March 2022

LGIM

UK Corporate Governance and Responsible Investment Policy

2022

Contents

Introduction

This document sets out what we consider to be corporate governance best practice. It explains our expectations with respect to topics we believe are essential for an efficient governance framework, and for building a sustainable business model. When developing our policies, we not only look at local market regulatory expectations, but also broader global guidelines and principles such as those provided by the United Nations Global Compact, OECD guidelines and ILO conventions and recommendations. We expect all companies to closely align with our principles, or to engage with us where circumstances prevent them from doing so.

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 their businesses have 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 and deliver positive long-term returns to shareholders.

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.

Company board

Legal & General Investment Management's (LGIM) board of directors is responsible for the management and long-term success of the company, taking into account its best interests and stakeholders. It should always act as a steward of stakeholders' interests.

The board sets out our strategy and direction, ensuring that the necessary resources are available to enable their implementation and that appropriate risk management and internal controls are in place. It is our philosophy, ensuring that stakeholder views are considered and embedded in our 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 our 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.

Board leadership

We believe that having the right board composition is an essential element of a company's 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 their 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 for 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.

We would therefore not expect a retiring CEO to take on the role of chair. These two roles involve different responsibilities and a different approach to board relations and the company. Additionally, 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 would encourage the CEO to be consulted by the board, but not to 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, management or is under severe stress. In such circumstances, we expect companies to commit to separating the roles within a short, pre-set timetable. In addition, we would expect a deputy chair to be appointed to ensure that no person has unfettered decision-making powers.

The case of the combined chair and CEO

Although UK-listed companies generally do not adopt such a board structure, it is important to provide guidance on our views.

We believe that 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.

Where companies have historically combined the positions of CEO and chair and have chosen to keep this structure, we expect a strong, senior independent director or deputy chair to be appointed and for a meaningful explanation and justification to be provided in annual disclosures.

Any decision to combine these roles should be subject to a shareholder vote for approval, given that these are key board risk functions.

From 2020, we took a stronger stance on combined roles, as we believe it can have a negative impact on culture, board discussions, remuneration and shareholder rights. Accordingly, we will vote against the election or re- election of any individual holding such a combined role.

Senior independent director

The senior independent director plays an essential role on the board and should lead the succession process of the chair and appraise their performance. Additionally, they should meet investors regularly to stay well informed of any 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 senior independent directors to be fully independent non-executive directors. This is of extra importance when the company has a combined chair and CEO.

Please see our website for an article on the role of the senior independent director:

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 to provide a constructive challenge at board meetings.

Given the responsibility the role entails, 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 outside board roles.

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

Independence

Independence is essential to ensure the board exercises efficient oversight and consistently acts in the best interests of the company and its stakeholders.

We support the criteria set out in the UK Corporate Governance Code to assess the independence of directors. We 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. In this instance, subject to board and committee balance being maintained, we will support a company if it wants to retain a non-independent, non- executive director (for instance, beyond the recommended nine years). However, the company must provide a full explanation of the benefits to the company of extending their services for another term. We do not expect this person to be a formal member of the audit or remuneration committees, instead they may attend meetings by invitation.

In relation to the chair's independence, in line with the UK Corporate Governance Code 2018, we expect companies to comply with the nine-year rule. In exceptional circumstances, where a chair is expected to remain beyond the nine years, we would encourage early engagement with us to provide an explanation to avoid a negative vote.

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 a good level of diversity can improve business decision-making, minimise risks, improve the sustainability of profit growth and therefore maximise long-term returns for investors.

When recruiting members, a board should be looking at diversity in a holistic way and consider the intersectionality of different characteristics. A board should be cognisant of all aspects of diversity that appropriately represent a company's operations, including, for instance, gender, age, nationality, ethnicity, sexual orientation, disability, neurodiversity and socio-economic factors as well as general 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. We would expect a company's diversity and inclusion policy to reflect this information at a minimum for both the board and senior management, and for there to be a broad focus on an inclusive culture, which is a key enabler for greater diversity.

To provide investors with a comprehensive understanding of their diversity strategy, we expect companies to be transparent on the procedures used to find new board members and senior managers, and on how that process ensures a diverse board and senior executive pipeline. We expect all companies to disclose a breakdown of board directors, executive directors, managers and employees, at a minimum by geography, main skill set, gender and ethnicity, along with information on its gender pay gap, ethnicity pay gap and the initiatives in place and action the company is taking to close any stated gap.

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 the usual pool of candidates to include those from a less traditional 'corporate board' background. They should be willing to recruit those without previous board experience as incumbent members will have sufficient previous board experience in aggregation to support less experienced members, and this approach will help to expand the candidate pool and be beneficial for the board's cognitive diversity.

For the UK market, we publicly supported the initiative for women to make up at least one-third of board directors at FTSE 350 companies, and 30% of senior managers at FTSE 100 companies by 2020. In addition, we support the similar target developed by the UK Government's Women on Boards Report, and the formerly named Hampton-Alexander Review, which is now known as the FTSE Women Leaders Review.

We will continue to apply voting sanctions to those FTSE 350 companies that do not have a minimum of 33% women on their boards. From 2022, we will also apply voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time.

For smaller companies, our policy has been to require at least one female to be on the board. However, we have signalled that our expectation is for a minimum of 33% to be reached over time. Therefore from 2023, we would expect women to represent at least 25%, rising to 33% by 2024.

As the diversity conversation has broadened beyond gender, we expect companies to start to collect data on ethnicity, as well as any other diversity categories throughout all levels of the company.

In line with the Parker Review, we expect all FTSE 100 companies to have at least one ethnically diverse board member and will start applying voting sanctions from January 2022 to companies that do not meet this minimum requirement. Smaller companies are also encouraged to consider the Parker Review findings when refreshing their boards. Furthermore, in 2019, the government consulted on the expectations for companies to report on their ethnicity pay gap. We responded to the consultation, supporting the expectation for companies to understand their data on this area of diversity and to start to report on it.

Our articles on diversity can be found here.

Succession planning

Succession planning is a vital component of an efficient board. It helps to avoid the dangers of 'group think' and ensures board continuity and that individuals with the right 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. A skills matrix linked to the strategy of the company would be a useful diagram. In addition, we would welcome an explanation of how any newly appointed directors fit into the matrix and the minimum time commitment needed to fulfil the role.

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 on an annual basis.

To help us make an informed decision on director elections, it would be useful for the companies to disclose the minimum annual time commitment required from each director.

In addition to the biographical details of each director, we also encourage the disclosure of attributes and skills that the director brings to the board, and how these fit with the long-term strategy of the business. LGIM encourages the use of a skills matrix linked to the company's strategy in this regard.

Board effectiveness

Board tenure

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

We would expect all companies to put in place an individual non-executive director term limit of a maximum of nine years. Exceptionally, we may approve of an extension to a director's tenure by another three-year term, in any case limiting the overall tenure to no more than 12 years; however, we would expect the director to step off the audit or remuneration committees. We would encourage early engagement with us to provide an explanation.

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 outside appointments, they should be mindful of the time commitment required to exercise their duties on multiple boards.

This is because as the number of companies a director serves on increases, so does the risk that they will become less effective. This risk increases further depending on the role played on each board and the size and complexity of the company itself. A director has a duty of care to ensure they have sufficient time to contribute effectively to each directorship.

We do not expect non-executive directors to hold more than five non-executive directorship roles in total. We consider a board chair role to count as two directorships due to the extra complexity, oversight and time commitment of this role. A practising executive director should not hold more than one non-executive director role with an unrelated listed company.

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.

Directors' attendance at board meetings is a vital part of their 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 publishing attendance records in their annual disclosures.

We expect directors to have attended no less 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.

Board size

We believe companies should put in place a board that is appropriate for the size and complexity of the business. It is essential that the size of the board does not compromise a genuine and thorough exchange of ideas and efficient decision-making.

Board effectiveness reviews – internal and external

The evaluation of directors is an essential way to improve board effectiveness. 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 evaluation to take place annually. This evaluation should be led by the company chair, with assistance from the company secretary.

External reviewers can also bring different perspectives on the functioning of the board, as well as experience of how other boards operate. We expect an external evaluation of the board to take place at least every three years. This should be performed by an independent third party to avoid conflicts of interest. The board as a whole should approve the appointment of the reviewer, who should not be used for this role for more than six consecutive years.The board should agree the scope of the evaluation at the outset and receive the findings at the conclusion of the review. We expect the reviewer to follow the Code of Practice for reviewers set by the Chartered Governance Institute.

In the interests of transparency, we expect the process and general outcomes of such evaluations to be published in the company's annual disclosures, as well as progress on the outcomes of previous board evaluations. Any potential conflict of interest with external reviewers should also be disclosed.

Non-executive director induction

The chair of the nomination committee is 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. It 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 members are kept informed of all aspects of the business. The company secretary can also assist non-executive directors with important training.

Directors should be encouraged 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.

We would also encourage new board members to use their investors as a resource to help them in performing their duties. We hold an annual event, usually in September, that is aimed at non-executive directors and covers ESG topics of interest. We also regularly publish worldwide 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 taking account of the interests of their stakeholders on material issues. Understanding and taking account of key stakeholders' views will allow 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 believe investors should be able to hold directors accountable for their consideration of employee views.

We encourage companies to set up a structure that is most appropriate for their requirements. The UK Corporate Governance Code provides three alternatives approaches to consider:

- To appoint a worker director who will sit at board meetings and be allowed to speak and provide feedback. FirstGroup plc is one example
- To establish a formal workforce advisory panel, e.g. Marks & Spencer plc and Sainsburys plc
- The third approach is to appoint a non-executive director as a designated point of contact for workers, e.g., GlaxoSmithKline plc[1]

We do not consider any single model superior to another. In fact, many companies have chosen a combination of methodologies to ensure that the employee voice is heard by the board. All companies should embrace their employees as valued assets and select the method that is most effective for their business model and current circumstances.

There are factors we have observed that can be conducive to a good process:

- The selection of a method that builds trust within the company, is valued by all employees and encourages participation
- A clear mechanism for all staff to feed into the process, regardless of whether that is through regular meetings with their designated workforce member/non-executive director/employee director or via email
- Clear action plans for issues that affect employees are distributed to all staff via newsletter or email. A dedicated page on the intranet, with its existence made known to all staff. Open and

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

transparent communication is important to get employee buy-in to the process. 'Town Halls' should supplement written communication

- A feedback process for employees to help improve the process
- Employee engagement and staff turnover should be a score that is tracked over time, disclosed in the annual report
- Exit interviews should be carried out by human resources, the output reviewed by the workforce representative, and any recurring themes should be investigated and reported to the board

We believe that sharing views internally can lead to innovation, problem solving and raised productivity as studies show that there is positive correlation between employee engagement and performance.

Companies should disclose in their annual report the process adopted, examples of positive outcomes, improvements in employee engagement scores, as well as what percentage of employees consider the company a great place to work and the level of staff turnover over the past few years. Greater public disclosure will increase awareness, improve practices, and can lead to greater productivity and long-term performance for all companies in the market.

Although we believe that the board is best placed to determine the appropriate method for engaging with its employees, if there is evidence to suggest that the employee voice is not being heard, such as strikes or lawsuits over a three-year period, in addition to engagement with the company, we may take voting action by supporting any shareholder-led resolution calling for action.

Investor dialogue

We believe that engagement constitutes 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.

Our position on board-investor dialogue is available on our website.

Culture

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

Company boards should disclose information that helps investors to understand company culture. 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 filters down to the rest of the organisation.

We expect companies to disclose information including:

- How they measure culture and how that relates to the business strategy
- How their mission statement and values are communicated and reinforced
- Any key performance indicators that are linked to culture

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 remuneration.

To enable 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, independence as well as their effectiveness and resource levels

This 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 comprising only independent non-executive directors. The committee should have at least three members, with sufficient financial experience to provide oversight and accountability; as such, we expect the audit chair to have financial expertise.

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

To provide further transparency, we would expect the auditor's report to provide information about potentially material issues that were raised by the auditor as a concern and subsequently dismissed by the board, and the reasons for the decision.

Nomination committee

The nomination 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 account of important governance considerations such as skill sets, diversity, tenure and over-boarding.

The focus of the committee should, however, not be restricted to the board, but 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 board chair may be a member – or even chair – of the committee if they are considered independent. We assess the board chair's independence on an annual basis.

Non-independent directors may attend nomination committee meetings by invitation but should not be members 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 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 have served as a member of the board for at least a year prior to their appointment as chair of the committee.

We expect remuneration committees to consist exclusively of independent non-executive directors. The company chair can be a member of the committee if they are independent but should not chair the committee. We assess the chair's independence on an annual basis.

Non-independent directors may attend remuneration committee meetings by invitation but should not be members of the committee.

We expect the remuneration committees to set the remuneration policy for the executive directors, the chair and senior management.

Remuneration committees should:

- Seek independent advice. External advisers, consultants and internal employees advising the committee should be fully accountable to the committee. The committee should exercise its own independent judgement when considering any advice provided by third parties
- Consider carefully and be able to demonstrate how they have reviewed the pay and related policies of the workforce when setting pay for the executive team and be able to demonstrate how this is aligned with the culture of the company
- Challenge management if the company is paying less than the real living wage as set out by the Living Wage Foundation or if the company is not offering all employees the chance to work a minimum of 15 hours per week. This represents the absolute minimum a company should be doing to reduce income inequality and poverty within its workforce
- Give consideration to the views of the company's shareholders. Most institutional investors' pay policies are available on their corporate website. LGIM's pay policies are on our website and we

communicate these policies with remuneration consultants annually, so that they can provide better advice to companies.

We will vote against the election of individual board directors where we do not support remuneration for the second consecutive year. We may also vote against individual directors where there are particularly contentious issues.

A large voting opposition (more than 20%) to the remuneration proposals should not be ignored. Remuneration committees should:

- Hold themselves accountable for the decisions taken that led to the high vote against remuneration
- Publish an explanation for the dissent when disclosing the voting outcomes, including what the board is doing to address concerns. This should be sent to the Investment Association for inclusion in the Public Register. An explanation should also be included in the chair's statement in the next annual report.

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. This is 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.

Board responsiveness

Voting at company meetings is part of a shareholder's escalation strategy to signal concerns with aspects of the governance. Where 20% or more of the votes have been cast against a board recommended resolution, we expect the board to find out why. It should disclose the steps taken to address shareholder concerns in the next annual report.

Audit, risk and internal controls

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

The board is also responsible to its investors for presenting a true and fair view of the financial position of the company, as well as setting out future capital management plans and near-term financial prospects. 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 the resources available for the internal and external audit functions forms part of the board's responsibilities. We expect boards to report to investors their conclusions following this review, along with providing their own assessment and any noted areas of concern. These should be reported in companies' 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 the undue risk of fines, censorship and reputational damage. We will hold the audit committee chair responsible for failing to detect breaches in accounting practices. Where a company has failed to meet applicable laws such as the Modern Slavery Act or the Companies Act, we may not support the approval of the annual report & accounts.

External audit

An external audit provides independent assurance of the financial statements of a company to its investors. The role of the auditor is to provide reasonable assurance that the financial statements give a true and fair view of the financial health of the company and that they have been prepared in accordance with the appropriate accounting standard. Any significant audit matters raised by the auditors ought to be fully explained by the board, including how these 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 an extended audit report to provide investors with greater insight into the auditor's assessment of the accounts.

We believe the role of the external auditor should be put to tender on a regular basis, at least every 10 years, with the total tenure of the auditor not exceeding 20 years. LGIM will not support the re-election of the external auditor if they have served as auditor for more than 20 consecutive 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 explained, covering whether it included a firm outside the global top four firms and why the final decision was taken.

The board is responsible for appointing the external auditor. The company is expected to clearly disclose the audit firm used, the partner who led the audit and the tenure of that firm. In addition, the

audit committee should outline its criteria of how it has assessed the independence and quality of the audit and whether it is considered effective. Where the auditor is newly appointed, the audit committee should comment on whether the performance of the audit met its expectations as set out during the tender process.

The fees for the external audit should be disclosed in the annual reporting. Where the external auditor provides non-audit services, these should be fully explained in the appropriate annual disclosures. We expect non-audit services provided to be incidental to the audit, with the primary purpose of improving the quality of the financial accounts. 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.

Recommendations arising from the external audit are to be overseen by the board and the audit committee and should be reported to investors when they are considered material by the board and/or the audit partner.

Our article on the audit tender process can be found here.

Internal audit

Companies should have an effective and sufficiently resourced internal audit system in place that is designed to take account of new and emerging risks that will affect their business objectives and identify the level of risk taken. The processes and procedures in place to manage such risks should be embedded into the risk-based control system for the company and summarised in the annual report. The audit committee should have responsibility for 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 all employees including those within the supply chain. The whistleblowing reporting channels should be easily identified and independent from management, with a direct line to the audit committee to allow for appropriate oversight and independent escalation where necessary. Companies should ensure their policy safeguards the identity of any whistleblower and that they are protected from internal harassment. 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 material financial and reputational damage. Therefore, we expect a risk-based approach to be taken to address the issue of cyber-security 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 where 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 level of executive pay versus company performance, and the current social sensitivities around income inequality.

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

Real living wage: We expect all companies to pay employees as a minimum the national living wage as mandated by law. However, we believe that to ensure employees avoid the poverty trap, which can create hardship, stress and reduce the performance of the company, it is important that employers pay at least the real living wage as set by the Living Wage Foundation.

We are calling for greater transparency on employee working practices. We want all companies to disclose whether they are paying the real living wage to UK employees and whether they are an accredited living wage payer. We also want to understand what steps are being taken to ensure their suppliers are paying or working towards paying the real living wage. Moreover, we want to understand whether companies are offering all employees the opportunity to work for a minimum of 15 hours a week and what other benefits are in place to alleviate financial hardship. Ideally, we would ask companies to disclose this information in their Annual Report. LGIM may take voting action against companies that fail to provide greater transparency on these policies by 2025.

Pensions: We would ask companies to consider the long-term health and wealth of their employees by increasing the non-contributory element of pension provisions where possible.

Equity ownership: We encourage all companies to offer employees the opportunity to participate in equity ownership. We believe that this is a good performance motivator and retention tool. To ensure sufficient take-up, we encourage companies to offer free shares to all employees or to those earning below the national median pay level, which currently stands at around £31,000. The offer of shares should be linked to continued service and performance.

As a long-term and engaged investor, we trust company boards to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business. In line with LGIM's long-term investment horizon, we expect executive director pay to reflect financial performance, operational and strategic measures and to be achieved within a long-term, sustainable framework.

The remuneration committee chair's statement should explain:

- Why the outcome of the single figure is appropriate, taking account of the delivery of key performance indicators (KPIs), employee pay and shareholder experience in terms of value created
- Why the chosen remuneration award level is appropriate for the company. Any explanation should avoid as its main argument comparisons with peer median pay
- Details of engagement undertaken with all stakeholders referencing any engagement that has taken place with the workforce to explain how executive remuneration aligns with the wider company's pay policy. Engagement with shareholders and the impact this has had on remuneration policy and outcomes should also be set out

- Evidence of the exercise of discretion (up or down) during the year. We define discretion as any change that alters the monetary outcome. Where discretion results in remuneration increasing, we expect to be reminded of when downward discretion was previously applied. When discretion is applied, we also expect to understand what the monetary outcome would have been had the discretion not been applied. This will help us reach our own judgement on the level of fairness.

We expect companies to consider our principles below when setting pay policies for their executive board.

Key principles

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

1. 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 the amount paid to the executive, employees and investors; and understandable for the recipient, the board and investors.
2. Awards should incentivise long-term thinking by management and be aligned with and support the achievements of the business strategy and objectives.
3. 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.
4. Boards should retain ultimate flexibility to apply discretion and ‘sense check’ final payments to ensure that they are aligned with the underlying long-term performance of the business.
5. Companies should be transparent on why rewards have been transferred to the executive, setting out targets, 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 bonus

Companies may choose to award annual incentives to executive directors. We believe that any annual incentive should be geared to delivering operational performance. A significant portion of the annual incentive should be linked to the delivery of financial performance.

The bonus should be set as an appropriate proportion of base salary and should be capped.

In line with our focus on long-term growth and performance, we would encourage the reduction of short-term annual bonus levels. A bonus of 200% of salary should be reserved for the largest global companies. We will generally not support any increases to the annual bonus.

Personal performance: LGIM's current view is that for board directors, personal performance amounts to delivering the strategy. We therefore expect strategic targets to be meaningful and quantifiable. We are conscious that the weighting for personal/strategic targets continues to grow. LGIM may vote against the remuneration policy if the weighting is high and the measures are not eaningful/quantifiable or sufficiently explained. LGIM expects a threshold level of corporate financial measures to be met before any element under this section is triggered. The exception being in a turnaround situation when changes to non-financial strategic targets may take priority for a few years. However, these circumstances should be clearly explained within the remuneration report.

To highlight the integrity of the target-setting process, companies should disclose the weightings of each bonus component and the target ranges, at the very least on a retrospective basis.

Targets that are commercially sensitive to the business should be disclosed within a year of payment; if this is not possible, an explanation of why the target continues to be commercially sensitive is expected.

Strategic/qualitative and personal targets should be separated with each having its own weighting. These targets and the eventual outcome should be fully explained.

Companies that are exposed to high levels of environmental, social or governance (ESG) risks should include relevant and clearly measurable targets that focus management on mitigating these risks. ESG metrics should be meaningful, measurable, aligned to the company's strategy and subject to third-party verification.

For companies in high-risk sectors, where the health and safety of employees is key, we would expect a health and safety modifier to be introduced to the annual bonus to ensure that board members are held accountable for any loss of life within the workplace. Where a company is held responsible for any fatality, we expect the remuneration committee to apply downward discretion on any performance-based pay earned. Although we expect any reduction to be material, if it is less than 20% LGIM will vote against the remuneration report.

To better align with investors and company performance, we ask companies to pay a portion of the bonus in the form of shares that are deferred for at least two years on an ongoing basis. 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. To provide clarity, what constitutes exceptional circumstances should be set out, but should not be too narrowly defined.

COVID-19: For many companies the pandemic continued to have a significant effect on performance over the past year. Our position towards these companies has not changed, if your company has had to rely on shareholder or government support and a material number of staff redundancies have been made, we do not expect annual bonus payments to be awarded for the year. Any bonus paid, will be considered on a case-by-case basis, but may result in LGIM voting against the remuneration report.

Long-term incentive plan (LTIP)

We believe companies 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 for investors over the longer term. We therefore strongly encourage all companies to put in place a long-term incentive plan.

In the interest of simplicity, we advocate the adoption of one long-term plan. We strongly discourage the adoption of any additional incentive plan that would complicate the remuneration structure.

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 level of award being offered to be reviewed every three years to ensure it is at a level commensurate to when the plan was first adopted. Any increase to levels of reward should be subject to shareholder approval.

Where a company has experienced a significant fall in the value of its shares, resulting in a greater number of shares being awarded under incentive plans for the year, companies are expected to reduce the size of a new award to ensure there is no prospect of reward for failure. Where this has not happened, the committee should provide an undertaking to reduce awards when they vest.

As a general rule, long-term incentive performance targets should be disclosed in advance and should not be adjusted retrospectively. The dispensation afforded by the Investment Association due to the impact of COVID-19 in allowing companies to delay target setting by six months of the award date continues to be something LGIM will support for the first half of 2022.

We do not generally support the setting of targets at a level that is below the previous year's performance goals. However, if due to exceptional circumstances the remuneration committee believes it is appropriate to set lower targets, we would expect to understand why the new targets are considered to be equally stretching. Without such an explanation we would expect a reduction to the award size to reflect the reduction in performance targets.

The board should determine the right metrics to deliver the strategy and ensure that the level of stretch in the target is appropriate to deliver the right outcomes for all stakeholders. Metrics should be linked to long-term strategy and should be stretching, but achievable, without encouraging undue risk-taking.

Financial performance targets should use the reported numbers without further adjustments, save for share buy- backs and other capital changes. Any adjustments should be consistent, explained and reconciled with reported numbers.

The LTIP should not have too many performance conditions, as more than four conditions would increase complexity. At least one measure should be linked to shareholder returns. Other measures should be linked to the strategy of the business, such as KPIs that are selected by the board and reflect

the company's ESG risks as well as target opportunities. ESG metrics should be meaningful, measurable, aligned to the company's strategy and subject to third-party verification.

Companies within sectors that can have a significant effect on climate change should link part of their pay to targets set to reduce the company's impact on climate change. We would expect these targets to be SBTi approved net zero targets with transition plans to achieve net zero by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue, but also have a positive impact on climate. The use of diversity targets would be relevant for sectors that struggle to recruit female talent.

Long-term incentive performance should be measured over a period of not less than three years.

We do not support retrospective changes to pre-set performance conditions. We also expect companies to put in place contractual and statutory provisions that may allow for a reduction or forfeiture of the long-term incentive component in exceptional circumstances.

Accrued dividends on share awards should only be paid on those shares that ultimately vest.

Restricted schemes

We do not believe that this structure is right for all companies. Therefore, companies will have to justify why this type of arrangement is appropriate and why the existing incentive structureis no longer suitable. We expect a restricted scheme to have the following attributes:

- Award levels should be reduced to 50% or less of the normal long-term incentive grant, to take account of certainty of reward
- Restricted schemes should be long term and applied through different business cycles
- Shares should be held for a minimum of five years prior to release
- The release of shares should be subject to the remuneration committee being satisfied that over the minimum five-year period since being granted, the company's overall performance and the individual's leadership is such that the release of the shares is warranted
- Discretion may be applied to reduce awards if at the end of the holding period the company's performance and the shareholder experience are not aligned (see: p23, para. 2 of the Executive Remuneration Working Group report)
- For leavers, unvested restricted shares should be pro-rated for time and subject to the same vesting timeframe and holding requirements as set out above
- A shareholding guideline must be in place that is material while in employment and following their departure from the board
- In keeping with our policy for other long-term incentive plans, LGIM expects substantial share price falls over the year to be captured in the grant size of restricted share awards

Holding periods

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

Malus and clawback

Employment contracts should be designed to enable the application of malus and clawback, which should apply to all elements of variable remuneration.

To provide clarity for all stakeholders, remuneration committees should set out the circumstances under which malus and clawback will be applied. These circumstances should not be too narrowly defined.

Equity dilution

We believe that strict guidelines should be adhered to in relation to the issuance of shares for incentive schemes to limit potential dilution for shareholders. 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%.

Treasury shares should be included within these limits. Such restrictions should apply to all shares whether they are market purchased or newly issued.

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.

As a minimum, a shareholding guideline should be equivalent to the value of the annual share award made under an LTIP, or equivalent to three years of restricted share awards.

LGIM expects 100% of vested LTIP and deferred bonus shares to be retained (except those sold for tax purposes) until the shareholding requirement is achieved.

Vested shares, deferred bonus shares and shares subject to a holding period can count towards meeting shareholding guidelines.

Directors should be encouraged to buy shares and pledge them to meet the shareholding guideline, until such time as sufficient shares have been earned through incentive arrangements.

Post-exit shareholding requirement

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.

Post-exit shareholding guidelines should reflect a significant proportion of the prevailing minimum shareholding requirement (no less than 80% of the in-post requirement).

These guidelines should remain in place for two years following cessation of employment.

Where a company has set an in-post shareholding guideline that is substantially greater than LGIM's minimum expectations, then we will support a proportionally lower post-exit shareholding requirement providing it remains at least 80% of LGIM's minimum shareholding expectation.

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

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 account of 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 support 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.

Pension arrangements should be reduced over time so that they are more closely aligned with the general workforce.

For any remuneration policies that are up for renewal, we expect companies to introduce a pension provision for new and incumbent directors that is aligned with what is being offered to the general workforce over time, with alignment to be achieved by 2023.

We will vote against any new remuneration policy that has not introduced changes to address a disparity in pension provisions unless the company can demonstrate that similar arrangements are available to the workforce.

Service contracts and termination payments

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

We would expect the notice period to be the same for employer and employee.

The contracts of key people should provide the company with the authority to apply claw-back 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 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 period, subject to performance.

Where possible, the existing remuneration arrangements should be used to incentivise new appointees. The intention to adopt this policy should be highlighted to shareholders in the annual disclosures until the executive has reached market rates for the role.

New recruits should be encouraged to purchase shares in the company. Additional benefits in relation to the appointment, such as assistance to relocate, should mirror what is being offered to employees at all levels and have a time limit of two years.

The use of ‘golden hello’ payments is not supported. The use of buy-out awards is discouraged; however, where it is considered necessary it should only cover the expected loss of value and be awarded predominately in shares and subject to performance.

Departing directors

We expect companies to ensure that there have been no rewards for failure. Therefore, remuneration committees should take account of poor performance or any exceptional events, i.e. loss of life, when determining whether a director should be paid a bonus for the period worked.

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

Golden handshakes are not supported, and any gift with a material value should be disclosed.

Benchmarking

When using benchmark data, remuneration committees should take into consideration factors such as: company size, 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 where the performance has been outstanding.

Discretion

Companies can build trust with investors if they can demonstrate restraint, consistency and alignment with investor interests. 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 companies to set out:

- The main reasons that might give rise to the application of discretion
- Whether their discretion policy would apply to revising pay upwards as well as downwards
- The elements of pay to which discretion may be applied
- The effect that the application of discretion has had on the director's final pay outcome

Non-executive directors' fees

Non-executive directors' fees should reflect their level of responsibility and the 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.

Other disclosures

Consultants' fees

A breakdown of fees paid to remuneration consultants should be disclosed, i.e. between those for advice to the remuneration committee and fees for other pay-related services to the company, to ensure impartiality.

The pay ratios

The Companies (Miscellaneous Reporting) Regulations 2018 were published in August 2018, requiring companies with an average number of UK employees of 250 or more to provide a set of pay ratios based on the CEO total single-figure remuneration versus the 25th percentile, 50th percentile and 75th percentile employee. Companies were offered three methods to select from in calculating these ratios.

We expect all companies to provide a pay ratio regardless of whether they have 250 full-time equivalent UK employees or not. Where they do not have 250 UK employees, a statement to this effect can explain the basis on which the ratio was calculated.

We would expect companies to use methodology option A – which requires the company to calculate the pay and benefits of all its UK employees for the relevant financial year, to identify their 25th, 50th and 75th percentile employee, and to use these numbers when calculating these ratios. Where a company opts for another method, we would expect a full explanation of why option A was not possible.

Remuneration policy table

The policy table provides an opportunity to explain in straightforward terms the company's remuneration structure.

We will particularly look for:

- How the company will address salaries over the next three years
- The company's policy on executive pension provisions and other in-service benefits
- Details of the maximum awards under the bonus/long-term plans
- The size of normal awards if they differ from the maximum
- Performance measures that will apply under the annual bonus and long-term plan including the weights between the measures
- An explanation for the total potential award.

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

LGIM supports the ‘one share one vote’ philosophy and favours 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.

Amendments to the company's constitution

It is common to see requests from companies seeking approval to update/amend their constitution as they affect members’ rights.

We expect these changes to be clearly outlined and disclosed in the notice of meeting. We do not support changes to a company’s constitution that are introduced to curtail or reduce shareholder rights.

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 its 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 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 pose 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 is present and publicly accountable to all shareholders. The attendance of the board at such meetings 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.

Therefore, we are not supportive of the move towards 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.

Capital management

The board has a key responsibility in ensuring a company has sufficient capital, overseeing the capital management of the company, ensuring an efficient capital allocation and, when additional capital is required, facilitating its raising 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 to manage its capital structures. Such rights protect shareholder interests while balancing the need for board flexibility. For example, that 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. We would support a general authority to allot up to two-thirds of the issued share capital.

The existence of pre-emption rights is fundamental to protect shareholders from excessive dilution. It gives existing shareholders the right to be offered any new shares, pro-rata to their existing holdings, ahead of these being offered to non-shareholders.

A request to increase the authorised share capital without pre-emption rights should be limited to 5%. The revised Pre-Emption Group guidelines permit the issue of an additional 5% of share capital where the additional 5% is for financing an acquisition or other specified capital investment that has been disclosed. We support the template resolutions published by The Pre-Emption Group and expect such requests to be proposed as separate resolutions for shareholder approval.

We will not support the re-issue of shares at a discount to their net asset value.

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 are dependent on factors such as 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 consider its impact on other areas.

For example, on remuneration, as performance conditions governing incentive schemes may be affected by the exercise of a buyback authority. Furthermore, given the reduction in the number of shares in the market, the holdings of large shareholders will also increase, giving them more control. We would expect greater detail on the rational for any buyback authority that is greater than 10% of the issued share capital.

Rule 9 waiver

Share buybacks can trigger Rule 9 of the Takeover Code where there is a significant shareholder or a concert party whose shares account for 30% or more of the issued share capital. In such circumstances, a share buyback can result in an automatic increase to their shareholding and eventual control without paying minority shareholders a premium. We will oppose Rule 9 waivers.

Debt issuance

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

- A timely release of publicly available prospectuses both before new issue and while bonds remain outstanding
- A commitment to provide public access to on-going financials and disclosures
- A five-year financial history of the company.

Mergers and acquisitions (M&A)

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

To enable an informed assessment, we expect management to be transparent on the terms of the merger, and its financial and cultural integration implications for the long-term business strategy. We expect 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 company chairs 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 manage its impact on the company.

The board may also consider putting in place a separate ad hoc committee of independent non-executive directors.

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 be put in place to provide protection for the interests of the company and of the shareholders who are not a related party, including minority shareholders.

All transactions must be authorised by the board of directors. We also expect companies to set up a fully independent audit committee, which ensures that such transactions are conducted based on 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 informed and enable informed voting decisions to be made.

In line with the continuing obligation for listed companies, companies with controlling shareholders should ensure that they have in place a controlling shareholder agreement. This is to demonstrate that, despite having a controlling shareholder, the listed company is at all times able to carry on its activities as an independent business.

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 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. And where there has been significant support (20% or more) we expect companies to consider the benefits of the proposal and to discuss this with their shareholders and to include any outcomes in their 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 increased 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 etc benefit the causes the

- company supports and its link to the company's strategy
- A public statement from the company outlining those issues where it disagrees with the associations of which it is a member and setting out why continued membership is beneficial
- 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.

Sustainability governance, process and operations

With this in mind, we expect our investee companies to meet minimum standards in how they identify, assess, manage and disclose sustainability-related risks and opportunities across their business operations. Our key expectations are laid out below:

Risk identification and management

Material environmental and social (E&S) risks will vary between sectors and from company to company, depending on a range of factors. Different stakeholders will also have different views on what issues are material for them. Despite this complexity, 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 efficiency gains as a result of changing policy, technology and business environments.

Robust E&S risk management processes should be integrated into company Enterprise Risk Management (ERM) systems. The approach should be holistic and implemented across 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 and processes should be externally verified.

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

Governance and accountability

Responsibility for managing a company's societal and environmental impact and the related risks to the business is shared across all business functions. However, accountability should sit at the board level. We expect the fulfilment of sustainability targets and commitments to be 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 specific material issues, such as climate change, are identified, – 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.

Sustainability strategies

Building a sustainable business model that enhances performance and builds resilience should be at the core of business strategies. E&S issues should not be viewed as peripheral components of business operation or simply ethical and compliance obligations. Where material risks and opportunities have been identified, there should be a clear link to a company's overall strategic priorities. Plans to mitigate risks and realise opportunities should be disclosed clearly.

Reporting and disclosure

Target-setting

Companies should set targets to focus their efforts on realising their strategic E&S objectives, mitigating and managing material E&S risks and impacts, as well as to maximise broader positive stakeholder impacts. While it is important for the targets to be achievable, companies may benefit from setting challenging goals in order to maximise their overall impact. We expect companies to report suitable metrics that allow progress against these targets to be tracked effectively.

Public disclosure and transparency expectations

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 align their sustainability reporting to best-practice frameworks (such as GRI and SASB) and where relevant to relate the Sustainable Development Goals (SDGs) to their strategic priorities and operations. Disclosing in a clear and consistent manner is important in facilitating the analysis of trends in this area.

We encourage our investee companies to be proactive and undertake where possible the verification of their ESG data externally by a reputable independent assurance provider, based on recognised standards. This can be evidenced by making the assurance statement public. This verification exercise should provide comfort to stakeholders, including investors, around the ESG data disclosed, and should strengthen the credibility of companies' ESG data.

We encourage companies to disclose to key third-party sustainability agencies, and in line with best-practice international guidelines.

We expect the following public disclosures at a minimum.

- ESG reporting standards
- Verification of ESG reporting
- Scope of Greenhouse gas (GHG) emissions
- Tax disclosure
- Director disclosure
- Remuneration disclosure

Companies not adhering to this will be sanctioned. In line with our increased commitment to greater ESG transparency. LGIM votes against companies that score poorly on transparency within our LGIM ESG and show no improvement after engagement. The list of companies voted against will be published on our website from 2023. For further information on each of these key criteria, please see our public ESG score methodology document available on our website here.

Please refer to the ESG Transparency section of this document for additional details around our expectations on company disclosures.

Financial impact quantification

Quantification of sustainability risks and potential impacts can help investors make more informed capital allocation decisions, according to their risk, return and impact objectives. Quantification practices can also support companies in better understanding their risk exposure and achieving a net benefit by 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. To the extent that they are material[2], companies should explain how climate-related matters are considered in preparing their financial statements.

Industry collaboration

Companies may benefit greatly from sharing knowledge and experience with their peers by joining and contributing to industry-wide associations. We encourage collaboration between companies to progress the broader ESG agenda and to broach cross-sectoral and inter-sectoral ESG challenges. Where relevant we expect companies to engage with regulatory bodies to promote best practices and policies to achieve sustainability targets.

[2] In accordance with IAS 1.7, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements

Lobbying transparency

Whether companies perform individual engagement with regulators or policy makers, or collaborative engagement as part of an industry association, we expect them to be transparent and to comprehensively disclose their public policy engagement activities.

Sustainability themes

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, health (e.g. antimicrobial resistance (AMR) and nutrition) and human capital management issues such as income inequality and modern slavery. Meanwhile, other issues such as food waste and reduction of waste and plastic use are more sector specific.

Below we highlight our expectations in relation to some of these key issues: climate change, biodiversity and deforestation. More information and articles on our position on broader themes can be found here.

Climate change

Climate change has become a defining factor in companies' long-term prospects. We expect companies to disclose how they may be impacted by climate-related risk and opportunities, and how these factors are considered within their strategy. We expect to see companies developing their climate disclosures against the Taskforce on Climate Related Financial Disclosures (TCFD) framework. Specifically, companies should be looking to improve approaches to scenario analysis and the quantification of financial impacts that result from climate risks. In addition to TCFD, we expect companies to report using the CDP climate questionnaire which is aligned with the TCFD framework and crucially provides investors with climate data on a large universe of companies in a comparable format. For sectors where it is material, we strongly encourage companies to report via the CDP Water and Forest questionnaires.

Science Based Targets (SBT's) are decarbonisation targets aligned with the objective of the Paris Agreement. We therefore encourage all companies we invest in to commit to and work towards approved SBT's aligned with the Science Based Target initiative's recent Net-Zero Standard. Alongside this, we expect companies to articulate how their business model reflects a Paris-aligned transition.

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.

Specific 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.

Companies that fail to meet our minimum standards with regards to climate disclosure will be removed from select funds, including our Future World funds, subject to tracking error constraints. In all other funds where we cannot divest, we will vote against the companies and/or their directors, to ensure we are using one voice across our holdings.

Please see more on LGIMs policy on climate change here.

Biodiversity

Biodiversity loss is currently happening at a rate greater than at any other time in human history. This matters to investors as biodiversity loss presents a major global systemic risk, with more than half of the world's gross domestic product (GDP) – around $44 trillion – dependent on nature[3].

We expect companies to assess their impact and dependencies on biodiversity with a view to managing risk, as well as mitigating and, over time, reversing negative impacts. We encourage companies to commit to having an overall positive impact on biodiversity and to consider direct as well as indirect activities of their supply chains. We will be seeking greater disclosure from investee companies in line with the Taskforce on Nature-related Financial Disclosures (TNFD) framework and SASB standards.

As a signatory to the Finance for Biodiversity Pledge we have committed to collaborating and knowledge sharing, engaging with companies, assessing impact, setting targets and reporting publicly. Our Biodiversity Policy is the first step in formalising LGIM's approach to delivering on these commitments. Please see more information on LGIMs policy on biodiversity here.

Deforestation

LGIM recognises the importance of ending commodity-driven deforestation to tackle climate change, reduce biodiversity loss, and support food security. We are proud to be a signatory to Deforestation-Free finance commitment and fully support the call for financial institutions to take ambitious measures within their control to eliminate commodity-driven deforestation within their investments.

LGIM's expectations of investee companies are focused on high impact sectors. Within the Apparel sector, we expect companies to demonstrate how they are improving circularity of materials and eliminating deforestation from supply chains. In the Food sector, we expect a shifting away from high-impact products and progress on decarbonising agricultural supply chains. The lack of a comprehensive deforestation policy constitutes one of our 'red lines' when deciding LGIM's priority engagement companies. Our minimum voting standards also consider the presence and application of a deforestation policy and programme.

[3] World Economic Forum, 2020

Please see our climate impact pledge (here) for more information on LGIMs sector based deforestation expectations and examples of our previous engagements with companies on the topic.

Human capital management

Employees are the greatest asset a company can have.We believe that the value they bring to the long-term sustainability of the company should not be underestimated.LGIM is looking at human capital management using a number of different lenses:

Diversity & Inclusion – We believe a suitably diverse mix of skills, experience and perspectives is essential for a board to function and perform optimally.We expect boards to embrace different forms of diversity: gender, ethnicity, neurodiversity. This is discussed in greater detail above.

Employee Voice – The value placed on employees can be measured by the effort a company places on receiving and acting upon employee feedback.This is discussed in more detail above.

Employee welfare – companies should ensure that their employees have adequate training to equip them with the appropriate skills to carry out their jobs effectively. They should provide a safe working environment and annual training on safety within the workplace. Companies should be mindful of and comply with the principles of the United Nations Global Compact, the International Labour Organization conventions and recommendations; OECD guidelines for multinational enterprises and all local and national laws and regulations relating to the protection of employees.

Fair Pay – We expect all companies to be paying their direct employees at least a real living wage. This wage is usually higher than any local government/state mandated minimum wages. The living wage should be 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. In addition, we expect companies to ensure that employees within their supply chain are also being paid at least a living wage.

Modern Slavery – Companies should ensure that they are not permitting modern slavery to take place either within their own operations or within their supply chains. Putting in place a code of conduct is not sufficient for ensuring modern slavery does not exist within the supply chain, and we expect companies to carry out due diligence investigations to ensure any such practices are eradicated.

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 a broad set of stakeholders and 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 the prioritisation, 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.

Important information

Legal & General Investment Management

One Coleman Street

London

EC2R 5AA

LGIM UK Disclaimer and important legal notice

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

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

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

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

Confidentiality and Limitations:

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

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

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

Third Party Data:

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

Publication, Amendments and Updates:

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

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

Telephone Recording

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

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

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

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

LGIM Europe Disclaimer and important legal notice

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

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

Past performance is no guarantee of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission.

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

Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of

your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

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

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

Third Party Data:

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

Publication, Amendments and Updates:

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

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

Telephone Recording:

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

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

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

LGIM Managers (Europe) Limited operates a branch network in the European Economic Area, which is subject to supervision by the Central Bank of Ireland. In Italy, the branch office of LGIM Managers (Europe) Limited is subject to limited supervision by the Commissione Nazionale per le società e la Borsa (“CONSOB”) and is

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