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One Coleman Street
London
EC2R 5AA
Tel: +44 (0)20 3124 3000

Dear CEO

Action to meet tomorrow's challenges

The world is undergoing rapid change, driven by technological, social and demographic forces that have the potential to disrupt the business models of today's best-known companies. The environment in which we are operating is shifting at what can seem like breakneck speed and a focus on sustainability has never been more important.

A growing number of our clients tell us they are concerned about environmental, social and governance (ESG) factors within the investments we manage on their behalf. They want to know that companies are generating long-term, sustainable returns by adequately considering the interests of their stakeholders, and they are looking for innovative ways to invest according to their convictions on ESG issues.

From sovereign wealth funds to individual investors, clients are already re-allocating their capital to reflect this focus at a rate that will have a deep impact on investment and business decisions. Issues such as climate change, diversity in the boardroom and employee rights are increasingly seen as financial risks that can impact the long-term viability of companies.

As a large asset manager and steward of our clients' investments, a long-term focus has always been central to how we manage risks. We have an extensive history of engaging with companies and investing responsibly to improve outcomes for our clients. We are encouraged by the increasing emphasis on strong corporate governance and active stewardship across the industry, but we believe there is more to be done.

Active ownership

We are delighted to send you our seventh annual Active Ownership report, which outlines our work in 2017 to encourage positive change in the companies and markets in which we invest. We hold ourselves to the same standards we expect of others. To show we are serious about long-term thinking, we would like you, as the CEO of a company with which we engage regularly, to tell us if you believe we are being too short-termist in our view of your business.

Our corporate governance team works closely with our fund management professionals but operates independently of the business, which helps to manage potential conflicts. If you tell the members of the team we are not speaking with one voice across our index and active portfolios, they will listen.

To reinforce our long-term approach, we are calling for more action in the areas below.

Climate change

Climate change will have a material impact on the global economy and the sustainability of many companies. We believe it is important for companies to report in line with guidance from the Taskforce on Climate Related Financial Disclosures, which was set up by the G20 to help market participants understand climate-related risks.

We also expect you to outline the potential impact on your business, where material, of a rise in world temperatures above the two degrees Celsius target set in the Paris climate accord.

More broadly, we encourage your company to relate the UN's Sustainable Development Goals, where relevant, to your business strategy and operations with clear and consistent disclosures.

Diversity

A wide range of experiences, backgrounds and perspectives across the leadership team increases diversity of thought, which will enhance decision-making, reduce risk and improve long-term financial performance. There has been some momentum towards greater diversity, but not enough.

We look to you as CEO to ensure you hire the very best talent across the workforce, appropriately representing all elements of diversity. We encourage you to consider establishing an advisory committee of external experts that are critical to your industry to help challenge consensus views.

Gender inequality remains a major drag on economic growth and productivity. We expect all UK companies to disclose the gender breakdown of board directors, the executive committee, managers and all employees, along with their gender pay gap and initiatives to close any gap. We have strengthened our voting policy and, from this year, will vote against the chairs of the boards of FTSE 350 companies if they have not already reached 25% women at board level. In the US, we started to vote against all-male boards of S&P 500 companies last year.

Long-term strategy

We expect your company to demonstrate that sustainability is integrated effectively into your operations and long-term strategy through the analysis of material risks and opportunities, target setting and public disclosure.

We were one of the first asset managers to call for a greater focus on long-term performance by ending quarterly reporting. Our parent company, Legal & General, did so in 2015 and 43% of FTSE 100 companies have now taken this step. European companies are also moving in this direction, but there is still some way to go before boards globally are truly focused on long-term value.

Shareholder rights

We are increasingly concerned that rules are being introduced across many markets that weaken the power of investors. By working closely with regulators, stock exchanges, index providers and companies, we hope to strengthen the integrity of the market for our clients over the long term.

We understand that enacting real change can be difficult in these uncertain times and we want to support you on this journey. Only by taking decisive action today can companies meet the challenges of tomorrow, for the benefit of your shareholders and our clients.

Yours faithfully



Mark Zinkula
Chief Executive Officer



Sacha Sadan
Director of Corporate Governance