LGIM focusses 2021 voting on key ESG issues including pay, climate change and board diversity

- Eleventh 'Active Ownership' report reveals a 30% year-on-year increase in the number of resolutions worldwide in which LGIM voted
- Climate change company engagements become more focused
- Board diversity concerns led to opposing the election of 370 directors globally[1]
- Expanded voting policy on ESG and pay – supporting those companies looking to introduce an ESG metric into their executive compensation

Legal & General Investment Management (LGIM), one of the world's largest asset managers, has today released its eleventh annual 'Active Ownership' report, documenting how it has voted and engaged with companies over the previous year on a range of environmental, social and governance issues. The report reveals that LGIM significantly increased its voting record in 2021, casting 180,200 votes at over 15,400 meetings, a 30 percent increase on 2020, as it continues to strive for positive progress to support the long-term sustainability of the economy, environment and society at large.

As companies worldwide grappled with the effects of the pandemic, LGIM continued to engage with companies – and hold them to account – on the most critical ESG issues including climate change, biodiversity, and board diversity striving to raise overall market standards. Highlights included:

- **Environmental:** LGIM took action against over 100 companies under its Climate Impact Pledge, holding directors to account for their management of climate risk. It also published its first biodiversity policy, committing to address biodiversity loss through engagement with policymakers and developing its capacity to address biodiversity risks and opportunities.
- **Social:** LGIM opposed the election of 370 directors globally due to concerns about board diversity. It also undertook its second round of engagement with the largest UK and US companies to drive greater ethnic diversity on boards. LGIM also supported 100% of shareholder proposals to address human rights issues in 2021.
- **Governance:** LGIM continued to advocate for better transparency in corporate reporting, engaging with more than 100 companies deemed transparency laggards in 2021.

Michelle Scrimgeour, CEO at LGIM, commented, *"As a long-term investor, we have a responsibility to use our voice consistently on the critical issues that will protect the integrity of global markets and foster sustainable and resilient economic growth. With the effects of the COVID-19 pandemic still being felt throughout 2021, we focussed our engagements with companies on major challenges including climate change and biodiversity loss, as well as the social issues that the pandemic has brought into stark relief, including racial injustice and social income inequality. We exercised our voting rights across our entire portfolio and stepped-up our engagement with policymakers and other stakeholders to deliver positive change."*

Stepping up action on gender and ethnic board diversity

LGIM has long advocated for diversity of thought in business and in 2021, it opposed the election of 370 directors globally due to concerns about board diversity[2].

In the North American market, LGIM cast 102 negative votes on board diversity in 2021, an increase from 31 in 2020, while in the UK its negative votes decreased from 54 last year to 40, indicating an improvement in the representation of women on boards.

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[1] This is in our PMC funds only (of the 67,500 votes reported on)
[2] Global breakdown: 102 directors in North America; 88 directors in emerging markets; 60 directors in Japan; 51 directors in Asia Pacific; 40 directors in the UK; 29 directors in Europe

In addition to the progress on gender diversity, LGIM has also focused its engagement efforts on driving greater ethnic diversity on company boards. It announced the launch of an engagement campaign in August 2020 focused on FTSE 100 and S&P 500 companies that do not have ethnically diverse directors on the board. It engaged 44 S&P 500 firms and the 35 FTSE 100 companies whose board membership showed a total lack of ethnic diversity. Of the 79 companies LGIM engaged in 2020, 50 added at least one ethnically diverse director between September 2020 and December 2021.

Accelerating action on climate change to achieve net zero

Climate change remained one of the most frequent topics of engagement for LGIM's Investment Stewardship team with 246 engagements over the course of the year, an issue raised in 21% of all company engagements.

LGIM has a focused climate engagement programme - its Climate Impact Pledge – which it extended in 2020 to include 1,000 companies in 15 climate-critical sectors that are responsible for more than half of GHG emissions from listed companies. During the 2021 proxy season, more than 100 companies were targeted with voting sanctions, with the banking, insurance, real estate and technology and telecoms sectors the most frequently sanctioned through a vote against the company's reports and accounts or its most senior directors and non-executive directors [who were ultimately held accountable for inadequate climate risk management.]

Following the publication of the Climate Impact Pledge in June 2021, LGIM launched the fifth cycle of company meetings, continuing to target influential companies that are not yet meeting 'best practice' in terms of emissions reduction targets, governance and climate change policies. Over 75% of companies have responded to its engagement requests so far, but LGIM is asking companies to provide detailed transition plans, as it continues to hold directors to account for their management of climate risk.

In 2021, LGIM also publicly called on companies to propose a 'Say on Climate' vote, allowing shareholders to cast their verdict on the climate-transition plans proposed by management. LGIM voted against several high-profile proposals due to concerns that the transition plans proposed were not sufficiently robust or credibly aligned with net zero, including sector heavyweights such as Shell.

Michael Marks, Global Head of Responsible Investing Integration, commented: *"Climate change is one of the defining issues of our time and a financially material risk. As responsible investors, we have an obligation to hold companies to account to protect our clients' assets as well as safeguarding the planet. This year, we are laying out our criteria for supporting management-proposed climate transition plans. We want to encourage ambitious and credible plans to be put forward, and we feel it is important to be transparent about how our voting policy will be applied."*

Addressing the issue of biodiversity loss

The impact of COVID-19 has further highlighted the importance of preparing for future challenges and building resilience into systems, including the pressing issue of biodiversity, which carries significant investment implications, with one in five companies globally facing significant operational risks due to collapsing ecosystems.

Deforestation is one of the most significant drivers of biodiversity loss and LGIM has been voting, engaging and divesting from companies due to concerns in this area for many years. In 2021. LGIM launched its Biodiversity Policy, marking the first step in formalising its approach to delivering on biodiversity commitments. This includes developing its capacity to assess biodiversity risks and opportunities, working with policy makers, engaging with investee companies and wider stakeholders and reporting to clients on biodiversity risks.

At COP26, LGIM joined 30 financial institutions with a combined AUM of $8.7 trillion[3] in committing to strive to eliminate agricultural-commodity-driven deforestation (with a focus on palm oil, soy, beef, pulp and paper) from its investment portfolios by 2025. This is a critical step in reversing deforestation, reducing biodiversity loss, supporting food security, and aligning agriculture with a Paris Agreement-compliant 1.5°C pathway.

Advocating for good governance

LGIM's focus on promoting robust governance continued in 2021, advocating for greater transparency in corporate reporting, on issues including director and remuneration disclosures, verification of ESG reporting, GHG emissions and tax disclosures. In March 2021, it wrote to over 100 companies that were identified as laggards in its transparency assessment, urging them to improve their disclosure in these areas, with the threat of voting against the chair of the board if no improvement is observed.

It has since expanded its target list and identified over 200 companies scoring poorly and in line with its escalation strategy, LGIM will vote against the chair of the board at persistent laggard companies starting in 2022.

LGIM's expectations for executive remuneration have evolved, asking companies to include relevant and clearly measurable targets that focus management on mitigating ESG risks. In 2021, LGIM clarified its stance on including up to a third of ESG metrics in long-term incentives, as well as the use of a health and safety (H&S) moderator for poor employee H&S performance. In addition, LGIM updated its policy documents for 2022 to request climate-change-related targets for relevant industries, as well as providing for the use of diversity metrics in those sectors where women remain underrepresented. Other areas of focus include:

- **Long term performance-based pay**: over the course of 2021, LGIM opposed 42.4% of pay-related proposals globally due to companies failing to meet minimum standards for fair and appropriate long-term performance-based pay. In the UK, LGIM voted against 137 (23.1%) of the 593 remuneration reports proposed and opposed the election of 80 remuneration committee members, due to persistent concerns over companies' pay practices.
- **Remuneration consultations**: LGIM was involved in 112 separate remuneration consultations in 2021. These covered proposals for the AGM season – including an increased desire to use upward discretion in what would otherwise be a second year of low payouts for executives – as well as prospective changes to performance criteria.
- **Pay during a pandemic**: LGIM retained its focus on the stakeholder experience and maintained heightened scrutiny of companies that received support from government or shareholders (via additional capital or suspended dividends) and made staff redundancies but continued to pay annual bonuses to directors. Of the 137 remuneration report resolutions opposed in the UK, 16% were due to concerns over bonus payments that appeared out of line with the stakeholder experience, while 26% were due to significant salary increases during the year.
- **'Say on pay'**: in North America, LGIM voted against 43% of 'say on pay' resolutions, of which many were 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.

To read LGIM's eleventh Active Ownership report in full, please click here:

-ENDS-

[3] Race to Zero, November 2021

LGIM

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.

Notes to editors

About Legal & General Investment Management
Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.42 trillion (€1.69 trillion)[4]. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 50 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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[4] LGIM internal data as at 31 December 2021. 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.