

Agenda Item No. 4. (b)**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE****3 March 2021****Report of the Director of Finance & ICT****STEWARDSHIP REPORT****1 Purpose of the Report**

To provide the Pensions & Investments Committee with an overview of the stewardship activity carried out by Legal & General Investment Management (LGIM), one of Derbyshire Pension Fund's (the Fund) external investment managers, in the quarter ended 31 December 2020.

2 Information and Analysis

This report attaches the Q4 2020 LGIM ESG Impact Report as Appendix 1 to ensure that the Pensions & Investments Committee is aware of the engagement activity being carried out by LGIM. LGIM manages around £1.4bn of assets on behalf of the Fund through passive products covering: Low Carbon Global Sustainable Equities; UK Equities; Japanese Equities; and Emerging Market Equities. The report provides an overview of LGIM's current key stewardship themes and voting and engagement activity over the last quarter.

The quarterly Stewardship Report to the Pensions & Investments Committee generally also includes a quarterly stewardship report from LGPS Central Limited (LGPSC), the Fund's pooling company. However, following a change to the LGPSC stewardship reporting cycle, this has not been possible for the last quarter. LGPSC plans to issue an annual stewardship report for the year to 31 March 2021 in April 2021, which will be reported to Committee in due course. This will be supported by higher level quarterly updates thereafter.

3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder considerations.

4 Officer's Recommendation

That Committee notes the stewardship activity of LGIM.

PETER HANDFORD

Director of Finance & ICT



ESG Impact Report

Q4 2020

Using our influence and scale to
bring about real, positive change to
deliver sustainable investor value

Our mission

LGIM's Investment Stewardship team strives to ensure that:



1. Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking



2. Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.



A photograph of a person in a red shirt and brown pants walking away on a paved path through a dense bamboo forest. The path is flanked by a low wall of dried reeds. The bamboo stalks are tall and thin, creating a natural archway over the path. The lighting is bright, suggesting a sunny day.

Our focus

Holding boards to account

To be successful, companies need to have people at the helm who are well-equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks while seeking to benefit from emerging opportunities. We aim to safeguard and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. We engage directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that can deliver long-term success.

Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, we believe companies should become more resilient to change and therefore seek to benefit the whole market. We use our influence and scale to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change.

Action and impact

As investors worldwide continued to contend with the terrible human and economic toll of COVID-19 in the fourth quarter of 2020, we focused our investment stewardship activity on a number of pressing ESG issues.

In this report, we detail the action we took on behalf of our clients, on subjects from ethnic diversity to healthcare and ESG integration. We also provide case studies and data to illustrate this activity and, crucially, demonstrate its impact.

PRI leaders' group

The PRI Leader's Group showcases signatories to the UN-backed Principles for Responsible Investment that, in their responses to the PRI Reporting Framework, demonstrate a breadth of responsible investment excellence and shine in specific themes. In 2020, the theme was climate reporting; LGIM was delighted to be selected as a member of the group and recognised for our work in this space.

Citywire gender diversity awards

We were awarded the Citywire Gender Diversity 'Judges choice' Award. This accolade was awarded for our stewardship work on gender diversity and leading position on ethnicity, as well as for the female representation in businesses at the board and executive levels and across other senior roles.

Voting recognition

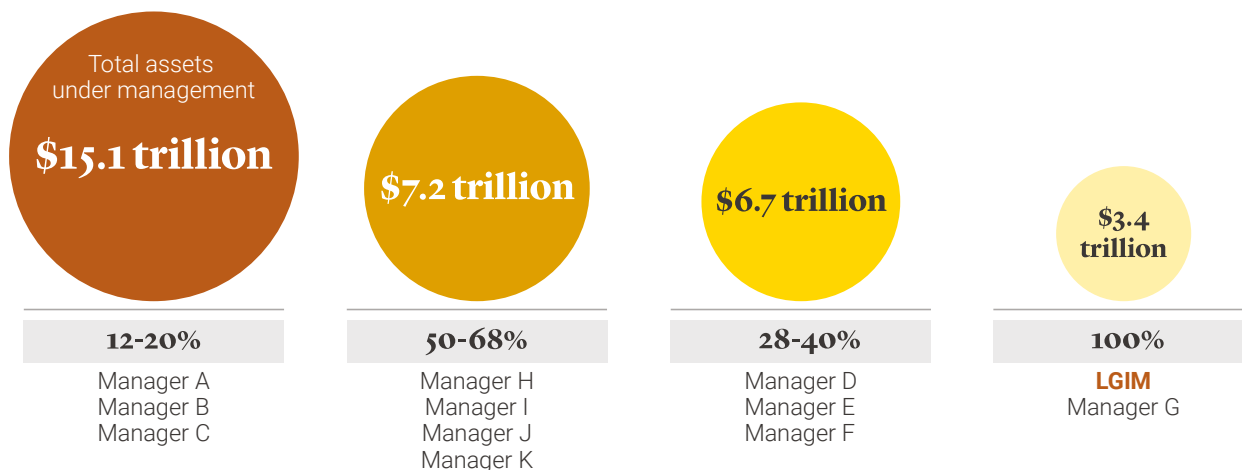
We continued to receive recognition for our strong voting stance in a new report from ShareAction, a non-governmental organisation, looking at resolutions related to human rights and diversity during the 2020 proxy voting season. LGIM was highlighted as a top supporter, in line with our belief in taking voting action against companies falling below our minimum standards on ESG issues.

	Votes in favour of resolutions on human rights:	Votes in favour of resolutions on diversity:
LGIM:	100%	100%
Average across large asset managers:	17% (5 largest)	56% (4 largest)

Source: ShareAction – Voting Matters (2020)¹, analysis of asset manager voting during 2020 proxy calendar. Data for 5th largest asset manager on diversity was not included in the original study.

Since then, a separate report from another such organisation, Majority Action, looking at the US voting record of the 12 largest asset managers found LGIM supported 100% of resolutions relating to racial justice-related resolutions at large US companies.²

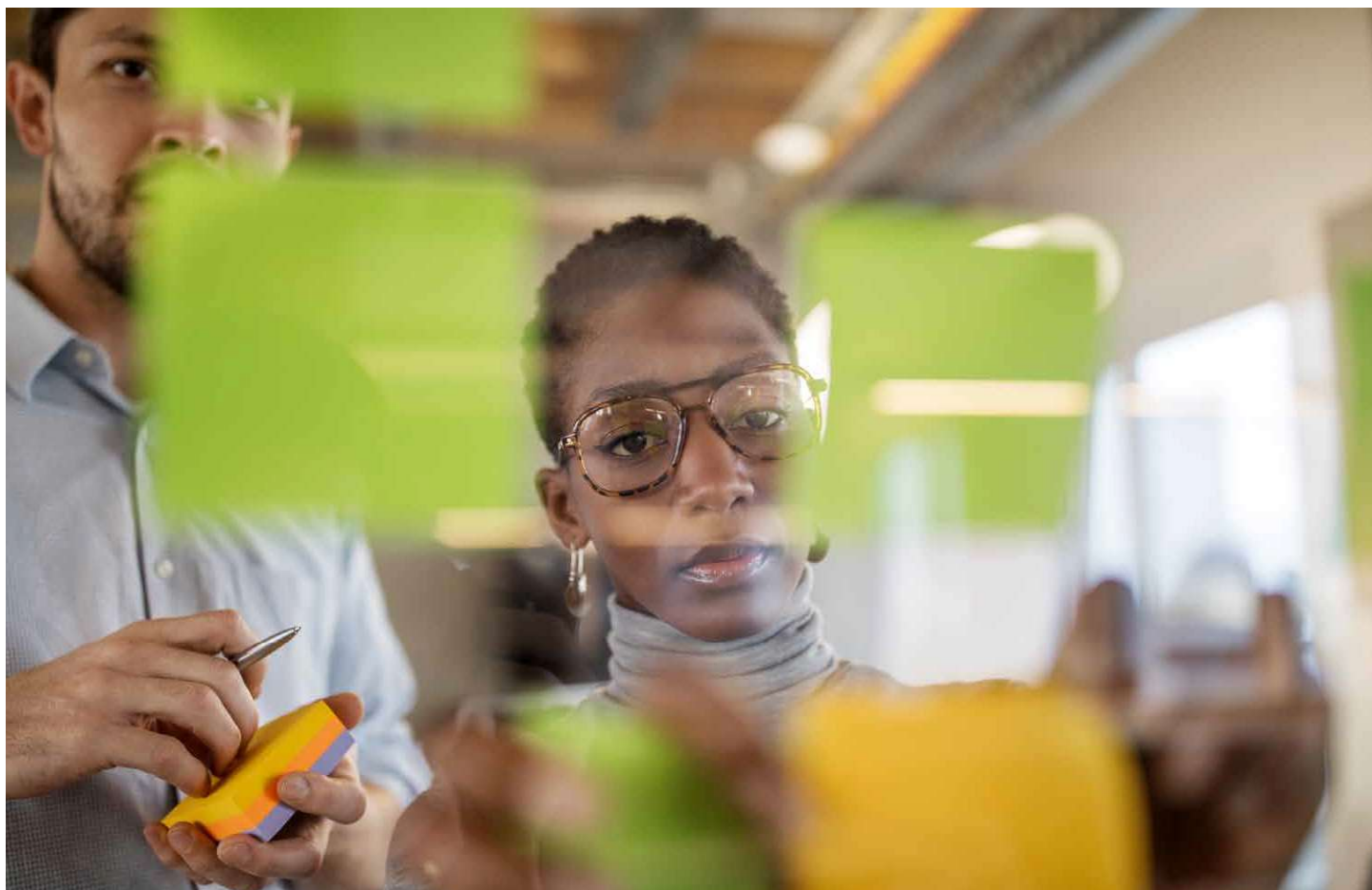
Percentage of racial justice-related shareholder proposals where asset manager voted in favour



Source: LGIM, adapted from Majority Action, based off Priority Insight data

1. <https://shareaction.org/research-resources/voting-matters-2020/>

2. <https://www.majorityaction.us/racial-justice-report-2020>



'Pandemic 50' collaborative engagement

LGIM joined forces with nine other investors to build an engagement campaign with 50 of the world's largest companies about their response to the global pandemic, which exposed a variety of weaknesses in economies and gaps in social safety nets. The coalition – representing \$3.7 trillion of assets under management – initiated engagement with each of the companies to assess how their business model, strategies and practices are adapting to strengthen the long-term resilience of their companies. In particular, we focused on how their boards' oversight and approach to human capital management has evolved.

Promoting ethnic diversity

In September, we sent letters as well as an article outlining our stance to 35³ of the largest companies in the UK and 44 in the US that have no ethnic diversity at the board level. Since our outreach, we have received responses from 48% of the targeted companies. Of those, approximately 42% have agreed with the data captured for them, confirming their lack of ethnic

diversity on their boards. Of those that disagreed with the analysis, we have reached out further to ask them to contact ISS, the proxy voting adviser, to ensure that accurate data are captured and reported. We continue to engage with the targeted companies, and to push for more consistent and improved reporting.

Broader momentum related to ethnic diversity has notably picked up. In November, ISS announced in its annual benchmark policy update that it will consider ethnic diversity a voting issue for US companies for the first time.

"For 2022, for companies in the Russell 3000 or S&P 1500 where the board has no apparent racial or ethnically diverse members, and no mitigating factors are identified, ISS' policy will provide for recommending voting against or withhold from the chair of the nominating committee," the organisation announced. Given the number of investors that rely on ISS benchmark policies, this is a significant market development.

3. Figure changed from the 36 stated in our August 2020 publication due to a company adding ethnicity to its board ahead of our engagement.

To continue the momentum, the Nasdaq stock exchange proposed a listing requirement for board diversity. The proposal includes an element of public disclosure of board level diversity statistics and a “comply or explain” requirement to have at least two diverse directors “including one who self-identifies as female and one who self identifies as either an underrepresented minority or LGBTQ+.” The proposal is currently under review and has received substantial numbers of public comments. LGIM America submitted a supportive comment.

These are seminal market shifts with enduring impacts and global implication. We hope we will be able to look back at 2020 as a step change moment for progress on ethnic diversity.

Action on AMR

Within our health theme, we are looking at anti-microbial resistance (AMR). LGIM joined the Investor Action on AMR initiative, which was launched on 23 January, 2020 at the World Economic Forum Annual Meeting in Davos by the Access to Medicine Foundation, FAIRR, the PRI and the UK Department of Health and Social Care.

The main objective of the AMR initiative is to leverage investor influence to combat drug-resistant superbugs. We believe that, without coordinated action today, AMR may be the next global health event and that the financial impact could be significant. Within the AMR initiative, members of the LGIM Investment Stewardship team participated during the World AMR awareness week (18-24 November 2020) via pre-recorded videos outlining their concerns over the financial and environmental risks by not taking action on AMR.

Furthermore, we published our first [blog](#) on the subject, where we outlined why investors should take action on AMR today, not tomorrow. This year, we will be considering how to engage most effectively with our investee companies in the pharmaceutical and animal husbandry industries to promote a ‘One Health’ approach as advocated by the WHO.⁴ We will also work collaboratively with our peers, engage with policymakers where applicable, and encourage other investors to take action on AMR within their holdings, too.

An Investment Stewardship team member sits on the Access to Medicine Foundation’s Expert Committee for the AMR Benchmark; we will continue to write on AMR initiatives throughout 2021.

Coal power and Samsung C&T

During the fourth quarter of 2020, LGIM came to understand that a portfolio company – Samsung C&T, which has a market capitalisation of KRW 28.45 trillion⁵ – was considering becoming one of the engineering and construction contractors of a new planned Vung Ang 2 coal power fired plant in Vietnam. This presented an issue as it has been well-established through low-carbon energy models that in order to remain consistent with a Paris-aligned emissions trajectory, coal-fired power generation must be phased out. Furthermore, given the large climate and health impacts of coal power, we believe that companies involved in the project face significant reputational and/or financial risks.

In August 2020, LGIM wrote to Samsung C&T urging the company to reconsider its involvement in Vung Ang 2 and to commit to no involvement in the construction of new coal plants without carbon capture and storage. Just two months later, following significant pressure from LGIM and other like-minded shareholders, the company announced with immediate effect, that it will no longer participate in coal-fired power generation projects in any capacity, including investment or construction. However, to our disappointment, the company reaffirmed its participation in the Vung Ang 2 as its final coal project. In response LGIM will be sanctioning the board at its next AGM.

ESG scores

We recently launched a [website](#) for the LGIM ESG Score, taking our commitment to transparency one step further. The LGIM ESG Score, launched in 2018, is run according to a rules-based methodology which scores companies on what we believe are global minimum ESG standards. The new website enables users to view at the indicator level how companies are performing against the themes and standards that underpin the score’s methodology, and how they compare to peers. In our view, this transparency is crucial, as companies must have a clear understanding of how they are being assessed in order to improve. Furthermore, companies will now be able see their performance against our expectations.

The website has three principal aims, to:

- Provide companies and clients with an interactive way of understanding and engaging with the drivers of the LGIM ESG Score
- Enable investee companies to identify where they are failing to meet our minimum expectations and how they can improve
- Encourage companies to address gaps in their ESG disclosures and strategies

By providing this market-leading transparency we aim to accelerate the improvement in companies' ESG profiles and demonstrate to clients our commitment to driving positive change. Companies have already provided positive feedback on this detailed transparency.

For more information on the scores, please refer to our public methodology document [here](#).

Enhanced transparency on voting

Our Investment Stewardship team was pleased to release a new vote disclosure [webpage](#) which aims to improve access by our clients and other stakeholders to our firmwide voting decisions across all markets in which we vote. This enhanced page provides extra transparency on our votes, with daily updates of our instructions and disclosures of all votes with a lag of one day after a shareholder meeting is held. We also continue to provide the rationale for all votes against management, as this allows our stakeholders to understand the reason behind a vote cast against the management of a company, including a vote of support to a shareholder resolution. Lastly, historic vote data is available, with all our vote records from the 1 January, 2017 uploaded onto the website.



4. The 'One Health' approach promoted by the WHO brings together various stakeholders working in multiple fields such as human and animal health, food production, the environment, to work together in the designing and implementing of research programmes, policies and legislation to attain better public health outcomes.

5. Source for all market cap data cited in this document: Refinitiv, as at 21 January 2021

Significant votes



Company name: The Procter & Gamble Company (P&G)*

Sector: Household goods and home construction

Market cap: \$325.8 billion

Issue identified:	<p>P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp.</p> <p>Why is it an issue?</p> <p>Palm oil and forest pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests.</p>
Summary of the resolution:	<p>Resolution 5 – Report on effort to eliminate deforestation. The AGM took place on 13 October 2020.</p>
How LGIM voted:	<p>LGIM voted in favour of the resolution.</p>
Rationale for the vote decision:	<p>LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. We spoke to representatives from the proponent of the resolution, Green Century. In addition, we engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns.</p> <p>Rationale for the vote?</p> <p>Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, we felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies we invest our clients' assets in are not contributing to deforestation.</p> <p>Any other steps?</p> <p>LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources.</p>



Company name: The Procter & Gamble Company (P&G)*

Sector: Household goods and home construction **Market cap:** \$325.8 billion

Outcome: The resolution received the support of 67.68% of shareholders (including LGIM).
 LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.

Why is this vote significant? It is linked to LGIM’s five-year strategy to tackle climate change and attracted a great deal of client interest.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.



Company name: Qantas*

Sector: Transport

Market cap: AUD 9.2 billion

Issue identified:	<p>The COVID-19 crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance.</p> <p>The circumstances triggered extra scrutiny from LGIM as we wanted to ensure the impact of the crisis on the company's stakeholders was appropriately reflected in the executive pay package.</p>
Summary of the resolution:	<p>At the company's AGM on 23 October, 2020, shareholders were asked to approve the following two resolutions which we deem significant votes:</p> <ul style="list-style-type: none"> • Resolution 3 – Approve participation of Alan Joyce in the Long-Term Incentive Plan (LTIP) • Resolution 4 – Approve Remuneration Report
How LGIM voted:	<p>LGIM voted against resolution 3 and supported resolution 4.</p>
Rationale for the vote decision:	<p>In collaboration with our Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express our concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team.</p> <p>We supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic.</p> <p>However, our concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. We voted against resolution 3 to signal our concerns.</p> <p>LGIM's Investment Stewardship team communicated the voting decision directly to the company before the AGM and provided feedback to the remuneration committee.</p>
Outcome:	<p>About 90% of shareholders supported resolution 3 and 91% supported resolution 4. The meeting results highlight LGIM's stronger stance on the topic of executive remuneration, in our view.</p> <p>We will continue our engagement with the company.</p>
Why is this vote significant?	<p>It highlights the challenges of factoring in the impact of the COVID situation into the executive remuneration package.</p>

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Company name: Rank group*	
Sector: Travel & Leisure	Market cap: £670.5 million
Issue identified:	<p>The company and its stakeholders have been impacted by the COVID crisis. As an active owner and responsible investor, LGIM wants to ensure this is reflected in the executive remuneration package paid for this year.</p> <p>In addition, in 2018 the company granted 'block awards' long-term incentives (LTI) to the executives and committed not to grant any LTI awards until financial year 2022. After review of the remuneration policy, the remuneration committee asked shareholders to adopt a new LTI structure with the first award under this plan to be made in the 2021 financial year.</p>
Summary of the resolution:	Resolution 2 – Approve the remuneration report; and resolution 3 – Approve remuneration policy at the company's AGM held on 11 November 2020.
How LGIM voted:	LGIM supported both resolutions.
Rationale for the vote decision:	<p>We decided to support the remuneration report, which looks back at the remuneration earned during the financial year. We noted the remuneration committee's decision to apply a 20% deduction and cancel the planned increase of salaries of the executives and fees of the board members. No annual bonus was granted, given the performance of the company. LGIM was comfortable that the impact of COVID-19 had been appropriately reflected in the remuneration of the executives and therefore decided to support the remuneration report.</p> <p>Regarding the remuneration policy, our direct engagement with the company allowed us to better understand the rationale for the proposed changes to the LTIP. We took into account their concerns around retention, and the fact that there would be a substantial gap in the vesting of any long-term incentives if this plan was not approved. Notably, that the structure of the proposed LTIP was in line with LGIM's remuneration principles.</p>
Outcome:	<p>90.79% of shareholders supported resolution 2 and 96.4% supported resolution 3. However, it should be noted that a majority shareholder owned 56.15% of the voting rights shortly before the time of the vote.</p> <p>This remains an interesting outcome given the recommendation of a vote against both resolutions by influential proxy voting agency ISS.</p> <p>Our engagement with the company on the topic of remuneration led to an informed vote decision by LGIM.</p>
Why is this vote significant?	<p>It illustrates the complexity of remuneration practices and the importance of engagement.</p> <p>The media⁶ also expected this shareholder meeting would trigger a substantial amount of votes against.</p>

6. <https://news.sky.com/story/odds-on-for-shareholder-pay-revolt-at-casino-giant-rank-12117724>

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.



Company name: Whitehaven Coal*

Sector: Mining **Market cap:** AUD 1.7 billion

Issue identified:	The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in the fourth quarter of 2020 alone three of Australia’s main export markets for coal – Japan, South Korea and China – have announced targets for carbon neutrality around 2050.
Summary of the resolution:	Resolution 6 – Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company’s coal operations, with the potential to return increasing amounts of capital to shareholders. The AGM took place on 22 October 2020.
How LGIM voted:	LGIM voted for the resolution.
Rationale for the vote decision:	LGIM has publicly advocated for a ‘managed decline’ for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.
Outcome:	<p>The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight: in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in ‘significant environmental harm’.</p> <p>As the company is on LGIM’s Future World Protection List of exclusions, many of our ESG-focused funds – and select exchange-traded funds – were not invested in the company.</p>
Why is this vote significant?	The vote received media scrutiny and is emblematic of a growing wave of ‘green’ shareholder activism.

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Company name: Cardinal Health*

Sector: Pharmaceuticals

Market cap: \$16 billion

Issue identified:	<p>The company paid out an above-target bonus to the CEO, the same year it recorded a total pre-tax charge of \$5.63 billion (\$5.14 billion after tax) for expected opioid settlement costs during the fiscal year ended 30 June, 2020. The compensation committee excluded the settlement costs from the earnings calculations which resulted in executive pay being boosted. Further, the current CEO was head of pharma globally during the worst years of the opioid crisis. Accountability would therefore have been expected.</p> <p>LGIM has in previous years voted against executives' pay packages due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company's performance.</p>
Summary of the resolution:	Resolution 3, Advisory Vote to Ratify Named Executive Officers' Compensation. AGM date: 4 November, 2020.
How LGIM voted:	We voted against the resolution.
Rationale for the vote decision:	We voted against the resolution to signal our concern over the bonus payment to the CEO in the same year the company recorded the charge for expected opioid settlement.
Outcome:	<p>The resolution encountered a significant amount of oppose votes from shareholders, with 38.6% voting against the resolution and 61.4% supporting the proposal.</p> <p>LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.</p>
Why is this vote significant?	We believe it is imperative that pay structures are aligned with company performance and that certain expenses over which directors have control and influence should not be allowed to be excluded in the calculation of their pay, in particular if these would be detrimental to the executive director(s) in question.

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Company name: Medtronic plc*	
Sector: Healthcare products	Market cap: \$160.6 billion

Issue identified:	Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year.
Summary of the resolution:	Resolution 3 - Advisory Vote to Ratify Named Executive Officers' Compensation. AGM date: 11 December, 2020.
How LGIM voted:	We voted against the resolution.
Rationale for the vote decision:	<p>LGIM voted against the one-off payment as we are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met.</p> <p>Prior to the AGM we engaged with the company and clearly communicated our concerns over one-off payments.</p>
Outcome:	The voting outcome was as follows: For: 91.73%; against: 8.23%.
Why is this vote significant?	We believe it is contrary to best practice in general and our pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.



Company name: Fast Retailing Co. Limited*

Sector: Consumer discretionary: Specialty retail – apparel retail

Market cap: JPY 9.74 trillion

Issue identified:	Japanese companies in general have trailed behind European and US companies, as well as companies in other countries in ensuring more women are appointed to their boards. A lack of women employed is also a concern below board level.
Summary of the resolution:	Resolution 2.1: Elect Director Yanai Tadashi at the company's annual shareholder meeting held on 26 November 2020.
How LGIM voted:	We voted against the resolution.
Rationale for the vote decision:	<p>LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level we consider that every board should have at least one female director. We deem this a de minimis standard. Globally, we aspire to all boards comprising 30% women.</p> <p>In the beginning of 2020, we announced that we would vote against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100 where these standards were not upheld.</p> <p>We opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to act on this issue.</p>
Outcome:	Shareholders supported the election of the director. LGIM will continue to engage with and require increased diversity on all Japanese company boards, including Fast Retailing.
Why is this vote significant?	LGIM considers it imperative that the boards of Japanese companies increase their levels of diversity.

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Sustainability

Renewing our Climate Impact Pledge

LGIM has long been committed to a model of ‘engagement with consequences’. When we launched our Climate Impact Pledge in 2016, it was the first time a mainstream asset manager had committed to divest companies over a lack of action on climate change. Since the launch, we have been able to track the impact of this model via our quantitative assessment framework – companies that were subjected to voting and divestment sanctions consistently achieved the most significant improvements in their scores.

In October, we announced that we would be significantly expanding the scope and ambition of our climate-related engagements. We are making the target of net-zero emissions by 2050 an explicit focus, and are expanding our climate-related voting policies to cover not just engagement targets, but all companies in climate-critical sectors.

To support our commitment, we constructed an assessment framework closely aligned to the Task Force on Climate-Related Financial Disclosures and the IIGCC Net-Zero Investment Framework, consisting of standardised metrics available in a comparable format for a large universe of companies. The result is the Climate Impact Pledge scores which can be found on our dedicated [website](#), covering 1,000+ companies. We will link performance on these indicators to our votes: companies not meeting our minimum expectations, such as board oversight on climate change and greenhouse gas reduction policies, will be subject to a vote against their reports and accounts in 2021, and a vote against the chair in 2022.

We continue to believe it is important for investors to engage hands-on with portfolio companies on their management of the critical risks, but also opportunities, that climate presents. As such, complementing our voting policy, we will continue to engage in person with a group of 60 companies across 15 sectors. These companies have been selected on the basis of their size and sector influence. They will be assessed on their strategic response to the net-zero challenge, according to sector guides that we have made publicly available on the Pledge’s [microsite](#).

Within all LGIM funds that apply the Climate Impact Pledge, we will divest from those companies where, after a period of engagement, we do not see a willingness to improve. We will also vote against the chair of their boards, effective from the 2021 AGM season.

We are pleased to see that a number of companies covered by our Climate Impact Pledge have recently announced new climate ambitions. US oil major **Occidental Petroleum*** – an erstwhile divestment candidate under the Pledge – has gone from climate laggard to the forefront of its American peers. Occidental has become the first US oil company to announce net-zero emissions targets which include not just its operations (‘Scope 1 and 2’ emissions), but also the emissions from the use of its sold products (‘Scope 3’) – which are the largest contributor to its overall footprints. In December, mining giant **Glencore*** became the first miner to announce similar Scope 1-3 net zero targets.

KEPCO*

LGIM has been engaging with Korea Electric Power Company (KEPCO) since early 2017. In 2019, due to a lack of responsiveness to investor concerns, the company’s continued plans to expand thermal coal power generation and poor climate risk disclosure, we made the decision to implement voting sanctions and divest from the company from the Future World fund range. Following this decision, we have had four meetings with the company, including one in person at LGIM’s offices in autumn 2019. To further increase pressure on the company, our Head of Sustainability and Responsible Investment outlined our concerns in an interview with a leading Korean daily newspaper in 2020.

In October, KEPCO publicly pledged it would make no further investments in overseas coal projects. The company announced it would focus on renewables and natural gas in the future, and that all currently planned thermal coal projects, with the exception of two plants in Indonesia and Vietnam, will either be converted to liquefied natural gas or called off.

*For illustrative purposes only. Reference to a particular security 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.

Continued collaboration

In January 2020, LGIM joined the One Planet initiative – a coalition of asset managers, sovereign wealth funds and private investments championed by President Emmanuel Macron of France. In late November, our CEO joined other finance leaders at a C-suite summit hosted by President Macron, which resulted in a joint statement in support of better climate disclosures⁷, with further collaboration expected throughout 2021.



Shortly before this event, the UK Prime Minister announced a 10-point plan for a 'green industrial revolution' which aims to accelerate the deployment of low-carbon technologies and 'green collar' jobs. This comes as the UK prepares to host the international COP26 UN climate change conference in Glasgow in 2021. As part of this process, our CEO has been asked by the UK government to co-chair the Business Leaders Group alongside the Secretary of State for Business, in an effort to galvanise momentum for climate action in the private sector. LGIM's Head of Sustainability and Responsible Investment is also on secondment as a COP26 'high-level champion' for climate finance.

The COP26 talks will be crucial, as governments are expected to announce strengthened policies to turn the Paris Agreement's ambitions into reality. The role of investors in this process will be key. That is why, in December, on the eve of the 5th anniversary of the Paris Agreement, LGIM was a founding signatory of

the **Net Zero Asset Manager Initiative**, alongside 30 investors with a combined \$9 trillion in assets, pledging to work in partnership with our clients to set decarbonisation goals for portfolios.

For more information on this important initiative, please see our [blog](#).

Work on the net-zero challenge continues apace across different L&G divisions; in November our colleagues in Legal and General Retirement pledged to halve the carbon intensity of their annuity portfolio by 2030 and target net zero by 2050⁸, while in December our Real Assets division published a net zero carbon roadmap.⁹

7. https://oneplanetwfs.org/wp-content/pdfs/web/viewer.html?file=https://oneplanetwfs.org/download/135/press-eng/987/6_20201120-opswf-opam-statement-on-climate-related-financial-disclosures.pdf

8. <https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-commits-to-halving-81bn-annuity-portfolio-s-carbon-emissions-by-2030/>

9. https://www.legalandgeneral.com/landg-assets/institutional/real-assets/_resources/files/real-estate-net-zero-carbon-roadmap-report-december_2020_final.pdf

Public policy update

Over the past quarter, LGIM has been actively engaged on an increasing number of ESG-related policy and regulatory developments around the world.



United Kingdom

We have continued to engage with various stakeholders in government, as well as regulators, over the past quarter. We have recently focused on providing practical advice in the early stage of policymaking, especially necessary as the UK has moved through the Brexit transition period. On a more formal basis, we have recently provided feedback into two key government consultations where there is clear cross-over:

1. [Call for Evidence on UK Listings Review \(also known as the 'Lord Hill review'\)](#)

Lord Hill has been tasked with carrying out a review as to whether UK markets remain world leading and fit for the future shape of the economy. There is a focus on whether the markets are attractive enough to encourage fast-growing and innovative technology firms to list in the UK. Unfortunately, the select questions in the 'call for evidence' are of deep concern to us as they are not where the governments focus should be at this stage, in our view. We have provided feedback on several key points:

- i. Supporting the principle of 'One Share, One Vote'
- ii. Grandfathering companies that have dual or multiple voting rights
- iii. Maintaining a minimum free float of 25%
- iv. No 'fast-track' processes within minimum time period
- v. Vested interest in attracting initial public offerings (IPOs)
- vi. Support for companies to gradually move through the listed markets as they grow
- vii. Alignment with National Security and Investment Bill

There has been a reduction in IPOs, likely due to uncertainty driven by Brexit. In our view, we should be focusing on ensuring quality IPOs in the UK and not quantity. It was not so long ago that weakening of the listing rules caused significant issues in the market.





2. [National Security and Investment Bill 2020: mandatory notification sectors](#)

The UK, like many other countries around the world, is seeking to legislate to ensure that the government has the necessary powers to scrutinise and intervene in business transactions, such as takeovers, to protect national interests. We are, of course, supportive of the UK endeavours to protect national security; however, the proposals are of concern. We provided feedback and recommendations on several key areas that would help reduce unintended complexities, risk stalling investment in the UK, and ensure the bill strengthens the overall attractiveness and efficiency of the UK market. Our points focused on:

- i. Clarity – on selected sectors and specific activities, definitions
- ii. Independent and publicly available advice
- iii. Limits to ministers' authority
- iv. Guidance on extraterritorial aspects
- v. Government resourcing for timely responses
- vi. Exemptions for portfolio management
- vii. Thresholds of ownership to be in line with industry standards (i.e. 30%)
- viii. Transparent annual reviews as to effectiveness of the bill
- ix. Balance to be struck to ensure an efficient market

We will continue to engage with government on both reviews in 2021. We also feel that as the UK moves forward out of the transition period, the government may wish to focus efforts on how the UK economy can be more productive; encouraging businesses to become more innovative and prioritising investment in research and development. In addition, we suggest encouraging investment into early-stage, modern, industries that support the transition to a net-zero economy; and strengthening standards in the private market given growing preference for debt over equity.



European Union

With regard to the EU, over the past quarter we have focused a good deal of time in preparation for the implementation of the [Sustainable Finance Disclosure Regulation](#) (SFDR). In September, [we responded](#) to the draft Regulatory Technical Standards that have been further delayed until early 2021. As many will be aware, this is a very significant piece of regulation that has come out of the Sustainable Finance Action Plan and aims to reduce 'greenwashing' and create a more harmonised system of how products integrate ESG factors, what ESG-related or sustainable investment is targeted, how they are categorised, what is disclosed, and eventually reporting standards. This will continue to feature as an area of focus in 2021, as will implementation of the EU's taxonomy for sustainable finance. We will continue to engage with the (soon to be released) revised Sustainable Finance Action Plan and efforts to strengthen and harmonise corporate governance standards across the region.

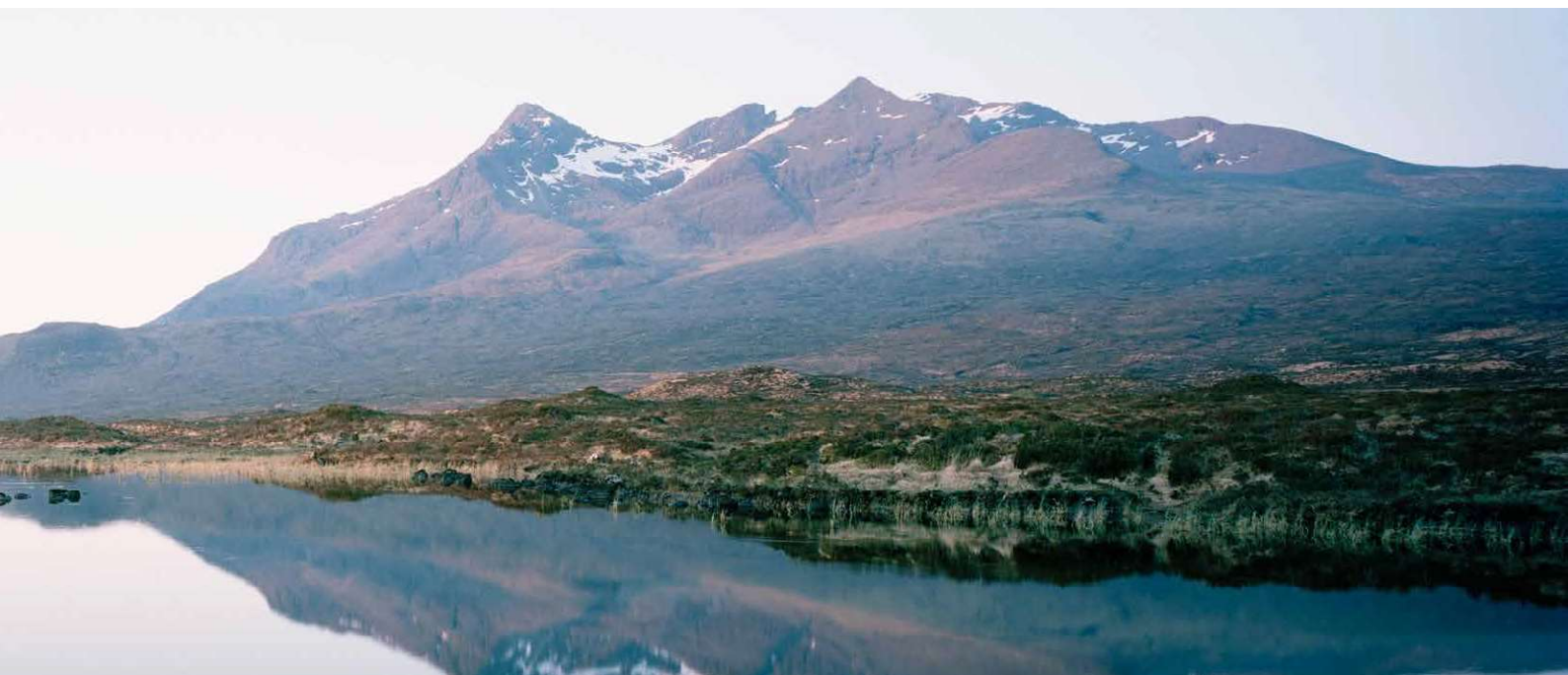
LGIM has also been engaging on policy with other investors. Through the Institutional Investors Group on Climate Change (IIGCC), we [called on](#) EU leaders to amend the outdated and inconsistent Energy Charter Treaty that presently supports private fossil fuel industry investments by making nation states liable to cover any foreign fossil fuel investments which are made unprofitable by domestic climate policy.



Japan

In Japan, the [Council of Experts](#) convened by the Japan FSA and Tokyo Stock Exchange has begun discussions to review the Corporate Governance Code. We have supported the International Corporate Governance Network by providing input to the group's [opinion paper](#) and the updated [Japan policy priorities](#). Both documents include our views and have been presented to the council for deliberation. Japan's Corporate Governance Code will be revised in 2021.

Case studies and references to any security are shown for illustrative purposes only and do not constitute an investment recommendation



Non-financial disclosures

In September the Trustees of the International Financial Reporting Standards Foundation published a [consultation paper](#) that posed the question of whether the foundation should become involved in the world of non-financial reporting. As noted in our [blog](#) on the EU's review of the Non-Financial Reporting Directive, investors need access to relevant, comparable, consistent and verifiable non-financial information across markets and asset classes.

Overall, there has been very strong support from the more than 500 stakeholders who took the time to provide feedback, [including LGIM](#). LGIM's key messages to the trustees are outlined in our [blog](#) and cover the following topics:

- i. While we are supportive of financial materiality focus, we do feel it necessary the foundation feature 'double materiality' in the standard they develop. Materiality is an evolving concept
- ii. Although a focus on climate-related risks is valuable, the foundation should ensure that the standard covers a much broader range of ESG issues
- iii. It is helpful to build off the existing voluntary standards, such as the Sustainability Accounting Standards Board and the Global Reporting Initiative
- iv. Strong coordination of all stakeholders to ensure harmonisation and uptake
- v. As investors are the primary users of non-financial disclosures, it is necessary that there is strong representation at a governance level
- vi. We should aim to have non-financial disclosures verified with the same rigour that financial information is, although the market is not there yet and we should not weaken any standard to achieve this
- vii. There is urgency to this work to halt the increasing risk of regulation moving in different directions, and a roadmap for development and release should be public
- viii. A public roadmap for development and release

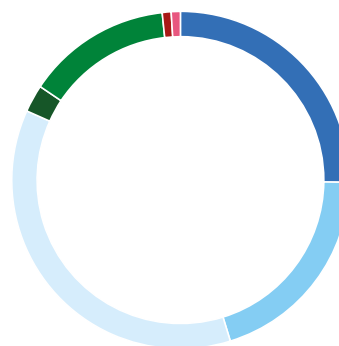
Regional updates

UK - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	51	0	0
Capitalisation	281	29	0
Directors-related	472	23	0
Remuneration-related	133	42	0
Reorganisation and Mergers	38	3	0
Routine/Business	349	16	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	2	0	0
Shareholder Proposal - Director-related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	1	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	1	1	0
Total	1328	115	0
Total resolutions	1443		
No. AGMs	81		
No. EGMs	55		
No. of companies voted on	125		
No. of companies where voted against management on at least one resolution	57		
% of companies with at least one vote against	46%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against



Antitakeover-related - 0
Capitalisation - 29
Directors-related - 23
Remuneration-related - 42
Reorganisation and Mergers - 3
Routine/Business - 16
Shareholder Proposal - Compensation - 0
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Director-related - 0
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 0
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 1
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 1

Number of companies voted for/against



■ No. of companies where we supported management
■ No. of companies where we voted against management

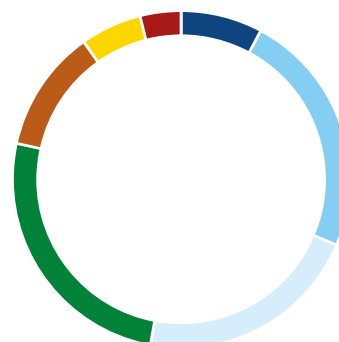
LGIM voted against at least one resolution at **46%** of UK companies over the quarter

Europe - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	1	4	0
Capitalisation	28	0	0
Directors-related	74	9	3
Remuneration-related	20	11	0
Reorganisation and Mergers	16	0	0
Routine/Business	183	13	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-related	4	6	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	3	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	2	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	326	48	3
Total resolutions	377		
No. AGMs	10		
No. EGMs	43		
No. of companies voted on	53		
No. of companies where voted against management on at least one resolution	21		
% of companies with at least one vote against	40%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against / abstentions



Antitakeover-related - 4
Capitalisation - 0
Directors-related - 12
Remuneration-related - 11
Reorganisation and Mergers - 0
Routine/Business - 13
Shareholder Proposal - Compensation - 0
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors-related - 6
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 3
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 2
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 0

Number of companies voted for/against



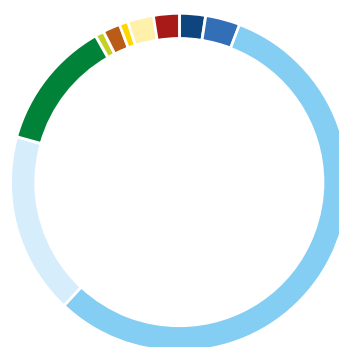
- No. of companies where we supported management
- No. of companies where we voted against management (including abstentions)

LGIM voted against at least one resolution at **40%** of European companies over the quarter

North America - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	8	3	0
Capitalisation	7	4	0
Directors-related	242	68	0
Remuneration-related	27	21	0
Reorganisation and Mergers	9	0	0
Routine/Business	23	15	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	1	0
Shareholder Proposal - Director-related	4	2	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	1	0
Shareholder Proposal - Other/Miscellaneous	1	3	0
Shareholder Proposal - Routine/Business	0	3	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	321	121	0
Total resolutions	442		
No. AGMs	34		
No. EGMs	10		
No. of companies voted on	43		
No. of companies where voted against management on at least one resolution	35		
% of companies with at least one vote against	81%		

Votes against



- Antitakeover-related - 3
- Capitalisation - 4
- Directors-related - 68
- Remuneration-related - 21
- Reorganisation and Mergers - 0
- Routine/Business - 15
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors-related - 2
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 1
- Shareholder Proposal - Other/Miscellaneous - 3
- Shareholder Proposal - Routine/Business - 3
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

Number of companies voted for/against



- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at **81%** of North American companies over the quarter

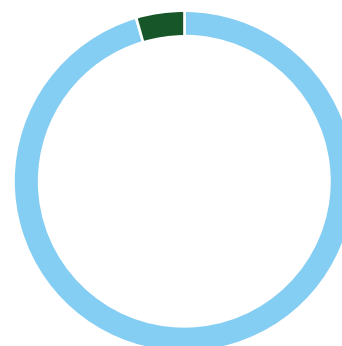
Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Japan - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	0	0	0
Capitalisation	0	0	0
Directors-related	74	21	0
Remuneration-related	5	0	0
Reorganisation and Mergers	7	1	0
Routine/Business	7	0	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	1	0	0
Shareholder Proposal - Director-related	0	0	0
Shareholder Proposal - General Economic Issues	1	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	95	22	0
Total resolutions	117		
No. AGMs	10		
No. EGMs	3		
No. of companies voted on	13		
No. of companies where voted against management on at least one resolution	9		
% of companies with at least one vote against	69%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against



Antitakeover-related - 0
Capitalisation - 0
Directors-related - 21
Remuneration-related - 0
Reorganisation and Mergers - 1
Routine/Business - 0
Shareholder Proposal - Compensation - 0
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors-related - 0
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 0
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 0
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 0

Number of companies voted for/against



■ No. of companies where we supported management
■ No. of companies where we voted against management

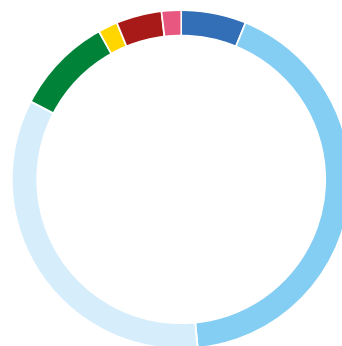
LGIM voted against at least one resolution at **69%** of Japanese companies over the quarter

Asia Pacific - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	13	0	0
Capitalisation	26	9	1
Directors-related	249	68	0
Remuneration-related	152	55	0
Reorganisation and Mergers	15	0	0
Routine/Business	51	15	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Director-related	8	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	1	3	0
Shareholder Proposal - Other/Miscellaneous	1	0	0
Shareholder Proposal - Routine/Business	2	7	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	3	3	0
Total	521	160	1
Total resolutions	682		
No. AGMs	95		
No. EGMs	18		
No. of companies voted on	113		
No. of companies where voted against management on at least one resolution	69		
% of companies with at least one vote against	61%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Votes against / abstentions



Antitakeover-related - 0
Capitalisation - 10
Directors-related - 68
Remuneration-related - 55
Reorganisation and Mergers - 0
Routine/Business - 15
Shareholder Proposal - Compensation - 0
Shareholder Proposal - Corporate Governance - 0
Shareholder Proposal - Directors-related - 0
Shareholder Proposal - General Economic Issues - 0
Shareholder Proposal - Health/Environment - 3
Shareholder Proposal - Other/Miscellaneous - 0
Shareholder Proposal - Routine/Business - 7
Shareholder Proposal - Social/Human Rights - 0
Shareholder Proposal - Social - 3

Number of companies voted for/against

44

69

- No. of companies where we supported management
- No. of companies where we voted against management (including abstentions)

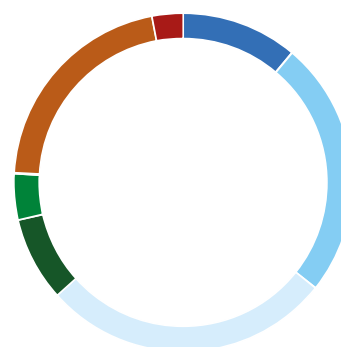
LGIM voted against at least one resolution at **61%** of Asia Pacific companies over the quarter

Emerging markets - Q4 2020 voting summary

Proposal category	For	Against	Abstain
Antitakeover-related	1	0	0
Capitalisation	1104	109	0
Directors-related	913	106	135
Remuneration-related	59	271	0
Reorganisation and Mergers	904	79	0
Routine/Business	539	43	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	0	1	0
Shareholder Proposal - Director-related	18	205	2
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	3	29	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	3542	843	137
Total resolutions	4522		
No. AGMs	43		
No. EGMs	438		
No. of companies voted on	474		
No. of companies where voted against management on at least one resolution	188		
% of companies with at least one vote against	40%		

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds. The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain.

Votes against / abstentions



■ Antitakeover-related - 0
■ Capitalisation - 109
■ Directors-related - 241
■ Remuneration-related - 271
■ Reorganisation and Mergers - 79
■ Routine/Business - 43
■ Shareholder Proposal - Compensation - 0
■ Shareholder Proposal - Corporate Governance - 1
■ Shareholder Proposal - Directors-related - 207
■ Shareholder Proposal - General Economic Issues - 0
■ Shareholder Proposal - Health/Environment - 0
■ Shareholder Proposal - Other/Miscellaneous - 0
■ Shareholder Proposal - Routine/Business - 29
■ Shareholder Proposal - Social/Human Rights - 0
■ Shareholder Proposal - Social - 0

Number of companies voted for/against abstentions



■ No. of companies where we supported management	286
■ No. of companies where we voted against management (including abstentions)	188

LGIM voted against at least one resolution at 40% of emerging markets companies over the quarter

Global voting summary

Voting totals

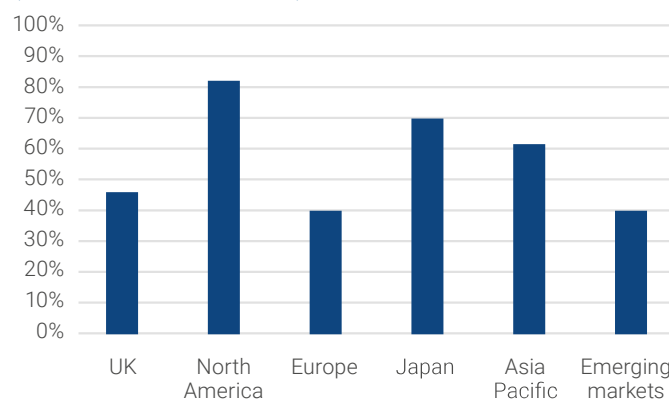
Proposal category	For	Against	Abstain	Total
Antitakeover-related	74	7	0	81
Capitalisation	1446	151	1	1598
Directors-related	2024	295	138	2457
Remuneration-related	396	400	0	796
Reorganisation and Mergers	989	83	0	1072
Routine/Business	1152	102	0	1254
Shareholder Proposal - Compensation	1	0	0	1
Shareholder Proposal - Corporate Governance	3	2	0	5
Shareholder Proposal - Directors-related	34	213	2	249
Shareholder Proposal - General Economic Issues	1	0	0	1
Shareholder Proposal - Health/Environment	1	7	0	8
Shareholder Proposal - Other/Miscellaneous	2	3	0	5
Shareholder Proposal - Routine/Business	6	42	0	48
Shareholder Proposal - Social/Human Rights	0	0	0	0
Shareholder Proposal - Social	4	4	0	8
Total	6133	1309	141	7583
No. AGMs				273
No. EGMs				567
No. of companies voted on				821
No. of companies where voted against management on at least one resolution				379
% of companies with at least one vote against				46%

Number of companies voted for/against abstentions



- No. of companies where we supported management
- No. of companies where we voted against management (including abstentions)

% of companies with at least one vote against (includes abstentions)



Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds



Global engagement summary

Key engagement numbers



489

Total number of engagements during the quarter



428

Number of companies engaged with

Number of engagements on



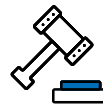
357

Environmental topics



76

Other topics (e.g. financial and strategy)



139

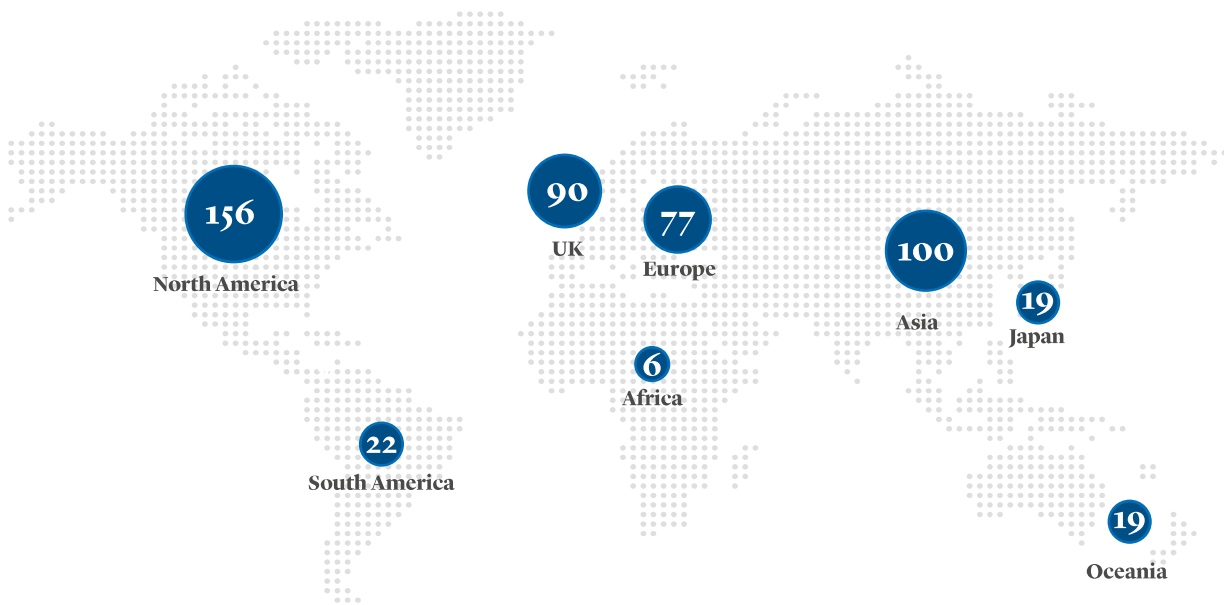
Governance topics



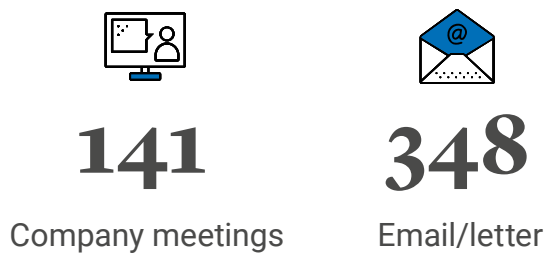
64

Social topics






Breakdown of our engagements by market



Engagement type



Top five engagement topics

- 1**

Climate change
353 engagements
- 2**

Remuneration
88 engagements
- 3**

Diversity
43 engagements
- 4**

COVID-19
38 engagements
- 5**

Strategy
38 engagements

Contact us

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



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