

March 2021



# Global Corporate Governance and Responsible Investment Principles

**Intended for investment  
professionals only**

**Not to be distributed to consumers**

# Contents

<b>Introduction</b>	<b>4</b>
<b>Company board</b>	<b>5</b>
Board leadership	5
The board chair and the chief executive officer (CEO)	5
The case of the combined chair and CEO	6
Senior or lead independent director	6
Non-executive directors	6
<b>Structure and operation</b>	<b>7</b>
Diversity	7
Independence	7
Succession planning	8
Re-election of directors	8
<b>Board effectiveness</b>	<b>9</b>
Board tenure	9
Board mandates	9
Board meetings and attendance	9
Board size	10
Board effectiveness reviews – internal and external	10
Non-executive director induction	10
Stakeholder engagement	11
Employee voice	11
Investor dialogue	11
Culture	11
Board committees	12
Audit committee	12
Nomination and succession committee	12
Remuneration committee	13
Additional board committees	13
Advisory committees	13
<b>Audit risk and internal control</b>	<b>14</b>

## Global Corporate Governance and Responsible Investment Principles

External audit	14
Internal audit	15
Whistleblowing	15
Cybersecurity	15
<b>Remuneration</b>	<b>16</b>
Key principles	16
Fixed remuneration	17
Incentive arrangements	17
Service contracts and termination payments	18
Benchmarking	19
Discretion	19
Shareholding guidelines	19
Pensions	20
Non-executive directors' fees	20
<b>Shareholder and bondholder rights</b>	<b>21</b>
Voting rights and share class structures	21
Amendments to the company's constitution	21
Company bylaws	21
Virtual/electronic general meetings	21
ESG transparency	22
Capital management	23
Mergers and acquisitions (M&A)	24
Takeover defence plans – poison pills	24
Related party transactions	24
Shareholder proposals	25
Political donations	25
<b>Sustainability</b>	<b>26</b>
Management systems to mitigate risks	26
Why adherence to these principles is important for LGIM	28
Thematic engagement	28
<b>Important information</b>	<b>290</b>

# Introduction

This document sets out our approach and expectations with respect to topics we believe are essential for an efficient governance framework, and for building a sustainable business model.

We expect all companies in which we invest on a global scale to closely align with our principles, which set out the fundamentals of corporate governance. We also take into account market specificities and take a tailored approach to voting on some topics in various markets.

This document sets out what we consider to be corporate governance best practice. The extent to which we apply these policies takes into account the governance landscape of each market, allowing some leeway for those markets that are still developing their governance policies.

COVID-19: we are long-term, constructive investors who will continue to stand by and support the boards of companies in which we invest throughout these difficult times. In doing so, LGIM would encourage investee companies to focus not only on shareholders, but on all stakeholders. This includes their workforce, supply chain relationships, the environment and the communities in which they operate. On capital-allocation matters, we expect boards to proceed in a manner that will ensure confidence and the long-term sustainability of the company, while also supporting its stakeholders. Lastly, in relation to executive remuneration, we encourage boards to demonstrate restraint and discretion. We will continue to monitor and take this into account in our vote decisions during 2021.

We publicly disclose our voting decisions, including the rationale for votes against management. This data is now accessible one day after the shareholder meeting [here](#).

Although there is no 'one-size-fits-all' solution to building a sustainable business model, we look for companies we invest in to demonstrate that sustainability is effectively integrated into their long-term strategy and their daily operations. Companies should aim to minimise any negative impacts of their business on the environment while innovating to find better solutions. Strategy should include ways to make a positive impact on society, embrace the value of their workforce and supply chains while delivering positive long-term returns to shareholders.

We have also developed other region-specific policies for the UK, North America and Japan markets. They are publicly available on our website [here](#).

# Company board

The board of directors is responsible for the management and long-term success of the company, taking into account the best interests of the company and its stakeholders. It should act as a steward of stakeholders' interests, which is the role that is delegated to it by stakeholders.

The board has the most important task of setting the strategy and direction of the business, ensuring that the necessary resources are available to enable its implementation, and that appropriate risk management and internal controls are in place. It establishes the philosophy for the company, ensuring that stakeholder views are considered and embedded in its culture. The board is expected to take into account environmental, social and governance (ESG) considerations, and to report on company performance in these areas. It is also responsible for ensuring the integrity of the company's accounting and reporting, and the effectiveness of internal control systems. Lastly, the board is ultimately accountable to investors and other stakeholders and should make sure board decisions are effectively communicated to them.

We acknowledge that the structure of the board may vary between companies and countries. However, we believe that the key elements of an effective board are universal.

## Board leadership

We believe that having the right composition at the top of a company is an essential element of its success. We expect each director on the board to fully exercise their duties and promote the long-term success of the company.

## The board chair and the chief executive officer (CEO)

The responsibilities of the chair include leading the board, setting the agenda for board meetings, and ensuring directors receive accurate and timely meeting information. Under his or her direction, there should be a good flow of information between the board and the board committees. The chair is also responsible for leading the appointment process of the CEO.

The chair should be able to challenge the executive directors and encourage the non-executive directors to actively participate in board discussions. It is the chair's role to regularly assess whether the board members have the adequate skills, commitment and are sufficiently diverse to make a positive contribution.

By contrast, the CEO has the responsibility of executing the strategy agreed by the board and of leading the business.

Given the importance of the role, we expect the chair to be independent at the time of appointment and continue to be so during their time in this role.

We would therefore not expect a retiring CEO to take on the role of chair. As these two roles involve different responsibilities and a different approach to board relations and the company, we have concerns that a hands-on CEO may find it difficult to become a hands-off chair. Where a company would find the presence of the former CEO on the board beneficial in times of transition, we encourage the company to allow the former CEO to be consulted by the board but not be a formal board member, and would stipulate for this to be for a maximum period of one year.

There are also some instances where a company may, for a short period, be governed by an executive chair. This tends to be when the company is undergoing a shift in its structure or management, or is under severe stress. In such circumstances, we would expect companies to commit to re-split the roles within a short, pre-set timetable.

In addition, we expect that a deputy chair be appointed to ensure that no person has unfettered powers of decision.

### The case of the combined chair and CEO

The roles of chair and CEO are substantially different, requiring distinctly different skills and experience. Therefore, we expect the two roles to be separated. This division of responsibilities ensures that a single individual does not have unfettered powers of decision at the head of the company, thereby securing a proper balance of authority and responsibility on the board.

Since 2020, we have been taking a stronger stance on combined roles and now vote against the election or re-election of any individual holding such a combined role. We believe that a separation of the roles of board chair and CEO is positive for culture, board discussions, remuneration policy and shareholder rights.

Where a company currently separates the roles of chair and CEO, we strongly discourage the company from recombining the two roles. This decision should also be put to a shareholder vote for approval given that these are key board risk functions.

We expect companies that decide to maintain a combined role structure to appoint a strong, senior or lead independent director, or deputy chair as well as provide a meaningful explanation and justification in their annual disclosures.

### Senior or lead independent director

We believe that the presence of a senior or lead independent director (LID) should not be limited to cases where there is a combined chair and CEO on the board.

The lead independent director plays an essential role on the board and should lead the succession process of the chair and appraise the chair's performance. Additionally, they should meet investors regularly in order to stay well informed of key concerns.

They can also be a key contact for investors, especially when the normal channels of the chair, CEO or chief financial officer have failed to address concerns or are not the appropriate avenues.

We expect the senior or lead independent director to be a fully independent non-executive director. This is of extra importance for those companies that have chosen to maintain a combined chair and CEO.

### Non-executive directors

We expect non-executive directors to use their skills and experience to constructively contribute to board discussions and help develop proposals on strategy. They are expected to oversee management performance and challenge the executive directors.

Given the responsibility the role involves, non-executive directors must make sure they have sufficient time to perform their duties. We expect non-executive directors to take this into account when they take on any additional board roles.

In their role, non-executive directors should continually update their skills and knowledge and agree on their specific training and developmental needs, which should include all aspects of social, environmental, ethical and reputational risks faced by the business.

# Structure and operation

## Diversity

We believe a suitably diverse mix of skills, experience and perspectives is essential for a board to function and perform optimally. Several studies have demonstrated that having a good level of diversity can improve business decision making, minimise business risk, improve the sustainability of profits growth and therefore maximise long-term returns for investors.

Therefore, when recruiting members, a board should be cognisant of all elements of diversity that appropriately represent the company's operations, including gender, age, nationality, ethnic origin, background and experience. Consideration should also be given to the geographies in which the business operates, its future strategic international expansion plans and its consumer base.

As a minimum we expect all companies in which we invest globally to have at least one female on their board.

Taking into account market specificities, in 2020, we set stronger expectations in some markets. Therefore, our expectation for companies in well-governed markets is to have at least 30% women on their boards. We also expect companies to seek to promote diversity below board level, at executive committee, senior management and workforce level.

In the autumn of 2020, we also extended our diversity campaign to require ethnic representation at board level in developed markets, starting with the US and the UK. We ask the largest companies in these two markets to have at least one board member from an ethnic minority background and will start to apply voting sanctions from 2022 on boards that do not have this minimum requirement. While not part of our voting policy at this point, companies in other geographic regions should also consider their ethnic diversity policies and aspirations during recruitment processes.

Companies should ensure that candidates with appropriate skills and qualities are sought through the widest possible means such as the use of recruitment consultants, public advertisements and the leverage of other relationships in the industry. Companies should also be prepared to look outside of the usual pool of candidates to include those from a less traditional 'corporate board' background. They should also be willing to recruit those without previous board experience as many, if not all, of the board members will have this experience, and this will help to expand the candidate pool and the board's cognitive diversity.

We also ask companies to disclose diversity data at board, executive committee and senior management levels, and for the rest of the workforce, as well as their policy on diversity. A diversity policy should include meaningful information demonstrating how the company is working on its challenges. This will allow investors to be able to assess the extent to which diversity is embedded in the company's strategy and its efforts and progress towards improving diversity levels.

For more details on our position, please refer to our publications on the topic, available [here](#).

## Independence

An independent board is essential in ensuring the board exercises oversight and consistently acts in the best interests of the company and its stakeholders. Its importance for the performance of a company has been shown in several academic studies. Therefore, as a minimum standard, we expect the board of directors of all companies in which we invest to comprise at least 30% independent directors. In controlled companies (where at least 50% of the voting shares are held by one person/entity or a group who are acting together), we expect the level of independence to be 50%.

We would consider a director to be non-independent if they:

## Global Corporate Governance and Responsible Investment Principles

- Have been an employee of the company or group within the past five years
- Have, or had within the past three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company
- Have received or receives additional remuneration from the company, apart from a director's fee, such as the company's share option, performance-related pay or pension scheme
- Have close family ties with any of the company's advisers, directors or senior employees
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- Have served on the board for more than 12 years from the date of first election
- Represents a significant shareholder

However, note that our regional policies take into account local best practice, and therefore we have set stricter criteria and targets in some regions. Please refer to our regional policies available on our website for more details.

We also recognise that non-independent, non-executive directors can offer significant skills and sector knowledge. This can help a company to perform at its best and to maximise value if the board remains balanced. In this instance, we expect the company to fully explain how the non-independent director provides valuable input to the business.

### Succession planning

Succession planning is a vital component of an efficient board. It ensures board continuity, and that individuals with the right sets of skills sit on the board.

We expect companies to put in place a formal and transparent procedure for the appointment of new directors. The external board evaluation exercise should assist in this task. We encourage companies to disclose this information in their annual disclosures. This includes what skills the company is looking for and why the selected individual is the right fit for the board.

### Re-election of directors

To ensure the successful composition and functioning of the board, it is essential that shareholders have the ability to effectively exercise their voting rights by holding directors accountable. We are opposed to the practice of bundled proposals that prevent shareholders from approving individual nominees to the board.

In addition, we acknowledge that the regulations that govern the frequency for director re-election vary greatly from one country to another. However, we encourage companies to allow shareholders to vote on directors' elections annually.

To allow investors to assess the profile of the board directors proposed for election or re-election and to make sufficiently informed voting decisions, we expect companies to disclose the name of the directors proposed for election or re-election and to provide a detailed biography. We would also encourage the disclosure of attributes and skills that the director brings to the board and how these fit with the long-term strategic direction of the business.



# Board effectiveness

## Board tenure

The regular refreshment of the board helps ensure that its members remain independent from management and third parties, that different perspectives feed into board discussions, and that skillsets remain relevant. A regularly refreshed board is more likely to be willing to question established practices, avoids group think, and exercises more efficient oversight over management to stay ahead of market changes.

Board tenure is assessed in two different ways:

- On an individual director basis: we consider optimum tenure for a director to be between three years and 12 years
- On an average board tenure basis: average tenure across all board members should be between four years and nine years

Although different regions have different best-practice guidance on this issue, we expect all companies to put in place an individual director term limit of a maximum of 12 years. Please refer to our regional policies for more details on regional expectations on tenure.

## Board mandates

We believe it is important for executive directors to seek external board appointments as this will help broaden their skills and knowledge, enabling them to provide more input on board discussions. However, when taking up external appointments, they should be mindful of the time commitment required to exercise their duties on multiple boards.

We would encourage executive directors not to undertake more than one external non-executive directorship of an unrelated listed public company. We also encourage non-executive directors to limit the number of board positions to a total of five public company board roles. We consider an independent board chair role to count as two board roles due to the extra complexity, oversight and time commitment that it involves.

In order to help investors assess how directors with other board mandates are performing their duties, we would like to see disclosure of how much directors are expected to contribute to the role and reasons why their other mandates do not prevent them from effectively exercising their duties.

## Board meetings and attendance

Regular board meetings are vital for the board to effectively perform its duties.

We believe the chair should hold separate meetings with the non-executive directors to discuss the performance of the executives. In addition, the non-executives should have at least one meeting during the year without the chair present.

Director attendance at board meetings is a vital part of the role to ensure contributions to board decisions and fiduciary duties to investors are fulfilled. We therefore expect companies to allow investors to assess directors' attendance at board and committee meetings by disclosing attendance records in their annual disclosures. We expect directors to have attended no fewer than 75% of the board and committee meetings held. Where a director does not attend a board or committee meeting, the company should report to investors the reasons for non-attendance. We would not expect to see a trend of a director's non-attendance at meetings.

### Board size

LGIM believes a company should put in place a board of a size that is appropriate for the size of the company and complexity of the business. It is essential that the size of the board does not compromise exchange of thought, challenge and efficient decision-making. Therefore it should not be so large as to be unwieldy, which can reduce its effectiveness.

### Board effectiveness reviews – internal and external

Board effectiveness reviews have become a more established practice globally as boards increasingly recognise their benefits.

We find they provide an important way for the board to identify potential areas of weaknesses and take corrective action. The review should aid the board in future-proofing itself. The board review can provide investors comfort that the functioning of the board is being regularly assessed and monitored with the aim of ensuring it is constantly challenging itself.

It is also a way for investors to determine from the outside the quality of debate and interaction between board members.

We expect an internal board effectiveness review to take place annually. This review should be led by the most senior independent director of the board, or if managed externally, by an independent third party. We expect an external evaluation of the board to take place at least every three years.

An external review allows for an independent assessment of the board to be made by a fresh pair of eyes, with experience in assessing many other boards.

Conflicts of interest should be appropriately managed by the board. We find there is an inherent conflict of interest when the external board review provider also provides other professional services to the company. We therefore discourage the external reviewer from providing any other services to the company. Where an external board reviewer is providing other services, we expect these to be disclosed, and minimum periods of being offside must occur and be disclosed.

LGIM expects the same board review provider to undertake no more than two consecutive reviews before the company uses a different reviewer.

In the interests of transparency, we expect the process and general outcomes of such evaluations to be written in the company's annual disclosures, as well as progress on the outcomes of previous board evaluations.

### Non-executive director induction

The chair is also responsible for ensuring that incoming non-executive directors receive a comprehensive induction to the company on joining the board and that training is available on an ongoing basis. This will allow new directors to contribute to board meetings as soon as possible. This is especially important if the chair is considering a board member who does not have previous corporate board experience. We support the view that companies should hold regular briefings or presentations to the board from divisional directors to ensure that all directors are kept informed of all aspects of the business. The corporate secretary can also be an important training resource for non-executive directors.

Directors should be encouraged by the chair to continually update their skills and knowledge and should agree on their specific training and developmental needs, which should include all aspects of social, environmental, ethical and reputational risks faced by the business. One way to remain up to date is to regularly meet with investors, along with other relevant board members, to gain knowledge and to hear various perspectives.

## Global Corporate Governance and Responsible Investment Principles

We would also encourage new board members to use their investors as a resource to help them in performing their duties. We organise an annual seminar for board directors aimed at discussing views on key ESG topics. We also regularly publish thought leadership pieces on relevant topics related to corporate governance, stewardship and responsible investment, which can be accessed through our website.

### Stakeholder engagement

We believe companies should be managed to take into account the interests of their stakeholders on material issues. Understanding and taking into account key stakeholders' views allows boards to create better alignment between the company and its stakeholders' interests. We expect companies to report in their annual disclosures how engagement with key stakeholders has fed into board discussions.

### Employee voice

We acknowledge that different countries, through regulation or best practice codes, may have different approaches to how boards should consider the views of their employees. We believe investors should be able to hold directors accountable for their consideration of employee views.

Where hard or soft law does not provide any guidance, we encourage companies to set up an appropriate structure. Companies may prefer the appointment of employee representatives on the board or the use of forums or advisory panels.

We do not consider any single model superior to another. All companies should embrace their employees as valued assets and select the method that is most effective for their business model and current circumstances.

### Investor dialogue

We believe that engagement is a vital risk-mitigation tool for the board. Engagement with investors should be a two-way discussion. Board directors should aim to use engagement meetings with investors as an opportunity to explain company decisions and to make sure they are well understood by the market. Such meetings should also be an opportunity to listen to investors, use their experience and act on their feedback.

### Culture

Culture has been an increasingly discussed topic in recent years among businesses, investors and even regulators, and its measurement and assessment is an exercise we expect the board to undertake.

For investors to understand company culture disclosure from the board is necessary, given its role in setting values. Investors need reassurance that the CEO and management really drive the cultural message and set the tone from the top, and that this is regularly discussed and challenged by the board, as well as monitoring how the cultural message feeds down to the rest of the organisation. We expect companies to disclose in their annual report aspects such as:

- How culture is measured and how it relates to the business strategy
- How the mission statement values are communicated and reinforced
- Any KPIs that are linked to culture
- Any relevant data linked to the workforce such as turnover percentage, attrition analysis and how exit interviews are used

For more details on our position, please refer to our publications on the topic available [here](#).

## **Board committees**

Board committees ensure that specific directors are responsible for key board functions.

We expect all listed companies to put in place three separate board committees responsible for the core board functions of audit, nomination and succession, and remuneration.

In order for investors to assess the effectiveness of board committees, we expect disclosure of the role and composition of all board committees as well as for committees to report on their activities to investors in the annual disclosure documents.

## **Audit committee**

The audit committee is responsible for monitoring the integrity of the financial statements of the company, appointing external auditors, monitoring their qualifications and independence as well their effectiveness and resource levels. The committee is also responsible for the overall risk management of the company to ensure that sound and robust internal controls are in place to appropriately manage the company's financial, operational and reputational risks.

As the audit committee plays a vital role in safeguarding investors' interests, we expect all companies to have an audit committee comprised entirely of independent non-executive directors, and we will not accept executive members sitting on the audit committee. In order for the committee to operate effectively it should comprise at least three members, with at least one member with financial expertise. We expect the chair of the audit committee to have financial expertise.

Non-independent directors may attend audit committee meetings by invitation, but should not be members of the committee. The board chair may be a member of the committee, if they are considered independent, but should not chair the committee.

Members should have sufficient time to examine the company's financial statements and to liaise with both internal and external auditors. The chair of the audit committee should be available to answer investors' concerns on specific audit issues.

## **Nomination and succession committee**

The nomination and succession committee is responsible for overseeing all board and senior executive appointments, ensuring an orderly and successful board and executive succession process. The committee should ensure the board has the right composition, taking into account important governance considerations such as skillsets, diversity, tenure and over-boarding.

The focus of the committee should, however, not be restricted to the board and instead it must also seek to include alignment with the rest of the workforce in terms of human capital policies. The committee should also work closely with the remuneration committee to ensure that appropriate service contracts are in place.

Given the key role of this committee in board composition matters, we expect it to be entirely composed of independent non-executive directors. The company chair can be a member of the committee.

The committee chair should be answerable to investors if it is felt that appropriate succession plans are not in place or where there are concerns over the composition of the board.

### Remuneration committee

The remuneration committee is responsible for the setting and operating of the company's remuneration strategy for executive directors and senior executives. It should also have awareness of and an overview of remuneration policies within the rest of the company, below executive management level.

The chair of the remuneration committee should have appropriate knowledge of the business to align the remuneration with its strategy. For this reason, the person appointed to the role of remuneration committee chair should ideally have served as a member of the board for at least a year prior to appointment as chair of the committee.

We expect the committee to consist exclusively of independent non-executive directors. The company chair can be a member of the committee, if considered independent, but should not chair the committee. Non-independent directors may attend remuneration committee meetings by invitation but should not be members of the committee.

The remuneration committee should seek independent advice. It should therefore have the authority to appoint its own independent, external remuneration advisers to assist it by providing external data and other information. The use of such advice, including fees, should be reported in public annual disclosures.

### Additional board committees

Companies may consider it appropriate to set up additional board committees to assist the board in its discussions. These committees are useful where the board could benefit from an increased focus on an issue that is directly linked to its long-term success or where the company operates in a high-risk sector. In particular, for companies where environmental and social (E&S) risks represent a material part of the business model, LGIM expects an ESG committee to be established that includes board members.

### Advisory committees

In other cases, boards may consider the need for direct access to independent and external advice and expertise from third parties or stakeholders. We are supportive of companies setting up advisory committees. We consider this a flexible option to obtain specific and relevant information to assist the board and management in their decision-making without having to affect the size and composition of the board.

# Audit risk and internal control

The board is responsible for determining and disclosing the company's approach to risk, its risk appetite, setting its culture, and monitoring the outcome and controls in place for effective risk management.

The board is also responsible for presenting a true and fair view of the financial position and future prospects of the company to its investors. Therefore, the established processes and procedures to ensure the independence and robustness of the internal and external audit functions and the level of oversight from the board are expected to be demonstrated and explained to investors.

Assessing the effectiveness of and the resources available for the internal and external audit functions forms part of the board's responsibilities. We expect the board to report to investors their conclusions of this review along with bespoke narrative as to the assessment and noted areas. These should be reported in the company's annual disclosures.

## Compliance with regulations

The audit and risk committee should ensure that all laws and applicable regulations are complied with so as not to expose the company to undue risk of fines, censorship and reputational damage. We will hold the Audit Committee chair responsible for failing to detect breaches in accounting practices

## External audit

An external independent audit provides verification and assurance of the financial statements of a company to its investors. The opinion of the auditor is to provide assurance that the financial statements give a true and fair view of the financial health of the company. Any concerns raised by the auditor should be fully explained by the board, including how the concerns have been addressed.

The external auditors are also responsible for producing the auditor's report, which is a formal opinion and evaluation of the financial statements. We support and encourage the use of the extended audit report to provide greater insight to investors of the auditor's assessment of the accounts.

The board is responsible for appointing the company's external auditor. The company is expected to clearly disclose the audit firm used, the audit partner who led the audit, the tenure of that firm, and why the board considers the auditor to be independent and how any potential conflicts are being mitigated.

We support the role of the external auditor to be put to tender on a regular basis, at least every 10 years, with the total tenure of the auditor not exceeding 20 years. Within this timeframe, we expect the lead audit partner to be subject to refreshment at least every five years.

We expect the process of the tender to be disclosed and the rationale for the appointment to be explained.

The fees for the external audit should be disclosed in the annual reporting. Non-audit related services should not regularly be undertaken by the auditor. Where the external auditor does provide non-audit related services, these should be fully explained and disclosed in the appropriate annual disclosures. We do not expect excessive non-audit work to be conducted by the company's external auditors, as this will bring into question the independence of their judgement. Non-audit related services are not expected to exceed 50% of the value of the audit services in any given year.

We believe auditor liability is an important and proportional approach to supporting a high-quality audit. We are not supportive of a fixed auditor liability or restrictions on that liability.

The audit committee should explain how it has assessed the quality of the external audit and recommendations arising from the external audit, and this should be reported to investors when considered material by the board and/or the audit partner.

### Internal audit

Companies should have an effective and sufficiently resourced internal audit system in place that is designed to take into account new and emerging risks that will affect its business objectives and identify the level of risk taken. The process and procedures in place to manage such risks should be embedded into the risk-based control system for the company, and should be summarised in the annual reporting to investors. The audit committee should have responsibility and oversight of the internal audit function.

### Whistleblowing

We expect companies to establish a whistleblowing policy that is integrated into its code of conduct. The policy should be publicly disclosed and open to third-party use. The whistleblowing reporting channels should be easily identified and sufficiently independent from external management, with a direct line to the board or audit committee to allow for appropriate oversight and independent escalation where necessary. Companies should ensure their policy safeguards the identity of any whistleblower. Companies should also report how the risks associated with bribery and other illegal behaviour are being monitored and addressed.

### Cybersecurity

The vulnerability of a company's IT systems can lead to a material financial and reputational impact. Therefore, we expect a risk-based approach to be taken to address the issue of cybersecurity and data protection. It should be integrated into the control functions of the business and overseen from a strategic perspective by the board. It is the board's role to understand the infrastructure needed in the business to protect valuable information assets and key intellectual property and therefore accountability should not be delegated. The issue should be a regular board agenda item and when there is an incident we expect this to be disclosed to the market and customers in a timely manner.

# Remuneration

We are increasingly concerned about the misalignment of both the structure and the total opportunity of executive pay versus company performance, and the current social sensitivities around income inequality.

To address the issue of income inequality, LGIM expects the remuneration committee to be mindful of pay and benefits offered throughout the organisation.

Living wage: although most companies will be paying employees the national minimum wage as mandated by local laws, we believe these levels are not sufficient to maintain a healthy standard of living. To ensure employees avoid the poverty trap, which can create hardship, stress and impact the performance of the company, it is important to offer their lowest paid employees a living wage. A living wage is remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing and other essential needs including provision for unexpected events. We would ask companies to disclose in their annual report their pay practices for employees.

We encourage companies to push their Tier 1 suppliers to offer their workforce a living wage.

As a long-term and engaged investor, we entrust the board to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business. In order to be able to hold the board to account where it fails to do so, we expect all companies to allow shareholders an annual vote on executive directors' pay and non-executive directors' fees at the annual shareholder meetings.

In addition, in order for investors to be able to appropriately assess directors' pay, we expect disclosure of the executive remuneration structure, including the total opportunity under each element of pay together with a description of the metrics and targets used under incentive plans where applicable and within the limit of what the company is allowed to publicly disclose.

Although we are cognisant of the variations in executive pay practices globally, we expect companies to consider our principles below when setting pay policies for their executive board. Please also refer to our regional policies for further details on our expectations in various markets.

## Key principles

We apply a set of simple pay principles when looking at remuneration structures:

- The structure of remuneration and the payments awarded should be fair, balanced and understandable. This means: fair in terms of what the company has achieved; balanced in terms of total pay opportunity to the executive, versus employees and investors; and understandable for the recipient, the board and investors
- Awards should incentivise long-term thinking by management and be aligned to and support the achievement of the business strategy and objectives
- Executives should have meaningful direct equity holdings while employed and thereafter; buying shares is one of the best ways of aligning the interests of management and investors
- Boards should retain ultimate flexibility to apply discretion and 'sense-check' the final payments to ensure that it is aligned with the underlying long-term performance of the business
- Companies should be transparent on why rewards have transferred to the executive, setting out targets that were set, their relevance to meeting long-term goals, which targets were met and fully justify all adjustments made to accounting measures for remuneration purposes



## Fixed remuneration

We would expect a base salary for executives to be commensurate with the size and complexity of the company. Although salary levels at peer companies may be considered, these should not set a definite benchmark.

Salary increases should not be automatic each year. Any increase to salary levels should be commensurate with what is offered to the general workforce and its impact on total remuneration should be assessed before approval.

## Incentive arrangements

### Annual incentive

Companies may choose to award annual incentives to executive directors. We believe that any annual incentive should be geared to delivering the strategy of the business. A significant portion of the annual incentive should be linked to the delivery of financial performance. In addition, achieving a threshold level of financial performance should be a pre-requisite for payment of any bonus that is based on personal objectives or strategic objectives.

We would expect companies that are exposed to high levels of environmental, social or reputational risk to include relevant targets that focus management in mitigating these risks. Measures such as health and safety should be used as a reducing feature rather than a compensating feature because ensuring the health and safety of employees should be embedded in the philosophy and values of the company and a normal expectation of running a successful business.

In order to more closely align with investors and company performance, we ask companies to pay a portion of the bonus in shares deferred for at least two years. Additionally, the bonus should be set as an appropriate proportion of base salary and should not be uncapped. We also expect companies to put in place contractual and statutory provisions that may allow for a reduction or forfeiture of the annual bonus component in exceptional circumstances (e.g. malus/clawback).

### Long-term incentives plan (LTIP)

We believe that a company should motivate and reward executives by granting long-term equity incentives that will align their interests with those of long-term investors. Incentives should be structured to motivate management to build a sustainable business that will generate positive returns to investors over the longer term. We therefore strongly encourage all companies to put in place an LTIP.

In the interest of simplicity, LGIM advocates the adoption of one long-term plan. We strongly discourage the adoption of any additional incentive plan that would complicate the remuneration structure, e.g. matching schemes, or that would reward executive directors for motives that should already be addressed by the LTIP, e.g. retention plans or transaction-bonus-type schemes.

The LTIP should not have too many performance conditions and should include at least one measure that is linked to shareholder returns. Other measures should be linked to the strategy of the business, such as Key Performance Indicators (KPIs) that are selected by the board. Absolute share price measures used in isolation are considered insufficient justification for award vesting. We would expect the full award to be subject to performance conditions and measured over at least three years. However, in markets where governance structures are still being developed, we have set a minimum standard of 50% of the award to be performance-based. These should still be assessed over a minimum of three years.

In addition, all LTIPs should be capped either as a percentage of salary or a fixed number of shares. Where a fixed number of shares is used, we would expect the number of shares being offered to be reviewed every three

## Global Corporate Governance and Responsible Investment Principles

years to ensure they are offering a commensurate level of reward as when first adopted. Any increase to levels of reward should be subject to shareholder approval.

In order for investors to assess the appropriateness of long-term incentive arrangements, we expect companies to disclose the metrics and targets used under the plan, within the limits of what they can disclose. We expect the remuneration committee to maintain sufficient authority to exercise discretion when there is not a clear link to performance.

Note that we do not support retrospective changes to performance conditions that have been pre-set. We also expect companies to put in place contractual and statutory provisions that will allow for a reduction or forfeiture of the long-term incentive component in exceptional circumstances (e.g. malus/clawback).

### Holding periods

We encourage the use of post-vesting holding periods as we find this helps aligning the remuneration structure with long-term performance.

In addition, to encourage the right values and behaviour of directors to drive the business for the long-term benefit of investors we encourage all companies to consider requiring directors to continue to hold a significant portion of their shareholding guideline requirement for two years post-retirement.

### Equity dilution

We believe that strict guidelines should be adhered to in relation to the issuance of shares for incentive schemes, in order to limit potential dilution to shareholders. As a general rule, we expect no more than 10% of a company's equity to be used for all share schemes over a 10-year period and no more than 5% in 10 years for discretionary schemes. The annual run rate or burn rate should also be reasonable; approximately 1%.

These limits may vary in certain regions and any variance will be highlighted in the relevant regional policy. Treasury shares should be included within these limits. Such restrictions should apply to all shares whether they are market purchased or newly issued. We encourage companies to provide transparent explanations regarding the issuance of shares.

### Service contracts and termination payments

Executive contracts should provide for a maximum notice of 12 months. We do not support provisions within service contracts that enhance contractual terms for loss of office following a change in control.

Contracts of key people should provide the company with the authority to apply clawback of both unvested and vested awards.

### New joiners

When setting the remuneration package of a new executive who lacks experience of the company and/or the role, we would encourage the remuneration committee to consider placing the individual on a lower salary than their predecessor, with a view to increasing their pay over an extended time period, subject to performance. Where possible, the existing remuneration arrangements should be used to incentivise new appointees.

New recruits should be encouraged to purchase shares in the company. Additional benefits in relation to the appointment, such as assistance to relocate, should be time limited.

The use of 'golden hello' payments is not supported. Where a buy-out of existing awards from a previous employer is necessary, it should only cover the expected loss of value, and be awarded predominately in shares and subject to performance.

### Departing directors

We expect the company to ensure that there have been no rewards for failure. Therefore, the remuneration committee should take into account poor performance or any exceptional events and consider whether 'good leaver' or 'bad leaver' provisions should apply when determining whether a director should be paid a bonus for the period worked.

With the exception of dismissal for cause and/or poor performance where awards should be lapsed, any outstanding awards of leavers should be time pro-rated and allowed to run their course subject to the same vesting conditions that applied at grant.

To promote long-term strategic decisions and shareholder alignment, directors should continue to hold a meaningful number of shares even after departure from the company.

A post-exit shareholding requirement of vested shares should be set that is significant in relation to the in-post shareholding requirement and held for two years. LGIM considers a significant post-exit holding to be no less than 80% of the in-post requirement. As a guide, vested shares, deferred bonus shares and shares subject to a holding period can count towards meeting shareholding guidelines.

Any shares purchased by a director with personal funds are excluded from the post-exit shareholding requirement.

### Benchmarking

When using benchmark data, the remuneration committee should take into consideration a number of factors: size of the company, its geographic spread and performance relative to the benchmark peers. The peer group used should not be too large or too small as both extremes could produce misleading results. Companies should ensure they disclose meaningful information on the benchmarking data used and why it has selected the benchmark group. Directors at underperforming companies should not expect to be remunerated as highly as directors of companies with outstanding performance.

### Discretion

Companies can build trust with investors if they can demonstrate restraint, consistency and alignment with the shareholder experience. Discretion applied to any earned award by executives is one way to demonstrate this alignment. We define discretion as anything that alters the monetary outcome of total remuneration.

We expect the company to state:

- The main reasons that might give rise to the application of discretion
- Whether their discretion policy applies to revising pay upwards as well as downwards
- The elements of pay to which discretion may be applied

### Shareholding guidelines

We expect companies to encourage their directors and senior executives to build up and to retain a meaningful interest in the shares of the company they manage. This is an essential part of aligning directors' interests with

those of investors. The level of shareholding should be linked to the size of the company and the level of reward that the director receives in equity shares.

### **Pensions**

Pensions are a significant cost and risk for a company as well as an element of remuneration that is not linked to performance. Therefore the cost of providing a pension should be taken into account when evaluating a remuneration package. We will not support pension-enhancement payments at retirement or when a contract is terminated early. Additionally, we will not advocate an individual being compensated for changes in tax. Companies should aim to reduce their pension fund liabilities and costs when recruiting new executives.

Pension provisions should be disclosed in full in the report and accounts and any changes to pension benefits should be fully explained.

We expect companies to set a target to make pension payments to their executive aligned with what is offered to the general workforce.

### **Non-executive directors' fees**

Non-executive directors' fees should reflect the level of responsibility and time commitment of the role. The use of share options or other performance related pay is not supported, but a proportion of the fixed fees being paid in shares is encouraged.

# Shareholder and bondholder rights

The provision of shareholder and bondholder rights is a basic entitlement for investors. We expect companies to acknowledge and respect the rights of investors by adhering to the highest market standards. This includes providing high-quality disclosures and equal treatment of shareholders. Below, we have outlined guidance on the topical issues that concern us as an investor:

## Voting rights and share class structures

We support the 'one share one vote' philosophy and favour share structures where all shares have equal voting rights and those rights are equal to economic value held.

We do not support the issue of shares with enhanced or impaired voting rights. In some markets, however, differential voting rights are a long-standing structure, and where this exists the structure should be transparently disclosed. In the case of controlled companies, we will review the issuance of shares with enhanced voting rights to understand why these would be necessary. In general, we encourage companies to eliminate differential voting rights over time.

## Amendments to the company's constitution

It is common to see requests from companies seeking approval to update/amend the company's constitution as they affect members' rights.

We expect these changes to be clearly outlined and disclosed in the notice of meeting. Approval at the general meeting should also be sought as separate resolutions, not bundled. Although we assess bundled resolutions on a case-by-case basis, we initially view them negatively as they could potentially undermine the value of a shareholder vote and may be a source of confusion. We do not support changes to a company's constitution that are introduced to curtail or reduce shareholder rights.

## Company bylaws

We believe that exclusive forum bylaw provisions limiting a shareholder's choice of legal venue are not in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. We do not encourage limitations on shareholders' legal recourse including limiting themselves to a single jurisdiction without compelling evidence that it will be of benefit to shareholders and expect companies to provide a compelling argument on why the provision would directly benefit shareholders.

We also expect companies to put bylaw amendments that have the potential to reduce or negatively impact shareholder rights to a shareholder vote.

## Virtual/electronic general meetings

We believe that general meetings are fundamentally important to the exercise of shareholder rights and integral to a good corporate governance system. Furthermore, we view physical shareholder meetings as providing an important mechanism by which a board is held publicly accountable to all their shareholders, both institutional and retail.

Shareholder meetings provide an invaluable opportunity to raise concerns with a board in a public forum and investors are able to use this mechanism as part of their stewardship activities. For example, they could be utilised as an escalation tool that enables shareholders to make statements and ask questions to the whole board.

On virtual shareholder meetings, investors are cognisant that companies are keen to make sure that their shareholder communications keep pace with developing technology and conducting shareholder meetings electronically is an area of focus. We also agree that using technology, such as webcasts, to complement the physical shareholder meeting could be beneficial and could increase investor participation.

However, we believe that such technology should be used in parallel with the in-person meeting and should not lead to companies adopting a virtual-only approach. The shareholder meeting is the only time that the whole board must be publicly accountable to all its shareholders. The attendance of the board to such meeting is a demonstration of its commitment to hear and understand the views of shareholders.

Virtual-only shareholder meetings remove this accountability due to the remoteness of participants. The public nature of AGMs and full attendance of the board is also important to allow us to bring matters to the board's attention. Removing this tool impairs our ability to hold boards to account on behalf of our clients. Companies who adopt a 'virtual-only' approach may also risk giving the impression that they are attempting to filter questions or limit participation of shareholders and do not want to be subject to the varied questions of their investors.

Therefore, we are not supportive of the move towards fully virtual-only shareholder meetings. Any amendments to a company's constitution in relation to electronic meetings should confirm that a physical meeting will continue to be held unless it is prohibited by law to hold a physical meeting.

### ESG transparency

As a long-term investor with a universal owner approach, LGIM is an advocate for greater ESG transparency. Given the growing consensus on the financial materiality of ESG factors, many investors such as LGIM are increasingly seeking to integrate them within their investment processes. In order to accurately understand risks and opportunities, investors need access to relevant, comparable, consistent and verifiable ESG data across markets regardless of size, geography or asset class; in other words, better transparency from companies on their ESG performance.

ESG transparency is a responsibility that belongs to the board of directors. They need to ensure their company's ESG credentials can be appropriately used by markets so that this information can be priced efficiently.

Therefore, we expect our investee companies to disclose their ESG credentials in accordance with the following existing international initiatives for better comparability and consistency of data:

- Sustainable Accounting Standards Board (SASB)
- Global Reporting Initiative (GRI)
- Taskforce on Climate-related Financial Disclosures (TCFD)
- CDP (formerly Carbon Disclosure Project)
- Climate Disclosure Standards Board (CDSB)

Boards' responsibility regarding ESG disclosures goes beyond the company's own reporting. The financial community and various stakeholders increasingly rely upon ESG data provided by third-party providers. It is therefore important that boards step up on this issue and make sure the ESG information third-party providers have on them is accurate and that investors can use it.

## Global Corporate Governance and Responsible Investment Principles

We believe ESG 'laggard' companies will increasingly be penalised by the markets, encouraging the (re-) allocation of capital towards more sustainable companies. Today, it is fundamental that boards seek to position their company as an ESG leader as investor sanctions will be imposed not only through voting, but also and increasingly at the capital-allocation level.

For more detailed information on our approach and expectations with regard to ESG transparency, please refer to our guide on the topic, available [here](#).

For more information on LGIM's approach to ESG scoring and the capital allocation sanction, please refer to our guide on the topic, available [here](#).

### Capital management

The board has a key responsibility in ensuring a company has sufficient capital; overseeing the capital management of the company; ensuring efficient capital allocation; and, when additional capital is required, ensuring it is raised in an appropriate way.

Balancing the long-term investment needs of the company with shorter-term returns to investors is a critical role of the board.

Therefore, we support the right of shareholders to have a separate vote on the tools and authorities provided to the board in managing its capital structures. Such rights protect shareholder interests while balancing the need for board flexibility; e.g. where share issuances are not dilutive and capital is being raised in the long-term interests of investors.

### Share issuance

We support a company's entitlement to issue shares to raise capital. However, such issuances should be limited to what is necessary to maintain business operations and should not expose minority shareholders to excessive dilution of their holding in the company's shares.

The existence of pre-emption rights is fundamental in protecting shareholders from excessive dilution. It gives the right conveyed to shareholders to be offered any new shares, pro-rata to their existing holdings, ahead of these being offered to non-shareholders. More information on specific guidance on limits can be found in our regional policies which take into account the different local business practices and laws.

### Share repurchases or buybacks

Share repurchases or buybacks can be a flexible way to return cash to shareholders. We expect the board to be transparent in how the share buyback authority will be used in relation to other uses of capital (such as dividends, internal investment or externally by mergers and acquisitions).

However, the benefits of using this approach depend on a number of factors including the price at which shares are bought back, the company's individual financial circumstances and wider market conditions at the time.

When utilising this authority, we expect companies to take into account the impact on other issues. For example, on remuneration, performance conditions governing incentive schemes may be impacted as a result of a company undertaking a buyback. Furthermore, given the reduction in the number of shares in the market, the holdings of large shareholders will also increase, giving them more control.

Some markets may have an annual limit on the number of shares that can be bought back in any year, which is discussed in the relevant regional policy.

### Debt issuance

Good transparency and disclosure by the company on bonds issuance is important for debt investors. In its reporting, we expect a company to include:

- Timely release and public availability of prospectuses both before new issue and while bonds remain outstanding
- Commitment to provide public access to on-going financials and disclosures
- Five-year financial history of the company

### Mergers and acquisitions (M&A)

We support proposals that create value for investors over the long term.

To make an informed assessment, we expect management to be transparent on the terms of the merger, and its financial and cultural integration implications on the long-term business strategy. We expect all companies to explain how the transaction is expected to yield significant long-term benefits for the company and its stakeholders, including its investors.

We also encourage the company chair and the non-executive directors to hold separate meetings with investors without management present, and to have an honest conversation about the risks and opportunities of the transaction. In a contested takeover, we will aim to meet with both parties before making a final decision.

In addition, we believe that a strong governance framework is essential during any M&A activity. Companies should therefore make sure the independent non-executive directors are informed at an early stage and can obtain independent advice at the cost of the company, with advisers remunerated on a fixed-fee basis. A strong process should be in place to ensure there are no conflicts of interest. The skillset of the board must also be reviewed, including past M&A experience, to ensure the board is appropriately equipped to successfully lead the transaction and its impacts on the company. The board may also consider putting in place a separate ad-hoc committee of independent non-executive directors.

### Takeover defence plans – poison pills

‘Poison pill’ is the term given to an artificial device implemented by a company to deter takeover bids. Well-designed poison pills may strengthen the board’s negotiating position and allow it to obtain more favourable terms from an acquirer.

It is vital that this process is controlled by a fully independent board that is more concerned with investor value than with protecting its own position. We do not expect a poison pill to entrench management and protect the company from market pressures, which is not in investors’ best interests.

For more details on our approach on M&A and takeover defences, please refer to our thought piece on the topic, available [here](#).

### Related party transactions

Related party transactions (e.g. between a controlling shareholder and an issuer) are an important issue for minority shareholders as there is a risk that a related party takes advantage of its position. Adequate safeguards must therefore be put in place to provide protection for the interests of the company and its shareholders who are not a related party, including minority shareholders.



## Global Corporate Governance and Responsible Investment Principles

All transactions must therefore be authorised by the board of directors. We also expect the company to set up a fully independent audit committee, which ensures that such transactions are conducted on the basis of an independent and disinterested valuation.

In addition, we expect companies to disclose sufficient information about such transactions in their annual disclosures to ensure shareholders remain fully informed and are able to make informed voting decisions.

### Shareholder proposals

We consider all shareholder proposals tabled at a company's shareholder meeting in the wider context of the corporate governance practices at the company, and also in relation to the long-term benefits for investors. We expect companies to provide a meaningful discussion of the proposals to enable shareholders to make an informed judgement.

We expect majority-supported shareholder proposals to be adopted. Where there is significant support (25% or more) we expect the company to consider the benefits of the proposal and to discuss this with its shareholders and to include any outcome in its annual disclosures.

### Political donations

We will not support direct donations to political parties or individual political candidates by companies. We believe that companies should fully disclose all political contributions, direct lobbying activity, political involvement and indirect lobbying via trade associations. There should be full transparency regarding the memberships of and monies paid to trade associations and lobbying groups including:

- A breakdown of payments to political parties, candidates and associations, trade associations, think-tanks, and on direct and indirect lobbying activity on policy and legislative proposals, etc
- A clear explanation of how each of the above associations, contributions and actions benefit the causes the company supports and align with the strategy of the company
- A public statement from the company outlining where it disagrees with the associations of which it is a member on a particular issue, and the reasons why it believes it is beneficial to remain a member
- Disclosure of where responsibility sits within the company for the oversight of such relationships

# Sustainability

As a major global investor, we have a fundamental interest in ensuring that shareholder and bondholder value is not eroded by a company's failure to manage the risks associated with its natural and social environment. We believe that, if companies take advantage of the need to move towards a more sustainable economy, investors can benefit through protection from future risks and the potential of better long-term financial outcomes.

## Material risks and opportunities

Material environmental and social (E&S) risks will vary between sectors and from company to company, depending on a range of factors. However, it is important that all companies across different sectors undertake an analysis of E&S issues that could be material to their business over varying timeframes.

A dynamic risk-mapping exercise should identify the degree to which a company is exposed to each risk element. It should also be used to identify business opportunities such as new products and services, and potential gain in efficiency as a result of changing policy, technology and business environments.

## Sustainability as part of business strategy

Building a sustainable model should be at the core of business strategy, rather than being seen as a peripheral element in the form of ethical obligations. Where material risks and opportunities have been identified, there should be a clear link to the overall business framework.

## Policies to mitigate key risks

Where risks have been identified for the business, robust and comprehensive policy statements should be disclosed to all stakeholders in order to demonstrate the company's commitment to managing these risks.

## Management systems to mitigate risks

Managerial systems and procedures should be put in place for all business operations that either can be considered exposed to environmental and social-related risks, and/or that may produce negative externalities. Where possible, such systems should be externally verified.

## Target-setting

Companies should set targets for mitigating and managing material E&S risks and impacts, as well as for maximising potential positive stakeholder impacts. While it is important for the targets to be achievable, companies may benefit from setting challenging goals in order to maximise overall benefit.

Science Based Targets are decarbonisation targets aligned with the objective of the Paris Agreement. We therefore encourage all companies we invest in to set and clearly disclose Science Based Targets.

As part of our Climate Impact Pledge, we expect companies to not only have greenhouse gas (GHG) reduction targets in place, but also to disclose board oversight of climate change and other sector-specific policies. More information on our expectations of different sectors, and the metrics we use to assess companies can be found [here](#).

Companies that do not meet minimum standards with regard to climate disclosure and management may be subject to voting sanctions and ultimately divestment from certain LGIM funds.

### Public disclosure

Transparency and disclosure are key tools that enable investors to undertake a robust analysis of investment risks and opportunities and allocate capital accordingly. We expect companies to demonstrate their commitment to the disclosure of sustainability information and data, through publication in key company reporting; this includes the annual report and accounts, with supplementary information in sustainability reports and on websites.

We encourage companies to disclose to key third-party sustainability agencies, and in line with best-practice international guidelines. In relation to climate change, we expect to see companies moving to report in line with guidance of the Taskforce on Climate Related Financial Disclosures (TCFD), in addition to reporting via the CDP climate questionnaire. The CDP questionnaire is aligned with the TCFD framework and crucially provides investors with climate data on a large universe of companies in a comparable format. In addition, for sectors where it is material, we strongly encourage companies to report via the CDP Water and Forest questionnaires. We also encourage companies to relate the Sustainable Development Goals (SDGs) to their business strategy and operations and disclose on this in a clear and consistent manner to allow for the analysis of trends in this area.

Please refer to the ESG Transparency section of this document for more details around our expectations.

### Governance and accountability

Responsibility for managing a company's societal and environmental impact and the related risks to the business sits with all employees. However, accountability should sit at the board level. We expect sustainability commitments to form part of the responsibility of the CEO and the board. We expect companies to disclose the governance processes that are in place to oversee and manage these risks. Where material to the business, we encourage companies to link executive remuneration to delivery of these commitments.

Where climate change is identified as a material issue for the business – whether over the short, medium or long term, we expect companies to have sufficient expertise and experience on the board to ensure effective strategic and operational oversight. More information can be found [here](#).

### Financial impact quantification

Quantification of sustainability impacts can help investors to more effectively allocate capital, according to their risk, return and impact objectives. Companies can also achieve a net benefit in managing sustainability impacts effectively.

We encourage companies to demonstrate a commitment to best sustainability practices and, where possible, seek to quantify the impact in financial terms in order to internalise the associated costs and benefits.

### Engagement transparency

Companies may benefit greatly from sharing knowledge and experience with their peers by joining and contributing to industry-wide associations. They might also engage with regulatory bodies to promote best practices and policies to achieve sustainability targets.

We expect companies to be transparent in disclosing their public policy engagement activities, whether this be individual engagement or collaborative engagement as part of an industry association.

In relation to climate change, we would expect companies to publicly disclose any concerns they may have with current or evolving legislation and to publicly report on any lobbying activity that is undertaken as a result of such concerns. We recognise that achieving the Paris Agreement requires policy action in a wide range of areas. Therefore, we expect companies to engage with policymakers and regulators to encourage the introduction of policies to enable a net-zero transition for their respective sectors.

### Voting on transparency

We have decided to step up our commitment to greater ESG transparency. From 2022, LGIM will be voting against any company that scores poorly on transparency within our LGIM ESG score for the company. The list of companies voted against will be published on our website.

This means that any company not providing the following minimum disclosures will be sanctioned:

- ESG reporting standards
- Verification of ESG reporting
- Scope of GHG reporting
- Tax disclosure
- Director disclosure
- Remuneration disclosure

For further information on each of these key criteria, please see our public ESG score methodology document available on our website [here](#).

### Why adherence to these principles is important for LGIM

We believe that integrating environmental, social and governance considerations into investment processes can help mitigate risks and improve long-term financial outcomes. For this reason, we embed both top-down and bottom-up ESG analysis into our investment processes. In addition, positive and negative externalities generated by companies can have consequences for the economy and society at large. We believe that investors have a responsibility to the market as a whole. We need and expect companies to play their part. Our sustainability principles set out our minimum expectations of companies with regard to planning, management and disclosure of sustainability issues. These principles naturally feed into our voting and investment decisions, and for certain themes we have very structured processes in place.

Where we deem insufficient action is being taken, we have already publicly committed to vote against the chair of the board on the issue of climate change on a global basis. Our global standard on diversity means that where there are no women on the board we have pledged to vote against the chair and/or the chair of the nomination committee.

Where companies fail to meet minimum standards of globally accepted business practices, as set out in LGIM's Future World Protection List, we vote against the election of the chair of the board, across our entire equity holdings. More information can be found on our website, [here](#).

### Thematic engagement

LGIM focuses on the material issues that can impact a company's long-term sustainability, both financially and reputationally. Some of these issues apply across multiple sectors such as climate change, biodiversity, and human capital management issues such as income inequality and modern slavery. Meanwhile, other issues such as food waste, anti-microbial resistance, and reduction of waste and plastic use are more sector specific. More information and articles on our position on Sustainability specific themes can be found [here](#).

# Important information

Legal & General Investment Management

One Coleman Street

London

EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.

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

Ultimate holding company - Legal & General Group plc.

Unless otherwise stated, references herein to "LGIM", "we" and "us" are meant to capture the global conglomerate that includes Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser) and Legal & General Investment Management Asia Limited (a Hong Kong SFC registered adviser). The LGIM Stewardship Team acts on behalf of all such locally authorized entities. © 2020 Legal & General Investment Management Limited. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the publishers.

## Institutional LGIM Funds ICVC

LGIM Corporate Director Limited is the authorised corporate director, Legal & General Investment Management Limited has been appointed as investment manager and distributor for Legal & General Investment Management Funds ICVC, an Open Ended Investment Company with limited liability and registered in England and Wales.

Both companies are authorised and regulated by the Financial Conduct Authority.

LGIM does not provide advice on the suitability of its products or services.

Further details on the fund can be found in the Key Investor Information Document ('KIID') and Prospectus. A copy of the KIID, Prospectus and latest annual report in English, can be obtained free of charge on request.

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

## GIPS Performance

Legal & General Investment Management Limited ('the Firm') claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared composite reports in compliance with the GIPS standards. The Firm has been independently verified, by PricewaterhouseCoopers LLP, for the periods 1 January 2006 to 31 December 2015. The verification report is available upon request. Verification assesses whether (1) The Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) The Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list and description of all composites is available on request.

The fund-specific data presented in this presentation is supplemental information to its relevant GIPS composite report, an example of which can be found in the Appendix. All GIPS composite reports are available on request.

For the purpose of GIPS compliance, the 'Firm' is defined as Legal & General Investment Management Limited and does not include assets managed by the SEC registered company, Legal & General Investment Management America.

## LGAS Disclaimer for DC Bundled

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

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

Past performance is no guarantee of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

## Global Corporate Governance and Responsible Investment Principles

The information has been produced for use by a professional investor and their advisers only. It should not be distributed without LGIM's/LGAS's permission.

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

### Confidentiality and limitations

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

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

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

### Third-party data

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

Publication, amendments and updates

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

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

Issued by Legal & General Investment Management Limited and Legal & General Assurance Society Limited Registered office for both companies is One Coleman Street, London EC2R 5AA.

Legal & General Investment Management Limited is authorised and regulated by the Financial Conduct Authority.

Legal & General Assurance Society Limited is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial

### Contracting with LGIM Asia

Legal & General Investment Management Asia Limited (LGIM Asia) is a Licensed Corporation (CE Number: BBB488) under Section 116 of the Hong Kong Securities and Futures Ordinance (Cap. 571) (SFO) for carrying on Type 1 Dealing in Securities regulated activities and Type 9 "Asset Management" regulated activities and is regulated by the Hong Kong SFC. Pursuant to its license, LGIM Asia provides services to Professional Investors solely and does not hold client assets (both defined under the SFO). The registered and business address of LGIM Asia is Unit 5111-12, Level 51, The Center, 99 Queen's Road Central, Central, Hong Kong. The term "LGIM group" in this document refers to Legal & General Investment Management (Holdings) Limited and its subsidiaries. Legal & General Investment Management Asia Limited ("LGIM Asia Ltd") is a subsidiary of Legal & General Investment Management (Holdings) Limited.

This material is issued by LGIM Asia and has not been reviewed by the SFC.

Global Investment Performance Standards (GIPS®)

Legal & General Investment Management Limited (The Firm) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared composite reports in compliance with the GIPS standards. The Firm has been independently verified, by PricewaterhouseCoopers LLP, for the periods 1 January 2006 to 31 December 2015. The verification report is available upon request. Verification assesses whether (1) The Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) The Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list and description of all composites is available on request.

For the purpose of GIPS compliance, the "Firm" is defined as Legal & General Investment Management Limited (LGIM) and LGIM International Limited (LGIMI) and does not include assets managed by the SEC of the United States of America registered company, Legal & General Investment Management America.

### Important information

This material is issued by Legal & General Investment Management Asia Limited (LGIM Asia, we, or us), and has not been reviewed by the Securities and Futures Commission (SFC) of Hong Kong, and is provided to you on the basis that you are a Professional Investor as defined in the Securities and Futures Ordinance (Cap.571) (the Ordinance). By accepting this material you acknowledge and agree that this material is

## Global Corporate Governance and Responsible Investment Principles

provided for your use only and that you will not distribute or otherwise make this material available to a person who is not a Professional Investor as defined in the Ordinance. This material should not be distributed without the permission of LGIM Asia.

Funds referred to in this material are not authorised by the SFC and are not accessible to Hong Kong persons other than Professional Investors. The risk factors associated with each Fund are set out in the relevant Fund Prospectus and these should be read and understood before making any investment decisions. A copy of the relevant Fund Prospectus can be obtained from us upon request.

Investment involves risks. Past performance is not indicative of future performance. The value and income derived from investments may go down as well as up. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision.

### Confidentiality and limitations

The information contained in this document (the Information) has been prepared by LGIM Asia. Such Information is the propriety and/or confidential information of LGIM Asia and may not be disclosed by you to any other person without the prior written consent of LGIM Asia.

The Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. It is general information and has been prepared without taking into account the objectives, financial situation or needs of any person. Any trading or investment decisions taken by you should be based on your own analysis and judgment and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

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

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

### Third-party data

Where this document contains third-party data, we believe such information to be reliable but we have not independently verified. Therefore, the third-party data set out in this document is meant for general reference only.

### Publication, amendments and updates

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

The information contained herein is given as of the date hereof and does not purport to give information as of any other date. Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or an obligation to update or provide amendments hereto.

The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

Legal & General Investment Management Asia Limited ("LGIM Asia") is a Licensed Corporation (CE Number: BBB488) under Section 116 of the Hong Kong Securities and Futures Ordinance (Cap. 571) (the "Ordinance" or "SFO") for carrying on Type 1 "Dealing in Securities" and Type 9 "Asset Management" regulated activities and is regulated by the Hong Kong Securities and Futures Commission (SFC). Pursuant to its license, LGIM Asia provides services to Professional Investors solely and does not hold client assets (both defined under the SFO and subsidiary legislation. The registered and business address of LGIM Asia is Unit 5111-12, Level 51, The Center, 99 Queen's Road Central, Central, Hong Kong.