Our Ref
Your Ref
Direct Tel 020 3124 3062
Direct Fax
E-Mail sacha.sadan@lgim.com

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Legal & General
INVESTMENT MANAGEMENT

One Coleman Street
London
EC2R 5AA
Tel: +44 (0)20 3124 3000

Catherine Horton
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Email: codereview@frc.org.uk

Dear Ms Horton

Proposed Revisions to the UK Corporate Governance Code

Legal & General Investment Management (LGIM) is one of the largest international investors globally with over £957 billion of assets under management (as at 30 June 2017). We manage assets for a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Over the past 40 years, LGIM has built a business through understanding what matters most to clients (both institutional and retail) and transforming this insight in to valuable, accessible investment products and solutions. This enables pension funds to meet their key long-term financial objective of ensuring fund assets match future financial liabilities and pay pensions.

As a significant investor, there is a responsibility to ensure that global markets operate efficiently and uphold the highest level of transparency to protect the integrity over the long term. Therefore, the opportunity to respond to the consultation by the Financial Reporting Council (FRC) on the UK Corporate Governance and Stewardship Codes is very important to LGIM.

To ensure consistency across reporting standards, the FRC should be mindful of the reporting requirements under the Strategic Report and the new Corporate Governance Code and ensure that they are aligned.

We generally welcome the updates to the Corporate Governance Code and are supportive of the changes to further strengthen the UK framework. In our response (Appendix 1), we have outlined areas which would benefit from stronger guidance and gaps in quality of reporting which need to be strengthened.

With regards to the Stewardship Code (Appendix 2), LGIM believes that this is an opportunity to re-create a market leading code which will be recognised globally. We have provided comments on four different aspects of the Stewardship Code which need to be reviewed:

1) Content of the Code

2) Disclosure by signatories

3) Assurance; and

4) Oversight/Enforcement

We hope the comments provided in our response to the Codes are useful and welcome a meeting with the FRC should you like to discuss any other issues.

Yours sincerely,

Sacha Sadan
Director of Corporate Governance
LGIM

Appendix 1 - ***UK Corporate Governance Code and Guidance on Board Effectiveness Questions***

1. Do you have any concerns in relation to the proposed Code application date?

1.1. No, we do not have any concerns with the proposed Code application date.

2. Do you have any comments on the revised Guidance?

Board Evaluations

2.1. LGIM believes that the Board Effectiveness Guidance could be significantly improved by strengthening how performance evaluations are conducted and results disclosed by companies.

2.2. We request that the FRC introduces a separate section within the Board Effectiveness Guidance that clearly sets a minimum standard on performance evaluations.

2.3. Within that standard, LGIM[1] believes that the following principles ought to be included for evaluators and companies:

- Four Guiding Principles for Evaluators

Independence - the evaluator must be able to exercise independent and objective judgement. Existing commercial relationships, and other conflicts of interest, should be avoided, and/or disclosed and managed.

Confidentiality - the evaluator must keep all information confidential. The only exception to this is the discovery of unlawful practices or company demands.

Competency - the evaluator will disclose the skills and competences of each individual involved in the evaluation, and provide appropriate references. There must be alignment of expectation between the company and the evaluator with regard to quality, value and longevity of service.

Follow-up - the evaluator will discuss progress on agreed outcomes with companies (to include the Chairman, Senior Independent Director and/or Board) within 6-12 months of the evaluation.

- Three Guiding Principles for Companies

Cooperation - there must be full cooperation between the company and the evaluator in order to ensure integrity of process. This will include transparency of, and appropriate access to, Board and Committee information, participants, and meetings.

Transparency - all disclosures, including the Annual Report, must identify the evaluator (and any conflicts), the methodology (including the use of interviews and observation), final outcomes (with reference to accepted and rejected recommendations), and the approval process.

[1] http://www.lgim.com/files/_document-library/capabilities/board-effectiveness-reviews-jan-16.pdf

Approval - the evaluator should agree and approve any formal disclosures, including the Annual Report, which describe the evaluation.

2.4. Companies are expected to adhere to the standards on board performance evaluations and if not, explain clearly why they are not applied.

The Stakeholder Voice

2.5. We welcome the inclusion of the IA/ICSA report on the Stakeholder Voice in Board Decision Making within the Board Effectiveness Guidance. The wording in Point 29 could be strengthened to "directors *should* refer to….." from "directors *may wish* to refer to…." in order to clarify that a formal process is to be established by the company to take account stakeholder views.

3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

3.1. Yes

3.2. LGIM has a preference for one of the current independent Non-Executive Directors to be nominated (a "Nominated Employee Non-Executive Director") and held accountable for seeking out employees views in the business. This nominated director will have responsibilities to meet with staff at different levels and report back to the Board the findings.

3.3. However, the UK Corporate Governance Code operates on a 'comply or explain' basis. This should provide enough flexibility for companies to consider how to incorporate the stakeholder voice in to the boardroom. We do not believe the three mechanisms proposed are burdensome on companies. In fact, we consider this will support good transparency on reporting to improve accountability and build trust between business and the public.

4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

4.1. LGIM believes corporate reporting in this area is key to making progress towards a more sustainable system. This enables investors to make better informed investment decisions and allocate capital more efficiently.

4.2. The FRC's question links very closely to the areas being considered in the Strategic Report Guidance and the FRC needs to ensure it is consistent in its messaging.

4.3. Below we outline comments for the FRC to consider on this issue.

Task Force on Climate-related Financial Disclosures (TCFD)

4.4. We are strong supporters of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) which provides a reporting framework for climate-related financial risk disclosures for use by companies in disclosing information to investors, lenders, insurers and other stakeholders. This framework is a useful reporting tool and is backed by government.

4.5. The FRC should promote and endorse the TCFD reporting guidelines produced by the FSB and incorporate it in the Corporate Governance Code.

Sustainable Development Goals (SDGs)

4.6. The SDGs comprise a set of principles developed by the United Nations with the aim to create a more sustainable global system. This means that achievement of the SDG's should support a sustainable economic, business and investment environment.

4.7. LGIM believes that the SDGs can provide a globally accepted framework to aid the development of corporate reporting best practice guidelines. We request that the FRC produces such guidance on corporate reporting.

4.8. The FRC guidance will act as a necessary catalyst for improved disclosures on how companies contribute to the creation of a more sustainable system. The guidance ought to allow companies to relate the SDG goals to their business strategy and operations whilst providing disclosure in a clear, consistent and comparable manner.

4.9. Therefore in our role as fiduciaries of our clients' assets, we can expect greater transparency from companies on their consideration of the SDGs relevant to their business strategy, planning and operations.

5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

5.1. Yes. This is aligned with the Investment Associations Public Register of FTSE All-Share companies which have received votes of 20% or more against any resolution.

5.2. Furthermore, please note that as of 2018, LGIM additionally publicly discloses the rationale behind opposing a particular resolution in monthly arrears. The expectation to disclose voting rationale should be included in the Stewardship Code.

6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.

6.1. Yes, LGIM is a strong supporter of board effectiveness reviews which is an important process by which boards can improve and evolve. In addition, over the long term and if carried out correctly, we believe the benefits received from conducting a performance evaluation would outweigh its costs.

6.2. For more information on how performance evaluations can be strengthened, please see answer to question 2 on further improvements to the Board Effectiveness Guidance.

7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

7.1. Yes, we agree that nine years, as applied to NEDs and Chairs, is an appropriate time period to consider independence and we do not want to see this diluted.

7.2. The perception of independence dissolves over time as executive and non-executive directors' form a closer relationship over the years and due to the need to critique their own past decisions on the board. However, companies are not indicating they are considering the potential implications on independence or providing sufficient explanations.

7.3. Companies should be comforted from the 'comply or explain' nature of the Corporate Governance Code, meaning any companies who may not comply on day one with the strengthened section have the flexibility to explain their position to shareholders. LGIM would be fully supportive of companies providing good explanations on this issue.

8. Do you agree that it is not necessary to provide for a maximum period of tenure?

8.1. Yes, as the FRC has highlighted, the requirement to submit directors for annual re-election accompanied by the criteria for independence means that there is no need to set a maximum period of tenure.

9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

9.1. We support the changes in section 3 but believe further improvements can be made to enhance reporting.

9.2. The FRC should ensure that the level of disclosure provided by companies includes a breakdown of the current employee diversity mix within management levels and the workforce as a whole. In addition, reporting on aspirational targets and recruitment initiatives should also be encouraged given the increasing importance of this issue. LGIM expects company specific content and detail in this area. Boiler plate language should be avoided.

9.3. Investors need good transparency and data in order to see progress by companies of how they are addressing gender imbalances below board level. This is also recognised in the FRC's Guidance on the Strategic Report and the FRC should ensure that it is consistent with the messaging in the Code. We expect this reporting to be clear and consistent. Examples of the type of data we would like to be disclosed include a % breakdown of gender at:

- board level;
- executive team;
- senior management; and
- total workforce (as defined by the company)

9.4. In addition, we have a preference for the use of numbers to show progress rather than text as this is more meaningful and easily understood and can be better incorporated into our investment analysis.

10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.

10.1. Yes. LGIM believes that diversity impacts all organisations regardless of size and therefore the extension of its reporting should be beyond the FTSE 350.

11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.

11.1. LGIM views diversity in all its forms which includes ethnicity. Therefore, we are also supportive of encouraging companies to report on levels of ethnicity in executive pipelines. This will help investors assess how policies on diversity and inclusion are being implemented in practice to assist in our investment analysis.

11.2. Companies' should also have the right infrastructure in place to process this information already.

12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?

12.1. Yes. We believe it is important to retain the requirements of the Code in the Listing Rules, Disclosure and Transparency Rules and Companies Act to ensure that companies who don't have to comply with UK law still adhere to the Corporate Governance Code.

13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.

13.1. Yes. We agree with this amendment to avoid duplication in both the Code and Guidance.

14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

14.1. We agree with the concept in Provision 33 of the new Corporate Governance Code that states the remit of the Remuneration Committee should be expanded.

14.2. The remuneration committee should have a greater level of awareness of pay policies within the business and have due regard to express a view. This is to ensure that there is a more holistic approach to pay being set in the company and there is an alignment of incentives at different levels in the company.

14.3. The underlying responsibility of setting a remuneration structure which drives the right behaviours in the workforce to execute a company's strategy should sit with executive management. However, the Board play an essential role in setting the cultural expectations within the company. To monitor this, the overview of the remuneration structures will be an important component.

14.4. Therefore, to clarify the relation between workforce policies and practices and the role of the remuneration committee we recommend using the word "*overview* of remuneration and workforce policies and practice". Changing "oversee" to "*overview*" provides a clear indication that the remuneration committee will not be expected to set pay policies across the entire workforce.

15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

15.1. LGIM would like to highlight three additional ways in which the Corporate Governance Code could support executive remuneration to drive long-term sustainable performance:

i. Executive Directors should retain shares in the company for at least two years post exit, at the higher of two times salary or half the minimum shareholding requirement (valued at exit).

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

iii. As well as being covered in secondary legislation, pay ratios should be disclosed in the Code between the CEO's single figure to the median employee to ensure that companies outside the remit of UK Company law are also covered.

16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

16.1. We welcome an explicit mention of the importance of board discretion. We believe that Remuneration Committees already retain ultimate flexibility to apply discretion and 'sense-check' the final payments to ensure that they align with the underlying long-term performance of the business.

16.2. However, we would like to see boards exercise "downward" discretion more frequently to reduce awards if at the end of the holding period the performance of the company and the shareholder experience is not aligned.

16.3. Furthermore, there needs to be clear transparency in the remuneration report of how discretion is applied. Therefore, we would support the FRC updating their remuneration disclosure best practice to provide a framework to how of discretion has been used (up and down) by the board in a consistent way. This disclosure should take the form of a table, covering the past 5 to 10 years and with a supplementary short summary.

Other Issues

17. *Disqualification of directors*

17.1. In order for corporate governance to be effective, it is important that managers (directors) of companies are reminded that they are accountable to the owners (shareholders) as well as fulfilling their legal obligations under directors' duties.

17.2. The Code would work more effectively if there were consequences for corporate governance failings and if the FRC could pursue sanctions against directors.

17.3. Whilst we note that this legal power currently sits with the Insolvency Service, we request the FRC and other regulators consider the development of an enforcement mechanism which would increase individual accountability at board level. This could be through a mechanism that allows those whose interests are protected by law to make a complaint and find an appropriate remedy.

18. *Enhancing the Usefulness of Viability Statements*

18.1. We welcome the retention of explicit reference to viability statements in the revised Corporate Governance Code as it connects the accountability of directors to the strategic decisions they make in the long term. In addition, we support the Financial Reporting Lab's report in November 2017 on Risk and Viability Reporting.[2]

18.2. LGIM would like to see better reporting in this area and encourages the FRC to establish an enforcement mechanism if companies do not explain how they have used the good guidance provided by the Financial Reporting Lab on reporting on viability statements.

[2] https://www.frc.org.uk/getattachment/76e21dee-2be2-415f-b326-932e8a3fc1e6/Risk-and-Viability-Reporting.pdf

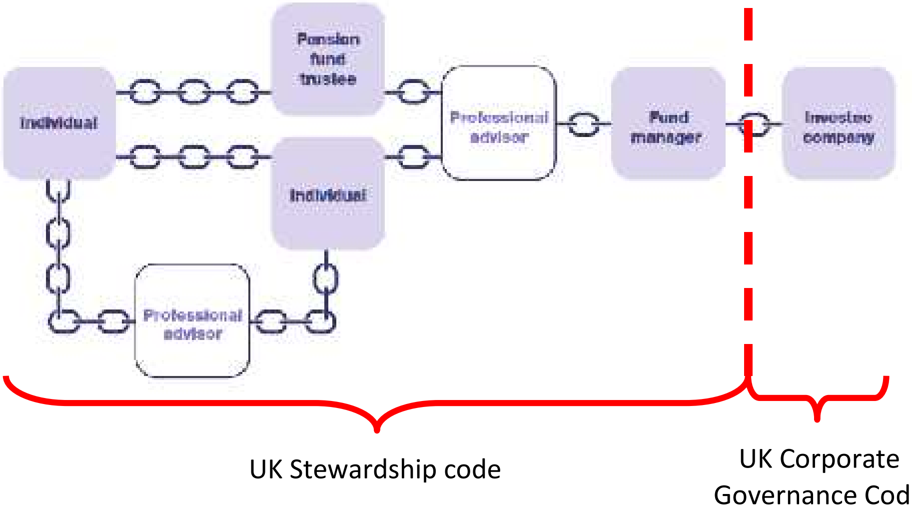
APPENDIX 2 - ***UK Stewardship Code***

INTRODUCTION

LGIM welcomes the opportunity to formally shape the development of the UK Stewardship Code. We agree with the FRC that stewardship has substantially evolved since the Code was last reviewed five years ago. This is a chance for the FRC and all participants in the investment chain to re-create a globally leading stewardship code to meet the changing needs of the economy and society over the next five years. Please note that questions from the consultation paper are also referenced where appropriate.

LGIM believes that good stewardship connects all parties along the investment chain from the savers and citizens who provide capital for investment, to companies whose function in the economy is to create wealth and distribute this back to its citizens.

The picture below is a diagram simplifying the connections along the investment chain and how inter-connected different parties are to the functioning of the whole system.



Source: Tomorrow's Company, Better Stewardship, An agenda for concerted action, page 7; annotation by LGIM

The Tomorrow's Company defines stewardship as *"the active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition".* LGIM supports this definition and believes a concerted effort from all parties is needed to develop a critical mass to make the stewardship system effective.

LGIM's PROPOSAL FOR REFORM TO THE STEWARDSHIP CODE

As an asset manager and participant in the investment chain above, LGIM believes it is our duty to be good stewards of our client's capital. We do not consider this to be onerous and being good stewards is a fundamental part of what we do already for all of our clients globally across all our assets.

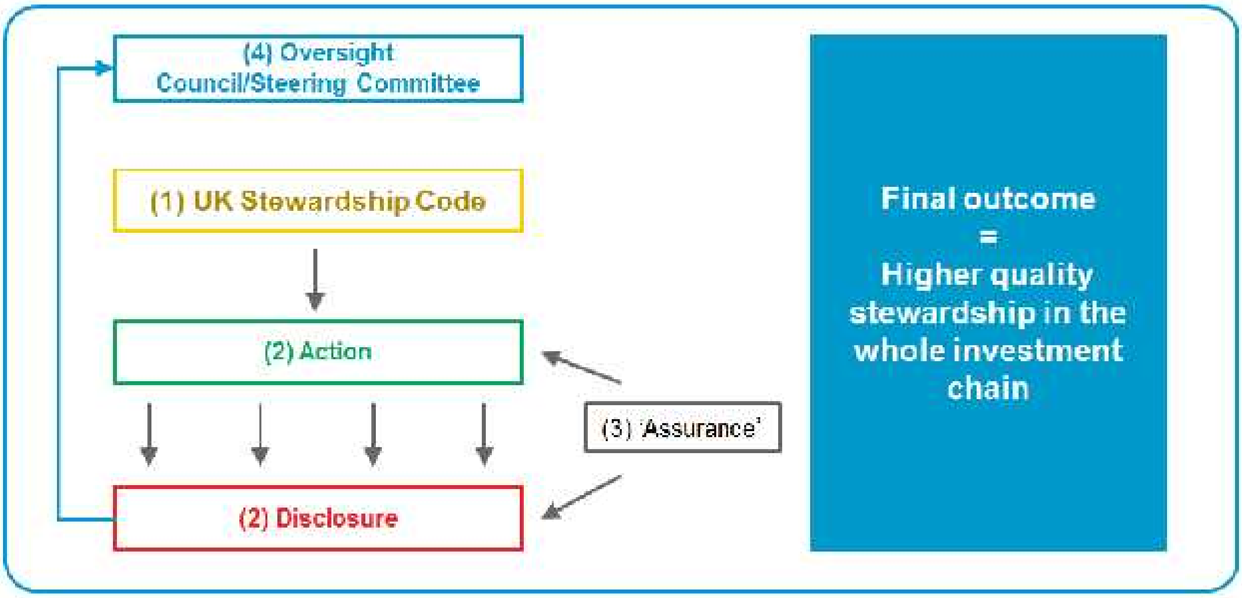
We support the FRC's suggestion that the Corporate Governance Code and Stewardship Code are more closely linked – as they both interplay with each other as shown above.

In order for the Stewardship Code to work effectively, its focus should be on delivering long term investment returns of the underlying assets whilst recognising the distinctions of different parts in the investment chain.

Therefore, we consider the revised Stewardship Code should function in a way to develop the critical mass and the right information flows across the investment chain (question 21). There are four key areas where we believe the Stewardship Code can be enhanced and further improved to achieve this aim:

(1) Content of the Code;
(2) Disclosure by signatories;
(3) Assurance; and
(4) Oversight/Enforcement.

Improvements in each of these areas are needed in order to strengthen the whole system for better stewardship by UK based asset managers. This is displayed diagrammatically below with supporting explanations in the relevant sections.



Source: LGIM Governance of Stewardship

1) CONTENT OF THE STEWARDSHIP CODE

LGIM believes that the content of the Code should be significantly expanded to reflect the definition of stewardship as set out above (question 18, 24, 25). This requires a holistic approach to be taken in to account when developing the Stewardship Code principles and ensuring its application reflects the underlying objective of improving long-term investment returns flowing back to the individual. Below we outline key considerations for the FRC to improve the Code's content for all signatories:

a) *Recognising the different categories of the investment chain (question 17)*

LGIM supports the FRC in developing separate guidance to the Code for the different parts of the investment chain. The aim of this guidance would be to set standards and provide direction for participants of how the Stewardship Code principles apply.

We do not believe that a separate code needs to be established. It is important to keep the Code as simple as possible in order to illustrate a holistic approach to stewardship in the whole market. Furthermore, having one code demonstrates a collective approach and common language to stewardship. The FRC should keep a principle-based approach in the Stewardship Code, which is supported through comply or explain disclosures, to connect the related activities of different parts of the investment chain.

b) *Management of conflicts of interest*

We believe there are barriers and conflicts in the asset management industry which prevents institutional investors from fully exercising their stewardship duties to clients. This includes potential as well as actual conflicts. For an asset manager, transparency of where stewardship power lies within the firm and who makes the final decision is important as it will determine how seriously stewardship is taken and conflicts are managed.

We recommend additional wording in Principle 5 requesting signatories to set out clearly where conflicts may occur including:

- Parent company
- Clients
- Investee companies
- Between different investment teams internally (e.g. long vs. short term/ debt vs. equity)
- Advisory services
- Other business lines

In addition, the FRC should explicitly highlight in Principle 5 that the public conflicts of interest policy should detail the mitigation actions used to minimise the impact of conflicts. Furthermore, when conflicts do occur, or could be perceived to occur, the policy should explain how conflicts are managed and overseen. This could be explained in the policy using an anonymised example.

We encourage a mechanism being developed to allow for the reporting of concerns where the conflict of interest policy is not followed. This would provide the necessary strengthening of the stewardship systems. We suggest a formal and external whistleblowing system being developed to provide a channel for those who are concerned that the stewardship decisions taken within their company were not in the best interests of clients.

c) _Consideration of Environmental and Social issues_ *(Questions 21, 22,24,28,29, and other comments)*

When examining stewardship, LGIM believes a more holistic approach of responsible investment should be taken in to account which extends beyond voting and engagement disclosure. We request the FRC expands the Stewardship Code to include broader environmental and social issues in order to fully capture how stewardship is considered by participants in the investment chain. This small change would embed consideration of material issues such as diversity and climate change which impact companies in the long term into the Code.

Additionally this includes:

- engagement and voting on environmental and social matters
- how material environmental and social matters are identified
- the integration of ESG considerations in to the investment process
- how integrated into business models, future product developments and/or capital allocation

d) _*Long term vs. short term stewardship*_

The key activities of stewardship should focus on material issues that will impact the long term value of investments, reflecting most end beneficial owners investment horizons. This does not mean that attention should be removed from the short term but more thought should be taken on the long term consequences of stewards' actions.

At LGIM, we encourage companies to focus on delivering long term value rather than meet short-term profit expectations. Because we are invested for the long term, we can be persistent in our engagements on a topic, in order to bring about real and positive change to create sustainable investor value. For example we have advocated for companies to cease quarterly reporting if not legally required because we believe it distracts management from considering the performance of the company over the long term. Therefore, our focus on the long term aligns our interest with our clients who represent the next part of the investment chain.

We request that the FRC explicitly highlights that stewardship activities are focused on the long term. This would align the Stewardship Code with the Corporate Governance Code in addition to embedding long term capital in to the stewardship activities across the whole investment chain.

e) _*Influencing and improving the market as a whole*_

The Stewardship Code is currently solely focused on individual company engagement. However, participants in the investment chain often hold a whole universe of assets and companies. Therefore, they equally have a responsibility to ensure that global markets operate efficiently and uphold the highest standards to protect the integrity of the financial market over the longer term.

The remit of the Code should be expanded to recognise the role of stewardship in improving the system as a whole.

f) _*Coverage of investments*_

Our fiduciary and stewardship responsibilities to our clients extend across all of their assets that we manage. As detailed in the introduction, the definition of stewardship is not restricted, but includes all assets and resources managed on someone else's behalf. Many asset owners are reducing the proportion of equity they hold to meet their liabilities and therefore an expanded Stewardship Code is needed to ensure these assets are equally covered under this framework.

At LGIM we already apply stewardship to our credit, property and infrastructure assets and we do this because we believe it is our core duty to do so. We request that the FRC expands the Stewardship Code to include other asset classes. As an additional benefit, we believe this will encourage many more participants in the investment chain to consider stewardship, further extending the benefits of good stewardship.

g) *Stewardship outside the UK*

As a global investor, we already apply our stewardship resource across all our investments and have committed to stewardship codes issued by other jurisdictions. However, the concept of stewardship is difficult to silo by region. Signatories either sign up to the belief that stewardship is undertaken for the benefit of clients/end beneficiary or not. Therefore, we would like to see the FRC include non-UK assets within the remit of the Stewardship Code.

h) *Integration of ESG in to the investment process*

We believe that an important aspect of good stewardship is the integration of ESG issues into investment decisions. ESG issues are integral to LGIM's beliefs and therefore part of our fiduciary duty. Our ultimate goal is to protect and enhance the investment returns for the benefit of our clients' assets and we believe ESG is important as a long term driver of value.

LGIM requests that the FRC enhances its description of stewardship activities in the Code to include the integration of ESG in addition to voting, monitoring and engagement.

i) *Defining the purpose of stewardship (questions 30 and 31)*

LGIM supports the approach in which signatories define the purpose of stewardship as it relates to their own organisation. We would welcome guidance from the FRC as to what this may look like for each participant in the investment chain as highlighted above.

We do not believe that the disclosure of the purpose of stewardship at fund level is appropriate because it will lead to an excessive reporting obligation for the signatory. There are limited benefits reporting at fund level and for LGIM which manages approximately over 5000 different funds, this would be onerous and demanding.

2) DISCLOSURE

LGIM believes that it is essential all participants in the investment chain publicly demonstrate how they exercise their stewardship activities (question 23). It acts as a differentiator to how stewardship is undertaken by participants and reveals their approaches to how they are fulfilling their fiduciary duty. For LGIM this is particularly important for:

(i) our clients (so they can allocate assets);
(ii) client representatives (for advising our clients); and
(iii) for companies (to be able to fulfil their governance code requirements to engage).

The Stewardship Code should clearly set out the disclosure requirements of signatories. We believe the following additions to the Code in this regard would be welcomed:

a) Commitment to stewardship

Signatories' commitment to stewardship via their statement ought to be regularly reviewed, and if necessary updated, on an annual basis. The FRC should also require that the statements are clearly "dated" so that clients and external stakeholders can monitor compliance to the Stewardship Code.

b) Evidencing stewardship

LGIM supports an evidence based approach to demonstrate the activities of a signatory. The FRC should ensure that disclosure requirements focus on the action/outcomes of stewardship as well as the process.

The FRC should require that signatories publicly disclose:

- How voting rights have been exercised:
  - broken down by company meeting and resolution
  - the rationale behind the voting decision for contentious resolutions and when votes are against management recommendation
  - disclosure can be in arrears but should be timely e.g. monthly or quarterly

- How engagement has had an impact:
  - Named company examples of engagement
  - Disclosure of engagements outside of equities
  - Disclosure of engagements on public policy and wider market issues
  - Engagement on strategic, financial, E,S & G issues undertaken

- How policies are applied across different asset classes and geographies. Such disclosure ought to be public and reviewed at least on an annual basis.

- How stewardship is integrated in the investment process across different asset classes and updated at least on an annual basis; and

- How a conflict of interest was identified in relation to stewardship, managed and mitigated by the firm during the year. The example could be anonymised and should be updated at least on an annual basis.

3) ASSURANCE OF STEWARDSHIP STATEMENT *(Question 26)*

LGIM supports the aim and purpose of the assurance assessment in the Stewardship Code. By obtaining an independent opinion of the voting and engagement processes, signatories are able to demonstrate and validate how they undertake their stewardship activities.

However, we believe that the current system AAF01/06 can be further improved in its efficiency, breadth and consistency.

a) Assurance of all Stewardship Code Principles

The current assurance process covers five out of the seven stewardship principles (namely 1,2,4,6 and 7). This relates to disclosure of policies on engagement, the voting process and public reporting. LGIM would like to see assurance standards set for all the principles in the Code. The FRC should also ensure that the external assurance review process includes the public evidence of stewardship provided by the signatory under all the principles.

b) *Consistencies in disclosure*

We believe it is important that the assurance statement clearly states the level of consistency between a signatory's policies with their public reporting on their stewardship activities. This will highlight any irregularities or contradictions between the public reporting disclosures produced by the signatory and misalignment with their Stewardship Code Statement.

c) *Assurance for different parts of the investment chain*

Stewardship is an evolving process for a signatory and a more complete assurance process of stewardship may include different assurance processes for different aspects of stewardship (e.g. for different participants in the investment chain). The FRC should investigate whether this is appropriate and set out guidance on this issue.

d) *Feedback mechanism*

The purpose of assurance is to improve information or the context of information so that decision makers make more informed and better decisions. When currently examining stewardship, as a signatory, we are assessed under our internal processes for voting and engagement. There is limited feedback of how we could improve our voting and engagement processes because standards are not set of what outcome is expected of a signatory in demonstrating their processes. LGIM would welcome a stronger assurance standard incorporating a feedback mechanism on how stewardship can be improved by the signatory.

e) *Other verification processes*

Given the costs of undertaking an external assurance process, it may not be appropriate for signatories to conduct one every year but instead have it every two years. In those circumstances, the FRC should request that an independent non-executive director within the asset management firm signs off the Stewardship Code statement for verification of adherence to all the Codes principles.

Ultimately, we believe that there is a need for examining the stewardship statement in a wider context to provide a more coherent assurance framework to assess signatories. The assurance statement should be structured so that it can be publicly disclosed and be used as an assessment tool. We would support a roundtable discussion with other interested parties on this topic.

4) OVERSIGHT/ENFORCEMENT

a) *Stewardship Council*

Although, institutional investors and asset owners become signatory to the Stewardship Code, there needs to be better oversight on the impact the Stewardship Code is having and how it is being applied by signatories.

LGIM views good stewardship as more than just about disclosure, voting and engagement. Ultimately, better stewardship entails the right connected behaviours and accountabilities by participants in the investment chain (e.g. asset owners, asset managers and companies) to create generate wealth and value. In order for this to be carried out and optimised, a strong supervision framework needs to be in place to facilitate and define the correct actions.

We request that the FRC forms a special committee/council to strengthen the governance and oversight of the Stewardship Code. This ensures better monitoring and enforcement of stewardship based on accountability, disclosure and incentives from all parties. Furthermore, a market level view needs to be taken in order to ensure that there is consistency among those in the investment chain and that the shared objective is achieved. Members should be made up of a body of high-level experts who understand market dynamics and how the investment chain fits together.

We note that Japan[3] has already established a council of experts to examine stewardship. Furthermore, in the draft consultation document of the Dutch Stewardship Code, it was highlighted that Eumedion would establish an independent Monitoring Committee for overseeing the application of its principles.[4]

Therefore, LGIM believes there are significant benefits for the UK Stewardship Code if a special committee/council was formed to debate the evolution of stewardship in the UK and to oversee the endorsement of the principles by signatories in order to promote its long term success.

b) Whistleblowing mechanism to report poor stewardship

A process should be established whereby breaches of public commitments to stewardship by signatories can be reported or highlighted to the FRC. This ensures that high standards of adherence to the Stewardship Code Principles is maintained and does not weaken the reputation of those carrying out good stewardship.

The FRC should set up a whistleblowing mechanism for reporting breaches of public commitments to stewardship for asset managers. This requires the FRC to work closely with the FCA given that the Conduct of Business Sourcebook (COBS) 2.2.3[5] commitment on disclosure to the Stewardship Code sits with them.

c) Recognising best practice (question 19)

As highlighted in Section 2: Disclosure, LGIM supports an evidence based approach to demonstrate best practice in stewardship as it promotes education and raises the standard in the industry.

- Tiering

Whilst the tiering of signatories the FRC has developed aims to differentiate the quality of Stewardship Code statements, we believe that it should be significantly strengthened and consider evidence based disclosure rather than just disclosure of policy. Signatories in Tier 3 should also not be able to claim signatory status and referred to the enforcement mechanism

[3] http://www.fsa.go.jp/en/refer/councils/stewardship/index.html

[4] https://www.eumedion.nl/en/public/knowledgenetwork/best-practices/2017-09-consultation-document-stewardship-code.pdf

[5] https://www.handbook.fca.org.uk/handbook/COBS/2/2.html

(highlighted above) to ensure that the member does not taint the reputation of the Stewardship Code.

- Gold Standard

The FRC should highlight best practice stewardship in-action. This can be done by awarding an annual 'gold standard' to a select few signatories who have not only disclosed their approach to Stewardship but have also clearly demonstrated how this has translated in enhancing the quality of engagement with companies. Rewarding different parts of the investment chain in carrying out stewardship also adds credibility to the system and provides an incentive to improve.

We note that the Institute of Company Secretaries and Administration (ICSA) present awards to investors aimed to show the difference the Stewardship Code has made to the quality and quantity of investor engagement. The FRC could use a similar methodology to publicly name the signatories in different parts of the investment chain who have shown leadership in Stewardship beyond disclosure.

5) OTHER ISSUES *(Question 27)*

Voting in pooled funds

We note that the FRC has requested views on the appropriateness for the Stewardship Code to support disclosure of signatories approach to direct voting in pooled funds. We are also aware of the Red-Line Voting initiative and their views on this issue. LGIM would be happy to share its analysis on split voting in pooled funds with the FRC for further consideration. However, below we have highlighted some initial points on the benefits of pooled funds and the challenges with direct voting.

Benefits of pooled funds
LGIMs pooled fund clients expect the benefits of pooling their assets. For example, financial costs are lowered as a result of opportunistic cross trading internally.

Voting and engagement are also interdependent processes. Clients share the overall costs of executing a vote and the weight and scale it provides to influence company behaviour. In addition, splitting the vote may mean that the effectiveness of engagement activities is diluted as a result of sending multiple messages to the same company.

Therefore, any divergence between the voting instructions cast and engagement will cause confusion and ultimately impact all the clients in the pooled fund.

Challenges of directing votes in pooled funds
LGIM has examined in detail the operational impact of implementing red-line voting policies. Our conclusions found that there was material execution risk for all our pooled clients because of the manual process behind instructing a vote and there was a risk that votes could be rejected if cast in error.

The analysis and audit costs associated with split voting are also significant.

We continue to explore ways to lower the barriers in the voting chain. Furthermore, in 2017, LGIM took part in an interview for a discussion paper commissioned by AMNT, which is supported by UKSIF and PRI, on segregated voting in pooled funds.

Given that this is an industry-wide issue we have requested that the Investment Association (IA) conducts a formal review on this matter as we believe it is significant for asset managers and asset owners. We would also welcome legal clarification of the impact on pooled funds for directing voting.