

Active ownership

Global engagement to enhance long-term value

Active ownership means working to bring about real, positive change to create sustainable value for our clients. Our annual Corporate Governance report details how we achieved this in 2018.



"There is now even more interest from clients, regulators and governments in corporate stewardship."

Sacha Sadan, Director of Corporate Governance

2018 in numbers:

3,864

directors voted against globally in 2018, **up 37%** since 2017

LGIM voted best in investor engagement by UK company secretaries for **4th year in a row**

More key US resolutions on climate change and lobbying supported, and more resolutions on pay opposed, than the **10 largest** asset managers*

Over **100 UK chairs** voted against due to gender diversity concerns – our largest number of such votes

11,000 companies assessed under LGIM's ESG score

Top five themes discussed in meetings:

- Board composition
- Climate change
- Corporate strategy
- Remuneration
- Nomination / succession

14 funds launched with ESG-related objectives as part of the Future World range

*Source: Climate 50/50 Project - Asset Manager Climate Scorecard 2018, analysis of the voting record of the largest asset managers at key resolutions at US energy, utility and auto companies, to the year ending 31 August 2018.

Our objective is to raise the standards of the companies and markets in which we invest on behalf of our clients. In 2018, we focused on:

Sustainability

- LGIM developed more investment solutions to support the low-carbon economy
- We reported the leaders and laggards under our Climate Impact Pledge for the first time
- In the US, we supported more key shareholder resolutions on climate change than any of the world’s 10 largest asset managers



companies no longer held in the Future World funds following our Climate Impact Pledge:

- | | |
|-------------------------|----------------------|
| China Construction Bank | Occidental Petroleum |
| Dominion Energy | Rosneft Oil |
| Japan Post Holdings | Subaru |
| Loblaw Companies | Sysco Corp |

Each of the companies has since contacted us to discuss actions needed to be reinstated.



“Climate change carries significant financial risks, so protecting the planet and protecting our clients’ investments go hand-in-hand.”

Meryam Omi, Head of Sustainability and Responsible Investment Strategy

Executive pay

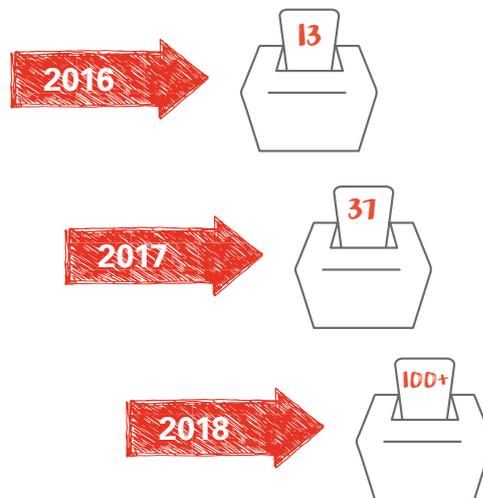
- We strengthened voting policies on pay, especially on pension provisions
- At key votes in the US, LGIM’s level of opposition to management on executive pay last year was higher than that of any of the world’s 10 largest asset managers



Diversity

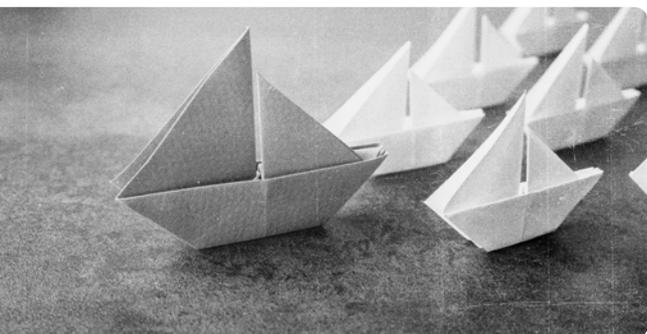
- LGIM voted against the largest number of UK chairs to date on the issue of gender diversity
- We launched a fund aimed at promoting gender diversity, run according to a proprietary company scoring process

Votes against UK chairs due to gender diversity



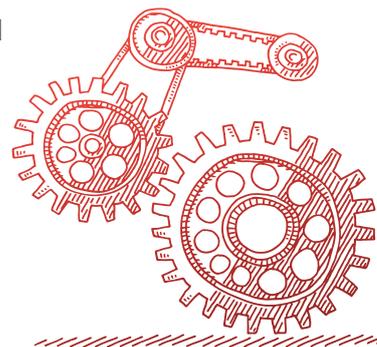
“Diversity of thought is crucial for the long-term success of the businesses in which we invest on behalf of our clients.”

Clare Payn, Head of Corporate Governance, North America



Working with clients

- LGIM helped pension fund trustees meet new ESG-related requirements and guidelines
- We evolved our reporting for clients in areas such as ESG scores, carbon footprinting and engagement



ESG integration

- We developed a quantitative tool for index funds to score companies according to ESG metrics, and a separate ESG tool that also uses qualitative inputs for active funds
- LGIM launched 14 funds with ESG-related objectives as part of the Future World range
- We created a list of companies that fail to meet the minimum standards of business practices, in which the Future World funds will refrain from investing, for example, manufacturers of controversial weapons

3332 Number of companies where we voted

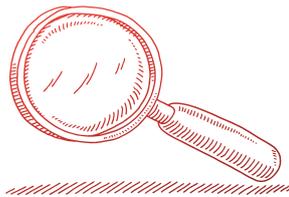
Percentage of companies we met that are based outside the UK **52%**



An update from the US

Other areas focused on

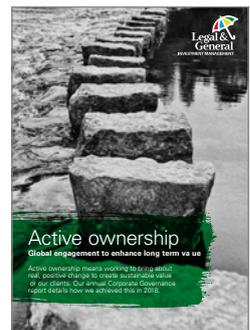
- **Audit** – improving the quality of corporate reporting
- **Listening to stakeholders** - responding to the priorities of our clients and other stakeholders
- **Lobbying** – pushing for transparency on corporate efforts to sway policy
- **Board effectiveness** – engaging on board composition to strengthen corporate governance
- **Shareholder rights** – fighting to protect our clients’ rights
- **Mergers and acquisitions** – safeguarding our clients’ interests amid corporate deal-making
- **Public policy** – promoting the highest standards of corporate governance worldwide



- We expanded our presence in North America with the appointment of John Hoepfner as Head of US Stewardship and Sustainable Investments
- We advocated for relevant and reliable ESG disclosures and built relationships with other investors who seek to advance a similar corporate governance agenda

The full report

To read more about LGIM’s engagement activity in 2018, including many more examples of where we have helped to deliver positive change, please see the full version of this report by visiting our website.



You can also read regular updates from the team on the Future World blog and hear interviews with them on LGIM Talks, our podcast channel.

CONTACT US

For further information about LGIM, please visit lgim.com



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