

Press release

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COVID-19 and threat of climate change drives increase in LGIM's company engagements

- Tenth 'Active Ownership' report reveals a 21% increase in our company engagements in 2020
- Significant increase in climate change related engagements, of 63% year-on-year
- Launched new climate risk framework to quantify the physical and transitional risks within portfolios
- Opposed the election of 4,700 company directors globally in 2020 due to governance concerns
- Voted against the adoption of 37.5% of new remuneration policies at UK companies for failing to meet pay principles

Legal & General Investment Management (LGIM), one of the world's largest asset managers, has today released its tenth annual 'Active Ownership' report. LGIM reveals that over the course of 2020, it increased company engagements by 21% and continued to vote globally, opposing the election of more than 4,700 company directors, as it seeks to effect positive change at companies in which it invests.

2020 was an exceptional year for engagement. In March 2020 LGIM wrote to companies with constructive suggestions about how they could cope with the unfolding pandemic and resulting lockdowns, from supporting employees to raising capital. In addition to increasing focus on topics such as executive pay, board governance and income inequality, stewardship efforts have continued to shine a light on companies' gender and ethnic diversity as well as the longer-term threat of climate change.

Engaging with companies to help reduce income inequality

In 2020, LGIM expanded its UK Principles of Executive Pay to highlight that it will increase scrutiny of those companies that have received support from government or shareholders – via additional capital or suspended dividends – or those that made staff redundancies, but continued to pay director bonuses

LGIM was involved in 145 separate remuneration consultations -- up from 96 in 2019 -- covering policy changes to be put to shareholders at 2021 AGMs and additional uncertainties around the COVID-19 pandemic. In 2020, there were 341 proposals to adopt new remuneration policy at UK companies, with LGIM voting against the adoption of 128 (37.5%). Of those, 82 (64%) related to policies with post-exit shareholding requirements that did not meet LGIM's pay principles.

In addition, LGIM asks all investee companies to ensure they are paying a living wage, or the real living wage for UK-based employees, and to ensure that 'Tier 1' suppliers are paying the living wage. Of the FTSE 100, including those it has engaged with, 43 companies are now paying the real living wage¹.

Continuing to drive best practice on board governance and in support of investor rights

At the start of 2020, LGIM announced its decision to vote against all companies where the roles of board chair and CEO were combined and over the course of the year, it voted against 411 companies with joint chair / CEOs. In North America alone, it voted against 280 directors with combined roles, and supported 42 shareholder proposals calling for an independent chair.

Sacha Sadan, Director of Investment Stewardship at LGIM, commented, "The COVID-19 pandemic brought into sharp focus the need to take action now to address the threats facing our societies, , our message to companies has been clear – focus on all stakeholders, not just shareholders. Climate change continued to be a central topic of engagement, as despite drastic

¹ <https://shareaction.org/living-wage/>

lockdown measures globally, the world is still a long way from reaching net-zero carbon emissions. The pandemic and the events of 2020 have exacerbated many of the social issues that we have been increasing engagement on for many years, including inequality and ethnic diversity.”

Promoting gender and ethnic leadership diversity

LGIM has increased its engagement on diversity issues in 2020, launching high-profile campaigns to drive greater ethnic diversity within boards, while engaging on gender and leadership diversity in Japan. Over the course of the year it:

- Opposed 55 directors in the UK over low levels of board diversity
- Voted against 10 Japanese companies including Olympus, Central Japan Railway and Kubota for failing to have a woman on their board. The scope of LGIM's policy will expand to both the TOPIX mid400 companies and TOPIX 100 companies from 2021
- Engaged the 44 S&P 500 firms and the 35 FTSE 100 companies whose board membership showed a total lack of ethnic diversity. From 2022 LGIM will vote against the chair of the board or of the nomination committee if there is still no ethnic diversity at board level.

Sacha Sadan continued, *“Cognitive diversity in business is a crucial step towards building a better economy and society, but it is also financially material. There is a growing acceptance that more diverse organisations make better strategic decisions, show superior growth and innovations, and exhibit lower risk. We are already seeing the positive results of our engagement on ethnic diversity at a board level and we hope to look back at 2020 as the start of a step change on this issue.”*

The report highlights LGIM's strong voting stance, with more votes cast in support of shareholder resolutions on diversity, human rights or climate change than the majority of its peers. In 2020 LGIM have also strengthened their disclosures with a new platform publishing voting decisions the day after the voteⁱ

Tackling the era-defining challenge of climate change

Climate change remained the topic on which LGIM's Investment Stewardship team engaged most frequently with companies in 2020 with 407 engagements, an increase of 63% on 2019. In addition, LGIM has sought to strengthen its climate analytics and solutions for clients, including:

- Expanding its Climate Impact Pledge engagement programme to a larger number of companies, with voting and divestment sanctions applied across more funds for companies falling short of minimum standards –
- publishing on LGIM website climate change disclosures for global companies
- Strengthening the way fund managers and analysts use climate data and expertise, leading to tangible investment actions
- Expanding its range of low-carbon investment solutions, including clean energy, fossil-free strategies developed with leading asset owners and products that overweight green bonds and the debt of companies with better ESG scores
- Continued advocacy for policies supporting ambitious climate action and a 'green' recovery
- Developed a new climate risk framework, Destination@Risk, allowing LGIM to quantify the physical and transitional risks within investment portfolios under a variety of climate scenarios, including a below 2°C scenario in line with the Paris Agreement.

Sonja Laud, CIO at LGIM commented: *“There is a pressing need to build climate resilience in the financial system, a process already underway at LGIM, not least through our net zero targets. ESG must be integrated and impact considered alongside the traditional metrics of risk and return. Our framework for responsible investing is based on stewardship with impact and active research across our different asset classes. This enables early identification of potential risks that threaten sustainability of returns.”*

This comes as the Legal & General Mastertrust and its default defined contribution (DC) pension funds announce a roadmap to net zero emissions by 2050, targeting -50% carbon intensity by 2025 in the main default.

Policy advocacy and collaboration to drive action and impact

In 2020, LGIM continued its longstanding policy advocacy, engaging with global policymakers and regulators on over 30 topics focused around three key areas: corporate governance and stewardship standards, achieving the Paris Agreement and net-zero targets and sustainable finance policy and regulation. As the UK prepares for the crucial COP26 conference in Glasgow this year, LGIM's CEO is co-chairing the Business Leaders Group alongside the COP26 president, thus continuing our efforts to galvanise policy and business action on climate.

Michelle Scrimgeour, CEO of LGIM, said: *“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 COVID-19. We will continue to use our influence and scale to ensure that major issues impacting the value of our clients’ investments are recognised and managed appropriately. This includes working with policymakers and regulators and collaborating with asset owners on ESG-related policy and regulatory developments to bring about positive change and inclusive capitalism.”*

To read LGIM's tenth Active Ownership report in full, please click <www.lgim.com/activeowner>

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Key Risk Warnings

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.

Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio and is for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

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Notes to editors

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Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.28 trillion (€1.43 trillion; CHF1.55 trillion);

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Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

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ⁱ <https://vds.issgovernance.com/vds/#/MjU2NQ==/>

² 2 LGIM internal data as at 31 December 2020. 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.