



Legal &  
General

INVESTMENT MANAGEMENT

# 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.

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## Our vision

**“To encourage positive change in the companies and markets in which we invest”**

Last year was a turning point for those who care about environmental, social and governance (ESG) issues.

There was, I believe, a shift in how asset managers approach ESG considerations, which the industry is now taking more seriously. Following high-profile failures in corporate stewardship – such as at Tesla, Carillion, GE and BHS – there is now even greater scrutiny from clients, regulators and governments.

Our objective is to raise the standards of the companies and markets in which we invest on behalf of our clients. It was pleasing to see more of our peers collaborate on some of the important topics which we discuss in this report.

Our eighth annual Active Ownership report outlines our activity over 2018. In interactions with companies and regulators, we continually push for positive change on a broad sweep of areas including sustainability, executive pay, diversity and political lobbying by corporates.

Many of these engagements involved multi-year campaigns on specific issues. For example, we announced our Climate Impact Pledge in 2016, then engaged extensively with companies before publishing a list of climate leaders and laggards last year.

Fresh regulation to move companies and investors towards better ESG practices was another positive move last year. We collaborated with regulators and other investors on these changes – while working with clients to help them adjust to new rules and guidance.

This report goes some way in that regard, by outlining to our clients what we are doing on their behalf in areas where action is required. Through the detailed case studies and voting records, we also hold ourselves to account for what we previously said we would do.

Looking ahead, we will continue to expand our Corporate Governance team, already one of the largest in the industry. There has been a hire in North America, and we will soon announce hires in Asia who will help meet the needs of our clients in the region. We are also working more closely with LGIM’s investment teams, to enable us to impact global markets even further.

I hope you find the report informative and stimulating. I thank the team for their expert knowledge, hard work and passion, which has been fundamental to our external recognition and ongoing success.

As ever, we welcome any feedback you may have, as this helps us to adapt and deliver the information you want in the way you wish to receive it.

Sacha Sadan  
 Director of Corporate Governance  
 Legal & General Investment Management (LGIM)


## 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**

**11,000**  
companies  
assessed under  
LGIM's ESG  
score

\* 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.



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



## Q&A

with Sacha Sadan, Director of Corporate Governance

### What was the highlight of 2018 for the team?

After three and a half years of planning and analysis, in June we unveiled the first company rankings under our Climate Impact Pledge. This was a huge team effort.

The initiative was well received by clients and our other stakeholders, but we were unsure how those companies we criticised would take it – because in addition to ‘faming’ the leaders who are addressing the challenge of climate change, we also named the laggards.

We couldn’t have had a better reaction: eight out of the eight have now responded to our areas of concern. I’m now optimistic that when we announce the leaders and laggards again in 2019, the list will look different.

The point here is that we are facing a **climate catastrophe**. More and more people are realising this, especially as we have seen further evidence that the effects of climate change will soon be irreversible. This will affect economies, politics and, as a result, our clients’ assets all around the world. We all need to move faster.

### What issues did clients raise most in meetings?

The first thing they tend to ask is: “What will it cost us to do ESG?”

Our response is to highlight the risks of not doing it, as some ESG issues are financially material. Responsible investment strategies can help to mitigate risks in these areas – and should not require a trade-off with performance.

Another issue is shareholder rights. Clients are increasingly worried about their rights as small investors – that big corporations and governments aren’t taking their economic interests into account.

SNAP is a good example. The photo-messaging company said: “I want you to buy our shares but I won’t give you any votes”. We will continue to push back against such behaviour, working with other investors, index providers and regulators.

### How is the increasing amount of regulation around ESG considerations affecting the team’s work?

Many of our clients are asking us how they can properly articulate their responsible investment beliefs – and demonstrate that they are applying them. Our work, which includes assisting in the development of ESG-related funds, is helping our clients to meet this regulatory objective.

Regulation can be our friend. It makes us a bit like consultants: we are outlining the range of options available to clients. I say to them, if you want to be responsible investors, then issues like transparency, diversity and climate change matter. And the first thing they can do is challenge their asset manager on whether or not they are truly integrating the principles of responsible investment.

### Why have you focused on executive pensions this year?

As the levels of salaries and bonuses have previously been in the spotlight, we have seen companies seek to use pensions as a way of increasing overall executive compensation.

The reason to have competitive compensation is to incentivise people to achieve certain objectives. For an entire firm to succeed, it needs the workforce to be unified in meeting its strategic aims.

It's becoming much more important to people to be proud of the business they work for - and having a decent pension is a top priority for employees. Absolute salaries do vary, but why should pension percentages be materially different between the top and bottom of an organisation? We believe a misaligned approach to remuneration will ultimately hurt company performance and reputation. How can it be right for executives to be on 40% pension contributions and the rest of the employees on 10%? I think the simple option is to keep it consistent.

We are collaborating with the Investment Association in the UK, which is also focusing on pensions during 2019's AGM season.

### How do you press companies to become more diverse, when 'diversity' increasingly means different things to different people?

We emphasise diversity of thought. The technological and regulatory challenges businesses face globally mean that having different points of view and skills, and being open to challenge and debate has never been more important. This has to be the way to succeed over the long term.

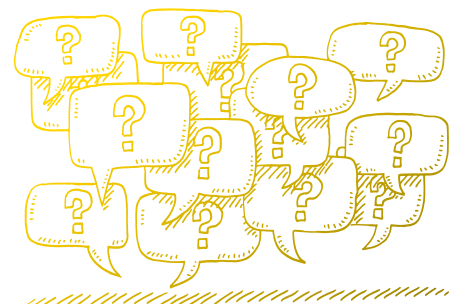
It's up to the companies themselves to work out how to achieve this. Gender is part of the picture, but there are many other aspects, too.

At the top of an organisation, we are pushing for companies to set up advisory committees, which offer external views on key issues. You can't know everything on your board – so anything to reduce and challenge groupthink must help our companies perform better.

### Are there any other key trends you would like to highlight?

As it is elsewhere, the significance of data is growing in terms of ESG. The amount and quality of data is increasing rapidly. Our ESG scores for companies, and the metrics on which they are based, power our work in new and innovative ways. They represent powerful ways to aggregate and compare the data companies put out.

It's very exciting to see new methods to obtain data companies may not disclose – for example, using satellite imagery. Finding out information on, say, the usage of a mine, power plant or why so many people leave a firm enables us to cite more evidence when we engage with companies. Equally important is that boards can also use this data to challenge management issues such as significant capital allocation decisions.



# Sustainability

Protecting our clients' investments from climate risks

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

## 2018 in review

Climate change carries significant financial risks, so protecting the planet and protecting our clients' investments go hand-in-hand. And a spate of incidents, from wildfires in the US to drought in the UK, reminded the world last year that the threat is growing.

A report from the UN painted a far darker picture of the consequences of climate change than previously thought, warning that the world economy needs to be transformed at a speed and scale with "no documented historic precedent" to avoid the damage<sup>1</sup>. The window of opportunity is shrinking, with only a dozen years remaining for global warming to be kept at a maximum of 1.5°C<sup>2</sup>.

But 2018 also saw increased efforts from policy makers, consumers and companies to address the challenge.

The UN and EU made progress on implementing the Paris Accord to limit the rise in temperatures. There was a global clampdown on single-use plastic around the world. Meanwhile, clean technology made further progress, with new power capacity overwhelmingly coming from renewable sources.

At the same time, electric vehicles appear set to become cheaper to own and drive than their gas-

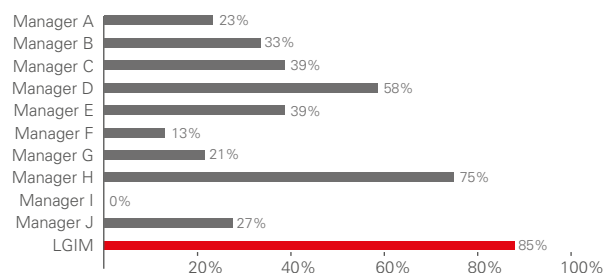
guzzling counterparts<sup>3</sup>, while governments such as Germany have announced plans to phase out the use of coal<sup>4</sup>.

## Managing climate risks

We believe an essential part of our fiduciary duty involves the management of climate risks. To do so, we work with companies, clients and regulators because climate change is a systemic issue that requires a system-wide response.

This involves using the weight of our assets to substantiate our position. Looking at key shareholder proposals in the US, for example, a report found that last year LGIM supported more shareholder resolutions on climate change than any of the world's 10 largest asset managers<sup>5</sup>.

## Level of support for resolutions on climate change reporting



Source: Climate 50/50 Project



‘We trust in the power of constructive engagement, but also take action when we believe insufficient progress poses an investment risk to our clients.’

We have also been developing investment solutions to support the growth of the low-carbon economy, a strategic priority of L&G Group<sup>6</sup>. We believe this represents a significant investment opportunity: globally, the green economy is around the size of the oil and gas industry<sup>7</sup>.

The energy transition will also disrupt many sectors. Through our Climate Impact Pledge, we have been putting pressure on some of the world’s largest companies to help accelerate this transition. We trust in the power of constructive engagement, but also take action when we believe insufficient progress poses an investment risk to our clients.



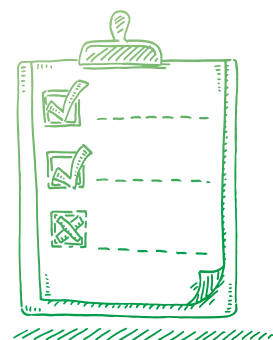
### Climate leaders and laggards

Under the Pledge, LGIM committed to ‘name and fame’ companies. In June 2018, we released our first annual ranking, to a positive response from clients and broad media coverage.

We highlighted companies taking positive steps, such as:

- The board of **Toyota** endorsing the 2°C target of the Paris Agreement. The company also plans to make all its cars available as either electric or hybrid models by 2025
- **Wells Fargo**, the US bank, pledging to invest \$200 billion in climate action and sustainability by 2030
- Australia’s **Commonwealth Bank** committing to phase out its lending to coal plants
- Oil and gas major **Total** planning to adopt a 2°C scenario at the centre of its strategy, an important step in alignment with the Paris Agreement

A number of companies, however, either did not respond to our requests for engagement or only showed superficial signs of improvement – if any at all.



Therefore, we voted against several company chairs, and no longer hold the following companies within certain funds: **China Construction Bank, Dominion Energy, Japan Post Holdings, Loblaw Companies, Occidental Petroleum, Rosneft Oil, Subaru** and **Sysco Corp.**

Our action prompted each of these eight companies to get in touch and ask what they need to do in order to be reinstated in the funds. We believe this highlights the power of our approach to engagement.

Throughout the year, we saw positive outcomes as a result of our broader engagement with companies and collaboration with other investors.

**Company name:** Royal Dutch Shell plc

**Sector:** Oil and Gas

**Market cap:** £193bn\*

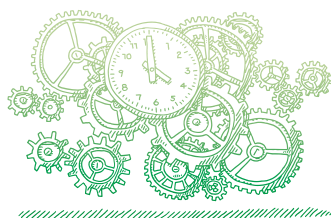
<b>What was the issue?</b>	Up to two-thirds of the world’s fossil fuels cannot be burned if the world is to avoid catastrophic climate change <sup>9</sup> .
<b>What did LGIM do?</b>	In the past, the company had announced an ‘ambition’ to reduce its carbon emissions, but was opposed to any binding targets. In May, we coordinated an open letter signed by 60 institutional investors <sup>10</sup> calling on the oil and gas industry to take responsibility for its emissions. Since then, we met the company eight times, joining forces with other investors in the Climate Action 100+ coalition <sup>11</sup> to encourage Shell to clarify its plans.
<b>What was the outcome?</b>	Shell announced in December 2018 the introduction of comprehensive emission targets, linked to executive pay. An industry-leading move, the targets will include not just emissions from Shell’s operations, but also from the burning of its oil and gas products, by far the largest contributor to the company’s carbon footprint.  As a result, the targets encourage Shell to prepare for a world where the use of its main products eventually begins to decline.

\*All market cap data sourced from Refinitiv, as at 1/3/2019



**Company name:** Whitbread plc**Sector:** Travel and Leisure**Market cap:** £8.8bn

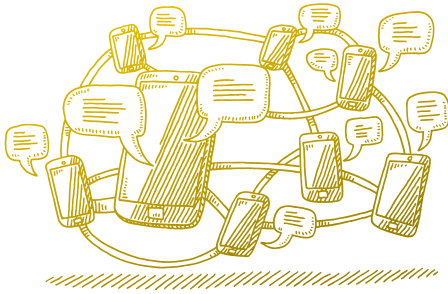
<b>What was the issue?</b>	The UK uses 2.5 billion disposable coffee cups every year <sup>12</sup> , but recycles just one in 400 <sup>13</sup> . As viewers of the BBC's Blue Planet series will have been vividly shown, such plastic pollution has a significant environmental impact, particularly on our seas and oceans.
<b>What did LGIM do?</b>	Costa Coffee is one of the largest coffee chains in the UK. We have raised the issue of single-use cups with the company's then owner, Whitbread plc, during our regular meetings with the board chair <sup>14</sup> over many years.
<b>What was the outcome?</b>	In April 2018, Costa Coffee announced it would recycle the same volume of takeaway cups that its customers used by 2020. Agreeing to pay a supplement to waste collectors for every tonne of cups collected, the company estimates that half a billion cups a year <sup>15</sup> should be recycled as a result.



At the same time, we recognise that some companies run the risk of lagging behind. The climate-related bankruptcy of California's PG&E<sup>16</sup> was a reminder to investors that utilities are some of the first companies to feel the disruptive financial impacts of the energy transition.

**Company name:** Energa SA and Enea SA**Sector:** Utilities**Market cap:** Energa: PLN 4.05bn; Enea: PLN 4.4bn

<b>What was the issue?</b>	Burning coal to generate electricity is a major driver of climate change and has severe impacts on human health. In Europe, it is estimated that just 10 companies were responsible for an estimated two-thirds of the health damage caused by coal in 2016 <sup>17</sup> .  One of these companies is state-run utility Enea which, alongside Energa SA, announced joint plans to build a large new coal power station at Ostroleka C in Poland.
<b>Why is it an issue?</b>	The project is yet to secure the estimated €1.7 billion needed to be profitable <sup>18</sup> . It faces pressure from tightening EU regulations and cleaner, cheaper technologies.  Building the plant poses a financial risk for our clients and other shareholders.
<b>What did LGIM do?</b>	LGIM opposed the proposal to build the plant, when it was put to a vote at Enea's extraordinary general meeting in September 2018.  We then coordinated a private letter to the two Polish utilities, signed by four other major institutional investors.  Even as their main competitors pivot towards renewables, the two utilities remain committed to the coal project. We therefore decided to speak out publicly about its environmental and financial risks, receiving press coverage from major news agencies <sup>19</sup> .
<b>What was the outcome?</b>	An environmental group has since launched a lawsuit against Enea. Citing LGIM's concerns, the group claims the utility's directors are failing in their duty to manage climate-related financial risks. We will continue to monitor the situation.



### Working with clients

Our clients often ask what they can do to address climate change. To help them answer this, LGIM co-authored a guide for pension scheme trustees and the boards of asset owner organisations, published by the Institutional Investors Group on Climate Change (IIGCC).

Some of the issues we discuss in the guide include:

- The link between climate change and **fiduciary duty**<sup>20</sup>
- How climate risk relates to asset allocation
- Carbon footprinting and climate scenario analysis

Read more: Addressing climate risks and opportunities in the investment process<sup>21</sup>.



### Raising market standards

In order to rank climate leaders and laggards, we had to conduct significant research, often relying on private data providers. Yet smaller firms – or individual investors – may lack the resources or capabilities to conduct such research. To better allocate capital, markets need more – and better – climate information from companies to be public. This is why we have supported the Taskforce on Climate-related Financial Disclosures (TCFD), which has established clear guidelines for reporting.

In our public policy advocacy, we have asked three of the UK's financial regulators – the Financial Conduct Authority (FCA), Financial Reporting Council (FRC) and the Prudential Regulation Authority (PRA) – to enshrine these guidelines in regulation.



Together with our parent company, Legal & General, we prepared reports in line with TCFD guidelines, published in Q1 2019.

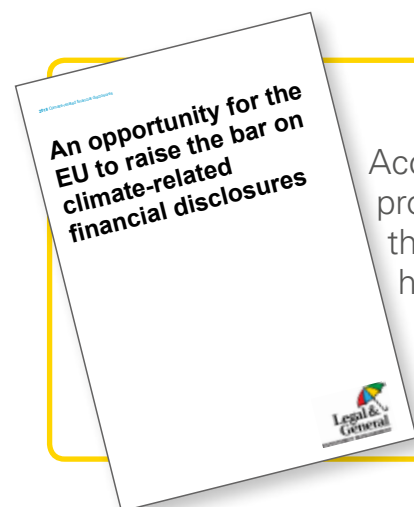
LGIM's TCFD report can be accessed online here<sup>22</sup>.



In separate consultations to the FCA, PRA and the EU, we have also suggested steps investors can take to respond to climate change and help finance the green economy.

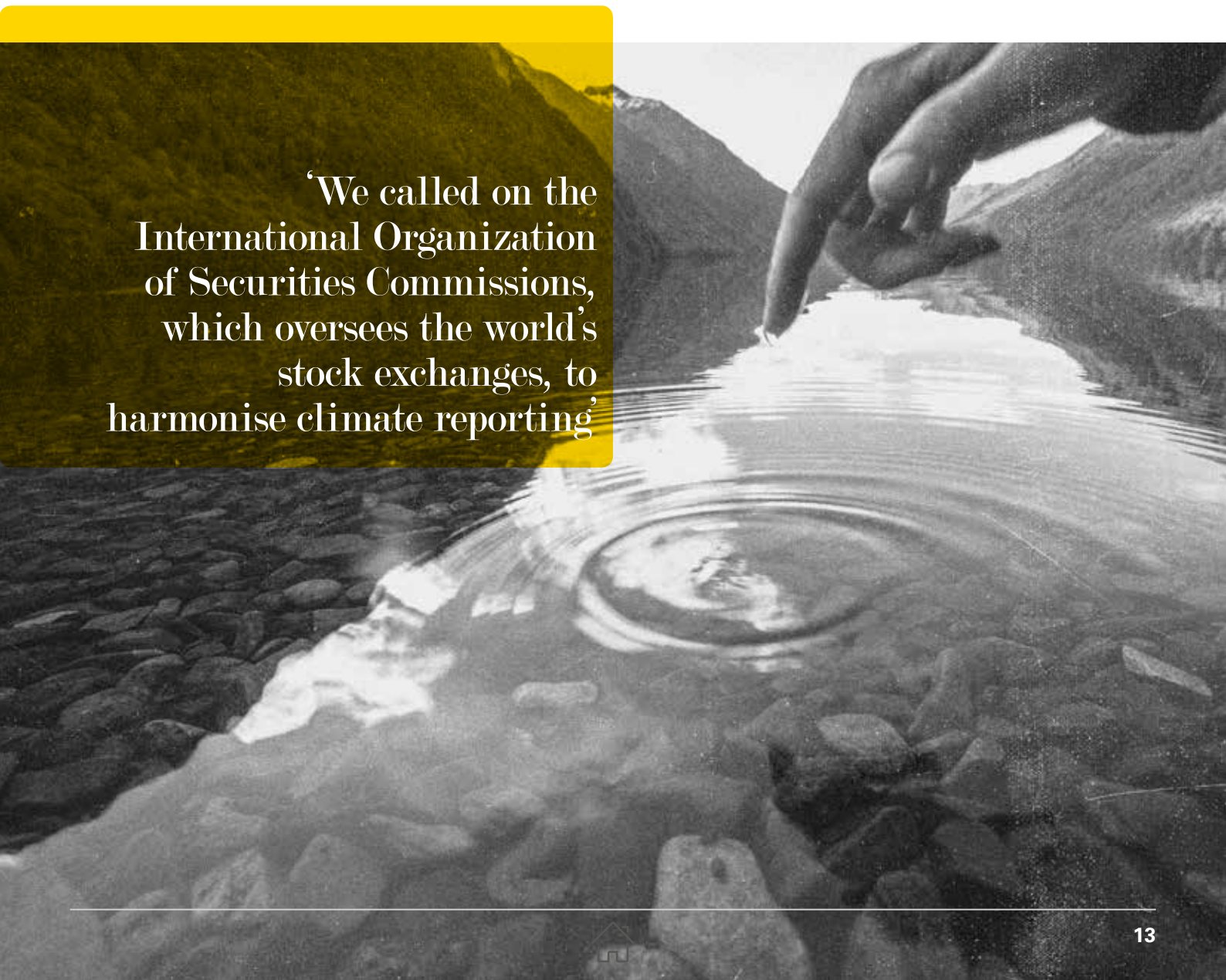
In August, we called on the International Organization of Securities Commissions, which oversees the world's stock exchanges, to harmonise climate reporting. IOSCO responded by outlining the importance of ESG disclosures<sup>23</sup>.

**LGIM backs call for IOSCO to foster harmonised climate risk reporting<sup>24</sup>**



Access our proposal to the EU online here<sup>25</sup>.

**'We called on the International Organization of Securities Commissions, which oversees the world's stock exchanges, to harmonise climate reporting'**





# Lobbying

Pushing for transparency on efforts to sway policy

- LGIM was a top supporter of resolutions in the US calling on companies to report on their political spending
- We resisted efforts by European energy, mining and transportation companies to lobby against policy action on climate change

If companies lobby officials, we expect them to explain how and why they do so – especially if this involves spending investors’ money. We have continued to engage with companies, and use our voting rights, to shed light on this practise.

In 2018, an independent report found LGIM was a top supporter of key resolutions in the US calling on companies to report on their political spending<sup>26</sup>.

We have also sought to ensure that companies’ public positions are not contradicted by behind-the-scenes lobbying, carried out via trade associations and industry bodies.

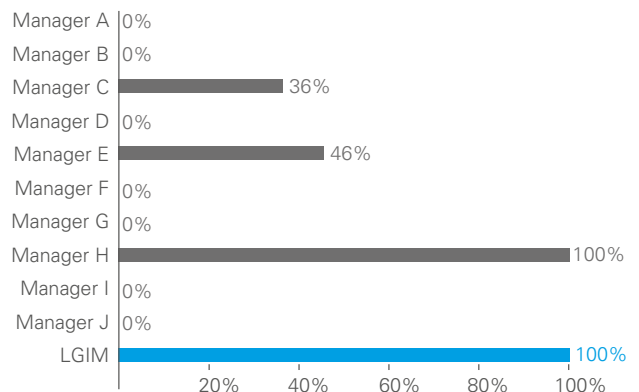
In October 2018, LGIM and a coalition of other investors wrote to 55 European energy, mining and transportation companies, following a news leak that a large trade body was planning to oppose greater EU policy action on climate change. We said lobbying that undermines the goals of the Paris Agreement represents financial risks to companies and their investors<sup>27</sup>.

In a welcome move, following engagement by LGIM alongside industry peers in 2018, one of these companies, Royal Dutch Shell, agreed to review and report on its membership of trade associations. For more details on Shell see page 15.



LGIM frequently responds to consultations on public policy. You can find many of our responses here<sup>28</sup>.

### Level of support for resolutions on political influence disclosure



Source: Climate 50/50 Project



In addition, as part of our Climate Impact Pledge, we use data on lobbying from data provider InfluenceMap, to ensure the companies in which we invest are aligned with us when pushing for regulations that help to build a low-carbon economy.

**Company name:** Rio Tinto

**Sector:** Mining

**Market cap:** £74bn

<b>What was the issue?</b>	<p>At the company's AGM in Australia, a shareholder resolution was put forward requesting the company to review and disclose the public policy advocacy on climate change conducted via its industry associations.</p> <p>But, as a dual-listed company, the company failed to put forward the resolution at the AGM it held in the UK, thus treating shareholders unequally.</p>
<b>What did LGIM do?</b>	<p>We requested to see a detailed public clarification of the differing positions on climate and energy policy between Rio and linked associations or industry bodies. We therefore supported the shareholder resolution in Australia.</p> <p>At the UK AGM, LGIM voted against the annual report and accounts due to the shareholder resolution not being put on the agenda. This was a strong signal about the importance of climate change and of treating all shareholders equally.</p>
<b>What was the outcome?</b>	<p>The resolution was supported by 18.3% of shareholders in Australia. Although the resolution did not pass, LGIM held a follow-up call with the company on the subject. We are looking forward to seeing better disclosure from the company in the future.</p>

**Group name:** 42 companies in the National Association of Manufacturers (NAM)

<b>What was the issue?</b>	<p>The NAM, a US trade body is attempting to limit shareholders' ability to file proposals, particularly in relation to climate change. It argues that such resolutions are politically motivated and may negatively affect the companies.</p> <p>This is clearly at odds with the policies and experiences of many of its members, which understand the business case for addressing climate change.</p>
<b>What did LGIM do?</b>	<p>LGIM, alongside a group of international stakeholders, co-signed a letter to 42 North American companies that are members of the NAM. We asked whether the companies agree with the views of the NAM, and, if not, whether they would make this known to their investors.</p>
<b>What was the outcome?</b>	<p>We are awaiting responses, and will raise this issue in future engagements.</p>



# Diversity

Promoting diversity of thought to foster long-term success

- 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

Diversity of thought is crucial for the long-term success of the businesses in which we invest on behalf of our clients. We believe that creating gender-balanced teams, in particular, is a strategic and economic imperative.

There was much to celebrate regarding diversity in 2018, the centenary of women being first granted the right to vote in the UK. On average, women made up more than 30% of FTSE 100 boards for the first time, and gender pay gap reporting became mandatory in the UK.

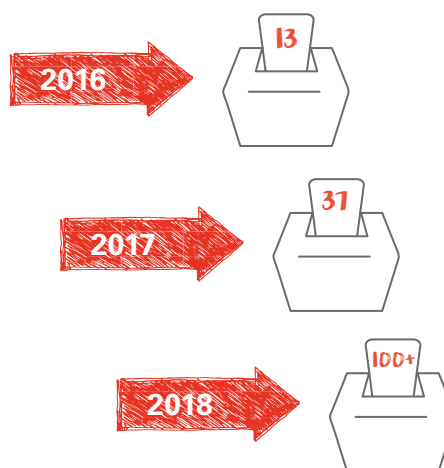
Regulators at the FRC focused on the reporting of diversity by UK companies. And the Hampton-Alexander Review reported progress towards women making up a significant proportion of senior leadership teams (alongside weak excuses by companies for their failure to act).

We echo the comments made by the review, in its third annual report, that achieving real change requires committed leadership at the top and sustained effort to shift mindsets and correct hidden biases. Over the course of the year, LGIM pushed to make this happen.

## Votes and scores

In 2018 we placed our largest number of votes against UK chairs on the issue of gender diversity to date – over 100 in total.

## Votes against UK chairs due to gender diversity



*"Many investors now see gender diversity as a core and critical business issue for boards and their leadership teams to address and are actively monitoring their holdings. However, few investors have been as consistent or as active as LGIM in holding business leaders to account on diversity and helping to drive progress. They have led the way for many years and their approach continues to set a fine example to industry peers."*

Denise P Wilson OBE, Chief Executive, Hampton-Alexander Review





Diversity on boards is not a UK market phenomenon alone. Since 2017, we have been voting against all-male boards of S&P 500 companies; last year, we included Russell 3000 constituents and also began to vote on the issue globally.

In addition, from 2020, we will start to vote against the largest 100 companies in the S&P 500 and S&P/TSX - two major indices in US and Canada - where there are less than 25% women on the board.

We believe our actions are having an impact. The number of all-male, FTSE 250 boards dropped to an all-time low of five at the end of 2018 (at the time of writing this has slipped further yet to only two).

The percentage of women on Russell 3000 boards has increased for four straight quarters; however, 504 boards still remain with no female directors, according to Equilar.

Last year we also released our diversity scores, which we use to rank around 350 of the largest UK companies according to their levels of gender diversity. The LGIM Gender Diversity Score takes into account the percentage of women on a company's board, in the executive team, in senior management and in the overall workforce.

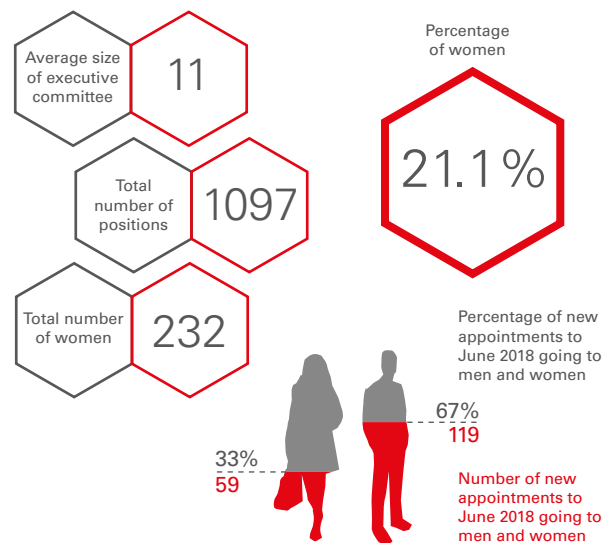
In order to be fully transparent, and help in our engagements with companies on the issue of diversity, we published the scores on our website.

We also used the scores to launch the first gender-oriented fund to focus exclusively on UK listed companies.

### Targets, not quotas

Much still remains to be done. In the UK, data suggest that companies may find it easier to appoint women as non-executive directors from outside their organisations, than to promote women internally to the executive level.

### FTSE 100 Executive Committee



Source: Hampton-Alexander Review

Due to the imposition of quotas, several European markets have made good progress promoting gender diversity at the board level; for example, France, Germany and Sweden. But gender diversity at the executive level in these countries is still extremely low.

This suggests that board-level quotas may lead to tokenism, without an effective commitment to the pipeline of women executives, which is one of the reasons why LGIM has not supported quotas for the UK. Rather, we push for companies to adopt aspirational targets, to ensure progress is maintained.

Another emerging trend is that the board tenures of women tend to be shorter than those of men, whether in a non-executive or executive role. We still lack a definitive answer to why this is the case. Nonetheless, companies should certainly consider the skills of their board chairs more closely, in order to ensure they are able to manage more diverse boards effectively.



## Listening to stakeholders

Responding to the priorities of our clients and other stakeholders

- Following feedback, we have strengthened our policies on female representation at board level, executive pay and 'over-boarding'
- LGIM now announces some of its voting intentions ahead of key company meetings to help build momentum





Our engagement and voting policies are, by necessity, in a state of continuous development. For this reason, we have committed to invite stakeholders regularly to comment on our policies and share their views on areas of priority.

In 2018, we implemented a series of changes based on feedback gathered at such roundtables, held in the previous twelve months. Attendees shared views and advised on a range of topics, including diversity, remuneration, climate change and ‘over-boarding’, whereby directors hold too many roles. As a result, in 2018 we strengthened our policies to vote automatically against:

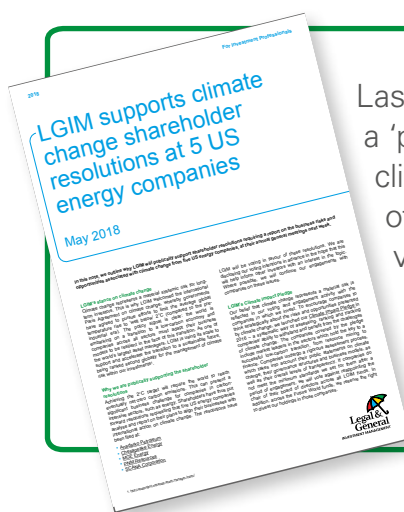
- UK companies with less than 25% female representation at board level, and companies globally with no women on their boards
- The remuneration report and/or policy in the event executive bonuses or pay increases are above what is offered to the workforce, without valid reason
- Over-boarded directors, defined as those who hold more than five simultaneous directorships

In response to stakeholder feedback, we also took steps to ensure LGIM is leveraging its voice as an institutional investor effectively and consistently on climate change. One of the suggestions we received, and subsequently acted on, was to declare our intentions ahead of key votes to help coordinate investor action.

Last year, we released a ‘pre-declaration’ to clients and the market of our intention to vote in support of a climate lobbying resolution at Rio Tinto’s Australian AGM (detailed on page 20). Other examples where we publicly declared our support for resolutions included votes at meetings held by Chesapeake Energy, Anadarko Petroleum, PNM Resources and Unilever.

For the second consecutive year, in November we invited a broad group of stakeholders to a roundtable, including clients; fellow investors; and individuals from civil society, academia and the private sector. The discussion centred on how investors can make the most effective contribution on a broad range of topics, such as income inequality, audit reform, global health challenges and the UN’s Sustainable Development Goals.

The views expressed by attendees during this event will form a key consideration as we continue to develop our voting and engagement policies, and define strategic priorities in the years ahead.



Last year, we released a ‘pre-declaration’ to clients and the market of our intention to vote in support of climate resolutions at US energy companies.



# Working with clients

Helping our clients adapt to a shifting regulatory landscape

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

In 2018, the Corporate Governance team held a record number of meetings with clients on a wide range of topics, from educational sessions on responsible investing to discussing new ways to embed ESG factors within an index portfolio.

We discussed ways for them to prepare for new regulations, as well as how to assess LGIM and their other asset managers on how ESG considerations are integrated at a firm level and within their investment strategies.

For many of our clients, there is awareness of their exposure to macro ESG risks, such as climate change, which have the potential to impact markets globally – particularly over the decades-long time horizons of pension schemes. As a result, we have been helping them to evaluate their exposure to these risks and take early action in order to mitigate the risks, and potentially capture the opportunities, they present.

We helped large and sophisticated global pension funds structure their investment beliefs and policies on responsible investment and put in place new voting policies. We also worked with smaller clients, supporting them in integrating ESG considerations within a limited governance budget.

We have noted the increasing interest in company-level voting and engagements; we continue to work with our clients to support them in meeting their reporting requirements.

One of the notable increases in client enquiries is from individual defined contribution pension scheme members, who would like to know where they are invested and whether their holdings expose them to environmental and social risks – sometimes naming specific companies.

### Helping clients meet their obligations

In 2018, new regulations from the Department of Work and Pensions (DWP) were introduced in the UK, calling on pension scheme trustees to review and update their policies on financially material considerations and stewardship.

We were pleased to see many of our suggestions, submitted as part of the prior DWP consultation, reflected in the final regulations. Importantly, the government recognises that ESG considerations can be material to investments and should not be seen as ‘to do with personal ethics, or optional extras’.

To help clients meet their obligations, LGIM has produced a guide to the role of ESG factors for pension fund trustees – available online [here](#)<sup>29</sup>.




As a result, we have continued to evolve our reporting for clients, increasing transparency and offering data on our ESG scores; carbon footprinting; monthly voting records and voting rationales; engagement successes; and responses to consultations. Much of this information is available on our website.

It is also worth noting that we seek to represent all clients in our voting, engagement and advocacy in

order to safeguard and enhance our clients' asset values over the long term. Moreover, we speak with one voice across our index and active portfolios.

Our approach enables us to foster positive change within companies on the ESG factors that we believe to be most significant for long-term investors across a broad range of sectors, geographies and business activities.



**'We seek to represent all clients in our voting, engagement and advocacy in order to safeguard and enhance our clients' asset values over the long term.'**



# Audit

Improving the quality of corporate reporting

- LGIM voted against a record number of companies in 2018 due to audit-related concerns
- We participated in the Kingman Review of the FRC and the CMA review of the audit market

Accurate and reliable financial statements are the bedrock of investment decision-making and effective corporate governance. It is the role of auditors to assure investors that these statements present a “true and fair” view of a company’s performance and position.

But we continue to have concerns regarding the quality, independence and regulation of auditors, which we have sought to address through public policy consultations and our voting policies.

In 2018, our trust in auditors was further shaken by a series of accounting scandals afflicting a number of high-profile companies, including conglomerate General Electric, construction firm Carillion and retailer Steinhoff.

## Consultations

### [Kingman Review of the Financial Reporting Council \(FRC\)](#)

In April, the UK’s Business Secretary requested an independent review of the FRC, which regulates auditors.

LGIM submitted a response to the ensuing consultation, advocating major reforms to promote reliable financial reporting. Our proposals included strengthening existing regulation or setting up a new, independent body with expanded powers to regulate both companies and auditors. We view a stronger regulator as critical to helping restore public trust in the financial system; ensuring the effective functioning of UK capital markets; and safeguarding the UK’s position as a leading financial and commercial hub.

The review, which was led by Sir John Kingman, Chairman of Legal & General Plc, issued its recommendations in December. We were pleased to see that its proposals included replacing the FRC with a new independent regulator with clear statutory powers and objectives – the Audit, Reporting and Governance Authority.

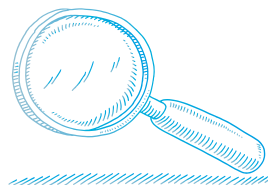
We will monitor the regulatory landscape as the new regulator is established and provide feedback on its function.

### [CMA review of the audit market](#)

Following our response to a previous consultation in 2014 in which we called for mandatory auditor rotation, we also responded to the Competition Market Authority’s (CMA) recent consultation as part of its review of the audit market.

We proposed a number of solutions, such as the operational separation of the assurance side of an audit firm from the rest of its advisory services; strengthening the role of audit committees to hold auditors to account for the quality of work they undertake; and realigning the remuneration structure of audit partners to audit quality over the longer term. A copy of our submission can be found [here](#).

In December, the CMA published its interim report, taking into account some of our main recommendations.

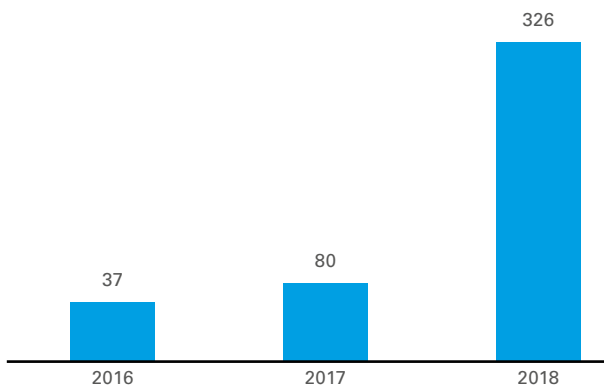


**Voting**

In 2018, we strengthened our global voting policy in relation to excessive non-audit fees paid to auditors. The extent to which auditors conduct non-audit work, such as consulting and IT support, for audit clients is an important proxy for their independence. This is because auditors should not audit their own work, and the higher margins available on non-audit activities may impact their willingness to negatively mark the accounts.

We also addressed auditor independence through a strengthened application of our audit tenure policy, by shortening term limits. We now expect companies to rotate their auditor at least every 20 years. As a result, we recorded a record number of votes against companies in 2018 due to audit-related concerns.

Number of companies we voted against over audit-related resolutions – globally



Source: LGIM

**Case study: Victrex**

After Carillion collapsed in January 2018, regulators began to investigate audits of the company, focusing on whether the performance of major contracts had been appropriately reported in its financial statements. We believe the Chair of the Audit Committee failed in his duties to watch over the financial health of the company.

We noted that this director was serving in the very same role at UK polymer maker Victrex, and was up for re-election. Though the company disagreed, we believed this would have been unacceptable in light of recent events. Along with other investors, we made it clear to the board that we expected the director to step down. A few days later, before the vote was due, the director offered his resignation. He has now left the company.





# Board effectiveness

Engaging on board composition to strengthen corporate governance

- LGIM conducted engagement campaigns in Europe on the separation of chair and CEO roles, and the appointment of a Lead Independent Director (LID)
- The majority of our votes against directors in Japan and the Asia Pacific region were on board independence; we also increased our votes against UK directors on this issue

We continued to engage last year on board composition, discussing the topic at 104 of our meetings with companies globally. We also took a stronger stance on the issue through voting and in our work with regulators.

In Europe, we launched two engagement campaigns aimed at strengthening the boards of 43 of the region's largest companies. We will always aim for constructive dialogue, but the absence of action may result in us sanctioning companies through our votes.

### 1) Separation of chair-CEO powers

LGIM believes that the two positions of board chair and CEO should be separated, as the perceived advantages of concentrating power in the hands of a single individual do not outweigh the risks posed by such a structure.

Separate chair and CEO positions provide a balance of authority and responsibility that is in both the company's and investors' best interests, in our view.

We have expressed our concerns to companies that combine the roles of board chair and CEO for many years. While markets vary, we note France and Spain have high numbers of combined chair and CEO roles.

We are currently engaging with 14 of the largest companies in France and three of the largest in Spain, to encourage their boards to split the two roles when putting in place a new succession plan.



For more details on our stance, please consult our Board Guide online here<sup>30</sup>.





**Case study: Renault**

The arrest in November 2018 of Renault’s joint chair and CEO, Carlos Ghosn, provided an illustration of some of the risks associated with combining the two functions.

LGIM has been engaging with the French carmaker for many years on the issue, formally asking the company to split the roles by letter in May 2017 and again in September 2018. In addition, we met with Renault twice last year, pressing the company on the subject and calling for succession planning to be conducted well in advance of Ghosn stepping down.

In November 2018, Ghosn was arrested in Japan and indicted for financial misconduct, including allegedly understating his pay at Nissan. Following his arrest, Nissan and Mitsubishi removed Mr Ghosn as board chair. In January 2019, Mr Ghosn resigned from his position at Renault; the board of company subsequently decided to split the roles of chair and CEO.

**The issue is not limited to Europe...**

The separation of functions is a global issue. We have, for instance, been engaging for many years on the topic with North American companies and also using our voting powers:

- We **voted against** the management of **16** North American companies with a combined chair and CEO and no Lead Independent Director
- We **opposed** the election or re-election of **30** directors of North American boards who decided to combine the functions of chair and CEO
- We **supported 41** shareholder resolutions to put in place an independent board chair

Encouragingly, companies increasingly recognise the benefits of separating the two functions: in 2008 just 39% of US boards split the roles, versus 51%<sup>31</sup> in 2017.

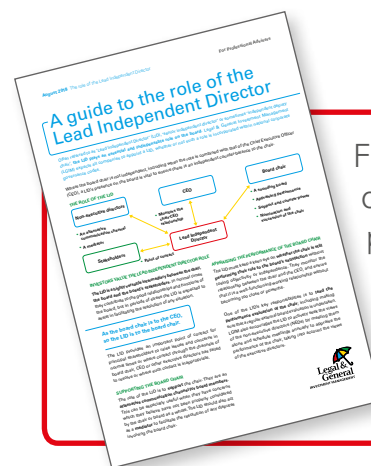
**2) Appointing a Lead Independent Director**

We believe LIDs are indispensable to well-run boards, as they play a key role in supporting the chair, against whom they also represent a counterweight. But their presence on boards is not established in all markets.

In France, while it is common practice to see a LID on the board, this almost always happens where there is also a combined chair and CEO.

We are currently discussing the benefits of appointing a LID with eight of France’s 40 largest companies. In our response to a 2018 consultation, we asked the bodies responsible for drafting the French Governance Code to consider raising the profile of the LID.

In Germany, it is common to see the presence of a deputy chair who is an employee representative – and, as such, not independent. We are engaging with 18 of Germany’s 30 largest companies, to explain to them why we believe the roles of the deputy chair and the LID are different and designed to be complementary.



For more details on LGIM’s position, please consult our Board Guide online here<sup>32</sup>.

A summary of our position was also published in the Harvard Law School Forum on Corporate Governance and Financial Regulation<sup>33</sup>.

As part of a consultation in December, LGIM formally requested that the German Corporate Governance Code recommend the appointment of a LID to company boards.

**A closer look at the data**

In 2018, we strengthened our voting policies, introducing minimum standards applicable to all companies globally. This led us to oppose 3,864 directors globally in 2018, compared to 2,807 directors in 2017. The issues of board independence and over-boarding triggered the most votes against directors.

**Board independence:**

We opposed a total of **164** directors in the **UK** because of independence concerns, compared to **94** in 2017. This represents **34%** of our total votes against directors in the UK

**91%** of our votes against directors in **Japan** were due to board independence issues, compared to **66%** in 2017

**Over-boarding:**

We opposed **337** directors of **North American** companies due to over-boarding concerns; this represents **31%** of our total votes against directors in the region, a similar proportion to 2017





Board independence also represented **70%** of our votes against directors in the **Asia-Pacific** region, including Australia

**29%** of our votes against directors of **UK** boards were due to overboarding concerns. This represents **138** directors in total



## Executive pay

Pressing companies to reduce income inequality

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

Income inequality remains a significant challenge globally, with the pay gap between executives and average workers continuing to widen.

Investors, however, also persisted in trying to address this challenge, voting down remuneration reports at companies like Playtech, the gambling firm; Centamin, the gold miner; and Inmarsat, the satellite telecoms group.

The Investment Association is tasked with maintaining a public register of all UK companies that fail to garner more than 80% support for their resolutions at general meetings. The association added 63 companies to the register on executive remuneration-related resolutions last year, versus 56 companies added in 2017.

### Pay alignment

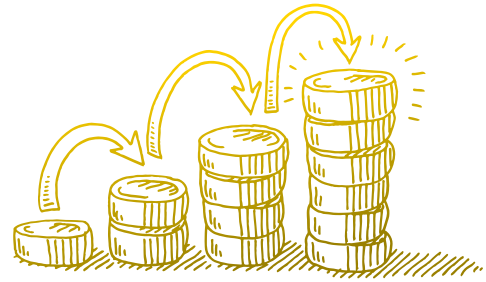
We continue to want executive pay to be aligned with a company's performance and its workforce. Yet executive pay has continued to diverge from company performance and pay for its workforce. It is common for an increase in profit targets to be met with a proposal for increased rewards; but where companies look to reduce profit targets it is less frequent this is accompanied with lower share awards. This is because the lower targets are perceived as equally stretching, given the current circumstances the company faces.

We would like to encourage more companies to introduce restricted shares, which are shares that must be held for five years before they become fully transferable. In addition, we would require executives to maintain a significant proportion of their shareholdings for two years after leaving the company. This is to incentivise strategic decision-making that helps ensure sustainable company performance over a longer period.

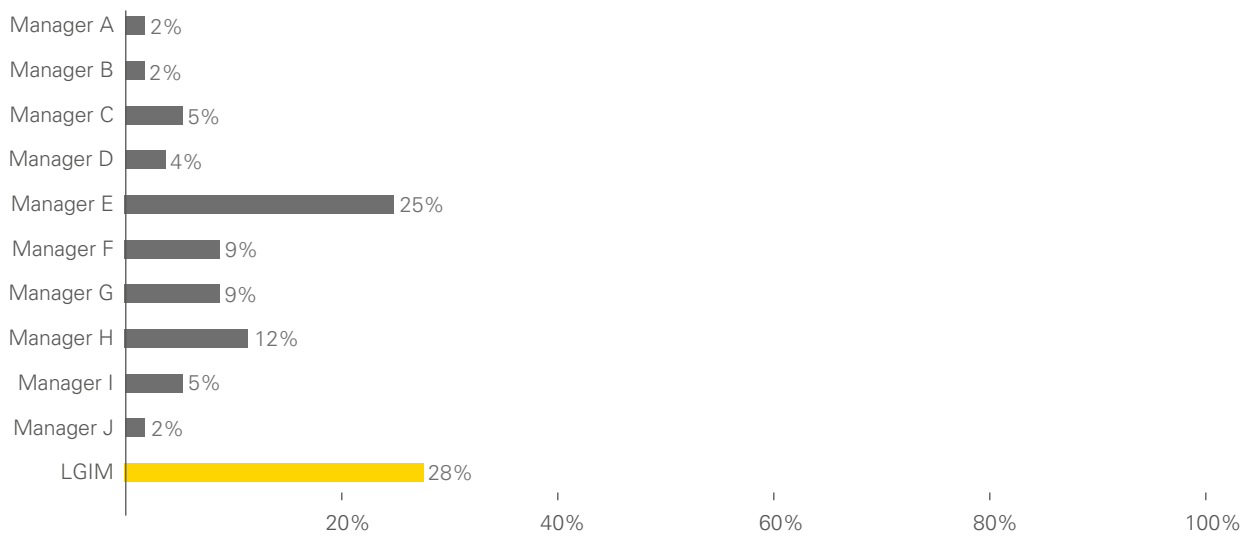
Annual cash bonus awards have continued to grow because short term targets are easier to set and evidence shows that they are easier to deliver against it. Last year, we called for a curb in gradual increases in bonuses driven by short-term operational objectives. Instead, we ask remuneration committees to focus on aligning pay with long-term performance. We have made this point by exercising our rights by voting against many proposals to increase short-term bonuses.

LGIM believes share ownership throughout an organisation allows the workforce to feel more aligned with the performance of the business; some studies show that this can drive productivity, too. Companies should ensure that share ownership is not restricted to executive levels but is cascaded down the organisation.

Last year, an independent report by the Climate 50/50 Project looked at how the largest 11 asset managers voted on executive pay at resolutions at US energy, auto and utility companies in 2018. The report states that LGIM showed the highest level of opposition to companies' pay practices.



Votes against compensation at US energy, auto and utility companies



Source: Climate 50/50 Project - Asset Manager Climate Scorecard 2018. Top 11 asset managers by AUM shown

**Pension practices and minimum wages**

We have continued to push for pension provisions to be harmonised across companies.

In 2018, the new UK Corporate Governance Code called for changes to pension practices at companies. For our part, we committed to vote against any new company pay policy introduced from 2020 that does not seek to curb the inequality in pension provisions between executives and the general workforce.

While we have limited this initiative to new executives and role changes, as changing the contracts of serving executives is dependent on the

willingness of individuals, we have asked board chairs to address the pension provisions of existing directors and have seen some results.

Through active engagement we have been asking companies to ensure they are paying the living wage, whereby all employees are paid no less than the absolute minimum required to live. This is one way, we believe, that companies can demonstrate a culture in which the workforce is valued. Last year we worked with Persimmon to encourage the UK homebuilder to become a living wage employer; we believe it is now paying a living wage and is actively pursuing accreditation.



## Shareholder rights

Fighting to protect our clients' rights

- LGIM engaged with index providers and the Hong Kong Stock Exchange to oppose the issuance of new shares without voting rights
- We worked to protect shareholders' ability to resist excessive dilution

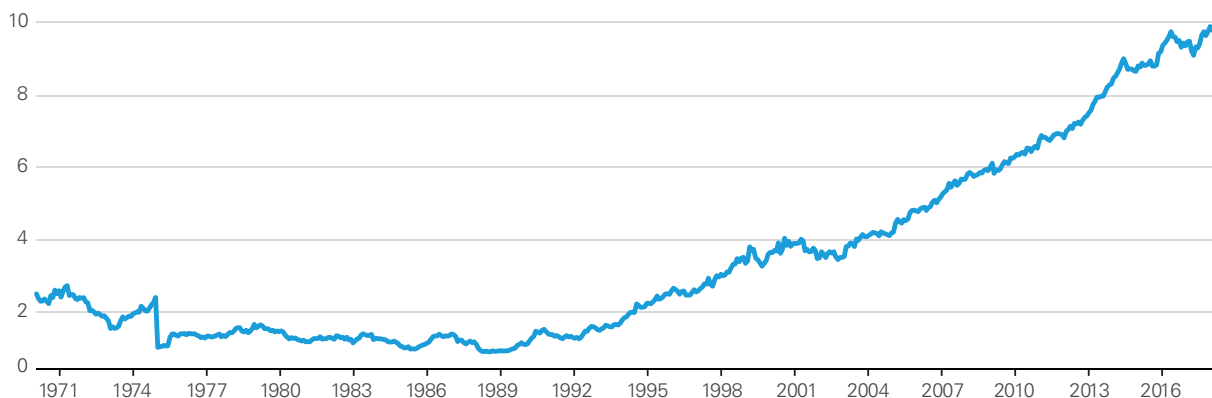
The provision of shareholder rights is a basic entitlement for investors – and yet these rights remain under constant pressure. Over 2018, LGIM actively engaged across multiple fronts in order to protect them.

### One share, one vote

Voting is a powerful tool. It forms the central mechanism by which shareholders exercise ownership rights; without it, their ability to hold management to account on issues from poor performance, to executive pay, to climate change is compromised.

The 'one share, one vote' standard rests on the principle that a shareholder's control of a company should be proportional to the amount of capital committed. Over the past 20 years, the number of companies issuing stock with reduced voting rights has increased from the long-term average. This is largely due to the popularity of multi-class capital structures among new technology companies.

Weight of stocks with unequal voting rights in the MSCI World Index (%)



Source: MSCI. Index constituent data as at 1 September 2017, during the period from 31 December 1970 to 31 October 2017.



**‘We continue to push globally, alongside other investors, for this fundamental right to be upheld.’**

Corporate management teams often argue that such structures allow companies to innovate and invest for the long term, free from outside investor pressure to maximise short-term profits. But we – and many other equity investors – do not believe that this perceived benefit justifies breaking the link between control and commitment of capital over the long term.

As a result, we have collaborated with other investors to engage with index providers on this issue, participating in consultations with FTSE, Standard & Poor’s and MSCI on their voting rights rules. FTSE and S&P subsequently have not included new companies with no voting rights in any of their major indices.

We were, however, disappointed to see a U-turn from MSCI following last year’s consultation, meaning its default indices would not take voting rights into account. After this decision, we publicly voiced our opposition to this stance.

**LGIM dismayed by MSCI ‘U-turn’  
on unequal share-voting**<sup>34</sup>

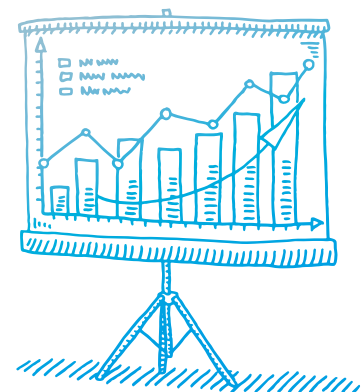
In 2018, LGIM also contributed to a consultation by the Hong Kong Stock Exchange on whether some companies should be allowed to be listed with weighted voting rights, which do not adhere to the principle of one share, one vote.

While the exchange’s ultimate decision was not aligned with our views, we continue to push globally, alongside other investors, for this fundamental right to be upheld.

#### **Pre-emption**

LGIM supports the right of companies to issue shares to raise capital. However, they should only do so in order to maintain business operations – and not expose minority shareholders to excessive dilution of their holdings.

The existence of ‘pre-emption’ rights is crucial to protecting shareholders from excessive dilution, as they entitle existing shareholders to be offered any new shares, pro-rata to their existing holdings, ahead of the securities being offered to other investors.



**Company name:** TalkTalk

**Sector:** Telecoms

**Market cap:** £1.2bn

<p><b>What was the issue?</b></p>	<p>In February 2018, TalkTalk raised £200m through a share placing without including pre-emption rights. In addition, shareholders were unable to vote on the transaction.</p>
<p><b>What did LGIM do?</b></p>	<p>LGIM made a comment in The Times, in relation to TalkTalk’s decision, on the importance of pre-emption rights. We also noted that the placement was made at a time when the company’s share price was at its lowest in five years.</p> <p>We subsequently opposed the re-election of the chairman and the Senior Independent Director at the company’s AGM due to our concerns over this transaction. We also voted against the remuneration report and the re-election of non-independent directors. In addition we also opposed the routine proposals to authorise the issue of equity capital (with or without pre-emption rights) due to concerns about how this authority was previously used.</p>
<p><b>What was the outcome?</b></p>	<p>Given our stance, and the large opposition by independent minority shareholders, we expect a response to the issues raised.</p>

Read more:  
Why voting matters for index investors<sup>35</sup>.



**Escalation through impact****Company name:** Unilever plc**Sector:** Personal Goods**Market cap:** £117bn

<b>What was the issue?</b>	In March 2018, Unilever announced its intention to scrap its dual listing and make the Netherlands the company's sole country of incorporation.
<b>Why is it an issue?</b>	<p>As one of the largest and most profitable stocks on the FTSE 100 index, the change would have had material implications for many of our clients.</p> <p>The decision would have forced us to sell Unilever shares across many of our index funds – in some cases triggering a capital gains tax liability equating to millions of pounds. In addition, the reinvestment would have had implications for stamp duty payments.</p> <p>Clients invested in the Netherlands-listed shares would have been impacted by a Dutch dividend withholding tax and lower returns.</p>
<b>What did LGIM do?</b>	<p>We engaged with the Unilever board, both on our own and with other investors through the Investor Forum, asking it to safeguard the ability of our clients to maintain their holdings in the company.</p> <p>The board remained resolute in its decision, so we voted against the restructuring – declaring our intention to do so ahead of the shareholder meeting – and voiced our concerns publicly.</p>
<b>What was the outcome?</b>	In light of the opposition from a significant group of shareholders, the board abandoned its plan to simplify the company's dual structure shortly before the meeting.
<b>What's next?</b>	LGIM will be meeting with the chairman of the company in 2019 to discuss the matter further.

# Mergers and acquisitions

Safeguarding our clients' interests amid corporate deal-making



- LGIM engaged with policymakers on mergers and acquisitions (M&A) rules globally, to ensure the right balance is found between the needs of firms, stakeholders, investors and broader society
- We worked to safeguard investor interests in the takeover of Sky plc

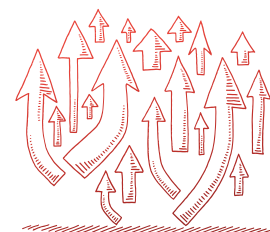
Some of the corporate deals struck last year were among the largest of all time by total value. Transactions of such scale can act as a positive force, allowing companies to grow, diversify and generate greater returns. They can also encourage competition and innovation within a sector, while transferring poor-performing companies into the hands of better managers.

But research suggests M&A activity does not always create sustained value for shareholders. The Corporate Governance team, therefore, is cognisant of the risks and opportunities involved in deals.

Each team member is allocated a sector and/or region for voting and engagement, enabling them to accrue the knowledge and experience necessary to consider long-term prospects for shareholder value, rather than just the price offered.

The team is also structured to manage the conflicts of interest inherent in all businesses, and ensure proper oversight. If the need arises, for example, a formal escalation process involving LGIM's two independent non-executive directors may be conducted.

Before making any decision, we use a variety of external and internal research sources to assess whether investor value is at risk. If we do judge this to be the case, we may raise our concerns in meetings with the board of the company in question, in collaboration with like-minded investors.





**Rigour and transparency**

For some time, we have been calling for more rigorous and transparent processes when boards assess large transactions. We believe independent directors ought to obtain separate and independent advice, with the advisers paid on a fixed-fee basis. Formal consideration should be given to cultural integration, including the impact on employees, in our view. Shareholder support for M&A resolutions should not be conditional upon support for changes to executive remuneration packages.

Where appropriate, collaborating with like-minded investors and stakeholders is fundamental to achieving an effective engagement process. It allows us to raise and share ESG concerns about specific companies, topics and approaches with other investors and to obtain additional information.

If we choose to oppose a transaction, we vote in one direction across all our holdings in the company. Our voting decisions are publically available on our website, including the rationale for our votes against the company’s management. We also issue regular reports to clients detailing our stance on M&A transactions.

We believe it is in the interest of our clients that markets work efficiently, with investors having sufficient time and information to consider offers.



For more information, please consult our Board Guide for M&A online here<sup>36</sup>.

**Company name:** Sky plc

**Sector:** Media

<p><b>What was the issue?</b></p>	<p>In December 2016, 21st Century Fox made an offer to acquire the 61% of Sky it did not already own, valuing the company at £11.7bn. The proposal was subsequently referred to UK regulators on public interest grounds. A year later, Disney and Comcast engaged in a bidding war for 21st Century Fox’s entertainment assets, including the Sky stake. This resulted in Comcast making an offer that valued Sky at £22bn.</p>
<p><b>Why is it an issue?</b></p>	<p>We perceived a risk that Disney would block Comcast’s bid for Sky. And when the UK Takeover Panel ruled that Disney would have to make a bid for the remaining shares it did not own, the company only offered the same price originally proposed by 21st Century Fox. LGIM, alongside other investors, believed this offer did not reflect the increased valuation Disney had placed on 21st Century Fox’s entertainment assets during the bidding war.</p>
<p><b>What did LGIM do?</b></p>	<p>In 2017, LGIM questioned the Sky board on its decision to accept the bid by 21st Century Fox. Last year, we submitted a letter to the Takeover Panel Hearing Committee, requesting that Disney should be made to increase the offer for Sky in line with its increased offer for 21st Century Fox’s entertainment assets.</p>
<p><b>What was the outcome?</b></p>	<p>The Takeover Panel ultimately conducted an auction to determine who should gain control of Sky. Comcast’s sealed bid was the highest, valuing Sky at £30.6bn, which led to the company taking over Sky in October 2018. This represented a positive outcome for our clients, who enjoyed an increase of more than 100% in the value of their Sky shares from before the initial bid.</p>



## Public policy

Promoting the highest standards of corporate governance worldwide

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.

We highlight below our key activity in 2018 to improve standards globally, where we weighed in on how regulation and market structures can be reformed to protect all stakeholders and create long-term value.



### France – Calling for a more rigorous consultation process

The Association Française des Entreprises Privées (AFEP) and the Mouvement des Entreprises de France (MEDEF), two private bodies representing companies’ interests, own and develop the French corporate governance code.

In March 2018, AFEP and MEDEF launched a public consultation on the French corporate governance code.

The process of drafting the code lacked transparency: while all stakeholders were involved in the consultation, they were only consulted on the final draft proposal.

We believe that the process being owned by parties who are meant to abide by the code may create conflicts of interest.

LGIM recommended a fundamental review of how the code is drafted, requesting that all material stakeholders be equally involved.

We also asked for the development of the code to be led by an independent and neutral body.

In addition, we requested that the code introduce a number of measures including:

- Guidance on board-investor dialogue.
- Guidelines and expectations for the role of the Lead Independent Director.
- Recommendations that independent directors account for more than half of board members at controlled companies; and that audit and remuneration committees are entirely composed of independent directors.

The updated code was published in June. Whilst LGIM welcomes the changes made, we believe they do not address the fundamental issues outlined above.

Our positions were included in the latest public consultation on the code. Overall, we support the changes to the code as they provide a step in the right direction towards global best practice.





### Germany – Moving in the right direction

In June 2018, LGIM met the Commission on the German Corporate Governance Code to communicate key proposals. We outlined our views on several different areas, including:

- The framework for monitoring and enforcing the code.
- Shareholder dialogue.
- Director election.
- Board independence.

Our positions were included in the latest public consultation on the code. Overall, we support the changes to the code as they provide a step in the right direction towards global best practice.



### Japan – Improving corporate disclosure

We acknowledge Japan's progressive stance on corporate governance and applaud the efforts made over the years to improve market standards.

This includes moves to make one-third of board members independent.

In an attempt to build on this momentum, we provided feedback to the Japanese regulator on how to enhance corporate disclosures.

We requested that companies disclose the nature of their top 30 cross-holdings along with any position that exceeds 1% of the capital base.

We also recommended that an official definition of board independence is outlined in the code. This would allow companies to disclose any factors that could impact independence consistently, such as tenure and time lapses between former roles.



### Singapore – Explaining what good governance looks like

LGIM submitted recommendations to the Monetary Authority of Singapore for improving its corporate governance code, based on our understanding of global best practice.

For example, we proposed the implementation of a two-tier voting regime to enhance the voice of minority shareholders where a controlling shareholder is present.

This process is already in place in the UK and provides additional transparency to the market where there is a difference of views between the major shareholder and minority investors.



### UK – A more purposeful Corporate Governance Code

In February, LGIM responded to the Financial Reporting Council (FRC) consultation on the proposed changes to the UK Corporate Governance and Stewardship Codes.

We highlighted our support for some of the changes to the Corporate Governance Code, which strengthened key areas such as board diversity, director independence and consideration of the stakeholder voice.

In July, the FRC released the 2018 UK Corporate Governance Code, which focused on interpreting its key principles rather than making prescriptive provisions, in addition to referring explicitly to climate change.

The code also highlights that companies need to maintain successful relationships with a wide range of stakeholders, not just shareholders.

It encourages greater board engagement with the workforce and corporate culture in general to preserve value over the longer term.

Other main changes related to board succession, diversity and a greater focus on workforce remuneration when setting director pay.

LGIM welcomed these changes.



# ESG integration

Integrating ESG considerations into investment processes

- We have developed data-driven ESG tools for our index and active funds and for our engagements
- We created a list of companies that fail to meet the minimum standards of globally accepted business practices

Unmanaged ESG factors pose risks, which can potentially have a material impact on the performance of our clients' investments. As a result, the Corporate Governance team has continued to work with colleagues across LGIM to integrate ESG considerations into investment processes.

### ESG integration in index funds

Active ownership remains at the cornerstone of how we approach ESG across index strategies. We remain committed to engaging and voting on holdings across our entire book, on behalf of our clients, as detailed throughout this report.

However, for the past four years we have been working to take ESG a step further within our index strategies, in order to further enhance our approach to active ownership.

In 2018, the Corporate Governance and Index teams developed the LGIM ESG Score. Driven by a rules-based and transparent methodology, we assess and score companies against ESG metrics to inform decisions about allocating capital to – and engaging with – companies.

We have also utilised the score to design equity and fixed income indices with 'tilts' towards higher-scoring companies, and away from lower-scoring companies, which we use for some of our funds.

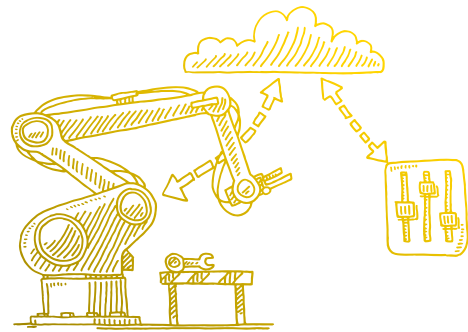
In order to incentivise companies to raise their standards, we publish the scores of the companies we analyse on our website, letting them know exactly where they are doing well and where they need to improve. We believe this can also help the overall market to improve over the long term.

### ESG integration in active funds

Our approach within index funds complements that applied by our Active Equity and Global Fixed Income teams, to whose tools for assessing ESG risks we devoted a significant amount of time to enhancing this year.

The result is our Active ESG View, which seeks to identify the ESG risks and opportunities within a company. It takes the inputs that form the LGIM ESG Score as a starting point, then incorporates additional quantitative and qualitative inputs.

The view forms an essential component of LGIM's overall active research process, and involves teams leveraging their sector expertise, knowledge of company dynamics and access to corporate management. This leads to each company under review being given a status that ranges from very strong to very weak.



The degree to which the ESG View drives security selection within a given fund will depend on the specific strategy.

For our core active products, the Active ESG View is integrated in how we fundamentally assess a company, alongside all other components of investment analysis. It remains at the portfolio manager's discretion as to whether a company with a weak ESG integration status offers the necessary level of return to be held, for the level of risk it poses.

For some active funds with explicit ESG-linked objectives the portfolio managers would only invest in a company with a weak status if they expected to see improvements as a result of successful engagement.

*"Some important actions have already been taken. For example, on the asset-owner side, HSBC has constructed a climate-tilted fund with Legal and General Investment Management as the default option for their defined contribution pension scheme"*

*HRH The Prince of Wales, discussing finance leaders' response to climate change in July 2018*

### LGIM's Future World Protection List

We developed a list of companies that have failed to meet the minimum standards of globally accepted business practices. Certain funds will not hold any securities issued by these companies, which make up the Future World Protection List, or will significantly reduce their exposure to them.

The list includes companies that meet any of the following criteria:

- Involvement in the manufacture and production of controversial weapons
- Perennial violators of the United Nations Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies
- Pure coal miners – companies solely involved in the extraction of coal

In 2019, LGIM will also vote against the election of the chair of the boards of these companies across our entire equity holdings. Where the chair of the board is not up for a vote at the AGM, we will vote against the second most senior board representative.

Our push in ESG integration in 2018 builds on our past work. And while greater activity in this regard meant the Corporate Governance team could not hold quite as many meetings with companies last year, we are thrilled to see growing external recognition for our efforts.

# An update from the US

Expanding our engagement

- The Corporate Governance team has added a new member, based in North America
- We have advocated for relevant and reliable ESG disclosures and built relationships with other investors who seek to advance a similar corporate governance agenda

We have long been active owners in the US market, conducting hundreds of direct engagements with American companies and collaborating with other investors on key issues on an annual basis.

But to simplify logistics – fewer flights and fewer midnight calls – and because we have a deep appreciation for the unique governance dynamics of the US market, we decided to base a member of the team in the region. So in June, John Hoepfner joined our team as Head of US Stewardship and Sustainable Investments.

John, whose background is in impact measurement and sustainable investment products, works out of our Chicago office. He spent his first six months meeting with companies to advance our clients' interests, and on a broader fact-finding mission to expand our understanding of what is driving the agenda of US active ownership.

## Progress on 'E' and 'S'

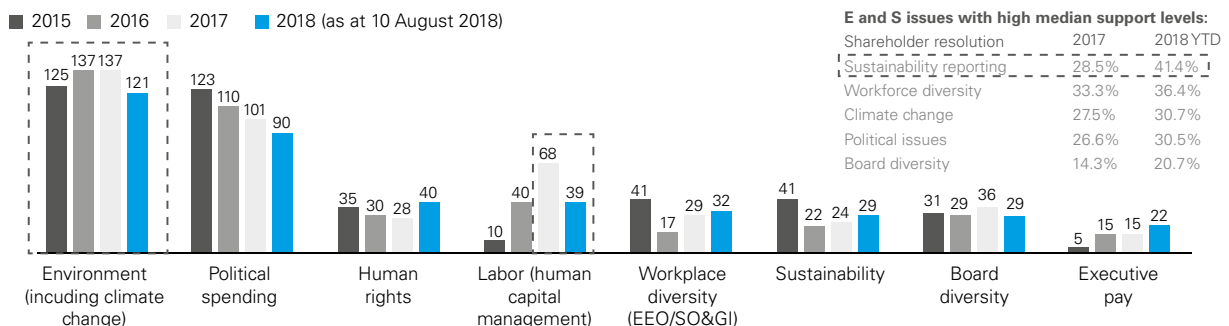
The US market has recently experienced notable progress on some environmental and social issues where it had previously lagged the UK and Europe, largely thanks to the efforts of institutional investors rather than regulators.

Following years of resistance, companies appear to have reached a tipping point in accepting the need to improve environmental disclosures, partly as a result of growing awareness of the threat posed by climate change as detailed in pages 13-16.

As measured by shareholder resolutions, environmental disclosure has been the top issue in the US for the past four years.



Top E&S issues - Number of resolutions filed (as at 10 August 2018)



**E and S issues with high median support levels:**

Shareholder resolution	2017	2018 YTD
Sustainability reporting	28.5%	41.4%
Workforce diversity	33.3%	36.4%
Climate change	27.5%	30.7%
Political issues	26.6%	30.5%
Board diversity	14.3%	20.7%

Source: ISS Analytics



## ‘Following years of resistance, companies appear to have reached a tipping point’

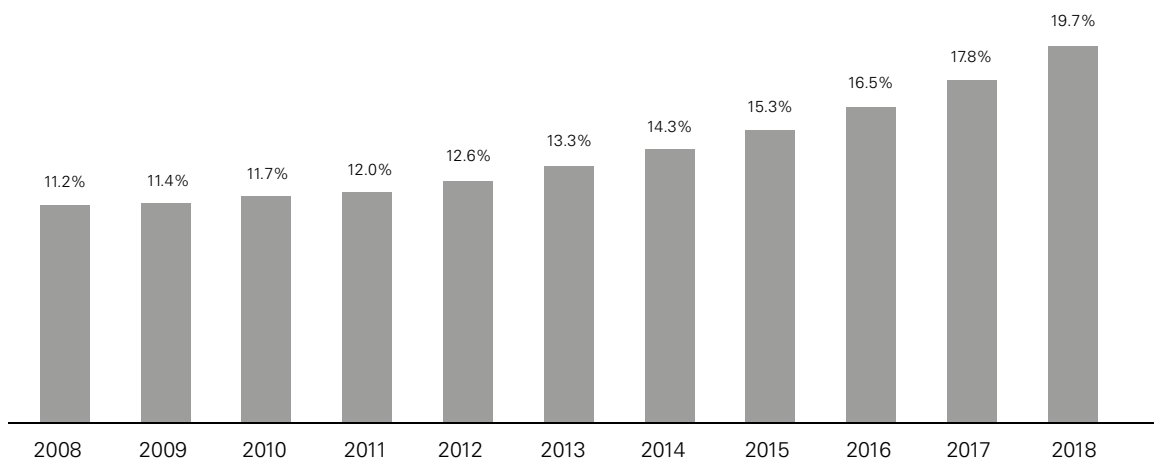
On the social front, we have seen a gathering momentum in women being added to public company boards. This is the result of efforts by investors, such as the 30% Club or the Mid-West Diversity Initiative, as well as the launch of gender diversity-based funds. The #MeToo movement, campaigning against sexual harassment and a number of high-profile gender related employment issues have also prompted boards to address top-level diversity immediately.

As a result, figures for 2018 show the largest year-on-year change in female representation on record.

Unfortunately, there has been significantly less progress on governance issues, with companies resisting change on topics such as board tenure limits, auditor rotation and CEO-chair independence.

Newer governance issues, like auditor rotation, have largely not even been considered in the US. LGIM’s policy in the US is that public companies should issue a tender for auditors every 10 years, and switch auditors every 25, to ensure proper independence. As we have delivered this message, it has become clear that the US market is not giving this issue sufficient attention.

The increase of women directors continues to accelerate  
Percentage of women non-CEO directors by year



Source: ISS Analytics

**Relevant and reliable disclosure**

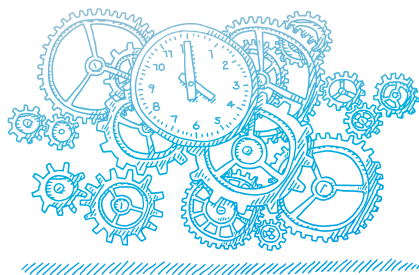
In 2018, we focused on two key priorities: advocating for strategic, market-level disclosure; and building relationships with other investors who seek to advance a similar corporate governance agenda. Our efforts included the following activities:

**Security and Exchange Commission (SEC)**

ESG risk disclosure in the US is largely voluntary. Alongside other investors, we submitted a petition to the SEC requesting mandatory ESG risk disclosure by companies. The petition argued that the regulator has clear statutory authority to require the disclosure of relevant and reliable information, and that doing so would promote market efficiency, protect the competitive position of US companies, capital markets and enhance capital formation.

**S&P 500 Companies pay ratio**

Public US companies were required to report the ratio of pay between the CEO and median worker for the first time in 2018. LGIM joined other investors in sending letters to S&P 500 companies on best practices for pay ratio disclosure, which is necessary to understand companies’ approaches to human capital management.



With regard to direct engagements with companies, we often take a two-fold approach: first, there will be a company-specific objective or need that we wish to understand better; second, there will be a broader market signal we wish to send.

The best ways to influence groups of companies or whole sectors at a time is to use peer leadership and comparison, in our view. This is the strategy we use under the Climate Impact Pledge, for example, where we explicitly target the 50% largest companies by market capitalisation within a sector.

In 2019, we plan on expanding our engagements with US technology firms. Not only do these firms make up a sizable chunk of the market, they also have an outsized influence on governance trends. Their highly visible nature – with name recognition and constant press coverage – means their positions on governance issues reverberate throughout the market.

**Sustainability Accounting Standards Board (SASB)**

As part of our efforts to improve the availability and quality of corporate ESG reporting, LGIM has joined the international SASB Investor Advisory Group.

The SASB is a non-profit organization established to enable businesses around the world to identify, manage and communicate financially material sustainability information to their investors. The group is undertaking crucial work, attempting to codify material ESG standards, in which we are proud to participate.

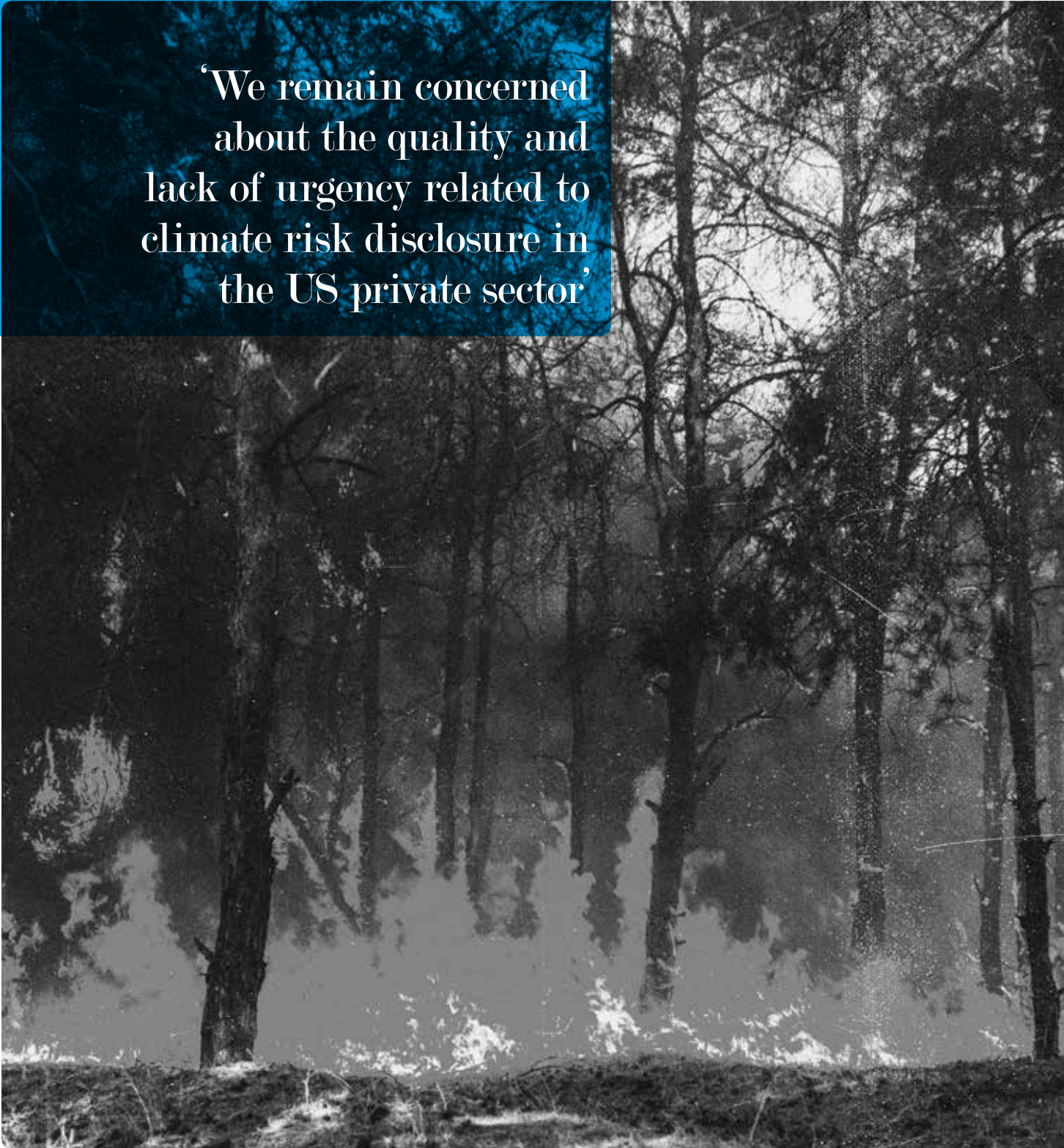
**Transition Risk / Return Initiative (TRRI)**

We remain concerned about the quality and lack of urgency related to climate risk disclosure in the US private sector, as compared to the European market.

This is of particular significance, given the political polarisation in the country on matters related to climate change. Therefore, we have lent our support to the TRRI, a corporate- and-investor-led group focused on reconciling climate-related governance best practices with US financial regulation and sustainable finance system innovation.



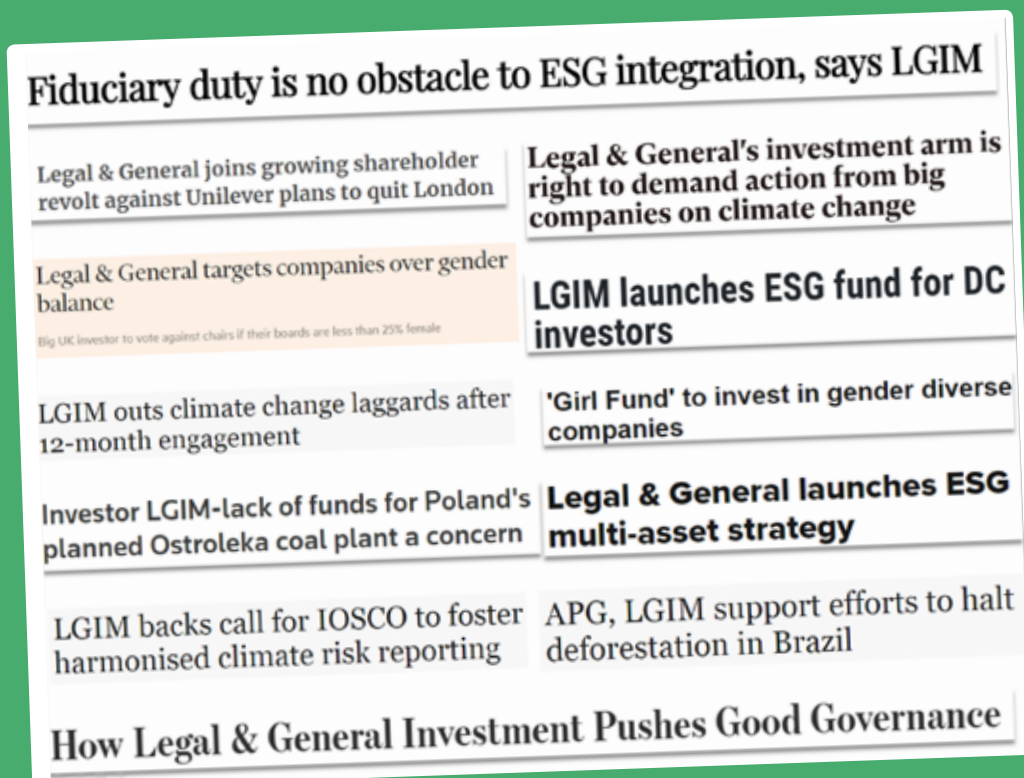
‘We remain concerned about the quality and lack of urgency related to climate risk disclosure in the US private sector’





## In the media

- As active owners, we have continued to engage with companies on the issues which our clients and the public care about
- As a result, the team's work was featured in over 80 articles by media outlets including the *Financial Times*, Bloomberg, Reuters, Nikkei, the BBC, *The Guardian*, *The Times*, *The Telegraph* and *The New York Times*





**Future World blog**

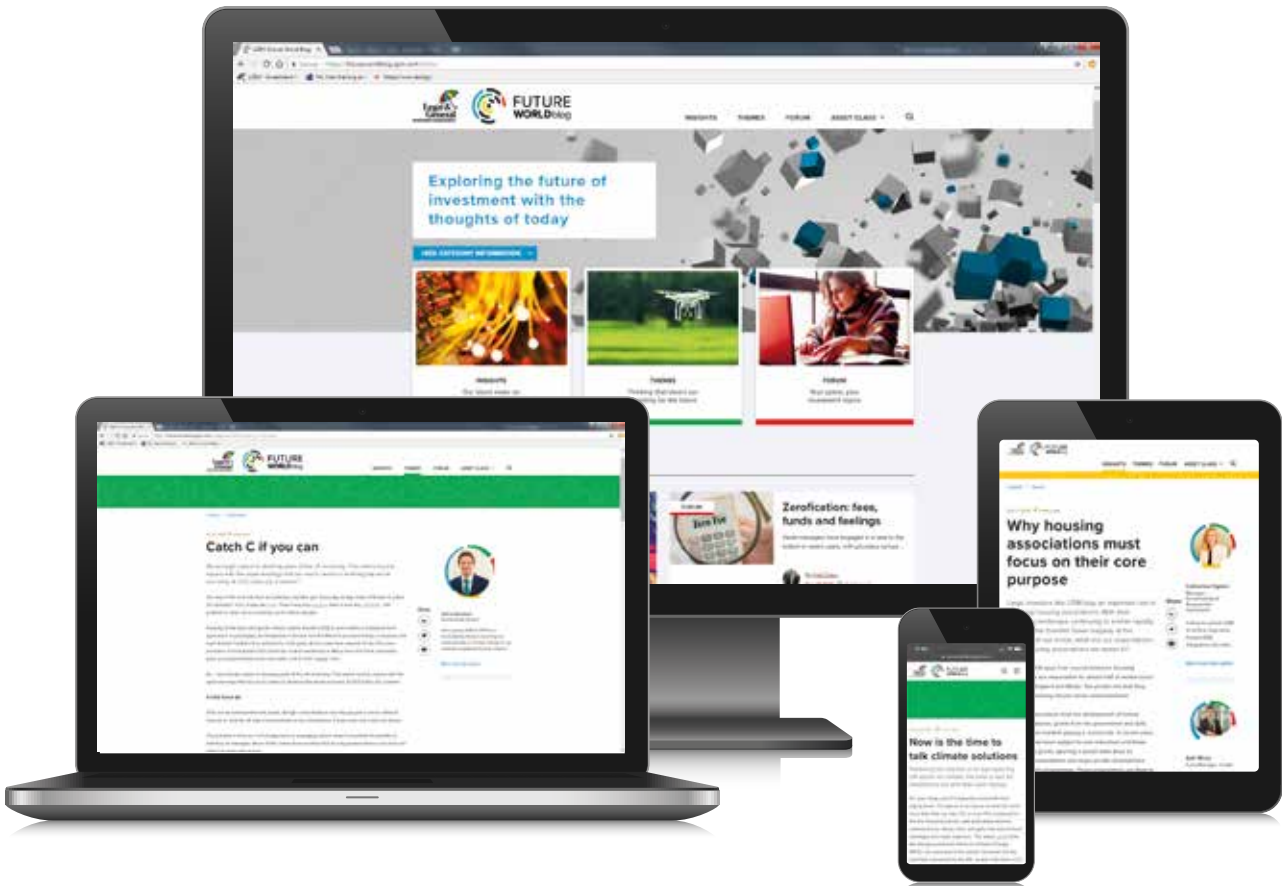
We have also been diversifying into new media channels. The team is a frequent contributor to LGIM’s **Future World blog**, covering issues from social housing and oil investment, to board independence and the links between climate change and your summer pint.

**LGIM Talks – new podcast channel**

Members of the team are also regular contributors to **LGIM Talks**, a weekly podcast on which experts from LGIM and elsewhere discuss the most pressing investment issues. What is ethical investment? Which companies are taking the lead on climate change? These are just some of the topics explored by the team.

LGIM Talks is available on:

- [Apple Podcasts](#)
- [Google Podcasts](#)
- [Spotify](#)





# Events and presentations

Promoting our vision

- We showcased our work for clients on issues such as culture, diversity and good governance at a series of events in 2018

From the House of Lords to the United Nations, we were invited to present our views across at 40 public events.

### Diversity

In an industry that is struggling to improve its gender balance, the UN invited us to Geneva to talk about the energy transition and its links to diversity. We also discussed the topic at events hosted by Barclays and the London Stock Exchange.

### ESG data

The incorporation of ESG data in company analysis was presented at Bloomberg and at panel events hosted by ratings agencies Moody's and Standard & Poor's.

### Guiding the board

In 2018, LGIM produced a series of short guides on what makes for an effective board, from the role of non-executive directors to the separation of CEO and chair. We outlined our expectations in this area at events hosted by the European Bank of Reconstruction and Development, as well as Deloitte and Goldman Sachs.

### The leaders of tomorrow

In 2018, we presented to students at Cass Business School and Manchester Business School. We also took part in a 'sustainable careers fair' hosted jointly by BEIS and BNP Paribas. This was one of several events we were involved with during Green Great Britain Week, including a high-profile launch at the Tate Modern of our investor guide to climate change<sup>37</sup>, with the Secretary of State for Business, Energy and Industrial Strategy delivering the keynote address. The remarkable progress made by the UK in reducing emissions while growing its economy has been a recurrent theme – we were invited to the House of Lords to reflect on the role of the UK Climate Change Act of 2008 in catalysing action.



LGIM frequently responds to consultations on public policy. You can find many of our responses here<sup>38</sup>.



### Executive pay

Executive pay continues to receive significant scrutiny, including from regulators. We discussed this with company secretaries as part of the CG100 and Investor Group. Key UK developments were hot on the agenda of the annual ICSA Conference in London.

### Good governance and the Sustainable Development Goals

We showcased our work internationally at the annual conference of the International Corporate Governance Network in Milan, Fund Forum in Berlin, Pensioen Pro in Amsterdam, the World Pensions & Investment Forum in Paris, the Council of Institutional Investors' Spring Conference in Washington DC and the United Nations' PRI in Person conference in San Francisco.

Now that governments around the world have formally adopted the Sustainable Development Goals, we shared our thoughts on what this means for investors at Responsible Investor conferences in Amsterdam and Stockholm.

### Culture

With the financial crisis still fresh in the memory, the FT Banking Summit asked us to take part in a debate on a hotly contested topic: are investors doing enough to improve the culture in banking?

Many banks are indeed taking important steps to think afresh about risk and opportunity. A network of central bank policymakers, convened by the Bank of England, invited us to present our approach to modelling the financial risks of climate change.



High profile for low-carbon investment, as our Head of Sustainability and Responsible Investment Strategy presents to clients during LGIM's flagship client conference.



Director of Corporate Governance (left) and Head of Corporate Governance, North America (second from right) are joined by senior colleagues to discuss the launch of a gender diversity-focused investment solution at the Tate Modern.



# Voting and engagement

Raising our voice

Total number of meetings **236**

**3332** Number of companies where we voted

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

## Top five thematic topics discussed in meetings

Board composition

**104**

Climate change

**91**

Strategy

**70**

Remuneration

**58**

Nomination/succession

**46**

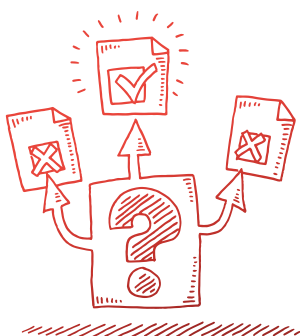


### Global voting

To reflect the changing corporate landscape across markets and regions, we reviewed our voting policies in 2018.

These strengthened policies reflect our approach and expectations on the topics we believe are essential for an efficient governance framework, and for building a sustainable business model:

- Executive directors should not undertake more than one outside non-executive directorship
- Culture should be regularly discussed and challenged by the board
- North American boards should strengthen their approach to diversity. We announced that from 2020 we will vote against the largest 100 companies in the S&P 500 and the S&P/TSX where fewer than 25% of board directors are women
- LGIM will vote against the election of the chair of the board across our entire equity holdings for companies which fail to meet minimum standards of globally accepted business practices as set out in LGIM's Future World Protection List



## Global voting data - 2018

Proposal category	Total global 2018			
	For	Against	Abstained	Total
Antitakeover Related	516	39	0	555
Capitalisation	4416	578	1*	4995
Directors Related	21621	3864	360	25845
Non-Salary Compensation	2659	1409	0	4068
Reorganisation and Mergers	1285	174	1	1460
Routine/Business	9974	640	3	10617
Shareholder Proposal - Compensation	41	35	0	76
Shareholder Proposal - Corporate Governance	17	74	0	91
Shareholder Proposal - Directors Related	204	458	7	669
Shareholder Proposal - General Economic Issues	14	1	0	15
Shareholder Proposal - Health/Environment	75	46	0	121
Shareholder Proposal - Other/Miscellaneous	2	74	0	76
Shareholder Proposal - Routine/Business	51	123	0	174
Shareholder Proposal - Social/Human Rights	4	8	0	12
Shareholder Proposal - Social	7	7	0	14
<b>Total</b>	<b>40886</b>	<b>7530</b>	<b>372</b>	<b>48788</b>
<b>Total resolutions</b>	<b>48788</b>			
<b>No. AGMs</b>	<b>3256</b>			
<b>No. EGMs</b>	<b>682</b>			
<b>No. of companies voted on</b>	<b>3332</b>			
<b>No. of companies where voted against or abstained on at least one resolution</b>	<b>2438</b>			
<b>% of companies with at least one vote against</b>	<b>73%</b>			

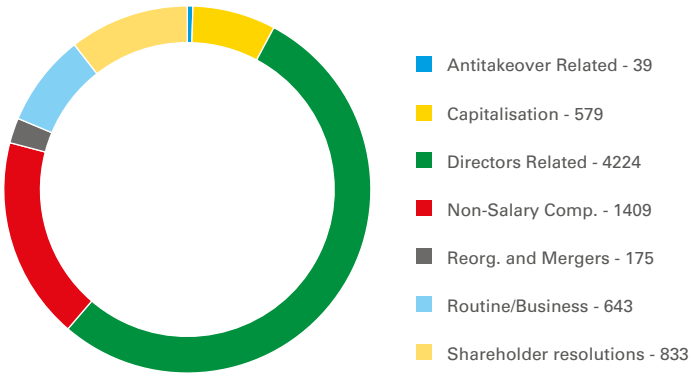


LGIM voted against at least one resolution at 73% of companies during 2018, compared to 59% in 2017.

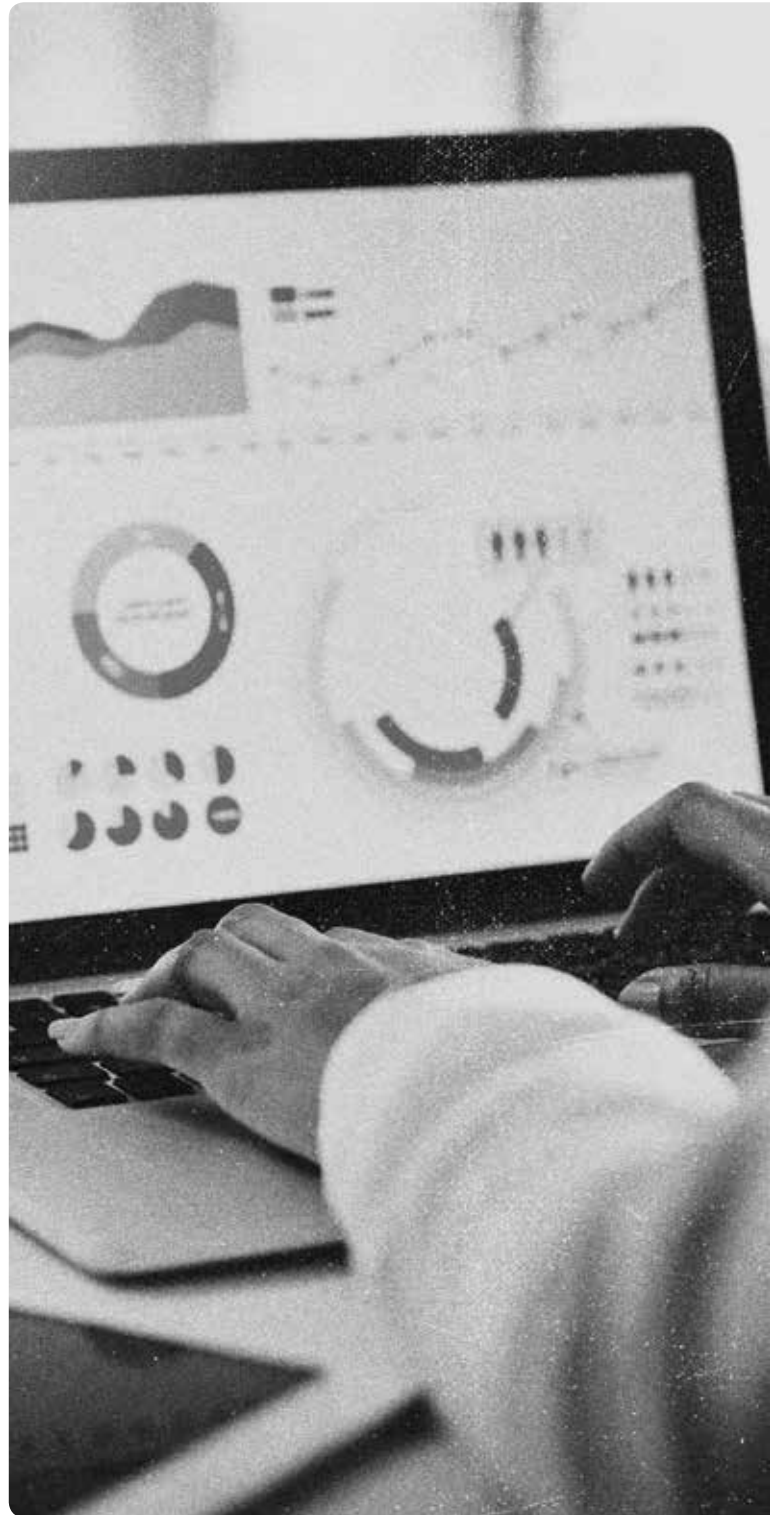
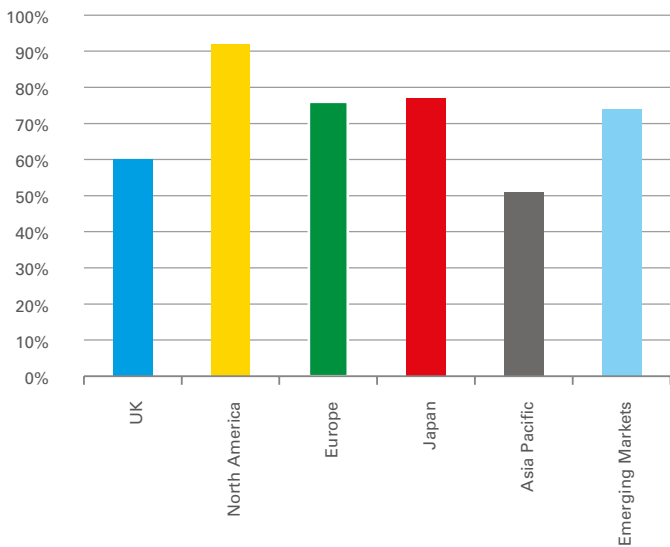
\*We aim to minimise abstentions. Since 2011, we have not abstained in the UK. In other markets, we seek to minimise abstentions unless it is technically impossible to vote.

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds.

**Votes against and abstentions in 2018**



**% of companies with at least one vote against (includes abstentions)**



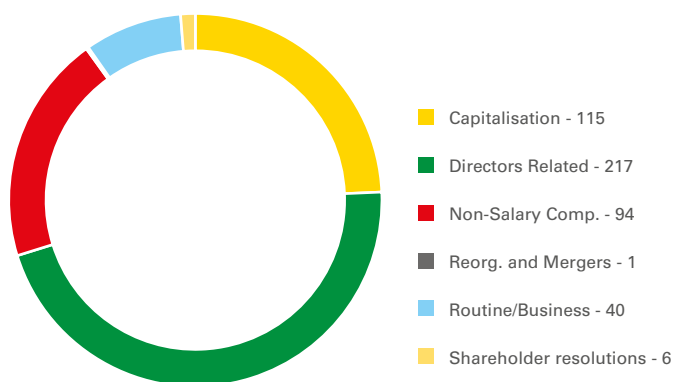
# Asia Pacific

**Top three** votes against management:

- 1) Board effectiveness                      2) Capital related                                      3) Remuneration

Proposal category	Total Asia Pacific 2018		
	For	Against	Abstain
Antitakeover Related	10	0	0
Capitalisation	131	115	0
Directors Related	952	217	0
Non-Salary Compensation	287	94	0
Reorganisation and Mergers	44	1	0
Routine/Business	580	40	0
Shareholder Proposal - Directors Related	2	1	1
Shareholder Proposal - Health/Environment	2	2	0
Shareholder Proposal - Other/Miscellaneous	0	1	0
Shareholder Proposal - Routine/Business	7	1	0
Shareholder Proposal - Social/Human Rights	2	0	0
Shareholder Proposal - Social	1	0	0
<b>Total</b>	<b>2018</b>	<b>472</b>	<b>1</b>
<b>Total resolutions</b>	<b>2491</b>		
<b>No. AGMs</b>	<b>303</b>		
<b>No. EGMs</b>	<b>47</b>		
<b>No. of companies voted on</b>	<b>319</b>		
<b>No. of companies where voted against or abstained on at least one resolution</b>	<b>164</b>		
<b>% of companies with at least one vote against</b>	<b>51%</b>		

### Votes against and abstentions in 2018



We opposed 164 companies in the Asia Pacific region, compared to 137 in 2017.



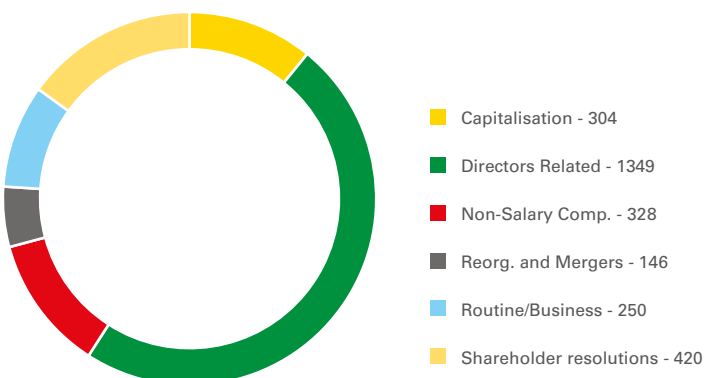
## Emerging markets

**Top three** votes against management:

- 1) Board effectiveness      2) Shareholder resolutions      3) Remuneration

Proposal category	Total emerging markets 2018		
	For	Against	Abstain
Antitakeover Related	1	0	0
Capitalisation	1206	303	1
Directors Related	4218	1005	344
Non-Salary Compensation	241	328	0
Reorganisation and Mergers	876	145	1
Routine/Business	3797	247	3
Shareholder Proposal - Compensation	25	0	0
Shareholder Proposal - Corporate Governance	8	51	0
Shareholder Proposal - Directors Related	107	291	6
Shareholder Proposal - Routine/Business	22	72	0
<b>Total</b>	<b>10501</b>	<b>2442</b>	<b>355</b>
<b>Total resolutions</b>	<b>13298</b>		
<b>No. AGMs</b>	<b>787</b>		
<b>No. EGMs</b>	<b>398</b>		
<b>No. of companies voted on</b>	<b>816</b>		
<b>No. of companies where voted against or abstained on at least one resolution</b>	<b>601</b>		
<b>% of companies with at least one vote against</b>	<b>74%</b>		

### Votes against and abstentions in 2018



We took an overall stronger stance on governance in emerging markets. We cast at least one vote against management at 74% of emerging markets companies, compared to 59% in 2017.

## Europe

**Top three** votes against management:

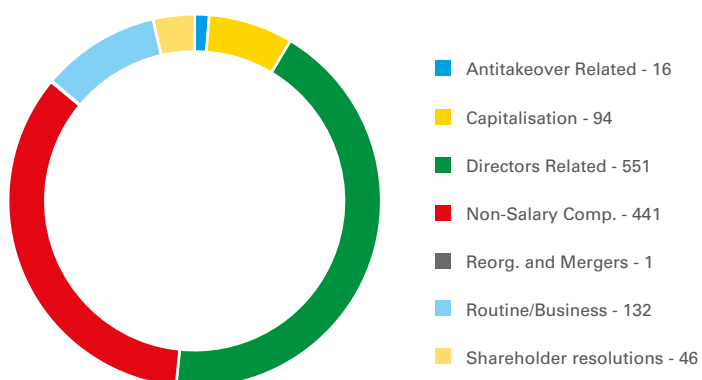
1) Board effectiveness

2) Remuneration

3) Routine governance issues

Proposal category	Total Europe 2018		
	For	Against	Abstain
Antitakeover Related	7	16	0
Capitalisation	699	94	0
Directors Related	2274	536	15
Non-Salary Compensation	622	441	0
Reorganisation and Mergers	110	1	0
Routine/Business	1950	132	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	0	3	0
Shareholder Proposal - Directors Related	14	41	0
Shareholder Proposal - General Economic Issues	14	0	0
Shareholder Proposal - Health/Environment	14	2	0
<b>Total</b>	<b>5705</b>	<b>1266</b>	<b>15</b>
<b>Total resolutions</b>	<b>6986</b>		
<b>No. AGMs</b>	<b>383</b>		
<b>No. EGMs</b>	<b>31</b>		
<b>No. of companies voted on</b>	<b>385</b>		
<b>No. of companies where voted against or abstained on at least one resolution</b>	<b>292</b>		
<b>% of companies with at least one vote against</b>	<b>76%</b>		

### Votes against and abstentions in 2018



In 2018 we strengthened our expectations towards companies in Europe. LGIM opposed 292 European companies in 2018, compared to 232 companies in 2017.

# Japan

**Top three** votes against management:

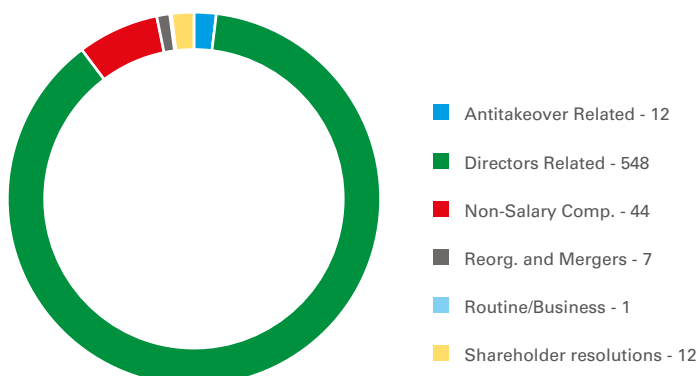
1) Board effectiveness

2) Remuneration

3) Antitakeover related

Proposal category	Total Japan 2018		
	For	Against	Abstain
Antitakeover Related	0	12	0
Capitalisation	3	0	0
Directors Related	4810	548	0
Non-Salary Compensation	195	44	0
Reorganisation and Mergers	111	7	0
Routine/Business	377	1	0
Shareholder Proposal - Compensation	2	3	0
Shareholder Proposal - Corporate Governance	1	2	0
Shareholder Proposal - Directors Related	9	0	0
Shareholder Proposal - Health/Environment	49	0	0
Shareholder Proposal - Routine/Business	17	7	0
<b>Total</b>	<b>5574</b>	<b>624</b>	<b>0</b>
<b>Total resolutions</b>	<b>6198</b>		
<b>No. AGMs</b>	<b>506</b>		
<b>No. EGMs</b>	<b>8</b>		
<b>No. of companies voted on</b>	<b>509</b>		
<b>No. of companies where voted against on at least one resolution</b>	<b>391</b>		
<b>% of companies with at least one vote against</b>	<b>77%</b>		

## Votes against in 2018



91% of our votes against directors were because of their lack of independence.

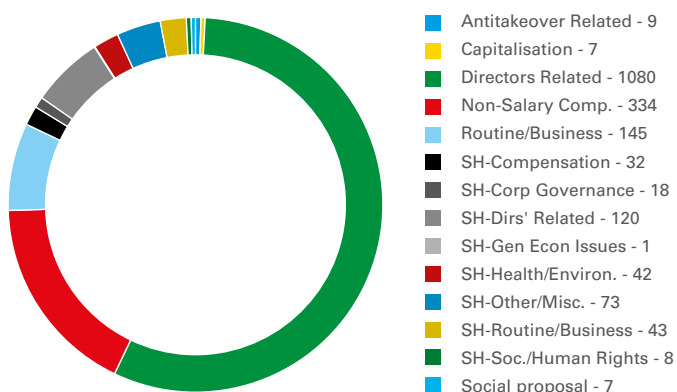
# North America

## Top three votes against management:

- 1) Board effectiveness      2) Shareholder resolutions      3) Remuneration

Proposal category	Total North America 2018		
	For	Against	Abstain
Antitakeover Related	71	9	0
Capitalisation	90	7	0
Directors Related	5406	1080	0
Non-Salary Compensation	525	334	0
Reorganisation and Mergers	37	0	0
Routine/Business	626	145	0
Shareholder Proposal - Compensation	13	32	0
Shareholder Proposal - Corporate Governance	8	18	0
Shareholder Proposal - Directors Related	61	120	0
Shareholder Proposal - General Economic Issues	0	1	0
Shareholder Proposal - Health/Environment	7	42	0
Shareholder Proposal - Other/Miscellaneous	2	73	0
Shareholder Proposal - Routine/Business	3	43	0
Shareholder Proposal - Social/Human Rights	2	8	0
Shareholder Proposal - Social	6	7	0
<b>Total</b>	<b>6857</b>	<b>1919</b>	<b>0</b>
<b>Total resolutions</b>	<b>8776</b>		
<b>No. AGMs</b>	<b>652</b>		
<b>No. EGMs</b>	<b>38</b>		
<b>No. of companies voted on</b>	<b>660</b>		
<b>No. of companies where voted against on at least one resolution</b>	<b>604</b>		
<b>% of companies with at least one vote against</b>	<b>92%</b>		

### Votes against in 2018



We opposed 604 companies in 2018, compared to 533 in 2017.



## UK

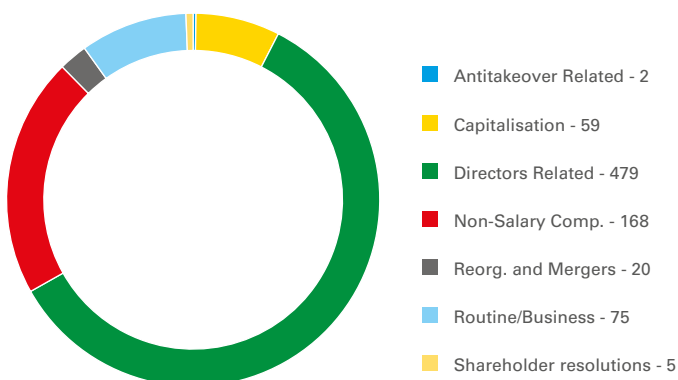
## Top three votes against management:

- 1) Board effectiveness      2) Remuneration      3) Other governance routine issues

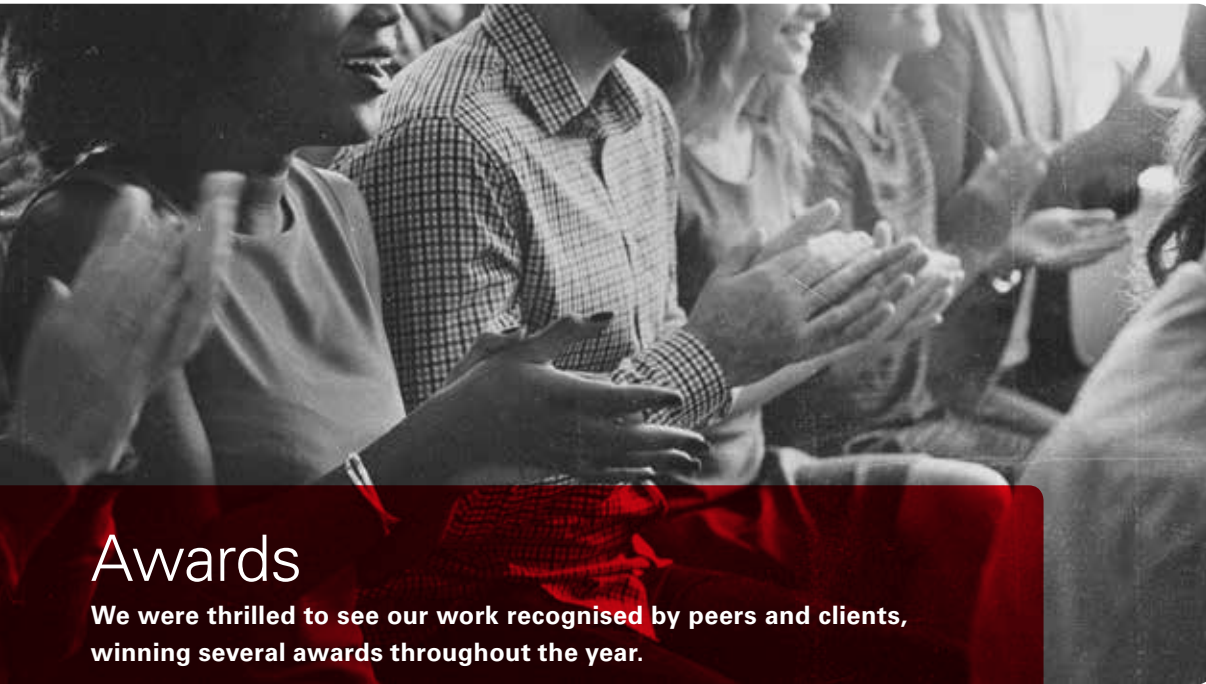
Proposal category	Total UK 2018		
	For	Against	Abstain
Antitakeover Related	427	2	0
Capitalisation	2287	59	0
Directors Related	3961	478	1*
Non-Salary Compensation	789	168	0
Reorganisation and Mergers	107	20	0
Routine/Business	2644	75	0
Shareholder Proposal - Directors Related	11	5	0
Shareholder Proposal - Health/Environment	3	0	0
Shareholder Proposal - Routine/Business	2	0	0
<b>Total</b>	<b>10231</b>	<b>807</b>	<b>1</b>
<b>Total resolutions</b>	<b>11039</b>		
<b>No. AGMs</b>	<b>625</b>		
<b>No. EGMs</b>	<b>160</b>		
<b>No. of companies voted on</b>	<b>643</b>		
<b>No. of companies where voted against or abstained on at least one resolution</b>	<b>386</b>		
<b>% of companies with at least one vote against</b>	<b>60%</b>		

\*Abstain vote: This vote concerned a resolution on the re-election of a director who had already stepped down from the board.

## Votes against and abstentions in 2018



LGIM opposed 386 (60%) UK companies in 2018, compared to 252 (36%) in 2017.



## Awards

We were thrilled to see our work recognised by peers and clients, winning several awards throughout the year.

For the fourth consecutive year, LGIM's Corporate Governance team received the 2018 ICSA award for Best Investor Engagement. This award rewards the investor who, in the judgment of FTSE 350 company secretaries, conducted the most constructive engagement during the year. This award recognises LGIM for demonstrating a high standard of stewardship in the market.



LGIM won the award for Best ESG Manager at the Corporate Adviser Awards 2018. The awards 'recognise and reward advisers and providers that have brought innovation to the field of workplace financial services'.



Financial News Asset Management Awards

At **Financial News' annual Asset Management Awards Europe gala**, LGIM won the award in the inaugural 'Diversity Initiative of the Year' category. We were recognised for our support of diversity through the 30% Club, through our voting record against UK companies with poor diversity, as well as the launch of a fund which seeks to invest more in UK companies with comparatively higher levels of gender diversity.

LGIM was a finalist in the **Finance for the Future Awards 2018**. The awards highlight the role of finance in promoting sustainable business models.

Finance For The Future Award 2018

Savvy Investor Awards 2018

LGIM's guide to climate change for investments, co-written as part of the Institutional Investor Group on Climate Change (IIGCC), was Highly Commended as 'Best ESG Paper' at the **Savvy Investor Awards 2018**.



Our Director of Corporate Governance receiving the ICSA Award from the event hosts.

# The Corporate Governance team

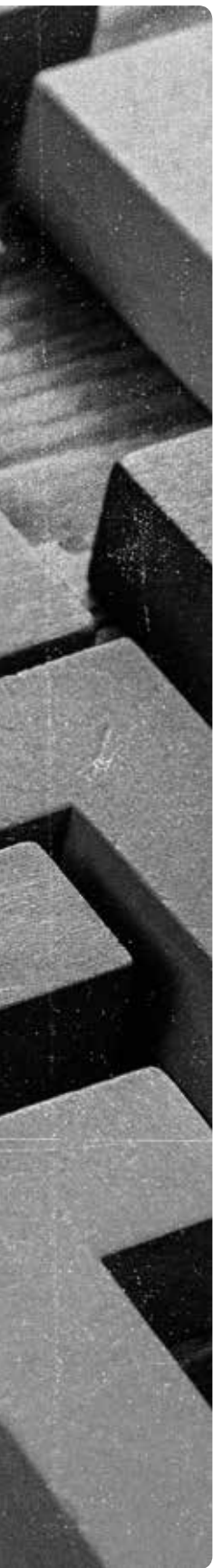
## A distinct and independent structure

Our Corporate Governance and Responsible Investment team of 14 professionals is led by the Director of Corporate Governance, Sacha Sadan.

The Director of Corporate Governance reports directly to LGIM's CEO. This structure, as well as the ability to engage with two independent non-executive directors of LGIM's board, ensures that conflicts of interest are appropriately managed.

The team is independent from all fund management professionals, allowing them to operate within Chinese walls to receive relevant sensitive information. However, fluid communication is maintained with fund managers in order to enhance ESG and financial dialogue with the companies in which LGIM invests.

# How the team spent 2018, in their own words



**Angeli Benham**

**Corporate Governance Manager**

“Why is it that benchmarks always suggest exec pay is below median?”



**Clare Payn**

**Head of Corporate Governance, North America**

“Companies tell us they appoint on merit. Broadening the talent pool to include more women is the best way to do this”



**Iancu Daramus**

**Sustainability Analyst**

“If only I had a pound in an ESG fund from every person asking whether ESG investing will lose them money”



**John Hoepfner**

**Head of US Stewardship and Sustainable Investments**

“I realise what is legally required. What we are discussing is what is right”



**Lucy Johnstone**

**ESG Product Specialist**

“Client demand for ESG has been unprecedented – tough news for our diaries, great news for the industry”



**Maxine McMahon**

**Executive Assistant**

“Mistress multi-tasker, can I count on one hand how many items I can deal with at once? No”



**Sacha Sadan**

**Director of Corporate Governance**

“If I meet another ‘unique’ company...”



**Catherine Ogden**

**Manager, Sustainability and Responsible Investment**

“You know ESG integration is working when other investment teams want your job”



**David Patt**

**Senior Analyst, Corporate Governance and Public Policy**

“Lifting weights is nothing compared to lifting market standards”



**James Malone**

**Corporate Governance ESG Analyst**

“When colleagues literally start calling you ‘Data’, it’s time to take a break from the spreadsheets”



**Jeannette Andrews**

**Corporate Governance Manager**

“Nothing like having your first child to get you thinking about making markets fit for her future”



**Marion Plouhinec**

**Corporate Governance Analyst**

“I’ve spent much of the year challenging those CEOs which also get to mark their own homework as board chair”



**Meryam Omi**

**Head of Sustainability and Responsible Investment Strategy**

“A benchmark that is financing 3 to 4 degrees of global warming shouldn’t be beaten, it should be changed”



**Yasmine Svan**

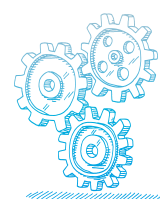
**Sustainability Analyst**

“I now have quite a collection of carrots and sticks from trying to get some of the biggest companies to go further and faster in the low-carbon transition”



## Links and notes

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2. <https://www.theguardian.com/environment/2018/oct/08/global-warming-must-not-exceed-15c-warns-landmark-un-report>
3. Some analysts expect this to happen as early as 2020 in China <https://www.jpmorgan.com/global/research/electric-vehicles>. Another analysis expects cost parity to happen in 2024: <https://about.bnef.com/electric-vehicle-outlook/>
4. <https://www.reuters.com/article/us-germany-energy-coal/germany-to-phase-out-coal-by-2038-in-move-away-from-fossil-fuels-idUSKCN1PK04L>
5. Source: Climate 50/50 Project - Asset Manager Climate Scorecard 2018, analysis of the voting records of the world's 13 largest asset managers that report mutual fund votes, focused on resolutions at US energy, auto and utility companies. Top 10 asset managers by AUM shown
6. <https://www.legalandgeneralgroup.com/csr/our-focus-areas/transitioning-to-a-low-carbon-economy/>
7. By market capitalisation. Source: FTSE Russell
8. <http://www.lgim.com/uk/en/insights/our-thinking/market-insights/lgims-climate-impact-pledge-the-results-so-far.html>
9. Source: Carbon Tracker Initiative
10. Read our letter here: [https://www.lgim.com/files/\\_document-library/capabilities/open-letter-from-lgim-and-other-global-investors-to-the-oil-and-gas-industry-may-2018.pdf](https://www.lgim.com/files/_document-library/capabilities/open-letter-from-lgim-and-other-global-investors-to-the-oil-and-gas-industry-may-2018.pdf)
11. For more information on what has been dubbed 'the world's largest single-issue engagement initiative', see: [www.climateaction100.org/](http://www.climateaction100.org/)
12. <https://www.independent.co.uk/environment/disposable-coffee-cups-how-big-problem-environment-landfill-recycling-incinerate-export-rubbish-a8142381.html>
13. <https://www.theguardian.com/environment/2018/apr/18/costa-coffee-to-recycle-equivalent-of-all-its-takeaway-cups-each-year>
14. Costa was acquired by Coca Cola in early 2019
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31. Source: Spencer Stuart Board Index 2018 – United States
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38. <http://www.lgim.com/uk/en/capabilities/corporate-governance/influencing-the-debate/>







## CONTACT US

For further information on anything you have read in this report or to provide feedback, please contact us at

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For further information about LGIM, please visit [lgim.com](http://lgim.com)



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### Important notice

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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