

The Corporate Governance Sixth Annual Report

Sacha Sadan – Director of Corporate Governance

Our mission

At Legal & General Investment Management, it is our fundamental belief that companies with sustainable business models are beneficial to both shareholders and society. Our Corporate Governance team of ten is dedicated to ensuring that the companies we are invested in are focused on creating long-term sustainable value for all our clients.

We manage more than £800bn of investments. This allows us to influence the behaviour of global companies and we take that responsibility very seriously. Being one of the largest asset managers globally allows us to engage with companies directly and ensure that they are addressing the key issues that affect long-term performance: climate change, diversity, evolving regulatory hurdles and shifting societal demands.

In 2016, our team, as outlined in our latest Corporate Governance Report, focused on four areas:

1. Firstly, climate change. We have committed to our own Climate Impact Pledge and our commitment is to work directly with the largest companies in the world who we believe hold the key to beating climate change, and help them move to a low carbon world as well as vote against those that are at the bottom of the pack.
2. Secondly, we have continued to challenge executive remuneration. We've developed substantial policies around executive pay that address the growing gap between the pay of Chief Executives and

their employees – in 2015 for example, executive pay was, on average, 129 times more than a full-time employee. When a company publishes a remuneration policy that does not meet our principles, we engage with them and use our influence and voting power to try to affect positive change. As an example of our actions in this space, we voted against 136 UK companies in 2016 just on pay.

3. Thirdly, our team have focused on improving board accountability. We consider board composition and board performance critical to the success of any company. We believe that board evaluations should be conducted regularly to review the performance of a board, and ideally, this should be conducted by external parties to safeguard impartiality. With 32% of S&P 500 companies still only conducting internal board evaluations, we clearly still have some way to go. The quality of management is crucial in the companies that we invest in.
4. Our final key focus for the year has been around Stewardship and Corporate Governance reform. As global investors we are well positioned to share best practices. We take that responsibility seriously and we collaborate with governments, regulators, companies and other investors to effect change.