

# DEFINING ESG



Sacha Sadan  
Director of Corporate Governance

# What is ESG?

It has an impact and is important

**Bloomberg**

April 2019

**Google's Ireland Tax Arrangements  
Draws More EU Scrutiny**

**The  
Guardian**

March 2019

**Ryanair's UK investors to lose rights**

**BBC**

**NEWS**

7 Jun 2018

**Carillion collapse to cost  
taxpayers £148m**



**INDEPENDENT**

April 2016

**BHS collapse confirmed by  
administrators putting 11,000  
UK jobs at risk**

**THE IRISH TIMES**

1 October 2018

**Questions for EY over its handling of  
Anglo Irish Bank's audit**

**The Telegraph**

31 March 2017

**Full scale of VW's 'diesel gate'  
deceit may never be known**

**Daily Mail**

22 July 2016

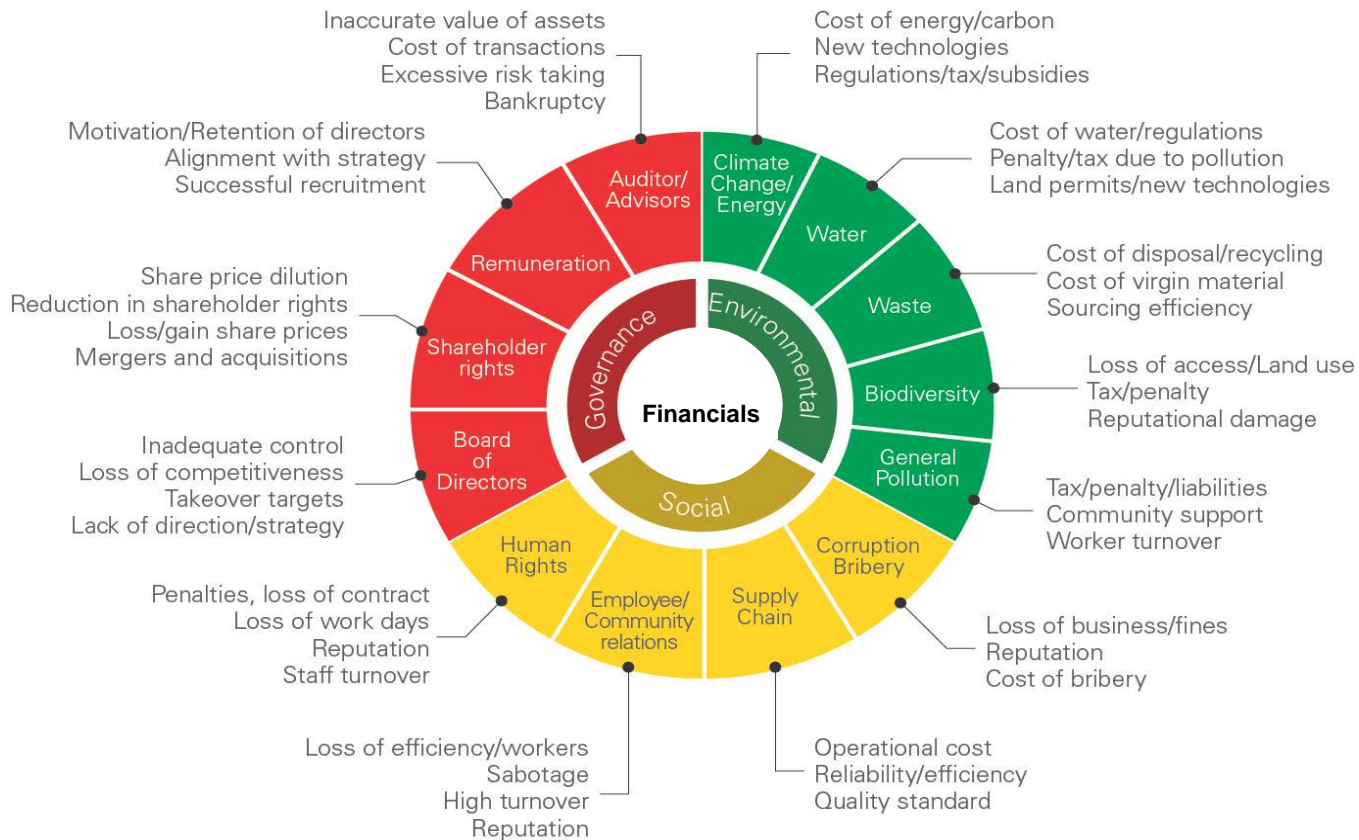
**MPs slam billionaire Mike Ashley's Sports  
Direct for Victorian workhouse conditions**



## How the market defines ‘responsible investment’

**Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns

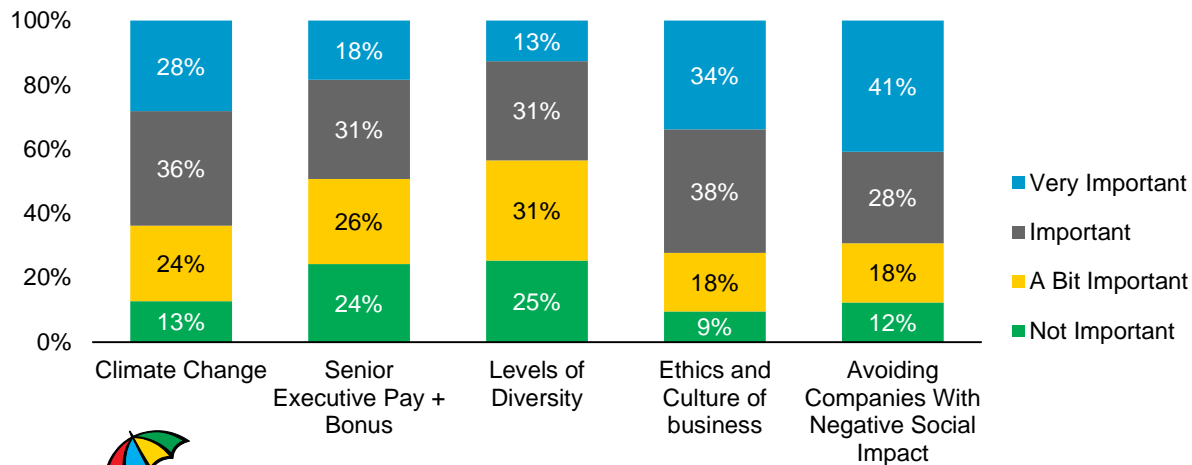
# E,S and G – what’s considered in each?



# Why is this relevant for members?

How important is it to you that fund managers actively consider these issues when choosing the companies in which to invest your money?

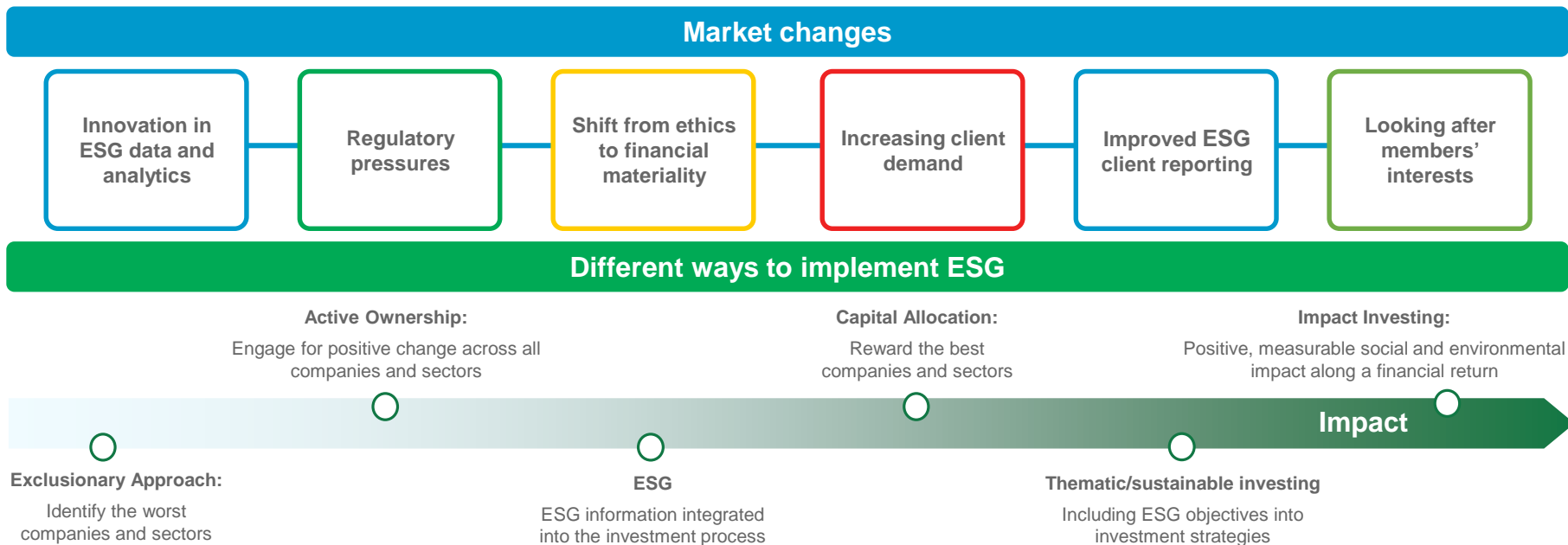
Answered: **907**



- **53%** said they would engage more with their pension
- **27%** said they would pay more into their pension if their pension fund was making a positive social impact

# How to think about ESG

If this is something you want, how do you express it?



For illustrative purposes only.

# Active and impactful approach to stewardship

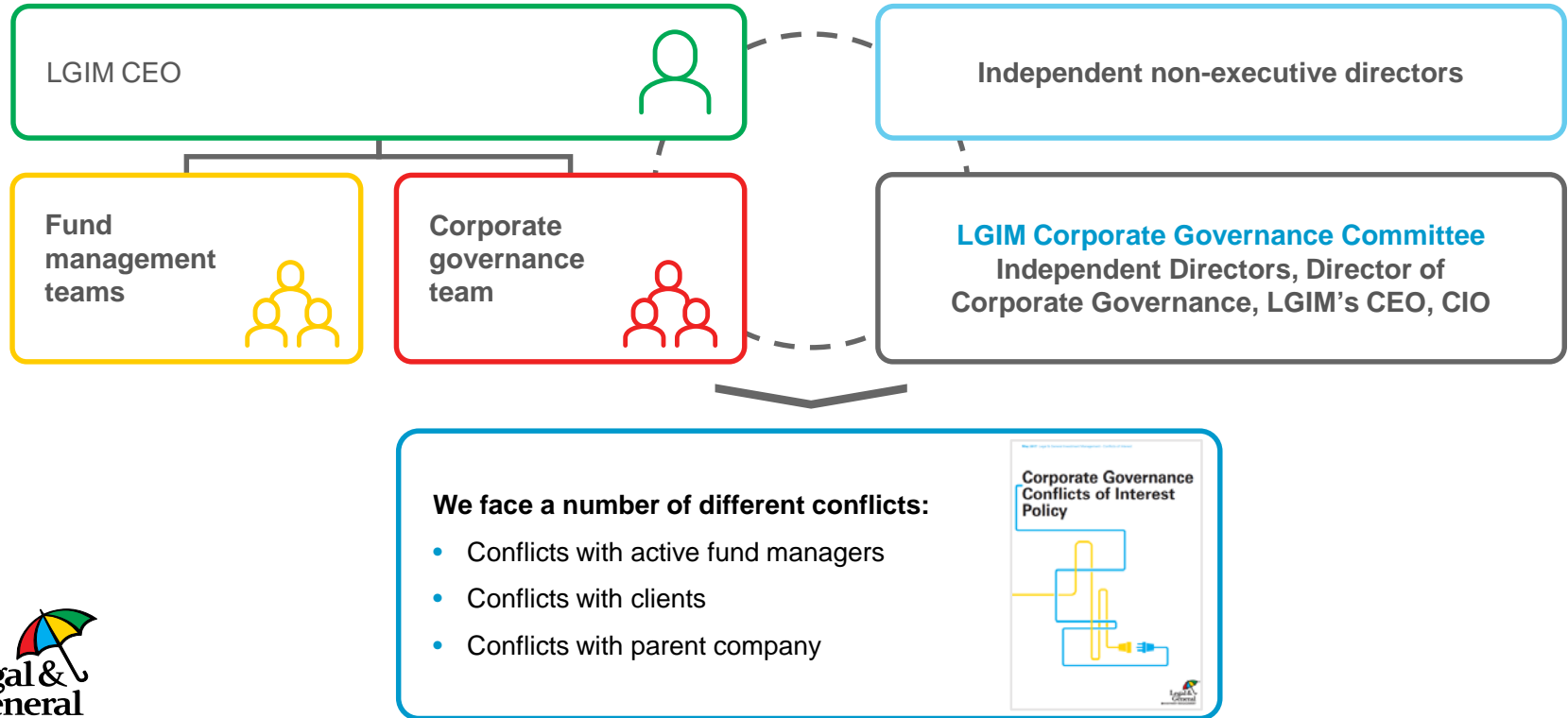


<sup>1</sup> Source: IPE's top 400 UK asset manager tables 2018.

<sup>2</sup> Source: IPE's top 120 European institutional managers table 2018.

# Stewardship embedded throughout LGIM

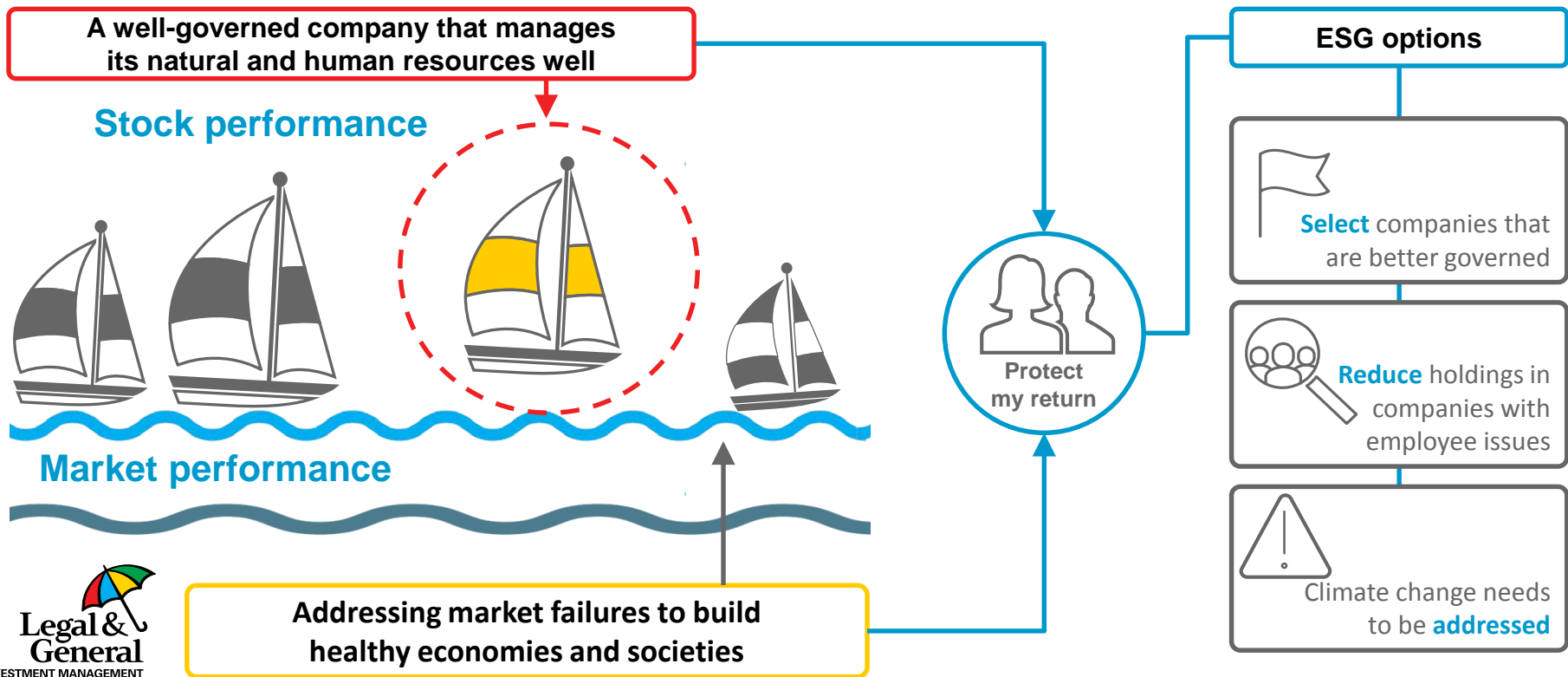
## Our own governance





# Raising standards across companies and the market

## Strategy to enhance investment



# LGIM's ESG Score

Understandable, Transparent

4

Independent raw data providers

- Thomson Reuters
- Sustainalytics
- Trucost
- HSBC

28

ESG data points

c.13000

Companies scored internally. Could be as large as the dataset

6

published externally every six months

**Simple, rules-based approach**

**Based on factors we believe to be most significant**

**Score translates into 0-100 for reporting purposes**

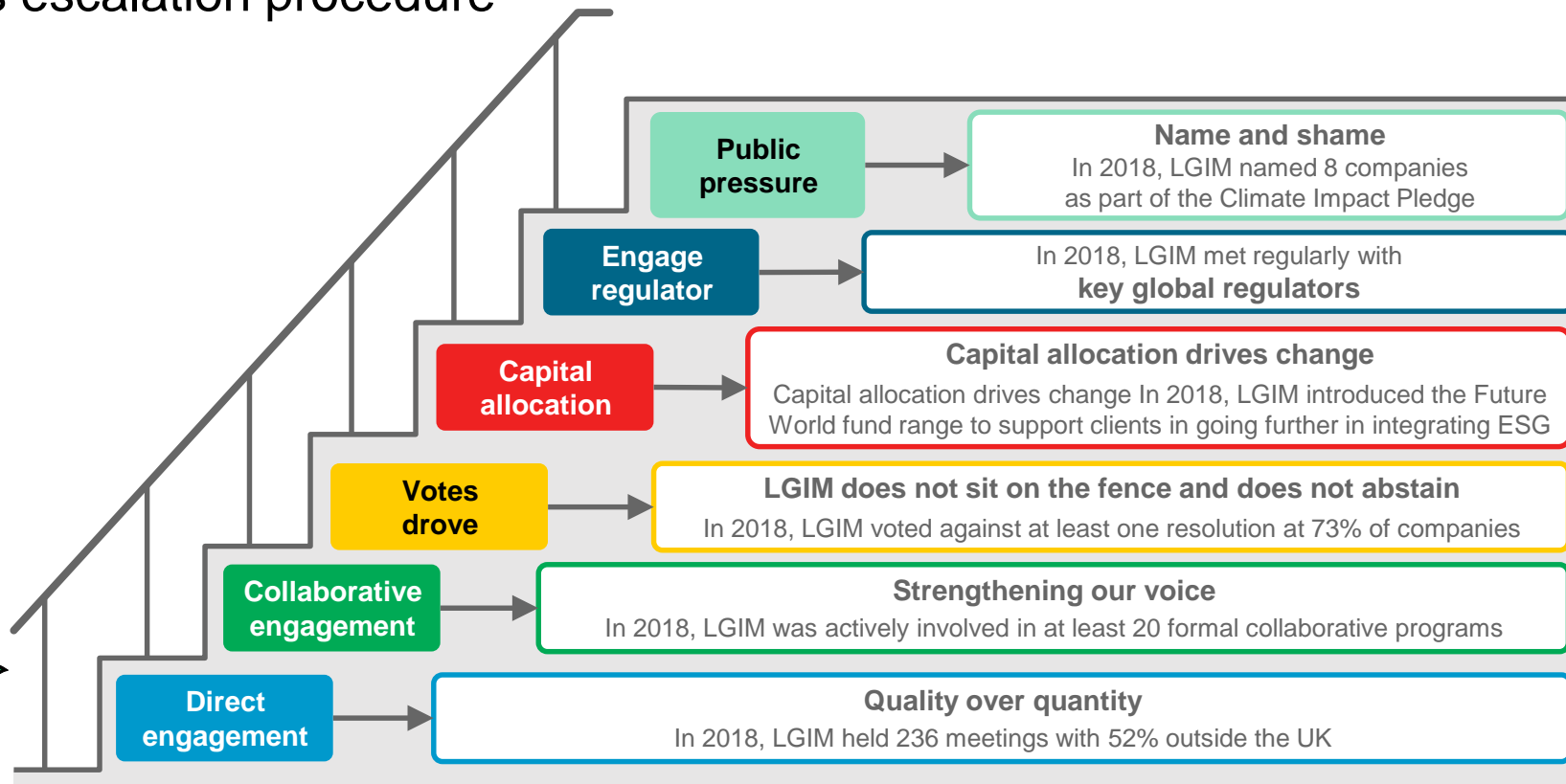
## LGIM's Global ESG Score

March 2018

Company name	LGIM's Global ESG Score
3i Group PLC	65
3M Co	42
ABB Ltd	56
Abbott Laboratories	49
AbbVie Inc	58
ABC-Mart Inc	28
ABN AMRO Group NV	64
Accenture PLC	71
Accor SA	25
Acom Co Ltd	20
ACS Actividades de Construccion y Servicios SA	47
Activision Blizzard Inc	52
Acuity Brands Inc	45
Adesso Group AG	70

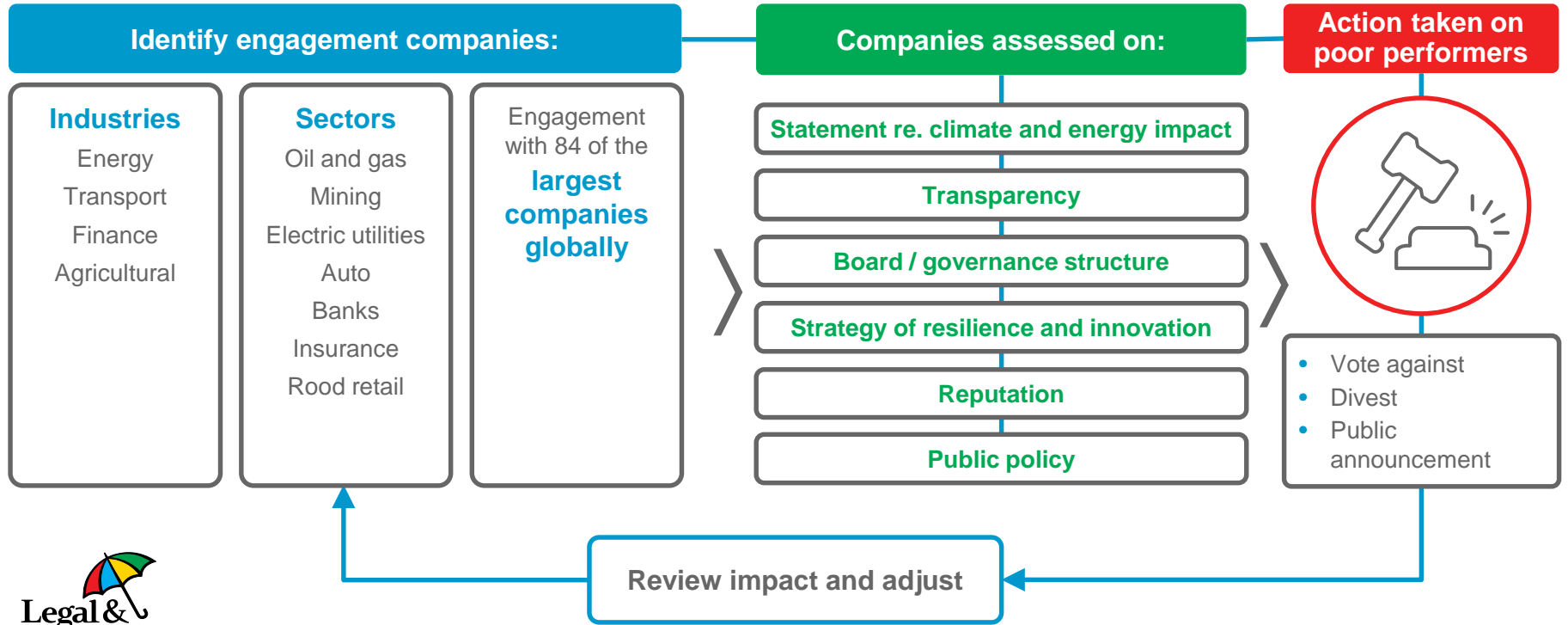
# Engaging with consequences

## LGIM's escalation procedure



# Case study: Climate Impact Pledge

## Active engagement



# Case study: SNAP

## Focused engagement



### Our concerns

- SNAP – fourth largest tech IPO with market cap at flotation of \$33billion
- Major governance concerns with **no voting rights for the listed equity**
- **founder control embedded to perpetuity**

### What did we want?

- LGIM believes **only companies with voting rights should be eligible for index inclusion**
- **Called for public consultation** by the major index providers
- **Co-ordinated with investor associations**

### Outcome

- Two out of three providers did not **include SNAP in the major investible indices**
- **Poor corporate performance** since IPO due to stagnant user growth

# Case study: Unilever

## Focused engagement

### Our concerns

- Not ALL shareholders are being treated fairly and equitably in the simplification of Unilever's share structure

### LGIM's actions

- Meetings with the Board
- Collaborated with others
- Public escalation
- Voted **AGAINST**

### Outcome

- LGIM's views shared one month before AGM
- Detailed position statement sent to clients
- Statement to the press
- Board withdraws proposal on 5 October due to lack of shareholder support

28 September 2018 Legal & General Investment Management

## POSITION STATEMENT

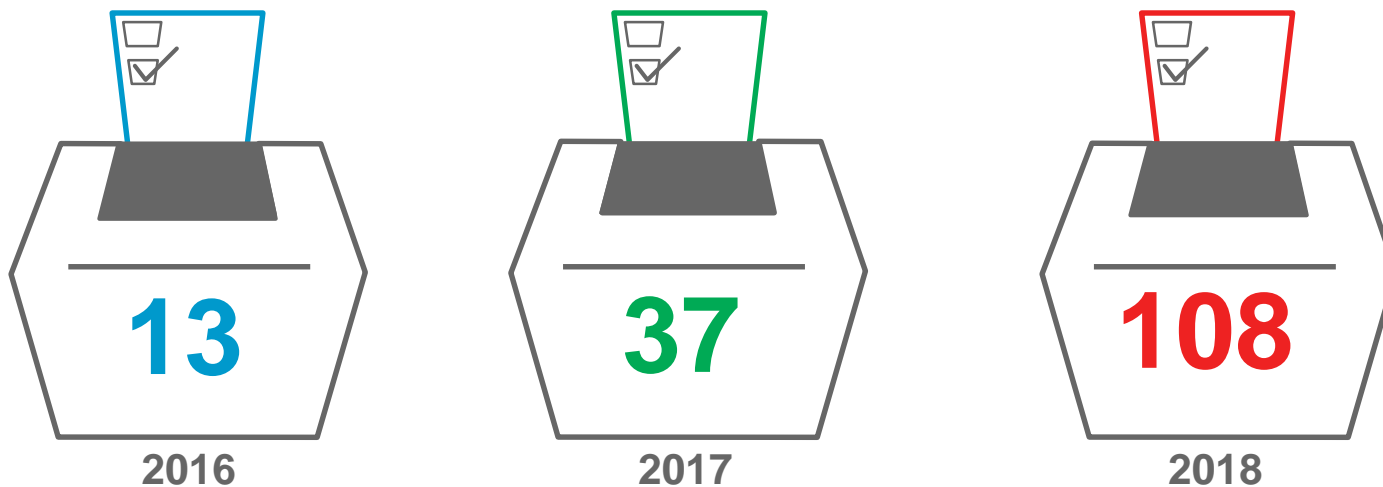
LGIM voting intentions at Unilever PLC Extraordinary General Meeting, 26 October 2018

At Legal & General Investment Management (LGIM), we take seriously our duty to help bring positive and beneficial change to the companies and markets in which we invest for our clients. We use our privileged position as a large shareholder to influence and promote best practice among these companies and markets.

# Case study: Diversity

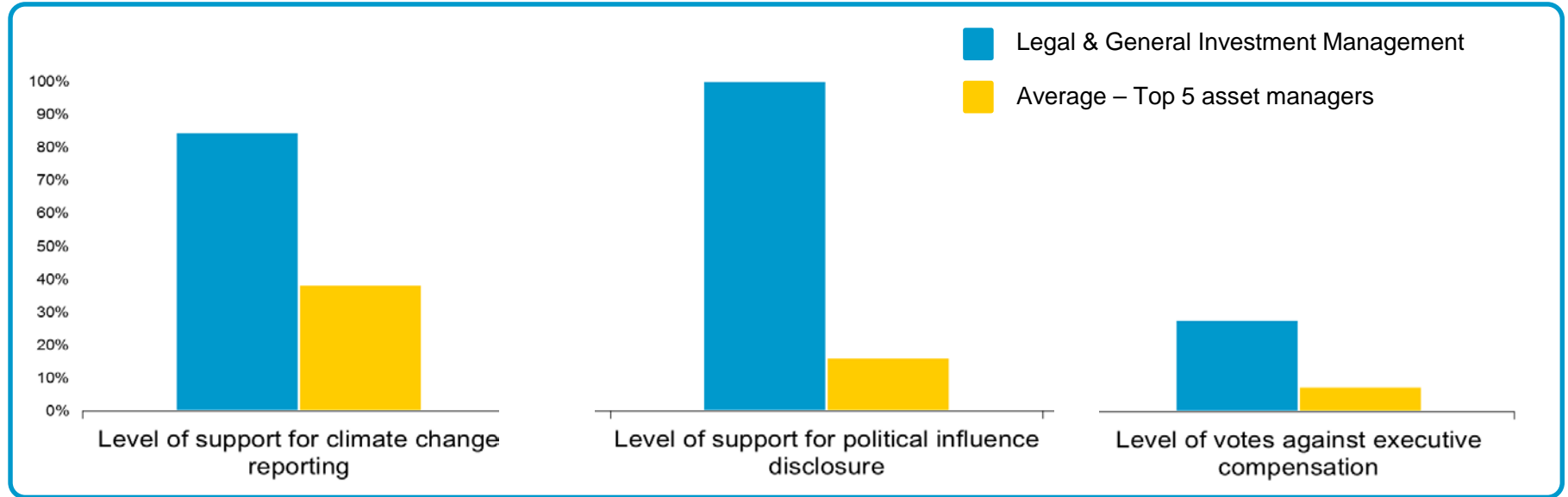
- LGIM believes a suitably diverse mix of skills, experience and perspectives is essential for a board to function and perform optimally
- LGIM expects all companies to have at least one female on their board through their Global Corporate Governance and Responsible Investment Principles

## Votes against UK Board Chairs or Nomination Committees Chairs on diversity



# Using our votes for change

## Engagement and voting competitor analysis



Source: Climate 50/50 Project - Asset Manager Climate Scorecard 2018, analysis of the voting records of the world's 13 largest asset managers that report mutual fund votes, focused on resolutions at US energy and utility companies.  
Bottom charts show voting record of five largest asset managers on climate change, political influence and executive compensation.



# Client communications

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

For you to understand what's happening in the funds

Regular reporting to clients

- Annual impact report
- Quarterly ESG impact report
- Embedded within quarterly investment report
- Voting statistics



For you to understand what LGIM stands for

Thought leadership



For you to understand what's happening in the funds

Member newsletter



For you to influence and shape LGIM's policy

Direct client engagement

- Yearly client roundtable seeking feedback on policies
- Yearly trustee education
- DC Mastertrust annual member forum
- "Only Legal & General host an annual member forum" ShareAction

For you to understand  
what's happening in  
the funds

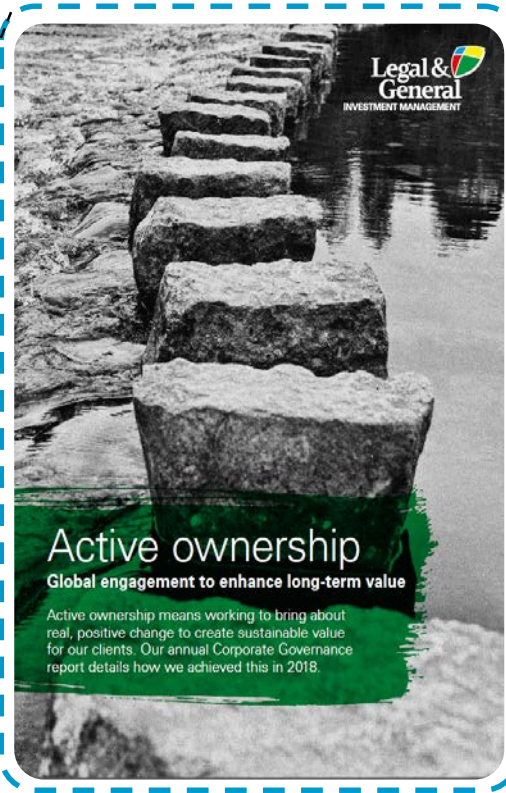
Regular reporting  
to clients

Annual impact report

Quarterly ESG  
impact report

Embedded within  
quarterly  
investment report

Voting statistics



For you to understand what LGIM stands for

Thought leadership

**The importance of gender diversity**

The business case for gender diversity is clear. Improving their gender balance allows companies to benefit from harnessing all available talent, consistently improving share price performance. LGIM has affirmed a clear commitment to this issue in our ambitious targets for better representation of women at companies.

Chair, Panel in Head of Diversity Governance from directors' parties at the meeting of members of the UK's CMA Investor Group. She also leads the Corporate Governance team in work on improving gender diversity on corporate boards.

The most successful companies across the average lifespan of a company in the S&P 500, a US stock market index, used to be 20 years in 1960, by 2007 the trend is shown to rise to 47. A company's success or failure is largely determined by the quality of its leaders' decision making, and so the mix of its leadership team.

In order to make the best decisions, we believe that the only way to come from a group with a diverse set of views, a group of people who are all of diverse gender identity varied, cognitive diversity.

**Figure 1: Share price performance for leaders of companies female participation in board**

**LGIM's approach to corporate governance and responsible investment**

**WHAT IS LGIM?**  
Legal & General Investment Management (LGIM) is one of Europe's largest institutional asset managers and a major global investor managing GBP 661 billion / USD 1.3 trillion\* in assets. We are a long-term investor and have a long-standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which we invest.

**Figure 2: Gender gender representation in board level**

and therefore part of our fiduciary duty. We recognise that companies are intrinsically linked to the economic and societal in which they operate and we therefore believe that investors also have a responsibility to the market as a whole. Our ultimate goal is to protect and enhance the long-term returns generated by our clients' assets.

LGIM has public commitments for the following three goals as part of our five-year strategy plan:

- Enhancing the transition to a low carbon economy
- Making socially more markets with our financial solutions
- Creating new investments for the future economy

Further information on these goals is publicly available in our general corporate [Legal & General Annual Report 2020](#) on [www.lgim.com/sustainability](#).

**LGIM'S ESG PERSPECTIVE**

As a ESG, we believe that well-governed companies that manage all stakeholders, including the government, should lead to higher long-term financial outcomes. We view the contribution of environmental, social and governance (ESG) issues as part of risk management.



For you to understand what's happening in the funds

Member newsletter



# Legal & General Investment Management

## LGIM disclaimer and important legal notice

The information contained in this document (the 'Information') has been prepared by Legal & General Investment Management Limited, or by Legal and General Assurance (Pensions Management) Limited and/or their affiliates ('Legal & General', 'we' or 'us'). Such Information is the property and/or confidential information of Legal & General and may not be disclosed by you to any other person without the prior written consent of Legal & General.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the Information, or any other written or oral information made available in connection with this publication. Any investment advice that we provide to you is based solely on the limited initial information which you have provided to us. No part of this or any other document or presentation provided by us shall be deemed to constitute 'proper advice' for the purposes of the Pensions Act 1995 (as amended). Any limited initial advice given relating to professional services will be further discussed and negotiated in order to agree formal investment guidelines which will form part of written contractual terms between the parties.

Past performance is no guarantee of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

The Information has been produced for use by a professional investor and their advisors only. It should not be distributed without our permission.

The risks associated with each fund or investment strategy are set out in this publication, the relevant prospectus or investment management agreement (as applicable) and these should be read and understood before making any investment decisions. A copy of the relevant documentation can be obtained from your Client Relationship Manager.

### Confidentiality and Limitations:

Unless otherwise agreed by Legal & General in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.

Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.

The Information is provided 'as is' and 'as available'. To the fullest extent permitted by law, Legal & General accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information. Without limiting the generality of the foregoing, Legal & General does not accept any liability for any indirect, special or consequential loss howsoever caused and on any theory or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised of the possibility of such loss.

### Third Party Data:

Where this document contains third party data ('Third Party Data'), we cannot guarantee the accuracy, completeness or reliability of such Third Party Data and accept no responsibility or liability whatsoever in respect of such Third Party Data.

### Publication, Amendments and Updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you. Legal & General reserves the right to update this document and/or the Information at any time and without notice.

Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication. The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.

### Telephone Recording

As required under applicable laws Legal & General will record all telephone and electronic communications and conversations with you that result or may result in the undertaking of transactions in financial instruments on your behalf. Such records will be kept for a period of five years (or up to seven years upon request from the Financial Conduct Authority (or such successor from time to time)) and will be provided to you upon request.

Legal & General Investment Management Limited. Registered in England and Wales No. 02091894. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No. 119272.



Legal and General Assurance (Pensions Management) Limited. Registered in England and Wales No. 01006112. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, No. 202202.

The LGIM Workplace Savings division on behalf of both Legal and General Assurance Limited. Registered in England and Wales No. 00166055. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. As well as Legal & General (Portfolio Management Services) Limited. Registered in England and Wales No. 02457525. Authorised and regulated by the Financial Conduct Authority, No. 146786. Registered Offices: One Coleman Street, London, EC2R 5AA.