Press release – 16/04/2019

# LGIM votes against record number of companies in 2018

## Eighth Active Ownership annual report released highlights continued quality of engagement, with 52% of companies now based outside the UK

Legal & General Investment Management (LGIM), one of the largest investors in the UK stock market, voted against a record number of companies globally in 2018, according to its annual Active Ownership report from the corporate governance team, released today.

The Active Ownership report reveals that LGIM voted against 3,864 company directors globally.  This was a 37 percent increase from 2017, having strengthened its voting policies last year. Votes against chairs of boards on diversity and audit related issues hit record highs in the UK, while executive pension contributions became a more prominent area of engagement. Climate change, board effectiveness and remuneration continued to drive engagement with companies globally, with over half of companies based outside of the UK.

**Sacha Sadan, Director of Corporate Governance at LGIM, commented,** "2018 was a year of record client demand for our work as we continued to engage with companies and regulators on a broad range of issues, using our voting power to influence change. The increased figures reflect the higher standards we expect companies to adhere to, having strengthened our own voting policy in 2018. We are encouraged by much progress being made but there remains more to be done and real success will be dependent on collaboration – companies need to create long-term sustainable business models and deliver value for investors."

According to the report, diversity related issues, audit, pension remuneration, board effectiveness and climate change were key areas of engagement and issues where LGIM has introduced new initiatives to influence change.

### Diversity drives record number of votes in UK

LGIM voted against the largest number of UK chairs to date in 2018 on the issue of gender diversity, with over 100 votes cast, up from 13 in 2016. An increasingly global issue, LGIM has voted against all-male boards of S&P 500 companies since 2017 and now also does so globally.

It has also announced that from 2020 it will vote against the largest 100 companies in the S&P 500 and S&P TSX – two major indices in the US and Canada, where there are currently less than 25 percent of women on boards.

### Four-fold increase in votes on audit related issues

In light of ongoing concerns around the quality, independence and regulation of auditors, and following a number of high-profile accounting scandals, LGIM voted against a record number of companies on audit-related concerns – it voted against 326 companies globally, compared to 37 in 2016. It has strengthened its global voting policy in relation to excessive non-audit fees paid to auditors and addressed auditor independence through a strengthened application of its audit tenure policy, with companies now expected to rotate auditors at least every 20 years.

## Seeking to curb inequality in pension provision

In 2016, LGIM asked companies to align their executive pensions with that of their workforce. The number of companies that subsequently amended their policy on executive pensions were few and many of those that did, did not make sufficient reductions.  Therefore, from 2020, LGIM will be voting against the remuneration policy at UK companies where they have not addressed the disparity in pensions between executive directors and their general workforce. It will expect pension contributions for any new hires to the board to be aligned with what is offered to the general workforce and has also asked board chairs to address the pension provisions of existing directors.

Executive remuneration continues to be a key area of engagement and in 2018, LGIM voted against more than a third (35 percent) of pay packages globally, largely due to the lack of performance conditions underpinning executive pay. Last year, LGIM called for a curb in gradual increases in bonuses driven by short-term operational objectives and in 2018 voted against 105 US companies due to an insufficient performance period.

## Engagement and capital allocation to address the climate catastrophe

An ongoing engagement priority, climate change considerations are also increasingly factored into capital allocation decisions. Over the course of 2018, LGIM launched 14 funds with environmental, social and governance objectives under the Future World fund range.  As part of its Climate Impact Pledge, in 2018, LGIM announced that it will not hold 8 large global companies in the Future World funds. Where such companies are seen to take insufficient actions on climate risks, LGIM will also vote against the chairs of their boards, across the entire equity holdings.

The report provides a progress update on engagement with companies, including the adoption of industry-leading emissions targets by Royal Dutch Shell. According to independent research from the Climate 50/50 Project, in 2018, LGIM supported more key US shareholder resolutions on climate change than any of the world's ten largest asset managers[2]. This comes ahead of an investor vote on a climate resolution at oil major BP in May 2019, the first time that LGIM have co-filed a shareholder resolution, supported by BP's board.

## Increasing engagement globally

More than half (52 percent) of the companies LGIM engaged with in 2018 were based outside of the UK. Highlights include:

- **Japan**: The top three votes against management related to board effectiveness, remuneration and antitakeover activity. 91 percent of votes cast against directors were due to board independence issues.
- **USA:** Board effectiveness, shareholder resolutions and remuneration drove the highest number of votes against management. LGIM opposed 337 directors of North American companies because of over-boarding concerns and at key votes in the US, LGIM's level of opposition to management on executive pay was higher than any of the world's 10 largest asset managers[2].  LGIM voted against 50 percent of US companies over remuneration issues.
- **Europe**: Board effectiveness, remuneration and routine governance issues were key vote drivers in 2018. LGIM opposed 292 European companies in 2018, compared to 232 in 2017. It has launched two engagement campaigns aimed at strengthening the boards of 43 of the region's largest companies and is engaging with 14 of the largest companies in France and three in Spain, to encourage their boards to split the CEO and board-chair roles, a policy it advocates globally.

## Notes to editors

### Legal & General Investment Management

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1trillion[1]. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

[1]LGIM internal data as at 31 December 2018. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

[2] Source: Climate 50/50 Project - Asset Manager Climate Scorecard 2018, analysis of the voting record of large asset managers at key resolutions at US energy, utility and auto companies, to the year ending 31 August 2018.

Report Link: www.lgim.com/activeowner

Compliance Reference: MO1919

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