For professional investors only. Not to be distributed to retail investors.
All investing involves risk.

Active ownership: 2023

Global engagement to deliver positive change

Active ownership means striving to create sustainable value for our clients. This report details how we achieved this in 2023.

Any references to strategies are mentioned for illustrative purposes only and are subject to the following key risk: 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. This will be referenced with a ♦ symbol and 'Capital at risk' on the relevant pages.

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Foreword

Engagement that matters

People all over the world endured a difficult 2023, a year marked by geopolitical conflict, rising interest rates and inflationary pressures. Extreme weather events during the hottest year ever recorded[1] underscored the very real threat that climate change poses to people, nature and our entire planet. Rapid advances in artificial intelligence (AI) proved a potential bright spot, placing us on the cusp of a new era of innovation. But just as the technology is ushering in vast opportunities, it also presents manifold risks.

In this challenging and fast-moving context, we believe asset managers play a central role in ensuring the responsible allocation of capital to help meet the challenges facing our societies, from tackling the climate crisis to addressing inequality. In this document – our 13th annual Active Ownership report – you'll read about the actions we took during the year.

Key initiatives included an engagement campaign focused on the living wage; working with companies and policymakers to ensure AI develops safely; and our global partnership with Lewis Pugh, UN Patron of the Oceans, to raise awareness of the devastating impact of climate change.

Our Investment Stewardship team sharpened its strategic focus last year by identifying the six 'super themes' that will inform discussions about environmental, social and governance (ESG) factors in the years to come. The team's resources were increased, reflecting its growing importance to LGIM.

Over the coming pages, you'll see examples of how we exercised voting rights across our entire book of assets, while engaging with companies, policymakers and other stakeholders.

Last year, we stepped up our efforts on human rights, diversity and deforestation. We'll cover these areas in detail to show how our policies have evolved. We'll also demonstrate where we were successful in raising standards at individual companies and across markets. And where our efforts haven't yet succeeded in delivering positive change, we'll acknowledge this. As well as raising awareness of our engagement work during 2023, this report is also our response to the UK Stewardship Code for the Financial Reporting Council.

Innovating in responsible investment remains core to our agenda, and has led us to build a number of new responsible investing solutions to meet growing demands from our clients. During 2023, 17 of the funds we launched were ESG-related, and we now manage £378.1 billion in strategies explicitly linked to ESG criteria.[2] Working on behalf of our clients, we undertook a vast array of engagement activities in 2023. We have a duty as a leading responsible investor[3] to consider how best to use our influence on behalf of our clients and our shared purpose knits together the many strands of our work – creating a better future through responsible investing.

Michelle Scrimgeour
CEO, Legal & General Investment Management

[1] Met Office, 2023: The warmest year on record globally, January 2024.
[2] As at 31 December 2023. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. LGIM's total AUM (on the basis of client direct investments and excluding any double count from fund of fund holdings, and including the value of securities and derivatives positions) at this date was £1.159 trillion, meaning responsible investment strategies represented approximately 33% of the total.
[3] See the awards section of this report on page 109.

2023 in numbers

£378.1 billion[4] **-** The amount of assets we manage in responsible investment strategies

17 - The number of new responsible investment strategies we launched

148,794[5] **-** The number of resolutions worldwide on which we voted

3,713 - The number of shareholder-proposed resolutions we voted on globally

2,050 - The number of companies our Investment Stewardship team engaged with[6]

3 - The number of LGIM co-filed shareholder proposals that were voted on during the 2023 AGM season

Note: This document reports on LGIM's stewardship activities during 2023. Unless otherwise stated, all information, data and graphical depictions provided that are not referenced are based on LGIM internal data as at 31 December 2023.

[4] As at 31 December 2023. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. LGIM's total AUM (on the basis of client direct investments and excluding any double count from fund of fund holdings, and including the value of securities and derivatives positions) at this date was £1.159 trillion, meaning responsible investment strategies represented approximately 33% of the total.
[5] 148,794 across all assets under management. Voting data in the Voting statistics by region section represents all votes cast by LGIM in each fund in line with our Corporate Governance & Responsible Investment Policy in the 12-month period to 31 December 2023.
[6] This comprised 2,021 engagements in the environmental category, 354 in social, 561 in governance and 123 in other areas.

Q&A

We discuss the key themes from 2023 and our plans for this year with:

Michael Marks
Head of Investment Stewardship and Responsible Investment Integration

Shuen Chan
Head of Responsible Investment & Sustainability, LGIM Real Assets

Amelia Tan
Head of Responsible Investment Strategy

Which of LGIM's achievements in 2023 made you most proud?

Michael: Looking across all of LGIM's activities, I am probably most proud of the continued growth of our responsible investment strategies, which now represent almost one-third of our £1.2 trillion[7] of assets under management. This demonstrates the value that clients have placed on our focus on creating investment solutions that aim to meet their needs and shows that the actions that we take as an investment manager are aligned to their expectations.

We could not have achieved this without maintaining our high standards across all areas of responsible investment, from taking clear and focused investment stewardship action on key thematic risks, to leveraging the insights of our combined Investment and Investment Stewardship teams through the Global Research and Engagement Groups (GREGs) to identify potential investment risks and opportunities. Whether it has been the expansion of our climate engagement through the Climate Impact Pledge to now cover more than 5,000 companies across 20 climate-critical sectors, or our principles-based voting policies, which are applied across all investee companies, the teams in LGIM have continued to evolve and enhance our activities.

As Head of Investment Stewardship, I am also proud of the development of the team, increasing our global presence and ability to engage locally in the language of many more companies within our clients' portfolios.

[7] As at 31 December 2023. The AUM disclosed is shown on the basis of client direct investments and excludes any double count from fund of fund holdings. The AUM includes the value of securities and derivatives positions. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement.

Shuen: I'm proud of our work over the past year financing nature-positive initiatives.

We were the largest lender in the world's largest debt-for-nature swap,[8] purchasing $250 million of bonds. The transaction, which was structured between Ecuador's advisors, a global investment bank and Pew Bertarelli Ocean Legacy, and insured by the US government, allows Ecuador to restructure its debt at much lower repayment rates. In return, Ecuador will direct savings of over $450 million to marine conservation activities around the Galápagos Islands.

We also made a positive place-based social impact by developing a toolkit seeking to increase the benefits for the communities in which we invest.[9] With this toolkit, we aim to instil consistency, rigour, and best practice in the delivery and measurement of social impact in our real-estate holdings across different stages of the investment lifecycle. The foundation of this framework is based on three core themes: building an inclusive economy; health, wellbeing and quality of life; and nature and climate.

By being more intentional in our efforts to drive positive social and environmental outcomes, based on the needs of the communities where our assets are located, we can aim to generate long-term value for our investors.

Amelia: I am immensely proud of the launch of our Climate Action strategy, an engagement-led investment strategy we established through deep partnership with the Swedish government pension fund AP7.

This is an innovative climate-oriented strategy representing a step forward from exclusion strategies or focusing only on leaders, by tackling the climate challenge head on.

The strategy directly targets investment in laggard companies critical for the global transition to net zero carbon dioxide emissions, engaging with them to initiate and accelerate their climate transition plans, which we believe can unlock longer-term shareholder value.

The successful launch of the strategy also marked a defining moment for the close collaboration between our Investment and Investment Stewardship teams under what we call our GREGs. The strategy reflects the maturity and depth of our engagement strategy with companies.

What are your strategic priorities for 2024?

Michael: LGIM remains committed to addressing the systemic risks and opportunities inherent in our clients' portfolios, and this drives our focus. We maintain our attention on the expectations of a diverse global client base and drive forward with ever more urgency to raise standards across our six key engagement themes of climate, nature, people, health, governance and digitisation. We continue to create innovative investment solutions that direct capital to investments that support the critical changes we need to see.

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[8] Reuters, Ecuador seals record debt-for-nature swap with Galapagos bond, May 2023.
[9] An investment which targets financial returns as well as positively impacting a local area, such as increasing sustainability or economic development. See case study on page 71 for more information.

Shuen: One of our priorities is the relationship between climate and nature.

As investors in the real economy, we continue to identify how we can help to address the climate challenge and biodiversity loss through investment opportunities and solutions such as debt-for-nature swaps and generating nature-positive outcomes across the assets we manage and operate within our private market portfolios.

Industry engagement and development of industry standards is another focus for us in 2024.

We continue to play a leading role in driving and shaping best practice and standards on key sustainability themes through active engagement in industry-led initiatives across different asset classes such as the UK Net Zero Carbon Building Standard.

Amelia: Our biggest priority for 2024 is to deepen our understanding of nature and its complex relationship with business, and hence, our investments.

The science is clear: biodiversity, as a measure of the health of our ecosystems, is declining faster than at any time in human history. We've seen a 69% decline in wildlife populations, and an 83% decline in freshwater wildlife populations since 1970.[10]

It's also increasingly apparent that our impact and dependencies on nature are a significant source of risk, both at the macro and micro level. For instance, if honeybee populations are reduced or eliminated, more than $50 billion worth of US crops will be at risk each year.[11]

We believe nature is a core and strategic risk-management issue alongside climate. However, identifying, assessing and managing nature-related issues require more context-specific consideration than the approaches taken to address climate.

While data will of course be key, I believe the combination of our GREGs' top-down structural analysis and bottom-up fundamental understanding gives us a strong platform to address these contextual intricacies.

[10] WWF, Living Planet Report, 2022.
[11] World Economic Forum, Bee population numbers are dropping – and US crop yields could plummet as a result, August 2020.

Responsible investment

- We demonstrate our responsible investment beliefs across asset classes and fund management styles
- In 2023, we launched 17 new responsible investment strategies and, as at year-end, managed £378.1 billion of assets in responsible investment strategies[12]

Our purpose at LGIM is to create a better future through responsible investing. Our Active Ownership activities apply across all of the assets we manage, and additionally we incorporate responsible investing across our Active and Real Assets investment strategies and, as directed by customers, many of our Index strategies. In doing so, we seek to realise Legal & General Group's (L&G) vision of the benefits of economic growth being shared as broadly as possible.

Creating a better future

We have been a leading responsible investor since LGIM was established in 1971. In 1972, we campaigned against the use of Thalidomide, and in the past decade we've pushed to raise standards across important issues such as greater diversity at companies, and highlighted the urgent need to tackle climate change. Many of our clients, on whose behalf we manage £1.2 trillion of assets worldwide across both public and private markets,[13] have investment horizons lasting not years, but decades. Therefore, we strive to effect change in the companies and markets in which we invest to benefit future generations.

We draw on industry-leading expertise to innovate constantly. Examples include: our place-based social impact framework in real assets, the development of the Future World fund range and our modelling of the energy transition. We offer a broad range of products and solutions, because different clients in different regions have a variety of investment needs and beliefs.

At LGIM, we aim to realise our vision through building the wealth of millions of people across society, by providing products that offer value for money, aiming to give savers the financial future they deserve. In addition, we endeavour to make investment decisions that reflect the broader social, environmental and economic context.

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[12] As at 31 December 2023. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. LGIM's total AUM (on the basis of client direct investments and excluding any double count from fund of fund holdings, and including the value of securities and derivatives positions) at this date was £1.159 trillion, meaning responsible investment strategies represented approximately 33% of the total.
[13] As at 31 December 2023. The AUM disclosed is shown on the basis of client direct investments and excludes any double count from fund of fund holdings. The AUM includes the value of securities and derivatives positions.

Targeting long-term goals

In partnership with, and on behalf of, our clients we target a broad range of ESG objectives. These include:

- Striving to reach net-zero greenhouse gas emissions by 2050 or sooner across all assets under management[14]
- Setting an interim target of 70% of eligible AUM to be managed in alignment with this net-zero ambition by 2030[15]
- Achieving net-zero carbon across our real estate portfolio by 2050

In 2023, our stewardship activities involved: formalising our approach on human rights, expanding our diversity voting sanctions to the executive committee level for the largest companies in the US and the UK, applying vote sanctions for the first time on companies not meeting our expectations on deforestation, and initiating a campaign on income inequality at supermarkets across five continents.

Engaging for change

We recognise that change is a journey that is typically delivered in steps, not leaps. We believe that constructive engagement with companies and policymakers is the best way to deliver this long-term, systemic change. Indeed, we celebrate those that take action to improve ESG outcomes. But those that do not engage, or take heed of our drive for minimum standards, will find that we will use the range of stewardship tools seeking to influence a better outcome. These include voting against specific resolutions at these companies, filing shareholder resolutions ourselves or, as a last resort, withholding investment, while continuing to engage. That's because we believe divestment is a blunt and often ineffective tool, which may result in investors overlooking the problem they are trying to solve.

Within most of our Future World fund range and certain other strategies, we refrain from actively investing in companies that:

- Fail to meet our minimum requirements for action on climate change, as part of engagements under our Climate Impact Pledge[16]
- Are perennial violators of the United Nations Global Compact, assessed as being in violation of one or more principles for 36 months or more
- Are involved in the manufacture and production of controversial weapons, including anti-personnel landmines, cluster munitions, biological and chemical weapons
- Are involved in mining and extraction of thermal coal, thermal coal power generation and oil sands – generating 20% or more of revenues from these activities

[14] For more information on our commitments, see Reaching net zero: LGIM's approach.
[15] For this first interim target, unveiled as part of the Net Zero Asset Managers initiative, LGIM has excluded government securities and derivative assets due to a lack of clear industry methodologies to account for these asset classes to date. For more information on our commitments, see the Group Climate Report, pages 15 and 16.
[16] Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.

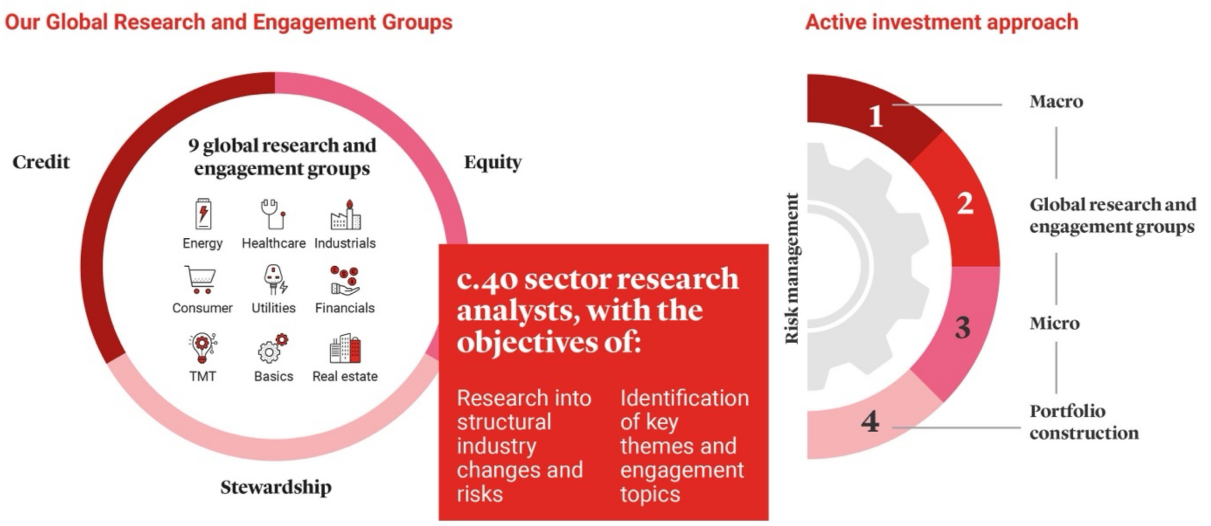
Our core investment beliefs

We are a 'universal owner' on behalf of our clients, holding a £1.2 trillion slice of the global economy, of which £378.1 billion of assets are in responsible investment strategies[17]. As a result, we believe:

- Responsible investing is essential to improving long-term returns, unearthing potential opportunities and mitigating risks by fostering sustainable markets and economies
- We have a responsibility to many stakeholders. When we allocate capital across our Active and Real Assets investment strategies and, as directed by customers, many of our Index strategies, we conduct extensive research into potential environmental and societal outcomes
- ESG factors are financially material, albeit not all to the same degree. And patience is required, because the time horizons of ESG outcomes and investment returns are not always aligned
- Engagement with consequences is the best way to deliver long-term, systemic change on a global scale

What does this mean in practice?

We see responsible investing as the incorporation of ESG considerations into investment decisions, alongside engagement with companies, regulators and policymakers, to generate sustainable outcomes. To this end, in 2019 we established an integrated approach across both public and private assets, based on investment stewardship and collaborative research undertaken by our GREGs.



As at 31 December 2023.

There are three key stages to our overall responsible investment process:

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[17] As at 31 December 2023. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. LGIM's total AUM (on the basis of client direct investments and excluding any double count from fund of fund holdings, and including the value of securities and derivatives positions) at this date was £1.159 trillion, meaning responsible investment strategies represented approximately 33% of the total.

1. Research: Through rigorous analysis, we seek to identify key ESG issues, which we consider as part of our investment processes, strategies and solutions

2. Engagement: We engage with companies, occupiers and other stakeholders on these issues. And we work with policymakers, regulators, industry peers and stakeholders to raise overall market standards

3. Outcomes: When necessary, we will escalate our engagement activity via stewardship tools to take steps against companies that fail to listen. We also use our ESG insights to inform investment decisions. As part of this approach, we use data from respected providers and deploy our own proprietary tools, including the LGIM ESG score, our Active ESG View and LGIM Destination@Risk

For more information, see our Sustainability Policy and the Climate Solutions – LGIM Destination@Risk update section.

The central role of stewardship

We believe effective stewardship involves working with companies, regulators, policymakers, peers and other stakeholders around the world to tackle systemic issues, material risks and opportunities – as well as collaborating with our investment experts to identify future challenges.

For more than 20 years, our award-winning[18] Investment Stewardship team has successfully campaigned on key issues, from corporate governance to diversity and climate change, escalating action when necessary to reach desired outcomes.

We have a responsibility to use our scale and influence in a transparent, accountable fashion. LGIM will take public positions to raise awareness and attention on key issues.

Exercising voting rights is a powerful engagement tool with which to hold company boards to account and raise market standards; it is used extensively by our Investment Stewardship team. Importantly, the team votes with one voice across all of our clients' investments where we have discretion, because it operates independently from – but in collaboration with – our portfolio managers. As part of this process, the team also participates in our GREGs. For more detail on how the team prioritises engagement, please see the How we engage section of this report.

[18] Recent awards include the 'Best in Class' award at the 2021 ICGN Global Stewardship Awards. **Awards should not be considered a recommendation.**

A nuanced approach to different asset classes

Our approach to responsible investing takes into account the nuances of the different asset classes, and investment styles, in which we manage money for our clients.

Index strategies:

We engage with investee companies across our index investment strategies, whether as a shareholder or a credit investor lending capital to these companies. Within certain portfolios, we deploy tools including selection, 'tilting' and exclusions based on criteria such as our LGIM ESG score, as well as sustainability-related thematic exposures.

Active strategies:

We deploy proprietary capabilities, including the Active ESG View, to evaluate material factors as part of our research, portfolio construction and security selection process. The extent to which we consider ESG factors depends on a specific portfolio's objectives and policies.

Multi-asset:

We integrate ESG factors into our strategic and tactical asset allocation frameworks, to inform decision-making on all financially material aspects. In addition, we assess how third-party managers embed ESG considerations at the firm and product level.

Private credit:

As long-term debt investors, we focus on ESG engagement in areas where we believe we can be most influential, including pre-investment assessment and post-investment borrower engagement and monitoring. Where possible, we seek to incorporate ESG aspects into deal structures, including ESG reporting covenants and the development of ESG-linked loans.

Real estate:

Sustainability considerations are integrated into investment decisions at acquisition stage and throughout ongoing asset management. Our analysis is informed by net-zero audits and stringent assessment of other material ESG indicators, with improvement opportunities feeding into asset sustainability plans.

Solutions:

We integrate ESG considerations in portfolios, including all Buy & Maintain credit mandates, utilising the Active ESG View. We also manage mandates which incorporate specific climate objectives.

A strategy to drive growth

LGIM has adopted a three-phase, overlapping growth strategy: we are modernising our business, while we diversify and internationalise the firm. In more detail, we seek to:

Modernise: we aim to lay the foundations for global growth. We are investing in people and our operating platform, supported by the right organisational structure

Diversify: we are targeting opportunities adjacent to existing core capabilities. We aim to innovate and create more solutions for our partners

Internationalise: we seek selective opportunities in new markets and channels where we see scope to innovate or disrupt

We believe responsible investing forms an integral element of each of these strategic pillars; it is also a priority for Legal & General Group. As a result, and in partnership with our clients worldwide, we have developed a range of innovative responsible investment strategies across a variety of asset classes.

In 2022, we introduced our responsible investing framework, detailed below. This represents an evolution in how we seek to align strategies towards clear, consistent and demonstrable sustainability objectives that aim to address real-world needs.

	ESG core	**Sustainable investing** Incorporating ESG objectives		**Outcome-driven investing** Incorporating real-world impact	
		Alignment	Focus	Action	Impact
Client objectives	Invest in **broad** asset universe ESG profile meets investors' baseline standards	Invest in **broad** asset universe Target improved alignment with ESG objective over time	Invest in **subset** of assets with: strong sustainability credentials, or aligned with specific sustainability themes	Invest in **subset** of assets with **potential** for action to improve sustainability profile over time Through **deep engagement** and asset management	Invest in **subset** of assets which have a real-world impact Through investor contribution: financial and/or asset management
Sustainability approach	Managed with reference to ESG targets, exclusions and/or integration	Target improvement of portfolio ESG metrics over time, and targeted engagement on a subset of the portfolio	LGIM-defined 'Sustainable Investments': aligned to a theme or sustainability standards	Target improvement of asset-level sustainability metrics over time driven by engagement or asset management	Target asset-level and real-world outcomes with investee and investor contribution
LGIM ESG foundation	Active ownership, engagement, and firm-wide exclusions				

In 2023, we launched 17 responsible investment strategies, including:

- **Exchange-traded funds** (ETFs) driven by sustainability themes
- **Index funds** with ESG tilting and decarbonisation pathways
- **Funds** that implement LGIM's proprietary net-zero framework

As at year end, we managed £378.1 billion of assets in responsible investment strategies.

As at 31 December 2023. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement. LGIM's total AUM (on the basis of client direct investments and excluding any double count from fund of fund holdings, and including the value of securities and derivatives positions) at this date was £1.159 trillion, meaning responsible investment strategies represented approximately 33% of the total. Please note that while we have integrated Environmental, Social, and Governance (ESG) considerations into our investment decision-making and stewardship practices, we cannot guarantee the achievement of any specific responsible investing objectives. The performance of investments is subject to market and other risk factors, and there is no assurance that sustainable investing objectives will be attained.

Considered risk management

Climate Solutions – LGIM Destination@Risk update

LGIM Destination@Risk is a proprietary toolkit developed to assess climate-related risk for our investments. It allows us to explore a range of possible climate futures and examine their company, sector and portfolio-level financial implications as well as our investments' alignment with net-zero outcomes. The toolkit is designed to follow the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) around scenario analysis.

The toolkit consists of four modules, allowing us to answer the questions that we believe investors should be asking:

- **Scenarios:** What might different climate outcomes mean for the economy?
- **Climate risk:** To which climate-related risks might my portfolio be exposed?
- **Temperature alignment:** What global warming scenario is my portfolio aligned with?
- **Gap risk to net zero:** How far away from net zero 2050 are the greenhouse gas (GHG) emissions associated with my portfolio?

We developed the scenarios module to allow us to build our own bespoke, bottom-up climate scenarios to explore a range of possible future climate pathways and their potential impacts on the energy and land systems, and the economy.

The climate risk module translates these climate pathways into security- and portfolio-level risks, based on forward-looking valuations of companies across the capital structure. Our approach rests on the assumption that, given the uncertainty surrounding future climate policy, it is unlikely that climate risk is properly priced into markets today.

Our temperature alignment module, in turn, looks not at the risk climate change poses to companies, but the risk companies' actions pose to the climate. We assess companies' historical decarbonisation progress and future targets to project their carbon performance forward into the medium term. We can then compare these projections with our sector-specific target pathways derived from our scenarios, to understand what temperature outcome companies are most aligned with.

We can also use these projections to determine the gap risk to net zero – the distance of companies or portfolios from a 1.5°C net-zero outcome.

A new approach to the energy transition: LGIM's Climate Action strategy

Our Climate Action strategy is underpinned by our firm belief that companies underperforming on the energy transition not only risk missing out on the opportunities created by climate transition, but that they are also at significant risk of financial loss if they do not adjust their trajectory.

Under our Climate Action strategy, to capture these potential opportunities, our objective is to build a portfolio of mid- and large-cap global equities – the majority of which are underperforming with respect to the energy transition – where our analysis indicates a potentially material long-term value case for accelerating their transition. The strategy also seeks exposure to companies that are already transitioning, but where we believe this transition is underappreciated by the market or could and should be significantly accelerated.

The strategy builds upon the LGIM Destination@Risk model and research capability, and the Investment team working in partnership with our Investment Stewardship function to harness engagement to drive positive climate impact and seek to unlock long-term shareholder value. Each investee company is subject to a bespoke and detailed active engagement process with clearly identified objectives and time-bound expectations.

The strategy invests in a portfolio of approximately 40 to 100 stocks, selected through an active construction process by LGIM's Investment team, from a universe of potential candidates identified by our proprietary models and drawing upon the expertise of our GREGs. GREGs are formed through a collaboration between our Active Strategies and Investment Stewardship teams, to unify our engagement efforts and to collectively engage under one voice; they bring together sector expertise across LGIM to identify the ESG challenges and opportunities that will determine the resiliency of sectors and the companies within them.

Our ambitious goals for Real Assets in 2024

Last year, we published an update to our net-zero roadmap for our real estate equity platform, demonstrating significant progress in achieving net-zero carbon emissions by 2050 or sooner. Some of our key updates included the continued rollout of net-zero audits for new acquisitions and targeted existing assets. At the end of 2023, we completed audits on more than 150 assets.

Vizta, our occupier engagement platform, continues to be embedded across our assets, providing occupiers with resources to support their decarbonisation strategies. Through a series of pilots, we have also developed a new Integrated Energy Solutions strategy to support the delivery of on-site renewable energy generation, electric vehicle charging, microgrid and battery storage projects. An implementation guide has also been created to support the rollout of the strategy in 2024.

Climate and Nature will continue to be priority areas for LGIM's Real Assets business in 2024. Across forward-looking physical climate risk, last year we further increased the granularity of assessment with additional asset-level detail.

This year, the focus will be on developing adaptation strategies for assets which this process has identified to be at risk. For nature, we are aligning new developments with Biodiversity Net Gain (BNG) planning requirements and have developed a new guidance document to support the implementation of regulations. Through a pilot project, we have also reviewed how BNG can be assessed across standing assets, which we will look to roll out across the platform this year.

Across our private credit business, we have continued to work with borrowers pre- and post-investment to improve disclosure and drive positive outcomes. Through borrower engagement we have continued to incorporate ESG-linked credentials into the structure of our investments, which now total more than £300 million[19] spanning the social housing, higher education, and corporate sectors. This means that the funding from us must either be designated for ESG-related purposes, or the investment must exhibit criteria linked toward an ESG target. These loan structures incentivise a borrower to achieve specific sustainability-related targets, including those related to the net zero transition. In 2024, we will continue to review new solutions to further enhance disclosure and engagement across all borrowers.

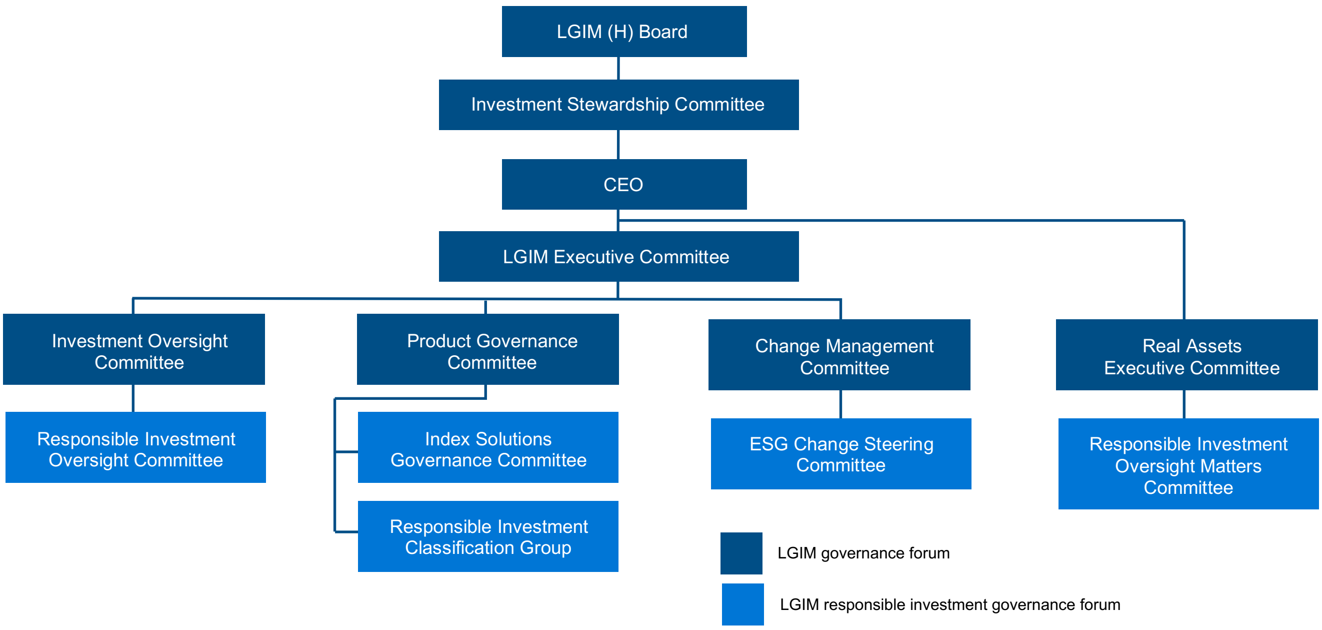
[19] As at 29 December 2023.

Rigorous governance and resourcing

Underpinning our approach is LGIM's governance structure, which is aimed at ensuring rigour and accountability, as well as enabling us to continue meeting the highest standards of oversight for our clients' investments and LGIM's own commitments. We believe that responsible investment activity needs to be fully integrated and overseen across LGIM's formal governance committees, including our Executive Committee, as well as a specific board-level Investment Stewardship Committee, which is chaired by an independent non-executive director.

Our governance structure continued to evolve during 2023 and while the executive governance structure was largely maintained, the approach to overseeing ESG was further developed. In 2022 we established the Responsible Investment Oversight Committee to oversee the delivery of public markets responsible investment portfolios' characteristics and this year we added an equivalent group for our Real Assets portfolios, the Responsible Investment Oversight Matters Committee.

We also established the Responsible Investment Classification Group, with the remit of recommending ESG fund regulatory classification to the Product Governance Committee. This group has subsumed the responsibilities of the former Net Zero Working Group to review and confirm that products designed to be labelled Net Zero adhere to LGIM's Net Zero Framework. The implementation and oversight of our responsible investment strategy continues to be overseen and supervised by the highest level of governance bodies at the executive and board level.

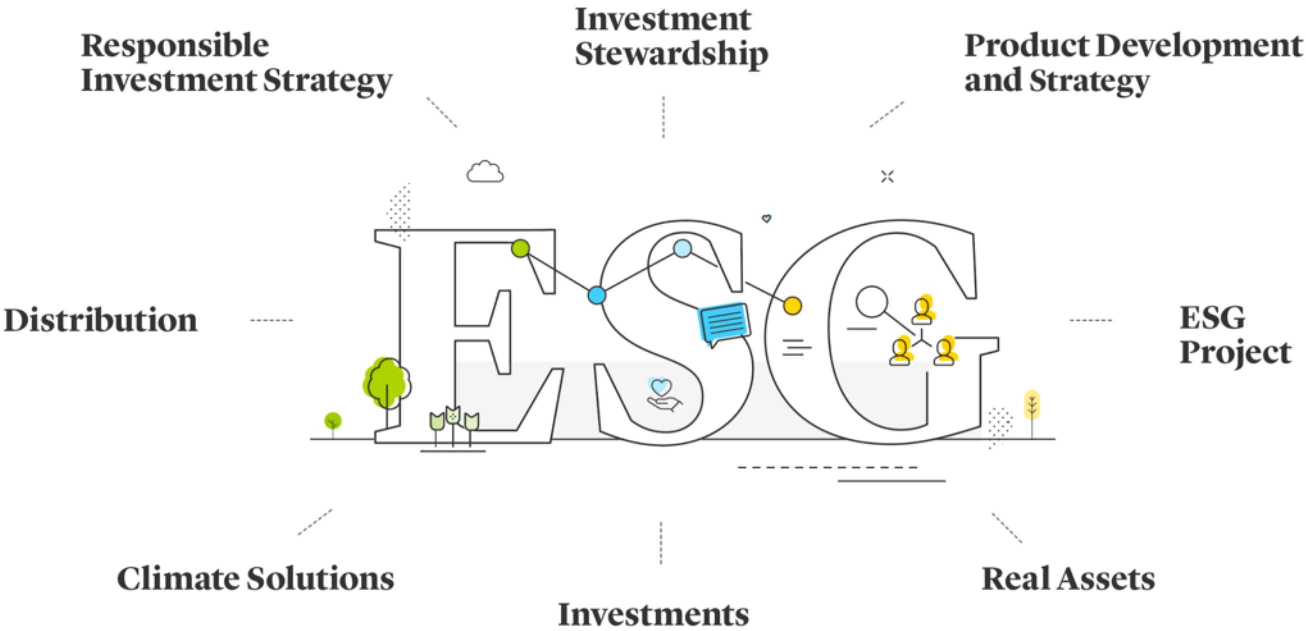


As at 31 December 2023.

A broad range of ESG capabilities

There are c.100 LGIM employees with roles dedicated exclusively to ESG activity. This covers leadership positions to implement our responsible investing strategy across our Investment Stewardship, Investments, Distribution, Product, and ESG IT and Change teams.

At LGIM, there are c.100 roles across several teams dedicated exclusively to ESG activity



Developing our Investment Stewardship team

We continue to grow our Investment Stewardship team, and as at the end of 2023 it comprised 26 professionals with an average of 12.5 years' experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment and public policy. The team covers many geographies, including both emerging and developed markets. The team includes sector specialists and experts on ESG themes, such as nature, diversity and climate change. In line with LGIM's strategy to internationalise, the team has a global remit, with members in the UK, Japan, the US and Singapore. ***Our diverse team members represent 11 nationalities – from northern and central America, to Europe, the Middle East and East Asia – and speak 15 different languages.*** In our view, this makes the team well positioned to keep abreast of the latest policy, regulatory and industry developments globally and in local markets. The Head of Investment Stewardship and Responsible Investment Integration, Michael Marks, reports directly to LGIM's CEO, Michelle Scrimgeour, and is a member of LGIM's Executive Committee.

Expanding our business in Asia

As part of our Internationalise strategy pillar, LGIM appointed our first Head of Asia Investment Stewardship (ex. Japan) in Singapore at the start of 2023. Our newly opened Singapore office includes our Asia Pacific portfolio management hub, ESG and Sustainability hub, and will also harbour our regional Head of Asia's Wholesale client business. As part of our expansion strategy, we are currently looking to add further Investment Stewardship staff in our Singapore location.

Boosting our ESG training

In line with our overall approach to ESG integration, we seek to ensure that responsible investing forms part of the culture across LGIM and is reflected in everyday business conduct.

The ESG Academy

The LGIM ESG Academy works in partnership with the United Nations (UN) Principles for Responsible Investment (PRI). It aims to provide education to all employees on how their job relates to and interacts with our purpose and activities as a responsible investor.

Located on LGIM's internal personal-development platform, the academy consists of a wide range of learning modules and training videos delivered by internal and external subject-matter experts. For those interested in further exploring such themes, the PRI Academy and the Chartered Financial Analyst (CFA) Institute's ESG Investing courses form part of LGIM's professional development programmes.

At the same time, our Investment Stewardship team forms a core part of our apprentice and graduate programmes, helping those new to LGIM to learn about our approach first-hand. With the continuing growth of responsible investment across LGIM business, the decision has been taken to establish a separate ESG-related graduate programme. Through a structure of three rotations spanning eight months each, graduates will develop a holistic overview of the key components of ESG. An expansion of our graduate programme to Singapore is also being considered.

Incentivising high-quality engagement

Across LGIM, the core metrics that inform employees' annual compensation reflect our culture and other ESG factors, such as diversity and inclusion. ESG criteria are also embedded in the objectives of our investment teams. These cover contributions to our investment process – for example, within the GREGs – so form a particularly significant weighting within research functions.

While we measure our engagement with companies and other market participants and seek to quantify outcomes, individuals are not remunerated based on their total number of engagements. We prefer to focus on the quality of engagement, consistent messaging of our key engagement topics, measurement of progress (or lack thereof) against any key metrics and improving the general level of communication.

Pushing for inclusion

LGIM strives to be an inclusive firm, in which diversity is embedded and everyone feels connected. To build greater inward inclusion, we have established a diversity and inclusion (D&I) council at LGIM and are committed to the Diversity Project. This includes the launch of the Pathway programme, which focuses on developing the female portfolio managers of the future.

We are also a participant in the 10,000 BlackInterns initiative. In January 2023, LGIM was among 25 organisations acknowledged by Investing in Ethnicity for its leadership and commitment to improving racial diversity.

In early 2023, Michael Marks, our Head of Investment Stewardship and Responsible Investment Integration, was appointed deputy chair of the Investment20/20 committee, an organisation focused on creating a more diverse and inclusive investment industry.

How we engage

- Our Investment Stewardship team takes a structured approach to engagement with companies and policymakers
- At the start of 2023, we finalised our six ‘super themes’ for engagement: Climate, Nature, People, Health, Governance and Digitisation

Investment Stewardship: key engagement themes

At the end of 2022, we reviewed the Investment Stewardship team’s themes for engagement with companies and policymakers, which had been in place for five years. As part of this process, we considered the changing sustainability backdrop and evolving client areas of focus.

Following the review, at the start of 2023, we finalised the following six long-term ‘super themes’, each of which has its own underlying ‘sub-themes’:

- **Climate:** Keeping 1.5°C alive
- **Nature:** Supporting a world that lives in harmony with nature, recognising the economic value of natural capital
- **People:** Improving human capital across the corporate value chain
- **Health:** Safeguarding global health to limit negative consequences for the global economy
- **Governance:** Strengthening accountability to deliver stakeholder value
- **Digitisation:** Establishing minimum standards for how companies manage digitisation-related risks

We believe these themes are financially material to our clients’ portfolios, often pose systemic risks and opportunities, and cover areas where we believe LGIM as an asset manager can influence change.

How our Investment Stewardship team engages

1. Select stakeholders

Using our stewardship themes, we identify relevant stakeholders across the policymaking, corporate and broader market ecosystem, where we have influence. We also set the overall thematic objectives we seek to achieve.

a. Consider the policy and regulatory backdrop

We determine where we can use our influence effectively across the policymaking and regulatory environment to create well-functioning markets. Our engagement with policymakers is vital to our aim of raising global standards across the markets in which our clients invest, because many sustainability challenges require systemic policy reform.

b. Select companies

We select companies to target for engagement, taking into account factors including:

- Data that identifies companies as underperforming against our minimum expectations
- LGIM clients’ exposure to relevant companies and sectors
- The ‘engage-ability’ of companies – how likely our influence is to result in changes at the company
- How influential a company is within its country, industry and supply chains – we may also seek engagements with companies considered leaders in sustainability issues to help develop our understanding of these topics in certain industries or markets
- The relevant geographic coverage for our engagement on a particular theme

2. Set objectives

We set out milestones to be achieved and the timeframes in which we expect this to happen, in line with our public policy documents – including the potential consequences of not meeting our expectations.

3. Structure corporate engagement and escalation steps

We determine how we might escalate the issue if progress is not made. In doing so, we decide tools and angles of accountability. These include the board, by targeting votes to elect directors; specific resolutions on reports or policies; and supporting or co-filing shareholder resolutions.

Our structured approach to engagement provides us with various methods for escalation:

- **Transparency:** our LGIM ESG scores and Climate Impact Pledge ratings are publicly available. We also publish policies and blog updates on our views, approach and analysis
- **Direct engagement:** this provides a powerful engine to incentivise and help companies to govern better and manage risks and opportunities, with the aim of impacting our clients' investments positively over the long term
- **Collaborative engagement:** working with peers and industry bodies enables us to strengthen and amplify our voice and pool resources
- **Voting:** as an active and engaged investor, we take seriously our responsibility to exercise voting rights on behalf of our clients – we publish our voting decisions on our website, including the rationale for dissenting votes
- **Capital allocation:** where permitted by their investment mandate, certain funds may exclude or tilt away from companies that do not meet our minimum expectations. In some portfolios, we specifically allocate capital towards companies where we are undertaking in-depth engagement
- **Public pressure:** we 'name and shame' persistent laggards that fail to improve following targeted engagement; we also publicly celebrate successes
- **Shareholder resolutions:** filing a resolution can compel a company to respond to, discuss and resolve issues with investors

4. Commence engagement

We commence engagement and, over the course of typically 18 to 36 months, build the relationship and assess progress, incorporating escalation steps as appropriate.

5. Conclude engagement

Across our corporate and policy engagements, we assess the progress that has been made towards our expectations. We consider the extent to which the engagement has been wholly or partially 'successful' and reassess how to continue – potentially starting another engagement cycle.

For more detail, please see our policy.

We are currently refining our engagement framework, incorporating our prioritised campaigns, in conjunction with our updated themes. We expect to publish an updated Engagement Policy document in 2024.

CASE STUDY: Early-stage engagement with SK hynix†[20]

Identify

SK hynix (ESG score: 54; +11) has a dominant market share in the memory chip industry; as such, it is a prime candidate for engagement to drive change in the sector. SK hynix broadly supports climate action and GHG emissions disclosure, and has shown high-level cooperation for transition of energy mix away from fossil fuels. However, it has also supported continued use of unabated liquified natural gas (LNG) in the energy mix, and appears to have limited engagement with climate change policy in South Korea. Therefore, in our initial engagement, we focused on Scope 1 emissions, supplier and physical risk, as well as the extent and detail of the company's disclosures.

Engage and escalate

We began our engagement in late 2023. LGIM's Head of Asia Investment Stewardship (ex. Japan) led this activity, alongside Active Credit analysts as part of our GREGs workstream, and was conducted with SK hynix's ESG specialists with the aim of next advancing the conversation with the C-suite.

Our initial conversation revolved around SK hynix's ESG commitments and actions, any key hurdles it encountered in its renewable energy transition, and challenges in setting methodology for computing Scope 3 emissions.

We shared our evaluation of SK hynix's ESG performance (i.e. via our ESG and Climate Impact Pledge scores) to aid self-assessment and improvements, through sharing the methodologies and data points that underlie these calculations. We also pushed for further disclosures on physical risks and supply chains, as well as challenging the company's path to reach its Scope 1 and 2 emission reduction goals.

Outcome

Engagement with the SK hynix team has so far been positive. Following our initial conversation, the company held an ESG seminar online to discuss the details of its recently published 2023 TCFD report.

SK hynix has been receptive to our input in the form of our assessment scores. The company confirmed its intention to increase the depth of analysis and disclosure in physical and supplier risks, as well as taking a leadership role in climate advocacy, starting with developing a calculation methodology for Scope 3 emissions. We expect more detailed disclosures from the company in 2024.

[20] 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 information does not constitute a recommendation to buy or sell any security.

Policy advocacy and collaboration

- LGIM's global policy dialogue aims to create a regulatory, policy and legislative environment that raises markets standards on key sustainability topics
- We focused on Nature and Health in our policy work during 2023

As a long-term investor, we have a responsibility to ensure global markets operate efficiently to address systemic risks, foster sustainable and resilient economic growth, and aim to safeguard the value of our clients' assets. One way we seek to do this is by engaging in global policy dialogue, providing practical advice to policymakers and regulators on key issues.

What does our policy engagement aim to do?

Integral to our 'universal owner' approach, as a major long-term investor with global coverage, LGIM engages with policymakers at an early stage to help them identify and address emerging risks, so they can take transformative steps to tackle systemic market issues and accelerate progress against complex global sustainability challenges.

Our policy dialogue aims to produce tangible change by contributing to the design, implementation and monitoring of effective and coherent policies, including a regulatory and legislative system that covers society, the environment and the economy.

With whom do we engage?

We engage with a broad range of stakeholders across the entire policy ecosystem, as summarised below. We believe understanding the policy and regulatory context and the relationships between these organisations is a crucial foundation of effective engagement.

National	Multilateral	Non-government
Regulators (e.g. UK Financial Conduct Authority (FCA), US Securities and Exchange Commission (SEC), Japan Financial Services Agency (FSA), Germany Bundesanstalt Für Finanzdienstleistungsaufsicht (BaFin)) **Parliament** **Central banks** **Government departments/ministries** (e.g. UK Department for International Development, His Majesty's Treasury) **Government working groups/initiatives**	**European Commission** **United Nations** (e.g. UN Framework Convention on Climate Change (UNFCCC), the Conference of the Parties (COP) and Convention on Biological Diversity (CBD), the Principles for Responsible Investment (PRI)) **International financial institutions** (e.g. the World Bank) **Multilateral organisations** (e.g. World Health Organization (WHO), International Financial Reporting Standards (IFRS), Organisation for Economic Development (OECD), International Organisation of Securities Commissions (IOSCO))	**Academia** **Civil society** **Non-governmental organisations** (e.g. Environmental Defense Fund (EDF)) **Industry associations** (e.g. Glasgow Financial Alliance for Net Zero (GFANZ), The Investment Association (IA), Asian Corporate Governance Association (ACGA))

How do we engage with policymakers?

No two engagements are the same. We use a combination of the following methods, depending on the region and market, the political environment, institutional organisation and capacity, the topic under discussion, and the stakeholders involved.

Formal engagement

LGIM formally engages with policymakers proactively in technical working groups, advisory committees and roundtables; we also respond to consultations. We engage with the international community at negotiations and through multilateral organisations and we participate in related groups and associations.

Thought leadership

We produce in-depth research papers and blogs identifying key systemic issues, both independently and through strategic partnerships with external experts. We do this to communicate our vision and concerns, including the practical regulatory and policy steps that we believe can be taken to address them.

Early engagement

We engage policymakers at the early stage of policy development, highlighting key market failures, as well as systemic risks and ways to address them.

Collaboration

We work both independently and in collaboration with peers, key partners and broader stakeholders.

Strategic activity

We strategically target the appropriate policy landscape, using different methods that depend on the issue and desired impact. This can range from engaging globally with international institutions and the multilateral system, central governments and domestic and international regulators, to the governments overseeing them and to supranational institutions.

Non-linear, long-term initiatives

We acknowledge the complex nature of policy, regulatory and legislative decision-making, the large numbers of cross-sector stakeholders, and the system's capacity to change. As a result, many engagements can evolve significantly over time, as the organisations, political leadership and agenda may change.

Our 2023 policy dialogue spanned our strategically important themes and involved over 230 meetings with more than a hundred organisations and working groups, covering multilateral policy discussions in markets including the UK, the US, Japan and Europe.

We highlight below some of our activity across environmental, social and governance topics, including case studies that illustrate two key areas of policy engagement in 2023; nature and climate.

Nature

Identify

Nature is fundamental to the long-term health of our economic and social system. Ecosystems are being degraded at a faster rate than ever before, with the loss of vital ecosystem services[21] (on which society and businesses depend) estimated to reduce annual gross domestic product (GDP) by $2.7 trillion by 2030.[22] These negative trends ultimately undermine nature's ability to provide value to our economies and society and present us with a systemic risk that we must address.

Engagement on the integration and disclosure of nature-related risks, impacts and dependencies is a fundamental aspect of our approach to nature. We are supportive of – and a 'forum member' of – the Taskforce for Nature-related Financial Disclosures (TNFD).

Engage

We view the TNFD as instrumental in supporting the assessment and disclosure of standardised, consistent, location-specific and reliable reporting of nature-related risks and opportunities. TNFD aims to address the complex and pressing need to incorporate nature into financial and business decision-making, and to support a shift in global financial flows away from nature-negative and toward nature-positive outcomes by increasing transparency.

Collaboration on the creation of the TNFD framework has involved input from academia, civil society, governments and over 1,000 market participants, including LGIM.

As referenced in our 2022 Active Ownership report, at COP15 in Montreal the Global Biodiversity Framework (GBF) was finally agreed. The agreement aims to accelerate action to address nature change and introduced key 2030 and 2050 commitments. Given its importance for nature, three members of our Investment Stewardship team participated in this conference.[23] Within the GBF, Target 15 is a transformative element: it commits signatories to implementing legal, policy and regulatory measures to strengthen how all businesses monitor, manage and disclose nature-related risk, impacts and dependencies.

Parties at COP15 could not agree on making this a mandatory target. However, LGIM – and several others within the Business for Nature "Make it Mandatory" campaign[24] – believe this would be key to changing our relationship with nature and meeting the GBF commitments. Implementation of mandatory regulation must therefore be carried out at a national level.

Japan's government is one of the parties that recognises this. To support listed companies in Japan in gaining practical insights in preparation of the release of the TNFD framework, the Ministry of Environment organised a workshop on disclosure of financial information related to nature, in which LGIM participated.

[21] Ecosystems produce flows of benefits to people and the economy, known as ecosystem services. For example, the pollination of crops, or the provision of freshwater from a river. They are the contributions of ecosystems to the benefits that are used in economic and other human activity.
[22] The World Bank, Protecting Nature Could Avert Global Economic Losses of $2.7 Trillion Per Year, July 2021.
[23] LGIM 2022 Active Ownership report.
[24] Business for Nature, Make it Mandatory campaign.

During the first seminar, we explained our expectations of companies regarding nature and emphasised why we believe it is financially material, highlighting business risks and opportunities, the role of nature in achieving net zero and increasing global regulation. We ended the session by sharing four recommendations for Japanese companies:

1. Leverage previous learnings from adoption of TCFD for new TNFD adoption
2. Gain board and executive management support to accelerate action on addressing nature-related issues and integrating with climate commitments
3. Form taskforces among departments to create collaborative efforts to address nature-related issues and opportunities
4. Engage in positive lobbying directly or indirectly with industry associations

Outcome

September 2023 brought the much-anticipated release of the final version of the TNFD framework, which has been formally endorsed by the G7 and G20. Given the rising expectations of governments, institutional investors and wider stakeholders, we are supportive of TNFD, which will be integrated eventually through the International Financial Reporting Standards' International Sustainability Standards Board (IFRS ISSB). We believe this will become a market-leading framework and standard for nature-related disclosures and we will continue to push for regulators to mandate reporting in their respective markets.

Nature: Circular economy

Identify

A circular economy is a way of using resources that minimises waste, pollution and environmental impacts and aims to decouple economic activity from the consumption of finite resources. Transitioning to a circular economy entails rethinking how products are designed, produced and discarded, with a view to optimising resource loops across the value chain. This is a key area of our work on addressing the direct drivers of nature change, particularly on natural resource use and pollution. While the circular economy covers a broad range of topics, plastic pollution is a matter of global concern due to the increasing amount of plastic waste, which is harming eco-systems.

Engage

We continue to be active members of the collaboration on microfibres, organised by First Sentier Investors, which recently won the Environmental Finance ESG engagement initiative of the year award, EMEA.[25] Through this collaboration, alongside 30 of our peers, we have put pressure on governments around the world to introduce legislation for compulsory microfibre filters on new washing machines. While France leads the way,[26] the movement appears to be gaining traction in California.[27] Disappointingly, the Microplastic Filters (Washing

[25] Environmental Finance, ESG engagement initiative of the year, EMEA: First Sentier Investors, 2023.
[26] PlanetCare, Regulating Microfiber Pollution: What Are Countries Doing to Fight Microfiber Emissions, March 2022.
[27] California State Legislature, California Assembly Bill 1628, September 2023.

Machines) Bill making its way through the UK parliamentary system appears to have been delayed, against a backdrop of policy developments on water and eco design standards.

We place a high value on collaboration, which enables us, together with our peers, to strengthen our voice on important issues to encourage a robust regulatory response. The different paces at which countries are adopting legislation in this area, and the twists and turns that may happen along the way, illustrate the particular nature of policy engagement, where progress may be non-linear, and may develop over extended timeframes, with inputs from numerous stakeholders and angles.

We are also part of another collaborative effort co-ordinated by the VBDO (Dutch Association of Investors for Sustainable Development), calling for accelerated corporate action on plastics and emphasising the urgent need to reduce plastic waste. In November 2023, we continued our strong support of the Global Plastics Treaty (GPT) ahead of the third round of negotiations. The VBDO wrote to the High Ambition Coalition governments[28] privately to flag the need to act on growing volumes of plastic produced at source, highlighting the need for upstream measures addressing plastic production. At the same time, we also co-signed an open letter, organised by CDP,[29] to call for mandatory corporate disclosure of plastics data and for that to be included in the GPT.

Outcome

By collaborating with our international peers, being public about our commitments, and showing a collective expectation for action amongst the companies in which we invest, we aim to encourage the development of a more robust regulatory framework and to ultimately increase the pressure on companies failing to commit to reducing single-use plastics, including eliminating use of the hazardous chemicals to make these plastics.

There are strong links between the circular economy and our sub-theme on water – you can read about our engagement with water utilities companies in the GREGs work on water utility companies section.

Climate

Identify

The Transition Plan Taskforce (TPT) was launched by HM Treasury with the aim to develop a 'gold standard' framework for private sector climate transition plans. Despite numerous net-zero commitments in recent years, we still lack the information needed to assess credible progress towards these at scale. Filling this gap, the TPT's disclosure framework and supporting materials will enable consistent and comparable reporting of transition plans and drive tangible progress towards net-zero commitments.

For LGIM, this is critical to delivering on our own commitment to support clients transitioning their portfolios to net zero – and to making more informed decisions about how we allocate capital on their behalf.

[28] VBDO, Investors call for global, binding regulations on plastic, November 2023.
[29] CDP was established as the 'Carbon Disclosure Project' in 2000. Its name was shortened in 2013 to reflect the broadening scope of its call for environmental disclosures. CDP, A call for mandatory disclosure of plastic data for a sustainable future, November 2023.

Engage

The framework, published in November 2023, was developed in consultation with a wide group of stakeholders including business, regulators, investors and academia. We have strongly supported its development with our CEO, Michelle Scrimgeour, sitting on the Steering Committee, and LGIM representation on the Delivery Group and the Asset Manager and Asset Owner sector working groups.[30] Michael Marks, Head of Investment Stewardship and Responsible Investment Integration, also spoke at the launch event hosted by the London Stock Exchange.

Outcome

The TPT framework and supporting materials have been a commendable step forward in driving consistent and comparable reporting of company transition plans, both in the UK and internationally, through integration with the ISSB's global baseline. We will continue our work with the TPT and will be advocating for widespread market adoption of the framework, as well as the supporting policy and regulatory environment.

Japan: climate and energy policy

We are ramping up our climate policy engagement in Japan, where preparations for the next round of important policy deliberations that determine the nation's mid-term climate and energy policies are underway. The government is also advancing its $1 trillion Green Transformation (GX) initiative to direct investments into decarbonisation efforts, including the first issuance of the GX Economy Transition Bonds in February 2024.[31]

We continue to advocate for Paris-aligned policies that we believe provide the right backdrop to enable Japanese businesses, once world leaders in low-carbon technologies, to remain competitive. Our blog on climate policy engagement in Japan explores this further by highlighting the role that corporates play in shaping the policy environment and raising potential questions on elements of the government's current strategy.

As part of our engagement, our Head of Japan Investment Stewardship has been working on the ground, notably with the Japan Climate Leaders' Partnership (JCLP). This has included meeting with members of Japan's parliament, where we shared our views as a global investor on the market's need for a greater supply of renewables. Following these meetings, we have welcomed the government's intentions[32] to make regulatory changes to allow the development of large-scale offshore wind power beyond territorial waters and in the exclusive economic zone (EEZ). We will continue to advocate for a higher level of renewables in the energy mix alongside other measures such as a robust carbon pricing mechanism.

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[30] Transition Plan Taskforce, People, as at February 2024.

[31] The Basic Policy for the Realization of GX, initially established in February 2023, underwent an amendment in July 2023 to become the GX Promotion Strategy (link in Japanese).The GX Promotion Act (link in Japanese) was enacted to execute the GX Promotion Strategy, introducing measures such as carbon pricing and the issuance of GX Economy Transition Bonds. Also part of the GX initiative is the GX Decarbonization Electricity Act (link in Japanese) which encompasses aspects like promoting renewable energy and extending the life span of nuclear power plants.

[32] Reuters, Japan to expand offshore wind to exclusive economic zone, March 2024.

We also took the opportunity to speak at a PRI in Person side event on accelerating the transition through climate policy engagement and disclosures. Joining InfluenceMap and representatives from the Japan Financial Services Agency (FSA), OECD, UK TPT, and JCLP, we shared our expectations of corporations on climate policy engagement.

Through our collaborations with stakeholders and engagements with policymakers, we aim to advocate for a robust climate policy backdrop that supports the delivery of a transition to a net-zero economy. We will continue our involvements with these collaborations, bringing our weight of assets that we believe helps to strengthen our combined voice.

Governance: corporate transparency

Identify

Having begun our engagement campaign on diversity in selected emerging markets in 2022, we identified an opportunity to engage with stock exchanges, which play an important role in driving improvements in market standards, from setting listing rules to strengthening disclosure requirements. We hope to leverage their position through engagement on a number of our global stewardship themes. Additionally, we aim to raise awareness of LGIM's work on these material topics, including diversity, governance, climate, nature and corporate transparency. We have taken the following factors into consideration when identifying markets for our stock exchange engagement campaign:

- Markets where progress is lagging – referencing UN stock exchange analysis and our transparency theme work
- Markets, albeit having promoted global reporting framework alignment, still needing to improve the quality of disclosure
- Markets where LGIM holds investments on behalf of our clients, and where we have established relationships

The initial stock exchanges we are targeting for engagement include:

- Singapore Stock Exchange
- Stock Exchange of Thailand
- Stock Exchange of Hong Kong
- Tokyo Stock Exchange
- Bursa Malaysia

Engage

For themes and engagement objectives, we have prioritised those where we believe stock exchanges have a fundamental role in driving the positive changes we seek. Within these, we have selected what we consider to be the most relevant topics and refine our market-specific objective and minimum expectations. We will review the progress of this early-stage campaign and adjust as appropriate to reflect progress and the results of our engagements.

Diversity
Improve female representation at the board and management levels.

Climate
Keep 1.5C alive and reaching Net Zero.

Transparency

- Influence stock exchanges in their disclose frameworks in reflecting the ask of the themes within our team and our vote policy requirement
- Promote consistency of disclosure & reporting requirements to ensure companies disclose consistent and comparable, material ESG data

Board composition
Promote majority independent boards and board effectiveness.

Nature
Protect and restore nature.

As at 31 December 2023.

We believe in collaboration and regularly work with peers, industry groups, NGOs, academia and civil society. We look forward to continuing our engagement with the broad range of third parties we work alongside. By joining forces with collaborative organisations, we aim to broaden our reach, and strengthen our voice.

LGIM is a member or supporter of multiple associations and initiatives working on sustainability themes, including:

- 30% Club Investor Chapters – *UK, Japan, France, Germany*
- Access to Nutrition Initiative (ATNI)
- Aldersgate Group
- Access to Medicine Foundation (ATMF)
- Asian Corporate Governance Association (ACGA)
- Asia Investor Group of Climate Change (AIGCC)
- Asia Research & Engagement (ARE)
- Australasian Centre for Corporate Responsibility (ACCR)
- Better Buildings Partnership (BBP)
- British Council for Offices ESG committee
- Business for Nature
- China Climate Engagement Initiative (CCEI)
- Climate Action 100+
- Corporate Governance Forum
- Council of Institutional Investors (CII)
- Environmental Defence Fund (EDF)
- European Association for Investors in Non-Listed Real Estate Vehicles (INREV)
- FAIRR Initiative
- Financial Sector Deforestation Action (FSDA)
- The Financing a Just Transition Alliance
- GC100+Investor Group
- Glasgow Financial Alliance for Net Zero (GFANZ)
- Global Real Estate Sustainability Benchmark (GRESB)
- Green Finance Institute – Coalition for the Energy Efficiency of Buildings
- Institute for Public Policy Research (IPPR)
- Institutional Investors Group on Climate Change (IIGCC)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- The Investment Association
- The Investor Forum
- The Investors Against Slavery and Trafficking Asia Pacific (IAST APAC)
- Investor Policy Dialogue on Deforestation (IPDD)
- ISSB Investor Advisory Group
- Japan Climate Leaders’ Partnership (JCLP)
- Japan Stewardship Initiative (JSI)
- Japan TCFD Consortium
- Midwest Investors Diversity Initiative (MIDI)
- Nature Action 100
- Net Zero Asset Managers Initiative (NZAM)
- Partnership for Carbon Accounting Financials (PCAF)
- ShareAction
- The Shareholder Commons
- Sustainability Reporting Standard for Social Housing
- Taskforce on Nature-related Financial Disclosures (TNFD)
- Transition Pathway Initiative (TPI)
- UK Green Building Council (UKGBC)
- United Nations Principles for Responsible Investment (UN PRI)

Stakeholder knowledge-sharing

- Our in-person stakeholder event encouraged lively debate on important climate topics and our voting stance on these
- Our annual non-executive director (NED) event brought together over 100 directors from across the globe

UK stakeholder event: climate voting to 2025 and beyond

The Investment Stewardship team reviews its policies regularly and takes into account client and stakeholder feedback to ensure our engagement topics and voting stances remain aligned and consistent.

In June we welcomed 30 key stakeholders, including clients, representatives from regulators and climate experts, to our London offices for a lively roundtable debate on three key climate voting topics:

- Management ‘say-on-climate’ votes
- Climate-related shareholder resolutions
- The future of new fossil fuels

We consider that these three areas are critical to LGIM as we look to assess the alignment of our policies with our clients’ and stakeholders’ views, and to further develop our policies so that they can remain suitably ambitious and market-leading into the future.

In these discussions, led by subject matter experts within the Investment Stewardship team, we encouraged an open exchange of views and found general support for the approach taken by the team on our stewardship stance.

Our annual NED event: speaking directly to the directors of investee companies

We held our annual NED event in November. It was attended by more than 100 non-executive directors and governance executives from companies headquartered in North and South America, Europe and the UK, as well as Asia and Australia. We covered a range of topics including:

- Human rights
- Climate and deforestation
- Diversity and the living wage
- Executive pay

Members of our Investment Stewardship team ran the sessions during the event, at which our CEO, Michelle Scrimgeour, also spoke.

In the rest of this document, we set out our views 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 information does not constitute a recommendation to buy or sell any security. We will flag such narrative with this icon: †

We have also included these companies' most recent LGIM ESG scores (as at September 2023), where available, and any change to their LGIM ESG score compared with the previous year. LGIM ESG scores are rounded up, while the disclosed change in score reflects the underlying data. More information on the methodology underpinning our ESG scores can be found here.

Updating our LGIM ESG score

2023 was a pivotal year for the LGIM ESG score, which marked its five-year anniversary. Over this time, we have witnessed a surge in the availability and depth of ESG data for global corporations. With ever-improving quality and reliability of data, the LGIM ESG score has been expanded since inception to better reflect our expectations across market-wide ESG issues that can address risks and affect long-term returns.

The key changes this year included the addition of four new indicators – taking the total number of data points we assess companies on to 34. Additionally, we restructured the Environmental pillar to distinguish between key thematic issues: Carbon Emissions, Climate Transition and Nature. The new structure exemplifies our views on the most material evolving themes in the environmental space, and allows us to make any future amendments without substantial changes to the structure.

The addition of the Deforestation and Water Management metrics under the Nature theme demonstrate our increased focus on natural capital management as part of our engagement strategies. Both of these data points are provided by Sustainalytics and capture the strength of a company's nature programmes by providing an assessment of its initiatives to mitigate related risks in its own operations and across its supply chain.

Data on value chain emissions (Scope 3) is provided by ISS. Scope 3 GHG emissions represent the indirect emissions associated with a company's activities, and can be seen as the 'missing piece' of the total level of emissions companies are accountable for and, consequently, assessed on.

Lastly, Lobbying Activities: we note that companies have a legitimate business interest in undertaking political engagement to shape the laws and policies that affect them. However, this may present unforeseen risks for their investors. By adding this metric under our Governance pillar, we encourage companies to provide complete disclosure on their memberships with industry associations, fees paid and how aligned their objectives are to the company's climate commitments.

E: Climate

- Under our Climate Impact Pledge, some 300[33] companies out of a universe of 5,000+ were identified by our quantitative assessment for voting sanctions due to not meeting our minimum standards
- Of the 100+ 'dial-movers' we engage with directly under the Pledge, an additional 43 companies were identified for vote sanctions. Of those 'dial-movers', two companies were excluded from select funds and one company was reinstated

Our Climate Impact Pledge

Since 2016, LGIM has encouraged companies to tackle climate change and transition to a low-carbon economy through our Climate Impact Pledge engagement programme.

From an initial focus on just 80 companies in a single fund, the scope of our analysis has since widened considerably, alongside strengthened expectations of companies.

We now assess over 5,000 companies across 20 'climate-critical' sectors. These sectors are responsible for the vast majority of global greenhouse gas (GHG) emissions from listed companies and from LGIM corporate holdings. They are also vital to the global climate transition, as well as being the most carbon-intensive sectors in LGIM portfolios.

This represents a significant expansion of the Climate Impact Pledge from 2021/22. As a result of the Pledge, we hold more companies accountable than ever before through voting and investment sanctions. We can apply exclusions to almost £176.4 billion of assets.[34]

In 2022/23, we almost doubled (to 105) the number of companies we engage with directly under the Pledge; these are companies we believe can be 'dial-movers' on climate action in their sectors, given their size and potential to galvanise action.

The Climate Impact Pledge engagement approach is two-fold; each stream (quantitative and qualitative) has different inputs, approaches, escalations and potential sanctions.

Quantitative engagement

Written engagement based on a quantitative assessment. Drawing on 70+ data points, leveraging LGIM's proprietary climate modelling as well as third-party data, our company climate ratings are focused on five key pillars in alignment with TCFD recommendations. We publish these ratings in 'traffic light' form on our dedicated microsite. This enables companies to understand our expectations and identify areas for improvement.

[33] This represents an increase compared with 2022 due to the expansion of targeted companies.
[34] As at 31 December 2023. LGIM's total assets under management (AUM) are £1.2 trillion as at 31 December 2023. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.

Breaching minimum standards can trigger a vote sanction, usually a vote against the board chair, at the company's next annual shareholder meeting (AGM). For more details on how this quantitative engagement works, please refer to pages six to eight of our Climate Impact Pledge 2023 Report; our minimum standards can be found on page 24.

Qualitative engagement

Direct engagement with a sub-group of 100+ 'dial-mover' companies. Our Investment Stewardship team analyses each company in depth using public information, based on the framework set out in our net-zero sector guides, and then engages in detail with these companies to understand to what extent their strategy is aligned with a transition to net zero and to encourage further action. We publish our sector guides on our website, which helps companies understand the questions we are likely to ask them. These guides outline our expectations and 'red lines' for each sector.

If a company fails to meet our 'red lines' we may apply a vote sanction, usually a vote against the chair, at its next AGM. When change is insufficient over time and engagement has not been fruitful, we may also divest from that company in applicable funds.[35] Divestment is itself part of the engagement effort because it is used to signal dissatisfaction with the pace of change while being accompanied by further engagement activity or attempts. For more information about our qualitative engagement please refer to pages nine and ten of our Climate Impact Pledge 2023 report; sector-specific 'red lines' can be found on page 25.

Increasing our engagement outreach: our largest written campaign to date

We have been writing to companies covered within the quantitative stream of our Climate Impact Pledge and have communicated with over 1,500 so far. This is the largest outreach we have undertaken to date under any engagement topic. Our aim is to communicate with all companies covered by the Pledge.[36]

In writing to companies, we:

- Outline our commitment to helping companies transition to a low-carbon world
- Introduce our expanded Climate Impact Pledge
- Point to our ratings website, where we publish our assessments of companies using a traffic light system
- Call companies to action to improve indicators flagged as red in our tool, which signify areas for improvement, as well as improve performance against our minimum standards
- Communicate potential time-bound voting implications where minimum climate standards are not met

In 2023, we sent a specific letter to technology and telecommunications (T&T) sector companies that were newly added to the Pledge coverage, with the purpose of understanding why this sector rated as a laggard in meeting our minimum expectations. We asked companies for information about materiality, including particular challenges they face regarding the climate transition and reporting. We were interested to know if any sector-specific issues were contributing to the relatively poor assessment result of these sectors, compared to our metrics. Insights we received included:

- Most small-cap companies noted reporting resource constraints
- Some sectors in this industry are at the early stages of their journey to net zero
- Relatively young companies had yet to catch up with reporting expectations
- Climate change is considered a material issue

[35] Companies are divested from selected funds, including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.
[36] Subject to contact availability.

In 2024, we will continue to engage with companies through the Climate Impact Pledge to help them transition to net zero.

Evolving our minimum standards in the quantitative approach

In the current 2023/24 engagement cycle, we are introducing new baseline expectations for the mining, power generation utilities, and oil & gas sectors (in addition to our sector-specific minimum standards). Companies in these sectors will be identified for vote sanctions if they fail to meet the following expectations:

- Electric utilities, multi-utilities and mining sector companies: No capacity expansion of thermal coal mining and/or power generation
- Oil & gas sector companies[37]: disclose methane emissions

Vote sanctions will be applied in the 2024 AGM season, targeting the chair of the board.

Company outcomes

During the 2023 voting season, we identified 299 companies out of the larger universe of +5,000 as subject to voting sanctions for not meeting our minimum, quantitatively assessed, climate-change standards.[38] The expansion of coverage has led to the proportion of companies not meeting our threshold minimum standards being higher than in previous years.[39] Our 'dial-mover' engagements led to an additional 43 vote sanctions.

In 2023, successful engagement led us to remove one previously divested company (China Mengniu Dairy† [ESG score: 40; +1]) from our divestment list for applicable funds and two companies were added[40] (Air China† [ESG score: 27; +11] and COSCO Shipping Holdings† [ESG score: 37; +23]) for failing to satisfactorily meet our expectations over a reasonable period.

For more details on our direct engagements with companies across sectors, including areas of progress and remaining challenges, please refer to page 15 in our 2023 Climate Impact Pledge Report.

In October 2023 we launched the eighth cycle of company meetings, continuing to target influential companies. We have had a response rate of ~80%[41] so far to our initial outreach for engagement. Our engagement cycle runs from October to March, and the results will be published in our 2024 Climate Impact Pledge Report in June.

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[37] Oil & gas refining and marketing sub-industry not applicable as methane emissions are less material.
[38] Voting sanctions apply to companies not meeting minimum standards in 20 pre-determined sectors. Voting sanctions are applied across LGIM's equity holdings.
[39] We allowed relatively smaller companies, and also new companies added to the tech & telecom sector, more time to meet our minimum expectations (and so withheld from sanctioning them) while we continue to assess and engage. The minimum number of minimum standards we expect to be met varies by country or region.
[40] Companies are divested from selected funds, including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.
[41] As at January 2024.

CASE STUDY: China Mengniu Dairy†

Identify

We believe that sustainable forestry is critical to combating climate change and preserving biodiversity, two systemic risks facing the world economy today, with significant implications for our clients' assets if left unaddressed. Companies should analyse, assess and address deforestation risks within their operations and supply chains, and pay attention to the rising expectations of corporations from investors and broader stakeholders.

Our Climate Impact Pledge 'red lines' for the food sector are:

- Does the company have comprehensive zero-deforestation and no-land-conversion procurement policies?
- Does the company disclose its climate-related lobbying activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

Engage and escalate

We have been engaging with China Mengniu Dairy under our Climate Impact Pledge since 2019 and have had several detailed conversations, focusing on our minimum climate expectations, including discussions on deforestation. Our primary concerns related to emissions disclosures and suitable targets, and the lack of a deforestation policy.

In line with our Climate Impact Pledge escalation process, we continued to vote against the re-election of the board chair, and the company was placed on our divestment list (applicable to relevant funds) in 2020.[42]

Outcome

Since we began our engagement, the company has made progress on lower-impact products, and increased transparency on biodiversity. In 2022, we were pleased to see the publication of a deforestation policy and the company's commitment to achieve zero deforestation by 2030.

In our June 2023 Climate Impact Pledge update, we noted that in addition to the deforestation policy, the company had also published a commitment for carbon neutrality by 2050, covering all scopes of emissions. We therefore made the decision to reinstate China Mengniu Dairy into applicable funds previously mentioned (removing it from our divestment list).

We communicated our decision to the company and have continued our engagement. While we are pleased with their progress, we have clarified that we would like them to seek approval of their net zero targets by the SBTi, and that we encourage them to report their Scope 3 emissions.

We believe taking these steps and improving disclosures enables investors and the market to assess risks and opportunities related to deforestation and price these more accurately. Appropriate pricing of climate-related risks and opportunities in the market can also be an important incentive for change.

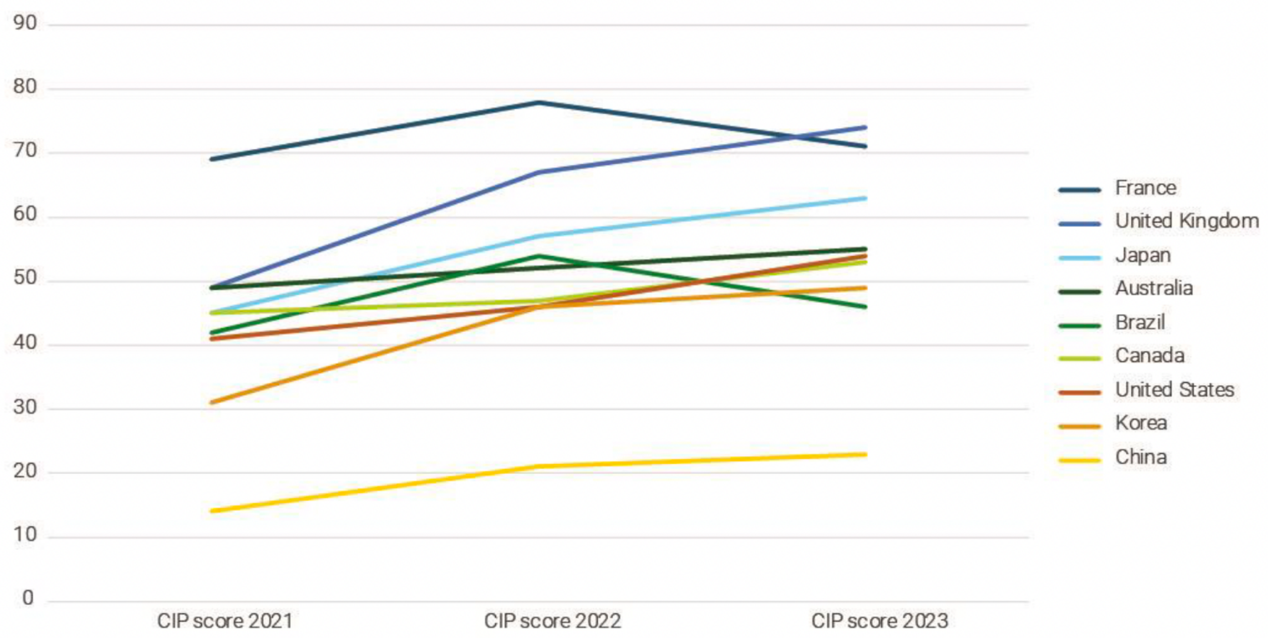
For more information on our approach to Scope 3 emissions, read our blog.

[42] Companies are divested from selected funds, including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.

Climate Impact Pledge: how our ratings are evolving

The following chart compares the progression in scores of the original campaign universe of c.1,000 companies from 15 sectors[43] from 2021 to 2023. We see an upward trend among larger companies, with Asian countries showing the highest level of improvements in terms of average scores. While UK and France still lead the pack, out of select countries shown on the chart, Korean and Chinese companies have seen the most significant improvements. Japan also saw notable improvement between 2021 and 2023. Although the US has improved its average scores year on year, progress is among the slowest, compared with other geographies.

Historical average CIP ratings in select countries (2021-2023)



Source: LGIM, as at April 2023. The selection of companies remains consistent across three years for comparability purposes and the scope does not include the expanded universe for 2023 data. With climate data becoming more available, our CIP scores have evolved to integrate new data points. For illustrative purposes only.

While we continue to be encouraged by the increase in the number of companies with net-zero commitments and improved climate-related disclosures across sectors and markets, we have noted a lack of detailed transition plans to support these targets. We will continue to press companies to establish robust decarbonisation strategies, with clear plans to 2050.

Our dedicated webpage contains a link to our full report, our net-zero sector guides, and links to our Climate Impact Pledge ratings and scoring methodology document.

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[43] Based on the MSCI ACWI index, which captures global large- and mid-cap companies.

CASE STUDY: Renewable energy deal for leading UK charity

Identify and engage

LGIM entered into a £25 million transaction with the National Trust,[44] Europe's biggest conservation charity, to help fund new renewable energy projects on its estates.

This funding will be used to help develop six hydroelectric power projects and four solar energy projects, to add to the portfolio of 140 renewable energy projects they have completed on their land in the past 10 years.

Outcome

The renewable energy generated from these new projects will be used to help meet the National Trust's own energy needs, further supporting the charity in achieving their ambitious Net Zero by 2030 goals.

CASE STUDY: Tempo Maidenhead office redevelopment

Identify

A major refurbishment has recently been undertaken at Tempo, a 150,000 square foot office development in Maidenhead.

Engage and escalate

Achievement of strong sustainability credentials, including low-embodied and operational carbon impacts, was a key driver behind decision making during the development. A whole-life carbon assessment was also integral to the design process.

Refurbishments offer significant carbon savings over redevelopment and in this case, the foundations, superstructure and approximately 40% of the original façade were able to be retained. The impact of carbon initiatives was tracked closely throughout procurement and construction.

Outcome

The asset outperforms several industry benchmarks, for both operational and embodied carbon. Design considerations, including removal of natural gas, addition of 282 photovoltaic panels and efficient glazing, have resulted in a projected 23% reduction in energy use when compared with the UK Green Buildings Council net zero operational energy trajectory[45]. In addition, health and wellbeing considerations have been prioritised throughout the design, through inclusion of additional communal and green spaces, and extensive occupier amenities. These achievements have resulted in rental uplift of around 20% above local market rates.

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[44] LGIM and the National Trust deepen collaboration with renewable energy investment, January 2024.
[45] Operational energy performance assessed against the UK Green Buildings Council 2020-2025 trajectory.

CASE STUDY: ExxonMobil†

Identify

As one of the world's largest public oil & gas companies, we believe that ExxonMobil's (ESG score: 27; +5) climate policies, actions, disclosures and net-zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.

Engage and escalate

We have been engaging with Exxon since 2016 under our Climate Impact Pledge. Our engagements were centred around time-bound emissions targets setting, capital allocation and business resilience, and the approach to the energy transition, with transparency on asset retirement obligations (AROs) being a focus area this year.

Although we note some progress has been made since our decision in 2019 to divest the company from applicable LGIM funds under our Climate Impact Pledge, primarily on account of the state of the company's commitments and disclosure, we have identified several persistent gaps in disclosure which we are continuing to engage on with the company. As part of our continuing engagement and escalation steps, in 2022 we supported two climate-related shareholder resolutions at Exxon's AGM, reflecting our wish for the company to take sufficient action on climate change in line with our minimum expectations.

Further escalating our engagement with the company, LGIM and Christian Brothers Investment Services (CBIS) co-filed a shareholder resolution at Exxon's 2023 AGM, requesting the company disclose the quantitative impact of the International Energy Agency (IEA) net-zero scenario on all AROs. The proposal was centred around disclosure and seeking greater insight into the potential costs associated with the decommissioning of Exxon's assets in the event of an accelerated energy transition. We believe this is a fundamental level of information for the company's shareholders, in light of growing investor concerns about asset-retirement obligations in a carbon-constrained future, and that it is financially material information. In our regular engagements with Exxon, we raised this issue with them, and a member of our Investment Stewardship team also spoke at the company's 2023 AGM.

The proposal received over 16% support from shareholders which, although lower than we would have liked, demonstrates an increasing recognition of the importance of this issue for investors.

Outcome – progress on methane commitments

We were pleased to see progress from Exxon in terms of joining the Oil & Gas Methane Partnership (OGMP) 2.0, of which many global oil & gas companies, including BP† (ESG score: 43; +7) and Shell† (ESG score: 44; +9), are already members. We have been working closely and collaboratively with the Environmental Defense Fund (EDF) and other relevant organisations to raise awareness of the issue of methane emissions through letters, meetings and public statements; and have been applying pressure on oil & gas companies to join the OGMP initiative since 2021 – Exxon being one of them. Exxon had previously demonstrated reluctance to sign up to the OGMP and LGIM voted in favour of a separate shareholder resolution tabled at its 2023 AGM, requesting that the company produce a report on methane emission disclosure, which received 36.4% support from shareholders.

Public and shareholder pressure, growing membership of the OGMP and Exxon's recent acquisition of OGMP member Pioneer Natural Resources appear to have swayed the company towards greater transparency.

Greater transparency is crucial in terms of enabling investors to accurately price climate-related risks and opportunities which, in turn, is an incentive for companies to make the changes we are seeking.

We will continue our direct engagements with the company under our Climate Impact Pledge and to challenge Exxon on their approach to the energy transition. We will also be engaging with proxy advisers and fellow investors to better understand their voting rationale.

CASE STUDY: BP†

Identify

As one of the largest integrated oil & gas producers in the world,[46] BP (ESG score: 43; +7) has a significant role to play in the global transition to net zero, hence our focus on this company for in-depth engagements. As members of the Climate Action 100+[47] (CA100+) we commit to engaging with a certain number of companies on their focus list; on account of our strong relationship with BP, we co-lead the CA100+ engagements with them. BP had set industry-leading targets for managing the climate transition, including strong capital allocation commitments to low-carbon segments, and we believe the company has a significant role to play in the energy transition.

Engage and escalate

Following the company's well-publicised decision to revise its oil production targets, we met with the company several times in early 2023 to discuss our concerns. At their 2023 AGM, we voted against the re-election of the chair; given the revision of its published targets, shareholders expected to be given the opportunity to vote on the company’s amended climate transition strategy at a shareholder meeting. Accordingly, we noted concerns around the governance processes leading to the decision to implement such amendments without shareholder consultation.

We have been encouraged by the comments made by Mr Auchincloss since taking on the CEO role that appear to confirm he remains committed to BP’s energy transition. We will continue to engage with BP on climate change, strategy and related governance topics, both individually and as part of CA100+. Topics such as emissions targets, business resiliency, oil & gas production, capital allocation, value-chain approach, responsible divestment and decommissioning of assets continue to be a focus. Having worked hard to build a longstanding relationship with the company, we will continue to use our influence to encourage them to stand by the plans they have made towards the climate transition.

[46] Oil & Gas IQ, The Top 10 Oil Companies in the World: 2022, August 2022.
[47] Climate Action 100+ is an investor-led initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change.

CASE STUDY: Targa Resources[†]

Identify

Targa Resources (ESG score: 27; +3) is a major midstream energy player with substantial gathering pipelines, natural gas processing plants, and interstate pipelines/storage assets. The company's assets are primarily in the Permian basin.

As part of our engagement, we are looking for the following from the company:

1. Disclose Scope 3 emissions
2. Provide additional disclosure on monitoring efforts for methane fugitive emissions
3. Demonstrate further progress on carbon intensity reductions (e.g. state-of-the-art valves and compression stations using more renewable fuels)
4. Eliminate routine flaring

Engage and escalate

We regularly engage with Targa’s investor relations team via virtual meetings and on occasions we have had the opportunity to meet with the CFO face-to-face, as we did in September in New York. As part of our engagement, our Investment analysts collaborated with our Investment Stewardship team on areas linked to our Climate Impact Pledge and our biodiversity expectations.

During our engagement with Targa, it became clear the company has no intention of disclosing Scope 3 emissions as they believe that it is not standard practice for US-based energy companies. On methane, the company has reduced absolute emissions by 42%, achieved a 25% reduction in ‘reportable emission events’, and increased methane aerial surveys to twice a year. We pushed for more real-time data on the results of these flyovers. Targa also reduced flaring intensity by 21%, but has yet to eliminate it.

We believe that the company has reasonable goals relative to its US peers, and does not have global peers within dedicated energy infrastructure with whom to compare themselves. We are asking the company to go further as an industry leader.

Current goals include: reducing methane emissions intensity to 0.11% for the Processing sector by 2025, and to 0.08% for the Gathering and Boosting sector by 2025.

Outcome

While the company has fallen short of our requests, we note that it has evolved to include more meaningful targets relative to its US peers.

We have communicated that a more robust set of sustainability goals would open us to own more of its bonds in funds which have a higher bar on ESG for inclusion. In addition, energy transition is a key risk consideration and certain levels of transparency or a better plan to transition would help reduce risk in our view and may offer potential performance upside relative to valuations.

We will continue to monitor the company’s performance against its ESG goals.

Climate voting – voting on shareholder proposals and holding companies to account

Our expectations on climate transition plans

As part of our stewardship responsibilities, we have a number of escalation options at our disposal. Setting out clear expectations and then voting on these, alongside public pre-declarations of our vote intentions on important proposals, is a significant engagement escalation tool.

Over the years, LGIM has clearly set out our expectations of companies' climate transition plans and how we would assess climate-related shareholder proposals.

We expect transition plans to be in line with the following criteria:

- A public commitment to net zero by 2050
- Disclosure of short-, medium- and long-term targets, covering Scope 1 and 2 emissions and material Scope 3 emissions
- Disclosure of current Scope 1, 2 and material Scope 3 emissions
- Credible targets that are aligned to a 1.5°C trajectory; an ambition to obtain verification by the Science-Based Targets initiative (SBTi) (or equivalent independent body as they evolve) can help demonstrate this

The number of management-proposed 'say on climate' resolutions reduced drastically in 2023, with companies that proposed such votes last year not expected to renew them annually. During the year, we voted on only 14 such proposals globally, with the majority put to a vote in the UK. On nine of these we voted against (64.3%).[48]

Shareholder pressure on climate-related issues

As a large investor, we believe we have a responsibility to urge companies to achieve their climate goals by escalating our engagement, in collaboration with our peers and key industry bodies.

2023 was again a record year for climate-related shareholder proposals. In determining which to support, we carefully consider each shareholder resolution on a case-by-case basis: while we are keen to support companies' transitions to net zero, we pay close attention to the details and limitations of these shareholder proposals.

In 2023, we voted on 145 climate-related proposals and supported 111 (76.6%). 103 of the 145 votes were filed in North America, 21 in Japan, three in the UK.[49]

Of the shareholder resolutions LGIM did not support, the majority were because we had concerns with the drafting of the proposal text being overly prescriptive or the company already provided appropriate reporting on such issues.

Given the importance of these proposals, we also again pre-declared our vote intentions for a number of climate resolutions at the North American and Japanese banks and at a number of oil & gas and mining majors.

[48] LGIM internal vote data, 2023.
[49] LGIM internal vote data, 2023. This included proposals on climate action, climate and GHG reporting, reports on climate lobbying, use or production of fossil fuels, renewable energy, and alignment of director pay with climate targets, but excluded proposals on nuclear power.

CASE STUDY: Glencore[†]

Identify

As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, we believe Glencore (ESG score: 28; +3) has a key role to play in the energy transition. Nevertheless, the company's exposure to thermal coal is material and, given the need to rapidly phase out coal to meet the company's own 1.5°C target, we have expressed our concerns about the lack of disclosure on how the company's net-zero commitments align with its thermal coal production outlook.

Engage and escalate

Although we welcome the commitments made by Glencore to prioritise investments in metals that support the energy transition and to strengthen its interim emissions reduction targets, our concerns over its thermal coal exposure and future plans led us to vote against the company's climate transition plan at its AGM, held in April 2022. In total, in the previous four years we have held 15 engagements with Glencore, primarily focused on climate change, board composition and pay, as well as their supply chain.

Having pledged in 2022 to increase pressure on companies that fail to put suitably ambitious and credible transition plans to a shareholder vote, ***we acted on this commitment by co-filing a shareholder resolution at Glencore's 2023 AGM***, requesting that the company disclose how its thermal coal production is aligned with the Paris Agreement objective of limiting the increase in global temperature to 1.5°C. We believe that assessment and evaluation of climate-related risks and their financial materiality is critical for long-term investors, and that a shareholder resolution can be a powerful way to escalate our engagement with individual companies.

Outcome

In what we see as a strong sign of support, the most influential proxy advisers, ISS and Glass Lewis, recommended shareholders to vote in favour of the proposal.

The resolution received 29.2% support from shareholders, which is significant for a shareholder proposal, and we are pleased that the company has published its intention to continue to engage with shareholders and improve understanding on this matter. Our aim of collaborating with like-minded investors on this proposal was to seek more disclosure – that can only be achieved through direct action by the company.

We have since met separately with their CEO and CFO, chairman and lead independent director to discuss the response to our proposal, as well as corporate governance and community relations. Additionally, in light of the planned acquisition of Teck's metallurgical coal assets, we discussed in detail the strategic rationale of the transaction and the safeguards the combined entity would put in place to ensure these assets are managed responsibly with stringent commitments on emissions targets, water management and transparency.

CASE STUDY: Barclays[†] – climate resolutions in the banking sector

Identify

We believe that the financial sector's lending activities, corporate facilitation, insurance and asset management activities are key to speeding up or delaying the transition to a low-carbon economy. Banks have a major role to play in the climate transition and need to shift their attention to aligning their lending portfolios to be consistent with the Paris Agreement.

Barclays (ESG score: 69; -1) is a large global bank and a prominent UK high-street name; LGIM has engaged extensively and productively with Barclays on its approach to climate risks and opportunities for many years, and Barclays has historically shown receptiveness to investor engagement.

Our voting stance at the bank's AGMs over the years has been reflective of our views on the progress made by management on important climate mitigation policies, the strength of targets set and related actions in this area.

Following a climate-related shareholder resolution at Barclays' 2020 AGM that we supported, there have been important advancements in climate management at the bank, including the publication of its BlueTrack™ carbon-assessment methodology in November of that year. Despite positive developments as part of its emissions coverage, concerns remained with the progress made on target ranges.

Engage and escalate

The company had not explained how their stated target ranges would contribute to bringing about the required real-world change in line with the Paris Agreement. Our engagements have included both one-to-one discussions and collaborative meetings with other investors who had been considering filing a shareholder resolution related to Barclays' approach to financing the oil & gas sector.

Outcome

Throughout these discussions, we obtained substantial background information, including contemplated proposals, related to strengthening Barclays' policy and due diligence processes. These met many of our expectations and enabled LGIM to withdraw from the co-filing group ahead of the AGM.

The collective engagement, organised by ShareAction, demonstrates how a group of informed, influential investors can effect and expedite policies and disclosures at their portfolio companies, even before the formal filing of a shareholder resolution.

Sometimes the possibility of a shareholder resolution being proposed can be sufficient to propel a company to an expedited policy refresh and commitments for improved disclosures. This is where collaborative work with non-governmental organisations and like-minded peers can be an effective engagement tool.

We will continue to engage with Barclays to ensure that they remain committed through words and actions in playing their part in addressing the systemic risk of climate change.

Separately from this engagement, we recently expanded our discussions with the bank to consider their exposure to and mitigation activity in the areas of nature and agriculture, especially in their UK home market.

CASE STUDY: EMS-Chemie† – holding directors to account

Identify

According to the IEA, the chemicals sector is the largest industrial energy consumer and the third-largest industry sub-sector in terms of direct CO_2 emissions.[50] At LGIM, we therefore believe that the sector has a crucial role to play in the global transition to net zero. In addition to publishing our sector-specific expectations under the Climate Impact Pledge, we have also joined a collaborative initiative to engage with the largest European chemicals companies, organised by the NGO ShareAction.

EMS-Chemie Holding (ESG score: 52; -2) does not meet our minimum standards on climate risk management, as set out in our net-zero guide for the chemicals sector. The company's climate-related disclosures are lacking the transparency and robustness that we believe is necessary for shareholders to obtain a sound picture of the company's climate transition plans and strategy. We also have concerns with the scope and credibility of its net-zero commitment, as well as its medium-term targets, alignment to a 1.5°C scenario, and over-reliance on offsets. The company currently does not align executive remuneration with its medium-term emissions targets, which raises governance concerns regarding prioritisation and accountability for climate-related issues.

Engage and escalate

We have been disappointed in the company's lack of response to its shareholders' requests for dialogue on its climate strategy and disclosures. Our decision to vote against the re-election of the board chair at their August 2023 AGM and to pre-declare our vote publicly, is an escalation of our engagement and a reflection of our longstanding climate concerns at the company. We note that the Blocher family controls, directly or indirectly, approximately 70% of the company. Minority shareholders will therefore find it more difficult to effectively apply stewardship tools at this company.

[50] IEA, Chemicals, as at February 2024.

Glasgow Financial Alliance for Net Zero

LGIM continues to be an active participant of the Glasgow Financial Alliance for Net Zero (GFANZ). Our CEO, Michelle Scrimgeour, is a member of the GFANZ Principals Group, and we are also represented on the Steering Group. GFANZ is a global coalition of financial institutions committed to accelerating the decarbonisation of the economy. GFANZ provides a forum for collaborating on substantive, cross-cutting issues that will accelerate the alignment of finance activities to net zero.

In 2023, GFANZ launched a global workstream on index investing, with LGIM as a co-lead alongside Singapore Exchange. This workstream aims to identify key principles for index funds that play a role in the transition to a net zero world. The workstream consists of asset owners, asset managers, and other financial institutions. Members meet in sub-groups focused on the equity, fixed income, and engagement aspects of index investing.

Net Zero Asset Managers Initiative

As a founding signatory of the Net Zero Asset Managers Initiative (NZAM), we have committed to work in partnership with asset-owner clients to reach net-zero GHG emissions by 2050 or sooner across all assets under management (AUM). In 2021, LGIM set a target for 70% of eligible AUM[51] to be managed in line with this net-zero ambition by 2030, which we continue to work towards with our clients. In 2023 we refreshed our analysis and reiterated our 70% 2030 interim target. LGIM's representation on the expanded NZAM advisory group of asset manager signatories was also renewed in 2023.

[51] For more information, see Principles for Responsible Investment, Public Transparency Report, 2023.

E: Nature

- In 2023 we updated our Deforestation Policy and engaged with over 160 companies on the topic; this was the first year we applied specific deforestation vote sanctions
- During the year we were involved in multiple engagements with the UK's key water companies, their major shareholders and industry regulators

Nature – our approach

Nature is one of LGIM's strategic investment stewardship themes. In 2023, we structured our approach to nature engagement across four key sub-themes: natural capital management; deforestation; the circular economy; and water, with a highlight on agriculture. These themes are focused on addressing the five direct drivers of nature loss,[52] as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).[53]

LGIM's nature framework

Natural capital management	Deforestation	The circular economy	Water

Natural capital management

Societies and organisations across the world depend on the value they receive from nature, often referred to as Earth's 'natural capital' – the products, services and wealth that nature provides. More than half of the world's GDP – equivalent to an estimated $58 trillion – is moderately or highly dependent on nature.[54]

Nevertheless, ecosystem services remain grossly underappreciated, unaccounted for, and in decline. They are insufficiently reflected in market prices.[55] As we wrote in Q4 2023, it is important to plug this value gap for nature, which is the keystone of attracting investment and creating a market to protect and restore nature. We need to shift our approach to nature so that we balance and align growth within planetary boundaries.

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[52] Climate change; land / freshwater/ ocean-use change; natural resource use; pollution; and invasive alien species.
[53] The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) is an independent intergovernmental body established by UN member states to strengthen the science-policy interface for biodiversity and ecosystem services for the conservation and sustainable use of biodiversity, long-term human well-being and sustainable development. It was established 21 April 2012 by 94 governments (source: About | IPBES secretariat).
[54] PwC, Managing nature risks: From understanding to action, April 2023.
[55] UK government: Final Report - The Economics of Biodiversity: The Dasgupta Review, August 2021.

We believe there are abundant opportunities to transform how society and capital markets can work together to protect ecosystems and restore nature by 2050.

We are focusing our efforts on strengthening company disclosure of their interactions with nature, and improving the access to high-quality, consistent, and comparable data across geographies and throughout the real economy. Advocating for frameworks such as TNFD will support investors holding companies to account on their relationship with nature and make more informed decisions on how to allocate capital.

By joining forces with collaborative organisations, we aim to broaden our reach and strengthen our voice in improving how companies assess and integrate nature. This will not only allow us to further assess companies' potential nature-related impact and dependencies, risks and opportunities, but also to push for greater transparency and progress in the market.

CASE STUDY: Biodiversity Net Gain across existing real estate assets

Identify

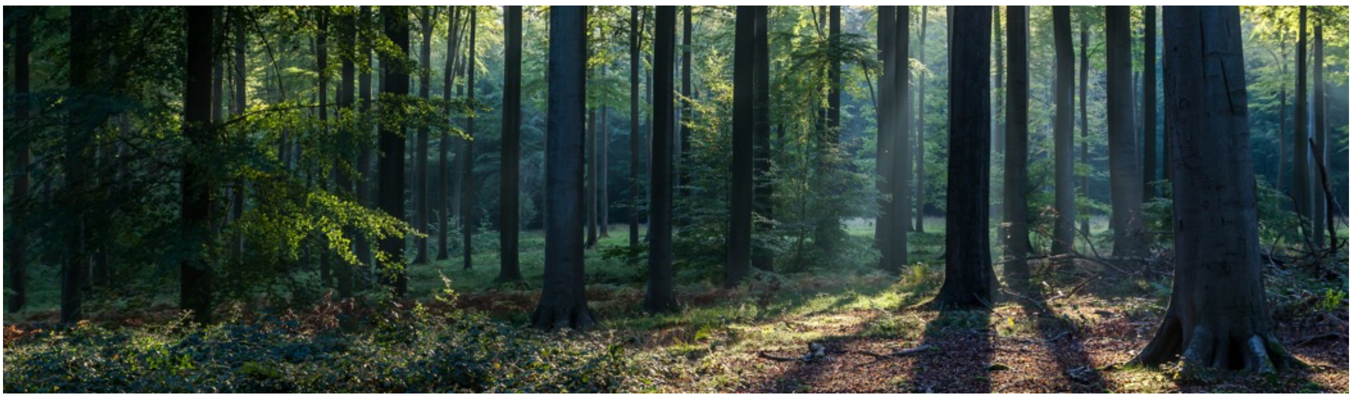
Through a pilot project, we have also reviewed how Biodiversity Net Gain (BNG) can be assessed across standing assets, which we will look to roll out across the platform in 2024.

In alignment with the industry-adopted Defra metric, assessments determined the current biodiversity status of each site and the biodiversity uplift that could be achieved following the implementation of the identified measures. Sites were also assessed for key habitats and protected species including bats, otters, breeding birds, native bluebells and water voles.

Engage and escalate

Initial assessments found that several assets were likely to interact with protected and endangered species. BNG enhancement measures were suggested across all assets, such as introducing native-rich hedgerows, over sowing neutral grassland with wildflower meadow mix, and installing green walls.

For some assets, proposed biodiversity enhancements could have the potential to create BNG uplifts that are significantly higher than the 10% government target for new developments.



Nature Action 100

LGIM is a member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and offering a clear set of expectations for companies. More than 200 institutional investor participants – representing over $27 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

Joining NA100 is an important part of acting on the commitments LGIM has made under the Finance for Biodiversity Pledge, as stated in our Biodiversity Policy.

As a signatory to the Pledge, by 2024 LGIM commits to:

- Collaborating and knowledge sharing
- Engaging with companies
- Assessing impact
- Setting targets
- Reporting publicly

As corporate disclosures and assessment of companies' interactions with nature continue to evolve rapidly, NA100 membership is anticipated to provide both resources and insights that will help us develop our expectations and understanding in this area. We also note that NA100 is focusing on sectors that are major drivers of nature loss through their impact upon natural habitats, overexploitation of resources, and soil, water and solid waste pollution. LGIM will lead an engagement for NA100.

Deforestation

We updated our Deforestation Policy in 2023 to reflect the progress we made over the year on the milestones set out under our commitment to tackle commodity driven deforestation impacts in investment portfolios by 2025.[56] We have strengthened our expectations of companies; broadened the scope; and increased the depth of our assessments and engagement despite continuing limitations in data availability. We also integrated social aspects of commodity-driven deforestation and consideration of human rights, including indigenous people and land rights into our assessment. Our refreshed policy notes the Accountability Framework and the Deforestation Free Finance guidance.

We have steadily evolved our approach to assessing and engaging on deforestation risk, most recently with a new risk assessment tool. We also refreshed our assessment of deforestation policies and programmes, with resulting voting implications. ***In 2023, we increased our minimum expectations in this area. We now expect all companies in 'deforestation-critical' sectors,[57] to have both a deforestation policy and programme***.[58] Companies not meeting this, subject to data availability, will be identified for vote sanctions (normally a vote against the chair) at AGMs in 2024.

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[56] Page four of LGIM's Deforestation Policy.
[57] 'Deforestation-critical' sectors or 'high-risk' sectors are defined using Ceres' Investor Guide to Deforestation and Climate Change. We also follow Deforestation Free Finance guidance on which GICS sub-industries to cover.
[58] As assessed by Sustainalytics, using its criteria. Companies in selected sectors, where we have data, scoring 0 on either deforestation policy or programme will receive a vote against.

Continuing our deforestation campaign

In 2022, we initiated our dedicated deforestation campaign with consequences. 2023 was the first year in which we applied a specific vote sanction to companies in deforestation-critical sectors that did not have a deforestation policy or programme in place. Having written to over 300 companies to inform them of our expectations and approach, in 2023 we applied a negative vote at over 100 companies.

Continuing this engagement campaign, in the second half of 2023 we identified 168 companies for engagement. These were categorised as:

- Companies that newly failed to meet our minimum standard, as set out in our updated deforestation policy, of having a zero-deforestation policy and related programme in place
- Companies that persistently failed to meet this minimum standard
- Companies that met our deforestation minimum standards but did not have a human rights policy in place

Communications with these companies set out our expectations of them under our Deforestation Policy, as well as potential voting implications if these were not met, and pointed to actions and best practice examples that could improve their performance in this area.

We will continue to apply vote sanctions set out as part of this campaign, and to engage with companies in deforestation-critical sectors on our expectations. We will proactively consider and vote on shareholder resolutions on deforestation-related issues.

Collaboration update – Finance Sector Deforestation Action (FSDA)

The FSDA is a collaborative initiative of over 30 financial institutions representing more than $8 trillion. The aim of the initiative is to work with a goal of eliminating agricultural commodity-driven deforestation risks (from cattle, soy, palm oil, pulp and paper) in signatories' investment and lending portfolios by 2025.[59] We are part of the steering committee of the FSDA, and we met with them in the second half of 2023 to assess progress across signatories regarding the commitments made, and forthcoming developments in deforestation data.

Additionally, during 2023 we continued to lead the collaborative engagement with four companies through FSDA.

The circular economy

A circular economy is a way of using resources that minimises waste, pollution and environmental impacts and aims to decouple economic activity from the consumption of finite resources. To transition to a circular economy, the design, production, and disposal of products needs to be rethought, with a view to optimising resource use and reuse across value chains. This is a key part of our thinking about nature change, particularly on natural resource use and pollution. While the circular economy theme covers a broad range of topics, plastic pollution is a matter of global concern due to the increasing amount of marine plastic waste, which is harming eco-systems.

We engage on the circular economy theme via policy dialogue (see the Policy advocacy and collaboration section), collaborative initiatives and company engagement.

Our company expectations are centred on assessment, target-setting and collaboration. Due to the prominent role of plastics in this sub-theme (and across our other Nature sub-themes, more broadly), we particularly focus on how companies and policymakers can reduce plastic use and pollution along their value chains.

Improving overall data disclosures and circularity of products from our investee companies – both collaboratively with other investors as well as through LGIM's Climate Impact Pledge – have been areas of stewardship engagement. More details on our engagement approach can be found in our blogs: Mind the gap… Circularity in action and How companies are incorporating the circular economy concept into their business models.

[59] Climate Champions, Why deforestation and NBS? as at February 2024.

Water

Protecting, managing and restoring the global water system – marine and freshwater ecosystems – is a fundamental part of living in harmony with nature. Notably, the World Economic Forum has included ‘water crisis’ seven times in its top five ‘global risks by impact’ in the last decade. Ecosystems providing fresh water are under increasing pressure both from the demand side (e.g. population growth, industrial, energy and agricultural use), and from the supply side (e.g. land-use change, aging infrastructure, depleted groundwater reserves and climate change). By the end of this decade, demand for fresh water will outstrip supply by 40%. The World Bank has suggested that in some regions, water-related impacts on agriculture, health and incomes could knock as much as 6% off GDP by 2050.[60]

LGIM is focused on fresh water and oceans, including water quantity and quality, helping to preserve and protect nature and ecosystems.

As a global issue, water requires a systems and market-wide approach. That is why a vital part of our approach is engagement with broader stakeholders and market participants, such as other investors, policymakers, regulators, NGOs, academia, and stock exchanges.

GREGs work on water utility companies

UK water companies came under plenty of criticism in 2023.[61] During the year, there was increased focus on their environmental performance, which the UK Environment Agency described in its report covering 2021 as “the worst we have seen for years”.[62]

During 2023, LGIM has been involved in multiple engagements, both individually and alongside other investors, with key UK water companies, their major shareholders and the industry regulators, in a combined effort between the Investment team and Investment Stewardship members as part of a GREGs working group.

LGIM joined a group of investors led by the Investor Forum, focused on short-, medium- and long-term concerns regarding the UK water system. The collaborative engagement crucially approached the topic at both a corporate and policy and regulatory level. In the first quarter of 2023, LGIM also signed up to the Ceres investor-led ‘Valuing Water Finance Initiative’[63], aimed at engaging water users and polluters to address water risks and protect this essential natural resource.[64]

See below for an example of one of the company engagements we led during the year. More information can also be found in our blog posts on Thames Water and How active investors can push for change.

[60] The World Bank, High and Dry: Climate Change, Water, and the Economy, May 2016.
[61] The Guardian, Watchdog to block shareholder payouts if water companies in England and Wales miss targets, March 2023.
[62] UK government, Water and sewerage companies in England: environmental performance report 2021, July 2022.
[63] Ceres, Valuing Water Finance Initiative, as at February 2024.
[64] Ceres, Ceres launches new investor-led effort to move corporate water users and polluters to value and act on water as a financial risk, August 2022.

CASE STUDY: Thames Water[†]

Identify

Thames Water is a major issuer in the GBP credit market and plays a vital role supplying essential services to customers in its area. We believe it is uniquely positioned to invest to improve the resilience of the local water supply and to reduce the environmental impact of water supply and wastewater treatment. However, operational performance and delivery have been weak for many years. The company is also hampered by a legacy of financial gearing.

As one of the largest players in the Sterling credit market, LGIM is well placed to influence Thames Water. We can do so by constraining our lending to the company and feeding back our views on what needs to improve. We believe that using our influence to encourage companies like Thames Water to make changes, to deliver better for stakeholders, benefits our clients. This is because when these companies improve, making them more creditworthy, there are more opportunities for us to invest for our clients.

For Thames Water, we would like to see improved performance on operational metrics, such as pollution incidents, leakage and customer service, but also on gearing, which we believe is too high, making the other objectives more difficult to achieve.

Engage and escalate

We have been engaging with Thames Water for several years and have particularly been pushing for reduced gearing in interactions with the company and one of its key shareholders since 2021. This engagement has been led by LGIM's Active Credit Research team.

We met the CFO in late 2021 and 2022 in small group meetings and shared our view on the excessive gearing as well as demanding progress on pollution and leakage metrics among other topics. We also met a representative from one of Thames Water's key shareholders at the late 2021 meeting and arranged a further call with the shareholder in September 2023 to share our views following the resignation of the Thames Water CEO.

Outcome

Our engagement with the company in the years up to November 2022 contributed to us downgrading our internal relative value score for the company as it became increasingly clear that shareholders were not, at that time, supportive of de-gearing the company. We remain cautious in adding to our investment in Thames Water across our active credit portfolios but retain limited selective exposure.

We believe the company's management understands our expectations and is focused on working to improve in the operational areas we have highlighted. However, we are yet to see progress so far on reducing gearing and that will be a continuing focus of our engagement going forward. We are also seeking to engage with other major shareholders at Thames Water.

CASE STUDY: Ecuador debt-for-nature swaps

Identify

In May 2023, LGIM became the cornerstone investor in the largest debt-for-nature swap to date,[65] in Ecuador. Debt-for-nature transactions essentially enable a country to refinance debt under more favourable terms and allocate a portion of the proceeds towards specific nature-related outcomes.

The transaction, which was structured between Ecuador's advisors, a global investment bank and Pew Bertarelli Ocean Legacy, and insured by the US government, allows Ecuador to restructure its debt at much lower repayment rates. In return, Ecuador will direct savings of over $450 million to marine conservation activities around the Galápagos Islands, which are home to more than 3,000 species, 20% of which are not found anywhere else on Earth.[66]

Engage and escalate

Under the terms of the debt-for-nature swap, Ecuador will enhance the management of marine reserves and promote sustainable fishing over the next 18 years to support biodiversity and prevent habitat loss.

Ecuador is targeting 18 milestones to demonstrate its sustainability performance, for which progress will be verified by an independent assessor and reported upon publicly. In the event that it does not achieve these milestones, there will be financial penalties.

[65] Reuters, Ecuador seals record debt-for-nature swap with Galapagos bond, May 2023.
[66] Galápagos Conservancy, Biodiversity, as at February 2024.

LEWIS PUGH FOUNDATION

Our partnership with Lewis Pugh

In 2023 we continued our global partnership with UN Patron of the Oceans and endurance swimmer Lewis Pugh.

In August Lewis swam the length of the Hudson River to raise awareness of the extraordinary diversity of life that depends upon rivers and lakes – and the damage already done to Earth's waters.

The swim, in partnership with LGIM, was in the run-up to key global events, including UN General Assembly and Climate Week, where Lewis asked the world's leading decisionmakers to urgently tackle biodiversity loss.

The photography featured below was taken by the Lewis Pugh Foundation.

We are united with Lewis in our aim to tackle the climate crisis. We believe inaction is not an option and are proud to support Lewis's efforts to raise awareness and push for positive change.

Photography credit: Olle Nordell

S: People

- In 2023, we completed our expanded engagement campaign on ethnic diversity[67], and continued to engage with companies on the gender balance of their executive leadership teams[68]
- We started a focused engagement campaign with a clear escalation strategy to get 15 global food retailers to reduce income inequality within their operations and supply chains
- In December 2023, we published our first Human Rights Policy

Diversity

LGIM has been engaging with companies on the topic of diversity since 2011 and has been actively voting on the issue since 2015. Our expectations continue to evolve over time as we respond to the changing landscape and progress of companies.

We have recently updated our expectations and published our Diversity Policy which reiterates our commitment to push the companies in which we invest globally to:

- Have women represent at least 40% of the board and executive leadership team
- Have at least one person of ethnic minority background on the board
- Clearly disclose diversity and inclusion policies and representation data
- Disclose their gender and ethnicity pay gap information along with actions to close any stated gap

By setting out our expectations clearly, we aim to help companies understand where we seek improvement and any sanctions taken due to lack of progress.

Ethnicity on boards

We launched our engagement campaign on ethnic diversity in 2020, initially reaching out to the largest 100 companies in the UK and the largest 500 companies in the US to discuss ethnic diversity at board level. Our request was simple: that they should have ethnically diverse representation at board level by 2021, or face voting sanctions. We have now been voting against companies that don't meet these expectations since 2022.

In 2023, we voted against three companies due to a lack of board-level ethnic diversity: Caesars Entertainment†, Dish Network Corp† and The UNITE Group†. We pre-declared the dissenting votes on our blog in order to be transparent about the application of our voting policy and increase pressure on these companies to meet our minimum expectations. We are pleased to note that Universal Health Services†, which we highlighted the prior year, was not subject to a vote sanction in 2023, following the appointment of a new director to the board, meaning that they now meet our minimum expectations regarding ethnic diversity at board level.

At the end of 2022, we widened our scope for this campaign to companies within the broader FTSE 250 and Russell 1000 indices. Our expectation for the companies in these indices is identical but, in line with the UK's Parker Review, we allowed these smaller companies more time to meet our expectations by 2024.

[67] In 2023 we expanded our engagement beyond the constituents of the FTSE 100 and S&P 500, to cover companies in the FTSE 250 (in the UK) and the Russell 1000 (in the US) indices.
[68] At FTSE 100 and S&P 500 companies.

We completed our engagement campaign with these smaller companies at the end of 2023 after two years of engagement, and we continue to engage collaboratively with UK companies on this topic through the 30% Club Investor Group.

Our latest findings:[69]

US stats:

- Total of 31 companies involved at the start of engagement campaign
- 18 companies are consistent laggards – 58.1% of total
- 11 companies have improved and are no longer laggards – 35.5% of total
- 7 new companies came onto the list in 2023 and remain on list in 2024
- 2 companies dropped out of the campaign due to changing index or de-listing – 6.5%

UK stats:

- Total of 64 companies involved at the start of engagement campaign
- 36 companies are consistent laggards – 56.3% of total
- 19 companies have improved and are no longer laggards – 29.7% of total
- 14 new companies came onto the list in 2023 and remain on list in 2024
- 9 companies dropped out of the campaign due to changing index or de-listing – 14.1%

Gender diversity in executive leadership teams

We continue to push for improved gender diversity, and in 2022 we strengthened our approach to voting against FTSE 100 and S&P 500 companies that have all-male executive leadership teams.

In 2023, we released a blog on the topic and set out our expectations and definition of executive leadership team in our Diversity Policy. We are conscious of the difficulties that come with consistently identifying the group of individuals that are considered to be within an executive leadership team. Therefore, we pressed the importance of companies being clear in their public disclosures on who these individuals are, and to be consistent in the terminology when referring to this team.

In 2022, our data identified 90 companies that were in breach of our expectations and following further data checks, we voted against 74 companies on this issue across both indices. At the start of 2023, data identified 79 companies as laggards, and we voted against 75 companies on this topic, which illustrated that much more change is needed to improve the diversity levels of these all-important decision-making teams.

Given the importance of this vote, at the end of 2023 refreshed data showed 87 companies as having all-male executive leadership teams, and after checks against a secondary data source, we wrote to 16 companies across the FTSE 100 and S&P 500 indices. As a result of our letter campaign, we have had deeper engagements with some of these companies since; some of which were continued laggards from 2022 and some were newly identified in 2023.

[69] As at 31 August 2023.

CASE STUDY: Las Vegas Sands[†]

Identify

We believe a suitably diverse mix of skills, experience and perspectives is essential for a board and executive leadership team to function and perform optimally.

Engage and escalate

Las Vegas Sands (ESG score: 57; +1) is one of the companies we engaged with as part of our campaign on diversity in executive leadership teams, and we had a follow-up conversation with the Head of Investor Relations on the topic.

This engagement is still in relatively early stages, and during our call, the company confirmed that our assessment was correct that it doesn't have any women on its executive leadership team. However, it was also clear that the company did not clearly disclose the composition of this team as it had not appreciated the importance of disclosure for stakeholders.

Outcome

The company committed to improving its reporting on this level of individuals in 2024. We shall keep this progress under review and will continue to engage with the company to improve its diverse representation at the executive leadership level.

CASE STUDY: Japan diversity focus

Identify

While the diversity of Japanese boards is improving, engaging on this issue continues to be a stewardship priority for us. We started voting against Japanese companies with all-male boards in 2020, initially voting against ten companies in the TOPIX 100. We positively note the last TOPIX 100 company with an all-male board announced in September 2023 that they would appoint a female director at its 2024 AGM.

We currently vote against the re-appointment of the most senior member of the board or the nomination committee chair unless:

- For TOPIX 100 companies, at least 15% of the board are women
- For all other companies listed on the Prime Market, the board includes at least one female director

At present, 37% of Japanese companies do not meet the first criterion, while 10% fail the second.[70]

We continue to tighten our policies over time. From 2025, we will require 15% board gender diversity for TOPIX 500 companies and at least one woman director for all other listed companies (including those companies not on the Prime Market).

Engage and escalate

We continue to speak with companies and board directors on the topic of diversity; we were invited to a dialogue with approximately 90 members of the Japan Association of Corporate Directors (JACD), a group of CEOs and board directors committed to enhancing corporate governance in Japan.

We also firmly believe in the value of collaborative engagements with regulators, which enable us to tackle systemic issues at the policy level. Through our memberships of ACGA and the ICGN, we have continued to hold discussions on diversity with the FSA, Tokyo Stock Exchange (TSE), and the Japan Cabinet Office. Discussions have included advocating for faster progress and higher levels of board gender diversity, including a tighter definition of 'executive'[71] in the government's policies. It was confirmed during our engagement with the FSA that our discussions and view in the open letter[72] we helped draft, and co-signed in late 2022, have fed into the government's diversity policies at Japanese companies.

[70] Source: ISS (as of November 2023).
[71] The government defines 'executives' as including board directors, kansayaku (statutory auditors), and shikkōyaku (for companies with three committees as defined by the Companies Act) as well as shikkōyakuin (executives in charge of business administration) and other equivalent officers.
[72] In October 2022, we helped draft, and co-signed, an open letter suggesting a series of targets for improving board gender diversity in TSE Prime Market boards through further changes to the listing rules and the Corporate Governance Code. The letter also touched on the importance of strengthening the female talent pipeline internally and expanding the pool of female executives.

Outcome

In June 2023, the Japanese government's Gender Equality Bureau of the Cabinet Office announced the draft of the 2023 Main Policy for Women's Empowerment and Joint Gender Participation. The following month, the TSE announced new listing rules on diversity which included numerical targets for the ratio of female executives at Prime Market-listed companies:

- Strive to appoint at least one female executive by 2025
- Aim to increase the ratio of female executives to 30% or more by 2030
- A recommendation to formulate an action plan to achieve the aforementioned goals

We are pleased to see the commonality between the recommendations set out in our joint letter and the government's latest updates proposed in December 2023. These proposals encompass new interim targets aimed at achieving the 30%-female representation goal by 2030. They also introduce targets related to the implementation of remote working arrangements to provide flexible working styles, thereby supporting individuals with childcare and other responsibilities to stay engaged in the workplace.

Income inequality

Income inequality is one of the key human rights issues that LGIM is focused on and is captured within the 'People' theme of our engagement activities and within our Human Rights Policy. Income inequality and poverty are inextricably linked.

We believe the impact of income inequality and in-work poverty on workforce productivity, and the knock-on effect on demand for goods and services, is of significant concern. ***The negative impact of income inequality on the economy has been estimated to potentially reduce GDP by $4.56 trillion annually.***[73] Given the potential for this to affect the value of LGIM's investments on behalf of our clients, we consider income inequality to be a material risk.

The living wage

As a global investor, we aim to use our influence, through collaborative and individual engagements with companies, to put pressure on them to pay the living wage, not just to workers within their own operations, but also to ensure workers within their top two-tier suppliers also earn a living wage.

As the cost of living has continued to spiral amid high inflation and against a geopolitical backdrop fractured by conflict, the issue of the living wage has remained in the spotlight during 2023. According to the International Labour Organisation, 19% of all workers worldwide earn less than they need to escape poverty.[74] We believe, companies that do not pay their workers a wage sufficient to allow the worker and their immediate family to have a decent standard of living (i.e. a living wage) increase their operational risk profile. They may experience a loss in

[73] United Nations Development Programme, 'From Fragmentation To Integration: Embedding Social Issues in Sustainable Finance', September 2023.
[74] The International Labour Organisation, 'World Employment and Social Outlook: Trends 2020', 2020.

the level of productivity through lower morale, higher levels of absenteeism and presenteeism, strike action and higher rates of staff turnover which increases recruitment and training costs and potential reputational damage. In addition, companies in sectors such as retail may be impacted by an increase in theft.

The Centre for Disease Control and Prevention puts the cost of absenteeism to businesses in the US at $225.8 billion in 2022 up from $150 billion in 2018.[75] In the UK, Public Health England estimates the cost to be £100 billion.[76] However, the cost to businesses from presenteeism is significantly higher. It has been estimated that US employees who are suffering from burnout, stress and disengagement cost $1 trillion, whereas in the UK, this is estimated to be around £368 billion.[77]

LGIM has therefore been focused on in-work income inequality, and we include those workers within a company's direct operations and their supply chains as part of our engagement effort. We have been engaging on income inequality and, more specifically, on the topic of living wage for a number of years individually, and collaboratively through both the ShareAction Good Work Coalition and the Platform for Living Wage Financials. ***We undertook 33 engagements with 22 companies on the living wage during 2023; eight of these were collaborative.*** In the fourth quarter of 2023, we also joined the ICCR Living Wage campaign for US workers and signed up to their investor statement, joining other investors representing a combined $4.5 trillion, calling on US companies to take action on the living wage.

CASE STUDY: Living wage campaign

Identify

In the third quarter of 2023, we expanded our corporate engagement on income inequality. We launched our inaugural engagement campaign on this topic with specific vote sanctions against the re-election of the chair, the chair/CEO or president of companies that fail to meet our minimum expectations by the time of their 2025 AGM.

We are targeting the food retail sector, as we believe these companies to be generally more resilient due to the community service they provide, financially less impacted by the COVID-19 pandemic than other sectors, and with a high proportion of their workforce earning low wages. We identified 15 supermarket retailers in developed economies as targets for engagement. We have chosen these companies because of their size and influence.

- **North America:** Costco†, Kroger†, Target† and Walmart†
- **UK:** Sainsbury†, Tesco†
- **Europe:** Ahold Delhaize†, Carrefour†, Casino†, Metro†
- **Japan:** Aeon Co†, Lawson†, Seven & I†
- **Australia:** Coles†, Woolworths†

Engage and escalate

We have written to these companies setting out our expectations and the timeframe in which we expect them to be met:

[75] CDC Foundation, Worker Illness and Injury Costs U.S. Employers $225.8 Billion Annually, February 2015.
[76] UK government, Cost of ill health, 2020.
[77] Expert Market, Employee Absenteeism: Main Causes and Cost to Businesses, January 2023.

- Develop a strategy to ensure all employees receive at least a living wage
- Define what is considered to be a ‘living wage’
- Provide the following key information:

For their own operations:

- The organisations that have helped to determine the living wage for each geographic operation
- The current gap between pay per hour and the living wage per hour
- A timeline within which to close this living wage gap
- Whether the company offers training and education opportunities, including financial education
- Whether apprenticeships or other programmes are offered to school leavers and how selection is aimed to help children from a diverse mix of backgrounds

On their supply chains:

- Any partners that are working with the company to determine living wages
- The targeted supply chains; e.g. certain products/regions
- Any changes made to purchasing practices in order to facilitate the payment of a living wage
- The current pay gaps
- A timeline to close the living wage gap

We began engagement with these companies in late 2023. In Asian markets that have regulations in place setting (and annually reviewing) the minimum wage, the idea of a living wage was new. We also heard that the concept of a living wage was not on the agenda for other investors with whom these companies engaged. Despite this, some of the companies we spoke with were willing to consider approaching a living wage setting organisation to learn more about this.

In European markets, there was more willingness to adopt living wages, but applying this across supply chains was proving far more difficult than initially anticipated, due to the sheer number of companies sourcing from the same suppliers, and the different attitudes towards paying a living wage and agreeing on the appropriate methodology that should be used.

In the US, where the federal government has failed to review the minimum wage since 2009, instead leaving the matter to individual states, the responses ranged from “why should we go first?” to a willingness to explore options by connecting with living wage rate providers.

Outcome

The global campaign is at an early stage with expectations set out over the next two years. Nevertheless, the quality of engagement has been good and has informed how we will evolve our approach to this issue. In the UK, where we have been engaging on this topic for longer, we are already seeing progress and positive outcomes.

Sainsbury’s[†] (ESG score: 55; +1), the second-largest food retailer in the UK, in one of their meetings with us said they were proud of their position as the first major grocery company to have paid the real living wage. They took this decision because they believe that only through investing in colleagues can they ensure a continuous improvement in the customer experience, which in turn will improve corporate performance. The company noted that this has proved effective in that not only have they seen colleague engagement scores increase, but also it is partially responsible for an 80bps improvement in productivity in terms of sales uplift versus colleague costs.

We have recognised from the discussions with companies, that we also need to consider a pro-active engagement campaign with targeted policymakers in tandem with our corporate engagement, relevant to each local jurisdiction to create a level-playing field and raise market standards.

Safe sick pay: helping lead improvements in sick pay

No-one wants to get sick, but when we do, we want to know that we can take the time to get better, and still pay the bills to look after ourselves and our families.

Around a third of UK workers receive only the minimum Statutory Sick Pay (SSP),[78] an amount often too low to cover essential bills. To begin receiving it, workers need to lose three days' pay first. And nearly two million workers – mainly people working multiple jobs like cleaners, carers or parents juggling childcare with work – slip through the cracks and receive no sick pay at all.

Following Legal & General's Hidden Workers report launched in December 2022[79], which focussed on tackling health inequalities in our sub-contracted workforce such as cleaning and security, LGIM Real Assets has taken a leading role on The Safe Sick Pay Campaign. Working in partnership with the Centre for Progressive Change, LGIM Real Assets has helped to elevate the campaign in support of legislative change in this area. In November 2023, we hosted the Safe Sick Pay Business Symposium at which over 100 businesses were represented. We have also worked closely with The Royal Institution of Chartered Surveyors (RICS), our managing agent partners, and peers such as Bruntwood, to establish new standards in this area for the real estate industry. In 2024, LGIM Real Assets will continue to support the aims of this campaign which include three immediate changes to Statutory Sick Pay legislation that would make great improvements to public health and personal wellbeing:

- Removing the earnings threshold for Statutory Sick Pay
- Ensuring Statutory Sick Pay is payable from the first day of sickness
- Increasing the basic rate of Statutory Sick Pay

Our human rights policy

Human rights have been a key focus area for LGIM for several years. We have incorporated the screening of companies' performance on human rights, labour, the environment and corruption as covered under the UN Global Compact (UNGC) in specific LGIM funds since 2018; our proprietary Future World Protection List captures companies that are perennial violators of the UNGC.

LGIM votes against the re-election of the chair or other directors of any company that is on our Future World Protection UNGC violator list for three consecutive years.

Furthermore, our GREGs have integrated various human rights relevant topics when evaluating companies held in portfolios, and we have also established a framework for approaching human rights in the context of sovereigns in our investments.

We have recently published our Human Rights Policy, which emphasises our commitments on human rights as a global investor and outlines our specific expectations of investee companies regarding human rights:

- **Policy commitment:** demonstrate the company's commitment to human rights through adopting and disclosing a human rights policy covering its operation and value chains, adhering to applicable voluntary or mandatory human rights frameworks
- **Board oversight:** provide details of the board oversight of the company's human rights commitments and actions, and whether responsibility lies with the full board or a specific committee
- **Risk identification:** identify the salient primary and secondary human rights topics that are relevant and material to the organisation's operations and value chains, such as a human rights due diligence
- **Remedy access:** provide access, such as grievance mechanisms, to mitigating actions should human rights impacts be identified. We expect companies to demonstrate the effectiveness of the remedy mechanism in practice

[78] UK government, Written evidence from the Trades Union Congress SSP0018, December 2022.
[79] Legal & General addresses health outcomes for hidden workers as it commits to tackle health inequality in the UK, December 2022.

- **Risk prevention and mitigation:** implement a process to prevent, mitigate and track potential human rights risks and impacts, and disclose actions taken accordingly
- **Performance disclosure:** regularly disclose the company's human rights credentials and the effectiveness of their programmes

These are not 'minimum expectations' that, when met, would clearly indicate that a company is 'good' with regard to its human rights protections. Instead, we believe the management of human rights requires continuous effort. Recognising this, our engagement with companies on human rights is not based solely on whether they have met these expectations.

We will continue to review and refine our human rights due diligence approach in evaluating related risks and identifying opportunities in our portfolios.

In 2023, we further expanded our collaborative engagement efforts on human rights. We set out the collaborative organisations and commitments related to human rights to which LGIM has signed up below:

- PRI Advance – Human rights and social executive pay
- Interfaith Centre on Corporate Responsibility (ICCR) – Advancing worker justice and equitable global supply chains
- Investor Alliance for Human Rights – Human rights
- Platform for Living Wage Financials – Living wage

CASE STUDY: Volkswagen†

Identify

Volkswagen (ESG score: 51; -2) is one of the largest automotive manufacturers in the world, with production facilities across multiple regions. Volkswagen has a particularly large presence in China, where it has been present since the 1980s. China comprised just under 40% of the company's global vehicle deliveries in 2022.[80]

Volkswagen opened a plant in Urumqi, Xinjiang in 2013 as part of a joint venture with SAIC Motor. Over recent years, multinational corporations have faced allegations of using forced labour in their operations in this region. In late 2022, global financial services company MSCI responded to allegations of forced labour by assigning a 'red flag' controversy to Volkswagen.

As part of our engagement with the company, we were looking for the following:

- An understanding of the nature of Volkswagen's presence in Xinjiang and how it enforces its governance practices via the joint venture
- To work with the company to identify a solution to obtain the removal of the red flag from the external agency
- To determine long-term solutions to prevent future governance controversies relating to human rights or labour related practices

Engage and escalate

We have maintained a regular and continuous dialogue with the company for many years on its strategic direction and other governance questions, for example, following the Dieselgate scandal in 2015. Since MSCI assigned a red flag controversy, we increased our dialogue with the company further, and have discussed the question of human rights and the company's presence in Urumqi with senior management including the chief financial officer

[80] Volkswagen Annual Report as of 31 December 2022, p128.

and head of treasury, as well as investor relations. Engagement has taken place via multiple communication channels, including in-person, conference calls and written correspondence.

The engagement activity has been led by LGIM's Active Strategies team, as the credit analyst has the greatest familiarity with the company, but communication with the company has also incorporated members of the Investment Stewardship team.

Outcome

Over recent years we have considered Volkswagen's presence in Xinjiang as carrying relatively higher risk compared with peers with more limited operations in the region, due to the increased scrutiny that this was likely to attract at some point. We downgraded our internal recommendation of the company in November 2022 partly due to this factor.

Our engagement with Volkswagen has been well received and we are happy that the company has taken the issue very seriously and acted to attempt to resolve the situation in a proactive and pragmatic manner.

Following multiple discussions with investors, Volkswagen resolved to obtain an independent audit of its joint venture plant in Xinjiang, which was conducted in December 2023. This audit was conducted by Loening – Human Rights & Responsible Business, and appears to address the main concerns around operations at the plant. The completion of the audit resulted in MSCI subsequently removing its red flag controversy.

As a result of the removal of the red flag, it is now possible for a greater proportion of LGIM funds to participate in new Volkswagen bond issuances. In addition, our credit analyst saw a short-term relative value opportunity in the company's bonds following the positive technical related to the removal of the MSCI flag.

We will continue to engage with Volkswagen on the subject of human rights and other governance topics, including the long-term future of the plant in Xinjiang and retain an open dialogue with the company and its management.

S: Health

- Almost 20% of shareholders at McDonald's† supported our co-filed resolution on antimicrobial resistance (AMR)
- During 2023 we intensified our collaborative engagements on nutrition with multinational Nestlé†

We believe there is a strong link between social health and economic health. Every year, poor health costs approximately 15% of global GDP in the form of premature deaths and the lost productivity potential of workers.[81] Poor worker health is projected to cost US employers alone $575 billion a year in lost productivity due to chronic illnesses and injuries.[82] Further, the health-related, but often hidden, costs of the global food system, relating to the impacts of obesity and undernutrition, pollution, pesticides and antimicrobial resistance, are estimated to amount to $6.6 trillion.[83]

LGIM has identified AMR and nutrition as two key areas of health which we deem as systemic risks; we therefore have initially prioritised these two areas as 'sub-themes' within our overall 'Health' theme. This does not prevent us from considering other areas that impact human health that may also raise systemic risks, and that may potentially have a negative effect on our clients' assets.[84]

AMR

AMR is the damaging effect of disease causing microorganisms (e.g. bacteria, viruses, fungi and parasites) increasing their resistance to antibiotics. AMR is one of our global systemic engagement themes. ***The World Health Organization (WHO) describes AMR as one of the top 10 global public health threats facing humanity today.***[85] The World Bank estimated in 2016[86] that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis. Finally, a study published in January 2022[87] confirmed that 1.27 million deaths globally in 2019 were directly attributable to bacterial AMR, with 4.95 million deaths indirectly linked to this.

As a global systemic issue, we believe improving health issues requires a market-wide approach. That is why engagement with governments and regulators is so important. LGIM is an investor member of the Investor Action on AMR, founded by the Access to Medicine Foundation, FAIRR Initiative and UK Department of Health and Social Care. LGIM also supported the Call to Action that Investor Action on AMR sent to G7 finance ministers in 2021, highlighting various policy actions that governments could implement to tackle the growing threat of AMR. We will continue to work with Investor Action on AMR during 2024 in view of the United Nations High-Level Meeting on AMR which is taking place in September.

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[81] McKinsey Global Institute, 'Prioritizing health: A prescription for prosperity', July 2020.
[82] Integrated Benefits Institute, Cost of Poor Health Infographic, 2019.
[83] The Food and Land Use Coalition, 'Growing Better: Ten Critical Transitions to Transform Food and Land Use', September 2019.
[84] E.g. In Q4 2023, LGIM joined the Investor Initiative on Hazardous Chemicals (IIHC). Further, we explore and consider the interlinkages between health and our other strategic priority themes such as climate change and nature.
[85] World Health Organisation, Antimicrobial resistance, November 2023.
[86] World Bank, By 2050, drug-resistant infections could cause global economic damage on par with 2008 financial crisis, 2016.
[87] The Lancet, Global burden of bacterial antimicrobial resistance in 2019: a systematic analysis, 2022.

World AMR Congress

The World Antimicrobial Resistance (AMR) Congress took place on 7 and 8 September 2023 in Philadelphia, USA. The LGIM Investment Stewardship team was invited to speak at the conference. This annual congress gathers academics, medics, healthcare professionals, companies, government officials, international organisations, policymakers and regulators from around the world to share research, innovations, new developments, and considered and inspiring thinking on AMR. The conference attracted 1,400 attendees.

On the second day, we participated in a fireside chat with FAIRR on how institutional investors can help curb the 'silent pandemic'. As one of only two institutional investor representatives at the event, we explained why LGIM considers AMR a systemic risk to our clients' investments, and what we can do to help the fight against AMR. We outlined the tools we have at our disposal, such as engagement with companies and policymakers, voting shares and filing shareholder proposals. We sought to make the audience aware of the critical role institutional investors can play in curbing AMR and to encourage the various representatives from academia, healthcare professionals, international organisations and other participants to consider us as partners to engage with and combine forces, to enable us all to take co-ordinated action on this crucial issue. As a global investor and a universal owner, we strive for market-level improvements, and we seek to collaborate with like-minded stakeholders to speak with one voice on important global issues, such as AMR, which we believe are financially material for our clients.

CASE STUDY: McDonald's†

Identify

As a global investor across multiple asset classes, LGIM can see the widespread impact AMR may have across numerous sectors from food and protein producers to healthcare and pharmaceuticals, and travel and leisure.

McDonald's (ESG score: 67; -1) is the largest beef purchaser in the US and one of the largest in the world. The actions the company takes reverberate across the market, and can have repercussions for sectors such as animal pharmaceuticals, livestock and water utilities.

Engage and escalate

As we highlighted on page 89 of last year's Active Ownership report, in late 2022, we co-filed a shareholder resolution with other like-minded investors under the umbrella of the Shareholder Commons asking McDonald's to comply with World Health Organization (WHO) guidelines on the use of medically-important antimicrobials in food-producing animals throughout its supply chain. The resolution sought adherence to the WHO guidelines throughout the full supply chain, including beef, chicken and pork.

Globally, most antibiotics are used not for humans, but for animals. The overuse of antibiotics is known to exacerbate AMR.[88]

It is important to note that we did not ask the company to ban the use of antibiotics in its supply chain, but to comply with the WHO guidelines. These guidelines cover those antimicrobials, including antibiotics, that are medically important, rather than all antimicrobials.

[88] WHO, Antimicrobial resistance, November 2023.

Outcome – continuing our actions at McDonald's

Subsequent to the filing of the shareholder proposal, the company released its antibiotics reduction targets, two years after the initial deadline. However, we did not deem there to be sufficient progress on the company's AMR activities. Our shareholder proposal received 18% of votes in favour.[89] This was slightly lower than we had hoped for, but represents a higher level of support than AMR proposals in previous years, and was achieved despite the fact that the two main proxy advisers recommended shareholders to not support the proposal.

We were pleased to see the Financial Times' support for investor action on AMR and for the shareholder resolution which we co-filed.[90]

Following the company's AGM in May 2023, we have sought engagement with the board and have also signed up to FAIRR's collaborative investor engagement on Antibiotic Use in the Quick-Service Restaurant Sector in North America. This engagement stream covers fast-food restaurant companies, including McDonald's†, Yum! Brands† (ESG score: 69; -4), owner of KFC and Pizza Hut, and Restaurant Brands International† (ESG score: 57; +3), owner of Burger King.

At the end of December 2023, we co-filed the same shareholder resolution again at McDonald's under the auspices of the Shareholder Commons. This time, the company filed a so-called no-action letter at the SEC to omit the proposal from its AGM agenda. We will continue to engage with the company on the issue of AMR.

AMR poses a systemic threat to the global economy. As a responsible investor, we continue to call on McDonald's to increase its commitment to protect the effectiveness of medically important antimicrobials. In doing so, one of the largest food producers in the world, with extensive supply chains, would be taking a significant step towards mitigating AMR; this type of coordinated action is crucial in terms of aiming to control this risk not just in one company, but more broadly across the sector and the markets in which we invest on behalf of our clients.

During 2023, we also supported other AMR resolutions filed at Tyson Foods† (ESG score: 42; +0) and Hormel Foods† (ESG score: 52; +2).

Nutrition

Nutrition is an important topic for investors because it has a significant impact on the health and wellbeing of individuals, communities and societies. ***Poor diets generate more disease worldwide than physical inactivity, alcohol and smoking combined.***[91] There is a clear link between poor diets/malnutrition and chronic health conditions, such as obesity, heart disease and diabetes (non-communicable diseases). These conditions can in turn lead to increased healthcare costs and decreased productivity, both of which will have negative impacts on the economy.[92] On the other hand, good nutrition can promote health and wellbeing, contributing to a strong and productive workforce and a healthy economy.

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[89] In addition to a further small number of shareholders abstaining on the resolution (Proposal 6). McDonald's Corp Form 8-K, May 2023.
[90] The Financial Times, 'Investors can play their part in the war on superbugs', May 2023.
[91] Access to Nutrition Initiative, 'Investor Expectations on Nutrition, Diets & Health', June 2020.
[92] GBD 2017 Diet Collaborators, 'Health effects of dietary risks in 195 countries, 1990–2017: a systematic analysis for the Global Burden of Disease Study', 2017.

We believe that tackling malnutrition is an economic imperative. The three interconnected challenges of obesity, undernutrition and micronutrient deficiencies represent a heavy burden to economic development globally: their material cost is estimated at 5% of global income, or $3.5 trillion, per annum.[93] While undernutrition in regions such as Africa and Asia – where it accounts for an 11% loss of GDP each year[94] – is significant, obesity is estimated to lead to an annual 3.3% reduction in GDP in OECD[95] countries, and may constitute as much as 8% of national health expenditure.[96]

We are members of the Access to Nutrition Initiative (ATNI) which, via its Global Index, assesses how the world's food and beverage manufacturers attempt to address malnutrition in all its forms. The Index ranks these companies on governance and management; the production and distribution of healthy, affordable, accessible products; and how they influence consumer choices and behaviour. We are also members of the ShareAction Healthy Markets Initiative, which is specifically focused on improving children's health by improving access to healthy, affordable food.

Global health challenges: can investors and society work together?

In October 2023, LGIM was invited to take part in a panel discussion with the Access to Medicine Foundation to debate global health challenges and whether investors and civil society can work together to solve them. The event was organised by the Geneva Graduate Institute and the Global Health Centre.

A member of LGIM's Investment Stewardship team participated in the panel discussion, explaining the work we do when it comes to health and our two sub-themes, nutrition and AMR. To provide the audience with a practical example, the shareholder proposal filed by LGIM at McDonald's was outlined, illustrating the various tools that investors have at their disposal to encourage change, and how our actions can dovetail with those of other stakeholders. We believe it is important to consider the different types of influence that the various company stakeholders can bring to bear, and why it is so important that we work together on significant areas of global risk, such as AMR and nutrition.

[93] Global Panel on Agriculture and Food Systems for Nutrition, 'Technical Brief No.3: The Cost of Malnutrition – Why Policy Action is Urgent. London: Global Panel on Agriculture and Food Systems for Nutrition', 2016.
[94] World Bank (2019) 'The World Bank and Nutrition'. Available at: https://www.worldbank.org/en/topic/nutrition/overview (Accessed: 2021); OECD (2019) The Heavy Burden of Obesity: The Economics of Prevention. Paris: Organisation for Economic Co-operation and Development (OECD). Available at: https://www.oecd-ilibrary.org/docserver/67450d67-en.pdf (Accessed 6 June 2021).
[95] OECD = Organisation for Economic Co-operation and Development.
[96] World Bank, 'The World Bank and Nutrition', 2019 OECD (2019) The Heavy Burden of Obesity: The Economics of Prevention. Paris: Organisation for Economic Co-operation and Development (OECD). Available here (Accessed 6 June 2021).

CASE STUDY: Nestlé†

Identify

Nestlé (ESG score: 62; +0) is one of the world's largest food producers, owning over 2,000 brands and selling its products in nearly 200 countries. Therefore, we believe that the company’s behaviour and decisions on the sale and marketing of food products is influential in setting the tone of the industry worldwide.[97]

Relating to nutrition, risks to food and beverage companies include, but are not limited to, reputational, litigation and regulatory risks. Several governments around the world have implemented, or are considering implementing, regulation related to front-of-pack food labelling, advertising of unhealthy food products, taxation and more.[98] [99] This potentially presents a material risk for investors with holdings in global food and beverage manufacturers, as companies with a product portfolio including a substantial proportion of foods that are high in fat, salt and sugar could see negative impacts from increasing regulation.[100]

Engage and escalate

We have engaged with Nestlé over the past few years via ATNI and ShareAction’s Healthy Markets Initiative. We have asked, amongst other things, that the company applies a government-endorsed nutrient profiling model (NPM) and that it sets targets to increase the sale of products that are deemed healthy by a government endorsed NPM.

Outcome

Nestlé announced in November 2022 that it would benchmark its entire portfolio against the Health Star Rating (HSR) and in September 2023 it announced that it aims “to grow the sales of their more nutritious products by CHF20-25 billion by 2030. This represents about 50% growth over 2022 sales.”[101]

The target set by Nestlé applies to its products with HSR 3.5 stars or more, together with its specialised nutrition products, including baby foods, vitamin- and mineral supplements and medical nutrition. These already account for close to 60% of the company's food and beverage sales.

While we acknowledge that a target has been set, we are disappointed with the scope of the target; the inclusion of baby foods, supplements and medical nutrition means that the target could be met without increasing sales of healthier foods or improving the nutritional value of its food products that have a HSR of 3.5 or more.

We have continued our engagements with Nestlé on increasing the proportion of sales from healthy foods, the details of its target, and how it plans to achieve this. ***As an escalation we are co-filing a shareholder resolution at Nestlé’s 2024 AGM calling for more effective targets to increase healthier food choices.***

[97] Food Industry, The 10 largest food manufacturers in the world by revenue, 2020.
[98] Nutrition Reviews, ‘Governmental policies to reduce unhealthy food marketing to children’, 2019.
[99] World Bank Group, ‘Taxes on sugar-sweetened beverages: international evidence and experiences’, 2020.
[100] Access to Nutrition Initiative, ‘The Global Context: The Malnutrition Crisis’, 2021.
[101] Nestlé press release, Nestlé sets target to boost sales of its more nutritious foods and steps up support for balanced diets, September 2023.

CASE STUDY: Development of place-based social impact toolkit

Identify

Across our real estate equity portfolios, our Real Assets team takes a place-based impact approach to investment and asset management. This entails taking an impact-led lens at asset and portfolio level as to how we can intentionally contribute to, deliver and catalyse positive economic, social and environmental outcomes.

When looking at social impact, we believe it is essential we understand and address local needs, support greater community integration, and reinforce local economic resilience – which we believe drives better long-term value and return for investors.

Engage and escalate

To support asset and fund managers in delivering positive place-based social outcomes that are intentional, additional and measurable, we have developed a toolkit to help apply these core principles across the investment lifecycle.

Outcome

The foundation of the toolkit is a comprehensive framework of social impact themes and priorities across three core areas:

Pathfinder Assets has helped to test the toolkit. As a part of this process, the company has developed a ‘theory of change’ to redefine the needs of the area in scope, the social priorities that will be addressed, actions that will be delivered and the outcomes that will be realised from these actions. This has helped to provide practical examples that can be adapted and scaled across the business.

CASE STUDY: Development of a new framework to support housing associations with ESG-related CapEx requirements

Identify

There is an increasing requirement for housing associations to upgrade their stock to align with upcoming ESG-related regulations and targets, such as those related to fire safety standards and decarbonisation requirements.

Engage and escalate

We worked with one housing association that needed to introduce some flexibility in its loan terms to facilitate additional spending on fire safety-related upgrades. Following a review of expenses related to the necessary works and its business plan, it was agreed that these costs would not count negatively towards its covenant, allowing the improvements to be made without risking credit deterioration.

Outcome

The housing association used this approach to support the upgrades required, improving fire safety standards across its portfolio. We have also discussed how this approach could be used to support its ongoing decarbonisation efforts. The framework developed through this initial engagement enabled us to continue to support similar housing associations looking to achieve their ESG-related goals, while maintaining financial discipline and our credit position.

G: Governance

- In 2023, we applied 265 votes against US companies with dual-class share structures
- On executive pay, we apply flexibility when considering pay structures where these are aligned to long-term sustainable performance and stakeholder experience

Executive remuneration: best practice

LGIM's guidelines on director pay within our Global Corporate Governance and Responsible Investment Policy and our separate Principles of Executive Pay documents for the UK and US markets are detailed and provide a clear picture of our minimum expectations on pay practices globally.

These documents are updated regularly, and changes to the UK principles are discussed with various remuneration advisers to socialise these across the market and provide context.

LGIM's Investment Stewardship team also participates in industry working groups to evolve market guidelines of best practice on executive pay in the UK, including via the Investment Association and the GC100 (the association of general counsel and company secretaries of FTSE 100 companies, also including members from institutional investors) and Investor Group.

We consider companies' pay structures and their alignment with long-term sustainable performance and stakeholder experience. In our view, upper quartile total pay should only be earned for outperforming peers and meeting stretching performance targets.

UK pay in the spotlight

In 2023, the debate around UK executive pay competitiveness gathered pace. Over the year, companies, investors and various government bodies have provided feedback and weighed up the divergent viewpoints of various stakeholders in the UK capital market.

We believe that our pay principles and voting policies allow the necessary flexibility to facilitate effective discussion with remuneration committees in implementing the pay structures best suited for their companies' strategies. However, to provide further clarity and assurance, we have made minor updates to our UK Executive Pay Principles:

- **Total quantum:** We clarified that LGIM does not apply a strict policy threshold or maximum pay expectation in terms of absolute quantum.
- **Hybrid schemes:** While our general expectation remains that companies should not normally have more than one long-term incentive plan (LTIP), some companies may seek to implement hybrid incentive schemes that include both time-based restricted shares and performance share awards. Under certain scenarios, we now support such schemes and have included a separate section on our expectations.
- **Bonus deferral:** In exceptional circumstances we may allow a smaller proportion of bonus to be deferred where directors have substantial shareholdings above their normal guidelines and mechanisms are in place to allow for clawback of performance pay (through shares held in trust).

In November 2023, we provided additional clarification on our views on the importance of long-term, performance-aligned pay structures and quantum considerations to an audience of over 100 participants at our Non-Executive Director event.

Over the course of 2023, we were able to support 238 (75.8%) of the 314 remuneration policy votes proposed at UK companies. We voted against 120 (20.3%) of the 591 remuneration reports proposed, a slight reduction in negative votes compared to 2022 (21%). We also opposed the election of 61 remuneration committee members in the UK, due to our persistent concerns over their pay practices (2022: 82).

Globally, we opposed 52% (2022: 56%) of all management-proposed pay-related proposals in 2023, due to the companies not meeting our minimum standards for fair and appropriate long-term performance-based pay.[102]

Voting on pay practices in North America

We have continued to strengthen our policy stance in this region to improve pay practices and better align pay with long-term performance. After several years of refining our policy in this market, we needed to make very few substantial changes in 2023.

From 2024, we will apply additional voting sanctions on the 'say on pay' proposals at US companies where:

- Executives use corporate jets for private purposes
- At S&P 500 companies whose total shareholder return (TSR) has underperformed the S&P 500 over the previous three years, and their CEO pay ratio exceeds 300

Last year, we voted against 86.5% (2022: 77.2%) of management-proposed pay proposals at US companies.[103] Many of these related to performance conditions not being measured over a three-year period, a majority of long-term incentives not being linked to any performance conditions at all or becoming payable for below median relative performance.

In 2023, there were 13 companies[104] in the S&P 500 that failed their 'say on pay' vote, five less than in 2022. LGIM voted against each one of these[105], including at American International Group† (ESG score: 65; -3) and Broadcom† (ESG score: 72; +5) due to significant one-off awards, limited performance linkage and vesting below median comparable performance, and at Equifax† (ESG score: 65; -2) due to a $25 million retention award to the CEO with weak target rigour, including vesting for achieving median performance. We also again opposed the 'say on pay' votes at Netflix† (ESG score: 55; -1) due to a lack of long-term aligned, performance-based incentives, and at ServiceNow† (ESG score: 58; -3) for failing to appropriately address last year's shareholder concerns over poor pay-for-performance alignment, sizeable awards and a focus on short-term performance.

[102] LGIM internal vote data, 2023.
[103] LGIM internal vote data, 2023.
[104] American International Group†; Bio-Techne Corp†; Broadcom†; CME Group†; Equifax†; Illumina†; Live Nation Entertainment†; Match Group†; Netflix†; Palo Alto Networks†; Prologis†; ServiceNow†; Simon Property Group†.
[105] LGIM internal vote data, 2023.

CASE STUDY: Pearson[†]

Identify

We continue to review and strengthen our executive pay principles to improve pay practices across markets. Given the ongoing discussion on the level of UK pay versus what is available to executives in the US, we closely reviewed our expectations in this regard. We believe that our policies allow sufficient flexibility to fairly consider each proposal on its own merit but reiterate the importance of certain structural considerations around deferral, long-term alignment and performance-based pay expectations. However, we are keen to ensure that company executives do not pick and choose those pay elements from each market that benefit them the most without a good strategic rationale.

Engage and escalate

Pearson (ESG score: 86; +1) provides education products and services to institutions, governments and individuals in various countries, with a significant exposure in the US market.

Pearson consulted with LGIM in advance of the publication of its remuneration policy to propose some changes to executive pay. The changes centred around the fact that their CEO is based in the US and should therefore be compensated in line with US peers. For this reason, the company proposed to increase the annual bonus opportunity from 200% to 300% of salary, and his LTIP award from 350% to 450% of salary. His salary stood at $1,250,000 and he was expected to receive a 3.5% increase, in line with workforce raises in the UK and US.

Our main concern with the proposal was that, although the company's stated intention was to align the CEO's pay package more closely with US peers, they elected to use UK practices when it came to his pension. This would result in a pension provision of 16% of salary, which is more than a US executive could expect to receive.

During the consultation phase in late 2022, we clearly noted our concern with the oversized pension contribution to the CEO, although we were supportive of some of the variable pay increases under the LTIP.

As the proposal was put to shareholders at the AGM in April 2023, including the significant pension provision in line with other UK employees, we decided to vote against the policy resolution. We also escalated our concern by voting against the re-election of the remuneration committee chair given LGIM has had reason to vote against pay at this company for more than one year. We pre-declared this vote ahead of the AGM.

The remuneration policy vote received 46.4% of votes against, almost failing the 50% approval threshold, and earning itself a top spot for pay dissent in the UK.

In a post-AGM outreach by Pearson, in line with the UK Corporate Governance Code expectation on votes with significant dissent, we again clarified our position on choosing a single talent market in which to set pay.

LGIM's stance on consultations

LGIM has long-established, publicly available guidelines on our minimum expectations of pay proposals. Our experts meet with remuneration consultants annually to discuss any changes to our policies and market developments. We also regularly meet with other investors to ensure our guidelines continue to be some of the most detailed in the market.

We encourage companies to use these public resources to further their understanding of how our policy may be applied to pay-related proposals on the ballot. We continue to engage with companies on exceptional pay proposals and structures that fall outside the norm.

Given the discussions on UK pay competitiveness, as well as companies wanting to review and benchmark executive pay packages that had not been increased substantially for a number of years due to the COVID-19 pandemic and the cost-of-living crisis, we have seen an increasing number of companies consulting their shareholders on proposed pay raises. We continue to see increases being proposed to all elements of pay, across salary, bonus and LTIP awards, often simultaneously. Additionally, some consultations were still dealing with potential windfall gains from outstanding long-term incentive awards from 2020 vesting during the year, and how the remuneration committee had dealt with the payouts under these schemes.

In terms of general salary increases, we expect director raises to be below the average employee increases. However, we considered individual exceptional increases on a case-by-case basis. When assessing wider pay proposals, we consider the company's rationale, benchmarking data against company peers by market size and taking into account performance, business need and competitiveness, as well as the treatment of the wider workforce and the experience of stakeholders.

In 2023 we were involved in about 150 separate remuneration consultations, a significant increase on the 100 consultations that we responded to in the previous year.

Our expectations on ESG metrics

ESG risks can be financially material to a company's medium to long-term value. To ensure these risks are appropriately managed at the top of the organisation, we expect companies to set tangible ESG objectives against executive remuneration.

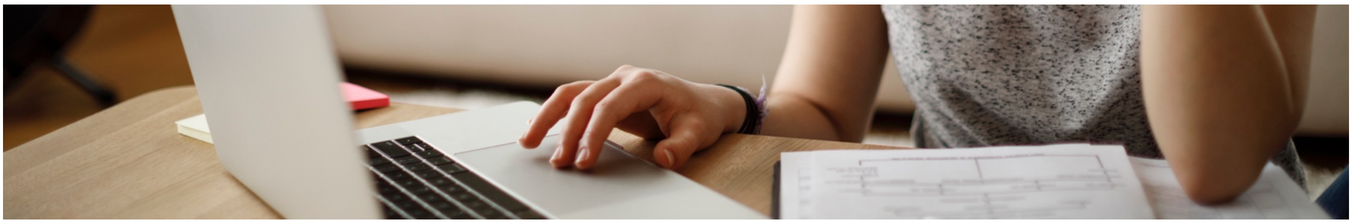
We believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay:

- **Health & Safety:** In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), we expect a health & safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace.
- **Oil & Gas:** Remuneration at oil & gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over-investment.
- **Climate:** Companies in sectors that can have a significant effect on climate change should link part of their pay to delivering on their climate mitigation goals.

Targeting more companies on climate

We had previously set out our expectations for those companies in 16 climate-relevant sectors to have at least 20% of their LTIP awards linked to GHG emissions reduction targets. Metrics should be linked to SBTi-approved or equivalent transition plans aimed to achieve net-zero by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue, but also have a positive impact on climate.

In 2023, we increased the number of sectors to which we expect this policy to apply to 20 climate-critical sectors, corresponding with the expansion of our Climate Impact Pledge campaign at the end of 2022.[106] These expectations will come into effect for remuneration policies from 2025.



Investor rights

Continuing to push for 'one share one vote'

LGIM believes that voting is an essential right of shareholders, to promote market efficiency and to hold company boards to account. We are strong proponents of the 'one share one vote' standard, based on the principle that control of a company should be commensurate with the economic interests of investors.

This basic shareholder right continues to be undermined by the existence of unequal share class structures, or 'dual class' shares - i.e. where two or more types of share class exist, each with different voting rights.

LGIM has been a long-standing advocate for equal voting rights. In 2022, we published a blog post on this topic, and initially wrote to over 160 US companies in the Russell 3000 Index for which data showed dual-class capital structures.

We noted that we would be voting against the re-election of the board chair (or other senior directors) from 2023, at US-incorporated companies with dual-class structures where:

- The company does not have a plan to set a time limit on a dual-class structure, and
- Shareholders have not been given the opportunity to regularly vote on its continuation.

In 2023, we voted against 265 companies based on their dual-class structures in line with this voting policy for the first time. To target these companies, we used a combination of information from data providers and those companies identified by ISS ahead of the AGM.

We have been continuing our engagement with individual companies based on the engagement campaign we started in 2022, predominantly to determine that our data remains accurate and reflects the realities of these dual-class capital structures.

At the moment, this policy applies only in the US, where we have seen notable companies go public with dual-class share structures. However, we will continue to assess current developments across global capital markets and may extend our voting sanctions to other jurisdictions where we feel similar action is appropriate in the future.

[106] This will apply to companies in the following sectors: aluminium, apparel, autos, aviation, banks, cement, chemicals, food, forestry, glass, insurance, logistics, mining, oil & gas, REITs, shipping, steel, technology and telecoms, multi-utilities and utilities.

CASE STUDY: Mastercard†

Identify

Mastercard (ESG score: 64; -6) provides financial transaction processing services, including payment processing for credit and debit cards, electronic cash and ATMs to clients all over the world.

Engage and escalate

As a consequence of our 'one-share-one-vote' engagement campaign, Mastercard's chief investor relations officer reached out to the Investment Stewardship team ahead of the AGM in June to provide additional background to their capital structure, which includes dual-class shares.

During our engagement, the company confirmed that, while there is a small number of legacy shares outstanding held by financial institutions, these are non-voting shares and do not have any preferential rights attached. Furthermore, the amount outstanding is insignificant compared to overall issued shares (less than 1%) and steadily decreasing year over year.

Outcome

Given this additional information, we were satisfied that the capital structure at Mastercard did not impede the proportionate voting rights of ordinary shareholders. Based on this confirmation, we decided to override our policy vote and removed Mastercard from future vote sanctions. We voted in favour of the re-election of the board chair at the AGM (Item 1.a) and the resolution received overwhelming support of 98.1% of shareholders voting. This instance demonstrates how written engagement campaigns can flush out additional, relevant information that allows us to apply a nuanced voting stance at the AGM.

CASE STUDY: Aegon†

Identify

Following the disposal of Aegon Netherlands to ASR, Aegon (ESG score: 81; +0) no longer had insurance activities in the Netherlands. This transaction had transformed Aegon into an international insurance and asset management company. As a result, over 99.5% of Aegon's insurance business is not located in jurisdictions where Solvency II is the governing capital framework. The company made the decision to redomicile in Bermuda under the supervision of the Bermuda Supervision Authority. This required a vote by shareholders at an EGM on 30 September.

While the business rationale was sound, LGIM's main concerns with this proposal were that the new regulatory framework would adversely impact shareholder rights, and potentially its capital position. The key issues included:

- No pre-emptive rights for existing shareholders on the issuance of common shares
- No shareholder approval would be required for share buybacks
- No shareholder approval would be required for annual final dividend payments

We decided to engage with the Aegon management team ahead of the EGM to highlight our concerns on the weakening of shareholder rights under the proposed redomicile and amendments to the company's Articles of Incorporation. Given the concerns among investors and third-party service providers, such as ISS, we sought to lend our voice to influence the proposals and push for enhanced shareholder rights ahead of the vote. Additionally, we wanted to better understand the impact on the business of the new supervisory environment to ensure that it would not adversely impact either creditors or shareholders.

Engage and escalate

We were in touch with Aegon's investor relations team in early September 2023 ahead of a planned meeting with the CEO and management team at a roadshow in the US. We noted our initial concerns with some of the proposed changes to the company's Articles of Incorporation following the redomicile to a jurisdiction with lower shareholder rights protections. This concern was also picked up by proxy advisory firms ISS and Glass Lewis, who recommended shareholders vote against the proposed transaction.

We also met with Aegon's CEO in September. Given the importance of the vote on the company's business performance, but potential negative effects on shareholder and creditor rights, the meeting was attended by the Investment Stewardship team as well as credit analysts in both London and the US. There was another follow-up meeting with the CEO two days later, where changes to the proposals were discussed.

Outcome

Following engagement on 14 September, Aegon announced amended proposals on 15 September, that provided for enhanced shareholder rights to more closely align with provisions previously in place, especially around capital management authorities.

With pressure applied on the company by investors and proxy advisers, we were able to push for improved shareholder rights and amended terms ahead of the vote taking place at the EGM.

Following the company's announcement on 15 September of changed terms and commitments, both ISS and Glass Lewis changed their vote recommendations on the proposal. LGIM felt comfortable supporting all resolutions at the EGM. The redomicile of Aegon was overwhelmingly approved by shareholders with 98.7% of shares voted in favour.

Working within reducing shareholder protections

The last couple of years have seen significant consultations on proposed regulatory changes and updated best practice guidelines in the UK. LGIM has participated in a number of consultation exercises, both in conjunction with industry bodies and individually, to ensure that our voice is heard when it comes to developing new or changing existing market norms and regulations.

LGIM has been working with the Investment Association and other groups (e.g. FTSE committees) on the response to the FCA proposals as part of the regulator's work to drive capital markets efficiency in the UK. We also submitted our own response.

In summary, we believe the changes in the FCA proposals have the potential to dilute shareholder rights, with a shift of responsibility and control from investors (except if you are a controlling shareholder) to management.

The three key concerns in the proposed changes centre on the intended permissive approach to:

- Dual-class share structures (DCSS)
- Significant transactions
- Related-party transactions

Overall, our concerns relate to the combined effect of deregulation, loss of sponsor oversight, and the impact upon corporate accountability versus investors' ability to monitor and influence. We are longstanding advocates for equal voting rights and have been conducting a campaign on dual-class shares at US companies. In these proposals, we also see potential for constraints on effective stewardship by removing some of our 'stewardship tools' (such as voting on certain transactions), and in our view, the alternative accountability mechanisms or suggested market responses may not be practical outside a judicial system like that available to investors in the US.

In May 2023, the FCA also announced that it is proposing significant changes to the listing rules, including replacing its existing 'standard' and 'premium' listing segments with a single category for companies trading on the London Stock Exchange.

Our feedback on this consultation has reflected both our general and more specific concerns. It is therefore disappointing that the proposals were mostly carried forward into the next consultation phase unchanged. In December 2023, the FCA opened a renewed consultation into the effectiveness of the UK capital market, which is closing in March 2024. If the proposals for the new UK listing regime are adopted, the new rules are expected to come into force in the second half of 2024.

A new Corporate Governance Code

We also provided a response, together with Legal & General Group, to the FRC consultation on the proposed changes to the UK Corporate Governance Code. Proposed changes focused on internal audit functions and the increased inclusion of ESG issues as part of several elements to be reported on.

The long-awaited 2024 UK Corporate Governance Code was published on 22 January 2024, replacing the 2018 Code, and will be applicable to reporting years starting January 2025; an exception will be Provision 29, relating to internal audit functions, which will become applicable for reporting years from 2026, to allow companies more time to implement these increased reporting expectations.

We will continue to monitor the upcoming changes in this space. The FCA's review into the UK Listing Rules is ongoing. With the new Corporate Governance Code being implemented, elements may become outdated as soon as new regulations are brought in.

Market watch: Japan

All eyes on Japan – significant push for improved governance and performance

Japan has made great progress in corporate governance expectations of listed companies. This has been recognised by the Asian Corporate Governance Association in its recently published CG Watch[107] which ranks the corporate governance and ESG credentials of 12 markets in the Asia Pacific region. The report found Japan to have been the most improved of the key markets in APAC, having climbed from fifth place in 2020 to second in 2023.

Governance reforms in Japan are seeking to address both disclosure gaps and governance structures at Japanese companies to assuage investor concerns over their perceived limited capital efficiency. Improvements are driven by changes at the regulatory and policy levels that seek to apply pressure on companies to unwind cross-shareholdings and improve disclosure on capital efficiency programmes. This includes the Tokyo Stock Exchange's recent step to name companies that have disclosed even the most rudimentary plan on improving their capital efficiency and profitability by publishing a list of those companies.[108]

Additionally, shareholder activism in the market has been increasing over recent years, with NGOs also playing an important role in putting shareholder proposals on the agenda at Japanese companies. This shows that a combination of policy pressure and investor collaborations can have a significant impact on a market's governance structures, and ultimately on long-term value accretion for investors.

In 2023, there were over 370 shareholder resolutions at Japanese companies in our portfolios, ranging from governance and director-related demands, over climate proposals, to capital management resolutions seeking share buy-back programmes or dividend pay-outs. Of these, 49 were broadly related to capital management, with 32 (65.3%) supported by LGIM.

LGIM has engaged significantly in Japan for some time, both via policymakers and regulators (see our work on these issues in the Policy advocacy section and under our Diversity section), as well as directly with companies.

In 2023, we held over 100 engagements with around 80 Japanese companies, on topics covering climate change, governance and board structure, and capital management. Japan is also an important market as part of our Climate Impact Pledge engagement programme, with 10 'dial mover' companies hailing from that country.

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[107] ACGA, CG Watch - A new order, December 2023.
[108] TSE, Tokyo Stock Exchange, Inc. (TSE) Has Published a List of Companies That Have Disclosed Information Regarding "Action to Implement Management That is Conscious of Cost of Capital and Stock Price", January 2024.

CASE STUDY: Kansai Electric Power†

Identify

Kansai Electric Power (ESG score: 34; +2) is one of the largest electric utilities companies in Japan. We identified several governance areas for improvement which we believe, when addressed, could positively influence its sector more broadly in Japan.

Following a bribery scandal which surfaced in 2020 involving former directors and spanning over a period of three decades, the company underwent significant changes to improve governance. These changes have been positive, but we still observe some areas where we think improvements could be made, relative to our minimum expectations.

Specifically, these include:

- Director independence
- Cross-shareholdings
- Limits to tenure of senior advisors to the board ('Komon')

We are pleased to note that the company meets our expectations for gender diversity in Japan of 15% female representation on the board, which we also expect to increase over time.

On climate change and our expectations under the Climate Impact Pledge, we noted that the company has not yet disclosed interim emissions targets nor a time-bound commitment to exit coal-fired power generation.

In our meeting with Kansai Electric Power, we were able to discuss these areas in detail to better understand the company's approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

Engage and escalate

Kansai has traditionally received many shareholder proposals, with mixed levels of support over the years.

At its 2023 AGM, in the governance sphere, we again supported shareholder resolutions relating to remuneration transparency and diversity. Both received significant shareholder support above 20%. Another shareholder resolution we supported, to restrict the board size and require a majority outside directors received 15.3% votes in favour.

We have explained our expectations under the Climate Impact Pledge regarding verification of interim targets, and at its 2023 AGM we again supported a shareholder proposal relating to disclosure of a Paris-aligned net zero transition plan (Item 28). While the company does disclose its CO_2 emissions in its reporting, we would still note the lack of published and independently verified interim emissions targets as an area which falls behind our minimum expectations for the electric utilities sector. This resolution, being related to additional disclosures rather than micromanagement of company strategy in a particular direction, received the highest level of support for a shareholder resolution at the 2023 AGM, with 36.4% of votes cast in favour.

Our meeting with the company was productive and we look forward to working with management more closely on both governance and climate change issues and gaining a deeper understanding of its decisions and actions.

G: Digitisation

- In 2023, we published our expectations of companies on AI under our Digitisation 'super theme'
- We engaged with the four largest US tech firms[109] which are building AI systems as products

Our expectations of companies

We believe artificial intelligence (AI) should drive long-term innovation, productivity and value creation. To secure these gains, we believe investors must engage with companies and policymakers on baseline expectations for governance, risk management and transparency. Digitisation is one of our six stewardship *'super themes'* and ***our focus is on the governance aspects of AI, particularly how companies manage risks and opportunities, and improve transparency.***

We are tiering our approach between companies that make AI systems and those that use the technology. The former group will have more AI-related liabilities, so will receive more of our scrutiny. Our expectations can be summarised as follows:

Governance

- Name a board member or committee accountable for AI risk oversight and strategy
- Provide board education of business-specific AI risks at least annually. Consider utilising external expert groups to keep up to date

Risk management

- Conduct product safety risk assessments across the business cycle, including on human rights
  - This should include upstream and downstream considerations, for example, over data and clients
  - Companies exposed to high-risk AI systems should consider third-party assessments to supplement internal assessments
- Ensure AI systems are explainable, meaning the board and relevant business functions can describe inputs, processes and outputs
  - Establishing baseline understanding is critical for ongoing risk assessment and broader trust building
- Identify high-risk AI systems or inputs and describe current or future mitigation efforts
- Provide reasonable paths to give feedback or seek remediation if AI systems cause harm

Transparency

- Disclose governance policies and risk processes on a regular basis
- Make it clear to customers or civil society when AI systems are used in services

Initially, it will be difficult for us to assess if companies are meeting these expectations, as disclosure is limited and data providers are still working through the relevant metrics. Expectations will evolve over time.

For more information about LGIM's views on AI, please see our recent CIO Outlook, here: CIO Autumn Update.

[109] Alphabet† (ESG score: 56; +0), Apple† (ESG score: 66; -3), Meta† (ESG score: 62; -2), Microsoft† (ESG score: 73; +5).

Active engagement: the numbers

- 2023 saw our largest written engagement campaign to date as we expanded our Climate Impact Pledge, aiming to maintain dialogues with the 5,000+ companies in the programme
- LGIM's Investment Stewardship team held 364 meetings/calls and 2,136 written engagements in 2023
- Climate change continued to be the most frequently discussed topic

Our Investment Stewardship and Investment teams engage with companies to address company-specific and market-wide risks and opportunities. Our engagement processes are based on targeting specific outcomes and leveraging influence to achieve them.

We do this by applying a set of measures that we can escalate in a structured manner. They start with publicly sharing our minimum expectations of investee companies in published policies and guidelines. This may be followed by voting sanctions, collaborative engagement activities, pre-declaration of our views and the possibility of LGIM filing shareholder proposals or divesting as a last resort.

We regularly engage with management and non-executive directors, although our initial contact is usually with board chairs. In 2023, the teams' engagements took the form of calls and video conferences, as well as email communications and email-based engagement campaigns to inform and drive outcomes in line with our thematic priorities. In-person meetings are also gradually returning but remain limited as the way of communicating has significantly changed since the pandemic.

Meetings and calls are normally attended by the stewardship sector lead and may include portfolio managers and active research analysts across asset classes. Depending on the topic, a thematic expert may also be present, for example, on remuneration, health and people matters, or climate change.

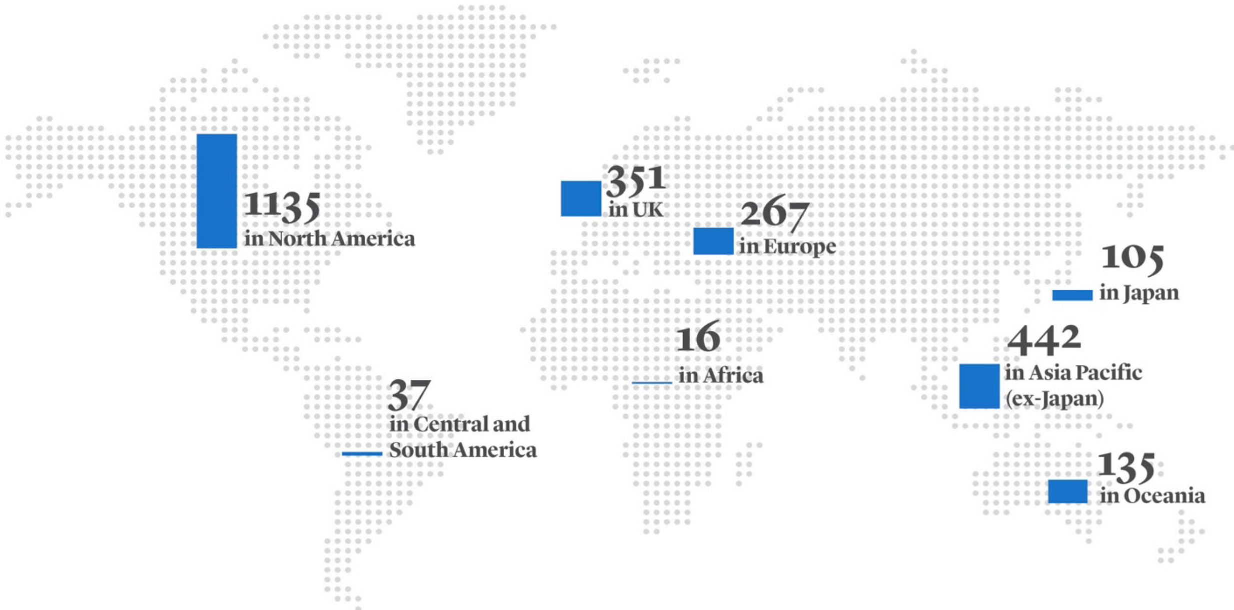
To provide transparency, we publish our quarterly ESG engagement reports on our website, in addition to sending them to clients. These documents contain detailed case studies of many of the companies highlighted as examples of our engagement activity in this report.

2023 Investment Stewardship team engagement

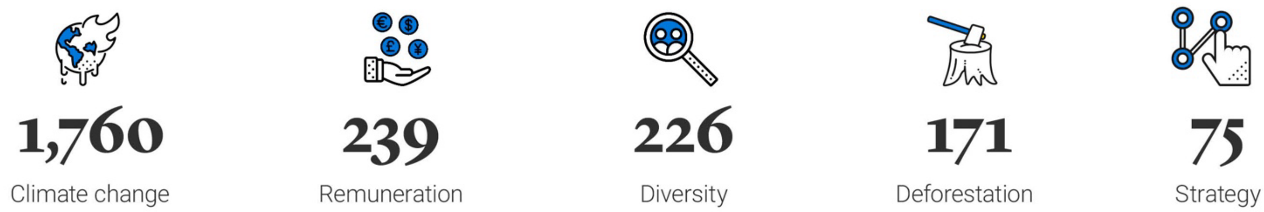
Breaking down the engagement numbers

Breakdown of engagement by themes*

Regional breakdown of engagements



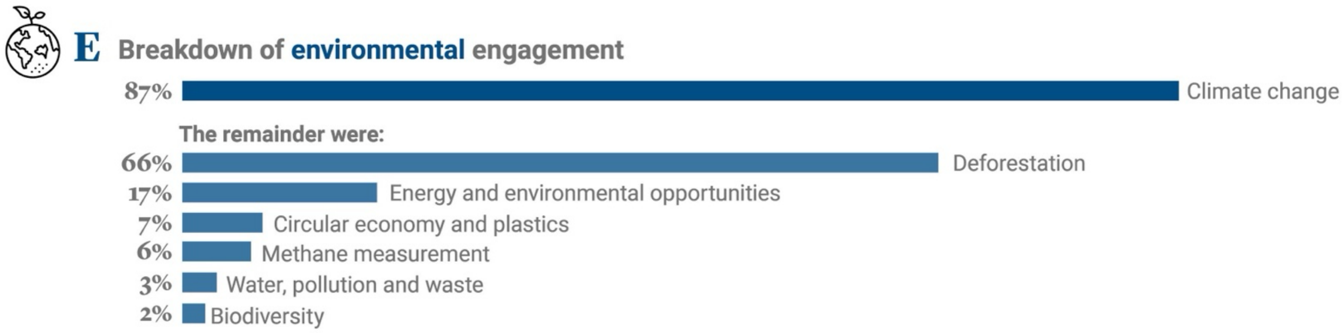
Top five engagement topics*

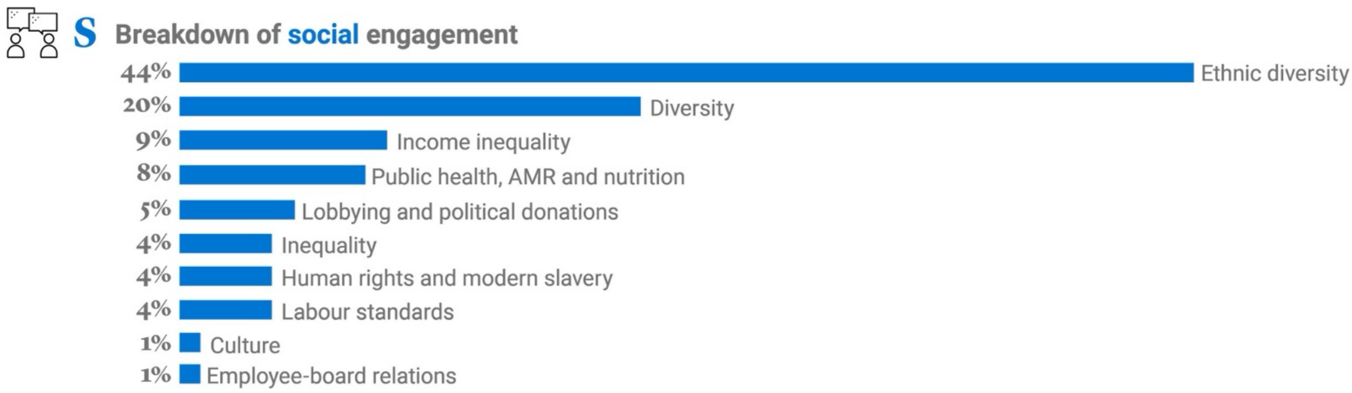


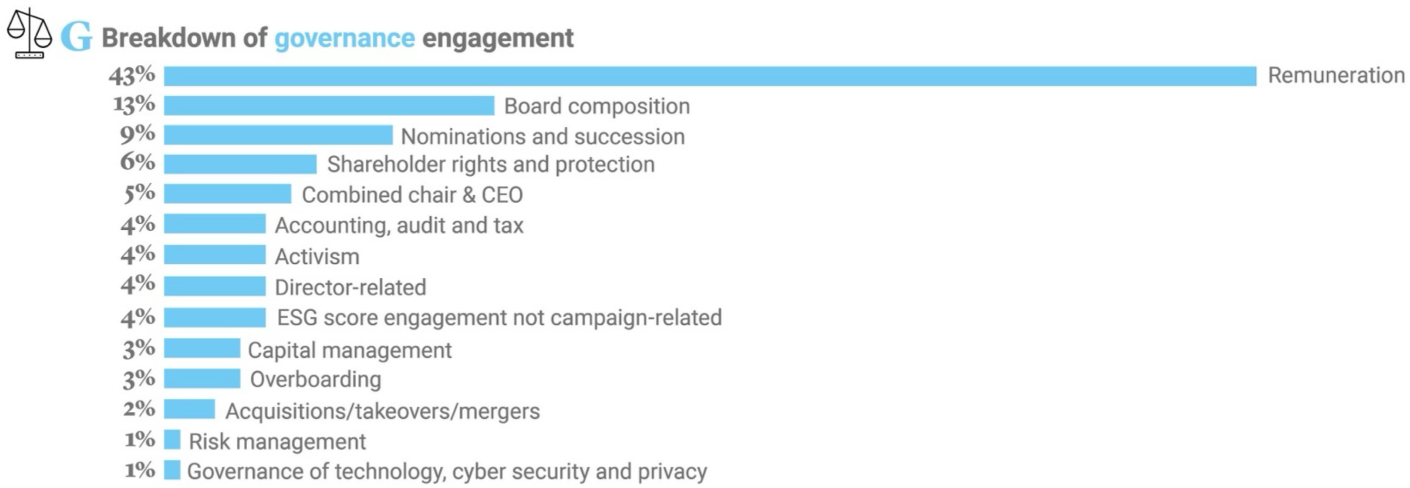
*Note: an engagement can cover more than a single topic

Engagement themes in more detail

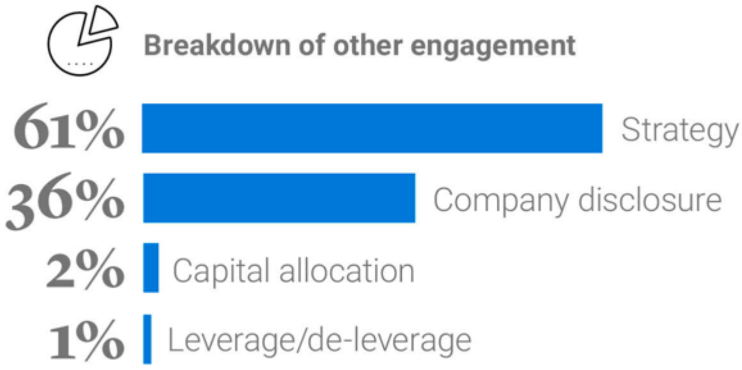
Engagement statistics have increased substantially compared with last year. The primary reason behind this is the expansion of our Climate Impact Pledge and our aim to maintain dialogues with the 5,000+ companies in the programme.



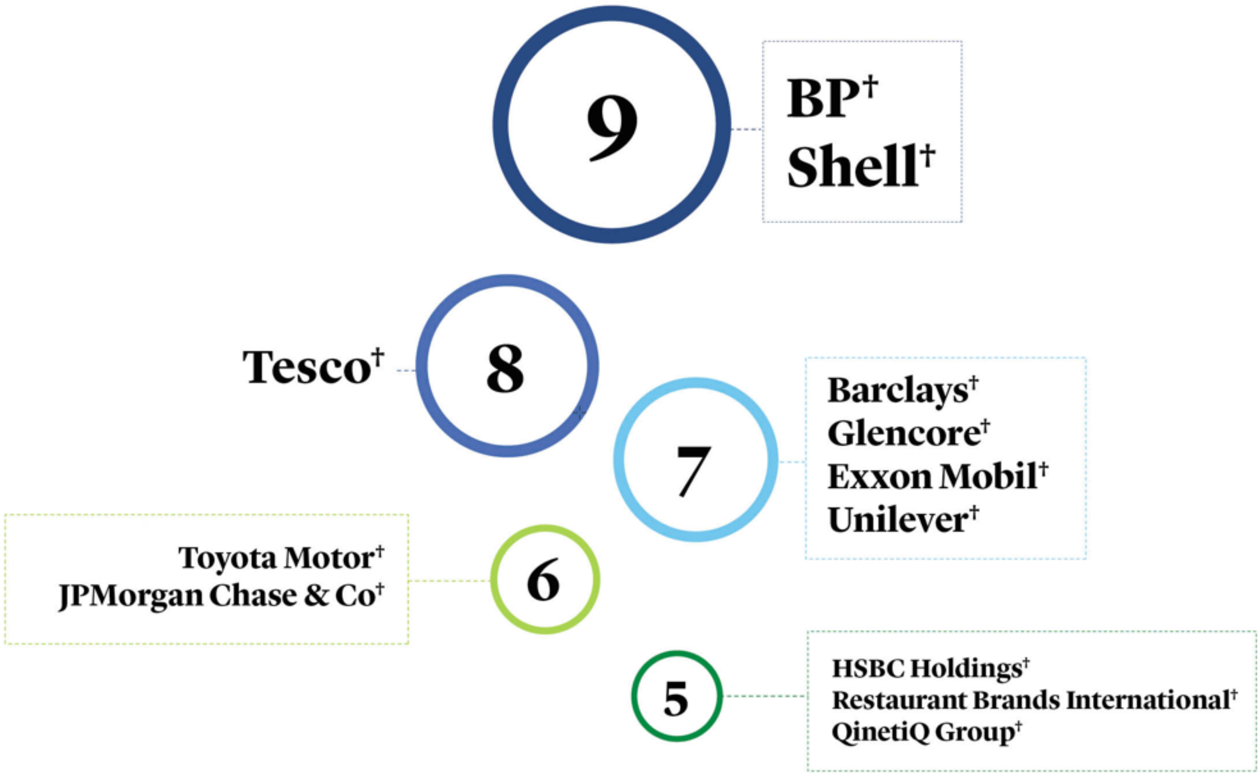




Breakdown of other engagement numbers



Companies with the highest number of engagements



Voting and reporting

- In 2023, almost 149,000 votes were cast by LGIM at more than 15,580 meetings[110]
- Where we deem it necessary, we'll recall stock out on loan to apply full voting power to achieve the best outcome for our clients

Voting is a fundamental engagement tool used by investors to signal support for, or concern with, management actions, so that we may promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

The majority of our clients' shares are held in pooled funds. As such, LGIM votes with one voice on all shares for which it has the authority to do so. ***Where there are no legal or practical impediments, we vote on our clients' investments across all developed and emerging markets globally.***

While LGIM has a high proportion of equity investments in Index strategies, this does not absolve us from making active voting decisions; in fact, it makes informed voting on key topics more important and underlies our universal owner approach to improving the market as a whole.

In its report Voting Matters 2023, ShareAction cited LGIM as a positive example, ranking us in the top third of its sample of 69 global asset managers in terms of our voting record on shareholder proposals. ShareAction said of LGIM: "This shows that it is entirely possible for a passive manager to be proactive in voting in favour of environmental and social resolutions as part of a stewardship strategy." In 2023, LGIM backed 92% of shareholder resolutions reviewed by ShareAction, representing a small increase on our voting record on such proposals in 2022 (87%).[111]

We aim to keep abstentions to a minimum. We use ProxyExchange, the voting platform from proxy advisory firm Institutional Shareholder Services (ISS), to vote electronically and to ensure, in markets where we have unimpeded voting rights, that no votes remain unexercised.

Share position data is updated, based on the settled positions provided by custodians. Only eligible share positions are reflected against expected upcoming voting events across our portfolio of companies within ProxyExchange. Any additional trading that takes place on the receipt of the electronic ballot is updated per trade settlement based on the holdings update by the custodian.

LGIM's historic voting decisions, including the rationale for any votes against management, can be found on our disclosure website. We also pre-declare votes on key issues ahead of the shareholder meeting as part of our escalation process.

Voting in Russia

Our voting provider, ISS, continues to 'block' voting activity at the general meetings of sanctioned companies or on the election of sanctioned individuals in line with US, UK and EU regulations.

[110] 148,794 across all assets under management. Voting data in the Voting statistics by region section represents all votes cast by LGIM in each fund in line with our Corporate Governance & Responsible Investment Policy in the 12-month period to 31 December 2023.
[111] ShareAction, Voting Matters 2023, January 2024.

Vote transparency

We believe that the transparency of our voting activity is critical for investee companies, clients and other interested parties to be able to hold us to account. As such, we provide historic voting decisions and rationales on our vote disclosure webpage, which aims to:

- Provide daily updates of our vote instructions and disclosures of all votes with a lag of just 24 hours following the shareholder meeting[112]
- Disclose voting rationales for all votes against management
- Include historic voting data from 1 January 2017

We also provide detailed information to our clients on significant votes on a quarterly basis, to allow them to hold us to account over our stewardship of their assets. To help clients fulfil their own regulatory reporting requirements, our fund-level vote reporting is consistent with the UK Pensions & Lifetime Savings Association's (PLSA) guidance and the EU Shareholder Rights Directive II.[113]

In the US, we have been working on providing disclosures in line with new regulatory requirements[114] that will see LGIM providing public filings on 'say-on-pay' proxy voting on all equities managed or owned by a Legal & General Group company globally via Form N-PX. The first such filing will be made in August 2024 and will cover votes cast over the period from 1 July 2023 to 30 June 2024.

Pre-declaring our voting intentions

Since 2021, LGIM has been publishing voting intentions in a centralised and transparent format in advance of an upcoming shareholder meeting. These intentions – via our blog posts – highlight the companies and resolutions we believe require additional scrutiny, and cover a range of ESG topics. We may pre-declare – as part of an escalation strategy – where we consider the vote to be on a critical issue, or as part of a specific engagement programme.

Our policy on share lending

Where there are no legal or practical impediments, we aim to vote with every share we hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting.

For other markets, our stock-lending policies vary, with limits on the number of shares lent per fund and per stock. Nonetheless we have always retained a number of shares in each voteable stock to be able to note our approval, or dissent, through a vote via the shareholder meeting. Moreover, we retain the right of immediate recall of our shares, should we deem this necessary or expedient.

In practice, we do not typically recall lent stock for voting on routine company meetings. However, if there were a material vote – for example, a potential takeover situation on unfavourable terms – we will recall stock out on loan to apply the full voting power towards a positive outcome for our clients.

[112] Excludes all funds not voting in line with the LGIM vote policy and that are subject to their own voting instructions.
[113] Department for Work & Pensions, October 2019.
[114] See US Securities and Exchange Commission document Amendments to Form N-PX and Say-on-Pay Vote Disclosure and related press release.

CASE STUDY: Mediobanca†

Identify

Mediobanca (ESG score: 75; -1) is a European investment banking boutique, specialising in financial advice, wealth management and consumer credit, offering its services through a number of subsidiaries.

Its AGM on 28 October 2023 saw a tightly contested proxy fight for director appointments to the board. At Italian AGMs, investors must vote for one 'slate' of directors as presented by management or dissident shareholders. This means that votes must be for one whole slate of director appointments, rather than for individual directors. This is a feature specific to the Italian corporate governance system and tends to be supported by posting an alternative slate put forward by Assogestioni – the Italian asset manager association – to provide representation of independent investors.

At Mediobanca, there were three slates up for shareholder approval: the incumbent board as proposed by management, the Assogestioni slate, and a third slate by a significant dissident shareholder, Delfin. The slate that received a majority of votes would be able to appoint a significant number of board directors to the key strategic roles on the board. An assessment of the number of voting rights held by each proponent and their likely supporters suggested that the outcome would be close, making every vote count.

On internal review of the three alternative slates, taking into account external sources and our investment team's views of the strategic direction and performance of the incumbent board, we believed that if the Delfin slate were to be successful, the result would have a negative effect on the strategy (and value) to Mediobanca's minority shareholders. We therefore determined that we should vote LGIM's entire equity shareholding in Mediobanca to support the management-proposed slate.

Engage and escalate

Following information-gathering engagement calls with both Mediobanca and Assogestioni, we arranged for any Mediobanca shares under our control to be recalled from loan in time for the AGM voting deadline. This process involved opinions and input from various teams within LGIM, to confirm:

- Settlement dates and voting cut-offs
- The funds that held the shares and the custodians involved
- The potential loss of earnings from the shares not being on loan

Taking these factors into account and balancing them against the potential cost of the alternative slate being voted in, and the anticipated negative effect this might have, we decided to recall all loaned shares over which LGIM held voting power in time for the AGM. We voted in favour of the management slate with the full voting power attached to shares under our discretion.

Outcome

It was a close proxy contest. The result was that 52.6% (of which just under 1% is estimated to have been LGIM) voted in favour of the slate submitted by the board of directors who needed 50%+1 to succeed. We believe that with such tight margins on an important vote, recalling our shares was the right action to take.

Client-directed voting

LGIM has long believed in the power of investment stewardship to engender positive change in the companies in which we invest on behalf of our clients. Exercising voting rights is a powerful engagement tool with which to hold company boards to account and raise market standards. It is used extensively by our Investment Stewardship team which votes with one voice, across all of our clients' investments where we have discretion, to maximise our influence.

A small number of clients wish to vote their own shares in line with their chosen in-house policies. In addition to the 'Expression of Wish' services, Tumelo and LGIM have therefore developed a solution for pass-through voting for LGIM's clients. This solution allows electing pooled-fund investors to vote their shares in proportion to the value of their investment in the fund, giving them the choice of either actively voting their own shares or continuing to delegate voting activity to their fund manager.

Review and auditing processes

LGIM historically implemented an annual independent assurance assessment of its stewardship and voting processes in line with the AAF 01/06 framework. However, since the Institute of Chartered Accountants in England and Wales (ICAEW) removed the relevant requirements from its auditing and assurance standards, there is no longer an external framework against which to undertake this assurance assessment.

To fill this gap, we have strengthened our internal review processes in response to client requirements and additional regulatory expectations in the US[115], to ensure that our stewardship processes and disclosures remain balanced and complete.

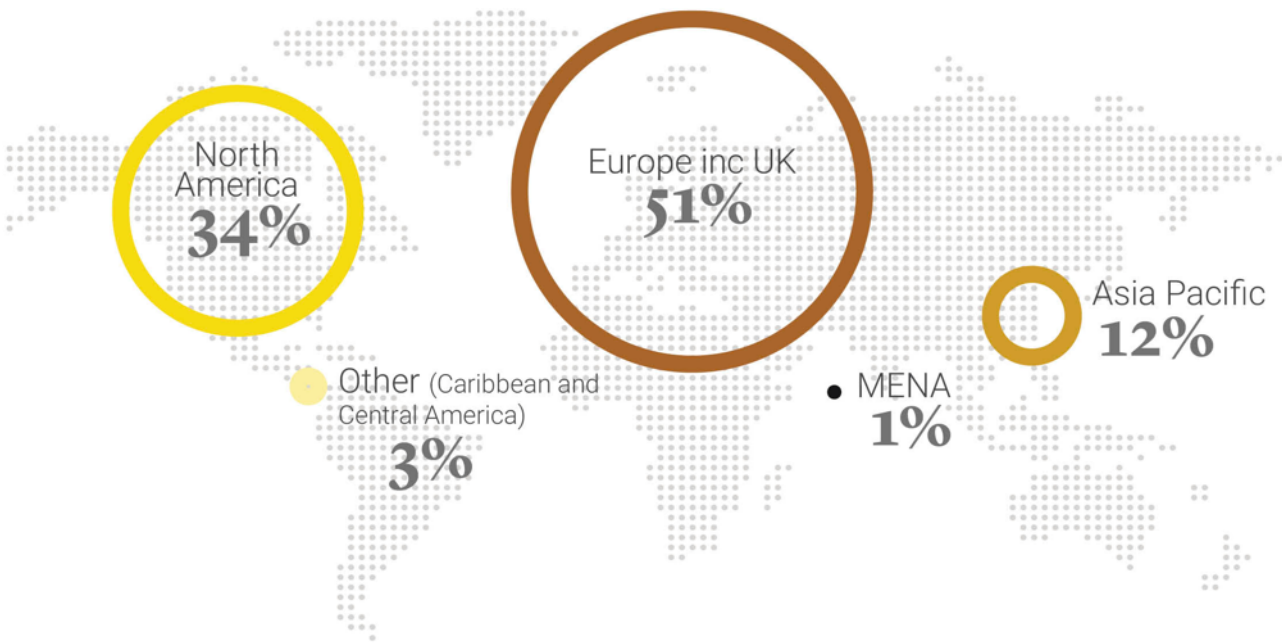
As part of LGIM's risk-based Compliance Monitoring Programme, an internal review was also undertaken in 2023 to assess how we apply the 12 Principles of the 2020 UK Stewardship Code. This review considered internal stewardship actions, assessment processes and proof points, with a satisfactory outcome and minor action points seeking to enhance the governance framework.

[115] SEC: Supplementary Guidance Regarding Proxy Voting Responsibilities of Investment Advisers, September 2020.

The assets we manage

Asset class: £ billion

Assets under management: Regional breakdown



As at 31 December 2023. The AUM figure disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions and may not total due to rounding. Regional exposure is based on the country of risk of the underlying holdings. Data disclosed excludes derivative overlays.

Policies and processes

- We continue to assess our internal and external voting policies to make sure our approach is both consistent and transparent
- We use client feedback loops to inform our policy development

We believe ongoing scrutiny of, and improvements to, our voting processes are key to meeting our goals as a long-term, responsible investor.

LGIM's voting decisions are guided by policies that are researched and fine-tuned every year. They incorporate specific market policies that allow for local nuances to align with best practices.

Our voting policies range from minimum expectations, such as requiring financial expertise on the audit committee or having climate transition plans aligned with a 1.5°C global temperature increase, to clarifications around variable pay performance targets, links to stakeholder experiences and ESG measures, alongside voting stances to oppose combined chair/CEO roles[116] and all-male boards globally.

As part of the annual review process, in addition to reviewing and updating our global and regional corporate governance and responsible investment policies, we also refreshed and published separate thematic policy documents to elaborate on individual policy stances and thought pieces. In particular, we have:

- Updated our Deforestation Policy to include social aspects and human rights considerations, and tightened our minimum expectations on deforestation policies and programmes
- Published a separate Diversity Policy, including our expectations, voting escalation steps and timeframes
- Updated and consolidated our UK Executive Pay Principles as a stand-alone document, taking into account discussions around executive pay competitiveness in the UK market and the resulting evolving pay structures
- Published a new Human Rights Policy

Our timebound engagement approach allows companies a period to implement our expectations before voting sanctions may be levied at a future AGM. This year, we determined it unnecessary to significantly enhance our public policy stances.

We did, however, further tighten voting thresholds as part of our custom voting policy, including around gender diversity on boards of smaller companies, in line with pre-announced timelines. ***From 2025, we will also extend voting sanctions for lack of ethnic representation on the board to UK and US companies in the FTSE 250 and Russell 1000 indices.***

On pay issues, we strengthened our voting stance on minimum pay disclosures globally, expecting publication of at least one performance target under executive incentive plans in developing markets.

From 2024, we will also vote against the 'say on pay' proposals at US companies where executives use corporate jets for private purposes. In the UK, to recognise concerns related to competitiveness with the US talent market, we now allow for certain scenarios where hybrid incentive schemes would be supportable, including both the grant of time-based restricted awards and performance-vesting of shares.

It is essential that our votes are based on accurate, reliable data. This means championing the cause of transparency in our own processes and within investee companies' reporting.

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[116] Currently excluding Japan, due to the unique features of this particular market.

LGIM's Global Corporate Governance and Responsible Investment Policy sets out our expectations of investee companies and outlines our approach to voting and engagement. All of our policies are fully compliant with the Shareholder Rights Directive II and available on our Investment Stewardship website.

In updating our policies, feedback on specific topics is sought from internal subject matter experts and the Investment Stewardship team more broadly. We also consider the views of clients and other external stakeholders.

LGIM's internal custom voting policy

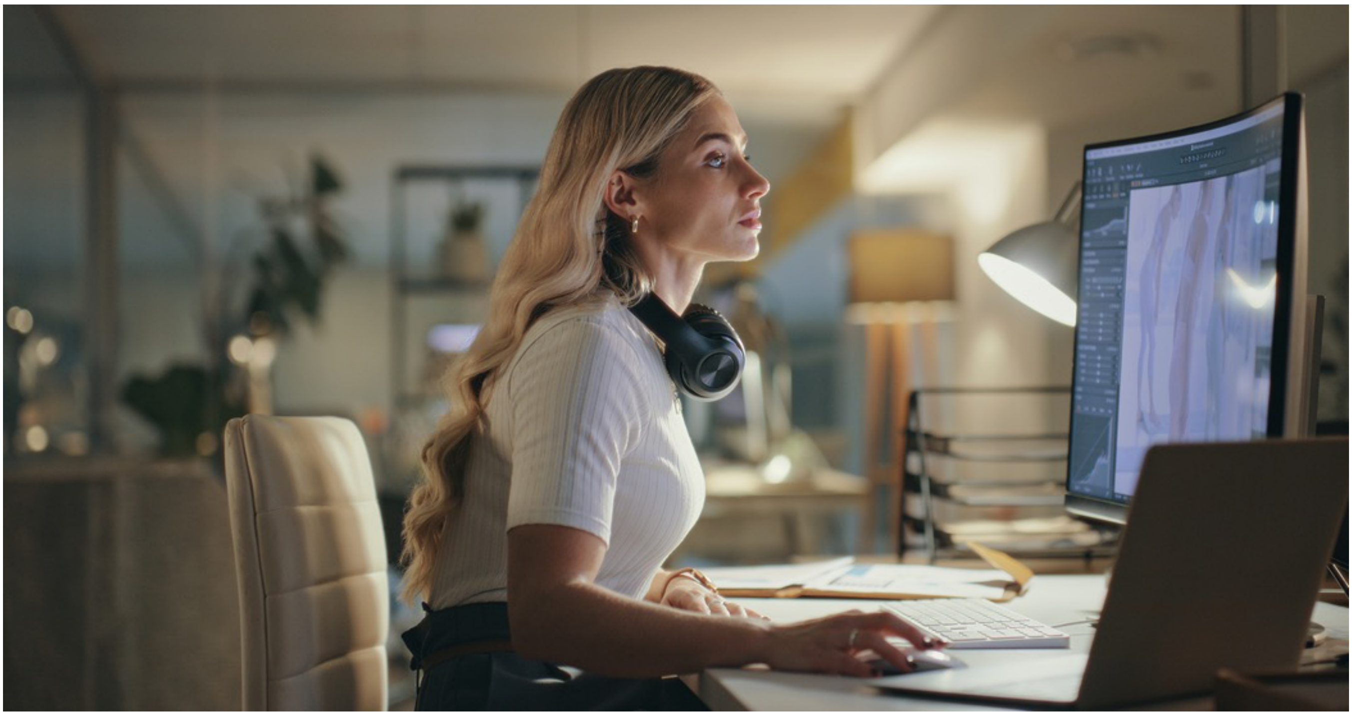
Votes are cast according to our instructions, guided by LGIM's voting policies and effected through an electronic voting platform called 'ProxyExchange', which is managed by Institutional Shareholder Services (ISS).

We do not automatically follow the recommendations of proxy advisers. Over many years we have developed a granular custom voting policy with specific voting instructions driven by LGIM's expectations. These instructions apply to all markets globally, with minimum best practice standards that we believe all companies should observe, irrespective of local regulations or practices.

In addition, we have also set country-specific expectations for those markets in which we adopt a differentiated stance. All our custom voting policies are developed in accordance with our publicly disclosed position on good governance and sustainability-related criteria in our guideline documents and country-specific policies.

We retain the ability in all markets to override any voting decisions that are based on our custom voting policy. This may happen when a company has provided additional insight that allows us to apply a qualitative overlay to our assessment.

Our analysis shows that, globally, our voting stance differed from ISS recommendations in around 13.1% of votes in 2023[117]. Where our stance differs, the majority of LGIM votes cast are usually against management – particularly around issues of audit, independence, remuneration and on the level of support provided for 'say on climate' and shareholder proposals.



[117] LGIM internal vote data, 2023.

How we take client views into account

To ensure that our voting decisions are aligned with the wishes of our clients, we undertake regular consultations with asset owners. These are important opportunities to provide our clients with assurance and knowledge, as well as to receive direct feedback on their experiences and expectations. We will continue to review these client responses to determine the level of overlap between our policies and the expectations of clients in developing future engagement topics and voting policies.

Feedback loop and ‘Expression of Wish’

For the last four years, we have worked with fintech firm Tumelo to run client feedback loops that have been gradually expanded to cover a broader representation of our client base.

Aim: To better understand the alignment of LGIM’s engagement topics and resulting voting stance with the voting intentions of our clients. A significant number of end members of our UK clients’ corporate pension plans undertake regular elections on their intentions on certain high-profile votes at global company meetings. This provides evergreen insight on topics that matter most to end members.

Examples: There have been almost 84,000 participant votes (including for and against) over the last four years.[118] The top three themes were environment and lobbying, equality and human rights, and director pay.

The most interest was again noted on executive pay at several companies, including Intuit†, Accenture†, Automatic Data Processing†, Visa†, Microsoft†, Imperial Brands†, Cisco Systems†. Oracle† also received a shareholder resolution on pay-gap reporting. Other shareholder proposals received much attention at Nike† on supply chain management and at Campbell Soup† on cage-free eggs. Microsoft† again received a large number of shareholder resolutions on its Equal Employment Opportunity (EEO) policy and reporting, operations in human rights hotspots, and weapons development, that garnered much attention from our clients’ end members.

Outcome: This system helps establish a two-way engagement that enables LGIM to better understand consumer views and encourages savers to become more engaged with their investments. In the vast majority of meetings, we were able to determine an alignment between LGIM’s votes and those placed by our clients via Tumelo’s platform.

LGIM continues to roll out the ‘Expression of Wish’ digital service in partnership with Tumelo. This solution allows trustees to identify the ESG issues that matter most to their members, and encourages direct dialogue between trustees, members and LGIM’s Investment Stewardship team.

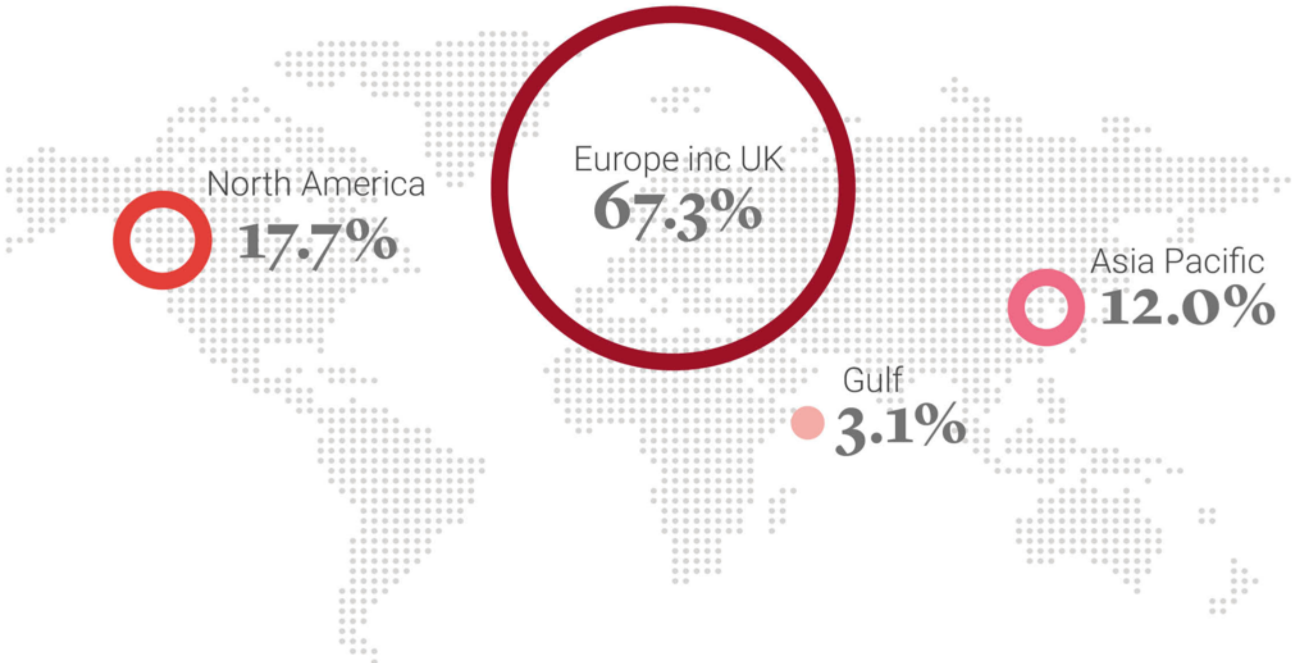
The implementation of this service has been driven by a combination of clients’ increasing interest in the underlying holdings of their pensions, and new regulations[119] that require pension schemes and their trustees to have access to better oversight of the voting implementation process. We believe ‘Expression of Wish’ can make feedback seamless and that it will support pension scheme trustees with their additional regulatory reporting and decision-making responsibilities.

[118] Since launching the platform in June 2020 as a pilot, up to mid-January 2024.
[119] UK government, The report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to government, regulators and industry, September 2021.

Our clients

Client type: £ billion

Client domicile: Regional breakdown



As at 31 December 2023. The AUM figure disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives and may not total due to rounding.

Working with third-party service providers

- Third-party research brings additional insight to our own analysis, enabling us to make best use of our resources
- We continuously monitor the quality of third-party research to ensure it meets our requirements and offers value for money

In parallel to applying our custom voting policy, we use the voting information services of Institutional Shareholder Services (ISS) and receive research reports for all companies in our equity portfolios.

We also receive research reports on UK companies in the FTSE All-Share index from IVIS, the research team of the UK Investment Association, and have access to global voting research from proxy adviser Glass Lewis.

We use this analysis to augment our own research and proprietary ESG assessment tools, as well as data from providers including Refinitiv, Sustainalytics and Bloomberg. We regularly review the quality and timeliness of services offered by our data providers, to ensure that the quality of the data on which we base our voting decisions remains high and offers value for money.[120]

We undertake quarterly performance management reviews with ISS in which we discuss issues such as timeliness, the quality of their research and the application of our voting policy. During these meetings, we receive delivery statistics and discuss changes to team resources. We deliberate on specific instances where our expectations have not been met and review possible solutions to avoid future repetition. We escalate issues to senior individuals at ISS where necessary.

We also have regular meetings with ISS to discuss the implementation and evolution of our policies, as part of our process to ensure that LGIM's voting decisions remain aligned to market best practices and evolving regulations. Material changes to LGIM's custom voting policy are peer-reviewed and are subject to challenge from LGIM's independent non-executive directors on the Investment Stewardship Committee.

We regularly monitor the votes cast on our behalf to ensure they are executed in accordance with our policy intentions. We also undertake additional quality checks on short-notice vote instructions and rejected votes.

We engage with proxy advisers on their policy development. We attend their annual client events and participate in policy surveys to seek to influence their voting stance on important topics and voting items globally. An example of collaborative engagement as part of an investor working group has been provided in the case study below.

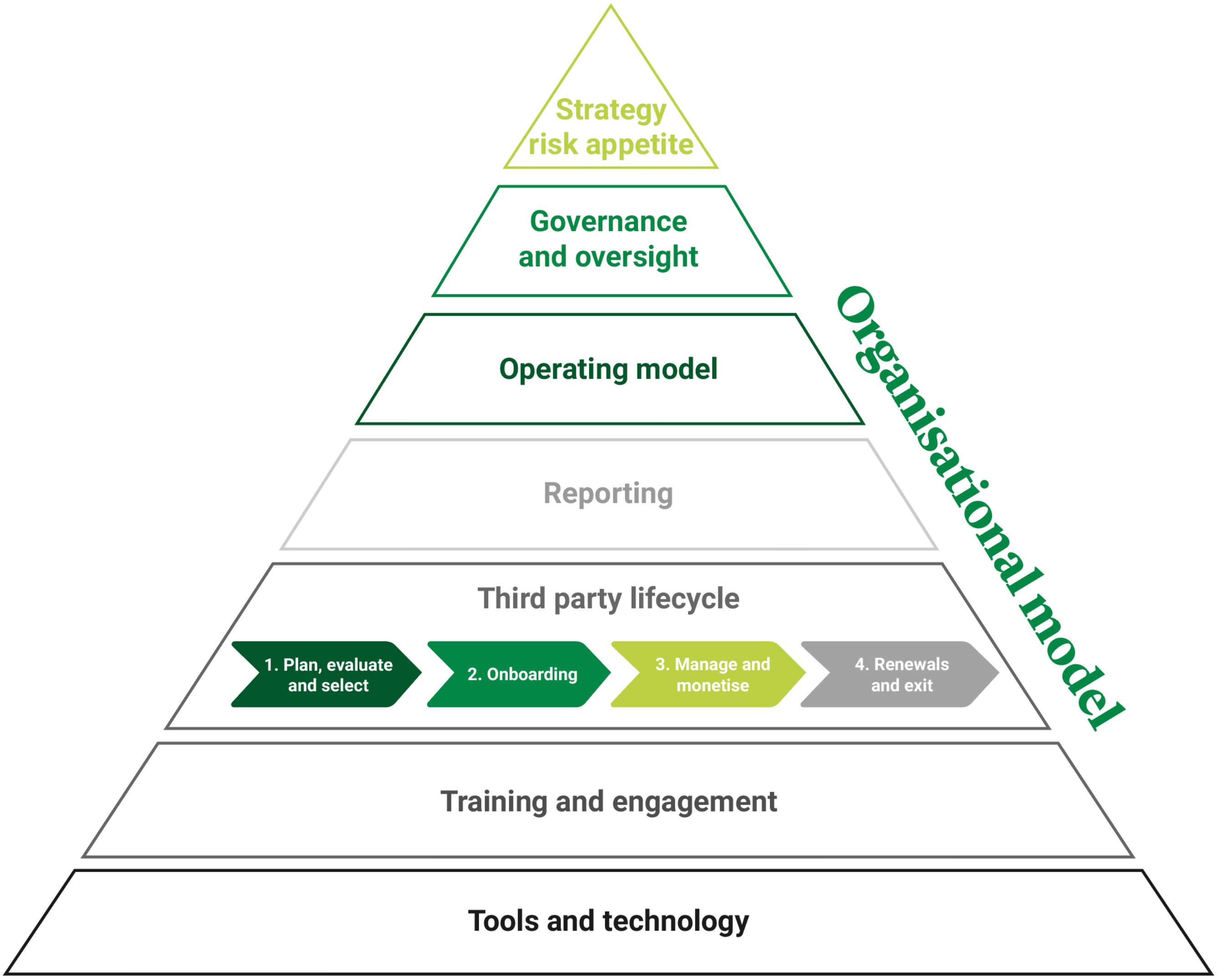
We also review ISS's policy alignment with our own public stance and take into account third-party research on ISS's voting recommendations. For example, ShareAction has assessed the strength of proxy adviser vote recommendations on shareholder resolutions, which tend to be decided on a case-by-case basis. ISS is noted to have supported 78% of environmental and social proposals, slightly up from last year (2022: 75%).[121]

For further information on how we use proxy advisory services, please see our policy.

[120] This is done through quarterly performance management reviews with ISS and annually for other providers.
[121] This is higher than Glass Lewis's support of 36% of resolutions considered in the ShareAction report and closer to LGIM's level of agreement with these proposals, which stood at 92%. Source: ShareAction, 'Voting Matters 2023', January 2024.

Oversight and management of third-party service providers

LGIM's Global Outsourcing and Third-Party Management Framework sets out the governance steps and activities necessary to manage new, renewed, materially changed and existing third-party arrangements.



The LGIM Holdings Board has the ultimate responsibility for the selection of outsourcing and third-party providers and the management of risks associated with their use. This responsibility is delegated to the Operations Committee down to the Supplier Management Committee. Where necessary, the LGIM Board escalates matters to the Legal & General Group Board.

In 2023, an independent third party was commissioned to draft the Exit Plans for a number of essential services, including those provided by Deutsche Boerse, parent company to ISS. The plans consider the feasibility, risks, alternatives and likely timelines for any potential 'non-stressed' or 'stressed' exit from these services. The plans will be reviewed annually and tested by LGIM on a cyclical basis.

CASE STUDY: IIGCC Proxy Advisor Work Group

Working with proxy advisers to improve their sustainability-related offering

Identify

As part of LGIM's commitment to the Net Zero Asset Managers initiative (NZAM), we have this year continued to engage with proxy advisers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner. Proxy advisers have a pivotal role to play in ESG matters and the reliance of the investment industry on their services renders it imperative that we work together to ensure that asset managers' requirements are fully understood and reflected in proxy advisory services.

Engage and escalate

LGIM is an active member of the IIGCC Proxy Advisor Working Group. The objective of the group is to develop a strong partnership with key proxy advisers to ensure that they can help their clients deliver net zero at the portfolio level and for priority target engagements. Proxy adviser research and recommendations are a crucial part of this.

Unlike some members under the IIGCC banner who are pushing for further ESG considerations under a separate Sustainability voting policy, LGIM believes that it is important to further integrate sustainability, and in particular climate-related data points and research, into ISS's broad-based Benchmark Policy, rather than to limit this to an SRI-specific offering. This would ensure that such systemic issues are analysed for the benefit of all clients.

LGIM has engaged with proxy adviser ISS on several occasions throughout 2023, both independently and collaboratively through the IIGCC working group. This included contributing to the consultation process for the ISS Benchmark Policy, to ensure our views were considered in the development of voting policies, particularly in relation to climate change.

Outcome

Despite initial progress in 2022 on ISS's treatment of CA100+ Focus List companies, we have to date found the engagement work with ISS slow; as yet, they have not embedded what we consider to be a sufficient expectation on climate action within the ISS Benchmark Policy.

We will continue to seek to influence the proxy advisers on their policy development, independently and as part of investor working groups in 2024, as well as expanding our outreach to other third-party research and data providers in this space.

Conflicts of interest

- Our conflicts of interest policy aims to safeguard the best interests of our clients
- LGIM's organisational structure, which positions our Investment Stewardship team independently from our investment teams, naturally mitigates the potential for conflicts of interest

In our approach to responsible investing in general, and to voting and engagement in particular, we aim to act in a manner consistent with the best interests of all our clients. As a result, our Investment Stewardship team has a Conflicts of Interest Policy covering, among other things, the following areas:

- **LGIM's listed parent company:** reputational conflicts, commercial relationships, seeking to influence corporate governance activities
- **LGIM clients:** corporate sponsored pension schemes associated with portfolio companies, conflicts between client resource allocation
- **Internal conflicts:** differing investment strategies and interests between asset classes, listed group products and significant investments, differing views between portfolio managers and the Investment Stewardship team
- **Portfolio companies:** commercially and price-sensitive information, direct competitors, common cross-directorships, personal contacts and connections

The Investment Stewardship team structure mitigates potential internal conflicts. Importantly, the team does not share management reporting lines with any of the LGIM investment desks, including the active equity or active fixed income teams.

In addition, the LGIM Holdings Board has delegated responsibility for the oversight of conflicts of interest to its Investment Stewardship Committee and a separate Conflicts of Interest Committee that includes five independent non-executive directors.

Our strong, principles-based voting policies provide additional safeguards in the management of potential conflicts of interest.

Changes to policy-driven voting decisions are discussed in the Investment Stewardship team's Voting Forum and made within documented internal controls processes[122].

To ensure independent voting on in-house interests, all voting rights associated with Legal & General Group shares, and LGIM owned trusts and funds, are delegated to third parties.

LGIM provides annual training to all employees to identify and deal with potential conflicts of interest. We undertake an annual review to ensure the completeness of the conflicts register and to monitor controls around existing conflicts.

[122] These are discussed in weekly vote meetings and whenever else it is considered necessary.

CASE STUDY: Barclays[†]

Barclays is a British universal bank with its businesses including consumer banking and payments operations around the world, as well as a top-tier, full service, global corporate and investment bank.

What was the issue?

LGIM has engaged extensively and productively with Barclays on their approach to climate risks and opportunities for many years, and Barclays has historically shown receptiveness to investor engagement.

In the latter half of the year, these engagements have included both one-to-one discussions and collaborative meetings with other investors minded to file a shareholder resolution related to Barclays' approach to financing the oil & gas sector.

Through these discussions, we obtained sufficient background information, including contemplated proposals, related to strengthening Barclays' policy and due diligence processes to meet many of our expectations and ultimately decided not to proceed with co-filing a shareholder resolution.

Why was this an issue?

LGIM has a long-established relationship with Barclays, and Barclays Bank is a counterparty to LGIM. Additionally, the Chairman of Legal & General Group, Sir John Kingman, joined the board of Barclays plc as a non-executive director in June 2023 and was appointed as chair of Barclays Bank UK plc.

Conflict management

To acknowledge potential conflicts of interest resulting from the Investment Stewardship team's actions, our chairman was informed of the discussions, rationale and the possible filing of a shareholder resolution at an early stage. This was done on a confidential basis, via the appropriate channels, and occurred simultaneously with the bank being informed of LGIM's participation in the investor campaign.

In turn, it was made clear that the Investment Stewardship team was entirely free to arrive at its independent decision without being unduly influenced. A limited number of other senior personnel within LGIM's senior management and the general counsel department were also informed. By keeping information channels open, any potential conflicts of interest were able to be managed appropriately, safeguarding internal relationships without compromising the independence and integrity of the Investment Stewardship team's decisions.

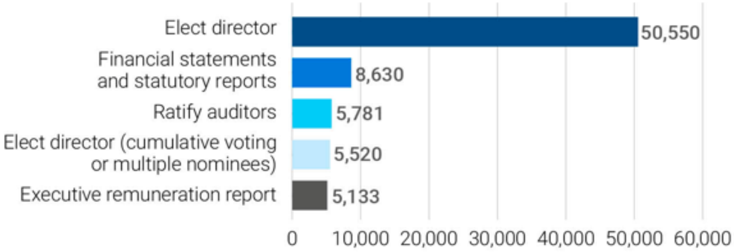
Voting statistics by region

Global

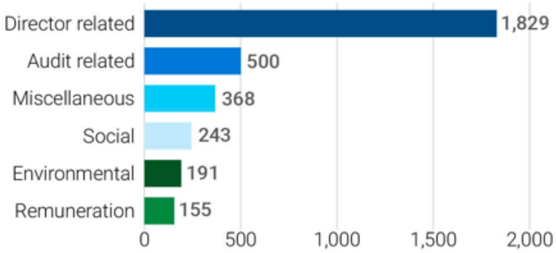
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	51815	16894	801	69510
Management - Routine business	26053	3532	119	29704
Management - Compensation	9296	8423	5	17724
Management - Capitalisation	10414	1825	0	12239
Management - Transactions and non-routine business	6972	1627	0	8599
Management - Company articles	3908	1013	0	4921
Management - Social	323	102	0	425
Management - E&S blended	82	0	0	82
Management - Environmental	13	16	0	29
Management - Miscellaneous/No research	697	825	9	1531
Total resolutions - Management	**109573**	**34257**	**934**	**144764**
Shareholder - Director related	1339	464	26	1829
Shareholder - Routine business	22	84	0	106
Shareholder - Compensation	82	72	1	155
Shareholder - Capitalisation	2	0	0	2
Shareholder - Audit related	440	60	0	500
Shareholder - Non-routine business	44	31	0	75
Shareholder - Company articles	30	44	0	74
Shareholder - Social	188	55	0	243
Shareholder - E&S blended	24	39	0	63
Shareholder - Environmental	115	76	0	191
Shareholder - Governance	57	11	0	68
Shareholder - Miscellaneous	244	124	0	368
Total resolutions - Shareholder	**2587**	**1060**	**27**	**3674**
No. resolutions*	148438			
No. AGMs	11224			
No. EGMs	4350			
No. companies voted	11173			
No. companies where voted against management/abstained on at least one resolution	9552			
% companies where at least one vote against management (includes abstentions)	85%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

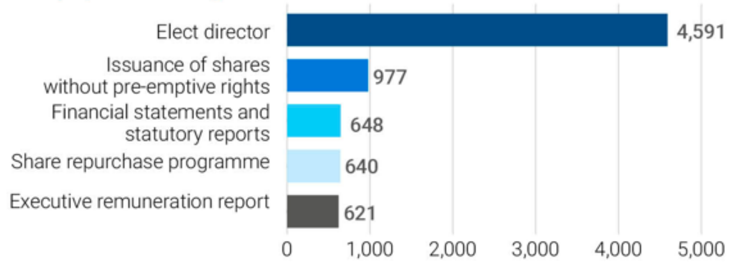


UK

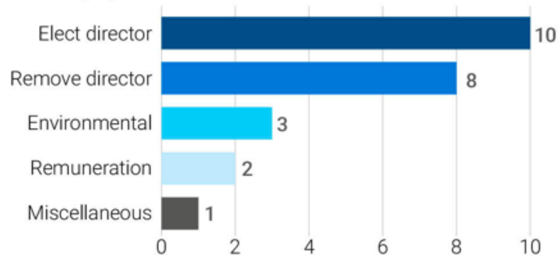
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	4321	284	0	4605
Management - Routine business	2405	23	0	2428
Management - Compensation	947	216	0	1163
Management - Capitalisation	2291	91	0	2382
Management - Transactions and non-routine business	513	29	0	542
Management - Company articles	47	3	0	50
Management - Social	202	0	0	202
Management - E&S blended	0	0	0	0
Management - Environmental	4	3	0	7
Management - Miscellaneous/No research	54	4	0	58
Total resolutions - Management	**10784**	**653**	**0**	**11437**
Shareholder - Director related	13	5	0	18
Shareholder - Routine business	0	0	0	0
Shareholder - Compensation	0	2	0	2
Shareholder - Capitalisation	0	0	0	0
Shareholder - Audit related	0	0	0	0
Shareholder - Non-routine business	0	0	0	0
Management - Company articles	0	0	0	0
Management - Social	0	0	0	0
Management - E&S blended	0	0	0	0
Shareholder - Environmental	1	2	0	3
Shareholder - Governance	0	0	0	0
Shareholder - Miscellaneous	0	1	0	1
Total resolutions - Shareholder	**14**	**10**	**0**	**24**
No. resolutions*	11461			
No. AGMs	663			
No. EGMs	118			
No. companies voted	674			
No. companies where voted against management/abstained on at least one resolution	306			
% companies where at least one vote against management (includes abstentions)	45%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

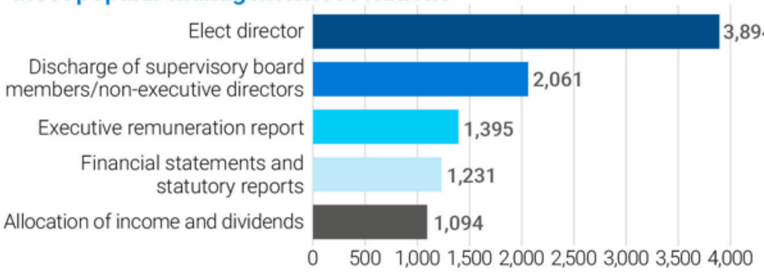


Europe ex-UK

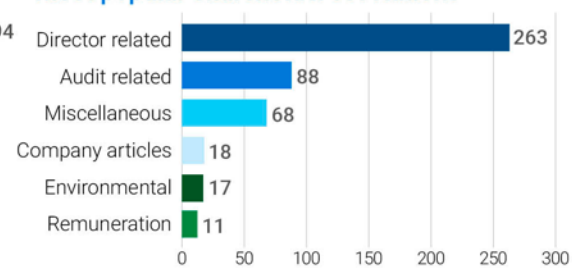
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	7820	2251	80	10151
Management - Routine business	6364	605	15	6984
Management - Compensation	2187	2154	1	4342
Management - Capitalisation	2057	448	0	2505
Management - Transactions and non-routine business	464	72	0	536
Management - Company articles	878	112	0	990
Management - Social	53	81	0	134
Management - E&S blended	69	0	0	69
Management - Environmental	7	8	0	15
Management - Miscellaneous/No research	225	32	0	257
Total resolutions - Management	**20124**	**5763**	**96**	**25983**
Shareholder - Director related	150	113	0	263
Shareholder - Routine business	0	0	0	0
Shareholder - Compensation	0	11	0	11
Shareholder - Capitalisation	0	0	0	0
Shareholder - Audit related	48	40	0	88
Shareholder - Non-routine business	1	5	0	6
Shareholder - Company articles	3	15	0	18
Shareholder - Social	4	3	0	7
Shareholder - E&S blended	0	2	0	2
Shareholder - Environmental	1	16	0	17
Shareholder - Governance	0	0	0	0
Shareholder - Miscellaneous	14	54	0	68
Total resolutions - Shareholder	**221**	**259**	**0**	**480**
No. resolutions*	26463			
No. AGMs	1491			
No. EGMs	253			
No. companies voted	1436			
No. companies where voted against management/abstained on at least one resolution	1328			
% companies where at least one vote against management (includes abstentions)	92%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

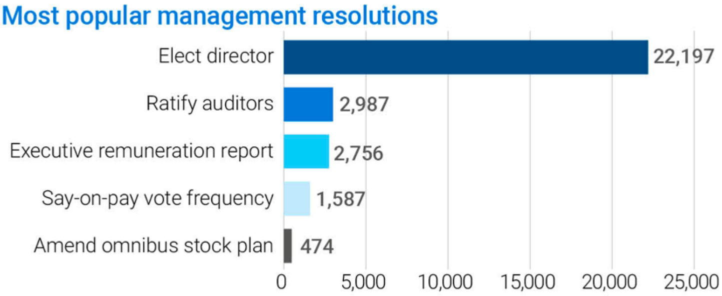


North America

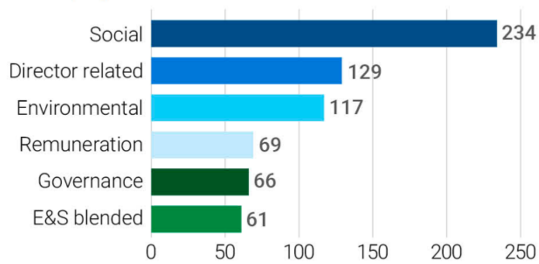
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	15156	7480	33	22669
Management - Routine business	2360	997	104	3461
Management - Compensation	1973	3467	4	5444
Management - Capitalisation	357	91	0	448
Management - Transactions and non-routine business	429	30	0	459
Management - Company articles	126	13	0	139
Management - Social	3	0	0	3
Management - E&S blended	0	0	0	0
Management - Environmental	2	0	0	2
Management - Miscellaneous/No research	42	18	9	69
Total resolutions - Management	**20448**	**12096**	**150**	**32694**
Shareholder - Director related	109	10	10	129
Shareholder - Routine business	1	0	0	1
Shareholder - Compensation	39	30	0	69
Shareholder - Capitalisation	0	0	0	0
Shareholder - Audit related	0	0	0	0
Shareholder - Non-routine business	8	4	0	12
Shareholder - Company articles	2	16	0	18
Shareholder - Social	182	52	0	234
Shareholder - E&S blended	24	37	0	61
Shareholder - Environmental	94	23	0	117
Shareholder - Governance	56	10	0	66
Shareholder - Miscellaneous	2	6	0	8
Total resolutions - Shareholder	**517**	**188**	**10**	**715**
No. resolutions*	33409			
No. AGMs	3319			
No. EGMs	226			
No. companies voted	3385			
No. companies where voted against management/abstained on at least one resolution	3314			
% companies where at least one vote against management (includes abstentions)	98%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

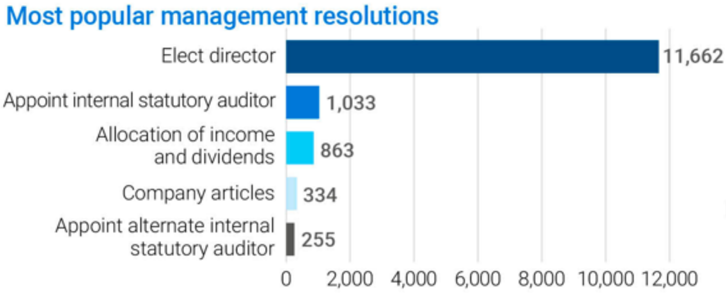


Japan

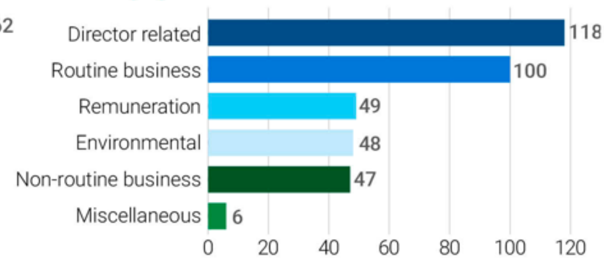
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	11187	1959	0	13146
Management - Routine business	905	5	0	910
Management - Compensation	406	75	0	481
Management - Capitalisation	12	3	0	15
Management - Transactions and non-routine business	35	48	0	83
Management - Company articles	272	62	0	334
Management - Social	0	0	0	0
Management - E&S blended	0	0	0	0
Management - Environmental	0	0	0	0
Management - Miscellaneous	3	1	0	4
Total resolutions - Management	**12820**	**2153**	**0**	**14973**
Shareholder - Director related	57	61	0	118
Shareholder - Routine business	19	81	0	100
Shareholder - Compensation	36	12	1	49
Shareholder - Capitalisation	0	0	0	0
Shareholder - Audit related	2	0	0	2
Shareholder - Non-routine business	32	15	0	47
Shareholder - Company articles	0	0	0	0
Shareholder - Social	2	0	0	2
Shareholder - E&S blended	0	0	0	0
Shareholder - Environmental	13	35	0	48
Shareholder - Governance	1	0	0	1
Shareholder - Miscellaneous	1	5	0	6
Total resolutions - Shareholder	**163**	**209**	**1**	**373**
No. resolutions*	15346			
No. AGMs	1367			
No. EGMs	59			
No. companies voted	1407			
No. companies where voted against management/abstained on at least one resolution	1107			
% companies where at least one vote against management (includes abstentions)	79%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

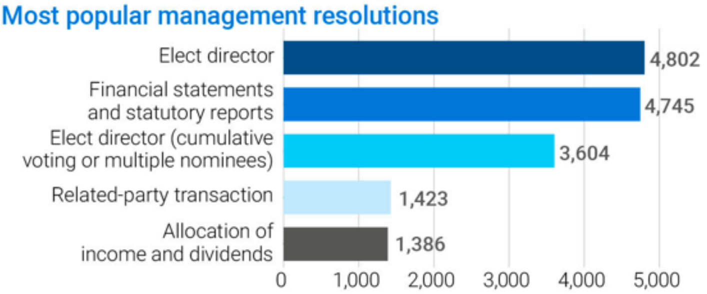


Asia Pacific ex-Japan

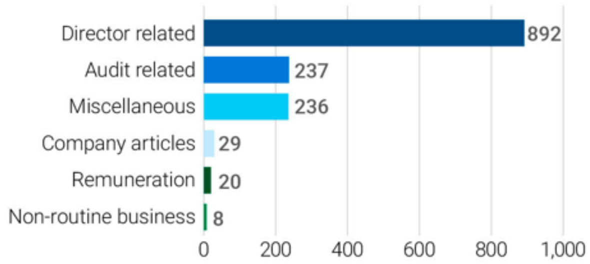
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	8095	2745	119	10959
Management - Routine business	8767	1335	0	10102
Management - Compensation	2211	1649	0	3860
Management - Capitalisation	3419	200	0	3619
Management - Transactions and non-routine business	3318	1196	0	4514
Management - Company articles	1481	498	0	1979
Management - Social	8	19	0	27
Management - E&S blended	0	0	0	0
Management - Environmental	0	3	0	3
Management - Miscellaneous/No research	195	76	0	271
Total resolutions - Management	**27494**	**7721**	**119**	**35334**
Shareholder - Director related	700	192	0	892
Shareholder - Routine business	2	3	0	5
Shareholder - Compensation	7	13	0	20
Shareholder - Capitalisation	0	0	0	0
Shareholder - Audit related	231	6	0	237
Shareholder - Non-routine business	1	7	0	8
Shareholder - Company articles	19	10	0	29
Shareholder - Social	0	0	0	0
Shareholder - E&S blended	0	0	0	0
Shareholder - Environmental	6	0	0	6
Shareholder - Governance	0	0	0	0
Shareholder - Miscellaneous	182	54	0	236
Total resolutions - Shareholder	**1148**	**285**	**0**	**1433**
No. resolutions*	36767			
No. AGMs	2969			
No. EGMs	2465			
No. companies voted	3012			
No. companies where voted against management/abstained on at least one resolution	2361			
% companies where at least one vote against management (includes abstentions)	78%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions

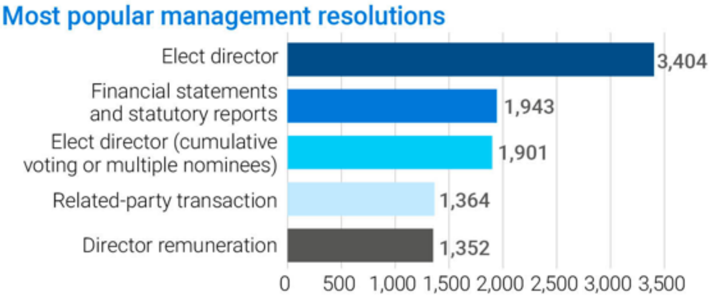


Rest of the World

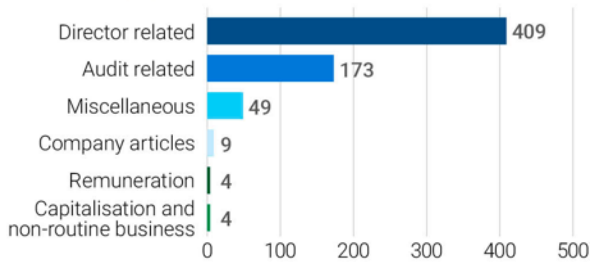
Proposal category	Total for	Total against	Total abstentions	Total
Management - Director related	5236	2175	569	7980
Management - Routine business	5252	567	0	5819
Management - Compensation	1572	862	0	2434
Management - Capitalisation	2278	992	0	3270
Management - Transactions and non-routine business	2213	252	0	2465
Management - Company articles	1104	325	0	1429
Management - Social	57	2	0	59
Management - E&S blended	13	0	0	13
Management - Environmental	0	2	0	2
Management - Miscellaneous/No research	178	694	0	872
Total resolutions - Management	**17903**	**5871**	**569**	**24343**
Shareholder - Director related	310	83	16	409
Shareholder - Routine business	0	0	0	0
Shareholder - Compensation	0	4	0	4
Shareholder - Capitalisation	2	0	0	2
Shareholder - Audit related	159	14	0	173
Shareholder - Non-routine business	2	0	0	2
Shareholder - Company articles	6	3	0	9
Shareholder - Social	0	0	0	0
Shareholder - E&S blended	0	0	0	0
Shareholder - Environmental	0	0	0	0
Shareholder - Governance	0	1	0	1
Shareholder - Miscellaneous	45	4	0	49
Total resolutions - Shareholder	**524**	**109**	**16**	**649**
No. resolutions*	24992			
No. AGMs	1415			
No. EGMs	1229			
No. companies voted	1262			
No. companies where voted against management/abstained on at least one resolution	1138			
% companies where at least one vote against management (includes abstentions)	90%			

* Resolutions voted exclude do-not-vote instructions.

Most popular management resolutions



Most popular shareholder resolutions



Awards

- Achieving industry and peer approval

We always aim to produce industry-leading work, but we are not complacent about our achievements. External validation and oversight keep us on our toes and propels us forward to keep improving.

Recognition from third parties in 2023:

- Received a 5* ranking from the UN PRI for five modules: Policy governance and strategy, Passive equity, Real estate, Fixed income (SSA) and Fixed income (corporate)[123]
- A rating from ShareAction for our approach to responsible investment[124]
- A+ climate stewardship score from InfluenceMap[125]
- Recognised by Majority Action for our leadership in using proxy voting to hold the directors of companies vital to the net zero transition accountable for ensuring their operations and business models are in alignment with 1.5°C-aligned pathways[126]
- Recognised by ShareAction for our proactive voting, despite being predominantly an index manager[127]
- Maintained 'Advanced' ESG Commitment score in the latest Morningstar analyst review
- ESG Identity Asset Manager Assessment

We also won the following industry awards for our efforts in responsible investing:

- Pensions Age Awards – Sustainability Provider of the Year
- City A.M. Awards – ESG Investor of the Year
- Salone dello SRI – Corporate ESG Identity
- Salone dello SRI – ESG Asset Management

PENSIONSAge AWARDS 2023 WINNER SUSTAINABILITY PROVIDER OF THE YEAR

ESG INVESTOR OF THE YEAR

ESG.IAMA 2023 leader

Awards should not be considered a recommendation. Past performance is not a guide to the future. 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.

123 PRI summary scorecard 2023, January 2024.
124 ShareAction, Point of No Returns 2023: Part I – Ranking and General Findings, February 2023.
125 InfluenceMap, Asset Managers & Climate Change 2023, August 2023.
126 MajorityAction, Climate in the Boardroom, 2023.
127 ShareAction, Voting Matters 2023, 2023.

UK Stewardship Code Index

This report should be read in its entirety to obtain the fullest picture of our active ownership activities during 2023. For examples of our work during the year, please see our E, S and G sections in this report and the report's landing page.

In addition, the table below provides links to the sections that demonstrate how LGIM applies the 12 Principles of the 2020 UK Stewardship Code. We consider that LGIM has fully applied each of the principles in its investment stewardship activities during 2023.

Stewardship Code Principles	Section within document	Pages
Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Foreword | Responsible investment | Awards	3, 8-16, 109
Principle 2 – Signatories' governance, resources and incentives support stewardship	Responsible investment (inc. GREGs) | Voting and reporting | Third-party service providers | Conflicts of interest	10, 17-19, 91, 97, 100
Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Conflicts of interest	100-101
Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Foreword | Responsible investment | How we engage | Policy advocacy and collaboration | Third-party service providers Climate | Nature | Health ESG case studies	3, 9-11, 20-27, 31, 34-38, 40-54, 64-70, 99
Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities	Stakeholder engagement | Voting and reporting | Policies and processes | Awards	32, 88-95, 109
Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Responsible investment | Stakeholder engagement | Voting and reporting | Policies and processes AUM and client breakdown	8-15, 32, 88-92, 95-96
Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	Responsible investment How we engage | Policies and processes | Third-party service providers Climate | Nature | ESG case studies	8-16, 20-21, 34-54, 64-65, 94-95, 99
Principle 8 – Signatories monitor and hold to account managers and/or service providers	Third-party service providers	97-99

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets	Responsible investment | How we engage | Policy advocacy and collaboration | Active engagement ESG case studies	9-11, 20-29, 84-87
Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers	Policy advocacy and collaboration ESG case studies	23-31, 40-41, 44-46, 53, 59-61, 67-70
Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers	Responsible investment | How we engage ESG case studies	9-12, 20-21, 34-38, 40-46, 50-53, 56-62, 64-70, 75-79, 81-82
Principle 12 – Signatories actively exercise their rights and responsibilities	Responsible investment | How we engage | Active engagement | Voting and reporting | Policies and processes Voting stats | ESG case studies	9-12, 20-21, 84-95, 102-108

Disclaimer

Key risks

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

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LGIM Asia

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