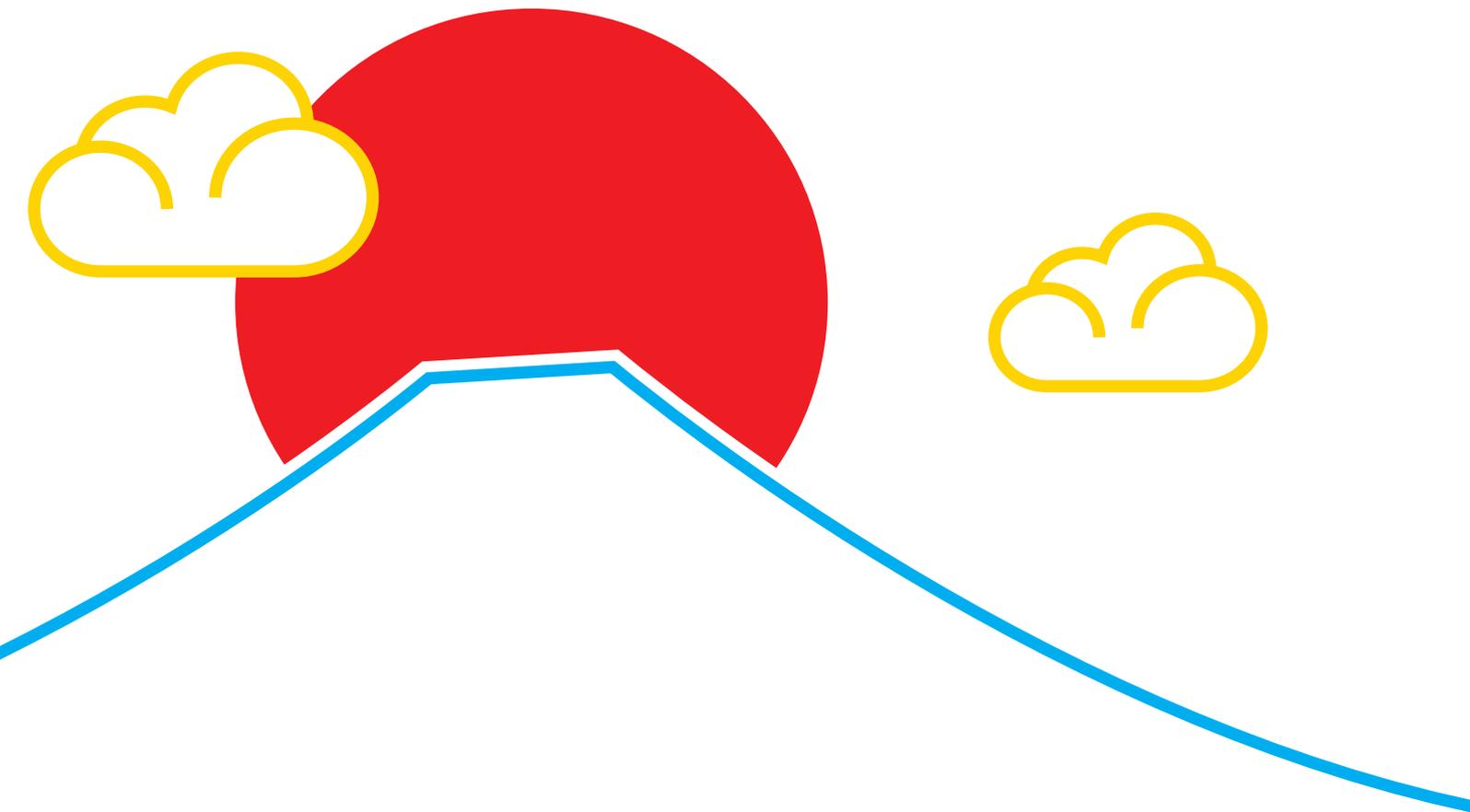


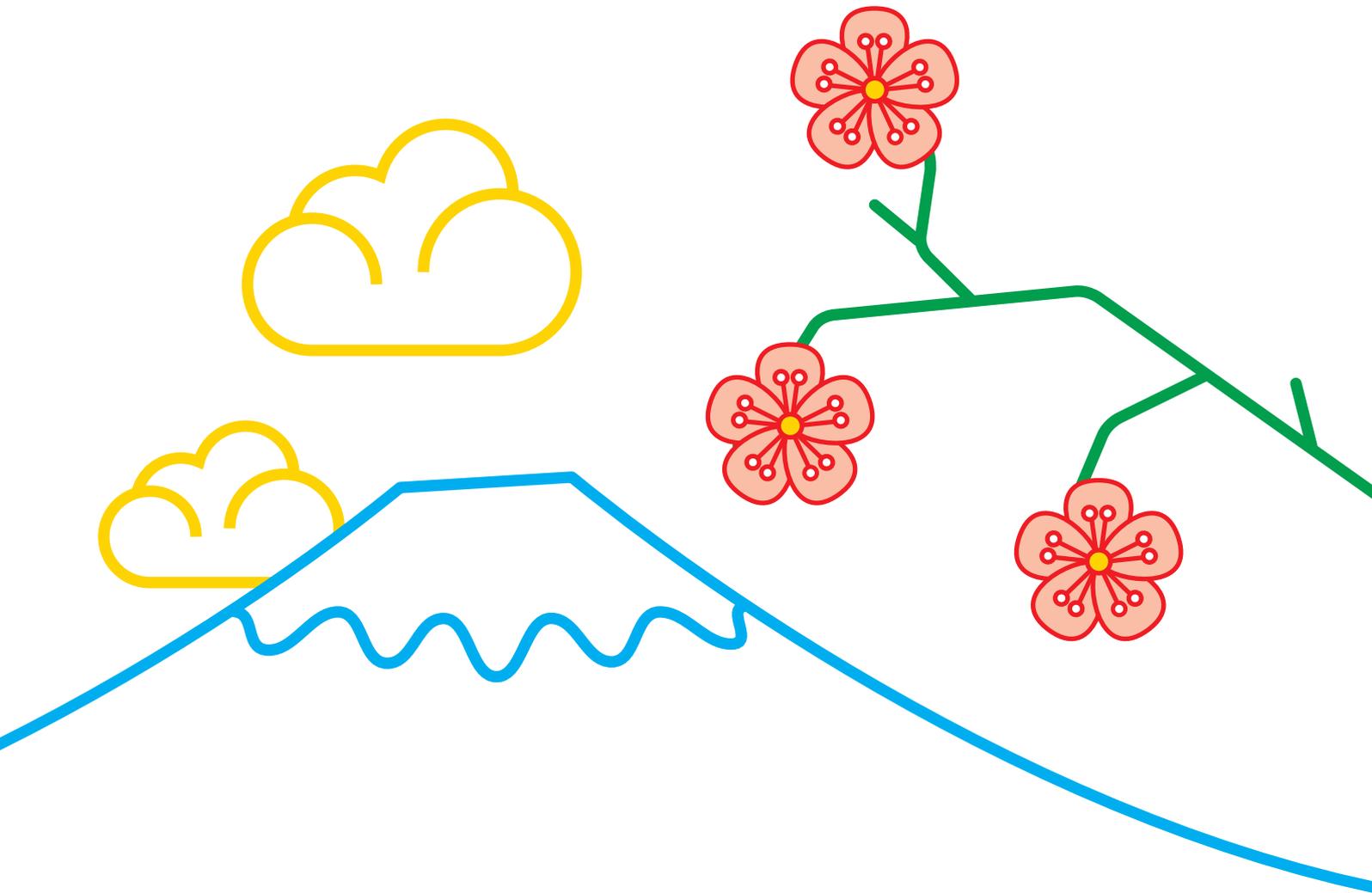
# Japan Stewardship Code

LGIM Response to Japan Stewardship Code Principles



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# Introduction

Legal & General Investment Management (LGIM) believes it is important for investors and companies to form a trusting long-term relationship and enter into constructive dialogue on contentious issues. In accordance with the 2017 revision of Japan's Stewardship code, LGIM has updated its response to reflect the recent changes. This is mutually beneficial to both parties as there is a better understanding of views and expectations which forms the basis of high-quality decision making and good judgement. As a strong supporter of the Stewardship Code, LGIM feels that it is its duty to be accountable for its clients' assets and ensure that it upholds the highest corporate governance standards in the global financial market.

As an institutional investor, LGIM has a fiduciary duty to clients to exercise its voting rights responsibly. The right to vote represents a basic privilege of share ownership and is important given the division of control between the owners of a company (shareholders) and the agents appointed to manage the company in their interests (directors). In addition, voting is a fundamental tool used by investors to signal support or concern with management actions. This mechanism is one of the valuable methods of promoting good corporate governance in the marketplace.

LGIM endorses the principles of the Stewardship Code and is fully committed to them as they intend to protect the integrity of clients' assets and enhance long term value for shareholders.



**“Stewardship responsibilities” refer to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge on the companies and their business environment.**



Japan Stewardship Code,  
FSA, 2017

# Principle 1



## **Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.**

LGIM's "Global Corporate Governance and Responsible Investment Principles" sets out its expectations of investee companies in terms of corporate governance and outlines how LGIM exercises its voting, engagement and monitoring activities. It applies to companies globally, but should be read in conjunction with our specific policy in Japan.

All voting policies are publicly disclosed and can be found on LGIM's website

 <http://www.lgim.com/uk/en/capabilities/corporate-governance>

They apply to all of the funds that hold Japanese shares where the client has given discretion to LGIM. Some of the clients may give specific voting instructions for their underlying assets.

Voting decisions are based on knowledge of investee companies globally and acquired by LGIM through dialogue and constructive engagements with the management of companies and market leaders on a wide range of topics, including governance, financial performance and strategy.



# Principle 2



## Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

There are a number of potential conflicts of interest inherent in the corporate governance activity at LGIM. The corporate governance team receives and processes a great deal of “inside,” or price sensitive information relating to a company’s activity, such as management succession, financing or merger and acquisition (M&A) activity.

While non-price sensitive knowledge is fluidly shared between the corporate governance team and fund management teams, Chinese walls ensure the independence of the corporate governance team. The Director of Corporate Governance reports directly to LGIM’s Chief Executive Officer (CEO). There is a Corporate Governance Board consisting of five directors, including two independent non-executive directors from outside the organisation. The Board meets periodically and is chaired by one of the independent directors. This structure ensures that potential conflicts of interest are appropriately managed.

Where do conflicts of interest potentially arise?

- A large number of our clients are trustees of pension schemes that are associated with the companies in which LGIM invests
- Legal & General Group plc might try to influence LGIM’s activities on Corporate Governance, rights issues, takeovers etc
- Depending on the asset class (e.g. equities/fixed income), the investment strategies for active/index and funds are very different particularly in terms of the number of stocks held and the time scale for holding investments

- The department receives and processes a great deal of “inside,” or price-sensitive information relating to a company’s activity, such as management succession, financing, or M&A activity
- LGIM owes each of its clients a duty of care and loyalty with respect to all services undertaken for clients, including proxy voting. LGIM places its clients’ interests ahead of its own and must cast proxy votes in a manner consistent with the best interest of its clients.

### LGIM PRACTICE

- Take reasonable steps to avoid conflicts of interests
  - The team is structured and supported to minimise potential and perceived conflicts of interest. The team reports directly to the Chief Executive of LGIM and its activities are monitored and supported by two Non-Executive Directors. This acts as a safeguard and ensures we are able to engage on any topic, wherever needed, to achieve the best outcome for all clients.
  - The LGIM Corporate Governance Committee which includes the two Non-Executive Directors meets quarterly to monitor LGIM’s activities.
- Treat confidential material appropriately
- Train new front office staff in conflicts of interest
- If in doubt refer upwards to a Director, the CEO of LGIM, or NED’s of LGIM (H)
- Have a register of conflicts which are reported to LGIM (H)

- Legal & General Group plc shares are held by Swiss Re for the benefit of LGIM pooled funds as they cannot be held directly. These shares are voted independently of LGIM
- For shares directly held by trusts and segregated funds, LGIM will seek clients' informed direction on voting

### WALL-CROSSING

As a major investor LGIM is contacted by investment banks to discuss price sensitive issues, such as a placing of new shares, before the information has become public. This is termed "inside information".

The procedure is for the Director of Corporate Governance or the Heads of Equities and Corporate Governance to be notified in the first instance when a company, or investment bank wish to make LGIM an insider.

If a fund manager is called inadvertently, they will direct the call to the Head of Equities. In their absence, the Director of Corporate Governance/Manager may take the call. On taking the call the individual records that they have been made an insider on the Order Management System (OMS).

They also record the nature of the inside information, and the date at which it is expected to become public. They then decide who else in the organisation needs to be notified of the inside information and records this within OMS.

On inputting to OMS the fact that LGIM is in possession of inside information on a stock, this generates an email to compliance who record the situation on the dealing system. Any individual or department that is included as being in possession of "inside information" is restricted from dealing in the stock as is any member of staff wishing to deal in a stock in a personal capacity.

In the situation of a share placing a pre-marketing meeting may take place where LGIM's feedback is sought. The Head of Equities will normally attend this meeting with a member or members of the active equities team. There may also be a member of the corporate governance department in attendance. Following the meeting, the

Head of Equities will feed back to either the company or the investment bank LGIM's views on the situation having discussed it with his colleagues.

Details of how we manage our potential conflicts can be found on our website: Once the situation becomes public, the stock is removed from the inside list on OMS.

For more details on LGIMs conflicts of interest policy, please refer to:

 [www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance)

# Principle 3

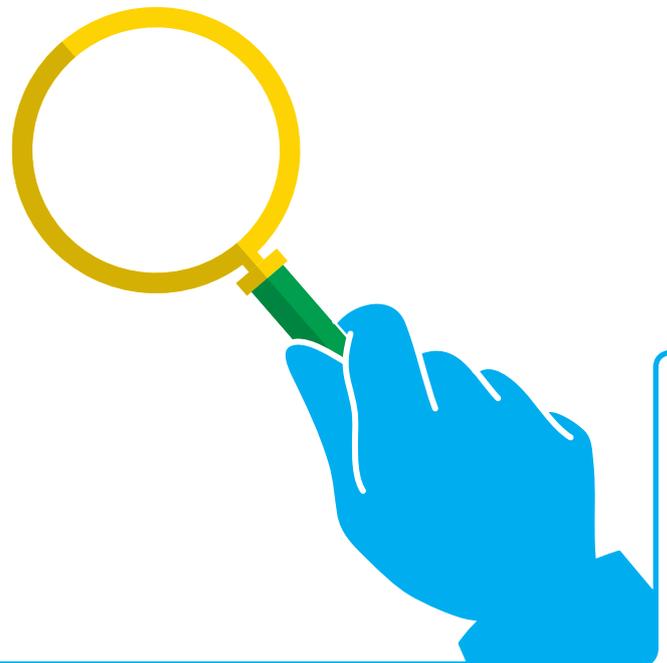


**Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards sustainable growth of the companies.**

LGIM actively monitors investee companies in order to ensure that they act in the best interest of shareholders and create long term value for its clients.

There are a number of resources which the corporate governance team draws from that form the basis of LGIM's monitoring process. These include company disclosure, external corporate governance networks, proxy voting advisors raising concerns, collaborative engagement with other shareholders, market news and meetings with the internal investment teams. Actions that may follow include private one-to-one meetings with management, collaboration with other investors, and voting decisions.

Following engagement, a clear audit trail is maintained that records the content that was discussed in the meeting and the next steps, if any, that need to be taken to achieve the desired outcome.



# Principle 4



**Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.**

The ultimate objective of engagement for LGIM is to enhance the value of the companies invested in the long run for the benefit of its clients.

The approach to engagements is to have an open dialogue that is constructive and helpful, and aimed at deepening LGIM's knowledge of investee companies. LGIM uses various sources to monitor companies' performance, such as independent research providers, rather than relying exclusively on company disclosures. LGIM's reliance on constructive engagements to solve divergences with investee companies has contributed to the long term sustainable growth of companies.

However, LGIM has an established policy based on the escalation of engagement. If constructive engagements fail to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue. Escalation of engagement can also result in a collaborative engagement initiative which allows LGIM to forge alliances with other investors on common goals to improve market performance. Escalation is vital in making engagements effective, as engagements without consequences may be disregarded by companies.



# Principle 5



**Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.**

LGIM's voting policy is developed in-house and each country-specific policy is adapted to reflect the economic, political and cultural differences in corporate governance practices. LGIM recognises that the move towards strong corporate governance in Japan begins with compliance with Japanese legislative and regulatory frameworks. Beyond this, LGIM ensures that the voting policy adheres to LGIM's overarching goal in contributing to the sustainable growth of investee companies and establishes a progressive but feasible stance.

Where LGIM has submitted a vote against a resolution at a Japan listed company, this is generally followed up with a letter to the company which explains the rationale for the decision taken. The concerns raised are often discussed at a future meeting with the company. Such conversations have proved to be encouraging so far. For example, in relation to board independence, many companies talk of actively looking for fully independent directors to join their boards, as they have benefited from having more outsiders on the board.

LGIM discloses on country-level aggregate voting records through its annual report and more granularly at issuer level on the public website:

 <http://www.lgim.com/corporategovernance>

In addition, clients receive quarterly reports on our voting and engagement activities.

LGIM publishes voting records on its public website monthly in arrears for all major markets including Japan, UK, US, Europe, Asia Pacific and Emerging Markets. Please visit [www.lgim.com](http://www.lgim.com) for more details. These records also include full disclosure of our voting rationale for each resolution where an instruction has been cast against management.

We report quarterly to clients and provide a public annual report detailing our engagement and voting activity and statistics in all regions globally.

# Principle 6



**Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.**

LGIM is aware of its duties and accountability to its clients on the management and protection of their assets. LGIM discloses publicly its corporate governance activities through annual reports, client reports and thought pieces on market practices. These reports are published in a timely manner and give an indication of the stewardship activities carried out during the year by LGIM.

LGIM provides trustee education seminars throughout the year to help clients get a better understanding of current issues and to highlight what LGIM is doing to reduce risks and to promote best practices.



# Principle 7



**To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge on the investee companies and their business environment and capabilities to appropriately engage with the companies and make proper judgements in fulfilling their stewardship activities.**

LGIM makes use of a number of external resources to deepen its knowledge of investee companies, including daily market news, media, external corporate governance networks, proxy voting advisors, collaborative engagement with other shareholders and meetings with the in-house investment team.

LGIM considers collaboration with other like-minded investment institutions on specific topics to be highly valuable to enhance the quality of corporate governance practices in investee companies. The advantage of collective engagement is that there is greater leverage over investee companies due to the

pooling of holdings. This increases the individual power and influence of investors to push for change. Engagement with other investors may be on topics that are specific to a company or in response to an industry consultation. It should not, however, be confused with consortiums, as each investment house would retain the decision making power to act in the best interests of its own clients.

LGIM is subject to internal audit on its stewardship and voting processes for compliance with certain principles in the Japan Stewardship Code.



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## CONTACT US

For further information on anything you have read here or to provide feedback, please contact us at [corporategovernance@lgim.com](mailto:corporategovernance@lgim.com). Please visit our website [www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance) where you will also find more information including frequently asked questions.

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