For professional investors only. Not to be distributed to retail investors. All investing involves risk.

Active ownership: 2022

Global engagement to deliver positive change

Active ownership means striving to create sustainable value for our clients. This report details how we achieved this in 2022.

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LGIM

Interactive PDF

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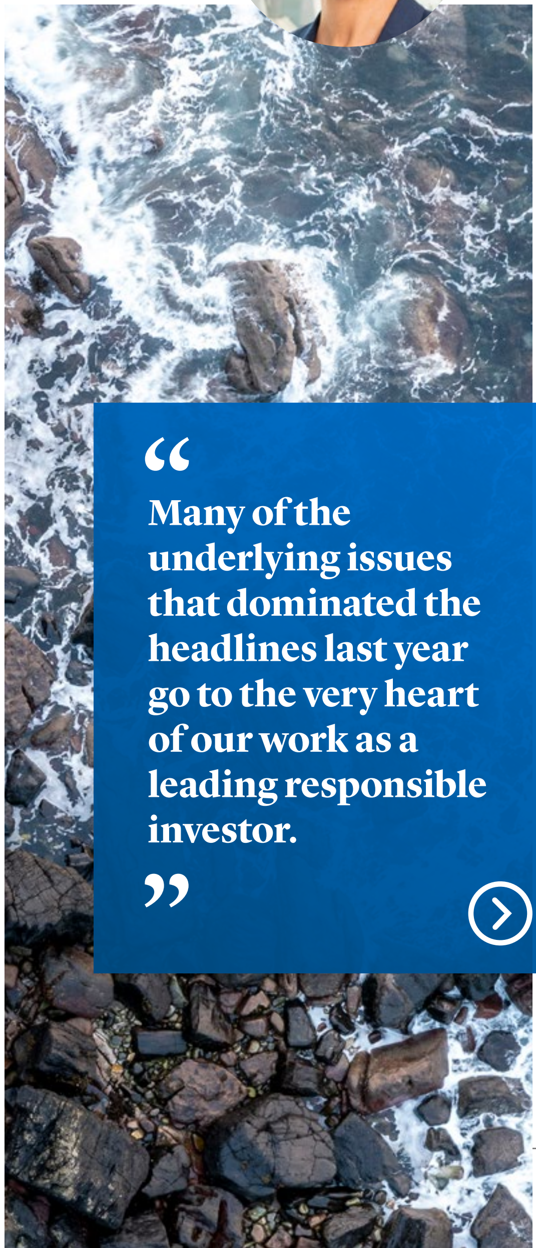
April 2023

Foreword

Real-world outcomes



> "Many of the underlying issues that dominated the headlines last year go to the very heart of our work as a leading responsible investor."

Looking back on 2022, it's important to recognise just how challenging the year was for people all over the world. The tragic conflict in Ukraine spurred an energy shock, intensifying global inflationary pressures, which in turn prompted a cost-of-living crisis and market volatility. We also saw a continued threat to nature and biodiversity presented by the climate crisis, including the devastating floods in Pakistan and the worst drought in Africa for 40 years.

The context changed over the course of the year, with governments needing to balance net-zero goals with a new imperative for energy security.

Many of the underlying issues that dominated the headlines last year go to the very heart of our work as a leading responsible investor. It is only by understanding the problem that we can reach the right solution.

Over the coming pages, you'll read about the action we took during the year on behalf of our clients.

We continued to push for solutions to the climate crisis through our Climate Impact Pledge programme, which now captures over 5,000 companies to encourage long-term corporate action on behalf of our clients. We also held our second global Sustainability Summit, highlighting our purpose as a responsible investor. I was privileged to co-chair the COP26 Business Leaders Group with Alok Sharma until the COP27 climate summit – and am extremely proud of the progress the group made.

We stepped up our action on biodiversity, supporting calls at COP15 for a 'Paris moment for nature'. We also continued our global partnership with Lewis Pugh, UN Patron of the Oceans. Lewis swam across the Red Sea to raise awareness that rising water temperatures are starving coral reefs.

And importantly, we developed innovative, responsible investment strategies to meet growing demand from our clients, with around 95% of all LGIM's new products developed and mandates launched in 2022 being ESG-related. These included net-zero corporate bond funds and exchange-traded funds (ETFs) with Paris-aligned benchmarks.

In this document, our 12th annual Active Ownership report, you'll also see how we exercised voting rights across our entire book, while engaging with companies, policymakers and other stakeholders on issues from the living wage, to deforestation, to board-level ethnic diversity. In addition, we highlight the areas where we were successful in raising standards at individual companies and across markets – and where more work needs to be done.

Our purpose is to create a better future through responsible investing. I'm truly grateful to everyone at LGIM for everything they did last year – and continue to do – to fulfil this purpose and effect the sustainable, real-world outcomes we all so urgently need.

Michelle Scrimgeour
CEO, Legal & General Investment Management

Key risk: 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.

2022 in numbers

£332.2bn[1]
The amount of **assets** we manage in responsible investment strategies

19
The number of **new responsible investment strategies** we launched

171,000[2]
The number of **resolutions worldwide** on which we voted

902
The number of **companies** with which our Investment Stewardship team **engaged**

Note: This document reports on LGIM's stewardship activities during 2022. Unless otherwise stated, all information, data and graphical depictions provided that are not referenced are based on LGIM internal data as at 31 December 2022.

1. LGIM, as at 31 December 2022. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement
2. Across all assets under management. Voting data on 126-133 represents voting instructions for our main FTSE pooled index funds

Key risk: 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.

Q&A

We discuss the key themes from 2022 and our plans for this year with:

Michael Marks
Head of Investment Stewardship and Responsible Investment Integration

Sonja Laud
Chief Investment Officer

Shuen Chan
Head of Responsible Investment & Sustainability, LGIM Real Assets

What was the highlight of 2022?

Michael: During a global energy crisis, we demonstrated real leadership on climate on behalf of our clients. We published our sixth annual Climate Impact Pledge report and Michelle served as co-Chair of the COP26 Business Leaders Group until COP27 in November – which LGIM attended to build on the momentum achieved at the last summit in 2021.

It's also worth noting that the number of people dedicated to responsible investing at LGIM grew in 2022, across a variety of functions.

Another highlight for me personally has been leading the Investment Stewardship team again; their dedication, innovation and insight never cease to impress me.

Sonja: I'd point to the activity of our Global Research and Engagement Groups (GREGs), which draw on expertise from across our Investments and Investment Stewardship teams. The GREGs carried out incisive and actionable 'deep dives' into key ESG issues – from the cost-of-living crisis, to cybersecurity, to carbon emissions by utilities.

And though by all means not a highlight – the global energy crisis triggered by the geopolitical situation has fundamentally shifted the discourse around climate change.

Following the start of the conflict in Ukraine, governments worldwide increasingly spoke of the need to balance net-zero goals with a new imperative for energy security. However, over 2022, LGIM argued that these objectives are not mutually exclusive; rather, we think they are inextricably linked. We were able to make this case forcefully due to the strength and depth of our internal analysis, not least that produced by our Climate Solutions team.

What was the highlight of 2022? (continued)

Shuen: Last year, we strengthened engagement across real assets, identifying areas where we believe we can be most influential. This meant engaging with our occupiers and supply chains across real estate equity, our borrowers across private credit and the wider industry. Using this engagement to increase data quality and coverage has been a key focus, which is often limited in private markets.

Across the real estate equity platform, this is being supported by our new data partners, Deepki, who are using new sources of electronic data to provide faster, more accurate reporting. Working with our occupiers, we are rolling out a new, fully automated data collection process.

Through our continued industry-wide engagement as an active member of the Better Buildings Partnership, we helped to develop a new industry guide on climate resilience for the commercial real estate sector.

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What were the other key achievements?

Sonja: Despite the particularly challenging macro and market environment, our overall assets under management in responsible investment strategies actually rose during the year. So 2022 was an important period in terms of product.

Building on our heritage as pioneers in responsible investing, we developed innovative strategies to meet growing demand from clients – including net-zero corporate bond funds and ETFs with Paris-aligned benchmarks. These are aimed at helping investors to transition their portfolios in line with standards set by frameworks such as the Net Zero Asset Owners Alliance.

At the same time, we continued to provide bespoke, segregated accounts to multiple clients, reflecting their specific ESG preferences. And I'm pleased to say that 57% of our EU-domiciled UCITS funds are classified as Articles 8 or 9, under the region's Sustainable Finance Disclosure Regulation.[3]

Michael: Last year marked a step-change in our activity on nature, including biodiversity which is essential to life on this planet – supporting everything in nature that we need to survive; biodiversity loss is one of the greatest challenges we face.

That's why we participated in COP15, the UN's biodiversity conference in Montreal, where we supported calls for a 'Paris moment for nature'. We also continued our global partnership with Lewis Pugh, UN Patron of the Oceans, who swam across the Red Sea to raise awareness of the rising water temperatures starving coral reefs. These support essential biodiversity.

We also stepped up our engagement efforts on deforestation, reaching out to almost 300 companies on their approach to this vital issue.

Meanwhile, early in 2022, we acquired a minority stake in Tumelo, an ESG digital engagement platform. This technology enables defined contribution (DC) scheme members to tell us their views on AGM proposals at companies in which they're invested. We think it should boost members' engagement with their pensions, as well as letting us know what issues they care about.

Shuen: Last year saw the launch of our first Responsible and Sustainable Investment report. Through case studies, we highlighted how the Real Assets team is actively integrating tangible actions across our six core pillars of responsible investment and sustainability – net zero, climate resilience, biodiversity, social impact, health and wellbeing and circular economy.

3. As at 1 January 2023.

Key risk: 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.

What are your priorities for 2023?

Shuen: Across our platform, we're really trying to ensure that our real asset investments drive positive outcomes that contribute to local economies and partnerships that help to improve the lives of the communities where we invest – both in the short and long term.

With this in mind – we're establishing in collaboration with our parent group Legal & General, a place-based social impact toolkit for 2023,[4] which can be applied at any stage of the investment lifecycle and adapted across different types of assets, funds, city, region or national levels. This comprises a framework covering the core themes of inclusive economy, health wellbeing and quality of life and climate and nature.

We'll also be enhancing our assessments of climate resilience, to evaluate how assets across our real estate equity platform may be impacted through the more severe and frequent flood events projected to be driven by climate change.

Sonja: Even deeper ESG integration remains an important focus area for us – both in our portfolios and in our overall approach to research. Indeed, given the success of the GREGs, in early 2023 we formalised our global investment research capabilities by appointing Brian Beargie (Head of Research for the US) and Madeleine King (Head of Research for the rest of the world) to lead the Global Research team together.

This combination will allow us to align our research processes more closely across strategies, particularly in relation to sustainability, this year and beyond.

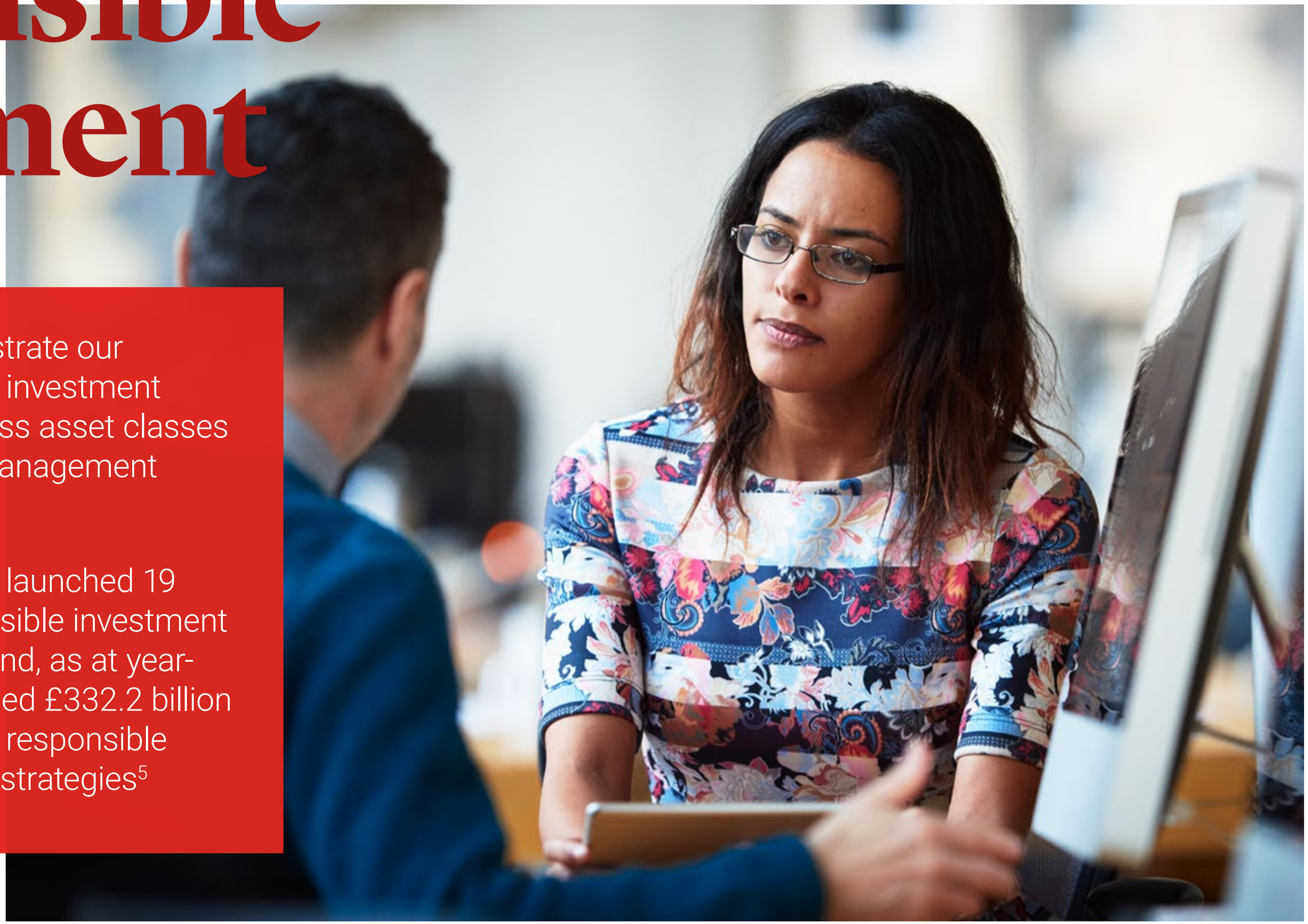
We'll also continue to innovate in terms of product: About 95% of all new product development activity is ESG-related, reflecting our clients' confidence in our strength in this area.

Michael: We're rolling out new long-term themes for our engagement activity, with a focus on the following six 'super themes': people, nature, health, technology, governance and climate. Each one poses often systemic opportunities and risks and matters to our clients. What's more, we believe that these are areas where we can effect real-world change and can help safeguard our clients' assets.

In addition, it almost goes without saying that we'll continue to work with policymakers and peers to shape – and adjust to – the constantly evolving regulatory landscape.

4. Place-based impact/solutions are those made with the aim of providing both financial and social and/or environmental returns with a focus on addressing the needs of specific places.

Responsible investment



- We demonstrate our responsible investment beliefs across asset classes and fund management styles
- In 2022, we launched 19 new responsible investment strategies and, as at year-end, managed £332.2 billion of assets in responsible investment strategies[5]

5. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement

Key risk: 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.

Our purpose at LGIM is to create a better future through responsible investing.

In doing so, we seek to realise Legal & General's (L&G) vision of inclusive capitalism, where the benefits of economic growth are shared as broadly as possible.

Our purpose

Creating a better future

Ever since we were founded, we have been a leading responsible investor: from our campaigning on Thalidomide in 1972, to our drive for greater diversity at companies and fight against climate change over the past decade.

Many of our clients, on whose behalf we manage £1.2 trillion[6] of assets worldwide across both public and private markets, have investment horizons lasting not years but decades. So we strive to effect change in the companies and markets in which we invest to benefit future generations.

We draw on industry-leading expertise to innovate constantly. Recent examples include our pioneering work in real assets, development of the Future World fund range and modelling of the energy transition.

And we harness this expertise to offer a broad range of products and solutions, because different clients in different regions have a variety of investment needs and beliefs.

Targeting long-term goals

In partnership with, and on behalf of, our clients we target a broad range of ESG objectives. These include:

- Reaching net-zero greenhouse gas emissions by 2050 or sooner across all assets under management
- Setting an interim target of 70% of eligible AUM[7] to be managed in alignment with this net-zero ambition by 2030
- Achieving net-zero carbon across our real estate portfolio by 2050

In 2022, our campaigns involved expanding our work on diversity to emerging markets; efforts to tackle commodity-driven deforestation; and fighting for equal voting rights, particularly in the US.

We strive to effect change in the companies and markets in which we invest to benefit future generations.

6. As at 31 December 2022
7. For this first interim target, unveiled as part of the Net Zero Asset Manager initiative, LGIM has excluded government securities and derivative assets due to lack of clear industry methodologies to account for these asset classes to date.

Key risk: 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.

How we engage for change

We recognise that change is a journey that is typically delivered in steps not leaps. We believe that constructive engagement with companies and policymakers is the best way to deliver this long-term, systemic change. Indeed, we celebrate those that take action to improve ESG outcomes.

But those that do not engage, or take heed of our drive for minimum standards, will find that we will use the range of stewardship tools to influence a better ESG outcome. These include voting against specific resolutions at these companies or, as a last resort, withholding investment while continuing to engage. That's because we believe divestment is a blunt and often ineffective tool, which may result in investors overlooking the problem they are trying to solve.

Within most of our Future World fund range and certain other strategies, we refrain from investing in companies:

- That fail to meet our minimum requirements for action on **climate change**, as part of engagements under our Climate Impact Pledge*
- Involved in the manufacture and production of **controversial weapons**, including anti-personnel landmines, cluster munitions, biological and chemical weapons
- That are perennial violators of the United Nations Global Compact, assessed as being in **violation of one or more principles** for a period of 36 months or more
- Involved in **mining and extraction** of thermal coal, thermal coal power generation and oil sands – generating 20% or more of revenues from these activities

* Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.

Nurturing an inclusive capitalism

Our parent group, L&G, defines inclusive capitalism as a way of doing business that puts society first.

This is where profit and purpose pull in the same direction. Where long-term ambition beats short-sighted gain. Where the needs of our customers, their communities and our society go hand-in-hand with the expectations of our shareholders.

At LGIM, we aim to realise this vision through building the wealth of millions of people across society, by providing products that offer value for money and aim to give savers the financial future they deserve. In addition, we endeavour to make investment decisions that reflect the broader societal, environmental and economic context.

Our core investment beliefs

We are a 'universal owner' on behalf of our clients, holding a slice of the global economy. As a result, we believe:

Responsible investing is essential to improve long-term returns, unearth opportunities and mitigate risks by fostering sustainable markets and economies

We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes

ESG factors are financially material, albeit not all to the same degree. And patience is required, because the time horizons of ESG outcomes and investment returns are not always aligned

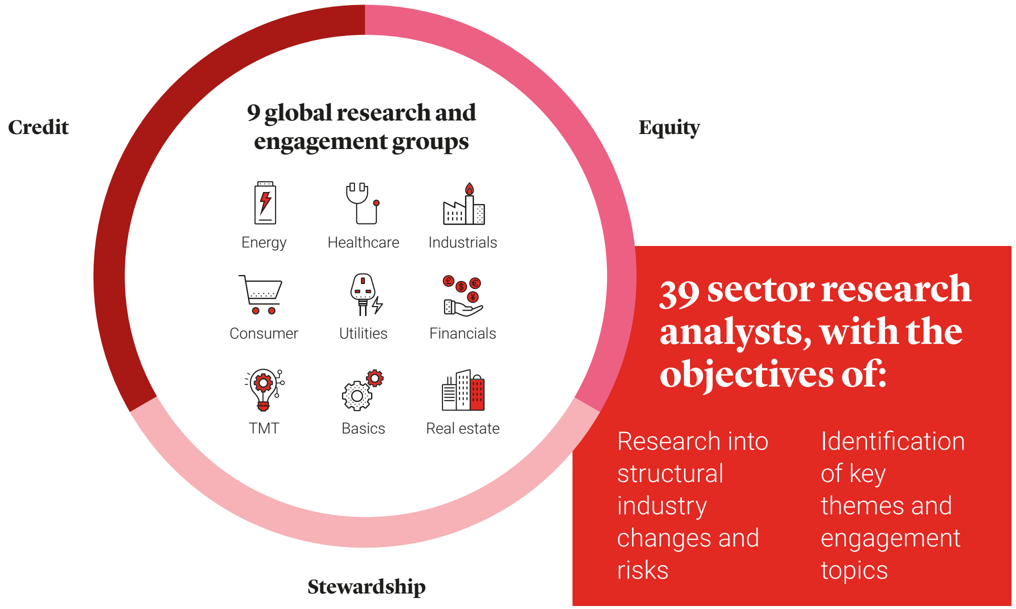
Engagement with consequences is the best way to deliver long-term, systemic change on a global scale

What does this mean in practice?

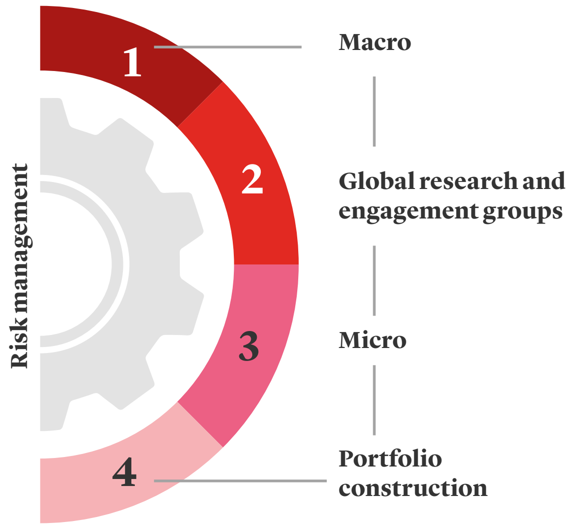
We see responsible investing as the incorporation of ESG considerations into investment decisions, alongside engagement with companies, regulators and policymakers, to generate sustainable outcomes.

To this end, several years ago we established an integrated approach across both public and private assets, based on investment stewardship and collaborative research undertaken by our GREGs.

Our Global Research and Engagement Groups



Active investment approach



There are three key stages to our overall responsible investment process:

1. **Research:** Through rigorous analysis, we seek to identify key ESG issues, which we consider as part of our investment processes, strategies and solutions
2. **Engagement:** We engage with companies, occupiers and other stakeholders on these issues. And we work with policymakers, regulators, industry peers and stakeholders to raise overall market standards
3. **Outcomes:** When necessary, we will escalate our engagement activity via stewardship tools, to take steps against companies that fail to listen. We also use our ESG insights to inform investment decisions

As part of this approach, we use data from respected providers and deploy our own proprietary tools, including the LGIM ESG Score, our Active ESG View and LGIM Destination@Risk. For more information, see our sustainability policy and the section on Climate Solutions on p50.

The role of stewardship

We believe effective stewardship involves working with companies, regulators, policymakers, peers and other stakeholders around the world to tackle systemic issues, material risks and opportunities – as well as collaborating with our investment experts to identify future challenges.

That's why for more than 20 years, our award-wining[8] Investment Stewardship team has successfully campaigned on key issues, from corporate governance to diversity and climate change, escalating action when necessary to reach desired outcomes.

We have a responsibility to use our scale and influence in a transparent, accountable fashion. LGIM will take public positions, even when this causes controversy.

Exercising voting rights is a powerful engagement tool with which to hold company boards to account and raise market standards; it is used extensively by our Investment Stewardship team. Importantly, the team votes with one voice across all of our clients' investments where we have discretion, because it operates independently to – but in collaboration with – our portfolio managers.

How our Investment Stewardship team engages with companies

As part of this process, the team also participates in our GREGs. For more detail on how the team prioritises engagement, please see our policy.

8. Recent awards include the 'best in class' award at the 2021 ICGN Global Stewardship Awards.

Awards should not be considered a recommendation. Past performance is not a guide to the future.

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Public and private, active and index

Our approach to responsible investing takes into account the nuances of the different asset classes, and investment styles, in which we manage money for our clients.

Index strategies:

Across our entire index book, we engage with investee companies. Within certain portfolios, we deploy tools including selection, 'tilting' and exclusions based on criteria such as our LGIM ESG Score, as well as sustainability-related thematic exposures.

Active strategies:

We deploy proprietary capabilities, including the Active ESG View, to evaluate material factors as part of our research, portfolio construction and security selection process. The extent to which we consider ESG factors depends on a specific portfolio's objectives and policies.

Multi-asset:

We integrate ESG factors into our strategic and tactical asset allocation frameworks, to inform decision-making on all financially-material aspects. In addition, we assess how third-party managers embed ESG considerations at the firm and product level.

Private credit:

As long-term debt investors, we focus on ESG engagement in areas where we believe we can be most influential, including pre-investment assessment and post-investment borrower engagement and monitoring. Where possible, we seek to incorporate ESG into deal structures, including ESG reporting covenants and the development of ESG-linked loans.

Real estate equity:

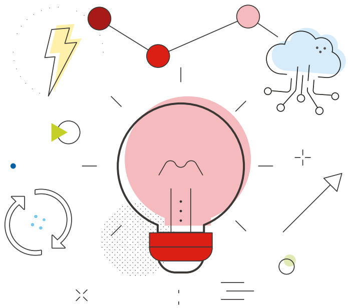
Sustainability considerations are fully integrated into investment decisions at acquisition stage and throughout ongoing asset management. Analysis is informed by net-zero audits and stringent assessment of other material ESG indicators, with improvement opportunities feeding into asset sustainability plans.

Solutions:

We integrate ESG considerations in portfolios, including all Buy & Maintain credit mandates, utilising the Active ESG View. We also manage some mandates against specific climate objectives.

Our strategy

LGIM has adopted a three-phase, overlapping growth strategy: We are modernising, while we diversify and internationalise our business.

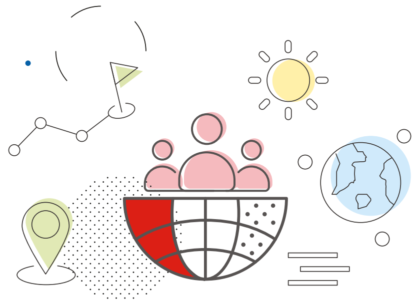


Modernise

Lay the foundations for global growth. Invest in people and operating platform, supported by the right organisational structure

Diversify

Leverage opportunities adjacent to existing core capabilities. Innovate and create more solutions for our partners



Internationalise

Seek selective opportunities in new markets and channels where we see scope to innovate or disrupt

Our strategy

Modernise · Diversify · Internationalise

Responsible investing forms an integral element of each of these strategic pillars; it is also a priority for L&G Group.

As a result, and in partnership with our clients worldwide, we have developed a range of innovative responsible investment strategies across a variety of asset classes.

In 2022, we introduced our responsible investing framework, detailed below. This represents an evolution in how we intend to align strategies towards clear, consistent and demonstrable sustainability objectives that address real-world needs.

	Standard	Exclusions	ESG	Net Zero	Sustainable
LGIM Foundation	Active Ownership (including Climate Impact Pledge) For Active Funds: Integration + Exclusions (Controversial Weapons, Coal)				
RI exclusions		Future World Protection List (or equivalent) Climate Impact Pledge (Exclusions)* Good Governance			
		Enhanced Exclusions (Optional)		Enhanced Exclusions (DNSH** at a minimum)	
Sustainability objective		For Active Funds: ESG factor evaluation	E/S/G target or theme	Net Zero Core Standards	
				2030 target: Temperature alignment 1.5°c	Sustainable investments >20%

* Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.
** DNSH refers to a set of "Do No Significant Harm" exclusions or restrictions that LGIM has developed.
Note: this framework applies to LGIM in the UK and EMEA; not LGIM in the US.

In 2022, we launched 19 such strategies, including:

- Exchange-traded funds (ETFs) driven by sustainability themes
- Index funds with ESG tilting and decarbonisation pathways
- Funds that implement LGIM's proprietary net-zero framework

As well as unveiling new funds, we also updated – and are continuing to update – existing strategies to ensure they meet the evolving needs of our clients. This includes developing funds that reflect ESG criteria, as well as introducing ESG features to existing funds.

Key risk: 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.

As at year end, we managed £332.2 billion of assets in responsible investment strategies.[9]

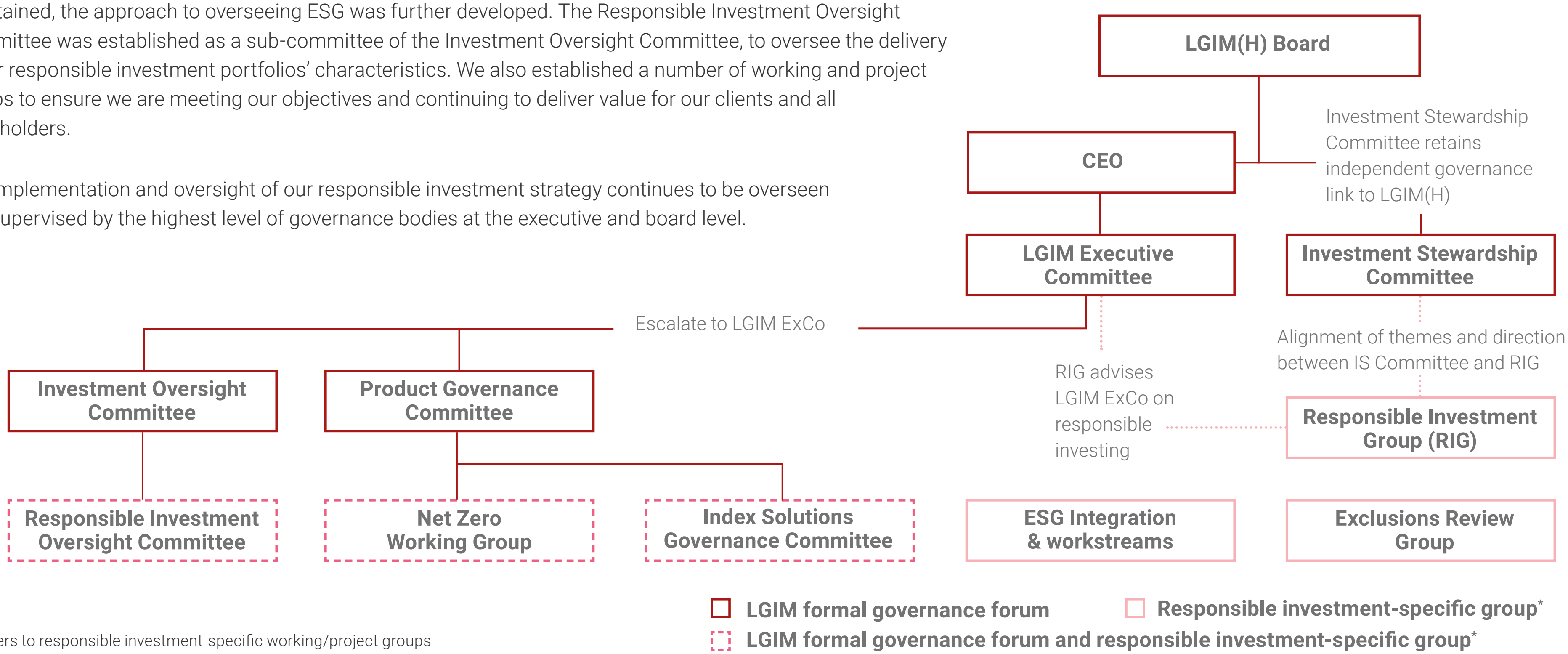
9. AUM in responsible investment strategies represents only the AUM from funds or client mandates that feature a deliberate and positive expression of ESG criteria, in the fund documentation for pooled fund structures or in a client's Investment Management Agreement

Governance and resourcing

Underpinning our approach is LGIM's governance structure, which is aimed at ensuring rigour and accountability, as well as enabling us to continue meeting the highest standards of oversight for our clients' investments and LGIM's corporate commitments. We believe that responsible investment activity needs to be fully integrated and overseen across LGIM's formal governance committees, including our Executive Committee, as well as a specific board-level Investment Stewardship Committee, which is chaired by an independent non-executive director.

Our governance structure continued to evolve during 2022 and while the executive governance structure was largely maintained, the approach to overseeing ESG was further developed. The Responsible Investment Oversight Committee was established as a sub-committee of the Investment Oversight Committee, to oversee the delivery of our responsible investment portfolios' characteristics. We also established a number of working and project groups to ensure we are meeting our objectives and continuing to deliver value for our clients and all stakeholders.

The implementation and oversight of our responsible investment strategy continues to be overseen and supervised by the highest level of governance bodies at the executive and board level.



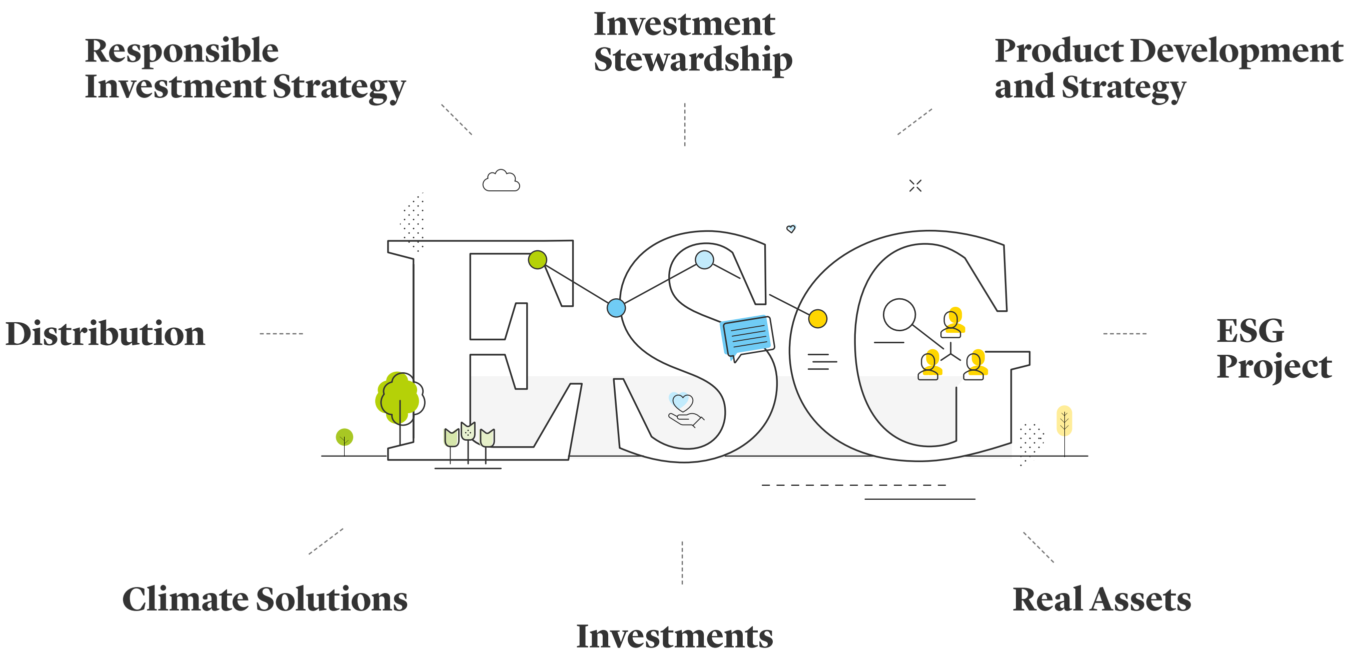
*Refers to responsible investment-specific working/project groups

ESG capabilities

There are c.90 **LGIM employees with roles dedicated exclusively to ESG activity**. This covers leadership positions to implement our responsible investing strategy across our Investment Stewardship, Investments, Distribution, Product, and ESG IT and Change teams.

In addition, there are a further **65 colleagues** whose roles involve a substantial contribution to our **responsible investing capabilities** and whose objectives reflect this, although they have broader responsibilities.

At LGIM, there are c.90 roles across 8 teams dedicated exclusively to ESG activity



LGIM, as at February 2023

Investment stewardship

As at the end of 2022, our Investment Stewardship team comprised 26 professionals with an average of 11.5 years' experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment and public policy. The team covers many geographies, including both emerging and developed markets. The team includes sector specialists and experts on ESG themes, such as nature, diversity and climate change.

In line with LGIM's strategy to internationalise, the team has a global remit, with members in the UK, Japan and the US, and a new Head of Asia ex-Japan appointed in Singapore from 2023. Our diverse team members represent around ten nationalities – from northern and central America, to Europe, the Middle East and East Asia – and speak as many languages.

In our view, this makes the team well positioned to keep abreast of the latest policy, regulatory and industry developments globally. The Head of Investment Stewardship and Responsible Investment Integration, Michael Marks, reports directly to LGIM's CEO, Michelle Scrimgeour.

Our diverse team members represent around ten nationalities – from northern and central America, to Europe, the Middle East and East Asia – and speak as many languages.

Training and incentivisation

As part of our overall approach to ESG integration, we seek to ensure that responsible investing forms part of the culture across LGIM and is reflected in everyday business conduct.

The ESG Academy

In 2021, we expanded the LGIM ESG Academy in partnership with the United Nation's (UN) Principles for Responsible Investment (PRI), with the aim of providing education to all employees on how their job relates to and interacts with our purpose and activities as a responsible investor.

Located on LGIM's internal personal development platform, the academy consists of a wide range of learning modules and training videos delivered by internal and external subject-matter experts. For those interested in further exploring such themes, the PRI Academy and the CFA Institute's ESG Investing courses form part of LGIM's professional development programmes.

At the same time, our Investment Stewardship team forms a core part of our apprentice and graduate programmes, helping those new to LGIM to learn about our approach first-hand.

Team incentivisation

Across LGIM, the core metrics that inform employees' annual compensation reflect culture and other ESG factors, such as diversity and inclusion. ESG criteria are also embedded in objectives of our investment teams. These cover contributions to our investment process – for example, within the GREGs – so form a particularly significant weighting within research functions.

While we measure our engagement with companies and seek to quantify outcomes, individuals are not remunerated based on their total number of engagements. We prefer to focus on the quality of engagement, consistent messaging of our key engagement topics, measurement of progress (or lack thereof) against any key metrics and improving the general level of communication.

LGIM was among 25 organisations acknowledged by Investing in Ethnicity for its leadership and commitment to improving racial diversity.

Diversity & inclusion

LGIM strives to be an inclusive firm, in which diversity is embedded and everyone feels connected. To build greater inward inclusion, we have established a D&I Council at LGIM and are committed to the Diversity Project. This includes the launch of the Pathway programme, which will focus on developing the female portfolio managers of the future.

We are also a participant in the 10,000 BlackInterns initiative. In January 2023, LGIM was among 25 organisations acknowledged by Investing in Ethnicity for its leadership and commitment to improving racial diversity.

In early 2023, Michael Marks, our Head of Investment Stewardship & Responsible Investment Integration, was appointed deputy chair of the Investment20/20 committee, an organisation focused on creating a more diverse and inclusive investment industry.

Policy dialogue and collaboration

- LGIM's global policy dialogue is aimed at helping to create an appropriate regulatory backdrop by removing policy and structural barriers to reform on ESG issues
- Nature was a core area of focus in our policy work during 2022, covering agriculture, water, biodiversity and deforestation

We share a responsibility as a long-term investor to ensure that global markets operate efficiently to protect the integrity of the market and address systemic risks, foster sustainable and resilient economic growth, and aim to protect the value of our clients' assets. Part of how LGIM acts on these responsibilities is by engaging in global policy dialogue, providing practical advice to policymakers and regulators on the key systemic issues.

What does our policy engagement aim to do?

As a major long-term investor with global coverage, LGIM engages with policymakers at an early stage to help them identify and address emerging risks, so they can take transformative steps to tackle systemic market issues and accelerate progress against complex global sustainability challenges.

Our policy dialogue aims to produce real tangible change by designing, implementing and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment and the economy.

With whom do we engage?

We engage with a broad range of stakeholders across the entire policy ecosystem, as summarised below. We believe understanding the policy and regulatory context and the relationships between these organisations is a crucial foundation of effective engagement.

National	Multilateral	Non-government
• Regulators (e.g. UK Financial Conduct Authority, US Securities and Exchange Commission, Japan Financial Services Agency, Germany Bundesanstalt Für Finanzdienstleistungsaufsicht) • Parliament • Central banks (e.g. Hong Kong Markets Authority) • Government departments/ministries (e.g. UK Department for International Development, His Majesty's Treasury) • Government working group/initiative (e.g. the Transition Plan Taskforce (TPT)) • Executive office	• European Commission • United Nations (including the Framework Convention on Climate Change (FCCC), the Conference of the Parties (COP) and Convention on Biological Diversity (CBD), the Principles for Responsible Investment (PRI)) • International financial institutions (e.g. the World Bank, the International Monetary Fund) • Multilateral organisations (e.g. World Health Organisation (WHO), International Financial Reporting Standards (IFRS), Organisation for Economic Development (OECD), International Organisation of Securities Commissions (IOSCO))	• Academia • Civil society • Non-governmental organisations (e.g. Environmental Defense Fund (EDF)) • Industry associations (including the Glasgow Financial Alliance for Net Zero (GFANZ), The Investment Association (IA), the Asian Corporate Governance Association (ACGA))

LGIM engages with policymakers at an early stage to help them identify and address emerging risks.

How do we engage with policymakers?

No single engagement is the same – we use a combination of the following methods, depending on the region and market, the political environment, institutional organisation and capacity, the topic and the stakeholders:

Formal engagement

LGIM formally engages with policymakers proactively in technical working groups, advisory committees and roundtables; we also respond to consultations. We also engage with the international community at negotiations and through multilateral organisations and we participate in related groups and associations

Thought leadership

We produce in-depth research papers and blogs identifying key systemic issues, both independently and through strategic partnerships with external experts. We do this to communicate our vision and concerns, including the practical regulatory and policy steps that we believe can be taken to address them

Early engagement

We engage policymakers at the early stage of policy development, highlighting key market failures and systemic risks and ways to address them

Collaboration

We work independently and in collaboration with peers, key partners and broader stakeholders

Strategic

We strategically target the appropriate policy landscape, using different methods depending on the issue and desired impact. This can range from engaging globally with international institutions and the multilateral system, central governments and domestic and international regulators to the governments overseeing them, and local to supranational institutions

Policy and regulatory engagement is a non-linear, long-term initiative. This reflects the complex nature of policy and regulatory decision-making, the large numbers of cross-sector stakeholders, and the system's capacity and willingness to change. Many engagements can evolve significantly over time, as the organisations, political leadership and agenda may change.

Our 2022 policy dialogue spanned over 30 issues globally, covering multilateral policy in markets including the US, UK, Japan, Brazil, and Europe. Below, we provide case studies to illustrate two key areas of policy engagement in 2022.

E
S
G

Nature and climate

Identify and engage

Climate and nature are intrinsically linked and mutually reinforcing. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. Passing critical thresholds will spark runaway change from one equilibrium to another.

LGIM has long advocated for greater action by policymakers to address these systemic risks and their underlying drivers that are now receiving greater global attention. For example, reforming significant government subsidies that harm the environment, particularly in the agriculture and fossil fuel sectors. While food systems currently contribute around a third of global greenhouse gas (GHG) emissions,[10] efforts to decarbonise the sector have plateaued. LGIM has championed a comprehensive, science-based international plan for sustainable agriculture and land use, and we believe that it is essential to meeting global commitments to net zero.

Thought leadership – LGIM has focused on the food and water sectors – these sectors are highly dependent upon and impact both the climate and nature. Food and water are incredibly important to life on this planet, including billions of people.

Over 2022, LGIM has highlighted the specific market failures and the systemic risks that these sectors pose. We have provided practical recommendations on how policymakers can strengthen their approaches to food and water security, while delivering on their climate and nature commitments. Given the global scale and breadth of the risks, accelerating progress will require coordinated action by the international community, both policymakers and regulators.

Strategic engagement and collaboration – As a member of the FAIRR initiative, a collaborative investor network focusing on ESG risks and opportunities caused by intensive animal production, LGIM co-led the movement to call on global leaders to develop a comprehensive science-based roadmap for sustainable agriculture and land use to limit global warming to 1.5C, while ensuring the protection and restoration of nature and our ecosystems.

The initiative recommended that the United Nations Food and Agriculture Organisation (FAO) lead and coordinate the multilateral system to urgently develop the roadmap. The initiative received support from global leaders, including former Secretary General of the United Nations Ban Ki-Moon and former President of Ireland Mary Robinson, along with a group of investors (including LGIM) managing US$18 trillion in assets.

Outcome

At COP27, the UN FAO announced its commitment to publish a roadmap for agricultural and food systems by COP28 in November 2023.[11] It is anticipated that the UN FAO's roadmap will set out clear targets and deliverables to protect the planet while developing sustainable food systems.

At LGIM, we are seeking a 'just transition' for economies to be both net zero and nature-positive, in which ecosystems are restored. We were pleased to see notable 'nature-related' events and 'nature-based solutions' being included in discussions for the first time.

10. Nature Journal, March 2021
11. FAIRR, November 2022, COP27: Investors Give Warm Welcome as FAO Commit to Net Zero Roadmap for Food - FAIRR

Nature and biodiversity

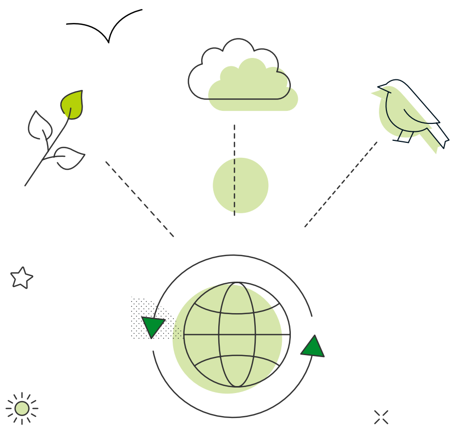
Identify and engage

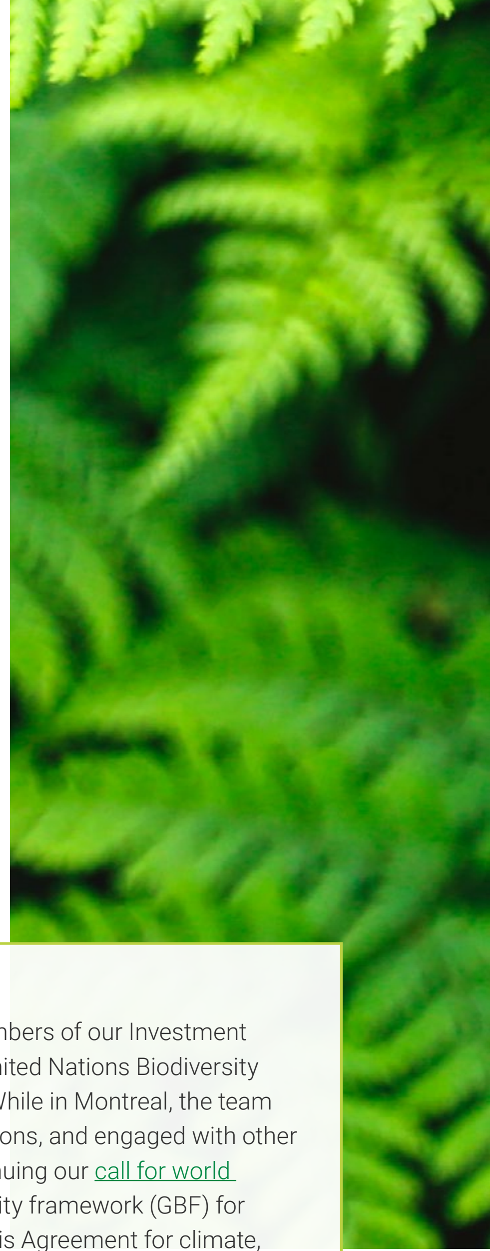
We believe the global impact of nature loss (including from deforestation) on the markets and companies in which our clients are invested is financially material.

Biodiversity loss presents a major global systemic risk, as more than half of the world's gross domestic product (GDP) – around US$44 trillion – is either moderately or highly dependent on nature.[12]

Through their investment portfolios, clients may be exposed to direct or indirect biodiversity risks including: physical risk, litigation and reputational risks, systematic risk and the risk of increasing regulation

Collaboration – We are active members of the Investors Policy Dialogue on Deforestation (IPDD). This collaboration was established in 2020 and is an investor-led sovereign engagement initiative that aims to halt deforestation. Through our membership and participation, we contribute to discussions, research and engagements with governments in countries that are vulnerable to deforestation, engaging in policy dialogue. There has been a recent focus in workstreams on Indonesia and Brazil. LGIM co-chairs a recently-launched working group established by the IPDD. This group will engage on the deforestation-free commodity regulations being debated and implemented in the UK, US, Europe and latterly China. The working group aims to run for two years, and work will begin shortly; investors are invited to join the group.





Formal engagement – Three members of our Investment Stewardship team attended the United Nations Biodiversity conference COP15 in December. While in Montreal, the team contributed to panels and discussions, and engaged with other investors and policymakers, continuing our call for world leaders to agree a global biodiversity framework (GBF) for nature that is equivalent to the Paris Agreement for climate, accelerating efforts to halt and reverse nature loss over the coming decades, including robust 2030 and 2050 targets.

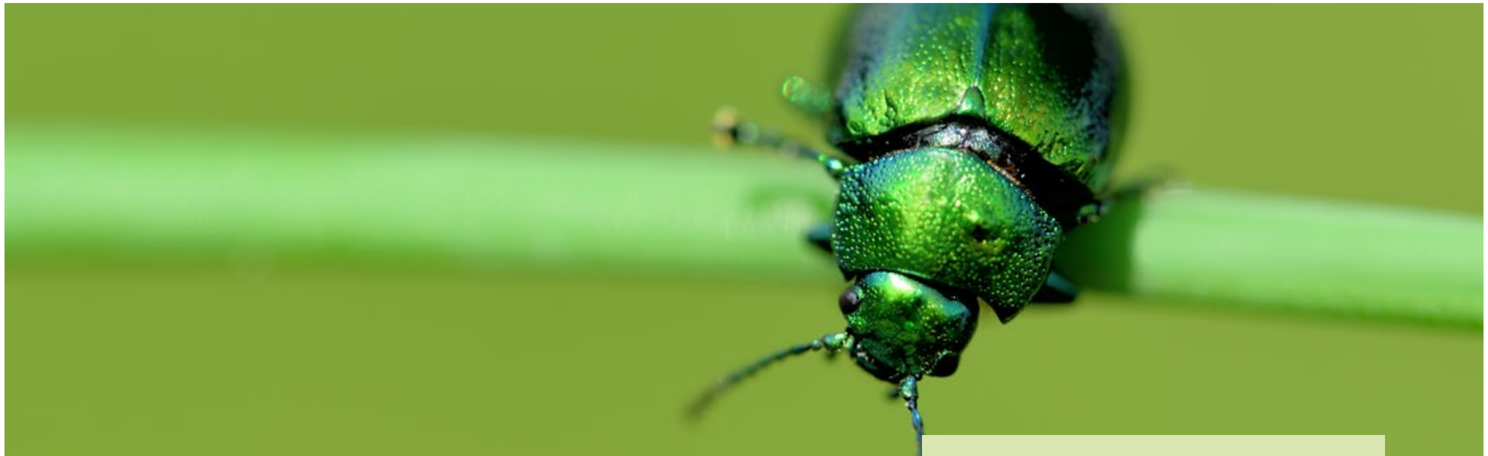
12. World Economic Forum, 2020

Outcome

COP15: The Kunming-Montreal Agreement announced at COP15 is a momentous agreement that we hope will pave the way towards a more sustainable relationship with nature. While we will need to analyse exactly what this will mean for businesses and investors, we are pleased that, taking account of some necessary compromises, negotiators have agreed this ambitious framework, which includes robust 2030 targets to put us on course towards a 2050 goal of 'Living in Harmony with Nature'.

A few very important takeaways in the agreed GBF include i) requiring businesses to regularly monitor, assess and transparently disclose biodiversity impacts and dependencies; ii) aligning public and private financial flows with nature; iii) reforming harmful government subsidies; and iv) increasing financing and investment for nature.

We believe LGIM and other investors share the collective responsibility to accelerate action to reduce biodiversity loss. Investors are facing a common challenge presented by the lack of comprehensive data, robust frameworks, standardised metrics and definitions. While some good data sets do exist, they are not at the scale required.



The developing 'Taskforce for Nature Related Disclosures' (TNFD) framework, and announcement by the IFRS International Sustainability Standards Board (ISSB) of the inclusion of nature and a 'just transition' into its framework will be crucial. The ISSB and TNFD are working closely together, and we are calling for governments to adopt these frameworks and mandate reporting for corporates on how they manage biodiversity impacts and dependencies.

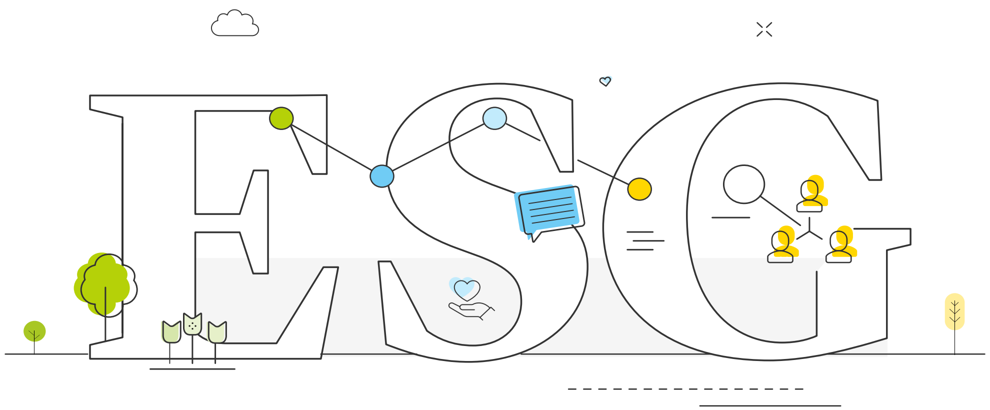
COP27: The Transition Plan Taskforce (TPT) is also working to integrate nature into its expectations of good practice transition plans.[13]

Our CEO, Michelle Scrimgeour, sits on the Steering Committee of the TPT. A highlight from COP27 was the announcement by the TPT of the publication of its disclosure framework and implementation guidance. TPT's work enables consistent and comparable reporting of transition plans, and builds on the UK government's leadership on climate disclosure.

"We hope that by continuing this leadership, the TPT will also have significant influence internationally, acting as a 'gold standard' approach to implementing the ISSB's global baseline." [14]

Michelle Scrimgeour, CEO

13. An HM Treasury initiative which LGIM is contributing to that aims to develop a gold standard for private sector climate transition plans.
14. Watch the full video here



Global policy dialogue

Our policy work spans the full spectrum of E, S and G – in addition to the key priority examples provided earlier, below we highlight some of our other activity across environmental, social and governance topics.

E Data and disclosures

In May 2022, we submitted a letter in support of the US Securities and Exchange Commission's (SEC) proposed rule, 'Enhancement and Standardization of Climate-Related Disclosures for Investors'. This rule seeks to improve existing disclosures on climate-related risks that could have "a material impact on a business, results of operations, or financial condition". We complemented our regulatory comment with a public op-ed in Barron's, reiterating our support. Directionally, we believe the proposed rules represent a significant step forward in harmonising the existing set of disparate disclosure practices currently in the marketplace, and in fostering the publication of comparable and decision-useful data from our portfolio companies.

LGIM has long been a supporter of the IFRS ISSB. We believe it is essential that data on ESG factors does not further proliferate and is coordinated in a way that mandates disclosures to be consistent, comparable and high-quality. Along with our parent company, L&G, we have responded to the recent ISSB consultation, recognising and supporting the building-block approach of the standard as the best way to achieve international adoption. This would mean the ISSB would set out the minimum required standard – to be built up and added to by country and regional regulators.

E Plastic pollution

Awareness of the damage caused by microplastics entering our water systems is increasing. In order to put pressure on the UK government to take action, we joined a collaboration led by First Sentier Investors, comprising 30 investors representing AUM of US$5.6 trillion.[15] As part of this collaboration, we co-signed a letter to the UK Department of Environment, Food and Rural Affairs (DEFRA), emphasising our support for the 2021 recommendations of the All Party Parliamentary Group on Microplastics. These stipulate that microfibre filters must be installed in new washing machines by 2025, which will help to reduce the amount of microplastics entering the water system. Our collaborative engagement group has also met with DEFRA and we will monitor further steps taken on legislative action following the recommendations made.

15. First Sentier Investors, 'Microplastic pollution: the causes, consequences and issues for investors', May 2021

S

Human rights

Alongside 39 investors with assets under management of over £4.5 trillion, we co-signed a letter to the UK government in support of a 'Business, Human Rights and Environment Act' which would require businesses to undertake human rights and environmental due diligence across their operations and value chains. We believe such legislation would ingrain a higher and measurable standard of environmental and societal behaviours across the UK market, exerting a positive influence in global markets throughout the value chain.

S

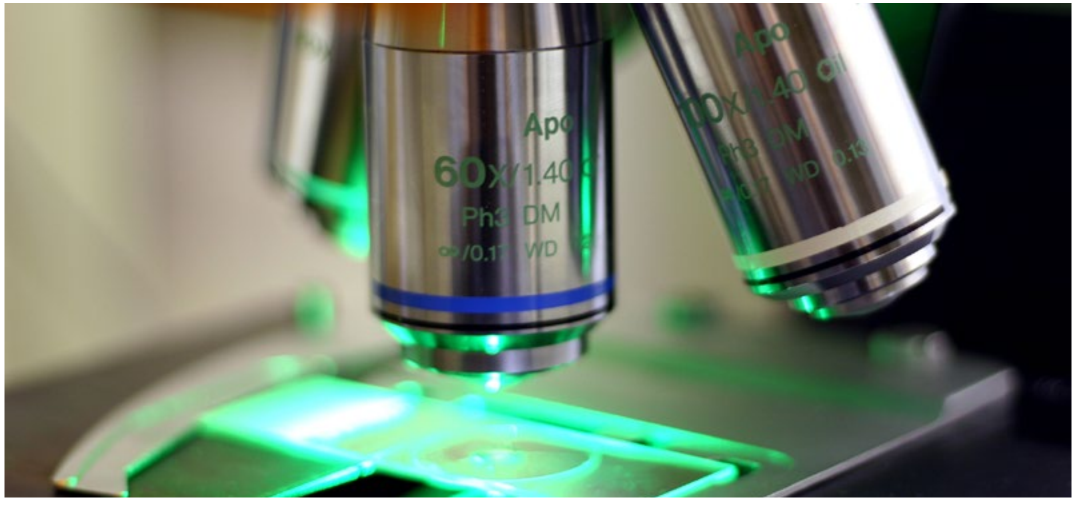
Antimicrobial resistance (AMR)

Read more about our policy work on antimicrobial resistance in the 'People & Health' section of this report, demonstrating the importance of policy-level engagement to create an appropriate regulatory backdrop for measuring, reporting and mitigating AMR risks.

G

Pay vs performance

LGIM engaged with the US SEC on the proposed rule on Pay Versus Performance. The rule would require the amendment of executive pay disclosures to show compensation actually paid by a company related to its financial performance. We were encouraged to see the proposals and, in our feedback, we outlined four recommendations of how the rule could be strengthened. These were especially focused on payments i) being fair, balanced, and understandable, ii) promoting long-term decision making, iii) being accompanied by a full explanation, and iv) being in equity while employed and thereafter.



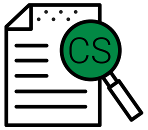
Corporate governance and transparency

We have observed corporate governance progress in Japan in recent years, including an increased number of outside directors, female directors and a reduction in cross shareholdings, but we believe there is room to improve. As a member of Asia Corporate Governance Association (ACGA) and International Corporate Governance Network (ICGN), LGIM engaged with Keidanren (the largest business federation in Japan), Financial Services Agency (FSA), Ministry of Economy, Trade, and Industry and Tokyo Stock Exchange on various governance issues. Key topics covered were

1. strengthening disclosure of the senior advisory position;
2. aligning the publication of the securities report with the international norm, i.e. before annual general meetings;
3. improving gender diversity;
4. board independence; and
5. mandating sustainability corporate reporting and the importance of adopting the IFRS ISSB standards.

We believe in collaboration and regularly work with peers, industry groups, NGOs, academia and civil society. We look forward to continuing our engagement with the broad range of third parties we work alongside. By joining forces with collaborative organisations, we aim to broaden our reach, and strengthen our voice. LGIM is a member or supporter of multiple associations and initiatives working on ESG themes, including:

- 30% Club
- Access to Nutrition Initiative (ATNI)
- Asia Research & Engagement (ARE)
- Asian Corporate Governance Association (ACGA)
- Better Buildings Partnership (BBP)
- British Council for Offices ESG committee
- British Property Federation
- Climate Action 100+
- Coalition for Climate Resilient Investment (CCRI)
- Corporate Governance Forum
- Council of Institutional Investors (CII)
- European Association for Investors in Non-Listed Real Estate Vehicles (INREV)
- FAIRR – collaborative investor network that raises awareness of ESG risks and opportunities brought about by intensive livestock production
- The Financing a Just Transition Alliance
- Glasgow Financial Alliance for Net Zero (GFANZ)
- Global Real Estate Sustainability Benchmark (GRESB)
- Green Finance Institute – Coalition for the Energy Efficiency of Buildings
- Institutional Investors Group on Climate Change (IIGCC)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- The Investment Association
- The Investor Forum
- Japan Climate Leaders' Partnership (JCLP)
- Japan Stewardship Initiative (JSI)
- Japan TCFD Consortium
- Net Zero Asset Managers Initiative (NZAM)
- One Planet Asset Managers Initiative
- Partnership for Carbon Accounting Financials (PCAF)
- SASB Standards Investor Advisory Group (IAG)
- ShareAction
- The Shareholder Commons
- Sustainability Reporting Standard for Social Housing
- Transition Pathway Initiative (TPI)
- UK Green Building Council (UKGBC)
- United Nations Principles for Responsible Investment (UN PRI)



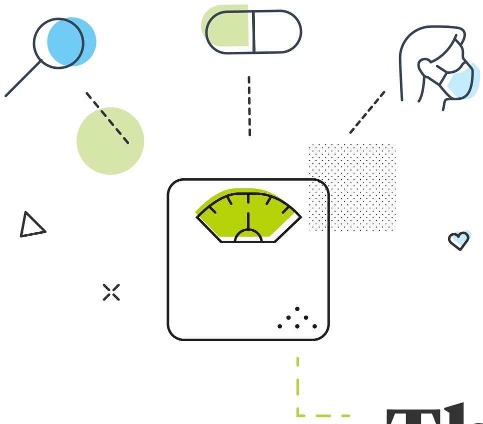
Building healthy food systems

Identify and engage

As part of the Investor Coalition on UK Food Policy, led by Rathbone-Greenbank and Guy's & St Thomas's Foundation, we supported a public statement on the importance of the UK government maintaining its strategy to tackle obesity. Amid speculation that the current strategy could have been scaled back under Liz Truss's leadership, we joined our peers in emphasising that combatting obesity is vital not only to social health, but also the economic health of the country.

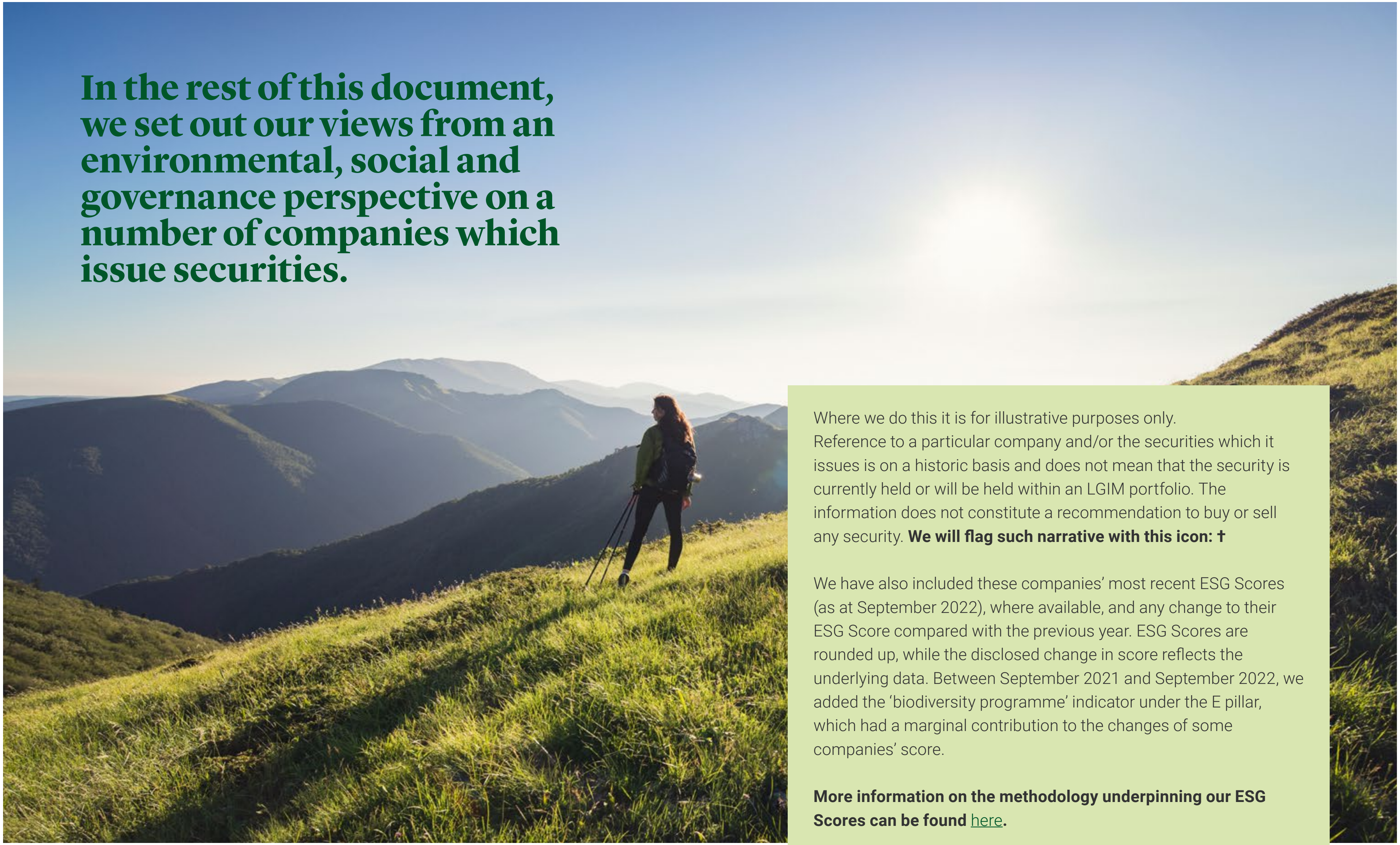
Outcome

The broader implications for healthcare services, workforce participation and productivity, and welfare payments are clear. LGIM therefore strongly recommends the UK government continues to lead globally by implementing its anti-obesity strategy. Our collaborative efforts with the UK government on policy engagement continue and are complemented by our collaborative company engagements with the Access to Nutrition Initiative and the Healthy Markets Initiative led by ShareAction. We believe both public policy and the private sector have crucial roles to play in improving the health of individuals and of the broader economy.



The total economic impact of obesity equalled £58 billion in 2022,[16] and obesity-related diseases cost UK businesses £27 billion per year.[17]

16. Pharma Times, 2022,
17. Public Health England, 2017



In the rest of this document, we set out our views from an environmental, social and governance perspective on a number of companies which issue securities.

Where we do this it is for illustrative purposes only. Reference to a particular company and/or the securities which it issues is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The information does not constitute a recommendation to buy or sell any security. **We will flag such narrative with this icon: †**

We have also included these companies' most recent ESG Scores (as at September 2022), where available, and any change to their ESG Score compared with the previous year. ESG Scores are rounded up, while the disclosed change in score reflects the underlying data. Between September 2021 and September 2022, we added the 'biodiversity programme' indicator under the E pillar, which had a marginal contribution to the changes of some companies' score.

More information on the methodology underpinning our ESG Scores can be found here.

E
S
G

Environmental | Social | Governance

ESG: Environment

- Under our Climate Impact Pledge, 80 companies were subject to potential voting sanctions for not meeting minimum standards, two companies were divested and one was reinstated
- In October 2022, we expanded the Climate Impact Pledge from covering c. 1,000 companies in 15 sectors to now cover more than 5,000 companies across 20 climate-critical sectors; and we have increased the number of companies subject to deep engagement to over 100
- In September 2022, we published LGIM's deforestation policy and launched an engagement campaign, writing to 300 companies from a set of deforestation-critical sectors explaining our expectations and potential consequences if these were not met

Our ambitions

Our Climate Impact Pledge

LGIM's Climate Impact Pledge is a targeted engagement campaign we started in 2016 to address the systemic risk of climate change. Our programme initially focused on 80 companies, with divestment sanctions associated with a single fund. In 2020, it was expanded to around 1,000 companies, and as at the end of 2022, potential exclusions applied to over £157.6 billion[18] of our assets.

In 2022, successful engagement led us to reinstate one previously divested company (Japan Post Holdings† (ESG Score: 41; +3)) into a range of funds and we divested[19] from two companies (China Resources Cement† (ESG Score: 8; +1) and Invitation Homes† (ESG Score: 53; +2) for failing to satisfactorily meet our expectations.

During the 2022 voting season, we identified around 80 companies out of the larger universe of 1,000 as subject to voting sanctions for not meeting our minimum climate change standards.[20] We are pleased to report that the number of companies subject to voting sanctions fell by more than 35% since 2021, highlighting improved practices and disclosures following an increased global focus on climate change.

Our dedicated webpage contains a link to our full report, our net-zero sector guides, and links to our Climate Impact Pledge ratings and scoring methodology document.

ESG score

Japan Post Holdings†

LGIM ESG Score 41

+ 3 points

China Resources Cement†

LGIM ESG Score 8

+ 1 point

Invitation Homes†

LGIM ESG Score 53

+ 2 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

In this section, we highlight our alignment with the best practice recommendations adapted from the TCFD.*

Risk management: Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate related risks.

Strategy: Describe how the company manages material climate-related risks for each product or investment strategy.

*For accessibility purposes, we are only providing a high-level overview of our alignment with the TCFD recommendations here.

Legal & General Group Plc's Climate Report (prepared in line with recommendations by the TCFD) is also available here.

18. LGIM, as at 31 December 2022.
19. Companies are divested from selected funds, including funds in the Future World fund range, and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested.
20. Voting sanctions apply to companies not meeting minimum standards, in 15 pre-determined sectors and that are MSCI ACWI constituents. Voting sanctions are applied across LGIM's equity holdings.

Further expanding and strengthening the Climate Impact Pledge – the next phase of our engagement

Towards the end of 2022, we substantially broadened the scope and strengthened the expectations of our dedicated climate engagement programme with the goal of accelerating progress towards net-zero greenhouse gas (GHG) emissions globally.

We have expanded the scope in three main ways:

Increased the number of 'climate-critical' sectors assessed and engaged with from **15 to 20**

We have significantly extended the number of companies covered by our data-driven assessment from around **1,000 to over 5,000**, thereby capturing more of LGIM's portfolio emissions

We have increased the number of companies subject to direct engagement from **60 to over 100**

Drawing on some 70 data points, leveraging LGIM's proprietary climate modelling as well as third-party data, our company assessments (climate ratings) are focused on five key pillars. These are in alignment with recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD) and are publicly available under a 'traffic light' system on our dedicated website; this enables companies to transparently verify progress and identify areas which need improvement. By linking our votes to specific data points aligned with our principles-based approach, we aim to exert our influence more consistently and widely across markets.

Governance

How is the oversight of climate issues exercised at board level and communicated to investors?

Strategy

What policies do companies have in place, and what policies are they lobbying governments for?

Risks and opportunities

How much of companies' current earnings comes from 'green' activities, and how much potential future earnings is at risk in the low-carbon transition?

Scenario analysis

What level of global warming are companies' plans aligned to?

Metrics and targets

How ambitious are companies' emission targets, and how do they compare to past performance?

We will follow this assessment with direct engagement with key selected companies whose actions have the potential to galvanise their sectors. We have selected 100+ companies for this in-depth engagement, combining the expertise of sector specialists from across LGIM's investment teams and our Investment Stewardship team.

In October 2022, we launched the seventh cycle of company meetings with this widened universe, continuing to target influential companies. We have had a response rate of 80%[21] so far to our initial outreach for engagement.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Strategy: Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

21. As at January 2023

Updating and strengthening our sector expectations on net-zero

This year, we have reviewed our net-zero guides, and we have increased our expectations to reflect the latest climate science and industry standards.

While these expectations vary from sector to sector, we have set a red line for all sectors for the disclosure of climate lobbying activities. Across all sectors, we have also placed more emphasis on disclosure of plans, actions and investments to support delivery of net-zero commitments, as well as linking executive remuneration with short- to medium-term emission reduction targets.

Additionally, we have introduced 'just transition' considerations, and expectations emphasising the essential role of combating deforestation, biodiversity and nature loss in delivering a credible pathway to net zero.

Companies that fall short of our climate expectations over time may see potential votes against directors and ultimately even divestment sanctions.

Climate voting – holding directors to account

MajorityAction's Fulfilling the Promise 2023 assesses how 100 key Climate Action 100+[22] (CA100+) investor-signatories held US-based companies to account on managing their climate strategies through director election votes. We include climate change data points as part of our company assessment via our ESG Score and expanded our Climate Impact Pledge engagement programme to target companies that do not follow minimum expectations, with vote escalations for specific director roles. MajorityAction noted LGIM voted for the entire board at only four out of 44 US-based companies in scope and was among those organisations that showed the lowest support (0-24%) for the 17 CA100+ companies that didn't have a net-zero commitment.[23]

Glasgow Financial Alliance for Net Zero

LGIM is an active participant of the Glasgow Financial Alliance for Net Zero (GFANZ), and our CEO Michelle Scrimgeour is a member of the GFANZ Principals Group. GFANZ is a global coalition of financial institutions committed to accelerating the decarbonisation of the economy. GFANZ provides a forum for collaborating on substantive, cross-cutting issues that will accelerate the alignment of finance activities to net zero.

Throughout 2022, LGIM participated in the development and publication of GFANZ's guidance for the financial sector, including the framework for Financial Institution Net-Zero Transition Plans. These guidelines are now being utilised by financial institutions and regulators as they further develop their net-zero plans and reporting, including for example, the UK's Transition Plan Taskforce.

Net Zero Asset Managers Initiative

As a founding signatory of the Net Zero Asset Managers Initiative (NZAM), we have committed to work in partnership with asset-owner clients to reach net-zero GHG emissions by 2050 or sooner across all AUM. In 2021, LGIM set a target for 70% of eligible AUM to be managed in line with this net-zero ambition by 2030. In 2022 LGIM continued to work closely with NZAM, including as a member of its advisory group of asset manager signatories, which was set up to inform the management and coordination of the NZAM initiative.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Metrics and targets: Disclose metrics used by organisation to assess climate-related risks and opportunities, including in each product or investment strategy.

Governance: Describe the board and management's role in overseeing, assessing, and managing climate risks and opportunities.

Strategy: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Describe how risks and opportunities are factored into relevant products or investment strategies and describe related transition impact.

22. Climate Action 100+ is an investor-led engagement initiative aimed to improve climate change governance, cutting emissions and strengthening climate-related financial disclosures
23. MajorityAction, Fulfilling the Promise 2023

Environmental Defense Fund

Our collaboration with the Environmental Defense Fund (EDF), a non-governmental organisation that uses in-depth research to drive progress on tackling climate change, continued through 2022. Together, we engaged further with oil and gas companies on the topic of methane measurement and the Oil and Gas Methane Partnership (OGMP) 2.0 framework, which we incorporated into our Climate Impact Pledge. We were pleased to see an uptick in OGMP 2.0 adoption from notable companies such as ConocoPhillips† (ESG Score: 33; +8), Pioneer Natural Resources† (ESG Score: 35; +3), Devon Energy Corp† (ESG Score: 28; +2) and EOG Resources† (ESG Score: 25; +1) in 2022 and early 2023. More on our collaboration with EDF can be found in our blog.

ESG score

ConocoPhillips†

LGIM ESG Score 33

+ 8 points

Pioneer Natural Resources†

LGIM ESG Score 35

+ 3 points

Devon Energy Corp†

LGIM ESG Score 28

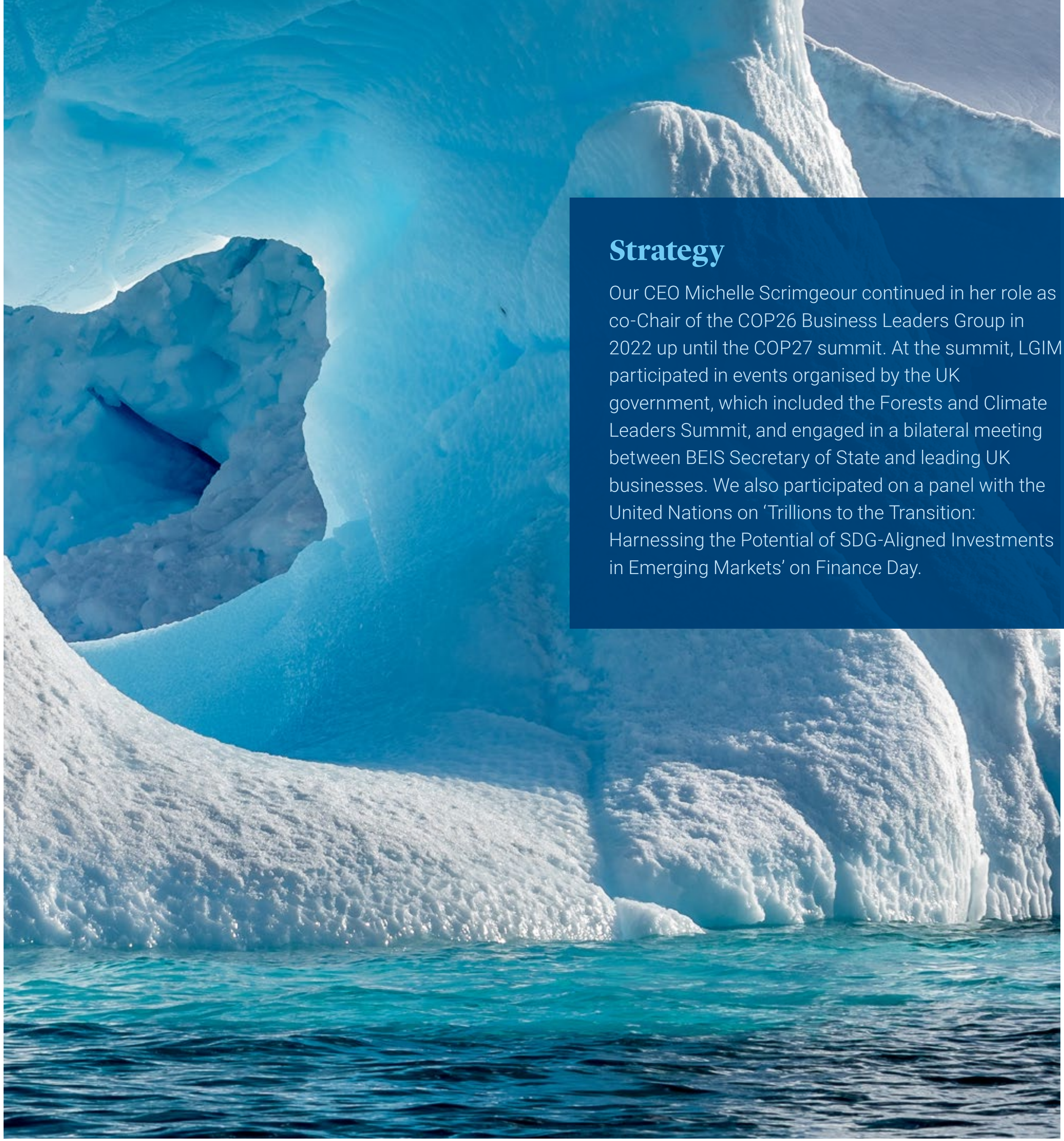
+ 2 points

EOG Resources†

LGIM ESG Score 25

+ 1 point

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here



Strategy

Our CEO Michelle Scrimgeour continued in her role as co-Chair of the COP26 Business Leaders Group in 2022 up until the COP27 summit. At the summit, LGIM participated in events organised by the UK government, which included the Forests and Climate Leaders Summit, and engaged in a bilateral meeting between BEIS Secretary of State and leading UK businesses. We also participated on a panel with the United Nations on 'Trillions to the Transition: Harnessing the Potential of SDG-Aligned Investments in Emerging Markets' on Finance Day.

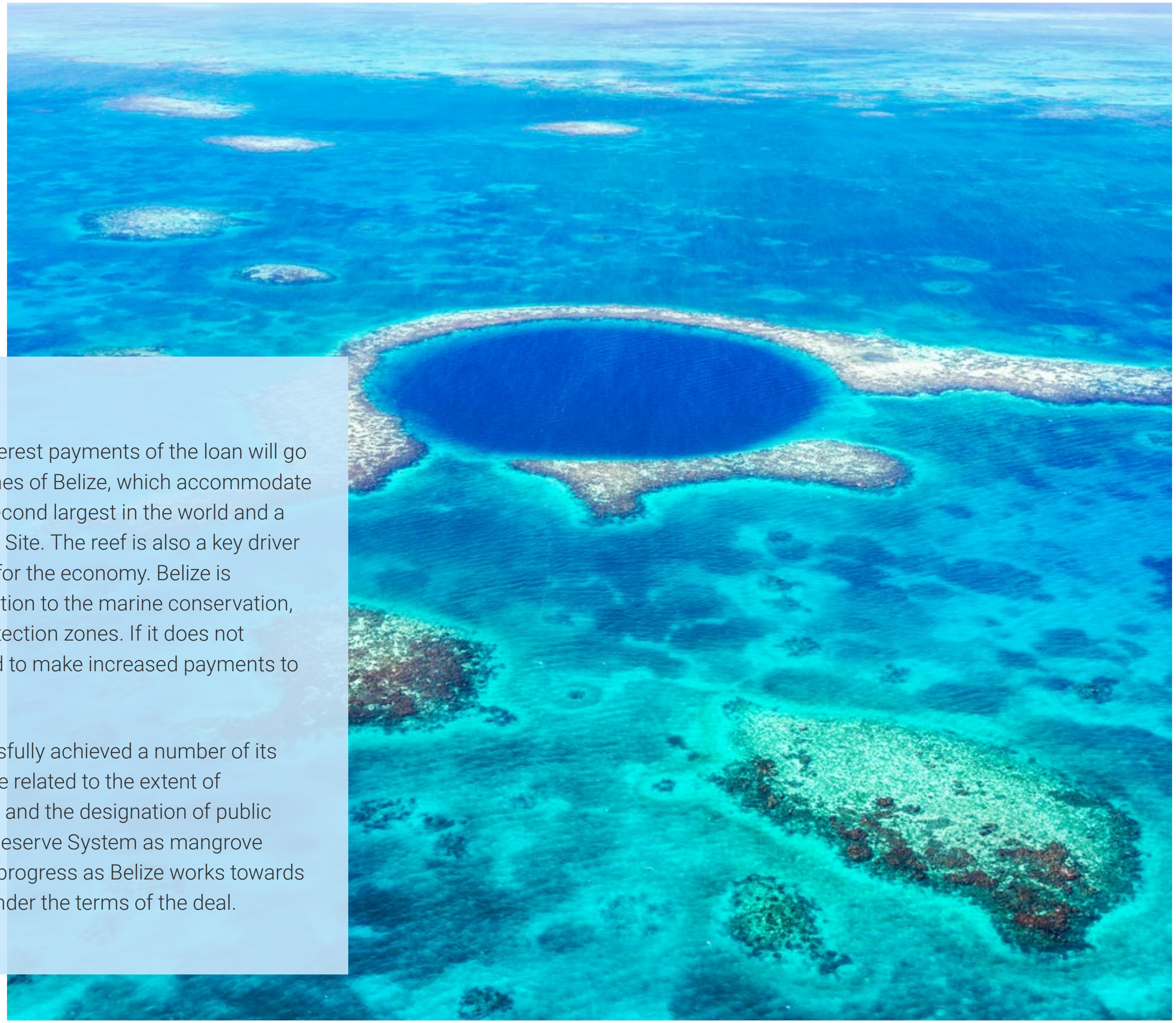
TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: Describe the organisation's processes for identifying, assessing and managing climate-related risk, and their integration into the organisation's risk management, as well as for each product or investment strategy.

Belize blue bonds

Identify and engage

In 2022, we were involved in the financing of the Belize conservation blue bond to support marine conservation in Belize. The Belize government worked in partnership with The Nature Conservancy to restructure its external public debt, significantly reducing its existing debt service costs, while also securing funding for marine conservation activities.



Outcome

A proportion of the proceeds and interest payments of the loan will go towards protecting essential coastlines of Belize, which accommodate a rich biodiverse barrier reef – the second largest in the world and a UNESCO-recognised World Heritage Site. The reef is also a key driver of Belize tourism, which is essential for the economy. Belize is targeting eight key milestones in relation to the marine conservation, including expanding biodiversity protection zones. If it does not achieve these milestones, it will need to make increased payments to the conservation funding.

Over the last year, Belize has successfully achieved a number of its initial milestones. This includes those related to the extent of expansion of their biodiversity zones and the designation of public lands within the Belize Barrier Reef Reserve System as mangrove reserves. We will continue to review progress as Belize works towards the future milestone requirements under the terms of the deal.

Our partnership with Lewis Pugh

In 2022 we continued our global partnership with UN Patron of the Oceans and endurance swimmer, Lewis Pugh. In October Lewis swam across the Red Sea to raise awareness of the rising water temperatures starving and even killing coral reefs, which support essential biodiversity.

This swim, in partnership with LGIM, was strategically timed to take place ahead of COP27 in November, where governments, policymakers and businesses convened in Sharm El-Sheikh in Egypt to move the dial on climate-related issues.

LEWIS PUGH FOUNDATION

The photography featured on this page and next was taken by the Lewis Pugh Foundation.

Photography credit: Olle Nordell

We are united with Lewis in our aim to tackle the climate crisis. We believe inaction is not an option and are proud to support Lewis's efforts to raise awareness and push for positive change.

Risk management

Climate Solutions – LGIM Destination@Risk update

Climate scenarios

Scenario analysis is a key tool in understanding the strategic implications of possible climate pathways for both us and our clients. We develop our own bottom-up scenarios of how energy and land systems may evolve to 2050. These scenarios underpin our proprietary LGIM Destination@Risk model and can be translated into company-, sector- and portfolio-level assessments of climate risk and temperature alignment.

In 2022, we refreshed our scenarios using the most recent carbon budgets and technology costs. For the first time, we can now also examine the implications of our scenarios for land use and associated GHG emissions. This means we can test the impacts of our scenarios on new variables, including afforestation and reforestation, agricultural productivity, and food prices. For further detail on our scenarios, please see L&G's TCFD report and LGIM's climate solutions white paper.

Temperature alignment and climate risk

This year, we have made advancements with our temperature alignment and climate risk assessments. For temperature alignment, we incorporated the latest climate science on carbon budgets and updated our scenario narratives. For climate risk, we now allow companies to take some mitigating action against the costs they face from carbon pricing by investing in abatement opportunities.

Interface for portfolio managers

We have continued to improve the LGIM Destination@Risk interface to enable our investment teams to interact with the outputs of the toolkit effectively. The web-based tool allows analysts to understand temperature alignment and risk assessment components at the company and portfolio level. We have further added to our climate risk reporting capabilities for our clients.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Strategy: Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Describe how risks and opportunities are factored into relevant products or investment strategies and describe related transition impact.

Risk management: Describe the organisation’s processes for identifying, assessing and managing climate-related risk, and their integration into the organisation’s risk management, as well as for each product or investment strategy.

Metrics and targets: Disclose metrics used by organisation to assess climate-related risks and opportunities, including in each product or investment strategy.

Metrics and targets: policies

LGIM's actions on biodiversity and deforestation

As we've mentioned, we believe the interdependencies between nature and climate are of critical importance. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. An estimated 22% of total anthropogenic GHG emissions come from agriculture, forestry and other land use,[24] around half of which is due to deforestation and land conversion driven by commodities that provide us with food, fibre, feed and fuel. We believe a credible pathway to net zero must include actions on deforestation, as well as biodiversity loss, and nature more broadly.

We published our biodiversity policy in November 2021, which sets out our commitments and targets under the Finance for Biodiversity Pledge.

As a signatory to the Pledge, by 2024 LGIM commits to:

Collaborating and knowledge sharing

Engaging with companies

Assessing impact

Setting targets

Reporting publicly

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Strategy: Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

24. IPCC, January 2020

Deforestation policy

LGIM has joined over 30 financial institutions as part of the global Finance Sector Deforestation Action (FSDA) initiative to commit to use best efforts to eliminate agricultural commodity-driven deforestation from our investment portfolios by 2025. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation.

The FSDA has identified key companies in deforestation critical sectors to engage with, and LGIM has taken the lead on four of these engagements.

As part of our deforestation commitment, we have taken steps to assess our exposure to commodity-driven deforestation risk. This is an important part of making progress towards our climate and biodiversity goals, and in 2022 we published our deforestation policy where we set out both our aims and actions, along with our expectations of companies regarding deforestation.

Our deforestation commitments

As a signatory, we commit to use our best efforts to tackle commodity-driven deforestation impacts in investment portfolios by 2025, and work towards the following milestones:

By 2022:

Assess exposure to deforestation risk, with a focus on 'forest-risk' agricultural commodities – palm oil, soy, beef and leather, pulp and paper

Establish investment policies addressing exposure to agriculture commodity-driven deforestation

Deepen engagement of the highest-risk holdings on deforestation in their supply chain

By 2023:

Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement

By 2025:

Publicly report credible progress, in alignment with peers, on the milestones to eliminate forest risk agricultural commodity-driven deforestation in the underlying holdings in our investment portfolios through successful company engagement

What steps has LGIM taken during 2022?

Action 1: to assess exposure to deforestation risk, with a focus on 'forest-risk' agricultural commodities (palm oil, soy, beef, leather, pulp and paper)

We have been assessing credit and equity exposure to deforestation risk, through a focus on select industries with high exposure to commodity-driven deforestation through their direct operations and/or supply chain. We have initially focused on sectors outlined in the Ceres Investor Guide to Deforestation and Climate Change[25] and have drawn on external sources of data and research, such as SPOTT, Forest 500 and Sustainalytics, as well as our investment and stewardship engagement expertise and findings.

Our findings will be integrated into LGIM's ESG tools that have been developed to support the assessment of ESG risks at a sector and issuer level.

Action 2: to establish investment policies addressing exposure to agricultural commodity-driven deforestation

LGIM's deforestation policy outlines our approach to assessing and integrating deforestation considerations into investment tools, expanding our stewardship activities and reporting to clients. This includes implementing a new voting policy to hold companies in deforestation-critical sectors to account for meeting our minimum standard expectations with regard to action on deforestation. From 2023, companies in critical sectors for which we have data[26] and without a deforestation policy or programme in place will be subject to a vote against the board chair (or equivalent resolutions).

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: Describe the organization's processes for identifying and assessing climate related risks.

25. Part of the supplementary guidance provided by the Deforestation Free Finance Sector Roadmap
26. Consumer staples, consumer discretionary, materials and energy. Our voting policy does not at this time cover the two other sectors of the Ceres Investor Guide, utilities and financials – due to insufficient data.

For more information on our policy and regulator engagement on deforestation (and biodiversity more broadly), including our work with the Investors Policy Dialogue on Deforestation (IPDD), please see page 30 of this report.

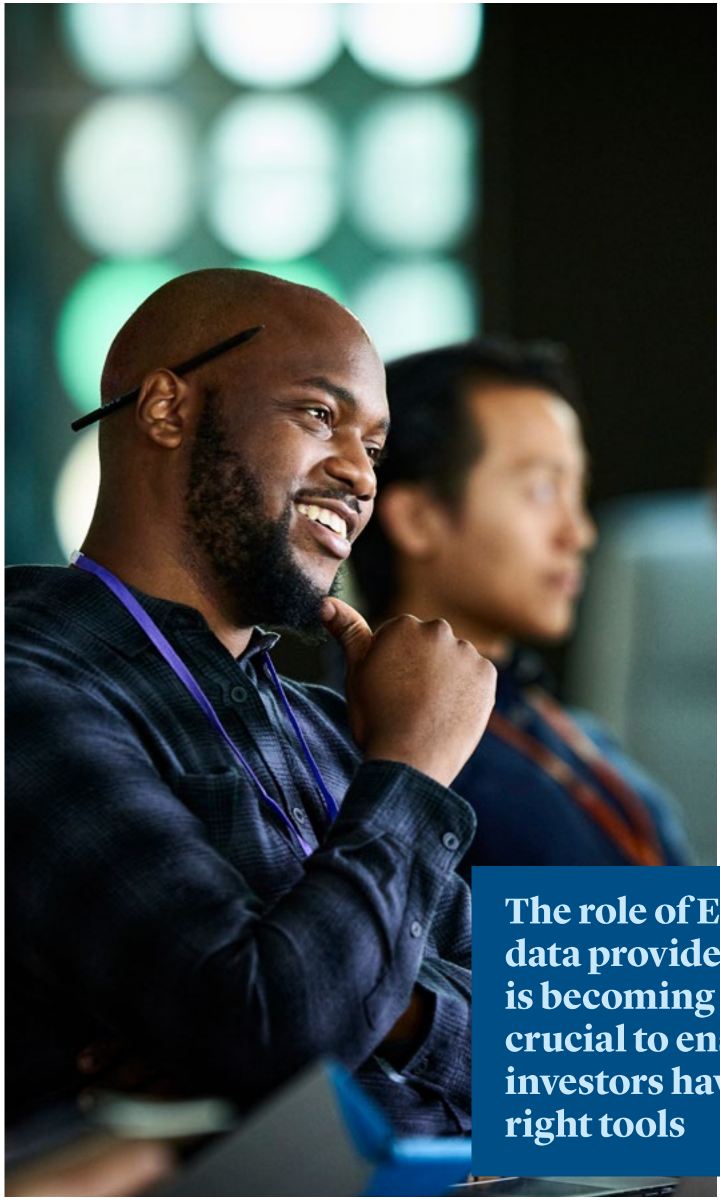
Action 3: to deepen engagement of the highest-risk holdings on deforestation

We have launched LGIM's deforestation engagement campaign, writing to 300 companies from a set of deforestation-critical sectors within our investment portfolios, outlining our expectations, their specific current performance against these, and explaining LGIM's new deforestation voting policy. While still early in the programme, we have since followed up with direct engagements with a number of these companies[27] and have further engagements planned.

As part of this engagement campaign, we have identified over 100 companies subject to voting sanctions for not meeting the minimum expectation of having a deforestation policy or programme in place, as stated in our deforestation policy. Voting sanctions will be applied from the 2023 AGM season.

As part of our Climate Impact Pledge, we also carry out direct engagements with large and influential companies within the apparel, food, forestry, paper and pulp sectors on their approaches and actions in relation to deforestation. Due to their failure to implement robust deforestation policies, four food companies[28] are currently excluded from a range of LGIM funds.

27. Colgate-Palmolive† and Sime Darby Plantation†
28. Sysco Corp†, Hormel Food†, Loblaw Companies†, China Mengniu Dairy†



The role of ESG data providers is becoming crucial to ensure investors have the right tools

Additions to E of our ESG Score

The role of data in everything we do

With the increased demand for decision-useful and relevant data, the role of ESG data providers is becoming crucial to ensure investors have the right tools to make informed investment decisions, and are able to identify suitable engagement opportunities across their portfolios.

As part of the ongoing development of our ESG Score, we frequently speak with various data providers about the availability and suitability of different data sets to our strategic thinking. In 2021, we added the temperature alignment metric to the E pillar of our ESG Score. In 2022, we enriched it further with a biodiversity data point, to ensure that our approach towards critical natural capital issues is reflected in our ESG assessment of companies. This year, we will continue to work with data providers with the aim to reliably improve data coverage across material ESG topics, as we are looking to further develop our score and data availability market wide.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Metrics and targets: Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.

Engagements

Climate Impact Pledge: The results

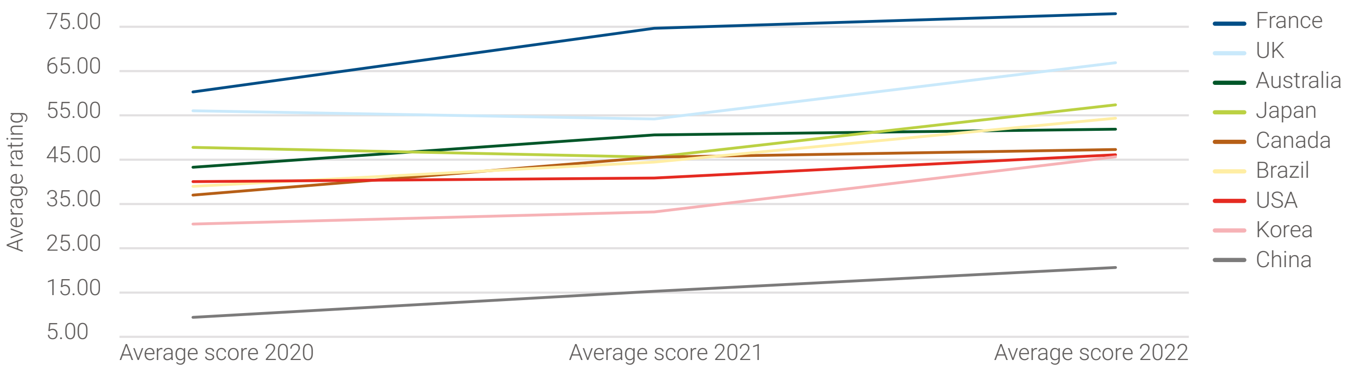
In June 2022, as we announced the [results of the sixth Climate Impact Pledge](#) engagement programme, we were encouraged to see a positive trend in scores across most regions and sectors.

While Europe still leads the pack, we are seeing a strong upward trend in terms of average ratings across geographies. Japan and emerging markets stand out as the regions that have seen the most significant improvements.

Average ratings (out of 100) in key regions and select countries

	Europe (ex-UK)	Japan	North America	Emerging markets	UK	Asia Pacific (ex-Japan)
April 2022 rating (avg.)	68	57	48	33	68	48
Change since 2021 (%)	+12%	+25%	+10%	+21%	+10%	+9%

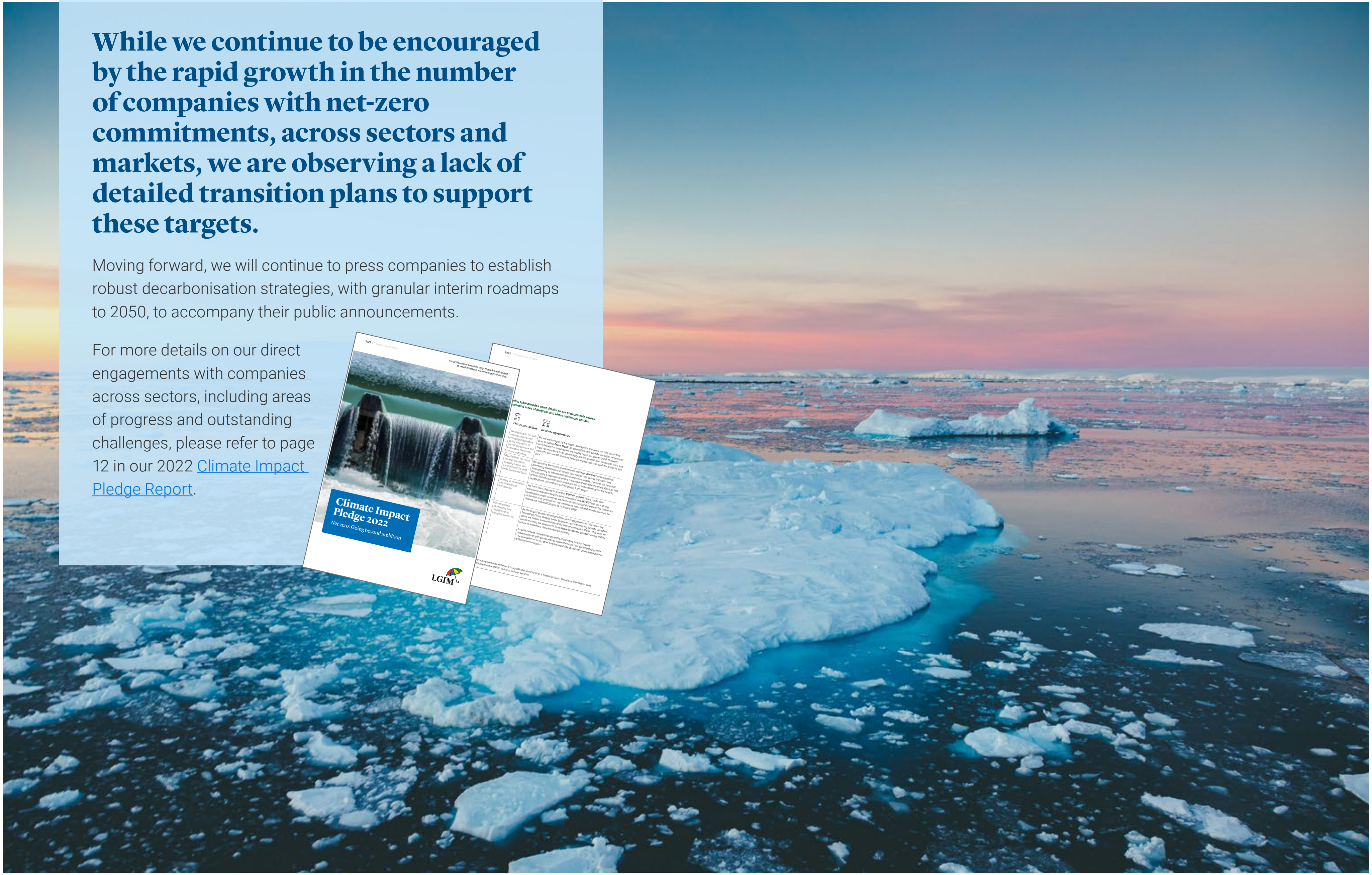
Average ratings in select countries (2020-2022)



Source for both charts: LGIM, as at April 2022. For illustrative purposes only.

Metrics and targets: Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.

Risk management: Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate related risks.



While we continue to be encouraged by the rapid growth in the number of companies with net-zero commitments, across sectors and markets, we are observing a lack of detailed transition plans to support these targets.

Moving forward, we will continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps to 2050, to accompany their public announcements.

For more details on our direct engagements with companies across sectors, including areas of progress and outstanding challenges, please refer to page 12 in our 2022 Climate Impact Pledge Report.

Say on Climate

Our expectations on climate transition plans

As part of our stewardship responsibilities, we have a number of escalation options at our disposal. Setting out clear expectations and then voting on these, alongside public pre-declarations of our vote intentions on important proposals, is an important engagement escalation tool.

In 2021, we publicly called on companies to propose a 'Say on Climate' vote, allowing shareholders to cast their verdict on the climate-transition plans proposed by company management boards. Over the 2021 AGM voting season, we voted against several high-profile proposals where we felt the transition plans proposed were not sufficiently robust or credibly aligned with net zero.

Moving a year ahead, and in anticipation of increased volumes of climate resolutions during the 2022 voting season, we publicly set out our criteria for supporting management-proposed climate transition plans early in the year. While we encourage companies to put forward credible and ambitious plans, we believe they should avoid submitting proposals that are incomplete or lacking in ambition.

We expect such transition plans to be in line with the following criteria:

- A public commitment to net zero by 2050
- Disclosure of short-, medium- and long-term targets, covering scope 1 and 2 emissions and material scope 3 emissions
- Disclosure of current scope 1, 2 and material scope 3 emissions
- Credible targets that are aligned to a 1.5°C trajectory, with an ambition to obtain verification by the Science-Based Targets initiative (SBTi) (or equivalent independent body as they evolve)

In 2022, we voted on 48 companies'[29] 'Say on Climate' proposals. On 32 of these we voted against (66.7%).[30]

See our blog post for more information on our expectations of companies' climate transition plans.

As part of our announcement in early 2022, we also made a commitment to increase the pressure we put on companies that fail to put suitably ambitious and credible transition plans to a shareholder vote.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate related risks.

Metrics and targets: describe metrics used to assess climate-related risks and opportunities in each product or investment strategy.

29. Sector split: 17 companies in energy and utilities; 10 in financials; 16 in industrials and materials, 4 REITs and 1 retailer
30. LGIM internal vote data, 2022

Climate proposals – escalating via shareholder resolutions

As a large investor, we believe we have a responsibility to urge companies to achieve their climate goals by escalating our engagement, in collaboration with our peers and key industry bodies.

Our 'Say on Climate' expectations relate to management proposals. In the US, however, the majority of climate-related proposals put forward at AGMs are from shareholders, not from management. Given their importance in enabling the energy transition, mining and extractives companies together with the banking sector lead the way when it comes to the number of proposals put forward.

In determining which to support, we carefully consider each shareholder resolution on a case-by-case basis: while we are keen to support companies' transitions to net zero, we pay close attention to the details and limitations of these shareholder proposals.

We voted in favour of proposals at Citigroup† (ESG Score: 71; +2), Wells Fargo† (ESG Score: 62; +2) and Credit Suisse† (ESG Score: 60; +1) requesting that the banks disclose financing policies in line with the IEA's 'Net Zero 2050 Scenario', as these requests were in line with our expectations for company boards to devise a strategy and 1.5°C-aligned pathway. We also supported similar resolutions at Bank of America† (ESG Score: 66; -2) and JPMorgan Chase†[31] (ESG Score: 66; -1) regarding fossil fuel financing. At Japanese bank, Sumitomo Mitsui Financial Group† (ESG Score: 61; +8) we supported two shareholder proposals seeking the disclosures of a board plan to align its investment with the Paris Agreement and report on methods to limit lending and underwriting to new fossil fuel supply and infrastructure.

Given the importance of these proposals, we also predeclared our vote intentions for Credit Suisse and JPMorgan in our blog.

ESG score

Citigroup†
LGIM ESG Score 71
+ 2 points

Wells Fargo†
LGIM ESG Score 62
+ 2 points

Credit Suisse†
LGIM ESG Score 60
+ 1 point

Bank of America†
LGIM ESG Score 66
- 2 points

JPMorgan Chase†
LGIM ESG Score 66
- 1 point

Sumitomo Mitsui Financial Group†
LGIM ESG Score 61
+ 8 points

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Risk management: Describe engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate related risks.

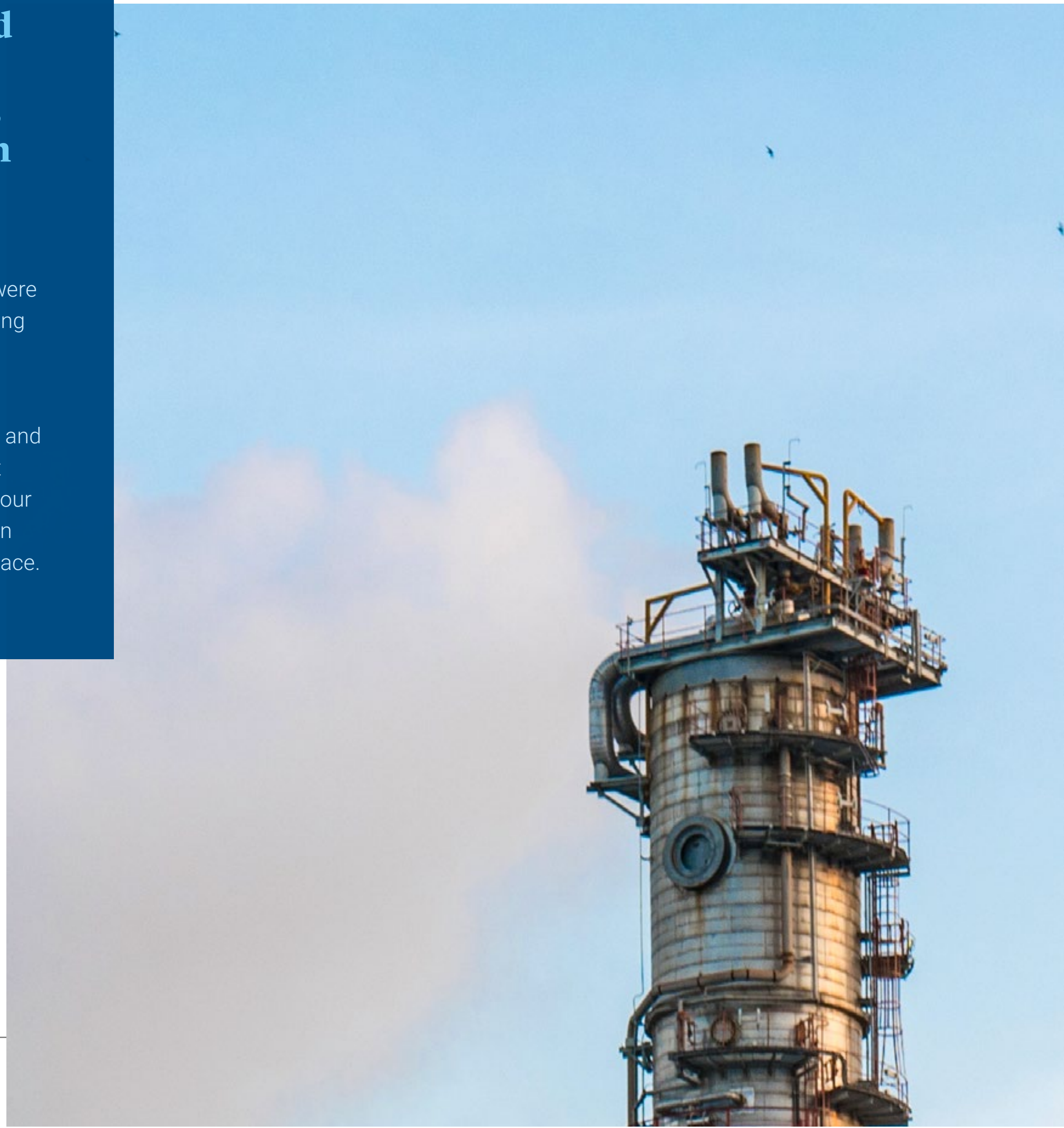
†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

31. There was a second shareholder proposal at JPMorgan Chase's AGM which we did not support, calling on the bank to report on its absolute emissions targets: while on the surface we agreed with the overall aim of the resolution, the wording was loosely drafted in such a way as to be overly prescriptive and to seek to micromanage the board's actions.

In 2022, we voted on 99 climate-related proposals and supported 77 (77.8%) (including requests for climate action, climate and GHG reporting, transition and temperature alignment, use or production of fossil fuels).[32]

Of the shareholder resolutions LGIM did not support, the majority were because we had concerns with the drafting of the proposal text being overly broad or prescriptive. 57 of the 99 votes were filed in North America, 12 in Japan, 3 in the UK.

We believe that assessment and evaluation of climate-related risks and their financial materiality is critical for long-term investors, and that tabling a shareholder resolution can be a powerful way to escalate our engagement with individual companies. We published a blog post in December 2022, to update readers on our own ambitions in this space.



32. LGIM internal vote data, 2022

Eyes on energy

Glencore†

Identify and engage

As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, we believe Glencore† (ESG Score: 24; +20) has a key role to play in the energy transition. Nevertheless, the company's exposure to thermal coal is material and, given the need to rapidly phase out coal to meet the company's own 1.5°C target, we have expressed our concerns about the lack of time-bound commitments to reduce or exit this business line entirely during our six engagements with the company since 2020. We welcomed the company's commitment to prioritise investments in metals that support the energy transition and to strengthen its interim emissions reduction targets. But our concerns regarding its thermal coal exposure and future plans led us to vote against the company's climate transition plan at its 2022 AGM. Additionally, in line with LGIM's 'engagement with consequences' approach, we identified the company as a 'leading laggard' as part of our Climate Impact Pledge programme, and applied voting sanctions against the chair at the same AGM.

ESG score

Glencore†

LGIM ESG Score 24

+ 20 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Outcome

In 2022, we pledged to increase pressure on companies that fail to put suitably ambitious and credible transition plans to a shareholder vote, by filing shareholder resolutions. In light of our ongoing concerns at Glencore, we are putting our commitment into effect by co-filing a shareholder resolution at Glencore's 2023 AGM, requesting that the company disclose how its thermal coal production is aligned with the Paris Agreement objective of limiting the increase in global temperature to 1.5°C.

RWE†

Identify and engage

RWE† (ESG Score: 32; +28) has been one of Europe's largest CO2 emitters through its coal power generation, particularly in Germany.[33] The mines producing lignite (brown coal) for the power plants are large employers in parts of Germany, meaning there are broader social implications of a phase-out.

LGIM met with company senior management and other company personnel, and has fed back its desire to see RWE exit coal operations in principle. However, LGIM also believes that a coal exit needs to take into account RWE's broader responsibilities to society. For example, LGIM expressed opposition to an activist investor's proposal to separate the coal assets by a demerger; we think such a move would not reduce emissions, and risks antagonising the local public and politicians.

Outcome

RWE has announced in recent months an agreement with the German government to accelerate its coal phase-out to 2030, from 2038, albeit with some caveats. While this is a welcome improvement, LGIM does not yet think the phase-out plan is strong enough to warrant an exemption for RWE under our Coal Exclusion Policy which continues to prevent investment in the company in those LGIM funds that apply coal exclusions.

ESG score

RWE†

LGIM ESG Score 32

+ 28 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

33. Greenpeace, 2021

Net-zero audit: Compass West Industrial Estate, London

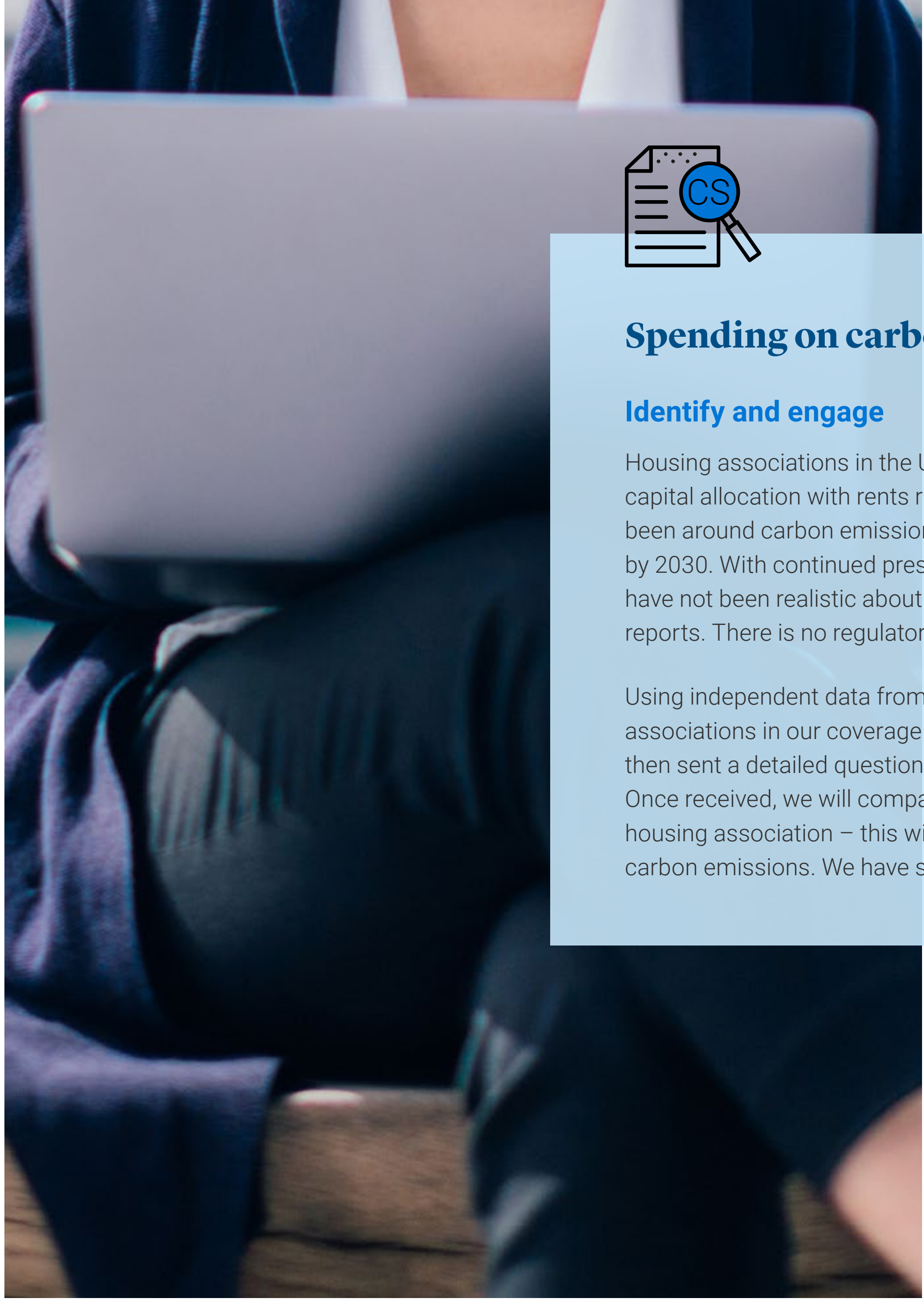
Identify and engage

Net-zero carbon audits are a key component of the real estate equity net-zero commitment within our Real Assets business. Obligatory for targeted existing assets, as well as all new acquisitions, they are used to identify the measures required to achieve net zero alongside feasibility, costs and timelines. In 2022, an audit was created for Compass West Industrial Estate; an asset owned by one of our funds, which has an accelerated target to achieve operational net-zero carbon by 2030.

Outcome

Following the audit, an implementation plan was established, identifying the asset-level interventions required to achieve operational net-zero carbon by 2030. Proposed measures included the installation of automated meter readers (AMRs) to better understand and reduce energy consumption, removal of gas, improvements to building fabric and services, and a feasibility review of onsite renewable energy generation. Since the completion of the plan, all landlord-controlled lighting has been upgraded, and AMRs have been installed across approximately 95% of landlord and tenant space. Plans have also been made to upgrade occupier lighting, install onsite renewables and create net-zero operational carbon enabled units at appropriate intervention points. These actions will support LGIM in meeting clients' investment and ESG objectives, as well as providing occupiers with energy-saving measures and lower operational costs. We will continue to roll out these audits and build outputs into asset sustainability plans (ASPs), which we develop for all real estate equity assets.

Key risk: 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.



Spending on carbon neutrality in UK housing associations

Identify and engage

Housing associations in the UK are facing unprecedented pressure on their budgets and decisions around capital allocation with rents rising below inflation and costs increasing. A key plank of future spending has been around carbon emissions with all homes required to be Energy Performance Certificate (EPC) C-rated by 2030. With continued pressure on new build targets, we have been concerned that housing associations have not been realistic about the required EPC spend despite many of them producing bespoke ESG reports. There is no regulatory requirement for uniform reporting in this area.

Using independent data from the regulator, we mapped the ages of all the properties owned by the housing associations in our coverage universe. Older properties will require a higher EPC spend than new ones. We then sent a detailed questionnaire to all associations in question requesting details on spend and approach. Once received, we will compare the information disclosed to the property stock age of the individual housing association – this will give us key information as to the overall commitment of each issuer to carbon emissions. We have set a timeframe for all responses to be received.

Outcome

This remains an ongoing project with just over half of responses received;[34] some responders have given highly granular data, while others have refused to disclose anything, stating the information is private. Any 'no' responses will be highlighted in the final report we provide. Given the homogeneity of housing associations' business models, the variation of these replies can only be attributed to the individual management teams – it is clear this engagement programme will impact on our investment decisions in this sector in the future.

34. As at 3 February 2023

Saxon Weald Housing Association, Sussex

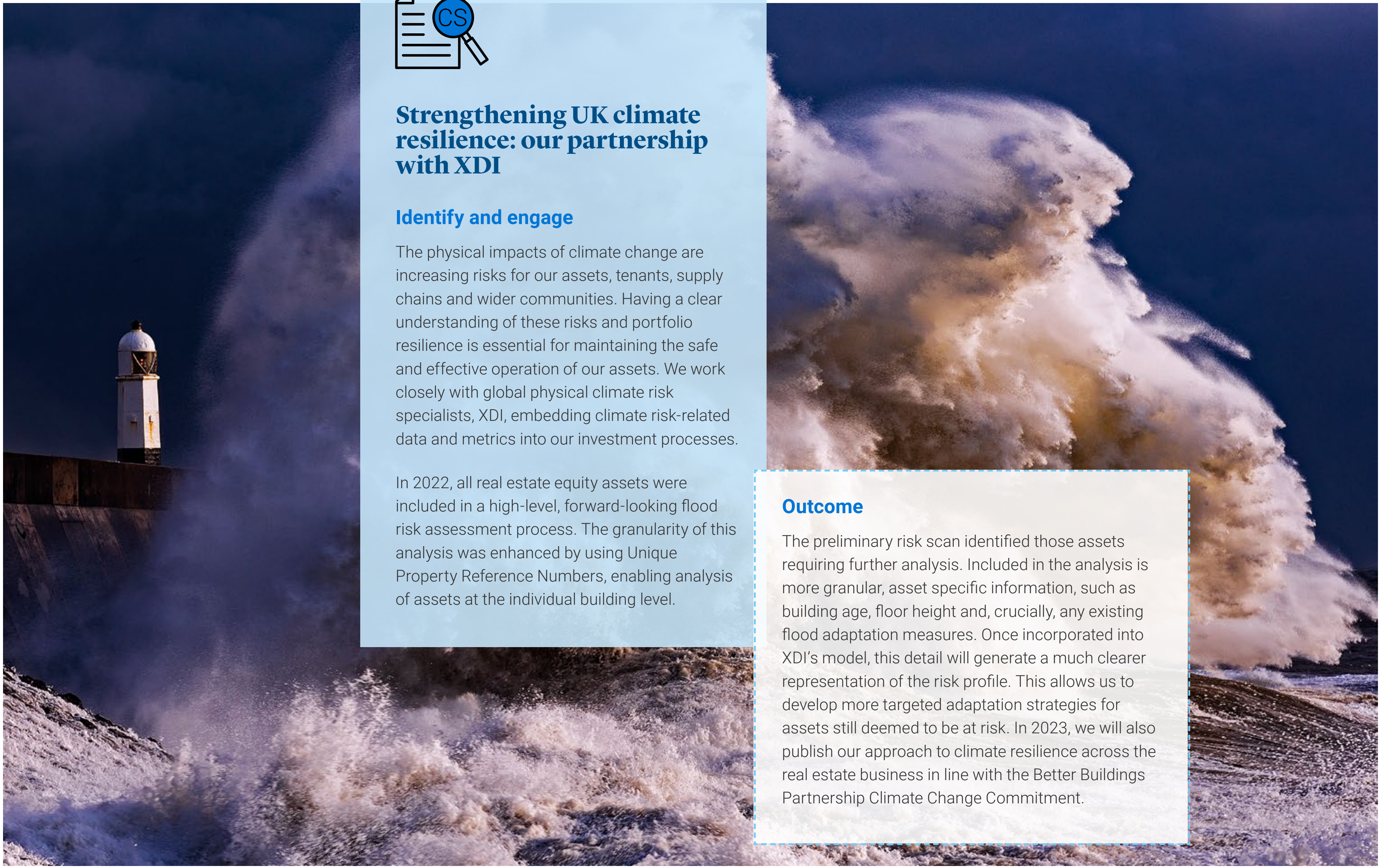
Identify and engage

We believe effective engagement in private debt markets is one of the key levers to enacting real change. Across our Real Assets division's private credit investments, engagement with borrowers pre- and post-investment is being used to improve disclosure and drive more positive outcomes across our assets. We have also worked with borrowers to incorporate ESG into deal structures, including the development of sustainability-linked loan structures and the incorporation of ESG reporting covenants.

In 2022, LGIM funded a sustainability-linked deal in the corporate debt space with Saxon Weald, a housing association, based in West Sussex, providing affordable rented and shared ownership homes for individuals and families, as well as properties exclusively for the over 55s. The proceeds of our investment will be used to finance new homes, designed to be energy efficient – with Saxon Weald targeting EPC A ratings on all new builds.

Outcome

Proactive engagement with Saxon Weald enabled us to create an innovative sustainability-linked structure, which will deliver potential cost savings provided it meets ambitious energy efficiency targets. These targets are faster and further than otherwise required in the sector and aim to better support the communities in which Saxon Weald operates, and more widely, play a role in the South East's energy transition. We will continue to engage with the borrower on this topic and review the association's progress against key milestones.



Strengthening UK climate resilience: our partnership with XDI

Identify and engage

The physical impacts of climate change are increasing risks for our assets, tenants, supply chains and wider communities. Having a clear understanding of these risks and portfolio resilience is essential for maintaining the safe and effective operation of our assets. We work closely with global physical climate risk specialists, XDI, embedding climate risk-related data and metrics into our investment processes.

In 2022, all real estate equity assets were included in a high-level, forward-looking flood risk assessment process. The granularity of this analysis was enhanced by using Unique Property Reference Numbers, enabling analysis of assets at the individual building level.

Outcome

The preliminary risk scan identified those assets requiring further analysis. Included in the analysis is more granular, asset specific information, such as building age, floor height and, crucially, any existing flood adaptation measures. Once incorporated into XDI's model, this detail will generate a much clearer representation of the risk profile. This allows us to develop more targeted adaptation strategies for assets still deemed to be at risk. In 2023, we will also publish our approach to climate resilience across the real estate business in line with the Better Buildings Partnership Climate Change Commitment.

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Environmental | Social | Governance

ESG: Diversity

- The 2022 AGM season was the first in which we voted against specific companies due to a lack of board-level ethnic diversity
- We voted against 69 companies in the FTSE 100 and S&P 500 for having all-male executive committees[35]
- In 2022, we expanded our diversity engagement to Brazil, India, China and South Africa

We have been long-standing advocates for cognitive diversity in the companies in which we invest as we believe that a suitably diverse mix of skills, experience and perspectives is essential for teams to function and perform optimally.

In this section, we outline how we have sought positive outcomes through our campaigns, collaborations and voting activity.

35. LGIM internal vote data, 2022

Campaigns

Ethnic diversity

Since 2020, we have been engaging with companies on their commitments to ethnic diversity and have demanded transparent reporting. Our expectation was that, by 2021, companies would set ambitions related to the ethnic composition of their organisation, throughout the workforce, with a particular emphasis at the board level, which we believe generally sets the tone from the top. Our specific expectation was for FTSE 100 and S&P 500 companies to have at least one ethnically diverse board member by 2021.

The 2022 AGM season was therefore the first voting season during which we placed votes against specific companies due to a lack of board-level ethnic diversity. By the end of 2022, we voted against one company, Universal Health Services† (ESG Score: 30; -5), for lack of ethnic representation. 63% of shareholders also voted against the director at Universal Health Services; however, the company stated that this particular director will remain on the board as she brings gender diversity and relevant expertise.

ESG score

Universal Health Services†

LGIM ESG Score 30

- 5 points

Ahead of the proxy voting season in 2022, we revisited our campaign data. Of the 79 companies we started engaging with in 2020, by March 2022:

51 had added at least one ethnically diverse director since September 2020 (with a total of 54 ethnically diverse directors added)

65% of these new directors hold no other public board positions (**20%** held one other board seat, and **15%** held two or more)

By age, **29%** were under **50**, **46%** were **50-60** and **25%** were **60-70**

By gender, **53%** were male, **46%** were female

We voted against **1** US company

Next steps

We have continued our focus and, in November, wrote to a further six laggards and two previous targets (including Universal Health Services) that were identified as having no ethnic diversity at board level, to remind them of our expectations and that voting sanctions will again be applied in 2023 if diversity is not improved.

We have now widened our scope for this campaign and in early 2023 plan to engage those laggards within the broader FTSE 250 and Russell 1000 indices. Our expectation for the companies in these additional indices is identical but, in line with the UK's Parker Review, we allow these smaller companies more time to meet our expectations and will therefore expect compliance by 2024.

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

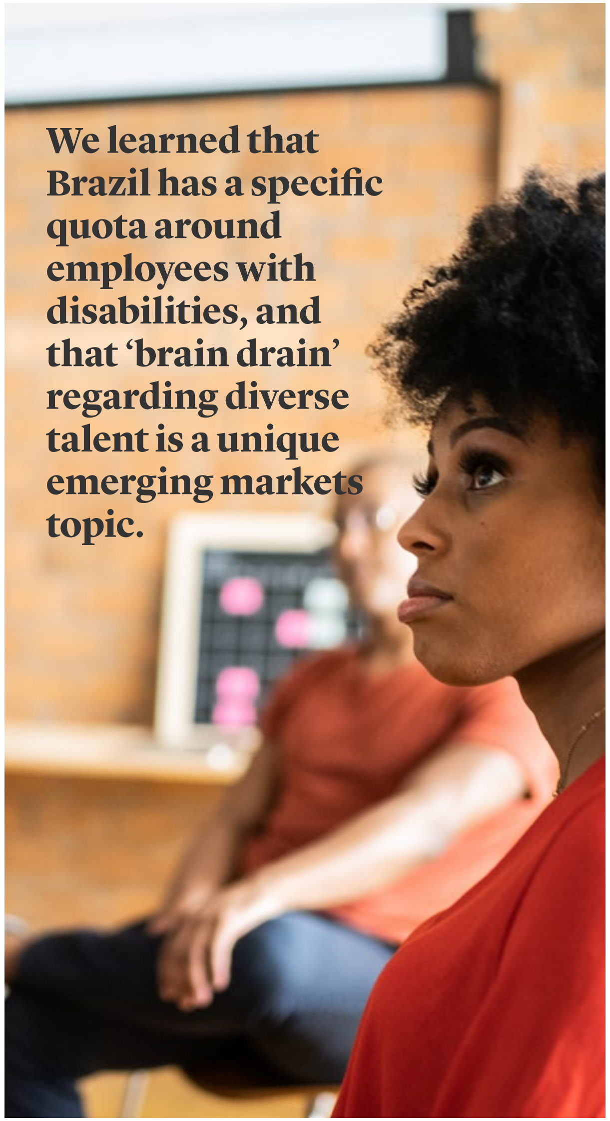
Expanding into emerging markets

LGIM has long promoted diversity across our investee companies, but the focus has so far been placed largely on developed markets such as the UK, US, Europe and Japan. In 2022, we expanded our direct corporate engagements to strategic and representative emerging markets: Brazil, India, China and South Africa.

Our aim for 2022 was to identify how these markets think about corporate diversity, and if any improvements in diversity had been driven by external forces – such as regulation, investor pressure, societal norms – or internal forces – such as employee engagement, corporate culture, and leadership of the board or executive team. Along with observing what leads to improvements in diversity in these geographies, we also wanted to identify what is hindering progress.

Through our engagements, we reaffirmed that expectations regarding diversity cannot be applied in the same way across all markets, and that the specifics and maturity of conversations and practices vary significantly among emerging market countries. For example, we learned that Brazil has a specific quota around employees with disabilities, and that 'brain drain'[36] regarding diverse talent is a critical emerging markets topic. We aim to be cognisant of cultural and historical dynamics in each of these markets as we begin to expand our policies and consider our minimum expectations. One company-specific takeaway is the importance of management knowing its workforce diversity data, and how that reflects the population in which the business operates. But we ultimately believe that improving demographic diversity at the helm of these large corporations will lead to greater cognitive diversity and improve the quality of board and senior executive discussions.

While our engagements have been taking place at the organisational level, we plan to engage with regulators and other influential industry groups in each market to identify approaches that we, as investors, can apply to impact the progression of this topic. In essence, we believe both external forces (e.g. policy, regulations, investor pressure) as well as internal forces (e.g. company-specific diversity measures) are needed to raise market standards on diversity.



36. The emigration of highly-trained or qualified people from a particular country

Collaborations

Our work in the US

In November 2022, for the second year, LGIM supported the Russell 3000 Board Diversity Disclosure Initiative as an investor signatory. This initiative comprised a coalition of investor organisations calling on companies in the Russell 3000 Index to annually disclose the make-up of their boards of directors – inclusive of gender, race and ethnicity. An important ask, given the correlation between board diversity and long-term performance.[37] Since 2020, the Illinois State Treasurer has led this initiative which includes 26 global investor organisations representing over US$3 trillion in AUM.[38]

In 2022, the initiative wrote letters, taking a differentiated approach between top performers with individual-level disclosure (386 companies), middle performers with either partial or aggregate-level disclosure (1,847 companies), and bottom performers with no disclosure (702 companies). It is extremely promising to see that the level of disclosure in aggregate or by individual director has increased from 292 companies in 2020, to over 2,200 companies in 2022 – a significant increase over the span of two years.[39]

37. Office of Illinois State Treasurer
38. Michael W Frerichs
39. Michael W Frerichs

30% Club Investor Group

LGIM has been a long-standing member of the 30% Club Investor Group chapters in the UK, France and Japan, through which we support the push for greater diversity via sharing best practice and collaborative engagement efforts.

UK

In February 2022, the UK Investor Group launched its Investor Statement on race equity, which LGIM supported. This calls on UK public companies to advance diversity and inclusion efforts on racial representation and disclosure. During 2022, the Race Equity Engagement workstream began engagement with FTSE 250 companies, focusing on the laggards, who have yet to comply with the UK's Tyler-Parker Review of having at least one ethnically diverse director by 2024. This workstream will continue into 2023.

France

Through this group, LGIM has led engagements with Renault[†] (ESG Score: 51; +2) and co-led engagements with Kering[†] (ESG Score: 68; -2) – two SBF120 index constituents. Since 2017, listed companies in France must have a minimum of 40% of women on the board under the Copé Zimmermann law. The Rixain Law adopted in 2021 also enforces that executive committees must have 30% female representation by 2027 and 40% by 2030. We had the pleasure of speaking with French MP Marie-Pierre Rixain as part of the 30% Club in 2022 to exchange views. The annual report from 30% Club France Investor Group is available here.

Japan

As a member of ACGA, in October 2022 we co-signed a letter to the FSA and the Tokyo Stock Exchange in Japan to encourage raising the bar on diversity within the Corporate Governance Code and stock exchange listing rules, respectively. We also met in person with both organisations in October as a member of ICGN and welcomed the FSA's proposal to integrate sustainability into the statutory disclosure framework ('Yuho'), including mandatory disclosures on diversity-related metrics.

ESG score

Renault[†]
LGIM ESG Score 51
+ 2 points

Kering[†]
LGIM ESG Score 68
- 2 points

[†]References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Gender pension gap

Another emerging diversity issue that also intersects with the topic of income inequality is the gender pension gap. Although there is no official standard of measurement, it is generally understood to mean the difference in pension savings between men and women.[40]

Legal & General has set up a Pensions Equalities Taskforce that aims to engage with the UK government, regulators and trade bodies to establish priority actions, bring providers and industry representatives together to collaborate on research and representation, and work with employers and clients to help find solutions.

In 2022, the taskforce conducted a survey of over 4.5 million pension scheme members and found that the gap starts on 'day one' in the job, with an average 16% gap at the start of womens' careers, increasing to a gap of 55% on retirement.[41]
A plethora of factors, including lower salaries, career breaks and auto-enrolment minimum threshold requirements, mean that, on average, women retire with a pension pot of less than half the size of mens'. Given women tend to live four years longer than men on average,[42] lower savings will limit their choices in retirement. Therefore, we believe this is a critical issue for all companies and has very real consequences.

40. Office for National Statistic, Saving for retirement in Great Britain: April 2018 to March 2020
41. L&G, 2020, over 4.5 million members surveyed; c. 40,000 retiree sample size
42. Life expectancy at birth in the UK: 82.9 years for women vs 79 years for men, average four years; Office for National Statistic, 2018 to 2020

Votes

Gender diversity

On an annual basis we review our voting policies across a variety of markets to ensure they are pushing companies to improve gender representation. At the end of 2022 we strengthened some of our policies:

North America

Our expectations have been lower than in the UK, given the North American market started from a lower base. However, from 2023, we will expect all company boards to be made up of at least one-third women.

UK

We will continue to apply voting sanctions to those FTSE 350 companies that do not have a minimum of one-third women on their boards. For smaller companies, our policy has been to require at least one woman 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 will expect women to represent at least 25%, rising to 33% by 2024.

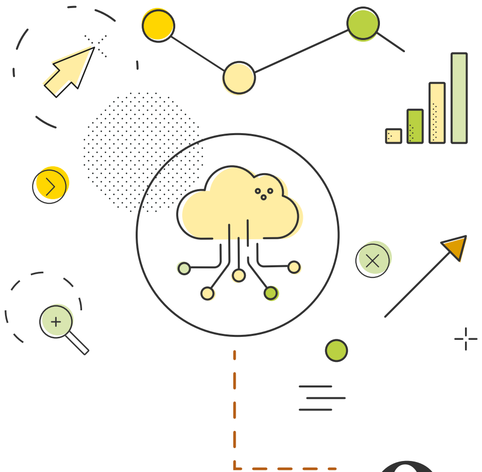
Japan

We have raised our expectations for the largest companies, and for companies in the TOPIX 100, we expect there to be 15% of women on the board; for companies in the TOPIX 500, we expect there to be at least one woman on the board.

Executive committee diversity

We continue to push for better gender diversity across all roles in our investee companies. Last year, we updated our policy to announce that from 2022, we would vote against FTSE 100 and S&P 500 companies that have all-male executive committees. Since the beginning of the year, we have voted against 69 companies on this issue,[43] illustrating that much more change is needed to improve gender diversity levels of these important decision-making teams. We will continue to explore how we can have further impact on this issue going forward, and our voting stance will continue into 2023 and beyond.

43. LGIM internal voting data, 2022



Our various campaigns and establishment of voting policies remind us of the importance of the availability and accuracy of data.

Data

We are meticulous in confirming the accuracy of data with companies – for example, ethnic diversity data can be both sensitive and elusive. Nevertheless, the data we obtained from proxy advisory firm, Institutional Shareholder Services (ISS) was for the most part reliable; instances where it was found to be inaccurate were often down to the methodology of data collection, and the location and type of company disclosure. We are acutely aware of the key role of transparency and disclosure when it comes to stewardship and will be closely observing how data quality from our third-party sources evolves and improves.

ESG: People and Health

- We used our votes to push for progress on antimicrobial resistance by supporting three shareholder proposals on this issue
- In 2022, we gave companies an ultimatum to disclose their living wage strategy by 2025
- We placed just over 100 votes on social and people-related matters, including labour rights, inequality and discrimination

Healthcare

Antimicrobial resistance

Antimicrobial resistance (AMR) is one of our global systemic engagement themes. The World Health Organisation (WHO) describes AMR as one of the top 10 global public health threats facing humanity today.[44] The World Bank estimated in 2016 that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis.[45] Finally, a study published in January 2022 confirmed that 1.27 million deaths globally in 2019 were directly attributable to bacterial AMR, while 4.95 million deaths were indirectly linked to bacterial AMR.[46] As a global investor across multiple asset classes, LGIM can see the widespread impact AMR may have across numerous sectors from healthcare and pharmaceuticals, to travel and leisure.

In 2022 we continued our work on this important topic. Following on from our initial engagement with water utility companies in 2021, we decided to take a proactive policy-focused approach to progressing this topic. While international awareness of AMR is rising and commitments were made at G7 meetings[47] in 2021, we believe the scale of action across both the public and private sectors remains insufficient to prevent catastrophic economic and human impacts.

Based on our corporate engagement with water utility companies and considering the crucial role of the water sector in AMR, in 2022 we wrote to 11 international organisations[48] asking them to focus on four key areas to push for market-wide improvement:

1. Expand and strengthen sectoral coverage to highlight AMR in the environment, specifically when it comes to water and waterways. A coordinated effort is needed to highlight the risks that antibiotics in the environment, and especially in our water systems, present to humans and society at large.

2. Integrate AMR risks into sustainable finance, specifically regulation targeted at improving disclosure across the investment chain. LGIM recommends policymakers initially focus on regulation targeted at strengthening corporate disclosures across public and private markets, namely the IFRS International Sustainability Standards Board (ISSB) standards and activity-based classification regulations such as the EU and UK Green Taxonomies. Thereafter we recommend they move to disclosure regulation across the investment chain (similar to the European Union's Sustainable Finance Disclosure Regulation).

3. Build on existing work in line with WHO initiatives and establish a 'Global Multi-stakeholder Partnership Platform on AMR' that creates both an independent accountability mechanism and a focal point to guide countries and stakeholders to effectively tackle risks arising from AMR. LGIM encourages investors, multilateral organisations (e.g. FAO, UN, WOAH (ex-OIE), WHO, UNEP, and OECD), and policymakers to actively support and participate in the establishment of the platform.

4. Implement robust enforcement mechanisms in cases of significant inaction. LGIM believes governments must strengthen their monitoring and enforcement mechanisms to improve transparency and implementation. We suggest policymakers should consider incentivisation or application of a penalty factor, for example, an 'AMR tax' on those taking no action.

44. The World Health Organisation
45. The World Bank, 'Final Report, Drug Resistant Infections. A threat to Our Economic Future', March 2017, World Bank
46. The Lancet 'Global burden of bacterial antimicrobial resistance in 2019: a systematic analysis', January 2022
47. UK government
48. One Health Trust, UNEP, OECD, ECDC, EFSA, EMA, EBRD, WHO, FAO, WOAH (ex-OIE) and HGPI

In addition, leading up to COP27 held in November 2022, in the letter we asked policymakers to consider the clear correlation between climate change, infectious diseases and AMR[49] and to take a system-level approach, ensuring that policy designed to tackle either climate change or AMR is implemented in an integrated and complementary way.

Further, we used our votes during the 2022 AGM season to support those shareholder proposals which directly addressed AMR. At Abbott Laboratories† (ESG Score: 57;+4) we supported the proposal requesting a report on the public health costs of antimicrobial resistance. We supported shareholder resolutions calling for a similar report from Hormel Foods Corporation† (ESG Score: 50; +14) and for the second year running, from McDonald's† (ESG Score: 69; +6).

We were delighted to contribute to the Citi GPS publication on Antimicrobial Resistance: The Silent Pandemic,[50] which gathered contributions from distinguished leaders in the field, such as Dame Sally Davies, Lord Jim O'Neill and Professor Timothy Walsh. We highlighted the financial materiality of AMR for investors, and the role that investors can play in mitigating the risks, through both direct company engagement, and engaging with policymakers and regulators.

The COVID-19 pandemic has taught us that a delayed response to an urgent public health crisis has drastic consequences for both human life and financial security[51] – we believe it is essential that, as caretakers of our clients' assets, we do our part.

ESG score

Abbott Laboratories†

LGIM ESG Score 57

+ 4 points

Hormel Foods Corporation†

LGIM ESG Score 50

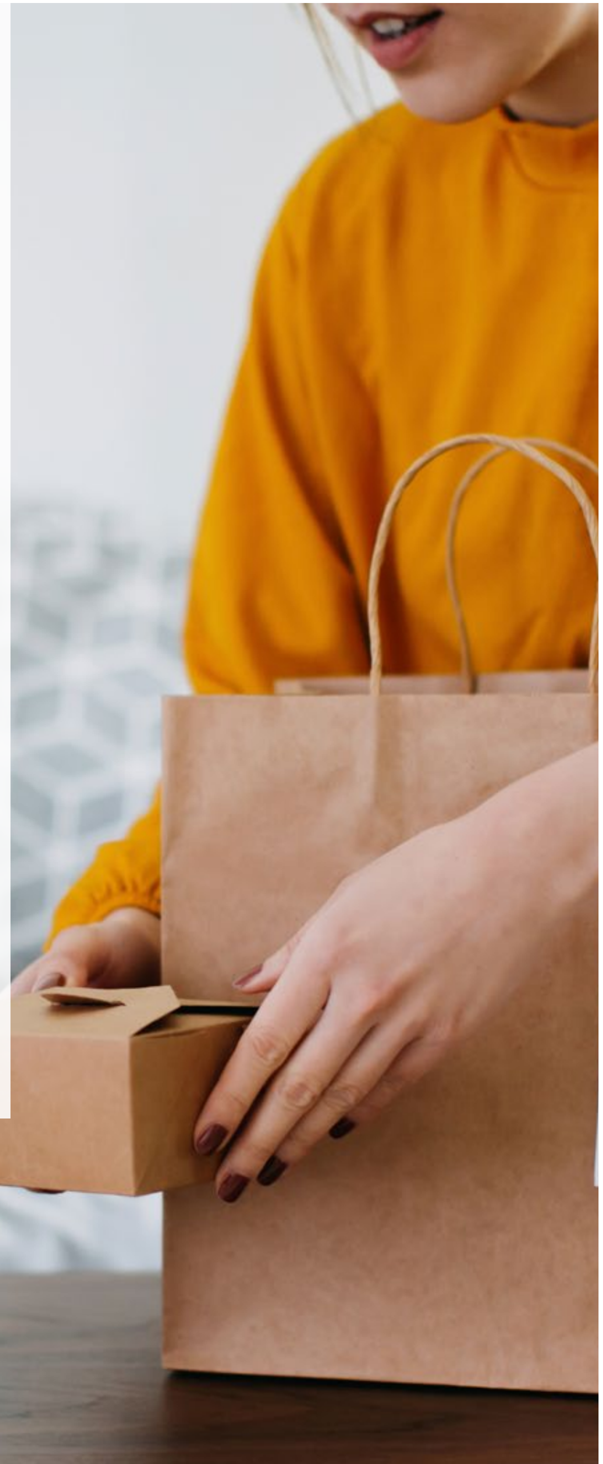
+ 14 points

McDonald's†

LGIM ESG Score 69

+ 6 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here



49. Bennett Institute for Public Policy, February 2022
50. Citi GPS, AMR: The Silent Pandemic, December 2022
51. Global Coalition on Aging, June 202

For the second year we continued our collaborative engagement under the auspices of the Access to Nutrition Initiative (ATNI), with the listed companies within their index. In particular, we co-led two engagement streams, with BRF† (ESG Score: 47; +6) and Grupo Bimbo†.

Grupo Bimbo SAB de CV†

Identify and engage

Mexican multinational Grupo Bimbo (ESG Score: 41; +11) is one of the 25 largest food and beverage companies globally.[52] It produces and sells bakery products and operates in the Americas and Europe. Within the latest iteration of the ATNI Index, Grupo Bimbo scored 4.2/10 ranking 9th out of 25 organisations.

ATNI notes that Grupo Bimbo does not report against an independently developed and governed nutrient profiling model (NPM), such as the Health Star Rating (HSR) or NutriScore, but rather uses its own internal NPM. We believe employing an NPM which is independently developed and governed, and government endorsed, enables investors to more easily compare similar companies' product portfolios.

Together with Achmea Investment Management we co-led the engagement with Grupo Bimbo† under the auspices of ATNI.

ESG score

BRF†
LGIM ESG Score 47
+ 6 points

Grupo Bimbo†
LGIM ESG Score 41
+ 11 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

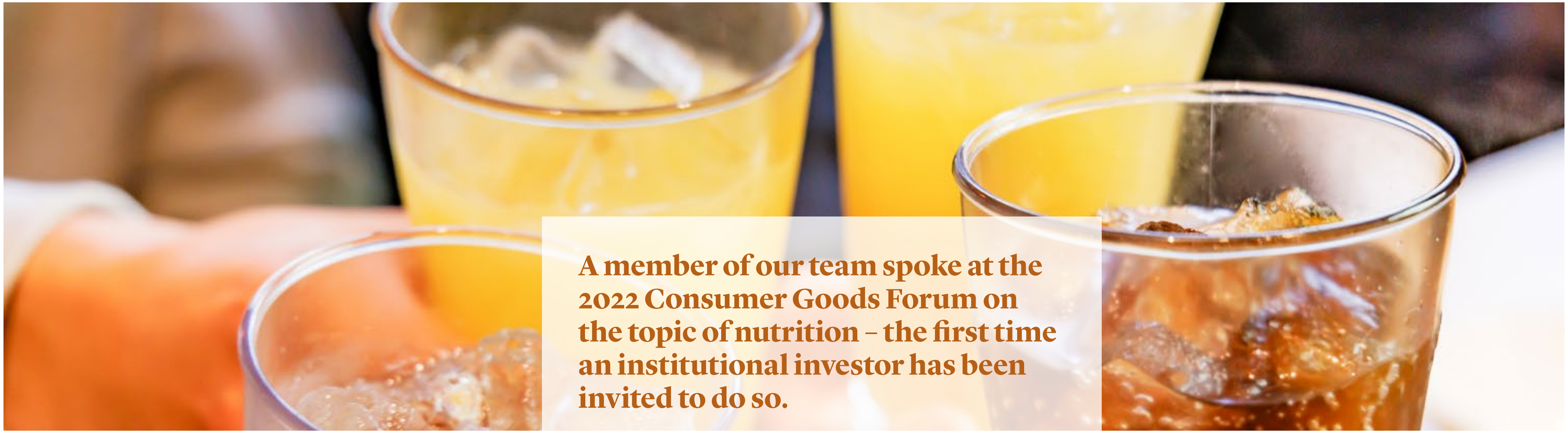
Outcome

Following written communications with the company and follow-up meetings, the company stated that it will benchmark its own nutrient profiling system against the Health Star Rating NPM which is also the NPM employed by ATNI.

Grupo Bimbo further disclosed that it will be reporting the percentage of its sales which are attributable to healthy products as defined by HSR. The company also indicated that it will undertake a third-party audit of the nutrition aspects reported in its annual report.

In our most recent meeting in September 2022, the company noted that it had set targets for products which will improve regional micronutrient deficiencies. Grupo Bimbo will, for every region in which it operates, identify specific micronutrients, develop a regional specific strategy (e.g. product reformulation) and set a price point which will enable 'accessibility and affordability' for the targeted population. Grupo Bimbo also specified that it will increase its public disclosure around its responsible marketing practices. We look forward to continuing to engage with and monitor Grupo Bimbo's progress in the area of nutrition.

52. Access to Nutrition Initiative, Global Index, 2021



A member of our team spoke at the 2022 Consumer Goods Forum on the topic of nutrition – the first time an institutional investor has been invited to do so.

In addition to our membership and collaborative engagement through ATNI, we also became members of ShareAction's Healthy Markets Initiative at the beginning of 2022. We see this as an additional avenue through which to put pressure on global companies alongside our peers.

Under the ShareAction umbrella we co-signed, alongside our peers, letters to 12 food and beverage manufacturers in November.[53] In the individual letters, tailored to each company, we encouraged them to do more in areas such as, transparency on their nutrition strategies; demonstrating progress on these strategies; committing to disclose the share of the company's portfolio and sales associated with healthy food and drinks products (using government-endorsed nutrient-profiling models); and setting targets to increase the proportion of these sales. We also praised those companies that had taken notable positive steps.

In relation to our voting activities, we draw attention to PepsiCo† (ESG Score: 58; +7), where we voted in favour of a shareholder proposal at its May AGM for a report on 'External Public Health Cost'. We believe that the proposed study would contribute to informing shareholders and other stakeholders about how actions the company takes (or does not take) may contribute to long-term negative human-health impacts, such as obesity.

We will monitor the companies' progress over 2023 on the points raised with each, and engage with them directly, in collaboration with ShareAction, to push for improvements on specific areas.

ESG score

PepsiCo†

LGIM ESG Score 58

+ 7 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

53. Danone†, General Mills†, Kraft Heinz†, Mondelez†, Unilever†, Nestlé†, PepsiCo†, Coca Cola†, Suntory†, Britvic†, AG Barr† and Premier Foods†.

Income inequality and human capital

Income inequality – living wage

In 2019, the World Bank estimated that approximately 648 million people were living in extreme poverty.[54] Although the level of global poverty has been reducing, it is estimated that between 75 million and 95 million additional people could be living in extreme poverty in 2022, due to factors including the Russia/Ukraine war, the COVID-19 pandemic and current rates of inflation across the globe.[55] To put this into perspective, extreme poverty is where a person is earnings less than US$2.15 per day.[56]

LGIM's focus is on in-work poverty. That is because living in poverty can impact a worker in a number of ways[57], including:

- Health, both physical and mental – studies have found a correlation between low wages and an increased risk of suicide[58]
- Productivity – it can have a negative impact on workforce morale

It can also represent a major risk for companies:

- Absenteeism is the biggest risk and cost to a company – according to the US Bureau of Labour Statistics, the cost to businesses in the US in 2018 was US$150 billion per year
- Presenteeism – employees who are demotivated, burned out or unproductive due to other health reasons cost US$1,500 billion per year[59]

54. The World Bank; 2022
55. United Nations, 2022
56. The World Bank, November 2022
57. Cambridge Institute for Sustainability Leadership, 2022
58. BMJ Journals, 2019
59. Thrive Global, January 2021
60. Global Living Wage Coalition

LGIM considers the impacts of income inequality and poverty a real concern. We believe the impact it has on workforce productivity and depressed demand for goods and services has the potential to affect the value of the companies that we invest our clients' assets in.

LGIM's expectations of companies:

All companies should ensure that they are paying their employees a living wage[60] and that this requirement should also be extended to all firms across their supply chains.

Company boards should challenge decisions to pay employees less than the living wage.

When reviewing executive pay, remuneration committees should consider the pay practices for all employees.

Employees should be offered the opportunity to work at least 15 hours per week.

Priority should be given to the lowest paid employees when making annual pay increases.

Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

LGIM is a member of two collaborative engagement groups; ShareAction's Good Work Coalition and the Platform for Living Wage Financials. The Good Work Coalition aims to encourage UK companies to pay their employees a real living wage and to become accredited living wage employers. We have been working with this coalition since 2015. We joined the Platform for Living Wage Financials (PLWF) in 2022, to encourage, support, assess and monitor investee companies on their commitment to enable living wages and incomes for workers in their supply chains. LGIM carried out the assessment, scoring and engagement with three companies: PVH† (ESG Score: 58; +2), Tesco† (ESG Scope: 61; +5) and Walmart† (ESG Score: 50; unchanged). In 2023, we plan to increase the number of companies that LGIM assess as part of the work carried out by the PLWF.

ESG score

PVH†

LGIM ESG Score 58

+ 2 points

Tesco†

LGIM ESG Score 61

+ 5 points

Walmart†

LGIM ESG Score 50

unchanged

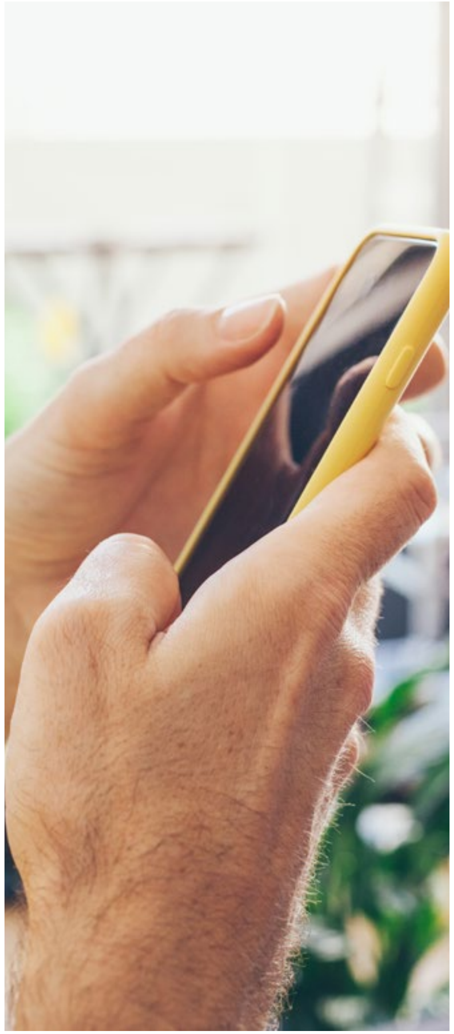
†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

During 2022, LGIM held 38 company engagements with 23 individual companies to discuss income inequality. Of these engagements, 12 were collaborative with other investors and LGIM led the engagements with the three companies mentioned above (PVH, Tesco and Walmart).

In 2022, we introduced a new expectation in our published guidelines relating to income inequality. The aim is to drive the adoption of a living wage strategy and encourage its public disclosure. Under this policy, LGIM will vote against the annual report of those companies that fail to disclose their living wage strategy by 2025. Although we ask all companies to adopt a strategy to ensure workers internally and in their supply chain are paid a living wage (or the real living wage in the UK), our voting sanctions will initially be applied to the largest companies in the UK, Europe and the US.

LGIM, together with other long-term investors, published an investor statement on the UK cost-of-living crisis. It sets out a list of actions for companies to address the impact of the cost-of-living crisis on their employees. This includes prioritising support for their lowest paid employees by either increasing pay to match the real living wage or make one-off cost-of-living payments.

Over the last few years, our thematic engagement focus has been on the food retail sector as we believed these companies were likely to be less financially impacted by the COVID-19 pandemic. We believe that, while a majority of their employees will be on low pay, these companies are in a better position to ensure their workforce is earning at least a living wage.



That is why in 2022 we joined forces with ShareAction in escalating our strategy by way of a shareholder-led resolution at Sainsbury's[†] (ESG Score: 54; +4).

Spotlight on Sainsbury's[†] staff wages

Identify and engage

Sainsbury's came under scrutiny for not paying a real living wage to all of its workers. LGIM initially engaged with the company's former CEO in 2016 on this issue and, by 2021, Sainsbury's was paying a real living wage to all employees, except those in outer London. We joined forces with ShareAction to encourage the company to change its policy for outer London workers. However, these engagements failed to deliver the change we sought.

In April 2022, LGIM joined ShareAction in filing a shareholder resolution asking the company to become a living wage accredited employer. As an accredited living wage payer, the company would be obliged to ensure that all workers within its premises were earning the real living wage, including its contracted staff.

LGIM believes that the successful companies of the future will be those that recognise the importance of all employees – not just those who are directly employed, but also contractors and those within their supply chains. We encourage companies to work together to make the living wage the new normal for lower skilled roles.

ESG score

Sainsbury's[†]

LGIM ESG Score 54

+ 4 points

[†]References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Outcome

Since filing the shareholder resolution, Sainsbury's has made three further pay increases to its directly employed workers, harmonising inner and outer London pay and is now paying the real living wage to its employees, as well as extending free food to workers well into 2023. We welcome these actions which demonstrate the value the board places on its workforce. We have asked the board to collaborate with other key industry stakeholders to bring about a living wage for contracted staff.

Freedom of association at Amazon†

Identify and engage

Over the last 18 months, we have engaged with Amazon† (ESG Score: 54; -1) eight times, independently and collaboratively, to discuss the company's approach to, and policies on, various human capital topics.

One of the risks identified by the company in its Human Rights Impact Assessment (HRIA) is freedom of association. This includes the right to form and join trade unions. In 2021, Amazon had been accused of interfering with efforts by its workers to unionise. Upon investigation, the US National Labor Relations Board declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards.[61] Amazon workers decided against unionisation at a second, close vote.

Nevertheless, ahead of the vote result, in a second collaborative letter we signed in January 2022, we requested the company immediately adopt a global policy of neutrality, commit to negotiate with the union in good faith should workers vote for unionisation, and initiate dialogue with relevant trade unions at a national and global level on implementation of its labour rights commitments.

Amazon argued that it currently adheres to all ILO standards on freedom of association.

ESG score

Amazon†

LGIM ESG Score 54

- 1 point

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Outcome

Having pre-declared our voting intentions on our blog, we supported many of the shareholder proposals at Amazon's AGM, including requesting a report on Protecting the Rights of Freedom of Association and Collective Bargaining, which gained 38.5% support. This issue remains on the agenda for our future engagement meetings and we continue to push for further transparency.

In 2022, we placed just over 100 votes on social and people-related matters, including labour rights, ethnicity and diversity, inequality and discrimination (excluding political and charitable donations and lobbying; animal welfare; health outside labour-related; data security and privacy). We supported 90 of these (89.1%), with the majority of our votes against due to sufficient progress already made or an overly broad remit of the proposal.

61. The Washington Post, November 2021

Developing a place-based impact approach for real estate: The Dolphin Centre, Poole

Identify and engage

We believe that real estate owners and investors have an important role to play in delivering meaningful societal impact. As such, in 2022, we explored how we could create a robust framework to capture the intentional, additional, and attributable economic, social and environmental benefits across our assets and the communities that they serve. Using Poole-based shopping centre, the Dolphin Centre, as one of our pilots, we focused on five key areas:

1. Understanding the local needs of the place in which the asset is located
2. Engaging with the local community and local representatives
3. Ensuring the plan is aligned with our commercial objectives
4. Catalysing change through partnerships and collaboration
5. Monitoring and measuring the impact, both commercially, and socially

Outcome

The Dolphin project was part of the wider LGIM Real Assets retail strategy that involved reimagining the shopping centre into a mixed-use community hub, offering products and services aimed at delivering positive, and more inclusive, environmental and social outcomes for the local community. Initially, a community partnership was established with key community stakeholders to understand local needs, notably an ageing population and a lack of suitable employment opportunities. Smaller sub-projects were then designed to cover a range of aims, including providing access to affordable spaces for local businesses.

The Dolphin Centre also welcomed the country's first 'Think Big Clinic', with the NHS University Hospitals Dorset. Not only aimed at tackling patient waiting times, the centre will cover dermatology, orthopaedics, ophthalmology and breast screening. By setting up a breast screening unit in the middle of Poole, the Trust will be able to offer women from all over the county the opportunity to have mammograms, which were delayed by COVID-19, in a purpose-built unit. This has not only diversified the asset offering for the community, but has delivered significant place-based social impact.

Dolphin Centre, Poole

War in Ukraine: impact on Russia and Belarus indices

Prior to Russia's invasion of Ukraine in February 2022, LGIM's exposure on behalf of our clients to Russia was generally through index-based investments in emerging market bond or emerging market equity index investments.

In early March 2022 all relevant equity index providers confirmed the removal of Russia from flagship emerging market benchmarks. On 31 March Russia was excluded from all JPMorgan fixed income indices. Belarus was excluded from all JPMorgan indices on the same date, though it remained part of the standard EMBI indices. The removal of our exposure to Russia and Belarus, in our fixed income index funds, was completed shortly after the exclusion of these countries from the indices mentioned above.

How we responded

LGIM has an established policy on valuing securities where transparent and up-to-date market pricing is not available.

By the end of February 2022, LGIM's pricing committee had considerably marked down the value of Russian equity securities, and on 2 March we marked them down to zero, in line with our fair value pricing policy. Once the various indices also priced the assets at zero, the LGIM portfolios and various indices were aligned. Despite being priced at zero, Russian equities continue to be held within LGIM portfolios.

As hard currency fixed income markets continued to operate, and updated pricing was being received by our various pricing providers, no across-the-board fair value pricing adjustment was made to Russian or Ukrainian bond positions.

However, certain individual bond positions were adjusted. With regard to local currency bonds, on 10 March we moved local currency Russia government bonds to zero.

Environmental | Social | Governance

ESG: Investor rights

- In 2022, we reinforced our commitment to 'one share, one vote'
- We continued to use shareholder resolutions to engage with companies and escalate issues
- We took a holistic approach to ESG themes, understanding that there is a governance angle to a company's management of many ESG-related issues

All shares are not created equal

We believe voting is an essential right for shareholders, to promote market efficiency and to hold company boards accountable. However, the prevalence of unequal share class structures, also called 'dual class' shares (i.e. two or more types of share, with different voting rights) continues to impede shareholders' rights.

We are strong proponents of the 'one share, one vote' standard, based on the principle that control of a company should be commensurate with the economic interests of investors. In our recent blog post, we provided more details on the history of dual-class share structures, the arguments for and against, and the evidence of what effect they can have on a company and its performance.

We have long advocated for equal voting rights. And from 2023, we will be voting against the re-election of the board chair at US-incorporated companies with dual-class structures, where:

- The company does not have a plan to set a time limit on a dual-class structure, and
- Shareholders have not been given the opportunity to regularly vote on its continuation

At the moment, this policy applies only in the US, where we have seen notable companies go public with dual-class share structures. In the future, we may extend it to other jurisdictions where we feel similar action is appropriate.

We are strong proponents of the 'one share, one vote' standard, based on the principle that control of a company should be commensurate with the economic interests of investors.

Co-filing shareholder resolutions: our resolve

The ability to propose resolutions at shareholder meetings is an important investor right, although practicalities and thresholds vary between jurisdictions. When might we consider filing a shareholder resolution – and why do we do so sparingly?

Shareholder resolutions are part of our engagement strategy. We support proposals that seek to increase our rights in this regard (i.e. 'proxy access'), as this represents the ultimate tool to proactively change the status quo and hold boards to account.

Our engagement process with companies is structured: we have a number of different 'levers' we can pull to escalate an issue – we use different tools depending on the company, market and topic that needs addressing.

Filing a resolution puts pressure on a company and encourages them to discuss and resolve issues with us. This may encourage the company to propose and take action long before the shareholder meeting, thereby potentially avoiding the topic being included on their meeting agenda, which in turn could avoid a shareholder show-down and eventual public vote. This means our sought-after change can occur without the resolution ever being tabled.

In late 2022, we elevated our work on an engagement campaign with McDonald's†. For the last two years we supported AMR shareholder proposals filed at McDonald's, pre-declared our votes in relation to these resolutions, and engaged with the company. We also signed a collaborative investor letter under the leadership of ICCR asking the company to publish targets related to the reduction of medically important antibiotics for the routine prevention of disease in its global beef supplies, which in 2018 they had announced that they would do by end of 2020.[62] Given insufficient progress on these issues, we decided it was time to further escalate our concerns.

During the autumn of 2022, we were approached by The Shareholder Commons[63] to co-file a shareholder proposal asking McDonald's to apply the World Health Organization Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animals throughout its supply chains. We co-filed the shareholder proposal on 1 December 2022. The company has since released its antibiotics reduction targets, two years after the initial deadline.

At the time of publication, McDonald's has not met the request in the shareholder proposal, so we will not be withdrawing the resolution. LGIM is however looking forward to working with the company, both individually and collaboratively with other shareholders over the course of 2023 and beyond, to meet our request.

We are approached on a regular basis by shareholder organisations and fellow investors about filing shareholder resolutions on a range of topics. We consider each of these requests on an individual basis, comparing the resolution demands against our own views and policies, and considering the alignment with our global themes and engagement programmes.

Shareholder resolutions remain a useful element of our engagements. Where we have filed or collaborated on select proposals, we have found that they have been an effective means of escalation – both at the individual company level and for market-wide change more broadly.

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

62. McDonalds, 2018
63. An independent non-profit organisation that addresses ESG issues from the perspective of shareholders

Seeking climate stars – finding governance black holes: Capricorn†

Identify and engage

At LGIM, we engage across the ESG aspects of responsible investing. While climate change is often at the forefront of investors' minds when it comes to responsible investment, we believe that many ESG elements are linked, and that many decisions relating to climate ultimately come down to governance.

Our engagement with oil & gas company, Capricorn Energy† (ESG Score: 58; +1) demonstrates how LGIM's Investment Stewardship, Investment and Climate Solutions teams work together in pushing for a better financial and environmental outcome for stakeholders, and the power of combined shareholder action.

During 2022, Capricorn's board pursued M&A deals that raised concerns about the company's governance and decision-making processes, given the potential negative impact on Capricorn's shareholders. As a smaller scale energy company, we believed Capricorn's climate credentials had been reasonable and until the surprising announcements by the board and their subsequent actions, no material governance concerns had previously been raised.

The first proposed merger with Tullow Oil† (ESG Score: 26; -5), an Africa-based oil company, was announced in June 2022. LGIM's Investment Stewardship and Climate Solutions teams spoke directly with Capricorn's management team and directors to voice our concerns about the proposed transaction, as it didn't seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, we believed that such a merger would have resulted in increased financial leverage and dramatically elevated climate transition risks.

In further conversations with Capricorn, we sought detailed explanations about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger, before a decision was taken by Capricorn to abandon the deal, citing concerns about market conditions and external factors.

A second merger was then proposed with NewMed†, an Israeli-based natural gas producer. This merger was met with rising suspicion and even less support than the first and we met again with Capricorn to voice our concerns. We are not the only shareholder to have questioned the Capricorn board's actions, and one of its largest shareholders, Palliser Capital, became more vocal about its objections to the proposed NewMed deal, which had also begun to attract attention and criticism in the press.[64]

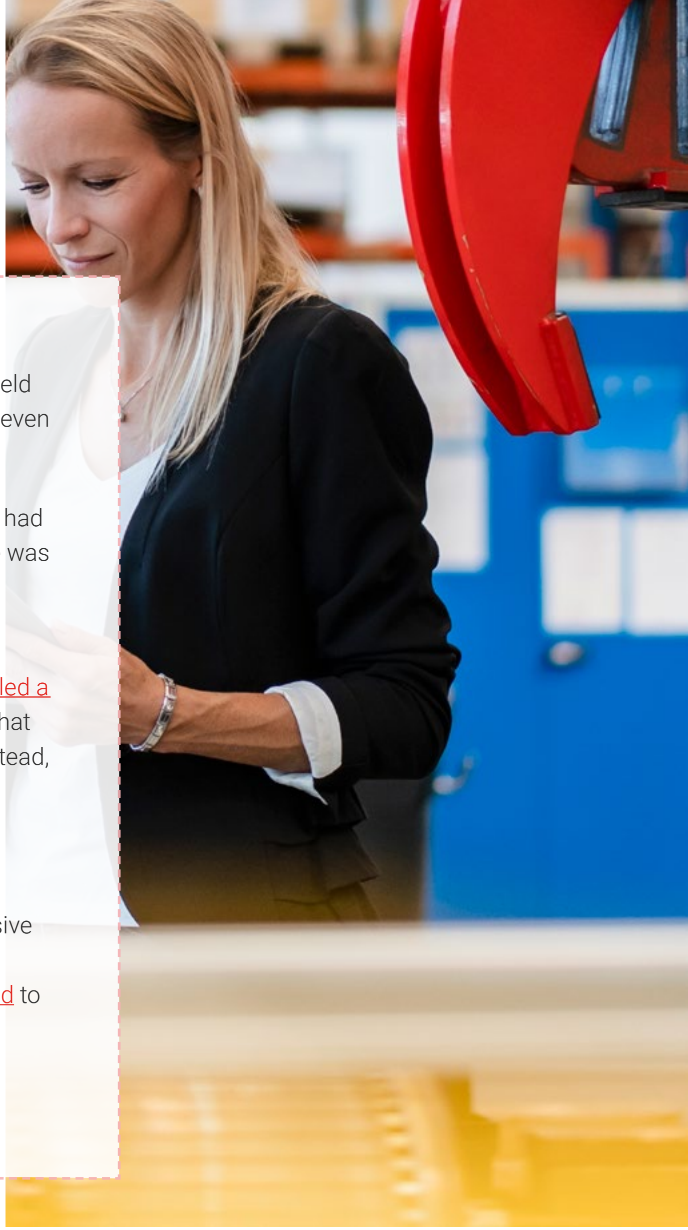
ESG score

Capricorn Energy†
LGIM ESG Score 58
+ 1 point

Tullow Oil†
LGIM ESG Score 26
- 5 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

64. For example, Capricorn/NewMed: better price would align stars for E&P deal | Financial Times (ft.com)



Outcome

As a result of these unpopular proposals, Palliser Capital called for an extraordinary general meeting (EGM) to be held in January 2023, for shareholders to vote on a complete overhaul of the board, while requesting the deposition of seven directors, including the CEO, and the appointment of six new members instead.

As reported widely in the press,[65] LGIM declared its support for the restructure of the board. We believed that there had been a substantial breakdown in relations between the board and its shareholders, to such an extent that a change was warranted. Adding our voice publicly to this action increased its strength and momentum – to quote The Guardian, 'LGIM's intervention has changed the script'.[66]

Despite the mounting investor pressure, Capricorn's board decided to go ahead with the NewMed deal and scheduled a meeting for shareholders to vote on it on the same day as the planned vote on the Palliser proposals – a decision that was reversed shortly after, following significant governance concerns LGIM and other shareholders had raised. Instead, a postponed extraordinary general meeting to vote on the planned merger was now to take place on 22 February.

The company announced the resignation of the seven directors who were proposed to be removed, and on the shareholder meeting held on 1 February 2023, all six directors proposed by the proponent were elected by an overwhelming majority of 99.2% of the votes cast. The newly constituted board intended to conduct a comprehensive strategic review of Capricorn's business and potential directions for the future, with a priority given to the NewMed transaction. Resulting from the strategic review, and given shareholders' views, the board and NewMed have agreed to terminate the business combination, and all resolutions at the 22 February EGM were withdrawn.

Given our mounting concerns at the time, we also pre-declared our voting intentions for the EGMs.[67]

65. For example, Legal & General joins shareholder revolt at Capricorn Energy | Business | The Times and Activist investor demands shake-up at gas producer Capricorn Energy | Financial Times (ft.com)
66. The Guardian, December 2022, 'Now would be a good moment for the chair of THG to find his voice | Nils Pratley | The Guardian
67. LGIM, 2022

Changing corporate governance practices in Japan

Toyota Motor Corporation†

Identify and engage

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies such as Toyota Motor Corporation† (ESG Score: 52; +2), to improve their corporate governance and sustainability practices.

At Toyota, we have identified key issues around:

1. Capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure); and

2. Board independence, diversity and effectiveness.

We originally started our engagement with Toyota in September 2021, alongside fellow shareholders. Our second meeting was held in early 2022 to discuss climate change, board composition and capital allocation. Throughout these meetings with Toyota's investor relations team and chief sustainability officer, we expressed our concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.

ESG score

Toyota Motor Corporation†

LGIM ESG Score 52

+ 2 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Outcome

Given the company's size and influence at Japan's largest business federation and in industry associations, and since Toyota's first inclusion in our Climate Impact Pledge engagement in 2017, we have questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of our red lines under sector guides for the auto sector in the Climate Impact Pledge). We were delighted to see improved transparency from the company in its climate public policy published in December 2021. While we consider corporate transparency a good first step, we hope that this will enable us to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

In September 2022, we spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors can add value to the board and the quality of board discussions.

Given a recent controversy at one of Toyota's group companies (Hino†),[68] we will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

68. Reuters, August 2022

Sumitomo Mitsui Trust Holdings†

Identify and engage

High levels of cross-shareholding (where one publicly traded company holds a significant number of shares in another) are common in Japan. Reducing these cross-shareholdings remains a challenge for many Japanese companies – including its biggest banks – despite various reforms implemented by Japan's FSA and the Tokyo Stock Exchange.

Sumitomo Mitsui Trust Holdings† (SuMi Trust) (ESG Score: 60; -3) approached us for a meeting. We had an open and honest discussion with the company, including about the established threshold of no more than 20% of assets to be held in cross-shareholdings. 20% is the level we have applied in LGIM's own voting policy – in line with market expectations and similar voting thresholds at the main proxy advisers – and we were keen to understand SuMi Trust's plans in this area. We were pleased to hear that the board had put in place clear plans to reduce cross-shareholdings to 0% over time, and this alleviated our concerns regarding the existing level.

ESG score

SuMi Trust†

LGIM ESG Score 60

- 3 points

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

Outcome

LGIM's corporate governance policy for Japan was amended with regard to cross-shareholdings to improve companies' capital management. From 2022, we applied votes against the board chair due to strategic shareholdings exceeding 20% of net assets. In line with this strengthened policy, we lodged over 160 votes against individual directors at Japanese companies for inappropriate capital management.

Although our concerns were alleviated at SuMi Trust following our meeting, a vote was applied at the June AGM against the re-election of the chair for other governance issues. As an executive director, he is also a member of the nomination and remuneration committees, which we believe may hinder the operations of these supervisory committees. We will continue to engage with the company, and have already set up a meeting in early 2023.

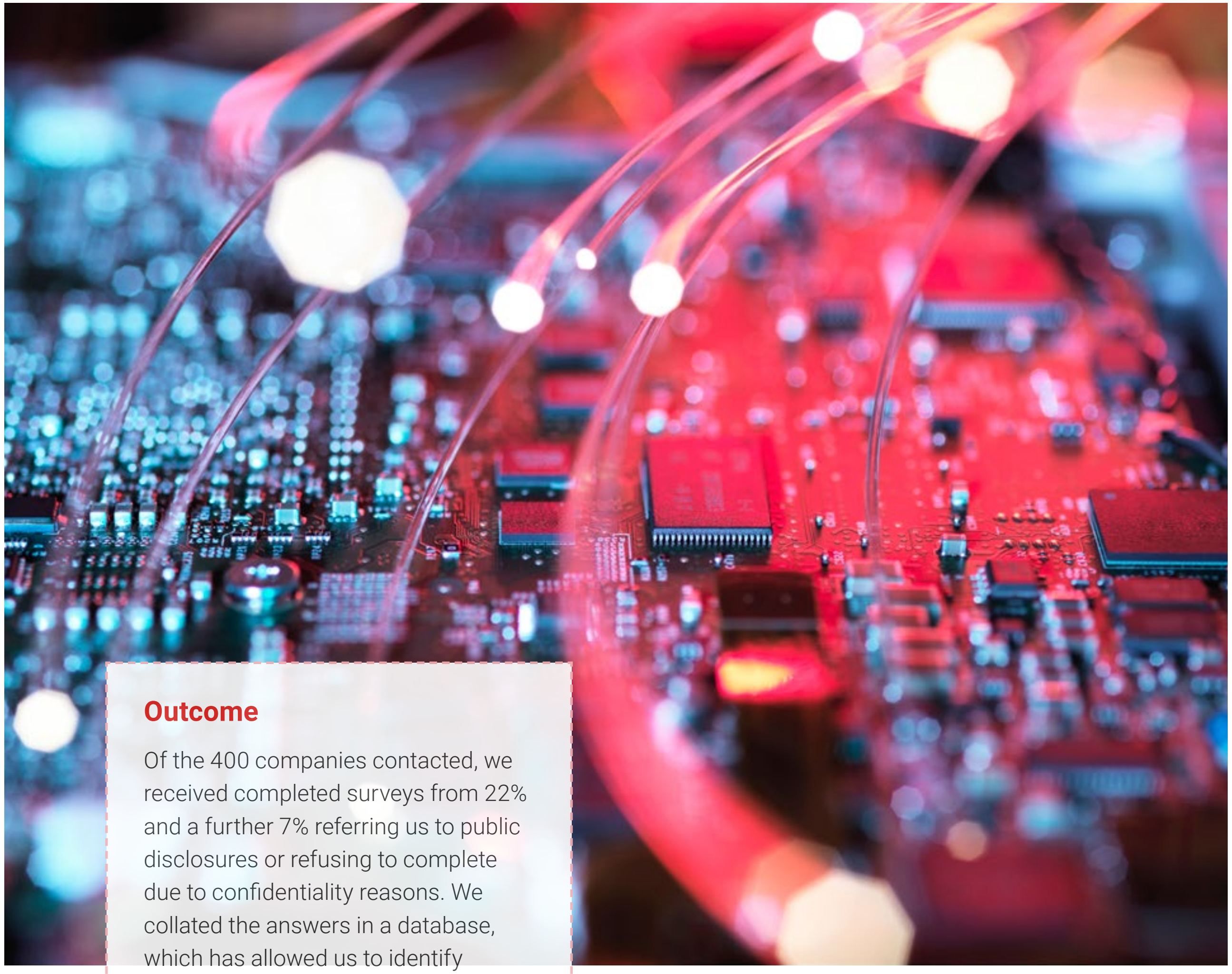
We believe, addressing this issue will help to encourage boards to improve their governance practices, unwind their cross-shareholdings, and improve transparency, independence and accountability.

Defenders of the cyber universe: Companies' approach to online security

Identify and engage

Cybersecurity is one of the most critical and fastest-growing risks facing institutions today, especially after the COVID-19 pandemic, as digitalisation and remote working have created many new opportunities for cyber-attacks. A failure to implement an effective cyber strategy can have significant implications, both financial and reputational. Therefore, it is crucial for us to understand how companies across our investment universe are managing their cyber risk.

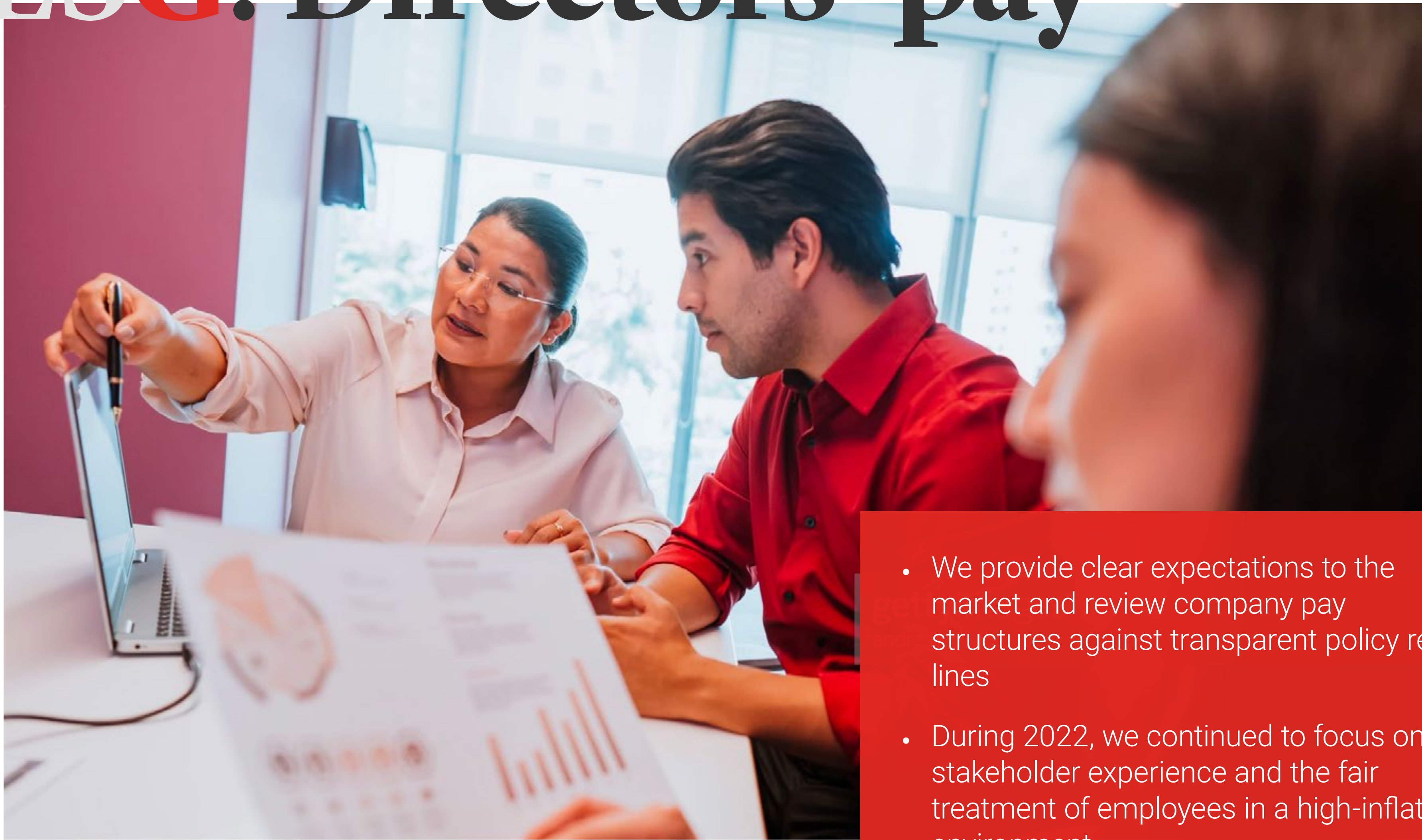
We created a survey addressing our key concerns, such as board competence, governance approach, effectiveness of cyber strategy and cyber insurance. With this survey, we approached the top 50% of companies across our major indices (by weight) alongside priority companies identified by our GREGs.



Outcome

Of the 400 companies contacted, we received completed surveys from 22% and a further 7% referring us to public disclosures or refusing to complete due to confidentiality reasons. We collated the answers in a database, which has allowed us to identify companies to engage further with on the topic.

ESG: Directors' pay



- We provide clear expectations to the market and review company pay structures against transparent policy red lines
- During 2022, we continued to focus on stakeholder experience and the fair treatment of employees in a high-inflation environment

Executive remuneration: best practice

LGIM's guidelines on director pay and our separate Principles of Executive Pay documents for the UK and US markets are detailed and provide a clear picture of our minimum expectations on pay practices globally. These documents are updated regularly, and changes to the UK principles are discussed with various remuneration advisers to provide context to the market.

Our votes are based on a number of red lines and an overarching consideration of fair treatment of stakeholders over the period.

Over the course of 2022, we voted against 127 (21%) of the 604 remuneration reports proposed at UK companies, a slight reduction in negative votes compared to 2021 (23.1%). We also opposed the election of 82 remuneration committee members, due to our persistent concerns over their pay practices.[69]

Globally, we opposed 56% of all pay-related proposals due to the companies not meeting our minimum standards for fair and appropriate long-term performance-based pay. This figure increased this year as we strengthened our voting stance in a number of countries, particularly in the US.

Addressing poor pay practices in North America

Following the publication of a standalone policy document for North America in 2020, we continue to strengthen our policy stance in this region to improve pay practices and better align pay with long-term performance.

Last year, we voted against 76.5% (2021: 43%) of 'say on pay' resolutions at North American companies.[70] Many of these related to performance conditions not being measured over a three-year period, a majority of long-term incentives not being linked to any performance conditions at all or becoming payable for below median relative performance – the latter contributing to the significant increase in negative votes in 2022. We are continuing to tighten our expectations in this market, asking for increasing levels of performance pay versus time-based share incentives in the future.

Non-profit foundation As You Sow and Morgan Stanley have shown in their studies that companies with highly-paid CEOs do not necessarily perform better; in fact, over years, it is evidenced that their total shareholder return is lower than other companies. As You Sow has shown that LGIM is voting against 85% of the 100 most overpaid CEOs in their study.[71] As we strengthen our policy we can expect this percentage to increase unless practices change.

ESG score

Western Digital†

LGIM ESG Score 60

+ 10 points

Netflix†

LGIM ESG Score 57

- 2 points

Intel Corporation†

LGIM ESG Score 61

- 2 points

†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

In 2022, there were 18 companies[72] in the S&P 500 that failed their say on pay vote. LGIM voted against each one of these,[73] including at Western Digital† (ESG Score: 60; +10) due to time-based retention awards and bonus payments despite not hitting corporate performance targets; Netflix† (ESG Score: 57; -2) due to overreliance on fixed pay and lack of long-term performance-based vesting; and Intel Corporation† (ESG Score: 61; -2) due to an insufficient response by the committee to last year's failed vote and continuing concerns over a pay-for-performance misalignment.

69. LGIM internal vote data, 2022
70. LGIM internal vote data, 2022
71. As You Sow, 2023
72. Western Digital Corp†; Take-Two Interactive Software†; Booking Holdings†; FleetCor Technologies†; ServiceNow†; TJX Companies†; Netflix†; Enphase Energy†; Halliburton Company†; JP Morgan Chase†; Intel Corporation†; Wynn Resorts†; CME Group†; Paycom Software†; Global Payments†; Centene Corp†; CenterPoint Energy†; D.R. Horton†
73. LGIM internal vote data, 2022

LGIM's stance on consultations

LGIM has long-established, publicly available guidelines on our minimum expectations of pay proposals. Our experts meet with remuneration consultants annually to discuss any changes to our policies and market developments. We also regularly meet with other investors to ensure our guidelines continue to be some of the most detailed in the market.

We encourage companies to use these public resources to further their understanding of how our policy may be applied to pay-related proposals on the ballot. However, we continue to engage with companies on exceptional pay proposals and structures that fall outside the norm.

The 2023 AGM season is expected to be a busy period for companies and investors alike, representing the UK's tri-annual policy renewal season, and long-term incentives granted at the start of the pandemic coming to the end of their vesting periods amid continuing uncertainty.

In 2022 we were involved in over 100 separate remuneration consultations, broadly unchanged from last year.

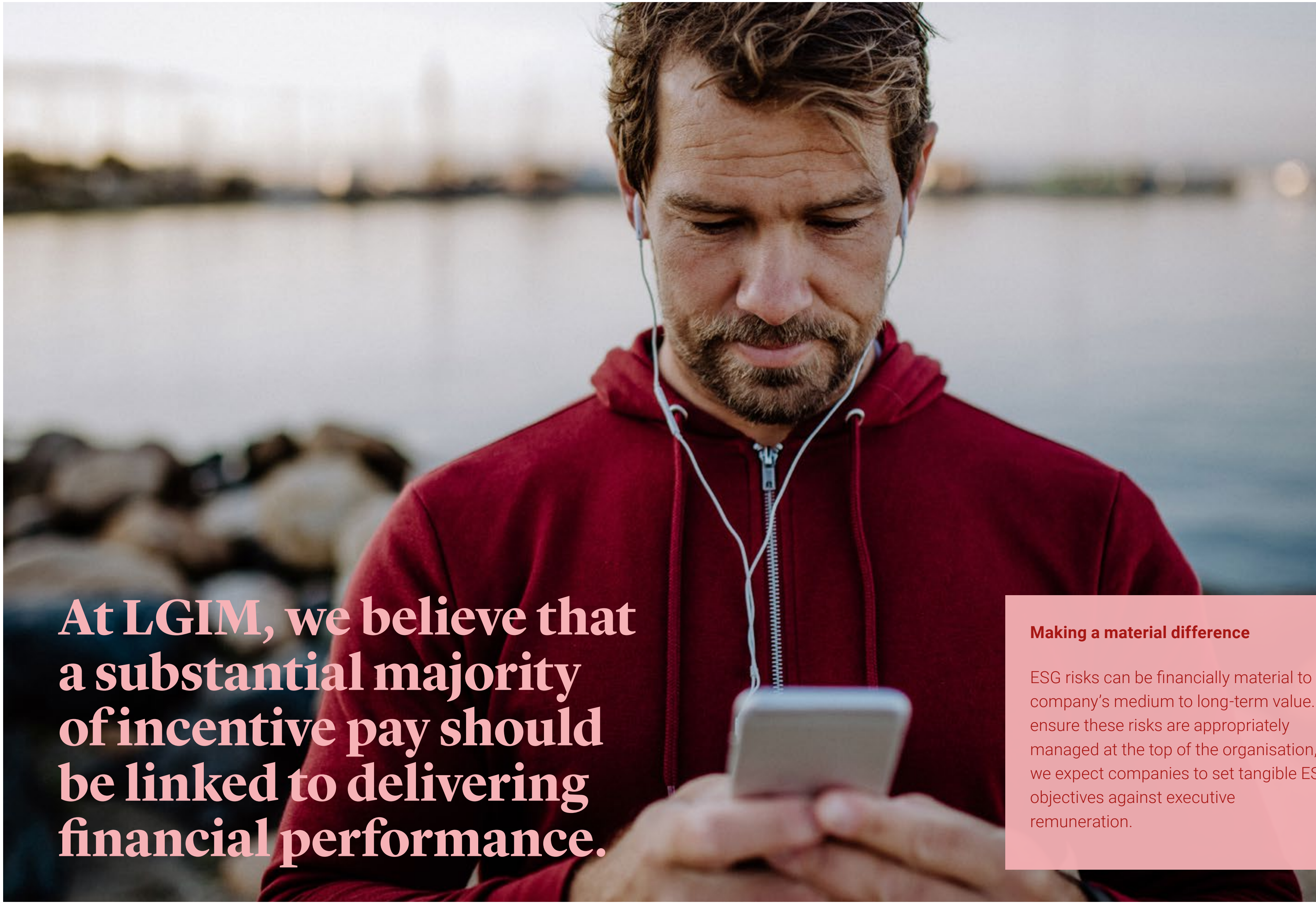
Consultations centred around pay outcomes for 2021 and 2022 award cycles, including considerations on fair and incentivising rewards for directors who worked hard through another difficult year.

This year, we also started to see increases being proposed to all elements of pay, across salary, bonus and long-term incentive plans (LTIPs), often simultaneously.

We have seen more companies reinstating salary increases for their directors, with some substantial increases due to base pay seemingly having fallen behind the market over a number of years. We considered such proposals in light of the treatment of lower-paid workers, especially during the recent cost-of-living crisis and are continuing to urge restraint.

In terms of general salary increases, we expect director raises to be well below the average employee increases.

In 2023, we are expecting further detailed discussions between companies and their investors, as share incentives vest for executives for performance between 2020 and 2022. Remuneration committees will have to closely consider whether vesting levels are appropriate against potential windfall gains from share prices recovering following the initial dip at the start of the pandemic.



At LGIM, we believe that a substantial majority of incentive pay should be linked to delivering financial performance.

Making a material difference

ESG risks can be financially material to a company's medium to long-term value. To ensure these risks are appropriately managed at the top of the organisation, we expect companies to set tangible ESG objectives against executive remuneration.

LGIM's expectations

We believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay, and we have set out the following expectations:

Health & safety:

In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), we expect a health & safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace.

Oil and gas:

Remuneration at oil & gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over investment.

Climate:

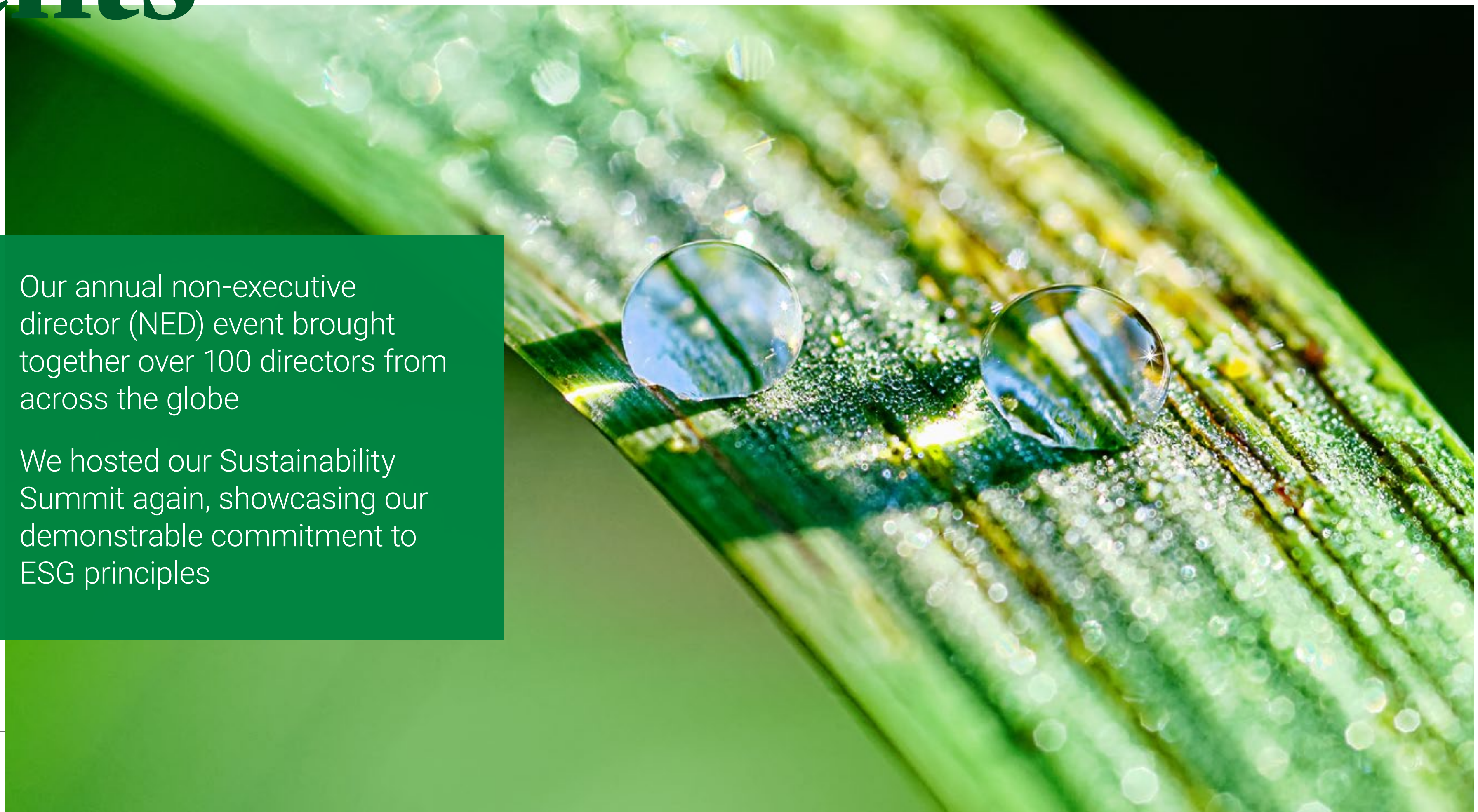
Companies in sectors[74] that can have a significant effect on climate change should link part of their pay to delivering on their climate mitigation goals.

- Metrics should be linked to science-based target transition plans (ideally SBTi-approved or an equivalent methodology) and aim to achieve net zero by 2050 or sooner
- As we now have visibility of companies' short to medium-term goals towards 2030, such targets lend themselves perfectly for inclusion in long-term incentive plans
- Targets should also be set to create new opportunities that not only improve revenue, but have a positive impact on climate

Our expectations for UK and US companies have been published in our recently updated Executive Pay Principles documents. We aim for these expectations to apply to relevant companies more globally in due course.

74. The sectors that LGIM considers 'climate relevant' under this policy are: Autos, Apparel, Aviation, Banks, Cement, Chemicals, Food, Insurance, Mining, Oil & Gas, REITs, Shipping, Steel, Technology, Telecoms and Utilities

Stakeholder engagements and knowledge-sharing events



- Our annual non-executive director (NED) event brought together over 100 directors from across the globe
- We hosted our Sustainability Summit again, showcasing our demonstrable commitment to ESG principles

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In November, we held our annual NED event. It was attended by over 100 non-executive directors and governance executives from companies headquartered in North and South America, across Europe and the UK, all the way to Asia and Australia. We covered a range of topics including:

- **Deforestation and biodiversity**
- **Antimicrobial resistance**
- **Fair living wage**
- **Ethnic and gender diversity**
- **Investor rights**

In June 2022, LGIM hosted our second Sustainability Summit. This global event focused on every aspect of ESG, illustrating its vital importance to LGIM, while showcasing our purpose, capabilities and leadership as a responsible investor.

On topics ranging from traditional energy dependencies to antimicrobial resistance and championing human rights, the Summit brought together some of the world's top business and policy leaders to discuss sustainability challenges.

The event was attended by around 230 clients, other stakeholders, and members of the press. External speakers included Dame Sally Davies, UK Special Envoy on Antimicrobial Resistance, the CEOs of BP and NatWest Group, and representatives from the UN and International Finance Corporation to discuss human rights.

Active engagement: the numbers

- A number of thematic engagement campaigns have come to fruition in 2022 on issues including deforestation, diversity, equal shareholder rights and transparency
- LGIM's Investment Stewardship team held 361 meetings/calls and 863 written engagements in 2022
- Climate change continued to be the most frequently discussed topic

Our Investment Stewardship and active investment teams engage with companies to address company-specific and market-wide risks and opportunities. Our engagement processes are based on targeting specific outcomes and leveraging influence to achieve them. We do this through a package of measures that we can escalate in a structured manner. These range from voting sanctions to collaborative engagement and the pre-declaration of our views, with filing shareholder proposals or potential divestment as last resorts.

We regularly engage with management and non-executive directors, although our initial contact is usually with board chairs. In 2022, the teams' engagements predominantly took the form of calls, video conferences and email communications, although 'real world' meetings are gradually returning as a focus.

These meetings are normally attended by the stewardship sector lead and may include portfolio managers and active research analysts across asset classes. Depending on the topic, a thematic expert may also be present, for example, on remuneration, health and people matters, or climate change.

To provide transparency, we publish our quarterly ESG impact reports on our website, in addition to sending them to clients. These documents contain detailed case studies of many of the companies highlighted as examples of our engagement activity in this report.

2022 Investment Stewardship team engagement

1,224
number of
engagements

361
Meetings/calls

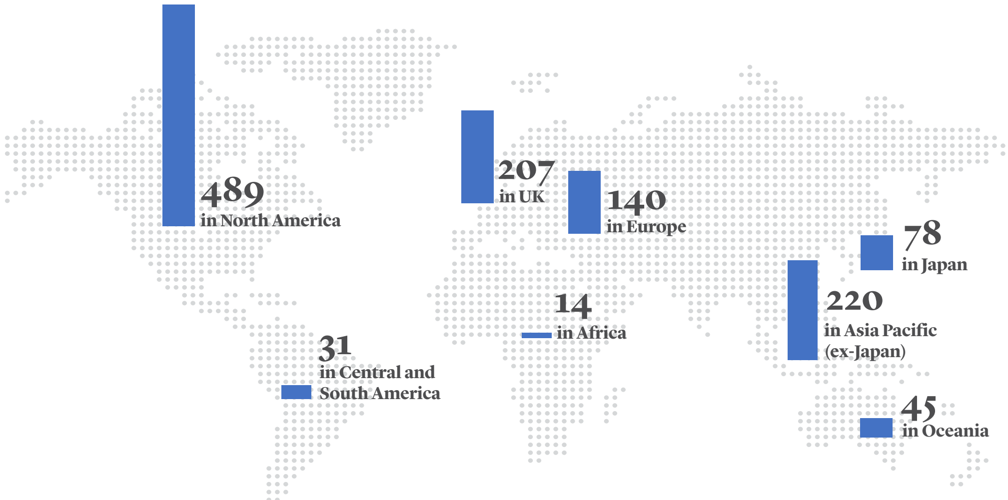
863
Written

Most frequently discussed topic
Climate change

Breaking down the engagement numbers

Breakdown of engagement by themes*

Regional breakdown of engagements



Top five engagement topics*

281 Climate change

264 Deforestation

219 Remuneration

212 Shareholder rights

120 Company disclosure and transparency

*Note: an engagement can cover more than a single topic

Engagement themes in more detail

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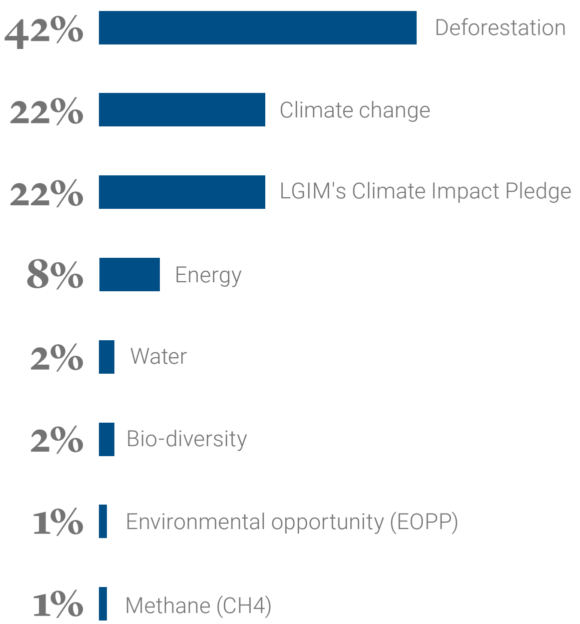
Breakdown of environmental engagement



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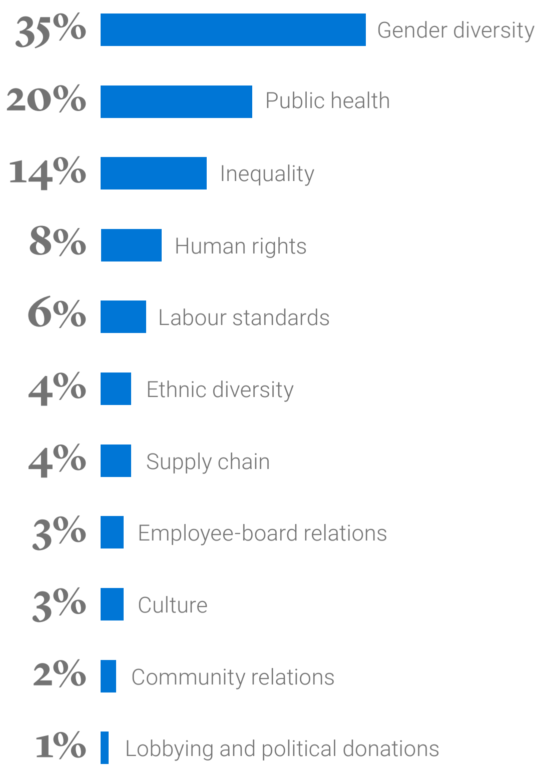
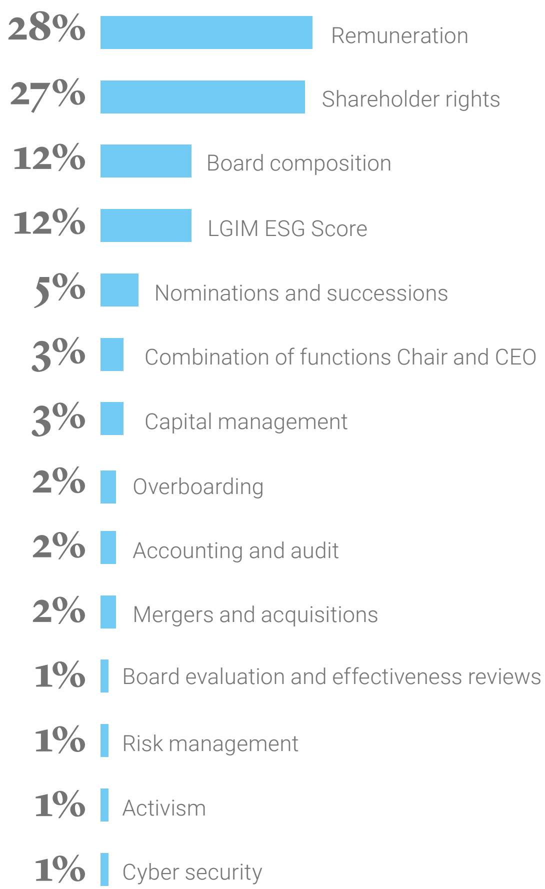
Breakdown of social engagement



G
Breakdown of governance engagement



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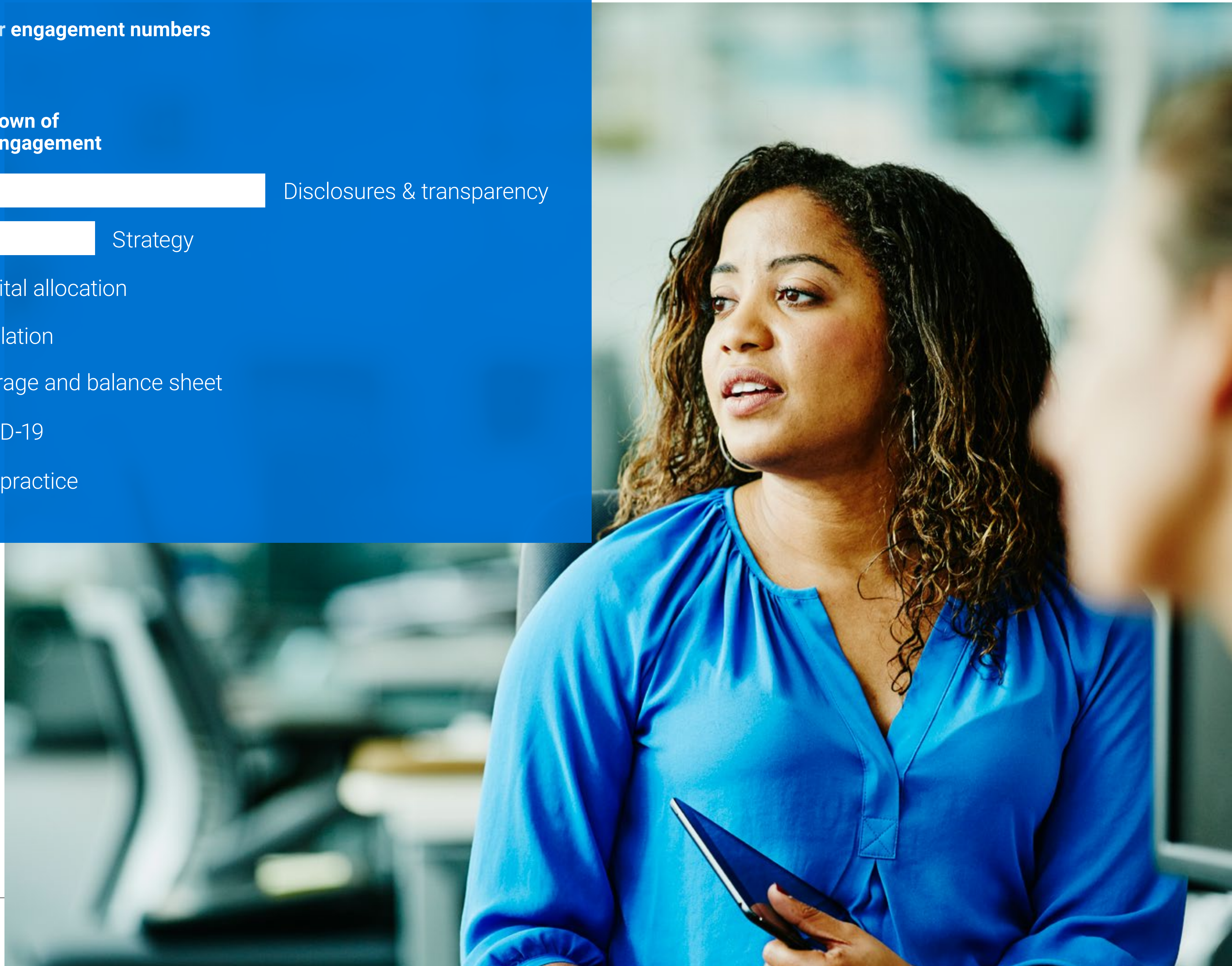
Breakdown of other engagement numbers

Breakdown of other engagement

64%	Disclosures & transparency
31%	Strategy
2%	Capital allocation
1%	Regulation
1%	Leverage and balance sheet
1%	COVID-19
1%	Best practice



Companies with the highest number of engagements

References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

13 BP

10 Tesco

9 Unilever

8 Shell

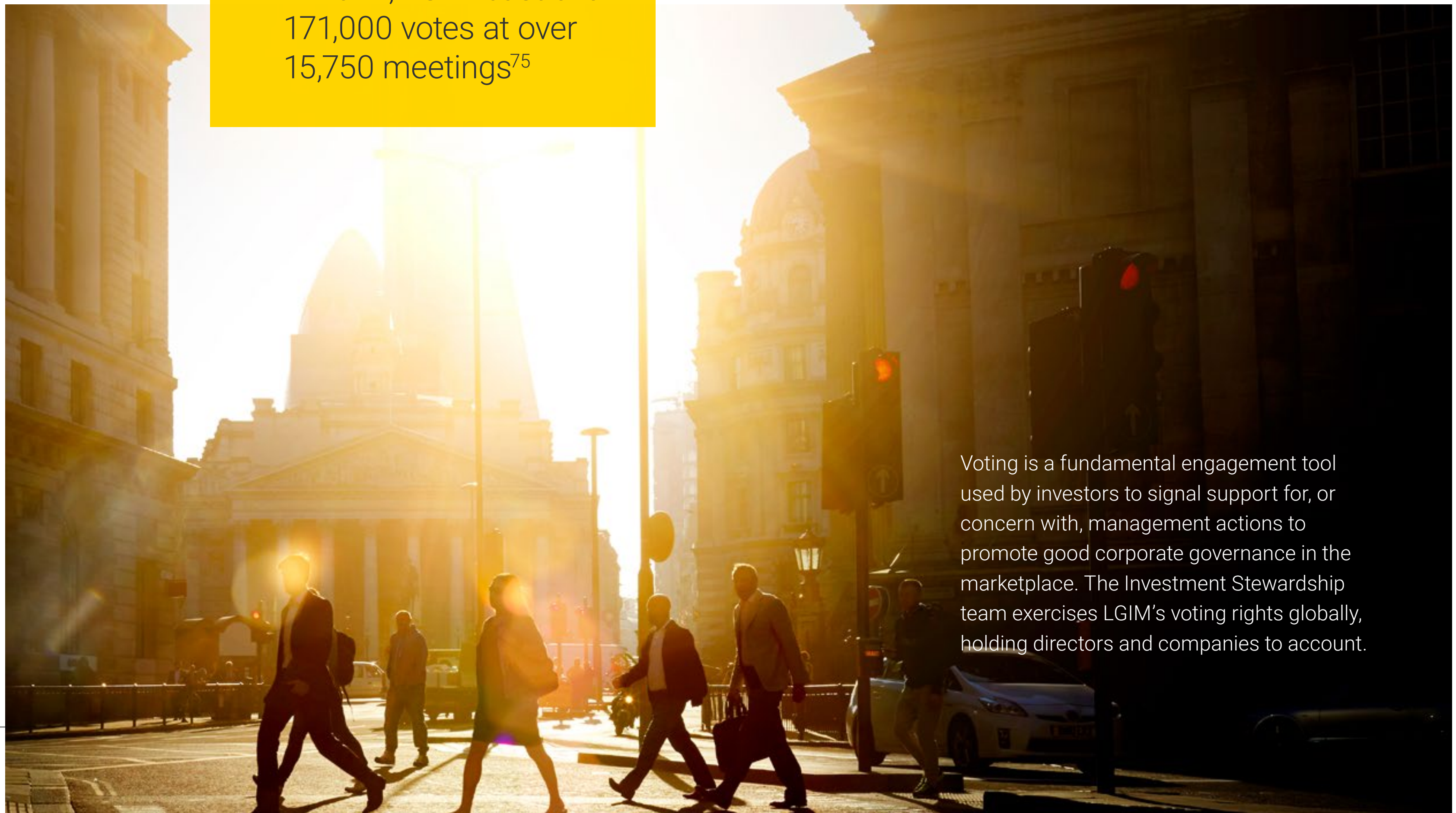
7 Sainsbury's

6 Loblaw Cos
Mizuho Financial Group
Novartis AG

5 Amazon
Capricorn Energy
China Mengniu Dairy
GSK
Hormel Foods
Industrial & Commercial Bank of China

Voting and reporting

- In 2022, LGIM cast over 171,000 votes at over 15,750 meetings[75]



Voting is a fundamental engagement tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

75. Across all assets under management. Voting data on P126-133 represents voting instructions for our main FTSE pooled index funds

The majority of our clients' shares are held through pooled funds. As such, LGIM votes with one voice on all shares for which it has the authority to do so. Where there is no legal or practical impediments, we vote on our clients' investments across all developed and emerging markets globally, where possible.

While LGIM has a high proportion of investments in Index strategies, this does not absolve us from making active voting decisions; in fact, it makes informed voting on key topics more important and underlies our universal owner approach on improving the market as a whole.

In its report Voting Matters 2022, ShareAction cited LGIM as a positive example of a 'proactive' passive manager on our voting record of shareholder resolutions. In 2022, LGIM backed 87% of shareholder resolutions assessed by ShareAction, representing a 9% increase on our voting record on such proposals in 2021.[76]

In 2022, LGIM backed 87% of shareholder resolutions assessed by ShareAction, representing a 9% increase on our voting record on such proposals in 2021.

We aim to keep abstentions to a minimum.
The disclosures provided below are in line with our execution of these obligations across these pooled funds. We use proxy advisory firm Institutional Shareholder Services' (ISS) ProxyExchange voting platform to vote electronically and to ensure, in markets where we have unimpeded voting rights, that no votes remain unexercised.

Share position data is updated, based on the settled positions provided by custodians. Only eligible share positions are reflected against expected upcoming voting events across the portfolio of companies held within ProxyExchange. Any additional trading that takes place on the receipt of the electronic ballot is updated per trade settlement based on the holdings update by the custodian.

LGIM's historic voting decisions, including the rationale for any votes against management, can be found on our website. We also pre-declare votes on contentious issues ahead of the shareholder meeting where we feel this may help deliver improved outcomes as part of our escalation process.

Voting in Russia

Following the invasion of Ukraine by Russia, LGIM received legal advice confirming that exercising our right to vote at the general meetings of sanctioned companies or on the election of sanctioned individuals would be in breach of the current US, UK and EU regulation. Our voting provider, ISS, is currently 'blocking' voting activity for these meetings and we are therefore not voting in relation to sanctioned companies or on sanctioned individuals until further notice.

76. ShareAction, Voting Matters 2022

Vote transparency

We believe that the transparency of our voting activity is critical for investee companies, clients and other interested parties to be able to hold us to account. As such, we provide historic voting decisions and rationales on our vote disclosure webpage, which aims to:

- Provide daily updates of our vote instructions and disclosures of all votes[77] with a lag of just 24 hours following the shareholder meeting
- Disclose voting rationales for all votes against management
- Include historic voting data from 1 January 2017

We have also further refined our approach to provide detailed information to our clients on significant votes on a quarterly basis, to allow them to hold us to account over our stewardship of their assets. Client reporting is provided that is consistent with the Pensions & Lifetime Savings Association's (PLSA) guidance and the EU Shareholder Rights Directive II.[78]

Pre-declaring our voting intentions

Since 2021, LGIM has been reporting voting intentions in a centralised and transparent format in advance of an upcoming company AGM. These intentions – via our blog posts – highlight the companies and resolutions we believe require additional scrutiny by the market, and cover a range of ESG topics. We decided to pre-declare for a number of reasons, including as part of our escalation strategy, where we consider the vote to be contentious, or as part of a specific engagement programme.

Our policy on share lending

Where there are no legal or practical impediments, we aim to vote with every share we hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting.

For other markets, our stock-lending policies differ, with limits on the number of shares lent per fund and per stock. Nonetheless we have always retained a number of shares in each voteable stock to be able to note our approval, or dissent, through a vote via the shareholder meeting. Moreover, we retain the right of immediate recall of our shares, should we deem this necessary or expedient.

In practice, we do not typically recall lent stock for voting on routine company meetings. However, if there were a material vote – for example, a potential takeover of a company that we owned at a price that we did not believe was in the best interests of shareholders, we would recall any stock that was out on loan in order to vote with 100% of our clients' holding.

77. Excludes all funds not voting in line with the LGIM vote policy and that are subject to their own voting instructions. LGIM currently only provides client voting within one pooled fund for a small selection of clients, which is a legacy process that is no longer offered to any existing or new clients. Outside segregated funds, LGIM is working with other industry participants in seeking to help improve voting processes and will keep market developments in this area under review. Please also see p.116 for more information on our work on 'Expression of Wish' capabilities.
78. Department for Work & Pensions, October 2019

Review and auditing processes

LGIM historically implemented an annual independent assurance assessment of its stewardship and voting processes in line with the AAF 01/06 framework. However, since the Institute of Chartered Accountants in England and Wales (ICAEW) removed the relevant requirements from its auditing and assurance standards there is no longer an external framework against which to undertake this assurance assessment.

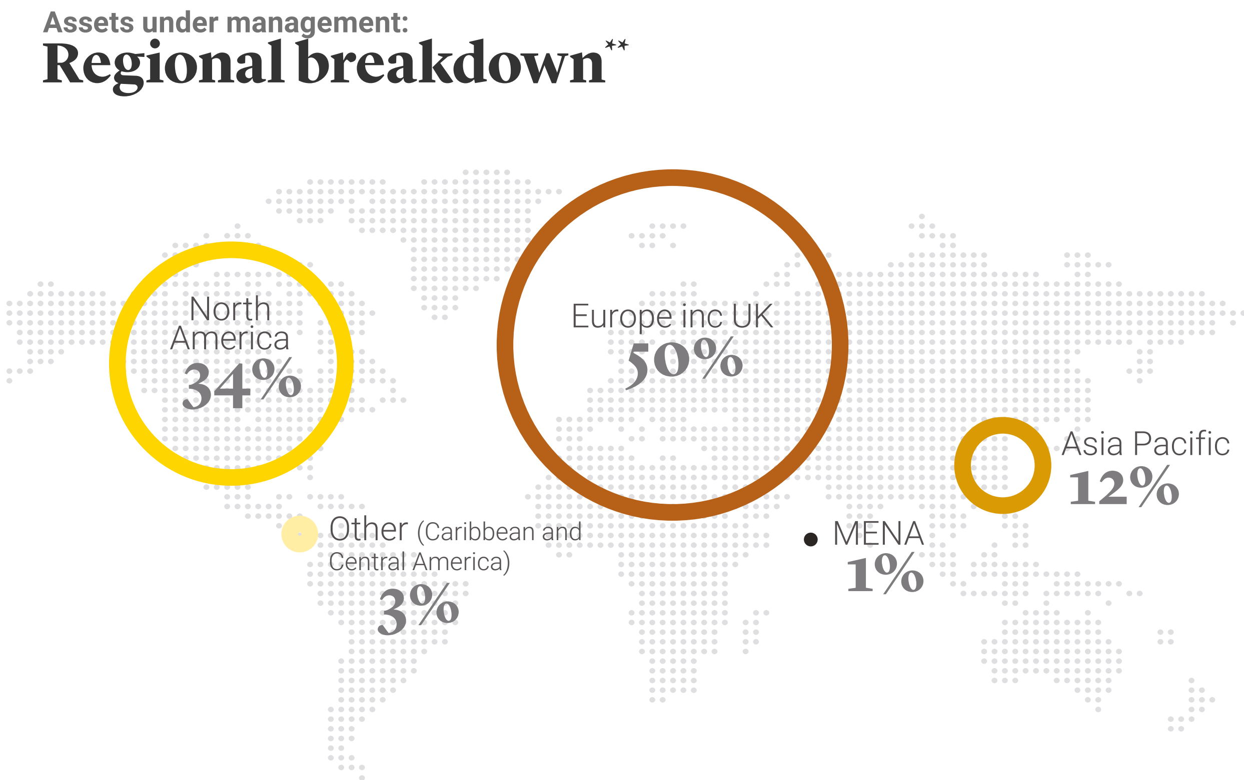
In the interim, we have strengthened our internal review processes in response to client requirements and additional regulatory expectations in the US,[79] to ensure that our stewardship processes and disclosures remain balanced and complete. We also continue to work alongside our internal auditors to develop a suitable framework and standards against which an independent assessment could again be completed in the future.

We also continue to work alongside our internal auditors to develop a suitable framework and standards against which an independent assessment could again be completed in the future.

As part of LGIM's risk-based Compliance Monitoring Programme, an internal review is proposed to assess how we apply the 12 Principles of the 2020 UK Stewardship Code, as noted within the Appendix – UK Stewardship Code Index section of this Active Ownership report.

79. SEC; Supplementary Guidance Regarding Proxy Voting Responsibilities of Investment Advisers; September 2020

The assets we manage



* Source: LGIM internal data as at 31 December 2022. The AUM figure disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions and may not total due to rounding.
**LGIM internal data as at 31 Dec 2022. Regional exposure is based on the country of risk of the underlying holdings. Data disclosed excludes derivative overlays.

Key risk: 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.

Policies and processes

- We continued to assess our internal and external voting policies to make sure our approach is both consistent and transparent
- We use client feedback loops to inform our policy development

We believe ongoing scrutiny of, and improvements to, our voting processes are key to meeting our goals as a long-term, responsible investor.

LGIM's voting decisions are guided by policies that are thoroughly researched, set and fine-tuned every year. They incorporate specific market policies that allow for local nuances to align with best practices.

Our voting policies range from minimum expectations, such as requiring financial expertise on the audit committee or having climate transition plans aligned with a 1.5°C global temperature increase, to clarifications around variable pay performance targets, links to stakeholder experiences and ESG measures, alongside existing voting stances to oppose combined chair/CEO roles[80] and all-male boards globally.

As part of the annual process, this year we have further tightened our global policies to make sure that at least a third of the directors on non-controlled company boards are women, and also further strengthened our policy for smaller boards. Our UK and US policies take this one step further, voting against the largest UK and US[81] companies in 2022 where there was insufficient gender representation on the executive committee, or the board did not include at least one person from an ethnic minority background.

For 2023, we have expanded our expectations to smaller companies, voting against boards where female directors do not make up at least 25% of the total (our previous voting threshold was a minimum of one woman on the board). We expect smaller companies to continue their work towards one-third female board representation by 2024.

In our US and UK Principles of Executive Pay documents, we further clarified the section on ESG metrics to help the increasing number of companies that are looking to introduce ESG metrics into their executive compensation. Companies that have a significant impact on climate change should link part of their directors' long-term incentives to meeting transitional targets aimed towards achieving SBTi approved net-zero goals. We are also asking for increased transparency on companies' employment practices regarding their lowest-paid workers and minimum contractual hours.

It is essential that our votes are based on accurate, reliable data. This means championing the cause of transparency in our own processes and within investee companies' reporting.

LGIM's Global Corporate Governance and Responsible Investment Policy sets out our expectations of investee companies and outlines our approach to voting and engagement. All of our policies are fully compliant with the Shareholder Rights Directive II and available on our Investment Stewardship website.

In updating our policies, feedback on specific topics is sought from internal subject matter experts and the Investment Stewardship team more broadly. We also consider the views of clients and other external stakeholders.

This year we have further tightened our global policies to make sure that at least a third of the directors on non-controlled company boards are women

80. Currently excluding Japan, due to the unique features of this particular market
81. Applies to UK FTSE 100 and US S&P 500 companies

LGIM's internal custom voting policy

Votes are cast according to our instructions, guided by LGIM custom policies and effected through an electronic voting platform called 'ProxyExchange,' which is managed by Institutional Shareholder Services (ISS).

We do not automatically follow the recommendations of proxy advisers and we have put in place a 'custom' voting policy with specific voting instructions. These instructions apply to all markets globally, with minimum best practice standards that we believe all companies should observe, irrespective of local regulations or practices.

In addition, we have also set specific custom voting policies at an individual market level for those markets in which we adopt a stricter stance. All our custom voting policies are developed in accordance with our publicly disclosed position on ESG criteria in our guideline documents and country-specific policies.

We retain the ability in all markets to override any voting decisions that are based on our custom voting policy. This may happen when a company has provided additional insight that allows us to apply a qualitative overlay to our assessment.

Our analysis shows that, globally, our voting stance differed from ISS recommendations in around 11.8% of votes in 2022.[82] When our stance differs, the majority of LGIM votes cast are usually against management – particularly around issues of audit, independence, remuneration and on the level of support provided for 'Say on Climate' and shareholder proposals.

82. LGIM internal vote data, 2022

How we take client views into account

To ensure that our voting decisions are aligned with the wishes of our clients, we undertake regular consultations with the owners of the assets we manage. These are important opportunities to provide our clients with assurance and knowledge, as well as to receive direct feedback on their experiences and expectations. We will continue to review these client responses to determine the level of overlap between our policies and the expectations of clients in developing future engagement topics and voting policies.

Feedback loop and 'Expression of Wish'

For the last three years, we have worked with fintech firm Tumelo to run client feedback loops that have been gradually expanded to cover a broader representation of our client base.

Aim: To better understand the alignment of LGIM's engagement topics and resulting voting stance with the voting intentions of our clients. A significant group of end members of our clients' corporate pension plans were asked to undertake regular elections on their intentions on certain high-profile votes at global company meetings over a prolonged period.

Examples: There have been almost 60,500 participant votes (including for and against) in the last three years.[83] The top three themes were environment and lobbying, equality and human rights, and director pay. The most interest was again noted on proposals at Kroger[†] and Amazon[†] to consider recycling of packaging, at Mastercard[†] and eBay[†] on executive pay votes, and at Delta Air Lines[†] to request a climate lobbying report. Tesla[†] also received a large number of votes on their executive pay levels and on a shareholder resolution to commission a report on human rights.

Outcome: This helps establish a two-way engagement that enables LGIM to better understand consumer views and encourages savers to become more engaged with their investments. In the vast majority of meetings, we were able to determine an alignment between LGIM's votes and those placed by our clients via Tumelo's platform.

Update: In October 2022, LGIM announced the launch of a new 'Expression of Wish' digital service in partnership with Tumelo. This solution allows trustees to identify the ESG issues that matter most to their members and encourages direct dialogue between trustees, members and LGIM's Investment Stewardship team. Initially trialling the service with NatWest[†], one of LGIM's largest trust-based clients with almost 70,000 members, we expect to make this platform available to LGIM's DC trustee client base.

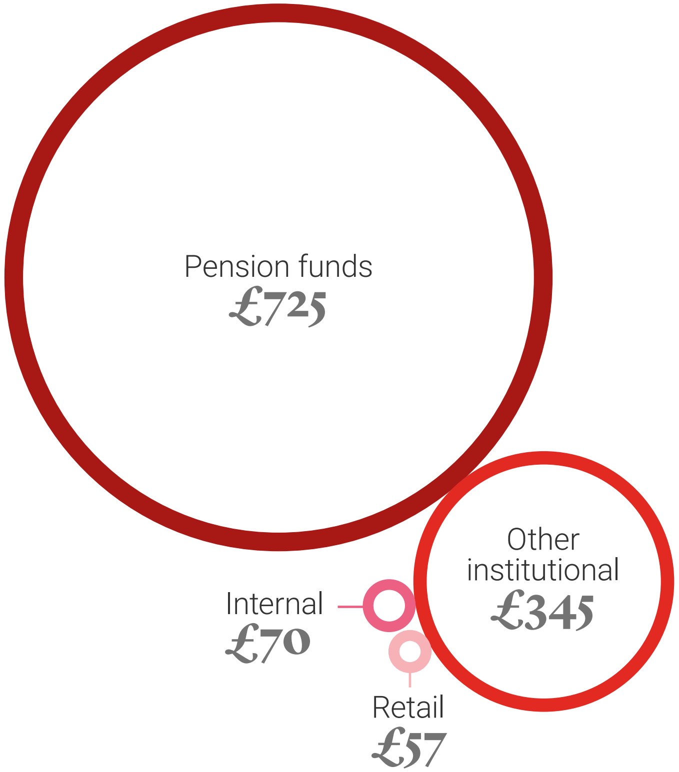
The implementation of this new product has been driven by a combination of clients' increasing interest in the underlying holdings of their pensions and new regulations[84] that require pension schemes and their trustees to have access to better oversight of the voting implementation process. We believe 'Expression of Wish' can make feedback seamless and that it will support pension scheme trustees with their additional regulatory reporting and decision-making responsibilities.

† References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG Scores can be found here

83. Since launching the platform in June 2020 as a pilot up to mid-January 2023.
84. UK government, September 2021

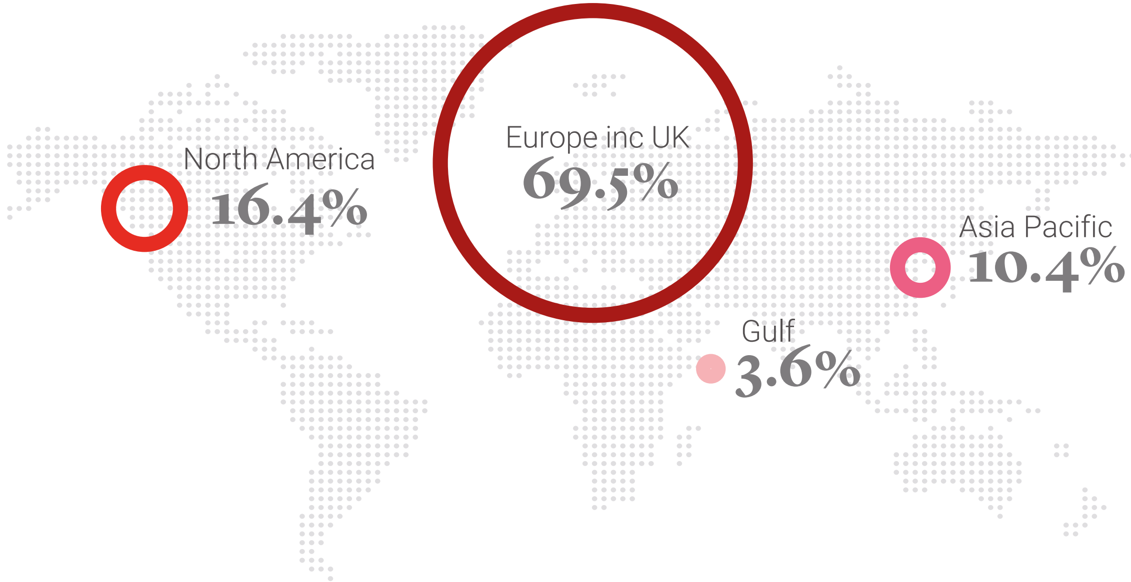
Our clients

£ billion
Client type



Total: £1,196

Client domicile:
Regional breakdown



LGIM internal data as at 31 December 2022. The AUM figure disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives and may not total due to rounding.

Key risk: 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.

Working with third-party service providers

- Third-party research adds additional insight, bolstering our own research
- We continuously monitor the quality of third-party research to ensure it meets our requirements and offers value for money

In parallel to applying our custom voting policy, we use the voting information services of Institutional Shareholder Services (ISS) and receive research reports for all companies in the MSCI ACWI index.

We also receive research reports on UK companies in the FTSE All-Share index from IVIS, the research team of the UK Investment Association, and have access to voting research from proxy adviser Glass Lewis.

We use this analysis to augment our own research and proprietary ESG assessment tools, as well as data from providers including Refinitiv Eikon, Sustainalytics and BoardEx. We regularly review the quality and timeliness of services offered by our data providers, to ensure that the quality of the data on which we base our voting decisions remains high and offers value for money.[85]

We undertake quarterly performance management reviews with ISS in which we discuss issues such as timeliness, the quality of their research and the application of our voting policy. During these meetings, we receive delivery statistics and discuss changes to team resources. We deliberate on specific instances where our expectations have not been met and review possible solutions to avoid future repetition. We escalate issues to senior individuals at ISS where necessary.

Once a year, we undertake a detailed due diligence meeting with ISS members across the research team, custom voting team, client managers and data teams. We are planning to return to in-person due diligence meetings with ISS in 2023 following the lifting of all COVID-19 lockdown requirements.

We also have regular meetings with ISS to discuss the implementation and evolution of our policies, as part of a review process to ensure that our decisions remain aligned to market best practices and evolving regulations. Any material changes to LGIM's custom voting policy require team agreement and are subject to challenge from LGIM's independent non-executive directors on the Investment Stewardship Committee.

We regularly monitor the votes cast on our behalf to ensure they are executed fully and consistently in accordance with our policies. In response to increased client demand for regular vote reporting, we have set up additional quality checks on short notice vote instructions and rejected votes.

We consider ISS's policy alignment with our own public stance and take into account third-party research on ISS's voting policies. ShareAction has assessed the strength of proxy adviser vote recommendations on shareholder resolutions, which tend to be decided on a case-by-case basis. ISS is noted to have supported 75% of environmental and social proposals, broadly unchanged from last year.[86]

We will continue to engage with proxy advisers on their policy development, both independently and as part of investor working groups in 2023. An example of such collaborative work has been provided below.

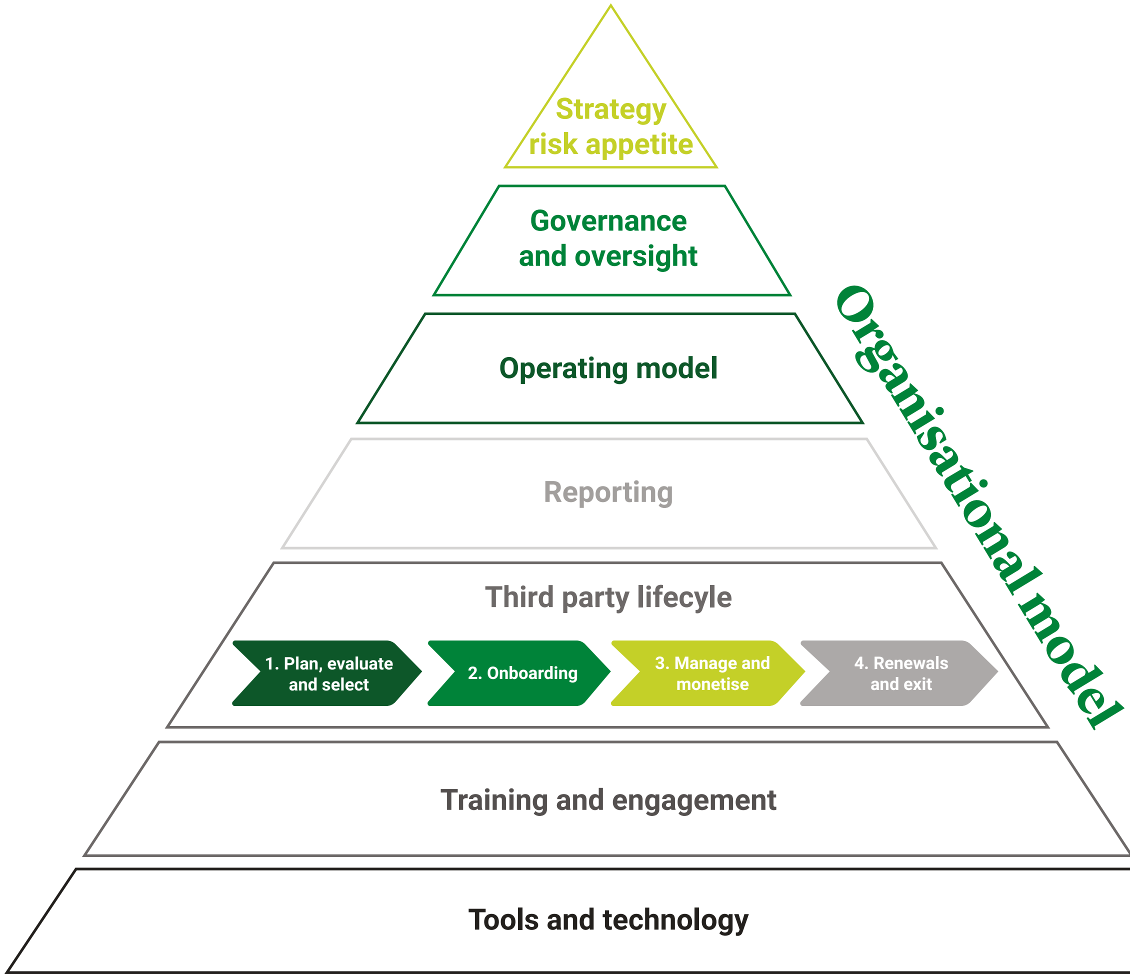
For further information on how we use proxy advisory services, please see our policy.

85. This is done through quarterly performance management reviews with ISS and annually for other providers
86. ShareAction, 'Voting Matters 2022', January 2023

We will continue to engage with proxy advisers on their policy development, both independently and as part of investor working groups in 2023.

Oversight and management of third-party service providers

LGIM's Global Outsourcing and Third-Party Management Framework sets out the governance steps and activities necessary to manage new, renewed, materially changed and existing third-party arrangements.



The LGIM Holdings Board has the ultimate responsibility for the selection of outsourcing and third-party providers and the management of risks associated with their use. This responsibility is delegated to the Operations Committee down to the Supplier Management Committee. Where necessary, the LGIM Board escalates matters to the Legal & General Group Board.

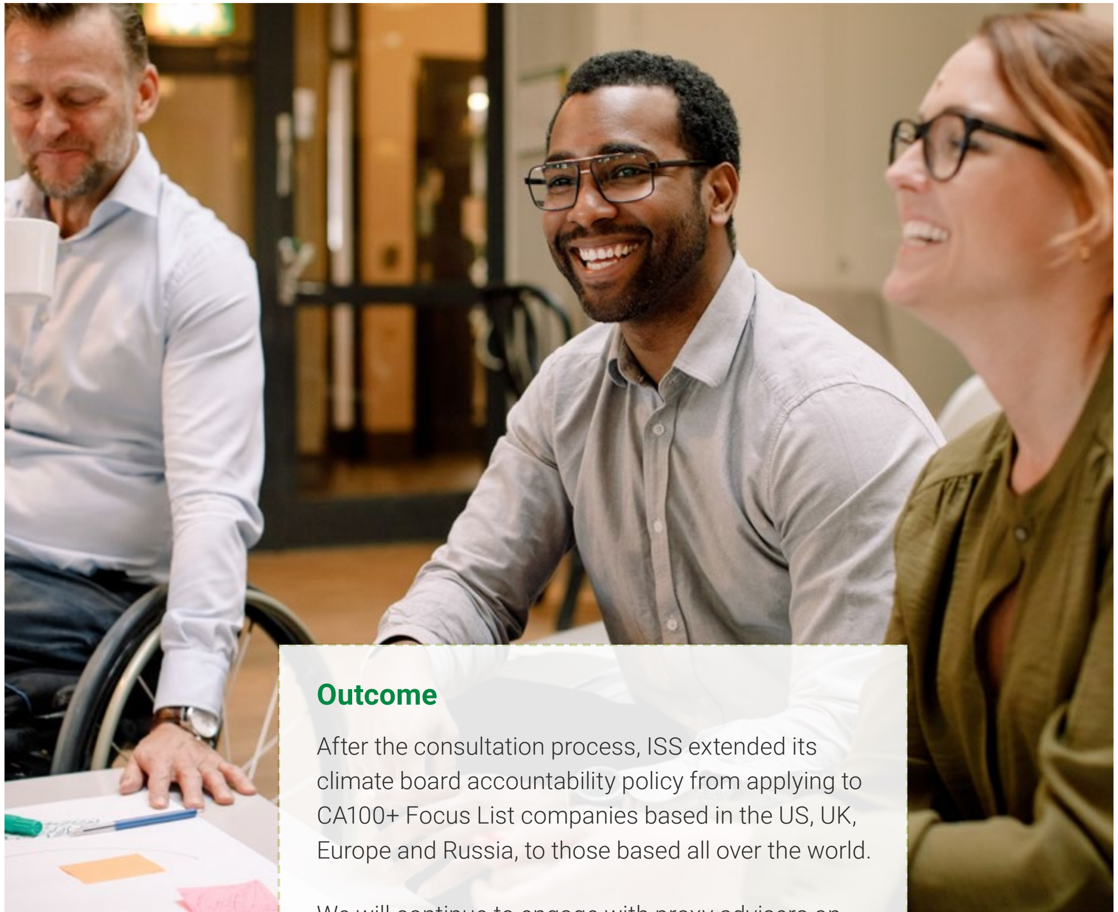
IIGCC contribution to Proxy Advisor Working Group

Identify and engage

As part of LGIM's commitment to the Net Zero Asset Managers initiative (NZAM), we have been working both independently and with the IIGCC in engaging with proxy advisers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner.

LGIM is an active member of the IIGCC Proxy Advisor Working Group. The objective of the group is to develop a strong partnership with key proxy advisers to ensure that they can help their clients deliver net zero at the portfolio level and for priority target engagements.

LGIM engaged with ISS, both independently and collaboratively through the IIGCC working group. This included contributing to the consultation process for the ISS Benchmark Policy changes for 2023 to ensure our views were taken into account in the development of voting policies.



Outcome

After the consultation process, ISS extended its climate board accountability policy from applying to CA100+ Focus List companies based in the US, UK, Europe and Russia, to those based all over the world.

We will continue to engage with proxy advisers on their policy development, independently and as part of investor working groups in 2023.

Conflicts of interest

- Our conflicts of interest policy exists to safeguard the best interest of our clients
- LGIM's organisational structure, which positions our Investment Stewardship team independently from our investment teams, naturally mitigates the potential for conflicts of interest

In our approach to responsible investing in general, and to voting and engagement in particular, we aim to act in a manner consistent with the best interests of all our clients. As a result, our Investment Stewardship team has a conflicts of interest policy covering, among other things, the following areas:

- **LGIM's listed parent company:** reputational conflicts, commercial relationships, seeking to influence corporate governance activities
- **LGIM clients:** corporate sponsored pension schemes associated with portfolio companies, conflicts between client resource allocation
- **Internal conflicts:** differing investment strategies and interests between asset classes, listed group products and significant investments, differing views between portfolio managers and the Investment Stewardship team
- **Portfolio companies:** commercially and price-sensitive information, direct competitors, common cross-directorships, personal contacts and connections

The Investment Stewardship team structure mitigates potential internal conflicts. Importantly, the team does not share line management reporting lines with any of the LGIM investment desks, including the active equity or active fixed income teams.

In addition, the LGIM Holdings Board has delegated responsibility for the oversight of conflicts of interest to its Investment Stewardship Committee and a separate Conflicts of Interest Committee that includes five independent non-executive directors.

Strong, principle-based voting policies provide additional safeguards in the management of potential conflicts of interest.

Changes to policy-driven voting decisions are discussed in the Investment Stewardship team's Voting Forum and made within documented internal controls processes.[87]

To ensure independent voting on in-house interests, all voting rights associated with Legal & General Group shares, LGIM owned trusts and funds are delegated to third parties.

LGIM provides annual training to all employees to identify and deal with potential conflicts of interest. We undertake an annual review to ensure the completeness of the conflicts register and to monitor controls around existing conflicts.

To ensure independent voting on in-house interests, all voting rights associated with Legal & General Group shares, LGIM owned trusts and funds are delegated to third parties.

87. These are discussed in weekly vote meetings and whenever else it is considered necessary

Wm Morrison Supermarkets†

Morrisons is the 4th largest supermarket chain in the UK.[88]
It is focused on fresh food at affordable prices and is vertically integrated.

What was the issue?

In the summer of 2021, we saw a flurry of headlines involving Morrisons, with the company being the target of a takeover. After a few weeks, US private equity firm Clayton, Dubilier & Rice (CD&R) won the bidding war and acquired Morrison for £7 billion. This valuation represented a 61% premium to Morrisons' closing price before the headlines started and was supported by the company's exposure to a resilient industry, good cashflow generation, low leverage, and higher-than-peers share of freehold.

Why was this an issue?

Both our active and index funds were invested in shares and bonds of Morrisons at the time. The price paid by CD&R involved a significant premium, which was taken positively by the equity market, but it also implied that the company's leverage would significantly increase. As such, a leveraged buyout transaction was anticipated to result in a deterioration of the company's credit profile, and ultimately in a downgrade of its credit rating. As it was then expected that the company would move to high-yield territory, away from its historical investment grade rating, the bonds reacted negatively to the news and lost a significant amount of their value.[89]

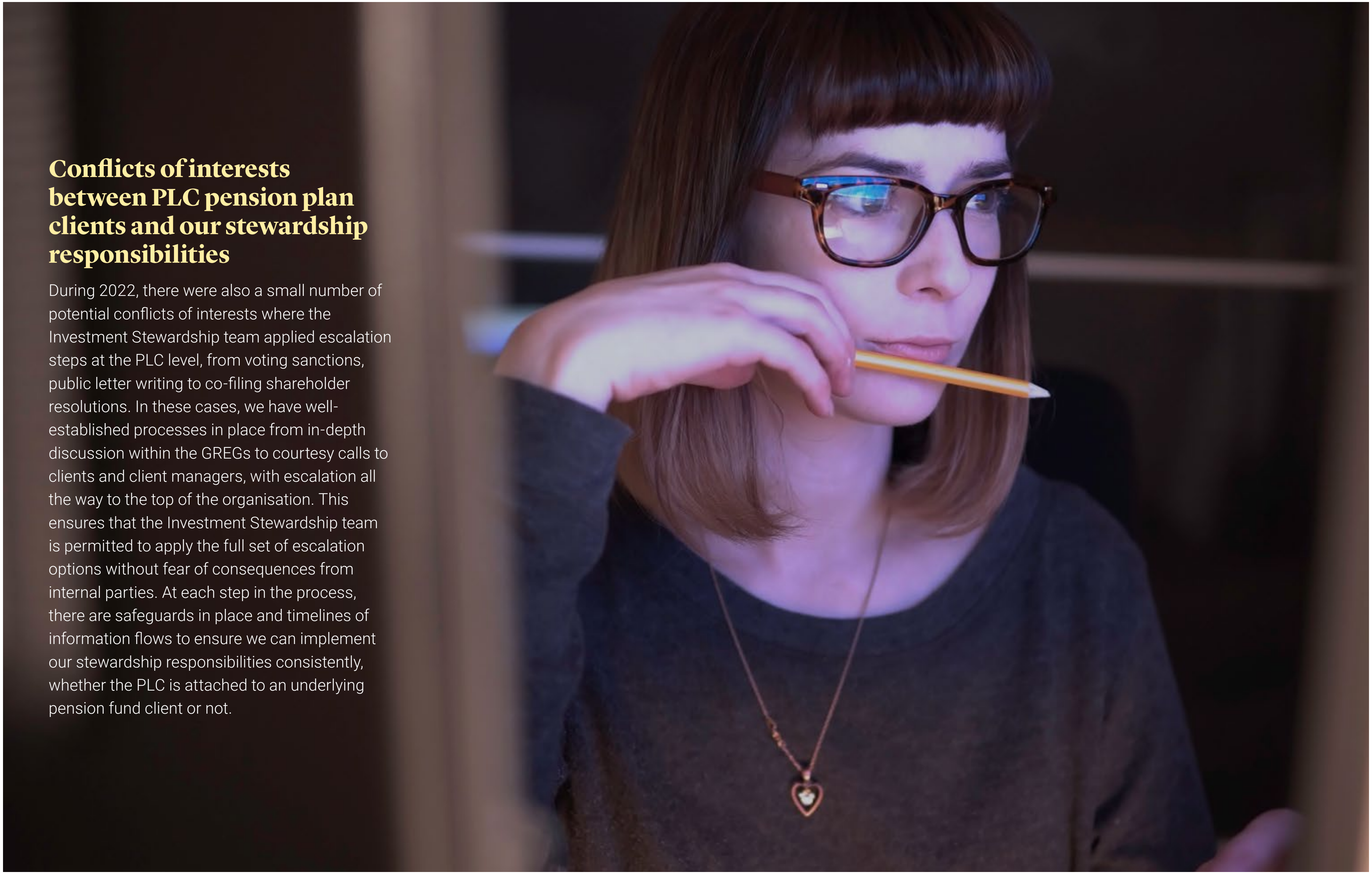
†References to any security are for illustrative purposes only. More information on the methodology underpinning our ESG scores can be found here

Resolution

The value proposition of the Morrisons takeover for its shareholders and bondholders was subject to substantial discussion within the Consumer Goods sector GREG meetings. This included deep dives into the implications of private equity buyouts on the industry more generally, and consequences for the different asset classes invested in Morrisons more specifically.

Ultimately, the decision to approve or reject the proposed acquisition by CD&R at the general meeting and court meeting was a decision to be taken on behalf of ordinary shareholders. As such, our responsibility was to shareholders, despite LGIM's substantial holding of the company's bonds in our Buy & Maintain funds. As the transaction at the offer price was deemed beneficial from the view of shareholders, the Investment Stewardship team voted in favour of the proposal on all shares for which we held voting rights. The management-recommended transaction was supported by proxy advisers and passed with an overwhelming majority of 99.2% of votes cast in October 2021, with the bondholder meetings held in December.

88. Kantar, December 2022
89. Bloomberg, WM Morrison bond prices June – July 2021



Conflicts of interests between PLC pension plan clients and our stewardship responsibilities

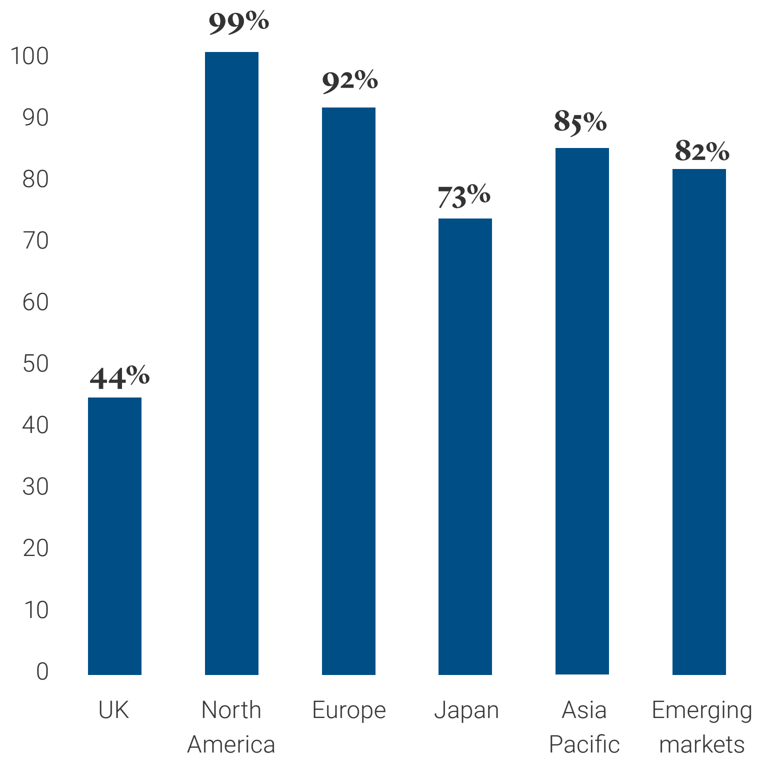
During 2022, there were also a small number of potential conflicts of interests where the Investment Stewardship team applied escalation steps at the PLC level, from voting sanctions, public letter writing to co-filing shareholder resolutions. In these cases, we have well-established processes in place from in-depth discussion within the GREGs to courtesy calls to clients and client managers, with escalation all the way to the top of the organisation. This ensures that the Investment Stewardship team is permitted to apply the full set of escalation options without fear of consequences from internal parties. At each step in the process, there are safeguards in place and timelines of information flows to ensure we can implement our stewardship responsibilities consistently, whether the PLC is attached to an underlying pension fund client or not.

Voting statistics by region

Global

Proposal category	Total for	Total against	Total abstentions	Total
Antitakeover related	540	13	0	553
Capitalisation	7376	834	0	8210
Directors related	23881	5634	844	30359
Non-Salary compensation	1751	1691	0	3442
Reorganisation and mergers	4271	1342	0	5613
Routine/Business	15324	2065	9	17398
Shareholder Proposal - Compensation	28	49	0	77
Shareholder Proposal - Corporate governance	103	27	1	131
Shareholder Proposal - Directors related	972	365	13	1350
Shareholder Proposal - General economic issues	2	2	0	4
Shareholder Proposal - Health/Environment	76	103	0	179
Shareholder Proposal - Other/Miscellaneous	61	144	0	205
Shareholder Proposal - Routine/Business	200	85	0	285
Shareholder Proposal - Social/Human rights	6	26	0	32
Shareholder Proposal - Social	30	15	0	45
Total resolutions	**54621**	**12395**	**867**	**67883**
No. AGMs				4114
No. EGMs				1275
No. of companies voted on				4200
No. of companies where voted against management/abstained on at least one resolution				3339
% of companies where at least one vote against management (includes abstentions)				80%

Proportion of companies with at least one vote against (including abstentions)



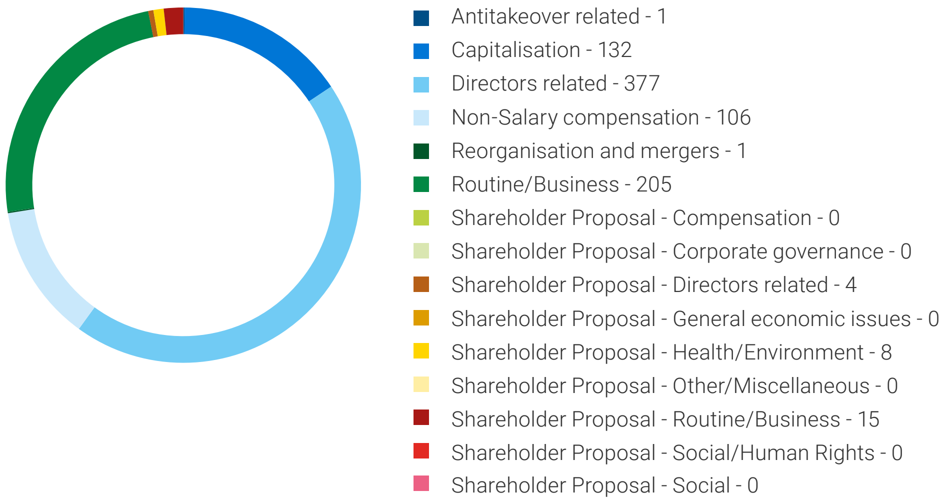
Source for all data: LGIM as at 31 December 2022. The votes on this page and in the pages that follow represent voting instructions for our main FTSE pooled index funds.

Figures in the tables showing total votes 'for' are votes in line with management, votes 'against' are cast against management recommendations; therefore, votes 'for' on shareholder proposals are votes cast in line with management (against the shareholder proposal). For the US: 'withhold' votes counted as 'against'.

Asia Pacific excluding Japan

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	18	1	0
Capitalisation	179	132	0
Directors related	1130	377	0
Non-Salary compensation	301	106	0
Reorganisation and mergers	90	1	0
Routine/Business	619	205	1
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate governance	0	0	0
Shareholder Proposal - Directors related	13	4	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	9	8	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	4	15	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	2363	849	1
Total resolutions	3213		
No. AGMs	394		
No. EGMs	73		
No. of companies voted on	401		
No. of companies where voted against management/abstained on at least one resolution	341		
% of companies where at least one vote against management (includes abstentions)	85%		

Votes against management in 2022 (including abstentions)

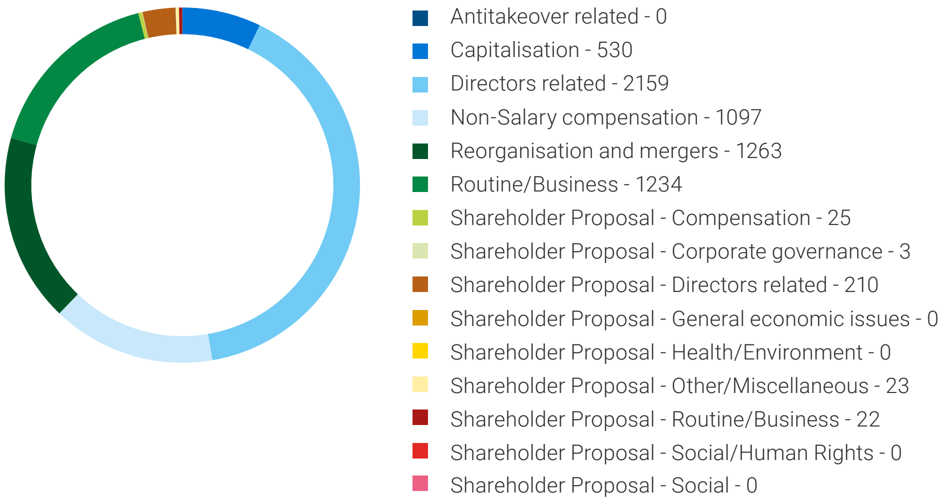


We opposed 341 companies in the Asia Pacific (ex Japan) region in 2022 compared with 324 in 2021.

Emerging markets

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	4	0	0
Capitalisation	4080	530	0
Directors related	6573	2159	799
Non-Salary compensation	332	1097	0
Reorganisation and mergers	3522	1263	0
Routine/Business	9151	1234	0
Shareholder Proposal - Compensation	14	25	0
Shareholder Proposal - Corporate governance	76	3	0
Shareholder Proposal - Directors related	892	210	11
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	3	0	0
Shareholder Proposal - Other/Miscellaneous	16	23	0
Shareholder Proposal - Routine/Business	113	22	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	24776	6566	810
Total resolutions	32152		
No. AGMs	1553		
No. EGMs	990		
No. of companies voted on	1601		
No. of companies where voted against management/abstained on at least one resolution	1319		
% of companies where at least one vote against management (includes abstentions)	82%		

Votes against management in 2022 (including abstentions)

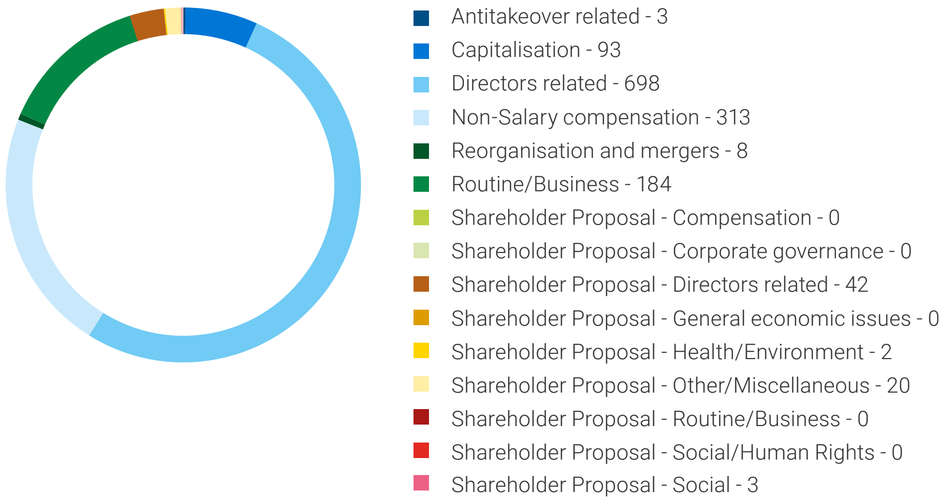


We opposed 1319 companies in emerging markets in 2022, compared with 1218 in 2021.

Europe

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	9	3	0
Capitalisation	835	93	0
Directors related	3111	698	40
Non-Salary compensation	526	313	0
Reorganisation and mergers	77	8	0
Routine/Business	2328	184	8
Shareholder Proposal - Compensation	8	0	0
Shareholder Proposal - Corporate governance	7	0	0
Shareholder Proposal - Directors related	35	42	2
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	6	2	0
Shareholder Proposal - Other/Miscellaneous	18	20	0
Shareholder Proposal - Routine/Business	36	0	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	2	3	0
Total	6998	1366	50
Total resolutions		8414	
No. AGMs		442	
No. EGMs		40	
No. of companies voted on		440	
No. of companies where voted against management/abstained on at least one resolution		403	
% of companies where at least one vote against management (includes abstentions)		92%	

Votes against management in 2022 (including abstentions)

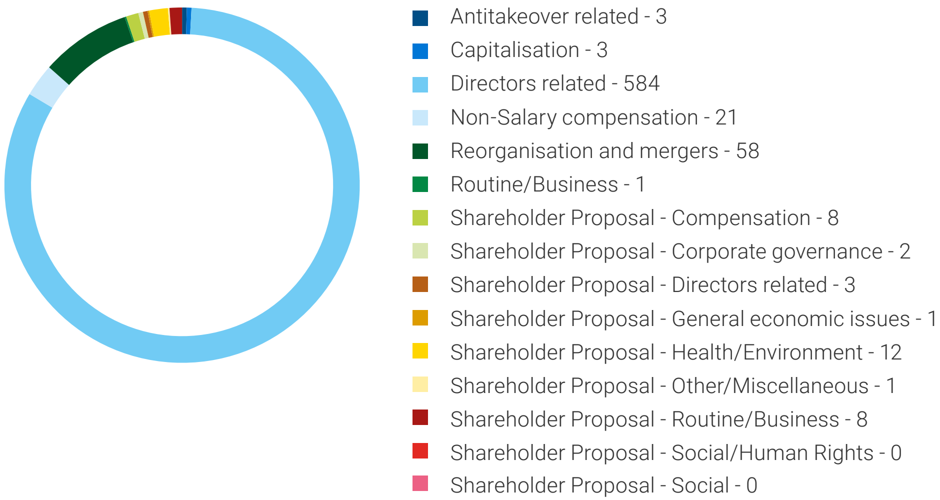


We opposed 403 companies in Europe in 2022, compared with 364 in 2021.

Japan

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	0	3	0
Capitalisation	2	3	0
Directors related	4396	584	0
Non-Salary compensation	236	21	0
Reorganisation and mergers	457	58	0
Routine/Business	328	1	0
Shareholder Proposal - Compensation	0	8	0
Shareholder Proposal - Corporate governance	1	2	1
Shareholder Proposal - Directors related	10	3	0
Shareholder Proposal - General economic issues	1	1	0
Shareholder Proposal - Health/Environment	34	12	0
Shareholder Proposal - Other/Miscellaneous	1	1	0
Shareholder Proposal - Routine/Business	33	8	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	5499	705	1
Total resolutions		6205	
No. AGMs		483	
No. EGMs		16	
No. of companies voted on		493	
No. of companies where voted against management/abstained on at least one resolution		362	
% of companies where at least one vote against management (includes abstentions)		73%	

Votes against management in 2022 (including abstentions)

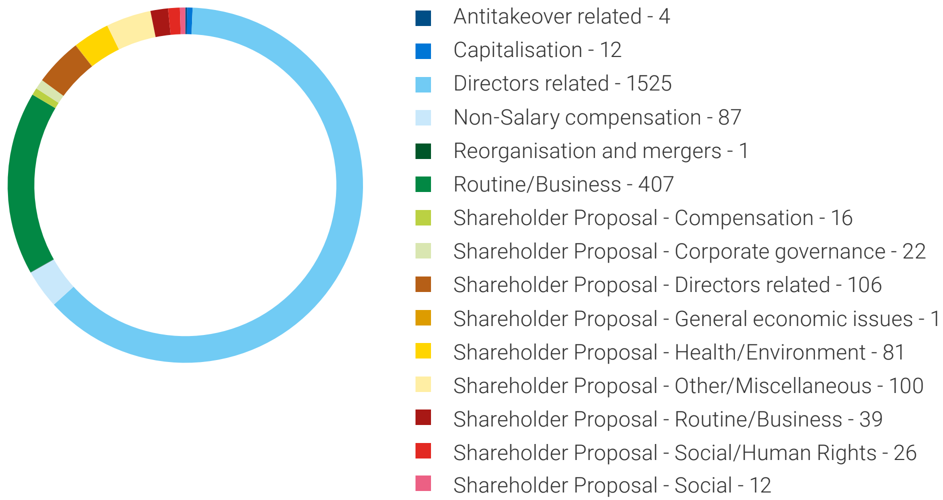


We opposed 362 companies in Japan in 2022, compared with 371 in 2021.

North America

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	82	4	0
Capitalisation	88	12	0
Directors related	4564	1525	5
Non-Salary compensation	100	87	0
Reorganisation and mergers	20	1	0
Routine/Business	314	407	0
Shareholder Proposal - Compensation	5	16	0
Shareholder Proposal - Corporate governance	19	22	0
Shareholder Proposal - Directors related	22	106	0
Shareholder Proposal - General economic issues	1	1	0
Shareholder Proposal - Health/Environment	21	81	0
Shareholder Proposal - Other/Miscellaneous	26	100	0
Shareholder Proposal - Routine/Business	14	39	0
Shareholder Proposal - Social/Human rights	6	26	0
Shareholder Proposal - Social	28	12	0
Total	5310	2439	5
Total resolutions	7754		
No. AGMs	640		
No. EGMs	26		
No. of companies voted on	647		
No. of companies where voted against management/abstained on at least one resolution	641		
% of companies where at least one vote against management (includes abstentions)	99%		

Votes against management in 2022 (including abstentions)

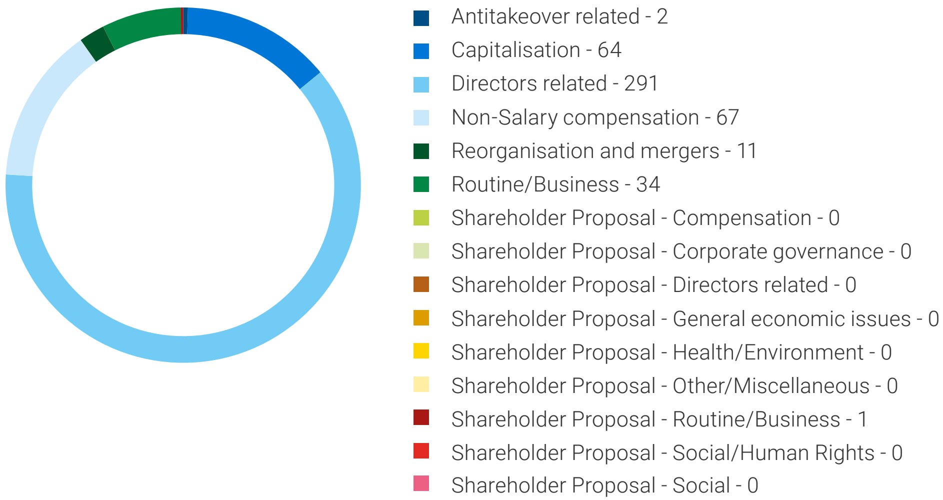


We opposed 641 companies in North America in 2022, compared with 613 in 2021.

UK

Proposal category	Total for	Total against	Total abstentions
Antitakeover related	427	2	0
Capitalisation	2192	64	0
Directors related	4107	291	0
Non-Salary compensation	256	67	0
Reorganisation and mergers	105	11	0
Routine/Business	2584	34	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate governance	0	0	0
Shareholder Proposal - Directors related	0	0	0
Shareholder Proposal - General economic issues	0	0	0
Shareholder Proposal - Health/Environment	3	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	9675	470	0
Total resolutions		10145	
No. AGMs		602	
No. EGMs		130	
No. of companies voted on		618	
No. of companies where voted against management/abstained on at least one resolution		273	
% of companies where at least one vote against management (includes abstentions)		44%	

Votes against management in 2022 (including abstentions)



We opposed 273 companies in the UK in 2022, compared with 328 in 2021.

E
S
G

Awards

Achieving industry and peer approval

We always aim to produce industry-leading work, but we are not complacent about our achievements. External validation and oversight keep us on our toes and propels us forward to keep improving.

In 2022, we won the following industry awards for our efforts in responsible investing:

- The 'ESG' award at the City AM Awards
- The 'ESG Identity' award at the SRI Awards
- The 'Most innovative sustainable ETF launch' award at the Investment Week Sustainable Investment Awards
- 'ESG/SRI Provider of the Year' at the Irish Pensions Awards
- 'Best Asia-Pacific ESG Equity ETF' at the Mondo ETF Awards
- 'Investment House of the Year' at the Risk.net's Risk Awards

Awards should not be considered a recommendation. Past performance is not a guide to the future. 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.

Appendix - UK Stewardship Code Index

This report should be read in its entirety to obtain the fullest picture of our active ownership activities during 2022. For examples of our work during the year, please see our E, S and G sections in this report and the report's landing page.

In addition, the table below provides links to the sections that demonstrate how LGIM applies the 12 Principles of the 2020 UK Stewardship Code. We consider that LGIM has fully applied each of the principles in its investment stewardship activities during 2022.

	Stewardship code principles	Section within document	Most relevant pages
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Foreword | Responsible investment | Awards	3; 9-20; 134
Principle 2	Signatories' governance, resources and incentives support stewardship	Responsible investment | Policies and processes | Third-party service providers | Conflicts of interest	14; 21-25; 113-125
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Conflicts of interest	122-125
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Foreword | Responsible investment | Policy dialogue and collaboration | Climate Impact Pledge | E S G case studies	3; 12-15; 26-36; 40-44; 50-60; 76-79
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities	Stakeholder engagement | Voting and reporting | Policies and processes | Third-party service providers	101; 108-120
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Foreword | Responsible investment | Voting and reporting | Policies and processes	3; 11-13; 108-117
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	Responsible investment | Policy dialogue and collaboration | Climate Impact Pledge | E S G case studies	9-20; 26-99
Principle 8	Signatories monitor and hold to account managers and/or service providers	Third-party service providers	115; 118-121
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets	Responsible investment | Stakeholder engagement | Active engagement | E S G case studies	12-16; 39-107
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers	Policy dialogue and collaboration | E S G case studies	26-35; 44-93
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers	Responsible investment | Climate Impact Pledge | Voting stats | E S G case studies	12-16; 19; 39-99; 110; 127-133
Principle 12	Signatories actively exercise their rights and responsibilities	Responsible investment | Voting and reporting | Policies and processes | Voting stats | E S G case studies	12-16; 39-99; 108-110; 113-116; 127-133

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

LGIM talks

The LGIM blog

Key risks

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. Past performance is not a guide to the future. Reference to a particular security is for illustrative purposes only, 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. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

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