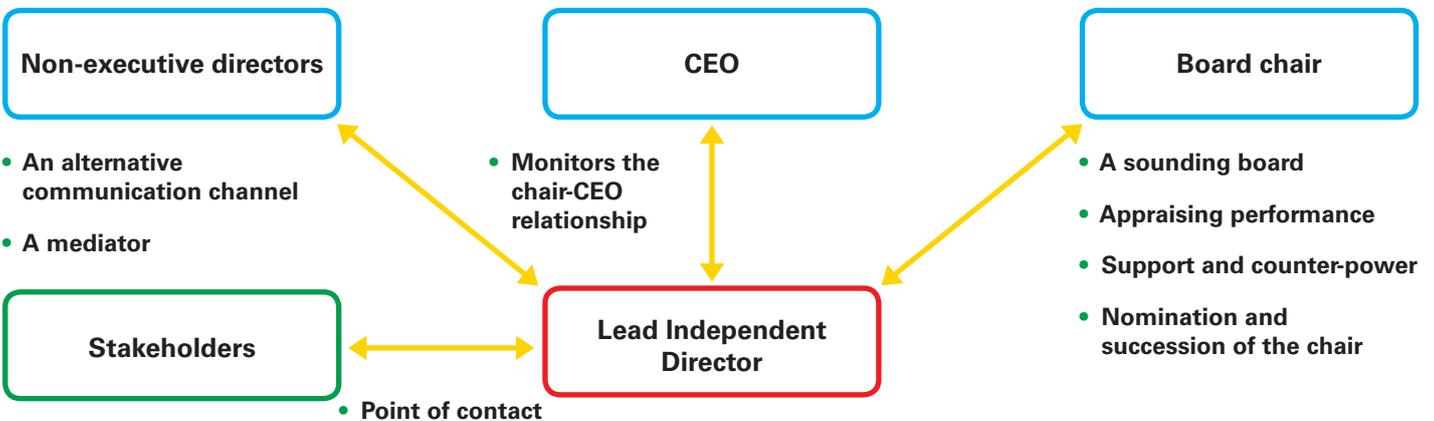


A guide to the role of the Lead Independent Director

Often referred to as 'Lead Independent Director' (LID), 'senior independent director' or sometimes 'independent deputy chair', the LID plays an essential and indispensable role on the board. Legal & General Investment Management (LGIM) expects all companies to appoint a LID, whether or not such a role is incorporated within national corporate governance codes.

Where the board chair is not independent, including when the role is combined with that of the Chief Executive Officer (CEO), a LID's presence on the board is vital to ensure there is an independent counter-balance to the chair.

THE ROLE OF THE LID



INVESTORS VALUE THE LEAD INDEPENDENT DIRECTOR ROLE

The LID is a highly versatile intermediary between the chair, the board and the board's stakeholders. In normal times they contribute to the good relationships and functions of the board, but in periods of stress the LID is expected to assist in facilitating the resolution of any situation.

As the board chair is to the CEO, so the LID is to the board chair.

The LID provides an important point of contact for principal shareholders to raise issues and concerns in normal times or where contact through the channels of board chair, CEO or other executive directors has failed to resolve or where such contact is inappropriate.

SUPPORTING THE BOARD CHAIR

The role of the LID is to **support** the chair. They are an **alternative communication channel for board members**. This can be especially useful when they have concerns which they believe have not been properly considered by the chair or board as a whole. The LID should also act as a **mediator** to facilitate the resolution of any disputes involving the board chair.

APPRAISING THE PERFORMANCE OF THE BOARD CHAIR

The LID must keep a keen eye on **whether the chair is still performing their role to the board's satisfaction** without losing objectivity or independence. They monitor the relationship between the chair and the CEO, and ensure that it is a well-functioning working relationship without becoming too close or powerful.

One of the LID's key responsibilities is to **lead the performance evaluation of the chair**; including making sure that a regular external board evaluation is undertaken. LGIM also encourages the LID to actively seek the views of the non-executive directors (NEDs) by meeting them alone and schedule meetings annually to appraise the performance of the chair, taking into account the views of the executive directors.

NOMINATION AND SUCCESSION OF THE BOARD CHAIR

The need to change a chair ideally comes about as part of the natural evolution of a board and with the understanding and support of the outgoing chair. The LID has the important task of **leading the search for a new chair**.

Sometimes the LID is the most obvious candidate to the succession of the chair, or may wish to put themselves forward. If this is the case, the LID should be clear about this at the start of the process and remove themselves from the search process.

As in any succession process, the LID may have the delicate task to deal with a chair who is reluctant to leave or who is unfit for the job. Chair terms of appointment should be examined to ensure that they do make both the LID's powers and the process for removal of the chair sufficiently clear.

For more details on LGIM's views on the nomination of the chair, please consult our recent article on the topic, which is available on our website.

THE NOMINATION OF THE LID

Given the key responsibilities of the LID, the nomination and succession committee should play a role in their appointment, whether internally or externally appointed. **We find that there is a conflict to a LID being appointed directly and only by a board chair as they must be able to ultimately challenge the chair.** LGIM expects the LID to:

- **Be independent at the time of appointment and throughout their position.** This is essential to ensure they exercise their duties efficiently and free from any conflicts.

For more details on LGIM's views on the issue of independence, please refer to our [Global Corporate Governance & Responsible Investment Principles](#), available on our website.

- Preferably be an internal appointee from among the existing NEDs given the high requirement for knowledge and understanding of the company and board dynamics that is usually gained by prior service on the board.
- Have a **complementary set of skills and experience to the board chair's own** to be able to serve as a useful sounding board. The LID is not expected to lead the board, instead they must have the ability to exercise independent judgment, back the board chair where they are in agreement and know when to assume certain responsibilities.
- **Have strong interpersonal skills** as the LID is expected to take the lead in evaluating the chair's performance, and to serve as an intermediary for the other directors.
- Be in a position to **become more knowledgeable** about the company, its performance, its markets and its stakeholders than the other NEDs.

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

LGIM is the investment management arm of Legal & General Group, a FTSE 100 company. We are one of Europe's largest asset managers and a major global investor, with assets under management of £985 billion.*

* Source: As at 30 June 2018, the total value of assets under management across the group was £985 billion, including derivative assets and assets managed by LGIMA, an SEC Registered Investment Advisor.

To learn more about how LGIM approaches key environmental, social and governance issues, please visit our website: www.lgim.com/uk/en/capabilities/corporate-governance/

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Legal & General Investment Management Ltd, One Coleman Street, London, EC2R 5AA

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