Active ownership

Global engagement to deliver positive change

Active ownership means working to create sustainable value for our clients. Our annual report details how we achieved this in 2019.

Legal & General
INVESTMENT MANAGEMENT

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Why we engage for change

We are living through extraordinary times with little precedent in living memory.

The coronavirus outbreak presents an immediate threat to the health and livelihoods of people across the world. It has reminded us of just how dependent we all are on each other – and just how important it is to push for resilient, sustainable markets and companies, where employees are valued and rewarded.

At the same time, the longer-term challenges arising from rapid technological, social and environmental change will not go away. We believe that our industry has a responsibility to do much more to address them.

Our ninth annual Active Ownership report outlines the decisive action we are taking, on behalf of our clients, to tackle issues as diverse as climate change and income inequality. In doing so, we are turning Legal & General Group's vision of inclusive capitalism – where the benefits of economic growth are broadly shared – into a reality.

Responsible investing – today

We believe that responsible investing is crucial to mitigate risks, capture opportunities and strengthen long-term returns. Clients are increasingly demanding this.

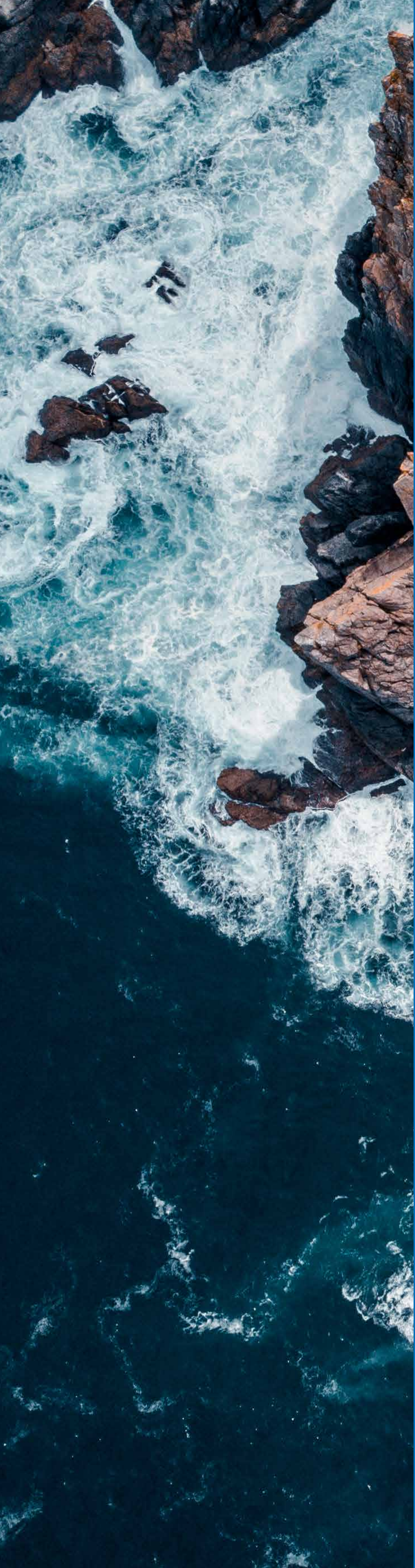
Active engagement with companies and policy-makers is a key component of our approach; in the following pages, you will see examples of where we were successful in 2019, often in collaboration with our industry peers, in raising standards at individual companies and in entire markets. But you will also read about where more needs to be done.

In addition, you will learn how we have exercised our voting rights, embedded the principles of responsible investing across our diverse business and continue to develop strategies explicitly linked to environmental, social and governance (ESG) criteria.

It is clear that to deal with the challenges of tomorrow, investors must increasingly look at information that may not be on companies' balance sheets. To deal with the challenges of today, companies must take the necessary steps for their employees and society. At LGIM, we will continue to support companies in doing the right thing on behalf of all stakeholders.

I hope you find the report informative and stimulating. I thank the Investment Stewardship team, alongside colleagues across LGIM, for their hard work and passion in helping us to continue leading our industry in addressing the era-defining issues we all face.

Michelle Scrimgeour
CEO of LGIM



In 2019, LGIM:

Engaged with
493
companies

Voted on
50,900
resolutions*

Opposed the election of
more than 4,000
company directors
globally in 2019*

Opposed
35%
of pay packages
globally

Co-filed our 1st
shareholder resolution, which led to oil major BP adopting industry-leading climate targets

Took sanctions **against** 11
companies named as laggards under our Climate Impact Pledge**

Supported
more climate resolutions
than any of the world's 20 largest asset managers***

Voted **against** management at

71%

of companies, primarily due to concerns around the suitability of directors or auditors, pay or other elements of company strategy

Launched

14 funds with ESG-linked objectives

Now bringing us to

£150bn

in responsible investment strategies****

ESG engagements breakdown 2019

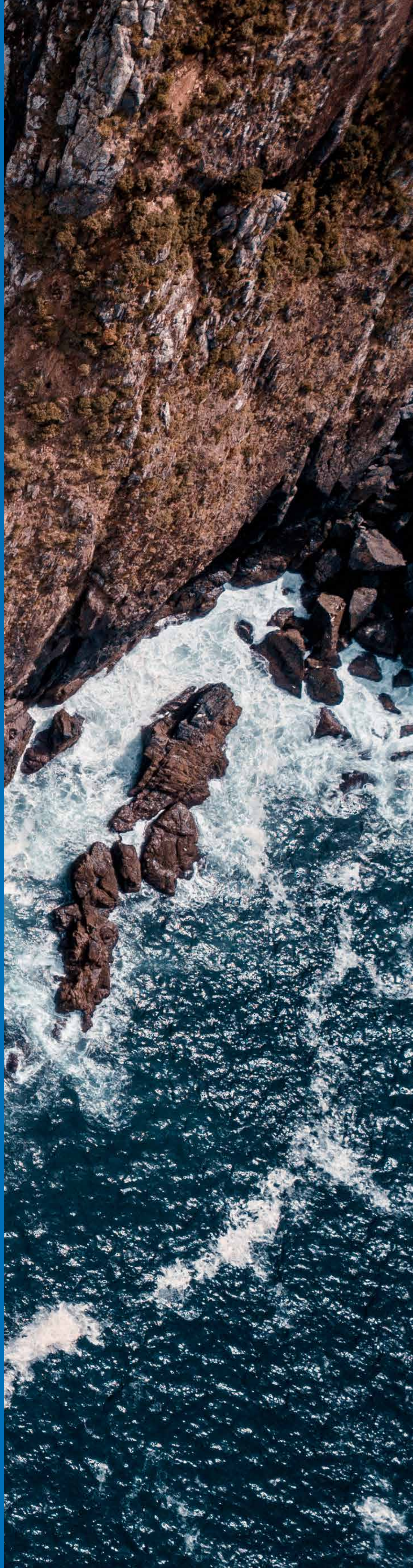
The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

* These votes represent instructions for our main FTSE pooled index funds

** Source: InfluenceMap

*** Source: ShareAction

**** Source: LGIM. Includes pooled funds and segregated accounts. As at 31 December 2019.



Q&A

with Sacha Sadan, Director of Investment Stewardship

The team changed its name earlier this year, replacing "Corporate Governance" with "Investment Stewardship". What was behind this decision?

We all believe our new name better reflects our global activities and ambitions. After being at the forefront of corporate governance for a decade, we know just how important the 'G' in 'ESG' is – and it will remain a priority for the team.

But at the same time, we recognise that expectations are changing fast – across asset classes, and beyond individual companies. Delivering inclusive capitalism requires us to think about how we responsibly allocate, manage and oversee capital. Making sure this creates long-term value not just for our clients and beneficiaries, but also for the economy, the environment and society. In a word: stewardship.

Looking back at 2019, what was the highlight of the year for the team?

Two of the Big Four audit firms pledged to stop providing non-audit services to large listed companies. We have pushed for reductions in non-audit fees for the best part of a decade, due to the potential conflicts of interest that those services entail. So it was really gratifying to see the industry shift after years of resistance.

Also, our second annual ranking of companies under the Climate Impact Pledge. Celebrating reformers and high performers, we were pleased to see two companies we had divested from two years ago make sufficient improvements following our engagements to be reinstated within our Future World funds

What else have you focused on in your work with regulators?

As you will see from our report, we spent a lot of time on working with regulators globally to develop solutions to market-wide issues, from climate disclosure, to diversity, shareholder rights and climate change.

In our engagements with policy makers, we make constructive recommendations to improve the entire financial system for our clients. This is one of the best uses of our resources; to do even more of this, we hired a dedicated public policy analyst last year.

How concerned are you with the charges of 'greenwashing' levelled at the industry?

I think this will be one of the biggest challenges to asset managers in 2020. The industry needs to show investors and regulators what it has achieved on ESG issues, not what it thinks is important. Everyone has a policy on diversity – but what have they actually done?

I worry that the industry could fall short at this juncture. I hope this ninth report demonstrates how serious we at LGIM are about all these issues and the actions we take on them.

The role of proxy voting agencies is also increasingly in focus. Why do you use their services?

Proxy voting agencies get a bad rap. But they are absolutely invaluable in collating and sharing information on thousands of companies. The real question is, how do we use that information?

At LGIM, we have created very strong, customised policies on behalf of our clients – and refined by our clients – to make our own voting and investment decisions. We also supplement the data we receive from the agencies with information from a variety of other sources.

Ultimately, proxy voting agencies are just a useful instrument. And it is incumbent on all asset managers to make the best use of that instrument.

Finally, what are your priorities for 2020?

To be even more responsive to our clients. Climate is a key area: they are asking us more and more about oil and gas companies and the energy transition.

We need to provide clients with better data, both on what we are doing and from the companies in which we invest. So we welcome new regulations and guidance on this theme, for example for the accounting profession, and initiatives like Task Force on Climate-related Financial Disclosures.

We also plan to focus on financial inequality, from executive pensions to the living wage and gender pay gap.

Other areas we are going to look at include privacy and security, not least what companies do with their customers' data; and healthcare – so issues like pricing by pharmaceuticals.

Environment

Climate change

Avoiding a global catastrophe

- LGIM supported more shareholder resolutions on climate change than any of the **world's 20 largest asset managers**[1]
- We published our second annual ranking of climate leaders and laggards, **naming 11 companies that have failed to demonstrate sufficient action**, including ExxonMobil
- We co-filed our first ever shareholder resolution, which **led to oil major BP adopting** industry-leading climate targets

Climate concerns reached new heights in 2019, a year that saw the hottest July and September on record. Over six million protesters worldwide took to the streets in the autumn to call for increased action.

Galvanised by the public, policy-makers are stepping up: the UK became the first major economy to pass a net zero emissions law, followed by the EU's pledge to make Europe a "climate-neutral" continent by 2050.[2]

Asset owners are also increasingly alert to climate risks. The number of insurance companies refusing to invest in or insure high-polluting coal projects doubled in 2019,[3] including Legal & General Group, our parent company.

The transition to a low-carbon economy continues to reshape traditional markets, with global coal-fired power volumes registering a record fall.[4] 'Green collar' jobs are growing; with the UK low-carbon sector supporting around 400,000 workers[5]. Even in the US, despite President Donald Trump's pledge to withdraw from the Paris Agreement on climate, investment in clean energy reached record highs in 2019.[6]

Throughout the year, we continued to use our influence to encourage companies, regulators and our clients to step up on sustainability:

- Climate change was the topic on which the Investment Stewardship team engaged with companies the most last year, with 249 engagements
- We supported more shareholder resolutions on climate change than any of the world's 20 largest asset managers[7]

Climate leaders and laggards

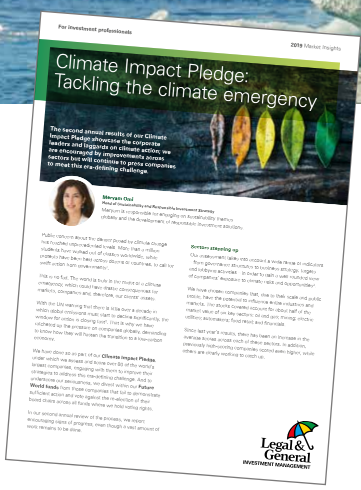
In June, we published our second annual ranking of corporate leaders and laggards, under our Climate Impact Pledge. This is our commitment to assess and engage with some of the world's largest companies on their strategic management of climate change.

We rank companies' climate strategies on a wide range of indicators – from governance structures to business strategy, targets and lobbying activities – and were encouraged to note an increase in the average scores across each of the targeted sectors last year.

"More than half of fund managers had no climate change-related voting policies or guidelines. This is utterly unacceptable. There are of course some notable exceptions... Legal and General's Future World Fund withdraws investment in companies who don't engage with climate change, forcing those firms to act fast in the hope of being reinstated."

Guy Opperman MP
Minister for Pensions and Financial Inclusion[8]

In addition, we were pleased to report that all eight companies we cited in 2018 as candidates for divestment within our Future World funds, and against whose board chairs we voted across our other holdings, subsequently engaged with us on our concerns. Two such companies made sufficient progress to warrant reinvestment in 2019.



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.

In the rest of this document, we set out our views historic from an Environmental, Social and Governance perspective on a number of companies which issue securities. Where we do this it is for illustrative purposes only. Reference to a particular company and / or the securities which it issues is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security. We will flag such narrative with this icon: †

Other companies that scored less well in 2018 significantly improved, as a result of our efforts and those of our peers.

But we also announced that we would be adding five new companies as candidates for divestment, largely due to a lack of sufficient strategic awareness of climate change. These are outlined below:

Remaining divested

Subaru
Sysco
Loblaw
China Construction Bank
Japan Post
Rosneft Oil

Removed from divestment list due to improvements

Dominion Energy
Occidental Petroleum

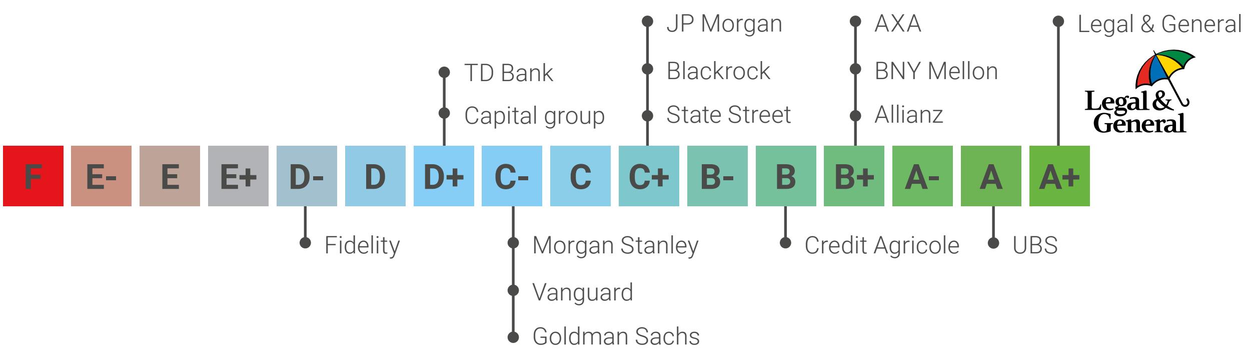
2019 additions to divestment list

KEPCO
ExxonMobil
Metlife
Hormel
Kroger

As a result of our efforts, LGIM was the only top 15 asset manager to receive an A+ score for its climate engagement and voting, by InfluenceMap a non-profit organisation that scores companies on climate policy. More information can be seen here: https://influencemap.org/report/FinanceMap-Launch-Report-f80b653f6a631cec947a07e44ae4a4a7

Scoring of investor-company engagement and resolutions on climate†

Overall climate engagement score for 15 largest asset manager groups

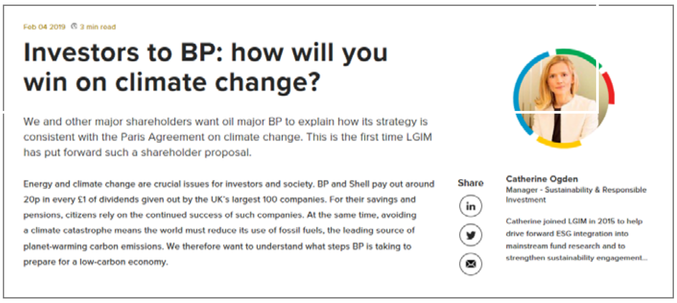


Source: InfluenceMap

Case study†

Company name: BP plc.		
Sector: Oil and gas	**Market cap:** £65.8bn	**ESG Score:** 38 (▲8)*

What was the issue?	For energy companies such as BP, the shift to a low-carbon economy has profound implications.
What did LGIM do?	LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change.
What was the outcome?	LGIM worked with the board of BP to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders. We have since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. At the time of this report, the company has announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells. Read more in our *blog post*[9] on the subject:


Feb 04 2019 3 min read

Investors to BP: how will you win on climate change?

We and other major shareholders want oil major BP to explain how its strategy is consistent with the Paris Agreement on climate change. This is the first time LGIM has put forward such a shareholder proposal.

Energy and climate change are crucial issues for investors and society. BP and Shell pay out around 20p in every £1 of dividends given out by the UK's largest 100 companies. For their savings and pensions, citizens rely on the continued success of such companies. At the same time, avoiding a climate catastrophe means the world must reduce its use of fossil fuels, the leading source of planet-warming carbon emissions. We therefore want to understand what steps BP is taking to prepare for a low-carbon economy.

Share

Catherine Ogden
Manager - Sustainability & Responsible Investment

Catherine joined LGIM in 2015 to help drive forward ESG integration into mainstream fund research and to strengthen sustainability engagement...

*LGIM's ESG scores capture minimum standards on environmental, social and governance metrics – as well as companies' overall levels of transparency. Scores shown as at end of Q3 2019 (compared to end of Q3 2018). LGIM's scores for over 2000 listed companies, as well as a guide to our methodology can be found at: https://www.lgim.com/uk/en/capabilities/corporate-governance/assessing-companies-esg/

Case study†

Company name: Enea SA, Energa SA.		
Sector: Utilities	**Market cap:** Enea, PLN 2.1bn; Energa, PLN 2.8bn	**ESG Score:** Enea: 12 (▼2); Energa: (22) (-)

What was the issue?	Enea plans to build a large coal-fired power plant at Ostrołęka C, in a joint venture with another major Polish utility (Energa SA). Both firms approved the high-polluting project without having secured full funding for it, even as it risks being permanently unprofitable due to increasingly stringent EU regulation and cleaner, cheaper alternatives.
What did LGIM do?	LGIM opposed the proposal to build the plant, when it was put to a vote at Enea's extraordinary general meeting in 2018, but we remain invested by default in the companies through our index funds. We have since expressed our concerns both privately in letters to the utilities, and publicly in the press. Our concerns were cited in a shareholder lawsuit against the company, filed by environmental law group ClientEarth.
What was the outcome?	In this world-first climate risk case, in August 2019 a Polish court has upheld ClientEarth's complaint, revoking the initial decision to build the plant.[10] Reflecting the market's concerns around the financial viability of new coal plants, shares in Enea rose on the news. In early 2020, the companies announced the suspension of the project.

Source for all market capitalisation data: Refinitiv, as at 31/03/2020.

From the Vatican to Westminster

LGIM's Head of Sustainability and Responsible Investment Strategy meeting Pope Francis I, a champion of climate action

Our Group Chairman and LGIM's Head of Sustainability and Responsible Investment Strategy were honoured to be invited to the Vatican by His Holiness Pope Francis for a two-day dialogue on climate change with executives from the world's largest energy companies and asset managers.

The meeting resulted in a joint statement[11] in support of carbon pricing and climate disclosures.

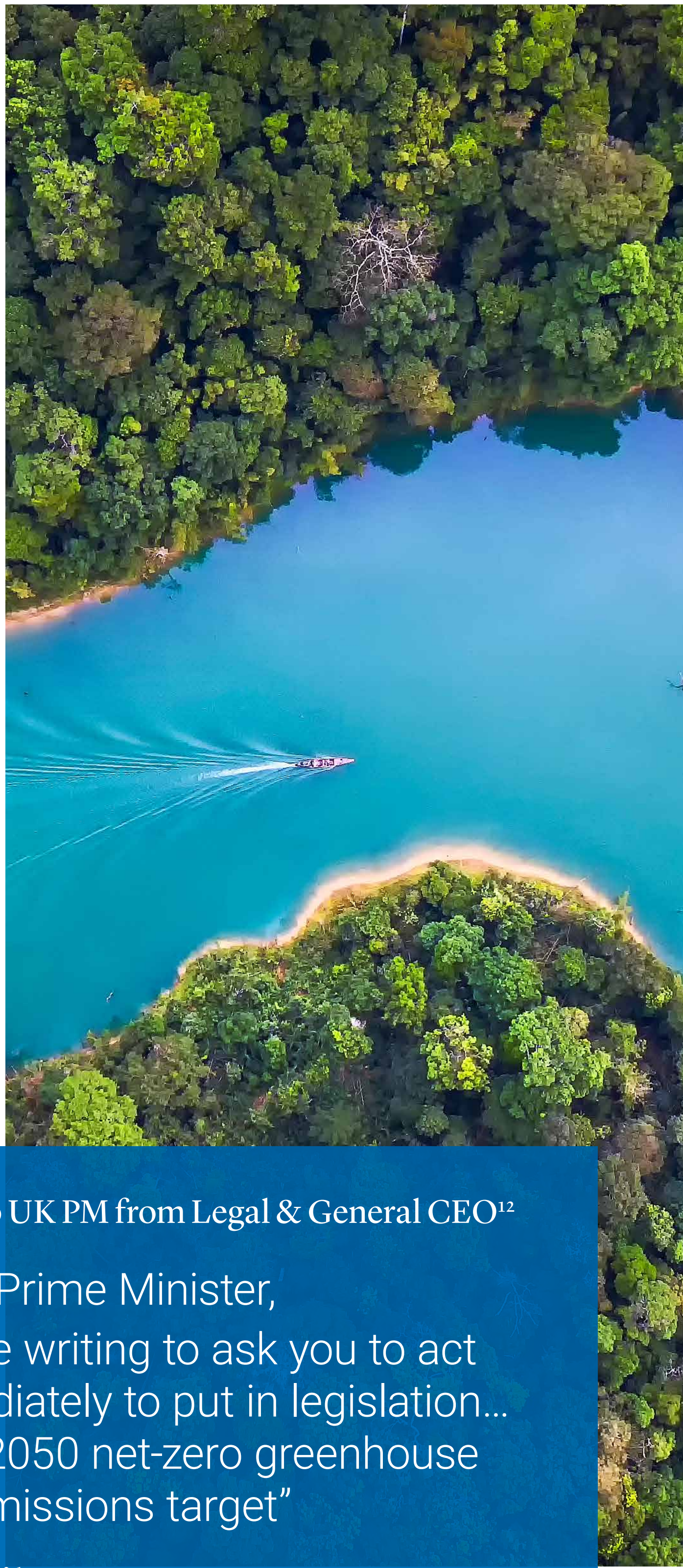
Disclosure and deforestation

Ahead of the UN annual climate talks in Madrid, we joined a group of investors managing a combined €6 trillion, in signing a letter addressed to all EU heads of state and government urging them to pass a net zero emissions target into European law.

And earlier in the year, our Group CEO wrote to the then prime minister, Theresa May, to call for similar legislation, which the UK has now adopted following investor support. For our part, LGIM Real Assets has now committed to a net-zero real estate portfolio by 2050.

We also provided suggestions to scale up green finance to the country's Financial Conduct Authority (FCA) and the UK Treasury Select Committee.

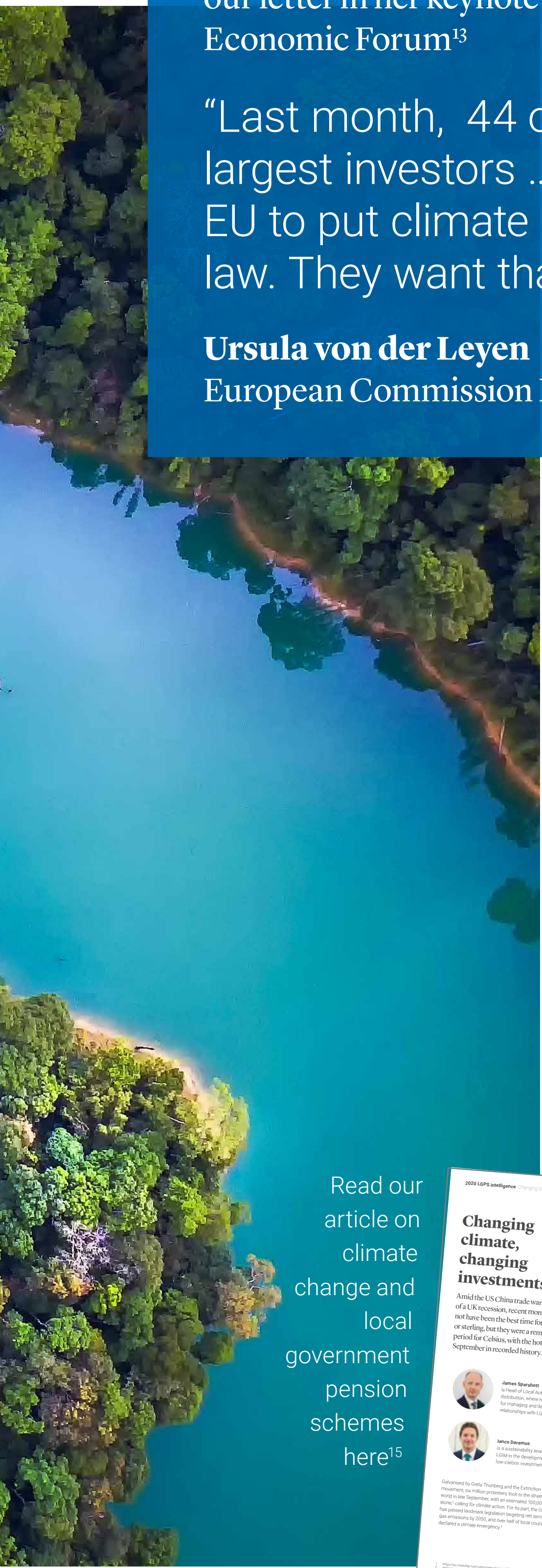
Meanwhile, as devastating Amazon fires focused the world's attention on the importance of agriculture and deforestation – which account for around a quarter of global greenhouse gas emissions – LGIM alongside 200 other investors issued a public call on companies to act on deforestation. This follows our decision to exclude a number of food retailers from our Future World fund range, partly due to poor deforestation policies.



Letter to UK PM from Legal & General CEO[12]

"Dear Prime Minister,
We are writing to ask you to act immediately to put in legislation… a UK 2050 net-zero greenhouse gas emissions target"

Nigel Wilson
CEO of Legal & General

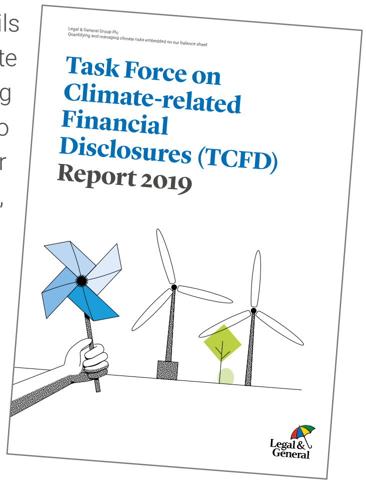


European Commission president referenced our letter in her keynote at the World Economic Forum[13]

> "Last month, 44 of Europe's largest investors ... called on the EU to put climate neutrality into law. They want that law"

Ursula von der Leyen
European Commission President

For more details on the climate change modelling we've done to support our parent company, please see L&G Group's TCFD report[14]



Cutting-edge climate analytics

In the past year, LGIM embarked on a strategic partnership with a leading energy consultancy to develop analytical tools to assess the investment impacts of climate change.

We have set out to identify the effects of disruptive low-carbon technologies, and the lowest-cost options to meet global climate targets. We believe early climate action can lead to significant investment opportunities. But there are also costs and risks involved, and the next stage of our modelling will look in more detail at the financial risks of climate change, as part of our ambition to support clients who seek to measure and manage their carbon exposure, and align their investments with the Paris Agreement.

Supporting our clients

We engage for the benefit of all our clients. To elucidate what they can do to address climate change, we publish articles, blog posts and podcasts on the topic, including:

- *A five-step ESG checklist for pension trustees*[16]
- *How investors can keep up with changing climate change risks and requirements*[17]
- *Why large-scale divestment is not a climate panacea*[18]
- *How to check if asset managers are engaging effectively*[19]
- *Why, despite popular media claims, it isn't 'just 100 companies' that are responsible for climate change*[20]

Read our article on climate change and local government pension schemes here[15]

Society

Financial inclusion and income inequality

Making an executive decision on pay

- **We opposed 35% of pay packages** globally (compared to 34% in 2018), and in the UK, **we voted against 17** chairs of remuneration committees
- **LGIM responded** to about 100 remuneration consultations; in 2020, we are strengthening policies on executive pensions and post-exit shareholdings

The average salary for a FTSE 100 CEO has jumped from around 40 or 50 times the average UK worker's in the mid-1990s to roughly 117 times today.[21] LGIM have been committed to narrowing this gap for several years.

In 2016, we requested that any salary increases awarded to executives align with what is offered to the rest of the workforce; in 2018 we called out bonus increases where award potential was already in excess of 100% of salaries.

Last year, we responded to around 100 remuneration consultations in the UK. We voted against remuneration policies proposed by 32 companies, half of which we opposed over concerns about total compensation. We also sanctioned 17 remuneration committee chairs for failing to address our concerns on executive pay.

Promoting pensions and post-exit policies

An encouraging number of companies considered the pension provisions they currently offer their workforce to be inadequate, and have either improved them or promised to do so during 2020. But different approaches to post-exit shareholding requirements mean we are likely to vote against even more remuneration policies this year.

During 2020, we will sanction:

(i) Any policy where the pensions of newly appointed executive directors to the Board are not aligned with those of their workforce

(ii) Any companies where executive directors do not retain a significant amount of their in-post company shareholding requirement for two years following their departure

We are already starting to see promising signs, partly as a result of our engagement and that of our peers on this issue: over a third of the UK's largest 100 companies have now brought their executives' pensions in line with the workforce.[22]

Our new principles on shareholding requirements are designed to reduce the chance of executives taking undue risks – or underinvesting – to drive up short-term profits. We believe that the longer executives continue to have 'skin in the game', the lower the risk of shorter term management decisions.

Global standards: going for gold

In the US, companies offer the highest total compensation packages worldwide, but with a weak link to performance.

In 2019, we opposed 352 “say on pay” votes and supported a further 32 shareholder proposals to encourage stronger compensation practices. Two central recurring issues in this field were a lack of performance conditions, or such conditions being placed for periods shorter than three years. We discussed our remuneration principles at our first Non-Executive Director event in Chicago.

In 2020, we are releasing a stand-alone guide to help compensation committees better understand our views. At the same time, we are supporting the work of the Council of Institutional Investors to improve pay practices in the US.

In Europe, the Shareholders’ Rights Directive II has helped to reinforce investor voices on executive pay, especially in markets where these are rarely heard. LGIM lobbied the German parliament for a binding vote on companies’ remuneration reports and policies but we did not succeed.

We continued to draw attention to a common feature of many European markets: too much executive compensation being paid in cash rather than equity, with the notable exception of the banking sector. In our view, better alignment of shareholders and the executive would help to drive better long-term decisions that benefit all stakeholders.

Rewarding all employees fairly

According to provisional figures from the Office of National Statistics (ONS), approximately one in every six workers in the UK is “low paid”, earning less than £8.52 an hour (while the national minimum wage was £6.15 per hour in 2019, the national living wage was £8.21).[23] One in eight British workers – just over four million people – are trapped in poverty.

We continue to support the introduction of a ‘living wage’, on which we engage with our investee companies.

City investors urge UK's top firms to pay workers living wage

Letter addresses companies including Royal Mail, British Airways and JD Sports [24]

Still, we recognise that achieving a living wage across supply chains is a complex task, which needs to be tackled over time with contract renewals and negotiations. Legal & General is proud to be a Living Wage employer.

We recognise that income inequality is one of the defining themes of our age and, in the coming years, we will continue to look for ways to address it.

Society

Lobbying

Encouraging transparency on efforts to sway policy

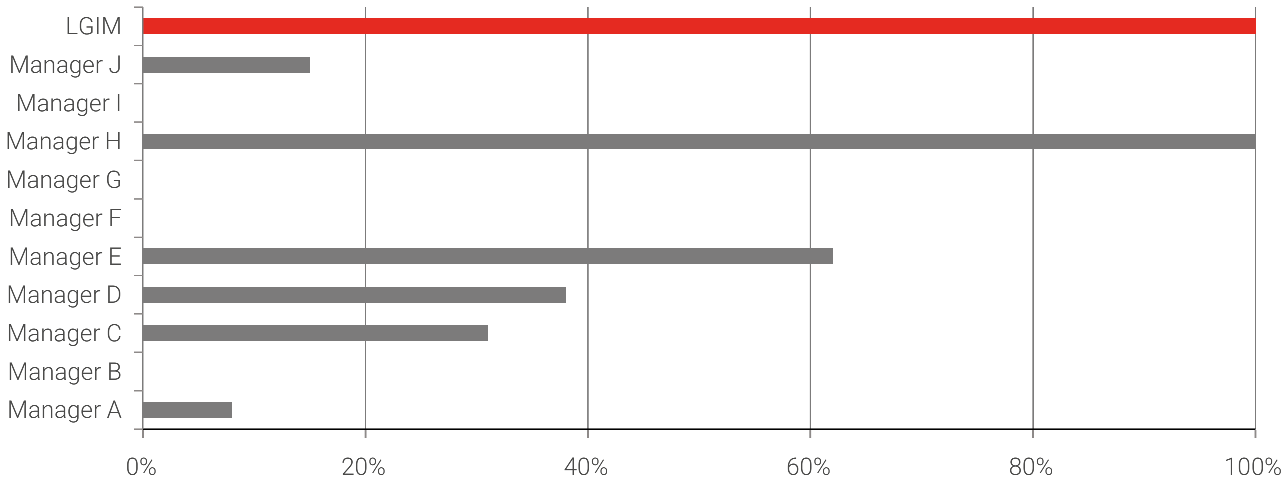
- We were a **top supporter of resolutions** on political lobbying transparency compared to the world's 10 largest asset managers.
- Following joint action with our peers in 2018, a number of companies have pledged to **review and report** on their lobbying activities

If companies spend investors' money on lobbying governments, we expect them to account for how and why they do this. We use our engagement and votes to shed light on this activity.

As in the previous year, during 2019 LGIM was a top supporter of shareholder proposals calling on companies to report on their political spending.[25]

A report looking at key US shareholder votes on the topic found that, on average, the world's 10 largest asset managers supported just 28% of such resolutions. By contrast, we supported 100% of such proposals.

Support for resolutions on political lobbying in 2019



Source: Majority Action

These included proposals filed at US auto-manufacturers Ford Motor and General Motors. To help mobilise investor support, we pre-announced our voting intentions in a blog post.[26]

May 08 2019 3 min read

Proxy preview: LGIM's stance on key lobbying, climate votes

As a result of ongoing demands for more transparency from us and our peers, a number of companies have now taken positive steps, including:

- Oil major Shell leaving a US refining trade body due to differences over climate policy
- Rio Tinto, the mining giant, putting trade groups on notice if their lobbying undermines the goals of the Paris Agreement

In our last Active Ownership report, we highlighted the collective investor letter on lobbying that we sent to select companies.

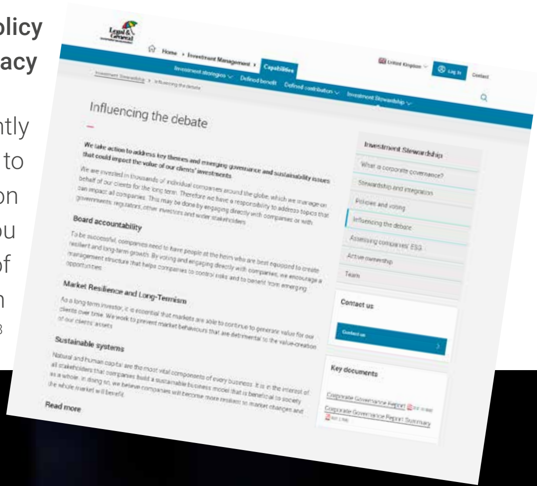
$2 trillion investors challenge 55 companies on climate lobbying

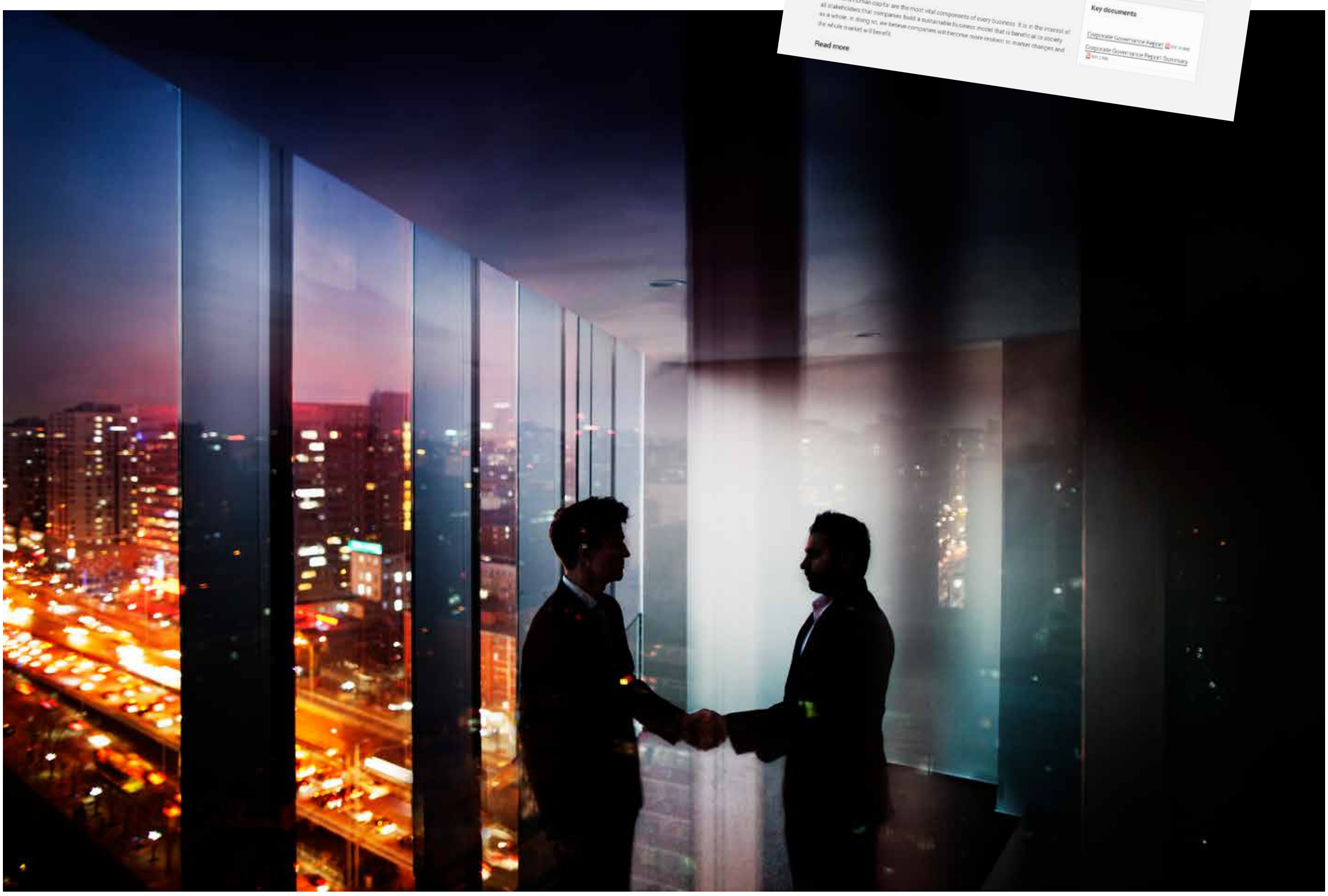
By Claire Stam | EURACTIV.com 29 Oct 2018 (updated: 30 Oct 2018) [27]

We have since seen a number of companies including chemical giant BASF, utility RWE and miner AngloAmerican pledge to review and report on their lobbying activities.

LGIM's policy advocacy

LGIM frequently responds to consultations on public policy. You can find many of our responses on our website[28]





Society

Diversity

Finding the gender balance

- In 2019 we worked to **improve gender diversity** at board, executive and management level at 19 Japanese companies
- 51 of the 72 US companies we targeted for engagement over the past three years have now **appointed at least one** woman to their board

A company's success or failure is largely determined by the quality of its leaders' decision-making. We believe a range of viewpoints from a diverse board and leadership team is integral to making the best decisions for a business, its clients and its shareholders.

Research[29] suggests that increasing the diversity of leadership teams leads to better innovation, lower risk and stronger financial performance. This is why we are pushing companies to make the proportion of women on their boards at least 30%.

The gender agenda

Around the world, we have made significant progress in terms of gender equality in recent years. But we still have further to go, especially in the workplace. Women are still under-represented at senior levels and in many cases, the 'glass ceiling' is very much intact.

There have been a number of promising developments in 2019 and we have seen genuine commitment from many of the companies with which we engage.

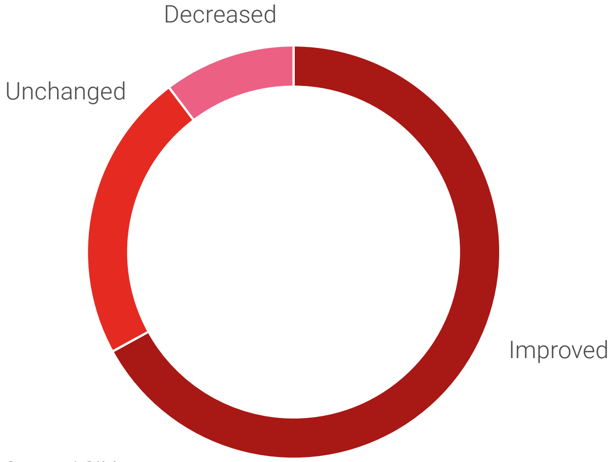
For more than three years we, as part of a coalition with other global investors, have engaged with 72 S&P 500 companies that had all-male boards. In these discussions, we set out our expectations; the companies shared their nomination processes, challenges, and ideas of best practice.

As of 2019, 51 of these companies have appointed at least one woman to their board, which is a 71% success rate. (At the time of writing, there are now no S&P 500 companies with all-male boards.)

In 2019 we extended our global focus to improve gender diversity at board, executive and management level at 19 Japanese companies. We pushed these companies to appoint at least one woman to their board and implement a policy outlining how they will increase female representation at all seniority levels through clear targets.

Following this, we are pleased to report that 12 of these firms improved their gender diversity score[30] in September 2019 compared to 2018.

Gender diversity score for Japanese companies



Source: LGIM

Great(er) expectations

However, we must not rest on our laurels. In Japan, even though the percentage of women board members at TOPIX 100 companies rose above 10% for the first time in 2019, this figure is significantly lower than in other developed countries. At FTSE 350 and S&P 500 companies, the proportion of board members who are women are 30% and 27% respectively.

One in five companies in the TOPIX 100 still has an all-male board. Moreover, the World Economic Forum's Global Gender Gap Report 2020 ranked Japan 115 out of 153 countries in terms of 'economic participation and opportunity.'

In 2020, we will vote against all TOPIX 100 companies that do not have at least one woman on their board (excluding statutory auditors). Given the importance of diversity for a well governed board, we will expand the scope of this policy to a greater number of Japanese companies over time.

We will also push all companies to increase diversity at the senior management ('bucho' or division heads) level. The global challenge of finding women to serve as board members is compounded in markets - such as Japan - with low female representation in senior management. Increasing the number of bucho is essential to building a more diverse talent pool where companies can search for qualified women with the relevant management and industry experience to serve on their boards.

We expect companies to set aspirational targets and promote diversity at the hiring stage and across all levels of the workforce, as we believe that having the right talent is essential in moving this agenda forward.

In 2019, the number of FTSE 250 companies with all-male boards dropped from five to two. This year, we will target these remaining two companies in our work with the 30% Club Investor Group, as well as the two FTSE 350 companies that (at the time of writing) still have no women on their boards.

In the UK, we voted against 76 directors due to low diversity on their boards.

One in five companies in the TOPIX 100 still has an all-male board.

Governance

Good governance

Promoting strong governance for long-term success

- We **voted against 159** directors in the UK over independence concerns
- From 2020, we will vote **against all combined CEO and board** chairs appointments

Governance can make or break a business. Having robust governance processes can help companies achieve and maintain profitability, mitigate potential challenges and focus on growth to create long-term value. By contrast, badly run companies may take serious hits to their margins, go bust or even risk the security of their staff and customers.

It is, therefore, especially important that those in senior leadership positions act honestly and with integrity. That they have the time and skills to dedicate themselves to their roles – and sufficient oversight to not prioritise short-term (or personal) gain.

In 2019, we engaged with companies on governance issues 379 times.

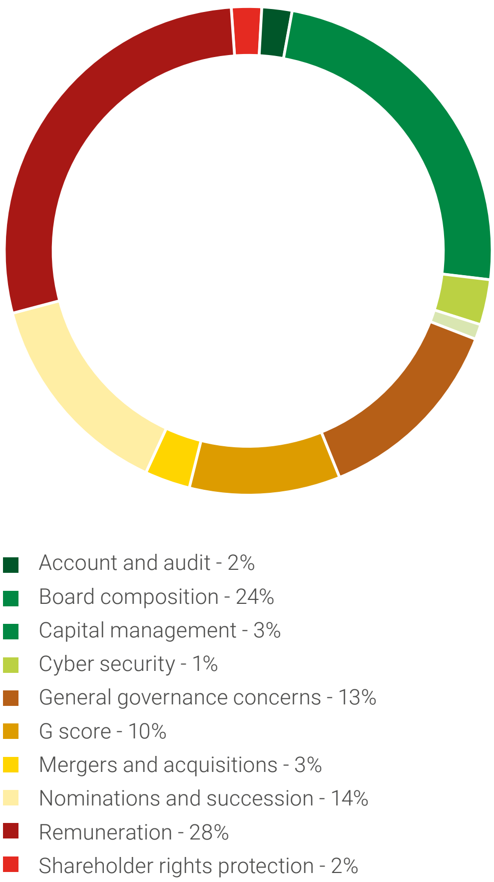
We work with companies to improve how they are run and we use our voting rights to hold them to account. As a result, we opposed 15% of director-related shareholder resolutions globally over concerns over the suitability of directors.

Cracking down on poor board practices

Boards that are not diverse can suffer from an 'echo chamber' mentality that stifles innovation. Consequently, we voted against 76 directors in the UK, 41 companies in emerging markets, and 56 directors in Asia Pacific, where gender diversity on the boards was either non-existent or very low.

Board members should not sit for such a long period of time that they become too 'cosy' with the company they are meant to be overseeing.

Breakdown of governance engagements



Source: LGIM

We also believe directors should not sit on too many boards, so they can properly fulfil their duties. Last year, we opposed 364 directors in the US due to concerns over 'overboarding'.

Boards that are not diverse can suffer from an 'echo chamber' mentality that stifles innovation.

Case study[†]

Company name: Metro Bank		
Sector: Financials	**Market cap: £160m**	**ESG Score:** 65 (▼3)

What was the issue?	We had long-standing concerns regarding Metro Bank due to a lack of independent directors on its board, poor gender diversity, a pay structure not in line with best practice standards, and failure to manage conflicts of interest. In 2019, our concerns were compounded by the disclosure of material accounting errors within the bank's loan books. The accounting errors led to a significant drop in investor confidence and sent the shares down more than 39% in one day. The lender's share price has remained under pressure and declined over 88% in 2019.
What did LGIM do?	Ahead of the 2019 AGM, we took the rare step of publicly pre-announcing our intention to vote against the board chair, members of the audit committee and directors over whom we had independence concerns. The announcement was made to highlight these issues and share our concerns with other investors.
What was the outcome?	In response to pressure from us and other investors, Metro Bank began to address its long-standing governance concerns. Both the chair and CEO agreed to step down. The bank also announced it would sever ties with InterArch, an architecture firm owned by Metro Bank's chairman's wife, that has received over £25 million in payments since 2010.

Time to do the split

In 2020 we will be voting against all companies where the CEO also serves as board chair (excluding Japan, due to unique features of this particular market).

We have advocated a separation of these roles for many years because having a distinct CEO and board chair provides a balance of authority and responsibility that we believe is in both the company's and investors' best long-term interests.

Board independence is equally important to ensure robust oversight over company strategy and executives' decisions – CEOs should not be able to 'mark their own homework'.

In 2019, we voted against 159 directors in the UK due to concerns over independence. In Europe, we withheld support from 365 resolutions to confirm directors, boards or committees.

We encourage companies with existing combined CEO and chairs to consider these roles carefully, particularly at times of transition. At a market level we will track aggregate combined rates (e.g. currently at 47% of the S&P 500 and 53% of the CAC in France); we expect these to drop over time.

We hope the trend of separate CEO and chair roles become more pronounced, as smaller companies adopt governance best practices.

In 2019, we supported 51 shareholder resolutions in the US asking for a split of functions of board chair and CEO.

Conversely, there were 40 votes against directors because LGIM had concerns around the board's decision to combine the roles of board chair and CEO without the prior approval of their shareholder.

Over the years, we have been concerned by a worrying pattern of companies splitting these roles, but only after a scandal, which is clearly not in the best interest of long-term shareholders. Many of the companies at the heart of these scandals did not have shareholder proposals for a separation of the roles.

Spotlight: Companies with combined roles†

	Nissan/Renault	Under Armour	Tesla	Boeing
ESG score	34 (-)	45 (-)	53 (▲7)	56 (▼1)
Prior shareholder resolutions to split?	No resolutions	No resolutions	Yes – LGIM supported (2018)	No resolutions
Scandal	Financial misreporting	Federal accounting probe	SEC Securities fraud	Two plane crashes
Separation result	Nov. 2018 independent chairman appointed	Oct. 2019 CEO resigns and	Oct. 2018 independent chairman appointed	Oct. 2019 independent chairman appointed

Governance

Mergers and acquisitions

Protecting investors' interests amid deal-making

- Of the 1,728 shareholder proposals that we voted on relating to reorganisations and mergers, **we opposed 16%**
- Following public opposition from LGIM and other investors, Barrick Gold increased its proposed offer to purchase Acacia Mining – a **positive outcome for shareholders**

Mergers and acquisitions are an everyday event in global financial markets. They have the exciting potential to help companies to grow, diversify and generate greater returns. They can also encourage competition and innovation within a sector.

However, M&A does not always create sustainable value for shareholders; we are, therefore, cognisant of the risks as well as the opportunities involved.

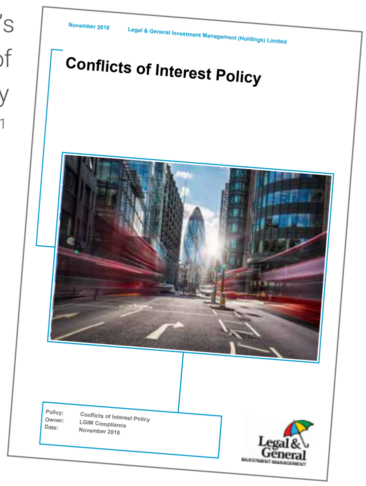
Each member of the Investment Stewardship team is allocated a sector and/or region, enabling them to build the necessary experience and knowledge to make informed decisions and consider the long-term prospects for shareholder value, rather than just the price offered.

The team is also structured to manage potential conflicts of interest and ensure proper oversight over decision-making. If the need arises, a formal escalation process involving our two independent non-executive directors may be conducted.

We use a variety of external and internal research sources to assess a potential deal's implications for shareholder value. If we believe a transaction presents a risk, we may seek to escalate our concerns with the board in question, in collaboration with like-minded investors.

If we choose to oppose a deal, we vote in one direction across all of LGIM's holdings. Our voting decisions are publically available on our website, including the rationale when voting against management.

Read LGIM's conflicts of interest policy here[31]



Making our votes count

In 2019, we opposed 16% of the 1,728 shareholder proposals on which we voted relating to reorganisations and mergers.

Case study†

Company name: Barrick Gold		
Sector: Mining	**Market cap:** CAD 49.2bn	**ESG Score:** 38 (▲1)

What was the issue?	Barrick Gold is the majority owner of Acacia Mining, a company in which LGIM has a minority stake. Acacia had reached a stand-off with the Tanzanian government over unpaid royalties, and Barrick proposed to intervene by buying the rest of the company at a discount to the prevailing share price, which we believed would have treated minority shareholders unfairly.
What did LGIM do?	We challenged Barrick on the terms of the offer. As the company was unwilling to change its position, we took a stance in the press, and were one of only four investors to publicly oppose the terms.
What was the outcome?	Barrick subsequently increased its offer meaningfully, both in terms of exchange ratio and providing a contingent element based on exploration rights. Acacia's share price climbed approximately 23% on the day the revised offer was announced.

Legal and General oppose Barrick Gold's buyout offer for Acacia [32]

Fund manager becomes latest investor to complain about Canadian group's proposal

Case study†

Company name: Bayer		
Sector: Pharmaceuticals	**Market cap:** EUR 52.2	**ESG Score:** 58 (▼1)

What was the issue?	Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weedkiller RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic. We are concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. The shares have since rallied, but remain below the pre-merger levels as at the time of writing.
What did LGIM do?	Unrelated to the litigation, we have previously discussed the importance of a lead independent director, particularly in times of crisis. We spoke to the company ahead of its 2019 AGM to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. We recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, we suggested that these incidents should have a bearing on remuneration awarded for the year.
What was the outcome?	At the 2019 AGM we backed a vote of no-confidence in the management board. In what the Financial Times called 'a stunning vote of no confidence [...] that has no precedent in German postwar corporate history,' over 55% of shareholders voted against the company's bosses. The company subsequently established a glyphosate litigation committee to monitor litigation and consult with the board. We will continue to pay close attention to the litigation and any possible settlements, as well as the decisions of Bayer's remuneration committee. The company has now announced that the chair will step down at the 2020 AGM.

Governance

Shareholder activism

Progress through meaningful engagement with all parties

- We will engage with activist shareholders and support their proposals – but only if they can unlock value for the **benefit of our clients**
- We **supported activist shareholders**’ proposals at Hyundai Motor and EssilorLuxottica’s AGM

Shareholders have the power to hold companies to account and positively influence their plans and progress.

So-called ‘activist’ shareholders take this one step further by using their votes to put pressure on a company’s management to achieve certain goals. In its early days, shareholder activism was seen as the pursuit of certain US hedge funds to drive stronger short-term performance. The practice has now evolved globally, however, as institutional investors increasingly adopt an activist approach in a bid to improve companies’ returns.

In 2019, 187 companies around the world faced some form of shareholder activism.

Assessing activism

When an activist investor raises an issue, we will engage with both the investor and the company to gain a better understanding of the requests and the overall situation. We may support the activist’s proposals – but only if they can unlock value over the long-term for the benefit of the company and, ultimately, for our clients.

Case study†

Company name: EssilorLuxottica		
Sector: Healthcare products	**Market cap: EUR 43.9bn**	**ESG Score: 51 (▲1)**

What was the issue?	In 2018, French lenses producer Essilor merged with Italian frame manufacturer Luxottica. Upon conclusion of the merger, the executive chair of Luxottica´s holding company (Delfin) owned 32.7% of the merged company's share capital. Under the terms of the merger agreement, the aforementioned executive chairman and Essilor's executive vice-chairman were both given equal powers. A board was also established, with membership split equally between Essilor and Delfin. In March 2019 an internal disagreement between the two heads of the merged entity occurred. Two of the company's shareholders – Comgest and Valoptec – put forward three board nominees in a bid to break the impasse.
What did LGIM do?	We contacted EssilorLuxottica to discuss the issue, but received no reply. We engaged extensively with Comgest, Valoptec and the board nominees. We publicly announced our support for the board nominees ahead of the AGM to ensure the current board knew our intentions and to raise awareness to the other shareholders.
What was the outcome?	Before the AGM was due to take place, the company's board announced that it had reached a governance agreement and all disputes had been resolved. EssilorLuxottica's CEOs had been tasked with focusing on the integration process and to accelerate the simplification of the company. The board confirmed that neither CEO would seek to become the leader of the combined entity. The board nominees received significant support from the company's independent shareholders, equalling respectively 43.7% and 35% of the total votes. We will continue to engage with the company for the benefit of our clients.

We have also seen a rise in traditional investor activists joining forces with institutional investors to create a bigger impact, especially on governance issues.

Case study†

Company name: Hyundai Mobis and Hyundai Motor	
Sector: Automotive	**Market cap: KRW 16.1tn; KRW 22.4tn**
ESG Score: Hyundai Mobis: 49 (-); Hyundai Motor: 32 (▲9)	

What was the issue?	In March 2018, the Hyundai group announced a restructure involving Hyundai Mobis and Hyundai Motor. Activist investor Elliott Management, which owned a $1 billion stake in the group, challenged these plans by putting forward its own proposals for the two businesses. This included increasing the dividend payout, establishing separate compensation and governance committees, and appointing directors who were not already on the group's boards.
What did LGIM do?	We have been actively engaging with Hyundai Motor for a number of years on the composition of the board, the risks associated with a chaebol structure, and excess of capital. Following Elliott Management's announcement, we discussed the proposals with it and the chief financial officer of Hyundai Mobis.
What was the outcome?	We decided to support all the resolutions put forward by Elliott Management in relation to Hyundai Motor. With regards to Hyundai Mobis, we noted the risk of a potential conflict of interest with one nominee and decided not to support their election. We supported all other resolutions put forward. Elliott Management's proposals were defeated at both companies' AGMs. However, the two companies decided to broaden the skillset of their boards through the appointment of new directors from outside the group. The management also supported the introduction of separate board committees, including a remuneration committee. Following the vote, the CEO confirmed that the group would listen more to dissenting shareholders.

We have written a short guide for companies to managing shareholder activism, providing an overview on how to prepare for and manage such situations.

Read LGIM's guide to managing shareholder activism here[33]


2019 A guide to managing shareholder activism

A guide to managing shareholder activism

Governance

Culture

From intangible to measurable – how we work to improve corporate culture

- Company culture can be hard to define, so **we engaged some of the largest technology firms** to discover how they manage their culture
- We **intervened decisively** when a major pharmaceutical group fell short of the transparency standards we expect

Culture is crucial, for boards and long-term investors alike. A company with a healthy corporate culture is seen as a safer and more attractive company to invest in, partner with, and work for. Indeed, 32% of investors now deem culture "very important" in their investment decision making.[34]

Yet we must acknowledge that existing data and tools for quantifying culture are insufficient. Recent analysis shows that 75% of companies set out their values, but only 6% provide a key performance indicator relating to culture.[35]

LGIM considers information such as mission statements, workplace diversity, employee surveys and employee turnover rates when we try to assess culture. We also view scandals or other negative incidents as potential signs of a dysfunctional culture.

However, we are always interested in trying to understand more about how companies approach the issue of culture. Our US campaign in 2019 shows how we gathered direct input from companies on how we can assess culture more thoughtfully.

LGIM's US culture campaign

We decided to pilot a campaign with 13 of the largest US technology firms because of our investment exposure to them, the influence these companies have globally and the clear role of culture in sustaining performance.

What did we do?

We sent a letter to the CEO of each company requesting a conversation with the appropriate executive who could speak about how the company measures its culture. We then conducted a structured conversation with the company, which covered culture through multiple dimensions: metrics, board involvement, relation to strategy, processes and remuneration.

What did we observe?

The tenor and quality of the insights gathered from the calls varied significantly. In one case, a company talked about its world-class culture but had essentially no formal tracking beyond its stated behavioural expectations. Another company articulated the steps it took to fully overhaul its culture to reflect a fundamentally different business strategy. A third company is using its big-data analytical expertise to test and reinforce culture, essentially in real time with daily feedback.

What did we learn?

- We were surprised by the range of people who joined the call given the identical request to each company: 50% had a human resource-related executive on the phone; the others were only represented by investor relations, which is a concern to us. We noted that the companies with established investor-engagement programmes tended to have an executive on the phone.

- Use of employee engagement surveys: All companies conducted engagement surveys and most had significantly changed the content over the past three years. 30% articulated and displayed advanced use of data analytics to reinforce culture and improve engagement. For example, one company knew the exact question that was statistically correlated to high performers leaving within 12 months and had a specific intervention strategy for them. It was widely acknowledged that survey results are not an indication of culture per se, but instead one of many metrics that can be used to identify challenges and improve culture.

- Lack of evidenced board involvement: Most companies passed aggregated engagement results to the board at regular intervals, which from our point of view is a minimum standard. When prompted further on what the board does with the results, very few examples of concrete actions were provided. We would like to see structured and unstructured time for the board to meet with various levels of employees to put the data into context.

- Role of diversity in culture: The firms have vastly different profiles in terms of gender representation at the executive levels, from less than 10% to roughly 40%. There is a correlation between companies that publicly report their gender statistics and narrower pay ratios.

- Declining our request: One of the companies denied our repeated call requests. We fully acknowledge that this is a difficult topic to engage on, which is exactly why we believe a constructive dialogue is important. However, this company is also the subject of highly publicised employee culture issues, which we find concerning.

What comes next?

There is growing demand for increased transparency on culture-related metrics – from our asset management peers; ESG framework groups (such as the Sustainability Accounting Standards Board); workplace advocacy organisations (including the Workforce Disclosure Initiative and Human Capital Management Coalition); and even a recent proposal by the Securities and Exchange Commission (SEC).

We expect the emergence of best practices over the next few years and more standardised metrics thereafter. We will continue to engage with technology companies and use these findings to strengthen our dialogue on the topic with regulators and companies in other sectors.

But while these new standards emerge, we will continue to act forcefully where companies fall short of our expectations. A case study from last year illustrates our commitment to this issue.

Case study†

Company name: Novartis		
Sector: Pharmaceuticals	**Market cap: CHF 198.1bn**	**ESG Score: 49 (▼2)**

What was the issue?	In May 2019 Novartis received approval from the US Food and Drug Administration (FDA) for a drug called Zolgensma, which was developed by its subsidiary, AveXis. The drug was approved for children up to two years of age suffering from the deadly muscle-wasting disease spinal muscular atrophy. It is to date the world's most expensive drug, costing $2.1 million. In mid-March of 2019, Novartis was alerted via AveXis to allegations of data manipulation in the drug's development. An internal investigation was undertaken. Novartis did not alert the FDA of its initial findings until the end of June. The FDA conducted on-site inspections in July and August, following which it issued a so-called 483 form[36] which outlined concerns over the timing of disclosure to the FDA. It should be noted that the FDA has continued to support the use of the drug.
What did LGIM do?	Soon after the publication of the FDA letter, we met with Novartis together with our Active Equities team. We clearly communicated our disappointment that the company had not immediately contacted the FDA when it discovered the internal data manipulation, as this showed poor judgement from management and sent the wrong message to the entire organisation. We followed this up with another meeting, and shared our expectation for the issue to be reflected in subsequent decisions on executive pay.
What was the outcome?	The company has publicly committed to the FDA that it will, in the future, notify the authority within five business days after receipt of "any credible allegation" related to data integrity during a filing. We are pleased to note that Novartis recently published its 2019 Annual Report, in which it stated that the CEO has requested that he not receive an incentive payout for his "building trust with society" objective given the reputational impact of the Zolgensma data integrity issue. The board of directors agreed with this request.[37] We would have had a preference for the board to have actively sought this, however.

Governance

Investor rights

Protecting rights from wrongs

- Our rights as investors in companies came under renewed attack during the course of 2019, with the use of 'loyalty shares' in Europe and a surge in **dual-class listings** in the US
- While we were unsuccessful in our efforts to persuade Lyft against adopting an unequal voting structure, we believe we sent an important **signal to the market**

'One share, one vote' should be the foundation of corporate governance. Yet this fundamental principle has been threatened by developments around the world, including in developed markets, in 2019. As a major global investor, we are committed to defending the rights of all shareholders and upholding best practices in corporate governance.

Imbalances of shareholding power in Europe

One cause of the weakening of the 'one share, one vote' principle in Europe is the rise of so-called loyalty shares, which generally give their holders double voting rights. Belgium introduced such loyalty shares in 2019, with France and Italy having done so in recent years as well and the mechanism also being available in the Netherlands. Now Spain is seeking to do same.[38]

There are several different ways to implement loyalty shares. In France, for example, the 2014 Florange law facilitates the automatic award of double voting rights to shareholders who have held company shares for at least two years, unless the company and a two-thirds supermajority of shareholders are opposed. Italy has enacted a similar system, in which companies need the approval of two-thirds of shareholder votes to adopt loyalty shares in their articles of association.

But regardless of whether shareholders have to opt in or opt out of loyalty shares, overall we find that they effectively create an imbalance of power among investors and are therefore problematic for minority shareholders such as LGIM. We believe the principle of 'one share, one vote' embeds the fair and equal treatment of all shareholders by allocating control in direct proportion to the level of economic interest and exposure to risk.

Double voting in practice: lessons from Europe

France and Italy introduced their mechanisms for loyalty shares in 2014. So what have we learned about double voting from these markets?

It can reinforce and entrench family and government holdings.[39/40]

This is a key issue and appears even more problematic given that many companies in the concerned markets already tend to have significant government and family-owned shareholders.

Awarding these long-term shareholders double voting rights allows them to reinforce their influence over companies through voting power, without having to increase their investment. This is at the expense of other long-term minority shareholders, such as LGIM, who can already find it difficult to influence companies with a significant family or government shareholder.

<u>It does not necessarily mean more long-termism</u>

One of the main reasons put forward by legislators for introducing double voting rights is the fear of 'short-termism' in financial markets. Research has found that there is no significant difference in the average holding periods between firms with loyalty voting shares and firms without, before and after their introduction.[41]

<u>It is not much favoured by the market</u>

Research, in fact, finds that the market reacts positively to successful opt-out votes.[42] The equal treatment of shareholders is vital for a well-functioning market. This is because voting rights are a fundamental component of equity capital. It is the central mechanism through which shareholders exercise their ownership rights, and underpins investor stewardship.

Safeguarding markets

In the US, we have been closely following the proposals from the Securities and Exchange Commission (SEC) regarding amending the rules for proxy voting advice firms and increasing shareholder proposal resubmission thresholds.

As a significant global asset manager, we have a responsibility to safeguard the efficient operation of international markets and uphold the corporate governance and sustainability standards that protect the integrity of the markets over the long term.

In our view, the proposed changes may hinder aspects of the US capital markets that give them strength – namely, the protection of proxy voting advisors' independent advice and the encouragement of investor participation.

The proposed amendments would shift influence towards corporations in a manner that we do not believe would benefit the financial markets or individual investors. Our US business, Legal & General Investment Management America (LGIMA), wrote to the SEC detailing its views on the amendments and is supportive of other investors who are collaborating on this issue.

The end of dual-class listings?

In more positive news from the US, 2019 may be the year that marks a tipping point in the market's acceptance of dual share-class listings. At the beginning of the year, there was a backlog of tech companies lining up to access the public markets.

In March, we joined with 11 other institutional investors to publicly express alarm with the proposed dual-class voting structure for Lyft.[43] The company created a management share class with 20 times the voting rights of the public capital share class. We find this creates a significant distortion between the capital raised, economic interests, and governance influence.

A letter was sent to each member of Lyft's board of directors highlighting the governance risks, namely the misalignment of control and economic exposure and empirical research which shows the structure may hurt long-term shareholders.

Was this engagement successful? Unfortunately not in the immediate term, as Lyft's board proceeded with the unequal voting structure.

However, part of our reason for expending this effort with Lyft was to send a signal to the market – in the second quarter, Pintrest, Zoom, Uber, and Slack were all planning to float. Among these highly visible companies, only Uber used a 'one share, one vote' structure. We publicly praised Uber's decision.[44]

In the wake of this surge in dual-class listings came a distinct focus from the corporate governance community to prioritise and collaborate on this issue. Notably, in the summer the Council of Institutional Investors (CII) established a site to track enablers of dual-class stock issues[45] and provided resources to keep track of related developments for index provider methodology or regulatory developments, both of which we have supported publicly and privately.

WeWork: a cautionary tale†

Finally, there was WeWork. At the end of the summer, WeWork's parent – The We Company – tried to go public with a share-class structure that gave its founder and CEO nearly unchecked voting power and included a provision that allowed the CEO's wife, not the board, to select a successor in the event of his death.

After intense pre-IPO scrutiny, WeWork corrected most of these governance failures in an amended S-1 filing, including a reduction in the CEO's voting power; the appointment of an independent director; adding a woman to the board; and placing the responsibility for hiring a new CEO back with the board.

The intense media coverage of WeWork and the fact it was not ultimately able to complete its IPO may provide a cautionary example that could help other founder-driven tech startups avoid unequal voting power. Even the founder of SoftBank, WeWork's primary investor, has said, "I have major regrets, particularly on [WeWork's] governance problem."[46]

So will we be successful over the medium term in shifting the practice of dual-class voting shares? Only time will tell, but we will remain consistent in our direct engagement, collaboration with partners, and voting on this issue.

Integration

We have a duty to our clients to bring about a sustainable world through responsible investing.

To this end, LGIM has established a fully integrated framework for responsible investing, across both public and private assets, to strengthen long-term returns and raise market standards. This is based on stewardship with impact and collaborative, active research across asset classes. Together, these activities enable LGIM to conduct engagement that drives positive change and to deliver integrated solutions for clients.

We believe ESG factors are financially material. Responsible investing is, in our view, essential to mitigate risks, unearth investment opportunities and strengthen long-term returns. Indeed, we see the pricing mechanism in markets as not discounting all ESG-related risks correctly – particularly those stemming from climate change – as investors lack the information necessary to do so.

This section of our Active Ownership report details how our stewardship and investment teams work together, shoulder-to-shoulder, to incorporate ESG factors into our decisions and processes, from research and engagement to product development.

Sonja Laud
CIO of LGIM

Integration

ESG integration

Placing responsible investing at the very heart of our approach

- LGIM **established a global research** and engagement platform, bringing together the best sector expertise across its investment management business
- To meet growing demand from investors, we extended our i**ndustry-leading Future World range in 2019**, as well as launching other funds that explicitly integrate ESG factors objectives
- As at 31 December 2019, **LGIM managed £150bn in responsible** investment strategies with objectives explicitly linked to ESG criteria[47]

Responsible investing is at the very heart of our approach.

Covering public and private assets, index and active strategies

In 2019, we took a number of important steps with regard to ESG integration, not least the establishment of a global research and engagement framework. This brings together representatives from our investment and stewardship teams, to unify our engagement efforts and determine the exposure of sectors and companies to ESG risks and opportunities.

The early identification of potential risks that threaten the sustainability of returns is central to LGIM's overall investment philosophy.

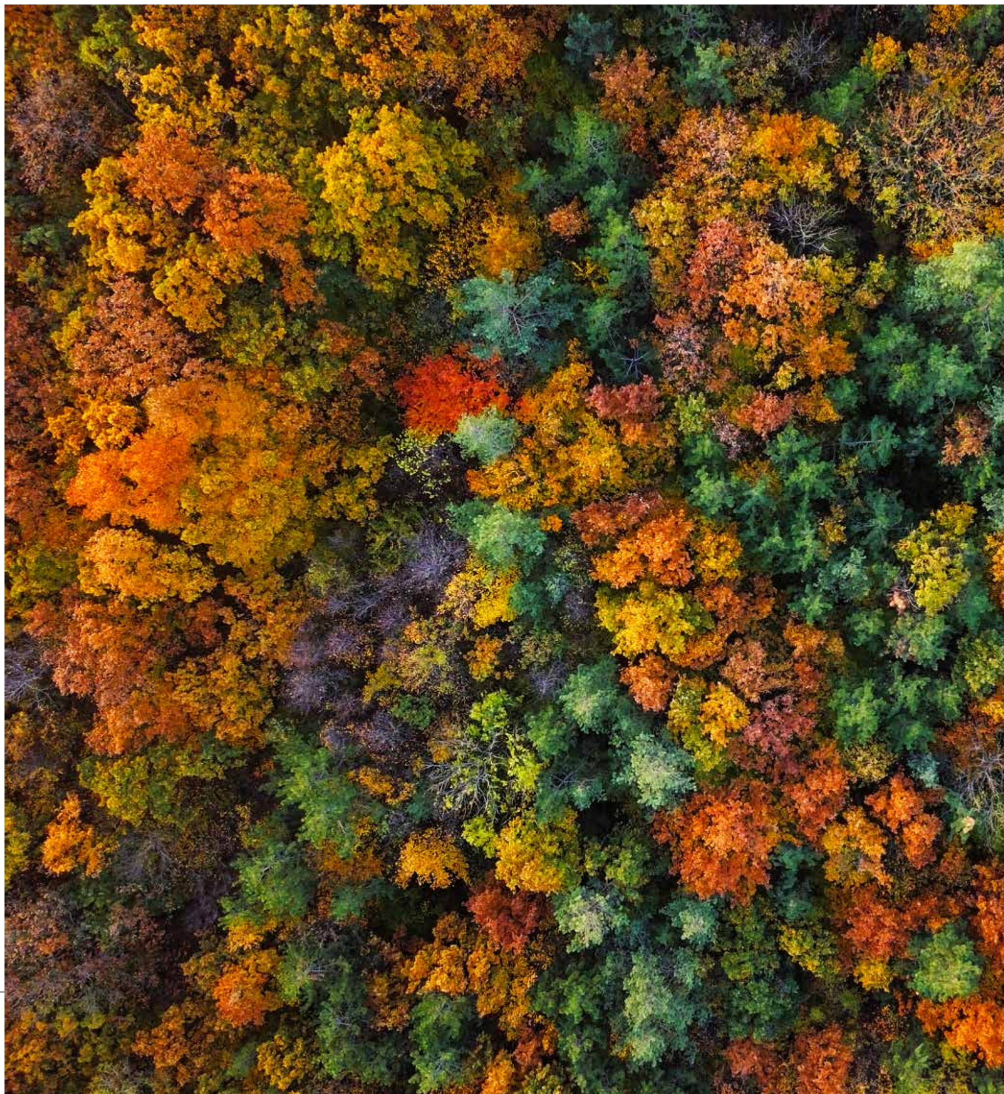
But we also believe that, through forceful engagement with investee companies and collaboration with their peers, asset managers can drive progress in the market. There is a real risk that – without such an approach – sectors that still require a shift towards more sustainable practices will continue to thrive, given the current low cost of capital.

These committees are managed by a steering group, which is responsible for establishing themes and priorities for sector research and engagement, and developing the infrastructure necessary to support this activity.

The overarching goal of the framework to guide, strengthen and streamline our corporate engagement. Among its key outputs are company-level objectives and targets, which help determine whether we retain, add or withdraw investments across the entire capital structure.

Our new global research and engagement platform focuses on the following sectors:

- **Energy, utilities and basic materials**
- **Industrials**
- **Financials**
- **Technology, media and telecom**
- **Consumer goods**
- **Healthcare**



Case study: Opioids†

What was the issue?	The opioid epidemic in the US, which has led to tens of thousands of deaths annually in recent years, stems from the extensive overuse of drugs obtained from medical prescriptions and from illegal sources. Last year, as public interest continued to build, a number of companies faced litigation over their alleged role in the crisis.
What did LGIM do?	A group of analysts from LGIM's active equity and fixed income teams, in both London and Chicago, was formed to undertake a deep analysis into the cross-asset implications of the crisis. In September, the analysts presented their findings on the legal, regulatory, financial and ESG risks to the pharmaceutical and healthcare sectors.
What was the outcome?	The deep dive enabled us to decipher a complex issue; gather the viewpoints across the capital structure, including investment grade and high yield credit, and equities; and gather more data to support our estimates of potential liabilities on a name-by-name basis. In turn, this informed our questions to management and helped us to analyse and react quickly to news flow. Alongside our Investment Stewardship team, our healthcare investment analysts met with McKesson, one of the distributors involved in the crisis. Guided by our research findings, a collective engagement strategy was agreed. This work also informed investment decisions. Within investment grade credit, we maintained sector and issuer underweights or divested where there was financially material opioid-associated risk, such as McKesson. In addition, these insights guided investment decisions across the wider sector, where our Active Equities team chose not to invest in Johnson & Johnson, partly due to uncertainty over a settlement in an opioid case.

Integration in index

The Index Fund Management Team has continued to collaborate with our Investment Stewardship Team in creating innovative index products that incorporate ESG themes using our proprietary scoring methodology, with the aim of raising market standards.

A good recent example of this was around the initial public offering of Saudi Aramco. The teams worked together to articulate LGIM's priorities and concerns. Our engagement with index providers focused on sensible and efficient implementation, together with our observations on corporate governance and the provision of sufficient free float as important protection for minority shareholders.

Another engagement example in 2019 was with Greencore, the UK food production company, on its ability to return cash to shareholders following the sale of some US operations. As a major shareholder, we find many companies keen to hear our feedback on the implications of corporate restructurings for our index fund investors.

ESG integration in real assets

We believe that investing in the sustainability of real assets safeguards the long-term value of portfolios and enhances our investors' risk-adjusted returns.

We also recognize that as one of the largest managers of real assets in the UK, delivering a sustainable built environment will have a major impact on environmental outcomes and help to advance L&G Group's vision of inclusive capitalism.

In our real estate investments, it is our belief that sustainability already sits alongside location, tenant, building size and building quality as a key factor in asset value and performance – and its importance will only increase over time.

And as a significant lender in private markets, we seek to drive ESG disclosure and performance standards among both our borrowers and the users of our buildings.

To achieve our ambitious commitments, responsible investment strategy and governance is managed at the board level within LGIM Real Assets. There is a specialist ESG team that reports into the board, and provides specialist advice and support to the whole business.

There is also a Sustainability Forum, which coordinates ESG-related activities across the business and develops robust policies and processes for approval by the board. All fund and asset managers within LGIM Real Assets have ESG included in their personal objectives.

During 2019 L&G Real Assets committed to achieve net zero carbon for all of our real estate properties by 2050.

Other key initiatives to promote ESG integration include:

- An Asset Sustainability Plan for each property under management, coordinated with maintenance and refurbishment plans, in order to reduce GHG emissions
- Our private credit transactions are assessed through a proprietary ESG scorecard
- We include sustainability-related key performance indicators in employees' appraisal targets and property supplier contracts
- Building upon a series of pilot projects over the last three years, we are currently measuring the social value generated across 20% of our assets (by asset value)

Going beyond property investments, we recognise that infrastructure is an asset class deserving separate consideration.

Infrastructure assets are key to mitigating and adapting to climate change, but are at the same time exposed to physical risks related to the climate crisis. We have lent around £1 billion towards renewable assets, which provide electricity to millions of UK households.

Meanwhile, other types of infrastructure assets in our portfolio, such as ports and airports, are exposed to physical risks related to climate change. We are investing heavily in analytical capabilities which will allow us to assess and manage these risks across our portfolio.

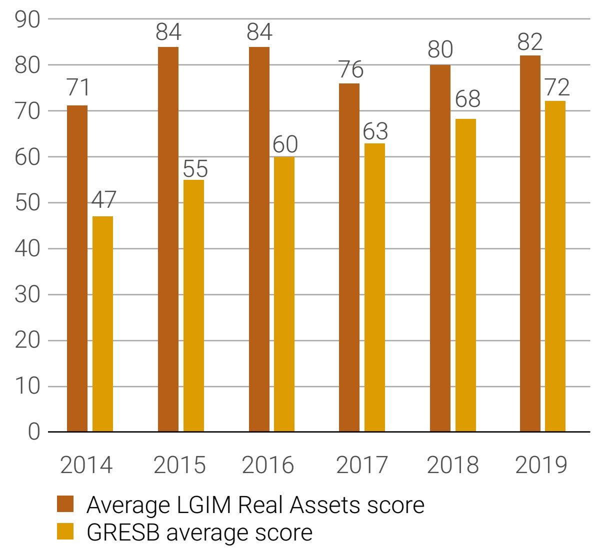
We are committed to continuing our deployment of renewable energy and power grid infrastructure as our infrastructure product offering grows. We are also looking to pilot 'smart grids', using battery technology linked to electric vehicle-charging stations and photovoltaic panels, to optimise when our properties draw power from the grid, and when they release power back into the system.

GRESB

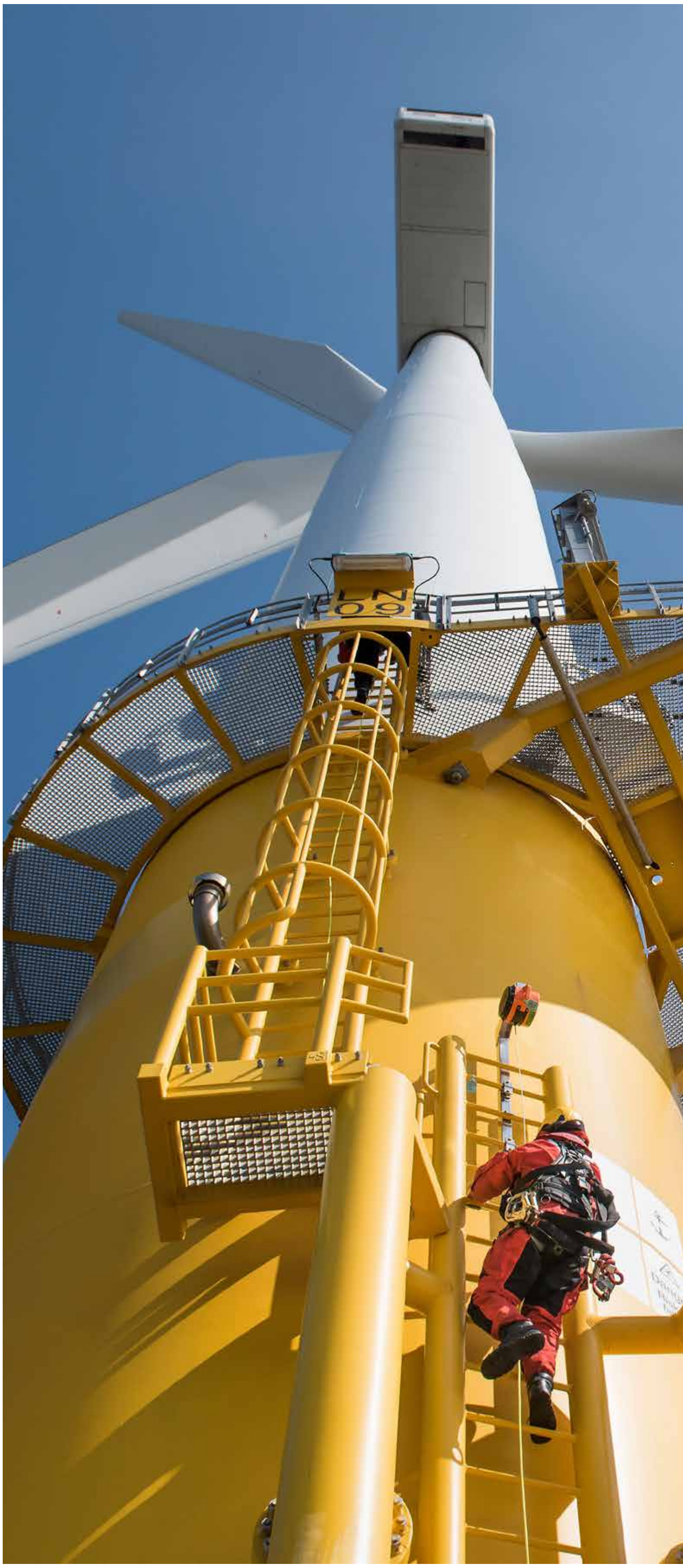
LGIM Real Assets continues to submit data to the Global Real Estate Sustainability Benchmarking (GRESB) initiative on an annual basis to benchmark our sustainability performance.

- 11 funds (of 16 submitted) improved their total scores in 2019
- All 16 achieved star ratings, with five achieving the maximum 5 stars
- Three funds ranked first against their peers
- One fund was overall global sector leader

Benchmarking our sustainability performance in real estate



Source: LGIM, GRESB



LGIM's ESG Scores

LGIM's proprietary ESG score combines assessments on environmental, social and governance metrics, with adjustments made for a company's overall levels of transparency on related issues. You will see examples of our ESG scores used in the case studies included in this report.

Our methodology starts with an assessment of market-wide ESG issues that we believe affect long-term returns and represent a risk if not addressed – such as climate change or the dilution of shareholder rights. Additionally, themes and risks were assessed for their effect on social cohesion – factors that over the long term underpin sustainable economic growth.

We believe this focus on the overall market health differentiates our ESG score from many others in the market. For example, one commonly used option is to apply third-party ESG ratings to pick individual stocks, based on issues which may be material in one sector, but not in another (e.g. data privacy for tech companies, water usage in mining). However, we prefer to take a broader approach using our score to look across all sectors and regions.

Our commitment to transparency

Transparency sits at the heart of LGIM's ESG scores. Since their launch in 2018, we have continually disclosed and updated companies' scores on our website. We believe that in order to significantly improve the overall health of the market, companies must know what they are being measured against and our expectations of best practice.

This is why we have made not just the scores publicly available, but also the methodology. With direct links to the indicators and data providers used, we hope to help companies improve their ESG performance and the quality of their disclosures.[48]

How we construct our ESG scores

The 28 key metrics for monitoring companies

Environment
1. Carbon emissions intensity
2. Carbon reserve intensity
3. Green revenues

Social diversity
4. Women on the board
5. Women at the executive level
6. Women in management
7. Women in the workforce

Human capital
8. Bribery and corruption policy
9. Freedom of association policy
10. Discrimination policy
11. Supply chain policy
12. Employee incidents
13. Business ethics incidents
14. Social supply chain incidents

Board composition
15. Independent chair
16. Independent directors on the board
17. Board tenure

Audit oversight
18. Non-audit fees paid to auditors
19. Audit committee expertise
20. Audit opinion

Investor rights
21. Free Float
22. Equal voting rights

Transparency
23. ESG reporting standard
24. Verification of ESG reporting
25. Carbon Disclosure Project (CDP) disclosure
26. Tax disclosure
27. Director disclosure
28. Remuneration disclosure

LGIM **E** score
(Environmental)

LGIM **S** score
(Social)

LGIM **G** score
(Governance)

LGIM **T** score
(Transparency)

LGIM ESG score

See LGIM's ESG scores for over 3000 large companies on our website[49]

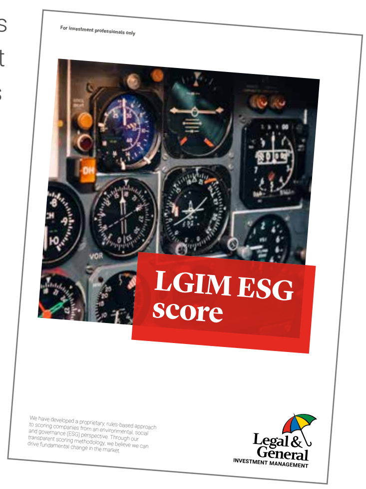

September 2019 Legal & General Investment Management

LGIM's Global ESG Score

September 2019

COMPANY NAME	LGIM ESG SCORE
1&1 DRILLISCH AG	32
360 SECURITY TECHNOLOGY IN-A	19
3I GROUP PLC	73
3M CO	43
3SBIO INC	44
51JOB INC-ADR	37
58.COM INC-ADR	34
A2 MILK CO LTD	46
AAC TECHNOLOGIES HOLDINGS IN	38
ABB LTD-REG	60
ABBOTT LABORATORIES	52
ABBVIE INC	56
ABC-MART INC	28
ABIOMED INC	38
ABN AMRO GROUP NV-CVA	78
ABOITIZ EQUITY VENTURES INC	32
ABOITIZ POWER CORP	34
ABSA GROUP LTD	60
ABU DHABI COMMERCIAL BANK	55
ACCENTURE PLC-CL A	69
ACCOR SA	36
ACER INC	66
ACOM CO LTD	20
ACS ACTIVIDADES CONS Y SERV	45
ACTIVISION BLIZZARD INC	53
ACUITY BRANDS INC	50
ADANI PORTS AND SPECIAL ECON	30
ADARO ENERGY TBK PT	1
ADECCO GROUP AG-REG	71
ADIDAS AG	66
ADMIRAL GROUP PLC	57
ADOBE INC	61
ADP	51

See LGIM's guide for what companies need to do to improve their scores[50]



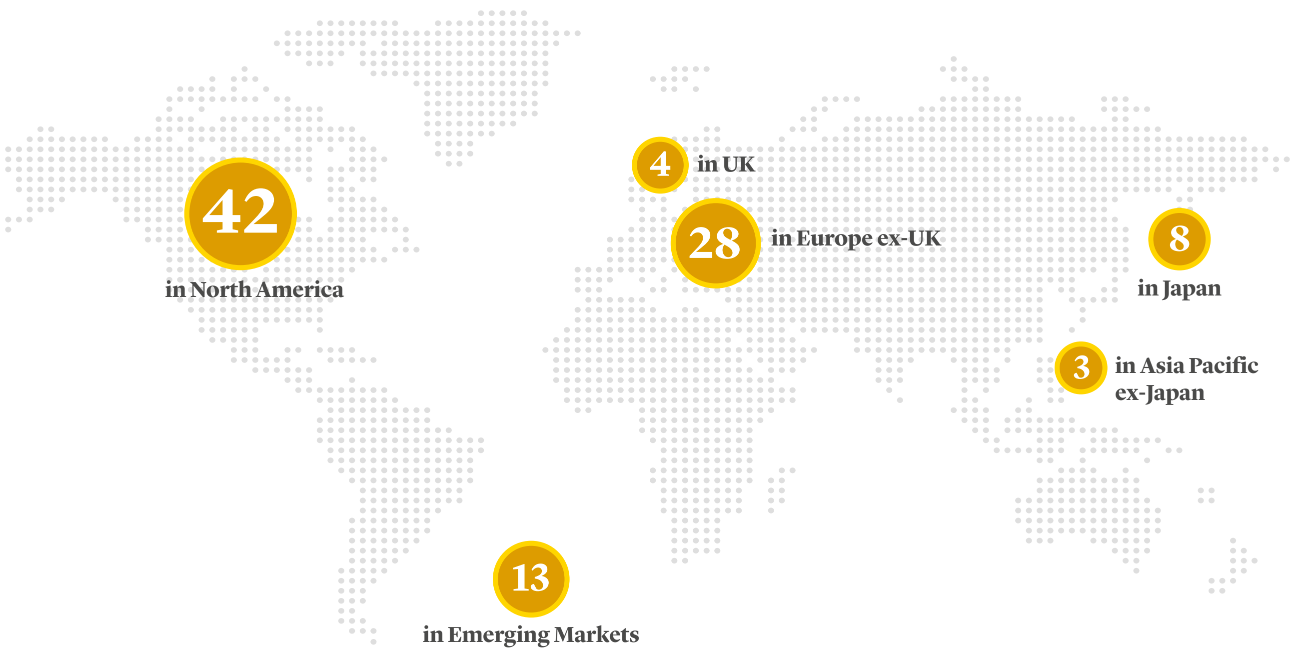
How ESG scores inform our engagement activity

Following the development of the scores, in 2019 we launched an engagement campaign to push some of the world's biggest companies to improve their social and governance practices and verify the quality of the data third-party providers hold on them.

The creation of the LGIM ESG scores enables us to use reliable, available and consistent data on key social and governance issues. Where our engagement in these areas had previously been largely qualitative, this tool means we can now apply a quantitative approach. As part of our campaign, we focused our current engagement efforts on the largest companies in key equity and bond indices, and which have the lowest LGIM social and/or governance score(s). This resulted in a target list of 98 companies across regions.

We contacted the board chair of each of these companies, outlining the issues flagged by the ESG scores. Many companies have already contacted us to better understand the actions they can take in order to improve their score.

Target list of companies



Source: LGIM

How we use the scores in our products

We utilise the LGIM ESG scores in the Future World fund range, whose index funds are 'tilted' towards companies with stronger scores and away from those that score poorly, and a number of other strategies with ESG-linked objectives.

The Future World Protection List

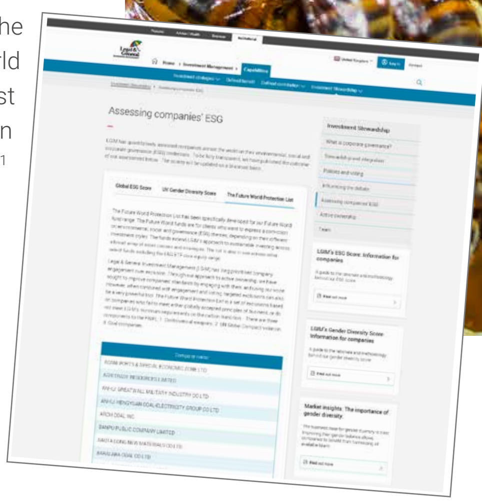
We have long prioritised company engagement over exclusion, believing that we can have more power to effect change through collaborative efforts with companies. However, when combined with engagement and voting, targeted exclusions can be a very powerful tool. The Future World Protection List is a set of exclusions for those companies that we believe have failed to meet the minimum standards of globally accepted business practices.

Certain LGIM funds, including in our Future World and Core ETF ranges, will not hold or will significantly reduce exposure to any company included on the list. There are three criteria for exclusion:

- Involvement in the manufacture and production of controversial weapons
- Perennial violation of the United Nations Global Compact – an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies
- 'Pure' coal miners – companies where coal extraction forms the largest part of their revenues

From 2019, we started to vote against the election of their board chairs, across all of our holdings, if there are other funds where LGIM is contractually obliged to invest in companies that were on the list at the time of their AGM.

Where the chair of the board was not up for a vote at the AGM, we voted against the second most senior board representative. To make companies aware of our approach, in 2019 we wrote to the 86 current constituents of the list, informing them of our upcoming voting decision.



The Future World Protection List is available on our website[51]

Growing our responsible investment offering

We continue to develop new products to meet demand from our clients for responsible investment strategies, from exclusionary screens to thematic funds.

As at the end of 2019, LGIM managed £150 billion in responsible investment strategies with objectives explicitly linked to ESG criteria. This figure includes both pooled funds and segregated accounts globally.

In 2019, we launched 14 strategies explicitly linked to ESG criteria, across a number of asset classes, investment styles and fund structures.

Working with clients

Your partner in stewardship

- Throughout 2019, we both communicated to our clients what we were doing and listened **to what they had to say**
- From holding stakeholder events to publishing articles and topical updates, **we view stewardship as a partnership**

External stakeholder event

We held our third annual stakeholder roundtable at our London offices. As in previous years, we implemented many of the suggestions put forward by participants, including providing reasons behind our votes against companies and why we supported shareholder resolutions.

This year, our clients, representatives from investor engagement groups, and other stakeholders from across the industry provided feedback on five key themes we are planning to work on in the future: the accountability of directors, audit, income inequality, privacy and security and health.

We shall continue to take into account these comments and suggestions for action when framing our engagements.

Surveys and research

In order to understand more about the attitudes of a larger segment of our clients regarding responsible investment, we surveyed members of our Mastertrust, alongside L&G staff. Our poll revealed that:

- Almost 40% of the some 1,000 respondents expected a fund that incorporates ESG information to perform better than one that does not
- More than 50% of respondents would be more engaged with their pension, and around 25% would even increase their contributions, if they knew it had a positive impact

While we were encouraged by the findings, we wanted to see whether there was self-selection at play here; i.e. whether L&G tends to attract employees and clients who are already convinced of the benefits of responsible investment.

Later in the year, we conducted another survey of just under 1,000 respondents, across three generations – 'millennials', 'Gen X' and 'baby boomers', all of whom had a pension (but not necessarily managed by us) and worked in the private sector. Yet again, we found similar views – that ESG performance contributes to financial performance, that ESG information can improve engagement with savings:

- In the event that companies fall short on ESG issues, almost 50% of respondents preferred a policy of engagement, with divestment as a tool of last resort

This resonates with our thinking behind the Climate Impact Pledge, under which we only divest from companies if they do not meet our requirements following a period of engagement. (See page 5.)

- 55% of members also expected their pension to be by default invested less in companies scoring poorly on ESG issues

We, too, believe that responsible investing needs to become the norm. This why in March 2019 the Legal & General Mastertrust – which oversees over 100 UK pension schemes and has more than one million UK scheme members – was the first to launch an ESG default option.[52] And, as detailed in the ESG integration section of this report, we continue to develop mainstream responsible investment strategies for our clients.

Guides for boards

We remain committed to improving the standards of corporate governance at the companies in which we invest, and so share our expertise publicly on topics which we believe are key to helping companies and the overall market better align with best practice.

Over the past year we have published:

- *A guide to the proxy voting chain*
- *A guide to effective employee engagement*
- *A guide to the role of the non-executive director*
- *A guide to managing shareholder activism*
- *A guide to board effectiveness reviews*
- *A guide on the role of ESG information for pension fund trustees*
- *A guide to understanding corporate culture*
- *A guide to climate governance*

Find our guides online:

https://www.lgim.com/es/en/capabilities/corporate-governance/influencing-the-debate/

Articles and updates

Keeping clients informed about ESG matters that may affect their portfolios is important to us. As well as our flagship annual reports, such as this document and our Climate Impact Pledge announcement, we share our thoughts through various media, for example:

- On our podcast LGIM Talks, Investment Stewardship Director Sacha Sadan addressed the importance of a strong audit committee, especially in light of a series of recent audit failures in the UK over the past year
- We hosted a webinar with world-renowned climate economist Lord Nicholas Stern
- We wrote blog posts on topics including the climate protests, our engagement with BP and how clients can gauge their asset manager's record on corporate engagement

Public policy

Amplifying our voice through engagement with regulators

- In 2019, we participated in about **30 engagements with regulators** and policy-makers around the world
- By doing so, we believe we can complement our engagement with companies directly and **raise the bar for the whole market**

We often receive a question along the lines of: "As you cannot directly meet every single one of the tens of thousands of companies you invest in, doesn't this limit the impact of your engagement?"

We engage with the companies that can set an example in their sectors, but also, crucially, with the regulators and policy-makers that set the rules. Particularly given the scale of our assets in index funds, we see working to promote better regulation to improve the entire market as a key driver of long-term growth.

From improving the quality of audit and stewardship in the UK and strengthening the rights of investors in Japan and the US, to advocating for sustainable finance in the EU and upgrading the corporate governance code in Germany, LGIM has continued its policy advocacy in 2019.

United Kingdom

Revision of the UK Stewardship Code
In October 2019, UK's Financial Reporting Council (FRC) released its revised UK Stewardship Code, which comes into effect this year. We sought fundamental reform to the code in four key areas:

1. What the code covers
2. How signatories disclose against it
3. Assurance of reporting
4. Enforcement and oversight mechanisms

We were delighted to see that three of our four proposals have been embedded. From 2020, you should also expect to see expanded reporting of our stewardship activities to reflect best practice as set out in the code.

Audit
We welcome new rules announced by the FRC, in December 2019, that would prohibit audit firms from providing almost any non-audit activity for their audit clients, including the provision of recruitment and remuneration services.

Sustainable Development Goals (SDGs)
We provided input for a consultation on a proposal to establish a framework for transparent and consistent disclosure against the UN's SDGs.

Transposition of Shareholder Rights Directive II
This consultation by the FCA examines the transposition of EU Directives on shareholder voting and engagement to the UK regulatory framework.

We believe it is important that the regulatory framework supports, and promotes, effective stewardship and long-term investment decisions, with the right balance being struck between official and self-regulation. Our response focused on the definitions, need for clarity and disclosure requirements given its overlap with the Stewardship Code review.

United States

Securities and Exchange Commission
In October 2019, alongside 28 global institutional investors – the Human Capital Management Coalition – we wrote to the SEC, saying both rules- and principles-based disclosures are necessary to assess how companies are managing their human capital.

We have also been working in recent months with The Council of Institutional Investors (CII) and UN-backed Principles for Responsible Investment (PRI) to voice concerns over proposals to restrict access to proxy voting advice.

In our view, these would hamper ESG integration, which has traditionally depended on dedicated investors engaging with management and access to unbiased and efficient proxy voting advice.

Japan

Amendment to the Foreign Exchange and Foreign Trade Act
We have closely followed this amendment, which requires foreign investors to file a 'pre-acquisition notification' to the government if they intend to acquire 1% or more of a listed company in a restricted sector.

It also requires foreign investors intending to influence management on a range of governance or business issues to file a pre-notification of their intentions.

We have been supportive of the efforts of the Asian Corporate Governance Association and the International Corporate Governance Network to seek clarification from the Japanese government on whether this applies to asset managers and have also met with the Japanese Ministry of Finance in this regard. For now, it would appear asset managers are exempt.

Germany

2019 German Corporate Governance Code
We submitted a detailed response in which we expressed our support to amendments proposed by the Regierungskommission Deutscher Corporate Governance Kodex, which we believe would help build solid foundations for corporate governance in Germany.

Areas where we felt there could be additional improvements included:

- Clarifying expectations on company explanations
- Strengthening board composition requirements, especially regarding the appointment of a Lead Independent Director on the supervisory board
- Aligning remuneration with best practice
- Facilitating better board/investor dialogue

Transposition of Shareholder Rights Directive II
As a major long-term investor in German assets, we have engaged with Germany's government and parliament on the transposition of the directive into German law. Two focus areas for us have been:

1. Remuneration of the management board. While we expressed our strong preference for a binding shareholder vote on remuneration policy (see page 8), the parliament legislated for an advisory vote for both the remuneration policy and report. Nonetheless, we welcome the introduction of the say-on-pay system in Germany.
2. Related-party transactions. We asked for a more stringent threshold to be set to allow for more of such transactions to be scrutinised by minority shareholders. This would better ensure their protection, mitigate the risk of a related party taking advantage of its position and help markets determine the cost of capital. A more stringent threshold of 1.5% of assets was adopted in November.

Other initiatives

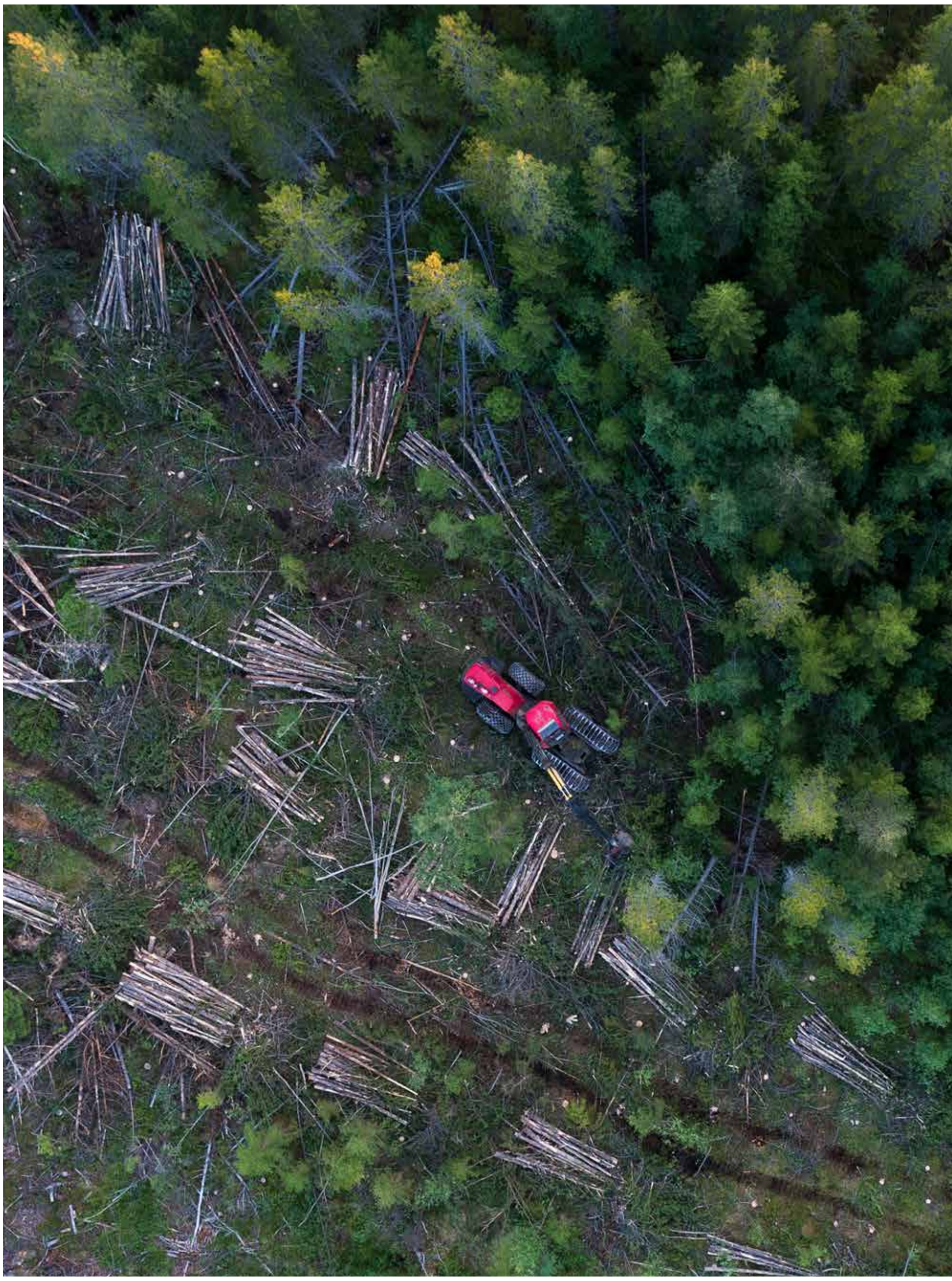
Sustainable finance
We have continued to engage with policymakers, industry groups and financial regulators, particularly at an EU and UK level, with an aim to strengthen the sustainable financial system. Areas on which we focused included:

1. Developing robust approaches to the management of financially material ESG considerations, including climate change
2. Improving the consistent reporting and disclosure of ESG factors by investee companies
3. Systematic integration of ESG risks and opportunities into investors' decision making

Towards the end of 2019, the UK's FCA released a feedback statement and action plan on its work on Climate Change and Green Finance, to which LGIM contributed. We will continue to engage on this project in 2020.

We have also continued to follow closely the European Commission's action plan on sustainable finance. Specific areas of interest for us over the past few months have been the finalisation of the EU taxonomy for sustainable activities within the financial system, which aims to stop 'greenwashing'; the Climate Change Benchmark regulation; and the sustainable-related disclosure regulation.

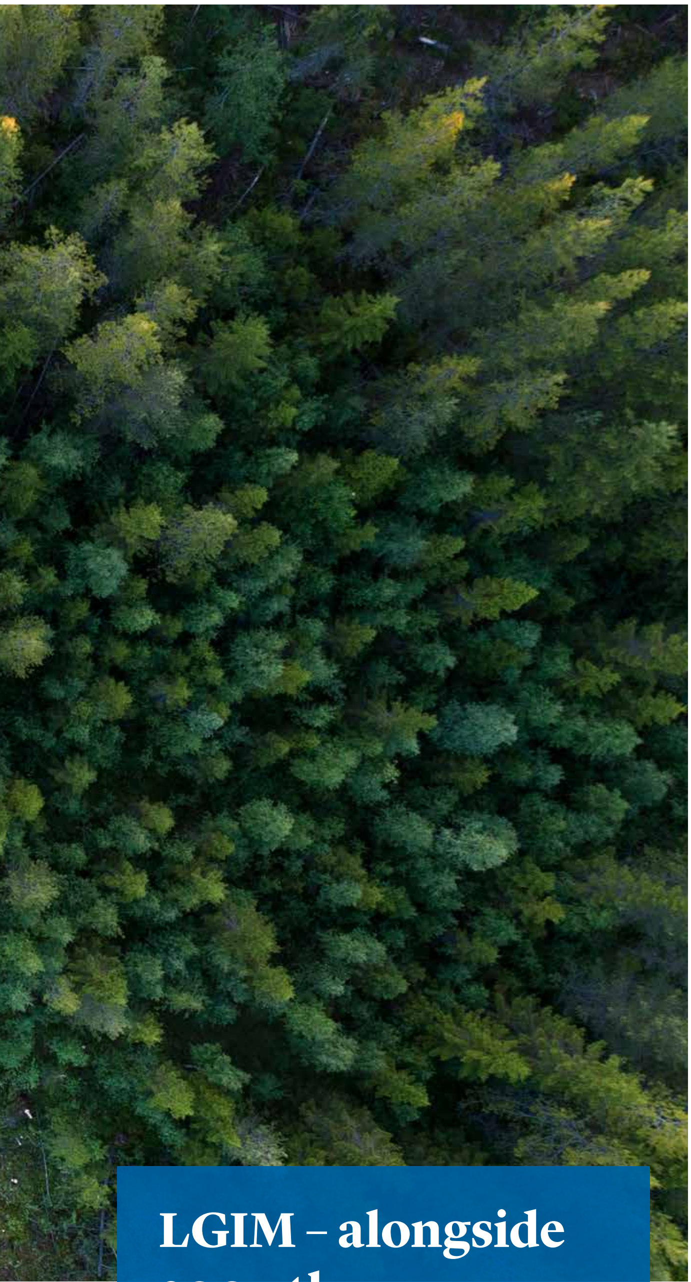
At the end of 2019, the EU launched the European Green Deal – an ambitious strategy that aims to transform the union into a net-zero emissions economy by 2050, where economic growth is decoupled from resource use, an initiative on which we will continue to engage.



Net zero
In the UK, Legal & General was one of several business leaders to support publicly a net-zero emissions target, which was subsequently enshrined into law. Recognising the direct impact of our investments, our Real Assets business has now committed to a net-zero real estate portfolio by 2050.

At the UN annual climate change conference, as part of the Institutional Investors Group on Climate Change (IIGCC), we showed our strong support for the establishment of a 2050 net-zero emissions target for the EU in an open letter to EU leaders.

Deforestation
In the aftermath of the devastating Amazon fires, LGIM – alongside 200 other investors – issued a public call on companies to act on deforestation.



LGIM – alongside 200 other investors – issued a public call on companies to act on deforestation.

Summary of engagements

Environmental

- UK - Input into House of Commons Treasury Select Committee inquiry into decarbonisation and green finance
- UK - Integrating sustainability risks in MiFID II
- EU Sustainable Finance Action Plan (Taxonomy; Disclosure;)
- Climate Change Benchmarks; Ecolabel
- EU - Integrating sustainability risks and factors in UCITS Directive and AIFMD
- EU - Technical advice of the integration of sustainability risks and factors in delegated acts under Solvency II and IDD

Social

- US - Human capital management disclosure

Governance

- UK - FRC revisions to Stewardship Code
- UK - FCA Building a regulatory framework for effective stewardship
- UK - Proposals to improve shareholder engagement
- UK - Audit regulation
- UK - Independent Governance Committee - extension of remit
- UK - ICSA review of the effectiveness of independent evaluation in the UK listed sector
- EU - Update on non-binding guidelines on non-financing reporting
- Germany - Transposition of SRD II
- Hong Kong - ESG reporting guide and related listing rules
- Spain and Belgium - Loyalty Shares for listed companies
- China - Party Committees
- Japan - Amendment to the Foreign Exchange and Foreign Trade Act

In the media

- LGIM's stewardship activities continue to **attract interest from the media** and broader public

Big Money Starts to Dump Stocks That Pose Climate Risks

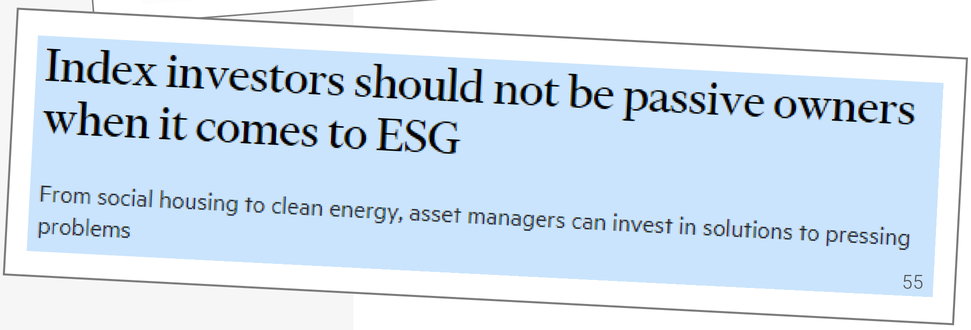
After years of meetings and shareholder resolutions, some funds are starting to simply divest from coal and oil stocks.

53

After Taking on Coal and Oil, Climate Investors Target Meat Next

Investors tell food companies to make a bigger effort in tackling climate change

54



Index investors should not be passive owners when it comes to ESG

From social housing to clean energy, asset managers can invest in solutions to pressing problems

55

The Investment Stewardship team's work was the subject of around 300 articles in 2019, in outlets including *The Financial Times*, *Bloomberg*, *Reuters*, *Nikkei*, the *BBC*, *Les Échos*, *Handelsblatt*, *The Guardian*, *The Times*, *The Telegraph* and the *Wall Street Journal*.

Coverage focused on efforts to improve governance at companies globally, such as our votes against directors over pay and diversity concerns, and on the results of our Climate Impact Pledge.

In late 2019, our CEO wrote an op-ed in the Financial Times explaining why asset managers can drive progress in the market through engagement and collaboration, even though they must be prepared to divest when necessary.

> "If more shareholders could muster a tenth of the engagement of LGIM, the [regulators at the] FRC would have no worry."
>
> **Evening Standard**
>
> L&G's fund managers force big firms to do the right thing, 23 May 2019

BBC News [56]

UK's biggest money manager warns on climate catastrophe

Asian Review [57]

Global investors press harder for women on Asian boards

Legal & General and other managers use voting power in Japan, China and India

Financial News [58]

Legal & General doubles down on diversity drive in the US

Tough policy on boardroom diversity will now extend to 100 largest US and Canadian companies

The Telegraph [59]

Legal & General votes against record number of bosses over pay and diversity worries

Financial Times [60]

LGIM announces it will vote against Metro Bank chair

Investment manager moves against Vernon Hill for the second year running

IPE [61]

LGIM sees results from 'engagement with consequenses' over climate

The Guardian [62]

ExxonMobil among climate laggards axed by UK's largest asset manager

"This is no fad. The world is truly in the midst of a climate emergency"

Meryam Omi, LGIM

Financial Times [63]

ESG investing sparks race in tech and hiring at asset managers

Blogs and podcasts

In addition to working with print and digital news media, the Investment Stewardship team also communicates its views via blog posts, writing about issues as diverse as social housing, oil investment and the links between climate change and beer.

Members of the team also contribute regularly to LGIM's podcast channel, LGIM Talks.

Events and presentations

Sharing our vision

- From green finance and a low-carbon future to diversity and remuneration, we have welcomed **audiences around the world to discuss**, showcase and also challenge our work
- We **spoke at 45 public events** during 2019

Our approach to ESG is global: we interact and engage with companies and clients around the world. Here, we highlight some of the key events at which we spoke during the year.

The future of stewardship

At the PRI conference in Paris, we spoke about upcoming evolutions in stewardship. Together with around 1,500 investment professionals, we participated in debates and discussions on issues including the transition to a low-carbon economy; sustainable finance policies; and the roles and requirements for better ESG data.

Accountability of directors

At the Investor Stewardship Group's (ISG) inaugural Corporate Issuers Conference, held in Delaware, we participated in a roundtable of both investors and issuers to discuss fundamental principles of engagement and ownership. In addition to focusing on director accountability and how our stance is reflected in our voting policies, we shared our views on what we consider to be core ESG issues, including ideas for implementation and disclosure.

Investing in the future

We presented at the Manchester Business School's about the mainstreaming of ESG factors, touching on how to spot 'greenwashing'; how long-term investors can better assess reputational and regulatory risk for companies; and what the changes in the new UK stewardship code are likely to mean for the future.

Culture, remuneration and diversity

We hosted our inaugural Non-Executive Director (NED) event in Chicago, following our fourth such gathering in London. These events enabled our Investment Stewardship team to share views on material ESG issues that we believe directors should be considering, from green finance to diversity in corporate leadership.

Turning up the heat

At the Council of Institutional Investors Fall Conference in Minneapolis, we discussed how our climate Impact Pledge engagement programme holds companies and directors to account on issues of climate change. At the invitation of the prestigious International Energy Agency, we presented our expectations for climate change to senior representatives from the world's largest oil and gas companies.

Awards

European Pensions Innovation Award (Investment)

These awards recognise investment firms, consultancies and pension providers across Europe, and we were the recipient of their award for innovation. Among other areas, our submission focused on LGIM's pioneering work in responsible investment.

Corporate Adviser Awards 2019: Best ESG Asset Manager

Once again, LGIM was recognised in the Corporate Adviser Awards 2019, winning the Best ESG Asset Manager category. The awards recognise advisers and providers that have brought real innovation to the field of workplace financial services.[64]

Engagement

Using our voice

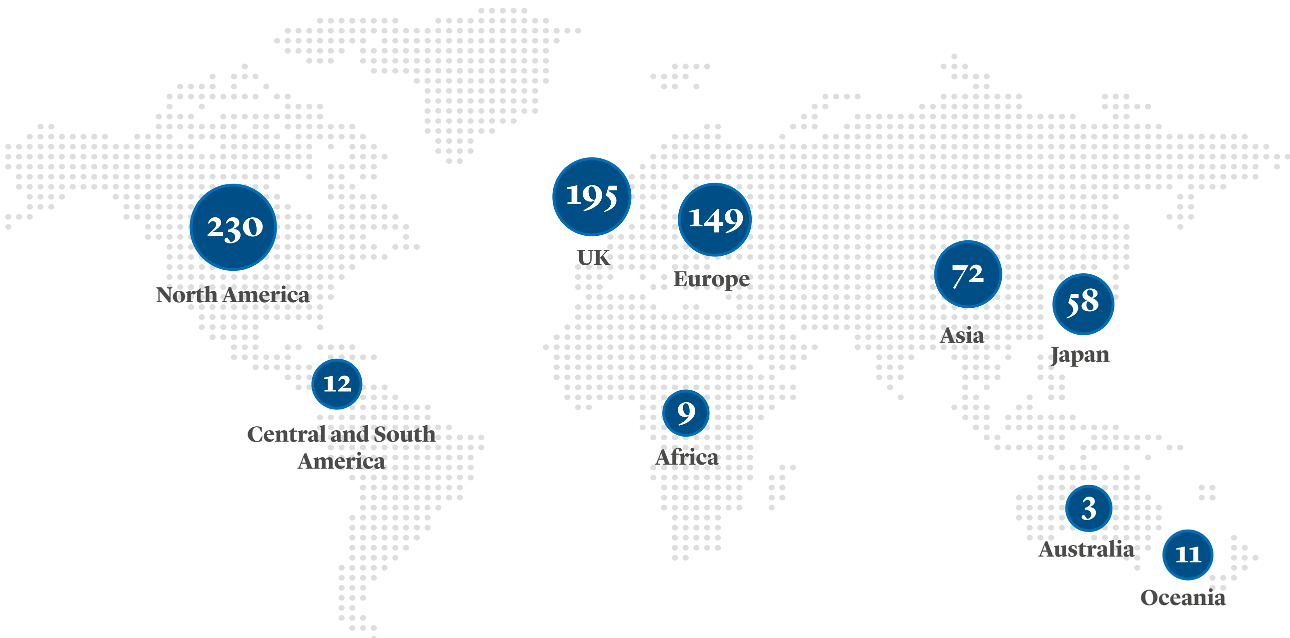
739

Total number of engagements

493

Number of companies engaged

Breakdown of our engagements by market



Top five engagement topics

249
Climate change

163
Remuneration

143
Diversity

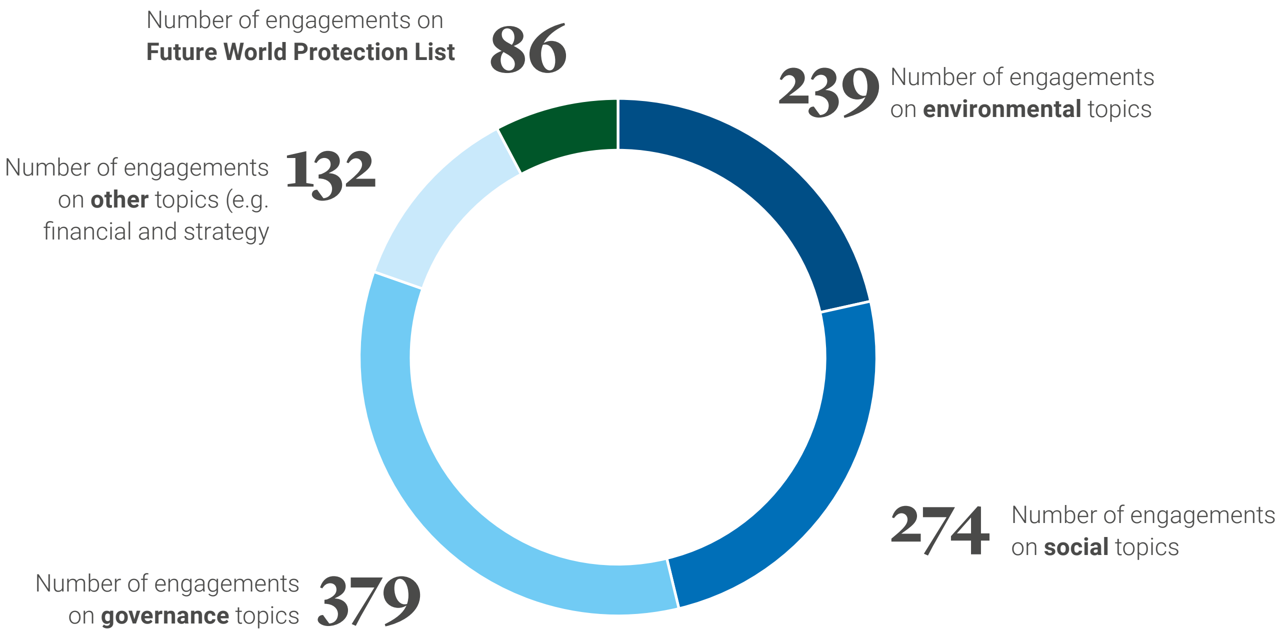
140
Board composition

94
Strategy

Most frequently engaged companies: (number of engagements)[†]

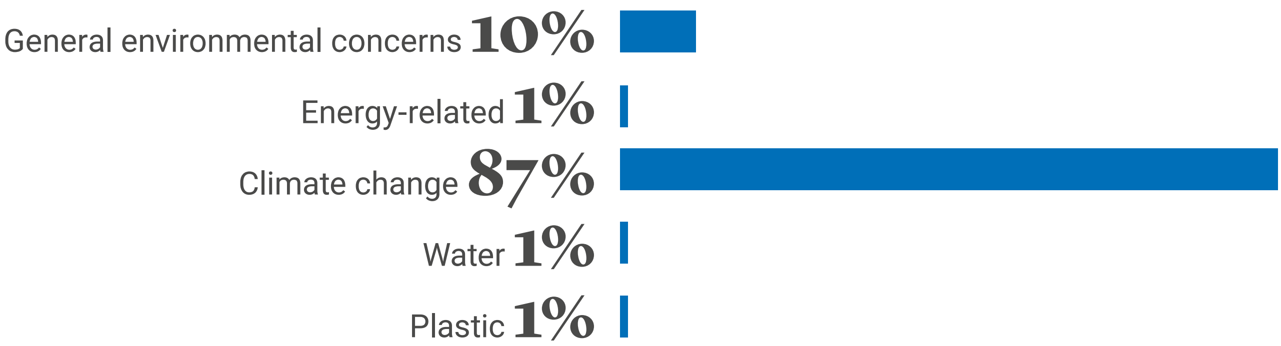
10 BP	**8** HSBC	**5** Amazon
5 Bayer	**5** Ford	**5** GlaxoSmithKline
5 Nissan	**5** Royal Dutch Shell	**5** Volkswagen

ESG engagements breakdown 2019

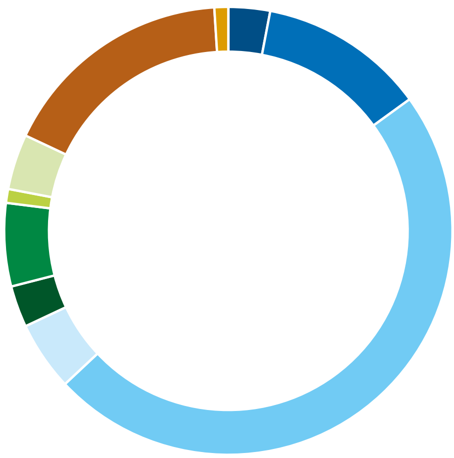


See the section on ESG integration (page 46) for more details on the Future World Protection List (FWPL)
The source for all voting and engagement data is LGIM, as at 31 December 2019

239 Number of engagements on **environmental** topics

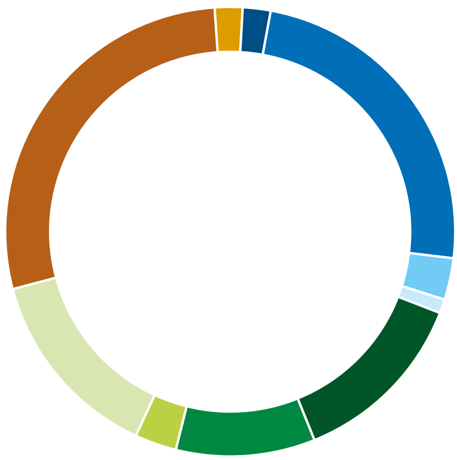


Number of engagements on **social** topics: **274**



- Bribery and corruption - 3%
- Culture - 12%
- Diversity - 48%
- Employee relations - 5%
- Human rights - 3%
- Lobbying and political donations - 6%
- Public health - 1%
- General social concerns - 4%
- Social score (LGIM's ESG Score)[65] - 17%
- Supply chain - 1%

Number of engagements on **governance** topics: **379**



- Account and audit - 2%
- Board composition - 24%
- Capital management - 3%
- Cyber security - 1%
- General governance concerns - 13%
- G score (LGIM's ESG Score)[65] - 10%
- Mergers and acquisitions - 3%
- Nominations and succession - 14%
- Remuneration - 28%
- Shareholder rights protection - 2%

132

Number of engagements on **other** topics (e.g. financial and strategy):

86

Number of engagements on **ESG** (Future World Protection List)[65]:

Voting

Holding companies accountable

- We continue to **strengthen our expectations** of companies on issues such as independence and diversity
- In 2019, we announced that we will be **voting against CEOs** that get to 'mark their own homework' by also serving as board chairs

Voting is a key tool to express our views and hold companies accountable. Last year, we voted on over 115,000 proposals during almost 12,000 company meetings.

To reflect and improve the changing stewardship landscape, we continue to review our voting policies on a yearly basis. Some of the changes introduced since last year's report include:

- Voting against all combined CEO/Chairs in all markets (excluding Japan), beginning in 2020
- Voting against Japanese companies that do not have at least one woman director on the board, beginning in 2020

We rely on the service of our proxy advisor, ISS, but have implemented our own custom policies. In 2019, over 40% of our votes against directors were cast against the recommendations of both ISS and company management.[66]

We have now introduced a custom voting policy which will cover developed markets in Europe and the rest of the world (excluding France, the UK, Japan, Hong Kong and Brazil, for which we have separate voting policies). The new policies require companies:

- To have a higher level of independence and diversity on the board (while taking into account some market peculiarities), and set a low level of external board positions
- To provide more in-depth disclosure regarding executive compensation and the employment of performance criteria for full long-term incentive plans
- To increase the representation of women in North America. As announced last year, we will expect at least 25% of the boards of the largest 100 companies in the S&P/TSX to comprise women in 2020; where this is not the case we will be voting against the Chair of the Nomination Committee

We continue to develop and follow our own policies rather than adopt those of third parties, as these may not fully reflect the nuances of companies, their future commitments or our own engagement activity. Such policies also may be focused on a particular country, rather than being global in nature.

The adoption of third-party policies may also be impractical from a pooled fund perspective. The effectiveness of our engagement is supported by the sheer size of our pooled funds and their weight in corporate voting. To split the votes within our pooled funds would decrease the impact of LGIM's voting choices and introduce operational risk into our voting procedures.

We are also wary of sending multiple messages to companies on a single issue as this would undermine our conviction. Ultimately, this would affect all of our clients.

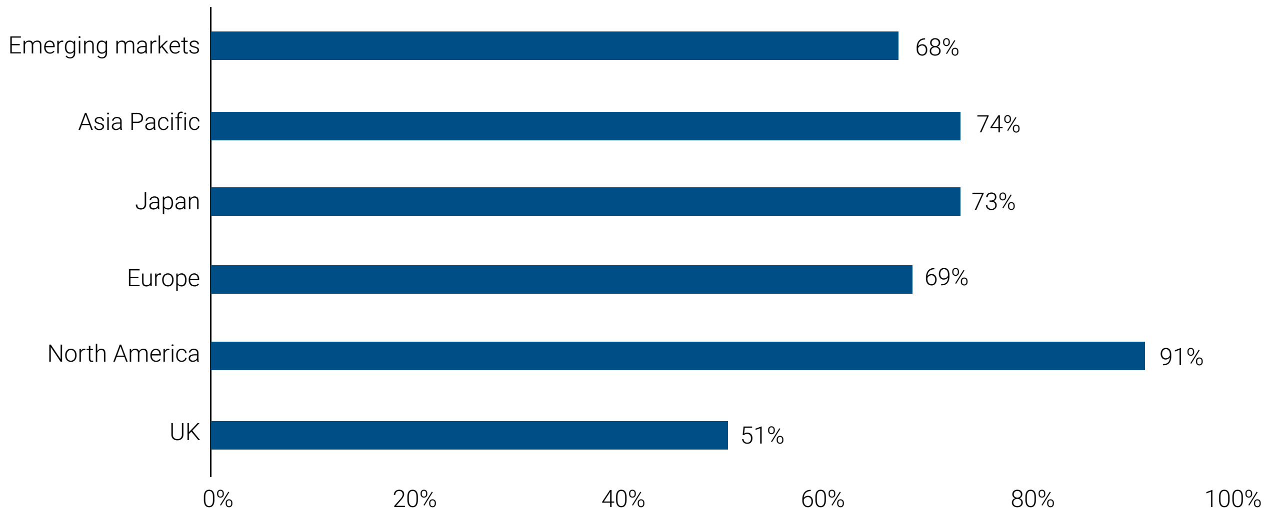
To understand more about our voting activity, data for our flagship FTSE pooled index funds is broken down overleaf:

Global voting data – 2019

Proposal category	Total for	Total against	Total abstentions	Total
Antitakeover Related	536	25	0	561
Capitalisation	4871	626	0	5497
Directors Related	22060	4055	259	26374
Non-Salary Compensation	2665	1439	0	4104
Reorganisation and Mergers	1448	280	0	1728
Routine/Business	10224	914	8	11146
Shareholder Proposal - Compensation	45	39	0	84
Shareholder Proposal - Corporate Governance	14	138	0	152
Shareholder Proposal - Directors Related	184	578	2	764
Shareholder Proposal - General Economic Issues	1	1	0	2
Shareholder Proposal - Health/Environment	65	32	0	97
Shareholder Proposal - Other/Miscellaneous	23	82	0	105
Shareholder Proposal - Routine/Business	59	181	0	240
Shareholder Proposal - Social/Human Rights	4	13	0	17
Shareholder Proposal - Social	12	17	0	29
Total resolutions	42211	8420	269	50900
No. AGMs				3303
No. EGMs				797
No. of companies voted on				3686
No. of companies where voted against management /abstained on at least one resolution				2599
% of companies where at least one vote against management (includes abstentions)				71%

Source for all data LGIM. The votes above and in the pages that follow represent voting instructions for our main FTSE pooled index funds. US: withhold votes counted as against

Percentage of companies with at least one vote against (including abstentions)

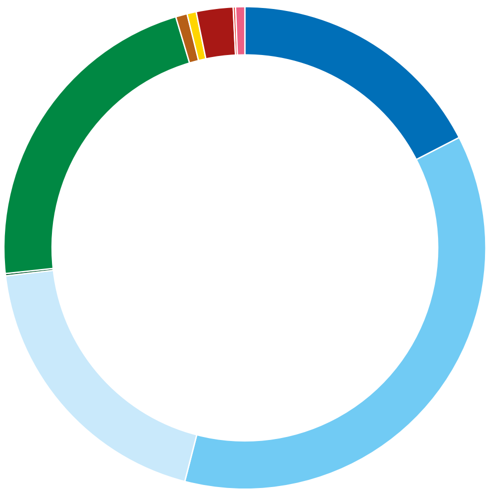


Source: LGIM

Asia-Pacific

Proposal category	For	Against	Abstain
Antitakeover Related	13	0	0
Capitalisation	160	113	0
Directors Related	960	235	2
Non-Salary Compensation	299	124	0
Reorganisation and Mergers	72	1	0
Routine/Business	637	141	2
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	1	5	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	5	4	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	8	16	0
Shareholder Proposal - Social/Human Rights	1	1	0
Shareholder Proposal - Social	2	4	0
Total	2158	644	4
Total resolutions	2806		
No. AGMs	342		
No. EGMs	47		
No. of companies voted on	355		
No. of companies where voted against management / abstained on at least one resolution	261		
% of companies with at least one vote against	74%		

Votes against management in 2019 (including abstentions)



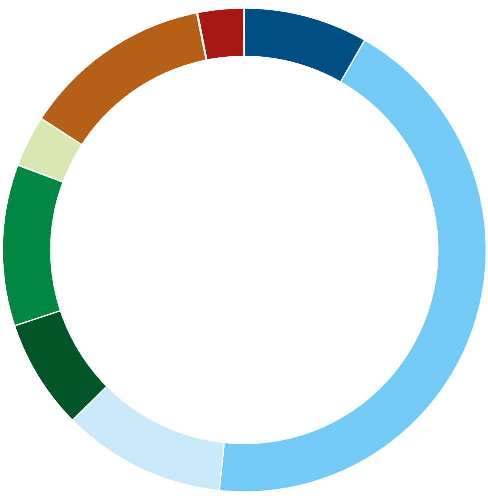
- Antitakeover Related - 0
- Capitalisation - 113
- Directors Related - 237
- Non-Salary Compensation - 124
- Reorganisation and Mergers - 1
- Routine/Business - 143
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors Related - 5
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 4
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 16
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 4

We opposed **261** companies in the Asia Pacific region in 2019, compared to **164** in 2018

Emerging markets

Proposal category	For	Against	Abstain
Antitakeover Related	3	0	0
Capitalisation	1632	284	0
Directors Related	4536	1269	216
Non-Salary Compensation	297	374	0
Reorganisation and Mergers	1071	252	0
Routine/Business	4130	369	0
Shareholder Proposal - Compensation	22	1	0
Shareholder Proposal - Corporate Governance	0	117	0
Shareholder Proposal - Directors Related	63	433	2
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	1	2	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	12	105	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	1	0
Total	11767	3207	218*
Total resolutions	15192		
No. AGMs	871		
No. EGMs	545		
No. of companies voted on	1123		
No. of companies where voted against management / abstained on at least one resolution	759		
% of companies with at least one vote against	68%		

Votes against management in 2019 (including abstentions)



- Antitakeover Related - 0
- Capitalisation - 284
- Directors Related - 1485
- Non-Salary Compensation - 374
- Reorganisation and Mergers - 252
- Routine/Business - 369
- Shareholder Proposal - Compensation - 1
- Shareholder Proposal - Corporate Governance - 117
- Shareholder Proposal - Directors Related - 435
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 2
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 105
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 1

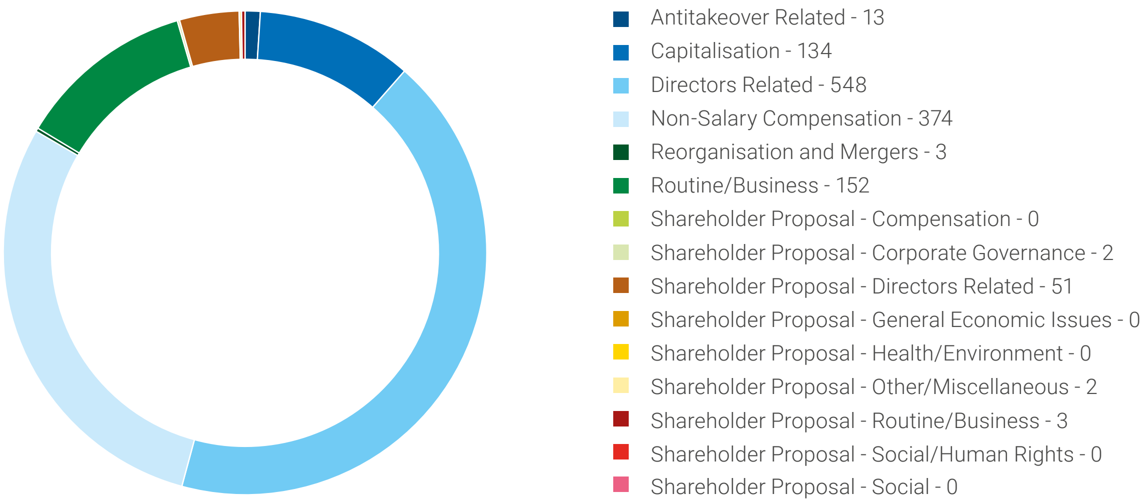
We opposed 759 companies in Emerging markets in 2019, compared to 601 in 2018

*The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain

Europe

Proposal category	For	Against	Abstain
Antitakeover Related	10	13	0
Capitalisation	751	134	0
Directors Related	2167	507	41
Non-Salary Compensation	659	374	0
Reorganisation and Mergers	63	3	0
Routine/Business	1868	146	6
Shareholder Proposal - Compensation	6	0	0
Shareholder Proposal - Corporate Governance	7	2	0
Shareholder Proposal - Directors Related	19	51	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	7	0	0
Shareholder Proposal - Other/Miscellaneous	20	2	0
Shareholder Proposal - Routine/Business	16	3	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5593	1235	47*
Total resolutions		6875	
No. AGMs		299	
No. EGMs		30	
No. of companies voted on		389	
No. of companies where voted against management / abstained on at least one resolution		269	
% of companies with at least one vote against		69%	

Votes against management in 2019 (including abstentions)



Top three countries: % votes against directors

France 45% Germany 19% Switzerland 14%

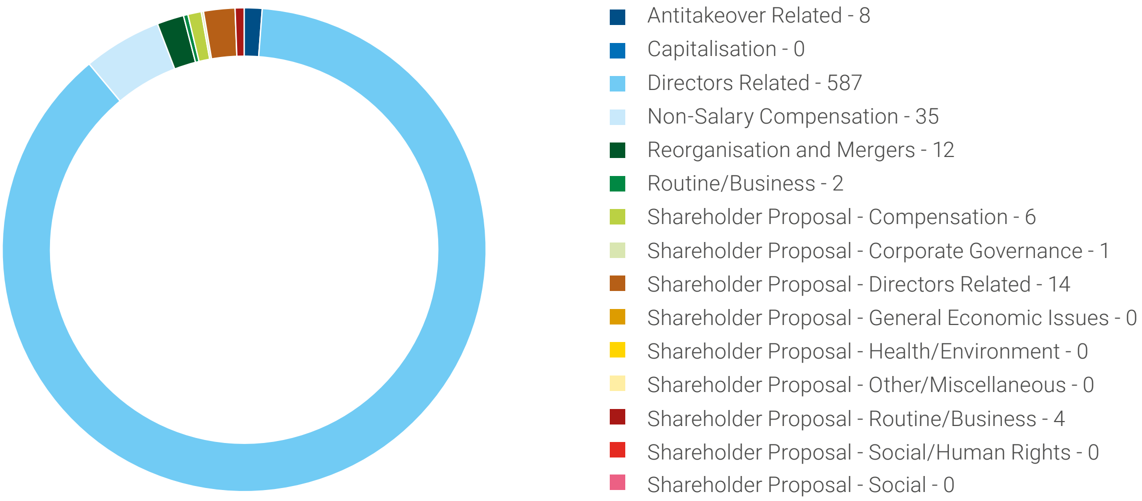
We opposed **269** companies in Europe in 2019, compared to **292** in 2018

*The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain

Japan

Proposal category	For	Against	Abstain
Antitakeover Related	0	8	0
Capitalisation	13	0	0
Directors Related	5091	587	0
Non-Salary Compensation	240	35	0
Reorganisation and Mergers	119	12	0
Routine/Business	369	2	0
Shareholder Proposal - Compensation	1	6	0
Shareholder Proposal - Corporate Governance	1	1	0
Shareholder Proposal - Directors Related	23	14	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	43	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	18	4	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5918	669	0
Total resolutions	6587		
No. AGMs	515		
No. EGMs	6		
No. of companies voted on	517		
No. of companies where voted against management on at least one resolution	379		
% of companies with at least one vote against	73%		

Votes against management in 2019

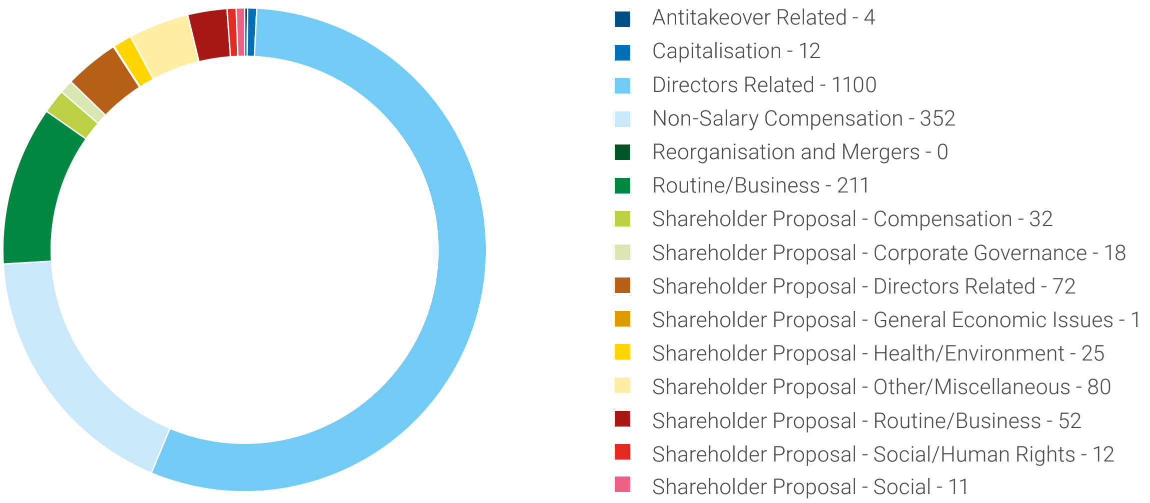


We opposed 379 companies in Japan in 2019, compared to 391 in 2018

North America

Proposal category	For	Against	Abstain
Antitakeover Related	74	4	0
Capitalisation	91	12	0
Directors Related	5153	1100	0
Non-Salary Compensation	451	352	0
Reorganisation and Mergers	25	0	0
Routine/Business	528	211	0
Shareholder Proposal - Compensation	15	32	0
Shareholder Proposal - Corporate Governance	6	18	0
Shareholder Proposal - Directors Related	55	72	0
Shareholder Proposal - General Economic Issues	1	1	0
Shareholder Proposal - Health/Environment	7	25	0
Shareholder Proposal - Other/Miscellaneous	3	80	0
Shareholder Proposal - Routine/Business	4	52	0
Shareholder Proposal - Social/Human Rights	3	12	0
Shareholder Proposal - Social	10	11	0
Total	6426	1982	0
Total resolutions	8408		
No. AGMs	653		
No. EGMs	32		
No. of companies voted on	665		
No. of companies where voted against management / abstained on at least one resolution	608		
% of companies with at least one vote against	91%		

Votes against management in 2019

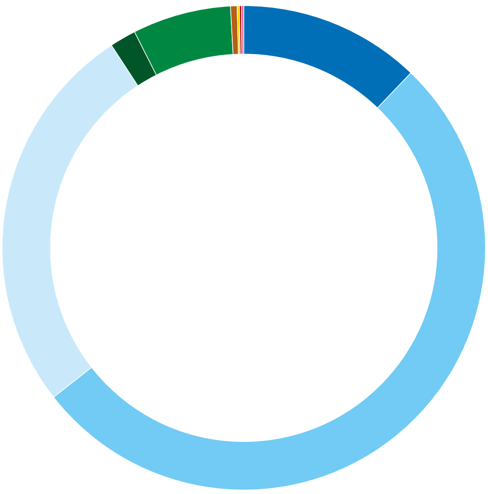


We opposed **608** companies in North America in 2019, compared to **604** in 2018

UK

Proposal category	For	Against	Abstain
Antitakeover Related	436	0	0
Capitalisation	2224	83	0
Directors Related	4153	357	0
Non-Salary Compensation	719	180	0
Reorganisation and Mergers	98	12	0
Routine/Business	2692	45	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	23	3	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	2	1	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	1	0
Total	10349	683	0
Total resolutions	11032		
No. AGMs	623		
No. EGMs	137		
No. of companies voted on	637		
No. of companies where voted against management on at least one resolution	323		
% of companies with at least one vote against	51%		

Votes against management in 2019



- Antitakeover Related - 0
- Capitalisation - 83
- Directors Related - 357
- Non-Salary Compensation - 180
- Reorganisation and Mergers - 12
- Routine/Business - 45
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors Related - 3
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 1
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 1
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 1

We opposed 323 companies in the UK in 2019, compared to 386 in 2018

Team structure

Our Investment Stewardship team

Our Investment Stewardship team of 15 professionals is led by the Director of Investment Stewardship, Sacha Sadan, who reports directly to LGIM's CEO. This structure, as well as the ability to engage with three non-executive directors of LGIM's board, is designed to ensure that conflicts of interest are appropriately managed.

The team is independent of all fund management professionals, allowing them to operate within Chinese walls in order to receive sensitive information. However, as highlighted in the chapter on ESG integration, fluid communication is maintained with fund managers in order to enhance engagement with the companies in which we invest

A few words from and about the team

Clinton Adas
Global ESG Product Specialist

Clinton joined the team in September 2019. He predominantly focuses on client-related activity and collaborates closely with investment and distribution teams. He also contributes to broader investment stewardship initiatives. Clinton joined LGIM from Capital Group where he spent six years managing the Investment Information function for Europe and Asia, which covered equity, fixed income and multi asset products. He holds a BA from Stellenbosch University, an LLB from University College London, and an LLM in Environmental Law from Queen Mary University of London, where he is also currently completing a PhD in Animal and Environmental Law. Additionally, he is studying towards a sustainability qualification from Harvard University. Clinton is a fellow of the Zoological Society of London.

Jeannette Andrews
Senior Global Investment Stewardship Manager

Jeannette is responsible for implementing LGIM's corporate governance strategy across engagement, integration, voting and the development of ESG products. Jeannette represents LGIM on the UK's Company Reporting & Auditing Group. Jeannette joined LGIM in 2015 from USS Investment Management where she held the title of Senior Analyst, Responsible Investment. Jeannette joined USS in 2008, dividing her time between developing and implementing USS's stewardship policies and working as an equity analyst where she was responsible for researching and making stock recommendations for a £420 million global equity income portfolio. Prior to that, she worked for five years as a governance analyst at Manifest Information Services, a proxy voting service provider. Jeannette graduated from Anglia Ruskin University in 2008 and holds the CFA and CAIA charterships. In 2014 Jeannette was recognised by Financial News as one of the 40 under 40 Rising Stars of Asset Management.

Angeli Benham
Senior Global ESG Manager

Angeli is responsible for voting and engagement on ESG issues globally. She represents LGIM at the Investment Association Remuneration Committee and leads our global approach to remuneration engagement and voting. Angeli joined LGIM in 2005 and has over 20 years of corporate governance experience. She holds a BSc (Hons) degree in Financial Economics, Post Grad. Diploma in Law, Legal Practice Certificate (LPC), Investment Management Certificate (IMC) and is a graduate of ICSA (Institute of Chartered Secretaries and Administrators). She has written three thought pieces while at LGIM, one on Food Waste, another on remuneration, called "Mind the Gap!" and one on Employee Engagement.

Alexander Burr
Global ESG Public Policy Analyst

Alexander joined the team in September 2019 to focus on strengthening LGIM's public policy engagements across jurisdictions. Prior to this, Alexander spent three years leading international government and institutional relations for a firm that uses alternative finance to invest in sustainable projects in emerging markets. Before that, he spent five years negotiating investments in emerging markets with the European Commission and international climate change funds at the European Bank for Reconstruction and Development (EBRD). He also spent time advising middle and low-income governments on alternative finance and jointly establishing a nuclear energy safeguards organisation. Alexander holds a BSc in Politics and International Relations from the University of Southampton.

Iancu Daramus
Senior Sustainability Analyst

Iancu is responsible for LGIM's climate-related engagements with the extractives sector and supporting in the development of low-carbon investments. He leads on ESG communication with the client base and the wider market, to help with education and assistance in making sustainable investment decisions. Iancu joined LGIM in 2017 after working several years in communications and investor outreach for the Carbon Tracker Initiative, a think-tank investigating environmental risk in capital markets. Iancu graduated from the London School of Economics and holds degrees in philosophy and public policy.

Aina Fukuda
Japan ESG Manager

Based in Tokyo, Aina is responsible for stewardship and sustainable investments in Japan. Implementing LGIM's global environmental, social and governance (ESG) approach, she is responsible for directly engaging with Japanese companies, regulators and other investors. Aina joined LGIM in 2019 from a major professional services firm where she was a sustainability consultant for nine years.

John Hoeppner
Head of US Stewardship and Sustainable Investments

John joined LGIMA in 2018 as the US representative of the Investment Stewardship team. John is charged with shaping the firm's corporate engagements and driving demand for sustainable investing strategies in the US market. He joined from Mission Measurement where he led the Impact Investing practice, and launched an ESG data and consulting business. Prior, John held multiple senior product positions in the asset management divisions of UBS and Northern Trust. John championed a range of corporate and product related sustainable investment efforts. He started his investment career at Cambridge Associates on the capital markets research team. John earned a Bachelor of Commerce from McGill University in Montreal, Canada.

Maria Larsson Ortino
Global ESG Manager

Maria is responsible for LGIM's global voting and engagement activities within the Investment Stewardship team. Maria joined LGIM in 2019 from Newton Investment Management where she was a Consultant Responsible Investment Analyst for six months. Prior to that, she took a career break, headed up the research team at a start-up corporate governance data company, served as a corporate governance analyst within State Street Global Advisors' governance team and as an analyst within the IVIS team, part of the Investment Association. She started her corporate governance career at PIRC, a proxy advisor, in 2007. Maria graduated from Queen Mary College, University of London with an LLB (hons), and has a Master's Degree from the Graduate Institute of International Studies, University of Geneva, Switzerland.

James Malone
Senior Global ESG Analyst

James supports LGIM's global corporate governance activities including proxy voting and company engagements. He is also responsible for driving forward the firm's ESG scoring, data integration and ESG product development. James brings strong global markets experience to the team, having previously worked for Citigroup as an equities salesperson. He holds an MSc in Environment and Development from the London School of Economics and a BA in business from the University of Western Ontario.

Maxine McMahon
Executive Assistant

Maxine is a qualified London Chamber of Commerce Private Secretary working within financial services for the past 8 years. Throughout her career she has undertaken roles of Event Manager, Office Manager as well as PA and EA. She enjoys learning new things and conquering challenges.

Catherine Ogden
Manager, Sustainability and Responsible Investment

Catherine joined the team in 2015, in a new role created to help drive forward LGIM's ESG integration into mainstream fund research, and to strengthen sustainability engagements. Catherine joined LGIM from Adam Smith International, an international development consultancy, where she worked for four years with governments in Africa on the sustainable policy, planning and management of the oil, gas and mining sectors. Prior to this, Catherine spent five years as a French small and mid-cap Equity Analyst, with a particular focus on the oil and gas sector. Catherine graduated from Durham University in 2005 with a BA in Economics and modern languages, and in 2011 from the School of Oriental and African Studies, with an MA in Globalisation and Multinational Corporations.

Meryam Omi
Head of Sustainability and Responsible Investment Strategy

Meryam is responsible for integrating environmental, social and governance (ESG) aspects into the investment process at LGIM and for creating responsible investment product solutions. Meryam has over 14 years of asset management experience, starting her career as a business proposal writer for fixed income funds. After joining LGIM in 2008, she has been essential to establishing its engagement programme on key sustainability topics. Meryam has led the launch of funds in the pioneering Future World range, as well as the Climate Impact Pledge, which is LGIM's commitment to engage and act on climate change. She holds a BA (hons) in Business Studies and an MSc in Environmental Decision Making.

Clare Payn
Senior Global ESG & Diversity Manager

Clare is responsible for the team's stewardship activities for the utilities, technology and media sectors. Clare developed the team's policy for North America and did a year's secondment to our LGIMA offices in Chicago in 2016. She communicates with companies, investors and other market participants on various ESG issues, with specific focus on diversity. Clare Chairs the 30% Club UK Investor Group, an influential group of investors that engages with FTSE companies on diversity at board and senior leadership level. Clare was also part of the LGIM project team which launched LGIM's first UK-focused Gender in Leadership Fund in 2018. She also sits on several internal committees focused on creating a more inclusive and diverse culture. In the US she represents LGIM on the Board of the Investor Stewardship Framework Group, established to oversee the development of corporate governance and stewardship best practice in the US market. Clare has over 20 years' experience in ESG, joining LGIM in March 2010, and graduated from Loughborough University with a BA (Hons) degree in English Literature.

Marion Plouhinec
Senior Global ESG Analyst

Marion is responsible for developing ESG engagement campaigns globally, with a focus on the European market. She leads ESG engagements in the transportation sector, including with automobile companies under LGIM's Climate Impact Pledge. Marion joined LGIM in 2016 from Manifest Information Services, a proxy voting agency. Her role involved the analysis of governance and remuneration structures of listed companies on a global scale and the provision of voting recommendations to investors prior to shareholder meetings. Prior to that, she gained experience as an Analyst for ESG reputation-ratings firm Covalence based in Switzerland. Marion graduated from the Catholic University of Lille, France with a BA in Law and from the University of Bristol with a MA in Law. She holds the Investment Management Certificate (CFA Institute).

Sacha Sadan
Director of Investment Stewardship

Sacha sits on the board of LGIM. In September 2016 he was recognised in the Financial Times as one of 'the 30 most influential people in the City of London', crediting him as one the leading architects of 2012's "shareholder spring". At LGIM Sacha has responsibility for investment stewardship, including environmental, social and governance (ESG) areas, collaborating with other investors as well as governments and regulators. He regularly speaks at major global industry events on topics such as diversity, climate change and shareholder rights. Sacha was previously a senior UK equity manager at Gartmore where he co-managed a range of UK equity hedge, retail and institutional funds. He was voted the top-rated Pan European fund manager in the Thomson Reuters Extel awards (known as the "City Oscars") in 2010. He started his career at Universities Superannuation Scheme (USS). Sacha holds a BA (Econ) from Manchester University and is a Fellow of ICSA. Sacha is a founding member and still on the board of the UK Investor Forum.

Yasmine Svan
Senior Sustainability Analyst

Yasmine is responsible for overseeing LGIM's climate-related engagements and supporting various ESG integration projects. She leads the development of climate-related company assessment frameworks and coordinates all engagement activities, while also engaging with key sectors such as food and utilities. Yasmine joined LGIM from a communications consulting firm specialising in sustainable finance, where she worked with both investors and corporates on ESG impact measurement and reporting. Yasmine graduated from UCL and holds an MSc in global governance.

Maria Zhivitskaya
Sustainability and Responsible Investment Manager

Maria is responsible for managing the ESG engagement activities and implementing exclusionary investment rules. Maria obtained her PhD in Governance and Risk Management from the London School of Economics, and has been teaching Financial Regulation in SciencesPo Paris since 2011. After starting her career at Goldman Sachs, she joined M&G Prudential where she worked on Risk Effectiveness, Risk Culture, Digital and ESG integration projects. She is on the board of the London Library.

Links and notes

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This document sets out the approach to shareholder engagement by subsidiary companies of Legal and General Investment Management (Holdings) Limited ("LGIM(H)") that are defined as institutional investors or asset managers under the Shareholders Rights Directive II. Any references to "LGIM" in this Policy includes:

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- LGIM International Limited
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Important information

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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