

# L&G Temperature Alignment

L&G Temperature Alignment provides a tool for our clients and for us as an investor to measure and manage the impact of our investments on climate change. The temperature alignment metric is constructed to follow the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).<sup>1</sup>

The temperature alignment metric is an environmental metric focused on climate impact that enhances our portfolio management and research, enabling us to provide our clients with solutions that consider climate impact alongside other investment considerations. It helps us to meet our clients' investment and climate-related objectives.

The metric asks of companies: what climate outcome are your actions compatible with? The approach reflects the direct connection between companies' greenhouse gas (GHG)\* emissions and global warming.

It allows investors to measure their impact on climate change through their investments and evaluate performance against the goals of the Paris Agreement which aims to limit global warming to below 2°C, ideally 1.5°C.

1. L&G Temperature Alignment relies on approximations, assumptions and third party data. Such third party data could also include approximations and assumptions.

L&G has not validated such third party data and has not verified the accuracy of such data.

\* Greenhouse gases, such as carbon dioxide, trap heat in the atmosphere, thereby causing the "greenhouse effect".



## Scenario narratives

To evaluate asset performance against climate targets, we use scenario outputs from our L&G analysis toolkit to construct four core scenario narratives against which to compare companies' and sovereigns' actions:

### Scenario<sup>2</sup>

### Narrative

1.5°C

To limit global warming to 1.5°C (or 2°C), companies must decarbonise as fast as possible, at unprecedented scale. The extent of action required will vary by sector: in sectors with relatively cheaper decarbonisation opportunities, higher rates of decarbonisation will be required to demonstrate alignment than in other, harder-to-decarbonise sectors. At the same time, we impose varying requirements within sectors, acknowledging that those starting at a higher emissions intensity than comparable peers should have to work harder to reach the same alignment score.

2°C

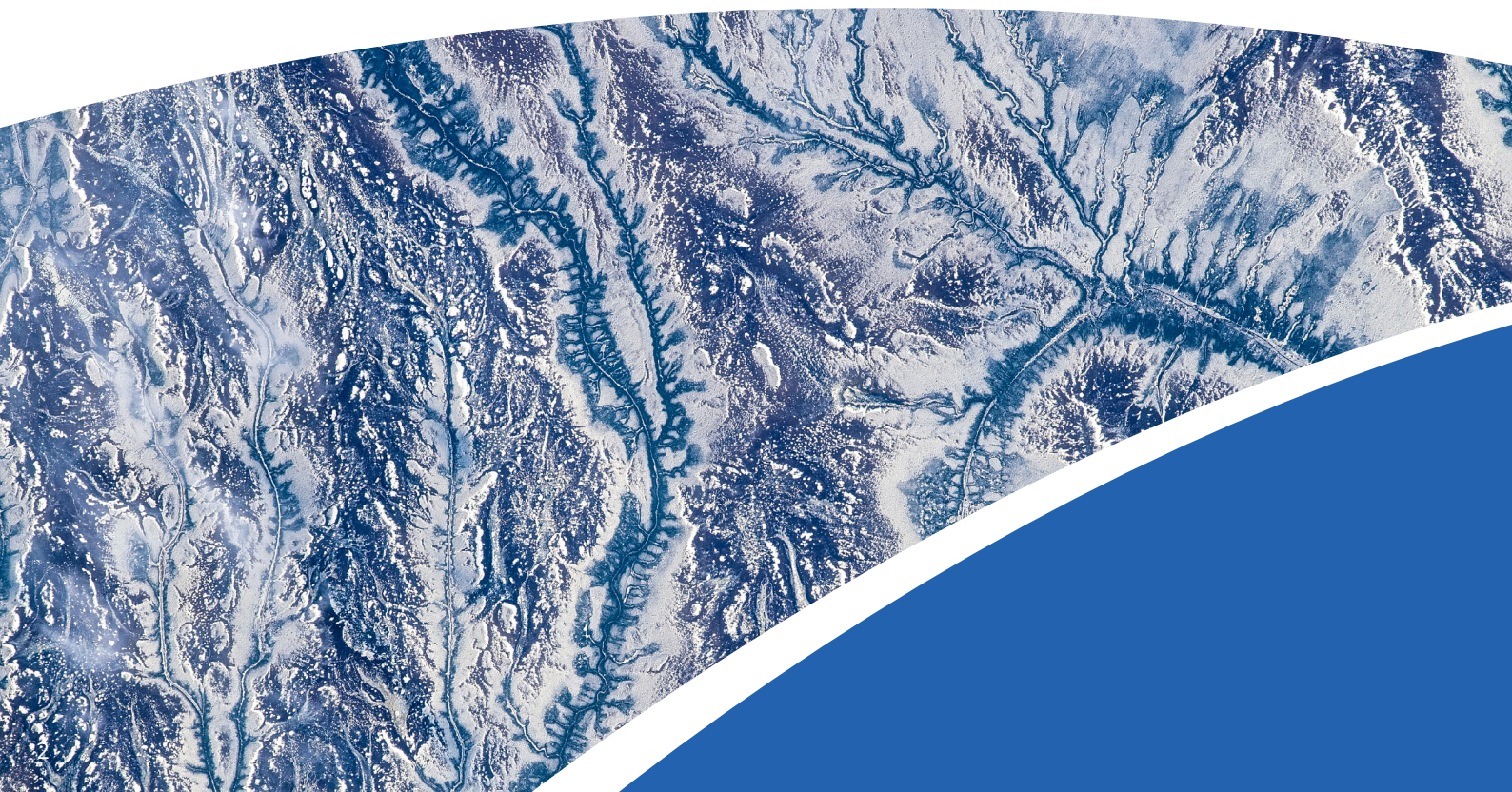
4.5°C

To reach global warming of 4.5°C, the highest temperature scenario modelled by the world's scientific authority on climate change – the Intergovernmental Panel on Climate Change (IPCC) – the world would have to abandon all existing climate targets and grow GHG emissions at a rate that is higher than historical trends. It would mean every company could grow its emissions by at minimum the sectoral growth rate envisioned by the scenario, 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. As a result, this is less a specific scenario than an upper bound communication device for temperature alignment. It could mean every company could grow its emissions – which vary by sector – by at least the sectoral growth rate envisioned by the scenario, no matter the starting point.

2. Please note that these scenario narratives are defined by their approximate global warming to 2100 relative to pre-industrial temperatures.



## Calculation

There are three key steps to the calculation of temperature alignment:

**1 Project a company's GHG emissions pathway over the next 10 years**

We project companies' GHG emissions over the next 10 years by considering both historical decarbonisation and future emissions-reduction targets. Using a decade of historical observations, we assess how companies have historically evolved their emissions, as well as any targets companies have set regarding future decarbonisation. We assess the credibility of companies' targets to assign a probability that targets will be met.

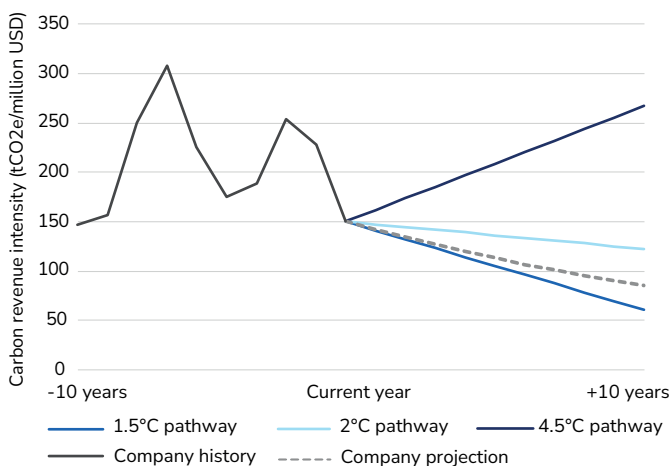
**2 Project relevant science-based sector emissions pathways from climate scenarios**

Relying on the results of our scenario modelling, we can then derive sector-specific pathways for required decarbonisation across four temperature outcomes (1.5°C, 2°C, 4.5°C and 6°C). These also consider companies' starting points relative to comparable 'GHG peer groups'.

**3 Rate companies' temperature alignment by assessing carbon intensity against science-based sector emissions pathways**

We can then compare companies' projected 2030 GHG emissions intensity in 10 years' time with the required decarbonisation of various climate scenarios and assign a 'temperature alignment' score. In the illustration below, the company is aligned to around 1.7°C. Scores indicate the degrees of warming by 2100, relative to pre-industrial temperatures.

### Example output: Company temperature alignment



Source: L&G analysis as at February 2026.

3. Scope 1 emissions are direct emissions from operations; Scope 2 emissions are those from purchased electricity, heat, steam and cooling; Scope 3 emissions are not directly controlled by the company but indirectly impacted by the company's purchases, sales and actions along its value chain.

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

### Coverage

For most companies, temperature alignment is calculated based on Scope 1 and 2 GHG emissions.<sup>3</sup> We include L&G estimates of Scope 3 GHG emissions for financials and oil and gas companies, where Scope 3 emissions are the largest component of companies' emissions.

For sovereigns, we use a similar methodology as for corporates: we project GHG emissions over the next ten years – using a combination of historical decarbonisation and future targets – and then compare these projected emissions with science-based emissions pathways.

Collectively our methodology covers listed equities, corporate bonds, sovereign bonds and quasi-sovereign bonds. Calculations are updated annually.

## Glossary:

**Decarbonise** – to reduce the emissions of GHGs into the atmosphere

**Emissions intensity** – how much pollution you produce for every unit of something you make

**Coal-fired power** – electricity made from burning coal

**Future emissions – reduction targets** – goals set in the future that say how much a company plans to cut its pollution

**Listed equities** – shares of a company listed on a public stock exchange

**Corporate bonds** – a debt instrument issued by companies to borrow money from investors

**Sovereign bonds** – a debt instrument issued by governments to borrow money from investors

**Quasi-sovereign bonds** – a debt instrument issued by a state-owned or government supported organisation to borrow money from investors

## Contact us:

For further information about L&G, please visit [am.landg.com](https://am.landg.com) or contact your usual L&G representative.



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### Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

### Important information

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