

Climate Governance Guide



A board guide to climate governance

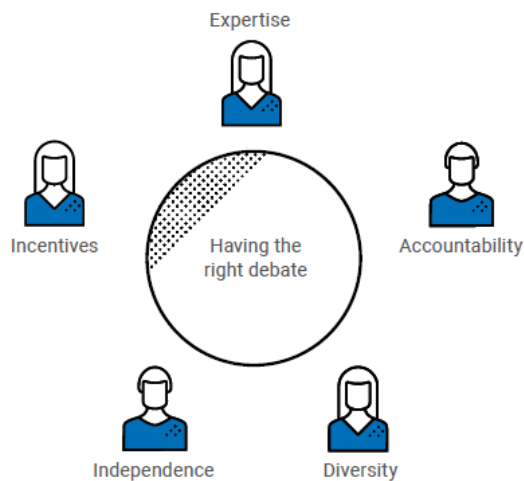
Why climate change is a problem

Climate change has far-reaching implications for companies. Following the Paris Agreement on climate change, companies are expected to reach zero carbon emissions on a net basis. This transition presents both risks and opportunities. To mitigate and realise these, an extensive overhaul of business operations is required over relatively few business cycles.

Our climate governance expectations

Boards should be fully accountable for their organisation's approach to risk management, target setting, strategic development and reporting, as it relates to climate change and, where relevant, the interrelated issues of biodiversity and deforestation.

Summary



Options for companies		
low-carbon innovation	or	business as usual?
More efficient operations		Higher costs
Lower regulatory burden		Risk of fines and litigation
Opportunities from low-carbon products		Lost demand for goods and services
Access to talent		Barriers to recruitment
Resilience to climate change		Disruption to operations and supply chain

LGIM's expectations of boards

Board accountability

Climate change, including the interrelated issues of deforestation and biodiversity, should have a clear and formal place on the board's agenda. Accountability for material climate issues should be held at the most senior executive level. Pay incentives should be aligned to strategic objectives as they relate to climate change.

Appropriate expertise

Be aware of key trends in regulation, technology and consumer attitudes and the likely pace at which these could materialise. Boards should seek out the expertise needed to understand the likely climate and nature impacts and dependencies, given the company's operations and geographical footprint.

Climate as a core strategic issue

Ensure climate is linked to business planning, which requires an evaluation of materiality and, where relevant, incorporating biodiversity and deforestation. Define actions and investments the company intends to take to reach net zero, and the contribution of each towards meeting its target.

Disclosure of decision-useful information

Report in line with the recommendations from the Task Force on Climate-related Financial Disclosures, ensuring the availability of relevant data and analysis necessary to report comprehensively and meaningfully. This requires the disclosure of financially material climate risks within annual reports. Investors need to be able to quantify the potential financial implications of climate risks, and the integration of these into company financial statements. It is important to ensure consistency between narrative reporting and company accounts.

Key takeaways

Climate change is a systemic issue

For investors with long-term horizons and diversified portfolios, climate risk poses a substantial investment risk.

Boards must take responsibility for business responses to climate change

This is an integral component of business strategy. Boards must transform historical operating models to mitigate risks and harness the opportunities presented by the net zero transition.

Investors have key expectations of boards:

- Accountability from the most senior executive level of climate and interrelated issues
- Appropriate expertise to make informed decisions
- Disclosure of decision-useful information

Related interdependencies can't be ignored

Responses to climate change must consider material interdependencies, including those that relate to nature, deforestation and a 'just transition'.

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**LGIM internal data as at 30 June 2023. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.*

Key risks

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

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