



L&G Future World Protection List

Methodology



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Summary

We believe in using our position as a large asset manager to engage with the companies we invest in, aiming to drive long-term positive change. Generally, we believe that leveraging our influence to promote change is more effective than divestment.

However, there are specific products, services, and business practices that investors seek to avoid exposure to and are increasingly subject to exclusionary screening. As such, we have developed the Future World Protection List, which seeks to align with market practice and client expectations for responsible investment products.

The Future World Protection List is comprised of companies which meet the criteria below. Securities issued by such companies on the list are excluded from funds that explicitly specify the application of the Future World Protection List in their documentation. If a company is added to the Future World Protection List and is already held in these funds, we aim to divest from it through a process with a standard cure period (i.e. within a specified timeframe).

Future World Protection List criteria

The Future World Protection List includes certain companies which meet any of the following criteria:¹

- Involvement in the manufacture and production of controversial weapons: where there is evidence that companies are involved in the core weapons systems of antipersonnel landmines, cluster munitions, biological, and chemical weapons
- Perennial violators of the United Nations Global Compact (UNGC), an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies: companies assessed as being in direct violation of one or more principles for a continuous period of 36-months or more
- Involvement in thermal coal² and/or oil sands³ by revenue without a clear plan aligned with the Paris Agreement to phase out coal by 2030 in countries that are part of the Organisation for Economic Co-operation and Development (OECD) and by 2040 in non-OECD countries. The revenue thresholds are as follows:
 - companies generating 20% or more of revenues from mining and extraction of thermal coal and/or thermal coal power generation;
 - companies generating 5% or more of revenues from oil sands extraction
- Expansion of thermal coal power generation and/or mining and extraction capacity:
 - companies planning to develop new large-scale coal-fired power plants with capacity of at least 100 megawatts;
 - companies planning to develop new coal mines, extending their coal mines by applying for new permits and/or being involved in coal exploration activities

The methodology will be reviewed at least every two years by the L&G Responsible Investment and Stewardship team in the Asset Management division. Ad-hoc reviews may be conducted as necessary. Any changes to the methodology will be subject to a review and approval by senior management.

¹ We rely on data for the determination of whether companies in breach of the principles using a third-party ESG data provider which we have selected based on the quality and coverage of their data.

² Thermal coal means a coal used by power plants and industrial steam boilers to produce electricity, steam, or both.

³ Oil sands or tar sands are sand and rock material that contain crude bitumen—a *dense, viscous form of crude oil*.

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Controversial Weapons

Definition

Controversial weapons are those that have an indiscriminate and disproportionate humanitarian impact on the civilian population.

Such weapons include, but are not limited to, antipersonnel landmines, cluster munitions, biological, and chemical weapons. There are a number of international conventions and treaties that have been developed with a view to prohibiting or limiting the use and availability of these weapons. For the purpose of this list, the definition of controversial weapons does not include nuclear weapons or white phosphorus.

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We rely on data to determine whether companies are involved in the manufacture or production of controversial weapons using a third-party ESG data provider which we have selected based on the quality and coverage of their data regarding controversial weapons.

Companies that are involved in the manufacture or production of cluster munitions, antipersonnel landmines, and biological and chemical weapons will be included on the Future World Protection List. Companies included on the list are those that are directly involved in the: (i) manufacture or production of the core weapons system or components or services of the core weapons system considered to be tailor-made and essential for the lethal use of these weapons; and (ii) production, maintenance/service, sale/trade or research and development in relation to the core weapons system.

Where funds are distributed in jurisdictions that prohibit the financing of depleted uranium, additional exclusion rules will be applied.

United Nations Global Compact

Definition

The UNGC is a set of globally agreed principles on human rights, labour, the environment, and anti-corruption which were created for the purpose of encouraging businesses worldwide to adopt environmentally and socially responsible policies.

The 10 principles of the UN Global Compact state:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.



Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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We rely on data to determine whether companies are in direct breach of any of the UNGC principles using a third-party ESG data provider which we have selected based on the quality and coverage of their data.

Companies that are deemed to be in direct breach of at least one of the UNGC principles for a continuous period of three years (36 months) or more will be included on the list. A direct breach refers to the company's own actions or activities. For example, we do not consider a violation committed by a sovereign entity that owns a company as a direct breach by the company itself. We have adopted a 36-month window to provide the company with time to address and resolve the issue. If, according to the assessment of our third-party data provider and, where appropriate, subject to our internal responsible investment governance process, the company has not addressed the issue sufficiently, then the company is added to the Future World Protection List.

Where appropriate, companies flagged by our third-party ESG data provider may be subject to qualitative assessment and discussed by our responsible investment governance committees. Outcomes of this process may result in changes to a company's exclusion status, in line with the criteria of the Future World Protection List methodology.

Thermal Coal and Oil Sands

Definition

The Paris Agreement, an international climate change treaty, aims to limit 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 level". The majority of greenhouse gas emissions⁴ caused by humans (primarily carbon dioxide and methane) come from burning fossil fuels like thermal coal for energy.

Thermal coal is used for power and heat generation. The high quantities of greenhouse gas emissions caused by the burning of coal imply that rapid cuts will be needed to align with net zero carbon emissions by 2050. Moreover, in order to align with the International Energy Agency's (IEA) Net Zero Emissions scenario⁵, companies should refrain from making new investments in thermal coal mining or power generation using unabated thermal coal⁶.

When it comes to oil sands, the total amount of greenhouse gases produced is materially greater than the average in the oil industry. As such, investing in oil sands is not considered to be aligned with the goal of a net-zero world.⁷

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⁴ Carbon dioxide, methane, nitrous oxide, and three groups of fluorinated gases

⁵ The Net Zero Emissions by 2050 Scenario (NZE Scenario) shows a pathway for the global energy sector to achieve net zero CO₂ emissions by 2050, with advanced economies reaching net zero emissions in advance of others. 2021, IEA "Net Zero by 2050: A Roadmap for the Global Energy Sector"

⁶ Unabated thermal coal refers to coal that is burned for power generation without technology to capture or store the greenhouse gas emissions produced during the process

⁷ IEA, [The Oil and Gas Industry in Net Zero Transitions](#), 2023.



We rely on data to determine whether companies derive any revenue from thermal coal and oil sands using a third-party ESG data provider which we have selected based on the quality and coverage of their data. To identify companies that are expanding their coal mining and/or power generation capacity, we use the Urgewald Global Coal Exit List (GCEL) as our data source for this specific criteria⁸.

Companies will be incorporated into the Future World Protection List if they:

- Generate 20% or more of their revenues from the mining and extraction of thermal coal and/or thermal coal power generation, and/or 5% or more of their revenues from oil sands extraction (sand and rock material that contain crude bitumen), and
- Do not have a clear plan aligned with the Paris Agreement to phase out coal by 2030 in countries that are part of the Organisation for Economic Co-operation and Development (OECD) and by 2040 in non-OECD countries.

For companies with exposure to thermal coal, if a company has non-coal subsidiaries⁹, we retain the ability to fund those specific non-coal subsidiary entities.

Companies will also be incorporated into the Future World Protection List if they plan to develop new large-scale coal-fired power facilities with a capacity of at least 100 megawatts prorated, and/or if they are involved in developing new coal mines, extending their coal mines by applying for new permits and/or coal exploration activities. Companies whose thermal coal mining or power generation expansion plans are wholly dedicated to a specific industrial facility are currently not excluded.

The thermal coal exclusions do not extend to metallurgical coal, which is used in steel manufacturing rather than power generation, due to the lack of widely available alternatives.

Update and publication of the Future World Protection List

The list is updated on a semi-annual basis, in May and November, using data collected on the first business day after 31 March and 30 September in accordance with the methodology stipulated above.

At each update, the list of companies is reviewed by the relevant responsible investment governance committees as required. Where assessments of companies by the underlying data providers are deemed not to align with the criteria of the Future World Protection List methodology through this governance process, L&G reserves the right to remove the respective companies from the Future World Protection List.

Between updates, securities may no longer meet the criteria for inclusion on the list and be scheduled for removal from the list at the next semi-annual update. We may invest in such securities prior to the publication of the updated list. Correspondingly, securities may be deemed to meet the criteria for inclusion on the list and be scheduled for inclusion on the list at the next semi-annual update.

The application of the principles set out above may vary based on various factors and tailored to fit specific circumstances. For example, data providers' different methodologies, how a company is organised, and/or the nature of the investment strategy, such as whether a portfolio is focused on stocks or bonds, or actively managed or tracking an index, can determine the application of these principles.

⁸ The GCEL is available online at <https://coalexit.org>

⁹ Non-coal subsidiaries refer to the affiliate companies of a parent company that are not involved in the coal industry and that operate in different sectors or industries other than coal mining or coal-based energy production



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