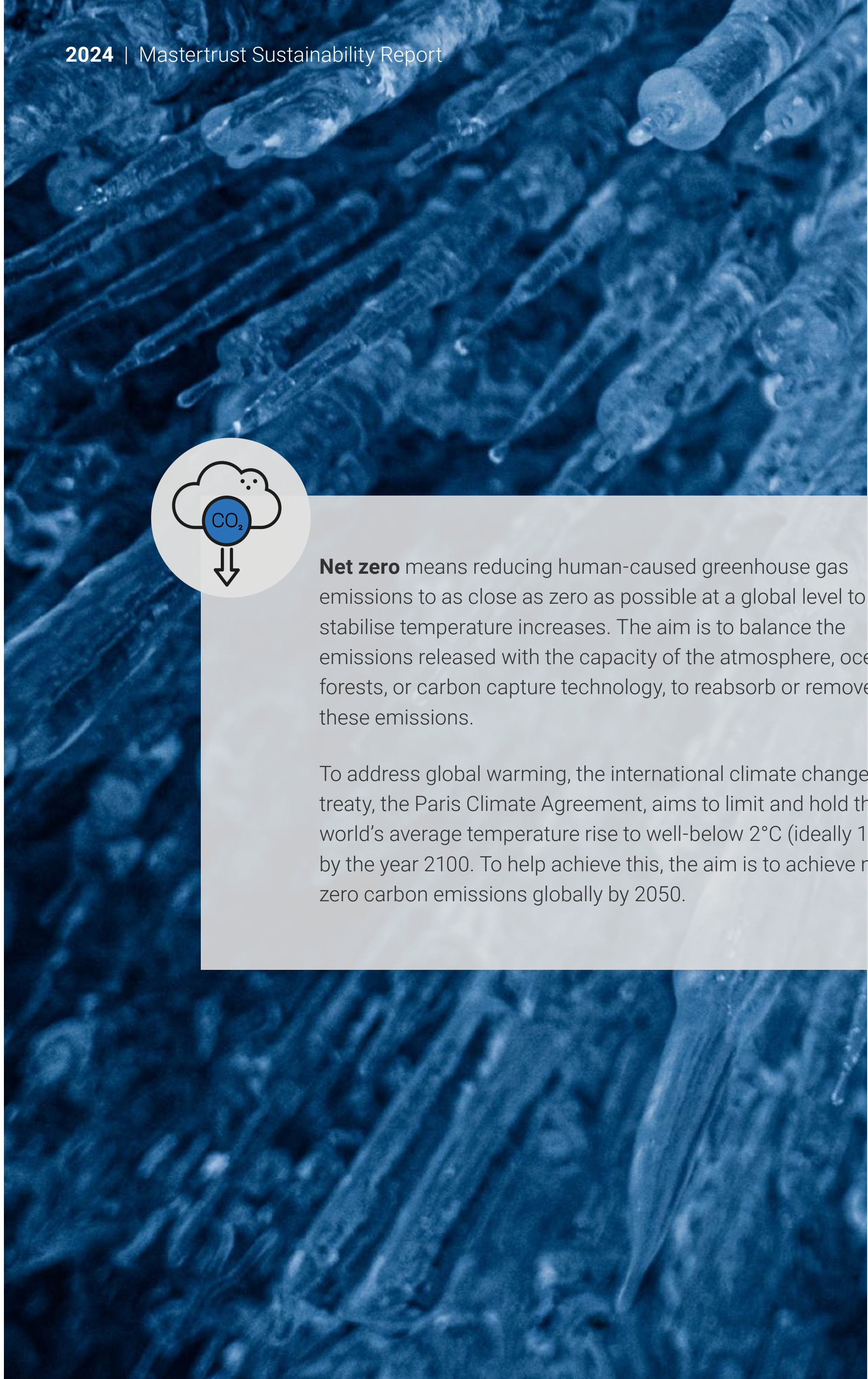
Climate change remains our most material sustainability issue and has historically been the main focus of this report, until now referred to as a 'TCFD report'. This year, we have taken steps to formally recognise that climate change links with nature and biodiversity loss, and the impacts and challenges faced by people and society as a whole. Alongside our full climate-related disclosures, we have also included disclosures related to nature and people. You can find further information on the additional governance we have introduced to support our three key pillars in this report.

We continue to follow the TCFD recommendations, which are covered in detail in separate sections in the report:

- Governance: the Mastertrust's governance around climate- and sustainability-related risks and opportunities (CSRRO)
- Strategy: the actual and potential impacts of CSRRO on the Scheme's strategy and financial planning
- Risk management: the processes used to identify, assess, and manage CSRRO for the Scheme, and the actions we have taken
- Metrics and targets: the metrics and targets used to assess and manage relevant CSRRO to the Scheme

Climate, nature and people have financial risks and opportunities for our Mastertrust. Good member outcomes cannot be achieved without the sustainable growth of the economy. There is increasing evidence that the window of opportunity to achieve a 1.5°C climate outcome is closing fast and may even have closed. We remain committed to ensuring that climate change is considered in our investment decisions and when managing overall risk for the Mastertrust. The interdependencies between nature and climate are of critical importance. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon.

Our report focuses on the analysis and actions we are taking as Trustees of the Mastertrust. We describe some of the activity undertaken by Legal & General as our primary investment manager on the ESG Hub and you can find out more in the Mastertrust Responsible Investing Guide.



Net zero means reducing human-caused greenhouse gas emissions to as close as zero as possible at a global level to stabilise temperature increases. The aim is to balance the emissions released with the capacity of the atmosphere, ocean, forests, or carbon capture technology, to reabsorb or remove these emissions.

To address global warming, the international climate change treaty, the Paris Climate Agreement, aims to limit and hold the world's average temperature rise to well-below 2°C (ideally 1.5°C) by the year 2100. To help achieve this, the aim is to achieve net zero carbon emissions globally by 2050.

Key highlights from this year's report include:

01. We agreed new sustainability objectives and an expanded governance framework this year.

Our new long-term sustainability objectives are:

- Improve outcomes for members
- Build a better society

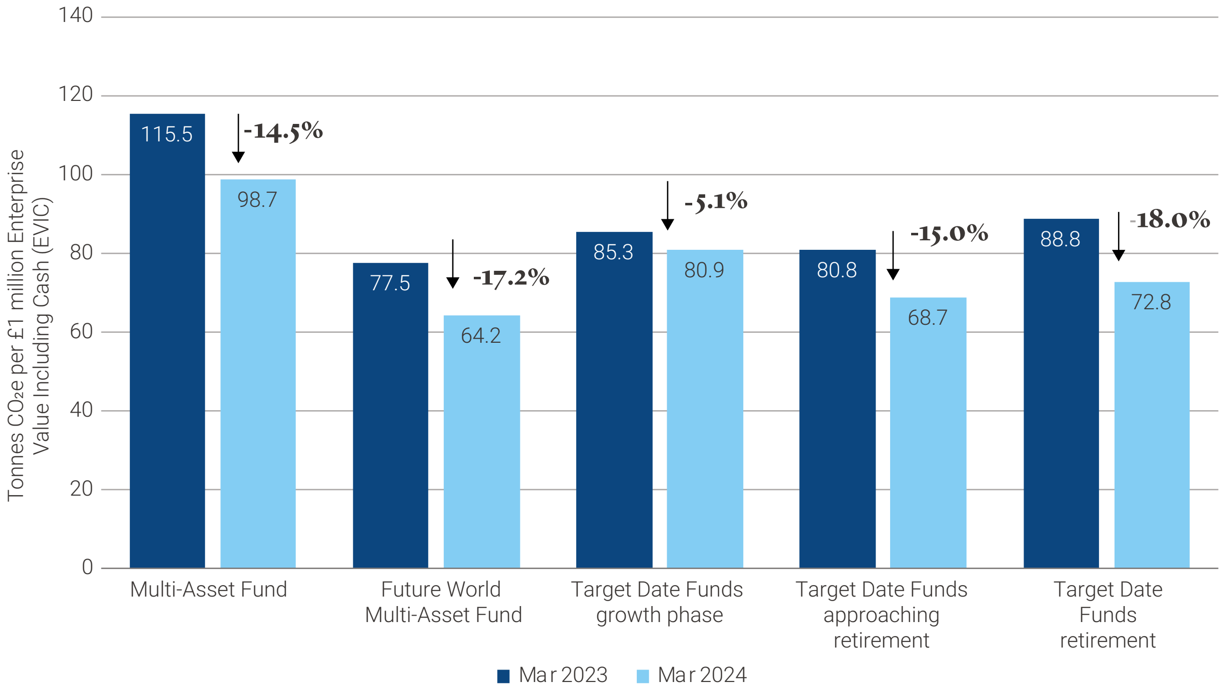
Legal & General's Exclude, Enhance, Engage approach is designed to help push for real-world change for the benefit of our members and the health of the overall financial system. These are applied across our three pillars of climate, nature and people. We meet with Legal & General twice per year – once to discuss its stewardship and engagement priorities for the year, and once to review the outcome of these activities. As Trustees, we will be using the same approach in our strategy to meet our objectives for our members.

02. We have included qualitative analysis in this year's report, across climate, nature and people

For the first time, we have taken the step to explore our nature-related risks by examining the risks 10 key sectors are exposed to. We have also taken the step to document our approach to considering the risks and opportunities that cannot be captured purely in our quantitative models. This can include the impacts of sustainability-related shocks to members in decumulation, and the nature- and people-related risks correlated with climate risks.

03. Over the last year, there has been a reduction in the reported carbon footprint of most of the funds in scope, based on Scope 1 and 2 emissions.

Carbon footprint (Scope 1 and 2) of the Legal & General Mastertrust's default investment options, tonnes CO_2e per £1 million Enterprise Value Including Cash (EVIC), change from 31 March 2023 to 31 March 2024.



Source: LGIM Destination@Risk

Scope 1 emissions are owned and controlled directly by a company. For example, emissions through company vehicles, company office space and equipment, and the energy used in production of goods or services.

Scope 2 emissions are made indirectly by a company through use of purchased heat, steam, cooling, or electricity. These emissions are a result of a company's activities for its own operations – for example to heat its buildings – but are not owned or controlled directly by it.

Carbon footprint is the amount of emissions as a result of the associated activity.

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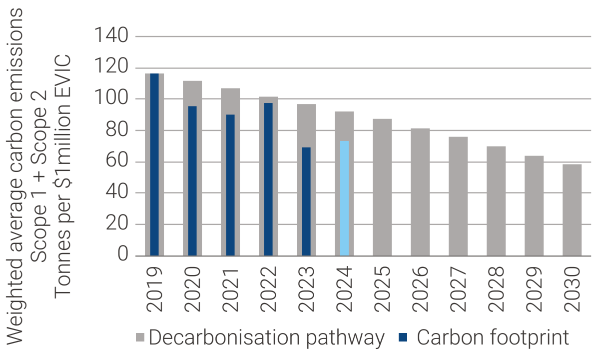
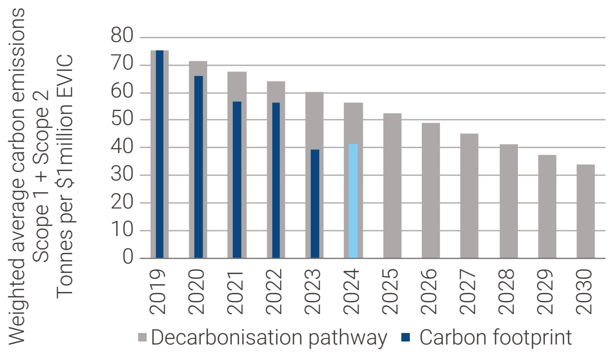
04. All of the default investment options have surpassed their 2025 decarbonisation pathway plan to reduce carbon emissions, with the Target Date Funds also at, or ahead of, their 2030 goals.

We are not celebrating just yet. Much of the change can be attributed to changes in methodology and data, which you can read more about here. However, we were pleased to see that, this year, Legal & General strengthened several key exclusion and engagement criteria, which has helped to deliver on our net zero targets. This included introducing a 'no new coal' policy, expanding the Future World Protection List to cover companies that are expanding their thermal coal mining and/or power generation capacity.

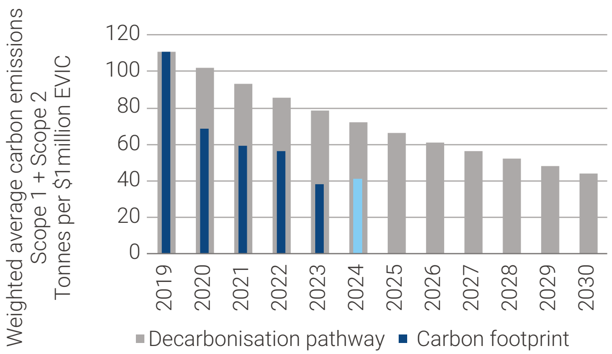
Multi-Asset Fund



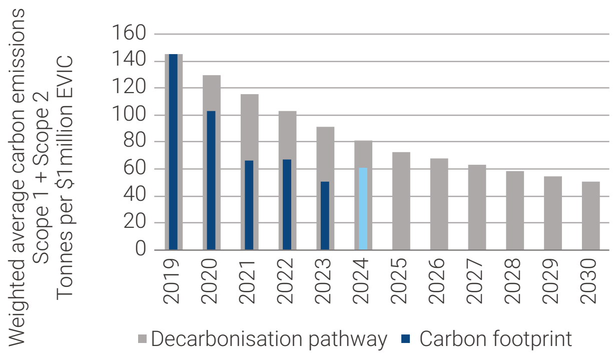
Future World Multi-Asset Fund



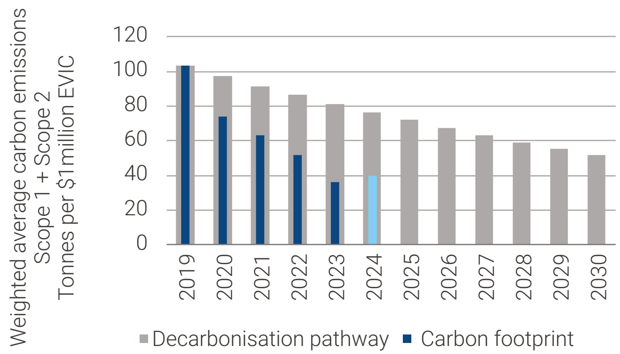
Target Date Funds growth phase



Target Date Funds approaching retirement



Target Date Funds retirement



Source: LGIM Destination@Risk

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05. Our data coverage for Scope 3 emissions has increased dramatically – however, so have our Scope 3 emissions

Last year we included Scope 3 emissions for the first time in our TCFD report. Our aim is to develop targets for Scope 3 emissions reduction in time, however the volatile nature of the data is highlighted in this report. As data and our approaches to analysis continue to improve, progress will not always be linear.

Scope 3 emissions are generated before or after a company's operations. This includes those generated by a company's suppliers, or by the transportation of its products to warehouses or the consumer.

We are pleased with the progress made in this year's report, but we are also mindful of the ongoing challenges, particularly in relation to the credibility of ESG data availability, how targets across climate, nature and people may be developed further, and the ongoing development of regulatory and industry frameworks.

Scope

This report covers our activities to address and manage climate- and sustainability-related risks and opportunities in our investment process during the 2023/2024 financial year. Throughout our report we take into account risks and opportunities related to climate, nature and people. This report meets our climate reporting obligations, and the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

For the purposes of this report, we have limited the scope of metrics and scenario analysis to the strategies and funds that constitute popular arrangements. Popular arrangements are a fund (or funds forming part of a strategy) with assets in excess of £100 million, or which accounted for 10% or more of the assets at 5 April 2024.

There are 33 funds and 11 lifestyles that fall within the scope of this year's reporting requirements. This is an increase from the 23 funds in last year's report. At the current time, the Department for Work and Pensions (DWP) considers that it is appropriate to disclose popular arrangements only. Due to data availability constraints, we have focused our disclosures on Legal & General managed funds as this represents the majority of Mastertrust member investments and enables us to analyse data for the vast majority of our in-scope funds. This means one fund, L&G PMC HSBC Islamic Global Equity Index Fund 3, is included with null values. Our intention is to expand our analysis to include externally managed funds next year, as data continues to be more readily available.

Fund
L&G PMC World (Ex-UK) Equity Index 3
Employer A Global Equity
L&G PMC All World Equity Index 3
Employer B Diversified Fund
Employer B Overseas Equity Fund
Employer B UK Equity Fund
L&G PMC 2020 - 2025 Target Date Fund 3
L&G PMC 2025 - 2030 Target Date Fund 3
L&G PMC 2030 - 2035 Target Date Fund 3
L&G PMC 2035 - 2040 Target Date Fund 3
L&G PMC 2040 - 2045 Target Date Fund 3
L&G PMC 2045 - 2050 Target Date Fund 3
L&G PMC 2050 - 2055 Target Date Fund 3
L&G PMC 2055 - 2060 Target Date Fund 3
L&G PMC 2060 - 2065 Target Date Fund 3
L&G PMC 2065 - 2070 Target Date Fund 3
L&G PMC 2070 - 2075 Target Date Fund 3
PB Composite Global Equity Index Fund
Employer E Nearly There Bond Fund
Employer E Corporate Bond Fund
Employer E Diversified Fund
Employer E Growth Fund
L&G MT Future World Multi-Asset Fund
L&G PMC Cash 3
L&G PMC UK Equity Index 3
L&G PMC Global Equity Fixed Weights 50:50 Index 3
L&G PMC Multi-Asset 3
L&G PMC Retirement Income Multi-Asset 3
L&G PMC HSBC Islamic Global Equity Index Fund 3
L&G MT Global Developed Equity Index Fund
L&G PMC Global Equity Fixed Weights 60:40 Index 3
L&G PMC Ethical Global Equity Index 3
L&G PMC Global Equity Market Weights 30:70 Index 3

Lifestyle
L&G Drawdown
Employer A
Employer B
Employer C
Employer D (i)
Employer D (ii)
Employer E
Employer F
Employer G
Employer H
Employer I

Governance

Introduction

Scientific consensus and increasing real-world impacts indicate that now is an important time to address the generation-defining challenge of climate change and its impact on nature and people. We believe the window to achieve a 1.5°C outcome, consistent with net zero carbon emissions by 2050, is very nearly closed. We, as Trustees, are considering how it may be possible to use a broad range of tools to mitigate the systemic risk posed by climate change. It is only by understanding the risks and challenges and by imposing governance and carrying out due diligence that we can seek to understand, monitor and address these risks.

Within this section of the report, we:

- outline our sustainability-related beliefs
- describe how climate- and sustainability-related risks and opportunities are identified, assessed and managed
- demonstrate how all responsible parties involved in our processes maintain and develop the required knowledge and experience
- discuss changes and progress since our last TCFD report

Climate- and sustainability-related risks and opportunities. Climate change, and other sustainability-related factors, pose risks and challenges to our investments across the globe. We have the responsibility and the opportunity to be a part of the solutions to these challenges. Our actions to manage risk to protect members' pension pots also enable us to invest in opportunities that may help to grow retirement savings.

Sustainability objectives – our three pillars

This year we have adopted two key long-term sustainability objectives:

- Improve outcomes for members
- Build a better society

Our objectives are designed to guide our future actions that we take on behalf of the members of the Mastertrust. As universal asset owners, our investments are spread across global capital markets, and a long-term time period. We believe that, when it comes to risks like climate change that impact the whole financial system, targeting real-world change on a global scale is an important potential lever to help manage risks and benefit member outcomes over the long term.

We recognise that climate change fundamentally intersects with nature and biodiversity loss and with the impacts and challenges faced by people and society as a whole. As such, and to support our sustainability objectives, this year we introduced a new governance framework with three core pillars: climate, nature and people.

Climate: Efforts to tackle climate change and promote the transition away from carbon-emitting activities that is needed to keep global warming to no more than 1.5°C.

Nature: Nature includes four key sub-themes, focused on addressing the five direct drivers of nature loss, as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES). These sub-themes are:

- natural capital management – management of renewable and non-renewable natural resources (plants, animals, air, water, soils, minerals) that provide a flow of benefits to people
- deforestation – human-induced change of forested land to non-forested land. Deforestation can be permanent, or temporary if this change is part of a cycle that includes natural or assisted regeneration
- the circular economy – sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended
- water, with a highlight on agriculture – improving the quality of water and tackling water stress

People: These factors impact on people and society, including our members. These include income inequality, the living wage, human rights, and diversity.

Our work on climate change is currently more detailed and quantified than our nature- and people-related disclosures. This is through adopting the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). We intend to adopt recommendations from the Task Force on Nature-related Financial Disclosures (TNFD) and Task Force on Inequality and Social-related Financial Disclosures (TISFD) more widely through our future reporting.

In this report, we have included case studies diving into actions being taken across climate, nature and people within the Mastertrust's in-scope investment offerings.

Our beliefs

We recognise that the Mastertrust represents a sizeable proportion of UK employees, and that its interests should be aligned with those of the broader public. Therefore, investments that consider these broader interests (including, but not limited to, environmental, social and governance factors, such as climate, nature and people) will likely be able to better deliver long-term sustainable financial outcomes for members, without compromising financial returns. We believe that by investing responsibly to create long-term societal and financial returns, we can continue to drive the social and environmental evolution to support a brighter future for everyone.

Good governance is crucial to ensure good outcomes for our members. Having strong investment principles is a critical part of good governance and outlines the foundations on which we agreed to build the Mastertrust. Our Statement of Investment Principles includes the following beliefs related to climate and sustainability:

Universal ownership: Universal ownership is a concept that suggests that large investors like the Mastertrust own a part of the global economy. Because of this, the Trustees and the members of the Mastertrust have a vested interest in the health and sustainability of the economy and environment.

The Trustees invest in highly diversified assets, across global markets and over the long term. Some risks exist across markets and will be impossible to avoid through asset allocation alone. The Trustees believe that considering the Mastertrust's real-world impact on, and exposure to, the entire market is essential for good member outcomes.

Environmental, social and governance (ESG): Investments that consider a range of ESG factors are expected to be better able to manage risk and maximise opportunities.

The Trustees see ESG as an important factor which is central to investment decision making and is linked to the principle of universal ownership. As well as the advantages of ESG factors, a key principle is that members should be no worse off from a risk and return perspective by investing in funds that consider a range of ESG factors.

Climate change is an important systemic and financially material risk. As such the Trustees are overseeing progress against the net zero commitments that have been agreed with Legal & General, the Trustees' primary fund manager. This includes reaching net zero, for Scope 1 and 2 emissions, in certain funds by 2050.

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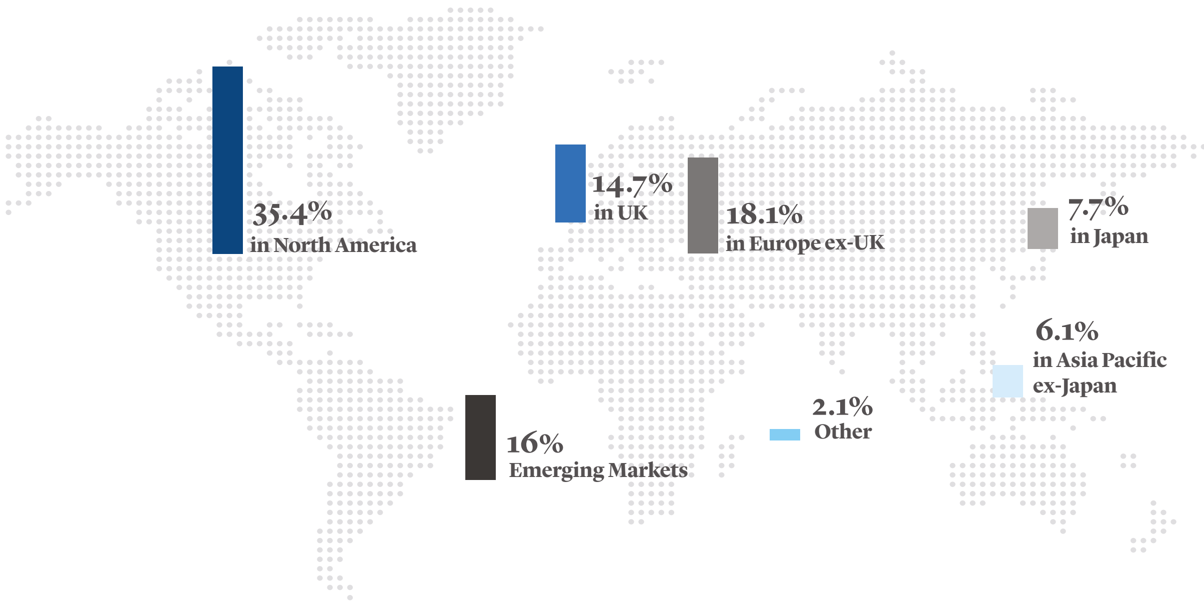
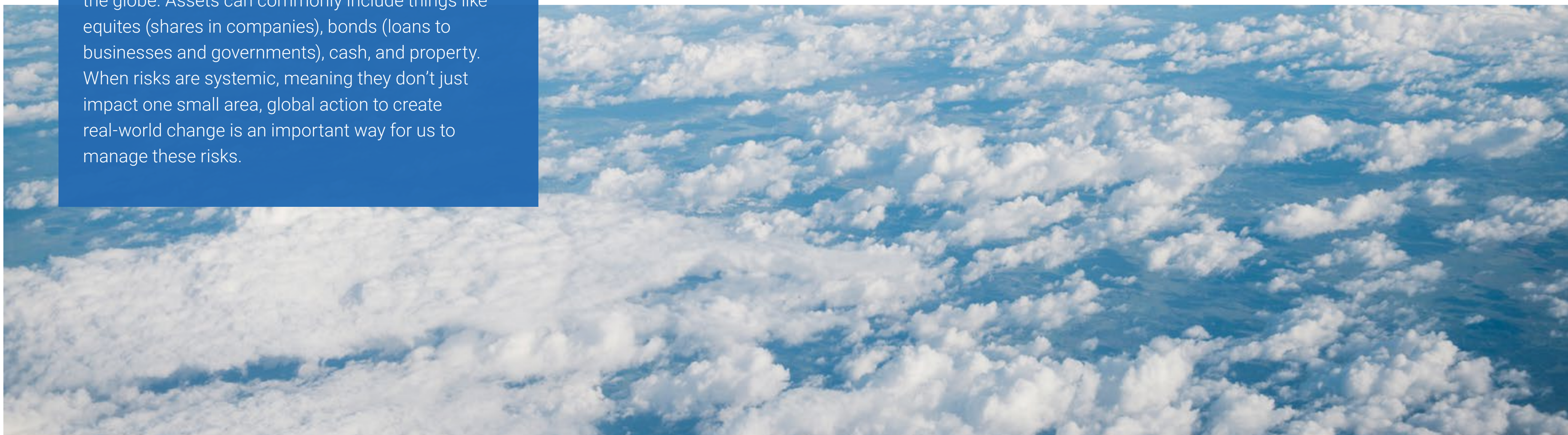
Stewardship and engagement: Strong stewardship and stakeholder engagement plays a key role in ensuring the long-term sustainability of an investment and good outcomes for members; this includes incorporating environmental, social and governance matters into voting decisions.

Non-financial factors: The Trustees conduct periodic surveys to learn more about members' views on these subjects. The Trustees also use tools like Tumelo and the regular research of members undertaken by Legal & General. The Trustees aim to bear members' views in mind when reviewing the suitability and selection of the investment options and choice of funds, as well as the retention and realisation of investments. However, it may not be practical to try to reflect every viewpoint due to the many different opinions that are likely to exist across the very large membership of the Mastertrust.



The image shows the breakdown of investments across regions of the world in the growth phase of the Target Date Funds, as at 31 March 2024.

Universal ownership
Our funds invest in different types of assets, across the globe. Assets can commonly include things like equites (shares in companies), bonds (loans to businesses and governments), cash, and property. When risks are systemic, meaning they don't just impact one small area, global action to create real-world change is an important way for us to manage these risks.



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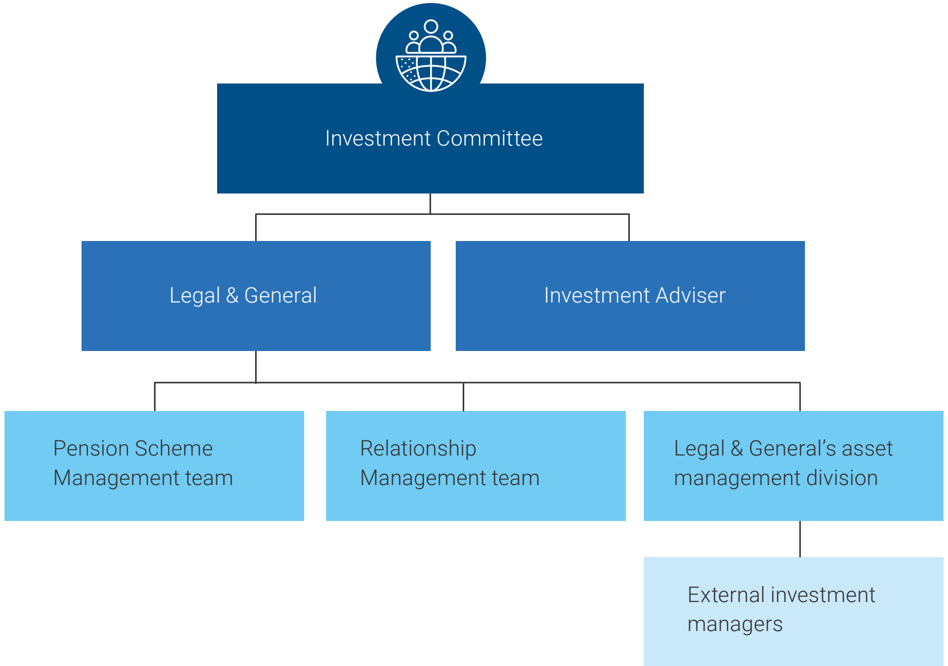
Responsibilities

Mastertrust Independent Board of Trustees



The Mastertrust Independent Board of Trustees has ultimate responsibility and oversight for the Mastertrust's approach to sustainability and to approve the relevant risks and opportunities, which are subject to an annual review. In addition, the Trustees are responsible for setting the investment strategy across the whole Mastertrust and for monitoring the activities and deliverables from service providers. The main Trustee Board meets at least quarterly and receives reports from our service providers on their investment and stewardship activities to inform the annual review.

The Investment Committee (IC), on behalf of the Trustees, uses analysis to consider and oversee the day-to-day process of identifying, assessing and managing climate- and sustainability-related risks and opportunities. This includes a responsibility to determine the current and emerging risks and opportunities, leveraging the support of our independent investment adviser, Legal & General and external fund managers. Any changes or updates are recommended by the IC to the Trustee Board for approval. The IC is also responsible for oversight of stewardship and engagement activities, including engagements related to climate, nature and people. A new governance framework for stewardship and engagement was approved this year by the IC, supported by a new ESG Dashboard – further detail can be found in our 'activities undertaken'.

Legal & General: Legal & General has several group businesses that are responsible for the investment platform, administration, investments and operations of the Mastertrust. We have a unit-linked insurance policy with Legal & General, through which we hold notional units relating to investments in underlying funds. Legal & General carries out due diligence on the underlying fund managers, including those in its asset management division as our primary investment manager, and reports its due diligence activity to the IC as each fund is made available and through quarterly oversight of all funds within the Mastertrust.

As the platform provider Legal & General is responsible for providing an appropriate level of due diligence on fund managers.

Legal & General also provides dedicated support to the Trustees in managing the schemes. This includes the **Pension Scheme Management team (PSMT)**, which provides executive support to the Trustee Board and its sub-committees. The PSMT provides pensions and regulatory expertise and supports us with governance activities relating to identifying, assessing, and managing climate- and sustainability-related risks and opportunities. We also benefit from a **dedicated Relationship Management team** that co-ordinates resources across Legal & General to support the Trustees, and Company Secretariat support.

Legal & General's asset management division: Legal & General is the fund management company that manages the majority of the Mastertrust's assets. As our primary investment manager, it contributes to the analysis of our climate- and sustainability-related risks and opportunities and is key to providing us with the necessary metrics and scenario analysis. It also identifies and flags any potential risks and opportunities as they arise.

Investment adviser: We have appointed Hymans Robertson as our independent investment adviser. Hymans Robertson provides advice on the funds used in the default investment options and self-select ranges, including the provision of advice in line with Section 36 of the Pensions Act 1995. As part of the service, it considers ESG factors, including climate- and sustainability-related risks and opportunities, when selecting and advising on funds or strategies.

We have set objectives for Hymans Robertson in line with regulations. These include specifically helping us to meet our climate-related objectives, including the requirements under the regulations.

Hymans Robertson has advised on the appropriateness of the metrics we selected with input from Legal & General, provided advice and commentary on this report, and held discussions with Legal & General to fully understand stewardship and modelling capabilities with respect to climate- and sustainability-related risks and opportunities.

External fund managers are required to provide details of their agreed metrics to our investment adviser and these form the basis of the responsible investment ratings that our investment adviser assigns, and we monitor.

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Activities undertaken

We have undertaken the following activities in assessing and managing climate- and sustainability-related risks and opportunities across the reporting period:

Focus area	Activity
Agreed stewardship and engagement governance framework	In our April Investment Committee meeting, we agreed a new governance framework for stewardship and engagement. The framework establishes formal interaction between the Trustees and Legal & General on its engagement priorities for the year and the outcomes from those engagements, supported by key reporting from Legal & General and our Pension Scheme Management team. Further details on this governance framework can be found later in this section of the report.
Agreed improved ESG monitoring and reporting to the Trustees	This year, we have focused on the value of our reporting in supporting our decision making, as well as delivering on all our public reporting requirements. We have agreed three key changes that we believe will support us in monitoring and assessing risks and opportunities within ESG factors, to support our members' outcomes. **1.** ESG Dashboard – we worked closely with Legal & General to develop a dashboard of ESG metrics to monitor across our two core default investment options, the Target Date Funds and the Lifetime Advantage Funds. We have chosen core metrics across climate, nature and people, and review these on an annual basis. In time, we expect to develop our disclosures within this report related to nature and people. **2.** Voting intentions – each year we disclose the outcome of significant votes within our Implementation Statement and highlight the votes related to companies making up the highest proportion of our default investment options. This year, we have also monitored Legal & General's disclosed voting intentions, particularly where companies are large, or our members may be particularly interested in the voting position taken on their behalf. Monitoring these intentions has allowed us to engage with Legal & General ahead of votes to seek to influence intentions. We have supplemented our disclosures within the Implementation Statement with some of these votes where they don't meet the holding threshold to be automatically disclosed. **3.** Sustainability Report – as we've highlighted, we also moved from a purely 'TCFD report' to a 'Sustainability Report', combining disclosures around climate, nature and people into one place. We believe these factors often go hand-in-hand. Monitoring them together gives the most effective governance and reflects how we are looking at these factors as a Trustee Board. Our most advanced disclosures are around climate. Over time we expect to adopt the recommendations from the TNFD and TISFD to enhance our disclosures for nature and people.
Integrated ESG into Mastertrust product design and due diligence	We worked closely with Legal & General ahead of the launch of the new L&G Private Markets Access Fund, which plays a significant role in our new default investment option, the Lifetime Advantage Funds. The L&G Private Markets Access Fund invests in long-term assets and makes use of both Legal & General funds and funds from third-party investment managers. Our due diligence included carefully monitoring the integration of ESG in Legal & General's manager research process and construction of the portfolio for both the Private Markets Access Fund and the Lifetime Advantage Funds. The inclusion of private market assets within our default investment options represents a key opportunity for our members to invest in assets that incorporate considerations across climate, nature and people – both for financial return and real-world impact. We recognise the difficulty of consistency of application across all private markets and jurisdictions and have established core expectations with Legal & General where this may be the case.
Reviewed our approach to climate scenarios and our future plans for development	In February, we received training from Lane Clark & Peacock (LCP) on developments in best practice when using scenario modelling to monitor climate-related risks and opportunities. Following this, we reviewed our approach to climate- and other sustainability-related scenario modelling. We share the concerns of our peers around whether pension schemes are fully capturing the risks and impacts of climate change by relying solely on quantitative modelling. In the coming years, we aim to build out our scenario analysis, bringing in qualitative assessment of our chosen climate scenarios, in conjunction with our current quantitative modelling. In preparation, this year we have expanded our description of what we are assuming about the world in each of our chosen scenarios.

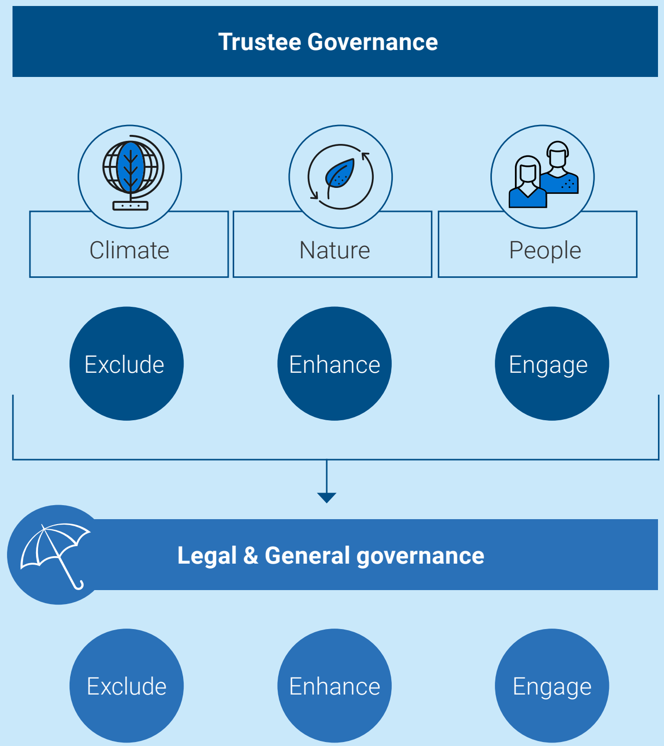
We regularly review and update our governance processes to ensure that the management of climate- and sustainability-related risks and opportunities is embedded within all our decision-making.

Governance of stewardship and engagement activities

This year, we put into place a new governance framework to enhance our oversight of stewardship and engagement activities. The new process focuses on working with our largest investment manager, Legal & General. The Trustees are involved in setting priorities for the year, receive ongoing updates ahead of key engagements, and monitor and discuss outcomes in detail.

Our new process adds in a layer of Trustee governance, formally acknowledging the levers we as Trustees have in managing climate- and sustainability-related risks and opportunities in the Mastertrust. These levers are similar to those used by Legal & General when managing our underlying investments.

We have chosen to focus our engagement and oversight on our three pillars of climate, nature and people. Three of Legal & General's six investment stewardship 'super themes', which can be found in the 2024 active ownership report, correspond to these pillars, and contain underlying sub-themes relating to engagement campaigns.



The rule of three: three Es across three pillars

The Trustees, through their investment managers, have three key tools to support positive progress across climate, nature and people.

The default investment options are made up of several underlying funds – exclusions and ESG tilts are not applicable to all funds. You can find out more about the activity happening in the default investment options on the ESG Hub, and the responsible investing overview document.

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Exclude

Trustee governance

The Trustees, where appropriate, expect managers and funds provided within the Mastertrust to manage climate- and sustainability-related risks and opportunities, in line with their expectations for Legal & General. The Investment Committee maintains oversight of the investment arrangements used by, and proposed for use by, the Mastertrust and may withhold investment from funds that do not meet minimum criteria. Where necessary, the Mastertrust may use funds that divest from, or don't invest in, opportunities that are not aligned with long-term sustainable ownership.

The Trustees discuss the outcome of activity related to the Climate Impact Pledge annually with Legal & General.

Legal & General governance

Legal & General has long prioritised company engagement over exclusion. Through its approach to active ownership, it has sought to improve companies' standards by engaging with them and using its voice. However, when combined with engagement and voting, targeted exclusions can also be a very powerful tool.
Legal & General's set of exclusions are based on companies that fail to meet either globally accepted principles of business practice, or whose businesses are incompatible with a low-carbon transition.

Climate Impact Pledge

Legal & General's Climate Impact Pledge is a two-fold engagement programme structured around the Task Force on Climate-related Financial Disclosures (TCFD) framework. It focuses on 20 climate-critical sectors, which are responsible for the most global greenhouse gas emissions from listed companies and/or vital to climate transition at scale, as well as the most carbon-intensive sectors in Legal & General funds. These are often also the most carbon-intensive sectors in the Mastertrust default investment options, as Legal & General is our primary investment manager.

In addition to a quantitative assessment of over 5,000 companies within these 20 sectors, Legal & General uses public assessments, votes, divestment, and direct dialogue to engage with around 100 'dial-mover' companies, selected for their size and potential to create action in their sectors.

The Climate Impact Pledge applies to many of the underlying funds that make up our default investment options, and some other Legal & General managed funds.

Future World Protection List

The Future World Protection List is a key Legal & General ESG exclusion list, specifically developed for Legal & General's Future World Fund range, but also in use across other select funds. The Future World Protection List is a set of exclusions based on companies that fail to meet either globally accepted principles of business practice, or whose business is incompatible with a low-carbon transition.

The list includes perennial violators of the United Nations Global Compact (UNGC) principles, companies with involvement in the manufacture and production of controversial weapons and companies involved in the mining and extraction of thermal coal, thermal-coal-power generation and oil sands. This year, Legal & General tightened criteria around coal, introducing a 'no new coal' criteria.

You can find out more about the Future World Protection List here.

The Legal & General Target Date Fund range applies the following minimum exclusions:

- Repeated direct violators of the United Nations Global Compact principles
- Companies that generate 20% or more of their revenues from thermal coal mining and power generation
- Companies that generate more than 5% of their revenues from oil sands
- Companies involved in the expansion of thermal coal mining and/or power generation capacity
- Companies involved in the production and manufacturing of the following controversial weapons: cluster munitions, anti-personnel landmines, and biological and chemical weapons

Our default investment options use funds from Legal & General's Future World Fund range as part of their investment strategies. We also offer several funds from the Future World Fund range for members to self-select.

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Enhance

Trustee governance

The Mastertrust, where appropriate, will utilise the data and scoring of companies to influence the allocation of capital, investing more in funds with higher ESG scores and less in funds with lower ESG scores. Where the Trustees identify gaps or opportunities, the Trustees may also look to make additional investments in specific areas.

When thinking about future focus areas, the key to continuing to meet fund specific ESG objectives and targets in limiting global warming to well-below 2°C will be engaging with the laggard companies. These are companies falling behind and missing out on the opportunities created by the transition and at a significant risk of financial loss if they don't adjust their path.

We are focused on meeting our stated targets. As Trustees, we also believe that, as a universal owner, some risks can only be managed by contributing to real-world change. Enhancement, when it comes to climate, nature and people, may include deliberately investing in 'dial-mover' companies to be able to increase engagement. With the window to reach the goals of the Paris Agreement closing at such a rapid pace, we monitor progress in this space carefully, and balance opportunities against exposure to risk, to aim for the best outcomes for our members.

Legal & General governance

Efficient index investment with ESG tilts

Index weightings are 'tilted' according to ESG scores to allocate more money to companies scoring higher from an ESG perspective, and less to low-scoring companies. You can find out more about Legal & General's ESG scores here and about how they are applied here.

This method goes further than just congratulating the companies with the highest ESG scores. The scores are generated from public information and are aligned with Legal & General's engagement and voting activities. They are also public, creating a powerful incentive for companies to improve their behaviour. ESG tilts are used within the Legal & General Mastertrust default investment options: the Future World Multi-Asset Fund and the Target Date Fund series.

LGIM ESG score

E — LGIM **E** score (Environment)

Carbon emissions
1. Carbon emissions intensity
2. Value chain emissions intensity

Climate transition
3. Green revenues
4. Temperature alignment
5. Carbon reserves

Nature
6. Biodiversity programme
7. Water management programme
8. Deforestation programme

S — LGIM **S** score (Social)

Social diversity
9. Women on the board
10. Women at the executive level
11. Women in management
12. Women in the workforce

Human capital
13. Bribery and corruption policy
14. Freedom of association policy
15. Discrimination policy
16. Supply chain policy
17. Employee incidents
18. Business ethics incidents
19. Social supply chain incidents

G — LGIM **G** score (Governance)

Board composition
20. Independent chair
21. Independent directors on the board
22. Board tenure

Governance oversight
23. Non-audit fees paid to auditors
24. Audit committee expertise
25. Audit opinion
26. Lobbying activities (climate lobbying)

Investor rights
27. Free Float
28. Equal voting rights

T — LGIM **T** score (Transparency)

Transparency
29. ESG reporting standard
30. Verification of ESG reporting
31. Scope of GHG emissions
32. Tax disclosure
33. Director disclosure
34. Remuneration disclosure

Legal & General's ESG score is made up 34 factors divided into nine categories. Environment: carbon emissions, climate transition, nature. Social: social diversity, human capital. Governance: board compositions, governance oversight, investor rights, transparency.

Positive selection baskets

Extending the approach beyond ESG-tilted indices, positive selection baskets are used for more targeted exposures with a greater focus on the specific ESG characteristics relevant to that investment type.

Basket – investment baskets are collections of assets that share a certain criteria. For example, a currency basket might hold different types of currency, or a technology basket might hold stocks for several technology companies.

Case study: Climate Action strategy

Legal & General's Climate Action strategy is being introduced into the Mastertrust's default investment options, the Target Date Funds and Lifetime Advantage Funds.

The strategy is underpinned by Legal & General's firm belief that companies underperforming on the energy transition not only risk missing out on the opportunities created by climate transition, but that they are also at significant risk of financial loss if they do not adjust their path.

The objective is to build a fund of mid- and large-cap global equities – the majority of which are underperforming with respect to the energy transition – where Legal & General's analysis indicates a potentially material long-term value case for accelerating their transition. The strategy also seeks exposure to companies that are already transitioning, but where we believe this transition is underappreciated by the market or could and should be significantly accelerated. By investing in and engaging with these companies, we aim to drive real-world emissions reductions and unlock significant shareholder value.

The strategy builds upon LGIM's Destination@Risk model and research capability, the same model that underpins our climate scenarios found in the Strategy section of this report. Legal & General's Investment and Stewardship teams also work in partnership to harness engagement to seek positive climate impact and long-term shareholder value. Each investee company is subject to a bespoke and detailed active engagement process with clearly identified objectives and time-bound expectations. If milestones aren't met, Legal & General escalates actions, with divestment as a last resort.

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Engage

Trustee governance

Our new governance framework enables the Trustees to engage directly with Legal & General on its approach to stewardship and engagement over the year. This engagement happens over three stages: planning, ongoing monitoring and outcomes. The Trustees, where appropriate, may seek to influence engagement plans and themes for Legal & General, and maintain close oversight of activities and outcomes for each year to inform planning for the next year.

We monitor voting and engagement activity undertaken across our main default investment options annually and publish further information in our Implementation Statement.

Legal & General governance

Legal & General believes that constructive engagement with companies and policymakers is the best way to deliver the long-term, systemic change that the Trustees have identified is needed to manage climate- and sustainability-related risks and opportunities.

Those that do not engage or take heed of Legal & General's drive for minimum standards will find that it will use a range of stewardship tools to push for a better ESG outcome. These include voting against specific resolutions and directors at companies or, as a last resort, withholding investment while continuing to engage.

Legal & General's engagement efforts apply to 100% of the Legal & General Mastertrust default investment options, and all Legal & General managed funds. The Trustees closely monitor this activity through the governance framework outlined previously. Read the Active Ownership report for details on Legal & General's engagement and voting.

Planning Q1

The Trustees meet with the Stewardship team at Legal & General to discuss engagement priorities for the year and any changes to voting policies from the previous year.

This also enables the Trustees to feed into Legal & General's chosen priorities where appropriate.

Ongoing monitoring throughout the year

The Stewardship team from Legal & General's asset management division publish voting intentions for engagements that they consider to be important.

These are regularly reviewed by the Trustees to monitor reasoning and priorities.

Outcomes Q3

The Trustees meet with the Stewardship team to discuss the Climate Impact Pledge output and the outcomes from stewardship and engagement activities over the most recent Annual General Meeting season.

To support the Trustees in assessing outcomes over the year, Legal & General provide an ESG dashboard monitoring key metrics across climate, nature, and people.

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Supporting members to make investment choices

We recognise that our default investment options are designed to be suitable for most members, and that we cannot provide for all beliefs or risk appetites within a one-size-fits-all solution. We maintain a range of investment options that are available for members to self-select, some of which are covered within this report due to their popularity. We are currently undertaking a significant project to review all our investment options in light of new anti-greenwashing guidance and have already taken steps this year to rename several of our funds to support members with making informed investment decisions.

Training for Trustees, support teams and advisers

We are highly experienced pensions experts who are legally responsible for making all major decisions concerning the efficient delivery of the Mastertrust. Our Board operates independently of Legal & General to challenge and scrutinise the company where necessary. Three of our six Trustees are professional trustee companies. Climate- and sustainability-related risks and opportunities, as well as the wider TCFD requirements, form part of the maintenance of our knowledge and understanding and flow into our collective competence and expertise for Mastertrust supervision, and fit and proper persons purposes.

We have undertaken additional training on ESG and climate issues within the period to ensure we can sufficiently manage the approach of investment managers in this important area. This includes the following focused sessions:

5 February 2024 – delivered by Legal & General
As part of the Trustees' due diligence for the new L&G Private Markets Access Fund and our new default investment option range, the Lifetime Advantage Funds, our Trustees and investment support teams received training from Legal & General on the latest views on climate- and sustainability-related investment risks and opportunities.

Private market assets are often held for the long term and are not easily sold should ESG risks materialise; they also represent a significant opportunity to invest in the solutions for many of the world's largest problems across climate, nature and people.

We also received training on the Climate Action strategy and the Sustainable Focus Fund, both key elements of the new Lifetime Advantage Funds that look to invest in opportunities across climate, nature and people.

6 February 2024 – delivered by LCP
At our February Investment Committee meeting, our Trustees and support teams received training from LCP on the developments in the best practice of assessing, monitoring and reporting on climate-related risks and opportunities. We reviewed key learnings from pensions and investment markets, both across the UK and globally.

6 February 2024 – delivered by LCP Delta
Our Trustees and support teams received training from LCP Delta on the action needed to decarbonise the UK energy system. This included a detailed discussion of engagement with the oil and gas sector, and the role of oil and gas in achieving net zero aims.

6 February 2024 – delivered by Legal & General
At the February Investment Committee, Legal & General presented the first ESG Dashboard and provided training to the Trustees and support teams on the metrics monitored within the dashboard across climate, nature and people.

We are satisfied that our whole Board has the knowledge and understanding of climate- and sustainability-related risks and opportunities, particularly those on our Investment Committee.

Knowledge levels will continue to be monitored and there will be annual training for our Board. To monitor the individual and collective competence of the Board and identify any training requirements, we issue a skills matrix annually. This year, we included the following questions related to TCFD/climate:

- Awareness and understanding of ESG factors and how these relate to strategy and managing financial risk
- Awareness and understanding of the Task Force on Climate-related Financial Disclosures
- Knowledge/understanding of illiquid assets and alternative investment options

We are supported in our climate-related activities by our independent investment and legal advisers. It is a topic evaluated as part of our performance objectives and annual review. We are satisfied that our advisers have the appropriate knowledge of the topic to provide advice on current and emerging matters.

We also have access to the experience and capabilities of Legal & General. As described in its 2024 Active Ownership Report, it has around 100 employees with roles dedicated exclusively to ESG activity, including leadership positions. It has 26 professionals within the Stewardship team, with an average of 12.5 years' experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment and public policy.

In addition, through our regular interactions with Legal & General, we can sense check its approach to the metrics and targets being used on our behalf.

Strategy

Our strategy: meeting our long-term sustainability objectives

- Improve outcomes for members
- Build a better society

Our sustainability objectives are long-term in nature, but progress is made from every decision we make over the year, each shifting us closer to our goals. Managing climate- and sustainability-related risks, and taking advantage of opportunities for our members, gives us the best chance of meeting both objectives in harmony.

In building our strategy to meet these objectives, we consider information about the world as it is now, what it might look like in the future, and how we might transition between the two.

We are supported in setting our strategy through the following outputs provided by Legal & General:

- Climate scenario analysis
- Dedicated research by Legal & General

Our strategy is actioned through adopting Legal & General's Exclude, Enhance, Engage approach. Legal & General use this approach within the Mastertrust's investment strategy, and as part of its stewardship of our underlying investments. We regularly monitor the approach and seek to challenge and influence the activity where we believe it is in the best interest of our members. In assessing and approving the overall investment strategy for the Mastertrust's default investment options, we as Trustees also use the Exclude, Enhance, Engage approach.

You can find out more about the information we have used in our decision-making, and the actions we have taken within the Mastertrust this year, in this section.

This year, we have again updated our scenario analysis, due to improvements in the inputs and underlying data. We are confident that this will provide us with more accurate information for our decision-making. Please note, this means some outputs may not be comparable to our 2023 report.

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Time horizons relevant to the Mastertrust

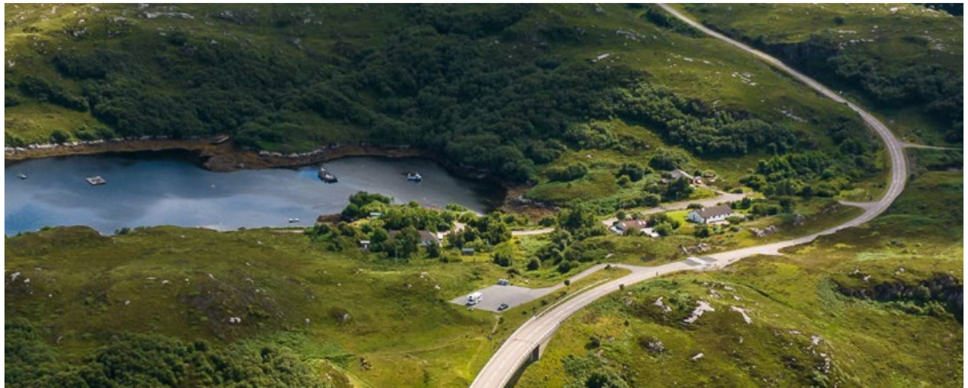
During the scheme year ending 5 April 2022, we agreed (with support and analysis performed by Legal & General) on a roadmap to net zero. It sets out five- and 10-year targets for the reduction of the Scope 1 and 2 carbon-emissions intensity of the default investment options (to be rolled forward every five years) against an overarching objective of net zero by 2050. You can read more about this in our responsible investing overview.

In a constantly changing environment, we believe a five-year period is an appropriate first goal period. Five years constitutes our 'short-term' time horizon and 10 years is the 'medium-term' horizon. Progress towards all goals is measured on an annual basis, through this report.

In setting strategic asset allocations, Legal & General (on our behalf) conducted analysis based on long-term expectations and possible outcomes. The current projections in the climate toolkit (LGIM Destination@Risk) extend to 2050 – our 'long-term' time horizon.

The above suggests to us that short, medium and long-term time frames are still best defined as approximately five years, 10 years, and 2050 (26 years) to understand the climate-related risks and opportunities. These are incorporated into governance frameworks and an evolving investment strategy, reflecting best practice on behalf of DC (Defined Contribution) members.

We periodically review our time horizons with support from Legal & General, both as part of our ongoing review of our strategy, and in light of any key developments such as modelling developments, changes in policy, or changes to the demographics of our membership.



Scenario analysis for climate-related risks and opportunities

The land and energy systems we depend upon are highly interconnected, and even small changes in one area can have huge knock-on impacts elsewhere. To understand these changes, we use 'scenarios' produced by Legal & General. These scenarios are built from assumptions about energy and land system models, building from the bottom-up to generate different climate outcomes.

Rather than forecasts, scenarios represent plausible outcomes. These outcomes factor in relevant changes and constraints. We remain conscious that any of these assumptions and constraints could prove to be incorrect. This has the potential to materially invalidate all, or key parts, of the scenarios.

Legal & General has tested its scenarios against external scenario-modelling efforts, including those released by the Central Banks, Supervisors Network for Greening the Financial System (NGFS) and the International Energy Agency (IEA). For most variables, the LGIM Destination@Risk scenarios are well within the range of scenarios, including solar and wind generation, and carbon capture and storage. However, the models diverge slightly on a few key points, including fossil fuel demand persisting for longer, having a deliberately more disruptive delayed (below 2°C) pathway and higher projections for hydrogen demand.

Legal & General is increasingly of the view that the cost of transitioning is no longer a key factor. Aside from a few exceptions, a low carbon energy system is now so cheap, that further improvements in costs and efficiencies are no longer likely to have as large an impact on the pace of change as they have had in previous years. Instead, the modelling suggests that it is the speed at which capital can be put to use in low carbon energy systems that is now the most important driver and challenge.

To achieve a net zero 1.5°C pathway, Legal & General estimates average annual additions to 2050 would have to be double current levels for solar and triple current levels for wind[1]. This is far from being just about making capital available - removing bottlenecks like permitting and infrastructure are just as - if not more - important than capital availability to unlock this potential acceleration.

1. https://www.irena.org/Publications/2023/Mar/Renewable-capacity-statistics-2023

Linking climate and nature

For the first time, the LGIM Destination@Risk toolkit also models the required changes to our land system, alongside our energy system[2]. The modelling has confirmed that around 20% of the 'effort' required to achieve the Paris goals needs to come from our land use system – a radical process of changing the way we use our land – to counterbalance the competing demands of biomass, food and afforestation. The implications for land may be some of the most dramatic, and most underappreciated, of all the implications arising from the climate transition. The outcome of this modelling has made it clear to us that our climate goals are dependent on making progress in protecting nature – a key reason for bringing more than just climate into our strategy and risk management.

2. Legal & General relies on the open-source Model of Agricultural Production and its impact on the Environment (MAgPIE) for the land use component of the modelling (Dietrich et. al, 2021)
3. Legal & General analysis based on World Bank. (2022). GDP (current US$). Retrieved from https://data.worldbank.org/

Why does the cost of climate failure appear so small?

In almost all current studies, including output from the LGIM Destination@Risk scenarios, the future costs of failing to achieve the Paris goals appear modest in today's terms. This is difficult to reconcile with our assumption that climate failure is likely to come with severe physical harms.

Future costs, present numbers

Scenarios translate future costs back to the present day by discounting them at market rates. Even an economic catastrophe 70 or 80 years in the future, if discounted at a high enough rate, can appear very modest in present value terms. This is distorting the true severity of the future challenge.

Too much uncertainty

There is a high degree of uncertainty and a large number of challenges in effectively modelling the unprecedented and far-reaching nature of genuine climate breakdown. Very few models claim to be able to accurately capture the economic impact of climate breakdown and the associated human and societal costs.

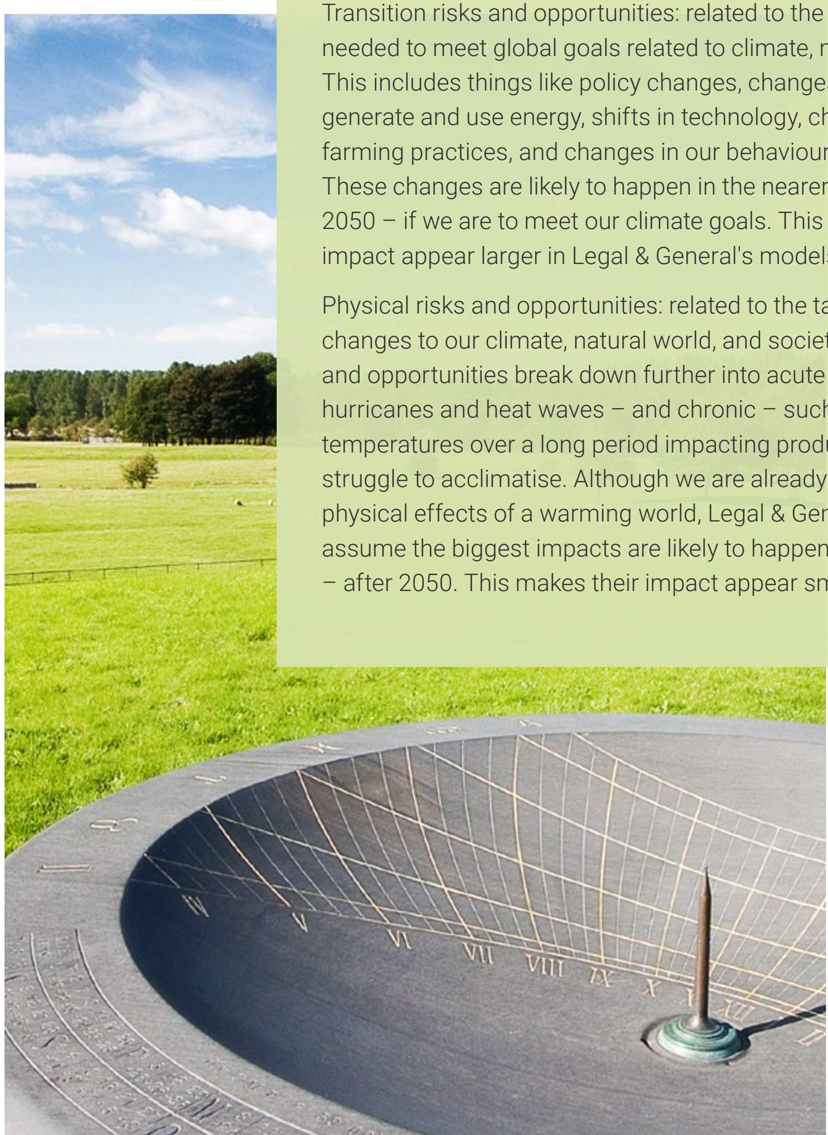
Human cost vs GDP cost

There remains an underdiscussed third component to the problem. In both the case of successful transition and climate failure, a disproportionate share of the costs would be borne not by the richest countries and people groups, but by the poorest. The poorer half of the world's population generates only around 10% of global economic output.[3] Therefore, in purely economic terms, catastrophic harm that affects them much more significantly than the richer half results in a disproportionately low direct economic cost – whether certain or uncertain – discounted or undiscounted.

We as Trustees believe in the benefits of a just transition – one that ensures the costs of transitioning or failure to transition are spread fairly. Our commitment to this is reflected in our bringing together of climate, nature and people within our monitoring and decision-making.

Transition and physical risks

When we conduct scenario analysis, we look at both transition and physical risks and opportunities.



Definitions

Transition risks and opportunities: related to the large changes needed to meet global goals related to climate, nature and people. This includes things like policy changes, changes to how we generate and use energy, shifts in technology, changes to our farming practices, and changes in our behaviours as consumers. These changes are likely to happen in the nearer term – before 2050 – if we are to meet our climate goals. This makes their impact appear larger in Legal & General's models.

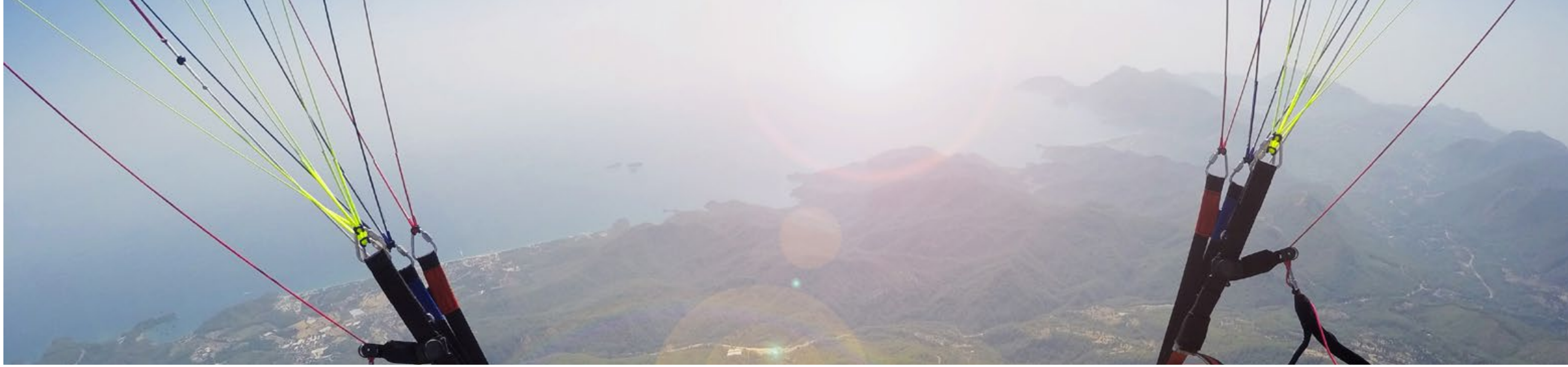
Physical risks and opportunities: related to the tangible effects of changes to our climate, natural world, and society. Physical risks and opportunities break down further into acute – such as hurricanes and heat waves – and chronic – such as higher temperatures over a long period impacting productivity as people struggle to acclimatise. Although we are already seeing some physical effects of a warming world, Legal & General's models assume the biggest impacts are likely to happen in the longer-term – after 2050. This makes their impact appear smaller.

The physical risk captured in Legal & General's analysis is the impact of higher temperatures on economic productivity, a type of chronic risk. This means it does not include acute physical risk from weather events such as tropical cyclones and heat waves, which are likely to become more frequent and more severe under unabated climate change.

Legal & General considers current estimates of acute physical risks to not be meaningful to include. This is because the estimates of the impacts of acute physical risks on asset values and economic output to 2050 are usually small, partially because a methodology has not yet been found that goes beyond capturing the direct impacts of events – the business interruption from a factory being flooded, for example – to the wider supply chain impacts.

Physical risk is measured in terms of impact on GDP. This means the impact of changes to the climate on variables that are not represented in GDP cannot be captured, but are nevertheless critical to economic and social prosperity, such as health and social mobility.

Because of these limitations, we are cautious about relying on scenario modelling alone when considering the risks and opportunities within our members' investments. We discuss the ways risks and opportunities are likely to manifest as a Trustee Board frequently throughout the year, such as our training session with LCP Delta, and are seeking to formalise these discussions into qualitative scenarios to help our decision-making process. We'll be disclosing these qualitative scenarios in future versions of this report, alongside the current outputs.

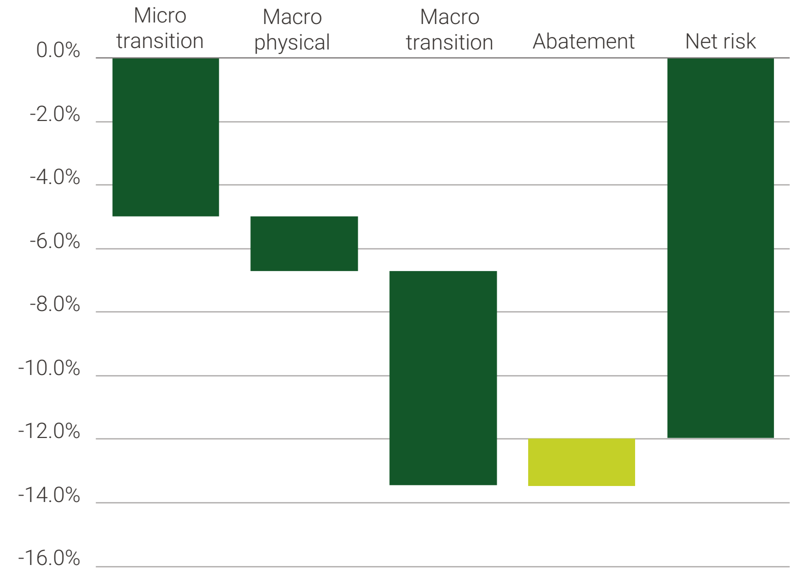


Our climate-related risks and opportunities

Reminder of the four scenario pathways currently used

Scenario	Target global warming by 2100 (50% probability)	Core narrative
Net zero 1.5°C	1.5°C	Immediate, highly ambitious action to address climate change leads to a reduction in CO_2 emissions to net zero around 2050
Below 2°C	<2°C	Immediate, ambitious policy and investment action to address climate change succeeds in limiting global warming to well-below 2°C (but most likely exceeds 1.5°C)
Below 2°C delayed	<2°C	Policy and investment action to limit global warming to well-below 2°C is delayed until 2030, resulting in much more disruptive change. Warming most likely exceeds 1.5°C
Inaction	3-4°C	Global failure to act on climate change means emissions continue to grow at historical rates

Modelled split of climate risk for Target Date Funds, growth stage, as at 31 March 2024, under a 'Below 2°C delayed' pathway:



Source: LGIM Destination@Risk

The chart on page 33 highlights the split of the specific calculated climate risk for the Target Date Funds, growth stage (i.e. relevant for members up to the point they start to de-risk as they more closely approach their targeted retirement age/date), for the 'Below 2°C delayed' scenario pathway, between the following sub-categories:

Category	Further detail
Micro transition risk	Direct impact of carbon pricing on companies' bottom lines, including on demand for some products (such as oil and gas)
Macro physical risk	Indirect impact of economic productivity changes due to climate change
Macro transition risk	Indirect impact of carbon pricing – the reduction in demand for all products as consumers are forced to spend more on the same amount of goods
Abatement risk	Companies' ability to mitigate some of the microeconomic transition risks from carbon pricing through reducing emissions

The chart shows a total net present value risk of around 12%. The net present value represents the expected loss to the fund if the market fully priced into the market today the climate risk for the companies held within the fund out to 2050, assuming the companies held and the proportions to these remained the same. Macro transition risks and micro transition risks have the largest impacts.

Carbon price - A carbon price is the price that a company would have to pay for each tonne of CO_2e emitted.

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Key specific analyst risks for the Target Date Funds, growth stage based on portfolio holdings as at 31 March 2024

Sector or industry	Type	Time frame	Share of earnings affected	Description
Oil and gas	Risk	Short (1-3 years)	High	Price volatility – crude and natural gas are volatile commodities and large price swings can have significant impacts on company earnings.
Oil and gas	Risk	Long (10+ years)	High	Loss of revenues and market share – declining demand for hydrocarbons over the long term will be a significant earnings headwind for legacy fossil fuels businesses
Financial	Risk	Medium (3-10 years)	Low	Risk to insurers from more severe and likely extreme weather events as climate continues to warm, some of which may be difficult to predict for the purposes of premiums, making some markets uninsurable.
Financial	Risk	Long (10+ years)	Low	Regulatory divergence and competing priorities – climate risk for banks is avoiding tail risk (i.e. reputational and litigation risk such as greenwashing). In the US, the reputational risk arises from pursuing climate strategies.
Financial	Risk	Medium (3-10 years)	Low	Fungible, fragmented sources of capital – credit risk exposure to high intensity companies could result in higher capital requirements which is negative for banks. Regulators are conducting climate risk stress tests that could result in capital add-ons.

Key specific analyst opportunities for the Target Date Funds, growth stage based on portfolio holdings as at 31 March 2024

Sector or industry	Type	Time frame	Share of earnings affected	Description
Financial	Opportunity	Medium (3-10 years)	Low	Growth in demand for sustainable banking and insurance products – financing the green transition could lift European banks? Loan growth from 2.5% to 4.0% per annum every year for the next 30 years.
Transportation	Opportunity	Long (10+ years)	Very high	The transition to cleaner technologies may enable the development of new revenue streams for manufacturers, either via entry into new product categories or via new areas such as self-driving battery powered vehicles. This may enable companies to increase their revenue and margin profiles.
Technology	Opportunity	Long (10+ years)	Medium	Those companies with advanced digital capabilities could gain share of valuable revenue streams by driving decarbonisation of other sectors (for example 'smart' offices, manufacturing etc.)
Utilities	Opportunity	Medium (3-10 years)	Medium	Renewables – the energy transition will likely need major investment in renewables. Policy would create investment incentives and opportunities to create value through developing capacity. Developers that are well positioned to compete in auctions should be able to claim a share of the value creation.
Utilities	Opportunity	Medium (3-10 years)	Medium	Power grid integration – in order to electrify transport and heating and handle increasing renewable input, power grids will need to be upgraded. A greater investment need will probably be supported with adequate returns and create an opportunity for regional monopoly grids to invest to grow.

Source: LGIM Destination@Risk

Looking forward

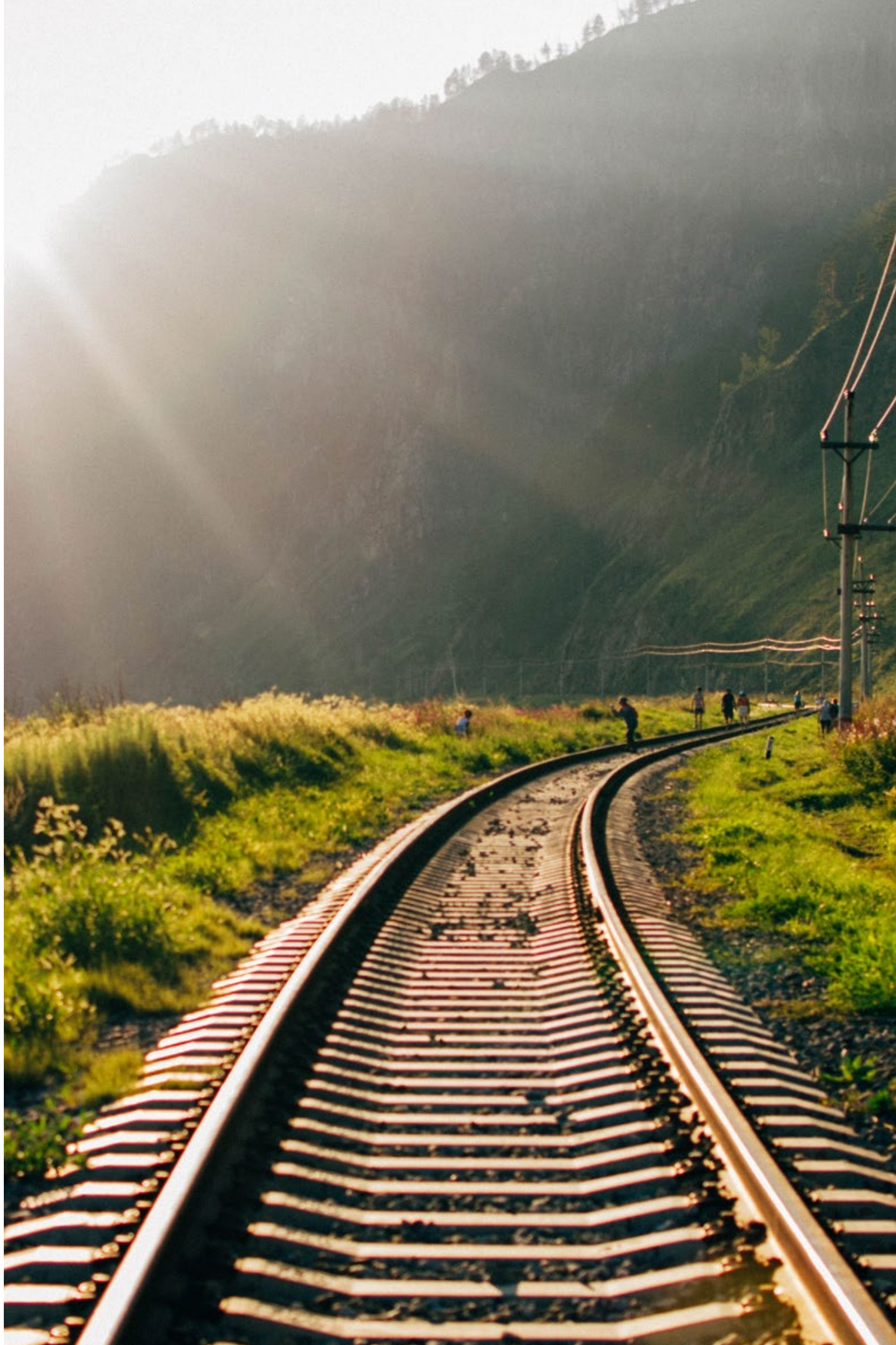
We believe the most important information to feed into our decision-making relates to looking towards the future of our investment portfolios. The main TCFD metrics of carbon footprint and total carbon emissions reflect the historical carbon state of portfolios, and you can find these in our Metrics and targets section. Temperature alignment and climate risk are used to understand portfolio exposure to future climate change.

Definitions

Climate risk describes the potential risk from various climate scenarios to asset valuations.

Temperature alignment assesses the risk the assets pose to achieving various climate outcomes: whether companies are contributing to the changes we need to see, or whether they are putting them at risk.

As Trustees, we use modelled climate risk as another tool used to influence conversations around, and decisions to be made on, climate-related risks and opportunities in our portfolios. It shouldn't be used in isolation to drive any decision making and is one of many factors that we consider. It helps us to understand the strategic implications of possible climate pathways, including the key features of a transition to a net zero economy.



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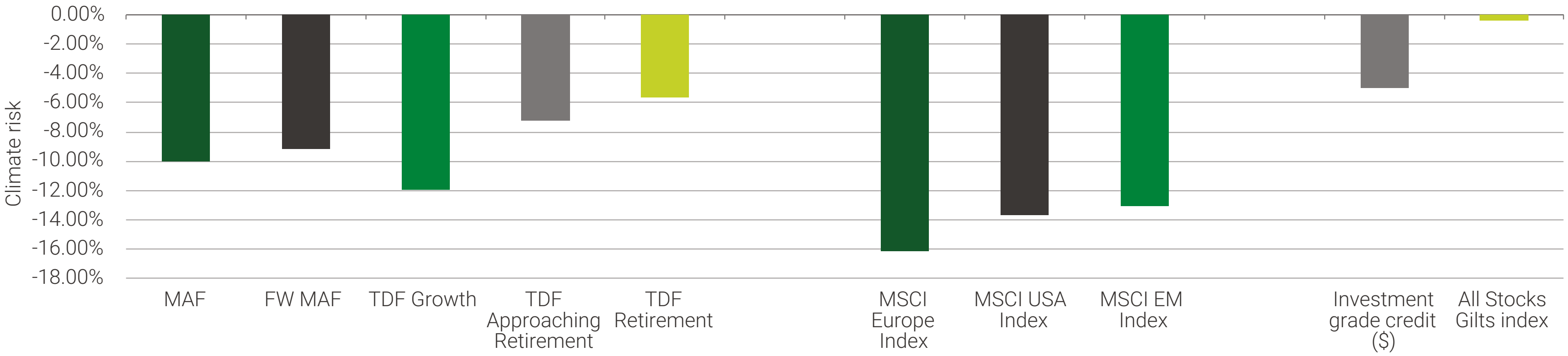
Modelled climate risk for Legal & General Mastertrust default investment options, as at 31 March 2024, under a 'Below 2°C delayed' pathway, shown against a number of comparators:



Source: LGIM Destination@Risk

Climate risk is subject to significant modelling assumptions and variability in terms of data availability and the financial performance of issuers through time. It is also significantly affected by changes in portfolio composition. Caution should be exercised when comparing changes in estimated climate risk between years.

Climate risk could be different for each asset that we hold. Our climate risk metric shows the risk from climate change for each overall fund and is calculated by modelling the impact of a particular climate scenario pathway, whilst holding all other factors equal, to the value of each underlying investment within that fund for each timestep until 2050. A greater reduction in value can be expected on the most at-risk stocks and sectors. Given the uncertainty around future climate outcomes, it is unlikely that climate risk is properly priced into markets today.

The risks to 2050 are discounted to today at the cost of capital for each asset class. This represents the expected loss if the market fully priced in today the climate risk for companies out to 2050 should they keep the same strategy.

From the chart above, the climate risk can be clearly seen for the different asset classes of equities (MSCI indices), corporate bonds (investment grade credit) and government bonds (All Stocks Gilts Index). This is because the bonds held have short maturities, so they are less impacted than equities. And in the case of a company going bankrupt, bond holders are paid out first - bonds are considered lower risk than equities.

Also illustrated is the climate risk of different geographical regions, which may look surprising, as emerging market countries are set to be hardest hit by macroeconomic climate risks. Generally, transition risks hit these regions harder because, even though they have fewer emissions per capita, they are expected to grow significantly in terms of both economic output and population over the coming three decades. Their baseline emissions growth is hence much higher – and costly to abate – than in developed countries with moderate growth trajectories.

However, a global impact to GDP is applied in the risk model, rather than regional impacts, as many companies are not listed where they primarily operate. As the regional split of revenue for companies cannot be comprehensively accounted for, a global risk factor is deemed to be more accurate.

Climate and sustainability risks in retirement

Scenario modelling can give a distorted picture of the impact of climate-related risks to members in retirement. Our previous chart shows that the Target Date Fund 'retirement' phase has the smallest impact to members pots of all our default investment options. In reality, members in retirement are least able to recover from climate- or other sustainability-related shocks.

Whereas younger members in the growth phase of their savings journey may be able to recover over time from shocks to their pension value – although they would be negatively impacted by the loss of compounding returns while their funds recover – members in retirement may be taking regular withdrawals and crystalising losses in their funds. This then impacts the ability of their funds to recover and increases the likelihood of members running out of funds too early in their retirement.

Although we don't model the impact of this within our quantitative scenarios, we are not complacent to the risks members in retirement are exposed to. Scenario modelling is one input that we consider when building our strategy to improve outcomes for members, alongside many other considerations. Managing the risks of valuation shocks to members in retirement, which would include climate- and sustainability-related shocks, is a core part of our investment strategy and reviewed every three years as part of our triennial review of our default investment options.

The risks of delaying climate action

A number of factors have moved in favour of climate success – key technology costs have fallen rapidly, technology change continues to accelerate, investor awareness has dramatically increased, and stated ambitions have, if anything, grown. But none of this has been matched by the capital allocation or policy action that would be required to be confident we are objectively on track for a net zero 2050 world.

Because climate change is a global matter, there remain significant factors outside of our control and headwinds that mean, despite good endeavours, achieving a transition to a net-zero world is challenging in the timeframe remaining. Part of our risk management framework means preparing for the possible implications of not reaching global transition goals. The future may not resemble the past; it may be more uncertain and unpredictable. For example, inflationary pressures may be likely to build and may become more sustained.

The current period of elevated volatility may be likely to persist or worsen over time. As the potential inequity of a delayed transition starts to manifest, with emerging market populations experiencing both the start of serious physical climate risks (which they are likely to encounter before those in developed markets), and the economic consequences of a delayed transition, the geopolitical consequences may be significant. Politicians may look to raise trade barriers in response and mass migration is a real possibility. These, and other risks such as new inequalities within countries leading to social unrest and political instability, and the rapid loss of jobs, mean that a transition not regarded as just could itself be threatened.

There are serious potentially consequences to delayed climate action, and the significant financial risks quantified in this report associated with this. The sum of potential increased volatility, lower corporate profitability, greater geopolitical risk, significant and sustained inflationary pressures and negative productivity impacts may all add up to lower market returns over the next 15 years.

Climate risk for all in-scope funds and lifestyles

We updated our climate scenario analysis for all our in-scope funds and lifestyles this year, as at 31 March 2024. Of the scenario pathways outlined, we show outcomes associated with the first three pathways (below 2°C, net zero 1.5°C and delayed below 2°C) in the following tables. We don't currently show the inaction scenario for our portfolios as we expect most of the associated impact to be driven by physical risks, which tend to be highly localised and manifest further into the future, and hence are more uncertain. This does not mean that we don't consider the risks associated with an inaction scenario – we raise questions and discuss potential impacts with Legal & General as part of our decision-making process for our funds throughout the year.

The tables below show the net present values of the expected loss to each fund or lifestyle if the market fully priced in today the climate risk for the companies held within these portfolios out to 2050, assuming the companies held and the proportions to these remained the same. We also show the proportion of the eligible holdings for which Legal & General has estimated or reported data. As funds de-risk, this coverage may decrease due to the different assets being invested in. You can read more about this in 'Data coverage and limitations.'

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% loss per fund	1.5°C	2°C	2°C delayed	Coverage %
Funds in scope				
L&G PMC World (Ex-UK) Equity Index 3	-11.7%	-7.0%	-13.7%	87.2%
Employer A Global Equity	-15.6%	-10.6%	-16.6%	81.9%
L&G PMC All World Equity Index 3	-12.4%	-7.6%	-14.1%	86.5%
Employer B Diversified Fund	-8.8%	-5.2%	-10.2%	64.9%
Employer B Overseas Equity Fund	-11.7%	-7.0%	-13.7%	87.2%
Employer B UK Equity Fund	-24.7%	-18.9%	-23.4%	80.3%
L&G PMC 2020 - 2025 Target Date Fund 3	-4.4%	-2.5%	-5.7%	53.3%
L&G PMC 2025 - 2030 Target Date Fund 3	-5.7%	-3.4%	-7.2%	63.7%
L&G PMC 2030 - 2035 Target Date Fund 3	-7.1%	-4.3%	-8.9%	74.1%
L&G PMC 2035 - 2040 Target Date Fund 3	-9.4%	-5.7%	-11.2%	77.9%
L&G PMC 2040 - 2045 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
L&G PMC 2045 - 2050 Target Date Fund 3	-10.2%	-6.2%	-12.0%	79.0%
L&G PMC 2050 - 2055 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
L&G PMC 2055 - 2060 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
L&G PMC 2060 - 2065 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
L&G PMC 2065 - 2070 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
L&G PMC 2070 - 2075 Target Date Fund 3	-10.2%	-6.2%	-12.0%	78.9%
PB Composite Global Equity Index Fund	-15.4%	-10.4%	-16.4%	85.1%
Employer E Nearly There Bond Fund	-0.7%	-0.3%	-1.6%	61.9%
Employer E Corporate Bond Fund	-2.1%	-1.1%	-4.2%	79.3%
Employer E Diversified Fund	-11.5%	-5.7%	-11.5%	45.3%
Employer E Growth Fund	-11.3%	-6.5%	-13.2%	66.1%
L&G MT Future World Multi-Asset Fund	-7.4%	-4.5%	-9.2%	74.9%
L&G PMC Cash 3	-0.3%	0.0%	-4.3%	2.1%
L&G PMC UK Equity Index 3	-24.7%	-18.9%	-23.4%	80.3%
L&G PMC Global Equity Fixed Weights 50:50 Index 3	-17.7%	-12.5%	-18.3%	83.9%
L&G PMC Multi-Asset 3	-8.7%	-5.3%	-10.0%	73.7%
L&G PMC Retirement Income Multi-Asset 3	-5.5%	-3.2%	-6.7%	62.3%

% loss per fund	1.5°C	2°C	2°C delayed	Coverage %
L&G PMC HSBC Islamic Global Equity Index Fund 3	EXTERNAL FUND			
L&G MT Global Developed Equity Index Fund	-12.3%	-7.5%	-14.1%	87.2%
L&G PMC Global Equity Fixed Weights 60:40 Index 3	-19.1%	-13.8%	-19.3%	83.3%
L&G PMC Ethical Global Equity Index 3	-11.7%	-7.1%	-13.9%	89.5%
L&G PMC Global Equity Market Weights 30:70 Index 3	-15.6%	-10.5%	-16.5%	83.7%

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Lifestyles	1.5°C	2°C	2°C delayed	Coverage %
L&G Drawdown				
+45	-8.7%	-5.3%	-10.0%	73.7%
+5	-8.7%	-5.3%	-10.0%	73.7%
0	-5.5%	-3.2%	-6.7%	62.3%
Employer A				
+45	-15.6%	-10.6%	-16.6%	81.9%
+5	-8.8%	-5.2%	-10.2%	60.5%
0	-8.7%	-5.2%	-10.1%	49.2%
Employer B				
+45	-16.7%	-11.5%	-17.4%	84.4%
+5	-8.8%	-5.2%	-10.2%	64.9%
0	-0.4%	-0.3%	-0.9%	59.1%
Employer C				
+45	-12.5%	-7.6%	-14.3%	85.8%
+5	-6.2%	-3.8%	-7.7%	72.3%
0	-4.9%	-2.9%	-6.2%	69.6%
Employer D (i)				
+45	-11.3%	-6.5%	-13.2%	66.1%
+5	-9.1%	-5.2%	-11.0%	67.0%
0	-3.1%	-1.8%	-4.4%	48.9%
Employer D (ii)				
+45	-11.3%	-6.5%	-13.2%	66.1%
+5	-9.1%	-5.2%	-11.0%	67.0%
0	-8.2%	-4.6%	-9.9%	48.7%

Lifestyles	1.5°C	2°C	2°C delayed	Coverage %
Employer E				
+45	-8.7%	-5.3%	-10.0%	73.7%
+5	-8.0%	-4.8%	-9.3%	70.8%
0	-5.5%	-3.2%	-6.7%	40.5%
Employer F				
+45	-10.5%	-6.1%	-13.1%	87.8%
+5	-7.4%	-4.5%	-9.2%	74.9%
0	-5.5%	-3.2%	-6.7%	46.8%
Employer G				
+45	-13.1%	-8.3%	-14.6%	85.5%
+5	-8.1%	-5.1%	-9.3%	83.1%
0	-6.1%	-3.8%	-7.0%	88.3%
Employer H				
+45	-17.7%	-12.5%	-18.3%	83.9%
+5	-8.7%	-5.3%	-10.0%	73.7%
0	-6.7%	-4.0%	-8.0%	51.0%
Employer I				
+45	-15.0%	-10.1%	-15.9%	82.7%
+5	-8.6%	-5.4%	-9.8%	64.4%
0	-8.9%	-5.7%	-10.1%	14.8%

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Nature-related risks and opportunities

Nature refers to both the living and non-living aspects of the natural world. Nature is fundamental to the long-term health of our social, economic and financial system. It encompasses vital aspects of all our lives, from the food we eat to the air we breathe. It is estimated that just over half of global gross domestic product (GDP) is highly or moderately dependent on nature and its services.[1] Our natural world is, however, in crisis. Ecosystems are being degraded at a faster rate than ever before, with the loss of vital ecosystem services[2] (on which society and our economies depend) estimated to reduce global GDP by $2.7 trillion per year by 2030.[3]

In 2023, the Stockholm Resilience Centre confirmed that we have for the first time breached six of the nine planetary boundaries[4]. Planetary boundaries are the safe limits for human pressure on the Earth, crossing them is likely to mean increased risks for people and the ecosystems society relies upon. Planetary boundaries are the safe limits for human pressure on the Earth, crossing them is likely to mean increased risks for people and the ecosystems society relies upon. If we continue down this path, we risk pushing ecosystems beyond ecological thresholds, to tipping points where changes may be long lasting, hard to reverse, or even irreversible.[5]

To value nature, we need to understand what it means at a company level. Along value chains, organisations will both depend on, and impact on, nature, giving rise to nature-related risks and opportunities.

Removing one metric tonne of CO_2 from the atmosphere in one location has the same overall impact towards global levels of CO_2 as removing the same amount from a different location. On the other hand, dependencies and impacts on nature are varied, location specific, and often spread throughout complex value chains. To assess financially material risks and opportunities in our funds, we need to understand where each asset that we hold interacts with nature – both where those locations are sensitive, and where they are material to our investment.

You can read more about Legal & General's approach to nature in their latest Nature Policy.

Definitions:

Sensitive locations – areas important for biodiversity, areas of high ecosystem integrity, areas of rapid decline in ecosystem integrity, areas of high physical water risks, and areas of importance for ecosystem service provision, including benefits to indigenous peoples, local communities and stakeholders.

Material locations – where an organisation has identified material nature-related dependencies, impacts, risks and opportunities in direct operations and the upstream and downstream value chain(s).

We are at the beginning of our work to assess nature-related risks and opportunities, based on qualitative methods. Legal & General are also working at pace to develop in this area, and a key focus of engagement activity is to improve assessment of dependencies and impacts at the individual company level throughout our investment portfolios.

1. https://www.pwc.com/gx/en/issues/esg/nature-and-biodiversity/managing-nature-risks-from-understanding-to-action.html
2. Ecosystems produce flows of benefits to people and the economy, known as ecosystem services. For example, the pollination of crops, or the provision of freshwater from a river. They are the contributions of ecosystems to the benefits that are used in economic and other human activity.
3. https://www.worldbank.org/en/news/press-release/2021/07/01/protecting-nature-could-avert-global-economic-losses-of-usd2-7-trillion-per-year.
4. All planetary boundaries mapped out for the first time, six of nine crossed - Stockholm Resilience Centre
5. VNP26-DemystifyingTippingPoints-A4-20pp-200dpi.pdf (valuing-nature.net)

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Task Force on Nature-related Financial Disclosures (TNFD)

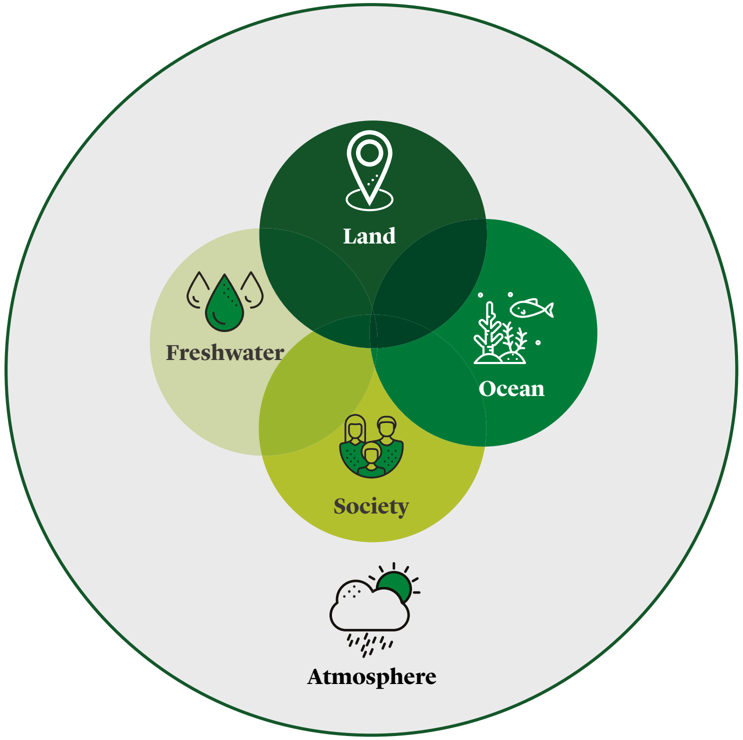
In September 2023, the Task Force on Nature-related Financial Disclosures (TNFD) was launched. Building on the work of the TCFD, the TNFD promotes the provision of clear, comparable and consistent information by companies to investors and other providers of capital. The TNFD provides a risk management and disclosure framework to identify, assess and respond to nature-related issues.

In 2024, Legal & General announced its intention to adopt TNFD recommendations and publish TNFD-aligned disclosures as part of its annual corporate reporting for the 2024 financial year reporting period. As our primary investment manager develops in this area, we expect to expand future Mastertrust governance and reporting to adopt more of the recommendations from the Task Force.

Defining nature

Nature is defined by four realms – land, ocean, freshwater and atmosphere. Society relies on each of these four realms, and the way they interact together, to survive.

Biodiversity refers to the variability of living organisms across nature's four realms. Legal & General supports the vision of the Kunming-Montreal Global Biodiversity Framework of halting and reversing nature loss by 2030 and living in harmony with nature by 2050. In 2021, Legal & General signed the Finance for Biodiversity Foundation Pledge (FBFP). Legal & General's work in this area will impact our default investment options, and the range of funds managed by Legal & General that we offer through our wider investment options. This also means that our time horizons for assessing nature-related risks and opportunities align with our time horizons for assessing climate-related risks and opportunities, further highlighting the inter-connected relationship between the two.



The global agreement – the Kunming-Montreal Global Biodiversity Framework

In 2022, the international community, including 188 governments, gathered in Montreal at the Conference of the Parties to the Convention of Biodiversity (COP15) to agree to the Kunming-Montreal Global Biodiversity Framework (GBF). The GBF is the key international agreement that governs, guides, and sets the policy mandate for all stakeholders – including financial services and regulators - across the economy to protect and restore nature, and tackle nature loss. In our view, the GBF is as crucial for nature as the Paris Agreement has been for climate change.

Natural capital

Natural capital is another term for the stock of the Earth's natural resources (e.g., plants, animals, air, water, soils and minerals). These combine with other forms of capital, such as human capital, to give a flow of benefits. Societies and organisations across the globe depend on the value provided by nature and its capital. Due to the pressures exerted on nature and fragile ecosystems, they are degrading rapidly, putting at risk the provision of services and products on which we and our economies depend. This poses a systemic market risk that has the potential to cause sudden disruption to societies, economies and functioning financial markets.

Our investments have dependencies (environmental assets and ecosystem services that an organisation relies on to function) and impacts (a change in the state of nature) that give rise to natural capital-related risks and opportunities. These interfaces are varied, location specific, and often spread throughout complex value chains.

Our strategy for nature is focused on four core areas:

- Natural capital management
- Deforestation
- Circular economy
- Water

You can find out more about the approach of Legal & General, as our primary investment manager, in each of these areas from its dedicated policies. These include minimum expectations for companies.

Circular economy

A circular economy is a way of using resources that minimises waste, pollution and environmental impacts and aims to decouple economic activity from the consumption of finite resources. Transitioning to a circular economy entails rethinking how products are designed, produced and discarded, with a view to optimising resource loops across the value chain.

No waste (or prevention of waste) is the ultimate goal and outcome of a circular economy, and this involves limiting the number of inputs. This may be achieved at a design phase by using more recycled materials, making a product more durable, and extending its lifespan. Additionally, companies should consider other circular business models to reduce the resources needed in the first place.

While transitioning to a circular economy is likely to be important for the protection of nature and reduction of greenhouse gas emissions, the transition requires a fundamental shift in many business models. Transition risks may be particularly prevalent in this area as businesses adapt, technology develops and there is a shift in demand for raw materials. Physical risks of not producing this shift could include the harm to marine ecosystems from plastic pollution and the knock-on impacts to those dependent on marine ecosystems for habit and diet.

Legal & General has committed to engage with investee companies to manage their product lifecycles sustainably and to limit the amount of raw material used, as well as waste and the negative impact on pollution and nature.

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Deforestation

The world's forests store approximately 662 billion tonnes of carbon,[1] a number equivalent to approximately 20 years of current annual fossil fuel emissions.[2] From an economic standpoint, ecosystem services, such as carbon sequestration and crop pollination, underpinned by biodiversity, are worth over one and a half times the size of global GDP – between $125-140 trillion annually.[3]

Between 1990 and 2020, around 420 million hectares of forest were lost through conversion to other land uses.[4]

We, and Legal & General, believe climate change and biodiversity loss are inextricably linked and should not be tackled in isolation. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon.

1. The State of the World's Forests 2022 (fao.org) https://openknowledge.fao.org/server/api/core/bitstreams/f81551bf-0a78-498b-a0a6-17f21467389d/content
2. How much is a ton of carbon dioxide? | MIT Climate Portal
3. Why-net-zero-needs-zero-deforestation-now-June-2022.pdf (unfccc.int)
4. The State of the World's Forests 2022 (fao.org) https://openknowledge.fao.org/server/api/core/bitstreams/f81551bf-0a78-498b-a0a6-17f21467389d/content

The most prevalent risk relating to deforestation and our portfolios comes from the resulting system-wide implications of climate change and biodiversity loss. Our investments may be exposed to indirect and direct deforestation-related risks, which could relate to:

- physical risk – for example, the loss of/insufficient access to raw materials
- litigation and reputational risks – such as companies involved in illegal deforestation through their value chains, or companies being associated with human rights abuses linked to deforestation
- risk of increasing regulation – for instance, a sharpened focus on both illegal and legal deforestation, the UK's Environment Act, EU Regulation and US Federal and State laws
- systemic risk – as outlined above, and as recognition grows of the linkages and interdependencies between deforestation, climate change and biodiversity

Deforestation forms a core part of Legal & General's Climate Impact Pledge, which covers many of the underlying funds in our default investment options, as well as some other Legal & General managed funds.

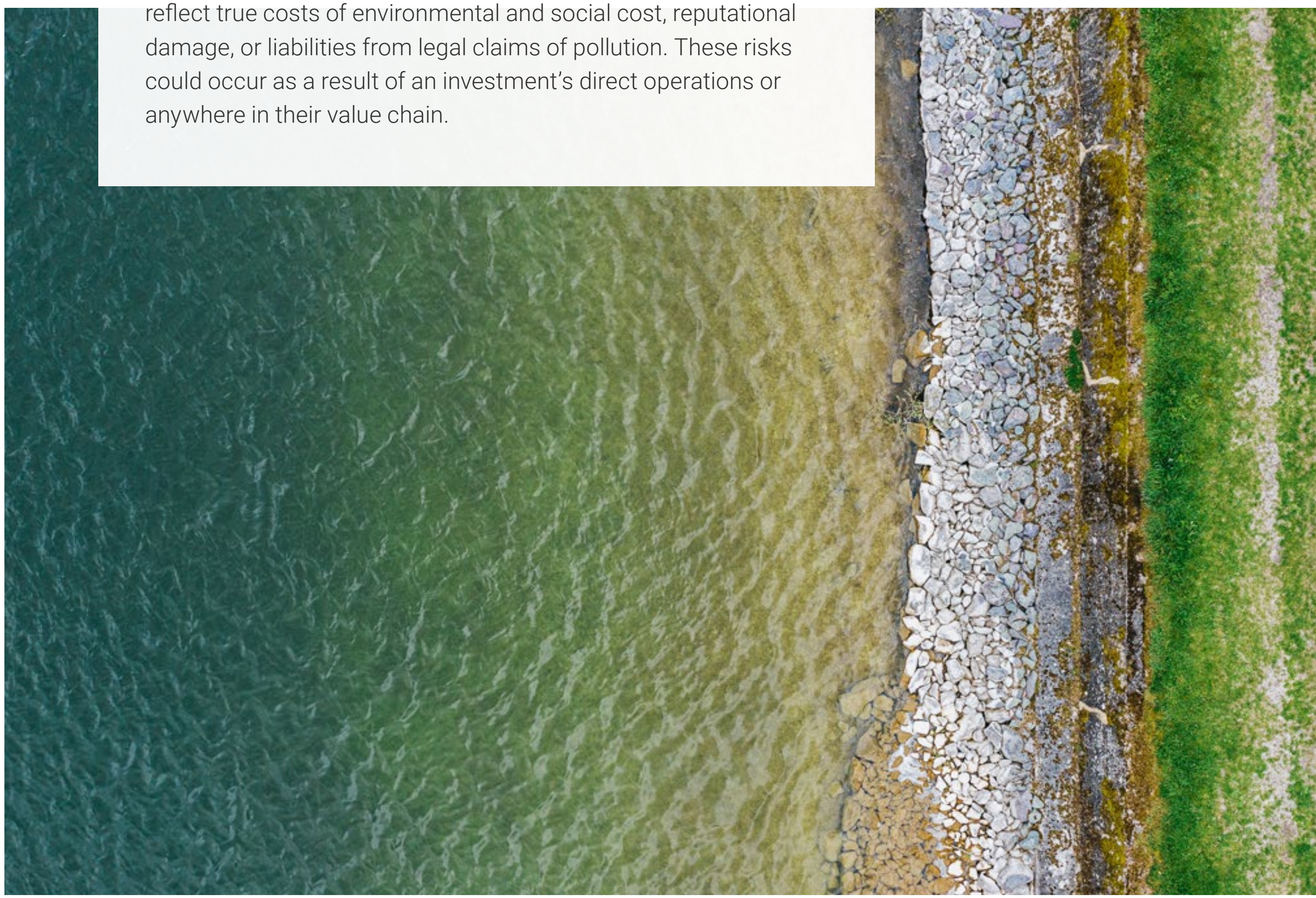
Water

Water is at the core of resilient, sustainable economic development. Freshwater and oceans are two of the four realms in the natural world that differ fundamentally in their organisation and function, providing a range of ecosystem services. Protecting, managing and restoring the global water system – marine and freshwater ecosystems - is a fundamental part of living in harmony with nature.

The marine environment (estuaries, coastal marine and nearshore zones, and open-ocean-deep-sea regions) is one of the main repositories of the world's biodiversity, critical to the healthy functioning of the planet, supplying half of the oxygen we breathe and absorbing around 26% annually of the anthropogenic carbon dioxide emitted into the atmosphere.[1]

Freshwater environments include rivers, lakes, wetlands, streams and underground aquifers. While covering only 0.01% of the Earth's total surface,[2] freshwater environments supply essential ecosystem services such as water for drinking, food, manufacturing, energy and transport, and help to prevent erosion, dispose of waste and provide natural protection from flooding.[3] The World Economic Forum has included 'water crisis' seven times in its top five 'global risks by impact' in the last decade. Ecosystems providing fresh water are under increasing pressure both from the demand side (e.g. population growth, industrial, energy and agricultural use), and from the supply side (e.g. land-use change, aging infrastructure, depleted groundwater reserves and climate change). By the end of this decade, demand for fresh water will outstrip supply by 40%.

Our investments' exposure to different water-related risks will be determined by geography and sector. Physical risks can include acute events such as flooding, limited water availability, or poor-quality water, while transition risks can include changes in regulation to limit extraction, increases in the price of water to reflect true costs of environmental and social cost, reputational damage, or liabilities from legal claims of pollution. These risks could occur as a result of an investment's direct operations or anywhere in their value chain.



1. Marine Biodiversity and Ecosystems Underpin a Healthy Planet and Social Well-Being | United Nations
2. The value of freshwater ecosystems and the benefits from their restoration - UNEP-WCMC
3. Protecting freshwater ecosystems | WWF

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Sector analysis of nature-related risks and opportunities

To identify sectors with the highest impacts and dependencies on nature within the Target Date Funds, Legal & General have conducted a sector assessment using ENCORE (exploring natural capital opportunities, risks, and exposure) – an open access tool created by Global Canopy, the UN Environment Programme Finance Initiative and the UN Environment Programme World Conservation Monitoring Centre. The Target Date Funds are our primary default investment option, and where the majority of our members are invested. We expect to expand this analysis in future years to our other in-scope funds.

In contrast to issuer-level data, the science and data on sector-level impacts and dependencies is now reasonably well established. In future years, as we develop in this space, we aim to work with Legal & General to zoom in and conduct deep-dive research on the impacts and dependencies of companies in these sectors, and to start to perform more detailed quantitative assessments on impacts and dependencies on nature. Information on location and landscape-level hotspots will be critical to this, and the data is not yet clear enough for us to take this step.

This sectoral approach will help us to prioritise the actions to undertake when it comes to future engagements with Legal & General and reviewing engagements with underlying investment companies.

The focus is on the enabling conditions required for nature to be restored, based on the five underlying direct drivers of biodiversity loss identified by IPBES (2019):

- Land, water, and sea use change
- Resource exploitation
- Climate change
- Pollution
- Invasive alien species

The guidance from the Finance for Biodiversity Pledge (FBFP) when assessing sectors is to start with 10 priority sectors, focusing on the key potential impact drivers of each sector. The priority sectors are:

- Automobiles
- Beverages
- Chemicals
- Consumer staples, distribution and retail
- Electric utilities
- Food products
- Metals and mining
- Oil, gas and consumable fuels
- Paper and forest products
- Pharmaceuticals

The framework currently focuses on listed equities and corporate bonds. FBPF's aim is for sovereign bonds to be added in at the next iteration.

Critical sector exposure in the Target Date Funds

		Automobiles	Beverages	Chemicals	Consumer Staples, Distribution & Retail	Electric Utilities	Food Products	Metals & Mining	Oil, Gas & Consumable Fuels	Paper & Forest Products	Pharmaceuticals	Total critical	Total non critical	No GICS asisgned
Specific Funds	TDF Growth	1.3%	1.3%	1.8%	1.7%	2.1%	1.7%	1.5%	2.7%	0.3%	3.9%	18.2%	64.8%	17.0%
	TDF at retirement	0.4%	0.4%	0.5%	0.3%	1.5%	0.3%	0.4%	0.8%	0.3%	1.2%	6.2%	35.1%	58.7%

Source: ENCORE (exploring natural capital opportunities, risks, and exposure), as at 31 March 2024.

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Heatmap of nature-related risks for the Target Date Funds

Drivers of nature change	Impact drivers	Critical Sectors: Automobiles	Beverages	Chemicals	Consumer Staples, Distribution & Retail	Electric Utilities	Food Products	Metals & Mining	Oil, Gas & Consumable Fuels	Paper & Forest Products	Pharmaceuticals
Land, Freshwater, and Sea Use Change	Area of Land Use	2	2	2	2	3	3	2	2	3	2
	Area of Freshwater Use	ND	ND	4	ND	2	4	4	4	3	ND
	Area of Seabed Use	ND	ND	4	ND	1	4	2	3	0	ND
Overexploitation of Resources	Volume of Water Use	2	3	3	3	2	4	3	3	3	3
	Other Biotic Resource Extraction (e.g. fish, timber)	ND	ND	ND	ND	3	1	ND	ND	2	ND
	Other Abiotic Resource Extraction	ND	ND	3	ND	ND	ND	4	2	ND	ND
Climate Change	GHG Emissions	1	2	3	3	3	3	3	4	3	3
Pollution	Emissions of non-GHG Air Pollutants	2	2	3	3	3	3	3	4	4	3
	Emissions of Toxic Soil and Water Pollutants	3	2	5	1	3	3	4	4	3	3
	Emissions of Nutrient Soil and Water Pollutants	ND	3	3	ND	3	3	2	0	4	3
	Generation and Release of Solid Waste	2	3	3	1	3	4	3	3	3	3
	Disturbances (e.g noise, light)	4	2	4	1	4	3	4	4	4	3
Invasive Species	Introduction of Invasive Species	0	0	1	1	ND	2	2	1	2	0

5	Highest level of negative impact on nature
4	High to very high negative impact on nature
3	Moderate to high negative impact on nature
2	Low to moderate negative impact on nature
1	Very low to low negative impact on nature
0	No to very low negative impact on nature
ND	No data to assess the level of materiality

Source: ENCORE (exploring natural capital opportunities, risks, and exposure)

The materiality of each driver and impact on nature is color-coded and given a number on a scale from 0-5, with the highest materiality per sector represented in dark red (5) and the lowest in dark green (0). The 'ND' mention means that it has not been possible, due to the lack of data available, to conduct the materiality assessment for this driver in that sector. To address the most impactful drivers, focus should be on drivers with a level of materiality greater than or equal to 2 on the 0-5 scale.

ENCORE builds its tool on the potentially material impact drivers based on the frequency at which the impact might occur, the speed at which the impact might affect natural capital, and the potential severity of the impact. Once priority sectors and impact drivers are identified, key performance indicators (KPIs) can be defined to assess company performance in each sector. These fall into four categories – (1) disclosure, (2) management, (3) performance and (4) phase out. You can read more about our future plans for KPIs in the Metrics and targets section.

The heatmap shows the spread of nature-related risks across different sectors and highlights the systemic nature of many of the risks, particularly related to climate change and pollution, with all sectors scoring at least a three in at least one of these drivers. The heatmap also highlights current gaps in the provision of data for nature-related risks.

The chart illustrates the challenge to investors when seeking to manage climate- and sustainability-related risks through exclusions alone, given the spread of the challenge. All three of our Exclude, Enhance, Engage tools are going to be essential to meet our goals.

People-related risks and opportunities

Inequality is a significant social issue. Climate change and nature loss are exacerbating inequalities, as people from poor and marginalised communities are more likely to be severely impacted. Inequality may also impede progress towards addressing climate change and ecological degradation, increasing financial risks and economic instability.

Legal & General currently maintains policies related to human rights and diversity which apply to our default investment options and some other Legal & General managed funds. However, these are only a small subset of factors that impact people and society.

In late September 2024, the Task Force on Inequality and Social-related Financial Disclosures (TISFD) will be launched.

Key deliverables for the Taskforce are expected to include:

- A global framework for inequality and social-related financial disclosures that will recommend disclosures for companies and investors to communicate their inequality and social-related impacts, dependencies, risks and opportunities
- Guidance and recommendations on the implementation of the resulting disclosure framework, the design of indicators and metrics, and the use of thresholds and targets, where appropriate

TISFD will synthesise and build on existing standards, while strengthening and addressing gaps in disclosures metrics and indicators. It is anticipated to align to existing international standards and, recognising the complex interplay of climate, nature and social-related issues, will work to ensure that its disclosure recommendations create a social throughline across existing frameworks for climate and nature from the Task Force on Climate-related and Nature-related Financial Disclosures. This will enable holistic reporting in the context of efforts to achieve a just transition.

We welcome the launch of TISFD and will be looking carefully at the recommendations.

People-related risks to pension saving

We also endeavour to further our understanding of the impact of social factors on our DC savers – this is core to understanding how to target good member outcomes and is fundamental to our strategy. The uncertainty of the past few years has exacerbated financial, social and health inequalities across British society. There has been a renewed focus on who is being impacted differently, first by the pandemic and now by the cost-of-living crisis.

Ethnicity remains one of the main fault lines for inequality. In late 2022, Legal & General conducted award-winning* research to explore the issue of ethnic inequality in retirement savings, with a sample size of over 4,000 UK adults. It investigated the size of today's ethnicity pensions gap and its key causes, as well as examining ways to minimise inequality in retirement. to explore the issue of ethnic inequality in retirement savings, with a sample size of over 4,000 UK adults. It investigated the size of today's ethnicity pensions gap and its key causes, as well as examining ways to minimise inequality in retirement.

Legal & General's research showed that minority pension pots average less than half the size of their white British peers. Before conducting this research, Legal & General had anticipated that the already substantial ethnicity pensions gap would have been intensified by the events of the past few years and sought to find out where the particular pressures are along the retirement savings journey. While the results are statistically valid for British minority ethnicities, Legal & General recognises that, with a variety of groups represented, there can be no 'one size fits all' solution. Instead, it believes that by identifying some of the main drivers it can take practical action and seek to improve retirement outcomes for everyone.

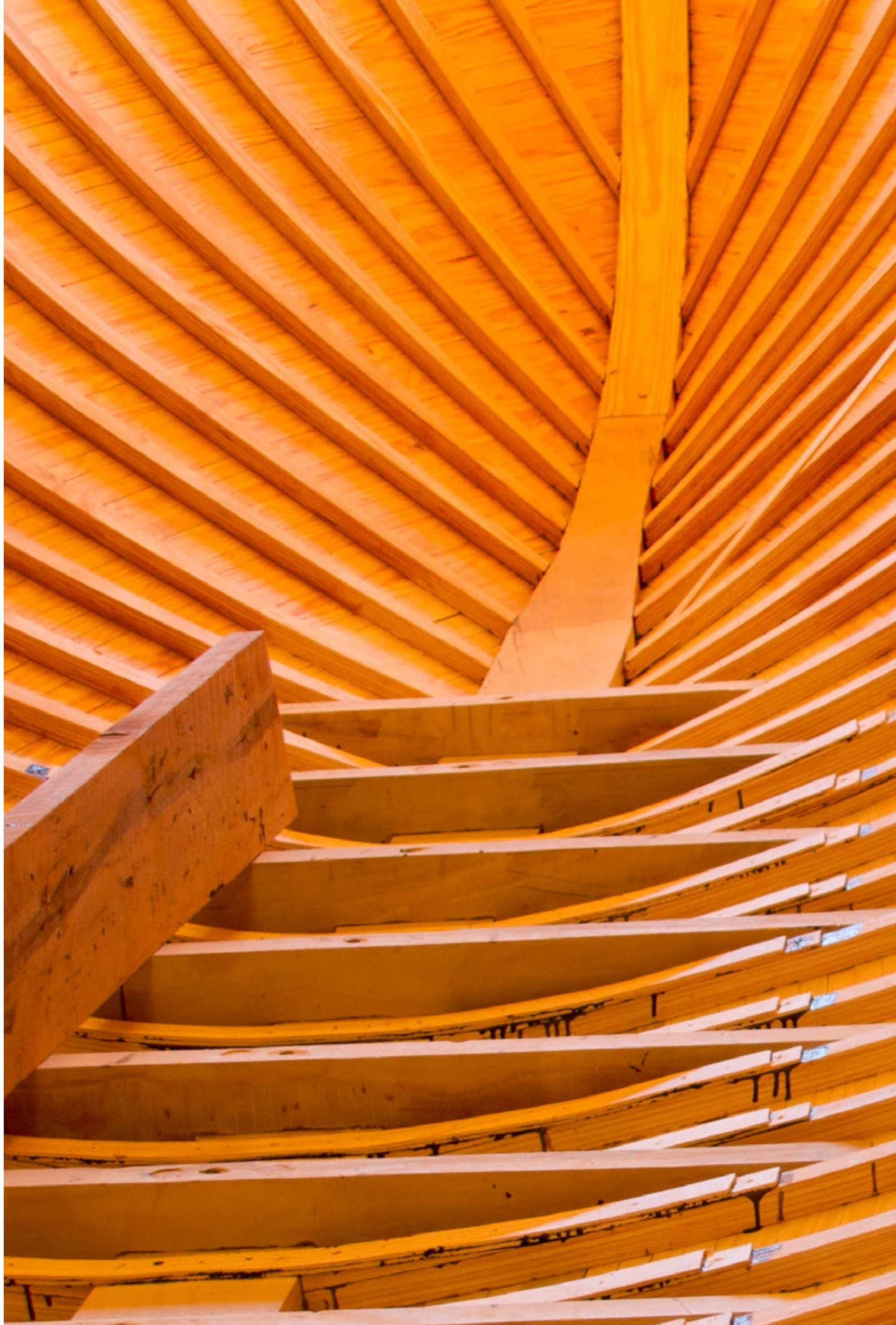
One of the key outcomes from Legal & General's research has been for it to design a Shariah-compliant lifestyle, to enable future Muslim members to participate in their workplace pension from the beginning of their journey, all the way through to retirement. This new offering was launched in September 2024 and we have approved the addition of the lifestyle, and further Islamic investment funds, to our sole governance range for Mastertrust members.

* Professional Pensions UK Pensions Awards 2024

Risk Management

We consider climate and sustainability related risks to be very important. As well as including these risks within our risk management documentation, consideration is incorporated into wider activities undertaken on behalf of the Mastertrust. Particularly those relevant to investment decision making.

Climate, sustainability, and wider ESG risks, can be identified by various parties including us, our advisers, and our managers, as part of the ongoing management of the Mastertrust. These are outlined in the Governance section of this report.



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Risks are identified as part of the following processes:

- **Investment strategy reviews** – we consider climate and sustainability related risks as part of the regular investment strategy reviews that are carried out for the Mastertrust. These reviews cover the extent to which climate, sustainability, and wider ESG considerations affect the selection, retention and realisation of investments. Our advisers are expected to integrate climate and sustainability considerations into their strategy advice and to highlight any key risks that are included within any potential investment strategy. The risks to the strategies available in the Mastertrust may also be identified by the climate scenario analysis undertaken and described in the Strategy section of this report.
- **Considering asset classes** – when assessing new asset classes, potential climate and sustainability risks are assessed and discussed as part of the training provided to us. Key climate and sustainability risks are factored in when comparing alternative options.
- **Selection of investment managers** – when appointing a new investment manager, our adviser provides information and its views on each manager's ESG policy and capabilities. Each manager is also asked to provide information regarding their own ESG risk-management processes as part of the selection process. This information allows us to identify potential risks when comparing potential providers.
- **Individual mandates and investments** – Legal & General also undertakes risk analysis at the individual asset level and has adopted enhanced management of climate change, sustainability, and wider ESG issues, including new potential investment products. This is supported by the measurement of the chosen climate-related metrics as outlined under the Metrics and targets section of this report, as well as metrics monitored through our ESG Dashboard.

Prioritisation of the identified climate- and sustainability-related risks is also supported by discussion as part of the above activities as well as the climate scenario analysis and measurement of the chosen climate metrics.

We acknowledge that many of the risks underlying our three pillars of climate, nature and people are, for asset owners, risks that cannot be fully diversified. Almost all asset classes, sectors and regions are likely to be affected by the physical, policy or market-related consequences of large changes in our society, climate, and natural environment over the long term.

Climate risk is not reserved to the oil, gas and power generation sectors but applies also to downstream sectors. Investors focusing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Speaking generally, a Paris-aligned transition to a low carbon economy would lead to better outcomes for long-term investors, and that is preferable to alternative climate scenarios. Risks across climate, nature, are people are often inter-dependent, and reaching our goals in each area will be better for member outcomes.

We have considered climate in the context of our fiduciary responsibilities. Our investment principles incorporate ESG and other related matters, based on our longer-term view. Uncertainty exists in climate science, and no single tool can provide an accurate and complete observation on a scheme's climate risk. For responsible investors looking to proactively manage climate risk, a combination of metrics and methodologies represents the best possible information set currently available.

Types of risk

Many climate- and sustainability-related risks fall into two core categories: transitional risks and physical risks.

Transitional risks occur as markets, consumers, governments, and regulators react to the emergence of these risks. Physical risks occur when the changes in the environment manifest and start to have real-world consequences.

Types of opportunities

Although sustainability and climate-related factors can introduce risks for our investments, they also present several areas of opportunity – both in the short and long term. For example, the transition to a net zero economy will require a shift in energy generation, usage, and storage, which could provide the potential for investors to provide capital and receive a return. This might mean investing in opportunities such solar energy, battery storage, or building energy-efficient housing. We carefully balance these opportunities against risks when considering our investment strategy and the opportunity to improve member outcomes.

Examples of transitional risks

Risk	Description
Policy	• Increased pricing of greenhouse gas emissions • Enhanced emissions-reported obligations • Mandates on, and regulation of, existing products and services • Exposure to litigation
Technology	• Substitution of existing products and services with lower emissions options • Unsuccessful investment in new technologies • Cost of transition to lower emission technologies
Market	• Changing consumer behaviour • Uncertainty in market signals • Increased cost of raw materials
Reputation	• Shifts in consumer preferences • Stigmatisation of sectors • Increased stakeholder concern or negative stakeholder feedback

Source: Task Force on Climate-related Financial Disclosures (2017)

Examples of physical risks

Risk	Description
Acute	• Increased severity of extreme weather events, including more severe storms, wildfires, and droughts
Chronic	• Changes in precipitation patterns and extreme variability in weather patterns • Rising mean temperatures • Rising sea levels

Source: Climate Watch, the World Resources Institute, and the UNFCCC Secretariat (The United Nations Climate Change)

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Risk management framework

In collaboration with the Designated Risk Officer, we maintain a risk management framework that enables us to gain assurance that relevant risks are being appropriately identified and managed. A risk register captures the key strategic risks for the Mastertrust, including climate- and sustainability-related risks. The risk register is usually refreshed quarterly, ahead of the Investment Committee where it is reviewed and ratified. As part of this process, committee members will consider the risk landscape and whether any new and/or emerging risks require further analysis.

The IC has responsibility to determine climate- and sustainability-related risks and opportunities, with the support of Legal & General, the investment adviser and fund managers. The IC will assess these risks and opportunities 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, and it will make sure it is provided with adequate reporting and analysis. The IC will recommend any changes and updates to our Trustee Board for approval.

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

We monitor exposure to climate- and sustainability-related risks within our portfolios on an annual basis through our ESG Dashboard, and consider our exposure to a number of metrics including:

- Carbon reserves
- Overall carbon intensity
- Alignment with future climate scenarios
- Emissions to water
- Activities negatively affecting biodiversity
- UN Global Compact violations
- Severe human rights issues

Risk management tools and approach

The Trustees, and Legal & General as our primary investment manager, manage risks relevant to the Mastertrust through our exclude, engage, enhance approach, as outlined in the Governance section of this report, as well as through asset allocation and investment decisions taken by the Trustees and by Legal & General on behalf of our members.

Details on the Trustees' approach to voting are outlined within the Mastertrust's Statement of Investment Principles.

We are also supported in identifying and monitoring our exposure to climate- and sustainability-related risks through several tools, outlined below.

Climate

As seen in our Strategy section, we use LGIM Destination@ Risk, Legal & General's proprietary climate toolkit, to analyse scenarios for how the energy system may evolve over the next 30 years and the investment implications. The model takes a bottom-up approach (i.e. individual security level) and projects companies' carbon emissions intensity into the future and compares them with industry targets for business as usual and Paris-aligned scenarios.

This enables Legal & General to identify companies with business models and assets that can adapt to a world of rising temperatures and avoid those companies that have unsustainable business models and potentially stranded assets. Stranded assets are those that lose value or turn into liabilities before the end of their expected economic life.

The LGIM Destination@Risk model is constructed to follow the recommendations of the TCFD and provides scenario analysis to explore a range of possible future climate pathways and their potential impacts, rather than predictions or probabilities.

The toolkit consists of four models:

Scenario	Primary inputs	Primary outputs
1. Destination	Carbon budgets, technology costs, service demand projections	Energy mix, oil prices, carbon prices, economic output, emissions pathways
2. Climate risk	Carbon prices, energy demand, emissions pathways	Risk to GDP, inflation, and asset values (listed corporates and sovereign bonds and equities)
3. Legal & General temperature alignment	Energy mix, sectoral emissions pathways, economic output	Company and country temperature alignment scores
4. Gap risk to net zero	Temperature alignment scores, sectorial emissions pathways	Distance to net zero outcome for countries and companies

Nature

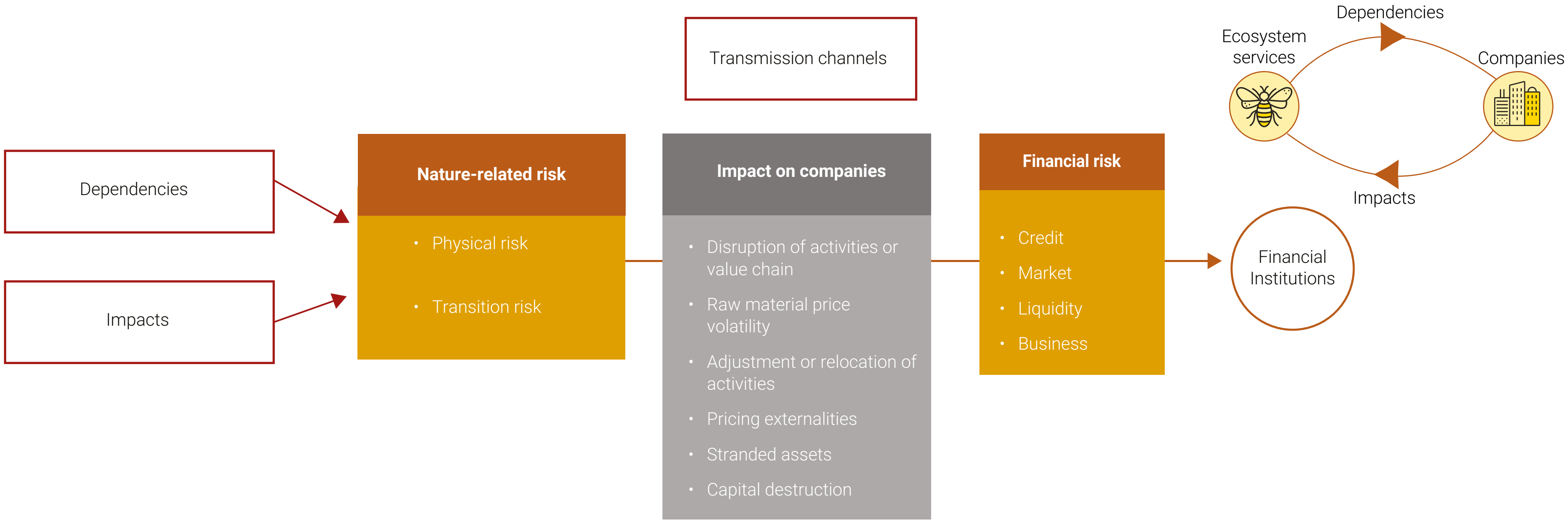
Nature risks are location-specific and unique to different sectors, situations and regions, making them complex to assess and manage, however progress in this area is rapidly developing.

Legal & General are a signatory to the Finance for Biodiversity Pledge, a member of Nature Action 100, and support the Task Force on Nature-Related Financial Disclosures (TNFD). Further information can be found in its Nature Policy.

As work progresses at Legal & General, we are aiming to adopt the recommendations from the TNFD within future versions of this report, including the integrated due diligence assessment process referred to as 'LEAP' - locate, evaluate, assess, prepare.

Legal & General promote the reporting of the TNFD's core global indicators that are of relevance to a company's business model, sector(s), biome(s) and priority locations, as well as their adoption of the LEAP assessment processes. The intention is to improve the standardisation of information available that can be used to make more informed decisions on risk and opportunity exposures.

Assessing nature-related risks will focus on value chains and identifying the geographic location of where organisations within the Mastertrust investment portfolios interact with nature – through both direct operations and the upstream and downstream value chains.



As seen in our Strategy section, this year we have used ENCORE (exploring natural capital opportunities, risks, and exposure) – an open access tool created by Global Canopy, the UN Environment Programme Finance Initiative and the UN Environment Programme World Conservation Monitoring Centre – to explore nature-related risks to key sectors within our Target Date Funds. ENCORE sets out how the economy – sectors, sub-industries and individual production processes – depends on nature.

We expect our policies related to, and expectations for management of, nature-related risks to continue to evolve, and we expect our approach to strengthen in the years to come.

People

Like climate and nature risks, the systemic nature of people-related risks can mean that they are difficult to avoid through asset allocation alone. For example, we may see business models and poor practices in supply chains replicated across sectors in a 'race to the bottom'.

We will be looking carefully at future recommendations from the Task Force on Inequality and Social-related Financial Disclosures (TISFD) and expect to further develop our policies related to, and expectations for management of, people-related risks over the coming years.

Action taken to address the climate risks and opportunities

Changes to (fund-specific) investment strategy

All Future World equity indices have decarbonisation (lowering carbon emissions) baked into their index construction, set at a reduction of 7% per year, ensuring progressive decarbonisation occurs over time. We use Future World equity indices throughout our default investment options and offer them as standalone options within our self-select range.

Exclude

Multi-Asset Fund

The Multi-Asset Fund extended the proportion of its portfolio that is subject to Legal & General's key ESG exclusion policies, such as the Future World Protection List and the Climate Impact Pledge. The changes implemented additional ESG-integration within the investment grade credit allocation, a material position within the fund. As at 31 March 2024, 85% of corporate assets in the Multi-Asset Fund are now subject to such exclusions. The fund also implemented ESG-exclusions within its small capitalisation equity allocation.

Enhance

Future World Multi-Asset Fund

Within the Future World Multi-Asset Fund, we completed a transition of the infrastructure basket to a sustainable variant. This resulted in a carbon emission footprint that is more than 50% lower when compared to a standard index on that basket, as well as a substantially lower temperature alignment, and higher 'green' revenue exposure.

Target Date Funds

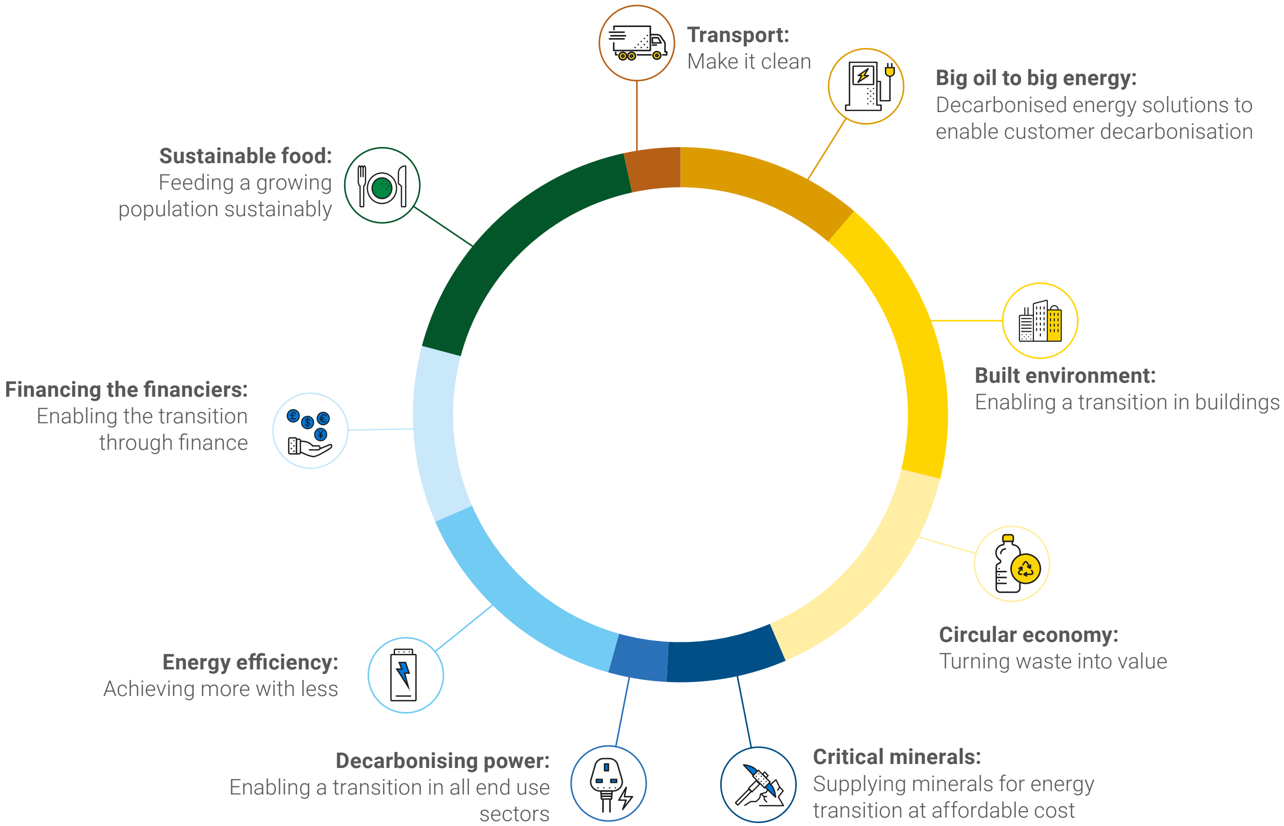
Within the Target Date Funds, there have been a few changes to the underlying building block funds used in differing proportions by each of the stages.

Enhance

The Diversified Equity Fund's small-cap equity allocation now additionally applies ESG tilting.

The Climate Action strategy has also been introduced for members in the growth phase of their savings journey.

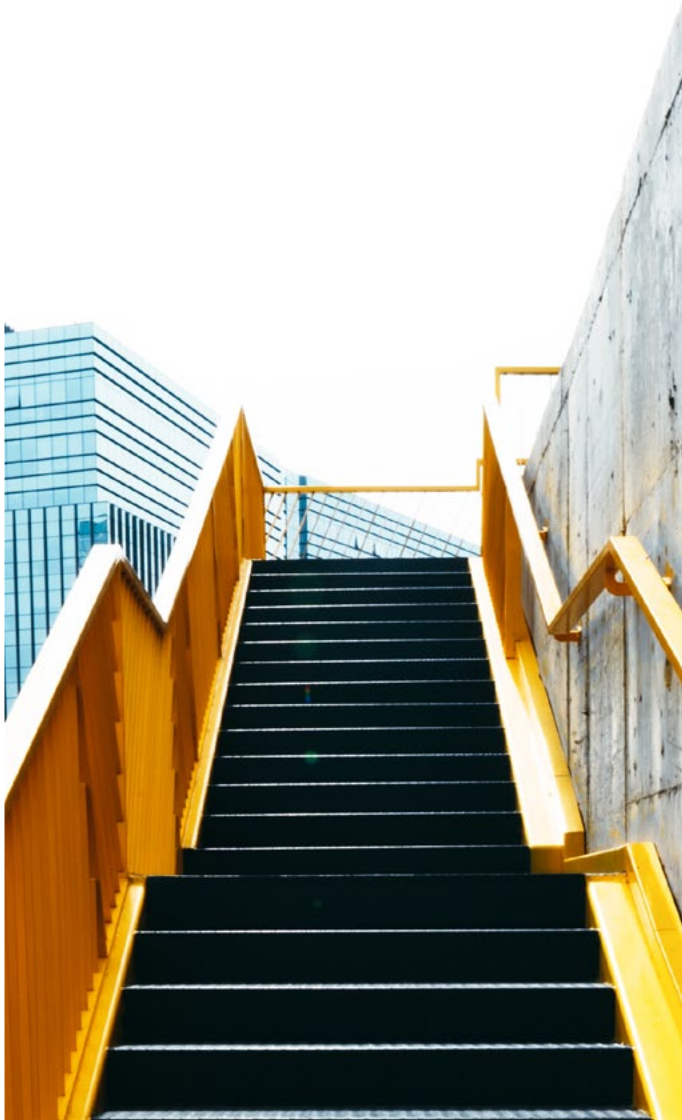
Similarly for younger savers, new allocations to the Future World North America Hedged and Unhedged indices are now in place, members benefiting from all the accompanying green credentials of Legal & General's Future World fund range. This includes a progressive decarbonisation of 7% per annum over time.



Past positioning is not indicative of future positioning. Asset allocation is subject to change.

Our commitments

In 2021, Legal & General publicly announced net zero ambitions by 2050, with interim targets set for each of the main default investment options reducing their carbon footprint by a range of 25% to 50% by 2025, and by a further 15% to 25% by 2030. Further detail on current progress against these is provided in our Metrics and targets section. We, and Legal & General, are not being complacent when it comes to progress on the overall ambition of being net zero by 2050.



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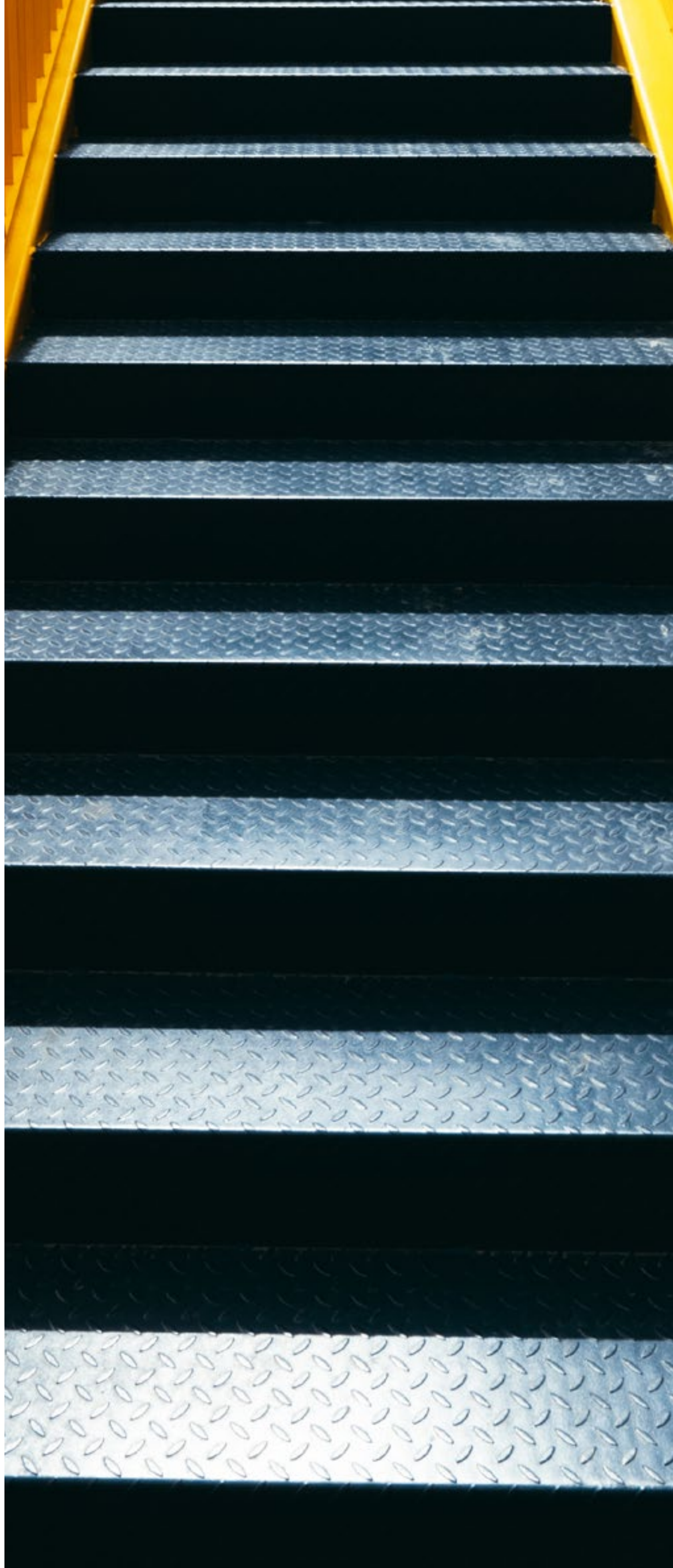
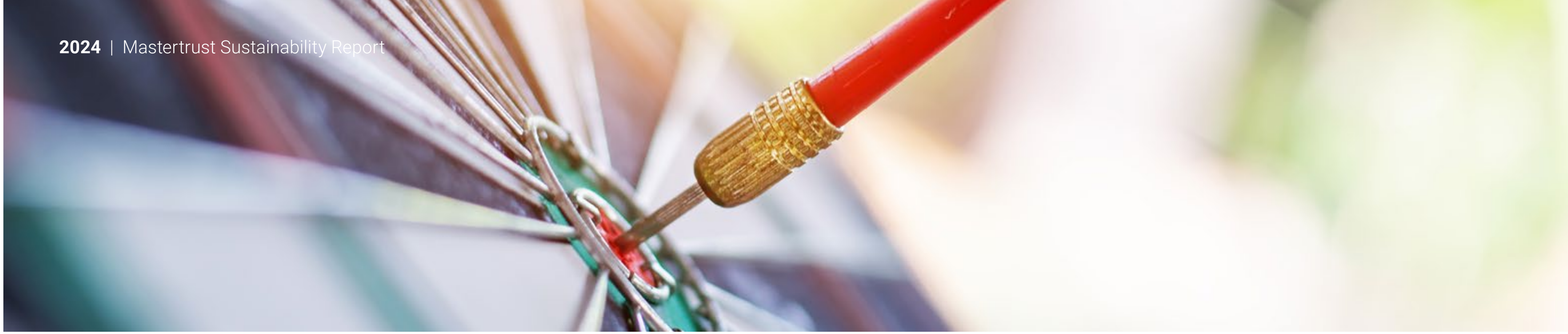
Exclude, Enhance, Engage in high-carbon sectors

High-carbon sectors, like energy and mining, are simultaneously the parts of the portfolio that contribute most to overall climate risk, but they are also a critical part of a successful energy transition that will require large amounts of capital to shift to low carbon technologies and products. Simply divesting (or stopping investing) from the most polluting companies is no quick fix to attaining a sub 2°C temperature aligned portfolio.

Holdings in high-carbon sectors are not all created equal simply because they produce high emissions today. In fact, these companies are presented with an opportunity to play a leading role in decoupling economic growth from carbon emissions – and whether they choose to do so is a major distinguishing factor. To realise this opportunity, capital can be provided to those that credibly align their strategic direction with a Paris-aligned pathway – through our enhance lever. Where laggards are identified, or expectations are not realised, we expect Legal & General to engage, apply sanctions, and – if engagement is not leading to meaningful change – exclude. We discuss Legal & General's approach to exclusions with the stewardship team annually, keeping our climate scenario outcomes in mind, and are committed to effective action when it comes to high-carbon sectors.

Our climate scenario modelling highlights to us that, as universal owners, it is important for us to consider how much capital could be allocated to those companies and countries that may not yet be perfectly positioned for the transition (given so very few are today), but which have the potential to be. This year we have added Legal & General's Climate Action Strategy to our Target Date Funds – both as part of our universal owner approach to risk management, and as a means to drive returns. Our focus remains on member outcomes, and decisions best aligned to protecting our members' pension pots from risks and helping them to grow by investing in opportunities.





Metrics and Targets

Data

Key data points

Our data is provided by Legal & General for all Legal & General managed funds. Due to data availability constraints, we have focused our disclosures on Legal & General managed funds as this represents the majority of Mastertrust member investments and enables us to analyse data for the vast majority of our in-scope funds. This means one fund, L&G PMC HSBC Islamic Global Equity Index Fund 3, is included with null values. Our intention is to expand our analysis to include externally managed funds next year, as data continues to be more readily available.

Carbon emissions represent the total greenhouse gas (GHG) emissions, measured in metric tonnes of carbon dioxide equivalents (tCO_2e), emitted by the issuer over a reference year. They include emissions generated from burning fossil fuels and production processes that are owned or controlled by the company. It covers the greenhouse gases of the Kyoto protocol - carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). For ease of accounting, these gases are usually converted to, and expressed as, CO_2 equivalent tons (tCO_2e). It is calculated using an external data provider, ISS.

Legal & General currently provides Scope 1, 2 and 3 carbon emissions; these represent the final value from ISS based on its methodology, which selects the most accurate value from available sources.

The three 'Scopes' are defined by the GHG Protocol Corporate Standard as:

Scope 1: Direct emissions generated from the owned or controlled sources of a company.

Scope 2: Indirect emissions generated from the purchased energy (e.g. heat, electricity) used by a company.

Scope 3: Includes all other indirect emissions that occur in a company's value chain, i.e. the emissions that are generated before (upstream of) or after (downstream of) a company's operations, for example the business travel undertaken by employees. Data quality for Scope 3 emissions is often hampered by poor disclosure and a lack of consistency in the parameters of measurement.

EVIC (Enterprise Value Including Cash) is the sum of the issuer's market capitalisation, total debt and cash for a particular reference year in US dollar. It is calculated using the enterprise value and cash values from external data provider Refinitiv. Within Legal & General, EVIC is used consistently as the denominator for footprint emission calculations for listed equities and corporate bonds.

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For **sovereigns**, Legal & General calculates the footprint as the production-based carbon emissions of the issuing country over the total (capital) stock. Total (capital) stock is a measure of the total value of gross fixed capital formation in a country's economy that is comparable to EVIC. The alternative to using total stock is to use government debt, however government debt has no correlation to emissions and creates a wide dispersion between emerging and developed markets, so it is less useful when calculating carbon intensity.

Metric	Asset type	Calculation	Source
Carbon footprint [31 Mar 2024]	Corporates	Sum of (Carbon, 2022) / EVIC (30 Jun 2022) * weight (31 March 2024) tCO_2e/1m Invested	Carbon from ISS, EVIC from Refinitiv
Carbon footprint [31 Mar 2024]	Sovereigns	Sum of (Carbon, 2021) / Total stock (December 2021) * weight (31 March 2024) tCO_2e/1m Total stock	Carbon from ISS, Total Stock from IMF
Total carbon [31 Mar 2024]	Corporates/ sovereigns	Carbon footprint [31 Mar2024] * market value [31 Mar 2024] tCO_2e	Carbon footprint and market value from Legal & General

Carbon footprint FX rate taken as at 30 June 2022

Implied temperature alignment shows how a company's actions and targets are contributing to global warming outcomes, based on the fair share emissions budgets for the sector(s) in which it operates. There is no expectation that by investing in this company, an investor will meaningfully change the temperature outcome. The metric evaluates performance against the following scenarios:

Metric	Narrative
1.5°C (net zero GHGs)	To reach net zero GHG standards by 2050 globally, all companies must decarbonise extremely rapidly, at an unprecedented scale. This requires all companies, regardless of starting point or sector, to reduce absolute emissions by half by 2030.
2°C	The 2°C scenario is a convergence scenario, in which companies are assessed against a fixed sectoral decarbonisation pathway. Companies with higher emissions today must decarbonise faster than lower emissions peers to meet the sectoral 2°C pathway in 2030.
4.5°C	To reach global warming of 4.5°C, the highest temperature scenario modelled by the IPCC, the world would have to abandon all existing climate targets and grow emissions at a rate that is higher than historical trends. This is not a convergence scenario, as companies can grow their emissions no matter the starting point.
6°C	There is no climate scenario, even from the IPCC, which sets out what a 6°C outcome would entail in terms of emissions growth. This scenario is an upper bound communication device for temperature alignment. It would involve a significant regression towards coal-fired power and result in exponential emissions growth.

Legal & General uses a fixed day, 30 June of the reference year, so that the underlying data for the emissions calculated stays the same for that reference year, unless the data vendor makes corrections at a later point.

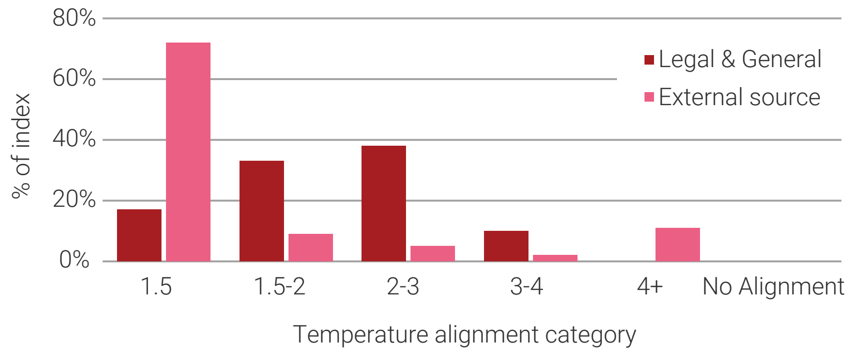
Implied temperature alignment is calculated using the LGIM Destination@Risk model, by projecting forward the expected emissions intensity/absolute emissions (dependent on sector) of an issuer a decade ahead and comparing this projection to temperature-aligned sectoral decarbonisation pathways. The projection integrates backward-looking trend analysis and probability-adjusted forward-looking targets. The scenarios used to calibrate the sectoral decarbonisation pathways are all orderly scenarios that require smooth and coordinated action towards decarbonisation.

Implied temperature alignment captures significantly more information and insight at a higher resolution about the expected rate of change at the companies and countries to which capital is being provided than a binary metric of the percentage of companies setting Science Based Targets initiative (SBTi) approved targets. It allows us to differentiate between the quality of targets, and to report in a more granular and insightful way on progress over time.

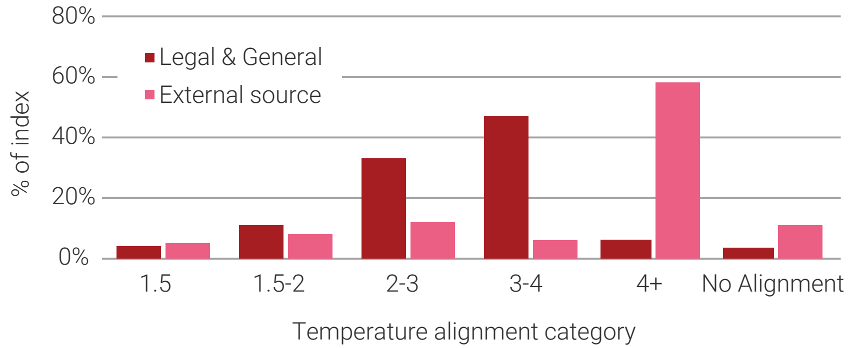
Caution is urged when comparing temperature alignment figures produced by different models. There can be quite some difference in the end output, depending on the model used. The charts below show, as an example, the calculated temperature alignment for the MSCI ACWI index (a standard market global equity index), the headline figure for temperature alignment calculated as 2.7°C using the LGIM Destination@Risk model, versus a figure of 3.9°C output from an example external data provider's model. As temperature alignment is carbon-weighted and the external data provider calculates a greater number of securities with higher alignments, the carbon intensities for the 4°C + companies push the overall temperature alignment up.

Currently, implemented policies put the world on course for a calculated 2.7°C of warming under 2030 targets according to the Climate Action Tracker (see the temperature alignment section for more information). This means that the average company is unlikely to be aligned with an outcome consistent with below 2°C unless we assume that most, if not all, high-carbon activities are occurring outside of the listed universe. Legal & General's temperature alignment metric reflects this. An alignment of 1.5°C is reserved for companies that demonstrate highly ambitious decarbonisation history and/or targets, providing sufficient evidence for us to believe that they can decarbonise at the required rate.

MSCI ACWI index, temperature alignment detail, LGIM Destination@Risk compared to an example external data provider, by index PV weights as at 31 March 2024



MSCI ACWI index, temperature alignment detail, LGIM Destination@Risk compared to an example external data provider, by index carbon intensity weights as at 31 March 2024



Source: LGIM Destination@Risk

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Where does the data come from?

Legal & General has created a data warehouse converting raw data from a few different external providers into key ESG metrics at a fund level. This can drill into the underlying data points, building an understanding of the carbon characteristics, including the biggest contributors to the fund's carbon footprint for individual issuers, by sector and by country.

The metrics are calculated at an individual security level, mapped to positions and then aggregated to fund level. Currently, only corporate (equities and corporate bonds) and sovereign asset types are supported.

Some metrics require a currency conversion because they include a financial element. For example, carbon intensity is based on revenue. Revenue is typically available in US dollars (USD), but needs to be converted to different currencies for specific reporting requirements such as pound sterling (GBP) for TCFD.

Table highlighting key metrics and how these are calculated:

Metric	Scope	Asset type	Calculation	Aggregation	Currency conversion	Missing data assumption
Carbon footprint	1, 2 and 3	Corporates	Carbon emissions divided by EVIC in tCO_2e per 1m invested	Weighted average	EVIC	Weighted average
Carbon footprint	1, 2	Sovereigns	Carbon emissions divided by Total Stock	Weighted average	Total Stock	Weighted average
Total carbon	1, 2 and 3	Corporates	Carbon footprint multiplied by market value of corporates in tCO_2e	Weighted average	EVIC	Weighted average
Total carbon	1, 2	Sovereigns	Carbon footprint multiplied by market value of sovereigns in tCO_2e	Weighted average	Total Stock	Weighted average
Implied temperature alignment	N/A	Corporates, sovereigns	Temperature rise in °C that Legal & General projects that the investment in an issuer is aligned with	Carbon-intensity weighted average	N/A	Carbon-intensity weighted average
Climate-related engagements	N/A	Corporates	At least one Legal & General engagement over last 12 months with an issuer where climate-related risk and opportunities have been a substantive topic	Count	N/A	Zero

Data coverage and limitations

Although more and more carbon and other ESG data is being reported, data vendors often provide estimates based on their internal methodologies to fill some of the gaps in published data. However, significant gaps remain, either due to the type of assets, for example for real estate, or due to the complexities in applying data to more advanced financial instruments, such as derivatives.

By providing the following quality indicators for funds, Legal & General offers as much transparency as possible about data quality while continuing to address existing limitations.

Eligibility: the proportion of the holdings for which Legal & General can calculate ESG metrics. This is currently the case for corporate and sovereign asset types.

Coverage: the proportion of the eligible holdings for which Legal & General has either estimated or reported data. This is sometimes referred to as total coverage, as opposed to eligible coverage.

Eligible coverage: the coverage relative to the eligible proportion of the fund.

Missing/not available: the proportion of the covered holdings for which Legal & General has no data.

Legal & General's data team works closely with external vendors to source the most appropriate data inputs. A number of materiality and sensitivity controls are in place to ensure sufficient carbon data quality. Tolerance checks are also implemented to validate the periodic change in the fund level carbon metrics.

To provide carbon reporting on a fund, the following thresholds need to be met:

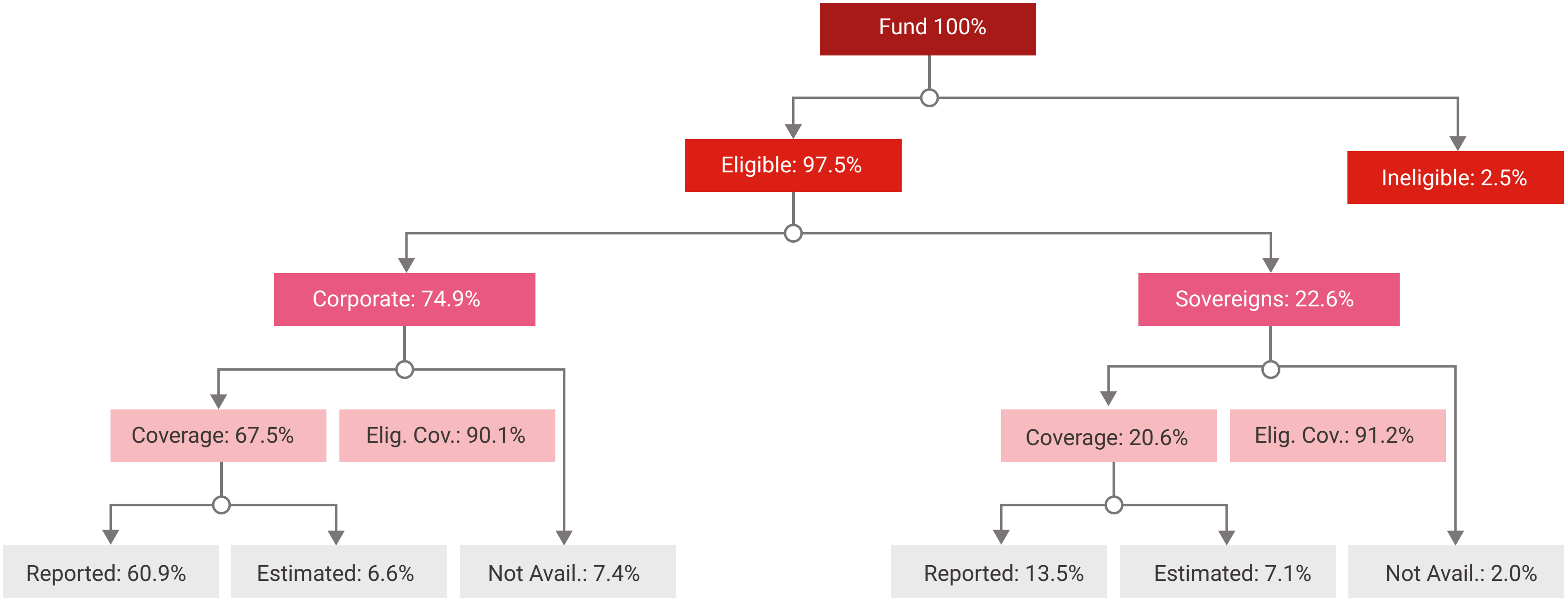
- the assets eligible for coverage need to be greater than 50% - this is calculated using the value of securities for which we have carbon emission metrics as a percentage of a fund's assets under management; and
- carbon coverage of the eligible assets needs to be greater than 60%.

Please note that where meeting regulations requires Legal & General to publish the data regardless of the coverage and eligibility, such as with TCFD, this threshold requirement will be removed.

Currently around 95% of eligible asset classes (equity, sovereigns, corporate bonds) are reported.

Scope 3 emissions are purely focused on corporate securities. And as detailed earlier in this report, the coverage has a higher proportion derived from modelled estimates rather than reported data.

The following diagram shows an illustrative breakdown of fund holdings and the relationships between the quality indicators.



Missing data

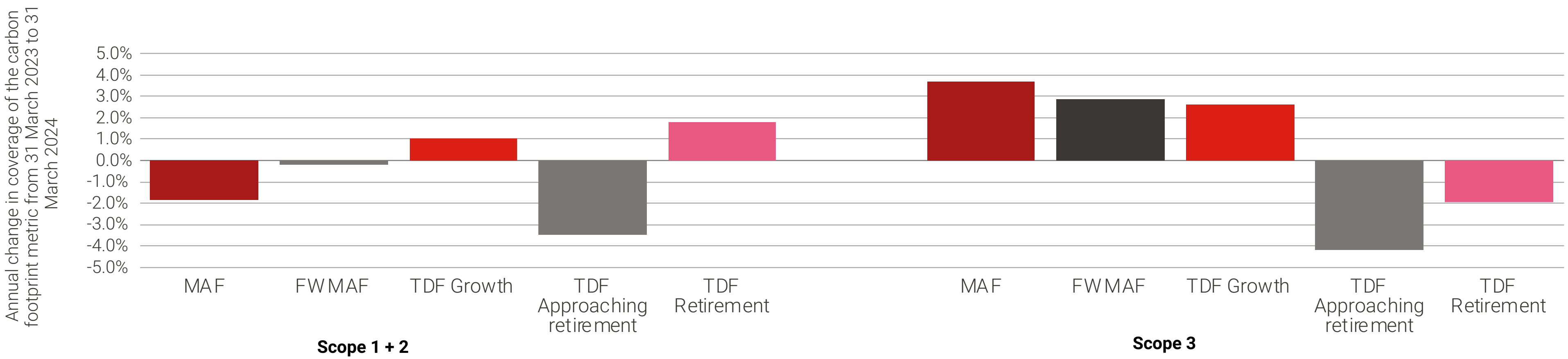
In order to interpret the metrics Legal & General calculates, it is important to understand how missing data is treated. The key principle here is that missing values are not assumed to be equivalent to zero. Instead, they are excluded from the calculation. Before any aggregates are calculated, positions for which there are no data are discarded, i.e. they are not covered, or an appropriate calculation methodology has not been implemented, i.e. they are not eligible.

The weights of the portfolio are rescaled as if based solely on held positions that are covered and eligible. Only then are aggregates calculated. This approach is mathematically equivalent to assuming missing data to be the same as the weighted average. Treating the data gaps in this way may not be intuitive, but Legal & General believes that this is a better approach than assuming missing data to be zero, since the method results in higher and generally more realistic numbers at the aggregate level.

For the Legal & General default funds, the chart below shows the annual proportional change in coverage of the carbon footprint metric from 31 March 2023 to 31 March 2024.

Overall, there have been small changes, both positive and negative, with the Target Date Fund approaching retirement stage experiencing the largest drop in coverage. This drop can be explained by the change in underlying asset allocation as the Target Date Funds move through their glidepath when comparing 2023 coverage to 2024.

Annual change in coverage of the carbon footprint metric from 31 March 2023 to 31 March 2024.



Source: LGIM Destination@Risk

At what date is the data taken?

The reference year is the calendar year for which emissions and other ESG input data points are reported. The reporting cycle for emissions typically aligns with the issuers' financial year. Some financial years do not align with calendar years, but for comparability, we associate the financial year with the main calendar year of the financial reporting period.

Due to the lengthy process of collecting, publishing and sourcing carbon emissions, figures for corporates are currently lagging by up to two years, and for sovereigns by between three and four years.

Future improvements

Additional asset class coverages are being considered for Legal & General's 2024 roadmap (derivatives, real assets, supranational and private equity) in line with regulatory obligations, noting that the integration of additional data sources, methodologies and tools is required. Currently, Legal & General is reporting around 95% of eligible asset classes (equities, sovereigns, corporate bonds) for all Legal & General managed funds.

Assets managed by external managers, i.e., not held by Legal & General, are excluded from all metrics, and will continue to be so for the foreseeable future. However, our external investment adviser undertakes regular due diligence of all external fund managers. This includes assessing their ESG credentials and providing a responsible investment rating. You can read more about this in our Statement of Investment Principles.

Metrics

There are 33 funds that fall within the scope of this year's TCFD reporting requirements, the key metrics for which are detailed in the table below. The key metrics and underlying methodologies have not changed since last year.

The table is focused on Scope 1 and 2 emissions categories. Scope 3 information is shown in a separate table in the next section.

Funds in scope	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %	Temperature alignment °C	Coverage %	Climate engagement %
L&G PMC World (Ex-UK) Equity Index 3	525	31,483	60	99%	2.6	99%	18.1%
Employer A Global Equity	238	19,036	80	94%	2.7	93%	18.8%
L&G PMC All World Equity Index 3	261	19,225	74	99%	2.8	99%	18.6%
Employer B Diversified Fund	106	11,041	104	80%	2.7	78%	13.3%
Employer B Overseas Equity Fund	252	15,101	60	99%	2.6	99%	18.1%
Employer B UK Equity Fund	154	12,915	84	93%	2.3	90%	33.3%
L&G PMC 2020 - 2025 Target Date Fund 3	722	52,595	73	67%	2.5	66%	11.8%
L&G PMC 2025 - 2030 Target Date Fund 3	1,667	114,420	69	77%	2.4	75%	12.8%
L&G PMC 2030 - 2035 Target Date Fund 3	2,135	137,247	64	88%	2.4	86%	14.1%
L&G PMC 2035 - 2040 Target Date Fund 3	2,225	159,051	71	92%	2.6	90%	13.8%
L&G PMC 2040 - 2045 Target Date Fund 3	1,889	151,854	80	93%	2.6	91%	14.3%
L&G PMC 2045 - 2050 Target Date Fund 3	1,734	139,696	81	93%	2.6	91%	14.3%
L&G PMC 2050 - 2055 Target Date Fund 3	1,417	114,421	81	93%	2.6	91%	14.4%
L&G PMC 2055 - 2060 Target Date Fund 3	962	77,790	81	93%	2.6	91%	14.4%
L&G PMC 2060 - 2065 Target Date Fund 3	418	33,743	81	93%	2.6	91%	14.3%
L&G PMC 2065 - 2070 Target Date Fund 3	55	4,420	81	93%	2.6	91%	14.4%
L&G PMC 2070 - 2075 Target Date Fund 3	1	118	81	93%	2.6	91%	14.4%
PB Composite Global Equity Index Fund	207	13,819	67	97%	2.6	96%	22.5%
Employer E Nearly There Bond Fund	185	9,614	52	82%	2.1	81%	15.1%
Employer E Corporate Bond Fund	297	11,888	40	103%	2.4	103%	15.8%
Employer E Diversified Fund	617	55,416	90	59%	2.7	57%	10.3%
Employer E Growth Fund	1,764	92,119	52	77%	2.6	76%	13.6%

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Funds in scope	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %	Temperature alignment °C	Coverage %	Climate engagement %
L&G MT Future World Multi-Asset Fund	471	30,219	64	89%	2.5	87%	14.3%
L&G PMC Cash 3	225	1,011	5	13%	2.0	13%	26.5%
L&G PMC UK Equity Index 3	175	14,677	84	93%	2.3	90%	33.3%
L&G PMC Global Eqty Fixed Weights 50:50 Index 3	365	29,487	81	96%	2.5	95%	25.6%
L&G PMC Multi-Asset 3	4,101	404,759	99	87%	2.6	85%	13.8%
L&G PMC Retirement Income Multi-Asset 3	252	24,473	97	75%	2.5	74%	9.0%
L&G PMC HSBC Islamic Global Equity Index Fund 3	EXTERNAL FUND						
L&G MT Global Developed Equity Index Fund	265	15,183	57	99%	2.6	99%	19.2%
L&G PMC Global Eqty Fixed Weights 60:40 Index 3	146	11,893	81	96%	2.4	94%	27.2%
L&G PMC Ethical Global Equity Index 3	146	7,505	52	98%	2.6	98%	12.9%
L&G PMC Global Equity Market Weights 30:70 Idx 3	98	7,837	80	96%	2.7	95%	18.8%

Please note that the table of metrics above is expressed in pound sterling for all eligible assets. Metrics are also provided across both corporates and sovereigns.

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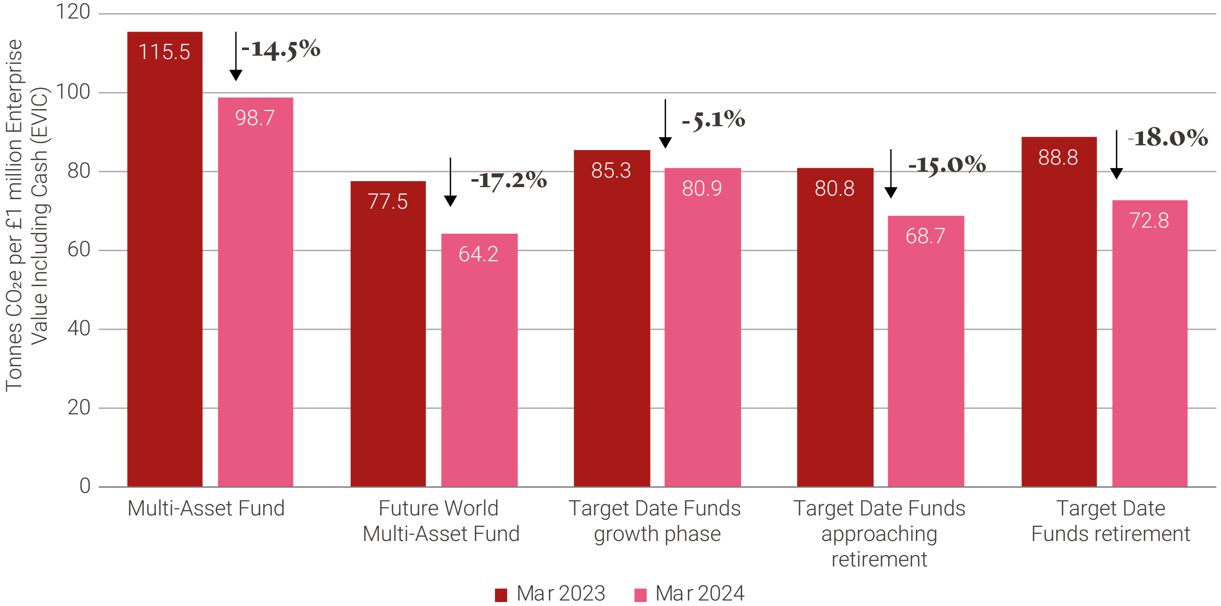
Carbon footprint of Legal & General default funds, tonnes CO_2e per £1 million EVIC, change from 31 March 2023 to 31 March 2024:



Source: LGIM Destination@Risk

Over the last year there has been a reduction in the reported carbon footprint of all default funds. The reduction across the defaults can be broadly attributed to the following two factors, in varying proportions based on the different assets held by each default:

- Changes to data inputs
- Changes to the portfolios (as highlighted in the Strategy section)

Changes to data inputs

As noted previously, the carbon footprint metrics shown in the table above as at 31 March 2024 are calculated using an EVIC value as at 30 June 2022. Changes in the EVIC value between 30 June 2021 and 30 June 2022 will be a contributing factor to any change in the overall carbon footprint calculated. Over the period from 30 June 2021 to 30 June 2022, EVIC values for companies broadly decreased, although in the carbon-heavy sectors of energy and utilities EVIC values increased over the period. The impact of this will differ by fund, depending on the relative size of the energy and utility sector's allocation within the overall fund holdings.

Sterling currency depreciated over the period relative to US dollar. This has resulted in a relative strengthening of the reported figures expressed in Sterling shown in the table above, muting the impact of the broader reduction in EVIC values. There was also a decline in the carbon footprint arising from sovereign bond holdings, more relevant to multi-asset funds and TDF Retirement. This was also driven by the weakness in sterling as well as from an update to the denominator (capital stock) from 2019 to 2021.

Climate-related engagements

As outlined in our Governance section, our engagements over the year, both those undertaken directly by the Trustees with Legal & General, and those undertaken by Legal & General on our behalf, use our exclude, engage, enhance framework. Stewardship and engagement form a core part of our strategy and risk management, as universal asset owners. We monitor and disclose core metrics on climate-related engagements, categorised by our three pillars.

You can find more about significant votes that have taken place in our default investment options in our Implementation Statement.

Exclude

Exclude

Climate Impact Pledge

The Climate Impact Pledge applies to many of the underlying funds that make up our default investment options, and some other Legal & General managed funds.

During the 2024 proxy voting season, 455 companies were identified as subject to voting sanctions. Of these, 106 were companies in emission-intensive sectors that do not meet Legal & General's minimum climate change standards. The sectors with the highest proportion of companies that failed to meet our minimum standards were oil & gas, electric utilities and property.

Between 2023 and 2024, Legal & General reported an upward trend in average Climate Impact Pledge ratings across most markets, except in China and the US. Overall, significant improvements were observed since 2023 in climate disclosure and Scope 3 reporting (+41%), followed by net zero ambition (+38%).

In addition to these quantitative voting sanctions, it identified 37 of its qualitative stream 'dial-mover' companies as being subject to a vote against, with 14 companies remaining on its existing exclusion list and two additional companies being added to the list for failing to meet expectations. Although Legal & General did not reinstate any companies this year, some have demonstrated good progress.

Future World Protection List

Our default investment options use funds from Legal & General's Future World Fund range as part of their investment strategies. We also offer several funds from the Future World Fund range for members to self-select.

The list is updated semi-annually, effective in impacted portfolios in May/November. As of May 2024, 1,486 companies formed part of the Future World Protection List, up from 423 in November 2023. The main driver for this increase is a methodology change, which added 1,091 companies (based on the no new coal criteria). Three companies were also added based on the new 5% revenue threshold for oil sands extraction.

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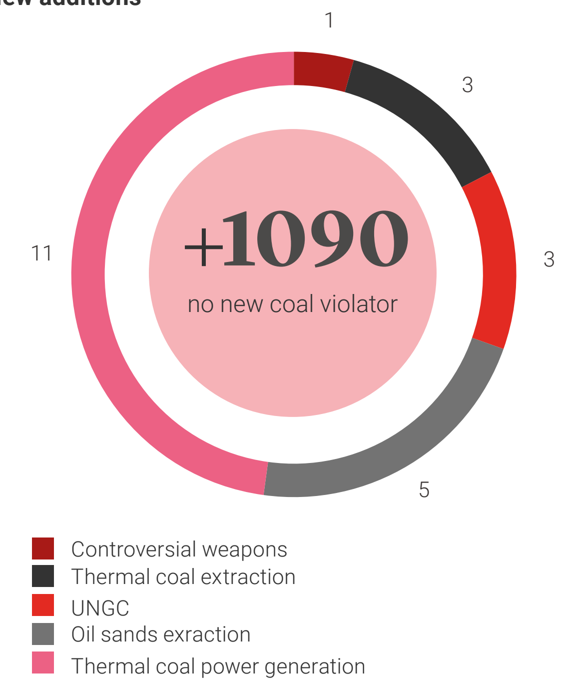
Before May 2024	After May 2024
Coal Companies with 20%+ revenue from: • Thermal coal mining • Thermal coal power generation and/ or • Extraction of oil sands	**Coal** Companies with 20%+ revenue from • Thermal coal mining and/or • Thermal coal power generation Companies with 5%+ from extraction of oil sands; companies that are involved in expansion of thermal coal mining and/or power generation capacity ('no new coal' criteria)
Controversial weapons Companies involved in the production of cluster munitions, anti-personnel landmines, and/or biological/chemical weapons	**Controversial weapons** No change
UNGC violations Perennial violators of UNGC principles (as defined by Sustainalytics Global Standards screening	**UNGC violations** No change

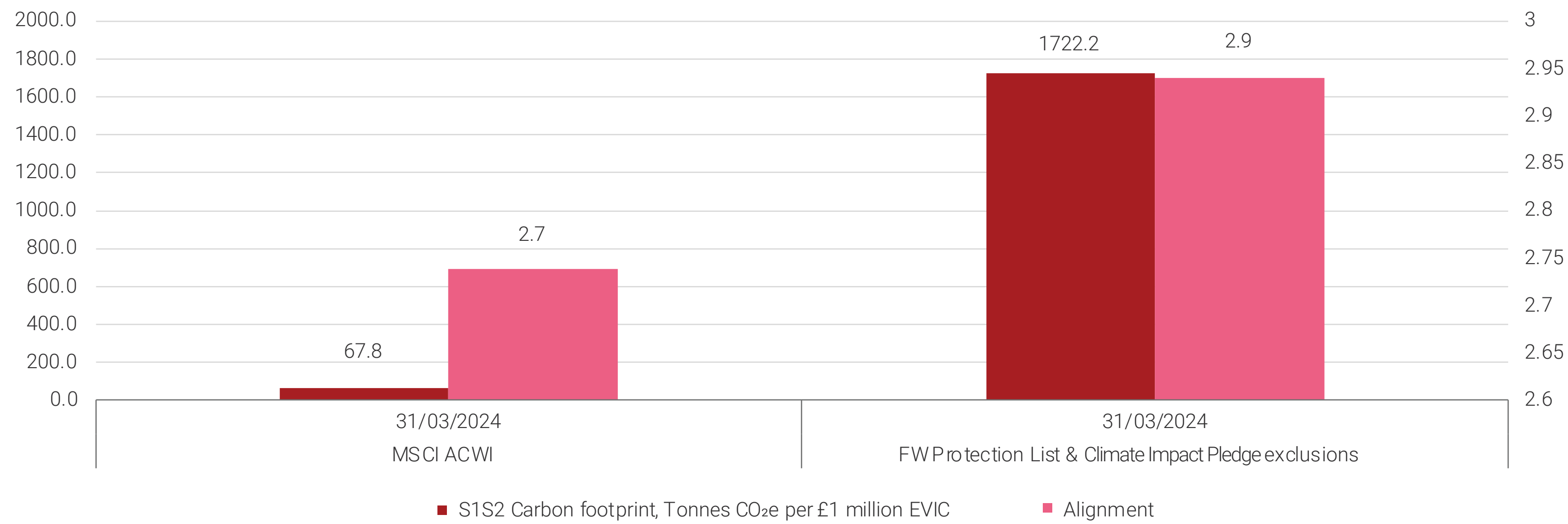
Only direct violators of UNGC violations would be excluded.

Categories	Nov-23	May-24
Coal companies	267	1,352
Controversial weapons companies	42	40
UNGC violators	139	113
Total **	**423**	**1,486**

New additions



Relative carbon footprint – combined current disinvestment company list from Future World Protection List and Climate Impact Pledge versus MSCI ACWI, tonnes CO_2e per £1 million EVIC, Scope 1 and 2 emissions, as at 31 March 2024



Source: LGIM Destination@Risk

Engage

During 2023, Legal & General's investment stewardship team engaged with 2,050 companies, and co-filed 3 shareholder proposals. Although not all of these will be relevant to the Mastertrust's holdings, our diversified investment strategy means our investments spread across Legal & General's engagement universe.

The following table shows the voting activity that has taken place across our default investment options over the year. You can read more about significant votes for holding within the Mastertrust, and their outcomes, in our Implementation Statement.

Voting across our default investment options

	MAF	Future World MAF	RIMA	TDF 2055-60
How many meetings were you eligible to vote at over the year to 31 March 2024?	9,301	8,965	9,981	9,095
How many resolutions were you eligible to vote on over the year to 31 March 2024?	94,065	91,840	102,982	93,447
What % of resolutions did you vote on for which you were eligible?	99.79%	99.81%	99.79%	99.82%
Of the resolutions on which you voted, what % did you vote with management?	76.51%	76.66%	77.39%	76.72%
Of the resolutions on which you voted, what % did you vote against management?	23.17%	23.13%	22.40%	23.06%
Of the resolutions on which you voted, what % did you abstain from?	0.32%	0.22%	0.21%	0.21%
In what % of meetings, for which you did vote, did you vote at least once against management?	72.45%	73.57%	72.06%	73.48%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	14.44%	14.38%	13.70%	14.36%

Engagement with governments and regulators

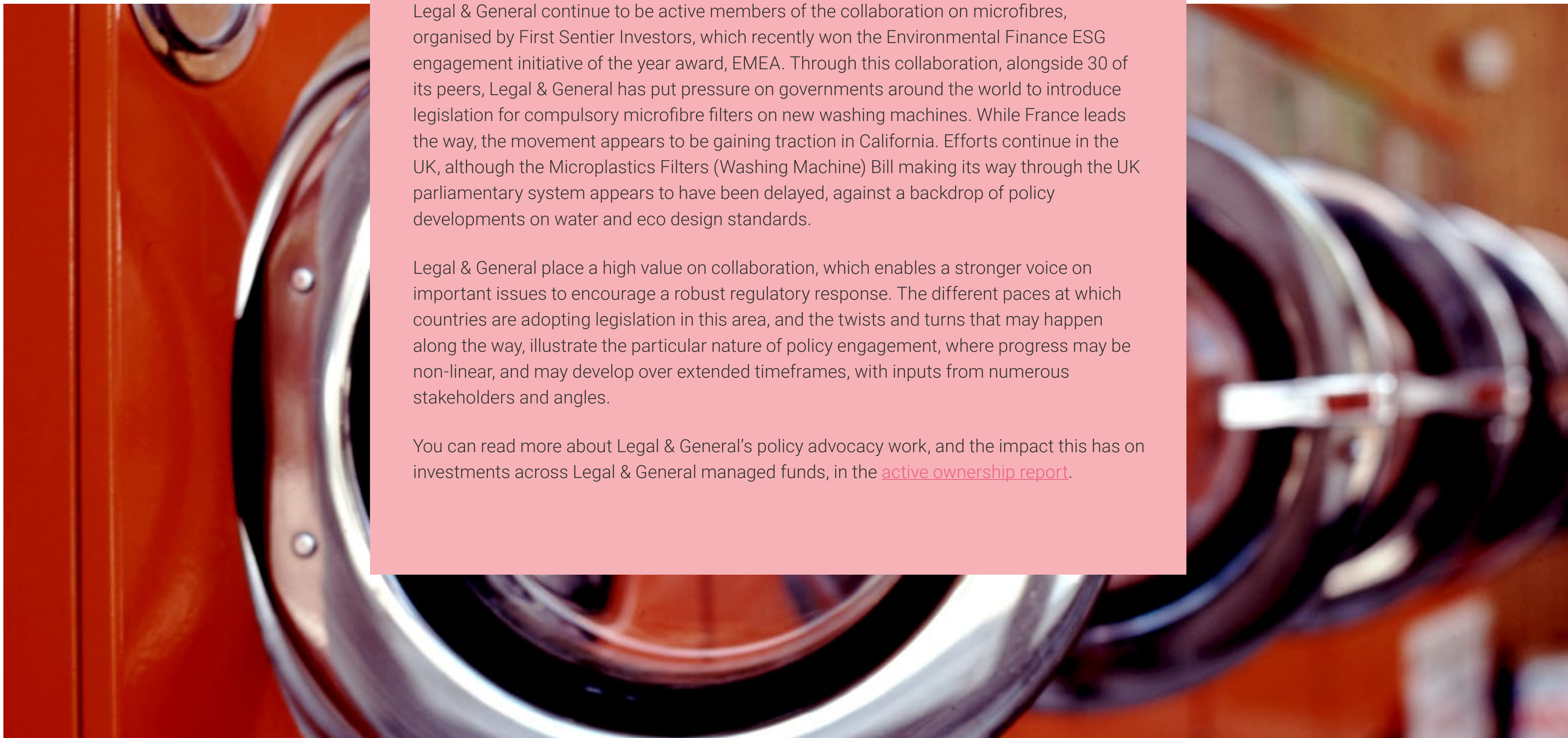
As well as engaging directly with companies, Legal & General is involved in policy advocacy across the world, aiming to create an enabling policy backdrop for the positive changes in climate, nature and people, driven through Legal & General's stewardship activities.

Case study:
Policy advocacy against microfibres

Legal & General continue to be active members of the collaboration on microfibres, organised by First Sentier Investors, which recently won the Environmental Finance ESG engagement initiative of the year award, EMEA. Through this collaboration, alongside 30 of its peers, Legal & General has put pressure on governments around the world to introduce legislation for compulsory microfibre filters on new washing machines. While France leads the way, the movement appears to be gaining traction in California. Efforts continue in the UK, although the Microplastics Filters (Washing Machine) Bill making its way through the UK parliamentary system appears to have been delayed, against a backdrop of policy developments on water and eco design standards.

Legal & General place a high value on collaboration, which enables a stronger voice on important issues to encourage a robust regulatory response. The different paces at which countries are adopting legislation in this area, and the twists and turns that may happen along the way, illustrate the particular nature of policy engagement, where progress may be non-linear, and may develop over extended timeframes, with inputs from numerous stakeholders and angles.

You can read more about Legal & General's policy advocacy work, and the impact this has on investments across Legal & General managed funds, in the active ownership report.



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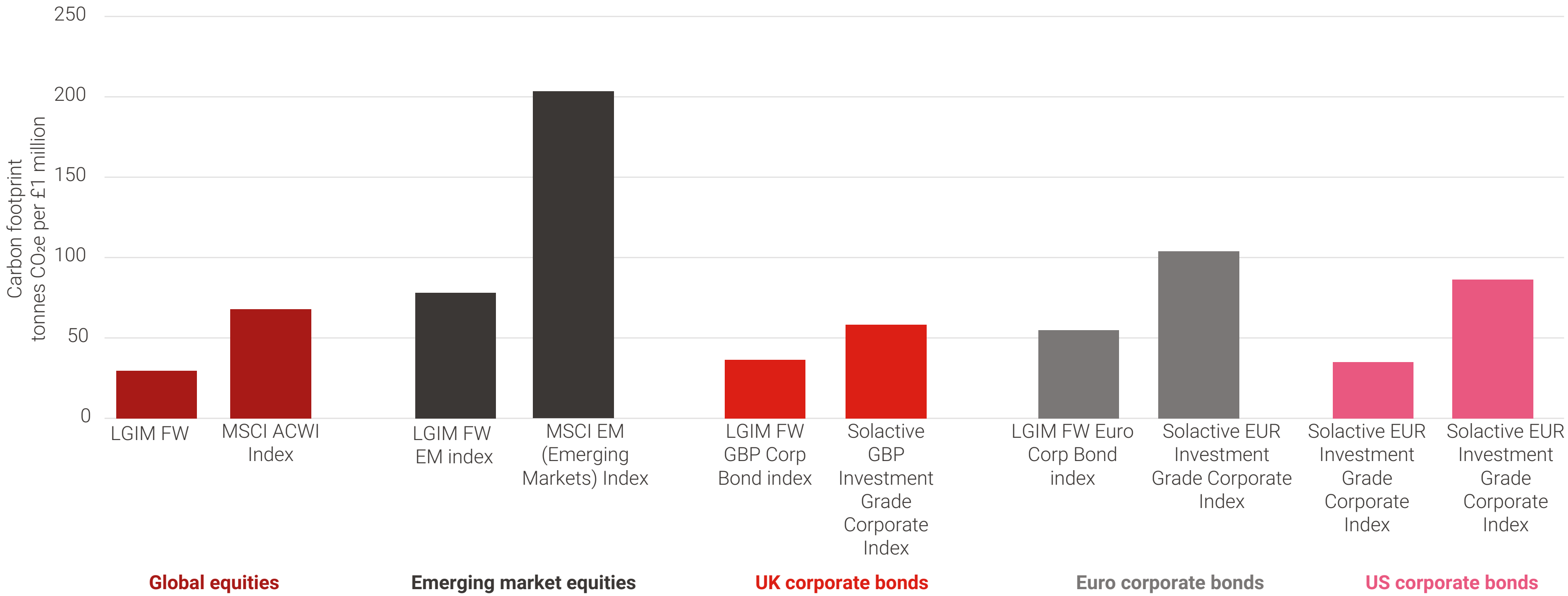
Enhance

Efficient index investment with ESG tilts
About 62% of the Future World Multi-Asset Fund as at 31 March 2024 was held in ESG-tilted Future World indices. These tilts provide a significant impact on carbon intensity, with around a 50% reduction at the outset, compared to a non-tilted benchmark. ESG-tilted Future World equity indices additionally target an ongoing objective of a 7% year on year reduction in their (Scope 1 and 2) carbon footprint. As at May 2024, 34 ESG data points from five external data providers fed into the generation of an overall ESG score for more than 17,000 companies.

The impact of Future World tilting on carbon footprint, Future World versus market cap index funds, tonnes CO_2e per £1 million EVIC, Scope 1 and 2 emissions, as at 31 March 2024.



Source: LGIM Destination@Risk

Positive selection baskets

Example of corporate security positive selection baskets in use across the Legal & General Mastertrust default investment options as at 31 March 2024

Basket	Detail
Farmland and timber	Listed companies owning forestry assets. Basket screened for compliance with industry best practice standards
Sustainable infrastructure	Renewable energy generators Clean water utilities Sustainable networks – electricity grid, transportation, communication
Social purpose real estate	Listed real estate that provides social services for communities e.g., housing, healthcare and education

Outside of corporate securities, allocations are also held within the Legal & General Mastertrust default investment options to green sovereign bonds, as well as supranational, sub-sovereigns and agency (SSA) bonds. A growing share of the latter have put aside some of their proceeds for environmental or social purposes.

Looking ahead

Assessing progress to date on our collective journey towards net zero, it is clear that more needs to be done, and quickly, in order to keep us on track. Only a minority of companies are decarbonising fast enough to meet the Paris goals.

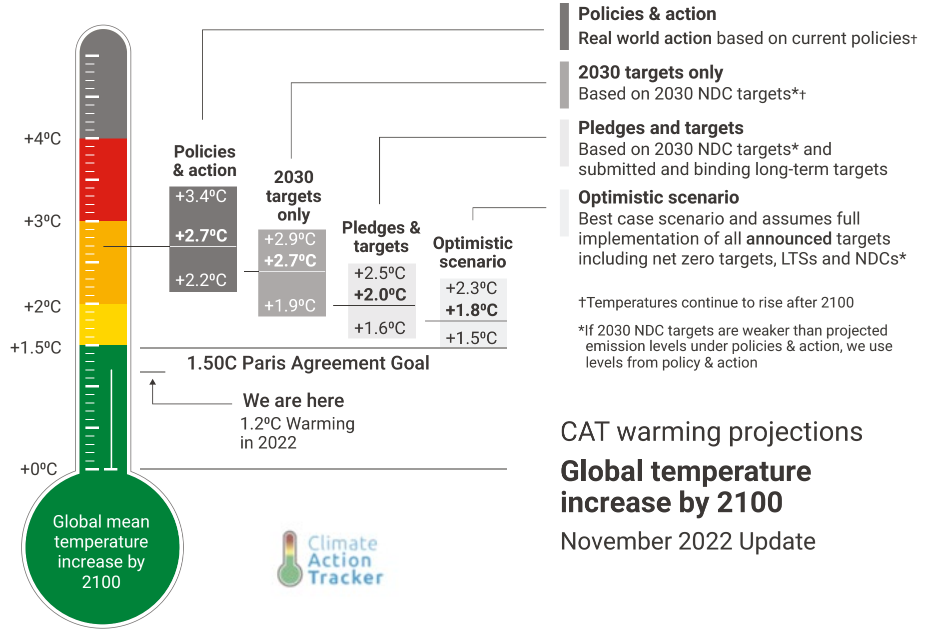
Total carbon emissions

As at 31 March 2024, the total (Scope 1 and 2) carbon emissions of all in scope funds, managed by Legal & General, was 1,824,053 tonnes. Over the last year, a number of funds have moved in scope, and some fell out - it is therefore not as simple as comparing one year's figures to another to judge the extent of any progress made over the period. Total emissions will rise and fall over the year, driven by AUM flows in and out of in-scope funds, and be affected by changes in the reported carbon footprint (intensity) of the funds being invested in.

Temperature alignment

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015 and entered into force on 4 November 2016. Its overarching goal is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

However, in recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century. That's because the UN's Intergovernmental Panel on Climate Change indicates that crossing the 1.5°C threshold risks unleashing far more severe climate change impacts, including more frequent and severe droughts, heat waves and rainfall. To limit global warming to 1.5°C, greenhouse gas emissions must peak before 2025 at the latest and decline 43% by 2030.

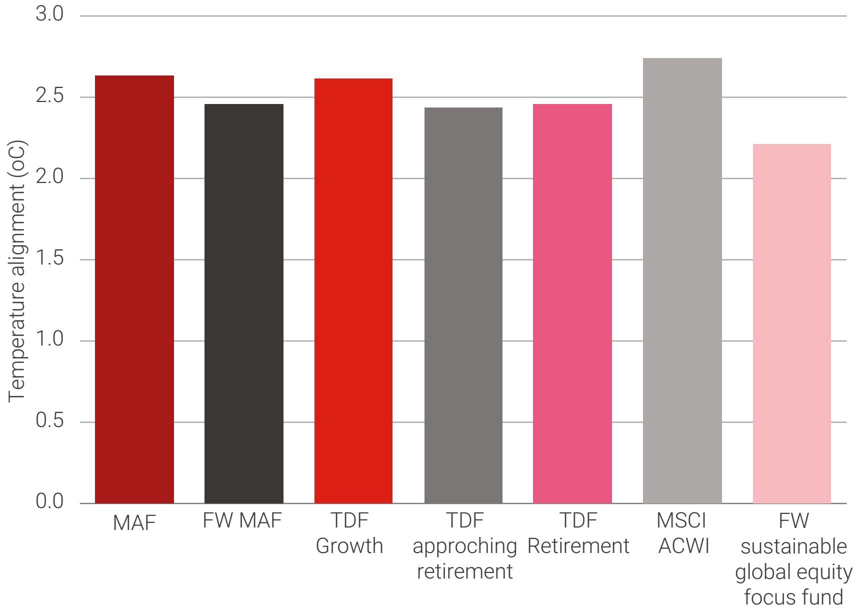


CAT warming projections
Global temperature increase by 2100
November 2022 Update

Source: Climate Action Track (2023) The CAT Thermometer. December 2023. Available at: https://climateactiontracker.org/global/cat-thermometer/

The temperatures on the Climate Action Tracker (CAT) thermometer are 'median' warming estimates in 2100. This means that there is a 50% chance that the calculated temperature would be exceeded if the modelled emissions pathway is followed. The world is heading for a calculated 2.5°C of warming under current 2030 targets. There have been no substantial improvements of existing net zero pledges since COP26. Policy implementation has progressed, but it remains too slow. There have been notable developments in the US, which passed the most ambitious and potentially impactful climate policy package in its history – The Inflation Reduction Act. China has adopted more ambitious clean energy policies in its fourteenth Five Year Plan and the EU plans to overachieve on its target with new policies. But higher historical emissions and some methodology updates based on the latest science mean that CAT's temperature estimate for policies and actions remains unchanged at 2.7°C.

Temperature alignment as at 31 March 2024 of Legal & General's Mastertrust default investment options, shown alongside the MSCI ACWI Index



Source: LGIM Destination@Risk

It's almost impossible today to invest in a portfolio of well-diversified holdings and have a modelled temperature alignment of 1.5°C, or even at the very least sub-2°C. Unfortunately, the window of opportunity to achieve a 1.5°C climate outcome is starting to close at a worrying speed, with 2023 being yet another year of largely inadequate action in terms of world-wide responses.

After the declines in emissions that occurred during the COVID-19 pandemic (which from peak to trough equalled roughly the same annual rate of change needed globally for the next 30 years to achieve 1.5°C), the global economic rebound that followed has led to all those declines being fully unwound, and then some.

Global emissions are on track to reach all-time highs[1], and little tangible evidence has been observed that this trajectory is likely to change any time soon. Climate science has been clear for some time that the risks as warming increases beyond 1.5°C accelerate dramatically, and the evidence seen today suggests that investors need to start to prepare for these risks to materialise. The window of opportunity to set the world on a pathway to 1.5°C is nearly closed, with fewer and fewer plausible routes to achieving it.

1. IEA 2023

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Lifestyles

There are 11 lifestyle strategies that fall in scope for this year's TCFD report. In an effort to improve reporting on the levels of climate risk affecting different membership populations, this year in the table below each lifestyle has three separate entries, detailing the climate risk at distinct stages – 45 years before retirement, five years before retirement, and at the point of retirement. For completeness, please note that there is no entry for a post-retirement period as a member is unable to remain in a lifestyle on reaching their target retirement date. Please note that for the calculation of the total carbon emissions, the same AUM figure has been applied. As a result, the total carbon emissions cannot be calculated by totalling the three separate entries.

The table below is focused on the Scope 1 and 2 emissions categories. Scope 3 information is shown in a separate table in the next section.

Lifestyles	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %	Temperature alignment °C	Coverage %	Climate engagement %
L&G Drawdown	767						
+45		75,609	98.6	87%	2.6	85%	13.8%
+5		75,609	98.6	87%	2.6	85%	13.8%
0		74,489	97.2	75%	2.5	74%	9.0%
Employer A	294						
+45		23,517	80.0	94%	2.7	93%	18.8%
+5		30,273	103.0	76%	2.7	74%	14.4%
0		29,118	99.1	63%	2.7	62%	17.4%
Employer B	416						
+45		28,742	69.2	97%	2.5	95%	24.2%
+5		43,292	104.2	80%	2.7	78%	13.3%
0		28,331	68.2	77%	1.9	77%	8.9%
Employer C	492						
+45		38,912	79.1	99%	2.8	98%	17.0%
+5		34,743	70.7	85%	2.4	83%	12.7%
0		38,218	77.7	81%	2.4	79%	11.2%
Employer D (i)	3,817						
+45		199,322	52.2	77%	2.6	76%	13.6%
+5		196,162	51.4	81%	2.6	80%	13.7%
0		180,850	47.4	65%	2.2	64%	18.7%

Lifestyles	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %	Temperature alignment °C	Coverage %	Climate engagement %
Employer D (ii)	133						
+45		6,968	52.2	77%	2.6	76%	13.6%
+5		6,858	51.4	81%	2.6	80%	13.7%
0		7,007	52.5	63%	2.6	62%	17.4%
Employer E	304						
+45		29,994	98.6	87%	2.6	85%	13.8%
+5		29,875	98.2	84%	2.6	82%	12.6%
0		29,224	96.1	51%	2.5	50%	15.1%
Employer F	234						
+45		6,981	29.8	98%	2.6	98%	15.9%
+5		15,046	64.2	89%	2.5	87%	14.3%
0		22,599	96.4	58%	2.5	57%	13.4%
Employer G	165						
+45		13,854	84.2	98%	2.8	98%	19.0%
+5		15,325	93.1	93%	2.6	92%	12.5%
0		15,341	93.2	96%	2.5	95%	9.4%
Employer H	133						
+45		10,702	80.7	96%	2.5	95%	25.6%
+5		13,075	98.6	87%	2.6	85%	13.8%
0		10,146	76.5	65%	2.6	64%	20.5%
Employer I	109						
+45		8,911	81.5	95%	2.7	94%	18.3%
+5		9,363	85.6	77%	2.6	76%	14.8%
0		8,200	75.0	24%	2.4	24%	23.8%

Please note that the table of metrics above is expressed in pound sterling for all eligible assets. Metrics are also provided across both corporates and sovereigns.

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Our climate-related targets

In March 2021, the Legal & General Mastertrust set out interim, fund-specific targets on the journey to net zero by 2050. These were initially set for 2025 and 2030. A review of these targets is expected ahead of the first target date being reached in 2025.

The current targets are solely carbon footprint focused. That isn't to say that other metrics and data are not used when assessing on an ongoing basis the current and future ESG credentials of Legal & General's funds. As part of its review, supplementary targets will be considered. The world, policymakers and investors need to embrace every legitimate option in the decarbonisation toolkit.

Steps to achieve our targets

Our Exclude, Enhance, Engage approach is core to the steps we are taking to reach our stated decarbonisation targets. Our approach is multi-faceted:

- Our default investment options use Future World equity indices, which have decarbonisation baked into their index construction, set at a reduction of 7% per annum, ensuring progressive decarbonisation occurs over time
- We proactively seek investment opportunities that aim to both provide good returns for our members and also contribute to real-world change
- We closely monitor Legal & General's engagement program with the underlying companies that we invest in and seek to influence Legal & General's policies where we believe this is in the interest of members

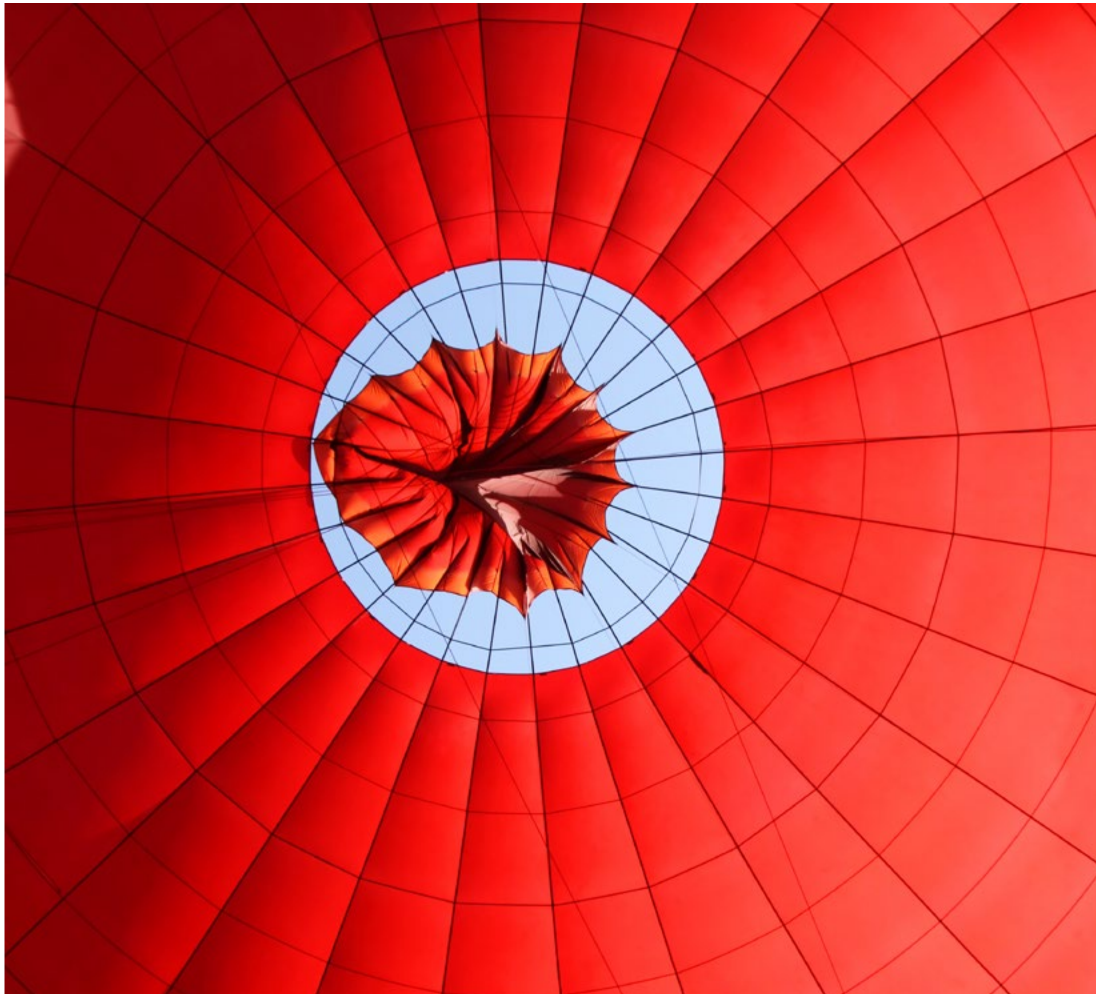
Like other large investors, our ability to decarbonise our portfolios, whilst maintaining exposure to an appropriately diversified investment set for our members, is tied to the decarbonisation of the global economy at large. Our multi-faceted approach aims to target real-world change, as well as to manage those risks directly within our own influence.

Progress against current targets

The charts on the next page show the progress for all Legal & General Mastertrust default investment options against their targets to 31 March 2024.

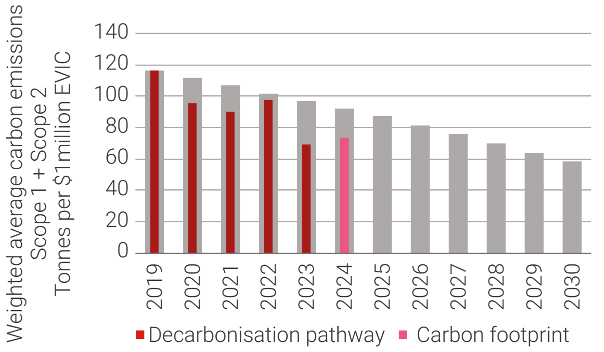
Please note that all targets are relative to end-2019 data and focused on portfolios' listed equity and publicly traded corporate-debt exposure, expressed in US dollar terms.

All our default investment options have surpassed their 2025 targets, with the Target Date Funds also at, or ahead of, their 2030 targets. However, we are not celebrating just yet. There is an understanding that although progress has been made, much of the progress seen in the charts can be explained by how the metric has been calculated.

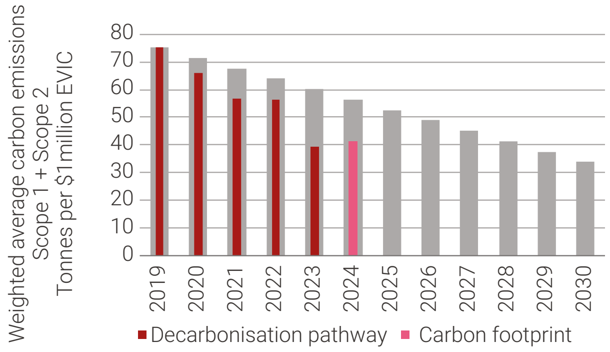


Progress against targets for Legal & General Mastertrust default investment options, as at 31 March 2024

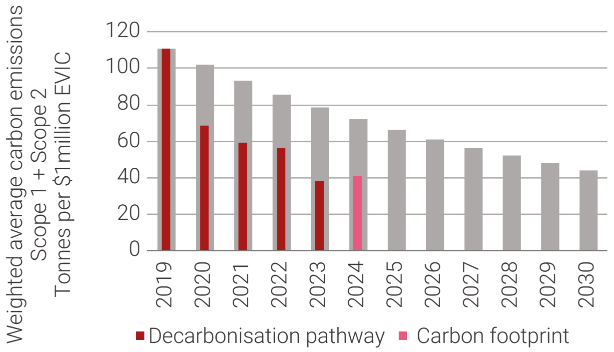
Multi-Asset Fund



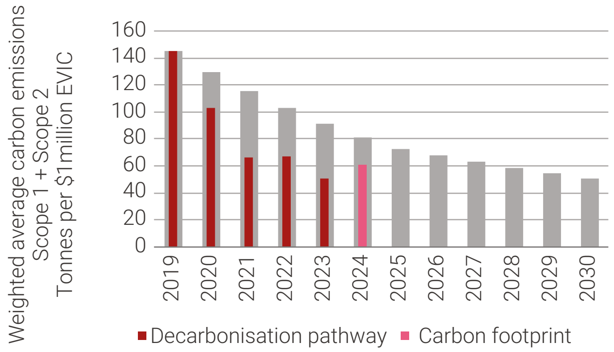
Future World Multi-Asset Fund



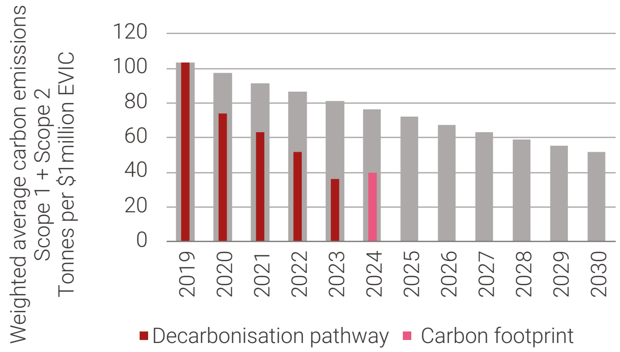
Target Date Funds growth phase



Target Date Funds approaching retirement



Target Date Funds retirement



Source: LGIM Destination@Risk

The charts above show the reduction in carbon footprint each calendar year for each of our default funds, alongside our progress so far to 31st March 2024. This is shown relative to the reduction in emissions we calculated we needed each year, starting from our base year of 2019, to meet our stated emissions reduction targets. For each of our default funds, our reduction in carbon footprint is ahead of the reduction that we calculated we needed.

As detailed earlier in this report, carbon footprint is calculated as total carbon emissions/EVIC, which is the recommended carbon intensity metric from the Department of Work and Pensions' 2022 guidance. As a result of known 'denominator' effects, increases/decreases in EVIC values experienced over the last reference year (discussed as part of changes to data inputs earlier), can lead to a headline reduction/increase in carbon footprint that presents an inflated or reduced view of the 'real-world' changes that have taken place. There is no perfect answer here, and this is the key reason why, when establishing and tracking the ESG credentials of an individual fund, a range of ESG metrics and data is taken into account, in order to build as comprehensive a picture as possible.

Mindful of this, and the developing area of credible ESG data availability, we and Legal & General are carefully considering how the targets set to fulfil TCFD regulatory requirements may be developed further.

Metrics and targets for nature

The TNFD has published guidance for financial institutions, for the identification and assessment of nature-related issues (the 'LEAP' approach), and for engagement with affected stakeholders. The specific guidance contains two additional core sector metrics for financial institutions:

- Exposure to sectors that are considered to have material nature-related dependencies and impacts (absolute amount or percentage of invested assets)
- Exposure to sensitive locations such as areas important for biodiversity (absolute amount or percentage of invested assets)

When it comes to setting targets, a key difference between climate and nature is that unlike for climate change where we have a single metric – greenhouse gas emissions – and a framework with which to calculate it, we do not have a globally accepted methodology for calculating nature loss and impacts. Despite the significant recent advancements in nature-related assessment frameworks, reporting and data availability, there remains a gap in globally consistent methodologies and metrics for assessing the state of nature and companies' impacts and dependencies on it. Methodologies currently available range from qualitative approaches of sector impacts and dependencies, and quantitative foot printing solutions that attempt to consolidate the impact of multiple environmental pressures across different sectors into a single, comparable metric.

As the nature-related data landscape evolves, we will continue to develop our approach to assessing our investments' exposure to nature-related impacts and dependencies, risks, and opportunities.

TNFD's 14 voluntary reporting recommendations

General requirements — **Broad principles to be applied to all four pillars for the recommended disclosures**

- Materiality
- Scope
- Location of nature -related issues
- Integration with other disclosures
- Time horizons
- Engagement

Disclosure pillars	**Governance**	**Strategy**	**Risk and impact management**	**Metrics and targets**
Recommended disclosures In reference to: Nature- related dependencies, impacts, risks and opportunities	Board oversight	Short, medium, and long-term	Processes for identifying, assessing and prioritising in direct operations	Metrics used to inform its strategy and risk management process
	Management's role	Effect on business model, value chain, strategy and financial planning	Processes for identifying, assessing and prioritising in value chains	Metrics used to assess and manage dependencies and impacts on nature
	Human rights policies and engagement activities with stakeholders	Resilience of organisation's strategy	Organisation's management processes	Targets and goals used by the organisation
		Locations of assets including in value chains for priority locations	Integration of processes with overall risk management processes	

Metrics and targets for people

Legal & General considers a broad range of social factors in its stewardship work under its people theme, which covers the 'sub themes' of diversity, human rights and modern slavery, income inequality and human capital management. Legal & General uses its influence to raise standards on a range of issues across capital markets, both through demanding corporate transparency and disclosure, and through informed and targeted engagement to improve practices.

You can read more about Legal & General's approach, including expectations for companies regarding diversity, in the Diversity Policy, published on its website. Legal & General has committed to pushing companies globally for the underrepresented gender to make up a minimum of a 40% of their boards and executive leadership teams, over time.

Legal & General expects the largest UK and US companies to include at least one person from an ethnically diverse background on their boards. For companies falling short of expectations, they will vote against the re-election of the relevant director (often the Chair of the Board, but in some countries the Chair of the Nomination Committee) at the next AGM, and publish its rationale on Legal & General's vote disclosure website, which is publicly available.

Data on diversity continues to evolve – while in the area of gender diversity we are able to source data of sufficient quality and scope for us to be able to include four metrics in our ESG Dashboard (women on the board; women at executive level; women in management; women in the workforce, sourced from Refinitiv), data on ethnic diversity is not yet at a stage where it can be monitored in the same way. Nevertheless, we continue to expect Legal & General to campaign using the data on ethnic diversity available to us on US and UK companies and check this data individually with companies. By increasing company transparency and disclosure on ethnic diversity, we should also be contributing to the reliability and scope of data across the industry.

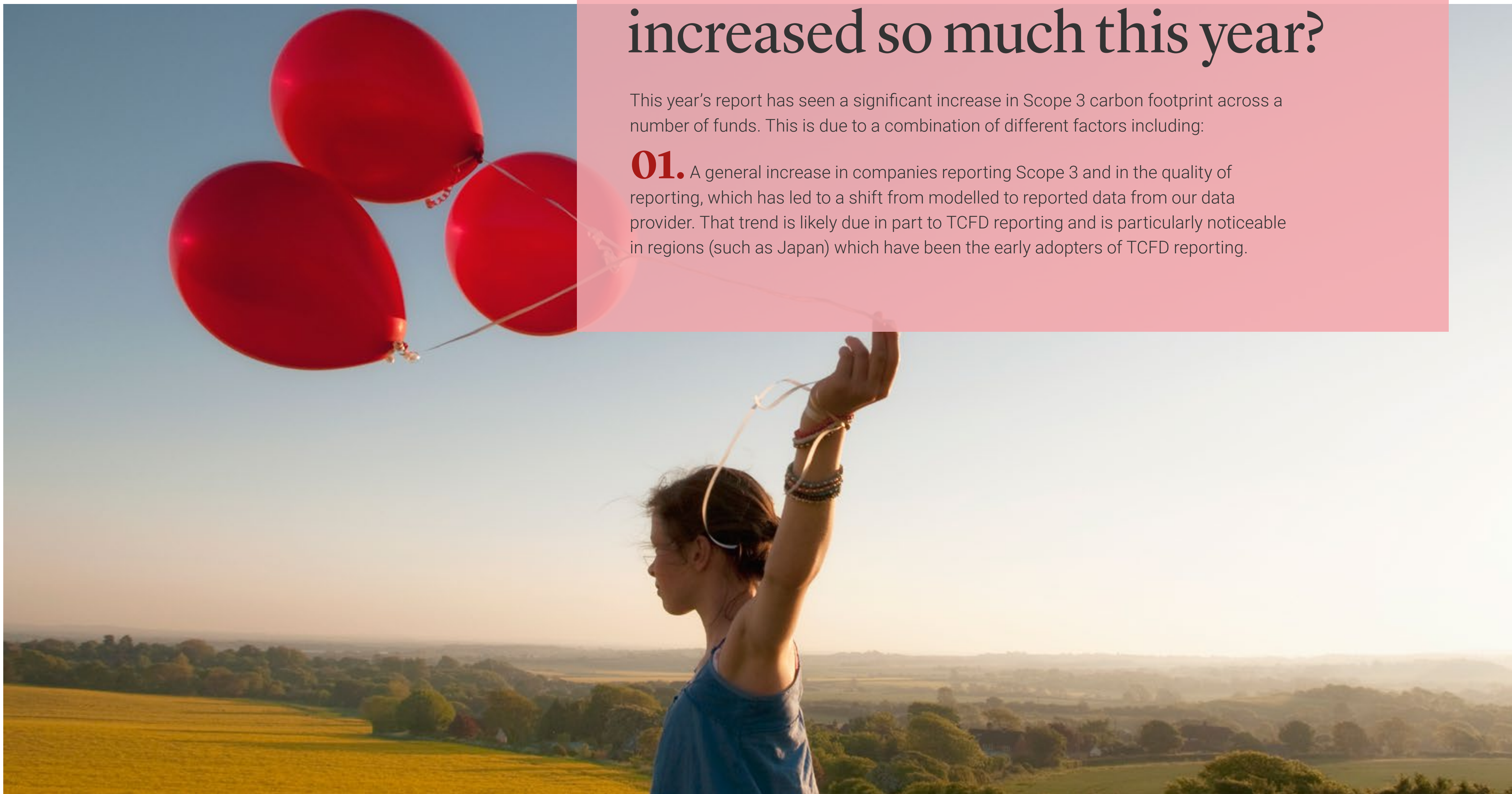
We aim to expand our approach, and look to set relevant measurable targets, as frameworks develop in this area, and look forward to the launch of TISFD this year.

Scope 3 metrics

Case study:
Why have our Scope 3 metrics increased so much this year?

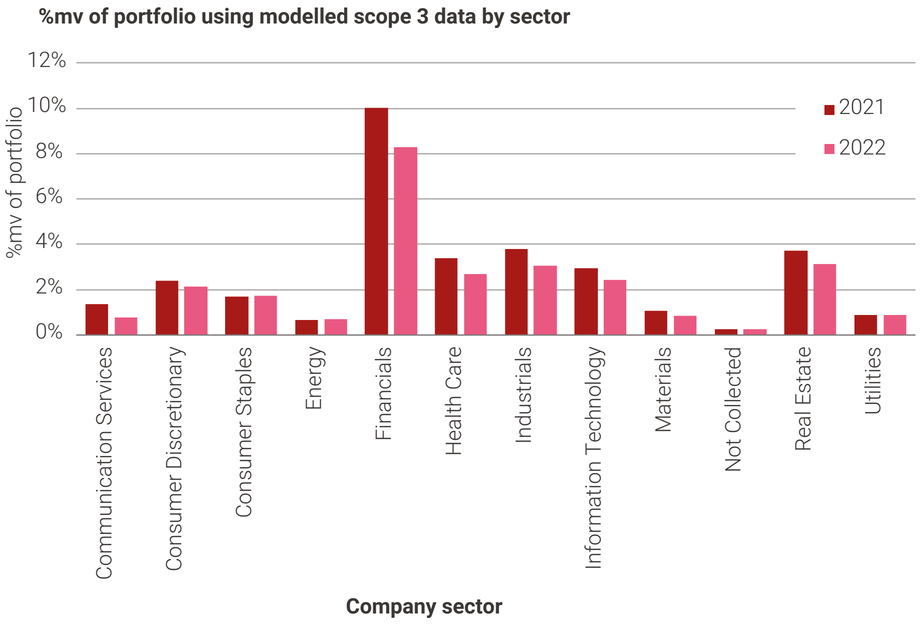
This year's report has seen a significant increase in Scope 3 carbon footprint across a number of funds. This is due to a combination of different factors including:

01. A general increase in companies reporting Scope 3 and in the quality of reporting, which has led to a shift from modelled to reported data from our data provider. That trend is likely due in part to TCFD reporting and is particularly noticeable in regions (such as Japan) which have been the early adopters of TCFD reporting.



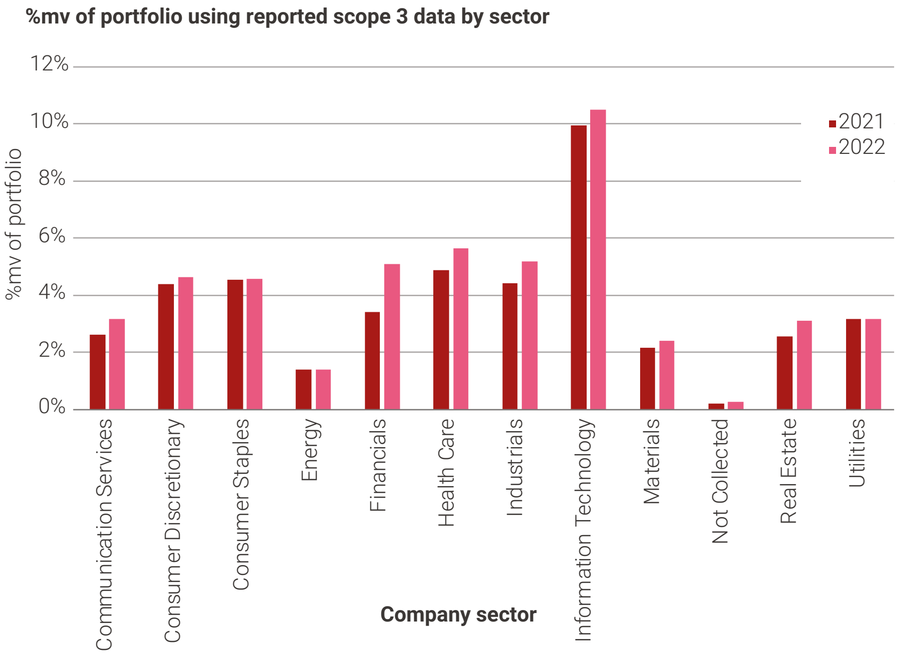
02. Increases seen in the Scope 3 contribution from financial institutions (category 15 emissions from investments), as more companies report data and as the data provider increased estimates for companies not reporting.

Chart showing change in modelled values of scope 3 emissions, as % market value, by industry sector, for TDF cohort 2040-45. This cohort had the highest change year on year.



Source: LGIM Destination@Risk

Chart showing change in reported values of scope 3, category 15 emissions, as % market value, by industry sector, for TDF cohort 2040-45. This cohort had the highest change year on year.



Source: LGIM Destination@Risk

03. Declines in some companies' market value (enterprise value including cash) to June 2022, which is used as the denominator for the calculation of carbon footprints. This had less impact on Scope 1 and 2 carbon footprint as companies which typically have a relatively high carbon footprint from Scope 1 and 2 (for example energy and utility companies) performed relatively well in 2022 following the sharp increases in energy prices after the Russian invasion of Ukraine.

As a reminder, Scope 3 data was first reported in last year's TCFD report and included a specific case study on the metric. We warned then that caution should be used when interpreting Scope 3 metrics due to data limitations such as poor disclosure and lack of consistency in measurement. While we welcome recent improvements in data coverage and quality for Scope 3, we should continue to bear in mind the limitations on Scope 3 data quality at present. Legal & General has been actively encouraging companies to report on material Scope 3 emissions, and includes this as part of company assessments in its Climate Impact Pledge.

Governance

Strategy

Risk Management

Metrics and Targets

Metrics for all in-scope funds, Scope 3 emissions only

Funds in scope	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %
L&G PMC World (Ex-UK) Equity Index 3	524.9	358,333	683	99%
Employer A Global Equity	237.9	209,588	881	94%
L&G PMC All World Equity Index 3	260.9	193,909	743	99%
Employer B Diversified Fund	105.9	87,864	829	66%
Employer B Overseas Equity Fund	251.8	171,875	683	99%
Employer B UK Equity Fund	153.9	186,260	1,210	93%
L&G PMC 2020 - 2025 Target Date Fund 3	722.1	496,345	687	49%
L&G PMC 2025 - 2030 Target Date Fund 3	1,666.7	1,137,580	683	59%
L&G PMC 2030 - 2035 Target Date Fund 3	2,135.3	1,435,661	672	72%
L&G PMC 2035 - 2040 Target Date Fund 3	2,225.3	1,989,562	894	82%
L&G PMC 2040 - 2045 Target Date Fund 3	1,889.1	1,814,340	960	85%
L&G PMC 2045 - 2050 Target Date Fund 3	1,733.5	1,664,471	960	85%
L&G PMC 2050 - 2055 Target Date Fund 3	1,416.6	1,358,367	959	85%
L&G PMC 2055 - 2060 Target Date Fund 3	961.9	922,546	959	85%
L&G PMC 2060 - 2065 Target Date Fund 3	417.9	400,856	959	85%
L&G PMC 2065 - 2070 Target Date Fund 3	54.6	52,326	958	85%
L&G PMC 2070 - 2075 Target Date Fund 3	1.5	1,392	958	85%
PB Composite Global Equity Index Fund	206.8	172,340	834	97%
Employer E Nearly There Bond Fund	185.3	125,810	679	47%
Employer E Corporate Bond Fund	296.5	144,571	488	102%
Employer E Diversified Fund	616.9	139,389	226	59%
Employer E Growth Fund	1,764.3	895,655	508	77%
L&G MT Future World Multi-Asset Fund	470.6	316,067	672	74%
L&G PMC Cash 3	224.7	51,895	231	12%
L&G PMC UK Equity Index 3	174.9	211,679	1,210	93%
L&G PMC Global Eqty Fixed Weights 50:50 Index 3	365.3	390,390	1,069	96%
L&G PMC Multi-Asset 3	4,101.5	3,440,749	839	70%
L&G PMC Retirement Income Multi-Asset 3	252.0	205,270	815	49%

Funds in scope	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %
L&G PMC HSBC Islamic Global Equity Index Fund 3	EXTERNAL FUND			
L&G MT Global Developed Equity Index Fund	265.3	182,243	687	99%
L&G PMC Global Eqty Fixed Weights 60:40 Index 3	146.4	160,939	1,100	96%
L&G PMC Ethical Global Equity Index 3	145.7	86,921	597	98%
L&G PMC Global Equity Market Weights 30:70 Idx 3	98.3	86,289	878	96%

Lifestyles	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corps and Sovereigns	Coverage %
L&G Drawdown	767			
+45		642,975	838.6	70%
+5		642,975	838.6	70%
0		624,458	814.5	49%
Employer A	294			
+45		258,927	880.9	94%
+5		241,354	821.1	62%
0		233,577	794.6	53%
Employer B	416			
+45		367,816	885.2	97%
+5		344,460	829.0	66%
0		237,284	571.1	9%
Employer C	492			
+45		440,741	896.3	99%
+5		344,215	700.0	64%
0		363,701	739.6	54%
Employer D (i)	3,817			
+45		1,937,801	507.7	77%
+5		1,848,844	484.4	81%
0		2,374,498	622.1	44%

Funds in scope	AUM £m	Total carbon emission TCO_2e	Carbon footprint, (Tonnes CO_2e per £1m EVIC) Corporates and sovereigns	Coverage %
Employer D (ii)	133			
+45		67,743	507.7	77%
+5		64,633	484.4	81%
0		58,187	436.1	62%
Employer E	304			
+45		255,063	838.6	70%
+5		253,593	833.8	65%
0		247,769	814.7	32%
Employer F	234			
+45		123,057	525.1	98%
+5		157,407	671.7	74%
0		190,840	814.4	37%
Employer G	165			
+45		133,141	808.7	98%
+5		135,410	822.5	64%
0		134,674	818.1	48%
Employer H	133			
+45		141,687	1,068.7	96%
+5		111,185	838.6	70%
0		100,121	755.2	55%
Employer I	109			
+45		95,660	874.5	94%
+5		87,772	802.4	66%
0		85,404	780.7	16%

Governance
Strategy
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Metrics and Targets

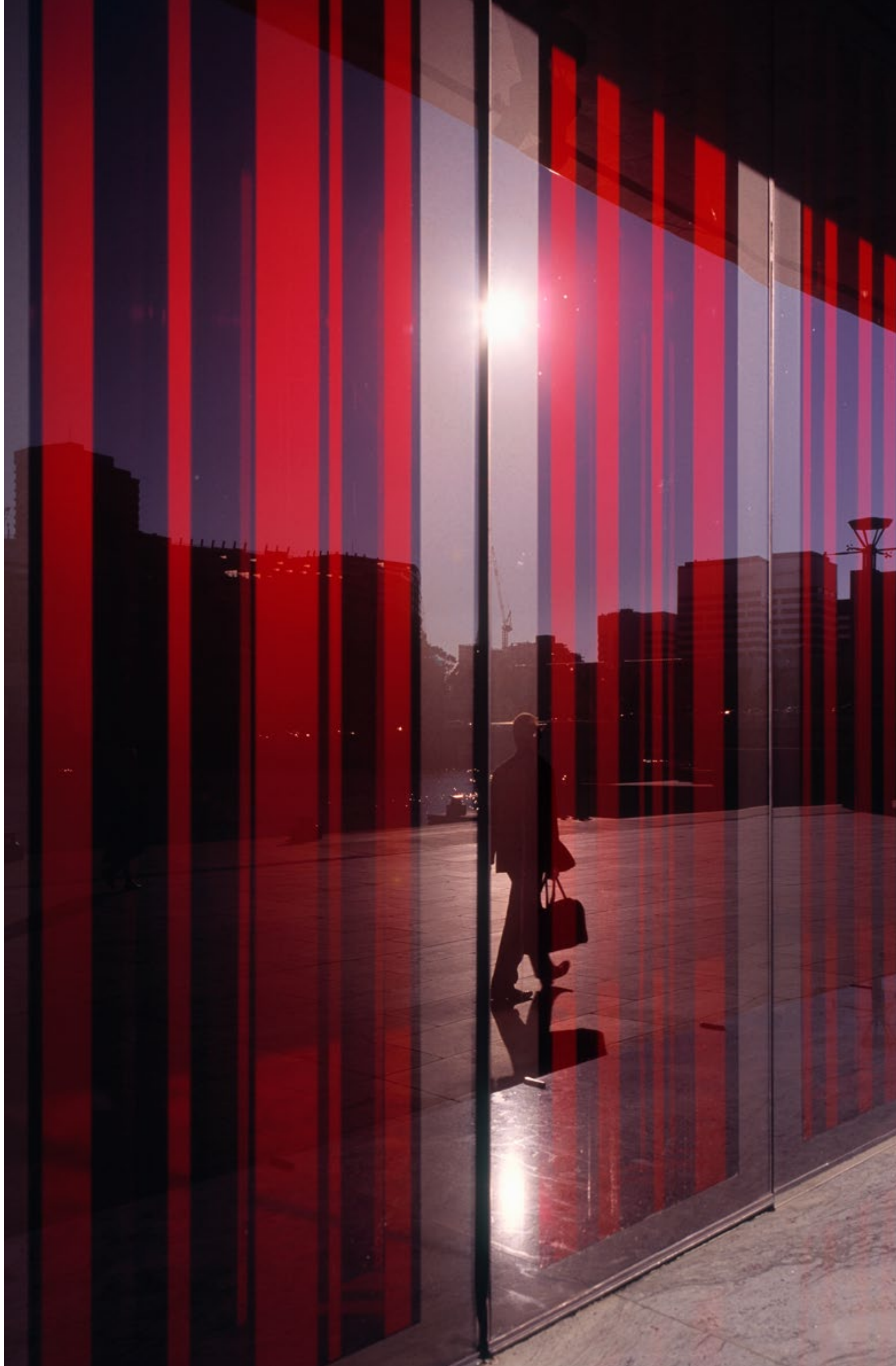
Cautionary Statement

The metrics, particularly targets, projections, forecasts and other forward-looking metrics used in this report should be treated with caution, in particular given the uncertainty around the evolution and impact of climate change and around broader factors, such as impacts and dependencies on nature.

These metrics include but are not limited to estimates of historical emissions and of historical climate change and forward-looking climate and nature-related metrics and estimated climate and nature-related projections and forecasts.

01. The topics addressed in this report such as climate change, impacts and dependencies on nature and associated risks cannot be evaluated in the same way as more conventional financial risks. Primary reasons for this include:

- their unprecedented nature and complexity; the fact that projections of climate change and temperature and impacts on nature are long term scenarios that play out over at least several decades and are therefore inherently more uncertain
- understanding about how different climate and nature-related risks could interact continues to evolve
- climate-related and nature-related risks may also interact with non climate-related risks and vulnerabilities and compound impacts in ways not currently anticipated
- climate change, and impacts on nature and biodiversity-loss, and their related risks may be irreversible if certain limits are exceeded
- because the physical and transition risks are novel, they differ from the perspective of conventional risk identification, measurement and management (which generally focus on extreme events with a basis in prior experience) and the outcomes are thus more uncertain. This leads to significant uncertainties, assumptions and judgements underlying the metrics included in this report that limit the extent to which they can be relied on.



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02. The lack of reliable, accurate, verifiable, consistent and comparable data relating to climate and nature makes it challenging to accurately disclose or estimate metrics used to assess associated risk and opportunities. In particular:

- finding the sources for relevant required data remains a challenge as does validating and standardising that data
- metrics and data, the models and supporting scenarios included in this report and the measurement technologies, analytical methodologies and services that support them, continue to develop.

03. There is a lack of standardisation, transparency and comparability of disclosure with many diverging disclosure frameworks and methodologies for calculating climate and nature-related metrics, in particular, leading to metric estimates that are not directly comparable. These differences are compounded by a lack of international coordination on data and methodology standards. Even where methodologies are publicly described, differences across data providers can still make resulting disclosures difficult to compare for investors and others evaluating climate exposure across their holdings. In addition, the methodologies for estimating and calculating GHG emissions or emission intensities and other climate-related metrics vary widely in their approaches. This could lead to under or over estimation of implied temperature rises and the attendant climate risks.

04. Metrics included in this report may require many methodological choices, estimates, judgements and assumptions about climate change, impact on nature, policies, technologies and other matters that are uncertain or not yet known.

05. Any material change in these variables may cause the assumptions and therefore, the metrics and data based on those assumptions, to be incorrect.

06. Climate scenarios are not forecasts; rather they are projections of alternative plausible futures that are designed to build an understanding of the nature and size of changes that may occur in the future. They do not reflect all possible future pathways and, given their long-term nature, are inherently uncertain. These points will also remain relevant, as we start to expand our analysis to cover nature-related variables. In particular:

- these scenarios and the models that analyse them have limitations that are sensitive to key assumptions and parameters
- these scenarios cannot capture all of the effects of climate and nature-related policy and technology-driven outcomes
- scientific understanding of climate change and impacts and dependencies on nature continues to develop
- models cannot fully capture the range of societal changes that could result from climate change and from nature-related issues
- over-reliance on a limited number of the same prescribed models or scenarios may amplify systemic climate-related and nature-related risks.

07. This report and the information contained within it is unaudited. Further development of accounting and/ or reporting standards could materially impact the metrics, data points and targets contained in this report. As standards and practices continue to evolve, it may mean subsequent reports do not allow a reader to compare metrics, data points or targets from one reporting period to another on a direct like-for-like basis. In addition, the Trustees' climate risk capabilities and net zero transition strategy and plan and approach towards nature-related issues remain under development and the data underlying these and market practice in relation to the disclosures made in this report will evolve over time. As a result, certain of such disclosures are likely to be amended, updated, recalculated and restated in future reports.

08. Any opinions or views of third-parties expressed in this report are those of the third-parties identified and not of the Trustees, its affiliates, directors, officers, employees or agents. By incorporating or referring to opinions and views of third-parties, the Trustees are not, in any way, endorsing or supporting such opinions or views.

09. While all reasonable care has been taken in preparing this report, neither the Trustees nor any of its affiliates, directors, officers, employees or agents make any representation or warranty as to its quality, accuracy or completeness and they accept no responsibility or liability for the contents of this material, including any errors of fact, omission or opinion expressed. Some of the information that appears in this report may have been obtained from public and other sources and, while the Trustees believe such information is reliable, it has not been independently verified by the Trustees and no representation or warranty is made by the Trustees as to its quality, completeness, accuracy, fitness for a particular purpose or non-infringement of such information.

10. This report contains forward-looking statements and metrics, such as targets, climate scenarios and emissions intensity pathways, estimated climate and nature-related projections and forecasts. Words or phrases such as 'anticipate', 'effort', 'estimate', 'believe', 'budget', 'continue', 'could', 'expect', 'forecast', 'goal', 'guidance', 'intend', 'may', 'objective', 'outlook', 'plan', 'potential', 'predict', 'projection', 'seek', 'should', 'target', 'will', 'would' or similar expressions that convey the prospective nature of events or outcomes generally indicate forward-looking statements.

The many significant uncertainties, assumptions, judgements, opinions, estimates, forecasts and certain non-historical data underlying forward-looking metrics (such as carbon and other emissions metrics) and metrics to assess climate-related or nature-related risk and opportunity outside of carbon exposure may limit the extent to which these climate-related or nature-related metrics are used to better understand risk and evaluate progress towards established strategies, targets, objectives and commitments and could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Any opinions and estimates should be regarded as indicative, preliminary and for illustrative purposes only. The expected and actual outcomes may differ from those set out in this report. It is possible that the assumptions drawn and the judgements exercised may subsequently turn out to be inaccurate. The judgements and data presented in this report are not a substitute for judgements and analysis made independently by the reader.

The statements in this report are based on current plans, expectations, estimates, targets and projections and are subject to significant uncertainties and risks and can be affected by other factors which may result in the Trustees being unable to achieve the current plans, expectations, estimates, targets or projections. Accordingly, undue reliance should not be placed on these statements.

Factors which may cause actual results, performance or events to differ materially from those expressed or implied in the forward-looking statements include (but are not limited to):

- changes in environmental, social or physical risks
- legislative, regulatory and policy developments, including those addressing climate change or impacts on nature and the way in which and speed at which those developments take place
- the development of standards and interpretations, including evolving practices in ESG and climate reporting
- the ability of the Trustees, and Legal & General, with government and other stakeholders, to mitigate the effects of climate change and impacts on nature effectively
- the delivery of policy actions and achievement of climate reduction targets and any nature-related targets by companies in which the Mastertrust invests and in the wider economy.

Please see the Trustees' latest Annual report and accounts for further details of risks, uncertainties and other factors relevant to the business.

Any forward-looking statements made by or on behalf of the Trustees speak only as of the date they are made and, unless legally required, the Trustees assume no obligation to publicly update or revise any forward-looking statement, whether as a result of new information or for any other reason.

11. The information, statements and opinions contained in this report do not constitute an offer to sell or buy or the solicitation of an offer to sell or buy any securities or financial instruments nor do they constitute any advice or recommendation with respect to such securities or other financial instruments or any other matter.

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