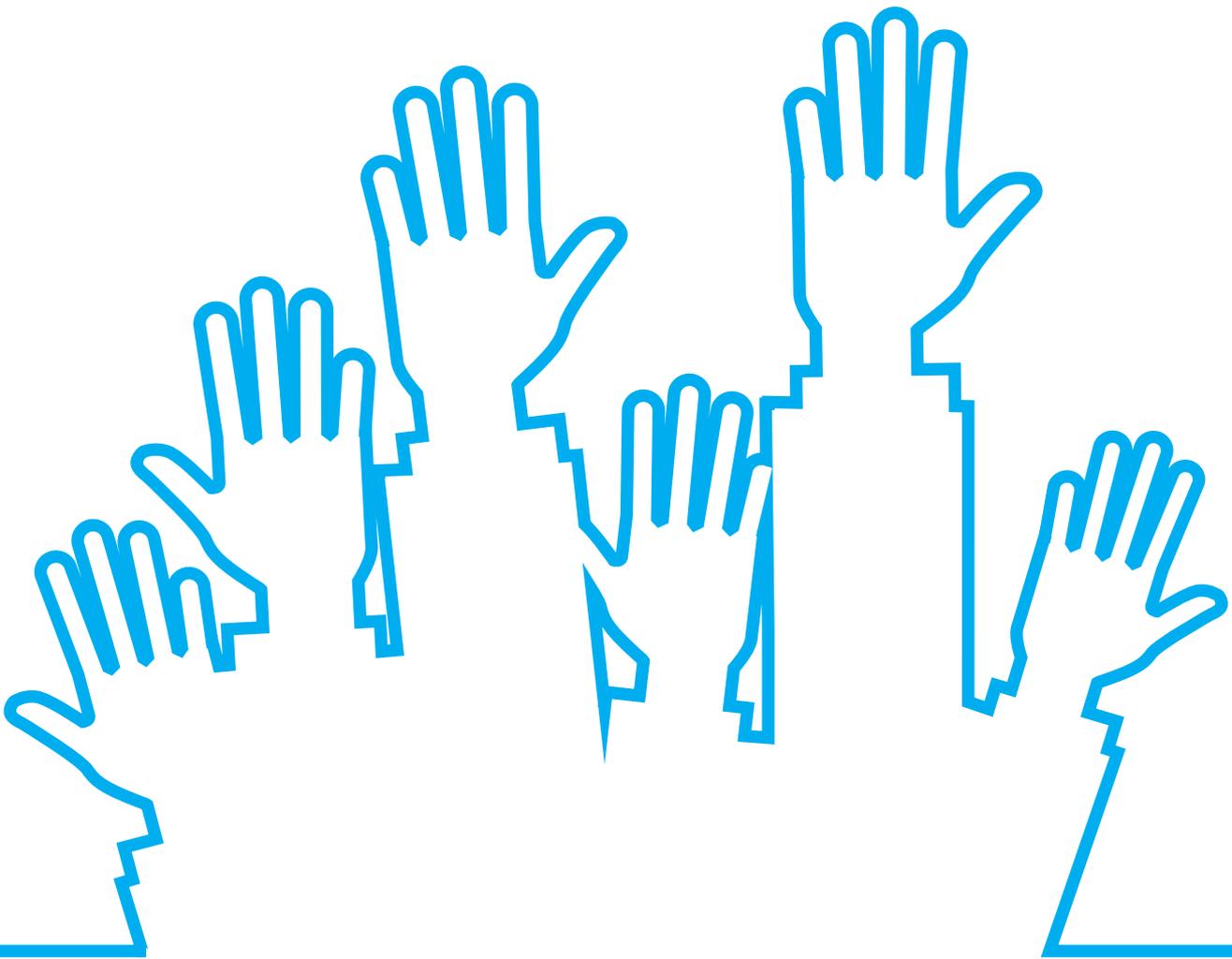


Corporate governance and active ownership

Q1 2017 ESG Impact Report



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investors or any other persons.

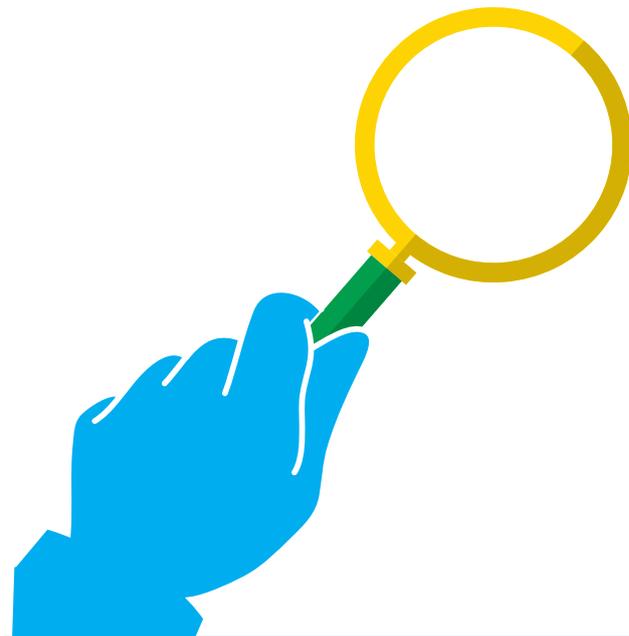
Our mission

To use our influence to ensure that:

Companies integrate **environmental, social and governance (ESG)** factors into their culture and everyday thinking.



Markets and regulators create an **environment** in which **good management** of ESG factors is valued and supported.

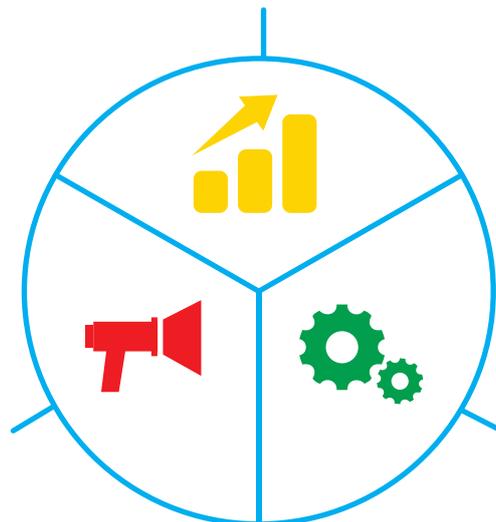


Our focus



Creating sustainable value: Ensuring that boards and management are best equipped to create resilient and long-term growth.

We want to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. To be successful in the long term, companies need to have people at the top who are able to deliver sustainable value. We engage directly and collaboratively with them to highlight key challenges and opportunities in their sector and support strategies that can deliver long-term success.



Influencing the debate: Identifying and engaging on key themes and emerging governance topics.

We use our scale to influence markets and the regulatory environment to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. We identify key themes and emerging governance topics so that we can understand these risks and opportunities and react accordingly. This includes working with governments, regulators and other decision-makers to promote a certain course of action and often collaborating with others to effect change.



Improving companies: Protecting and enhancing our clients' assets by supporting change and holding management accountable for their decisions.

As stewards of our clients' assets, we believe that real change is best achieved through being an engaged and active owner. In doing so, our investment process includes an assessment of how well companies incorporate relevant environmental, social and governance factors into their everyday thinking. We act on our analysis and engage with companies to improve their performance to protect client assets. Voting is also an important tool, which we use to hold management to account.

Latest news and developments

Q1 2017

Corporate Governance Annual Report 2016

On the 4th April, we launched our sixth Corporate Governance Annual Report which is now available on our website: http://www.lgim.com/library/capabilities/CG_Annual_Report_2016-full.pdf

This demonstrates to our clients the highlights and activities during 2016 on various environmental, social and governance themes. The comprehensive report includes many specific examples of our company engagement, voting and how we are influencing market practice. Publication of the report attracted national press attention including the FT, Guardian, The Times, City A.M. and The Evening Standard.

Corporate Governance reform in the UK

In November 2016, the UK Government launched a review into corporate governance reform in the UK. The Green Paper asks for views on executive pay, employee and customer voice and corporate governance in large private businesses.

In addition to the points raised above, LGIM also provided comprehensive suggestions on other areas that should be examined by the government in looking at corporate governance reform. LGIM suggested a wide ranging review in to the Corporate Governance Code itself, alongside how it is monitored, disclosure of pay ratios, stronger enforcement of directors' duties and better disclosure from the asset management industry of how stewardship capabilities are utilised.

We continue to engage directly with government on our proposals.

Financial Conduct Authority (FCA) consultation on Initial Public Offerings (IPO) process

Since 2012, LGIM has been engaged in seeking improvements in the IPO process. This engagement includes meeting with the FCA directly as well as working collaboratively with other market participants through the Investment Association.

In our proposals, we sought for better information and communication on the roadshow in order to improve investor expectations. Furthermore, we also requested processes be put in place to promote and incentivise the publication of independent research (i.e. sell-side analysts who are not associated with a bank that is floating the company).

We were pleased to see that the FCA have taken these comments on board and have worked them into a package of policy measures intended to improve the range and quality of information available to investors during the IPO process. LGIM believes this will help with transparency and improve the integrity of the overall equity market for all our clients' investments.

Parliamentary Committee

We presented to the All Party Parliamentary Corporate Governance Group meeting at the House of Lords in March on our views on key governance topics in light of the recent review of the Corporate Governance Code by the UK Government.

We highlighted that some investors, including LGIM, have become more active on ESG topics. However, we think that regulators should take a tougher stance in order to empower asset owners, and should also make sure they can distinguish between investors who act on their stewardship responsibilities and those who don't.

Taskforce

LGIM participated in the second consultation of the Taskforce on Climate Related Financial Disclosure. Setup by the Financial Stability Board of Bank of England and supported by G20 leadership, it is a pivotal industry development to create a market-wide disclosure framework on climate risk. It also provides a guideline on how asset owners like pension funds and asset managers like LGIM can improve transparency on the topic of climate change going forward.

We welcomed the initiative and many of the suggested formats. We also gave detailed feedback on areas that they could improve on, such as making the disclosure much more quantitative and consistent. The final guidelines will come out in July 2017.

Regional voting policies updates

We have recently reviewed our UK and US voting policies and decided to strengthen them further. This ensures that they are aligned with evolutions in the corporate landscape and that they continue to respect our clients' investment beliefs and represent their interests.

- UK voting policy

LGIM's new UK voting policy incorporates our Principles on Remuneration, published in September 2016, and therefore reflects our strengthened stance on the topic.

In addition, we have chosen to align our diversity strategy with our objective of achieving a minimum of 30% women on the board of FTSE 350 companies by 2020.

- North America voting policy

We acknowledge the development of the Lead Independent Director (LID) role in this market in recent years and have therefore included a section on the role of the LID which sets out our expectations.

We have also decided to strengthen our position on remuneration to reflect wider society concerns on this topic.

Our regional voting policies are publicly available on our website at: http://documentlibrary.lgim.com/litlibrary/lglibrary_463150.html

Regional updates

UK

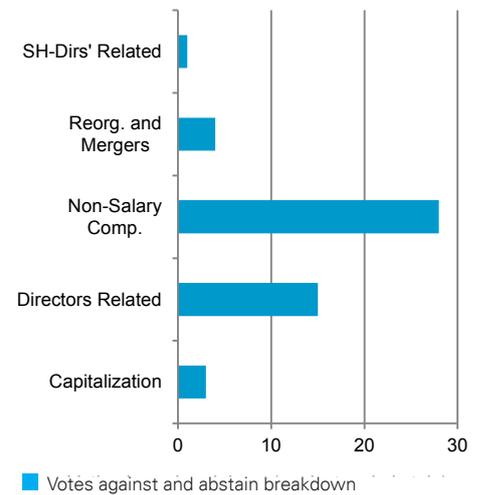
KEY COMPANY ENGAGEMENTS

HSBC Holdings plc	What is the issue:
Market cap £129bn	During 2015 and 2016, we have engaged privately with HSBC on their succession plans at the board and executive level. HSBC's chairman, who LGIM supported, has been in the role since 2010. LGIM wanted assurance that appropriate succession plans were in place. Additionally HSBC's Chief Executive Officer (CEO) who has been in this role since 2011 indicated his wish to step down in due course.
Financials	<p>Why is it an issue: Finding an individual who has both the ability and willingness to chair a large international, globally important bank can be difficult. Additionally, HSBC has a history of promoting insiders to the role of chairman whereas in this instance we called for the appointment of an independent external chairman.</p> <p>What did LGIM do? During the past 18 months, LGIM has engaged pro-actively with HSBC on their succession planning process for the chairman position. The search for the chairman role was led by the senior independent director, and supported by other non-executive directors.</p> <p>Our discussions were constructive as we set out our position and expectations clearly to the board in advance of the succession planning. We explained that we would support the appointment of an independent chairman, and encouraged the board to look outside of its current members. We set out our expectation that the new chairman would be named prior to the 2017 AGM and would be in position prior to the year end.</p> <p>During 2016, and in the first quarter of 2017, LGIM held over five private and constructive meetings and conversations with the relevant HSBC directors on succession issues. This close monitoring allowed us to maintain support for the board in their search and to demonstrate the importance of filling this role.</p> <p>The outcome? In March 2016, HSBC later announced that the current chairman would be departing in 2017 and confirmed the successor will be the current CEO at AIA. LGIM publicly welcomed the appointment of such a highly-regarded individual with extensive experience in Hong Kong and Asia – markets which will continue to be essential to the future success of HSBC.</p> <p>HSBC also confirmed the succession plan for the CEO position, with the incoming chairman leading the process to appoint a new CEO by 2018. LGIM agree it is the best governance practice for the new chairman to appoint the incoming CEO.</p>
Imperial Brands plc	What is the issue:
Market cap £36.3bn	The company is a major FTSE 100 tobacco company. Their remuneration is mainly focused towards the delivery of long-term goals; however, the quantum is already relatively high, with total variable pay being 550% of salary.
Tobacco	<p>The company was proposing to increase the long-term element of the package for its executives, with the CEO's LTIP increasing from 350% of salary to 450% of salary, on top of an annual bonus of 200% of salary.</p> <p>Why is it an issue: LGIM believes that executive remuneration should be aligned with long-term shareholder value creation. We have concerns with the continued divergence in pay equality between the boards of companies and their employees.</p> <p>The company stated that its executives were relatively under-paid based on a benchmark exercise. However, the benchmark chosen included peer companies with significantly high pay levels.</p> <p>What did LGIM do? The company engaged early with its major shareholders including LGIM.</p> <p>Following consultations, we instructed the company that the proposed increase was too significant and we felt that the current remuneration was sufficient.</p> <p>The outcome? Just before the AGM, the company issued a press release scrapping the resolution to increase the remuneration. Their existing policy is not due for renewal until 2018, therefore the current remuneration policy approved by shareholders will continue to apply.</p> <p>We shall watch this matter closely and continue to engage with the company.</p>

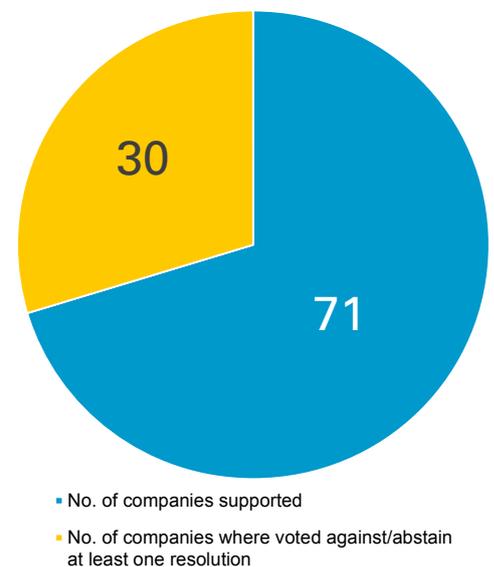
Q1 2017 VOTING SUMMARY UK

Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	51		
Capitalisation	278	3	
Directors Related	518	15	
Non-Salary Comp.	129	28	
Reorg. and Mergers	14	4	
Routine/Business	350		
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related		1	
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	1340	51	0
Total resolutions	1391		
No. AGMs	81		
No. EGMs	28		
No. of companies voted	101		
No. of companies where voted against/abstain at least one resolution	30		
% no. of companies where at least one vote against	30%		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 30% of UK companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Europe

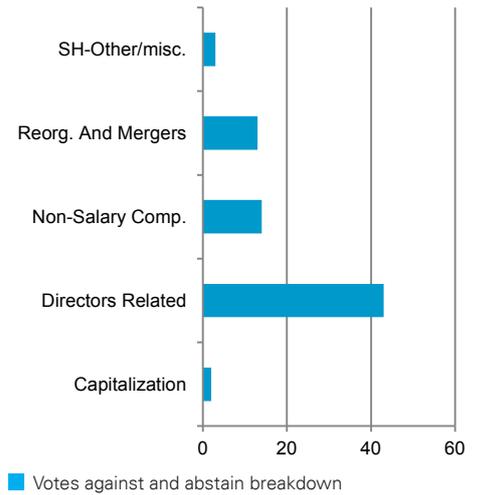
KEY COMPANY ENGAGEMENTS

Renault	What is the issue: At the 2016 AGM, 54% of shareholders opposed the remuneration granted to the company's CEO and chairman. This was the first time in France that a 'say on pay' resolution was rejected.
Market cap €24.31bn	
Automobiles	Despite this significant level of shareholder dissent, and as the vote was only consultative, the board decided to support the remuneration granted to the CEO. The board's decision to ignore shareholders' votes sparked controversy in France. Why is it an issue: We believe the board's decision undermined the role of shareholders and their power to hold the company to account on executive pay and performance. What did LGIM do? In January 2017, LGIM met with the chairman of the Remuneration Committee to discuss the board's decision to validate the remuneration of the CEO despite a significant level of shareholder dissent. This meeting was the opportunity for us to share our concerns with a board member and get a better insight into the board's decision making process. We also reviewed the proposed remuneration structure for 2017 and provided the chairman of the Remuneration Committee and other company representatives with relevant feedback. The outcome? The French government decided to intervene through legislation. In November 2016, the French Parliament adopted a new law introducing a binding vote for all remuneration elements. We shall continue to engage with the company and will be reviewing closely the company's public disclosures before casting our vote at the 2017 AGM.

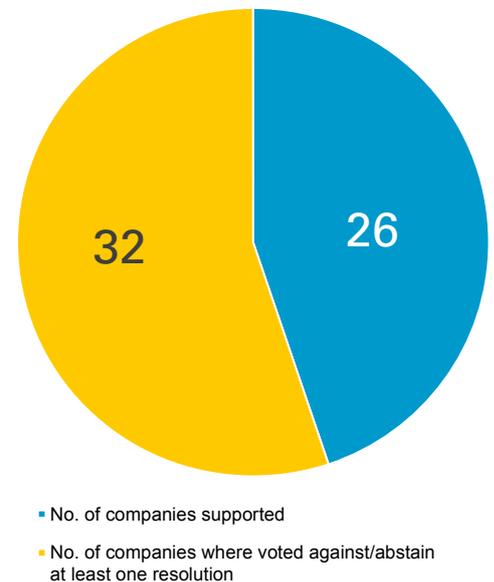
Q1 2017 VOTING SUMMARY EUROPE

Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	80	2	
Directors Related	449	42	1
Non-Salary Comp.	72	14	
Reorg. and Mergers	4	0	
Routine/Business	306	13	
SH-Compensation	1		
SH-Corp Governance	1		
SH-Dirs' Related	12		
SH-Gen Econ Issues	0		
SH-Health/Environ.	7		
SH-Other/misc.	44	3	
SH-Routine/Business	1		
SH-Soc./Human Rights			
Social Proposal			
Total	977	74	1
Total resolutions	1052		
No. AGMs	53		
No. EGMs	5		
No. of companies voted	58		
No. of companies where voted against/abstain at least one resolution	32		
% no. of companies where at least one vote against	55%		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 55% of European companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

North America

KEY COMPANY ENGAGEMENTS

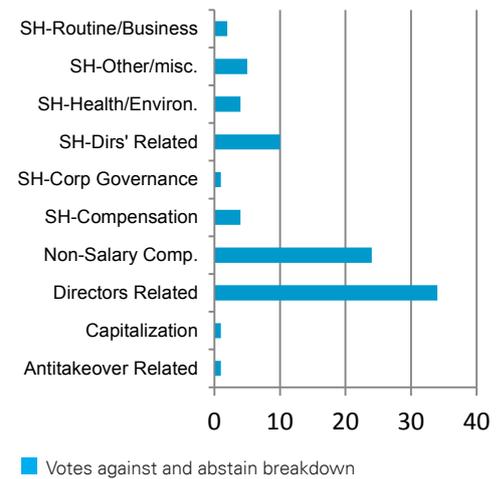
58 US listed companies	<p>What is the issue: Board level refreshment and diversity.</p>
Market wide	<p>Why is it an issue: We continue to focus on these important aspects of board composition as they impact the board performance and long-term success of the companies.</p> <p>What did LGIM do? LGIM collaborated with CalSTRS and OPERS in the US, and APG in the Netherlands, and wrote to 58 companies to request a discussion on their board diversity and refreshment commitments and processes.</p> <p>The outcome? To date, meetings with 22 of the companies have been or are due to be undertaken. Two companies have appointed a qualified woman to their board, and three companies have enhanced disclosures on their commitment and processes.</p>

Snap Inc.	<p>What is the issue: The company is intending to list on stock exchanges without allowing voting rights for shareholders. As an index investor we have no choice but to invest in those companies included in the index.</p>
Market cap \$28.4bn	<p>Why is it an issue: A company should allow its stakeholders a voting right equal to the economic stake held.</p> <p>What did LGIM do? We worked with the Council of Institutional Investors and the Investment Association to put together a collaborative response to FTSE and worked closely with our index teams who represented our perspective at the FTSE Advisory Committee meetings.</p> <p>The outcome? FTSE, MSCI and S&P have all confirmed that they shall be launching a public consultation on listing standards in order to receive comprehensive shareholder feedback. Snap is not currently in the indices so we will continue to push for this.</p>
Technology	

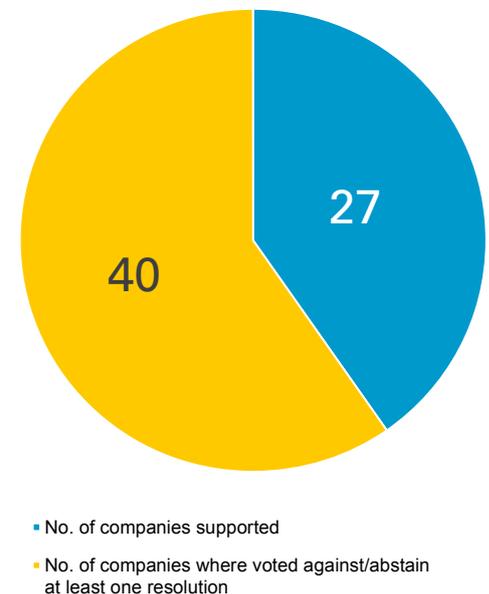
Q1 2017 VOTING SUMMARY NORTH AMERICA

Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	12	1	
Capitalisation	13	1	
Directors Related	463	34	
Non-Salary Comp.	95	24	
Reorg. and Mergers	15		
Routine/Business	84		
SH-Compensation	2	4	
SH-Corp Governance	2	1	
SH-Dirs' Related	5	10	
SH-Gen Econ Issues			
SH-Health/Environ.	1	4	
SH-Other/misc.	1	5	
SH-Routine/Business	3	2	
SH-Soc./Human Rights			
Social Proposal			
Total	696	86	0
Total resolutions		782	
No. AGMs		55	
No. EGMs		13	
No. of companies voted		67	
No. of companies where voted against/abstain at least one resolution		40	
% no. of companies where at least one vote against		60%	

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 60% of North American companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Japan

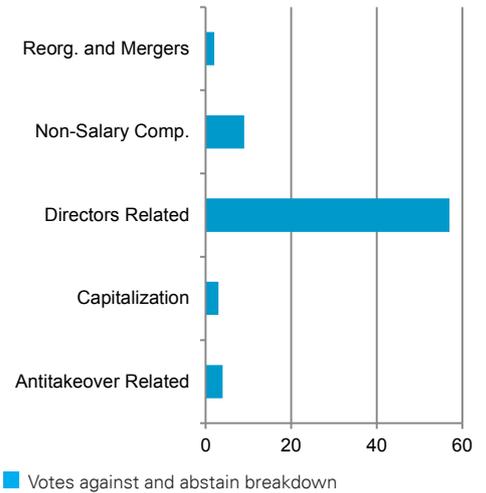
KEY COMPANY ENGAGEMENTS

<p>Honda Motor Co Ltd</p>	<p>What is the issue: A meeting was held with the company, one of the largest car manufacturers in the world, to discuss the issue of climate change and how their business model is adapting to changing legislation in the industry.</p>
<p>Market cap ¥5.76tn</p>	
<p>Automobiles</p>	<p>Why is it an issue: The automobile industry has high risk exposure to climate change given the changing technological, political and scientific landscape.</p> <p>The move towards electrification and driverless vehicles poses a threat for traditional vehicle manufacturers. It is important that the company embraces and responds to these developments in order to adapt the business model, so that it is resilient in a low-carbon economy.</p> <p>Furthermore, there is heightened scrutiny by legislators around car emissions given recent scandals.</p> <p>What did LGIM do? Due to its size and the nature of its overall impact at an economic and environmental level, the company was included in LGIM's Climate Impact Pledge. The Pledge aims to ensure that companies are equipped to be successful over the long term, through addressing the challenges of climate change and seizing opportunities created by the transition to a low-carbon economy.</p> <p>LGIM met the company to explain the methodology of the Pledge and areas where improvements need to be made. We asked the company to improve transparency on scenario analysis, to show us how they will respond and adapt to the low-carbon transition. In addition, we asked the company to provide additional information around R&D and how much spending goes in to low-carbon technologies. This will enable investors to understand the company's ambition in this area.</p> <p>The outcome? The company was receptive to our requests and assured us that they would be more transparent on scenario analysis. This engagement initiated a one-year engagement period in which we will monitor the company's improvements.</p>

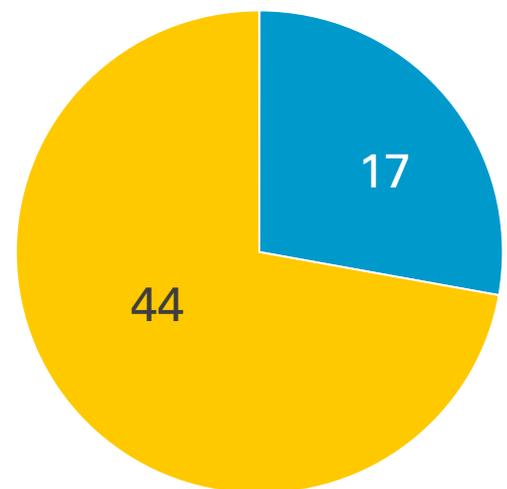
Q1 2017 VOTING SUMMARY JAPAN

Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related		4	
Capitalisation	1	3	
Directors Related	470	57	
Non-Salary Comp.	30	9	
Reorg. and Mergers	15	2	
Routine/Business	45		
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business	1		
SH-Soc./Human Rights			
Social Proposal			
Total	562	75	0
Total resolutions	637		
No. AGMs	59		
No. EGMs	2		
No. of companies voted	61		
No. of companies where voted against/abstain at least one resolution	44		
% no. of companies where at least one vote against	72%		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 72% of Japanese companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Asia Pacific

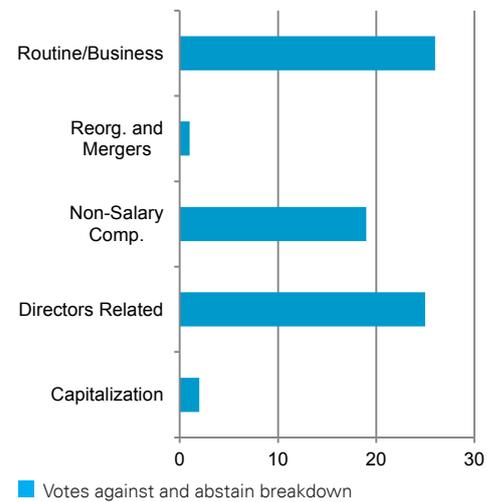
KEY COMPANY ENGAGEMENTS

Samsung Electronics Co Ltd	<p>What is the issue: The company is increasingly coming under pressure to improve its corporate governance structure and the level of transparency in the business.</p>
Market cap ₩324.51tn	
Consumer Electronics	<p>This is evidenced by the launch of a second campaign against the company by an activist shareholder. Their aim is to simplify the business by separating the operating company from the holding company and to unlock further value by increasing distribution to shareholders.</p> <p>Furthermore, the activist is calling for the appointment of independent directors with international experience to the board.</p> <p>Finally, there are concerns around the arrest of the vice chairman, who is a key figure of control in the company and the board. The charges against the vice chairman involve bribery and corruption at a high level in the political environment in South Korea.</p> <p>Why is it an issue: The company's complicated group structure and family holdings make it difficult for investors to value the business.</p> <p>In addition, the structure of the board is not in line with best practice due to a lack of diverse international experience. A lack of transparency inhibits investors' understanding of whether there is an appropriate level of governance oversight and minority shareholder protection.</p> <p>What did LGIM do? LGIM had direct meetings with the company in December 2016 and February 2017 to discuss a number of issues. These included corporate governance, strategy, recent performance, capital allocation policies and bribery.</p> <p>Furthermore, in order to escalate the issue and exert maximum influence over the company on these matters, we collaborated with other investors through the Investment Association. The objective was to increase the pressure on the company to respond to a joint letter signed by investors, which sent a clear message to the company: push forward changes in order to become a market leader in governance in South Korea.</p> <p>The outcome? During engagement, the company explained that they were reviewing the proposals put forward by the activist shareholder.</p>

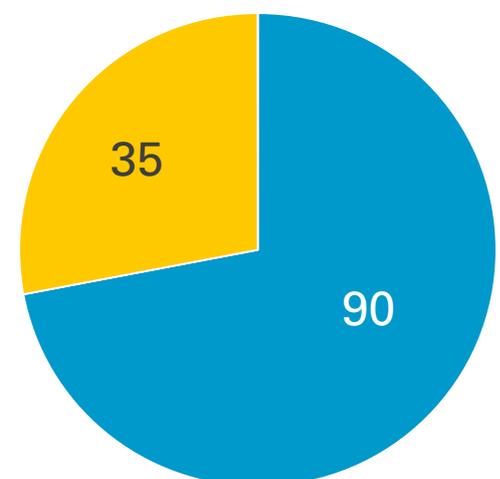
Q1 2017 VOTING SUMMARY ASIA PACIFIC

Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related	1		
Capitalisation	3	2	
Directors Related	307	25	
Non-Salary Comp.	116	19	
Reorg. and Mergers	18	1	
Routine/Business	289	26	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	734	73	0
Total resolutions	807		
No. AGMs	116		
No. EGMs	13		
No. of companies voted	125		
No. of companies where voted against/abstain at least one resolution	35		
% no. of companies where at least one vote against	28%		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 28% of Asia Pacific companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

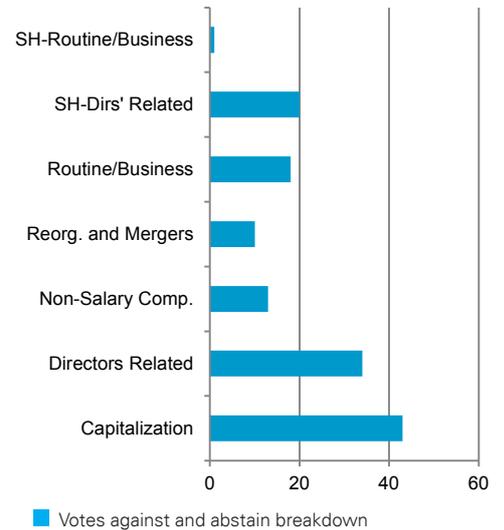
Regional updates

Emerging markets

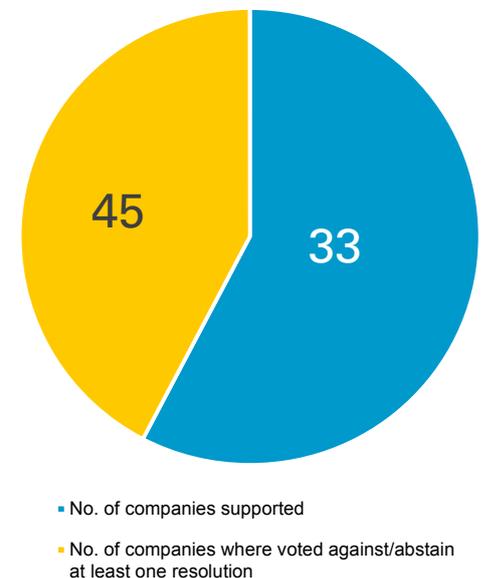
Q1 2017 VOTING SUMMARY EMERGING MARKETS

Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	114	43	
Directors Related	213	34	8
Non-Salary Comp.	20	13	
Reorg. and Mergers	56	10	
Routine/Business	236	18	1
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related	5	20	2
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business		1	
SH-Soc./Human Rights			
Social Proposal			
Total	644	139	11
Total resolutions	794		
No. AGMs	43		
No. EGMs	65		
No. of companies voted	102		
No. of companies where voted against/abstain at least one resolution	46		
% no. of companies where at least one vote against	45%		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 45% of emerging market companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

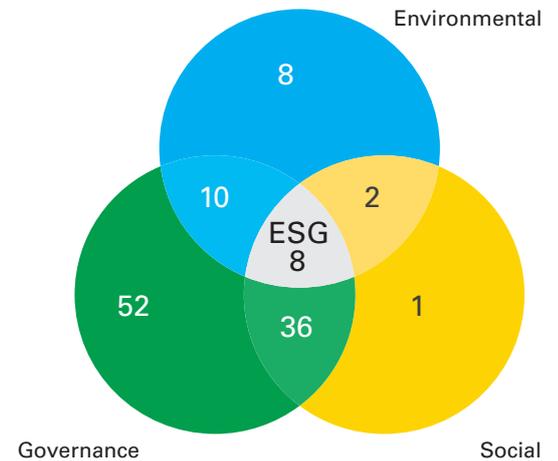
Global summary

VOTING TOTALS

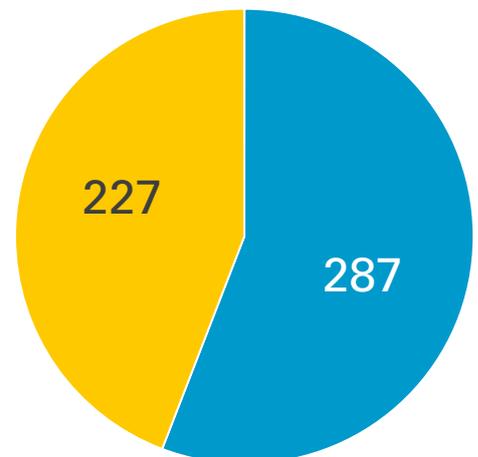
Proposal category	Total
Anti-takeover Related	69
Capitalisation	543
Directors Related	2636
Non-Salary Comp.	569
Reorg. and Mergers	139
Routine/Business	1368
SH-Compensation	7
SH-Corp Governance	4
SH-Dirs' Related	55
SH-Gen Econ Issues	0
SH-Health/Environ.	12
SH-Other/misc.	53
SH-Routine/Business	8
SH-Soc./Human Rights	0
Social Proposal	0

Total resolutions	5463
No. AGMs	407
No. EGMs	126
No. of companies voted	514
No. of companies where voted against/abstain at least one resolution	227

Frequency of ESG topics



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

COMPANY ENGAGEMENT STATISTICS

Proposal category	Total
Total number of companies	99
Total number of meetings	120
Number of meetings where environmental topics discussed	28
Number of meetings where social topics discussed	47
Number of meetings where governance topics discussed	106
Number of meetings where other topics (e.g. financial and strategy) discussed	75
% of meetings including environmental and social issues discussed	54%

Top 3 engagement themes this quarter:	Board composition	Strategy	Remuneration
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To read more about LGIM’s engagement activity in 2016, including many more examples of where we have helped deliver long-term positive change, please visit www.lgim.com/activeowner



CONTACT US FOR MORE INFORMATION

For further information on anything you have read in this report or to provide feedback, please contact us at corporategovernance@lgim.com. Please visit our website www.lgim.com/corporategovernance where you will also find more information including frequently asked questions.

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