

LGIM(H) Controversial Weapons Policy

EXECUTIVE SUMMARY

Through the implementation of this Controversial Weapons Policy, Legal & General Investment Management (Holdings) Limited ('LGIM(H)') and its subsidiaries will now exclude from its investments those companies involved in the manufacture and production of cluster munitions, antipersonnel landmines, and biological and chemical weapons.

This step is being taken for three principal reasons:

- Firstly, we want to help our clients meet their regulatory obligations; in certain jurisdictions it is illegal to invest in the debt and equity of these companies
- Secondly, in many more jurisdictions it is illegal to use these weapons; therefore as a responsible investor we do not want to be financing them
- Thirdly, the market for such weapons is very limited and involvement in it brings reputational risk. We believe it makes business and investment sense for companies to reconsider their involvement

The policy will be applied to active fixed income and equity funds, certain index funds and client-specific portfolios. LGIM may inform companies on the exclusion list of the policy and will encourage them to reconsider involvement in the production of these weapons.

The policy will be reviewed on an annual basis and LGIM(H) will consider options for strengthening the policy over time.

CONTEXT & BACKGROUND

- Controversial weapons are those that have an indiscriminate and disproportional humanitarian impact on civilian populations; the effects of which can be felt long after military conflicts have ended
- Such weapons include antipersonnel landmines, cluster munitions, chemical and biological weapons, and nuclear weapons
- There are a number of International Conventions and Treaties¹ that have been developed with a view to prohibiting or limiting the use and availability of these weapons
- Where a country has signed and ratified a Convention, the production, stockpiling, transfer and use of that weapon is illegal²
- In a number of jurisdictions, the direct and indirect financing of these weapons is also prohibited by country-specific legislation
- Through implementation of the present Controversial Weapons Policy ("CWP"), the LGIM(H) Board is committed to supporting its clients to meet their regulatory obligations
- LGIM(H)'s CWP has also been adopted in recognition of the Board's support for international Conventions that deem the use of such weapons to be unacceptable

1. "Treaty" and "Convention" are interchangeable terms for a legally binding document of international law.

2. The Treaty on the Non-Proliferation of Nuclear Weapons (1968) has different terms and application. It does not prohibit their use, rather it limits the spread of nuclear weapons to the so-called Nuclear Weapons states (USA, Russia, UK, France and China).

POLICY SCOPE

Weapons

The policy applies to companies involved in the production of cluster munitions, antipersonnel landmines, and biological and chemical weapons. Screening will be carried out and exclusions applied where there is evidence of non-compliance with the following treaties:

- **The Convention on Cluster Munitions (2008):** prohibits the production, stockpiling, transfer and use of cluster munitions
- **The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997):** prohibits the production, stockpiling, transfer and use of anti-personnel landmines
- **The Biological Weapons Convention (1975):** prohibits the production, stockpiling, transfer and use of biological weapons
- **The Chemical Weapons Convention (1977):** prohibits the production, stockpiling, transfer and use of chemical weapons

Additional Weapons Exclusions

Where funds are distributed in jurisdictions that prohibit the financing of depleted uranium, additional exclusion rules will be applied.

Excluded companies

LGIM(H)'s exclusion list has been developed in conjunction with a third-party service provider. Publically listed, private and state-owned companies will be excluded on the following basis:

- The company is involved in the **core weapons system, or components/services of the core weapons system**, considered tailor-made and essential for the lethal use of the weapon
- The company is involved in the **production, maintenance/service, sale/trade, or research and development** of the core weapons system

The restriction relates solely to the corporate entity, rather than a company's parent owner.

LGIM(H) may inform companies on the exclusion list of the policy and will encourage them to reconsider involvement in the production of these weapons.

Excluded instruments

- LGIM(H) and its subsidiaries will not hold equity or fixed income instruments in companies on the exclusion list

Application to LGIM(H) subsidiaries

The policy applies to the discretionary investment management decisions taken by subsidiaries of LGIM(H) for their segregated clients and those subsidiaries include:

- Legal & General Investment Management Limited ('**LGIM**') located in London
- Legal & General Investment Management America Inc ('**LGIMA**') located in Chicago
- Legal & General Investment Management Asia Limited ('**LGIMAsia**') located in Hong Kong

The LGIM(H) subsidiaries detailed above are appointed investment managers to a number of pooled investment product providers which are also subsidiaries of LGIM(H) and this policy shall apply to those pooled investment product providers and will need to be noted by those companies' Boards of Directors, namely:

- Legal and General Assurance (Pensions Management) Limited ('**PMC**')
- LGIM Liquidity Funds Plc ('**LLF**')
- Legal & General (Unit Trust Managers) Limited ('**UTM**') as management company for:
 - The Legal & General Investment Funds ICVC
 - A number of standalone FCA Authorised Unit Trusts

*The policy notes that this umbrella scheme adopted its own controversial weapons policy on 17 May 2017. The policy shall continue to apply to the Legal & General SICAV. However to the extent there is any discrepancy or conflict between the policy and the Legal & General SICAV controversial weapons policy, the Legal & General SICAV controversial weapons policy shall prevail in relation to the Legal & General SICAV only.

- LGIM Corporate Director Limited ('CDL') as management company for:
 - The Legal & General Authorised Contractual Scheme
 - The Legal & General ICAV
 - The Legal & General Investment Management Funds ICVC
 - The Legal & General SICAV*

Pooled funds:

- The policy applies to all investments made within active equity and fixed income funds, managed on behalf of our clients, over which we have full discretion
- The policy does not apply to index funds. However an index's methodology and rules may preclude investment in Controversial Weapons. As part of any new index fund launches, LGIM(H) subsidiaries will encourage initiatives to construct or utilise indices that do not include any excluded companies
- The policy applies to multi-asset funds; however where these funds buy an index fund then there may be an economic exposure to issuers within the policy. The policy will be applied to any directly held securities purchased through these funds
- Where a PMC or an LGAS Workplace Savings fund wraps an externally managed fund, the policy will not apply to that externally managed fund; however the external manager may have their own controversial weapons policy

Segregated mandates:

- This policy applies in principle to new segregated mandates from 2 February 2018; the client however will make the ultimate decision with regards to the extent of the implementation

IMPLEMENTATION PROCESS

LGIM has 1 year from the date of this policy, 2 February 2018, to remove any existing investment exposures to these companies.

LGIM has engaged a third-party service provider to identify companies involved in the production of Controversial Weapons as outlined in this policy, and to support in the development of an exclusion list. The list is reviewed bi-annually and where new companies are identified or should companies be removed from the list, we will seek to divest holdings within the following 90 days.

Internally, we implement processes and monitor compliance of the policy. We welcome oversight from external stakeholders.

Process of Appeal

For any queries about the policy, please contact: corporategovernance@lgim.com.

The policy will be reviewed by LGIM's Chief Investment Officer on an annual basis.

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