

Board-investor Dialogue

Shall we talk?



Why a guide on board-investor dialogue?

Contact with company boards and directors is too often limited to an email from the investor relations team just a few weeks before the shareholder meeting vote deadline. This is generally either to discuss potential concerns on specific shareholder meeting resolutions, or in reaction to a negative vote recommendation from a proxy advisor.

This is not what engagement with investors should look like. A negative vote from a long-term engaged investor is the likely consequence of unsuccessful engagement, not the trigger of engagement.

By putting together this guide on investor engagement, we hope to help improve companies' approach to investor engagement. Companies and investors need to understand that an efficient and successful engagement strategy is mutually beneficial for them both.

LGIM believes that engagement constitutes a vital risk mitigation tool for the board, regardless of the different approaches to board-investor dialogue promoted by the variety of laws, corporate governance codes or guidance in place.



In a climate of increased public and political scrutiny on companies and their directors and given the development of regulation and corporate governance frameworks, the expectations of different stakeholders from board directors have strengthened. Boards will find engagement with investors essential in order to align with these expectations.

Engagement should be approached by the board as an important and valuable tool to:

- Communicate its decisions
- Listen to investors' concerns
- Gain and consolidate market trust
- Identify and mitigate issues early
- Obtain constructive advice
- Understand best practice across the market
- Help directors in the exercise of their duties

LGIM considers informed engagement a critical part of our duty to our clients. This is a view that has grown in recent years with the asset management industry facing greater pressure from clients, governments, regulators and the public. For example, the widespread development and adoption of stewardship codes over the past few years demonstrates the growth of investor accountability on a global scale.

Our position as a large investor with long-term capital allows us to adopt a bespoke approach to the protection and enhancement of our clients' assets, always aligned with sustainable value creation goals. As active owners, we aim to act as a trusted advisor for companies by supporting and encouraging long-term and sustainable growth.

Engagement with investors: what is it about?

Engagement conversations often involve high-level strategic discussions on matters that affect companies' long-term financial returns. **Therefore we expect engagement to take place with the chair or independent lead non-executive director.**

COLLABORATING WITH INVESTORS

Engagement dialogue with investors should be a two-way discussion. If it should aim to explain company decisions and make sure they are well understood by the market, it is also an opportunity for the board to listen to their investors.

Communication

Board directors should aim to communicate on the board's decision-making through direct and regular engagement meetings with investors. Enhanced transparency will ensure that the company's investor base understands and remains informed of the board's long-term thinking. Regular communication with the investor base will also contribute to develop their confidence in the company.

Listening

Board directors should use engagement meetings as an opportunity to listen to the views of their investors in order to better understand their concerns. These meetings help directors get an insight into how the company, including its management, strategy and structure are perceived by its investors.

Board directors should aim to use these meetings as a way to address concerns before they become problems.

Engagement meetings which add the most value allow investors to scrutinise and challenge the board's actions. However, investors should not expect non-executive board directors to have the answers to all questions.

Directors should therefore not be reluctant to undertake direct contact with investors. These meetings should be approached as an opportunity for investors and directors to discuss the company's vision and direction of travel.

TAKING ACTION

LGIM expects companies to take a proactive approach to engagement.

Investors' views should be reported to the entire board as appropriate and without filter to allow for an open and honest discussion to take place at board level, and for the board to act on investor feedback.

When investors feel that concerns have not been addressed, or that requested changes have received little attention, this could lead to escalation. Companies will want to avoid the risks associated with a loss of market trust and a negative vote at a shareholder meeting.

LGIM acknowledges that substantive change may take time and that investors should not expect it to occur immediately. Direct and regular communication with investors on progress is therefore crucial to ensure they remain assured that their concerns are being addressed by the board and remain confident in the board's actions.

We believe that transparency around the board's decision-making and greater insight into investor concerns allow for targeted actions and ultimately better management of risk by companies.

Your investors are a resource

A MITIGATION TOOL IN CHALLENGING TIMES

Knowing your investors proves vital when challenges arise.

In sensitive times, boards often find that they more than ever need investors' advice and support. This is often the case, in an environment of growing shareholder activism, where a company seeks to block a hostile offer from an activist investor, or alternatively when major corporate events occur such as a large scale M&A.

Engagement in times of stress is more likely to be successful when companies already have an established relationship with their investors.

Obtaining the support of investors will prove significantly easier when they already understand the company's vision and have regular contact with the board.

TO HELP THE BOARD IN THE EXERCISE OF THEIR DUTIES

Board structures and the definition of the role and duties of directors differ around the world. LGIM believes it is the board's role to ensure that appropriate governance structures are in place for the non-executive directors to exercise efficient oversight on company management.

Engagement meetings with investors are paramount for a well-functioning governance framework.

These meetings serve as a forum for investors to challenge board directors and hold them to account, using their experience to act as a **governance check**.

In addition, through contact with companies, regulators and other stakeholders, investors develop a sound understanding of what best practice looks like and an insight into the challenges sectors or regions face. Investors' perspectives may therefore help the board keep pace with a rapidly evolving environment and integrate different perspectives into the board's discussions.

A director's openness to listen and consult investors on high-level topics, and willingness to relay them to the board, will allow the company not only to align with stakeholders' expectations but also to stay ahead of evolving trends and a changing market.

Board directors should also seek to use these meetings to openly discuss with investors the challenges their company is facing. Major institutional investors such as LGIM are regularly consulted by governments and regulators on environmental, social and governance (ESG), and market best practice issues. They may choose to integrate the practical challenges faced by boards in their submissions.

Investors can be an asset. For example, they may choose to leverage their scale and influence to engage in areas that are also aligned with the company's long-term interests.



What makes an efficient engagement strategy?

✓ MOVE BEYOND AGM CONSIDERATIONS: ADDRESS LONG-TERM THEMES

- We expect board directors to be willing to regularly engage directly with the company's investors on key strategic and ESG topics, including major corporate events.
- Engaging with investors on the long-term vision of the company allows the board to position itself ahead of the game, anticipating and addressing potential concerns.

✓ DETERMINE YOUR POINT OF CONTACT

- The company's point of contact for engagement meetings may be determined by domestic law and/or suggested by applicable corporate governance codes.
- Before initiating any engagement discussions, companies should differentiate between the institutional investors' corporate governance and investment teams.
- LGIM's corporate governance team expects the discussion to take place directly with independent non-executive directors to ensure an open and honest conversation on high-level strategic topics takes place.
- Our point of contact is usually the non-executive chairman and the lead independent director of the company.
- When sensitive discussions take place, we would not expect other executive company representatives such as investor relations to join the meeting.
- We work closely and collaborate with our investment teams, who, due to the nature of their engagement topics, generally meet executive directors. Whilst the

nature of the engagement dialogue is different, these meetings are both important and complementary for investors.

- At LGIM, company meeting invitations are shared between the corporate governance and investment teams, unless there is a particularly sensitive issue. This allows us to combine financial analysis with ESG factors to address material issues which can affect the company's ability to generate sustainable long-term returns.

✓ KNOW WHO YOUR INVESTORS ARE

- Companies should seek to understand their investors' voting and engagement policies. This information is often publicly available on their website. At LGIM, the corporate governance team's voting and engagement decisions are taken independently from the investment teams.
- Companies should also seek to understand how conflicts of interest are appropriately managed and mitigated at the investor level. The structure of LGIM's corporate governance team ensures that there is no reporting relationship to the equity and fixed income teams. This allows the corporate governance team to stay aligned with long-term value creation goals for all our clients.

✓ USE PRACTICAL COMMUNICATION CHANNELS

- Engagement with investors may take various forms. These meetings usually consist in one-to-one meetings, in the institutional investors' offices or by conference call.
- An international and diversified investor base may add practical difficulties to holding individual meetings with investors. Directors may instead prefer a joint meeting with the company's top investors or engage with them through a forum dedicated to broad ESG issues and company strategy.

Suggested topics for engagement:

- ✓ Strategic vision
- ✓ Board composition (including succession planning and skillset)
- ✓ Climate/ energy
- ✓ Sectorial trends
- ✓ Remuneration
- ✓ Cyber security
- ✓ Diversity
- ✓ Transparency
- ✓ Audit tender
- ✓ Disclosure
- ✓ Supply chain
- ✓ Culture
- ✓ Human capital management

✓ ENGAGE AT THE RIGHT TIME

- As we expect to engage with companies on ESG and strategic topics rather than AGM proposals, engagement meetings should ideally not take place during the proxy voting season rush.

✓ MEETING AGENDA

- Board directors may wish to prepare a meeting agenda in advance and / or ask investors for any topics they wish to discuss in advance of the meeting. This ensures dialogue with investors is efficient and purposeful.

✓ FREQUENCY OF MEETINGS

- Once the relationship is established, companies should seek to maintain contact with their top investors.
- However, companies must acknowledge the time constraints investors are facing. “Catch-up” engagement meetings should therefore not be required.
- Meetings with board directors are particularly important when major ESG and strategic issues need to be addressed, or when seeking views on major corporate events.

✓ BUILD TRUSTED RELATIONSHIPS

- Trust between board directors and investors sits at the heart of a successful engagement strategy.
- Directors and investors should have honest conversations, without filter.
- Investors must also seek to earn directors’ trust. For example, they should seek to keep sensitive information discussed during engagement meetings out of the public domain.

✓ REPORTING

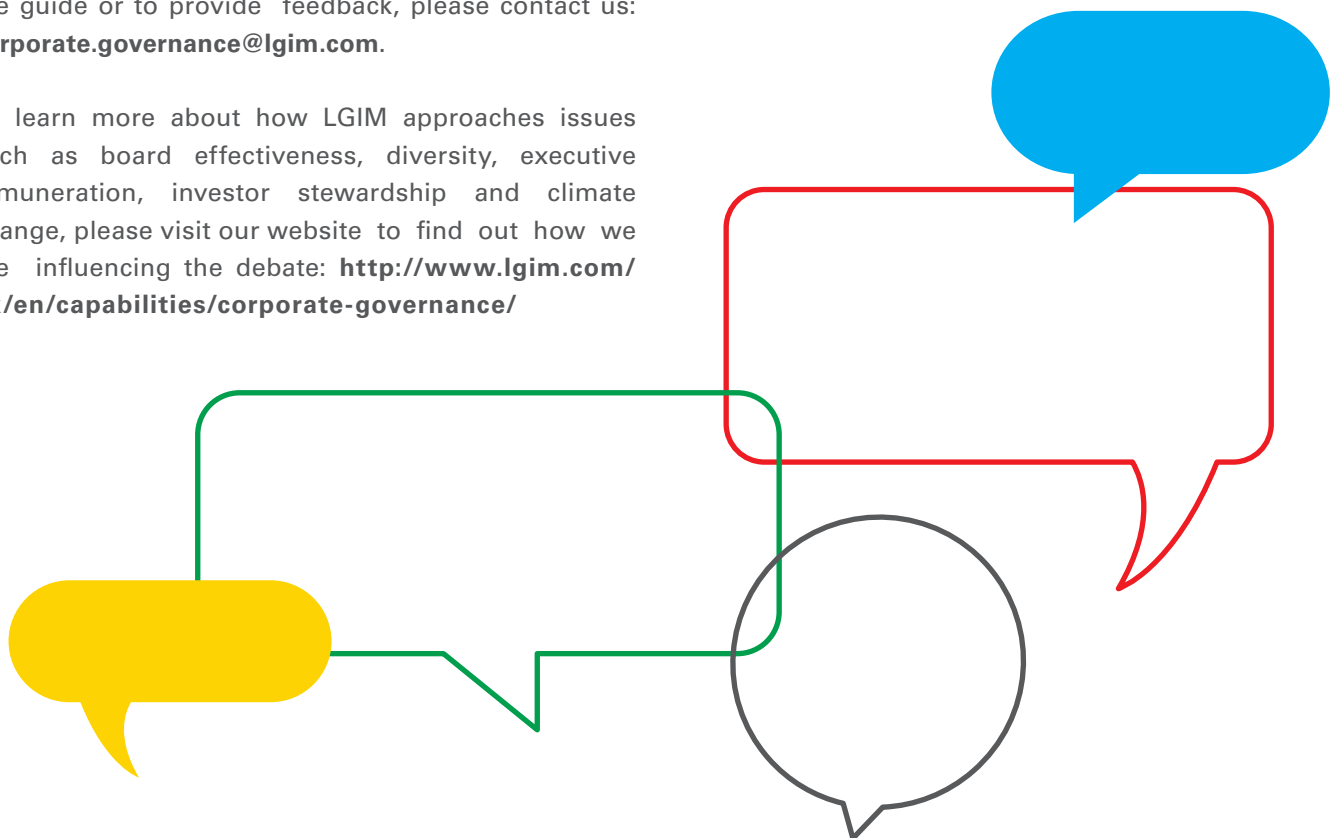
- We expect companies to include a statement in their annual reports disclosing how engagement with stakeholders has fed into board discussions.
- Disclosure provides boards the opportunity to demonstrate to the company’s stakeholders that their decision-making is open and takes into account stakeholder feedback. It will also help investors in measuring the role of engagement in the board’s decision-making.

Now, let's talk!

FIND OUT MORE....

For further information on anything you have read in the guide or to provide feedback, please contact us: corporate.governance@lgim.com.

To learn more about how LGIM approaches issues such as board effectiveness, diversity, executive remuneration, investor stewardship and climate change, please visit our website to find out how we are influencing the debate: <http://www.lgim.com/uk/en/capabilities/corporate-governance/>



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