

LGIM's engagement policy





This policy paper sets out the approach to shareholder engagement by subsidiary companies of Legal and General Investment Management (Holdings) Limited (“LGIM(H)”) that are defined as institutional investors or asset managers under the Shareholder Rights Directive II. Any references to “LGIM” include:

- Legal & General Investment Management Limited
- LGIM Real Assets (Operator) Limited
- LGIM International Limited
- Legal and General Assurance (Pensions Management) Limited
- GO ETF Solutions LLP
- Legal & General (Unit Trust Management) Limited
- LGIM Managers (Europe) Limited

This policy should be read in conjunction with LGIM’s UK stewardship policy; corporate governance & responsible investment Policies; LGIM’s approach to corporate governance; our paper on why and how we use proxy advisor services; and our conflicts of interest policy.

Active ownership forms a key part of how we embed environmental, social, and governance (ESG) considerations into our business.

We are committed to using our scale and influence to encourage companies to improve their management of ESG issues and as such we have dedicated significant resources to our stewardship obligations.

LGIM has established a fully integrated framework for responsible investing, across both public and private assets, to strengthen long-term returns and raise market standards. This is based on stewardship with impact and collaborative, active research across asset classes. Together, these activities enable LGIM to conduct engagement that helps drive positive change and to deliver integrated solutions for clients.

We believe ESG factors are financially material. Responsible investing is, in our view, essential to mitigate risks, unearth investment opportunities and strengthen long-term returns.

Our stewardship and investment teams often work together, to incorporate ESG factors into our decisions and processes, from research and engagement to product development.

Ongoing dialogue with companies is a fundamental aspect of LGIM's commitment to responsible investment. Engagement will be triggered in a variety of ways, such as a regular catch-ups; analysis of responsible investment themes and voting issues; general knowledge of the company; or a media report.

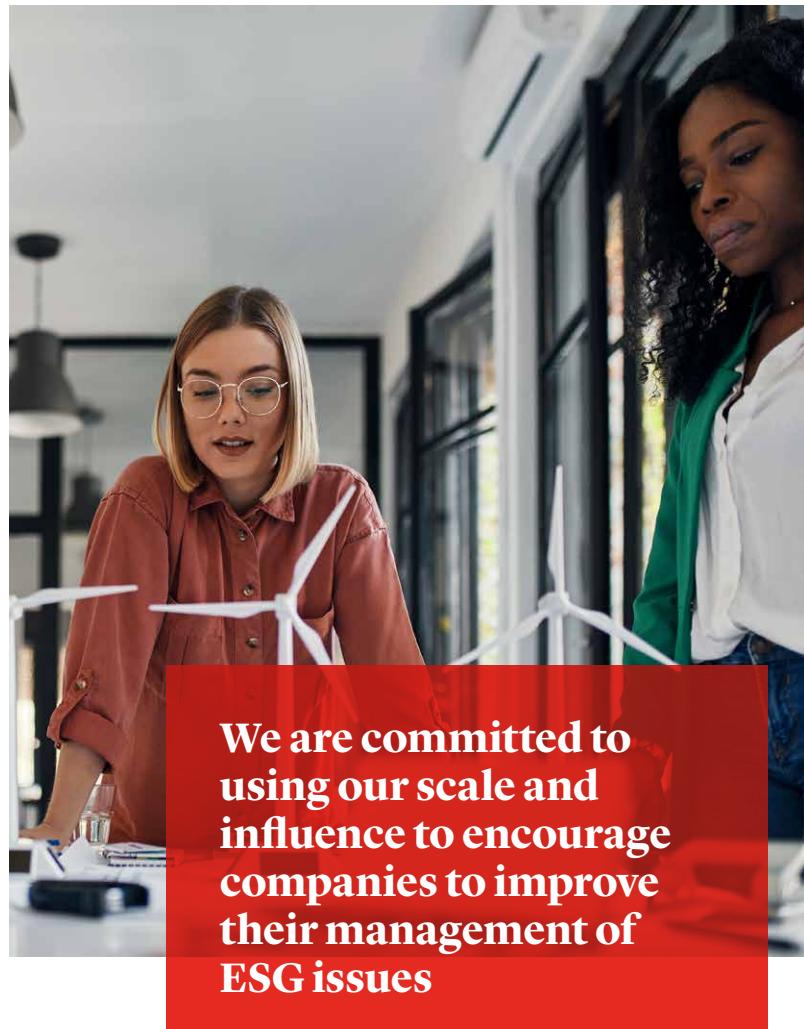
We incorporate ESG assessments into our dialogue with companies, in order to push for real change and long-term sustainable value creation. Due to the size of our holdings and our constructive relationship with companies, our engagements tend to be with board directors.

In 2019, we established our Global Research and Engagement Platform, to bring together representatives from our investment and stewardship teams, in order to unify our engagement efforts and determine the exposure of sectors and companies to ESG risks and opportunities.

The platform is formed of six sector committees. These cover energy, utilities and basic materials; industrials and financials; telecoms, media and technology; and consumer and healthcare. Each committee is responsible for identifying themes that are financially material to each sector, allowing us to build a more holistic view of ESG risks and opportunities that extends beyond traditional fundamental analysis.

Among the platform's outputs are unified company-level objectives and targets, which guide and determine our investment decisions across the capital structure.

As a result, engagement activity is coordinated between the Active Equity, Active Fixed Income and Investment Stewardship teams; however, there are times when they are carried out only by the Investment Stewardship team. This is due to sensitivities or conflicts (See our conflicts of interest policy for more detail).





How LGIM integrates ESG considerations across asset classes

While the core principles of responsible investing apply to every mandate we manage, the way in which they are integrated depends on multiple factors, such as client objectives and guidelines, the asset class, the industry sector and geographical footprint, as well as the type of instrument and the intended holding period. The process of integrating ESG considerations can differ depending whether the investment strategy is index or active, as the elements of fundamental analysis allow for more specific sources of information.

For our active investment teams, the integration of ESG-related criteria in the assessment of companies is not intended to result in any negative or exclusion lists. Rather, it aims to enhance our ability to discern between likely outperformers and underperformers within each sector; its ultimate purpose is to support the process of equity or bond selection.

For index funds with ESG-linked objectives, we believe the most suitable form to apply ESG criteria is to reflect minimum standards of best practice. By effectively penalising laggards who fall below minimum standards, this reduces the risk of being over-exposed to such companies.

For the rest of our index funds, we are wholly committed to encouraging companies to improve their management of ESG issues. We integrate our thoughts and the consideration of ESG risks and investment opportunities into our communication and constructive engagement with individual companies. We believe that well-governed companies are more likely to provide better returns for our clients over the long term.

How LGIM prioritises and identifies engagements

Client outcomes, and broader societal and environmental impacts, sit at the heart of our engagement decision-making process. The process we adopt for identifying engagement opportunities is first and foremost proactive and planned.

We aim to tackle difficult and inter-connected ESG issues that could materially impact the value of our clients' assets. Therefore, it can take a long time to see change, and 'success' can be difficult to measure as it is often reflected in the overall market value.

Regular monitoring of companies assists us in identifying change. Our goal is to create better standards for the market at large, and while individual company performance is important, we believe that system- and market-wide change will bring about more sustainable results over the long-term.

We seek to follow a six-step approach to our investment stewardship engagement activities:

1. Identify the most material ESG issues

Following identification of the long-term themes and the building of a long-term strategy, we narrow our focus to material and specific ESG issue that we believe may impact long-term returns for our clients. To do this, we may undertake research; use ESG data and information; and collaborate with other teams internally.

Our LGIM ESG Score utilises a proprietary, rules-based approach to scoring companies on what we believe are minimum ESG standards. These scores are leveraged to help prioritise engagements and for use in index construction across our Future World ESG-tilted indices. We have applied this tool to score approximately 17,000 global companies. The score uses a limited number of indicators that we believe are universal and are relevant and consistent across sectors globally. These scores are publicly available on our website.

The ESG Active View, meanwhile, is used as an essential component of the research and portfolio management process for our active equity and fixed income teams. The tool goes further than the LGIM ESG Score, incorporating additional granular quantitative and qualitative inputs and assessments in order to reflect a full picture of the ESG risks and opportunities embedded within each company.



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2. Formulate the engagement strategy

Our engagement strategy is focused on both the ESG scores and long-term themes: health, income inequality, climate change, privacy, data security and transparency.

Within this strategy, our priorities for engagement are chosen mainly to reflect our overall exposures, in terms of country, sector and companies. The companies where we have the biggest holdings pose the greatest risks and opportunities to market performance. At the same time, where we hold large stakes we have a stronger influence. Our focus on larger companies can have a cascading impact on other companies within the countries and sectors by helping to establish best practices.

We set clear timeframes for the engagement activity and consider in advance any escalation which may be required if key requests are not met. We prefer to set a measurable outcome, either at market or company level.

In addition to this, we carry out regular engagement with investee companies on other important investment issues such as M&A, capital allocation and market-wide issues that we believe threaten the long-term health of the companies that we are invested in. We also engage with regulators and other policy makers to improve market standards.



3. Enhancing the power of our engagement

Due to the size and scale of our investment universe it is difficult to engage with all the companies in which we are invested. Therefore, LGIM uses several ways to communicate our views on corporate best practice and our governance policies. We have created an [LGIM Blog](#) which offers useful information and views from across LGIM. The Investment Stewardship team also create thought pieces on governance and engagement-related topics – and one specifically to explain why engagement is beneficial setting out LGIM's expectations on successful engagement with companies.

4. Public policy and collaborative engagement

LGIM regularly engages with a wide range of market participants to address ESG issues and raise standards. We also have a global ESG public policy analyst, who focuses on policy work with governments and regulatory bodies. As a global investor we understand that government regulations play an important part in setting corporate governance standards for each country. We believe that a good regulatory framework complements market forces, while looking after the interests of a variety of stakeholders. Policy and regulatory change is moving rapidly in this sector and we frequently provide input and support on a variety of topics. In 2019 we were involved in:

- Revisions to the UK Stewardship Code
- Strengthening the Corporate Governance Code in Germany
- Integrating sustainability risks/factors - MIFID II
- Regulation on the EU Taxonomy of sustainable finance
- EU sustainability-related disclosures in the financial sector
- Weighted voting rights
- Climate benchmarks and benchmark ESG disclosures

We set clear timeframes for the engagement activity and consider in advance any escalation



The Investment Stewardship Team also regularly collaborates with a wide range of asset owners and managers on specific themes. This process is formalised through our participation in bodies such as the Investment Association (IA), at which LGIM discusses corporate governance policy and pushes for collective engagement alongside other UK investment managers and; the Investor Forum (IF) of which LGIM is a founding member which facilitates collaborative engagement with other members and ensures investors speak with one powerful voice. There are several other global organisations that we collaborate with to improve standards, including: UN PRI, ClimateAction100, Ceres and Access to Medicine.

In addition, we provide:

- Quarterly ESG Impact reports, which are sent to clients that set out our engagement and voting activity for the quarter including case studies, as well as other activities carried out during the quarter including any public policy work
- Our voting records with rationales for votes against, which are publicly available each month
- Conferences and seminars for a mix of stakeholders, including education events for clients and Non-Executive Directors of investee companies

5. Voting

If our engagement strategy does not deliver sufficient improvements in ESG standards, LGIM will use its one voice to send a strong message to the board by exercise its voting rights on behalf of clients. (See LGIM's approach to Investment Stewardship and How LGIM uses proxy voting services for further information on our voting).

6. Reporting to stakeholders on our engagement activity

LGIM provides an Annual Active Ownership Report setting out our approach to stewardship and our activities during the year. The report:

- Identifies key themes and emerging governance topics and explains how we have responded to these during the year, including through company engagement
- Provides progress on previously identified topics, including setting out company engagement activity undertaken
- Includes detailed case studies of company engagement activity and impact
- Collaboration with other investors.
- Provides a regional update on our activities in certain markets and more case studies of our voting and engagement activities
- Provides numerical analysis of voting and engagement work undertaken during the year
- Contains examples of how we integrate ESG issues across the business
- Summarises changes to voting and engagement policies
- Summarises the work with our associations and memberships



Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative



Important information

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.

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