

Corporate Governance Conflicts of Interest Policy



Introduction

The Legal & General Investment Management (LGIM) Corporate Governance team has responsibility for engaging and voting with listed companies to safeguard and enhance our clients' assets, and identifying and engaging on emerging governance topics. As part of this process, it is necessary to be able to take informed positions, and to be able to actively support companies, in order to obtain the best outcome for our clients. Using our scale can influence investee companies on important decisions.

Being seen to identify, manage and mitigate both actual and perceived conflicts is essential to our activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which we invest, as in order to drive change and have an impact on the market we need to be seen as a trusted, fair and transparent investor.

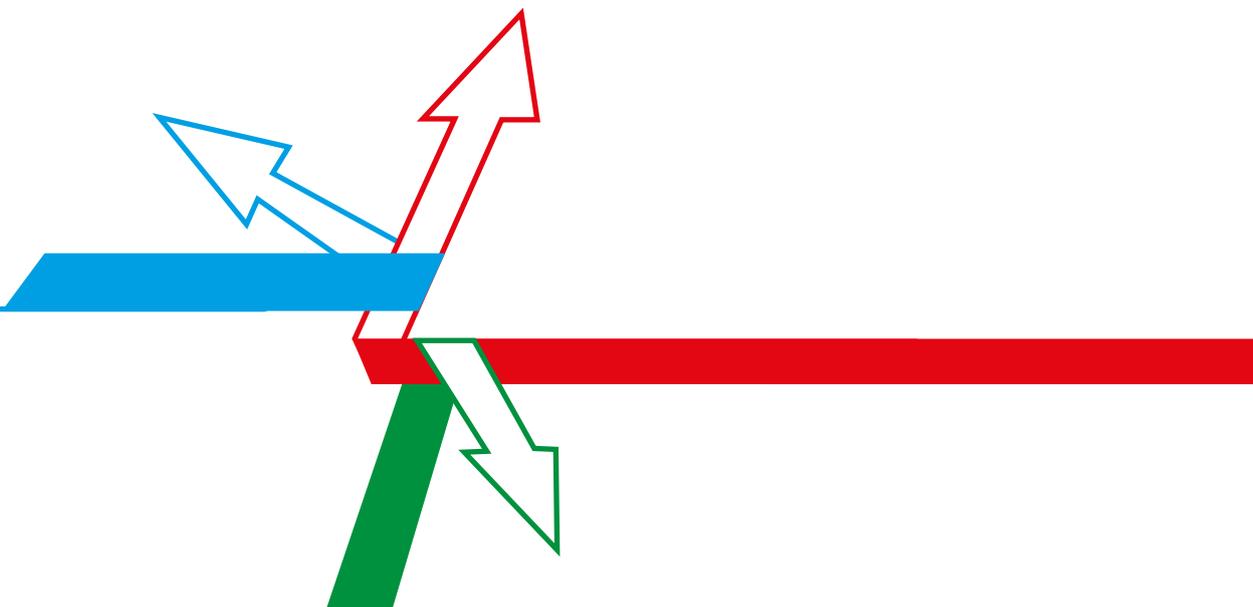
PUTTING CLIENTS' INTERESTS FIRST

LGIM owes each of its clients a duty of care with respect to all services undertaken on their behalf. LGIM places its clients' interests ahead of its own, and undertakes activities and casts proxy votes in a manner consistent with the best interests of all clients.

The team is structured and supported in a way that aims to minimise potential conflicts of interest, but when these arise LGIM is able to act to achieve the best outcome for all clients.

POTENTIAL CONFLICTS OF INTEREST

There are a number of potential conflicts of interest inherent in the corporate governance activity undertaken at LGIM. Detailed below are some of the frequent conflicts of interests that we identify and resolve through the application of the conflicts of interest policy. This is not an exhaustive list and the Corporate Governance team may encounter additional conflicts not detailed in this policy.



Related Party	Potential Conflicts
<p>Legal & General Group plc (L&G) (LGIM's listed parent company)</p>	<ul style="list-style-type: none"> • Reputational conflicts may arise through the parent company not currently adhering to the best practice espoused by the LGIM Corporate Governance team • The parent company may have commercial relationships and connections with companies and stakeholders with whom the Corporate Governance team is engaging • The parent company may try to influence LGIM's activities on corporate governance, takeovers and public stances on key topics
<p>LGIM clients or prospective clients</p>	<ul style="list-style-type: none"> • Many of our clients are corporate-sponsored pension schemes that are associated with the companies in which LGIM invests • Clients may not support the voting and engagement activities of LGIM. For example, where we are casting votes against the sponsor management or engaging on issues where they do not adhere to best practice • There may be conflicts between clients, for example in the prioritisation of team resource or identifying and engaging on material aspects and topics of engagement
<p>Internally within LGIM</p>	<ul style="list-style-type: none"> • Active equity and active bond mandates have different investment strategies and time horizons to passive strategies • The interests of equity and bond investors may diverge, for example at the time of a debt issuance, a rights issue or a merger and acquisition scenario • The views of internal portfolio managers may differ between each other and with the corporate governance team. A negative stance from the corporate governance team may impact other interactions with the company
<p>Companies in which LGIM invests</p>	<ul style="list-style-type: none"> • LGIM often receives and processes commercially and price sensitive information • The companies LGIM engages with and votes on may be direct competitors of LGIM or L&G • The companies LGIM engages with and votes on may contain directors who also sit on the LGIM or L&G board • There may be personal contacts and connections at the investee company

Conflicts identified, mitigated and managed

Practical processes are in place to identify, manage and mitigate potential conflicts as set out below. We have also provided historic case studies to provide further explanation of where such conflicts have arisen in the past, and how LGIM dealt with that risk to act in the best interests of our clients.

IDENTIFICATION OF CONFLICTS

The early identification of potential or actual conflicts of interests is essential in order to implement effective mitigation strategies or processes which help to manage that conflict before it is realised.

- Staff training to identify and manage conflicts of interest adequately
- Annual review of conflicts to identify any new conflicts and to review controls around existing
- The Corporate Governance team or the Corporate Governance Director meets regularly with the equity, fixed income and index teams, LGIM management and the parent company to assist in the identification in potential future conflicts

Case study of identifying conflicts: Royal Bank of Scotland plc (RBS), rights issue litigation

As a large investor in RBS LGIM was contacted by numerous parties about litigation in the respect of the RBS rights issue in 2008.

LGIM performed due diligence to see whether this was the right action on behalf of our clients. On inspection we monitored the conflicts of interest and put into place our LGIM Conflicts of Interest policies.

The first step was to identify where the conflicts were.

- LGIM is still a large investor in RBS
- RBS is a large pension client of LGIM
- LGIM and L&G have many business relationships with RBS
- The UK government owns a large stake in RBS and LGIM has many relationships with the UK government

LGIM managed these conflicts in accordance with the policies, and the non-executive directors were informed. LGIM(H) had a board meeting and many briefings on the risks and rewards of taking litigation. In summary, LGIM decided to proceed with litigation and monitor the relationships and conflicts. During this period of litigation, LGIM held many meetings with the RBS board on governance topics and gave constructive advice on a range of issues.

The process went smoothly and in 2017 RBS agreed to settle the litigation, to the benefit of LGIM clients. LGIM continues to be a major shareholder in RBS, and they remain a client of LGIM.

MITIGATION OF CONFLICTS

LGIM has implemented a number of structures and process to avoid potential conflicts, to reduce the risk of an actual conflict arising and to mitigate the impact of such conflicts where they do arise.

Structure of the Corporate Governance team:

The team is structured to mitigate and manage potential internal conflicts of interest. The Director of Corporate Governance reports directly to LGIM's Chief Executive Officer (CEO), is a member of the LGIM board and regularly communicates with the LGIM(H) non-executive directors.

The Corporate Governance team has no reporting relationship to the equity and fixed income teams. The independent reporting line to the board allows the team to form a view and take decisions that are in the long-term interests of LGIM clients, notwithstanding the investment time horizon and strategy of the underlying portfolio.

Legal & General Group equity and bonds:

L&G shares are held externally and voted independently of LGIM. For L&G shares held by trusts and segregated funds, should any conflicts of interest arise, LGIM would inform the client and seek instruction. As part of the investment policy for all our fixed income funds, it is not permitted to buy L&G bonds.

LGIM is not permitted to buy L&G bonds in our active fixed income portfolios. For index fixed income products, L&G bonds are held in accordance with their benchmark weight.

Transparent and fair implementation of policies:

LGIM's corporate governance, stewardship, voting and conflicts of interest policies are publicly available on the LGIM website. All policies have been approved by the LGIM Corporate Governance Committee (please see below) and are regularly reviewed. The transparency and governance of these policies ensures they are fairly and consistently applied, thereby assisting in the mitigation of potential conflicts.

MANAGEMENT OF CONFLICTS

On the occasions where conflicts are identified and cannot be fully mitigated, LGIM has clear structures in place to ensure the proper and right decision will be taken in the interests of our clients, not withstanding any conflicts of interest.

Independent oversight:

LGIM's Corporate Governance Committee meets quarterly and has explicit responsibility to provide oversight in relation to potential conflicts of interests and contentious corporate governance issues. The committee is chaired by an LGIM independent non-executive director and comprises a further independent director, and the Chief Executive Officer, Chief Investment Officer, and the Chief Risk Officer.

The Conflicts of Interest Committee is a committee of the Legal & General Investment Management (Holdings) Limited Board ("LGIM(H)"). Its purpose is to provide independent oversight of LGIM(H) firms' identification, management and disclosure of conflicts of interest and potential conflicts of interest. The Committee is chaired by a Non Executive Director and membership is drawn from the second line functions.

Formal escalation process:

Where conflicts are identified outside of the Corporate Governance Committee, the two independent non-executive directors of LGIM(H) are available to the Corporate Governance team for the escalation of how a (potential or actual) conflict should be addressed and to oversee this process. Additionally, the CEO of LGIM may be informed, if not linked to the conflict. This ensures any conflict is always managed in the long-term interests of clients with appropriate independent accountability.

Case study of escalating of a conflict: Alliance Trust plc, new investment manager

Alliance Trust plc (AT) is a large investment trust in which LGIM is a significant and long-term investor. AT has had many issues over the years, which LGIM has engaged and voted on. After a period of underperformance and significant change of board members, AT concluded a review of the investment management of the investment trust.

In our discussions with AT, LGIM identified that one of the advisors working for AT had been awarded the mandate. However there was limited public detail on the process of the review and the relationship with the advisor was not disclosed. We considered the disclosure of the review process and related information would be relevant for a voting decision.

The advisor has a long-standing relationship with various parts of LGIM, including being a client. LGIM identified the conflict and notified both the LGIM CEO and non-executive directors in accordance with our escalation policy for conflicts. Post this internal discussion, we then spoke to the board of AT and the corporate brokers.

This meant the engagement and voting decision was monitored by LGIM's CEO and independent non-executive directors to ensure we were acting in the interests of all clients. Subsequently AT announced additional public information which helped LGIM and others to make their voting decisions. LGIM continues to be a major shareholder in AT plc.



Handling inside or price-sensitive information

As a major investor, LGIM is contacted by companies or investment banks to discuss price-sensitive issues before the information becomes public. As detailed in LGIM's Stewardship Code Statement, the Corporate Governance team is able to discuss price-sensitive issues and receives and processes a great deal price sensitive information relating to a company's activity, such as management succession, financing or M&A activity.

Chinese walls:

Chinese walls can be put in place to manage the handling of price-sensitive knowledge received by the Corporate Governance team, and procedures have been put in place to manage the receipt of such information. Non-price-sensitive knowledge is fluidly shared between the Corporate Governance team and the different fund management teams, while Chinese walls ensure the independence of the Corporate Governance team.

Process and systems:

The Director of Corporate Governance or a Corporate Governance Manager will be notified in the first instance when a company or investment bank wishes to make LGIM an insider. They will make a decision as to whether or not they will be taken over the wall.

Once price-sensitive information has been received, this will be logged on LGIM's proprietary Order Management System (OMS) along with the nature of the information, name of the counterparty and the date at which the information is expected to become public. At this point, a decision is taken as to who else in the organisation may need to be notified, and this is recorded within OMS. Confidential material received is treated appropriately as part of LGIM's clear desk policy, and stored on a system that cannot be accessed by other teams within LGIM.

If an active or index equity fund manager is called inadvertently or the information is of a short duration, a lead fund manager would follow the same procedure.

Once the information is entered into the OMS, an automatic email is generated and sent to the compliance team who record the situation on the dealing system. Any individual or department that is included as being in possession of inside information is restricted from dealing in the stock, as is any member of staff wishing to deal in a stock in a personal capacity.

In the situation of a share placing or a pre-marketing meeting where LGIM's feedback is sought, a member of the equities team will normally attend the meeting.

Once the information becomes public the stock is removed from the insider list on the OMS.

Formal Internal Controls:

There are a number of formal controls to ensure that LGIM's Corporate Governance Conflicts of Interest policy is applied. These include:

- LGIM's Compliance Monitoring Programme incorporates surveillance tests and thematic reviews which test the control framework around conflicts of interest
- A formal quarterly risk assessment meeting between members of the Corporate Governance team and the LGIM risk team
- A register of conflicts maintained and reported to LGIM(H)
- The team's activity is verified annually based on the standards in AAF 01/06

CONTACT US

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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