Active ownership

Global engagement to deliver positive change

Active ownership means striving to create sustainable value for our clients. Our annual report details how we achieved this in 2020.

Legal & General
INVESTMENT MANAGEMENT

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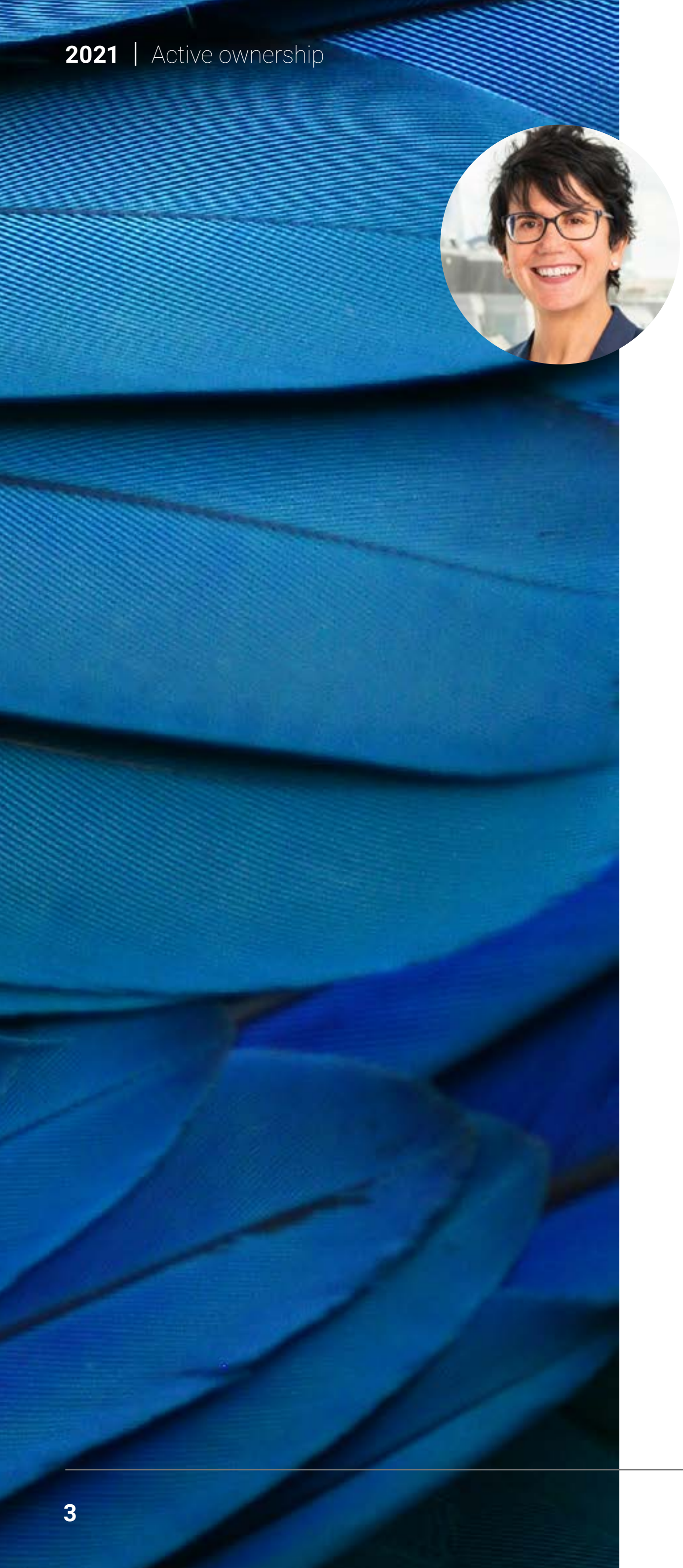


March 2021

Foreword

Responsible investing in an age of uncertainty

Last year will doubtless remain etched in our memories, for both the sudden darkness it cast over us and the enduring light of human resilience it kindled. I am deeply proud of LGIM's response to the manifold challenges that emerged, or were intensified, and with which we are still contending.

In this document, our tenth annual Active Ownership report, we outline the decisive action we took on behalf of our clients across a range of environmental, social and governance (ESG) issues, with a particular focus on the near-term dangers posed by COVID-19 and the longer-term threat of climate change.

Throughout these pages you will see examples of where we were successful, often in collaboration with our industry peers, in raising standards at individual companies and across entire markets. You will also read about where more needs to be done.

In addition, we detail how we have exercised voting rights, on key issues from diversity to income inequality, and enhanced our framework for responsible investing to strengthen long-term returns for clients.

We welcome the growing regulatory focus on ESG themes. As a result, for the first time, the report is aimed at meeting the requirements of the UK Stewardship Code and also responds to the Task Force on Climate-related Financial Disclosures (TCFD).

A better future

The pandemic has disrupted our lives in numerous and profound ways; it has also underscored the importance of tackling looming threats – like that of a climate catastrophe – before it is too late. But we were already living in a period of flux even before COVID-19, due to dramatic shifts in technology, politics, demography and the environment.

We believe asset managers have a crucial role to play in tackling the challenges presented by this era of uncertainty, many of which have been heightened by coronavirus. Participating in forums like the COP26 Business Leaders Group, ahead of the pivotal climate conference in Glasgow later this year, has emphasised to me the necessity of action – and the obstacles to it.

Indeed, through our active engagement with companies, we seek to effect positive change in the businesses in which we invest and for society as a whole, in line with L&G Group's vision of inclusive capitalism. In doing so, we are fulfilling our very purpose at LGIM: to create a better future through responsible investing.

As I look back on an extraordinary year, I am truly grateful to our Investment Stewardship team, alongside colleagues across LGIM, for the determination and passion they have demonstrated on behalf of our clients and the communities in which they live.

Michelle Scrimgeour
CEO, Legal & General Investment Management, and co-chair of COP26 Business Leaders

2020 in numbers

Zero
the **net amount of emissions** we're targeting across all assets under management (AUM) by 2050

1,000
companies covered under our expanded **Climate Impact Pledge**

665
companies with which our **Investment Stewardship team** engaged

£206.8bn
the **value of assets** we manage in **responsible investment strategies***

20
the number of new **responsible investment strategies** we launched

4,700
directors whose election we opposed to due to governance concerns

66,037
resolutions worldwide on which **we voted****

Note: This document reports on LGIM's stewardship activities during 2020. Unless otherwise stated, all information, data and graphical depictions provided that are not referenced are based on LGIM internal data as at 31 December 2020.

* LGIM, as at 31 December 2020. Includes responsible investment strategies explicitly linked to ESG criteria, across both pooled funds and segregated accounts globally.
** Voting instructions for our main FTSE pooled index funds.

Q&A

Sacha Sadan

Sonja Laud

Sacha Sadan, Director of Investment Stewardship, and Sonja Laud, Chief Investment Officer, discuss the key ESG themes of 2020 and their plans for 2021

What was the highlight of 2020?

Sacha: Early on during the pandemic, we wrote to companies with practical, constructive suggestions about how they could cope – from supporting employees to raising capital. Our key message was: Focus on all stakeholders, not just shareholders. In doing so, we demonstrated we're a long term investor; it's really only in a crisis that you can truly prove this.

Sonja: As you know, we established our Global Research & Engagement Group in 2019 to unify our engagement efforts and determine exposures to ESG risks and opportunities. During 2020, under extremely difficult circumstances, the dedicated sector groups enabled specialists across LGIM to blend insights and knowledge – from both sides of the capital structure – to enhance our investment decisions.

It has also been gratifying to see the development of our bespoke climate risk framework, Destination@Risk, an ambitious project we've undertaken with a leading consultancy.

What was the biggest challenge your team faced during the year?

Sonja: COVID-19 posed very real challenges to LGIM's investment professionals, who had to contend with market and economic upheaval amid an acute awareness of the terrible human suffering caused by the pandemic. Coronavirus has also accelerated structural trends that present both risks and opportunities. Responsible investing is clearly one such theme, given the plans by governments to make this a 'green' recovery. We see this as a huge opportunity.

Sacha: Not being able to engage face-to-face with companies – it feels more formal when you're connecting via Teams or Zoom. We've had to learn to do things differently, taking new approaches to corporate engagement, such as encouraging companies to hold virtual AGMs and ad hoc shareholder meetings. We plan to keep using many of these tools even after the crisis is over.

On what issues did you collaborate most with other investors?

Sacha: The standout topic was definitely climate change. Last year showed us that despite drastic lockdowns when few people flew and industrial production collapsed, the world still can't reach net zero carbon emissions. In 2020, we significantly increased the coverage and ambition of our climate engagement programme – but we know we can't do this alone. Investors need to work together through programmes like Climate Action 100 and the Net Zero Asset Managers Initiative to curb the threat of a climate catastrophe.

Sonja: Exactly. We also worked closely on these issues with asset owners. Many of whom wish to make investments that will have a real impact on the future energy system. Another important area worth mentioning is the ongoing shift in ESG-focused regulation, where we supported our clients and worked with policymakers.

What were the other key themes of the year?

Sacha: We made a big push on social issues, particularly inequality and diversity. The living wage – already an important issue – is absolutely becoming front and centre due to the impact of COVID-19. As are questions about how companies treat their suppliers. After the killing of George Floyd in the US, we announced a new voting and engagement policy on ethnic diversity at company boards.

Sonja: We did indeed deepen our longstanding focus on the societal impact of our investments. We were guided by the UN's Sustainable Development Goals, whose social objectives range from 'no poverty', to 'peace, justice and strong institutions'. We believe companies whose activities align with these goals are more attractive recipients of the money our clients entrust to us.

What are your priorities for 2021?

Sacha: Inequality, ethnic diversity, and tax transparency. This issue is going to become even more important as governments require more revenue to fund economic support measures and stimulus packages. We'll be looking closely at aggressive tax practices. More broadly, we'll continue to judge companies on how they treat their employees, suppliers and customers in this period of real hardship.

Sonja: We'll strive to help our clients navigate an uncertain investment landscape, while seeking to effect positive change and realising L&G Group's vision of 'inclusive capitalism'. To help determine which companies will thrive after the crisis and which ones will not, we'll continue to enhance our investment capabilities to make 360-degree ESG assessments.

Another important focus for us is the complementary roles of active and index strategies in achieving these objectives. We're excited to roll out further climate solutions across both approaches, which include defined decarbonisation targets and 'Paris-alignment' objectives. Destination@Risk will help on this front and enable standardised climate reporting across portfolios.

Is there anything else you'd like to add?

Sonja: I'd like to thank everyone in Investments and the Investment Stewardship team, for their inspiring work on behalf of our clients to fulfil LGIM's purpose – to create a better future through responsible investing.

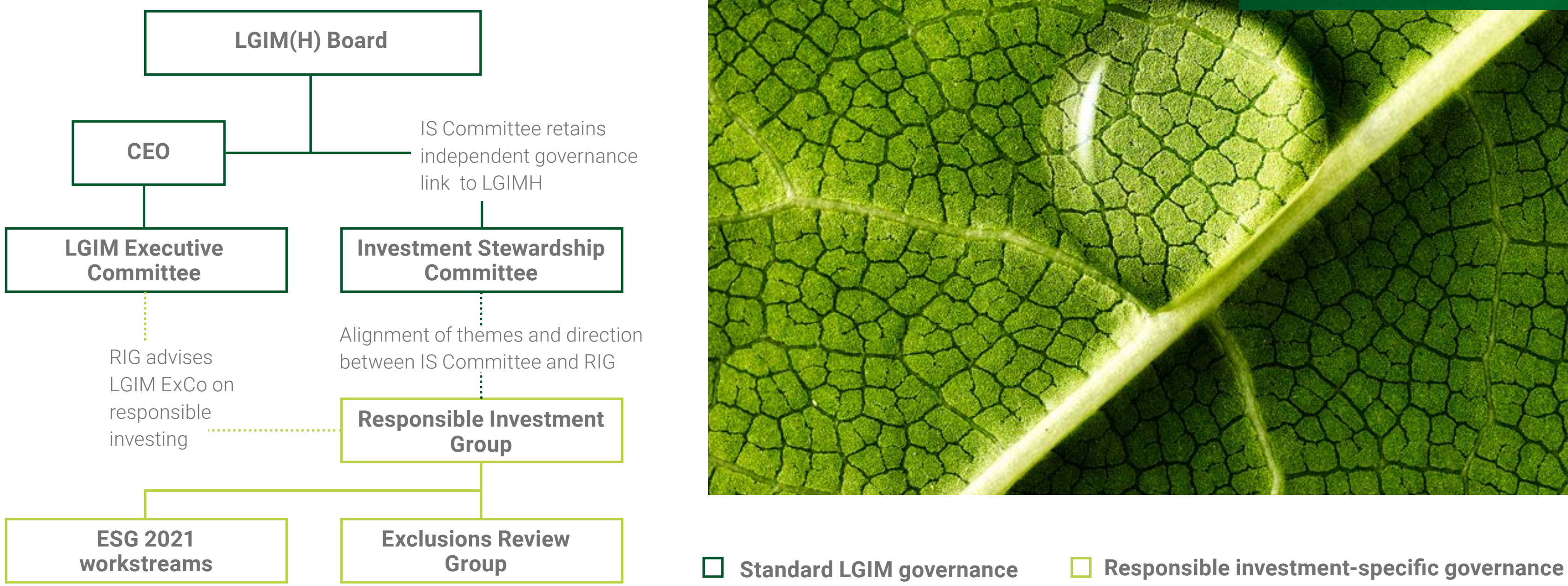
Sacha: I echo Sonja's remarks and add my personal thanks to the Investment Stewardship team who are consistently passionate, thoughtful and dedicated in their efforts to deliver positive change.

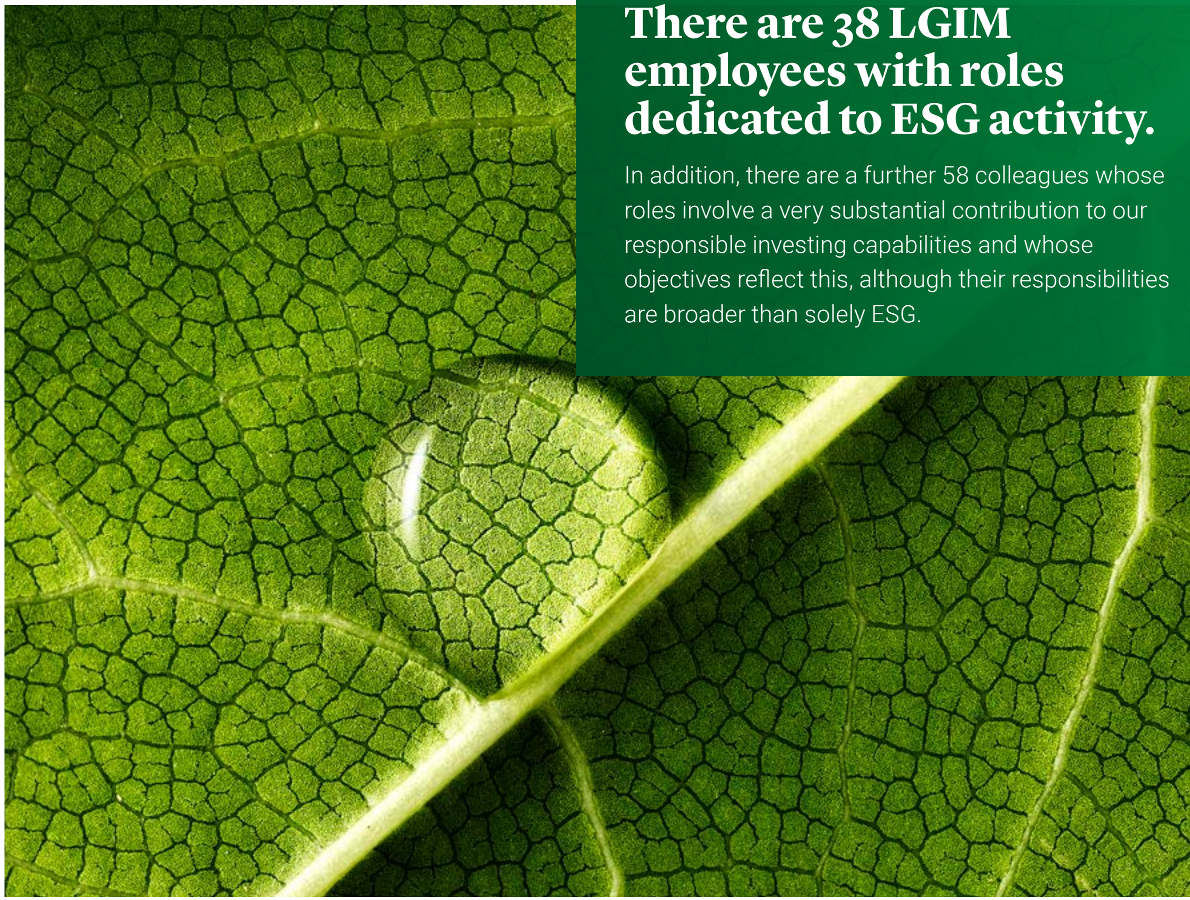
ESG integration

LGIM has established a fully integrated framework for responsible investing to strengthen long-term returns.

Our framework for responsible investing is based on stewardship with impact and active research across asset classes. These activities enable us to deliver responsible investment solutions to our clients and conduct engagement with the aim of driving positive change.

Underpinning our approach is a governance structure – outlined in the chart below – with processes that enable oversight and accountability. For more information on the investment solutions we offer, please see the responsible investing section on page 12.





There are 38 LGIM employees with roles dedicated to ESG activity.

In addition, there are a further 58 colleagues whose roles involve a very substantial contribution to our responsible investing capabilities and whose objectives reflect this, although their responsibilities are broader than solely ESG.

Investment stewardship

Our Investment Stewardship team comprises 17 professionals with an average of 14 years' experience in areas including responsible investment, corporate governance and public policy. This makes the team well positioned to keep abreast of the latest regulatory and industry developments.

The team is made up of both sector specialists and experts on ESG themes, such as sustainability. While it is predominantly based in the UK, it has a global remit, with members in Japan and the US.

Crucially, the Director of Investment Stewardship, Sacha Sadan, is a member of the LGIM board and reports directly to LGIM's CEO, Michelle Scrimgeour. We believe this independent reporting line allows the team to manage internal conflicts, form views and take decisions in the long-term interests of all clients.

In addition, the oversight of conflicts of interests has been delegated to a Conflicts Committee that comprises five non-executive directors.

We believe a different approach to managing capital is required.

Global research and engagement

In the face of looming challenges like climate change, ageing populations or technological disruption, we believe a different approach to managing capital is required – where ESG impact is considered alongside the traditional metrics of risk and return.

Evolving our capabilities to assess and engage with companies on ESG criteria is a vital objective for LGIM. This activity will be crucial to determine those that survive and thrive as change accelerates.

Over the course of 2020, our Global Research and Engagement Group of 73 analysts devoted significant time and resource to tackling emerging ESG issues across a range of sectors from both sides of the capital structure. These included supply chains, biodiversity and climate change.

This enabled us to connect top-down macro and thematic views with the bottom-up analysis of corporate and sector fundamentals, unearthing relative-value opportunities. Our active strategies can, therefore, target the cost of capital through credit, while voting with equity to effect positive change on behalf of our clients.

Global Research and Engagement Group

The active management engine room

Forum for debate: Bringing together subject matter experts from across credit, equity and investment stewardship

Active engagement: Meaningful dialogue building better pictures of companies to track improvement over time

Capital allocation: Agnostic to asset class, experience achieves the highest conviction recommendations

Identifying risks that could threaten the sustainability of returns

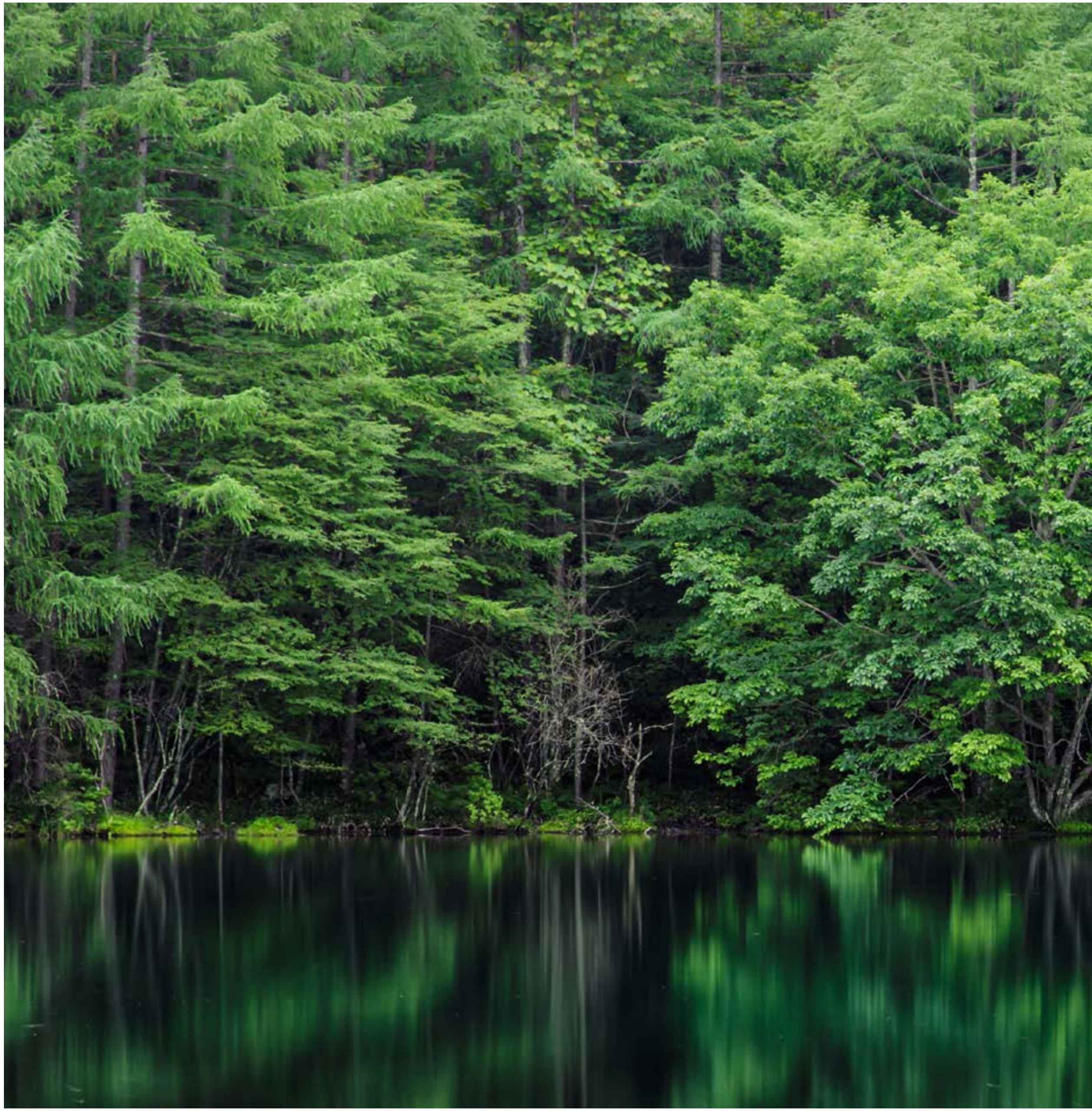
ESG 2021

The primary function of LGIM's Responsible Investment Group (RIG) is to support the Executive Committee in setting our global strategy, principles and positioning on responsible investing. It also provides oversight for delegated sub-groups, including our Exclusions Review Group and ESG 2021 programme.

Under the latter programme, initially called ESG 2020, we have made a considerable investment towards enhancing our responsible investing capabilities. We launched nine workstreams in April 2020, covering areas including data analytics and integration; client reporting; product strategy and governance; climate solutions; and an ESG academy. The programme's achievements include:

- Increasing our reporting on voting and engagement
- Redefining and enhancing our exclusion process for certain securities
- Aggregating our ESG data

ESG 2021 is focused on data, with many of the other workstreams now reporting directly into the RIG. The programme's workstreams encompass visualisations and reporting; investment data feeds and tools; vendor data feeds; and data governance.



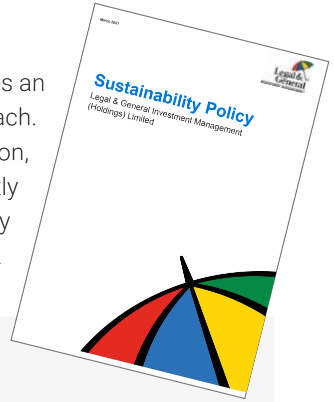
> **"With the ESG landscape evolving rapidly, we still have more to achieve as one of the world's leading responsible investors. We will continue to evolve our product range to meet the challenging demands of our diverse client base, while at the same time developing our capabilities to help us better manage portfolios."**

Michael Marks
Head of Responsible Investment Integration

Responsible investing

- We demonstrate our responsible investment beliefs across asset classes and fund-management styles
- In 2020, we launched 20 funds that target explicit ESG goals and, as at year-end, managed £206.8 billion of assets in responsible investment strategies*

This section provides an overview of our approach. For more information, please read our recently published sustainability policy.



Our approach to responsible investing stems from, and helps inform, Legal & General Group's vision for inclusive capitalism, which seeks to share the benefits of economic growth with as many people as possible.

These are our core investment beliefs:

Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes

Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns

Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole

We demonstrate these investment beliefs across asset classes and fund-management styles – in private and public markets, index and active strategies – through the following activities:

1. Integrating ESG considerations into our investment decisions
2. Actively engaging on ESG issues
3. Applying a common global strategy with respect to voting rights
4. Seeking to influence regulators and policymakers
5. Collaborating with other investors and stakeholders in investee companies

*Source: LGIM, as at 31 December 2020. Includes responsible investment strategies explicitly linked to ESG criteria, across both pooled funds and segregated accounts globally.

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.

Active ownership forms a key pillar of our approach.

Index and active strategies

A key pillar of our approach to index strategies is active ownership: encouraging companies to consider sustainability risks, develop resilient strategies and consider their stakeholders.

Index investing: lifting the lid on ESG integration

We also seek to tackle sustainability risks in some strategies on a product level using tools such as ESG scoring, 'tilting' and exclusions, via index construction or design. For more information, see our article on ESG integration in index strategies.

Meanwhile, active strategies apply forward-looking analysis to identify material ESG factors, avert sustainability risks and seek out opportunities. All investment decisions are made, challenged and managed via an additional lens of scrutiny provided by ESG criteria.

At the same time, our Global Research and Engagement Group brings together sector expertise from across our active investment and Investment Stewardship teams to streamline engagement activities.

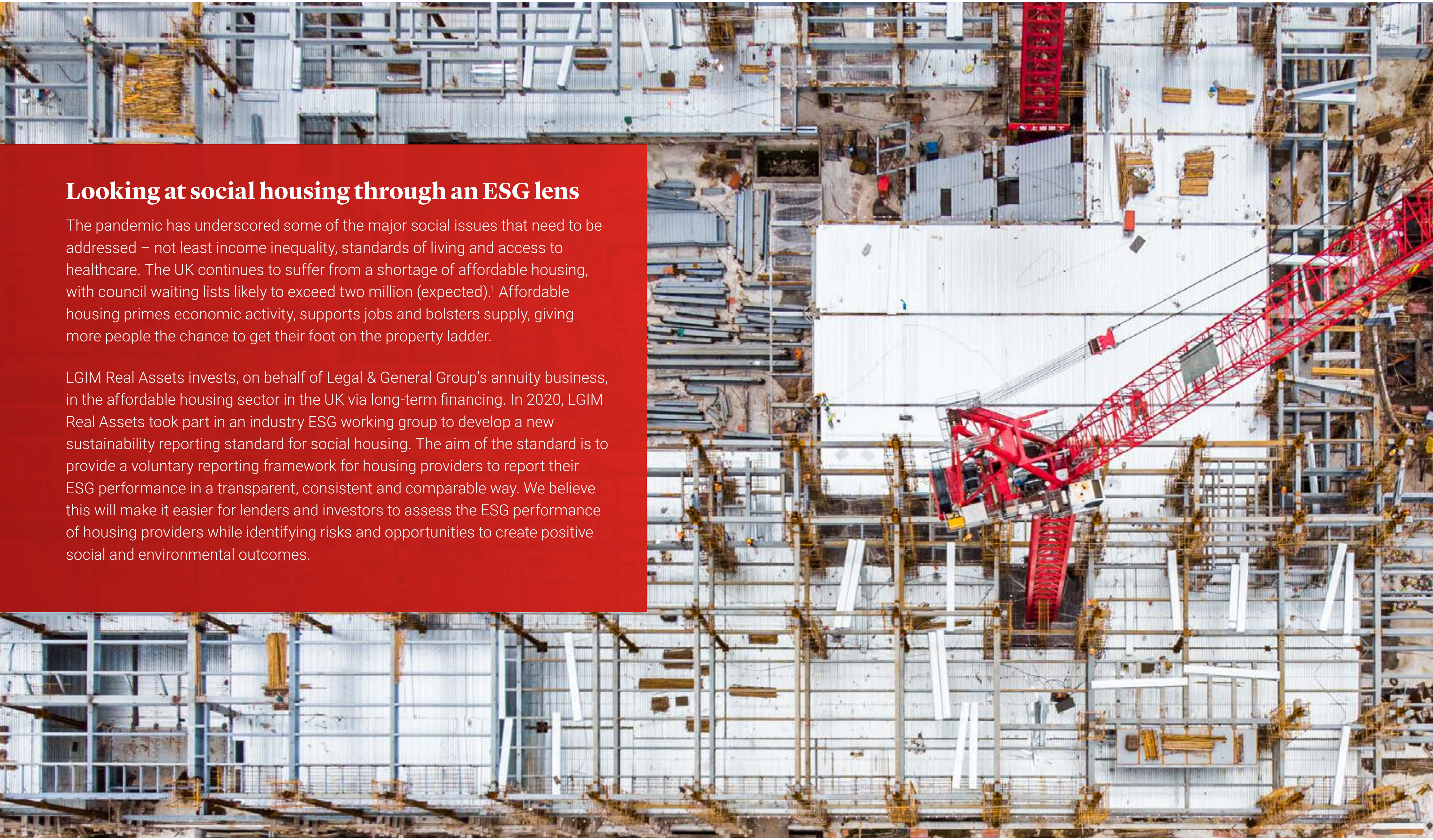
As with index products, active strategies exclude certain companies that are involved in the manufacture, development or trade of controversial weapons and thermal coal. They also consider and monitor violators of the United Nations Global Compact.

Real assets

To manage and mitigate sustainability risks, LGIM Real Assets also integrates ESG considerations into every stage of the investment process. The team also participates in the Global Research and Engagement Group.

As a significant lender in private markets, the division seeks to drive disclosure and performance standards to assess ESG risks as part of its due diligence on borrowers, by identifying and managing issues that are most material to the relevant assets.

In our real estate investments, sustainability already sits alongside location, tenant, building size and building quality as a key factor forming part of the investment process.



Looking at social housing through an ESG lens

The pandemic has underscored some of the major social issues that need to be addressed – not least income inequality, standards of living and access to healthcare. The UK continues to suffer from a shortage of affordable housing, with council waiting lists likely to exceed two million (expected).[1] Affordable housing primes economic activity, supports jobs and bolsters supply, giving more people the chance to get their foot on the property ladder.

LGIM Real Assets invests, on behalf of Legal & General Group's annuity business, in the affordable housing sector in the UK via long-term financing. In 2020, LGIM Real Assets took part in an industry ESG working group to develop a new sustainability reporting standard for social housing. The aim of the standard is to provide a voluntary reporting framework for housing providers to report their ESG performance in a transparent, consistent and comparable way. We believe this will make it easier for lenders and investors to assess the ESG performance of housing providers while identifying risks and opportunities to create positive social and environmental outcomes.

Active engagement

Our Investment Stewardship team focuses on client outcomes and broader societal and environmental impacts in its engagements with companies, taking the following six step approach.

As part of this process, the team also participates in our Global Research and Engagement Group. For more detail on how the team prioritises engagement, please see our policy.

Data and materiality

The availability and reliability of ESG data continue to pose challenges to asset managers. We are studying new ways to strengthen and evolve our processes and tools to enhance the data we use and their application across our investment platform, while providing further transparency to our clients.

In 2020, our Global Research and Engagement Group developed a proprietary materiality matrix to identify the most financially material topics for a given industry, guided by the work in this field by the Sustainability Accounting Standards Board. This entails analysing ESG factors likely to have an impact on financial or operating performance. The matrix also helps to structure our research and provide a framework to prioritise engagement activity and measure outcomes.

Environmental	Basics	Consumer	Energy	Financials	Health	Industrials	Real estate	TMT	Utilities
Climate change	High	Medium	High	Low	Low	High	High	Low	High
Products	Medium	Low	High	High	Low	Medium	High	Medium	Low
Water and waste	High	Medium	Low	Low	Low	Medium	Medium	Low	High
Supply chain	Medium	Medium	Low	Low	Low	Medium	Medium	Low	High
Environmental policies and controls	Medium	Low	High	Low	Low	Medium	High	Low	High
Social									
Labour	Medium	Medium	Low	Medium	Medium	Medium	Medium	Medium	Medium
Health and safety	High	Low	Medium	Low	Medium	Medium	Medium	Low	Medium
Supply chain	Low	Medium	Low	Low	Medium	Low	Medium	Medium	Medium
Community	Low	Medium	Medium	Low	Medium	Low	High	Medium	Low
Products	Medium	High	Low	High	High	Medium	High	Low	Low
Bribery and corruption	Medium	Low	High	Low	Low	Medium	Low	Low	High

Illustrative example of materiality matrix across ESG topics.

When evaluating the materiality of any ESG factor, our active credit or equity research analysts may consider the **following five factors**:

1
How the company is managing the most significant ESG risks within its sector

2
The transmission mechanism of the ESG risk, such as regulations or social license to operate

3
The financial impact of ESG risks; e.g. revenue/ cost, asset impairment or cost of capital

4
The time horizon

5
Whether the market is pricing in the ESG risk

These considerations vary by sector and company. However, if we believe an ESG risk is material to the financial and operating performance of a business, it will form a larger component of our assessment and one for which we would expect to be compensated.

ESG objectives

Since the launch of our first Future World fund in 2017, we have designed strategies with ESG objectives in mind, including targeting the UN's Sustainable Development Goals (SDGs). These include reductions in carbon emissions or an increase in 'green revenues' relative to a benchmark, as well as objectives related to clean water, healthcare breakthroughs and clean energy.

You can read more about how we reflect the UN's SDGs in our investments in this article.

In 2020, we launched 20 strategies that target explicit ESG goals, helping our clients and customers to go even further in expressing a conviction on sustainability themes. Many of these strategies, which include index funds and ETFs, are focused on hastening the transition to a low-carbon economy.

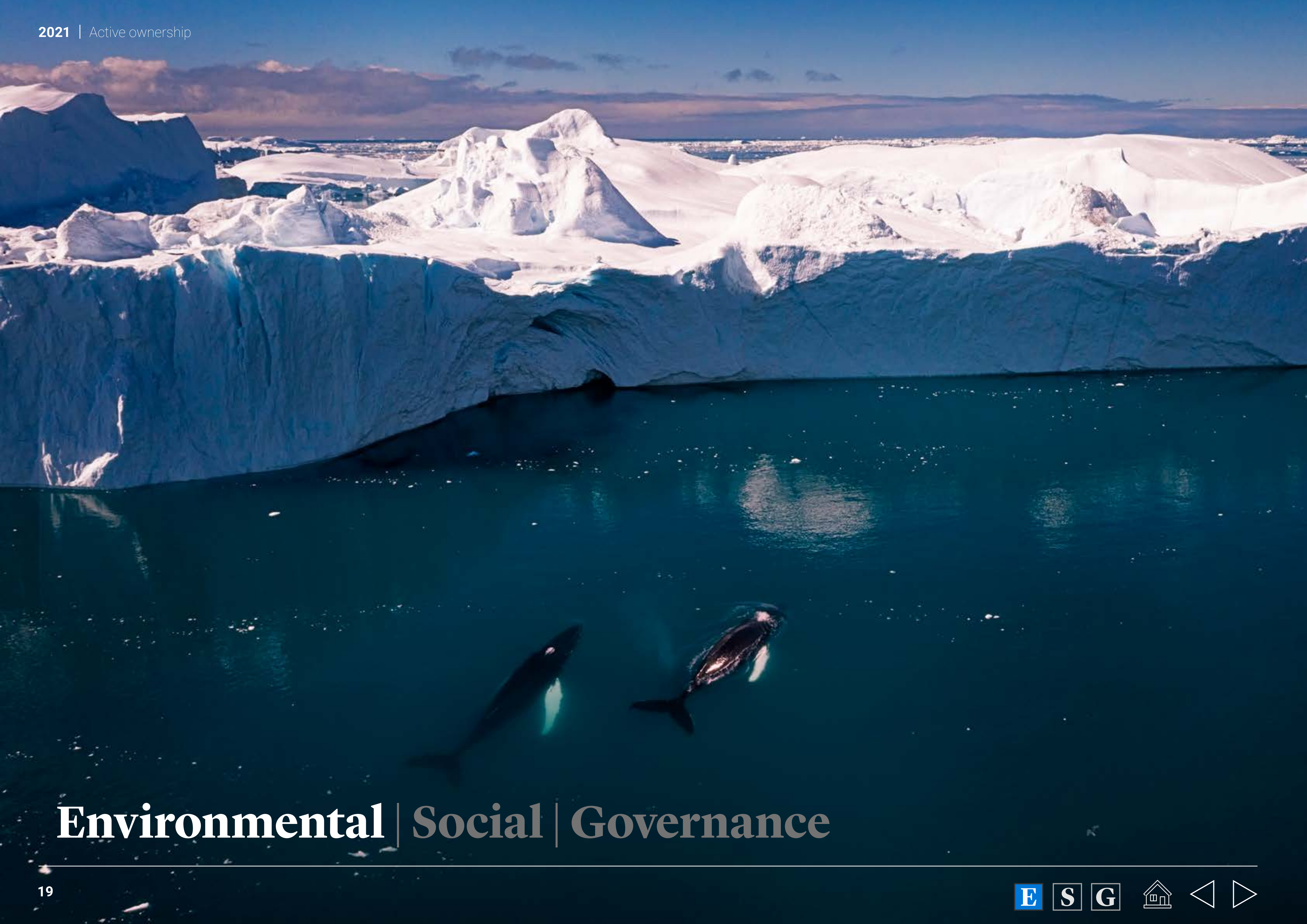
As at 31 December 2020, we managed £206.8 billion in responsible investment strategies with objectives linked to ESG criteria, up from £150 billion at the end of 2019.*

In addition to further climate-aligned products, we also intend to launch more thematic and impact-orientated strategies. To this end, we are further exploring the integration of SDGs into active and index products.

We have designed strategies with ESG objectives in mind, including the UN's Sustainable Development Goals.

As at 31 December 2020, we managed £206.8 billion in responsible investment strategies with objectives linked to ESG criteria, up from £150 billion at the end of 2019.

*Source: LGIM, as at 31 December 2020. Includes responsible investment strategies explicitly linked to ESG criteria, across both pooled funds and segregated accounts globally. Year-on-year growth is due to inflows; changes in asset prices; and the amendments to, or reclassification of, some strategies.



Environmental | Social | Governance

ESG: Environment and climate

- To tackle an era-defining challenge, we are targeting net-zero emissions by 2050 or sooner across all AUM and have made our Climate Impact Pledge even more ambitious
- In 2020, we continued to be a top supporter of 'climate-critical' shareholder proposals[2] and strengthened our climate analytics and solutions for clients

The world is facing a looming climate emergency. To avert this dire outcome, we are taking decisive action on behalf of our clients and the society in which we live.

Despite registering the largest annual recorded fall in greenhouse gases, 2020 may well have been the world's warmest year on record.[3] Wildfires in California, Australia and the Amazon have offered a grim illustration that the **physical risks** of a warming climate are intensifying.

There has also been good news, though, as renewables were the only energy source to keep growing amid the pandemic.* And as clean energy stocks began to surpass the market capitalisation of oil majors[4] and an electric vehicle maker became the world's most valuable car company,[5] the transition risks and opportunities from the shift to a low-carbon economy are becoming ever more apparent.

Policy and **legal interventions**[6] are increasing, as a growing number of governments, including China, have joined the UK and EU in announcing targets for net zero emissions, with the US expected to follow suit.

The private sector is also responding, with companies including airlines and telecoms businesses setting net-zero targets. As such, as commitments grow so too do **reputational risks** to companies perceived by some to be 'greenwashing'. LGIM is collaborating with regulators and other investors to address this issue.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

In this section, we highlight our alignment with the best practice recommendations adapted from the TCFD.**

Strategy: Describe climate-related risks and opportunities over short, medium and long-term

**For accessibility purposes, we are only providing a high-level overview of our alignment with the TCFD recommendations here. For more detailed TCFD-aligned reporting, please see LGIM's PRI report. Our latest report, with this year's edition to be made public in H1 2021. Legal & General Group Plc's TCFD report is also available here.

*International Energy Agency


The world is facing a looming climate emergency. To avert this dire outcome, we are taking decisive action on behalf of our clients and the society in which we live.

Strategies for sustainability

Our CEO, Michelle Scrimgeour, is responsible for LGIM's strategy for managing material climate risks. In addition, as highlighted earlier in this report, formal and informal groups – including the Investment Stewardship Committee and Responsible Investment Group – gather across LGIM to ensure climate and ESG risks are considered sufficiently.

In 2020, LGIM was ranked highest among asset managers for our approach to climate change[7] in a review by NGO ShareAction, with the UN-backed Principles for Responsible Investment (PRI) also selecting us as part of its 'leaders group' on climate change. In early 2021, meanwhile, Corporate Adviser found LGIM the highest ranking asset manager in a meta study of industry metrics of actions taken by institutional investors on ESG and climate change.

We are proud of this recognition, but remain acutely aware that more needs to be done.

In line with its longstanding commitment to sustainability and inclusive capitalism, in 2020 L&G Group formally added addressing climate change as one of its six strategic priorities.

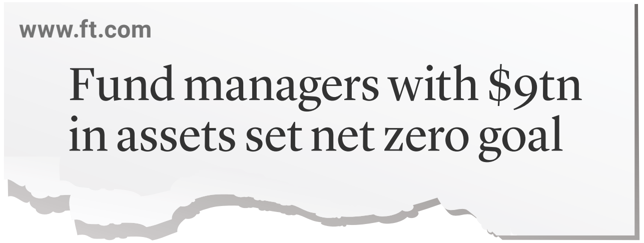
Throughout the year, we continued to support our parent company in decarbonising the assets on its balance sheet. And on the fifth anniversary of the Paris Agreement, LGIM was a founding member of the Net Zero Asset Managers Initiative, under which we pledged to work in partnership with our clients to set decarbonisation goals for their portfolios, in line with global efforts to reach net zero greenhouse gas emissions by 2050.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Governance: **Describe the board and management's role in overseeing, assessing and managing climate risks and opportunities**

Strategy: **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning**

We have also committed to providing clients with climate analytics and solutions to help accelerate the shift to a net-zero economy, while pushing companies and policymakers to do more. In addition:



www.ft.com

Fund managers with $9tn in assets set net zero goal

We strengthened the way fund managers and analysts use climate data and expertise, leading to tangible investment actions.

We made our Climate Impact Pledge programme even more ambitious – encompassing a larger number of companies, with sanctions for those that fall short of our minimum standards.

We expanded our range of low-carbon investment solutions, including funds focused on clean energy, fossil-free strategies developed with leading asset owners and products that overweight green bonds and the debt of companies with high ESG scores.

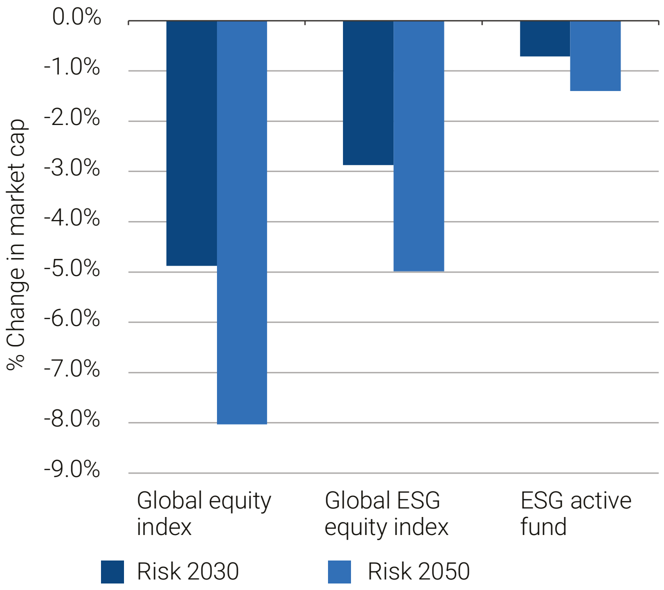
We continued to advocate for policies supporting ambitious climate action and a 'green' recovery.

Climate scenarios

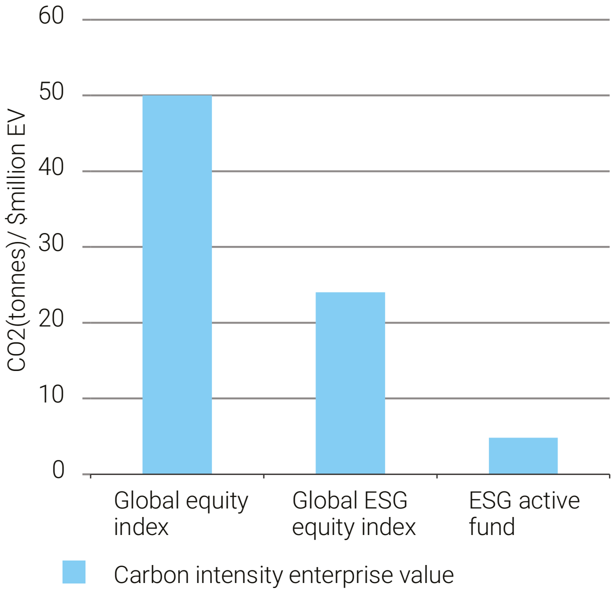
Elsewhere, we announced the development of our climate risk framework, Destination@Risk, the result of a three-year collaboration and strategic partnership with a leading energy consultancy. This proprietary tool will allow us to quantify the physical and transitional risks within investment portfolios under a variety of climate scenarios, including a well below 2°C scenario in line with the Paris Agreement.

We believe our ability to work with clients to analyse these risks and opportunities across their entire portfolios is critical. We continue to use the model to enable all of LGIM's investment teams to access the climate risk and temperature alignment forecasts within a single dashboard.

Climate 'Value-at-Risk' by 2030 and 2050



Carbon footprint for a global equity index



Illustrative outputs of our dashboard – Climate 'Value-at-Risk' by 2030 and 2050 (potential changes in market capitalisation for companies in a low-carbon scenario), and carbon footprint (CO_2/$million enterprise value) for a global equity index, a global ESG equity index and an actively managed ESG fund.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Strategy: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Describe how risks and opportunities are factored into relevant products or investment strategies and describe related transition impact

The output will also incorporate our analysts' insights and forward-looking assumptions, helping to enrich our investment strategies and lead to engagement with greater impact.

Our preliminary analysis has raised concerns that on a 'business-as-usual' trajectory, major equity and debt benchmarks may be aligned with the dangerous temperature outcomes of 3°C of warming. This emphasises the need to build climate resilience in the financial system – a process which is underway at LGIM, not least by putting a safer, 1.5°C net-zero scenario at the heart of our Real Assets strategy.

At the end of 2020, LGIM Real Assets published a roadmap to help achieve its commitment to net zero emissions by 2050 or sooner across real estate assets. This commitment was made in 2019 under the Better Buildings Partnership Climate Change Commitment.

The roadmap sets out our strategy and pathway to net zero across our 76 million sq. ft. UK commercial real estate platform. Much of this sustainability work started over 10 years ago, and has already achieved significant carbon-reduction targets.

LGIM Real Assets has also established science-based targets to reduce the operational carbon and energy intensity of landlord-controlled buildings by 2030.

Meanwhile, we are constructing active and index portfolios with embedded climate strategies, including decarbonisation targets and 'Paris-alignment' objectives. We also plan to roll out climate reporting across more portfolios. We believe this will support our clients' assessment of climate risk in their portfolios, enabling them to make decisions that can have a real impact on the future energy system.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

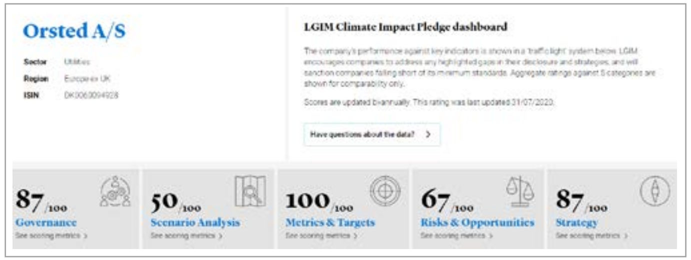
Risk management: Describe the organisation's processes for identifying, assessing and managing climate-related risk, and their integration into the organisation's risk management, as well as for each product or investment strategy

Climate risks and rewards

We use a variety of tools to analyse climate risks across different timescales and types of investment.

- **Companies:** At the company level, we leverage our own expertise as well as that of third-party data providers.

  A lack of comparable, reliable climate data poses clear risks to investors. To help drive better transparency and disclosure, we have made both our Climate Impact Pledge ratings and ESG scores, which cover thousands of large companies, publicly available on our website.



- **Sectors:** Industry specialists from our Investments, Real Assets and Investment Stewardship teams have established working groups to assess the evolving materiality of climate and ESG factors across different sectors, from energy to consumer goods.

  Under this approach, research is combined with engagement and a strong voting stance, to encourage companies to raise their standards and future-proof business models. An independent report found that in 2020, LGIM had the highest level of support for 'climate-critical' shareholder proposals, and "the highest rate of voting against management-proposed director candidates in the energy, utility, banking and automotive sectors", compared to any of the world's 12 largest asset managers.[8]

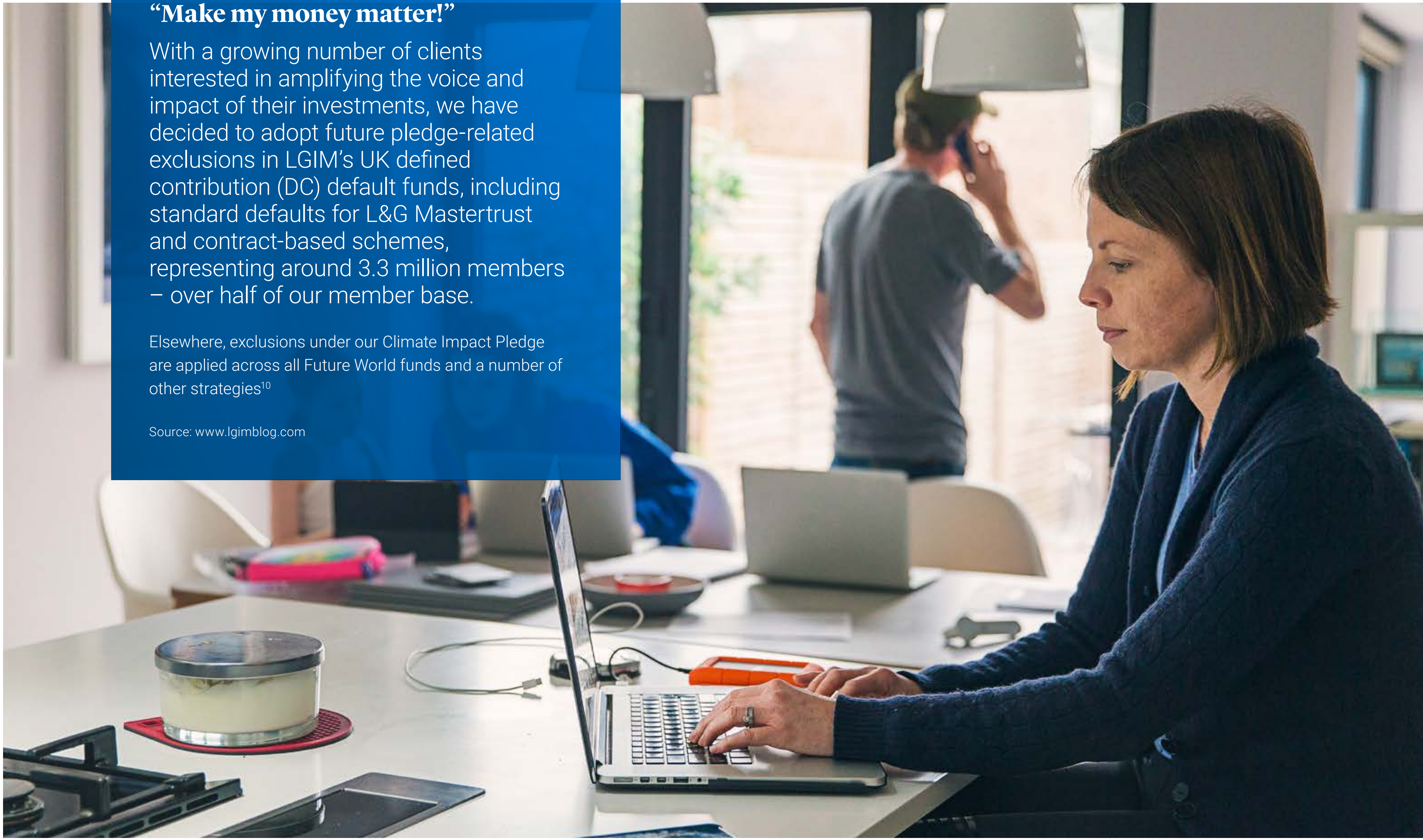
- **Portfolios:** Voting and engagement remains a cornerstone of our approach to climate risk mitigation across **index funds**. We have helped design indices to reduce exposure to high-carbon sectors and/or increase exposure to companies generating 'green' solutions, across both equity and debt. Across our **actively managed funds**, climate considerations are incorporated through bottom-up research as part of the security selection process.

- **Countries:** We have developed scores that aim to capture countries' exposure to climate change, air quality, water stress, vulnerability to natural hazards, and food security. In a recent article, we outlined how our Emerging Market Debt team uses data on climate vulnerability to navigate the investment risk associated with government bonds.

- **Asset allocation:** Our multi-asset fund managers incorporate climate factors into their analysis for strategic asset allocation and risk management, utilising informed metrics to understand this key long-term challenge.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: **Describe the organisation's processes for identifying, assessing and managing climate-related risk, and their integration into the organisation's risk management, as well as for each product or investment strategy**



"Make my money matter!"

With a growing number of clients interested in amplifying the voice and impact of their investments, we have decided to adopt future pledge-related exclusions in LGIM's UK defined contribution (DC) default funds, including standard defaults for L&G Mastertrust and contract-based schemes, representing around 3.3 million members – over half of our member base.

Elsewhere, exclusions under our Climate Impact Pledge are applied across all Future World funds and a number of other strategies[10]

Source: www.lgimblog.com

Engaging for change

Regardless of asset class or investment strategy, we believe in the power of engaging with the companies in which we invest, taking a strong, consistent stance on sustainability for the benefit of all our clients.

In 2020, we expanded our **Climate Impact Pledge**, a targeted engagement programme we launched in 2016 that combines in-depth analysis of companies' climate strategies alongside voting and investment sanctions.

Initially focused on about 80 companies in key sectors, the pledge has contributed to tangible improvements, with a number of companies from which we had previously divested within certain strategies stepping up their action on climate issues following our engagement.* Last year, we were pleased to announce that we were able to reinstate investments in Japanese automaker **Subaru**† after our assessment tool evidenced progress on emissions targets and climate disclosures, as well as board independence and diversity.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: **Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate-related risks**

*See past reports for the first reinvestment candidates here

†In the rest of this document, we set out our views historic from an Environmental, Social and Governance perspective on a number of companies which issue securities. Where we do this it is for illustrative purposes only. Reference to a particular company and / or the securities which it issues is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security. We will flag such narrative with this icon: †

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.

Oil majors shifting on net zero

Oil companies have begun to adopt net zero emissions targets, relating not just to their operations, but also the use of their products (by far the largest source of emissions for the industry). **BP**† (LGIM ESG score: 38; unchanged from 2019) plans to curb oil and gas production significantly, broadly in line with global climate targets. "We listened and we learned," said Bernard Looney, BP CEO*, reflecting on shareholder engagement co-led by LGIM, as part of the Climate Action 100+ investor coalition.

But progress has not been uniform: having previously divested from **ExxonMobil**† (ESG score: 26; -1) from some of our funds due to concerns over governance and climate targets, in 2020 we announced we would be voting against the company's chair-CEO, as well as several other directors. By contrast, **Occidental Petroleum**† (ESG score: 24; +2), another company formerly on our sanction list, in 2020 became the first US oil major to announce broad net zero targets.

For more information on our vote at Exxon, please visit: www.reuters.com

*Source: www.bp.com

ESG score

BP†
LGIM ESG score 38
unchanged from 2019

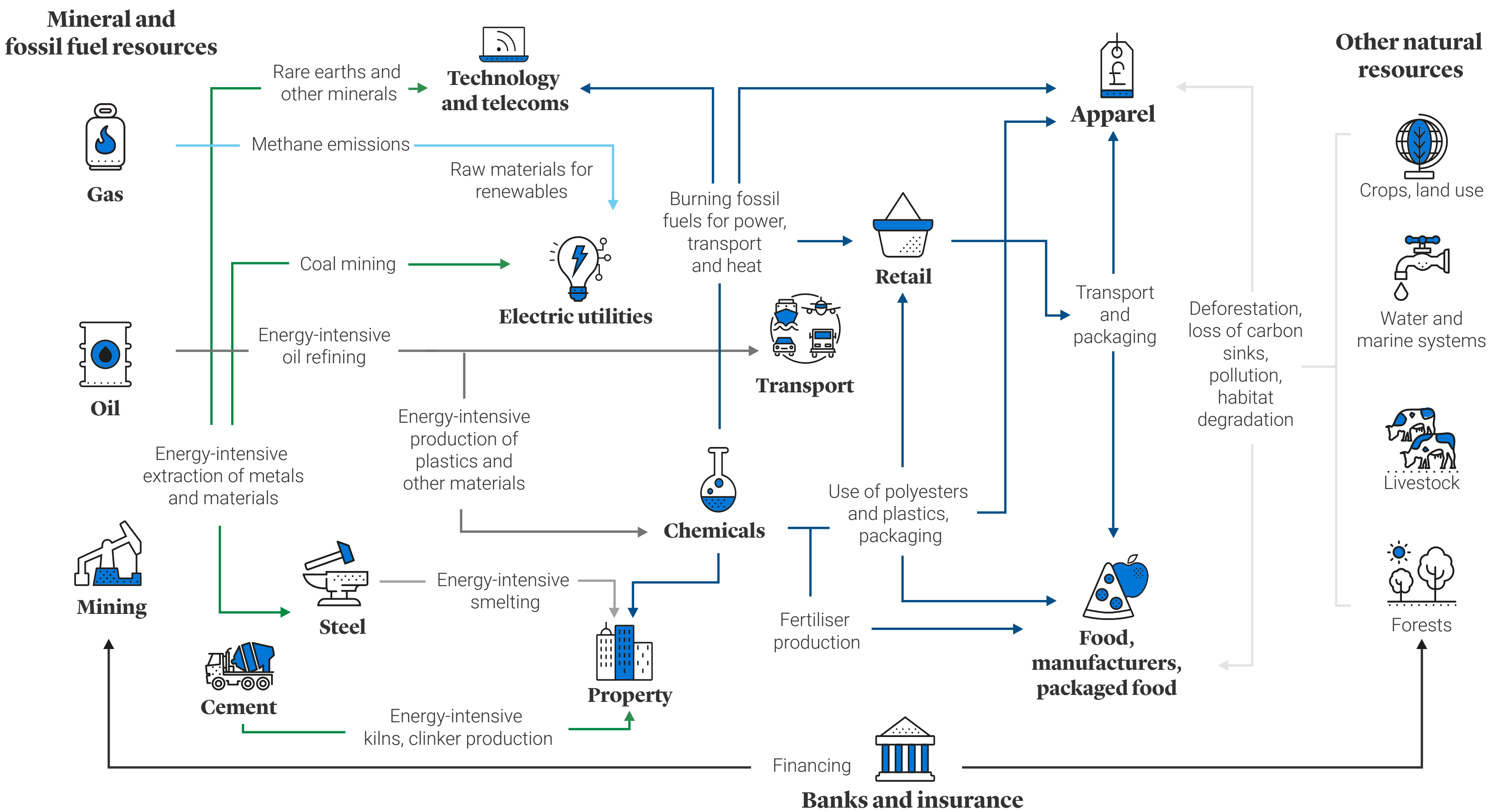
ExxonMobil†
LGIM ESG score 26
- 1 point

Occidental Petroleum†
LGIM ESG score 24
+ 2 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

There has also been significant progress on the data front. Leveraging new data and analytics – including our own Destination@Risk modelling – allowed us to substantially increase the sectors and companies covered. We have made climate ratings for about 1,000 companies publicly available under a 'traffic light' system, alongside details of our methodology and data sources. Drawn from 15 climate-critical sectors, these businesses are responsible for some 60% of all greenhouse gas emissions from listed companies.

We are targeting 'climate-critical' sectors



Illustrative example of LGIM's engagement with climate-critical sectors.

Moreover, we have written to about 500 companies with poor climate scores relative to their size, detailing our assessment. Through voting, we will sanction companies that persistently fall short of our minimum standards at the 2021 AGM season. Our sanctions will increase over time, with the possibility of divestment from select funds for persistent offenders.

Alongside this quantitatively driven process, we have also selected some 60 companies for in-depth engagement. This is centred on the guidance documents we have produced, detailing net zero challenges, opportunities and 'red lines' for each sector, such as a planned coal phase-out for electric utilities. Violation of these red lines could prompt firm-wide voting or divestment sanctions.

> "Legal & General Investment Management continue to exhibit best practice [... they] are fully transparent in their stewardship processes and show specific evidence of engagement with companies on the transition of the business model and lobbying practices."
>
> **InfluenceMap[10]**

For the second year running, LGIM was ranked top among the world's largest asset managers for engagement on climate change by NGO InfluenceMap.

Engagement scores

	2020	2019
LGIM	A+	A+
Manager 1	B+/A-	B+/NA
Manager 2	A-	B+
Manager 3	B	C+
Manager 4	B-	B-
Manager 5	C	C-
Manager 6	C	C
Manager 7	C	C
Manager 8	C-	D
Manager 9	D	D-

Source: Asset Managers and Climate Change 2021, InfluenceMap, January 2021.

Sustainable food for thought

In our view, without urgently tackling the deforestation associated with food production, meeting the challenge of net zero will be impossible. Following steps by Brazil's government to loosen environmental protections, in mid-2020 LGIM joined an investor coalition to engage directly with senior Brazilian officials – including the vice president, the governor of the central bank and ministers. We expressed our concerns, warning of potential divestment from local food companies and even government bonds.

The Brazilian government responded by introducing a moratorium on setting fires in the Amazon, after which the investor group held a follow-up engagement with senior officials. New data, however, show that the rate of deforestation in the Amazon is sadly continuing to increase. LGIM will be watching developments closely, and will continue to engage the food companies in our portfolio with exposure to soy and cattle products linked to deforestation.

We have also engaged consumer goods giant **Procter & Gamble**† (ESG score: 51; +1), supporting a shareholder proposal to eliminate deforestation from its supply chain, encouraging the company to increase the percentage of sustainably certified pulp.

Our Investment and Investment Stewardship teams also engaged **Nestlé**† (ESG score: 51; +2) repeatedly in 2020 on sustainability issues including water scarcity, packaging, recycling and supply chain management. The company has since committed to:

- net zero emissions
- externally verified certifications for water use and raw material sourcing
- 100% recyclable/reusable packaging by 2025

LGIM will be meeting the company's CEO in the coming months to follow up on these commitments.

Source: www.reuters.com
www.news.mongabay.com

ESG score

Procter & Gamble†

LGIM ESG score 51
+ 1 point

Nestlé†

LGIM ESG score 51
+ 2 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

Curbing coal

The most polluting fossil fuel, coal, is also increasingly expensive, with the cost of running around half of existing plants more than that of building new renewable energy sources*. We have continued to take a public stance against the construction of new coal plants that risk becoming unprofitable, also known as 'stranded' assets.

Our longstanding support for the efforts of environmental law firm ClientEarth were successful in permanently halting the construction of a major new coal plant in Poland at Ostroleka C. We then turned our sights on another controversial coal project in Germany, calling on energy company **Fortum**† (ESG score: 50; +3) to revisit its plan.

Alongside other investors, we engaged Korean companies **KEPCO**† (ESG score: 30; -5) and **Samsung C&T**† (ESG Score: 37; -14) on their financing of coal power abroad. Both companies have since decided to cancel some, though unfortunately not all, of their existing coal pipeline. LGIM has sanctioned the companies through voting against at the 2020 and 2021 AGMs, respectively.

We have also supported shareholder proposals at mining company **Whitehaven Coal**† (ESG score: 3; +1), calling for a report on the gradual wind-down of its coal production in line with global climate goals.

*Source: www.irena.org

Throughout the year, we continued to engage companies, regulators and other investors on key sustainability themes.

The environment was the Investment Stewardship team's top topic for engagement in 2020.

ESG score

Fortum†
LGIM ESG score 50
+ 3 points

KEPCO†
LGIM ESG score 30
- 5 points

Samsung C&T†
LGIM ESG score 37
- 14 points

Whitehaven Coal†
LGIM ESG score 3
+ 1 point

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

In January 2020, LGIM joined the One Planet initiative – a coalition of asset managers, sovereign wealth funds and private investments championed by President Emmanuel Macron of France.

Finance for the future

Our engagements with the finance sector recognise its key role in accelerating the transition to a low-carbon economy.

Initially a 'laggard' sector under our annual Climate Impact Pledge rankings, last year we highlighted the inroads made by banks and insurers in modelling climate risk and reducing financed emissions. Throughout the year, we encouraged banks around the world to adopt more ambitious climate strategies and supported shareholder proposals on this issue, including at **JPMorgan Chase**†, **Barclays**† and **Mizuho**†.

In January 2020, LGIM joined the One Planet initiative – a coalition of asset managers, sovereign wealth funds and private investments championed by President Emmanuel Macron of France. In late November, our CEO joined other finance leaders at a C-suite summit hosted by President Macron, which resulted in a joint statement in support of better climate disclosures,* with further collaboration expected throughout 2021.

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

*www.oneplanetswfs.org

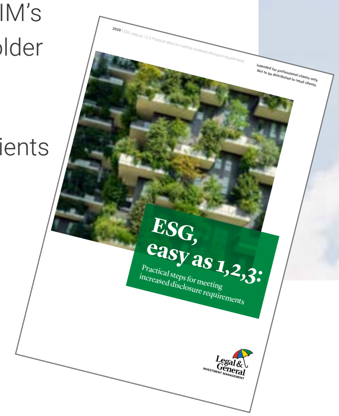
Pushing for policy progress

As climate change is a systemic challenge, our advocacy for market-wide policies to accelerate sustainable finance and a green recovery is ongoing. With all eyes on the UK ahead of the COP26 climate conference in Glasgow this year, LGIM's CEO will co-chair the Business Leaders Group alongside the Secretary of State for Business, in an effort to galvanise momentum for climate action in the private sector. LGIM's Head of Sustainability and Responsible Investment Strategy is also on secondment to COP26 as a 'high-level champion' for climate finance.

We have worked with industry colleagues and regulators around the world – from the UK and EU to Hong Kong and the US – on issues such as the introduction of mandatory climate reporting, rules to prevent 'greenwashing' or the strengthening of emissions targets.

Elsewhere, we called on investee companies to be more transparent on their climate lobbying activities, with an independent report noting LGIM's consistent voting support for shareholder proposals on this issue in 2020.[11]

We have also continued to help our clients stay abreast of new policies and regulations, by developing guidance and publishing articles.



www.bloomberg.com/news

Investment giants urge Texas to end most natural gas flaring

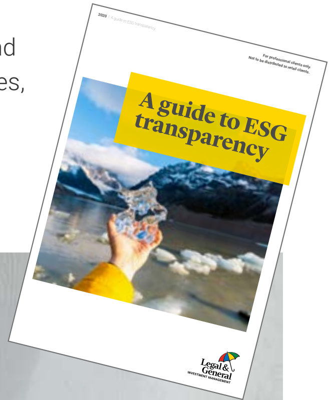
For more details on our advocacy, please see our public policy section later in this report.

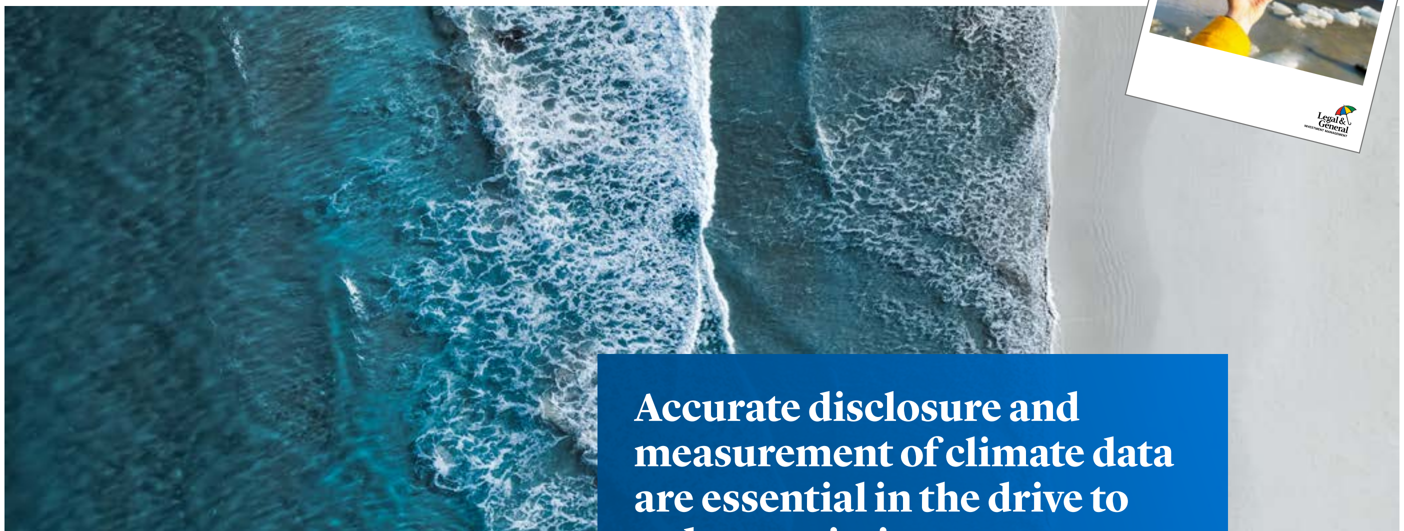
Data and assessment

Accurate disclosure and measurement of climate data are essential in the drive to reduce emissions. In addition to our Climate Impact Pledge public ratings of companies and the Destination@Risk modelling (see page 24), we rely on a number of metrics to assess companies, including:

- Our publicly available **ESG scores**, used for index fund construction and to support our engagements, capture companies' carbon emissions intensity, carbon reserve intensity (from fossil fuels) and exposure to 'green' revenues, as well as the levels of transparency and certification around carbon and ESG data
- Our **ESG Active View**, used by our active strategies, captures a number of additional country- and sector-specific climate indicators, such as water risks, the strength of their environmental policies, waste and exposure to natural hazards

For more information on our different data sources, please see our guide to ESG transparency.





Accurate disclosure and measurement of climate data are essential in the drive to reduce emissions.

Metrics and targets: Disclose metrics used by organisation to assess climate-related risks and opportunities, including in each product or investment strategy

To help clients make more informed decisions, we have for a number of years been publishing carbon and ESG information on a number of our fund factsheets, with plans to roll out this capability more broadly.

We report on carbon emissions intensity, which is based on investee companies' emissions from their operations (Scope 1) and purchased energy (Scope 2), relative to sales and weight in the particular fund.

We also report on the carbon reserves intensity of companies held in certain ESG funds (i.e. the potential carbon emissions from their fossil fuel reserves, which is a form of 'Scope 3' emissions). Further information can be found in the relevant factsheets.

Illustrative example of carbon disclosures on fund factsheets

↓66% Lower carbon reserves intensity than the unadjusted comparator

Equivalent to 4,119 barrels of oil

CARBON RESERVES

Carbon reserves are fossil fuels (coal, oil and gas) which, if burnt, will become the carbon emissions of the future. To meet global climate change targets, the unabated use of fossil fuels is expected to decline over time.

The figures below are a measure of the size of carbon reserves held by the fund's underlying companies.

905 Fund | **2,656** Comparator | **Tonnes of CO_2e[i] per $1 million of market capitalisation**

The fund has **66%** lower carbon reserves intensity[ii] compared to the unadjusted comparator.

The difference in carbon reserves intensity means that for every $1 million invested in the fund, the exposure to fossil fuels through the underlying companies is reduced by an amount equivalent to **4,119 barrels of oil**[iii], compared to having invested in the unadjusted comparator.

↓49% Lower carbon emissions intensity than the unadjusted comparator

CARBON EMISSIONS

Following the global Paris Agreement on climate change, companies in all sectors are expected to reduce their emissions to prepare and adapt for a low-carbon economy.

91 Fund | **177** Comparator | **Tonnes of CO_2e per $1 million of sales**

The fund has **49%** lower carbon emissions intensity compared to the unadjusted comparator. Carbon emissions intensity describes the relationship between the carbon emissions of a company and its sales[iv].

The difference in carbon emissions intensity means that the fund has selected companies where, for the same level of sales, the associated emissions[v] are lower by **49%** compared to the unadjusted comparator[vi].

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Metrics and targets: **Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks**

Provide weighted average carbon intensity, where data are available or can be reasonably estimated

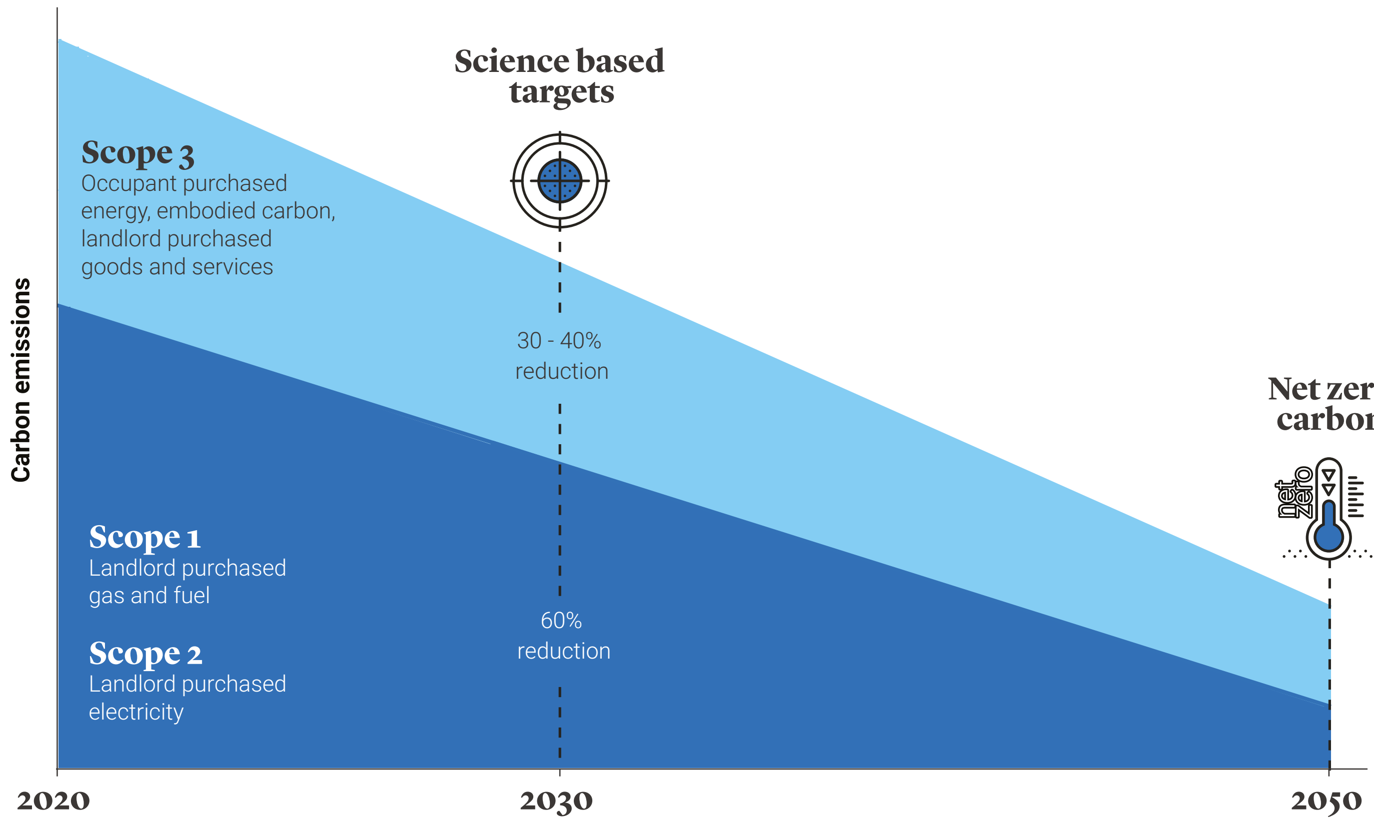
However, we recognise that challenges remain in carbon reporting across different asset classes, due to limited data availability (particularly in unlisted assets and for 'Scope 3' emissions).

As part of LGIM's commitment to net zero emissions, we have pledged to work together with industry bodies such as the Institutional Investor Group on Climate Change (IIGCC), PRI and others, to develop the metrics and methodologies to drive this conversation forward.

Significant work is underway on this issue, across multiple divisions of LGIM and L&G Group.

For example, as part of its net zero roadmap, LGIM Real Assets has developed a comprehensive set of metrics, from (renewable) energy, water and waste use to embodied carbon and fugitive emissions.

Real Assets: Our roadmap to net zero



Source: LGIM Real Assets. For illustrative purposes only.

Environmental | Social | Governance

ESG: Diversity

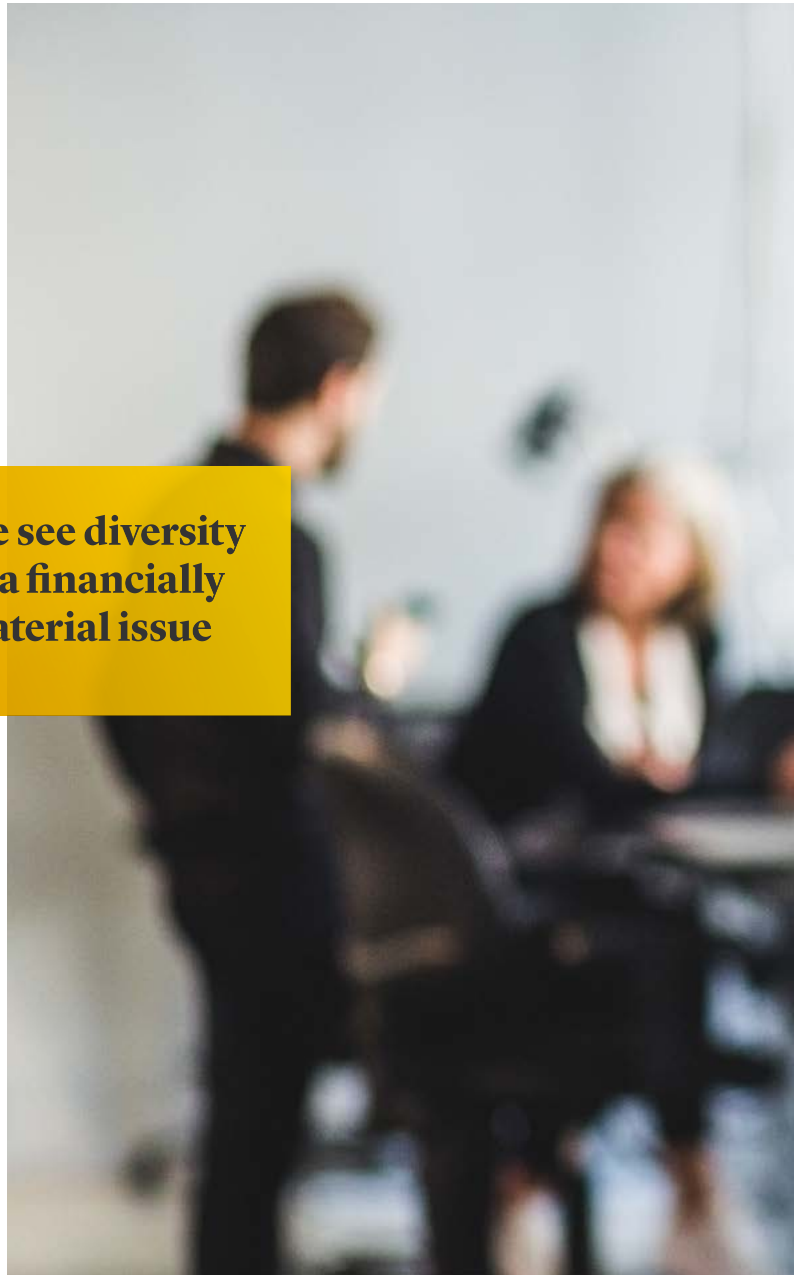
- In 2020, LGIM launched high-profile campaigns to drive greater ethnic diversity within boards, while engaging on gender and leadership diversity in Japan
- We opposed 208 directors globally due to concerns over board diversity

We believe cognitive diversity in business – the bringing together of people of different ages, experiences, gender, ethnicity, sexual orientation, and social and economic background – is a crucial step towards building a better economy and society.

We also view it as a financially material issue for our clients, with implications for the assets we manage on their behalf. More diverse organisations tend to make better strategic decisions, show superior growth and innovation, and exhibit lower risk.[12] By using all the talent available to them, companies and economies can be more successful, building more resilient organisations and societies.

For 10 years, we have been using our position to engage with companies on this issue. Indeed, the asset management industry has made good progress in helping to improve the gender balance of companies through engagement, voting and imposing investment consequences.

In the FTSE 350 index, women now hold on average 32% of the board seats compared with just 9.5% in 2010. In the US, there are no longer any all-male boards in the S&P 500.[13]



We see diversity as a financially material issue

But we know we need to do more. So in 2020, we took new, bold action on behalf of our clients globally, including voting against the election of directors due to low levels of board diversity. This involved opposing:

79 directors in emerging markets

55 directors in the UK

36 directors in the EU

23 directors in the Asia-Pacific region

10 directors in Japan

5 directors in the US

Collaboration on gender diversity in the UK and the US

In the US, we continue to work with other global investors to push for better representation and transparency on diversity policies. In February 2020, our coalition of investors (CalSTRS, RPMI Railpen, PGGM, OTPP) sent letters to 18 US companies with less than 20% female representation on the board and where board tenure for some non-executive directors is above average.

Our requests remain consistent:

1. Increase gender diversity on the board to a minimum of 30%
2. Disclose skill sets in the proxy statement
3. Affirm commitment to diversity in governance policies
4. Incorporate procedures by which diverse candidates are identified
5. Attest that director searches will consider suitable candidates beyond the executive suite

The responses from our targeted companies were disappointing. The low response rates could have been due to the pandemic, but we are also concerned that 'gender fatigue' may have set in. However, we will continue to focus on the laggards in this market. We will revisit our target list and incorporate other considerations such as basic governance standards, whilst remaining focused on gender and director tenure. We will be sending out letters to the targeted companies in the latter half of 2021.

In the UK, the collaborative 30% Club UK Investor Group (which Clare Payn, our Senior ESG and Diversity Manager, chaired from 2017 to 2020) wrote to 131 companies with:

- Only one woman on the board
- Less than 30% women on the board
- An all-male executive committee

Some companies lagged in two of these areas. The purpose of the letter was to remind the companies that...

...we expect to see a minimum of 30% women on the board and 30% female representation on executive committees by the end of 2020.

Only 25% of the recipients responded, a disappointingly low number.

However, of the companies that were contacted for having less than 30% women on the board, **42%** have since made progress and improved their board's gender balance.

Among those with all-male executive committees, **41%** now have a woman on the committee.

Finally, **74%** of those companies with only one woman on the board now have two or more female board members.

This encouraging progress illustrates how engagement continues to have an impact for clients on board composition.

Citywire gender diversity awards

We won the Citywire Gender Diversity 'Judges' Choice' Award in 2020 for our stewardship work on gender diversity and leading position on ethnicity, as well as for the female representation in our business at board, executive and other senior levels.

Gender diversity in Japan

Whilst we encourage greater diversity on all fronts, gender remains our immediate focus in Japan. We were encouraged to see the number of boards with no women in the TOPIX 100 steadily decrease from 37 in 2017 to 11 in 2020.* However, the majority of companies in the TOPIX 100 that have appointed a female director have not gone beyond appointing just one woman. Furthermore, the proportion of companies that have 30% female board representation stands at 3.0% in the TOPIX 100 and 1.3% in the TOPIX Mid 400, significantly lower than other markets.

*We do not count statutory auditors (Kansayaku) as board members

Addressing leadership diversity at Nintendo

Our Investment and Stewardship teams have been engaging with **Nintendo**† (ESG score: 45; -1) for a number of years. We have emphasised the need to improve board diversity and independence, improve disclosure, and increase discussion of diversity on board agendas.

We believe our engagement has helped lead to the company's commitment to appoint a female board member within 12 months and to expand the number of independent board directors, which has since been fulfilled. Nintendo also improved its disclosures by producing its annual report in English and included information on cross holdings, an important aspect of potential interdependence at Japanese companies. We also asked for increased workforce flexibility to be offered in the form of maternity leave and the company committed to increase its female workforce from 20% to 25%; more engagement is required on these issues.

ESG score

Nintendo†

LGIM ESG score 45

- 1 point

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

We will also continue to push for more transparency on diversity targets and policies across all levels of the organisation.

Following an engagement campaign on the importance of gender diversity with large Japanese companies that began in January 2019, we announced in early 2020 that we would vote against TOPIX 100 companies that had no women on their boards. In the first year of implementing this policy, we voted against the most senior member of the board or chair of the nomination committee (depending on the board structure) at 10 Japanese companies including **Olympus**†, **Central Japan Railway**† (JR Tokai) and **Kubota**†.*

In 2021, we will expand the scope of our policy to vote against TOPIX Mid 400 companies lacking gender diversity. At the time of writing, we expect this to affect approximately 120 companies in the combined TOPIX 500. We will also continue to engage companies on the importance of building a strong talent pipeline, and push for more transparency on diversity targets and policies across all levels of the organisation.

*We would have also voted against Sumitomo Reality & Development but no directors were up for election in 2020.

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

We engaged the 44 S&P 500 firms and the 35 FTSE 100 companies whose board membership showed a total lack of ethnic diversity.

Advancing ethnic diversity

With our expectations on gender diversity now well-established, and following the tragic killing of George Floyd in the US, we felt the time was right to embark on efforts to improve ethnic diversity within the boardroom and at executive leadership level.

In August 2020, we wrote an article that outlines LGIM's expectations of companies. In September, we engaged the 44 S&P 500 firms and the 35 FTSE 100 companies (down from 36 a month earlier) whose board membership showed a total lack of ethnic diversity. We asked companies to have at least one director from a minority background on their board by the end of 2021; from 2022 we will start voting against the chair of the board or of the nomination committee if there is still no ethnic diversity at board level. This aligned our approach with the Parker Review, which expects FTSE 100 companies to have at least one ethnically diverse board member by the end of 2021.

Our campaign

Since September, we have received responses from 48% of the targeted companies (57% of the UK companies, and 41% of the US companies). Of those, approximately 42% have accepted the data captured for them, confirming the lack of ethnic diversity on their boards. Of those that have disagreed with the analysis, we have asked them to contact ISS, the proxy voting adviser, to ensure that accurate data is captured and reported. We continue to engage with these companies, and to push for more consistent and improved reporting.

48%
Responded (so far) to our engagement

42%
of those accept and confirm lack of ethnic diversity on their boards

We hope we will be able to look back at 2020 as the start of a step change on ethnic diversity. We will continue to engage companies on this topic and use our voting power to drive change.

ESG: Healthcare

- Last year, we pressed global pharma companies to provide fair access to COVID-19 treatments and vaccines
- We joined an initiative to leverage investor influence to combat the spread of drug-resistant superbugs

Good health is the basis on which societal wellbeing and dynamic and prosperous economies are built; the pandemic has clearly demonstrated the severe impact that an infectious disease can wreak.

Last year was an extremely difficult period for many companies and individuals across the world. If COVID-19 has taught us anything, it is that the stakeholder model of corporate governance plays an increasingly important role in times of crisis.

As a long-term investor, therefore, we wrote to UK investee companies at the beginning of the pandemic to pledge our continuing support to boards that focus not just on shareholders, but on all stakeholders; by this, we mean a company's workforce, its suppliers and the community in which it operates.

Good health is the basis on which societal wellbeing and dynamic and prosperous economies are built.

Fair access to COVID-19 treatments and vaccines

Last summer, together with AXA Investment Management and the Access to Medicine Foundation, we penned an open letter to global pharmaceutical companies, asking them to undertake practical steps to accelerate research and development efforts and overcome potential barriers to rapid and widespread access to COVID-19 medicines and vaccines. These included sharing intellectual capital; working with governments across all levels of income, not just higher-income countries; and sharing manufacturing capacity.

We were also co-signatories to an engagement letter last year, as a member of the US-based Interfaith Center on Corporate Responsibility. Our key objectives were to:

- Ensure equitable access to COVID-19 vaccines and therapeutics
- Encourage maximum transparency over funding received by individual pharmaceutical companies
- Encourage boards to avoid reputational risks; e.g. using inappropriate tax strategies

We are participating in follow-up engagements with the companies in question.

Antimicrobial resistance – the next global health crisis?

Antimicrobial resistance, or AMR, is a process by which microbes develop resistance to the medicines developed to fight them – making even the simplest infections more difficult to treat.

Without coordinated action today, we believe antimicrobial resistance could prompt the next global health crisis, with a potentially dramatic impact on people, planet and global GDP.

As part of LGIM's engagement policy, we joined the Investor Action on Antimicrobial Resistance initiative, whose main objective is to leverage investor influence to combat the spread of drug-resistant superbugs.

We have published a blog on the subject and we will be considering further how to engage most effectively with companies in the pharmaceutical and animal husbandry industries to promote a 'One Health' approach, as advocated by the WHO.

We will also work collaboratively with our peers, engage with policymakers, and encourage other investors to act on this issue.

A 'One Health' approach: Working together to achieve better health outcomes

We support the 'One Health' approach recommended by the World Health Organization (WHO) whereby governments, NGOs, healthcare operators and investors work together to design and implement programmes, policies, legislation and research to achieve better public health outcomes – and more positive societal outcomes.

This approach brings together stakeholders working in fields such as human and animal health, food production, and the environment, to design and implement research programmes, policies and legislation.

Cardinal Health and the US opioid crisis

COVID-19 aside, one of our key 2020 successes in healthcare was voting collaboratively against the remuneration of the CEO at **Cardinal Health**† (ESG score: 70; +2).

As disclosed in its annual report, the US pharmaceutical company paid out an above-target bonus to its CEO the same year it recorded a total pre-tax charge of $5.63 billion ($5.14 billion after tax) for expected opioid settlement costs during the fiscal year ended 30 June 2020. The remuneration committee excluded the settlement costs from the earnings calculations which resulted in executive pay being boosted.

As members of the Investors for Opioid and Pharmaceutical Accountability (IOPA) we voted against the executive compensation proposal at the 2020 AGM. While the resolution passed, it encountered a significant amount of opposition from shareholders, with 38.6% voting against the resolution.

ESG score

Cardinal Health†

LGIM ESG score 70

+ 2 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

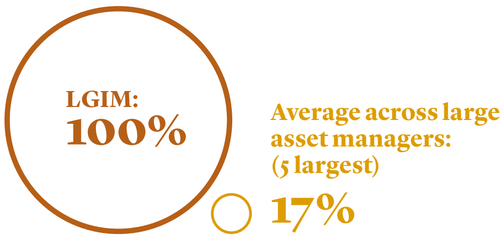
ESG: Human capital and human rights

- We requested pandemic-related disclosures, including information on risk management and employee safety
- The use of personal data and content moderation were among a range of emerging issues on which we engaged with tech giants

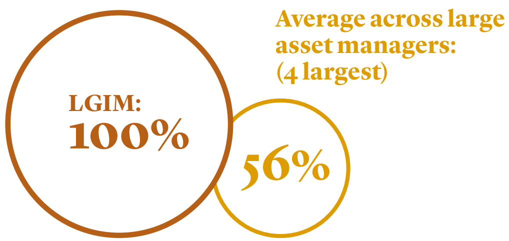
We believe human capital and human rights are of critical importance to our vision of inclusive capitalism. They are also financially material: a healthy and happy company drives value creation, in our view.

LGIM is at the forefront of efforts to address issues from employee safety to the use of personal data. In 2020, ShareAction, a non-governmental organisation, lauded us in a report on resolutions related to human rights and diversity during the proxy-voting season.

Votes in favour of resolutions on human rights:



Votes in favour of resolutions on diversity:



Source: ShareAction – Voting Matters (2020), analysis of asset manager voting during 2020 proxy calendar. Data for 5th largest asset manager on diversity was not included in the original study.

Managing human capital

Established in 2013, the Human Capital Management Coalition (HCMC) is a collaborative effort, representing over $6 trillion AUM,[11] to elevate human capital management in the creation of long-term value. LGIM has been a member since the group's inception.

Without baselines for issues such as workforce size or supply chain sustainability, investors cannot adequately assess new information related to business risks and workforce impacts. The HCMC petitioned the US Securities and Exchange Commission (SEC) in July 2017 on modernising company reporting, underscoring the need for four key metrics to be uniformly disclosed by companies:

- Workforce composition
- Turnover and stability measures
- Total cost of the workforce
- Diversity (gender and racial) by seniority

In October 2020, the SEC amended its corporate disclosure rules. It now asks companies to disclose the number of people they employ and any human capital measures or objectives they focus on while managing the business.

This change is a first step in transforming corporate disclosure to recognise the critical role of human capital in corporate value creation. However, there is still too much room for cherry-picking data and metrics.

During 2020, the HCMC sent letters to 56 companies, requesting that their chairs address COVID-19-related financial and operational information at upcoming AGMs. We asked that the following topics be addressed:

1. Enterprise risk management, business and supply chain continuity and pandemic planning
2. Financial implications, including revenue, liquidity, capital allocation and executive compensation
3. Workforce composition and adjustments for full-time, part-time and contingent workforce members
4. Employee benefits and protections, including paid sick leave and protections for whistleblowers
5. Workplace health and safety, including measures to enable social distancing

To date, companies have been responsive in their AGM remarks; this crisis underscores the need to broaden disclosures, as well as the importance of consistent and uniform disclosure. Our involvement with this coalition continues.

Supply chain management

Alongside our peers, we had numerous engagements with online retailer **Boohoo Group**† (ESG score: 46; -3) in the second half of 2020 regarding criticisms of poor practices in its supply chain. Boohoo subsequently announced its Agenda for Change programme, with a focus on improving supply chain management, driving more responsible sourcing and transparency. It has strengthened expertise around ESG and sustainability in key roles, including the appointment of Sir Brian Leveson. We plan further engagement throughout the year, including discussion of Boohoo's long-term sustainability agenda.

Our Investment team held a number of meetings with senior management at food and beverage company **Mondelez**† (ESG score: 45; -2) in 2020. We focused on risk in sourcing key ingredients (wheat and cocoa), the proportion of healthy snacks in overall product mix, packaging and ESG reporting. Following our engagements, the company extended its Cocoa Life and other raw-material sourcing initiatives down the value chain and beyond Europe and the US. It committed to healthy snacks increasing beyond 30% (currently), with this target included as part of senior management compensation. Future engagement is required to advance ESG initiatives and supply-chain risk and to improve disclosure.

ESG score

Boohoo Group†

LGIM ESG score 46

- 3 points

Mondelez†

LGIM ESG score 45

- 2 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

Due diligence on human rights

As part of a group of 100 investors representing over $4.2 trillion in AUM and driven by the Investor Alliance for Human Rights, LGIM wrote to policymakers around the world calling for the introduction of new requirements to mandate companies to disclose their due diligence on human rights.[15] We believe this type of regulation is: materially good for business, investors, and the economy; (ii) essential in creating uniformity and efficiency as an increasing number of governments are already taking this step; and (iii) a necessary component for investors to fulfil our own responsibility to respect human rights.

On 29 April 2020, EU Commissioner for Justice, Didier Reynders, announced a commitment to introduce EU-wide, mandatory due diligence legislation on human rights in 2021. The consultation process to inform the drafting of the legislation is being developed.

Elsewhere, we worked with Rathbones,[16] alongside other investors managing a total of £3.2 trillion in assets, to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015.

Community rights in the mining industry

In mid-2020, mining giant **Rio Tinto**[†] (ESG score: 27; -2) came under intense scrutiny following the destruction of a 46,000-year-old heritage site as part of an expansion project in Western Australia.

We have expressed our disappointment at Rio Tinto's handling of the incident – both publicly, in the press, and privately, during multiple calls with the company's Chair. We believed that the initial measures announced in response – the forfeiting of executive bonuses – were insufficient, and engaged with UK and overseas investors to press for more accountability.

The company has since announced that its CEO and two other executives will step down. We believe that maintaining good community relations is vital for the mining industry's social license to operate, and will continue to engage with the company and its peers on this issue.

www.fnlondon.com/articles

Church of England fund managers to press mining groups after Rio Tinto scandal

The $10tn investor group includes a roll-call of leading London fund management houses such as L&G

ESG score

Rio Tinto[†]

LGIM ESG score 27

- 2 points

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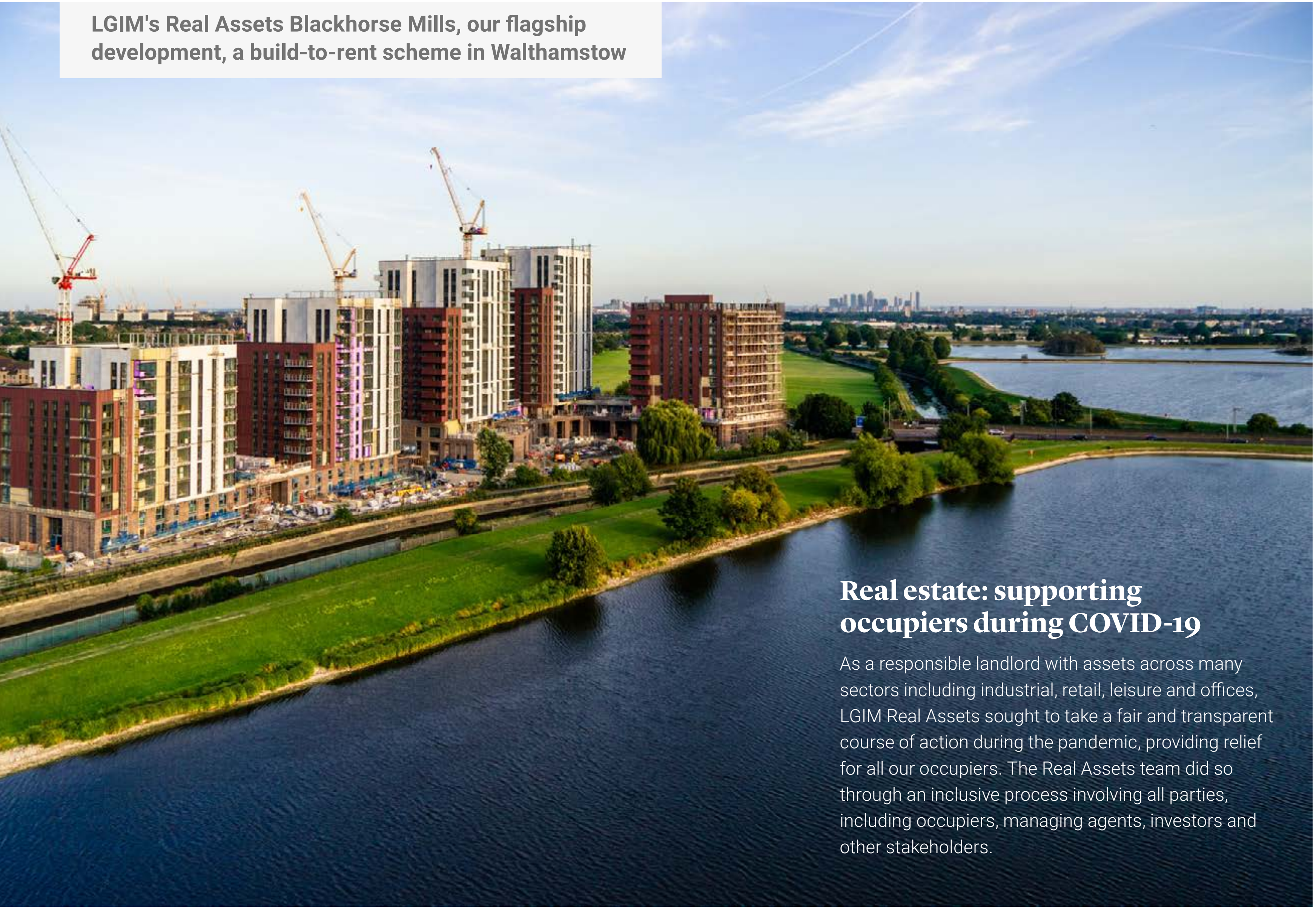
LGIM's Real Assets Blackhorse Mills, our flagship development, a build-to-rent scheme in Walthamstow



Real estate: supporting occupiers during COVID-19

As a responsible landlord with assets across many sectors including industrial, retail, leisure and offices, LGIM Real Assets sought to take a fair and transparent course of action during the pandemic, providing relief for all our occupiers. The Real Assets team did so through an inclusive process involving all parties, including occupiers, managing agents, investors and other stakeholders.

Backing community-based businesses

A small shopping arcade in Norwich of seven independent retailers was struggling to survive the challenges of operating on the UK high street. To help ensure the historic arcade overcame the increased pressures caused by COVID-19, LGIM Real Assets supported short-term tenancy occupiers by providing relief with an extended rent-free period while their units were closed. This action, combined with government support, enabled all the traders to re-open in June 2020, keeping a key part of the local community alive.

Social responsibility for social media

Tech and social media companies present new challenges linked to complex issues such as the gathering, use and commercialisation of personal data, content moderation, extremism and terrorism, electoral manipulation.

We do not have all the answers to these emerging issues, which can have a severe impact on vulnerable and at-risk groups. But we know from our experience of engaging with other sectors over the years that difficult questions can be addressed when problems are tackled in a structured way.

For example, in June, the Swedish Council of Ethics and The Danish Institute for Human Rights with the support of several global investors, including LGIM, developed a set of investor expectations to encourage tech giants to align their work with the UN Guiding Principles on Business and Human Rights. Constructive dialogue with the tech sector ensued and is ongoing.

In 2020, some of our work from an earlier, separate engagement campaign began to bear fruit. In late 2019, LGIM, alongside more than one hundred investors representing £7 trillion of assets under management,[17] encouraged **Facebook**†, **Alphabet**† and **Twitter**† to strengthen privacy controls and prevent the livestreaming and dissemination of objectionable content.

We explained that we expect new legislation to protect the public from exposure to similar content in the future, and that policies must be built on robust evidence. Each company needs to be open about how their platforms are built and operated.

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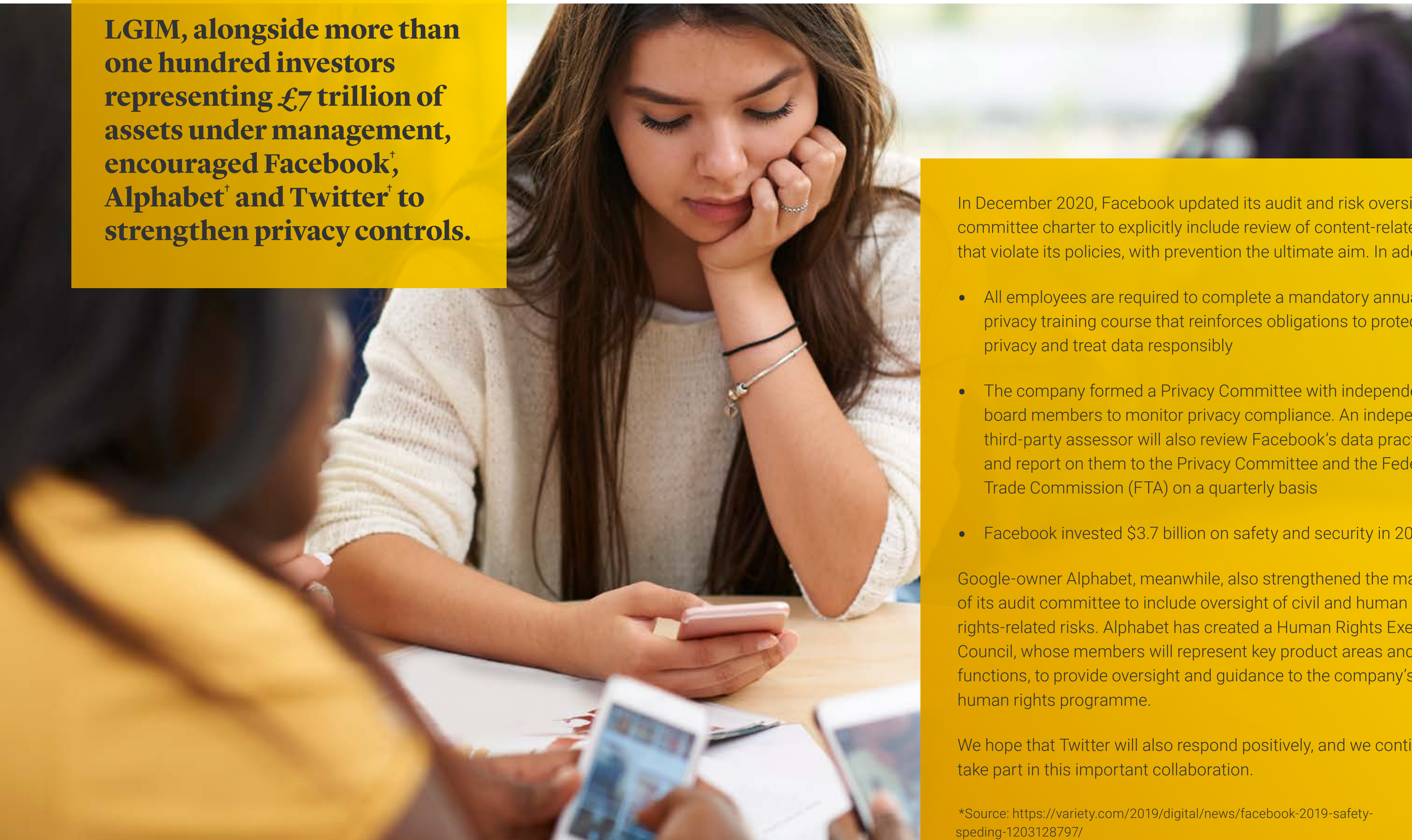

In December 2020, Facebook updated its audit and risk oversight committee charter to explicitly include review of content-related risks that violate its policies, with prevention the ultimate aim. In addition:

- All employees are required to complete a mandatory annual privacy training course that reinforces obligations to protect privacy and treat data responsibly
- The company formed a Privacy Committee with independent board members to monitor privacy compliance. An independent, third-party assessor will also review Facebook's data practices and report on them to the Privacy Committee and the Federal Trade Commission (FTA) on a quarterly basis
- Facebook invested $3.7 billion on safety and security in 2019*

Google-owner Alphabet, meanwhile, also strengthened the mandate of its audit committee to include oversight of civil and human rights-related risks. Alphabet has created a Human Rights Executive Council, whose members will represent key product areas and functions, to provide oversight and guidance to the company's human rights programme.

We hope that Twitter will also respond positively, and we continue to take part in this important collaboration.

*Source: https://variety.com/2019/digital/news/facebook-2019-safety-speding-1203128797/

Enhancing disclosures and workplace culture at Amazon

Amazon† (ESG Score: 51; +7) was the company about which our Investment Stewardship team received most enquiries over the course of 2020. After a year of stunning earnings, we engaged with the tech giant on reports of workers catching COVID-19.

Our frequent engagements with Amazon over the past 12 months have touched upon many ESG factors, including:

- The need for a separation of CEO and Chair of the Board roles, plus the desire for directors to participate in engagement meetings
- Transparency on data commitments in its 'Climate Pledge'
- Employee health and safety, particularly during the pandemic
- Allegations of a culture of retaliation, censorship and fear

As part of these discussions, the company outlined efforts to adapt its working environment, and to introduce industry-leading safety protocols, increased pay and adjusted absentee policies.

Of 12 shareholder proposals at Amazon's 2020 AGM, we voted to support ten, which addressed disclosure to encourage a better understanding of process and performance around material issues and governance structures that benefit long-term shareholders. Read more about the vote here.

Despite shareholders not giving majority support to the raft of proposals, our engagement with the company continues on these key areas of concern for our clients, on whose behalf we are pressing for positive change.

ESG score

Amazon†

LGIM ESG score 51

+ 7 points

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Striving for social inclusion

We believe pressing companies to focus on social inclusion can create long-term value. At consumer credit agency **Experian**† (ESG score: 60; +1), our Investments team met the company's sustainability team to discuss this issue, as well as innovation, investment and its wider contribution towards eco-social good. Subsequent to our feedback, the company integrated specific priorities and a focus on social impact within its inaugural ESG strategy document. This included positive data in Brazil, highlighting how financial inclusion aligns with the UN's SDGs and KPIs. During a subsequent engagement, we discussed how our expectations are likely to evolve in 2021.

At **Helios Towers**†, we also provided detailed feedback on the African mobile networks operator's sustainability strategy. We stressed areas where the business can make a valuable contribution to community and social development. As a key enabler of social and economic prosperity in Africa, we consider the company's initiatives to be a force for good that can benefit all stakeholders.

ESG score

Experian†

LGIM ESG score 60

+ 1 points over 2020

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Environmental | Social | Governance

ESG: Board composition

- We opposed the election of more than 4,700 directors over governance concerns
- In 2021, we will sanction companies in Germany when directors are elected for longer than four years

Investors rely on their board members to steer companies towards long-term success. It is, therefore, important that those in senior leadership positions act with integrity. They must have the time and skills to execute their roles and receive sufficient oversight to prevent the prioritising of short-term or personal gain.

Splitting chairs

At the beginning of 2020, we announced our decision to vote against all companies where the roles of Chair of the Board and CEO are combined, after engaging on this topic for many years.* Our tougher stance was covered widely in the press.

We believe there is an inherent conflict when the person in charge of implementing managerial practices is simultaneously expected to be challenging them. In other words, 'marking their own homework'. The separation of Chair of the Board and CEO roles provides a better balance of authority and responsibility that aligns with the long-term interests of companies, investors, and ultimately, our clients.

In 2020, we voted against 411 companies with joint Chair/CEOs.

www.ft.com

Fink, Dimon and Zuckerberg face re-election vote protest

Legal & General's investment arm will target companies that combine chairman and CEO roles

*Excluding Japan, due to the unique features of this particular market

In North America alone, we voted against 280 directors with combined roles, and supported 42 shareholder proposals calling for an independent chair.

In North America alone, we voted against 280 directors with combined roles, and supported 42 shareholder proposals calling for an independent chair.

In our direct engagements, we brought up this topic on 25 occasions to further explain its importance and offer additional points to help company representatives build the case internally. These companies come from all regions and sectors and include **Allstate**†, **Gilead Sciences**†, **Iberdrola**†, **JP Morgan**† and **Schneider Electric**†.

While dialogues often end on a respectful, 'agree to disagree' note, we use the discussion as an opportunity to:

- Assess willingness to separate the roles in the future
- Give feedback on the potential timing for such a move
- Share examples of similar companies that made the spilt in reaction to a negative event

In almost all cases, companies remain open to a future separation and view the combination as a 'point in time' decision rather than a principle.

In Japan, where we do not yet apply this voting policy, over 80% of listed companies do not separate the roles of the Chair of the Board (Gicho) and CEO (Representative Director). Although an independent Chair of the Board is still the exception in this market (1% of listed companies have appointed a non-executive director as the Chair of the Board), we have continued to communicate our views through our policies and direct company engagements.

Our minimum and immediate expectation is disclosure in English of who chairs the board, as well as a clear explanation and justification for why. We will continue to engage on this topic and monitor developments in the Japanese market.

Beyond direct voting and engagement, we have elevated this issue through our consistent thought leadership and messaging (media statements, conference presentations, regulatory engagement).* Additionally, we are actively exploring the relationship between this topic and other governance concerns such as the response to COVID-19, workforce diversification and climate risk profile.

*A guide to separating the roles of CEO and board chair; www.lgim.com.

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What impact did our engagements have?

Changes in corporate structure take time. But we believe our persistence will pay off as more and more boardrooms are persuaded by the force of our arguments and voting strategy. Our measure of success is to monitor global rates of combined positions across markets. We already have data to support cautious optimism: in the 12 months to September 2020, 167 companies switched from a combined to a separate independent chairman.

What next?

In the coming three to five years, we expect this issue to gain traction as company leaderships change. We will continue raising awareness in Japan and consider what actions might be needed to expedite the pace of change. Finally, while our current policy is to vote against combined roles, best practice is to have a separate and independent chair – a recommendation which companies often flaunt by appointing the previous CEO to the chair role. We may strengthen our policies on this point over time.

Pushing to improve German board governance

In Germany, members of supervisory boards are elected for five years. We find this weakens shareholders' ability to hold directors accountable for their actions at the AGM. LGIM advocates for annual board elections instead.

In its public consultation document, the commission in charge of reforming the German Corporate Governance Code in 2019 planned to limit supervisory board members' tenure to three years, which we supported, with the expectation the market would progress towards annual elections over time. However, the commission failed to adopt this recommendation in the final revision document.

In 2020, LGIM escalated its stance on board elections in Germany by signing a public collaborative letter with other institutional investors, representing $8.3 trillion in AUM, to formally request DAX30 companies to limit supervisory board members' terms to three years.[18] This topic is part of our regular conversations with German companies. In 2021, we will sanction companies that elect directors for more than four years.

ESG: Investor rights

- We continued to defend the principle of 'one share, one vote' and helped investors sidestep the scandal at Wirecard†
- In the UK, we engaged with industry bodies and the Treasury on 'green gilts'

We believe that defending and enhancing the rights of investors is of vital importance to long-term value creation. The examples below provide a snapshot of the diversity and breadth of our engagement during 2020, from the perspective of both bond and equity holders.

How 'green' are green gilts?

'Green gilts' entered the investment lexicon as the UK and other sovereign entities began to explore issuing ESG-aware bonds. But accusations of 'greenwashing' remain. We believe it is imperative that our clients understand not only the differences between green sovereign bonds and their traditional counterparts, but also the potential impact on their portfolios of investing in such securities in terms of risk, returns and the overall sustainability profile.

Our engagement is aimed at encouraging increased transparency, dialogue and disclosure around these bonds so that we are better able to assess the degree to which they generate additional ESG impact. Critically, we have been emphasising to our clients that the overall ESG risk exposure of such sovereign bonds is the same when compared to their non-green counterparts. This is because the repayments of interest and principle are funded from the same balance sheet/cashflow of the issuer. For more on this subject, see our article.


Investors with £10 trillion in assets call for the UK to issue a green+ sovereign bond to drive climate action and social renewal in the Covid-19 recovery

In the UK, we will continue to engage proactively with the Debt Management Office, the Treasury, and other industry working parties to express our own views on how these gilts should be put to market. We have also engaged as part of a group of investors – with AUM of £10 trillion – to encourage the UK Government to consider using a 'Green+' gilt that can both support the transition to net zero and bring a range of social benefits.[19] Our position as a significant investor in UK government bonds lends us both credibility and interest on behalf of our clients in this area.

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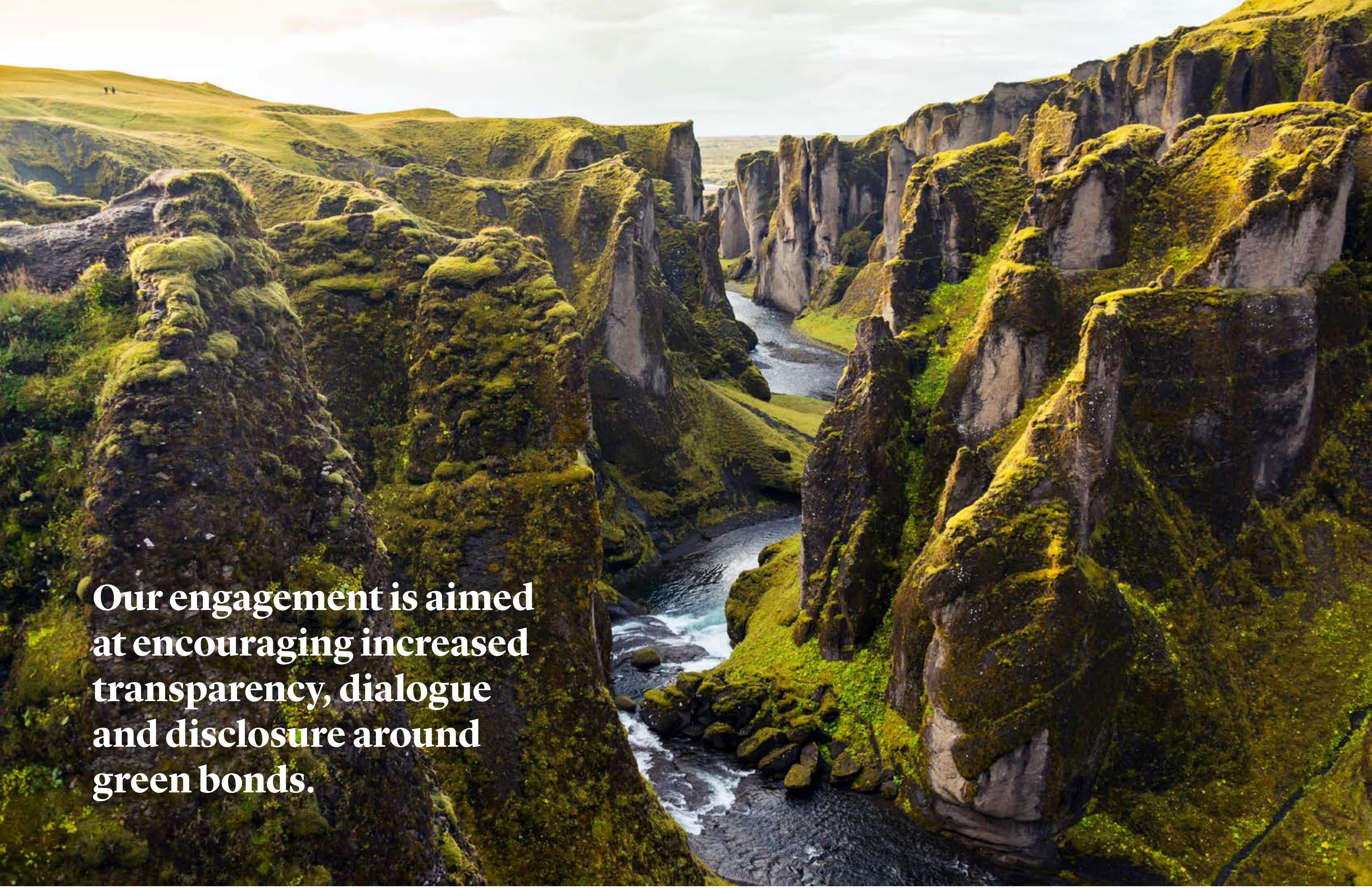

Our engagement is aimed at encouraging increased transparency, dialogue and disclosure around green bonds.

One share, one vote

'One share, one vote' is a principle that was adopted by the New York Stock Exchange in 1940 which embeds the fair and equal treatment of all shareholders. It does so by allocating control in direct proportion to the level of economic interest and exposure to risk. If allocation of control is uneven, this raises the risk of a controlling group entrenching its positions and acting to the disadvantage of non-controlling shareholders. Sadly, the risk of policymakers seeking to weaken these standards remains high.

We have engaged with regulators and policymakers, both formally and informally. LGIM has contributed to official consultations, such as the Call for Evidence on UK Listings Review, and held meetings in Hong Kong and the UK to highlight how crucial the principle is. So far, standards have been broadly upheld in the UK, which is a positive outcome for all shareholders although, unfortunately, we believe the UK government will wish to explore this topic further in a bid to encourage further listings. We will therefore continue our engagement with UK policymakers in 2021.

The risk of policymakers weakening the principle of 'one share, one vote' remains high.

Under the bonnet: engagement on audit and oversight in 2020

Avoiding Wirecard

When researching a particular proposed bond issuance from **Wirecard**†, our proprietary ESG research tool raised red flags about the German fintech company's governance. The Financial Times had also reported suggestions of accounting irregularities. The underlying logic for this particular issue gave rise to further worries because Wirecard planned to use the proceeds to repay some bank loans, suggesting that lenders wanted this exposure off their balance sheets.

Wirecard's response to the accounting allegations was unsatisfactory, and in some respects even more concerning than the allegations themselves. As a result of our robust research and investment stewardship, none of LGIM's active bond funds was invested in Wirecard. At Wirecard's 2019 AGM, we voted against the discharge of all individual members of the management and supervisory boards, in a rare and significant step as part of our vote escalation policy.

The company filed for insolvency on 25 June 2020 after admitting that €1.9 billion cash on its balance sheet did not exist. Its former CEO Markus Braun was arrested on suspicion of false accounting and market manipulation. For more information, please see our blog.

2021 and beyond

Many of our engagement activities during 2020 had a demonstrable positive impact in safeguarding investor rights, to the benefit not only of our own clients, but of all investors.

There were areas where we did not achieve the desired results. For example, **AES Chile**†, one of the world's largest power generation companies, did not treat all stakeholders fairly in its tender offer of debt, diverting value from bond holders to equity holders. We relayed our concerns to the company directly and as part of an investor coalition, the Credit Round Table.

Looking ahead, we will continue our meaningful dialogues with government bodies, industry groups and individual companies in order to continue to uphold investor rights on behalf of our clients and to exert a positive influence on the market as a whole.

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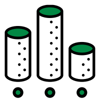
ESG: Pay and income inequality

- LGIM engaged with companies on executive remuneration, as we pressed for best practice amid the global pandemic
- We campaigned for companies to pay a living wage and increase pension contribution levels for employees

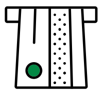
Through our policies, we seek to ensure that the companies in which we invest on behalf of our clients demonstrate fair treatment of employees, pay a living wage and uphold all human rights.

A vast number of people globally were in work yet suffering from extreme poverty even before the onset of COVID-19, which had a devastating effect on lower-income communities.

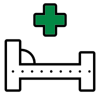
The number of workers in poverty is a real concern for LGIM not just as a social injustice, but due to the financially material consequences. Among other effects, we believe income inequality can harm:



Workforce productivity – creating a direct loss of goods and services to the economy.

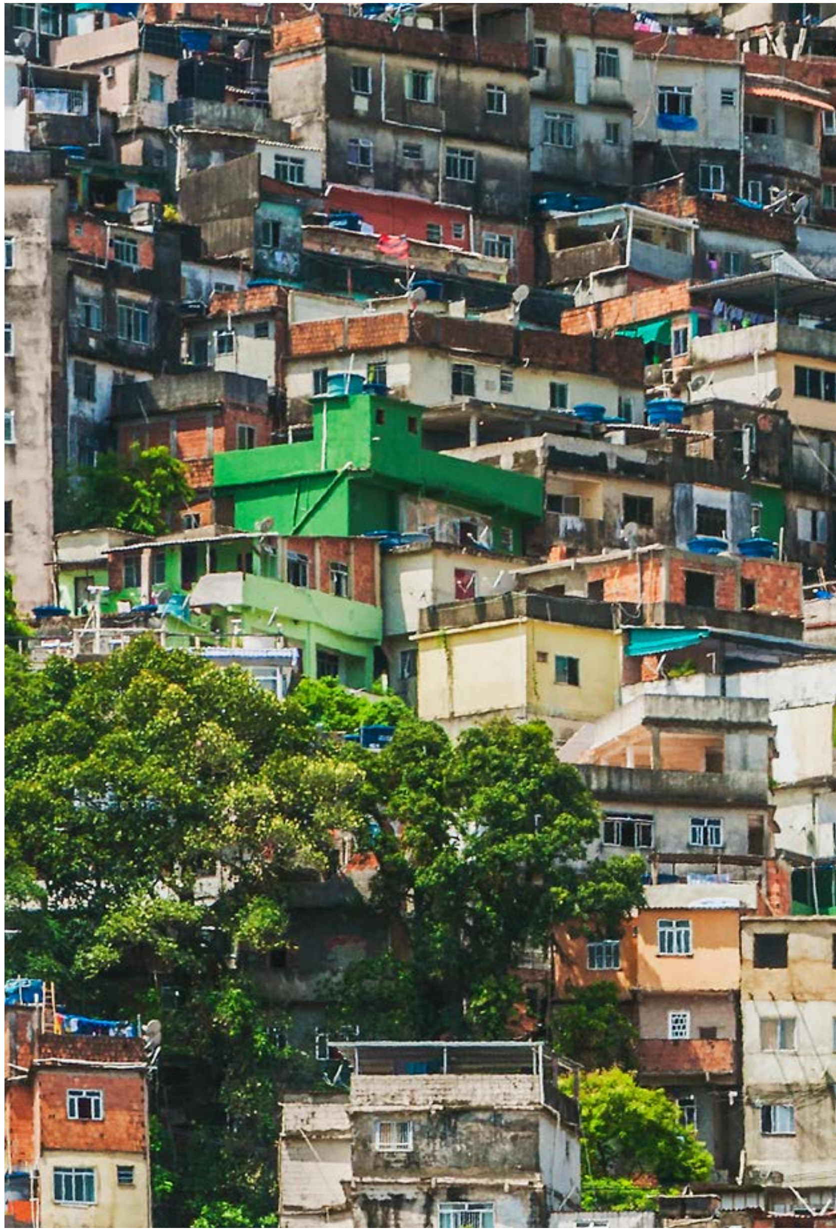


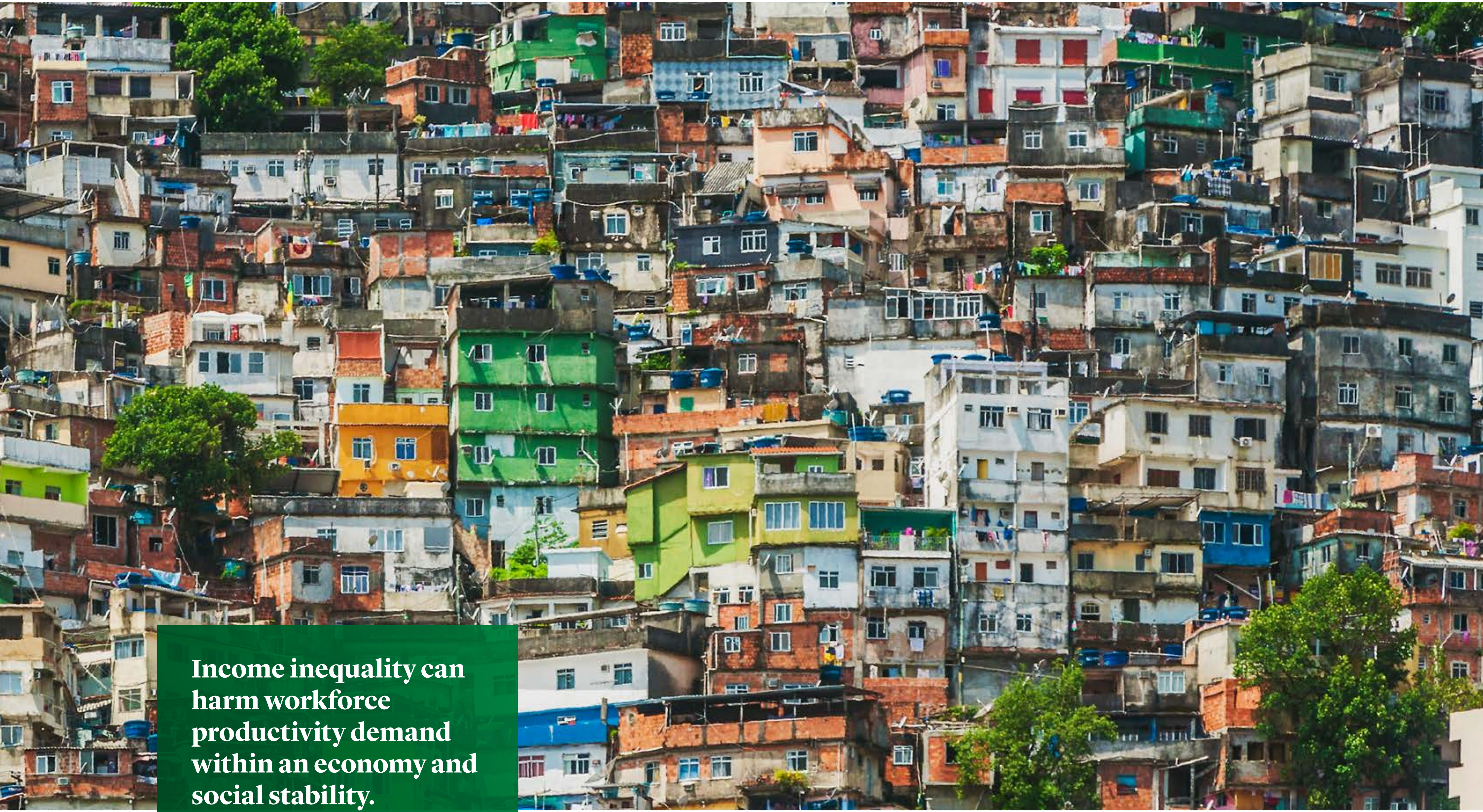
Demand for goods and services, with households relying on debt to maintain their lifestyles.



Health in later life and social stability, in part by being associated with increased crime levels.

As we explained in a blog, numerous academic studies have demonstrated the link between income equality and economic and financial performance. This is why it is imperative that we act on our clients' behalf on these issues.





Income inequality can harm workforce productivity demand within an economy and social stability.

A living wage

LGIM asks all companies in which we invest to ensure they are paying a living wage or the real living wage for UK-based employees. We also ask them to ensure that their Tier 1 suppliers are paying the living wage. We are pleased that 41 of FTSE 100 companies in the UK are now paying a real living wage, including companies with which we have engaged on this topic, such as **Persimmon**†. We were also encouraged by **Unilever's**† announcement of an internal target for all suppliers globally to pay the living wage.

We also expect companies to sign up to global standards that ensure workers are treated fairly (such as the Base Code of the Ethical Trading Initiative, the UN Universal Declaration of Human Rights, or the International Labour Organization Declaration on Fundamental Principles and Rights at Work). However, merely signing up is not sufficient. We want companies to take steps to ensure that suppliers are abiding by these principles in their operations.

Executive remuneration: best practice

In 2016, we introduced into our UK governance policies a requirement for companies not to award director salary increases in excess of what was offered to the general workforce. In addition, we asked companies to align their executive pension payments with the wider workforce's levels. During our engagements on the subject, we also suggested companies consider increasing pension contributions for existing employees from current low levels.

We were pleased that during 2020 many companies not only reduced the pension provisions for their executive directors, but six FTSE 100 companies increased the overall rate for the workforce (**Capital & Counties**†, **Great Portland Estates**†, **Marshalls**†, **WPP**†, **Intermediate Capital Group**† and **Pennon**†).

We also discussed these issues at our virtual global annual event for non-executive directors, with our message reaching 236 corporate directors.

Further information on this event on page 89

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

Pay during a pandemic

As part of our broader approach to looking at pay during the pandemic, we expanded our UK Principles of Executive Pay to highlight the fact that we will increase our scrutiny of those companies that have received support from government or shareholders (via additional capital or suspended dividends) and/or made staff redundancies but continued to pay annual bonuses to their directors.

We maintain that the practice of insulating executives against economic downturns when the same level of protection is not offered to other stakeholders is a contentious one, and not in line with the principle of long-term aligned pay for performance. As such, in late 2020, **International Consolidated Airlines Group**†, the parent company of **British Airways**†, and **Qantas Airways**† came under our increased scrutiny. This resulted in us voting against pay-related proposals at both airline companies' AGMs, as these companies sought to provide executive variable pay levels that were not commensurate with stakeholder experience given the pandemic.

Educating the market

LGIM has long provided transparency about our views on UK executive pay. Our experts meet with remuneration consultants annually to discuss any changes to our expectations and market developments. We also regularly meet with other investors to ensure our guidelines continue to be market-leading.

While our policies on executive compensation were already included within our policy document for North America, in 2020 we produced a new standalone document similar to our UK principles. This is the first step in a broader effort to improve pay practices in North America and better align pay and performance. Last year, we voted against 54% of say on pay management resolutions at North American companies. Many of these related to either performance conditions not being measured over a three-year period or at least 50% of long-term incentives not being linked to any performance conditions at all.

Pay for performance alignment

One of the US companies we targeted to improve pay for performance alignment was **Microsoft**† (ESG score: 61; -5). Our Investment and Stewardship teams collaborated on driving appropriate pay alignment in the industry and requiring more formulaic financial targets to align pay for senior management. We discussed further the company's workforce diversity agenda, with a commitment to 30% of senior management coming from ethnic minorities, and strengthened remuneration alignment through the inclusion of diversity targets within pay KPIs.

ESG score

Microsoft†

LGIM ESG score 61

- 5 points

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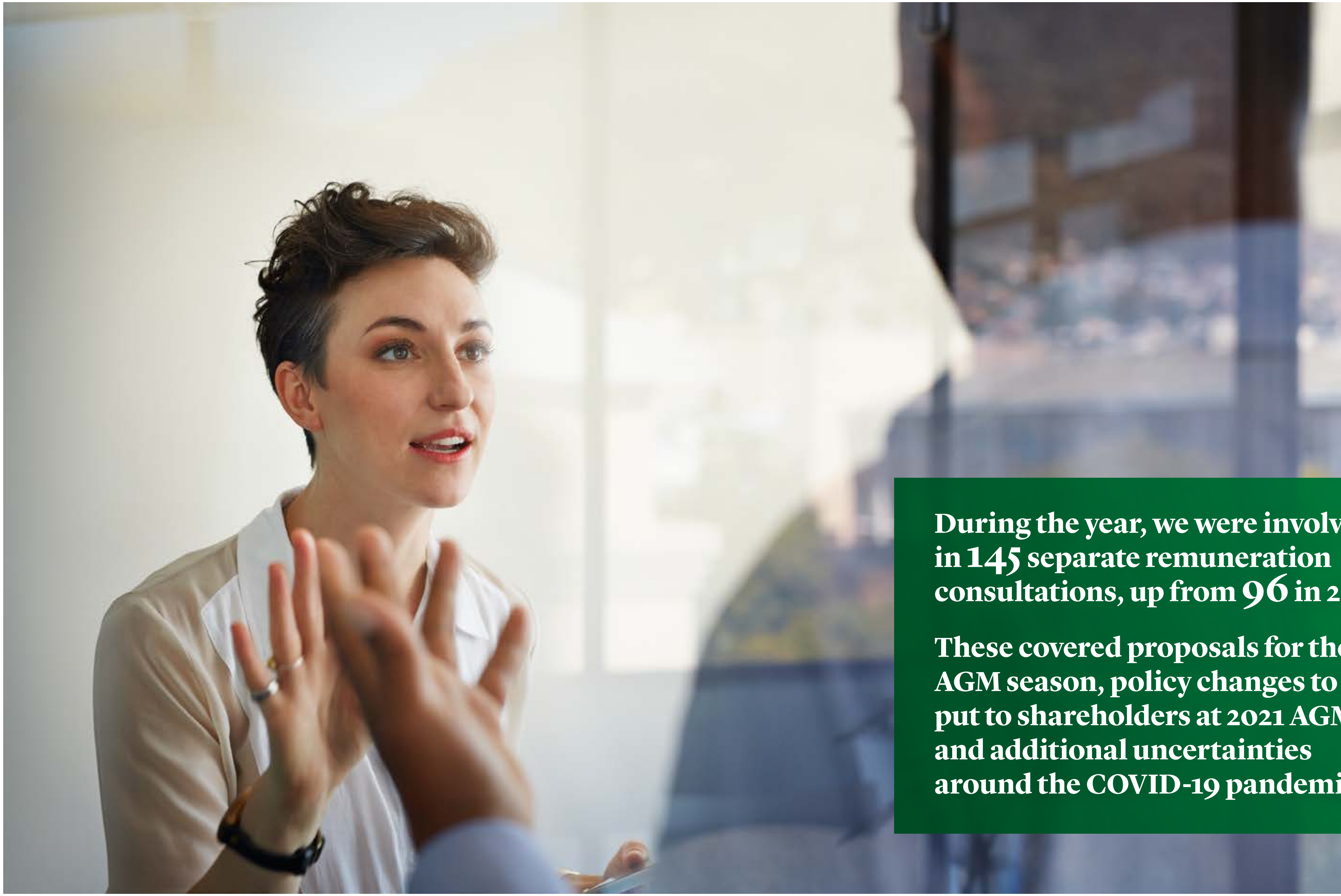


During the year, we were involved in 145 separate remuneration consultations, up from 96 in 2019.

These covered proposals for the AGM season, policy changes to be put to shareholders at 2021 AGMs and additional uncertainties around the COVID-19 pandemic.

In the UK, most proposals included changes to policy in line with the UK Corporate Governance Code (e.g. alignment of director pension accrual with the wider workforce; introduction of post-exit holding periods; and the extension of malus/clawback provisions).

Increasingly, proposals also involved the replacement of more standard variable incentive schemes with restricted share plans, where vesting only depends on continued employment (time vesting) and forms of value creation plans, which allow for an element of share price value being transferred to management (with vesting based solely on share price or total shareholder-return performance).

Aligning pay and performance

At **Informa's**† (ESG Score: 68; +3) EGM in December, we voted against the adoption of a new restricted share plan due to an insufficient discount applied to the award opportunity. Given the widespread shareholder dissent (40.5% opposition), while the resolutions were technically passed, we do not consider this to be a clear mandate to operate the plan in its proposed form. We will continue to monitor the company's pay practices going forward and may escalate our vote sanction to the Remuneration Committee members should no changes be made as a consequence of the low shareholder support.

ESG score

Informa†

LGIM ESG score 68

+ 3 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

During 2020, the number of pay consultations we undertook with investee companies increased by 51%.

At other companies, especially in sectors substantially affected by the pandemic – such as retail or travel and leisure – we considered the justification for the change in share incentives and their strategic alignment. Although LGIM is not generally supportive of 'value-creation' plans, we engaged and ultimately supported the adoption of such a plan at retailer **AO World**† given its broad-based structure that offered shares across the workforce, in line with our policies on tackling income inequality. We also took into account the inclusive measures introduced by the company during the pandemic to look after its employees.

In 2020, there were 341 proposals to adopt a new remuneration policy at UK companies. We voted against the adoption of 128 (37.5%). Of these, 82 (64%) related to policies with post-exit shareholding requirements that did not meet our pay principles. In addition, we opposed the election of 57 directors who were members of remuneration committees, due to our persistent concerns over their pay practices.

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

In 2020...

there were **341** proposals to adopt a **new remuneration policy** at UK companies.

We voted **against** the adoption of **128**

Of these, **82** related to policies with post-exit shareholding requirements that **did not meet our pay principles**.

We opposed the election of 57 directors who were members of remuneration committees, due to our persistent concerns over their pay practices.

Retrospective changes to performance targets

A number of companies fell short of our expectations when they retrospectively changed metrics or targets that did not yield the performance needed for awards to vest.

For example, retailer **Tesco**[†] received shareholder dissent on the adoption of its remuneration report from 67.29% of votes cast. The investor backlash followed the company's retrospective amendment of its Long-Term Incentive Plan by removing a strongly performing peer, **Ocado**[†], from the total shareholder return peer group, citing a change in Ocado's business strategy that made it no longer comparable. We disagreed with the company's decision and voted against the resolution.

Many other companies used the pandemic as justification for poorer-than-expected performance, applying discretion to allow for director bonuses to vest despite pre-set targets not having been met or providing for additional payouts after the fact to compensate for lost remuneration, such as **Medtronic**[†].*

Plus500[†]** received investor pushback on a substantial discretionary one-off bonus to its CFO for work that led to securing approvals from the Israeli tax authority on certain advantageous tax treatments. We engaged with both companies prior to their AGM to communicate our concerns clearly, and in the case of Plus500 the resolution to ratify the additional bonus was withdrawn.

For the rationale behind specific votes against management, see our website.

Many companies used the pandemic as justification for poorer-than-expected performance, applying discretion to allow for director bonuses.

*Source: Medtronic Plc 2020 Proxy Statement – SEC Form 14A; page 32
**Source: Plus500 Ltd RNS 16/09/2021; AGM results announcement. www.londonstockexchange.com
† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

We acknowledge that ESG policy and regulation are evolving rapidly around the world.

Policy advocacy and collaboration

- In 2020, we focused on three areas: corporate governance, climate change and sustainable finance policy
- We engaged with policymakers around the world on more than 30 topics

As a long-term investor, we share a responsibility to ensure that global markets operate efficiently and reflect the highest level of corporate governance and sustainability standards to safeguard their integrity and the value of our clients' assets.

In 2020, we focused our efforts on three key pillars that we believe are of greatest importance to the market and the global economy:

Corporate governance and stewardship standards

Achieving Paris Agreement and net-zero targets

Green and sustainable finance policy and regulation

LGIM will continue to engage on these issues in 2021. We acknowledge that ESG policy and regulation are evolving rapidly around the world. As a result, we may need to review and focus our engagements in this area.

LGIM's engagement in 2020

A significant part of our work is naturally devoted to LGIM's main markets, which last year, among others, included:

- Supporting the UK Government's Green Finance Strategy, by working with the Financial Conduct Authority (FCA) on TCFD reporting for listed issuers and the Department for Work & Pensions on amendments to the Pensions Scheme Bill
- Engaging in the various elements of EU's Sustainable Finance Action Plan, by engaging on the review of the Non-Financial Reporting Directive and with the European Supervisory Authorities on the proposed regulatory technical standards for the EU's Sustainable Finance Disclosure Regulation
- Engaging with the Australian Government Treasury to propose that amending the Corporation Act should allow AGMs to be conducted both virtually and physically

While we actively engage with policymakers on an individual basis, we acknowledge that the effectiveness of our engagements can be strengthened through a collective voice. For example:

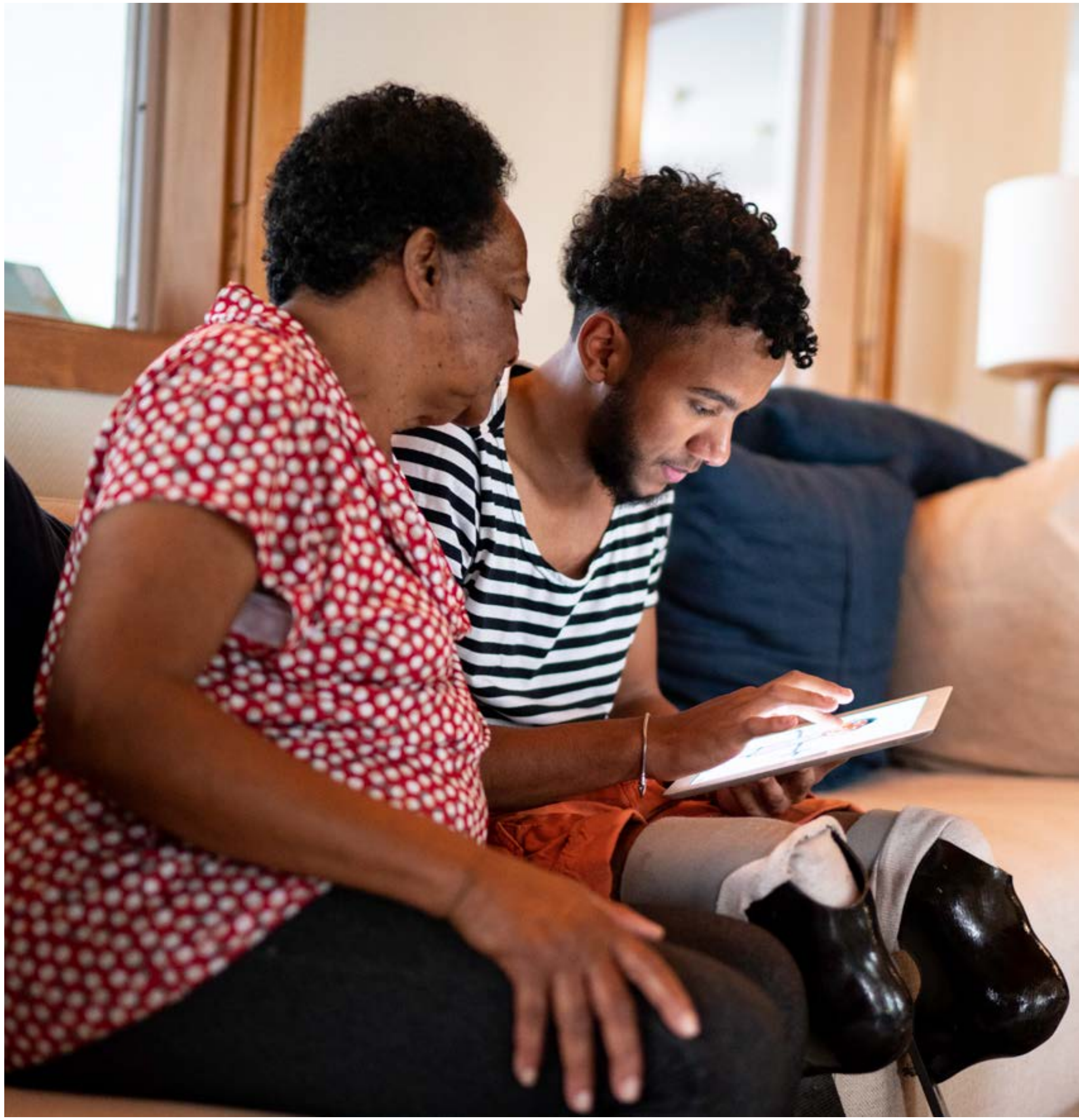
- Through the Institutional Investors Group on Climate Change (IIGCC), we supported the call to the European Commission and EU member states to raise Europe's greenhouse gas emissions (GHG) target to ensure 'at least' a 55% reduction in emissions by 2030. We were pleased to see this was agreed in December 2020
- We helped the Investment Association develop its position paper on climate change. This calls on the government to develop (i) TCFD for large private firms; (ii) green gilts; and (iii) clear sector-specific pathways for transition to net zero. In each of these areas the government is making progress
- Independently as well as with over 200 leading businesses, investors and business networks, we called upon the UK government to deliver a COVID-19 green recovery package that builds back a stronger, more inclusive and more resilient economy – for which the government has announced funding and plans

We engaged with policymakers and regulators around the world on over 30 topics in 2020.

Our third-party collaborations

We believe in a collaborative approach, and regularly work with peers, industry groups, NGOs, academia and civil society. We look forward to continuing our engagement activities with the broad range of third parties we support. LGIM is a member or supporter of multiple associations and initiatives working on ESG themes, including:

- 30% Club
- Alliance for Financing a Just Transition (London School of Economics)
- Asian Corporate Governance Association (ACGA)
- Better Building Partnership (BBP)
- British Council of Offices ESG committee
- British Property Federation
- Climate Action 100+
- Coalition for Climate Resilient Investment (CCRI)
- Corporate Governance Forum
- Council of Institutional Investors (CII)
- European Association for Investors in Non-Listed Real Estate Vehicles (INREV)
- Global Real Estate Sustainability Benchmark (GRESB)
- Green Finance Institute – Coalition for the Energy Efficiency of Buildings
- International Corporate Governance Network (ICGN)
- Investment Association
- Investor Forum
- Japan Stewardship Initiative
- One Planet Asset Managers Initiative
- Sustainability Reporting Standard for Social Housing
- Transitions Pathway Initiative
- UK Green Building Council (UKGBC)
- UN PRI



Active engagement: the numbers

- LGIM's Investment Stewardship team held 295 meetings or calls and 596 written engagements in 2020
- The team engaged most frequently on climate change

As noted within the ESG integration section on page 8, our Investment Stewardship and active investment teams engage with companies to address company-specific and market-wide risks and opportunities.

We regularly engage with both management and non-executive directors, although our initial contact is usually with the Chair of the Board. Given the need for social distancing, in 2020 the team's engagement predominantly took the form of calls, video conferences and email communication.

The Investment Stewardship team had 295 meetings/calls, and 596 written engagements in the year.

These calls are normally attended by the sector lead, and may include portfolio managers and active analysts. Depending on the topic discussed, also a thematic expert may be present; for example, on remuneration or climate change.

To increase transparency, we have this year started to publish externally our quarterly **ESG impact reports** on our website, in addition to sending them to clients. These documents contain detailed case studies of many of the companies highlighted as examples of our engagement activity in this report.

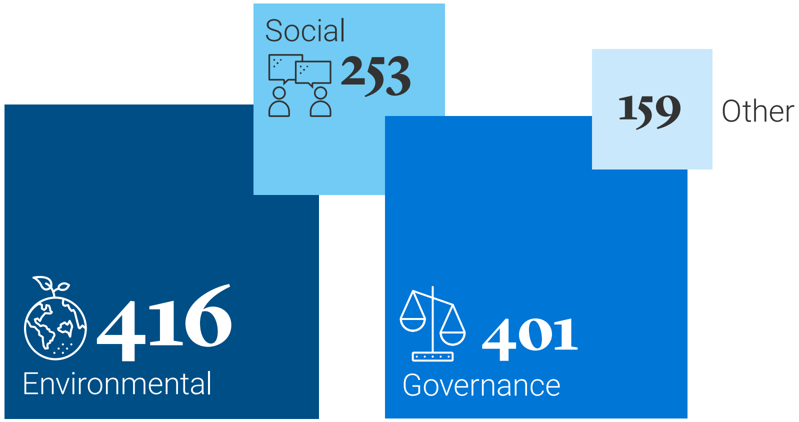
In 2020, the Investment Stewardship team held

891 engagements with 665 companies

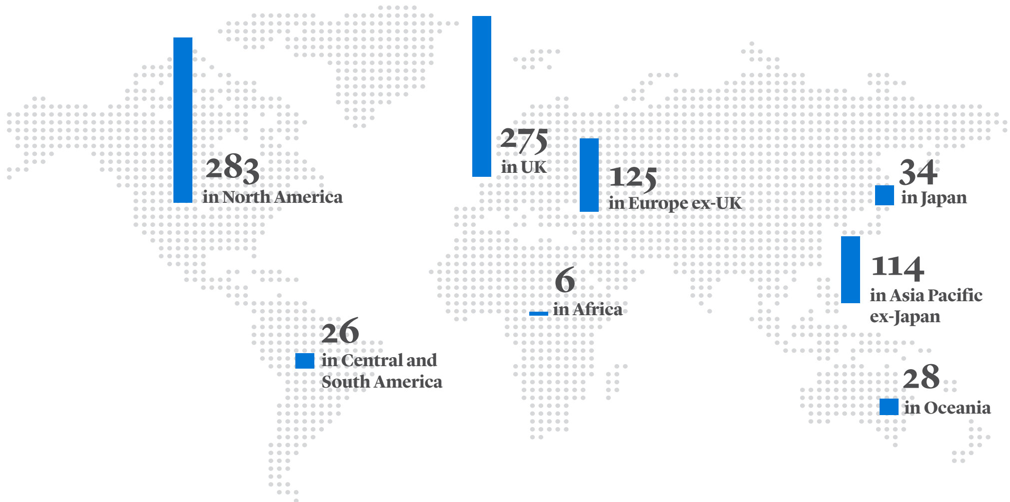
(vs. 739 engagements with 493 companies last year)

Breaking down the engagement numbers

Breakdown of engagement by themes



Regional breakdown of engagements



Top five engagement topics*

407 Climate change

234 Remuneration

174 Diversity (gender and ethnicity)

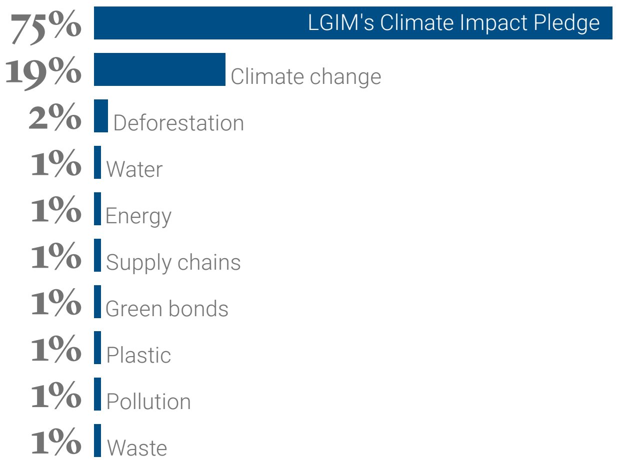
94 Board composition

92 Strategy

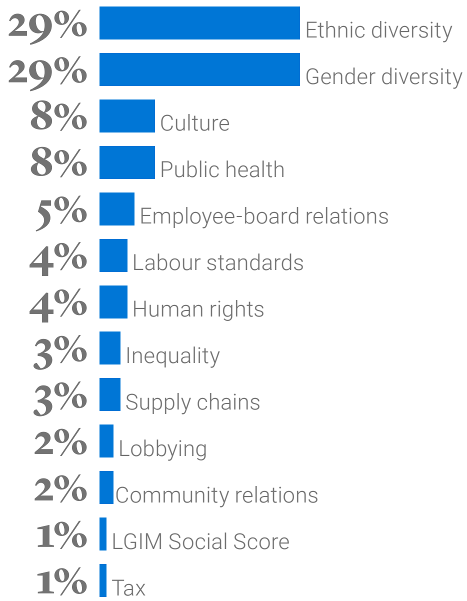
*Note: an engagement can cover more than a single topic

Engagement themes in more detail

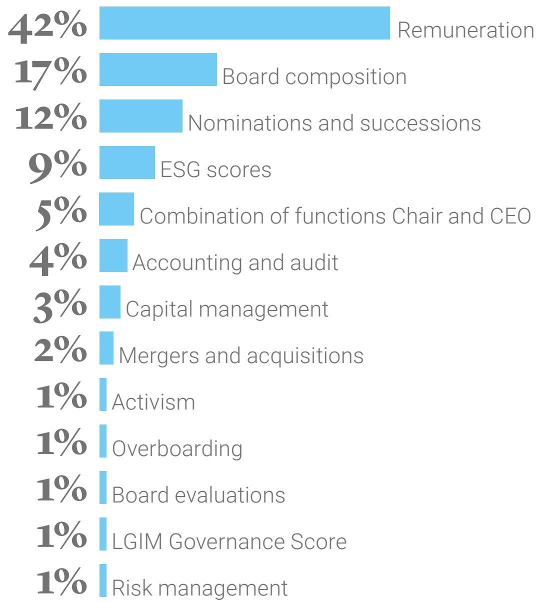
E
Breakdown of environmental engagement



S
Breakdown of social engagement



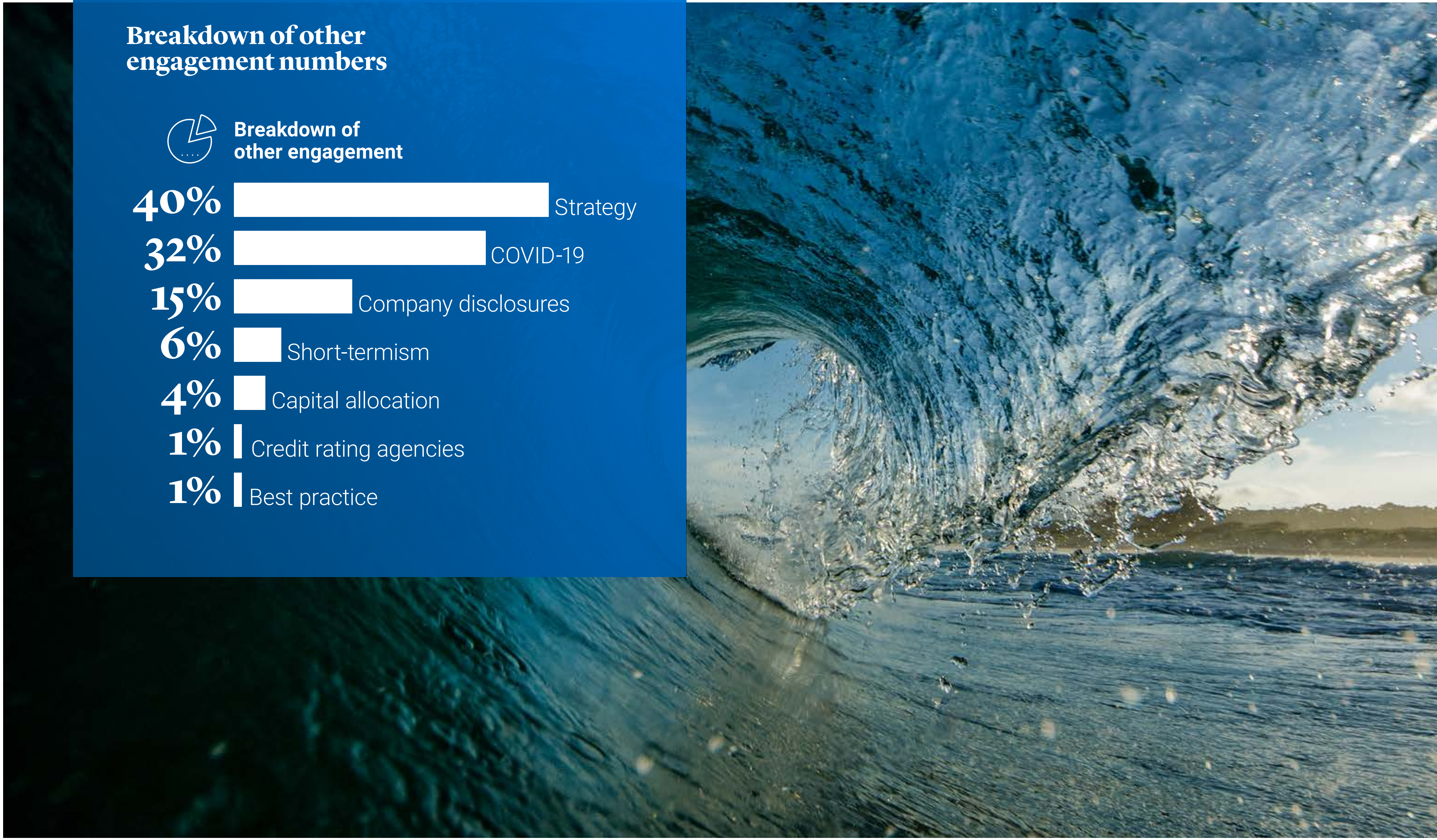
G
Breakdown of governance engagement



Breakdown of other engagement numbers

Breakdown of other engagement

40%	Strategy
32%	COVID-19
15%	Company disclosures
6%	Short-termism
4%	Capital allocation
1%	Credit rating agencies
1%	Best practice



Companies with highest number of engagements

References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores, and additional disclosures, can be found here.

Engagements	Company
9	BP
7	Tesco
6	Rio Tinto
5	BHP Group
5	Informa
5	Bayer AG
5	JD Sports
4	JPMorgan Chase & Co
4	Marks & Spencer Group
4	Melrose Industries
4	AstraZeneca
4	Associated British Foods
4	GlaxoSmithKline
4	Pearson

Engagement with consequences

Through co-ordinated engagement efforts with the Investment Stewardship team, our portfolio managers undertake regular engagement with the companies in which they invest, with some campaigns lasting multiple years.

When one-to-one engagement does not yield results, LGIM may seek to escalate our engagement through collaborating with other institutional investors directly, or via investor networks, to amass voting power. We have a number of escalation options at our disposal, from voting sanctions through to divestment from the securities of an unresponsive company in select funds.

We are increasingly leveraging data tools to help us track the impact of our engagement. Last year, we announced we had written to companies we had identified as having poor ESG scores, particularly around S, G and T (transparency) metrics. A year later, we have seen improvements in ESG scores at around two-thirds of targeted companies.

We have seen improvements in ESG scores at around two-thirds of targeted companies.

Percentage of companies whose scores improved from 30 September 2019 to 30 September 2020

Campaign / score	ESG	E	S	G	T
S campaign	72%	64%	62%	47%	77%
G campaign	67%	51%	42%	71%	78%
T campaign	59%	69%	44%	50%	53%
Overall	**68%**	**60%**	**52%**	**58%**	**73%**

Source: LGIM, as at February 2021

But we know more needs to be done

While we recognise that changes in companies' emissions or board composition may take time, improvements to reach minimum levels of disclosure (as captured by our T metrics) are more straightforward to remedy. That is why, as previously announced, from 2022 we will be voting against companies that are lagging on our transparency scores. See our article on the subject.

Stakeholder engagement and knowledge-sharing events

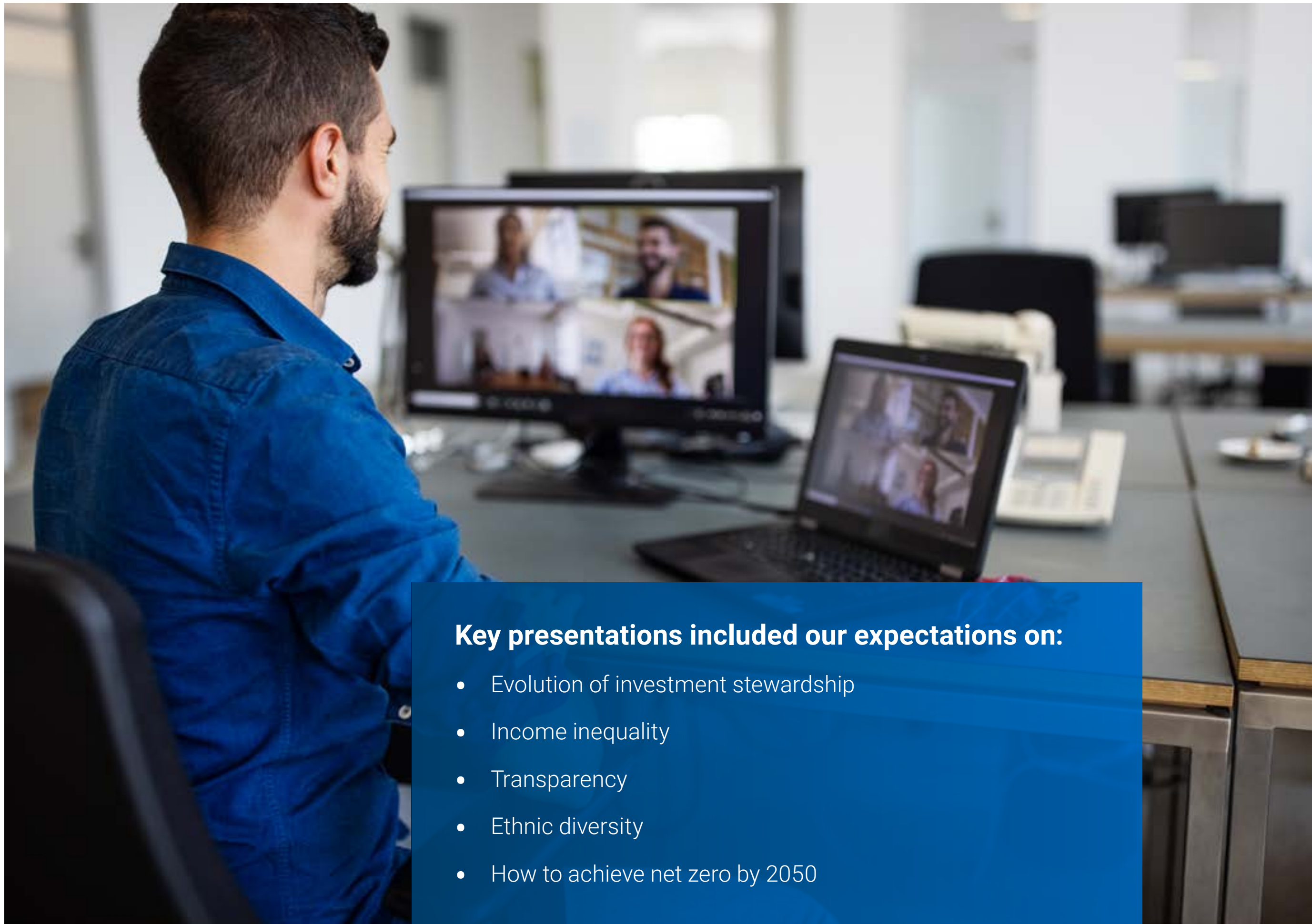
At our first virtual (and fourth annual) external **stakeholder event**, key presentations included:

- 'Next Gen' responsible investment from the CEO of ShareAction
- The importance of engagement on corporate lobbying from the director of InfluenceMap
- The importance of antibiotic resistance from the Access to Medicine Foundation
- Human capital disclosures from the Human Capital Management Coalition

As in previous years, we will look to implement many of the suggestions put forward by participants and be mindful of the feedback received as we frame our voting and engagement themes.

Meanwhile, at our first virtual (and fifth annual) **non-executive director event (NED)** in September 2020, we took the opportunity of the virtual format to present on key ESG themes directly to the board members of our investee companies from across the globe.

Number of national and international NED delegates: **236**



Key presentations included our expectations on:

- Evolution of investment stewardship
- Income inequality
- Transparency
- Ethnic diversity
- How to achieve net zero by 2050

We suggested how these themes could be addressed effectively to ensure boards were adequately equipped to deal with current and future challenges. We also took the opportunity to hear thoughts on key issues from participating NEDs.

Voting and reporting

- Our new vote disclosure web page is aimed at enhancing transparency
- We moved from 'material' to 'significant' vote reporting

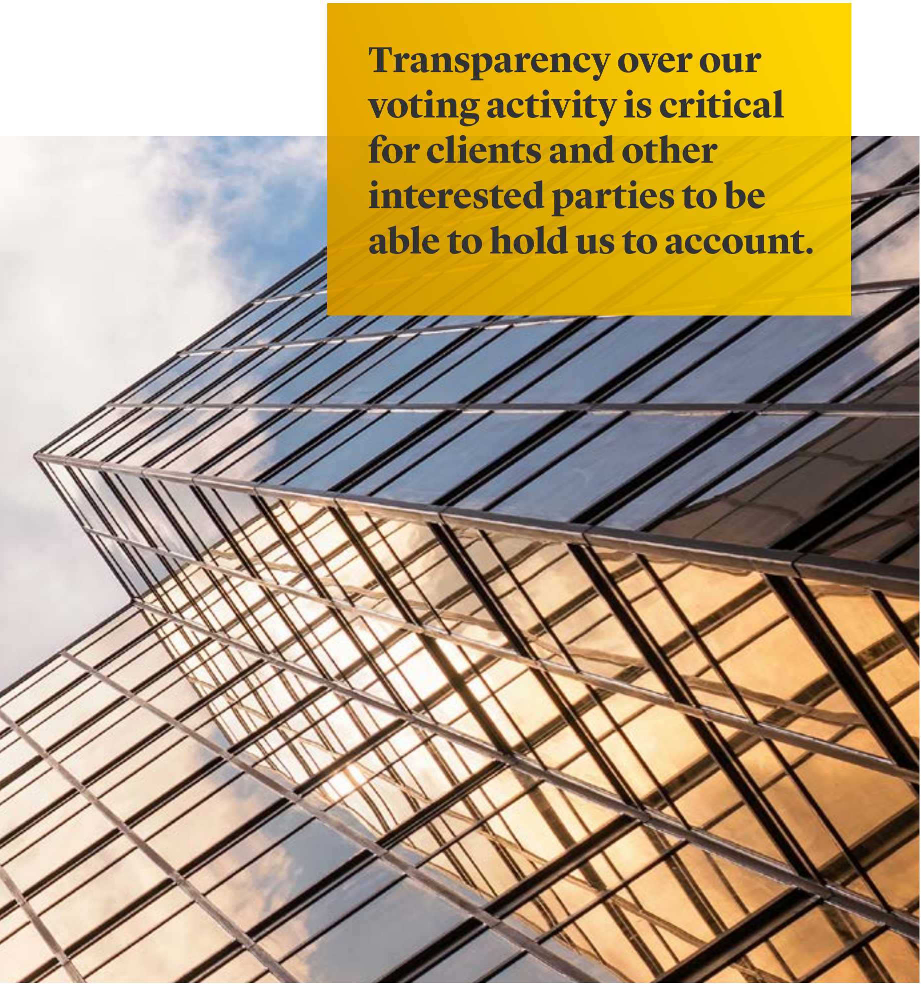
Voting is a fundamental tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding companies to account.

In 2020, LGIM cast over 138,600 votes at over 14,000 meetings.

The majority of our clients' shares are held through pooled funds. As such, LGIM votes with all UK-based shares for which it has authority to do so and votes in developed markets and some emerging market countries, covering approximately 94% of the FTSE All-World Index.*

We aim to keep abstentions to a minimum. The disclosures provided below are in line with our execution of these obligations across these pooled funds. We use proxy advisory firm, Institutional Shareholder Services' (ISS) ProxyExchange voting platform to vote electronically and to ensure, in markets where we have unimpeded voting rights, that no votes remain unexercised.

*LGIM currently only provides client voting within one pooled fund for a small selection of clients, which is a legacy process that is no longer offered to any existing or new clients. LGIM is working with other industry participants in seeking to help improve voting processes and will keep market developments in this area under review.



Enhanced vote transparency

We believe that transparency over our voting activity is critical for clients and other interested parties to be able to hold us to account. As such, we unveiled a new vote disclosure webpage, which aims to:

- Provide daily updates of our vote instructions and disclosures of all votes* with a lag of just one day following the shareholder meeting
- Disclose vote rationales for all votes against management
- Include historic vote data from 1 January 2017

Moving from 'material' to 'significant' vote reporting

With the introduction of the concept of the 'significant vote' by the EU Shareholder Rights Directive II, LGIM aims to continue to help clients in fulfilling their reporting obligations and ensure trustees of UK pension funds are able to comply with recent regulation, including implementation statements.

Having, for many years, produced case studies and summaries of LGIM's vote positions for what we deemed were 'material votes', we evolved our approach in 2020 to provide our clients with access to 'significant vote' information for each of the funds in which they are invested.**

*Excludes all funds not voting in line with the LGIM vote policy and that are subject to their own voting instructions.
**Equity funds provided by Legal and General Assurance (Pensions Management) Limited only, with our reporting for further funds and products currently under development.

In determining these votes, the Investment Stewardship team considers the criteria provided by the Pensions & Life time Savings Association guidance (PLSA), such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny)
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote
- A sanction vote as a result of a direct, or collaborative, engagement
- A vote linked to an LGIM engagement campaign – in line with the Investment Stewardship team's five-year engagement policy

Our policy on stock lending

Where there are no legal or practical impediments, we aim to vote with every share we hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting.

Whilst LGIM's stock lending policies differ according to each market, with limits on the number of shares lent per fund and per stock, we always retain a number of shares in each voteable stock to be able to note our approval, or dissent, through a vote via the shareholder meeting. Moreover, we retain the right of immediate recall of our shares, should we deem this necessary or expedient.

In practice, we do not typically recall lent stock for voting on standard and routine company meetings. However, if there were a material vote – for example, a potential takeover of a company that we owned at a price which we did not believe was in the best interests of shareholders – we would recall any stock that was out on loan to vote in order to vote with 100% of our holding.

Taking into account client views

To ensure that our voting decisions are aligned with the wishes of our clients, we undertake regular catch-up meetings with the ultimate owners of the assets we manage. These are important opportunities to provide our clients with assurance and knowledge, as well as obtain direct feedback on their experience and expectations.

Digital focus survey

Aim: To better understand the alignment of LGIM's voting stance with the voting intentions of our clients, a significant group of end users of our clients' corporate pension plans were asked to make regular elections regarding their intentions on certain significant votes at global company meetings over a prolonged period.

Example: In the initial trials with one of the corporate pension schemes, around a third of users returned on a monthly basis to express their views.

Outcome: This helped establish a two-way engagement, enabling LGIM to better understand consumer views and savers to become more engaged with their investments.

Our clients

LGIM manages £1.3 trillion in assets on behalf of savers, retirees and institutions worldwide. We strive to achieve our purpose – to create a better future through responsible investing – through a strong sense of partnership with our clients, working together to achieve positive long-term outcomes.

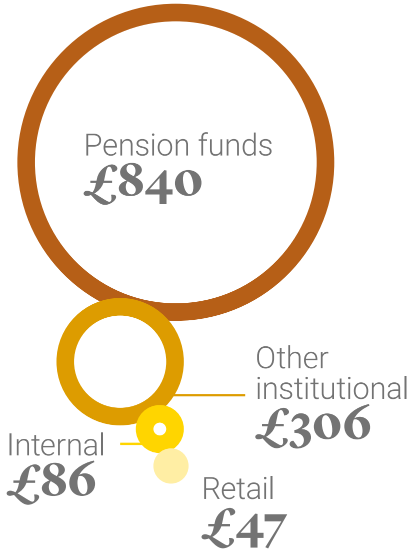
Breakdown of LGIM's £1,279 billion AUM

£ billion

Asset class

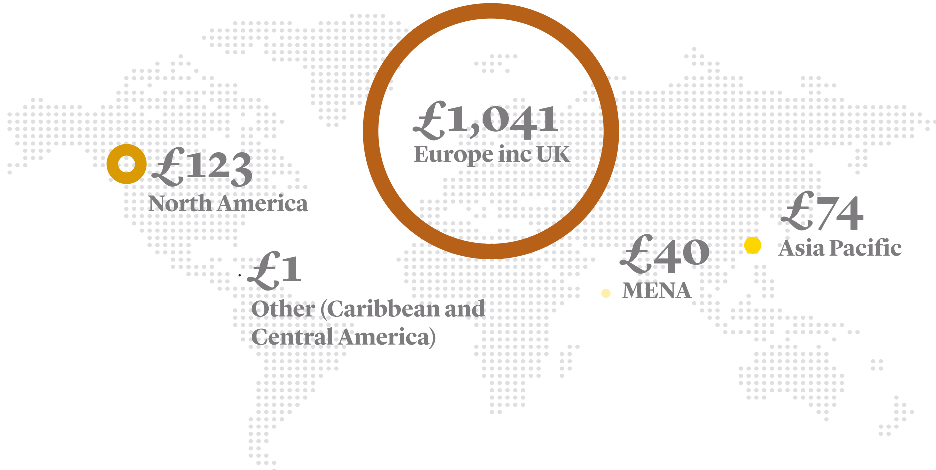
£ billion

Client type



£ billion

Region



Source: LGIM internal data as at 31 December 20. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions. May not total due to rounding.

Policies and processes

- We continued to assess our internal and external voting policies to make sure we are consistent and transparent in our approach

From voting against combined Chair-CEO roles and all-male boards globally, to our new policy on ethnic diversity, we have continued to strengthen and refine our voting stance in 2020.

Ongoing scrutiny of, and improvements to, our voting processes are key to meeting our goals as a long-term, responsible investor.

LGIM's voting decisions are guided by policies that are painstakingly researched, set and fine-tuned every year. They incorporate specific market policies that allow for local nuances to align with best practice.

From voting against combined Chair-CEO roles and all-male boards globally, to our new policy on ethnic diversity, we have continued to strengthen and refine our voting stance in 2020.

It is essential that our votes are based on accurate, reliable data. This means championing the cause of transparency in our own processes and within investee companies' reporting.

LGIM's Global Corporate Governance & Responsible Investment Policy sets out our expectations of investee companies and outlines our approach to voting and engagement. All of our policies are fully compliant with Shareholder Rights Directive II and available on our website. We review our policies on a regular basis, updating most of them annually.

In updating our policies, feedback on specific topics is sought from internal subject matter experts and the Investment Stewardship team more broadly. We also consider the views of external stakeholders.

LGIM's internal custom voting policy

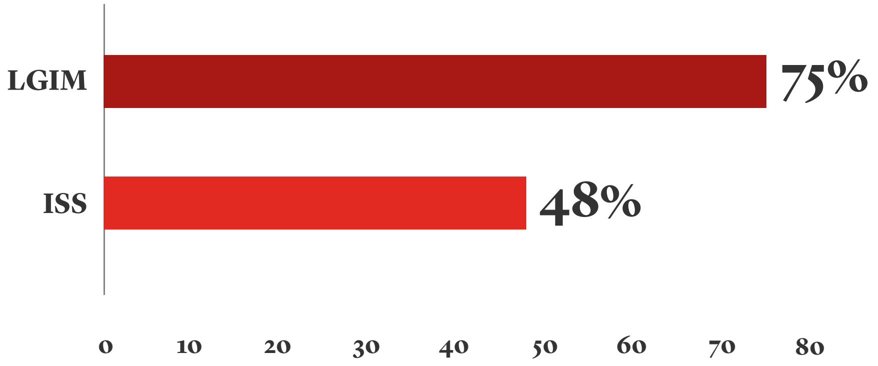
Voting decisions are made according to our instructions through an electronic voting platform called 'ProxyExchange' which is managed by ISS. Share position data is updated based on the settled positions provided by custodians. Only eligible share positions are reflected against expected upcoming voting events across the portfolio of companies held within ProxyExchange. Any additional trading that takes place on receipt of the electronic ballot is updated per trade settlement based on the holdings update by the custodian.

We do not automatically follow recommendations of proxy advisers and have put in place a 'custom' voting policy with specific voting instructions. These instructions apply to all markets globally, with minimum best practice standards that we believe all companies should observe, irrespective of local regulation or practice.

In addition, we have also set specific custom voting policies at an individual market level for those markets in which we adopt a stricter stance. Our analysis shows that, globally, our voting stance differed from ISS recommendations in around 9% of votes last year.* When our stance differs, the majority of LGIM votes cast are usually against management – particularly around issues of audit, independence and remuneration.

* In main pooled FTSE index funds

Companies voted against



Source: LGIM Internal data 01/01/2020 – 31/12/2020 representative of voting data from holdings across 10 regional index funds in Europe, UK, Japan, APAC ex Japan, North America and emerging markets totalling 65,635 resolutions

Our analysis shows that, globally, our voting stance differed from ISS recommendations in around 9% of votes last year.

All our custom voting policies are developed in accordance with our publicly disclosed position on ESG criteria in our principles documents and country-specific policies.

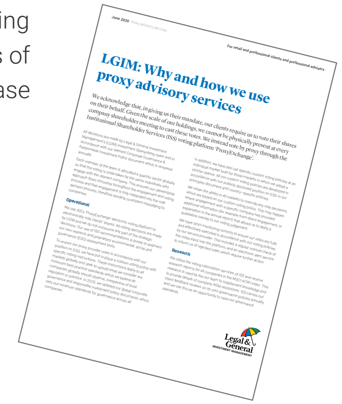
We have regular meetings with ISS to discuss the implementation and evolution of our policies, as part of a review process to ensure that our decisions remain aligned to market best practice and evolving regulation. Any material changes to LGIM's custom voting policy requires team agreement and sign-off by LGIM's board.

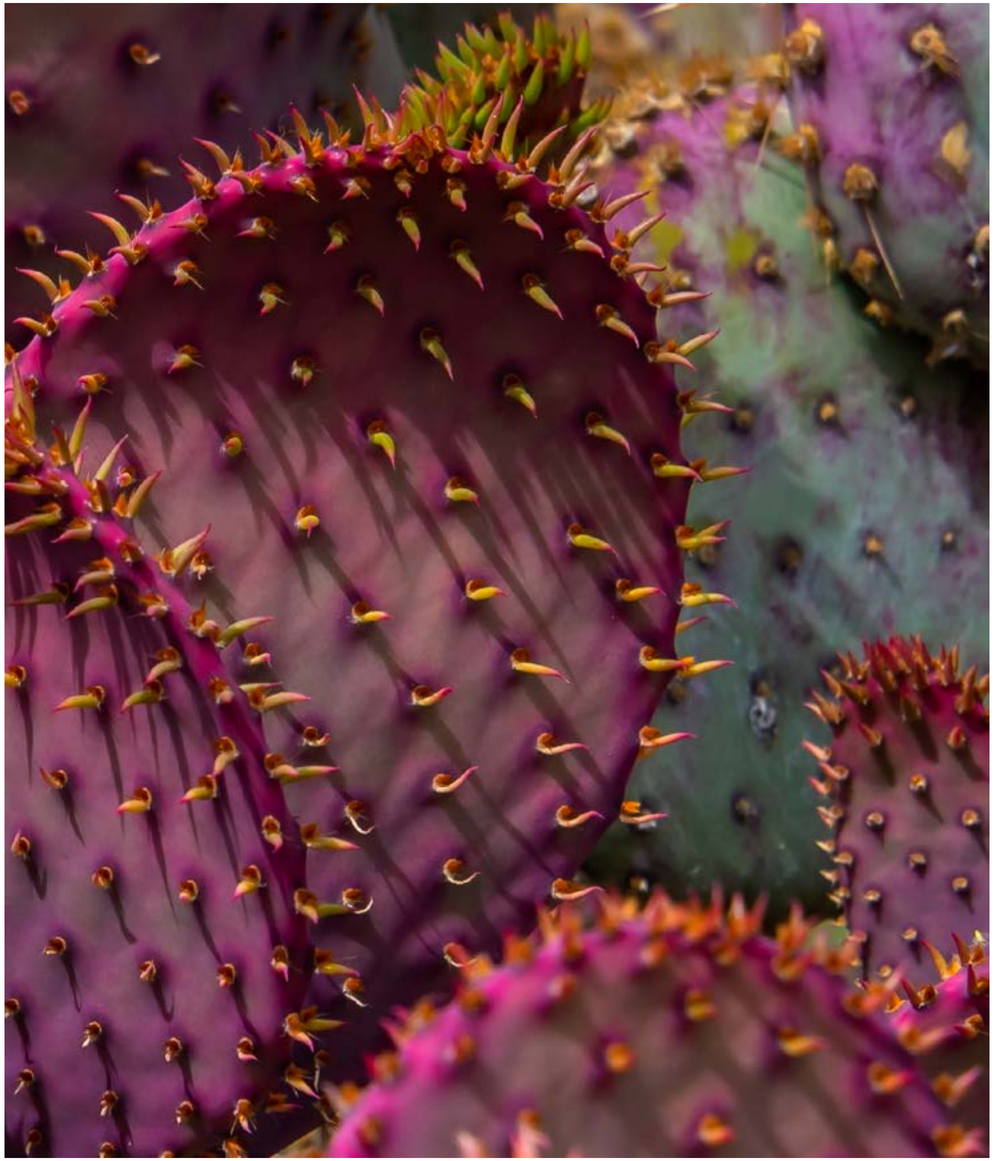
We retain the ability in all markets to override any vote decisions that are based on our custom voting policy. This may happen when a company has provided additional insight that allows us to apply a qualitative overlay to our assessment. In addition, we also monitor the votes cast on our behalf to ensure they are executed fully and consistently in accordance with our policies.

LGIM undertakes an independent assurance assessment on its stewardship and voting process annually. The scope of this external 'opinion' includes assurance on LGIM's application of the relevant UK Stewardship Code principles in line with the AAF 01/06 framework.

We use the voting information services of ISS and receive research reports for all companies in the MSCI ACWI index. We also receive research reports on UK companies in the FTSE All-Share index from IVIS, the research team of the UK Investment Association. We use this analysis to augment our own research and proprietary ESG assessment tools, as well as data from providers including Refinitive Eikon, CGLytics and Sustainalytics. We regularly review the quality and timeliness of services offered by our data providers, to ensure that the quality of the data on which we base our voting decisions remains high and offers value for money.

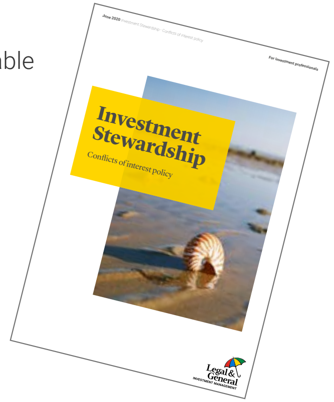
For further information on how we use proxy advisory services, please see our policy.


LGIM: Why and how we use proxy advisory services



Conflicts of interest

In our approach to responsible investing in general, and voting and engagement in particular, we seek to act in a manner consistent with the best interests of all clients.



As a result, we have a conflicts of interest policy, which is available on our website and covers the following areas, among others:

- LGIM's listed parent company: reputational conflicts; commercial relationships; seeking to influence corporate governance activities
- LGIM clients: corporate sponsored pension schemes are associated with portfolio companies; conflicts between client resource allocation
- Internal conflicts: differing investment strategies and interests between asset classes; differing views between portfolio managers and the Investment Stewardship team
- Portfolio companies: commercially and price sensitive information; direct competitors; common cross-directorships; personal contacts and connections

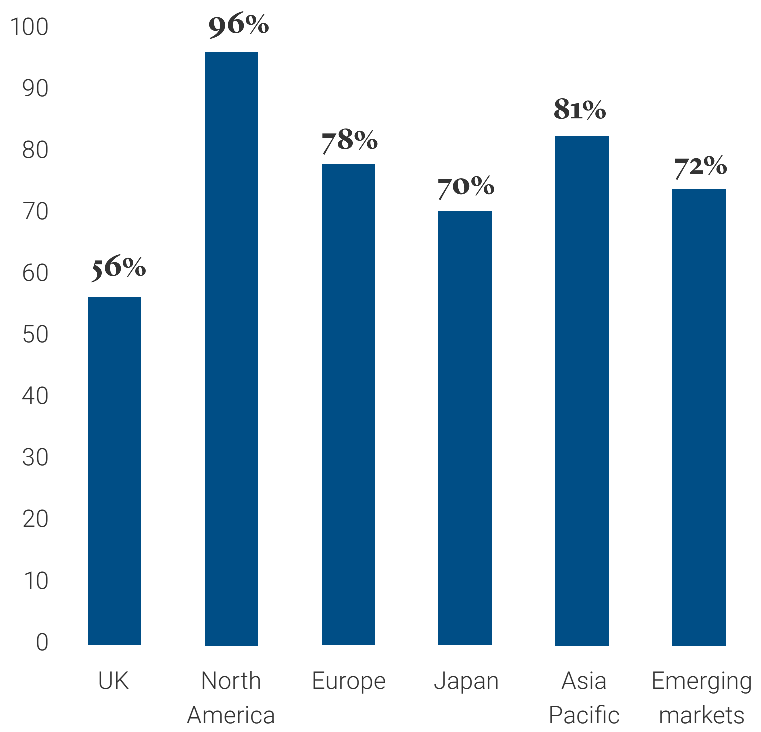
LGIM also provides regular training to all employees, to deal with such instances in a regulatory-appropriate and client-focused manner.

Voting statistics by region

Global

Proposal category	Total for	Total against	Total abstentions	Total
Antitakeover related	547	30	0	577
Capitalisation	8063	1260	1	9324
Directors related	23738	4757	522	29017
Non-Salary compensation	3152	1965	0	5117
Reorganisation and mergers	3753	674	0	4427
Routine/Business	14226	1202	10	15438
Shareholder Proposal - Compensation	33	37	0	70
Shareholder Proposal - Corporate governance	31	80	2	113
Shareholder Proposal - Directors related	318	1067	4	1389
Shareholder Proposal - General economic issues	1	1	0	2
Shareholder Proposal - Health/Environment	50	41	0	91
Shareholder Proposal - Other/Miscellaneous	20	91	0	111
Shareholder Proposal - Routine/Business	52	243	0	295
Shareholder Proposal - Social/Human rights	5	15	0	20
Shareholder Proposal - Social	20	26	0	46
Total resolutions	54009	11489	539	66037
No. AGMs				3876
No. EGMs				1078
No. of companies voted on				4020
No. of companies where voted against management/abstained on at least one resolution				3006
% of companies where at least one vote against management (includes abstentions)				75%

Proportion of companies with at least one vote against (including abstentions)

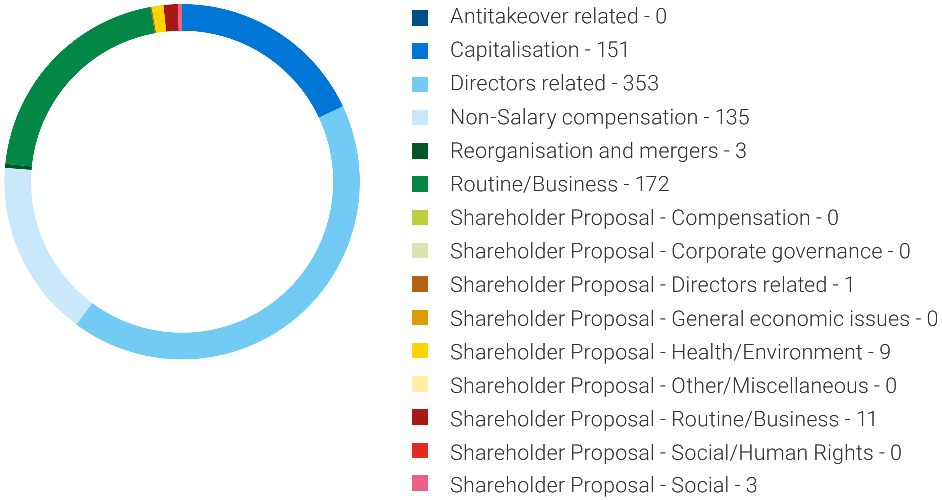


Source for all data: LGIM as at 31 December, 2020. The votes on this page and in the pages that follow represent voting instructions for our main FTSE pooled index funds. US: withhold votes counted as against

Asia-Pacific excluding Japan

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	16	0	0
Capitalisation	231	150	1
Directors related	1069	353	0
Non-Salary compensation	332	135	0
Reorganisation and mergers	73	3	0
Routine/Business	640	172	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate governance	0	0	0
Shareholder Proposal - Directors related	10	1	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	1	9	0
Shareholder Proposal - Other/Miscellaneous	1	0	0
Shareholder Proposal - Routine/Business	4	11	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	5	3	0
Total	2382	837	1
Total resolutions	3220		
No. AGMs	383		
No. EGMs	60		
No. of companies voted on	388		
No. of companies where voted against management/abstained on at least one resolution	316		
% of companies where at least one vote against management (includes abstentions)	81%		

Votes against management in 2020 (including abstentions)

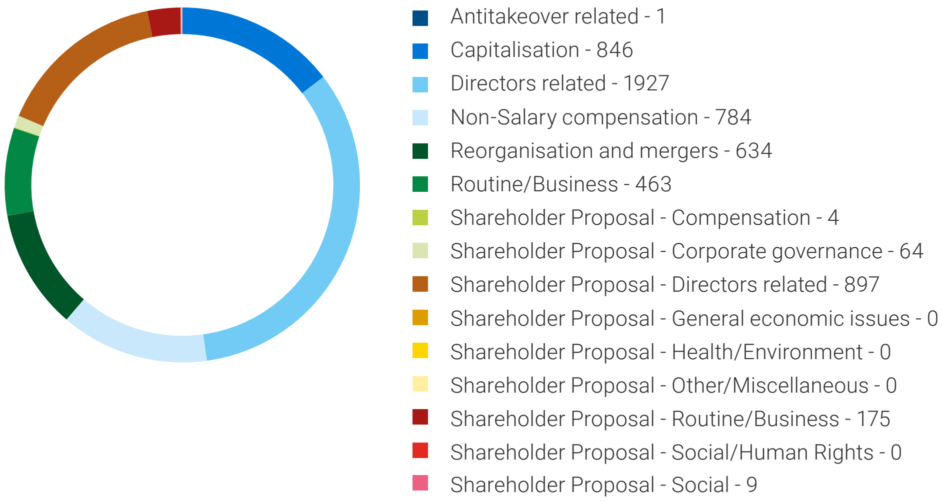


We opposed 316 companies in the Asia Pacific region in 2020 compared to 261 in 2019.

Emerging markets

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	9	1	0
Capitalisation	4801	846	0
Directors related	6551	1430	497
Non-Salary compensation	330	784	0
Reorganisation and mergers	3368	634	0
Routine/Business	8028	463	0
Shareholder Proposal - Compensation	16	4	0
Shareholder Proposal - Corporate governance	0	62	2
Shareholder Proposal - Directors related	131	893	4
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	15	175	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	3	9	0
Total	23252	5301	503
Total resolutions	29056		
No. AGMs	1334		
No. EGMs	776		
No. of companies voted on	1442		
No. of companies where voted against management/abstained on at least one resolution	1039		
% of companies where at least one vote against management (includes abstentions)	72%		

Votes against management in 2020 (including abstentions)

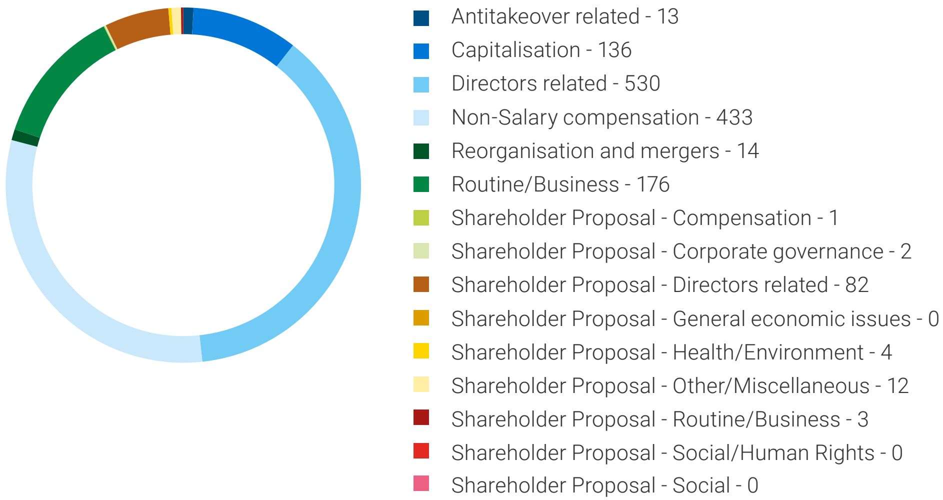


We opposed 1039 companies in emerging markets in 2020, compared to 759 in 2019.

Europe

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	18	13	0
Capitalisation	761	136	0
Directors related	2481	506	24
Non-Salary compensation	825	433	0
Reorganisation and mergers	77	14	0
Routine/Business	2268	167	9
Shareholder Proposal - Compensation	5	1	0
Shareholder Proposal - Corporate governance	16	2	0
Shareholder Proposal - Directors related	52	82	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	3	4	0
Shareholder Proposal - Other/Miscellaneous	12	12	0
Shareholder Proposal - Routine/Business	9	3	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	6527	1373	33
Total resolutions	7933		
No. AGMs	398		
No. EGMs	67		
No. of companies voted on	406		
No. of companies where voted against management/abstained on at least one resolution	317		
% of companies where at least one vote against management (includes abstentions)	78%		

Votes against management in 2020 (including abstentions)

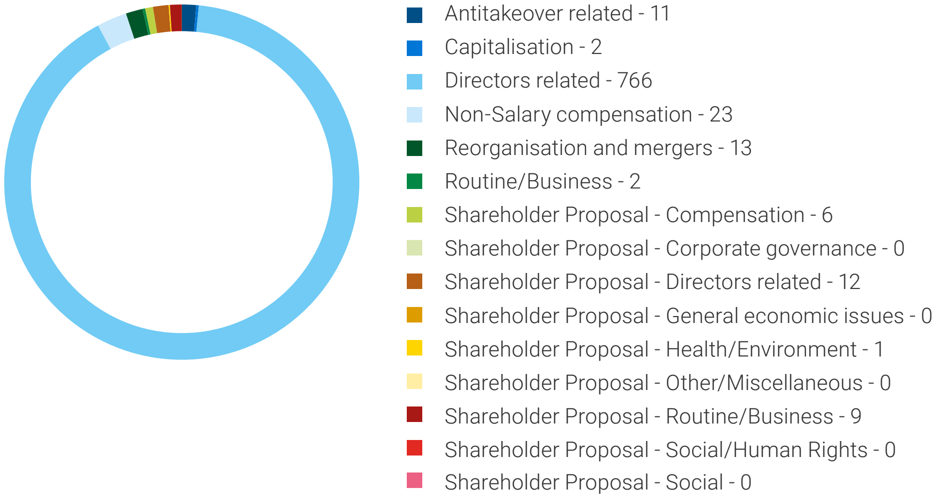


We opposed 317 companies in Europe in 2020, compared to 269 in 2019.

Japan

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	0	11	0
Capitalisation	1	2	0
Directors related	4635	766	0
Non-Salary compensation	201	23	0
Reorganisation and mergers	112	13	0
Routine/Business	348	2	0
Shareholder Proposal - Compensation	3	6	0
Shareholder Proposal - Corporate governance	4	0	0
Shareholder Proposal - Directors related	23	12	0
Shareholder Proposal - General economic issues	1	0	0
Shareholder Proposal - Health/Environment	39	1	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	22	9	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5389	845	0
Total resolutions	6234		
No. AGMs	503		
No. EGMs	11		
No. of companies voted on	506		
No. of companies where voted against management/abstained on at least one resolution	354		
% of companies where at least one vote against management (includes abstentions)	70%		

Votes against management in 2020 (including abstentions)

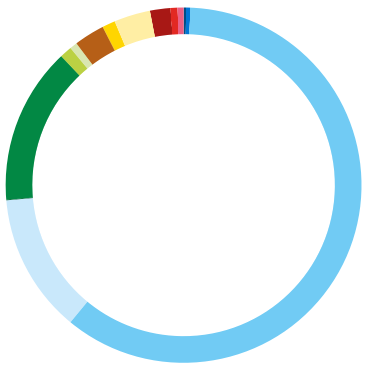


We opposed 354 companies in Japan in 2020, compared to 379 in 2019.

North America

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	77	5	0
Capitalisation	76	9	0
Directors related	4821	1420	0
Non-Salary compensation	551	298	0
Reorganisation and mergers	26	1	0
Routine/Business	415	334	1
Shareholder Proposal - Compensation	8	26	0
Shareholder Proposal - Corporate governance	9	16	0
Shareholder Proposal - Directors related	79	65	0
Shareholder Proposal - General economic issues	0	1	0
Shareholder Proposal - Health/Environment	6	27	0
Shareholder Proposal - Other/Miscellaneous	7	78	0
Shareholder Proposal - Routine/Business	0	43	0
Shareholder Proposal - Social/Human rights	5	15	0
Shareholder Proposal - Social	11	13	0
Total	6091	2351	1
Total resolutions	8443		
No. AGMs	648		
No. EGMs	27		
No. of companies voted on	656		
No. of companies where voted against management/abstained on at least one resolution	629		
% of companies where at least one vote against management (includes abstentions)	96%		

Votes against management in 2020 (including abstentions)

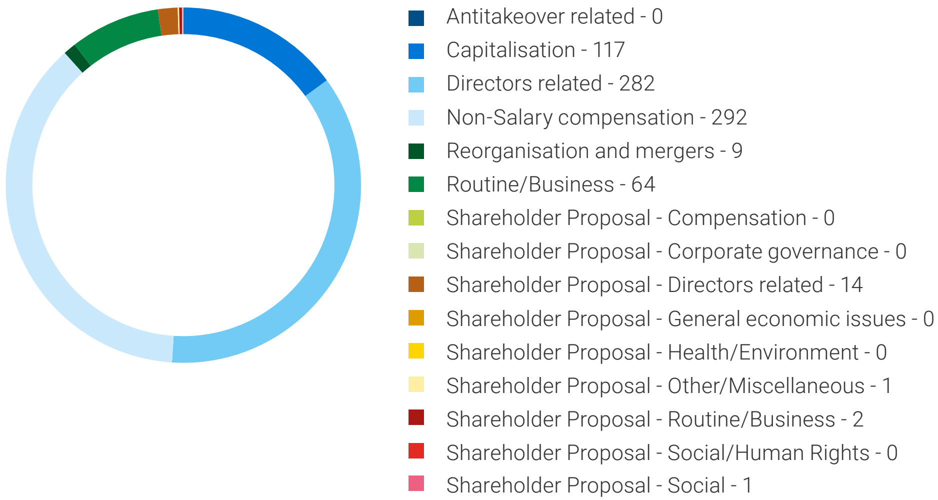


We opposed 629 companies in North America in 2020, compared to 608 in 2019.

UK

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	427	0	0
Capitalisation	2193	117	0
Directors related	4181	282	1
Non-Salary compensation	913	292	0
Reorganisation and mergers	97	9	0
Routine/Business	2527	64	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate governance	2	0	0
Shareholder Proposal - Directors related	23	14	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	1	0	0
Shareholder Proposal - Other/Miscellaneous	0	1	0
Shareholder Proposal - Routine/Business	2	2	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	1	1	0
Total	10368	782	1
Total resolutions	11151		
No. AGMs	610		
No. EGMs	137		
No. of companies voted on	622		
No. of companies where voted against management/abstained on at least one resolution	351		
% of companies where at least one vote against management (includes abstentions)	56%		

Votes against management in 2020 (including abstentions)



We opposed 351 companies in the UK in 2020, compared to 323 in 2019.

Awards

Achieving industry and peer approval

We always aim to produce industry-leading work, but we are not complacent about our achievements. External validation and oversight keep us on our toes and propels us forward to keep improving.

In 2020, we secured four awards in the ESG field.

We participated in industry-wide assessments of our engagement and stewardship processes and were proud to have been nominated by industry bodies like the ICGN, ICSA and UN PRI for our:

- Engagement activities
- Market-wide involvement in lobbying activities
- Strong implementation of ESG and corporate governance matters into our stewardship activities.

In 2020, we were again nominated for the **ICGN Global Stewardship Awards**.

In 2020, the UN PRI's Assessment Report for LGIM scored us as A+ and A in all categories, with four A+ and three A ratings out of seven categories. This compares with a peer group median score of B in five out of seven categories.

We were especially honoured to have been announced as part of the PRI 2020 Leaders' Group of asset owners and managers, 'showcasing leadership and increasing accountability', and raising standards of responsible investment in the industry.

Our website shows the most recent UN PRI Assessment Report and Public Transparency Report on LGIM's commitment to implementing its six principles to incorporate and report on ESG activities.

We were announced as part of the PRI 2020 Leaders' Group of asset owners and managers.

Appendix

This report should be read in its entirety to obtain the fullest picture of our active ownership activities during 2020. For examples of our work during the year, we point the reader towards our E, S and G sections within this report and detailed case studies on the report's landing page.

In addition, the table below provides links to the sections within this report that demonstrate in particular how LGIM applies the 12 Principles of the 2020 UK Stewardship Code. We consider that LGIM has fully applied each of the principles in its investment stewardship activity during 2020.

	Stewardship code principles	Section within document	Most relevant pages
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Foreword | ESG integration | Responsible investing | Awards	3; 8-11; 12-18; 107
Principle 2	Signatories' governance, resources and incentives support stewardship	ESG Integration	8-11
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	ESG integration | Policies and processes	9; 99
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Responsible investing | Investor rights | Policy advocacy and collaboration	12-18; 66-69; 79-81
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Voting and reporting | Policies and processes	90-92; 96-98
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Foreword | Stakeholder engagement | Voting and reporting (client views)	3; 89; 90-92 (93-95)
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	ESG integration | Climate | Responsible investing | Policies and processes	8-11; 12-18; 96-98
Principle 8	Signatories monitor and hold to account managers and/or service providers	Policies and processes	96-98
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets	Responsible investing | Active engagement | Case studies	12-18; 82-89
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Policy advocacy and collaboration | Case studies	79-81
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers	Responsible investing | Voting and reporting | Case studies	12-18; 90-92
Principle 12	Signatories actively exercise their rights and responsibilities	Policies and processes | Voting statistics	96-98; 100-106

Notes

1. Local Government Association – 'Building post-pandemic prosperity'; October 2020: https://www.local.gov.uk/topics/housing-and-planning/building-post-pandemic-prosperity
2. Majority Action (2020), available at: https://corpgov.law.harvard.edu/2020/10/13/2020-climate-in-the-boardroom/
3. https://www.bbc.com/news/science-environment-55576736
4. https://www.wsj.com/articles/the-new-green-energy-giants-challenging-exxon-and-bp-meet-nextera-enel-11607696660
5. https://www.bbc.com/news/business-53257933
6. https://www.desmogblog.com/2020/12/21/2020-climate-fossil-fuel-lawsuits-around-the-world
7. ShareAction (2020) – Point of No Returns. https://shareaction.org/research-resources/point-of-no-returns/
8. Source: Majority Action – Climate in the Boardroom (2020), analysis of voting records of asset managers at large-capitalisation US companies, available at: https://www.majorityaction.us/asset-manager-report-2020
9. https://www.lgimblog.com/categories/esg-and-long-term-themes/climate-impact-pledge/
10. Asset Managers and Climate Change 2021, InfluenceMap, January 2021: https://influencemap.org/report/Asset-Managers-and-Climate-Change-cf90d26dc312ebe02e97d2ff6079ed87
11. Majority Action – Climate in the Boardroom (2020). https://www.majorityaction.us/asset-manager-report-2020
12. Credit Suisse Research Institute, "The CS Gender 3000 in 2019: The changing face of companies" (2019); INVolve, "The Value of Diversity" (2018)
13. Source: 30% Club, BoardEx, 1 July 2020
14. Human Capital Management Coalition website:; https://www.uawtrust.org/hcmc
15. Investor Alliance for Human Rights investor statement: https://investorsforhumanrights.org/sites/default/files/attachments/2020-04/The%20Investor%20Case%20for%20mHRDD%20-%20FINAL_0.pdf
16. "Rathbones spearheads modern slavery campaign" (Citywire 20/03/2020): https://citywire.co.uk/wealth-manager/news/rathbones-spearheads-modern-slavery-campaign/a1338024
17. Council on Ethics of the Swedish National AP-funds campaign: https://www.ap4.se/en/2020/12/the-council-on-ethics-of-the-swedish-national-ap-funds-signals-its-expectations-for-tech-giants-on-human-rights
18. Handelblatt – https://www.handelsblatt.com/finanzen/anlagestrategie/trends/vermoegensmanager-investoren-plaedieren-fuer-kuerzere-amtszeiten-der-dax-aufsichtsraete/26104434.html?ticket=ST-11427757-NLBiNkcHSwWIY3lmdcDm-ap6
19. https://www.lse.ac.uk/granthaminstitute/news/investors-with-10-trillion-in-assets-call-for-the-uk-to-issue-a-green-sovereign-bond-to-drive-climate-action-and-social-renewal-in-the-covid-19-recovery/

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

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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