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Statement of Investment Principles

Logica UK Pension & Life Assurance Scheme

February 2022



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Section 1: Introduction

Pensions Acts

- 1.1 Under the Pensions Act 1995, as amended by the Pensions Act 2004, trustees are required to prepare a statement of the principles governing investment decisions. This document contains that Statement and describes the investment policy pursued by the Trustee of the Logica UK Pension & Life Assurance Scheme (the Scheme).
- 1.2 Before preparing this Statement, the Trustee has consulted the Employer and the Trustee will consult the Employer before revising this Statement. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.
- 1.3 Before preparing this Statement, the Trustee has sought written advice from the Scheme's Investment Consultant and has consulted the Scheme Actuary. The written advice considered the issues set out in Section 36 of the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement. The Trustee will review this Statement, in consultation with the Investment Consultant and Scheme Actuary, every three years and without delay after any significant change in investment policy, or where the Trustee considers a review is needed for other reasons. The Trustee will refer to this Statement where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as reasonable.
- 1.4 When choosing investments, the Trustee and investment managers (to the extent delegated) have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments taking into consideration the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee will consider these requirements on any review of this Statement or any change in its investment policy.

Scheme details

- 1.5 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

Financial Services & Markets Act

- 1.6 In accordance with the Financial Services & Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.



Section 2: Division of Responsibilities

Trustee

2.1 The Trustee's responsibilities include:

- a. Determining the overall mission and objectives of the Scheme and agreeing investment beliefs.
- b. Setting a long-term funding target and investment Journey Plan (if deemed appropriate).
- c. Agreeing an expected return target and the level of investment risk that can be taken in seeking to achieve this target return.
- d. Agreeing the asset allocation structure of the portfolio
- e. Determining how the asset allocation strategy should be implemented including the selection of investment managers.
- f. Implementing any changes agreed by the Trustee and determining how cashflows into or out of the Scheme should be allocated.
- g. Monitoring the investment arrangements, including the performance of the investment manager.
- h. Maintaining the Statement of Investment Principles.

Investment Manager

2.2 The Investment Manager's responsibilities include:

- a. Within any guidelines given by the Trustee, managing changes in the asset mix and selecting securities within each asset class.
- b. Informing the Trustee of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.
- c. Having regard to the need for diversification of investments so far as appropriate and to the suitability of investments.
- d. Giving effect to the principles contained in the Statement as far as reasonably practicable.



Investment Consultant

2.3 The Investment Consultant's responsibilities include:

- a. Participating with the Trustee, or Investment Sub-Committee, as appropriate, in reviews of this Statement of Investment Principles in consultation with the Scheme Actuary.
- b. Undertaking project work as required including reviews of investment policy and investment managers.
- c. Advising on the selection of new managers.

Scheme Actuary

2.4 The Scheme Actuary's investment related responsibilities include:

- a. Liaising with the Investment Consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- b. Assessing the position of the Scheme relative to its Statutory Funding Objective and advising on the appropriate response to any shortfall or surplus.
- c. Performing the triennial (or more frequently as required) valuations and advising on the appropriate contribution levels.



Section 3: Objectives and Long-Term Policy

Objectives

- 3.1 The Trustee has the following investment objectives:
- a. The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides.
 - b. To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.
 - c. To minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown above.

Policy

- 3.2 The Trustee's policy is to seek to achieve the objectives through investing in a suitable mixture of equities and bonds. It recognises that the returns on equities, while expected to be greater over the long term than those on bonds, are likely to be more volatile. A mixture across asset classes should nevertheless provide the level of returns required by the Scheme to meet its liabilities at an acceptable level of risk for the Trustee and an acceptable level of cost to the Employer.
- 3.3 In 2020 the Trustee commissioned a study to analyse the trade-off between the reward expected from investing in equities and the improved security associated with investing in bonds. This study assisted the Trustee in establishing a policy of investing 15% of the Scheme's assets in equities and 85% in bonds. This policy is still considered appropriate but will be reviewed periodically, usually in conjunction with each actuarial valuation.
- 3.4 The Trustee considers the following asset allocation and control ranges likely to achieve the objectives above and these have been adopted as the benchmark and control ranges for the Scheme.

Asset class	Asset allocation %	Control ranges % +/-
UK equity	2.5	1.5
Overseas equity	12.5	2.5
Corporate Bonds	30.0	2.5
Index-linked gilts	45.0	2.5
Fixed-Interest Gilts	10.0	2.5

- 3.5 The Trustee currently considers that investments in the pooled funds shown in 4.4 are likely to achieve the objectives and have been adopted as investment vehicles for the Scheme's assets.

Diversification

- 3.6 The Trustee has considered the need for adequate diversification of investments in adopting the benchmark above for the Scheme's assets.



Suitability

- 3.7 The Trustee has taken advice from both the Scheme Actuary and the Investment Consultant to ensure that the benchmark specified above is suitable for the Scheme given its liability profile.

Liquidity

- 3.8 The Trustee, together with the Scheme's administrators, will ensure that it holds sufficient cash to meet the likely benefit expenditure from time to time. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy where possible.

Additional Voluntary Contributions (AVCs)

- 3.9 The Scheme currently does not provide a facility for members to pay AVCs to enhance their benefits at retirement. Final Salary members are offered the opportunity to invest in a cash deposit account operated by the Trustees. This arrangement will be reviewed from time to time. The Trustee is considering providing an AVC facility.

Rights attaching to investments

- 3.10 The Trustee's policy is to invest the Scheme's assets in pooled arrangements. The responsibility for the exercising of rights (including voting rights) attaching to the underlying investments within pooled funds is delegated to the Investment Manager.

Scheme specific funding requirement

- 3.11 The Pensions Act 2004 requires that, with effect from the completion of the first formal actuarial valuation after 22 September 2005, the Trustee maintains a Statement of Funding Principles, stating the methods and assumptions used in calculating the amount required to make provision for the Scheme's liabilities, and the manner and period in which any shortfall will be remedied. The Trustee will consult the Scheme Actuary and the Employer when deciding upon the appropriate response to any shortfall.
- 3.12 The Trustee will review the Scheme's investment policy in the light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the Pensions Act 2004.

Expected return on investments

- 3.13 The following table outlines the expected return and volatility for all asset classes in which the Plan invests. These are taken from the Investment Consultant's Global Asset Model as of 30 September 2021:

Asset Class	10-year median real returns % pa	Volatility of returns % pa
UK equities	3.8	13.5
Global equities ex-UK (hedged)	4.1	13.8
Global equities ex-UK (unhedged)	4.2	14.4
Index-linked gilts	-0.9	11.7
Corporate bonds	0.6	10.5



Section 4: Investment Manager Arrangements

Manager structure

- 4.1 Legal & General Investment Management (L&G) is currently the sole Investment Manager for the Scheme. It is employed as an index-tracking investment manager.
- 4.2 The Trustee's policy is to regularly obtain advice on whether the respective L&G pooled funds as shown in 4.4 are satisfactory as required by Section 36 of the Pensions Act 1995.

Objectives

- 4.3 Whilst the Trustee is not involved in the Investment Manager's day to day operation and therefore cannot directly influence attainment of objectives, it will assess performance and review the Investment Manager's appointment on a regular basis. A measurable objective for each fund has been developed for the Investment Manager consistent with the achievement of the Scheme's longer term objectives:
- To achieve a return in line with the benchmarks of the funds in which the Scheme invests on a rolling three year basis.
- 4.4 The benchmark indices are shown in the table below:

Fund/Asset class	Benchmark index
UK Equity Index Fund	FTSE All Share
World (ex UK) Equity Index Fund	FTSE World ex UK Net Tax (UKPN)
Investment Grade Corporate Bond – Over 15 Year Index Fund	iBoxx Sterling Non-Gilt 15 Year +
Over 5 Year Index-Linked Gilts Index Fund	FTSE-A Over 5 Year Index-Linked Gilts
Over 15 Year Gilts Index Fund	FTSE-A Over 15 Year Gilts

Manager monitoring

- 4.5 The appointment of the Investment Manager will be reviewed by the Trustee from time to time, based on the results of their monitoring of performance and process and of the Investment Manager's compliance with the requirements in the Pensions Act 1995 concerning diversification and suitability where relevant. The Investment Manager has been provided with a copy of this Statement and the Trustee will monitor the extent to which the Investment Manager gives effect to the policies set out in it via the regular quarterly reports tabled at each Trustee meeting. The Trustee will undertake a more formal review at least every three years after each actuarial valuation.



Section 5: Risk Management Arrangements

5.1 The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk:
 - are measured through regular investment strategy reviews, ongoing triennial actuarial valuations and regular assessment of the development of the liabilities relative to the current and alternative investment policies.
 - are managed through the choice of the benchmark set out in Section 3.4, in addition to assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- Manager risk:
 - is measured by the expected deviation of the prospective return, as set out in the Investment Manager's objectives, relative to the investment policy.
 - is managed through the use of passive management, the ongoing monitoring of the Investment Manager's actual deviation of returns relative to the fund's benchmarks.
- Liquidity risk:
 - is measured by the level of cashflow required by the Scheme over a specified period.
 - is managed by the Scheme's administrators who monitor the level of cash held in order to limit the impact of the cash flow requirements on the investment policy as set out in Section 3.8.
- Political risk:
 - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
 - is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- Sponsor risk:
 - is measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.
 - is managed by assessing the interaction between the Scheme and the Employer's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to number of metrics reflecting the financial strength of the Employer.

5.2 The Trustee continues to monitor these risks.



Section 6: Corporate Governance & ESG

6.1 In June 2018, the Department for Work and Pensions (DWP) responded to the Law Commission's report on pension funds and social investment and published a consultation on changes to the SIP requirements. The aims were to make it clear that trustee should take into account long-term financial risks and to strengthen requirements around stewardship activities and responding to members' ethical investment concerns. More specifically the regulation states that trustee need to set out the following within their Statement of Investment Principles:

- How they take account of financially material considerations, including but not limited to, those arising from Environmental, Social and Governance (ESG) considerations including climate change
- Policies on stewardship including engagement and exercise of voting rights

6.2 The Trustee believe that good stewardship and ESG issues may have a material impact on investment returns. Selection, retention and realisation of the Scheme's investments are delegated to the Investment Manager managing the investment vehicles that the Scheme owns.

Implementation Code

6.3 On 6 June 2019, the Government introduced further regulations which extend the disclosure requirements for trustees of defined benefit (DB) schemes in relation to their Statement of Investment Principles (SIP) and annual reports. The June 2019 regulations have been introduced to implement certain requirements of the EU Shareholder Rights Directive regarding disclosure and stewardship requirements

6.4 The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.

The Scheme's Investment Advisor monitors the investment managers' engagement and voting activity as part of their monitoring process.

The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.



How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.

The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

Investment manager fees are reviewed to make sure the correct amounts have been charged and that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.

As the Scheme invests in open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

6.5 The investment manager has a mandate to track the benchmark of each fund. In keeping with market practice, the investment manager is remunerated on a set percentage of the assets under management.

6.6 The investment manager is LGIM and the selected funds and fee scales are set out below:

Fund	Annual Management Charge (p.a.)
LGIM UK Equity Index Fund	0.10%.
LGIM World (ex UK) equity Index Fund	0.22%
LGIM Over 15y Corp Bond Index Fund	0.15%
LGIM Over 5y UK ILG Index Fund	0.10%
LGIM Over 15y Gilt Index Fund	0.10%

Note: The fees above are based on minimum fund sizes and the average fee are subject to discounts once certain minimum investment amounts are achieved.



Policy

- 6.7 The Trustee has selected LGIM for the manager of their investment in passively managed vehicles. LGIM is the investment management arm of Legal & General Group, a FTSE 100 company. L&G is one of Europe's largest asset managers and a major global investor, with assets under management of £1.0tn (as at 31 December 2018).
- 6.8 The Trustee obtained the following statement from the Investment Manager regarding ESG and Corporate Governance and believe that an investment in the L&G index funds to be in best financial interests of the Scheme's members:



Section 7: Monitoring

- 7.1 The Trustee, with support from the Scheme's Investment Consultant, will monitor the performance of the Investment Manager and funds on regular basis.
- 7.2 The Trustee will monitor compliance with the Statement of Investment Principles on a regular basis. The Statement will be reviewed in response to any material changes to any aspects of the investment arrangements detailed above or circumstances which would have a bearing on the Statement. Such reviews will occur at least every three years or to coincide with the Actuarial Valuation. Any such review will again be based on appropriate written, investment advice and will be in consultation with the Company.

Statement last reviewed: February 2022

UK Stewardship Code

LGIM Response to UK Stewardship Code Principles



Introduction

At LGIM we take our stewardship responsibilities seriously and devote significant resource to ensure our clients' assets are protected.

We take an active and impactful approach to stewardship by using our scale as a global investment manager to influence and change company and market behaviours. In doing so, we strive to achieve positive societal impacts, in the belief that it will create more sustainable long-term value.

We do this through:

- Company engagement
- Using our voting rights globally
- Integrating environmental, social and governance factors into portfolio management
- Addressing systemic risks and opportunities
- Influencing governments, regulators and policy makers
- Collaborating with other investors and stakeholders

We believe that real change is achieved by being an engaged and active owner.

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

As a strong supporter of the Stewardship Code, LGIM feels that it is its duty to be accountable for its clients' assets and ensure that it upholds the highest corporate governance standards in the global financial market.



Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.



**UK Stewardship Code, FRC
September 2012**

The Seven Principles of the UK Stewardship Code¹

The next section shows how LGIM applies the seven principles of the UK Stewardship Code in its corporate governance activities. This policy will be reviewed on a regular basis.

The latest review was in 2018.

For more information on how LGIM implements the Stewardship Code, please refer to our website:

 www.lgim.com/corporategovernance



1. The UK Stewardship Code replaced the 2005 ISC Statement of Principles and Responsibilities for Institutional Shareholders and their Agents and provides guidance to investors on how to behave and act responsibly.

Principle 1



Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

LGIM's Global Corporate Governance and Responsible Investment Principles sets out its expectations of investee companies in terms of corporate governance and outlines how LGIM exercises its voting and manages its engagement and monitoring activities. The policy also demonstrates to clients the purpose of stewardship and the aim to enhance and protect the value of clients' assets.

LGIM discloses its Global Corporate Governance and Responsible Investment Principles publicly, as demonstrated on the website. This Policy is supplemented by regional specific policies.

 <http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/>

MONITORING AND ENGAGEMENTS

When monitoring and engaging with companies, we take a progressive and pragmatic approach to enhancing corporate behaviour. We monitor a number of areas as part of our stewardship activities including strategy, risk management, capital structure and corporate governance. Furthermore, we also conduct thematic engagement with companies on topics including:

- **Board accountability:** executive pay, board effectiveness, audit tender, board tenure
- **Diversity:** gender, board independence, appropriate board skills and experience, management/employees
- **Climate change and energy:** transition to a low carbon economy
- **Short termism:** quarterly reporting, strategy

- **Cyber security and audit governance:** risk management procedures
- **Supply chain:** food waste, health and safety, forestry, labour standards/human rights, child labour
- **Transparency:** tax
- **Financial transactions:** capital raising, M&A

Further company specific examples can be found in our annual report on our website.

LGIM has extensive dialogue with the management of investee companies throughout the year on a range of topics, e.g. governance, financial performance and strategy. The objective of LGIM's engagements is to have an open dialogue that is constructive and helpful. LGIM's approach to engagement has led to it being consulted on many aspects of governance where constructive feedback has led to companies altering their management and policies. Furthermore, the Corporate Governance team can be made available as 'insiders' early to help companies and provide a long term shareholder perspective on issues such as succession planning. Voting is one of the tools available to LGIM to ensure companies behave responsibly and have sustainable policies for long-term growth.

INTEGRATION INTO THE INVESTMENT PROCESS

Environmental, Social and Governance (ESG) factors are increasingly recognised as playing a role in determining asset prices. We therefore integrate our work with the index, active equity and fixed income teams in order to supplement their fundamental analysis. This means that we identify sector-specific risks and opportunities, and

focus our attention on the material impact of ESG on a company's bottom line and creditworthiness.

While the team is independent of active fund managers, on-going communication is maintained to share knowledge and information. The team is structured such that the analysts have specialist ESG knowledge in specific sectors. This enables the analyst to have constructive conversations in-house with fund managers or with numerous companies in the same industry to discuss similar ESG topics. Our approach, which combines financial analysis and ESG, is continually evolving in line with best practice. We continue to formalise our processes and improve how we communicate and report our work to internal and external stakeholders.

VOTING

Interms of our voting policy, LGIM votes FOR or AGAINST resolutions and keeps abstentions to a minimum. LGIM uses ISS's "Proxy Exchange" electronic voting platforms to electronically vote clients' shares.

Voting decisions are taken in accordance with the LGIM voting policy and previous engagement determines the manner in which voting decisions are made and cast on the platform. LGIM also utilises the voting information services of ISS and IVIS who conduct thorough analysis and research on companies. The rationale behind our voting decisions against management is published on the website in monthly arrears after the general meeting.

The policy applies to all of the funds which hold UK shares where the client has given discretion to LGIM.



Principle 2



Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

There are a number of potential conflicts of interest inherent in the corporate governance activity at LGIM.

Where do conflicts of interest potentially arise?

- A large number of our clients are trustees of pension schemes that are associated with the companies in which LGIM invests
- Legal & General Group plc might try to influence LGIM's activities on Corporate Governance, rights issues, takeovers etc
- Depending on the asset class (e.g. equities/fixed income), the investment strategies for active/index and funds are very different particularly in terms of the number of stocks held and the time scale for holding investments
 - The department receives and processes a great deal of "inside", or price-sensitive information relating to a company's activity, such as management succession, financing, or M&A activity

LGIM owes each of its clients a duty of care and loyalty with respect to all services undertaken for clients, including proxy voting. LGIM places its clients' interests ahead of its own and must cast proxy votes in a manner consistent with the best interest of its clients.

LGIM PRACTICE

- Take reasonable steps to avoid conflicts of interests
 - The team is structured and supported to minimise potential and perceived conflicts of interest. The team reports directly to the Chief Executive of LGIM and its activities are monitored and supported by two Non-Executive Directors. This acts as a safeguard and ensures we are able to engage on any topic, wherever needed, to achieve the best outcome for all clients.
 - The LGIM Corporate Governance Committee, which includes the two Non-Executive Directors, meets quarterly to monitor LGIM's activities.
- Treat confidential material appropriately
- Train new front office staff in conflicts of interest
- If in doubt refer upwards to a Director, the CEO of LGIM, or NED's of LGIM (H)
- Have a register of conflicts which are reported to LGIM (H)
- L&G Group plc shares are held by Swiss Re for the benefit of LGIM pooled funds as they cannot be held directly. These shares are voted independently of LGIM
- For shares directly held by trusts and segregated funds, LGIM will seek clients' informed direction on voting

WALL-CROSSING

As a major investor LGIM is contacted by investment banks to discuss price sensitive issues, such as a placing of new shares, before the information has become public. This is termed “inside information”.

The procedure is for the Director of Corporate Governance or the Heads of Equities and Corporate Governance to be notified in the first instance when a company, or investment bank wish to make LGIM an insider.

If a fund manager is called inadvertently, they will direct the call to the Head of Equities. In their absence, the Director of Corporate Governance/Manager may take the call. On taking the call the individual records that they have been made an insider on the Order Management System (OMS). They also record the nature of the inside information, and the date at which it is expected to become public. They then decide who else in the organisation needs to be notified of the inside information and records this within OMS.

On inputting to OMS the fact that LGIM is in possession of inside information on a stock, this generates an email to compliance who record the situation on the dealing

system. Any individual or department that is included as being in possession of “inside information” is restricted from dealing in the stock as is any member of staff wishing to deal in a stock in a personal capacity.

In the situation of a share placing a pre-marketing meeting may take place where LGIM's feedback is sought. The Head of Equities will normally attend this meeting with a member or members of the active equities team. There may also be a member of the corporate governance department in attendance. Following the meeting, the Head of Equities will feed back to either the company or the investment bank LGIM's views on the situation having discussed it with his colleagues.

Once the situation becomes public, the stock is removed from the inside list on OMS.

For more details on LGIMs conflicts of interest policy, please refer to:



[www.lgim.com/library/capabilities/
Conflicts-of-Interest.pdf](http://www.lgim.com/library/capabilities/Conflicts-of-Interest.pdf)

Principle 3



Institutional investors should monitor their investee companies.

LGIM actively monitors investee companies in order to ensure that they act in the best interest of shareholders and create long term value for their clients. LGIM regularly engages with both management and Non- Executive Directors which provides an opportunity to ask questions relating to company performance, strategy, corporate governance and other issues.

For example, LGIM will monitor the Board's performance and execution of strategy, succession planning, the quality of corporate reporting and disclosure and risk management processes.

The UK Corporate Governance Code works on a 'comply or explain' principle that applies to companies. This means that where companies do not comply with the main principles and guidance in the Code, LGIM will and engage and seek an explanation of reasons for its departure and how the company intends to mitigate the risks that stem from not applying the best practice principles. A view is then taken whether the justification from the departure of the code is sufficient. If not, the LGIM will seek to change corporate behaviour by utilising the escalation process.

There are a number of resources which the corporate governance team draws from that form the basis of LGIM's monitoring process. These include:

- Using LGIM's proprietary ESG monitoring tool
- Regular meetings with the in-house investment teams including active/index and equities/fixed income

- Collaborative engagement with other shareholders
- External corporate governance groups or networks
- Daily market news
- The media
- Proxy voting advisors raising concerns
- Proactive engagement on thematic or company specific topics
 - The team is structured such that the analysts have specialist ESG knowledge in specific sectors. This enables the analyst to have constructive conversations in-house with fund managers or with numerous companies in the same industry to discuss similar ESG topics

LGIM's approach to seeking these explanations comes in the form of engaging with the companies directly. This includes face-to-face meetings, telephone conference or email exchange. As a long term investor, there is an escalation procedure whereby if a satisfactory explanation is not given in the first instance, LGIM would continue to engage (one-to-one or collaborate with other investors). In addition, LGIM may cast voting instructions against the related resolution, meet with the Senior Independent Director or in an extreme case may even go public if direct engagement fails to achieve the appropriate outcome.

Following engagement, a clear audit trail is maintained that records the content that was discussed in the meeting and the next steps, if any, that need to be taken to achieve the desired outcome.

Principle 4



Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

LGIM actively engages with investee companies regardless of whether shares are held actively or in an index fund. The way in which engagement is undertaken is dependent on the circumstances and the issues to be discussed. Therefore, topics and issues where we would likely intervene include:

- Consistent failures or departure from the Corporate Governance Code and an assessment that shareholder interest continues to be at risk
- Concerns relating to the execution of strategy or lack of long-term strategic direction which could damage long term shareholder value in the future
- Poor risk management which threatens the business (including the consideration of Environmental and Social issues)
- Significant or compounding financial under-performance by the company
- Other shareholders raising concerns with the company and collaborating with them to raise similar issues

LGIM believes that Stewardship is not just about voting at company meetings (as highlighted in the UK Stewardship Code by the FRC) but also about long-term engagement with companies and the impact this has on company behaviour and generating sustainable long term returns.



On-going dialogue with investee companies is a fundamental aspect of LGIM's responsible investment commitment and we undertake these both independently and collaboratively with other investors. Engagement gives us the opportunity to learn about the company's strategy, operations, financial and external challenges and opportunities, all of which are essential for us to exercise our duty effectively. Furthermore, it forms a trusting long-term relationship with the company and enables us to enter into constructive dialogue on contentious issues. This is mutually beneficial to both parties as there is a better understanding of views and expectations which forms the basis of high-quality decision making and good judgement.

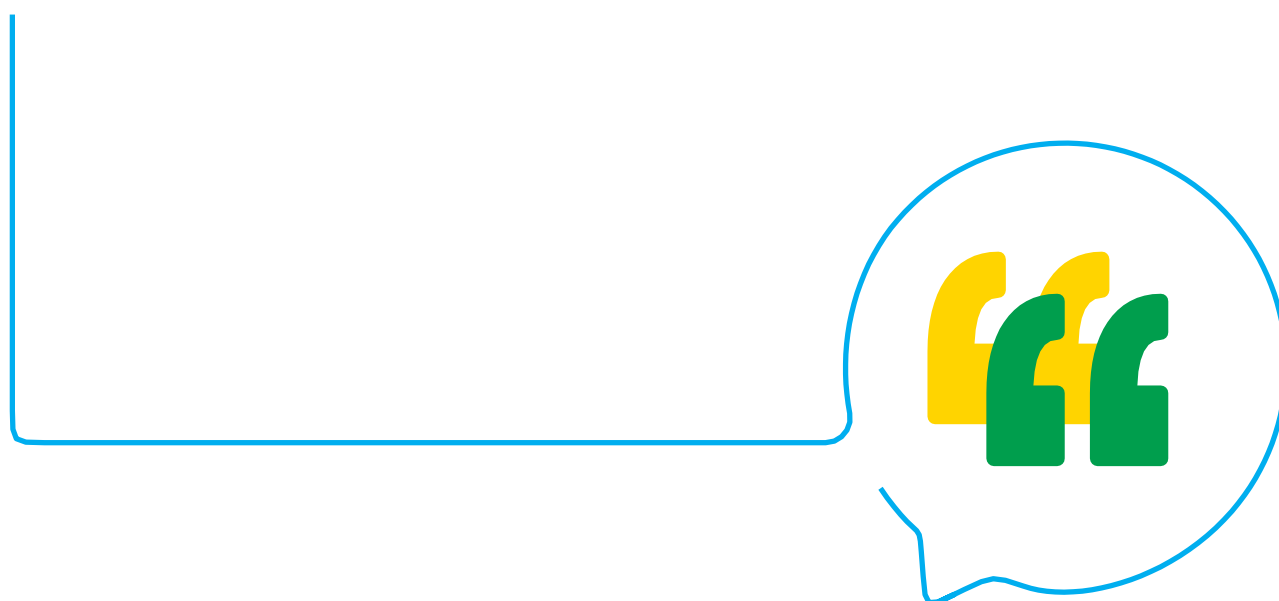
In addition, we focus our efforts on emerging and systemic issues which are developing in the market and regulatory environment.

From a corporate governance perspective, LGIM's initial contact is usually with the board chairman. If initial discussions fail to result in improvements, LGIM will contact the senior independent director (SID). If engagement with the SID does not deliver any changes LGIM will usually escalate its engagement by collaborating with other institutional investors directly or via the Investment Association and/or the UK Investor Forum. This may result in further meetings with the other independent non-executive directors.

There are also a number of additional tools which LGIM uses to put pressure on companies, such as engaging with the company's advisors and brokers, voting adversely at the company's general meeting and making public statements, although this is used as a last resort.

If there are concerns with wider market practice, LGIM may also engage directly with other regulatory and financial institutions such as the Financial Conduct Authority, FTSE, the Takeover Panel, UK Listing Authority, Department of Business, Energy and Industrial Strategy or the Financial Reporting Council in order to promote best practice.

Examples of topics and issues which we have intervened in the past can be found in our corporate governance annual report on our website.



Principle 5



Institutional investors should be willing to act collectively with other investors where appropriate.

LGIM actively engages with investee companies regardless of whether shares are held actively or in an index fund. The way in which engagement is undertaken is dependent on the circumstances and the issues to be discussed. Therefore, topics and issues where we would likely intervene include:

- Consistent failures or departure from the Corporate Governance Code and an assessment that shareholder interest continues to be at risk
- Concerns relating to the execution of strategy or lack of long-term strategic direction which could damage long term shareholder value in the future
- Poor risk management which threatens the business (including the consideration of Environmental and Social issues)
- Significant or compounding financial underperformance by the company
- Other shareholders raising concerns with the company and collaborating with them to raise similar issues

LGIM believes that Stewardship is not just about voting at company meetings (as highlighted in the UK Stewardship Code by the FRC) but also about long-term engagement with companies and the impact this has on company behaviour and generating sustainable long term returns.

On-going dialogue with investee companies is a fundamental aspect of LGIM's responsible investment commitment and we undertake these both independently and collaboratively with other investors. Engagement

gives us the opportunity to learn about the company's strategy, operations, financial and external challenges and opportunities, all of which are essential for us to exercise our duty effectively. Furthermore, it forms a trusting long-term relationship with the company and enables us to enter into constructive dialogue on contentious issues. This is mutually beneficial to both parties as there is a better understanding of views and expectations which forms the basis of high-quality decision making and good judgement.

In addition, we focus our efforts on emerging and systemic issues which are developing in the market and regulatory environment.

From a corporate governance perspective, LGIM's initial contact is usually with the board chairman. If initial discussions fail to result in improvements, LGIM will then contact the senior independent director (SID). If engagement with the SID does not deliver any changes LGIM will usually escalate its engagement by collaborating with other institutional investors directly or via the Investment Association and/or the UK Investor Forum. This may result in further meetings with the other independent non-executive directors.

There are also a number of additional tools which LGIM uses to put pressure on companies, such as engaging with the company's advisors and brokers, voting adversely at the company's general meeting and making public statements, although this is used as a last resort.

Principle 6



Institutional investors should have a clear policy on voting and disclosure of voting activity.

As an institutional investor, LGIM has a fiduciary duty to clients to exercise its voting rights responsibly. The right to vote is a basic privilege of share ownership and is important given the division of control between the owners of a company (shareholders) and the agents appointed to manage the company in their interests (directors). In addition, voting is a fundamental tool used by investors to signal support or concern with management actions. This mechanism is one of the valuable methods of promoting good corporate governance in the marketplace.

LGIM votes all UK shares for which it has an authority to do so. It also votes in the Developed Markets and some Emerging Market countries, covering approximately 94% of the FTSE All World Index.

As referred to in Principle 1, LGIM has a general stewardship policy substituted by specific market policies. LGIM uses voting research from ISS and IVIS, and voting decisions incorporate our own research analysis and engagement activities where appropriate. LGIM uses the ISS voting platform “Proxyexchange” to vote its shares.

LGIM will endeavour to inform the company of its voting instructions before the general meeting.

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

LGIM publishes voting records on its public website monthly in arrears for the larger markets, UK, Japan, United States, Europe, Asia Pacific and Emerging Markets. These records also include full disclosure of our voting rationale for each resolution where an instruction has been cast against management. Please visit www.lgim.com for more details.

We report quarterly to clients and provide a public annual report detailing our engagement and voting activity and statistics in all regions globally.



Principle 7



Institutional investors should report periodically on their stewardship and voting activities.

LGIM is aware of its duties and accountability to its clients on the management and protection of their assets. LGIM discloses its corporate governance activities through regular client reports and thought pieces on market practice. These reports give an indication of the stewardship activities carried out during the year by LGIM. LGIM also provides Trustee education seminars throughout the year to help clients get a better understanding of ESG as being part of their fiduciary duty.

LGIM is often asked for its views or details of activity in relation to articles in the press that relate to companies in which LGIM invests on behalf of its clients. Many of these will be market sensitive issues or allegations that have been raised in the public domain, but are yet to be proven. LGIM cannot comment in such circumstances due to the nature of the issue and confidentiality placed on the matter.

LGIM's position in relation to specific allegations is clear; LGIM cannot take any action until the judicial process is complete. However, LGIM is aware that such events have an impact and engagement will be initiated in a quiet but assertive way.

We report regularly to clients and provide a public annual report detailing our engagement and voting activity in all regions globally. This report includes a quantitative statistical voting summary (of votes in favour, against and abstentions) broken down by region and topic. In addition, qualitative examples of detailed engagement (individually and collectively) with companies, and thematic topics discussed at industry level, are also provided.

In addition, whilst an engagement may be live and it may be too sensitive to report to clients in detail at the time, we will provide comprehensive disclosure post the event. This will be sent to clients via client emails, website updates, LGIM media activity, thematic thought pieces, client education seminars and meetings and ESG-specific seminars.

LGIM has obtained an independent assurance Opinion on its Stewardship and voting process. The scope of this Opinion includes assurance on LGIM's application of Principles 1, 2, 4, 6 and 7 of the UK Stewardship Code, in line with the AAF 01/06 framework.

CONTACT US

For further information on anything you have read here or to provide feedback, please contact us at corporategovernance@lgim.com. Please visit our website www.lgim.com/corporategovernance where you will also find more information including frequently asked questions.

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