



# ESG Impact Report

Q2 2020

Active ownership means using our scale and influence to bring about real, positive change to create sustainable investor value.

# Our mission

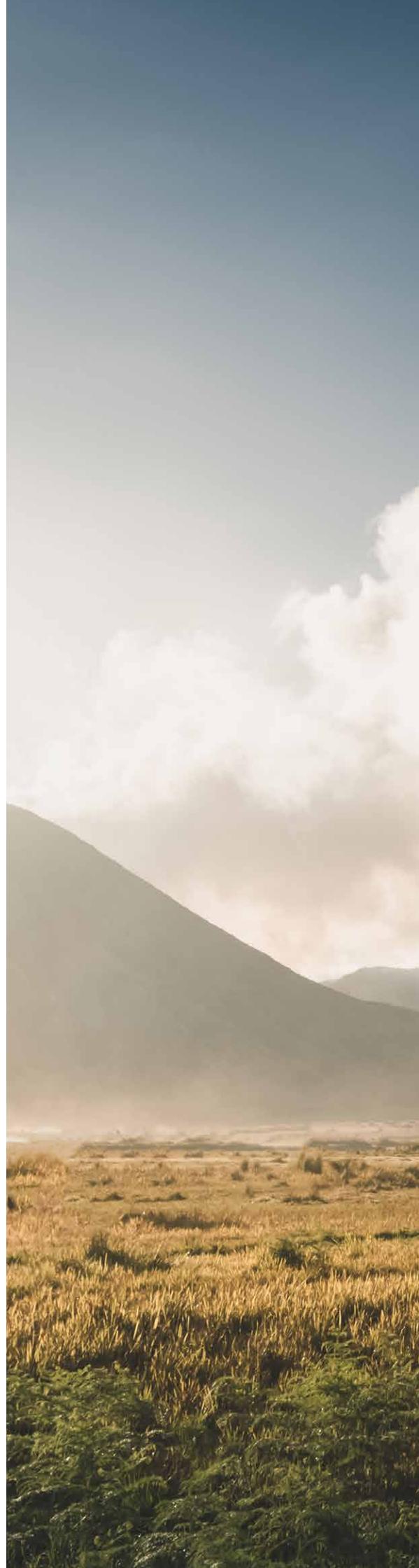
To use our influence to ensure that:

**1**

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

**2**

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



# Our focus

To use our influence to ensure that:

## Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks and benefit from emerging opportunities.

We seek to protect and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

## Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to prevent market behaviour that destroys long-term value creation.

LGIM wants to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking.

We engage directly and collaboratively with companies to highlight key challenges and opportunities, and to support strategies that can seek to deliver long-term success.

## Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, we believe companies should become more resilient to change and therefore aim to benefit the whole market.

We aim to use our scale and influence to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key decision-makers such as governments and regulators, and collaborating with asset owners to bring about positive change.

# Action and impact

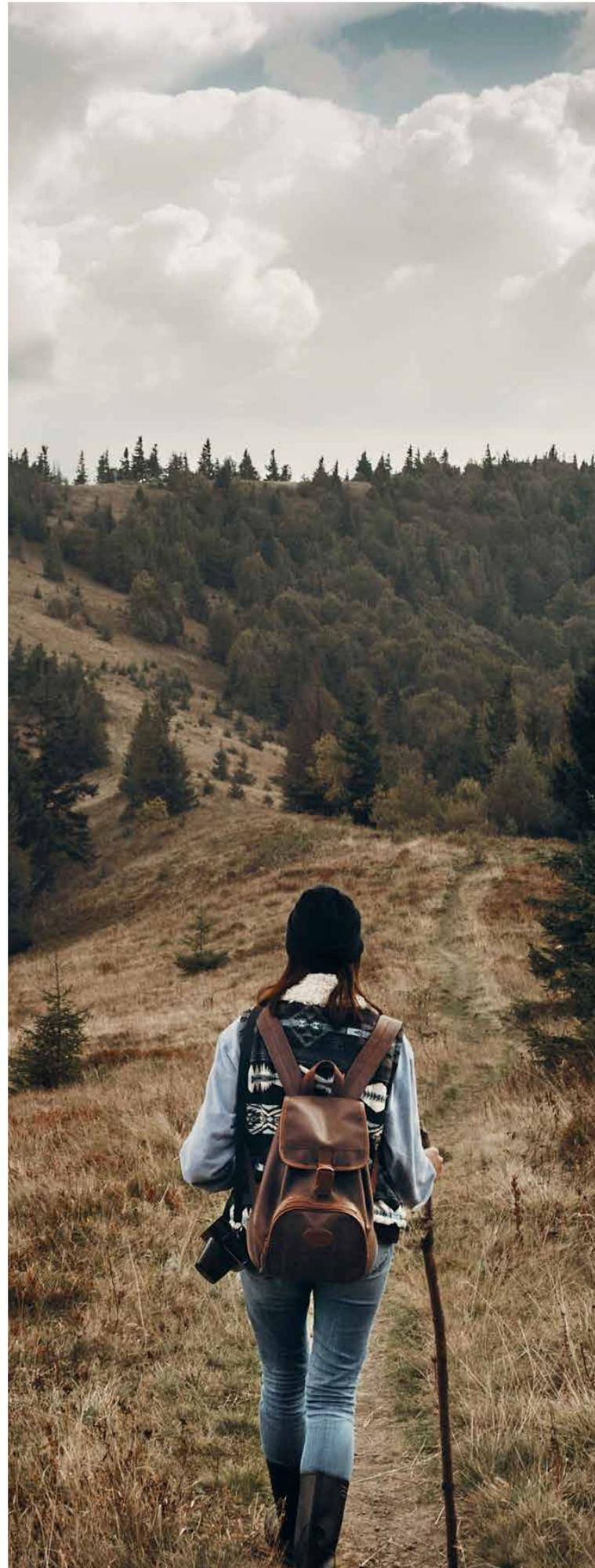
## LGIM's contribution to the PRI's response to COVID-19

In May, LGIM's Investment Stewardship team was invited by the United Nations-supported Principles of Responsible Investment (PRI) investor network to participate in a webinar entitled 'COVID-19 and ESG in the 2020 AGM Season'.

The webinar was organised on the back of collaborative work undertaken between the PRI, the Business & Human Rights Resource Centre, California State Teachers' Retirement System (CalSTRS) and Algemene Pensioen Groep (APG), to propose questions that investors could put forward to their investee holdings during this very particular annual general meeting (AGM) season. The focus was mainly on social aspects involving companies during the pandemic and their reactions to it. The Investment Stewardship team was asked to provide a corporate governance perspective to the webinar, which attracted a significant amount of participants, over 1,000 views (529 live attendees plus 492 views of the recording of the webinar).

In the webinar we explained our approach during this AGM season, highlighting that we have not modified our voting policies, but that on the contrary, we underscored that it is exactly in a time of crisis when the core tenets of corporate governance come into play and matter the most. We gave the example of overboarding, where non-executive directors have multiple positions at different boards, and the inability in times of crisis for directors to be present, up-to-speed and able to attend and contribute to multiple meetings held by multiple companies within a brief period of time.

Following on the webinar we contributed to the guidance document '2020 AGM Season, Investor Questions in Light of COVID-19', which covers three broad themes: business continuity; employee health and wellbeing; and alignment with long-term value creation.



## A question of rank

At the beginning of the year, LGIM was rated highly among the world's 75 largest asset managers for our approach to responsible investment, according to an independent report by the non-governmental organisation, ShareAction.

This was followed by three thematic reports which explored in more depth the actions and policies of asset

managers with regards to human rights, biodiversity and climate change. LGIM continued to score very favourably throughout the series of reports, including being ranked top for our climate change strategy.

We now understand more about areas for improvement; for example, we are currently developing an engagement strategy around biodiversity.

In late June, we joined forces with other investors, writing to the Brazilian government to call for a curb on deforestation.

Our campaign was covered widely in the media – including by prestigious outlets such as *Reuters*, the *New York Times* and *The Financial Times*.

Asset Manager	Overall Responsible Investment Rating	Ranking By Theme (of 75)		
		Climate Change	Bio-diversity	Human Rights
Robeco	A	2	1	1
BNP Paribas Asset Management	A	3	2	4
Legal & General Investment Management	A	1	4	5
APG Asset Management	A	16	14	2
Aviva Investors	A	10	13	11

Adapted from ShareAction, August 2020:

<https://shareaction.org/research-resources/point-of-no-returns/>

## Blogs

Keeping clients informed about ESG matters is important to us, so we often address key topics – in the second quarter members of the team shared their thoughts in these blogs:

- **[Methane: Carbon's shadier sibling](#)** - Why tackling methane emissions must be a priority for companies and policymakers
- **[Time to be bold and green](#)** - Policymakers must put the climate emergency at the heart of their COVID-19 stimulus packages
- **[Strengthening the foundations for sustainable investment](#)** - A defining moment for non-financial disclosures
- **[Divestment damages: Quantifying the impact of ESG exclusions](#)** - The perils of ESG exclusions are often exaggerated – but so are their benefits
- **[We are not alone: Biodiversity is key to a sustainable future](#)** - Biodiversity matters for many reasons; we believe investors should take note
- **[Japan's AGM season: A year like no other](#)** - COVID-19 has only amplified the importance of issues related to ESG and resilience, so we will remain committed to our stewardship policies in Japan
- **[Japan's AGM season: Looking to next year and beyond](#)** - We will support reforms that ensure AGMs in Japan deliver accountability more inclusively

# Active ownership report coverage

Our ninth Active Ownership report was published in April and provides an overview of the important work our team carried out on behalf of our clients in 2019. Within three days of being published, the report had received coverage in over 60 national and international news sources.

Notably, the Financial Times led with the importance of stakeholder capitalism in light of the COVID-19 crisis, referencing the team's letter to businesses in March urging caution on sensitive issues around capital allocation and executive pay.

## Finding the greenest generation

In October 2019, LGIM's defined contribution pensions business conducted a survey of just under 1,000 respondents across three generations: Baby Boomers, Generation X and Millennials. All our respondents had a private-sector DC pension (not necessarily managed by LGIM). We sought to understand if their attitudes to key ESG issues were shaped by generation and gender, and how savers wanted their preferences integrated into their pensions.

Some views translated across generations, for example, the idea that ESG information can improve engagement with pension savings. There were also stark differences. 'Boomers' were more than twice as likely as Millennials to prioritise investment performance over climate-change considerations, and 45% of Millennials would divest from fossil fuels irrespective of the performance impact.

This is not to suggest that those from earlier generations did not care about ESG factors, but their priorities were different, because their experience as a generation was different. For example, nearly 75% of all the women surveyed over the age of 39 would divest from companies in their pension with a poor governance and pay record. This is a group of people who are likely to have been affected by the gender pay gap during their

own working lives, and is a good example of when gender and generational experience intersect to shape the preferences of our respondents.

Notably, more than half of those surveyed across all generations said they would prefer their asset manager to engage with poor-performing companies in the first instance, before divesting, with over 55% expecting their companies to be less invested in the laggards by default. In this vein, LGIM supports the newly-launched Make My Money Matter campaign, acknowledging that if you have a pension, you have positive power.

This supports our view that the industry needs to focus on creating transparent communications on the ESG issues which resonate with members, in order to engage them.

## From 'material' to 'significant' votes: LGIM's commitment to vote transparency

As a long-term and engaged investor, LGIM takes our responsibility to exercise the voting rights of our clients' assets seriously. We direct the vote of a considerable proportion of a company's shares by exercising the shareholder rights of a significant number of our clients with one consistent voice across all of our active and index funds. This improves the effectiveness of voting as a means to support our engagement activities and bringing about change in the market as a whole.

As regulations on vote reporting have recently evolved, with the introduction of the concept of the 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure we continue to help our clients in fulfilling their reporting obligations. We also believe that transparency with the public over our voting activity is critical in order for clients and interested parties to hold us to account.

For many years, LGIM has regularly produced case studies and/or summaries of LGIM's vote positions for what we deemed were 'material votes'. We are evolving our approach in line with the new regulation and are committed to providing our clients access to 'significant vote' information.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes, but is not limited to:

- A high profile vote which has a degree of controversy such that there is high client and/or public scrutiny
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote
- A sanction vote as a result of a direct or collaborative engagement
- A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes

We will provide information on significant votes in the format of detailed case studies in our quarterly ESG Impact Report and Active Ownership publications.

If you require information on specific votes, please note that we publicly disclose our votes for the major markets on our website. The reports are published at the end of each month and can be used by clients for their external reporting requirements. The voting disclosures can be found by selecting 'Voting Report' on the following page:

<https://www.lgim.com/uk/en/capabilities/corporate-governance/policies-and-voting-disclosures-uk-en/>





# The pandemic's impact on UK voting season

Companies continue to face challenges posed by the COVID-19 pandemic and social distancing rules, impacting this voting season.

The companies which held their annual general meeting (AGM) in April and May were less impacted because their accounts had already been audited and signed off. However, those companies with AGMs set to happen later into the voting season were affected by delays.

The Financial Conduct Authority (FCA) allowed companies an additional two months to publish audited financial reports. Therefore, in total they will have up to six months from their financial year-end to publish audited statements of accounts. The Institute of Chartered Secretaries and Administrators (ICSA) and the Financial Reporting Council (FRC) provided companies with guidance on options for companies to consider in relation to holding their AGM which included postponement of AGMs and holding hybrid AGMs.

LGIM wrote to the chairs of the FTSE 350 companies, lending our support to the actions they must take to safeguard the future of the company and its employees. We suggested that companies should consider holding a separate meeting later in the year to allow shareholders the opportunity to question the board if there was no process to enable this at their AGM.

During the first half of the year, approximately 45 companies elected to postpone their AGM. This number may increase in the second half as more companies will have been impacted by delays to audits.

## Executives remain in the hot seat

As in most years, executive pay continued to be the main reason for companies to experience high amounts of dissent from shareholders. Individual directors were also the target of shareholder dissatisfaction. For WM Morrison (34.8% votes against) and Informa (35.1% votes against) this was primarily due to the issue of pension payments to executive directors. LGIM supported

Informa's pay because they engaged with us to inform us that they would be conducting a review of remuneration later this year, once a new chair had been appointed. The only company to lose a vote on its remuneration report was Tesco plc (67.3% vote against) not because of pensions, but because it removed Ocado from its relative total shareholder return peer group. Both Intertek (42.9% votes against) and Pendragon (41.3% votes against) came very close to losing the vote on their remuneration policy.

Until the end of May, 29 directors had received significant votes (>20%) against their re-election. Ten of these directors received in excess of 30% votes against their re-election. Guy Wollaert at PureCircle nearly lost his seat with 47.5% votes against his re-election.<sup>1</sup>

## A declaration of independence

During Q2 2020, which was the busiest quarter for UK AGMs, LGIM voted against at least one resolution at 56% of shareholder meetings held (AGMs and extraordinary general meetings). LGIM voted against 153 directors during the quarter, with the largest number of votes against being triggered due to a lack of independence and/or non-independent directors serving on a board committee reserved for independent directors, as set out in the UK Code of Corporate Governance.

The second biggest cause for concern was over-boarding. LGIM expects non-executive directors not to serve on more than five boards (with a chairman's role counting as two board roles).

The next largest cause of votes against the management was on executive remuneration, where we opposed 28% of remuneration-related votes. We voted against the approval of 76 remuneration policies. The two main triggers were increases to the quantum of executive compensation, following proposals to increase their bonus potential and companies failing to meet our policy and that of the Investment Association on post-exit shareholding requirements, which is the shareholding we

1. Company voting data provided by each individual company.

The full report and podcast are available here: <https://update.lgim.com/dc-esg>

expect a director to maintain after they have departed from the company. As part of our drive to ensure income equality within an organisation, LGIM took a stance to no longer promote increases to short-term variable pay in 2018. We have taken a strong stance on post-exit shareholding requirements to encourage the stewards of the companies that we invest our clients' assets in to focus on building a sustainable long-term business which benefits all stakeholders.

## Case study\*

<b>Company name: Barclays</b>		
<b>Market cap: £19.42 billion**</b>	<b>Sector: Financial</b>	<b>ESG Score: 58(-)</b>

### What is the issue?

At the end of March, Barclays plc published its ESG report and issued a statement, outlining the ambitious target of aligning the entire business to the goals of the Paris Agreement through plans to shrink its carbon footprint to net zero by 2050. LGIM endorsed this proposal, which was voted on by shareholders at the 2020 AGM on 7th May alongside a shareholder resolution on the same topic.

### What did LGIM do?

LGIM voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.

LGIM has long considered climate change to be a key risk facing financial institutions such as Barclays. For the past two years we have had extensive discussions with the company on its need to have a strategic approach to climate change. An important catalyst to these discussions was the filing of a shareholder resolution by NGO ShareAction and other co-filers in December 2019.

Since the beginning of the year, LGIM has played a role in private discussions with and between the Barclays board, ShareAction, the Investor Forum and other large investors to secure an outcome that the company, investors and the shareholder proponents are able to support.

The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.

### What was the outcome?

The hard work is just beginning. Our focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. We plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.

### Why is this a significant vote?

Since the beginning of the year there has been significant client interest in our voting intentions and engagement activities in relation to the 2020 Barclays AGM. We thank our clients for their patience and understanding while we undertook sensitive discussions and negotiations in private. We consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as our clients.

## LGIM's ESG scores

The ESG scores capture minimum standards on environmental, social and governance metrics – as well as companies' overall levels of transparency. Scores shown as at end of March 2020 (compared to end of March 2019). LGIM's scores for over 2000 listed companies, as well as a guide to our methodology can be found at: <https://www.lgim.com/uk/en/capabilities/corporategovernance/assessing-companies-esg/>

\*Case study shown for illustrative purposes only. \*\*Source: Refinitiv as at 12/8/2020.



# A tumultuous voting season in continental Europe

The 2020 AGM season in Europe (ex-UK) has not been a quiet one, involving interesting developments, such as activists requesting the removal of an entire board (Lagardère), or an audit scandal in Germany (Wirecard).

Whilst there was criticism that virtual AGMs have limited shareholders' ability to directly challenge boards, it has not stopped LGIM from using its voice under our renewed voting policies, casting one vote against at least 79% of European companies.

## Case study\*

<b>Company name: Lagardère</b>		
<b>Market Cap: £1.97bn**</b>	<b>Sector: Publishing</b>	<b>ESG Score: 64 (▼3)</b>

### What is the issue?

Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments). This was due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a *commandite* structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights.

### Why is it an issue?

LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this.

### What did LGIM do?

Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where we were able to speak to the proposed new SB Chair, and also Lagardère, where we spoke to the incumbent SB Chair. This allowed us to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.

### What was the outcome?

LGIM voted in favour of five of the Amber-proposed candidates, and voted off six of the incumbent Lagardère SB directors. Even though shareholders did not give majority support to Amber's candidates, some of its proposed candidates received 47% support, a clear indication that many shareholders have concerns with the board. LGIM will continue to engage with the company to understand its future strategy and how it will add value to shareholders over the long term, as well as to keep the structure of SB under review.

### Why is this a significant vote?

LGIM noted significant media and public interest on this vote given the proposed revocation of the company's board.

\*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

\*\*Source: Refinitiv as at 12/8/2020.

## Case study\*

Company name: Wirecard		
Market Cap: €201.8m**	Sector: Technology / Financials	ESG Score: 58 (▲2) <sup>2</sup>
<b>What is the issue?</b>	<p>Early in the research process, our proprietary ESG Active View tool raised red flags about German fin-tech company Wirecard's governance. In particular, the Financial Times had reported suggestions of accounting irregularities at Wirecard.</p> <p>The underlying logic of the proposed bond deal raised further concerns for our active fixed income team. The company planned to use the proceeds of its bond issue to repay some bank loans. The suggestion that banks wanted this exposure off their balance sheet required additional investigation.</p> <p>Finally, our active fixed income team noted that Wirecard had just one rating (Baa3 at Moodys). Any issuer with only one rating raises concerns; even more so when that rating is below BBB/Baa2.</p>	
<b>What did LGIM do?</b>	<p>LGIM met the company management during a bond road show. A fixed income ESG analyst, a fixed income telecoms, media, and technology analyst and an expert from our Investment Stewardship team worked together to assess the deal, with a focus on corporate governance concerns. The company management's responses to the accounting allegations were considered unsatisfactory, with some of the responses offered by management even more concerning than the allegations themselves.</p> <p><b>As a result of this robust research process, none of LGIM's active funds invested in Wirecard.</b></p> <p>Given our concerns, LGIM's Investment Stewardship team, at the company's 2019 AGM, cast a vote against the discharge of all individual members of the management and supervisory boards from any and all of their actions during the past fiscal year.</p>	
<b>What was the outcome?</b>	<p>The company announced on 25 June 2020 that it filed for insolvency after admitting that the €1.9 billion of cash on its balance sheet did not exist. Its former CEO Markus Braun was arrested on suspicion of false accounting and market manipulation.</p> <p>Many questions remain including regarding the role of the German regulator BaFin, and the auditors EY. LGIM's Investment Stewardship team will continue to actively engage to seek to lift market standards in Germany.</p> <p>For more information, our active fixed income team wrote a blog on the topic 'Neunundneunzig red flags: how we avoided Wirecard'.<sup>3</sup></p>	
<b>Why is this a significant vote?</b>	<p>LGIM's vote of no confidence is a rare and significant step for us as part of our vote escalation policy. Given the importance of the scandal, we consider this vote, cast in 2019, to be a significant vote.</p>	

\*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

\*\*Source: Refinitiv as at 12/8/2020.

2. The LGIM ESG score encompasses a wide range of themes. As a result, no single issue is designed to dominate our scoring framework. Wirecard performed well on some key themes within the LGIM ESG score including shareholder rights, climate and board diversity. During index construction, companies are compared against their sector peers. Although the company received a 58 (slightly positive score), across our ESG Score integrated Future World index range, the company is either flat or marginally underweight.

3. <https://www.lgimblog.com/categories/markets-and-economics/fixed-income/neunundneunzig-red-flags-how-we-avoided-wirecard/>



# Voting season in the US

## From tech darling to ESG case study: Spotlight on Amazon\*

Amazon has matured from a tech darling to a corporate-governance case study. There was a tremendous focus on May's annual meeting, despite the company's jaw-dropping financial performance and consumers globally flocking to the "everything store" in the midst of a pandemic.

The market attention was significant leading up to the AGM, with:

- 12 shareholder proposals on the table – the largest number of any major US company this proxy season
- Diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers
- Substantial press coverage – with largely negative sentiment related to the company's governance profile and its initial management of COVID-19
- Multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled 'Workplace & Investor Risks in Amazon.com, Inc.'s COVID-19 Response'

Anecdotally, the Stewardship team received more inquiries related to Amazon than any other company this season.

## No distance from the 'Social' in ESG

In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal [article](#) in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the

\*Case study shown for illustrative purposes only.





proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics:

- **Governance:** Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings
- **Environment:** Details about the data transparency committed to in their 'Climate Pledge'
- **Social:** Establishment of workplace culture, employee health and safety

The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of \$2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear.

We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry-leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.

### Targeting our proxy votes

This year was an unusual backdrop in which to cast our proxy votes. Of 12 shareholder proposals, we voted to support 10. We look into the individual merits of each individual proposal, and there are two main areas which drive our decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14).

The detail for each proposal and LGIM's vote as well as the rationale behind the vote and the vote result can be seen on our website in our usual [voting reports](#).

### Making Amazon amazing

Despite shareholders not giving majority support to the raft of shareholder proposals, the sheer number and focus on these continues to dominate the landscape for the company. Our engagement with the company continues as we push it to disclose more and to ensure it is adequately managing its broader stakeholders, and most importantly, its human capital.



# Voting season in Japan

## An unusual year

Given the impact of the COVID-19 pandemic on reporting and audits, Japanese companies that were unable to report audited financial statements by their AGM were given the option of either postponing or adjourning their meeting<sup>4</sup>.

For companies experiencing pandemic-imposed audit challenges, our suggestion has been to postpone their AGM and hold a meeting later in the year.

We also called on companies to cooperate to allow auditors to carry out their duties without compromising their quality. In our view, a postponed AGM where investors have access to the audited accounts is a much better option than running the risk of a flawed audit.

While technology is starting to change the traditional physical form of AGMs, many long-standing issues – such as the highly condensed AGM season – will remain after the pandemic. We wrote a [blog](#) to share our view on reforms that can be implemented to make AGMs more inclusive.

## Bolstering voting policies

For over a decade, we have been a strong advocate for good corporate governance in Japan and globally. Board independence and diversity are examples of matters that are more relevant than ever, as boards strive to navigate these uncertain times and emerge more innovative and resilient than before. We have, for example, voted against the most senior member of the board or the nomination committee chair of Japanese companies when:

- There are no women on the board<sup>5</sup>
- Less than one-third of the board is independent

Some investors have relaxed their return on equity (ROE) expectations this year. LGIM, however, has neither historically nor currently applied a voting policy based on ROE. This is because we believe this metric does not fundamentally address the issues for Japanese boards and their ability to be successful for the long term in this globally challenging environment.

## Notable AGMs

We voted in favour of the shareholder proposal put to Mizuho Financial Group that called on the group to align its investments with the goals of the Paris Agreement. Whilst the proposal did not pass, it received support of more than a third of votes, sending a clear message that we believe will not go unnoticed by Mizuho's management and companies across Japan.

We voted against the re-election of senior members of the board at Mitsubishi Electric due to serious concerns related to culture and labour management. We acknowledge that culture is a difficult topic to engage on, and we thank the companies that have been open to discuss the important issue. We look forward to further dialogue where we expect to hear about how companies are using key performance metrics and involving the board to promote a healthy corporate culture.

As a long-term investor, LGIM will continue our engagement with Japanese companies to support them to act on the climate emergency and other key ESG issues.

4. A quarter of companies had announced delays to their preliminary earnings reports which is followed by an external audit. Under the adjournment option, investors would have needed to cast their votes without the opportunity to consult the business report and audited financial statements. The meeting would have been reconvened later in the year as a formality to confirm the audited financial statements, but there will be no voting. We therefore were not in favour of this option.

5. In 2020 this was applicable to the TOPIX 100 but the scope will be expanded over time.



# Sustainability engagements

## Sustained efforts on sustainability

As the coronavirus crisis shines a spotlight on the importance of resilience and long-term planning, we are continuing our efforts to encourage companies to improve their climate change strategies. With a growing number of industry voices raising the possibility that the pandemic has brought forward peak oil demand<sup>6</sup>, we were encouraged by several developments in the energy sector.

After unveiling earlier its target to be a 'net zero emissions' company this year, oil major BP has now revised its long-term price assumptions (now including an ambitious \$100/ton carbon price) which will help align capital expenditure with the Paris Agreement on climate. Alignment was one of the key requirements in the successful shareholder proposal that LGIM had co-filed at the company last year; LGIM are one of the investors leading engagements with BP as part of the multi-trillion Climate Action 100+ investor coalition.

European oil majors Royal Dutch Shell, Equinor, Eni and Total have announced net zero emissions targets, which cover not just their operations, but, importantly also the use of their products (by far the largest source of emissions for the industry). Notably, Shell has signalled its intention to gradually no longer serve corporate customers which also do not have net zero targets. As there are important differences between the announced strategies of the majors (whether they imply a peak in oil and gas production and/or growth of renewable energy, whether they rely on carbon capture etc.), we will continue to push companies to harmonise and raise their ambitions. Importantly, we will also continue to work to narrow the ambition gap in the sustainability objectives of energy companies on different sides of the Atlantic, as illustrated by ExxonMobil.



"We listened and we learned. The board supported the resolution and we acted on your advice. I personally continue to value and benefit from our ongoing engagement with Climate Action 100+ and the investors it represents."

**Bernard Looney**  
CEO, BP<sup>7</sup>

One important tool at our disposal is our shareholder vote. In Australia, we supported proposals for Paris-aligned emission targets at oil companies Santos and Woodside Petroleum, which received significant support from around 50% of shareholders.

6. <https://www.theguardian.com/business/2020/jun/21/even-oil-giants-now-foresee-end-of-gasoline-age-shell-bp-profitability-pandemic>

7. <https://www.bp.com/en/global/corporate/news-and-insights/speeches/2020-annual-general-meeting-group-chief-executive.html>

8. <https://www.ft.com/content/a7084118-b501-49c8-821d-c82668b2709b>

9. <https://www.lgimblog.com/categories/esg-and-long-term-themes/methane-carbon-s-shadler-sibling/>

10. <https://www.bbc.co.uk/news/business-52851185>

We also supported a similar proposal at mining giant Rio Tinto. The company is currently facing a media backlash following the destruction of an aboriginal heritage site during a mine expansion in Western Australia. We have expressed our disappointment at Rio Tinto's handling of the incident – both publicly, in the press<sup>8</sup>, and privately, during a call with the company's chair – and expect Rio to demonstrate accountability and institute changes to prevent recurrences. We have also reaffirmed the importance of land use rights in maintaining the social licence to operate with Rio's peers operating in the region.

Carbon dioxide gathers most of the attention in a climate context, but its lesser-known (and more powerful) greenhouse gas sibling – methane – is rising on the investor agenda. We tackled the issue in a recent blog<sup>9</sup> and in a webinar available to watch [here](#).

We also recommended that the European Commission increase the stringency of its methane regulations, an approach we will also be pursuing with key regulators in the US. Policy advocacy remains another important tool in promoting a sustainable future: over the past few months we have repeatedly lent our voice to calls for governments – from the UK to the EU - to implement measures for a green recovery.<sup>10</sup>

## Case study\*

Company name: ExxonMobil		
Market Cap: \$190.1 billion (USD)**	Sector: Oil and gas	ESG Score: 25 (▼2)
<b>What is the issue?</b>	The company's refusal to disclose and set targets for its total carbon emissions places it at odds with its peers, and is a source of concern as the energy transition accelerates and uncertainty increases over the long-term prospects of the fossil fuel industry. The company has also resisted efforts from shareholders to appoint an independent chair, which we believe provides better accountability and oversight.	
<b>What did LGIM do?</b>	<p>In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, we announced that we will be removing ExxonMobil from our Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, we also announced we will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying.</p> <p>Due to recurring shareholder concerns, our voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.</p>	
<b>What was the outcome?</b>	<p>Our voting intentions were the subject of over 40 articles in major news outlets across the world, including Reuters, Bloomberg, Les Échos and Nikkei, with a number of asset owners in Europe and North America also declaring their intentions to vote against the company.</p> <p>At the AGM, circa 30% of shareholders supported the proposals for independence and lobbying. We believe this sends an important signal, and will continue to engage, both individually and in collaboration with other investors, to push for change at the company.</p>	
<b>Why is this a significant vote?</b>	We voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction.	

\*Case study shown for illustrative purposes only. \*\*Source: Refinitiv as at 12/8/2020.

# Public policy update

Over the past quarter LGIM has actively engaged on, and closely following, a wide variety of policy and regulatory developments around the world.



## United Kingdom

LGIM has been engaging with government, regulators, indexes and industry associations on various ESG topics. A few examples include:

- How the investment industry can support the governments net zero target by 2050
- Mandatory TCFD reporting across the investment chain
- The development of useable responsible investment frameworks (i.e. the Investment Associations Responsible Investment Framework)
- The possible use of 'sustainable' product labels

LGIM has also been very engaged with the government's response to COVID-19 and has been working closely with the Financial Reporting Council and the Investment Association in this regard. LGIM has been actively calling on the UK government to use this as an opportunity to integrate 'sustainable and green' factors into its economic recovery plans. We have also been working collaboratively with associations and industry to signal how important the UK's response is to achieving net-zero and where the government should focus investment. LGIM is supportive and has been actively engaged on the Pension Scheme Bill and the Department for Work and Pensions (DWP) guidance on 'Aligning your pension scheme with the TCFD recommendations'.



## European Union

At a European Union level, we have continued to closely follow the important and in-depth technical work of the Commission's action plan on sustainable finance and 'European Green Deal'. Non-financial disclosures are the bedrock of the efficient and sustainable allocation of capital. Given their importance, over the past few months LGIM has focused on the review of the 'Non-Financial Reporting Directive' (NFRD). The review aims to gather feedback as to the quality of disclosures historically, how disclosures can be standardised, the principle of materiality, assurance, digitalisation, location and where efficiencies can be made. At LGIM, as a long-term investor with universal coverage, we have been pushing for relevant, comparable, consistent, and verifiable non-financial information across markets so that we can price environmental, social, and governance (ESG) risks and opportunities accurately. We will closely monitor the review of the NFRD as it progresses through the Commission.

LGIM has also been actively engaging in the COVID-19 response, working with other investors and informal alliances calling for a sustainable economic recovery and stimulus packages that are aligned with the 'Green Deal'.

LGIM has been working with other investors and through the Institutional Investors Group on Climate Change (IIGCC) wrote to EU heads of state and government, highlighting our support for the proposed EU net zero emissions target. In addition, and given the significant of methane emissions contribution to climate change, we wrote to senior officials in the European Commission (through the IIGCC) pressing for a robust methane policy as part of implementing the 'Green Deal'.



## United States

In the United States we have been working together with Legal & General Investment Management America (LGIMA) to engage with the Securities Exchange Commission (SEC) on several important points. One recent example was that LGIM, working as part of a group of institutions, wrote to the SEC to encourage the introduction of new set of rules that would see companies disclosing more consistent and reliable data on 11 areas including management of the response to COVID-19, human capital management process and supply chain risks. There have been some promising signals coming from the SEC Investment Advisory Committee recently, encouraging the SEC to take ESG disclosures seriously or risk the US falling behind. This has been an ongoing issue for us and we will continue to push for over the coming months.



## Japan

LGIM has been engaging on seeking an exemption for asset managers to the amendment to the 'Foreign Exchange and Foreign Trade Act'. The amendment requires foreign investors to file a 'pre-acquisition notification' to the government if they intend to acquire 1% or more of a listed company in a restricted sector. LGIM has also been engaging on the revisions to the new Japanese Stewardship Code.



## Hong Kong

In Hong Kong the LGIM team is engaged with the Securities and Futures Commission on their 'Green & Sustainable Finance' workstream.

## Globally

Along with 100 investors and driven by the Investor Alliance for Human Rights, LGIM has written to policymakers around the world calling for the introduction of new requirements that would mandate companies to disclose their human rights due diligence.

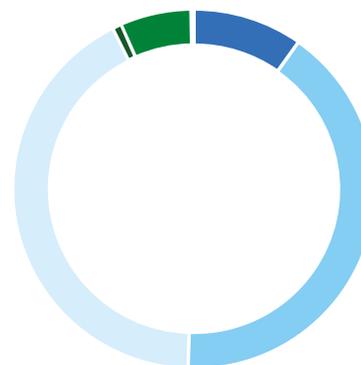
# Regional updates

## UK - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	221	0	0
Capitalisation	1083	37	0
Directors Related	2190	153	1
Remuneration-related	408	159	0
Reorganisation and Mergers	21	3	0
Routine/Business	1177	24	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	12	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	1	0	0
Shareholder Proposal - Other/Miscellaneous	0	1	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
<b>Total</b>	<b>5114</b>	<b>377</b>	<b>1</b>
<b>Total resolutions</b>	<b>5492</b>		
<b>No. AGMs</b>	<b>294</b>		
<b>No. EGMs</b>	<b>33</b>		
<b>No. of companies voted on</b>	<b>312</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>174</b>		
<b>% of companies with at least one vote against</b>	<b>56%</b>		

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

### Votes against management



■ Antitakeover Related - 0
■ Capitalisation - 37
■ Directors Related - 153
■ Remuneration-related - 159
■ Reorganisation and Mergers - 3
■ Routine/Business - 24
■ Shareholder Proposal - Compensation - 0
■ Shareholder Proposal - Corporate Governance - 0
■ Shareholder Proposal - Directors Related - 0
■ Shareholder Proposal - General Economic Issues - 0
■ Shareholder Proposal - Health/Environment - 0
■ Shareholder Proposal - Other/Miscellaneous - 1
■ Shareholder Proposal - Routine/Business - 0
■ Shareholder Proposal - Social/Human Rights - 0
■ Shareholder Proposal - Social - 0

### Number of companies voted for/against abstentions



■ No. of companies where supported management	138
■ No. of companies where voted against management (including abstentions)	174

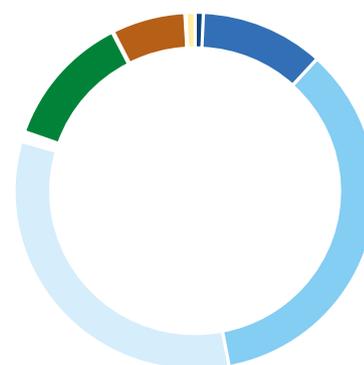
**LGIM voted against at least one resolution at 56% of UK companies over the quarter**

## Europe - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	17	8	0
Capitalisation	610	121	0
Directors Related	1840	385	1
Remuneration-related	703	356	0
Reorganisation and Mergers	44	10	0
Routine/Business	1628	129	4
Shareholder Proposal - Compensation	4	1	0
Shareholder Proposal - Corporate Governance	13	0	0
Shareholder Proposal - Directors Related	47	72	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	3	1	0
Shareholder Proposal - Other/Miscellaneous	11	9	0
Shareholder Proposal - Routine/Business	7	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
<b>Total</b>	<b>4927</b>	<b>1092</b>	<b>5</b>
<b>Total resolutions</b>	<b>6024</b>		
<b>No. AGMs</b>	<b>215</b>		
<b>No. EGMs</b>	<b>104</b>		
<b>No. of companies voted on</b>	<b>310</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>244</b>		
<b>% of companies with at least one vote against</b>	<b>79%</b>		

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

## Votes against management



Antitakeover Related - 8
Capitalisation - 121
Directors Related - 385
Remuneration-related - 356
Reorganisation and Mergers - 10
Routine/Business - 132
Shareholder Proposal - Compensation - 1
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors Related - 72
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 1
Shareholder Proposal - Other/Miscellaneous - 9
Shareholder Proposal - Routine/Business - 0
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 0

## Number of companies voted for/against abstentions

66

244

- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

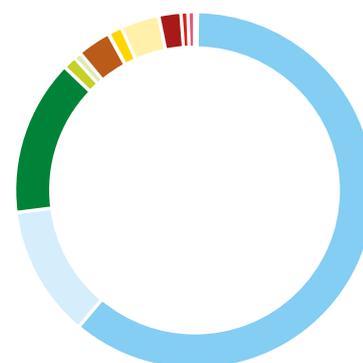
LGIM voted against at least one resolution at **79%** of European companies over the quarter

## North America - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	59	1	0
Capitalisation	54	4	0
Directors Related	3975	1189	0
Remuneration-related	451	232	0
Reorganisation and Mergers	6	0	0
Routine/Business	320	275	1
Shareholder Proposal - Compensation	5	23	0
Shareholder Proposal - Corporate Governance	6	13	0
Shareholder Proposal - Directors Related	68	59	0
Shareholder Proposal - General Economic Issues	0	1	0
Shareholder Proposal - Health/Environment	6	24	0
Shareholder Proposal - Other/Miscellaneous	5	68	0
Shareholder Proposal - Routine/Business	0	39	0
Shareholder Proposal - Social/Human Rights	4	12	0
Shareholder Proposal - Social	8	12	0
<b>Total</b>	<b>4967</b>	<b>1952</b>	<b>1</b>
<b>Total resolutions</b>	<b>6920</b>		
<b>No. AGMs</b>	<b>532</b>		
<b>No. EGMs</b>	<b>3</b>		
<b>No. of companies voted on</b>	<b>534</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>516</b>		
<b>% of companies with at least one vote against</b>	<b>97%</b>		

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

### Votes against management



- Antitakeover Related - 1
- Capitalisation - 4
- Directors Related - 1189
- Remuneration-related - 232
- Reorganisation and Mergers - 0
- Routine/Business - 276
- Shareholder Proposal - Compensation - 23
- Shareholder Proposal - Corporate Governance - 13
- Shareholder Proposal - Directors Related - 59
- Shareholder Proposal - General Economic Issues - 1
- Shareholder Proposal - Health/Environment - 24
- Shareholder Proposal - Other/Miscellaneous - 68
- Shareholder Proposal - Routine/Business - 39
- Shareholder Proposal - Social/Human Rights - 12
- Shareholder Proposal - Social - 12

### Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

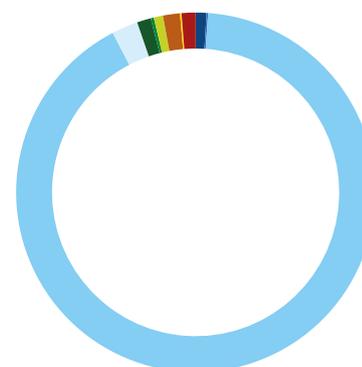
**LGIM voted against at least one resolution at 97% of North American companies over the quarter**

## Japan - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	0	7	0
Capitalisation	1	1	0
Directors Related	3744	657	0
Remuneration-related	161	17	0
Reorganisation and Mergers	78	9	0
Routine/Business	281	2	0
Shareholder Proposal - Compensation	1	6	0
Shareholder Proposal - Corporate Governance	2	0	0
Shareholder Proposal - Directors Related	18	11	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	42	1	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	22	9	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
<b>Total</b>	<b>4350</b>	<b>720</b>	<b>0</b>
<b>Total resolutions</b>	<b>5070</b>		
<b>No. AGMs</b>	<b>405</b>		
<b>No. EGMs</b>	<b>2</b>		
<b>No. of companies voted on</b>	<b>406</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>290</b>		
<b>% of companies with at least one vote against</b>	<b>71%</b>		

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

## Votes against management



Antitakeover Related - 7
Capitalisation - 1
Directors Related - 657
Remuneration-related - 17
Reorganisation and Mergers - 9
Routine/Business - 2
Shareholder Proposal - Compensation - 6
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors Related - 11
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 1
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 9
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 0

## Number of companies voted for/against



■ No. of companies where supported management
■ No. of companies where voted against management

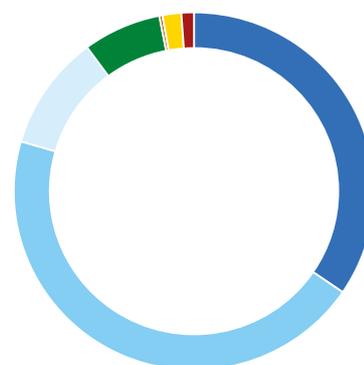
LGIM voted against at least one resolution at **71%** of Japanese companies over the quarter

## Asia Pacific - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	1	0	0
Capitalisation	163	123	0
Directors Related	388	160	0
Remuneration-related	33	37	0
Reorganisation and Mergers	29	0	0
Routine/Business	300	25	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	1	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	6	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	4	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	2	0	0
<b>Total</b>	<b>925</b>	<b>348</b>	<b>0</b>
<b>Total resolutions</b>	<b>1273</b>		
<b>No. AGMs</b>	<b>127</b>		
<b>No. EGMs</b>	<b>21</b>		
<b>No. of companies voted on</b>	<b>137</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>106</b>		
<b>% of companies with at least one vote against</b>	<b>77%</b>		

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

## Votes against management



Antitakeover Related - 0
Capitalisation - 123
Directors Related - 160
Remuneration-related - 37
Reorganisation and Mergers - 0
Routine/Business - 25
Shareholder Proposal - Compensation - 0
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors Related - 1
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 6
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 4
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 0

## Number of companies voted for/against



■ No. of companies where supported management
■ No. of companies where voted against management

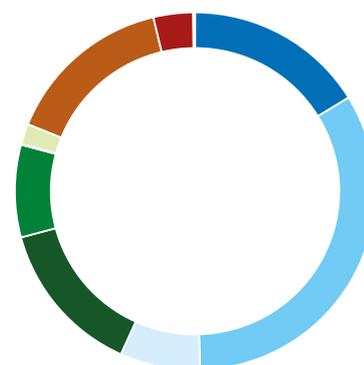
LGIM voted against at least one resolution at **77%** of Asia Pacific companies over the quarter

## Emerging markets - Q2 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover Related	5	0	0
Capitalisation	2120	507	0
Directors Related	3600	881	160
Remuneration-related	98	225	0
Reorganisation and Mergers	1598	440	0
Routine/Business	5808	261	0
Shareholder Proposal - Compensation	15	2	0
Shareholder Proposal - Corporate Governance	0	56	2
Shareholder Proposal - Directors Related	93	472	2
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	9	111	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	2	5	0
<b>Total</b>	<b>13348</b>	<b>2960</b>	<b>164</b>
<b>Total resolutions</b>	<b>16472</b>		
<b>No. AGMs</b>	<b>944</b>		
<b>No. EGMs</b>	<b>258</b>		
<b>No. of companies voted on</b>	<b>975</b>		
<b>No. of companies where voted against management on at least one resolution</b>	<b>650</b>		
<b>% of companies with at least one vote against</b>	<b>67%</b>		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds. The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain.

### Votes against management



Antitakeover Related - 0
Capitalisation - 507
Directors Related - 1041
Remuneration-related - 225
Reorganisation and Mergers - 440
Routine/Business - 261
Shareholder Proposal - Compensation - 2
Shareholder Proposal - Corporate Governance - 58
Shareholder Proposal - Directors Related - 474
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 0
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 111
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 5

### Number of companies voted for/against abstentions



■ No. of companies where supported management
■ No. of companies where voted against management (including abstentions)

**LGIM voted against at least one resolution at 67% of emerging markets companies over the quarter**

# Global voting summary

## Voting totals

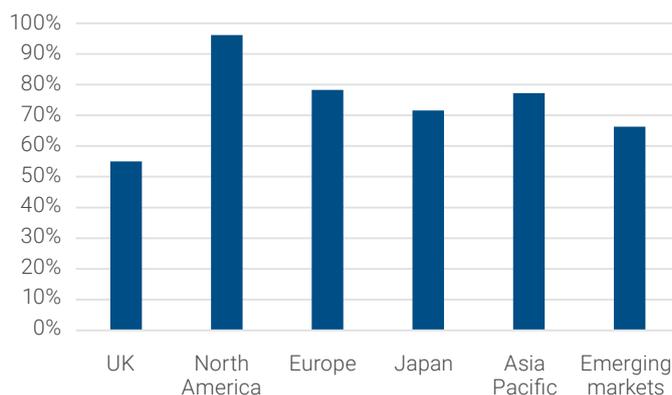
Proposal category	For	Against	Abstain	Total
Antitakeover Related	303	16	0	319
Capitalisation	4031	793	0	4824
Directors Related	15737	3425	162	19324
Remuneration-related	1854	1026	0	2880
Reorganisation and Mergers	1776	462	0	2238
Routine/Business	9514	716	5	10235
Shareholder Proposal - Compensation	26	32	0	58
Shareholder Proposal - Corporate Governance	21	69	2	92
Shareholder Proposal - Directors Related	238	615	2	855
Shareholder Proposal - General Economic Issues	0	1	0	1
Shareholder Proposal - Health/Environment	52	32	0	84
Shareholder Proposal - Other/Miscellaneous	16	78	0	94
Shareholder Proposal - Routine/Business	39	163	0	202
Shareholder Proposal - Social/Human Rights	4	12	0	16
Shareholder Proposal - Social	12	17	0	29
<b>Total</b>	<b>33631</b>	<b>7449</b>	<b>171</b>	<b>41251</b>
No. AGMs	2517			
No. EGMs	421			
No. of companies voted on	2674			
No. of companies where voted against management on at least one resolution	1980			
% of companies with at least one vote against	74%			

### Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

### % of companies with at least one vote against (includes abstentions)



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



# Global engagement summary

## Engagement statistics:



83

Total number of engagements during the quarter



72

Number of companies engaged

## Number of engagements on:



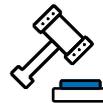
18

Environmental topics



34

Other topics (e.g. financial and strategy)



70

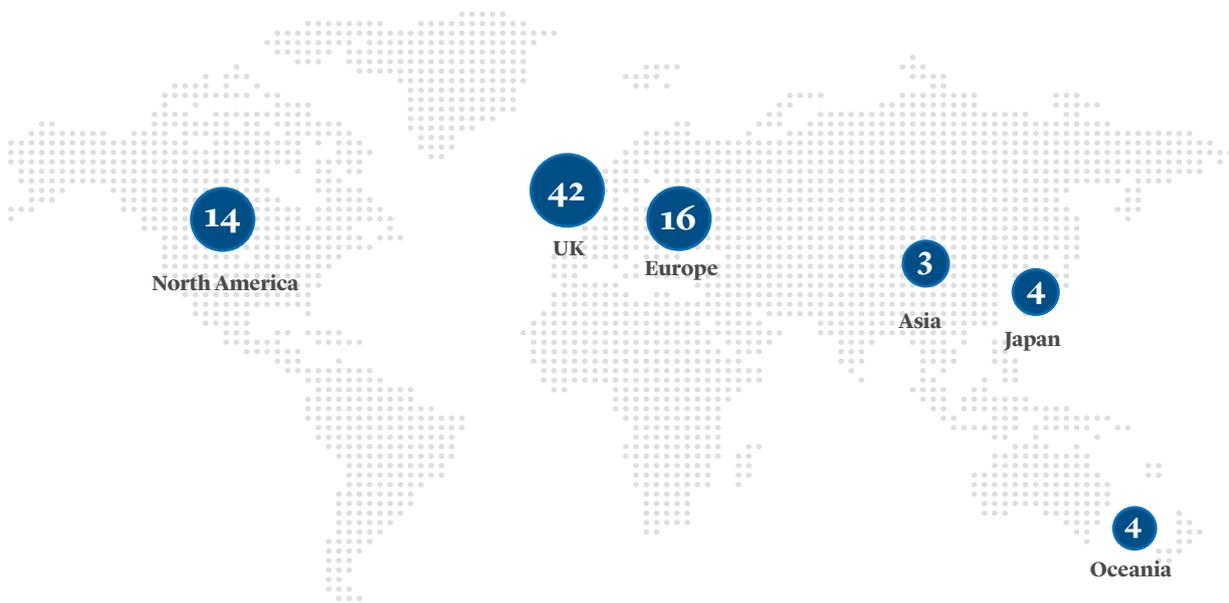
Governance topics



20

Social topics

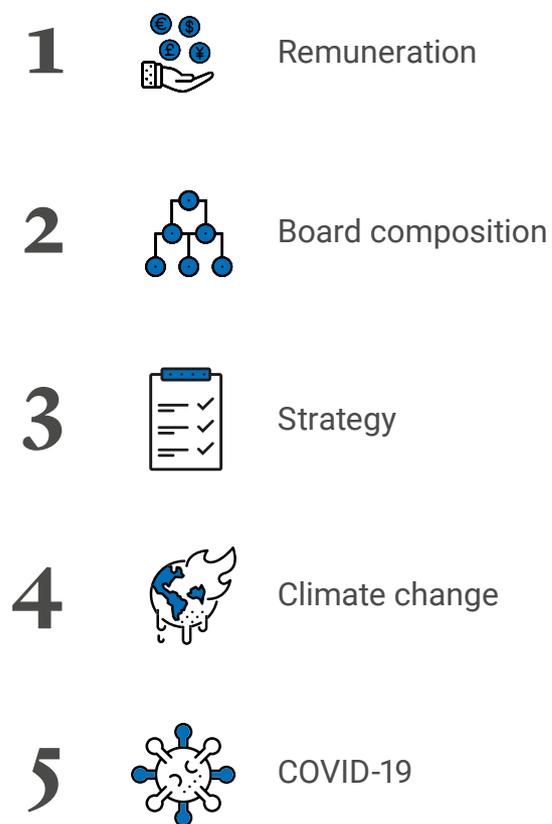
## Breakdown of our engagements by market:



### Engagement type:



### Top five engagement topics:



## Contact us

For further information about LGIM, please visit [lgim.com](http://lgim.com) or contact your usual LGIM representative



### Important notice

Past performance is not a guide to future performance. 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.

Views expressed are of Legal & General Investment Management Limited as at August 2020.

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