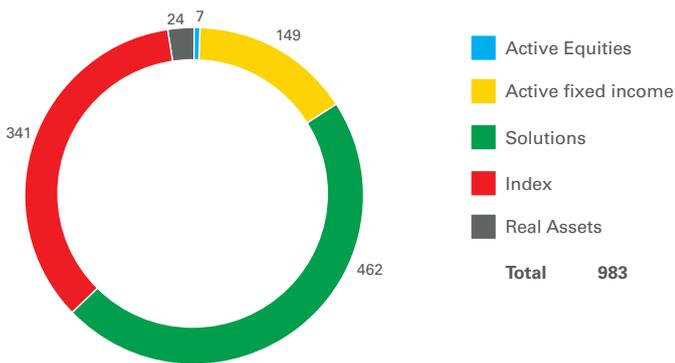


LGIM's approach to corporate governance and responsible investment

ABOUT LGIM

Legal & General Investment Management (LGIM) is one of Europe's largest institutional asset managers and a major global investor managing GBP 983 billion / USD 1.3 trillion¹ in assets. We are a long-term investor and have a long-standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which we invest.

Figure 1: Assets under management by asset class²



LGIM'S ESG PHILOSOPHY

At LGIM, we believe that well-governed companies that manage all stakeholders, including the environment, should lead to better **long-term financial outcomes**. We view the consideration of environmental, social and governance ('ESG') issues as part of risk management,

and therefore **part of our fiduciary duty**. We recognise that companies are intrinsically linked to the economies and societies in which they operate and we therefore believe that investors also have a **responsibility to the market as a whole**. Our ultimate goal is to protect and enhance the investment returns generated by our clients' assets.

LGIM has publicly committed to the following three goals as part of our five-year strategic plan:

- Influencing the transition to a low-carbon economy
- Making society more resilient with our financial solutions
- Creating new investments for the future economy

Further information on these goals is publicly available in our parent company [Legal & General Group plc's reporting on corporate responsibility](#).

1. Source: LGIM internal data as at 31 December 2017. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

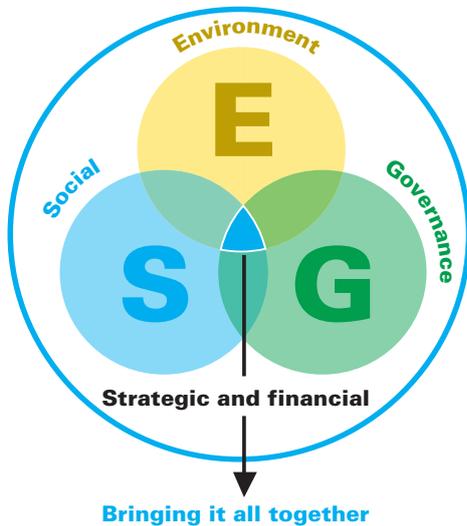
2. Data in GBP (bn). Source: LGIM internal data as at 31 December 2017. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

AREAS OF FOCUS

Our engagement and policy activities include meaningful dialogue on **material topics that impact our clients' long-term financial returns**. The scale of our global asset exposure means we have a responsibility, and opportunity, to address long-term issues, evolving regulatory hurdles and shifting societal demands that will impact the value of our clients' assets.

We work closely with LGIM's portfolio managers, analysts and other investment specialists, and combine financial analysis with ESG factors to address material issues that can impact a company's profitability and creditworthiness.

Our activities **look at material issues** including regulation, listing rules, mergers and acquisitions, corporate strategy, and capital and financial management.



Examples of focus areas:

- Income inequality
- Climate/energy
- Sectorial trends
- Diversity
- Audit
- Cybersecurity
- Culture

INTEGRATION

As a large equity and fixed income manager, LGIM has a responsibility to consider all risks and opportunities that may affect a company's investment performance over different time horizons. This includes the management

of non-traditional financial factors and the consideration of macro-economic themes that may affect the market environment in which companies operate. We therefore **integrate the consideration of ESG factors into our active investment processes and work closely with LGIM's product teams to provide solutions to clients wishing to manage these risks directly.**

ENGAGEMENT

Ongoing dialogue with companies is a fundamental component of LGIM's commitment to responsible investment. We believe we have a responsibility to address long-term issues, evolving regulatory hurdles and shifting societal demands that will impact the value of our clients' assets. Direct engagement with companies or regulators is an opportunity for LGIM to have an open discussion on key strategic and ESG topics, and also to voice our concerns and push for change.

Engagement may be triggered in a variety of ways such as flags from LGIM's proprietary ESG scoring tool, thematic engagement, a media report, or contact with other investors.

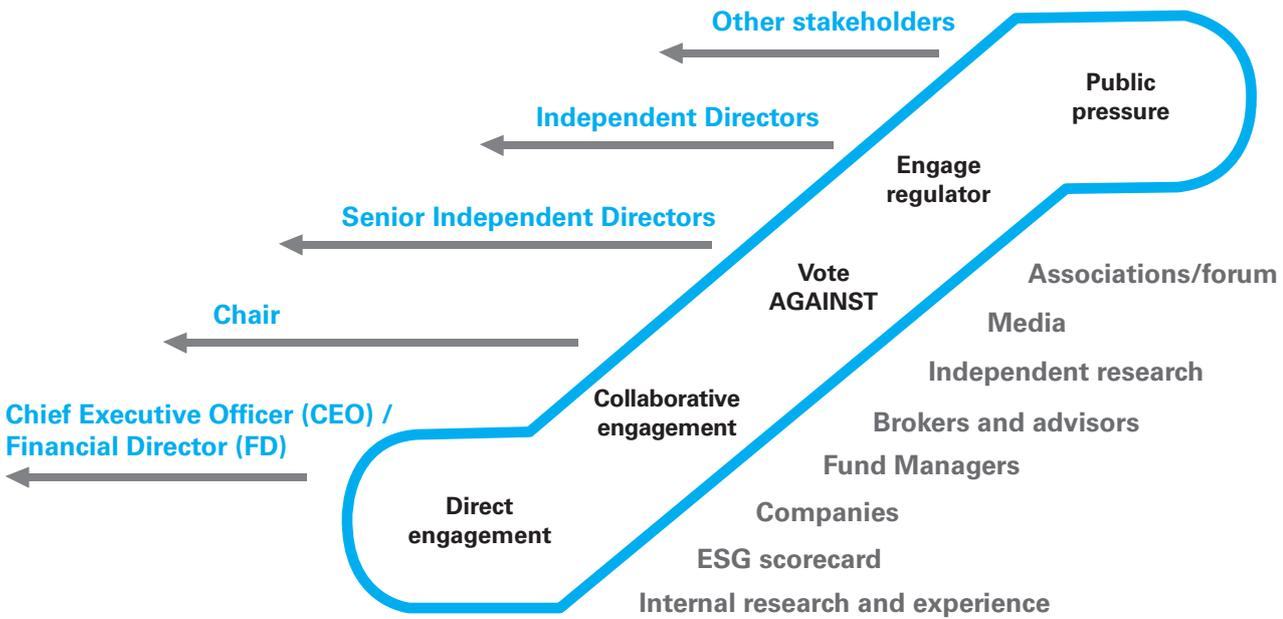
Company engagement meetings may be held independently by the Corporate Governance team. They sometimes take place jointly with the investment teams. This allows us to combine financial analysis with ESG factors to address material issues which can affect a company's ability to generate sustainable long-term returns. LGIM may also hold engagement meetings collaboratively with other investors.

LGIM encourages companies not to limit engagement discussions to annual general meeting (AGM) topics. As a long-term shareholder, we aim to be trusted advisors to the management and boards of the companies in which our clients invest. We expect engagement conversations to involve high-level strategic discussions on matters that affect companies' long-term financial returns. We therefore expect engagement to take place with the Chair or independent lead non-executive director.

We do not expect engagement to be limited to shareholder resolutions and therefore do not engage with companies in the three weeks prior to an AGM.

For more details on our approach and expectations on company engagement, see our [Board-investor dialogue thought piece](#) available on our website.





ESCALATION STRATEGY

To effectively tackle ESG issues that impact the value of our clients' assets, **LGIM applies a multi-layered escalation strategy**. Where initial engagement does not lead to an appropriate outcome, we may choose to adopt a stronger stance by using various escalation tools at our disposal.

We **monitor investee companies over the long term** rather than presuming changes are effectively implemented following our voting and engagement activities. Progress on engagement activity is regularly reviewed by the team using company disclosures, independent research providers, our investment teams, and the media.

As some issues may take a number of years to resolve, LGIM uses its position as a large and long-term investor to maintain the pressure on companies over many years.

VOTING

LGIM's Corporate Governance team casts proxy votes in a manner consistent with the interests of all clients. We direct the vote of a significant proportion of a company's shares by exercising the shareholder rights of almost all our clients. We also acknowledge that our clients, in giving us their mandate, require us to vote with their shares on their behalf. **We therefore aim to minimise abstentions**, and only abstain if it is technically not possible for us to cast our vote in any other way.

LGIM's voting decisions are made internally within the Corporate Governance team, and independently from the investment teams. They are primarily based on our

global corporate governance and responsible investment principles, which set out LGIM's global approach to key governance issues. We have also put in place supplementary regional policies which set out our approach to more specific regional or country issues taking into account specific market regulation or best practice. These policies are publicly available on our [website](#).

The following other factors may also help us form a view on voting matters:

- Previous engagement
- Third-party research (e.g. ESG reports, broker research)
- Company performance
- Views of our in-house investment teams

In exceptional circumstances, including if there are opposing views between the Corporate Governance team and active portfolio managers, contentious voting matters can be escalated to LGIM's CEO and non-executive directors under our [conflicts of interest policy](#).

Please note that we do not in general communicate our vote decisions to issuers or clients before a shareholder meeting. However, we may decide to do so as part of our escalation strategy; or in the event where we consider the vote is contentious; or as part of a specific engagement programme.

All our voting decisions including the rationale of our votes against management are made public every month in our [Monthly voting reports](#), available on our website.

STOCK LENDING

For pooled funds, we operate a stock-lending programme in selective markets under strict conditions on the credit rating of counterparties and the quality and extent of collateral. **We have the ability and right of recall at any time in order to vote on important shareholder meetings.**

The programme is administered by the relevant fund custodians.

All stock lending revenue, less administration costs, is reinvested in the pooled fund for the exclusive benefit of unit holders.

There is currently no stock lending undertaken in the UK market so all shares are available for voting.

COLLABORATION

Collaboration with other public or private investors can be a **powerful tool** for LGIM in our engagement with companies or regulators. They allow all **investors to speak with one voice** and **more efficiently achieve mutual goals by using the larger scale and size of the group**. As part of our escalation strategy, where we have not seen progress through other means, we may choose to collaborate with other investors to strengthen our voice and influence by pooling our assets. However, collaboration is not only an escalation tool; we may also join forces with other investors on company and broader market issues when we find this would help us more effectively impact change.

LGIM regularly engages with and is a member/signatory to the following organisations:

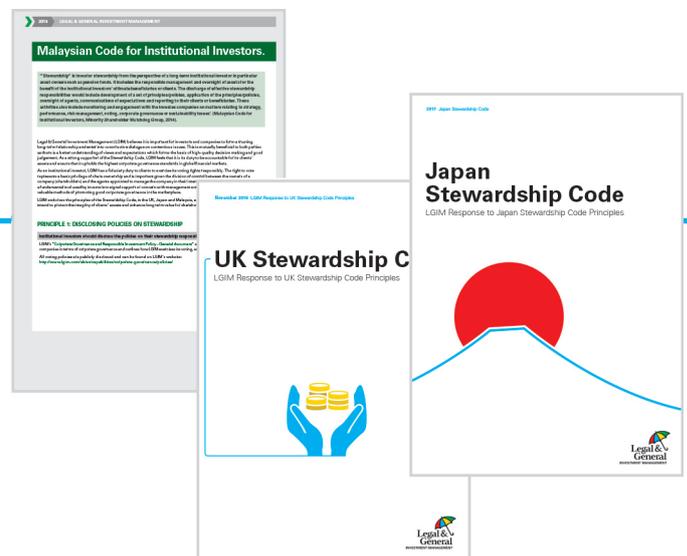
- Investment Association
- Investor Forum
- United Nations Principles for Responsible Investment
- 30% Club – LGIM sits on the Steering Committee
- 30% Club Investor Group – LGIM is Co-Chair
- International Corporate Governance Network
- Asian Corporate Governance Network
- Council of Institutional Investors in the US
- Institutional Investors Group on Climate Change
- Coalition for Environmentally Responsible Economies
- UN Global Compact
- Extractive Industries Transparency Initiative
- Stewardship Disclosure Framework

ACTIVE STEWARDSHIP

LGIM is a signatory to the UK and Malaysia Stewardship Codes and is an endorser of the Investor Stewardship Group Framework in the US. We are also a founding signatory to the Japan Stewardship Code.

We are active proponents of the benefits of stewardship codes to improve the quality of stewardship and ownership across the markets in which we invest.

To find out more please refer to our Stewardship Codes which are available on our [website](#).



TEAM STRUCTURE

LGIM is distinct in how the Corporate Governance team is structured and supported. We have put in place a team of **11 corporate governance specialists to oversee LGIM's responsible investment strategy**. The team possesses complementary skills and experience which ensures it is well-positioned to understand and keep abreast of the latest regulatory and industry developments.

LGIM's commitment to the consideration of ESG issues is **led from the top of the company**. Our Director of Corporate Governance **reports directly to LGIM's CEO** and has **direct responsibility** for monitoring and developing LGIM's corporate governance and responsible investment policy and activities. In addition, **LGIM's Corporate Governance Committee**, composed of LGIM's CEO, Chief Investment Officer, non-executive directors and director of Corporate Governance, has overall responsibility and oversight for the evolution and implementation of corporate governance and responsible investment policies within the firm.

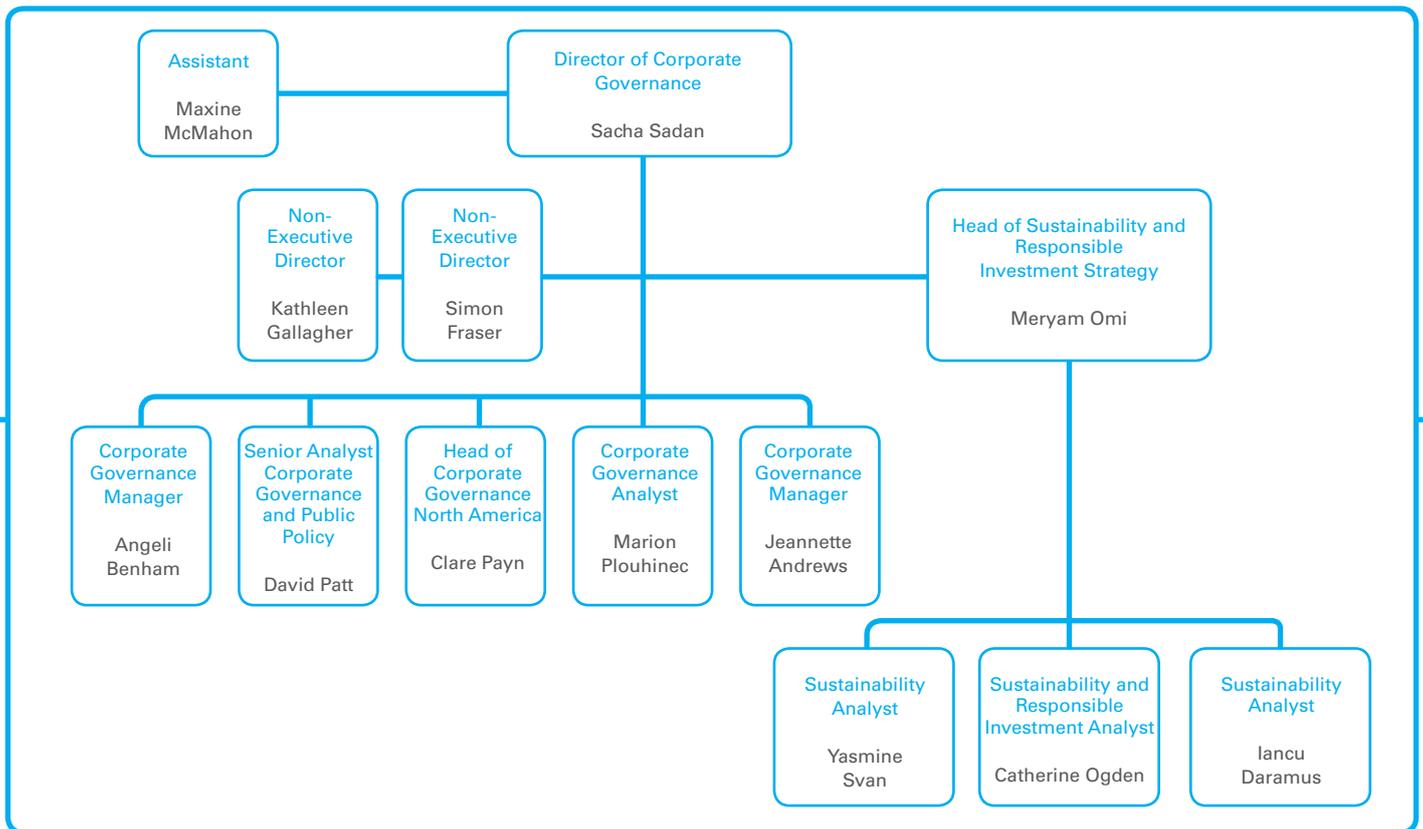
CONFLICTS OF INTEREST MANAGEMENT

The **Corporate Governance team is structured and supported to minimise potential and perceived conflicts of interest**. The team reports directly to the CEO of LGIM and its activities are monitored and supported by two independent non-executive directors.



The Corporate Governance team also operates independently from the investment teams. This allows the team to stay aligned with long-term value creation goals for all our clients.

A specific **conflicts of interest policy** is in place for the Corporate Governance team's activities in addition to our LGIM-wide conflicts of interest policy. This policy is publicly available on our website.



REGULAR REPORTING

LGIM aims to implement best practice reporting to stakeholders. We publish a variety of reports which demonstrate how LGIM exercises its stewardship ability and how we engage as a long-term shareholder.

- **Annual Active Ownership report**

The annual report sets out our approach to stewardship and our activities during the year. This includes named examples of engagement activities, the impact our initiatives are having on the market and how we collaborate with others. Our latest annual report is publicly available on our [website](#).

- **Quarterly ESG Impact report**

This document is issued to clients on a quarterly basis. It gives them information on our activity during the quarter, and outlines case studies on high-profile voting and engagement activities undertaken globally.

- **Public monthly voting reports**

All our votes globally are published monthly on our [website](#). These reports include the rationale for all votes against management.

AWARDS

LGIM's corporate governance team is recognised as an industry leader in corporate governance & responsible investment:



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