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Q4 2022

ESG impact report

Global engagement to deliver positive change

LGIM

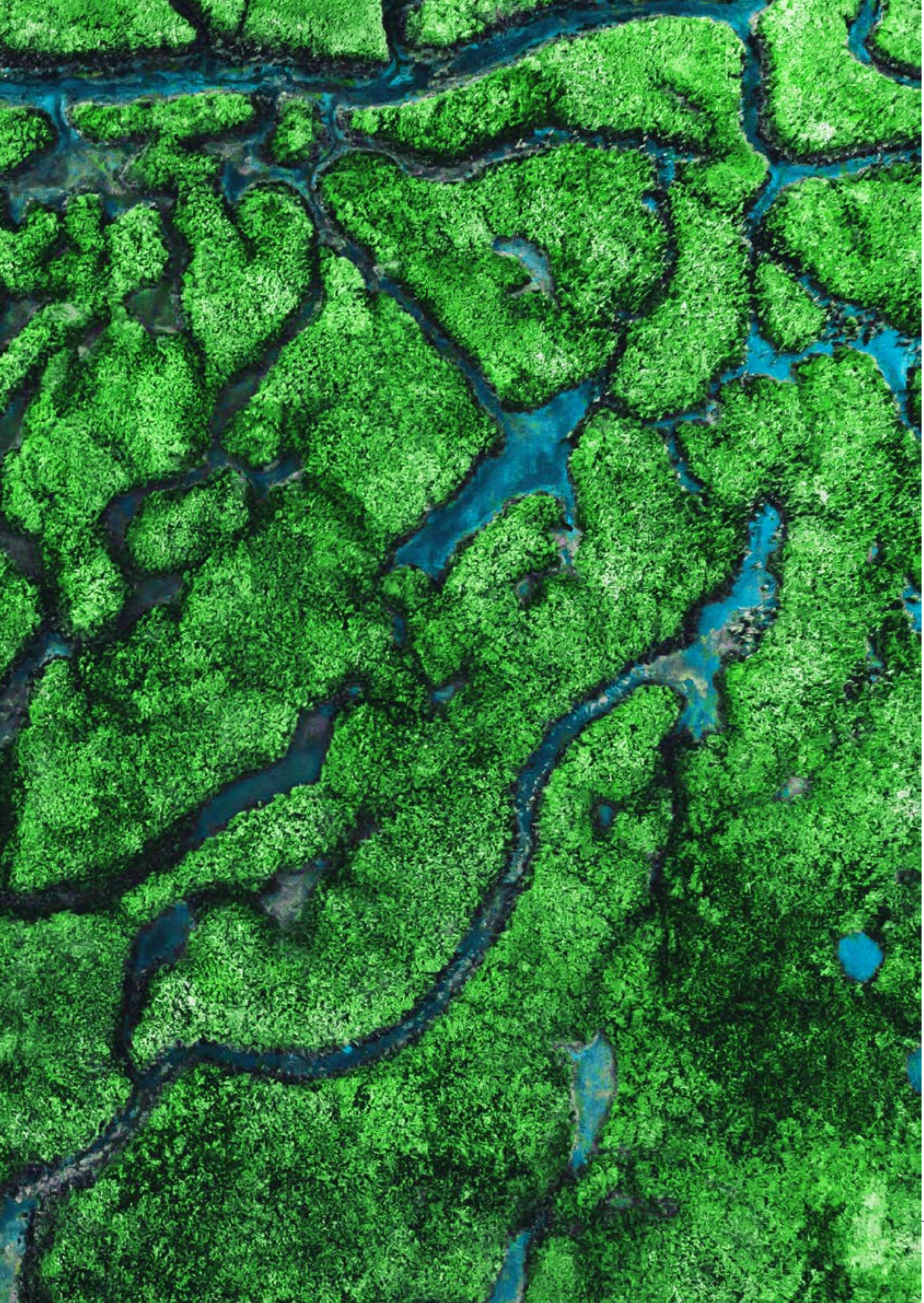
Our mission

We aim to use our influence to ensure:

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.



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 seek to deliver long-term success.

Promoting market resilience

As a long-term investor for our clients, it is essential that markets (and, by extension, the companies within them) are able to generate sustainable value. In doing so, we believe companies should become more resilient amid change and therefore seek to benefit the whole market. We use our influence and scale to ensure that issues affecting 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 across markets as a whole.

Action and impact

In this report, we highlight some of our key activity in the Investment Stewardship team, including our latest Climate Impact Pledge updates, our participation in COP27 and COP15, and a selection of our significant votes.

Environmental | Social | Governance

ESG: Environment

Expanding the Climate Impact Pledge: the next phase of our engagement

At LGIM, climate change and supporting a drive to net zero remain a priority.

As such, we have further expanded our dedicated climate engagement programme, the Climate Impact Pledge, by strengthening our climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally.

We have expanded the scope of our climate engagement programme in three main ways:

1. We have increased the number of sectors to 20

In 2016, our first iteration of the Climate Impact Pledge covered 6 sectors. In 2020 we increased this to 15 and we have now expanded coverage to 20 sectors. These companies are responsible for the majority of global carbon emissions from listed companies and also have been identified as the most carbon-intensive sectors within our portfolio.

Within some existing sectors, we have expanded the sub-industries covered. For example, within apparel we cover not only apparel retail and manufacturers, but also other GICS[1] sub-industries like footwear, apparel luxury goods, and textiles.

1. GICS – Global Industry Classification Standard

Climate Impact Pledge sectors (new sectors highlighted in blue)

airlines	glass
aluminium	insurance
apparel	logistics
banks	mining
buildings	multi-utilities
cement	oil & gas
chemicals	road transport
electric utilities	shipping
food	steel
forestry and paper & pulp	tech & telecoms

2. Our data-driven assessment now covers more of LGIM's portfolio emissions, raising the number of companies covered from 1,000 to 5,000+

By publishing our climate ratings on our dedicated website, we enable companies to verify their progress and identify areas in their climate disclosures and strategies which need improvement. There may be voting implications for those companies not meeting our minimum standards.

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

In October 2022, we began our next cycle of direct climate engagement with selected companies. These companies are influential in their sectors, but not yet leaders on climate change and sustainability; we believe they can and should embrace the transition to net zero carbon emissions in the next few years. Complementing our data-driven approach, this qualitative approach enables our stewardship team sector experts to conduct an in-depth assessment of each company, based on the framework set out in the net zero sector guidelines published on our website. This engagement aims to help companies remove roadblocks and encourage progress.

We expect these in-depth engagement companies to meet our published sector-specific red lines. There are potential voting and divestment implications for companies not meeting these after a certain period of engagement.

Updating our sector expectations

In our 2020 update, we developed sector-specific guides to support companies in aligning to net zero and to outline our sector-specific expectations clearly. And we have seen progress: of our deeper engagement companies, 53% now have net-zero targets, versus 22% before, and over recent years we have reinstated five companies previously on our Climate Impact Pledge divestment list into relevant funds.[2]

But a commitment to net zero alone is not enough; further progress is required to translate those commitments into credible pathways and action.

In 2022, we reviewed our net zero guides and strengthened our expectations to reflect the latest climate science and industry standards. While these expectations vary from sector to sector, we have set a red line for all sectors on the disclosure of lobbying activities. Lobbying is a key lever for decarbonisation and can have a significant impact and influence on the stringency and effectiveness of public climate policy. Ultimately, we expect companies to act in support of climate goals in all areas of their political influence.

Across all sectors, we have placed more emphasis on disclosure of plans, actions and investments to support delivery of commitments, and on linking executive remuneration to short- and medium-term emissions reduction targets.

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

We believe it is in investors' interest to support decarbonisation across our holdings and across all sectors. By expanding our Climate Impact Pledge engagement programme, we continue to hold many of the world's largest companies accountable for their progress towards net zero.

2. Climate Impact Pledge 2022 - Net zero: going beyond ambition (lgim.com)

Deforestation: campaign and collaboration

Campaign update

In the fourth quarter of 2022, we continued our deforestation engagement campaign with portfolio companies. Having communicated initially with around 300 companies in deforestation-critical sectors, we then followed up with direct engagements where requested. For instance, we met with Colgate-Palmolive* and Sime Darby Plantation* to discuss their deforestation policies and approaches.

As communicated in our deforestation policy, we will be sanctioning companies for not meeting our minimum expectations of having a deforestation policy or programme from 2023 onwards.

We will continue to work on achieving our milestones as part of the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which we signed in 2021.

Collaboration update

In response to commitments made at COP26, LGIM joined with over 30 financial institutions as part of the Finance Sector Deforestation Action (FSDA) initiative to commit to use best efforts to eliminate agricultural commodity-driven deforestation from our investment portfolios by 2025. Through our involvement in the FSDA initiative, we are working with other investors to accelerate progress in key sectors and across value chains. This is a critical step towards reversing deforestation globally and aligning the financial sector with a Paris Agreement-compliant 1.5°C pathway. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation. The FSDA has also identified key companies in deforestation-critical sectors to engage with, and LGIM has taken the lead on four of these engagements.

The FSDA initiative outlines a clear timeline to demonstrate 'best efforts', including:

1. By the end of 2022: complete an assessment of deforestation risk exposure associated with investments related to forest-risk agricultural commodities, adopt policies to address deforestation risk and deepen engagement with clients and holding companies
2. By 2023: disclose deforestation risk exposure and mitigation activities associated with investment portfolios and continue engagement activities
3. By 2025: publicly report on progress and incorporate engagement outcomes into investment decisions

For more details on how LGIM is taking actions to meet these three requests, please see our focus section on deforestation in our Q3 2022 Quarterly Impact Report.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.

Significant votes

Company name	BHP Group Limited*
ISIN	AU000000BHP4
Market cap	£128 billion (source: Salesforce, as at 23 December 2022)
Sector	Metals and mining
Issue identified	Climate-policy advocacy and climate disclosure, both of which LGIM considers to be material to the net zero transition. LGIM considers shareholder proposals on an individual basis.
Summary of the resolution	Resolution 14: Approve Policy Advocacy Resolution 15: Approve Climate Accounting and Audit AGM date: 10 November 2022
How LGIM voted	These were both shareholder-proposed resolutions and LGIM voted in favour of both (i.e. against management).
Rationale for the vote decision	Resolution 14 was a request that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. A vote in favour of this proposal was applied as LGIM believes positive climate-related advocacy is in the best interest of the company and its shareholders. We also note that nothing in this resolution was designed to limit the board's discretion to take decisions in the best interest of the company. Resolution 15 requested that, from 2023, the notes to the company's audited financial statements include a climate sensitivity analysis which includes a scenario aligned with limiting global warming to 1.5°C, presents the quantitative estimates and judgements for all scenarios used, and covers all commodities. While we consider the company to be a leader with respect to its climate-related disclosure, a vote for this proposal was applied as LGIM believes that further quantitative disclosure in the company's financial statements around the impact of climate change scenarios on BHP's material commodity portfolio is important.
Outcome	These resolutions received 12.7% and 18.7% support, respectively, from shareholders. We continue to engage with BHP and, more broadly, to support proposals that are aligned with LGIM's net zero aims and beliefs.
Why is this vote 'significant'?	These votes were significant because of their importance within our climate change engagement.

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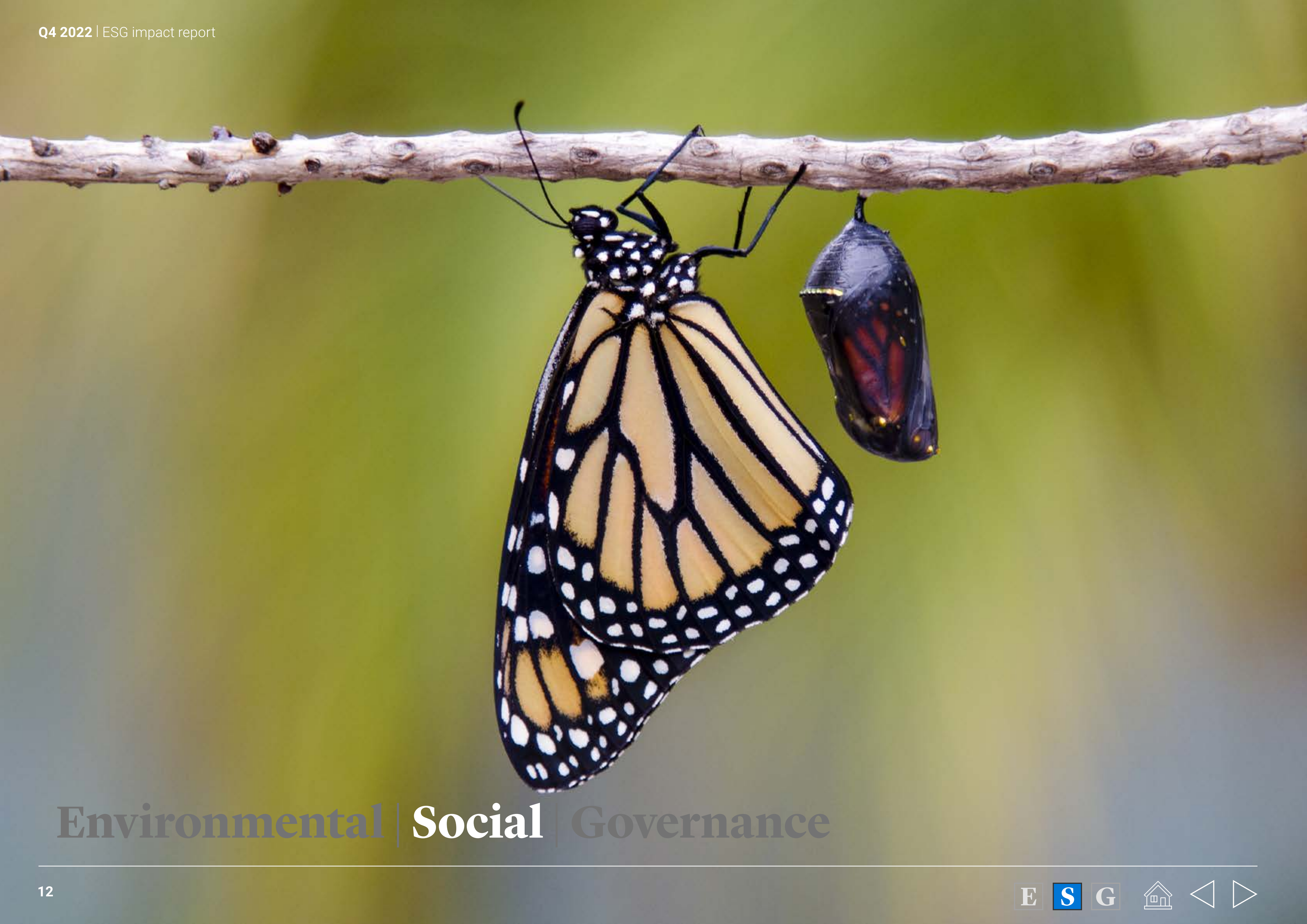
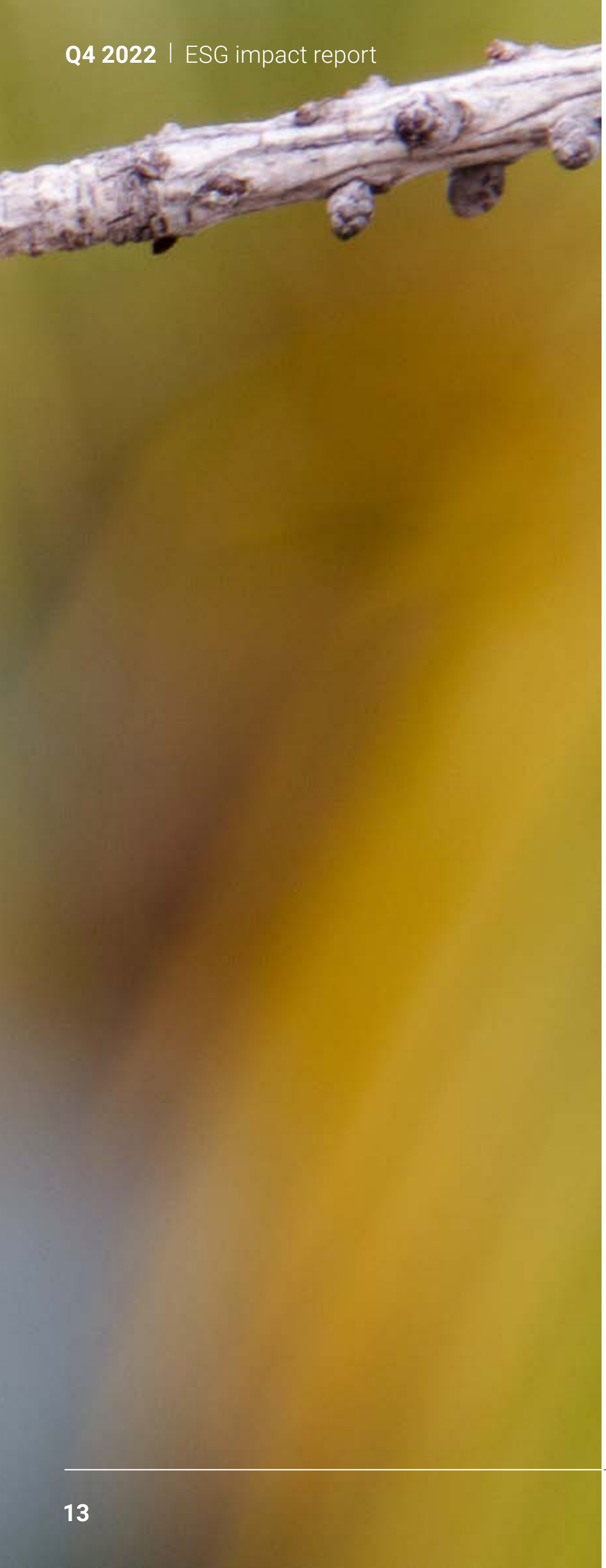


Environmental | Social | Governance



ESG: Social

Expansion of our ethnic diversity campaign

Diversity, in all its forms, has long been a key priority for LGIM. The enduring belief behind these efforts is that diversity contributes to better decision-making and therefore better boards, which should, in our view, create better-run, more sustainable companies. Several studies, including the most recent study on employee diversity data, have confirmed that diversity is financially material enough to warrant pressure from investors and other stakeholders.[3]

Our ethnic diversity campaign: a brief recap of our aims and actions

In 2020, we launched a campaign to engage with the largest 100 companies in the UK and the largest 500 companies in the US on ethnic diversity at board level. Our request was simple: that they should have ethnically diverse representation at board level by 2021, or face voting sanctions.

Of the 79 companies with whom we engaged due to them not meeting our expectations, we ultimately only voted against one US company. But there is still progress to be made – due to turnover during the year and new board appointments, several new companies have been flagged as having no ethnic diversity. Therefore, we continued our focus and wrote during the quarter to the remaining laggards in the FTSE 100 and S&P 500, to remind them of our expectations and that voting sanctions will apply if diversity is not improved. There are six companies within these indices that currently do not have any ethnicity on the board, and voting sanctions will be applied at the 2023 AGM if progress is not made.

3. As You Sow: Workplace Diversity and Financial Performance, December 2022
4. As at time of writing - December 2022

These companies[4] are:

Dish Network*	(S&P 500)
Universal Health Services*	(S&P 500)
Caesars Entertainment*	(S&P 500)
Dechra Pharmaceuticals*	(FTSE 100)
Vodafone Group*	(FTSE 100)
Unite Group*	(FTSE 100)

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

Collaborating on diversity: our work in the US

In November 2022, LGIM again supported the Russell 3000 Board Diversity Disclosure Initiative as an investor signatory. This initiative is comprised of a coalition of investor organisations calling on companies in the Russell 3000 Index to disclose the make-up of their boards of directors – inclusive of gender, race and ethnicity – given the correlation between board diversity and long-term performance.[4] Since 2020, the Illinois treasurer has led this initiative, that includes 26 investor organisations representing over US$3 trillion in assets.[5] Each year, the investor coalition sends a letter to Russell 3000 companies asking each to report the racial, ethnic and gender composition of the board of directors in their annual proxy statement.

This year, the initiative wrote three different letters grouped by top performers with individual-level disclosure (386 companies), middle performers with either partial or aggregate-level disclosure (1,847 companies), and bottom performers with no disclosure (702 companies). It is extremely promising to see that the level of disclosure in aggregate or by individual director has increased from 292 companies in 2020, to over 2,200 companies in 2022 – a 13-fold increase over the span of two years.[6]

LGIM will continue to advocate for greater disclosure and transparency around diversity, at board level and throughout an organisation, working collaboratively with our peers, and also leading our own campaigns.

AMR

LGIM in the press

Three members of our team have contributed to the recent Citi GPS publication on Antimicrobial Resistance: The Silent Pandemic, highlighting the financial materiality of Antimicrobial Resistance (AMR) for investors, and the role that investors can play in terms of mitigating the risks, through both direct company engagement and engaging with policymakers and regulators.

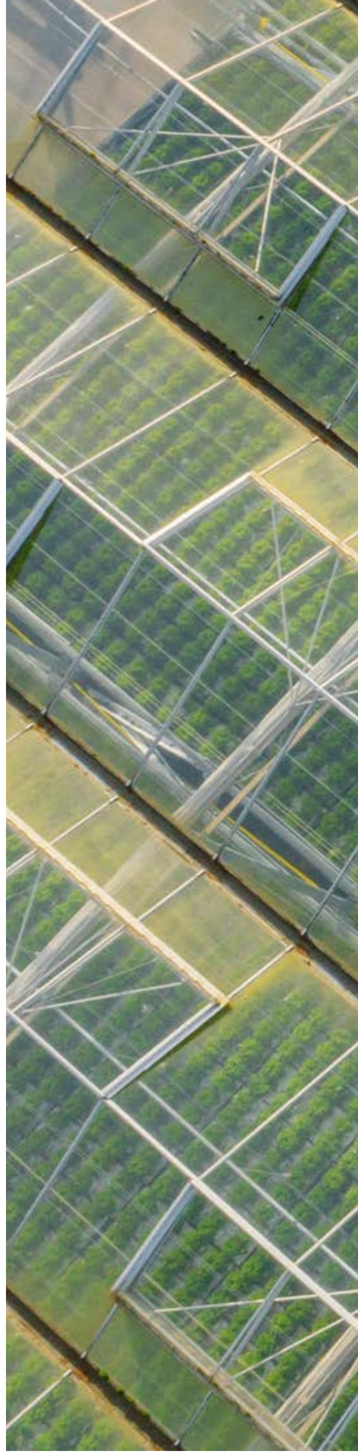
For more updates on our latest AMR activity, please see the Policy section of this report.

Nutrition: broadening our engagement through collaboration

Through its impact on a range of sectors, from food retail to healthcare and pharmaceuticals, and on individuals and workforces, the topic of nutrition has the potential to affect a broad range of companies in which LGIM invests around the world, on behalf of our clients.

Building on our previous engagements in this area, in the fourth quarter of 2022 we co-signed, with our peers, letters to 12 food and beverage manufacturers, under the leadership of ShareAction's Healthy Markets Initiative. In the individual tailored letters, we encourage the companies to do more in several areas. These include, for example, transparency around their nutrition strategy, demonstrating progress on their nutrition strategy, committing to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government-endorsed nutrient-profiling models), and setting targets to increase the proportion of these sales. We also praise companies for the positive steps taken so far. The companies we wrote to were Danone*, General Mills*, Kraft Heinz*, Mondelez*, Unilever*, Nestlé*, PepsiCo*, Coca Cola*, Suntory*, Britvic*, AG Barr* and Premier Foods*.

In terms of next steps, we will be monitoring companies' progress over 2023 on the points raised with each, and engaging with them directly, in collaboration with ShareAction, to further improvements on specific areas.



4. https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/november2022_russell3000.pdf
5. Michael W. Frerichs - Illinois State Treasurer: Russell 3000 Board Diversity Disclosure Initiative (illinoistreasurer.gov)
6. Michael W. Frerichs - Illinois State Treasurer: Russell 3000 Board Diversity Disclosure Initiative (illinoistreasurer.gov)

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Significant votes

Company name	AVEVA Group plc*
ISIN	GB00BBG9VN75
Market cap	£10 billion (Source: Salesforce, 14 December 2022)
Sector	Technology
Issue identified	The UK-listed software company, AVEVA Group plc, is 59% owned by Schneider Electric. In September, the AVEVA board recommended a takeover by Schneider Electric. LGIM and several other shareholders were not satisfied with the bid, as we believed it to significantly undervalue the company, particularly given that the AVEVA business was in a period of transition. The initial EGM (Extraordinary General Meeting) was set for 17 November; however, following shareholder concerns about the deal and a raised offer from Schneider Electric, the meeting was adjourned to 25 November.
Summary of the resolution	Resolution 1 – Approve matters relating to the recommended cash acquisition of AVEVA Group plc by Ascot Acquisition Holdings Limited. EGM date: 25 November 2022.
How LGIM voted	Against the proposal (and against management recommendation)
Rationale for the vote decision	LGIM joined the collaborative engagement established and led by the investor forum. Our Stewardship team also engaged internally with LGIM's investment teams regarding this proposed deal. LGIM voted against the resolution as we considered the proposed acquisition to significantly undervalue the company.
Outcome	The bidder was forced to increase its offer by 4% in order to gain sufficient support, despite an AVEVA board recommendation. This case illustrates that potential takeover deals are not a foregone conclusion and that target boards are prepared to recommend a bid and then hand the decision over to their shareholders. It also illustrates the power of collaborative shareholder engagement, where the bidder increased their offer due to shareholder dissatisfaction. Given the acquirer, Schneider Electric, already controlled 60% of the AVEVA share capital, there was little chance of the deal not being approved. The deal was approved and the acquisition is expected to close in the first quarter of 2023.
Why is this vote 'significant'?	Mergers and acquisitions – this vote demonstrates the power of collaborative shareholder engagement in a takeover situation where we believed the original offer undervalued the company significantly.

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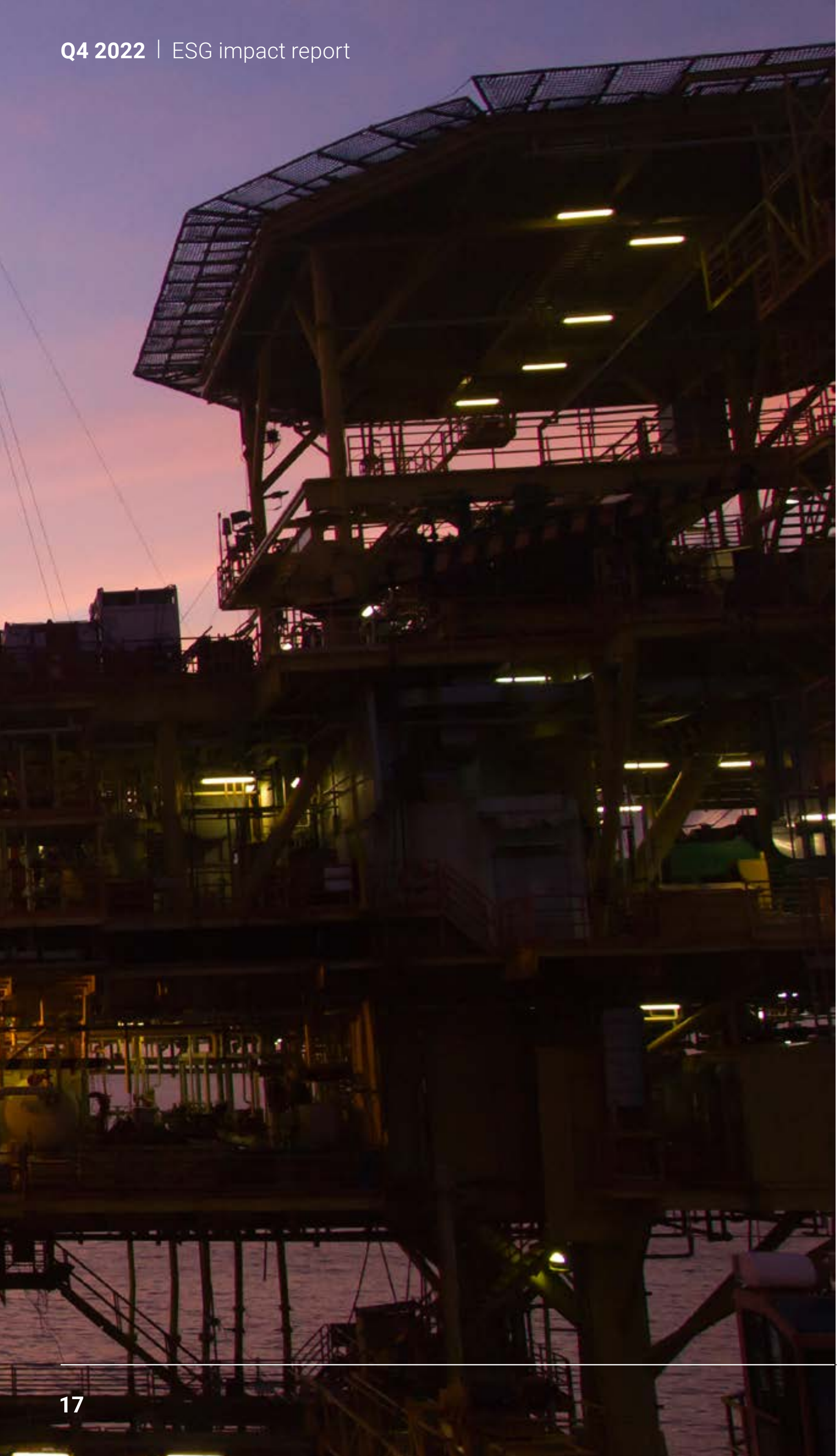
Environmental | Social | Governance



ESG: Governance

Update: bringing ESG into remuneration

While we at LGIM still believe that a substantial majority of incentive pay should be linked to delivering financial performance, ESG risks can clearly be financially material to a company's medium to long-term value. Our mantra here is: 'what gets measured gets done': if an action has a direct impact on a director's take-home pay, the attention on it will increase exponentially. It's therefore wise to set tangible ESG objectives against executive remuneration.

However, not all ESG metrics are equally suitable across all companies: the balance of importance and relevance will differ from sector to sector. Currently, when it comes to ESG metrics in executive pay, much, but not all of our focus is on climate. However, certain other ESG issues are also topical and will require addressing across different industries.

LGIM's expectations

ESG metrics may already form part of a company's strategy and be included in its published 'key performance indicators' ('KPIs'). If this is the case, there is no need to reinvent the wheel. However, certain ESG issues are more pressing and will require direct action. We believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay, and we have set out the following expectations:

- **Health and safety:** In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), we expect a health and safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace
- **Oil and gas:** Remuneration at oil and gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over-investment
  - Financial measures (such as total shareholder return or balance sheet strength) or other strategic metrics are preferred – volume growth targets may result in a negative vote from LGIM

- **Climate:** Companies in sectors that can have a significant effect on climate change should link part of their pay to delivering on their climate mitigation goals
  - Metrics should be linked to science-based targets transition plans (ideally SBTi-approved or an equivalent methodology) and aim to achieve net zero by 2050 or sooner
  - Targets should also be set to create new opportunities that not only improve revenue, but have a positive impact on climate

Importantly, as we now have visibility of companies' short- to medium-term goals towards 2030, such targets lend themselves perfectly for inclusion in long-term incentive plans.

Therefore:

- From 2025, to ensure LGIM's support for a new pay policy, we expect climate targets to be included in the long-term incentive plan
- These targets should be in line with stated transition goals for reaching net zero and across the full value chain (scope 1, 2 and material scope 3 emissions)
- These targets should represent at least 20% of long-term incentive plan awards
- Or, where a company has a restricted share plan, one of the vesting underpins should be linked to achieving carbon reduction targets

The sectors that LGIM considers 'climate-relevant' under this policy are:

Autos, Apparel, Aviation, Banks, Cement, Chemicals, Food, Insurance, Mining, Oil & Gas, REITs, Shipping, Steel, Technology, Telecoms and Utilities

Our expectations for UK companies have been published on our website in our recently updated UK Executive Pay Principles.

Significant votes

Company name	Microsoft Corporation*
ISIN	US5949181045
Market cap	£1,528 billion (source: Salesforce, 22 December 2022)
Sector	Technology
Issue identified	In 2021, without seeking prior shareholder approval, Microsoft took the decision to recombine the roles of chair and CEO, which had previously been separate for many years.
Summary of the resolution	Resolution 1.4: Elect Director Satya Nadella AGM date: 13 December 2022
How LGIM voted	We voted against the resolution (against management recommendation).
Rationale for the vote decision	LGIM expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and also because the roles are substantially different and require different skills. Previously, in Microsoft's 2021 AGM, we voted against both the re-election of the chair and of the board nomination committee chair/lead independent director, and we have conveyed our disappointment at this change.
Outcome	94.8% shareholders voted for the resolution (for the re-election of Satya Nadella). Nevertheless, we maintain our belief in the importance of the separation of the chair and CEO roles, on account of the different skillsets and different responsibilities of these roles. We were disappointed that Microsoft took the decision to recombine these roles, and will continue to engage with them on this and other topics.
Why is this vote 'significant'?	LGIM believes that, within the broader topic of board effectiveness, the roles of chair and CEO should be separate.

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Case study – Climate, Governance and M&A: Capricorn*

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

In this case study we demonstrate the combined engagements of LGIM's Stewardship, Investment and Climate Solutions teams in pushing for a better financial and environmental outcome for shareholders, and the power of combined shareholder action.

Identify: climate and governance
The actions of Capricorn's board in 2022 in seeking to merge with other energy companies raised some concerns about the company's governance and decision-making process, given the potential negative impact such decisions would have on Capricorn's shareholders. As a smaller-scale oil and gas company, Capricorn's climate credentials had been reasonable and until the surprising announcements by the board and its subsequent actions, no material governance concerns had previously been raised.

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

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

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The second merger proposal with NewMed*, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first and we met again with Capricorn to voice our concerns. We are not the only shareholder to have questioned the Capricorn board's actions, and one of its largest shareholders, Palliser Capital*, became more vocal about its objections to the proposed NewMed deal, which has also begun to attract attention and criticism in the press.[7]

Escalate: time for a change of direction

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

As reported widely in the press,[8] LGIM has declared its support for the restructure of the board. We believe that there has been a substantial breakdown in relations between the board and its shareholders, to such an extent that a change is now warranted. Adding our voice publicly to this action increases its strength and momentum and – to quote The Guardian – *"LGIM's intervention has changed the script."*[9]

At the time of writing,[10] the EGM has not yet taken place, but we will report on its results and our further actions in 2023.

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7 For example, Capricorn/NewMed: better price would align stars for E&P deal | Financial Times (ft.com)\
8. For example, Legal & General joins shareholder revolt at Capricorn Energy | Business | The Times and Activist investor demands shake-up at gas producer Capricorn Energy | Financial Times (ft.com)
9. Now would be a good moment for the chair of THG to find his voice | Nils Pratley | The Guardian
10. December 2022

Public policy update

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

LGIM in the press

For more information on our activities, press comments and quotes from LGIM, please see articles from Responsible Investor, Portfolio Institutional, We Wealth, Morningstar and Fundscene.

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COP27

All eyes were turned to Egypt as COP27 got underway, with high expectations following the momentous commitments made in 2021. Members of LGIM's responsible investment team attended the event, one highlight from which was the agreement for the UN FAO commitment to publish a roadmap for agricultural and food systems by COP28 in November 2023.[12] Food systems currently contribute around a third of global greenhouse gas emissions,[13] yet efforts to decarbonise the sector have plateaued. LGIM has long advocated for a comprehensive, science-based international plan for sustainable agriculture and land use; recognising the urgency of this issue, global leaders including former Secretary General of the United Nations Ban Ki-Moon and former President of Ireland Mary Robinson joined calls by a group of investors managing US$18 trillion in assets under management for policymakers and multilaterals (namely the United Nations FAO), to develop a science-based roadmap for the global agriculture and land-use sector. This effort was co-ordinated by the FAIRR initiative, a collaborative investor network that LGIM is a member of focusing on ESG risks and opportunities caused by intensive animal production.

In addition to aligning the sectors with a 1.5°C trajectory, it is anticipated that the UN FAO's roadmap will also set out clear targets and deliverables to protect the planet while developing sustainable food systems at a time of heightened food security risk.

At LGIM, we seek an economy that is both net zero and nature-positive, in which ecosystems are restored. We were pleased to see notable 'nature-related' events and 'nature-based solutions' being included in discussions for the first time.

Another highlight from COP27 was the announcement by the Transition Plan Taskforce ('TPT') of the publication of their disclosure framework and implementation guidance. Following on from the UK government's commitment at COP26 to make transition plans mandatory for listed companies and financial institutions, these publications provide financial institutions with the tools they need to credibly transition to a low carbon economy. The work of the TPT enables consistent and comparable reporting of transition plans, and builds on the UK government's leadership on climate disclosure.

12. COP27: Investors Give Warm Welcome as FAO Commit to Net Zero Roadmap for Food - FAIRR
13. https://www.nature.com/articles/s43016-021-00225-9

Net Zero

Following the High Court's ruling that the UK government's revised Net Zero Strategy was unlawful and lacked sufficient detail, the UK Department for Business, Energy, & Industrial Strategy (BEIS) launched an independent review of Net Zero. As a Group, L&G fed into the review through meetings and formally inputting into the Call for Evidence, highlighting the need for the UK's continued leadership and that there is no trade-off between economic growth and decarbonisation; a 'Just Transition' is key to the UK's long-term prosperity. We focused our input around three pillars: decarbonising our investment portfolio, using our scale and assets to influence, and reducing our operational carbon emissions. The further revised Net Zero Strategy is due to be launched in March 2023.

COP15

Our Investment Stewardship team attended the United Nations Biodiversity conference COP15 in December. LGIM had hoped for a 'Paris moment for nature', calling for a strengthening of disclosure and management, alignment of public finance and global roadmaps, and ambition, co-ordination and accountability.

Whilst in Montreal, the team contributed to panels and discussions, and engaged with other investors and policymakers, continuing our call for world leaders to agree a global framework that will halt and reverse nature loss over the coming decades. Keynote and central speeches throughout the summit focused on subsidies and a roadmap for the agriculture, food and land-use sectors, areas in which LGIM has been pushing for reform.

LGIM supported two targeted multi-stakeholder collaborations:

i. **'Ambitious GBF'** – led by UNEP FI, PRI, and Finance for Biodiversity. This statement was signed by 150 financial institutions representing US$24 trillion. It was targeted at negotiators to agree an ambitious framework

ii. **'Make it Mandatory**' – led by Business for Nature. This was targeted at negotiators to push for 'mandatory' disclosures from all businesses on their impact and dependencies on biodiversity

And we participated in the following panels:

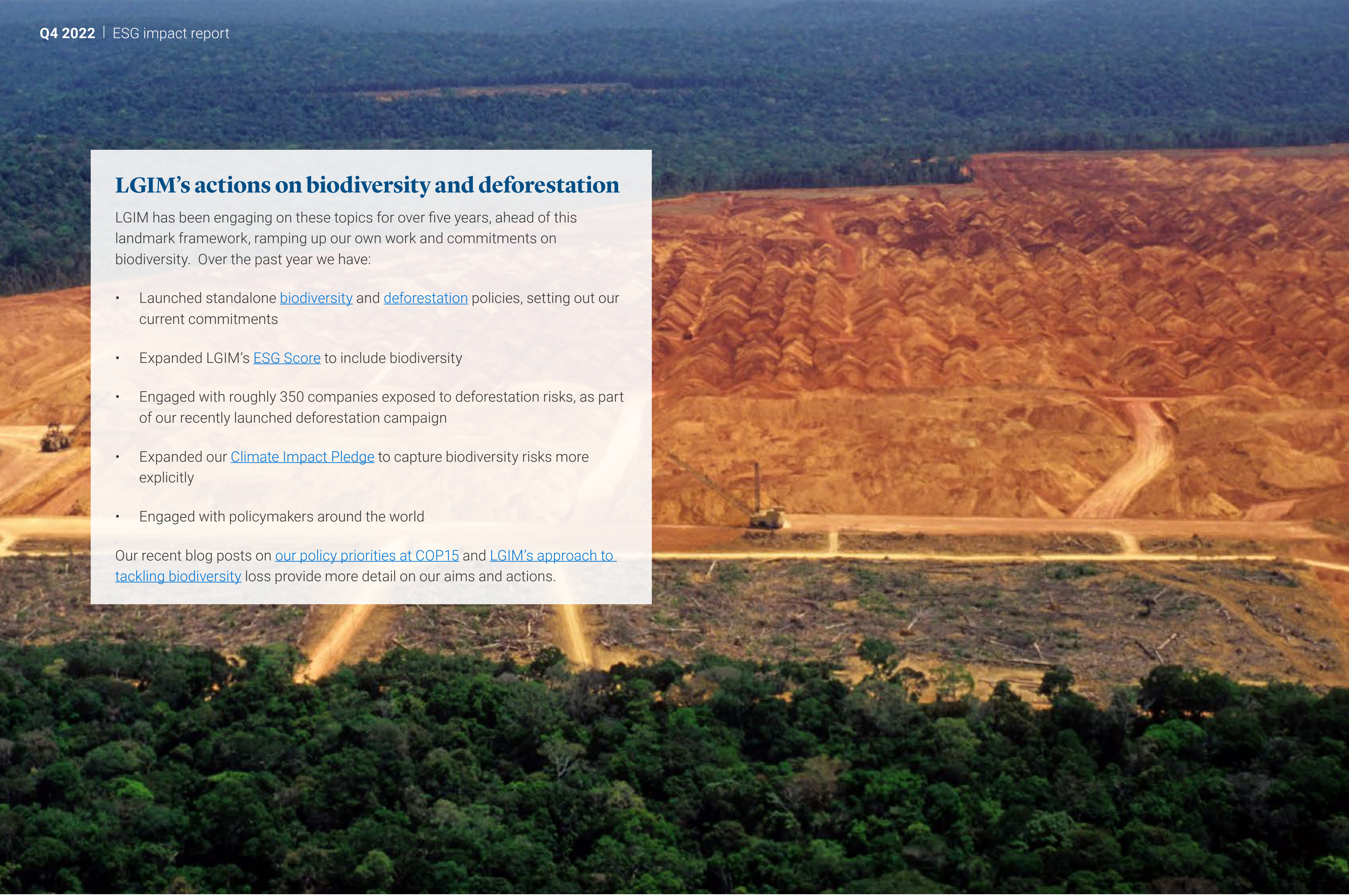
- **'The Time to Act is Now'** – hosted by ShareAction, covering investors' engagement on biodiversity
- **'Aligning agricultural subsidies with nature and biodiversity goals: Shifting the trillions towards a nature-positive economy'** – hosted by the WWF (World Wildlife Fund), TIFS (Transformational Investing in Food Systems) and FAIRR (Farm Animal Investment Risk and Return), looking at ways to shift government subsidy programmes.

The Kunming-Montreal Global Biodiversity Framework

This is a momentous agreement that we hope will pave the way towards a more sustainable relationship with nature. As with all international agreements of this kind we will need to unpack what this will mean for businesses and investors, but we are pleased that, despite some necessary compromises, negotiators have agreed this ambitious framework, which includes robust 2030 targets to put us on course towards a 2050 goal of 'Living in Harmony with Nature'

We believe LGIM and other investors share the collective responsibility to raise global standards and accelerate action to reduce biodiversity loss. Investors are facing a common challenge presented by the lack of comprehensive data, robust frameworks, standardised metrics and definitions. Whilst some good data sets do exist, they are not at the scale required. The developing 'Taskforce for Nature Related Disclosures' (TNFD) framework, and announcement by the IFRS International Sustainability Standards Board (ISSB) of the inclusion of Nature and a Just Transition into their framework will be crucial. ISSB and TNFD are working closely together, and we are calling for governments to adopt these frameworks to strengthen how corporates manage biodiversity impacts and dependencies and disclose them clearly. The Transition Plans Taskforce is also working to integrate nature into its expectations of good practice transition plans.[14]

14. An HM Treasury initiative which LGIM are contributing to that aims to develop a gold standard for private sector climate transition plans



LGIM's actions on biodiversity and deforestation

LGIM has been engaging on these topics for over five years, ahead of this landmark framework, ramping up our own work and commitments on biodiversity. Over the past year we have:

- Launched standalone biodiversity and deforestation policies, setting out our current commitments
- Expanded LGIM's ESG Score to include biodiversity
- Engaged with roughly 350 companies exposed to deforestation risks, as part of our recently launched deforestation campaign
- Expanded our Climate Impact Pledge to capture biodiversity risks more explicitly
- Engaged with policymakers around the world

Our recent blog posts on our policy priorities at COP15 and LGIM's approach to tackling biodiversity loss provide more detail on our aims and actions.

Sustainable finance

In the United Kingdom, the Financial Conduct Authority (FCA) has released the long-awaited consultation on ['Sustainability Disclosure Requirements (SDR) and investment labels'] that includes a package of measures to strengthen transparency on sustainable investment across the market. LGIM has been engaged with the FCA over the course of 2022 on this topic and will continue to in 2023, including providing a formal response to the consultation in early 2023. LGIM has provided some commentary to strengthen understanding of the SDR proposal in a series of articles, Spotlight on SDR, that can be found here: Responsible Investing | LGIM Adviser.

S

AMR – Pasteur Act

In December, under the umbrella of Investor Action on AMR, we wrote to the US Congress (the Honourable Nancy Pelosi, Speaker of the House; Chuck Schumer, Majority Leader; Kevin McCarthy and Mitch McConnell, Republican Leaders of the House of Representatives), urging them to enact the PASTEUR Act in the end-of-year package.

In the letter, we emphasised that we believe the PASTEUR Act would contribute to protecting modern medicine by supporting the development of critically important new antibiotics for bacterial and fungal infections. The Act creates market incentives for the commercialisation of new and novel antibiotics to treat resistant infections. The aim of the Bill, which would disconnect companies' *profits* from the *volume* of antibiotics sold, addresses the market challenges that have led many pharmaceutical companies to abandon antibiotic development, thereby weakening the pipeline for new, innovative antibiotics. The Act would authorise the US Department of Health and Human Services to enter into subscription contracts for critical-need antimicrobial drugs. These types of subscription contracts also go under the name of the 'Netflix model' for antibiotics and have been adopted in the UK, the first country to use this kind of model for the development of new antibiotics. The Bill has bipartisan support and is widely backed by researchers, healthcare policy experts and drug company executives. But when Consolidated Appropriations Act for 2023 was voted upon just before the Christmas holidays, the PASTEUR Act had been scrapped. The proposed legislation will be re-introduced during next Congress.

Our policy and collaborative work continue to play a key part of our engagement on AMR, an area where evolution of the regulatory environment remains crucial to tackling these challenges.

G

Governance in Japan

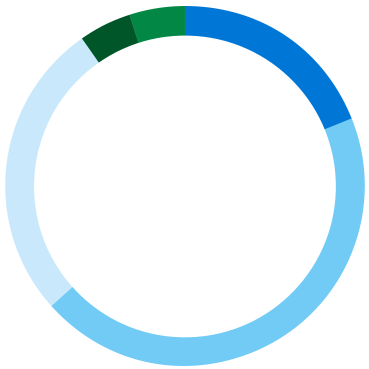
We have observed corporate governance progress in Japan in recent years (increase in the number of outside directors, female directors, reduction in cross shareholdings), but there is more room to improve. As a member of Asia Corporate Governance Association (ACGA) and International Corporate Governance Network (ICGN), LGIM engaged with Keidanren (the largest business federation in Japan), Financial Services Agency (FSA), Ministry of Economy, Trade, and Industry (METI) and Japan Exchange Group/Tokyo Stock Exchange (TSE) on various governance issues. Key topics covered were i) strengthening disclosure of senior advisory position; ii) aligning the publication of securities report with the international norm, i.e. before AGMs; iii) improving gender diversity; iv) Board independence; and v) mandating sustainability corporate reporting and the importance of adopting the IFRS ISSB standards.

Regional updates

UK - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	56	0	0
Capitalisation	262	12	0
Directors related	543	28	0
Remuneration related	106	17	0
Reorganisation and Mergers	25	3	0
Routine/Business	270	3	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	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	1262	63	0
Total resolutions	1325		
No.	82		
No. EGMs	34		
No. of companies voted	107		
No. of companies where voted against management /abstained at least one resolution	36		
% no. of companies where at least one vote against management (includes abstentions)	34%		

Votes against management



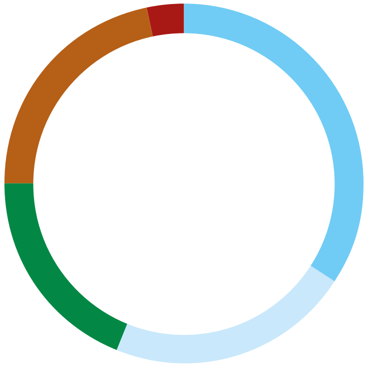
Number of companies voted for/against management

LGIM voted against at least one resolution at 34% of UK companies over the quarter.

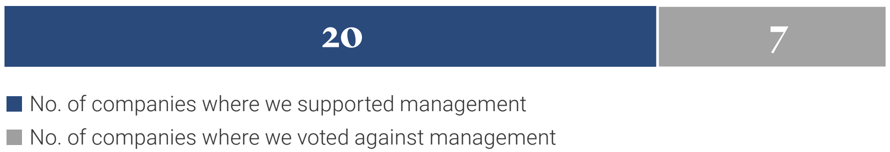
Europe - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	22	0	0
Directors related	40	8	3
Remuneration related	14	7	0
Reorganisation and Mergers	8	0	0
Routine/Business	61	5	1
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	7	2	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	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	153	22	4
Total resolutions	179		
No. AGMs	10		
No. EGMs	18		
No. of companies voted	27		
No. of companies where voted against management /abstained at least one resolution	7		
% no. of companies where at least one vote against management (includes abstentions)	26%		

Votes against management



Number of companies voted for/against management



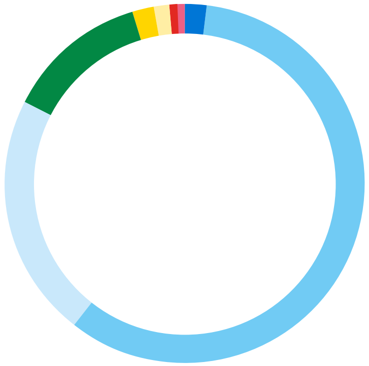
LGIM voted against at least one resolution at 26% of European companies over the quarter.

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

North America - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	7	0	0
Capitalisation	9	3	0
Directors related	231	88	0
Remuneration related	11	33	0
Reorganisation and Mergers	4	0	0
Routine/Business	21	19	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	1	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	3	2	0
Shareholder Proposal - Other/Miscellaneous	2	4	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human Rights	1	1	0
Shareholder Proposal - Social	1	2	0
Total	290	154	0
Total resolutions	444		
No. AGMs	34		
No. EGMs	8		
No. of companies voted	41		
No. of companies where voted against management /abstained at least one resolution	38		
% no. of companies where at least one vote against management (includes abstentions)	93%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 3
- Directors related - 88
- Remuneration-related - 33
- Reorganisation and Mergers - 0
- Routine/Business - 19
- 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 - 2
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 1

Number of companies voted for/against management

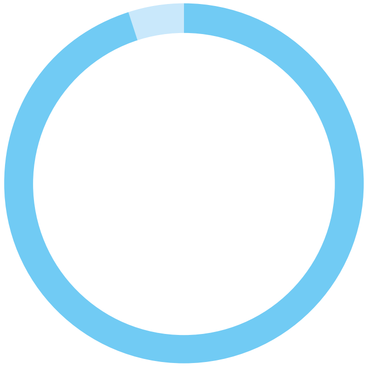
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 93% of North American companies over the quarter.

Japan - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	1	0	0
Directors related	105	20	0
Remuneration related	3	1	0
Reorganisation and Mergers	15	0	0
Routine/Business	8	0	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	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	132	21	0
Total resolutions	153		
No. AGMs	12		
No. EGMs	5		
No. of companies voted	17		
No. of companies where voted against management /abstained at least one resolution	12		
% no. of companies where at least one vote against management (includes abstentions)	71%		

Votes against management



- Anti-takeover related - 0
- Capitalisation - 0
- Directors related - 20
- Remuneration-related - 1
- Reorganisation and Mergers - 0
- 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 management

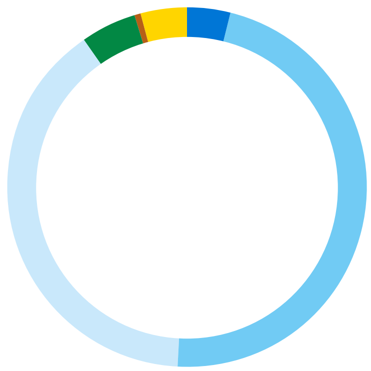
- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 71% of Japanese companies over the quarter.

Asia Pacific - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	13	0	0
Capitalisation	9	7	0
Directors related	261	84	0
Remuneration related	156	71	0
Reorganisation and Mergers	24	0	0
Routine/Business	43	9	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	1	3	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	7	3	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	7	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	514	184	0
Total resolutions		698	
No. AGMs		98	
No. EGMs		23	
No. of companies voted		118	
No. of companies where voted against management /abstained at least one resolution		75	
% no. of companies where at least one vote against management (includes abstentions)		64%	

Votes against management



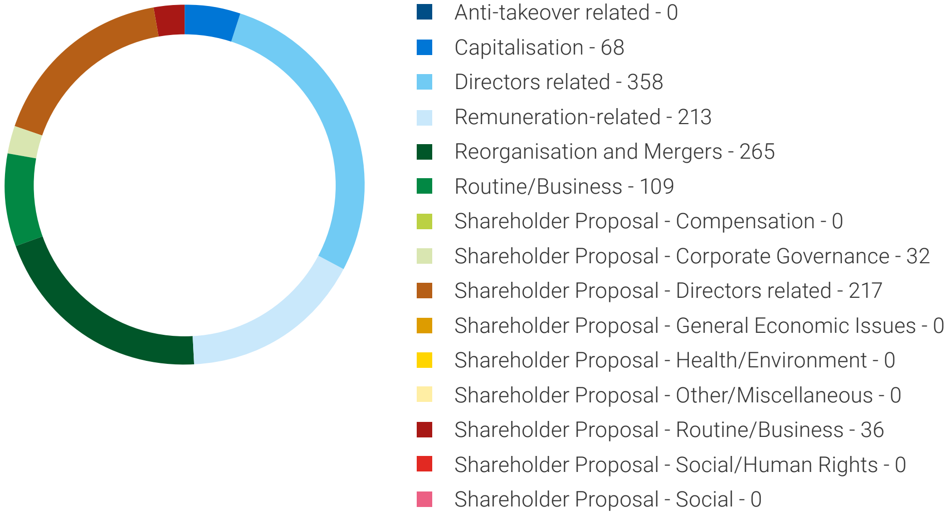
Number of companies voted for/against management

LGIM voted against at least one resolution at 64% of Asia Pacific companies over the quarter.

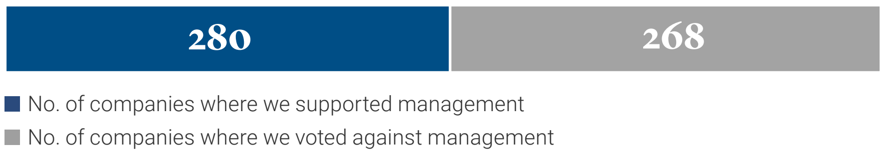
Emerging markets - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	843	68	0
Directors related	926	205	153
Remuneration related	63	213	0
Reorganisation and Mergers	662	265	0
Routine/Business	538	109	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	32	2	0
Shareholder Proposal - Directors Related	217	31	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	36	3	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	3317	896	153
Total resolutions	4366		
No. AGMs	46		
No. EGMs	522		
No. of companies voted	548		
No. of companies where voted against management /abstained at least one resolution	268		
% no. of companies where at least one vote against management (includes abstentions)	49%		

Votes against management



Number of companies voted for/against management

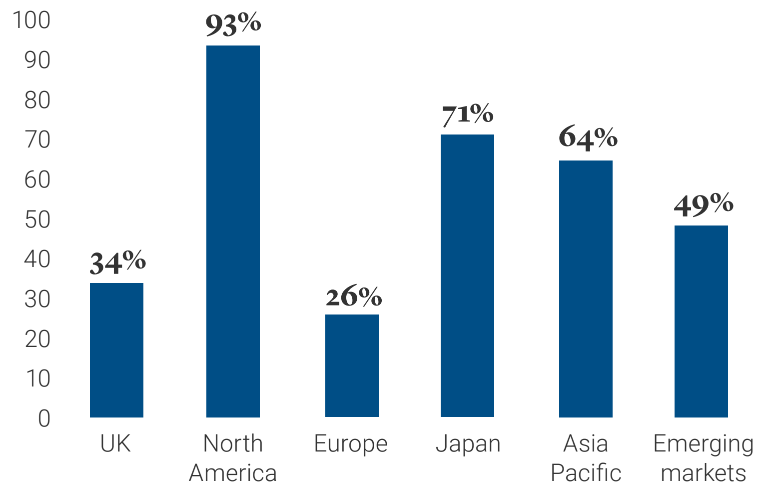


LGIM voted against at least one resolution at 49% of emerging market companies over the quarter.

Global - Q4 2022 voting summary

Proposal category	Total for	Total against	Total abstentions	Total
Anti-takeover related	76	0	0	76
Capitalisation	1146	90	0	1236
Directors related	2106	433	156	2695
Remuneration related	353	342	0	695
Reorganisation and Mergers	738	268	0	1006
Routine/Business	941	145	1	1087
Shareholder Proposal - Compensation	0	0	0	0
Shareholder Proposal - Corporate Governance	32	2	0	34
Shareholder Proposal - Directors Related	225	37	0	262
Shareholder Proposal - General Economic Issues	0	0	0	0
Shareholder Proposal - Health/Environment	10	5	0	15
Shareholder Proposal - Other/Miscellaneous	2	4	0	6
Shareholder Proposal - Routine/Business	37	11	0	48
Shareholder Proposal - Social/Human Rights	1	1	0	2
Shareholder Proposal - Social	1	2	0	3
Total	5668	1340	157	7165
Total resolutions				7165
No. AGMs				282
No. EGMs				610
No. of companies voted				858
No. of companies where voted against management /abstained at least one resolution				436
% no. of companies where at least one vote against management (includes abstentions)				51%

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



Number of companies voted for/against management

Global engagement summary

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

In Q4 2022, the Investment Stewardship team held

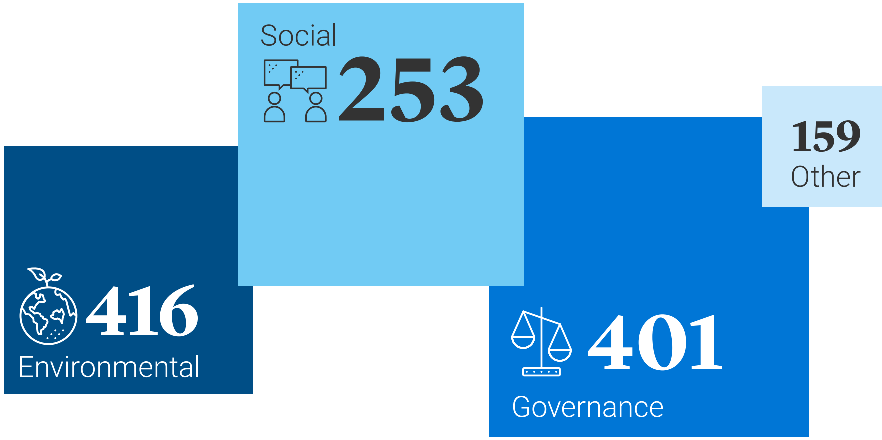
891 engagements with **665** companies

(vs. 137 engagements with 114 companies last quarter)

Breaking down the engagement numbers - Q4 2022

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

Breakdown of engagement by themes



Engagement type

295
Company meetings

596
Emails / letters

Top five engagement topics*

234
Remuneration

407
Climate change

94
Board composition

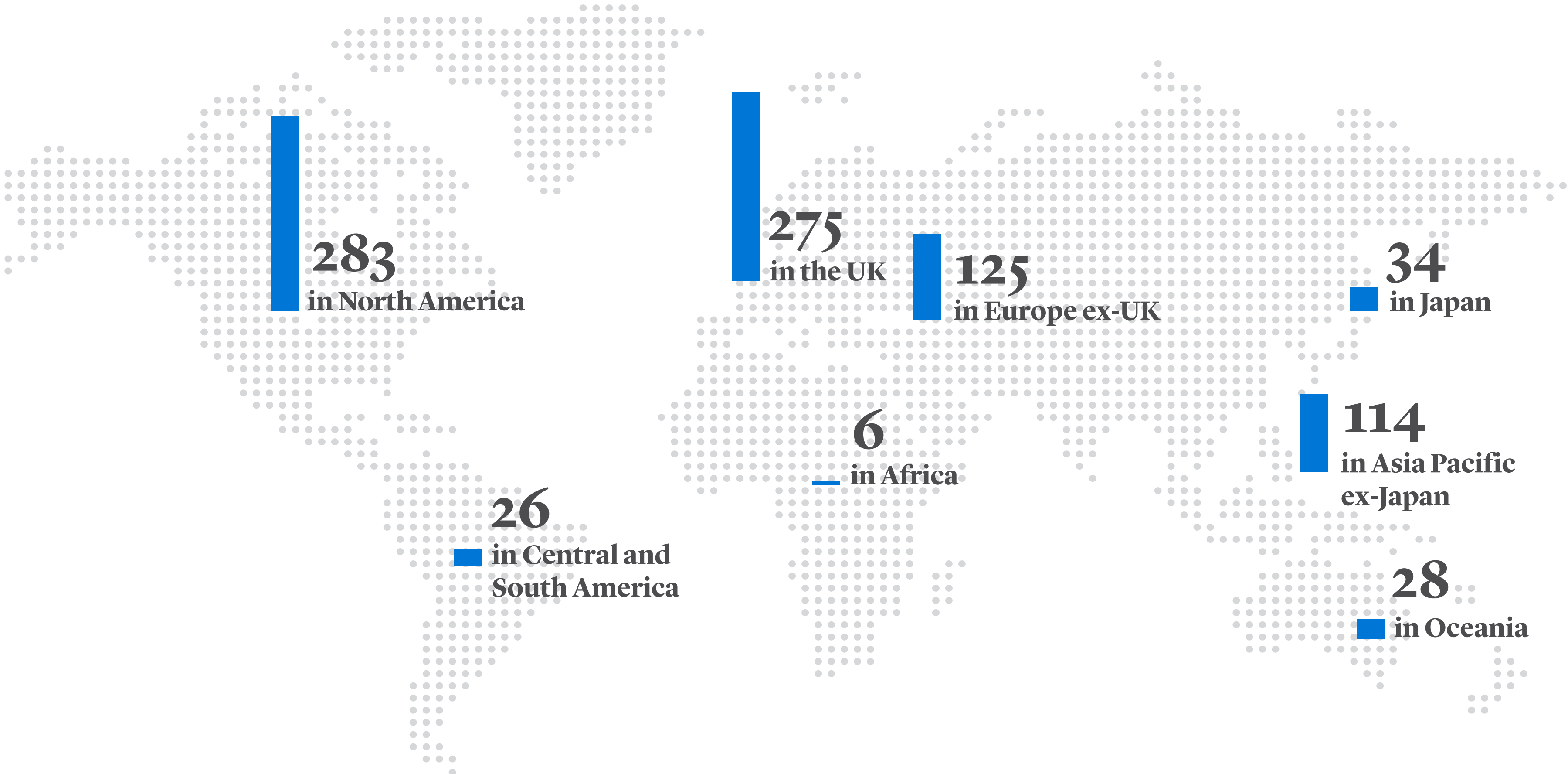
92
Strategy

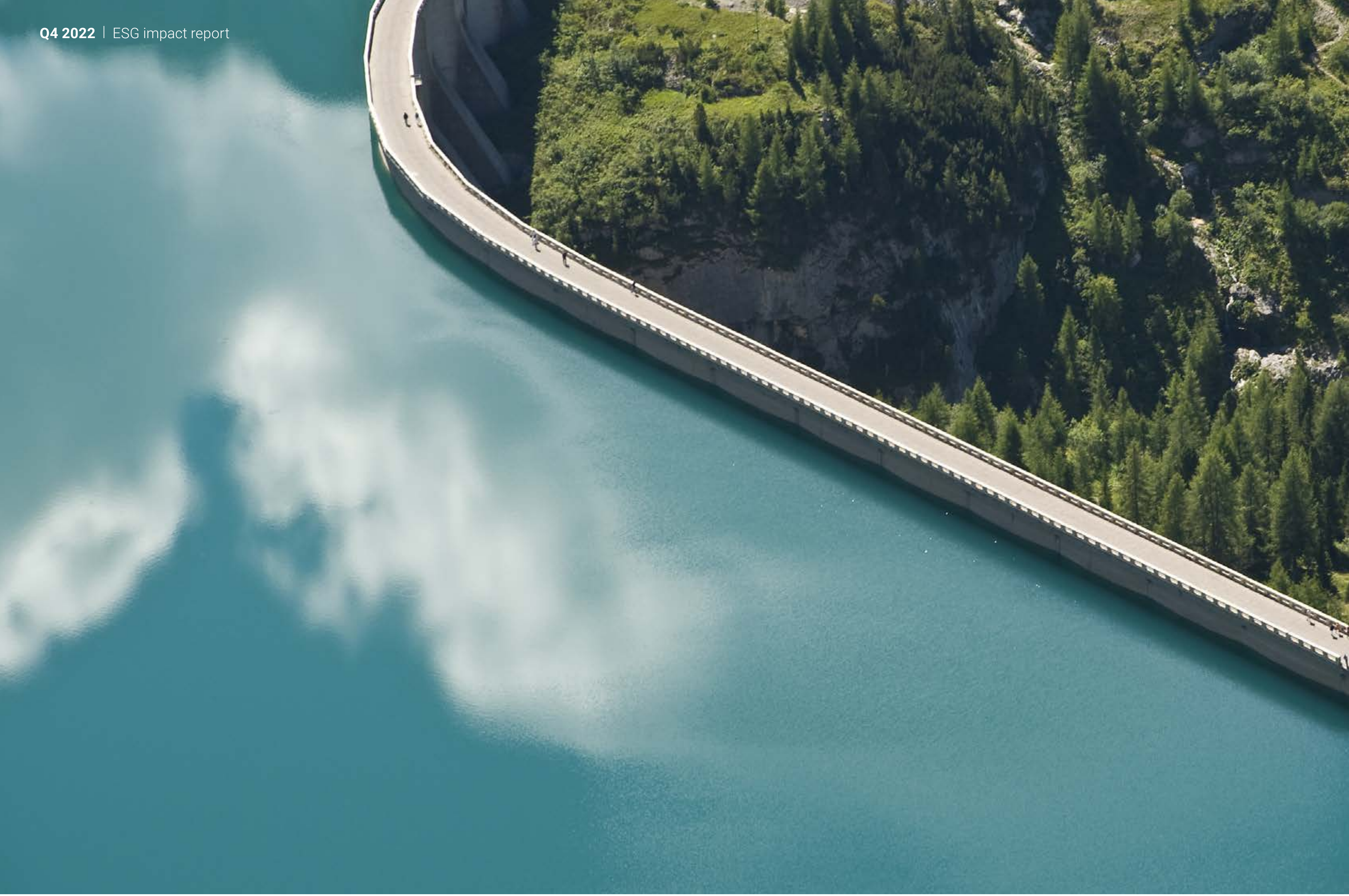
174
Gender diversity

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

At the time of publishing, the engagement data on this page excludes communications in relation to our deforestation and dual-class shares campaigns.

Regional breakdown of engagements





Contact us

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

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