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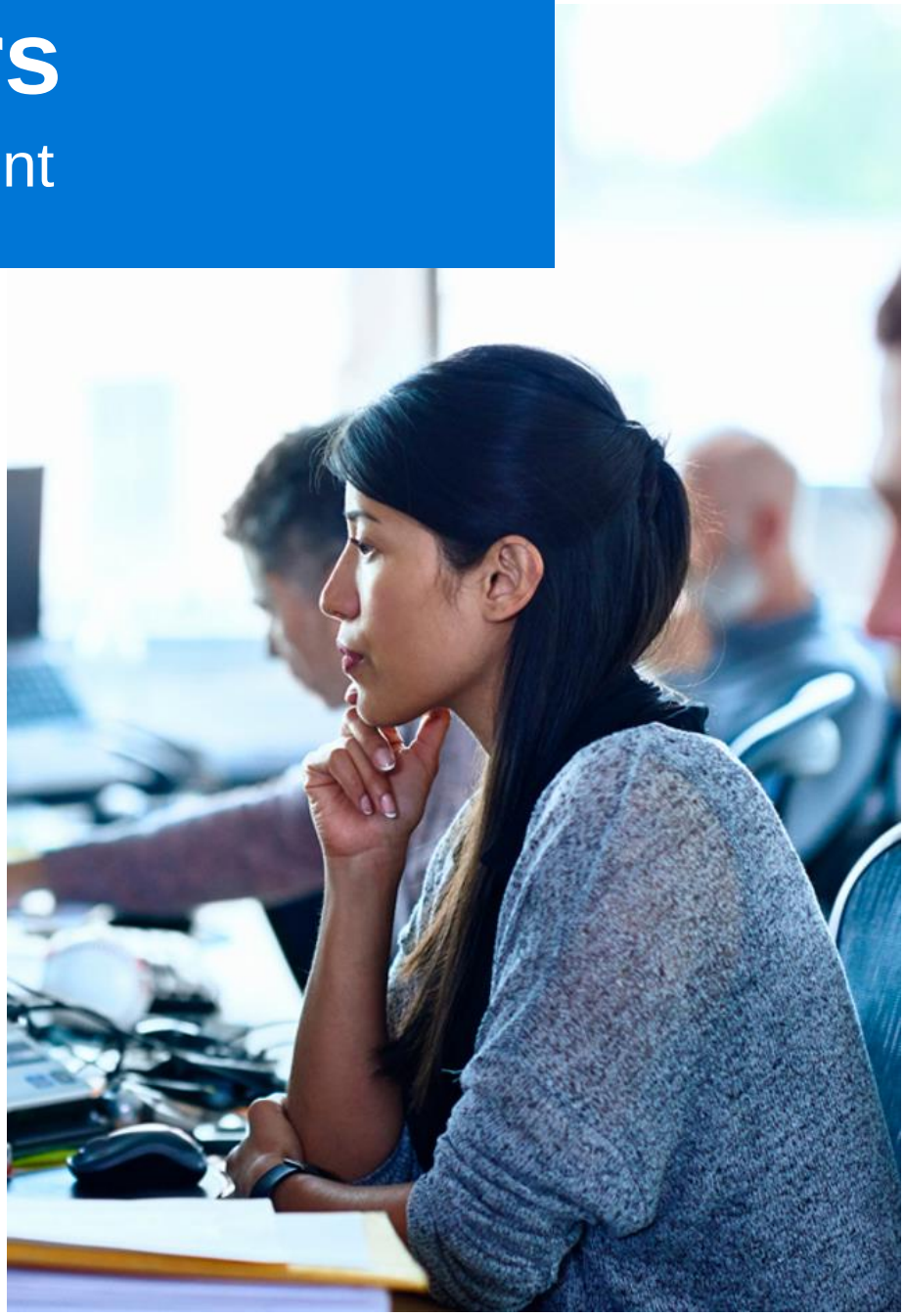
Malaysian Code for Institutional Investors

LGIM Statement



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LGIM's approach to the Malaysian Code for Institutional Investors

"'Stewardship' is investor stewardship from the perspective of a long-term institutional investor in particular asset owners such as pension funds. It includes the responsible management and oversight of assets for the benefit of the institutional investors' ultimate beneficiaries or clients. The discharge of effective stewardship responsibilities would include development of a set of principles/policies, application of the principles/policies, oversight of agents, communications of expectations and reporting to their clients or beneficiaries. These activities also include monitoring and engagement with the investee companies on matters relating to strategy, performance, risk management, voting, corporate governance or sustainability issues."

Malaysian Code for Institutional Investors, Minority Shareholder Watchdog Group, 2014

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. This is mutually beneficial to both parties as it leads to a better understanding of views and expectations, which forms the basis of high-quality decision making and good judgement. As a strong supporter of stewardship codes globally, 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 global financial markets.

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 (directors) appointed to manage the company in the interests of those owners. In addition, voting is a fundamental tool used by investors to signal support for or concern regarding management actions. This mechanism is one of the valuable methods of promoting good corporate governance in the marketplace.

This document sets out the approach to stewardship by Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiary companies that are in the institutional investment and/or asset management business. Any reference to "LGIM" in this document includes LGIM(H) and such subsidiaries.

Principle 1: Disclosing policies on stewardship

Institutional investors should disclose the policies on their stewardship responsibilities.

LGIM's "Global Corporate Governance and Responsible Investment Principles" sets out its expectations of investee companies in terms of corporate governance and other environmental, social and governance (ESG) issues, and outlines how LGIM exercises its voting, engagement and monitoring activities.

Stewardship policies are publicly disclosed and can be found on LGIM's website.

Our commitment to stewardship responsibilities, particularly in relation to the Malaysian Code for Institutional Investors, as well as the UK and Japan Stewardship Codes, is published on the Policies section of the web page above.

Principle 2: Monitoring investee companies

Institutional investors should monitor their investee 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 that the Investment Stewardship team draws from that form the basis of LGIM's monitoring process. These include company disclosure, external corporate governance and ESG networks, proxy voting advisers raising concerns, collaborative engagement with other shareholders, and market news.

We have built an in-house tool that brings together myriad external data points to score issuers based on ESG performance, controversy levels and ESG country exposure. They serve to:

- Highlight key ESG indicators pertinent to each sector
- Help with fundamental analysis of issuers by allowing peer-group comparison on ESG performance
- Drive better integration between Investment Stewardship and the fund management teams

Qualitative analysis is carried out by each fund management team, which will lead to investment and engagement decisions.

Engagement activity is recorded in a dedicated data management system to support the Investment Stewardship team's work. This not only provides a clear audit trail of the engagement process, but also allows LGIM to record successes in effecting positive change. The tracking of engagement outcomes assists in the evaluation of LGIM's stewardship approach and performance.

Principle 3: Engaging investee companies

Institutional investors should engage with investee companies as appropriate.

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

The approach to engagement is to have an open dialogue that is constructive and helpful, and aimed at deepening LGIM's knowledge of investee companies.

LGIM has an established policy based on the escalation of engagement. If constructive engagement fails to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue with our votes and/or assets. 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 engagement effective, as engagement without consequences may be disregarded by companies.

LGIM considers collaboration with other like-minded investment institutions on specific topics to be highly valuable as it can enhance the quality of corporate governance and ESG practices in investee companies. 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 clients.

Principle 4: Managing conflicts of interest

Institutional investors should adopt a robust policy on managing conflicts of interest, and this policy should be publicly disclosed.

There are a number of potential conflicts of interest inherent in the stewardship activity at LGIM. The Investment Stewardship team receives and processes a great deal of “inside”, or price-sensitive, information relating to a company’s activities, such as management succession plans, financing and M&A activity.

While non-price-sensitive knowledge is fluidly shared between the Investment Stewardship team and fund management teams, Chinese walls ensure the independence of the Investment Stewardship team. The Director of Investment Stewardship reports directly to LGIM’s Chief Executive Officer (CEO).

LGIM’s Investment Stewardship Committee meets quarterly and has explicit responsibility to provide oversight in relation to potential conflicts of interests and contentious corporate governance issues. The committee is chaired by an LGIM-independent non-executive director and comprises a further independent non-executive director, the CEO, Chief Investment Officer, the Chief Risk Officer and the Director of Investor Stewardship.

The Conflicts of Interest Committee is a committee of LGIM(H). Its purpose is to provide independent oversight of LGIM(H) firms’ identification, management and disclosure of conflicts of interest and potential conflicts of interest. The committee is chaired by a non-executive director.

Where conflicts are identified outside the Investment Stewardship Committee, the two independent non-executive directors of LGIM(H) are available to the Investment Stewardship team to help decide how a (potential or actual) conflict should be addressed and to oversee this process. This structure ensures that potential conflicts of interest are appropriately managed.

Details of how we manage our potential conflicts can be found here.

Principle 5: Incorporating sustainability considerations

Institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process.

As a major global investor, LGIM has a fundamental interest in ensuring that shareholder value is not eroded by a company's failure to manage its impact on its natural and social environment. At the same time, LGIM believes that a company's value can be enhanced over time by taking advantage of opportunities that arise from identifying efficiency gains in its operations.

While there is no "one-size-fits-all" solution to building a sustainable business model, LGIM looks for the following commitment from investee companies to demonstrate that sustainability is effectively integrated into the company's long-term strategy:

- Identification of material risks
- Linking sustainability to overall business strategy
- Accountability at board level
- Policies to mitigate key risks
- Demonstrative management systems
- Meaningful and challenging targets
- Public disclosure
- Industry and regulation engagement

LGIM is committed to enhancing long-term shareholder value by engaging with companies on a range of issues that are specific to each sector. We look for evidence that companies are operating appropriately within the social and natural environment while maximising opportunities as they develop. We engage directly and through collaborative means with the ultimate objective of helping companies build a more sustainable model, which will be of longer-term benefit to shareholders.

Principle 6: Publishing voting policy

Institutional investors should publish a voting policy.

LGIM has put in place a global custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers to be minimum best-practice standards.

In addition, LGIM has also set specific, custom voting policies at an individual market level for those markets in which LGIM adopts a stricter stance. LGIM's voting policy is developed to reflect the economic, political and cultural differences in corporate governance and other ESG practices. The policy sets out broad principles on board structure, shareholder rights, remuneration, sustainability, audit and risk management.

Voting policies are publicly disclosed and can be found on LGIM's website.

These policies are constantly evolving and are reviewed regularly to ensure that the guidelines are applicable to the changing corporate landscape and specifically address regional differences.

In addition, LGIM discloses country-level aggregate voting records through its annual Active Ownership Report. In addition, clients receive quarterly reports on LGIM's voting and engagement activities.

More granularly, LGIM publishes its voting decisions, including the rationale for each resolution where an instruction has been cast against management. This information is accessible one day after the shareholder meeting, on this web page.

Contact us
For further information on anything you have read in this policy, please contact us at InvestmentStewardship@lgim.com. Please visit our website, where you will also find more information including frequently asked questions.

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