

Japan Stewardship Code: LGIM's response



Contents

Introduction	3
Principle 1	4
Stewardship policies	4
Scope of stewardship responsibilities	4
Principle 2	5
Identification of conflicts	5
Mitigation of conflicts	5
Management of conflicts	5
Principle 3	6
Monitoring of investee companies	6
Tracking engagement outcomes	6
Principle 4	7
Collaboration with other investors	7
Escalation	7
Internal communication	7
Principle 5	8
Voting policy	8
Disclosure of voting activity	8
Proxy voting advisers	8
Principle 6	10
Keeping clients informed	10
Principle 7	11
External resources	11
Internal resources and skills	11
Policies and compliance	11

Introduction

At LGIM we take our stewardship responsibilities seriously and devote significant resources to ensuring our clients' assets are protected.

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

We are active proponents of the benefits of stewardship codes globally to improve the quality of stewardship and ownership across the markets in which we invest.

As a strong supporter of the Japan Stewardship Code from its inception, we feel it is our duty to be accountable for our clients' assets and ensure that we uphold the highest environmental, social, governance (ESG) and sustainability standards in the global financial market.

Below we demonstrate how LGIM complies with the principles and guidance of the 2020 Japan Stewardship Code. In addition, further examples of our stewardship activities during the 2022 financial year can be found in our latest [Active Ownership Report](#), and on our [website](#).

“Stewardship responsibilities refer to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge on the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

Principle 1

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

Japan Stewardship Code, FSA, 2020

Stewardship policies

LGIM's policies on corporate governance and responsible investment, voting and conflicts of interest are reviewed on a regular basis, with most policies updated annually. Any substantial changes undergo an internal review and detailed scrutiny, and require the approval of the Investment Stewardship Committee. The committee is chaired by an LGIM independent non-executive director and comprises three further independent non-executive directors, the CEO, the Chief Investment Officer, and the Head of Investment Stewardship and Responsible Investment Integration.

LGIM's Global Corporate Governance and Responsible Investment Principles set out its minimum expectations of investee companies in terms of corporate governance and other ESG and sustainability issues and outline how LGIM exercises its voting, engagement and monitoring activities. As this applies to companies globally, it should be read in conjunction with the region-specific policy for Japan. LGIM has also developed region-specific policies for the UK and North America markets.

Further information on our policies on engagements and voting are outlined under Principles 4 and 5, respectively.

All stewardship policies are publicly disclosed and can be found on LGIM's [website](#).

Scope of stewardship responsibilities

LGIM's stewardship responsibilities extend to all assets globally, including equities, fixed income and real assets.

For further information on the ESG policies and initiatives undertaken in LGIM's fixed income and real assets businesses, please refer to the annual Active Ownership Report (Principle 6), Engagement Policy (Principle 4), and [Insights publications](#).

Principle 2

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

Japan Stewardship Code, FSA, 2020

Managing both actual and perceived conflicts is essential to LGIM's activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which LGIM invests.

The Investment Stewardship Conflicts of Interest Policy outlines practical processes in place to identify, manage and mitigate potential conflicts. The policy also details historical case studies to provide further explanation of where such conflicts have arisen in the past, and how LGIM dealt with that risk to act in the best interests of its clients. The policy is available [here](#).

Identification of conflicts

Our strategies and processes, which include staff training and annual reviews of controls and conflicts, enable the early identification of potential or actual conflicts of interests.

Mitigation of conflicts

“Chinese walls” ensure the independence of the Investment Stewardship team. The Investment Stewardship team structure mitigates potential internal conflicts. Importantly, the team does not share line management reporting lines with any of the LGIM investment desks, including the active equity or active fixed income teams.

Information on internal resources and team structure is outlined in our response to Principle 7.

Management of conflicts

LGIM's Investment Stewardship Committee meets quarterly and has explicit responsibility to provide oversight in relation to potential conflicts of interests and contentious corporate governance issues. Please see Principle 1 for information regarding this committee.

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

Where conflicts are identified outside the Investment Stewardship Committee, the five independent non-executive directors of LGIM(H) are available to the Investment Stewardship team for the escalation of how a (potential or actual) conflict should be addressed and to oversee this process.

Principle 3

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

Japan Stewardship Code, FSA, 2020

Monitoring of investee companies

LGIM actively monitors investee companies to ensure they are positioned for sustainable growth and in turn are able to create long-term value for LGIM's clients.

LGIM does not rely exclusively on corporate disclosures when monitoring companies. The resources which the Investment Stewardship team draws on include company disclosures, external corporate governance and other ESG scores and networks, concerns raised by proxy voting advisers, collaborative engagement with other shareholders, market news, and meetings with the internal investment teams.

LGIM also monitors companies objectively by using its proprietary and quantitative ESG assessment tools, the LGIM ESG Scores¹ and the Active ESG View², as well as assessing companies against their management of climate risks and opportunities through LGIM's Climate Impact Pledge³.

Tracking engagement outcomes

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

¹ LGIM's ESG Scores capture minimum standards on environmental, social and governance metrics – as well as companies' overall levels of transparency. These scores are used to help prioritise engagements and for use in index construction across LGIM's Future World ESG-tilted indices. LGIM has applied this tool to score approximately 17,000 global companies. The score uses a limited number of indicators that LGIM believes are universal and are relevant and consistent across sectors globally (see [methodology document](#)). These scores are publicly available on LGIM's [website](#).

² The Active ESG View tool goes further than the LGIM ESG Score, incorporating additional granular quantitative and qualitative inputs and assessments in order to provide a full picture of the ESG risks and opportunities embedded within each company. This is used as an essential component of the research and portfolio management process for LGIM's Active Equity and Active Fixed Income teams.

³ LGIM's Climate Impact Pledge is a targeted engagement campaign we started in 2016 to address the systemic risk of climate change. LGIM's Climate Impact Pledge maps over 5,000 companies worldwide, in 20 'climate-critical' sectors, against key indicators. Using quantitative and qualitative measures, LGIM assesses them under a 'traffic light' system, drawing on independent data providers and in-house climate modelling tools. Companies that fail to demonstrate adequate climate commitments may have voting sanctions applied across LGIM's entire book with investment decisions made within some funds. Resulting scores are publicly available on LGIM's [website](#).

Principle 4

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

Japan Stewardship Code, FSA, 2020

As a long-term shareholder, LGIM aims to be a trusted adviser to the management and boards of the companies in which it invests on behalf of clients. LGIM's approach to engagements is to have an open dialogue that is constructive and helpful, and also aimed at deepening its knowledge of investee companies.

LGIM's engagement conversations involve high-level strategic discussions on ESG, sustainability and other matters that affect companies' long-term financial returns. LGIM therefore expects engagement to take place with the board chair, independent lead non-executive director, or the chairs of the respective key board committees that are responsible for the topic under discussion.

Collaboration with other investors

Collaboration with other like-minded investment institutions on specific topics is a key way for LGIM to encourage investee companies to improve their management of ESG issues. Collaborative engagement with other investors may be on topics that are specific to a company or in response to an industry consultation. It should not, however, be confused with consortiums, as each investment house would retain the decision-making power to act in the best interests of its own clients.

Escalation

Escalation is a vital component in making engagements effective. If constructive engagements fail to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue.

Escalation can take the form of voting against the company (Principle 5), filing or supporting shareholder-requisitioned resolutions, the use of public pressure, adjustments to capital allocation in certain funds, and engaging with policymakers and regulators. The escalation of engagement can also result in a collaborative initiative, which allows LGIM to forge alliances with other investors on common goals.

Internal communication

Please see Principle 7 for further information on internal resources and skills.

For more details on LGIM's engagement policy, please refer to [this document](#) on our website.

Principle 5

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

Japan Stewardship Code, FSA, 2020

Voting policy

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

In addition, LGIM has set specific, custom voting policies at an individual market level for those markets in which LGIM adopts a stricter stance. LGIM's voting policy has been developed to reflect the economic, political and cultural differences in corporate governance and other ESG practices.

Disclosure of voting activity

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

LGIM publishes its voting decisions, including the rationale for each resolution where an instruction has been cast against management. This information is accessible one day after the shareholder meeting, on the following [webpage](#). A link to this webpage is also available on the [LGIM Japan website](#).

LGIM is committed to providing its clients with access to “significant vote” information in alignment with the EU Shareholder Rights Directive II. In addition, LGIM will provide information on significant votes in the format of detailed case studies in its quarterly ESG Impact Reports published on its website and through annual Active Ownership publications.

Additionally, in 2021 LGIM began pre-declaring voting intentions ahead of a company's shareholder meeting in a centralised, transparent and easily-accessible format via LGIM's [blog](#). These pre-declarations highlight the companies and resolutions we believe require additional scrutiny by the market, and form part of our escalation strategy under specific engagement topics.

Proxy voting advisers

Given the scale of LGIM's holdings, LGIM cannot be physically present at every company shareholder meeting to cast these votes. LGIM instead votes by proxy through the Institutional Shareholder Services (ISS) voting platform.

LGIM's custom voting policy, with specific instructions (details above), ensures that the proxy provider votes in accordance with LGIM's position on ESG issues. All of the decisions are made by LGIM's Investment Stewardship

Japan Stewardship Code: LGIM's response

team and in accordance with LGIM's relevant Corporate Governance & Responsible Investment Policy documents.

For more details on why and how LGIM uses proxy advisory services please refer to [this document](#).

Principle 6

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

Japan Stewardship Code, FSA, 2020

Keeping clients informed

LGIM believes it is important to keep clients informed about ESG matters that may affect their portfolios.

LGIM discloses its stewardship activities through the annual [Active Ownership Report](#), Quarterly Impact Reports, [thought pieces](#) on ESG and engagement-related topics and via [blogs](#) and [podcasts](#). These are all publicly disclosed and can be found on LGIM's website.

For details on how LGIM discloses its voting activity, please refer to Principle 5.

In addition, LGIM provides trustee education seminars and stakeholder events throughout the year to help clients, investee companies and other market participants better understand current issues and to highlight what LGIM is doing to reduce risks and promote best practices.

Principle 7

“To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

External resources

Please see Principle 3 for details on information sources and Principle 4 for information on constructive engagements with investee companies.

Internal resources and skills

When building the Investment Stewardship team, LGIM deliberately hired members with diverse experience and expertise: the result is a strong and cohesive set of professionals who possess complementary skills and experience in areas including stewardship, fund management, responsible investment, financial analysis, corporate governance, ESG, sustainability, public policy and regulation.

The Investment Stewardship team is predominantly based in London, but it has a global remit with staff also based in Japan, the US, and Singapore. While the Investment Stewardship team is independent of the in-house investment team, communication is maintained to share knowledge and information.

Policies and compliance

Details on LGIM's stewardship policies are provided under Principle 1.

LGIM has strengthened its internal review processes in response to increasing client requirements, to ensure that stewardship processes and disclosures remain balanced and complete. We also work alongside our internal auditors to set suitable frameworks and standards against which an independent assessment could be effectively completed.

Important information

Legal & General Investment Management
One Coleman Street
London
EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.

Legal & General Investment Management does not provide advice on the suitability of its products or services.

Ultimate holding company - Legal & General Group plc.

LGIM UK Disclaimer and important legal notice

The information contained in this document (the 'Information') has been prepared by Legal & General Investment Management Limited, or by Legal and General Assurance (Pensions Management) Limited and/or their affiliates ('Legal & General', 'we' or 'us'). Such Information is the property and/or confidential information of Legal & General and may not be disclosed by you to any other person without the prior written consent of Legal & General.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the Information, or any other written or oral information made available in connection with this publication. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. No part of this or any other document or presentation provided by us shall be deemed to constitute 'proper advice' for the purposes of the Pensions Act 1995 (as amended). Any limited initial advice given relating to professional services will be further discussed and negotiated in order to agree formal investment guidelines which will form part of written contractual terms between the parties.

Past performance is no guarantee of future results. 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.

The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission.

The risks associated with each fund or investment strategy are set out in this publication, the relevant prospectus or investment management agreement (as applicable) and these should be read and understood before making any investment decisions. A copy of the relevant documentation can be obtained from your Client Relationship Manager.

Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.

The Information is provided 'as is' and 'as available'. To the fullest extent permitted by law, Legal & General accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information. Without limiting the generality of the foregoing, Legal & General does not accept any liability for any indirect, special or consequential loss howsoever caused and on any theory or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised of the possibility of such loss.

Third Party Data:

Where this document contains third party data ('Third Party Data'), we cannot guarantee the accuracy, completeness or reliability of such Third Party Data and accept no responsibility or liability whatsoever in respect of such Third Party Data.

Japan Stewardship Code: LGIM's response

Publication, Amendments and Updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you. Legal & General reserves the right to update this document and/or the Information at any time and without notice.

Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

Telephone Recording

As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Financial Conduct Authority (or such successor from time to time)) and will be provided to you upon request.

Legal & General Investment Management Limited. Registered in England and Wales No. 02091894. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No.119272.

Legal and General Assurance (Pensions Management) Limited. Registered in England and Wales No. 01006112. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, No. 202202.

The LGIM Workplace Savings division on behalf of both Legal and General Assurance Limited. Registered in England and Wales No. 00166055. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. As well as Legal & General (Portfolio Management Services) Limited. Registered in England and Wales No. 02457525. Authorised and regulated by the Financial Conduct Authority, No. 146786. Registered Offices: One Coleman Street, London, EC2R 5AA.

LGIM Europe Disclaimer and important legal notice

The information contained in this document (the 'Information') has been prepared by LGIM Managers Europe Limited ('LGIM Europe'), or by its affiliates ('Legal & General', 'we' or 'us'). Such Information is the property and/or confidential information of Legal & General and may not be disclosed by you to any other person without the prior written consent of Legal & General.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the Information, or any other written or oral information made available in connection with this publication. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. No part of this or any other document or presentation provided by us shall be deemed to constitute 'proper advice' for the purposes of the Investment Intermediaries Act 1995 (as amended). Any limited initial advice given relating to professional services will be further discussed and negotiated in order to agree formal investment guidelines which will form part of written contractual terms between the parties.

Past performance is no guarantee of future results. 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. The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission.

The risks associated with each fund or investment strategy are set out in this publication, the relevant prospectus or investment management agreement (as applicable) and these should be read and understood before making any investment decisions. A copy of the relevant documentation can be obtained from your Client Relationship Manager.

Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.

The Information is provided 'as is' and 'as available'. To the fullest extent permitted by law, Legal & General accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information.

Japan Stewardship Code: LGIM's response

Without limiting the generality of the foregoing, Legal & General does not accept any liability for any indirect, special or consequential loss howsoever caused and, on any theory, or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised of the possibility of such loss.

Third Party Data:

Where this document contains third party data ('Third Party Data'), we cannot guarantee the accuracy, completeness or reliability of such Third-Party Data and accept no responsibility or liability whatsoever in respect of such Third-Party Data.

Publication, Amendments and Updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you. Legal & General reserves the right to update this document and/or the Information at any time and without notice.

Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

Telephone Recording:

As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Central Bank of Ireland (or such successor from time to time)) and will be provided to you upon request.

In the United Kingdom and outside the European Economic Area, it is issued by Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.

In the European Economic Area, it is issued by LGIM Managers (Europe) Limited, authorised by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (S.I. No. 352 of 2011), as amended) and as an alternative investment fund manager with "top up" permissions which enable the firm to carry out certain additional MiFID investment services (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (S.I. No. 257 of 2013), as amended). Registered in Ireland with the Companies Registration Office (No. 609677). Registered Office: 33/34 Sir John Rogerson's Quay, Dublin, 2, Ireland. Regulated by the Central Bank of Ireland (No. C173733).

LGIM Managers (Europe) Limited operates a branch network in the European Economic Area, which is subject to supervision by the Central Bank of Ireland. In Italy, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Commissione Nazionale per le società e la Borsa ("CONSOB") and is registered with Banca d'Italia (no. 23978.0) with registered office at Via Uberto Visconti di Modrone, 15, 20122 Milan, (Companies' Register no. MI - 2557936). In Germany, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the German Federal Financial Supervisory Authority ("BaFin"). In the Netherlands, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Dutch Authority for the Financial Markets ("AFM") and it is included in the register held by the AFM and registered with the trade register of the Chamber of Commerce under number 74481231. Details about the full extent of our relevant authorisations and permissions are available from us upon request. For further information on our products (including the product prospectuses), please visit our website.