

# Climate Action – two years on

Two years ago, L&G and AP7 partnered to invest in high emissions\* companies and engaged with them to drive their emissions down over time, in an effort to combine climate impact with shareholder value creation. In this article, we reflect on successes and challenges over two years of engagement by the L&G team.

Over the last two years, we have taken positions in over 50 stocks and held over 300 meetings with portfolio companies in relation to this partnership. Here are our top lessons learned through this engagement:

## 1. Focusing on the long term through the noise has the potential for unique value

In the last two years, the discourse around the energy transition and the pressure on companies to act to reduce their emissions have drastically changed. In this challenging backdrop, our engagements have doubled down on targeting long-term value creation with positive actions that seek to drive down corporate emissions. Not only are companies responsive to investors focusing on long-term strategy and capital allocation decisions rather than having a myopic focus on the next quarter, but we also maintain a strong conviction that companies need to position themselves strategically through the energy transition to succeed. This is especially the case in the energy and materials sectors, where companies will be the most affected by the energy transition and where investor pressure to focus on business-as-usual activities is particularly strong.

## 2. Developing lighthouse engagements is key

Given the level of uncertainty around the energy transition and a tendency for some management teams to be anchored by legacy, companies are often reluctant to be 'the first', whether with radically re-thinking business models or with changing disclosure practices. We are therefore focusing on developing lighthouse engagements with companies with whom we have deep relationships and sense an alignment of vision. These lighthouses can then serve as examples and proofs of concept for other companies. We believe changing the way we allocate our engagement efforts to go deeper faster with front-running companies will increase the effectiveness of our strategy. We have

encountered this challenge particularly in consumer-facing sectors, where end consumers' willingness to pay for more climate-friendly products is the key debate, and early proof points are essential.

## 3. Influence goes beyond direct engagement

While direct engagement with companies is critical, we have found that leveraging our influence beyond our portfolio companies can be a powerful tool. An example of this has been our engagement with the London Metals Exchange\*\*: we are publicly supporting its efforts to create separate contracts for metals with high sustainability credentials, to provide pricing signals for mining supply chains to invest in sustainability. This engagement stemmed from the realisation that mining companies need to be able to catalyse commercial value for making investments in decarbonisation, but that existing commercial practices did not enable this. Our support for the LME initiative underpins our continued engagement with mining companies to reduce their emissions, while the companies see us as an even more credible partner thanks to our broader sectoral engagement.



\* For the purposes of this article, all references to 'emissions' refers to carbon emissions.

\*\* For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an L&G portfolio.

Whilst L&G has integrated Environmental, Social, and Governance (ESG) considerations into its investment decision-making and stewardship practices, this does not guarantee the achievement of responsible investing goals within funds that do not include specific ESG goals within their objectives.

### Key Risks

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