

LGIM's gender diversity score: Information for companies

A guide to the rationale and methodology behind our gender diversity score.

WHAT IS LGIM'S GENDER DIVERSITY SCORE?

Our gender diversity score is a grade we assign to the largest 350 public companies in the UK, from zero to 100, based on an assessment of their mix of gender diversity. Companies that score 100 fully meet our criteria for best practice; zero represents significant concerns. If a company has a score of 50, it has met, on average, our minimum expectations.

HOW WILL THE SCORE BE USED?

The gender diversity score will be used in two ways:

1. As an engagement tool to monitor progress on gender diversity within the UK market.
2. As part of the construction of the Solactive L&G Gender in Leadership Index, which is tracked by the L&G Future World Gender in Leadership UK Index (GIRL) Fund. The index is alternatively weighted, to give greater weight to companies that have higher gender diversity scores and less weight to those with lower scores.

WHY GENDER DIVERSITY?

LGIM believes there are company-specific and market-wide benefits of having a good balance of gender diversity at all levels within a company. We believe that greater diversity through a broader range of views, backgrounds and values leads to better group decision-making. Closing the gender gap also has real-world economic benefits. For example, PwC estimates that increasing female employment rates to match those of Sweden could add an additional £180 billion to UK GDP¹.

There is a growing body of research, completed in recent years, supporting the economic and business case for gender-balanced organisations. We believe that harnessing all the talent available could ultimately improve performance and lower risk for companies and investors.

Diversity can be measured in a number of ways: gender, ethnicity, education, age, etc. However, **gender diversity is the metric that is reliably reported and measured by companies.**

HOW CAN YOU IMPROVE YOUR GENDER DIVERSITY SCORE?

The score comprises four data points.

1. Percentage of women on the board
2. Percentage of women at executive level
3. Percentage of women at management level (as defined by the company)
4. Percentage of women throughout the workforce

We recognise that some companies and sectors face more challenges than others in attracting a diverse group of employees. Therefore, by looking at diversity across the different levels within a company, the methodology seeks to capture the development of a pipeline of talent.

At board level:

The board is defined as the board of directors. In accordance with LGIM's public stance, we expect at least 30% of the board to be comprised of female directors. Companies that meet this threshold will be viewed positively.

Please note that LGIM's voting policy requires at least 30% of board members to be women by 2020. Since 2015, we have been gradually increasing the threshold of women on the board required under our voting policy. In 2018, we are applying a 25% threshold. If the board comprises less than 25% women as at the 2018 AGM, it is our policy to vote against the re-election of the board chair.

1. <https://www.pwc.co.uk/economic-services/WIWI/women-in-work-index-2018.pdf>

At executive level:

Executive level is defined as the executive committee, or executives reporting directly into the CEO. We believe that having 30% of women on the executive leadership team demonstrates a critical mass of individuals at this level. This is also aligned with the government-backed, Hampton-Alexander Review, which in 2016 called for one-third of leadership teams to be comprised of women. Companies that meet our 30% threshold will be viewed positively.

At management level:

Management is a key pipeline for future directors and executives. Therefore, monitoring gender diversity at this level is critical for future leadership. We have again applied a 30% threshold at this level. Companies that meet the 30% threshold will be viewed positively.

At workforce level:

Having diversity across the workforce is important for the culture of the organisation and as the future pipeline of management talent. Here, too, we have applied a 30% threshold at this level. Companies that meet the 30% threshold will be viewed positively.

Heading towards gender parity

Across all four levels within an organisation, we are supportive of moving towards gender parity. The closer a company moves towards gender parity, the higher its gender diversity score is likely to be.

COMPANY GENDER DISCLOSURES:

All the information that feeds into the methodology underpinning our gender diversity score is in the public domain.

We strongly encourage companies to report on gender diversity across their entire pipelines, including at executive and management levels, alongside the current requirements to report the gender breakdown at employee and board level.

We expect the gender breakdown disclosures to be included within the company's annual report. We recognise that some companies like to provide more detailed disclosure in the sustainability report, but we believe the basic information ought to be disclosed alongside the strategy, culture and performance of the company. This is also aligned with recent UK government expectations and the Financial Reporting Council's consultations on the Corporate Governance Code and guidance on strategic reporting.

WHAT DATA PROVIDER DO WE USE?

The data we use to generate our proprietary gender diversity score are provided by Thomson Reuters. The data have to be in the public domain in order for Thomson Reuters to capture the data points.

If you have concerns that we are not correctly capturing the gender breakdown of the board, or the executive, management and workforce levels, please contact Thomson Reuters directly.

HOW FREQUENTLY ARE THE SCORES UPDATED?

LGIM's Gender Diversity scores will be published every six months, in May and November, using data as of 31 March and 30 September respectively.

HOW FREQUENTLY WILL THE METHODOLOGY BE REVIEWED?

The methodology underpinning the gender diversity score will be reviewed on an annual basis. As we see improved diversity within the UK market, we may amend our methodology to continue to highlight and differentiate leading practices. Additionally, as more data metrics that are comparable, reliable and quantifiable become available, we may consider expanding how we monitor gender diversity.

WHAT ABOUT THE GENDER PAY GAP?

We have committed to considering how the UK gender pay gap data may be incorporated into future versions of the score. We view this as important information, which further informs investors on a company's progress and intentions towards reaching gender parity within its workforce.

HOW CAN COMPANIES GET IN TOUCH?

If you think your company's data may be incorrect, please contact Thomson Reuters on 0800 442 000 or via my.thomsonreuters.com/ContactUsNew to check that we are receiving the correct information point.

If you would like to find out more information about LGIM's policies on diversity or other ESG issues, please find more information here:

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

If you have any other questions, please contact the Corporate Governance Engagement Team on: CGEngagement@lgim.com

Disclaimer

The value of investments and any income from them may fall as well as rise and investors may get back less than they invest.

The financial instrument is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade mark or the Index Price at any time or in any other respect. The Solactive L&G Gender in Leadership Index is powered by Thomson Reuters Information.

Legal & General (Unit Trust Managers) Limited. Registered in England and Wales, Company no.1009418. Registered office: One Coleman Street, London EC2R 5AA. Authorised and regulated by the Financial Conduct Authority.