

# Global corporate governance and responsible investment policy



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## Introduction

Our investment philosophy and processes are focused on creating value over the long term. We believe that incorporating financially material sustainability criteria, when relevant to our clients, can create value and drive positive change.

This document sets out the factors that we consider can contribute to long-term sustainable growth. It explains our expectations of companies with respect to topics we believe are essential for an efficient governance framework, and for building a sustainable business model.

We expect all companies in which we invest globally to closely align their practices to the fundamentals of good corporate governance. When developing our policies, we consider broader global guidelines and principles such as those provided by the United Nations Global Compact (UNGC), the Organisation for Economic Development (OECD) and the International Labour Organization (ILO) conventions and recommendations as well as local market regulatory and best practice expectations. The extent to which we apply these policies allows some leeway for those markets that are still developing their governance policies.

Although there is no 'one-size-fits-all' solution to building a sustainable business model, we believe companies should demonstrate that financially material sustainability-related issues are effectively integrated into their long-term strategy and daily operations.

## Company board

The board of directors is responsible for the management and long-term success of the company. In doing so, it should act as a steward of stakeholders' interests.

The board sets out strategy and direction, ensuring that the necessary resources are available to enable their implementation, and that appropriate risk management and internal controls are in place. It is also responsible for ensuring the integrity of accounting and reporting, and the effectiveness of internal control systems. Environmental, social and governance (ESG) considerations should be embedded in the operations of the business, and performance in these areas should be reported annually. Lastly, the board is ultimately accountable to investors and other stakeholders and should make sure its decisions are effectively communicated to them.

We acknowledge that the board's structure may vary between companies and countries. However, we believe that the key elements of an effective board are universal.

## Board leadership

We believe that having the right composition at the top of a company is an essential element of its success. We expect each director on the board to fully exercise their duties and promote the long-term success of the company.

We expect the board's decisions and actions to demonstrate leadership in managing the company's responsibilities to its stakeholders and to limit any negative impact of its operations on the environment.

As such, we will usually hold the board chair accountable for failing to meet our minimum expectations under key policies to safeguard the value of our clients' assets in the context of material environmental and societal factors. For more information on key environmental and social focus areas, please see below and on our [website](#).

## Board chair and chief executive officer (CEO)

The chair's responsibilities include leading the board, setting the agenda for board meetings, and ensuring that directors receive accurate and timely meeting information. Under their direction, there should be a good flow of

information within the board and to its committees. The chair is also responsible for leading the appointment process for the chief executive officer (CEO).

The chair should be able to challenge the executive directors and encourage the non-executive directors to proactively participate in board discussions. It is the chair's role to regularly assess whether board members have adequate skills, expertise, time commitment, and whether they are sufficiently diverse to make a positive contribution by avoiding 'group think'.

By contrast, the CEO has the responsibility for executing the strategy agreed by the board and leading the business.

Given the importance of the role, we expect the chair to be independent at the time of appointment.

How we determine the independence of the board chair is detailed in the section below, Structure and Operation - independence.

We would not expect a retiring CEO to take on the role of board chair, as these two positions involve different responsibilities and a different approach to board relationships and the company's strategy. We recognise the challenge for those who have had executive responsibilities to adequately distance themselves as a non-executive chair.

Where a company would find the presence of the former CEO on the board beneficial in times of transition, our preference is to allow the CEO to be used as a consultant rather than as a formal board member. The use of their services should be limited to one year.

There are also instances where a company may, for a short period, be governed by an executive chair. This tends to be when the company is undergoing a shift in its structure or management or is under severe stress. In such circumstances, we would expect companies to commit to split the roles within a short, pre-set timetable. In addition, we would expect a deputy chair to be appointed to ensure that no person has unfettered decision-making powers.

For more details, please refer to our guide on the nomination of the board chair, available [here](#).

## Combined chair and CEO

We do not generally support a board structure that involves combining the board chair and the board CEO positions.

This is because we believe the roles of chair and CEO are substantially different, requiring distinctly different skills and experience. Therefore, we expect the two roles to be separated. This division of responsibilities ensures that a single individual does not have unfettered powers of decision-making at the head of the company, thereby securing a proper balance of authority and responsibility on the board.

Where companies have historically combined the positions of CEO and chair and have chosen to keep this structure, we expect a strong, senior/lead independent director or deputy chair to be appointed and for a meaningful explanation to be provided in annual disclosures that justifies such an exceptional situation.

Any decision to combine or re-combine these roles should be subject to a shareholder vote of approval.

We believe that having a combined chair and CEO can have a negative impact on a company's culture, board discussions, remuneration and shareholder rights. Therefore, we will vote against the election or re-election of any individual holding such a combined role.

For more details, please refer to our guide on the topic, available [here](#).

### Senior or lead independent director

The senior or lead independent director plays an essential role on the board and should lead the succession process for the chair and appraise the chair's performance. Additionally, they should meet investors regularly to stay well informed of key investor concerns and act as a contact for them, especially when the normal channels of the chair, CEO, or chief financial officer (CFO) have failed to address concerns or are not the appropriate avenues.

We expect the senior or lead independent director to be unquestionably independent. This is of particular importance when the company has a combined chair and CEO.

How we determine the independence of the director holding the role of senior or lead independent director is detailed in the section below, Structure and Operation - independence.

Please see our website for an [article](#) on the role of the senior independent director.

### Non-executive directors, supervisory directors or outside directors

We expect these directors to use their skills and experience to constructively contribute to board discussions and help develop proposals on strategy. They are expected to oversee management performance and provide constructive challenge at board meetings.

We encourage boards to appoint at least one director who may not have previous board experience, but has a unique skill aligned with the company's strategy. We believe this can lend support to board discussions and grow the future pool of non-executive director talent.

Given the responsibility of the role, these directors must make sure they have sufficient time to perform their duties. This should be a factor considered when taking on external board roles. Please refer to our section on board mandates below.

Non-executive directors should continually develop their skills and knowledge and agree on their specific training and developmental needs, which should also include all aspects of the environmental, social and reputational risks faced by the business.

## Board structure

### Board size

We believe companies should put in place a board that is appropriate for the size and complexity of the business. It is essential that the board's size does not compromise a genuine and thorough exchange of ideas and efficient decision-making. In our view, the optimal size of a board is between 10 and 15 directors. Some smaller companies or those with simpler business structures may require fewer directors to facilitate an open, inclusive exchange of ideas, and may rely on external expert advice where needed. Please refer to our section on advisory committees below.

### Board committees

Board committees ensure that specific directors are responsible for key board functions.

As a minimum, we expect all listed companies to put in place three separate board committees, responsible for the core functions of audit, nominations, and remuneration.



Companies may choose to include other key committees such as a sustainability committee or advisory committee to assist the board in its discussions.

A sustainability committee could be beneficial in providing sufficient time and expertise to focus on those key issues that are directly linked to long-term success and those environmental and social areas which may represent a material risk to the business model.

An advisory committee may be considered useful where a board needs direct access to independent external expertise from third parties or stakeholders. We are supportive of companies setting up advisory committees. We consider this a flexible option to obtain specific and relevant information to assist the board and management in their decision-making without having to affect the board's size and composition.

To enable investors to assess their effectiveness, we expect the role, composition, activities and attendance record of all board committees to be published in the annual disclosure documents.

### **Audit committee**

The audit committee is responsible for:

- monitoring the integrity of the company's financial statements;
- appointing external auditors, monitoring their qualifications and independence, as well their effectiveness and resource levels; and
- ensuring that sound and robust internal controls are in place to appropriately manage the company's financial, operational and reputational risks.

As the audit committee plays a vital role in safeguarding investors' interests, we expect all companies globally to have an audit committee comprising solely independent non-executive directors. Please refer to the section below marked '*Independence*' to understand the criteria we apply to determine independence. The committee should have at least three members, with sufficient financial experience to provide oversight and accountability; as such, we expect the audit committee chair to have financial expertise, without which we will vote against the re-election of the individual in this role.

Non-independent directors may attend audit committee meetings by invitation, but they should not be members of the committee.

Members should have sufficient time to examine the company's financial statements and to liaise with both internal and external auditors. As a minimum, we expect the audit committee to formally meet at least three times per year but for large global companies, we would expect the committee to meet four times a year. The chair of the audit committee should make themselves available to answer investors' concerns on specific audit issues.

To provide further transparency, we expect the audit committee's report to provide information about any potentially material issues that were raised by the auditor as a concern and subsequently dismissed by the board, and the reasons behind these decisions.

### **Nominations committee**

The nominations committee is responsible for overseeing all board and senior executive appointments and ensuring an orderly board and executive succession process.

A majority of the committee's members should be independent non-executive directors. Our expectation is that the chair of the committee should be an independent director.

The committee should ensure the board has the appropriate composition, taking account of important

governance considerations, such as skillsets, diversity, tenure, and over-boarding.

The committee members should make themselves aware of the company's human capital policies and should work closely with the remuneration committee to ensure alignment of policies.

Given the key role of this committee in board composition matters, the committee chair should be answerable to investors if it is felt that there are no appropriate succession plans in place or where there are concerns over the composition of the board.

### **Remuneration (compensation) committee**

The remuneration committee is responsible for setting the remuneration strategy for executive directors and senior executives. In doing so, the committee should be aware of the remuneration policy for all other employees below executive management level.

The chair of the remuneration committee should have appropriate knowledge of the business to align the remuneration policy with its strategy. For this reason, the remuneration committee chair should have ideally served as a member of the board for at least a year prior to their appointment as chair of the committee. We expect the remuneration committee chair to be independent; please refer to the 'Independence' section below to understand the criteria we apply to determine independence.

We expect the committee to consist solely of independent non-executive directors. Executive directors should not be members of this committee; as this will lead to a vote against their re-election, due to our concerns that they may compromise the independent discussion of this committee. Non-independent directors may attend remuneration committee meetings by invitation but should not be members of the committee.

Remuneration committees should:

- Seek independent advice. External advisers, consultants and internal employees advising the committee should be fully accountable to the committee. The committee should exercise its own independent judgement when considering any advice provided by third parties.
- Consider carefully and be able to demonstrate how they have reviewed the pay and related policies of the workforce when setting pay for the executive team and be able to demonstrate how this is aligned with the values of the company.
- Challenge executives if the company does not have a policy on paying employees a living wage (e.g., for the UK, this is the real living wage) or if the company is not offering all employees the opportunity to work a minimum of 15 hours per week. This represents the minimum a company should be doing to reduce income inequality and poverty within its workforce.
- Consider the views of the company's shareholders. Many institutional investors' pay policies are available on their websites. For more information, please refer to the 'Remuneration' section below. Additionally, we have separate pay policies for the UK and North American markets that are available on our website.

We will vote against the election of individual board directors serving on the committee when we do not support executive pay resolutions for the second consecutive year. We may also vote against individual directors where there are particularly contentious issues.

A large voting opposition (more than 20%) to remuneration proposals should not be ignored. Remuneration committees should:

- Hold themselves accountable for the decisions taken that led to the high vote against executive pay; and



- Publish an explanation for the dissent, including what the board is doing to address shareholder concerns. An explanation should be included in the remuneration committee chair's statement within the proxy material.

# Board effectiveness

## Culture

Companies should maintain the highest standards of conduct towards all stakeholders. The board should promote behaviours and values that demonstrate integrity and respect. The board should assess at least on an annual basis, if the company's values and behaviours are understood, and respected throughout the organisation.

Boards should disclose information that helps investors understand their company's culture. Investors need assurance that the CEO and the senior management team are really driving the cultural message and setting the tone from the top.

We expect companies to disclose information including:

- How they measure culture and how that relates to the business strategy;
- How their mission statement and values are communicated and reinforced; and
- Any key performance indicators that are linked to culture.

Where there are situations, such as impropriety or general misconduct, we expect the board to conduct a thorough evaluation to determine the suitability of the connected directors as continuing members of the board. We will also conduct our own analysis to determine the appropriateness of a particular director's continuation at the company and may vote against the re-election of directors who we believe have not demonstrated good business conduct.

## Diversity

We believe a diverse mix of skills, experience and perspectives within a board is essential for it to function and perform optimally.

Please refer to our diversity policy for further information on the topic or our summary corporate governance voting guidelines.

## Re-election of directors

To ensure the successful composition and functioning of the board, it is essential that shareholders exercise their voting rights by holding directors accountable.

We are opposed to the practice of bundled proposals that prevent shareholders from approving individual nominees to the board.

We acknowledge that the regulations that govern the frequency of director re-election vary greatly from one country to another, e.g., North America, where retirement by rotation is more common. However, we encourage companies to allow shareholders to vote on directors' elections annually.

To allow investors to assess the profile of the board directors proposed for election or re-election and to make sufficiently informed voting decisions, we expect companies to disclose the name of the directors proposed and to provide a detailed biography of each candidate. We also encourage disclosure of the attributes and skills that the director brings to the board and how these fit with the combined skill set of other directors and the long-term

strategic direction of the business. In addition, investors benefit from companies providing information regarding the expected time commitment to the company, a record of attendance and an explanation if a director has missed a scheduled board or committee meeting.

## Independence

A board's independence is essential in ensuring it exercises oversight and consistently acts in the best interests of the company and its stakeholders.

As a minimum standard, we expect the board to include at least 30% independent directors.

We believe well-governed companies should have boards with at least 50% independent directors; unless employees comprise 50% of the board, in which case, we would expect the level of independence to be at least one third. In controlled companies (where at least 50% of the economic control is held by one person/entity or a group who are acting together), we also expect the level of independence to be at least one third.

We would consider a director to be non-independent if they:

Have been an employee of the company or group within the past five years;

- Have, or had within the past three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- Have received or receives additional remuneration from the company, apart from a director's fee, such as the company's share option, performance-related pay or pension scheme;
- Have close family ties with any of the company's advisers, directors or senior employees;
- Hold cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- Have served on the board for more than 12 years (9 years for UK companies) from the date of first election; or
- Represent a significant shareholder of the company.

We recognise that non-independent, non-executive directors can offer significant skills and sector knowledge, and this can add value to board discussions. Therefore, subject to board and committee balance being maintained, we will support the retention of a non-independent non-executive director. However, the benefits to the board of retaining this director and the expected duration of their service should be explained to shareholders. We do not expect this person to be a formal member of the audit or remuneration committees; instead, they may attend these meetings by invitation. Where the reason for the non-independence relates to tenure, please refer to the section below.

## Succession planning

Succession planning is a vital component of an effective board. It ensures continuity, provides individuals with the right skills to sit on the board and can help to avoid the dangers of 'group think'.

We expect companies to put in place a formal and transparent procedure for the appointment of new directors. The annual board evaluation exercise should assist in this task. We expect the nomination committee, together with the board, to consider setting short-, medium- and long-term plans to ensure there is an orderly replacement of board members and senior executives. The plans should map out potential successors in the short term for unexpected departures, in the medium term to replace directors who reach their tenure limits, and in the longer term to take account of future skills and diversity requirements.

We encourage companies to publish as much of this information as possible in their annual disclosures. In

addition, we would expect to see a skills matrix linked to the company's strategy and an explanation of how the skills of newly-appointed directors are complementary in relation to the matrix, along with the minimum time commitment expected of each director.

## Board tenure

Regular refreshment of the board helps to ensure that its members remain independent from executive management, that different perspectives feed into board discussions, and that skill sets remain relevant. A regularly refreshed board is more likely to be willing and able to question established practices and avoid 'group think', and therefore is expected to exercise more efficient oversight over executives and stay ahead of market changes.

Board tenure is assessed in two different ways:

- On an individual director basis:
  - In the UK and in line with UK Corporate Governance Code, we would not consider a director to be independent after they have served on the board for 9 years. However, subject to a majority of the board being independent, we will continue to support a director remaining on the board until they have served for 12 years. They should step down from being a formal member of the key board committees and attend by invitation only.
  - In all other markets, we would not consider a director independent after they have served on the board for 12 years
  - On an average board tenure basis: average tenure across all board members should not exceed 9 years

In North America, where tenure and the refreshment of boards was of serious concern we targeted the key board roles: Chairman/Senior Independent Director and the Chairs of the Nominations/Audit/Compensation Committee if they had served on the board for 15 years. However, we have seen improvements in board refreshment, and therefore, we believe it is time to align this market with the rest of our global policies which require tenure to be limited to 12 years.

Despite the improvements in board refreshment, some companies continue to have tenured directors. Although we acknowledge that there are some benefits to having tenured directors, we believe there comes a point where there is a greater risk of conflicts of interest and entrenchment. Therefore, we plan to vote against any director (except the founders), that have served on the board for more than 25 years. Where the director is a family representative of the founder, we will only support their re-election if there is sufficient board balance.

## Board mandates

We believe it is important for directors to seek external board appointments as this will help broaden their skills and knowledge, enabling them to provide more input to board discussions. However, when taking up external appointments, they should be mindful of the time commitment required to exercise their duties on multiple boards.

As the number of company boards a director serves on increases, so does the risk that they may become less effective. This risk increases further depending on the role and time commitment needed due to the size and complexity of the company itself. A director has a duty of care to ensure they have sufficient time to contribute effectively to each directorship.

We expect non-executive directors to hold no more than five non-executive directorship roles in an unrelated listed public company. For North American companies, to encourage further board refreshment and succession planning, we apply a stricter limit of four other board roles. We consider a board chair role to count as two mandates due to the extra complexity, oversight, and time commitment of this role. A practising executive

director should not hold more than one non-executive director role with an unrelated listed company. Shareholders would benefit from an understanding of the time commitments required for each board mandate held by a director.

### **Board meetings and attendance**

Regular board meetings are vital for the board to effectively perform its duties.

We believe the chair should hold specific meetings with the non-executive directors without the executives present to discuss their performance. In addition, the non-executives should have at least one meeting during the year without the chair present. For those companies that do not have an independent chair, we expect the lead independent director to hold a separate meeting of independent directors to discuss the performance of the chairman and other executives.

Directors' attendance at board meetings is a vital part of their role to ensure contributions to board decisions and fiduciary duties to investors are fulfilled. We therefore expect companies to allow investors to assess directors' attendance at board and committee meetings by publishing attendance records in their annual disclosures.

We expect directors to have attended no less than 75% of the board and committee meetings held during the year. Where a director does not attend a board or committee meeting, the company is expected to report to investors the reason for non-attendance. Where a director's attendance is below 75%, and the board has not provided an explanation for this, we may vote against the director's re-election.

### **Board effectiveness reviews – internal and external**

The evaluation of directors is an essential way to improve board effectiveness.

As such, our expectation is that an internal board evaluation should take place annually. This evaluation should be led by the board chair, if independent, or the most senior independent director on the board, with assistance from the company secretary.

External reviewers bring different perspectives on how the board functions, as well as experience of how other boards operate. Therefore, boards are advised to make use of this additional resource and carry out an external evaluation of the board at least every three years. This should be performed by an independent third party to avoid any conflict of interest. The board should approve the appointment of the reviewer and agree the scope of the evaluation at the outset. The board should receive and discuss the findings at the conclusion of the review. In the UK, we expect the reviewer to follow the Code of Practice for reviewers set by the Chartered Governance Institute.

The same third-party reviewer should not be used for more than two consecutive reviews. In all other markets, we see the scope of this document as a proxy of good practice that boards should consider adopting.

In the interests of transparency, we expect the process and general outcomes of such evaluations to be published in the company's annual disclosures, as well as any progress made on the outcomes of previous board evaluations. Any potential conflict of interest with external reviewers should also be disclosed.

### **Board responsiveness**

Voting at company meetings is part of a shareholder's strategy to signal concerns around governance. Where 20% or more of the votes have been cast against a board's recommended resolution, we expect the board to engage with its shareholders to determine their reasons. The next annual report or shareholder circular should provide information on the steps taken to address shareholder concerns. We may vote

against a relevant director's re-election if a company has not demonstrably undertaken such discussions.

### **Non-executive director induction**

The chair of the nomination committee is responsible for ensuring that incoming non-executive directors receive a comprehensive induction to the company on joining the board, and that training is available on an ongoing basis. This will allow new directors to contribute to board meetings as soon as possible.

We support the view that companies should hold regular briefings or presentations to the board from divisional executives to ensure that directors are kept informed on all aspects of the business. The company secretary can also assist non-executive directors with important training.

Directors should be encouraged to continually develop their skills and knowledge and should agree on their specific training and developmental needs, which should include all relevant aspects of environmental, social and reputational risks faced by the business. One way to remain up to date is to regularly meet with investors, along with other relevant board members, to gain knowledge and to hear various perspectives.

We hold an annual event, usually in the fourth quarter, for non-executive directors, covering a number of ESG topics of interest. We also regularly publish thought leadership pieces and blogs on relevant topics related to corporate governance, stewardship and responsible investment, which can be accessed through our [website](#) and the [Blog](#).



# Stakeholder engagement

We encourage all companies to have regular dialogue with key stakeholders so that relevant parties can have a comprehensive understanding of how companies are addressing material concerns. We expect companies to report in their annual disclosures how engagement with key stakeholders has fed into board discussions.

## Employee dialogue

We acknowledge that different countries, through regulation or best practice codes, may have different approaches to how boards should consider the views of their employees.

Where hard or soft law does not provide any guidance, we encourage companies to set up an appropriate structure. Companies may prefer to appoint employee representatives to the board or use forums or advisory panels.

We do not consider any single model superior to another and encourage companies to select the method that is most effective for their business model and current circumstances.

For more details on our position on the topic, please refer to our thought piece on this issue available [here](#).

## Investor dialogue

We believe that a two-way engagement with investors constitutes a vital risk-mitigation tool for the board. This is an opportunity for directors to elaborate on company decisions so that they are well understood by the market, as well as to take market soundings, which can aid future board decisions.

Our stewardship priorities focus on material issues that are not only important to our clients, but also pose a risk to the long-term value of their assets, e.g., climate change, nature, labour rights, health, etc. Therefore, these engagements will take priority over general ESG engagements.

That said, where the board has additional information that was not included in the annual disclosures and has reason to believe that shareholders do not have all of the facts in order to cast their votes in a fully-informed manner, we encourage companies to proactively request engagement with their investors at the earliest opportunity. Our position on this matter is captured in [our guide to board investor dialogue](#).

# Audit, risk and internal control

The board is responsible for determining and disclosing the company's approach to risk, its risk appetite, and monitoring the outcome and controls in place for effective risk management.

It is also responsible to its investors for presenting a true and fair view of the company's financial position and for setting out future capital management plans and near-term financial prospects.

The board is responsible for ensuring the independence and robustness of the internal and external audit functions and for assessing their effectiveness. Conclusions of this review along with bespoke narrative on the assessment and noted areas, along with actions taken to address any concerns are expected in annual disclosures.

## Compliance with regulations

The audit committee should ensure that all laws and applicable regulations are complied with and to avoid exposing the company to the undue risk of fines, censorship, and reputational damage. We will hold the audit committee chair responsible for failing to detect breaches in accounting practices.

## External audit

An external audit provides independent assurance of a company's financial statements to its investors. The role of the auditor is to provide reasonable assurance that the financial statements give a true and fair view of the company's financial health and that they have been prepared in accordance with the appropriate accounting standard.

Any significant matters raised by the auditors should be fully explained by the board, including how these have been addressed.

The external auditors are also responsible for producing the auditor's report, which is a formal opinion and evaluation of the financial statements. We support and encourage the use of an extended audit report to provide investors with greater insight into the auditor's assessment of the accounts. Recommendations arising from the external audit are to be overseen by the board and the audit committee and should be reported to investors when they are considered material by the board or the audit partner.

The board is responsible for appointing the external auditor. The company is expected to disclose the audit firm used, the partner who led the audit and the tenure of that firm. In addition, the audit committee should outline its criteria for how it has assessed the independence and quality of the audit and whether it is considered effective. Where the auditor is newly appointed, the audit committee should comment on whether the performance of the audit met its expectations as set out during the tender process.

When companies conduct an auditor tender, they are encouraged to include at least one audit firm that is not one of the global top four. The way the tender process is carried out should be explained to investors in annual disclosures, covering whether the company included a firm outside the global top four firms and why the successful firm was selected.

We believe that the role of the external auditor should be put to tender at least every 10 years, with the total tenure of the auditor not exceeding 20 years. We will not support the re-election of the external auditor if they have served as auditor for a company for more than 20 consecutive years. Within this timeframe, we expect the lead audit partner to be subject to refreshment at least every five years.

The fees for the external audit should be disclosed in the company's annual reporting. Where the external auditor provides additional non-audit services, these should be fully explained and disclosed in the appropriate annual disclosures. We expect any non-audit services provided to be incidental to the audit, with the primary purpose of improving the quality of the financial accounts. We do not expect excessive non-audit work to be conducted by the company's external auditors, as this will bring into question the independence of their judgement.

We do not expect non-audit related services to exceed 50% of the value of the total audit service in any given year. We expect companies to disclose audit and non-audit services fees as two separate amounts in their annual disclosures. We will vote against the election of the auditor or the approval of their fees if this information is not provided.

We believe auditor liability is an important and proportional approach to supporting a high-quality audit. We are not supportive of a fixed auditor liability or restrictions on that liability.

Our article on the audit tender process can be found [here](#).

### **Internal audit**

Companies should have an effective and sufficiently resourced internal audit system in place that is designed to take account of any new and emerging risks that may affect their business objectives and identify the severity of the risk.

The process and procedures in place to manage such risks should be embedded in the risk-based control system of the company and summarised for investors in the annual disclosures. The audit committee should have responsibility and oversight of the internal audit function.

### **Whistleblowing**

We expect companies to establish a whistleblowing policy that is integrated into its code of conduct. The policy should be publicly disclosed and open to all employees including those within the supply chain. Every effort should be made to ensure that all employees and supply chain workers are aware of these procedures, and how to access them.

The whistleblowing reporting channels should be easily identified and channelled through an independent third party with a direct line to the audit committee to allow for appropriate oversight and independent escalation where necessary.

Companies should ensure their policy safeguards the identity of any whistleblower and that they are protected from harassment within the organisation. Companies should also report how the risks associated with bribery and other illegal behaviour are being monitored and addressed.

### **Digitisation:**

#### **Artificial intelligence (AI)**

In our view, AI should drive long-term innovation, productivity and value creation but in order to see these benefits over the long term, it is equally important that such gains have appropriate governance and transparency to manage any downside risks.

AI entails risks around data privacy and security; regulatory compliance; operational and critical infrastructure; workforce transitions; intellectual property; reputations; and trust in the information environment. There are

also numerous ethical concerns as to its application.

We expect companies to meet baseline expectations around AI's governance, risk management and transparency. For companies more exposed to the development of AI systems, we will expect higher standards and additional resources to be applied to meet these expectations.

We expect the board to have clear accountability for the company's AI strategy and risk oversight. The board should be knowledgeable of any emerging AI risks and opportunities and provide transparency of the governance and risk processes in place on this issue.

Companies may wish to use product safety assessments for human rights risks, build trust by working with third party groups, establish baseline understandings of AI ethical expectations and processes for employee and user feedback, or remediation if required.

### **Cybersecurity**

A vulnerability within a company's IT systems can lead to a material financial impact and reputational damage. Therefore, we expect companies to take a risk-based approach to address the issue of cybersecurity and data protection. It should be integrated into the business's control functions and overseen from a strategic perspective by the board.

It is the board's role to understand the infrastructure needed in the business to protect valuable information assets, key intellectual property, and customers' confidential data. Accountability should not be delegated. Cybersecurity should be a regular board agenda item. Any material data breach incident should be disclosed to customers and the market in a timely manner in line with regulatory expectations.

For more information, please refer to our guide on the topic, available [here](#).

### **Climate risks**

We expect companies for whom climate change is a material financial risk to appropriately reflect these risks in the scenarios, assumptions and estimates used to prepare their financial accounts. Companies should ensure, through transparent disclosure, that there is consistency between their narrative on climate change and their accounting determinations. In addition to our ongoing targeted engagements relating to climate accounting topics, we will develop our work further in this area. This may lead to applying voting sanctions on companies that fall short of minimum expectations.

# Remuneration

As a long-term and engaged investor, we entrust the board to ensure executive directors' remuneration is fair, balanced, and aligned with the strategy and long-term growth and performance of the business.

We have standalone documents on our Principles on Executive Pay for North America and UK, which can be found [here](#).

Although we appreciate it is not yet standard practice in many countries around the world to disclose all details of executive directors' pay in their annual disclosures, we believe it is important for investors to understand how executive directors (internal directors) are being remunerated and whether the remuneration is aligned to the delivery of sustainable business performance.

In several markets around the world, shareholders are given a 'say on pay' vote which we consider to be important to hold the remuneration committee members to account for the decisions taken in relation to executive pay policy or its implementation. In some markets, these are advisory votes, while in others they are binding votes. The amendments made in 2017 to the Shareholder Rights Directive meant that companies within the European Union are required to put their remuneration policy and remuneration report to a shareholder vote at least every four years. In Australia, their binding vote means that if a company receives a 25% vote against their pay resolutions in two consecutive years, it triggers a 'spill vote' which allows shareholders a vote to decide whether board members should stand for re-election.

We encourage more countries globally to mandate a 'say on pay' vote and for all companies to disclose their executive remuneration structure, including the total opportunity under each element of pay together with a description of the metrics and targets used under incentive plans, where applicable, if they are not considered commercially sensitive.

Although we are aware of the variations in executive pay practices globally, we expect companies to consider our principles when setting pay policies for their executive board.

## Key principles

We apply a set of simple pay principles when looking at remuneration structures:

- The structure of remuneration and the payments awarded should be fair, balanced and understandable. This means fair in terms of what the company has achieved; balanced in terms of total pay opportunity to the executive, versus employees and investors; and understandable for the recipient, the board and investors.
- Awards should incentivise management to focus on long-term performance and be aligned with, and support, achieving the business's strategy and objectives.
- Executives should have meaningful direct equity holdings while employed and thereafter; buying shares is one of the best ways of aligning the interests of management and investors.
- Boards should retain the ultimate flexibility to apply discretion and 'sense-check' the final payments to ensure that they are aligned with the underlying long-term performance of the business.
- Companies should be transparent on why rewards have transferred to the executive, setting out targets, their relevance to meeting long-term goals, which targets were met and justifying all adjustments made to accounting measures for remuneration purposes.

## Fixed remuneration

We expect executives' base salary to be commensurate with the company's size and complexity. Although salary levels at peer companies may be considered, these should not set a definite benchmark.

Salary increases should not be automatic each year. Any increase to salary levels should not exceed what is offered to the general workforce, and its impact on total remuneration should be assessed before approval.

## Incentive arrangements

### Annual incentive - Bonus

Companies may choose to award annual bonuses to executive directors. We believe that any annual bonus should be geared towards delivering the business's strategy. A majority of the annual bonus should be linked to the delivery of financial performance.

We would encourage all companies that offer a bonus opportunity in excess of one times' salary to ensure that it is not all paid out in the form of cash, but that a proportion is paid out in the form of deferred shares. Where a company has a high shareholding guideline and clawback mechanisms in place, we may support a modest all-cash bonus award. Achieving a threshold level of financial performance should be a pre-requisite for payment of any bonus that is based on personal or strategic objectives.

Companies exposed to high levels of ESG risks should include relevant targets that aim to ensure their management team is focused on mitigating these risks. These metrics should be meaningful, measurable, aligned to the company's strategy and subject to third-party verification.

For companies in high-risk sectors, where the health and safety of employees is key, we would expect a health and safety modifier to be introduced to the annual bonus to ensure that board members are held accountable for any loss of life within the workplace. Where a company is held responsible for any fatality within the workplace, we expect the remuneration committee to apply downward discretion on any performance-based pay earned. Although we expect any reduction to be material, if it is less than 20%, we will vote against the company's remuneration report.

We expect companies to disclose the maximum level of potential annual bonus together with the performance conditions required to earn both on-target and maximum bonus awards. Where multiple performance conditions are set, investors welcome the disclosure of the weightings applied to each performance condition. Where a target is commercially sensitive to the business at the time when the award is made, disclosure a year later is acceptable. If this is not possible, an explanation of why the target continues to be commercially sensitive is expected.

The use of financial metrics that are reported in annual disclosures to determine performance is considered best practice. If these reported numbers are adjusted in any way, for example by excluding exceptional items, more disclosure is needed to explain why it is considered appropriate to make the adjustment.

### Long-term incentives plan (LTIP)

We believe that a company should motivate and reward executives by granting long-term equity incentives that will align their interests with those of long-term investors. Incentives should be structured to motivate the management team to build a sustainable business that will generate positive returns to investors over the longer term. Therefore, the adoption of a long-term incentive plan that will deliver the reward in the form of shares is encouraged. We generally do not support cash-based long-term incentive plans.

In the interest of simplicity, we advocate the adoption of one long-term incentive plan and discourage the adoption of any additional incentive plans, including one-off plans, that would complicate the remuneration structure. However, we are aware that in some markets multiple incentive plans are common. We will consider the merits of these additional plans on a case-by-case basis.

### LTIP awards

We believe LTIP awards should be capped either as a percentage of salary or a fixed number of shares. Where a fixed number of shares are used, we would expect the level of award being offered to be reviewed every three



years to ensure it is at a level commensurate to when the plan was first adopted. Any increase to levels of reward should be subject to shareholder approval.

Where a company has experienced a significant fall in the value of its shares, resulting in a greater number of shares being awarded under incentive plans for the year, companies are expected to reduce the size of the award to ensure there is no prospect of reward for failure or windfall gains. Where this has not happened, the remuneration committee should provide an undertaking to reduce awards when they vest and provide investors with an explanation on how discretion has been applied to avoid windfall gains. We will vote against a company's remuneration report where we believe that the remuneration committee has not been thorough in its decision-making or has not provided sufficient information to explain its final decision.

### **LTIP performance conditions**

The board should determine the right metrics to deliver the company's strategy and ensure that the level of stretch in the target is appropriate to deliver the right outcomes for all stakeholders. Metrics should be linked to long-term strategy and should be challenging, but achievable, without encouraging undue risk-taking.

We encourage the use of at least two performance conditions but discourage the use of more than four as each additional measure will dilute the importance of the other performance conditions, as well as increase the complexity of the incentive plan. We expect at least one measure to be linked to shareholder returns. Other measures should be linked to the business's strategy, such as key performance indicators (KPIs) that are selected by the board and reflect the company's material risks as well as target opportunities. Absolute share price measures used in isolation are considered insufficient justification for award vesting.

We support the use of relative total shareholder returns (TSR) subject to an appropriate benchmark group being used. We expect median performance to be the minimum performance that may trigger a reward. If used as a performance modifier, we would expect performance below median to trigger a reduction in the financial reward.

We would expect the full award to be subject to performance conditions and measured over at least three years. However, in markets where governance structures are still being developed, or local governance standards are less stringent, we have set a minimum standard of 65% of the award to be performance-based. These should still be assessed over a minimum of three years. We may vote against companies that fail to provide sufficient transparency of their target-setting policy to assure investors that robust performance targets are being set. We expect companies to prospectively disclose all performance conditions and as many individual targets as possible. In addition, except during periods of structural change or challenging macro-economic conditions, we would expect targets set to be higher than the actual performance achieved in the previous year.

The remuneration committee should exercise discretion when the vesting outcome is not aligned with the shareholder experience.

We do not generally support retrospective changes to performance conditions that have been pre-set.

### **Use of ESG metrics**

Companies in sectors that can have a significant effect on climate change should link a proportion of their executive pay to delivering their climate mitigation goals. The performance targets should be linked to SBTi approved/or equivalent transition plans aimed to achieve net-zero carbon emissions by 2050 or sooner. Targets should also be set to create new opportunities that not only improve revenue, but also have a positive impact on climate.

By 2025, companies will have only five years to reach their 2030 climate change transition goals. By this time, we expect most companies to have a clear idea of what must be done to hit these crucial targets. Therefore, we will not support the approval of the remuneration policy of companies involved in our Climate Impact Pledge engagement programme, (or remuneration report in those countries with no policy vote), if there are no climate reduction targets linked to the CEO's incentive pay programme. These targets should be in line with their stated transition goals to ideally reach net zero or carbon neutrality.

As part of our Climate Impact Pledge, we engage with companies across 20 climate-critical sectors: autos, apparel, aviation, aluminium, banks, cement, chemicals, food, forestry, glass, insurance, logistics, mining, oil and gas, REITs, shipping, steel, technology, telecoms, and multi-utilities.

The use of diversity targets could be relevant for sectors that struggle to recruit women.

We discourage the use of employee engagement targets, as we believe well-governed companies should have an inclusive culture in place that facilitates this on an annual basis. Financial incentives should not be necessary to drive such a programme. In our view, a better metric for companies, especially for those that have a high level of staff turnover, would be to set targets around employee retention to gauge whether their internal strategies to improve retention are working.

For oil and gas companies, remuneration should prioritise financial value over fossil fuel production volumes. The use of measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risks incentivising overinvestment at a time when growth in demand seems increasingly uncertain and should therefore be avoided. We prefer financial measures (relating to total shareholder return, balance sheet strength) or other strategic metrics. The use of volume growth targets may result in a negative vote.

### **Holding periods**

We encourage the use of a two-year post-vesting holding period because we find this helps align the remuneration structure with long-term performance. These holding periods should continue to apply even after a director has ceased employment with the company.

### **Dividends**

Accrued dividends on share awards should only be paid on those shares that ultimately vest. We will vote against any share-based incentive plan's operation if it permits the payment of dividends on unvested awards.

### **Malus and clawback**

Employment contracts and incentive plan terms should be designed to enable the application of malus and clawback, which should apply to all elements of variable remuneration.

To provide clarity for all stakeholders, remuneration committees should set out the circumstances under which malus and clawback will be applied. These circumstances should not be too narrowly defined.

### **Equity dilution**

We believe that strict guidelines should be adhered to in relation to the issuance of shares for incentive schemes to limit the potential dilution to shareholders. As a general rule, we expect no more than 10% of a company's equity to be used for all share schemes over a 10-year period. The annual run rate or burn rate should also be reasonable at about 1%.

Treasury shares should be included within these limits. Such restrictions should apply to all newly issued shares. We encourage companies to provide transparent explanations regarding the issuance of shares.

### **Shareholding guidelines**

We expect companies to encourage their directors and senior executives to build and retain a meaningful interest in the shares of the company they manage. This is an essential part of aligning directors' interests with those of investors. The level of shareholding should be linked to the company's size and the level of reward that the director receives under the long-term incentive. Ideally, these shares should continue to be ring-fenced by the company in a trust.

Shares held within an unvested incentive award, including those held in retention periods, should not be included in the calculation of shareholding guidelines.

## **Pensions**

Pension contributions are not only a significant cost and risk for a company but are also an element of remuneration that is not linked to performance. Therefore, the cost of providing a pension should be considered when evaluating a remuneration package. We will not support pension enhancement payments at retirement or when a contract is terminated early. Additionally, we will not accept an individual being compensated for changes in tax.

Pension provisions should be disclosed in full in the report and accounts and any changes to pension benefits should be fully explained.

We expect companies to align pension benefits for their executives with what is offered to the general workforce.

## **Service contracts and termination payments**

Executive contracts should provide for a maximum notice of 12 months. We do not support provisions within service contracts that enhance contractual terms for loss of office following a change in control.

Contracts of key people should provide the company with the authority to clawback unvested and vested awards.

## **New joiners**

When setting the remuneration package for a new executive who lacks experience in the company and/or the role, we would encourage the remuneration committee to consider placing the individual on a lower salary than their predecessor, with a view to increasing their pay over an extended time, subject to continued good personal and corporate performance. We encourage the committee to set out its intention to increase their pay over a set period at the time of appointment and in subsequent disclosures to remind investors of this intention. Where possible, the existing remuneration arrangements should be used to incentivise new appointees.

New recruits should be encouraged to purchase shares in the company. Additional benefits in relation to the appointment, such as assistance to relocate, should be time limited and mirror the policies available to other employees.

Although 'golden hello' payments are considered the norm in some markets, it is not something we encourage. Where a buy-out of existing awards from a previous employer is necessary, it should be on a like-for-like basis, and only cover the expected loss of value, and be subject to comparable performance assessment.

## **Departing directors**

We expect companies to ensure that there have been no rewards for failure. Therefore, the remuneration committee should take into account poor performance or any exceptional events and consider whether 'good leaver' or 'bad leaver' provisions should apply when determining whether a director should be paid a bonus for the period worked.

With the exception of dismissal for cause and/or poor performance, where incentive awards should lapse, any outstanding share-based awards of leavers should be time pro-rated and allowed to run their course, subject to the same vesting conditions that applied at grant.

To promote long-term strategic decisions and shareholder alignment, directors should continue to hold a meaningful number of shares in the company even after their departure.

Although post-exit shareholding requirements are not typical in most markets, we believe there is value in requiring an executive director to maintain a percentage of their shareholding guideline for a period of two years from the time of departure. Although there are arguments that the director can no longer directly influence company performance after they leave, we believe this measure will ensure that directors continue to exercise judgement, with the long-term performance of the company in mind until their departure.

We consider a significant post-exit holding to be no less than 80% of the in-post requirement and encourage post-exit holdings to emulate the full in-post guideline. Any shares purchased by a director with personal funds are excluded from the post-exit shareholding requirement.

### **Benchmarking**

We discourage over-reliance on frequent benchmarking and would not expect pay to be increased automatically each year. Benchmarking should not be used to justify a substantial increase to pay levels.

When using benchmark data, the remuneration committee should take into consideration several factors: company size, its geographic spread and performance relative to the benchmark peers. The peer group should not be too large or too small as both extremes could produce misleading results. Companies should ensure they disclose meaningful information on the benchmarking data used and why it has selected the benchmark group. Directors at underperforming companies should not expect to be remunerated as highly as directors of companies with outstanding performance.

### **Discretion**

Companies can build trust with investors if they can demonstrate restraint, consistency, and alignment with the shareholder experience. In exceptional circumstances, discretion applied to any earned award by executives is one way to demonstrate this alignment. We define discretion as anything that alters the monetary outcome of total remuneration.

We expect the companies to state:

- The main reasons that might give rise to the application of discretion
- Whether their discretion policy applies to revising pay upwards as well as downwards
- The elements of pay to which discretion may be applied
- The effect that the application of discretion has had on the director's final pay outcome

### **Non-executive directors' fees**

Non-executive directors' fees should reflect the level of responsibility and time commitment of the role. The use of share options or other performance related pay is not supported, but a proportion of the fees may be paid in equity shares.

# Investor rights

The provision of shareholder and bondholder rights is a basic entitlement for investors. We expect companies to acknowledge and respect the rights of investors by adhering to the highest market standards. This includes providing high-quality disclosures and equal treatment of shareholders. Below, we have outlined guidance on the topical issues that concern us as an investor:

## Voting rights and share class structures

We support the 'one share one vote' philosophy and favour share structures where all shares have equal voting rights, and those rights are equal to the economic value held.

We do not support the issue of shares with enhanced or impaired voting rights.

In some markets, however, differential voting rights are a long-standing structure, and where this exists the structure should be transparently disclosed.

In the case of controlled companies, we will review the issuance of shares with enhanced voting rights to understand why these would be necessary. In general, we encourage companies to eliminate differential voting rights over time or at least to allow shareholders the opportunity to vote on their continuation on a regular basis.

We will vote against the re-election of the chair of the board when the company has not provided a plan to sunset unequal voting rights or give shareholders regular opportunities to vote on the matter.

## Cumulative voting

Cumulative voting allows shareholders to cumulate their votes for one or more directors on the ballot. Each shareholder is entitled to as many votes as are equal to the number of their shares multiplied by the number of directors to be elected. The shareholder may cast all such votes for one nominee or may distribute them among two or more nominees at their discretion. We do not support cumulative voting as it does not support the democratic election of directors.

## Calling special meetings

Shareholders should have the right to call special meetings. This allows an investor to put resolutions to all shareholders at a specially convened company meeting. Generally, we believe that companies should allow shareholders with a minimum holding of 10% of the equity to call a special meeting as this allows sufficient access, but it prevents abuse of this benefit. However, we will take into account the company shareholding structure when assessing whether the proposed threshold is appropriate. Additionally, there should not be any material restrictions to the ability of shareholders to call this meeting once an acceptable threshold has been set.

## Acting by written consent

Shareholders should have the right to act by written consent. Safeguards require that any matter being considered by written consent which would normally require majority support at a shareholder meeting, can only be passed if the shareholders looking to act by written consent obtain consents from the holders of a majority of outstanding shares. That said, it is still open to abuse at controlled companies. Therefore, the company's structure and governance will be considered when supporting a resolution to act by written consent. We will generally oppose restrictions imposed on shareholders to act by written consent if this is considered a restriction of shareholders' rights.

### **Proxy Access**

We consider proxy access to be an important shareholder right to propose directors to the board. Therefore, we will support the right of holders of at least 3% of the equity of the company who have held the stock for a continuous period of at least 3 years to propose up to two directors or 25% of current number of directors.

### **Supermajority vote standard**

Supermajority provisions may entrench management by preventing amendments that would be in the best interests of all shareholders. We will support any proposals to reduce or eliminate the supermajority requirement to amend bylaws or charters.

### **Amendments to the company's constitution**

It is common to see requests from companies seeking approval to update/amend the company's constitution, specifically their articles of association.

We expect these changes to be clearly outlined and disclosed in the notice of meeting. We do not support changes to a company's constitution that are introduced to curtail or reduce shareholder rights.

We would expect substantially different changes to a company's constitution to be proposed under separate resolutions and not to be bundled into a single amendment to the constitution. Where such a bundled resolution includes one or more changes that are not deemed supportable, this will lead to a vote against the entire proposal under the resolution.

### **Executive forum provision**

We believe that exclusive forum bylaw provisions limiting a shareholder's choice of legal venue may not be in the best interests of shareholders. Such clauses may effectively discourage the use of shareholder derivative claims by increasing their associated costs and making them more difficult to pursue. Any company requesting shareholder approval do to so, must provide strong justification of why the provision would directly benefit shareholders. Support for such a resolution would take into consideration the board's governance and structure e.g., annual re-election of directors, majority vote standard to amend the company's bylaws or charter provisions.

### **Virtual/electronic general meetings**

We believe that a company's general shareholder meeting is fundamentally important to exercise shareholder rights and integral to a good corporate governance system. Furthermore, we view in-person shareholder meetings provides an important mechanism by which a board is held publicly accountable to all its shareholders, both institutional and retail.

Shareholder meetings also provide an invaluable opportunity to raise concerns with a board in a public forum and investors can use this mechanism as part of their stewardship activities. For example, they could be used as an escalation tool that enables shareholders to make statements and pose questions to the whole board. We are cognisant that companies are keen to make sure that their shareholder communications keep pace with developing technology and conducting shareholder meetings electronically is an area of focus. We also agree that using technology, such as webcasts, to complement the in-person shareholder meeting could be beneficial and could increase investor participation.



However, we believe that such technology should be used in parallel with the in-person meeting and should not lead to companies adopting a virtual-only approach. The shareholder meeting is the only time that the whole board is present and publicly accountable to all shareholders. The attendance of the board at such a meeting is a demonstration of its commitment to hear and understand the views of shareholders. Virtual-only shareholder meetings may remove this accountability due to the remoteness of participants.

Despite recent changes in some local laws that now permit virtual shareholder meetings, we will not support the move towards fully virtual-only shareholder meetings. Any amendments to a company's constitution in relation to electronic meetings should confirm that an in-person meeting will continue to be held unless truly exceptional circumstances prevent this from happening; e.g., a pandemic or other safety concerns, etc.

## Capital management

Balancing the company's long-term investment needs with shorter-term returns to investors is a critical role of the board. The board has a key responsibility to ensure the company has sufficient capital; oversee its management to ensure efficient capital allocation; and, when additional capital is required, facilitate its raising in an appropriate way.

Therefore, we support shareholders' rights to have a separate vote on the tools and authorities provided to the board to manage its capital structures. Such rights protect shareholder interests, while balancing the need for board flexibility. For example, making sure that share issuances are not overly dilutive, and capital is being raised in the long-term interests of investors.

## Share issuance

We support a company's ability to issue shares to raise capital. However, such issuances should be limited to what is necessary to maintain business operations and should not expose minority shareholders to excessive dilution of their holdings in the company's shares.

In general, we would not support an authority to issue more than 100% of the issued share capital. In the UK for instance, we would support a general authority to allot up to two-thirds of the issued share capital on a pre-emptive basis.

The existence of pre-emption rights is fundamental in protecting shareholders from excessive dilution. It gives shareholders the right to be offered any new shares, pro-rata to their existing holdings, ahead of these being offered to non-shareholders. In general, we would only support an authority to issue shares on a non-pre-emptive basis if the authority sought is for 10% to 20% of the issued share capital.

In the UK, the Pre-Emption Group updated its guidance on the level of share issuance that can be issued on a non-pre-emptive basis. The limits permit the issuance of up to 10% of the issued share capital non-pre-emptively with a further 10% for financing an acquisition or other specified capital investment that has been disclosed. Although we generally support the template resolutions published by The Pre-Emption Group and expect such requests to be proposed as separate resolutions for shareholder approval, we would be concerned if companies were to adopt this level of dilution as the new norm, particularly large-cap companies. We would only expect companies to dilute shareholdings to this extent where an injection of capital was time critical.

Any issuance of shares as part of a 'cashbox' placing, or other mechanism that does not require separate shareholder approval should be included in the above thresholds.

In the UK, we will not support the re-issue of shares that are at a discount to their net asset value.

We expect companies to be transparent on whether any new authority sought will cancel any outstanding authority or whether any unused portion of the current authority will continue to be valid. If the authorities will

be amalgamated, we expect companies to set a cap on the maximum potential issuances with and without pre-emption rights that applies across current and proposed authorities. Companies should provide a clear strategic rationale for any share issuance authority.

## Share repurchases

Share repurchases can be a flexible way to return cash to shareholders. We expect the board to be transparent in how this share buyback authority will be used in relation to other potential uses of capital (such as dividends, internal investment or externally for mergers and acquisitions).

However, the benefits of using this approach are dependent on factors such as the price at which shares are bought back, the company's individual financial circumstances and wider market conditions at the time.

Some markets may have an annual limit on the number of shares that can be bought back in any year. We would expect a detailed rationale for any buyback authority that is greater than 10% of the issued share capital (15% in the UK).

Share buybacks can trigger Rule 9 of the UK Takeover Code where there is a significant shareholder or a concert party whose shares account for 30% or more of the issued share capital. In such circumstances, a share buyback can result in an automatic increase to their shareholding as a proportion of shares outstanding and eventual control without paying minority shareholders a premium. We will oppose Rule 9 waivers unless a mechanism is applied whereby any significant shareholder or concert party will participate in the sale to ensure their proportional holding or voting power remains unchanged.

## Mergers and acquisitions (M&A)

We support proposals that are expected to create value for investors over the long term.

To make an informed assessment, we expect the board to be transparent on the terms of the transaction and its financial and cultural integration implications for the long-term business strategy. We also expect all companies to explain how the transaction is expected to yield significant long-term benefits for the company and its stakeholders, including its investors.

In a contested takeover, we will aim to meet with both parties before making a final decision. In addition, we believe that a strong governance framework is essential during any M&A activity.

Companies should therefore make sure the independent non-executive directors are informed at an early stage and can obtain independent advice at the cost of the company, with advisers remunerated on a fixed-fee basis. A robust process should be in place to ensure there are no conflicts of interest.

The skill set of the board must also be reviewed, including past M&A experience, to ensure it is appropriately equipped to successfully lead the transaction and manage its impact on the company. The board may consider putting in place a separate ad hoc committee of independent non-executive directors to consider the merits of the transaction, and to engage with its investors.

## Takeover defence plans – poison pills

'Poison pill' is a tactic used by a company to deter takeover bids.

Well-designed poison pills may strengthen the board's negotiating position and allow it to obtain more favourable

terms from an acquirer. It is vital that this process is controlled by the independent members of the board who are responsible for protecting the interests of minority shareholders.

We do not expect a poison pill to entrench management teams or protect the company from market pressures as this is not in investors' best interests. Any poison pill should only be used for a finite period.

For more details on our approach on M&A and takeover defences, please refer to our guide for companies on the topic, available [here](#).

## Related party transactions

Related party transactions (e.g., between a controlling shareholder or director and an issuer) are an important issue for minority shareholders as there is a risk that a related party may take advantage of their position. Adequate safeguards must be put in place to protect the interests of the company and shareholders who are not part of the related party, including minority shareholders.

All transactions must be authorised by the board of directors. The audit committee should ensure that such transactions are conducted based on an independent assessment and valuation.

For material related-party transactions, we expect companies to provide additional information to shareholders in their annual disclosures. This should include information on whether board approval was unanimous or received majority support. In addition, shareholders should be given the opportunity to approve material related-party transactions, including any transactions undertaken with directors.

UK companies with controlling shareholders should ensure that they have in place a controlling shareholder agreement. This is to demonstrate that, despite having a controlling shareholder, the company is always able to carry on its activities as an independent business. Although the requirement for providing a shareholder agreement was removed by the updated UK listing rules, we do not believe that such an agreement places an additional burden on a company or make them less competitive. We therefore continue to encourage companies to provide such an agreement because it provides both shareholders and the independent directors with safeguards.

## Shareholder proposals

We consider all shareholder proposals tabled at a company's shareholder meeting in the wider context of the company's corporate governance practices, our thematic policies, and the long-term benefits for stakeholders.

We expect companies to provide a meaningful discussion of the proposals to enable shareholders to make an informed judgement.

We may support certain shareholder proposals on key topics where we want to draw attention to the importance of the topic for investors. The board can gain insight into what topics are considered material by shareholders by the level of shareholder support.

We expect majority-supported shareholder proposals to be adopted, no matter whether these proposals are binding or merely advisory in nature. Where a company has not provided an acceptable explanation for not adopting a majority supported shareholder resolution, we will vote against the chair of the governance committee. Where there has been significant support (20% or more), we expect companies to consider the benefits of the proposal and to discuss this with their shareholders and to include any outcomes in their annual disclosures.

## Political donations and lobbying activity

We will not support direct donations by companies to political parties or individual political candidates. We believe that companies should fully disclose all political contributions, direct lobbying activity, political involvement, and indirect lobbying via trade associations. There should be full transparency regarding the memberships of and monies paid to trade associations and lobbying groups including:

- A breakdown of payments to political parties, candidates and associations, trade associations and think tanks, and of direct and indirect lobbying activity on policy and legislative proposals, etc.
- A clear explanation of how each of the above associations, contributions and actions, benefit the causes the company supports, and how they are linked to the company's strategy
- A public statement from the company outlining those issues where it disagrees with the associations of which it is a member and setting out why continued membership is beneficial
- Disclosure of where responsibility sits within the company, for the oversight of such relationships.

# Sustainability

As a major global investor, we have a fundamental interest in ensuring that shareholder and bondholder value is not eroded by a company's failure to manage the risks associated with its natural and social environment. We believe that, if companies take advantage of the need to move towards a more sustainable economy, investors can benefit through protection from future risks and the potential of better long-term financial outcomes.

## Sustainability governance, process, and operations

With this in mind, we expect our investee companies to meet minimum standards on how they identify, assess, manage, and disclose sustainability-related risks and opportunities across their business operations. Our key expectations are laid out below.

### Risk identification and management

Material environmental and social (E&S) risks will vary across sectors and from company to company, depending on many factors. Stakeholders will also have different views on what issues are material for them. Despite this complexity, it is important that all companies undertake an analysis of E&S issues that could be material to their business over varying timeframes.

A dynamic risk-mapping exercise should identify the degree to which a company is exposed to each risk element. It should also be used to identify business opportunities such as new products and services, and potential efficiency gains due to changing policy, technology, and business environments.

Robust E&S risk-management processes should be integrated into company Enterprise Risk Management (ERM) systems and implemented across all business operations that either can be considered exposed to E&S risks, and/or that may produce negative externalities. Where possible, such systems and processes should be externally verified.

Where risks have been identified for the business, comprehensive policy statements should be disclosed to all stakeholders to demonstrate the company's commitment to managing these risks.

### Governance and accountability

Although responsibility for managing a company's E&S impact and the related risks is shared across all business functions, accountability sits at board level. The fulfilment of sustainability targets and commitments is the responsibility of the CEO and the board.

### Sustainability strategies

Building a sustainable business model that enhances performance and builds resilience should be at the core of business strategies. E&S issues should not be viewed as peripheral components of business operations or simply ethical and compliance obligations. Where material risks and opportunities have been identified, there should be a clear link to a company's overall strategic priorities. Plans to mitigate risks and realise opportunities should be disclosed clearly.

## Reporting and disclosure

### Target-setting

Companies should set targets to focus their efforts on realising their strategic E&S objectives, mitigating, and managing material E&S risks and impacts, as well as to maximise broader positive stakeholder impacts. While it is important for targets to be achievable, companies may benefit from setting challenging goals to maximise their overall impact. We expect companies to report suitable metrics with targets that allow investors to track effective progress.

### Public disclosure and transparency expectations

Transparency and disclosure are key tools that enable investors to undertake a robust analysis of investment risks and opportunities and allocate capital accordingly. We expect companies to demonstrate their commitment to the disclosure of sustainability information and data, through publication in key company reporting; this includes the annual report and accounts, with supplementary information in sustainability reports and on their corporate website.

We are very supportive of the publication of the International Sustainability Standards Board's (ISSB's) first two standards in June 2023. The standards present a global baseline for sustainability disclosures, amalgamating previously disparate disclosure requirements. We expect companies to align their sustainability disclosures with the ISSB's published and future standards, building on much of the work already in place from previous disclosures through standards such as GRI, SASB, etc. Disclosing in a clear and consistent manner is important in facilitating the analysis of trends in this area.

We encourage our investee companies to be proactive and undertake, where possible, the verification of their sustainability data externally by a reputable independent assurance provider, based on recognised standards. This can be evidenced by making the assurance statement public. This verification exercise should provide comfort and credibility to stakeholders, including investors, around the sustainability data disclosed. We encourage companies to disclose to key third-party sustainability agencies.

### Financial impact quantification

We believe quantification of sustainability risks and potential impacts can help investors make more informed capital allocation decisions, according to their risk, return and impact objectives. Quantification practices can also support companies in better understanding their risk exposure and achieving a net benefit by managing sustainability impacts effectively.

We encourage companies to demonstrate a commitment to the best sustainability practices and, where appropriate, quantify financial impacts to internalise the associated costs and benefits.

### Industry collaboration

Companies may benefit greatly from sharing knowledge and experience with their peers by joining and contributing to industry-wide associations. We encourage collaboration between companies where appropriate, to progress the broader sustainability agenda and broach cross-sectoral and inter-sectoral sustainability challenges. Where relevant, we expect companies to engage with regulatory bodies to promote best practices and policies to achieve sustainability targets.

## Lobbying transparency

Whether companies engage with regulators or policymakers on an individual or collaborative (e.g., via an industry association) basis, we expect them to be transparent and to comprehensively disclose their public policy engagement activities, including trade association memberships. See section above on [political donations](#).

## Sustainability themes

We focus on the material issues that can impact a company's long-term sustainability, both financially and reputationally.

Below we highlight our expectations in relation to some of our key themes. More information and articles on our position on broader themes can be found [here](#).

## Future World Protection List

Our Future World Protection List (FWPL) comprises companies that fail to meet our minimum standards of globally accepted business practices. Securities issued by such companies on the list are excluded from our services and products that specify the application of the FWPL. More information can be found [here](#).

Where a company is on the FWPL and we can vote, we will vote against the re-election of the chair of the board for not meeting our minimum standards of globally accepted business practices.

## Climate change

Climate change can be a defining factor in companies' long-term prospects. We expect companies to disclose how they may be impacted by climate-related risks and opportunities, and how these factors are considered within their strategy.

With the Financial Stabilities Board (FSB's) announcement that the Taskforce on Climate-Related Financial Disclosures (TCFD) will now be integrated into the ISSB, we expect to see companies developing their climate disclosures in line with IFRS S2 requirements with a focus on improving approaches to scenario analysis and the quantification of financial impacts that result from climate risks. In addition to IFRS S2 disclosure, we expect companies to report using the Carbon Disclosure Project (CDP) climate questionnaire, which is aligned with the TCFD and IFRS S2 frameworks and provides investors with climate data on a large universe of companies in a comparable format. For sectors where it is material, we strongly encourage companies to also report via the CDP Water and Forest questionnaires.

Science Based Targets (SBTs) are decarbonisation targets aligned with the objective of the Paris Agreement. We therefore encourage all companies to commit to and work towards approved SBTs aligned with the SBT initiative's recent net-zero standard. Alongside this, we expect companies to articulate how their business models reflect a Paris-aligned transition.

As part of our Climate Impact Pledge, we expect companies to have greenhouse gas (GHG) reduction targets in place, and to disclose board oversight of climate change and other sector-specific policies. More information on our expectations of different sectors, and the metrics we use to assess companies, can be found [here](#).



In relation to climate change, we would expect companies to publicly disclose any concerns they may have with current or evolving legislation and to publicly report on any lobbying activity that is undertaken because of such concerns. We recognise that achieving the Paris Agreement requires policy action in a wide range of areas. Therefore, we expect companies to engage with policymakers and regulators to encourage the introduction of policies to enable a net-zero transition for their respective sectors.

Companies that fail to meet our minimum standards on climate disclosure may be removed from select funds, including our Future World funds, subject to tracking error constraints. For all other funds where we cannot divest, we will vote against the chair or other directors, to ensure we are using one voice across our holdings.

Please see more on our [climate change policy](#), and our [Climate Impact Pledge](#).

## Nature

### Biodiversity

We believe that biodiversity loss presents a major global systemic risk.

We expect companies to assess their impact and dependencies on biodiversity with a view to managing risk, as well as mitigating and, over time, reversing negative impacts. We encourage companies to commit to having an overall positive impact on biodiversity and to consider their supply chain's direct and indirect activities. We will be seeking greater disclosure from investee companies in line with the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

As a signatory to the Finance for Biodiversity Pledge, we have committed to collaborating and knowledge sharing, engaging with companies, assessing impacts, setting targets and reporting publicly. Our [Nature framework](#) and related policies can be found on our [website](#).

### Deforestation

We recognise the importance of ending commodity-driven deforestation to tackle climate change, reduce biodiversity loss, and support food security. We are a signatory to the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios.

In 2022, we launched our deforestation policy. In line with our COP26 commitment, the policy commits us to assess commodity-driven deforestation risk in investment portfolios. This has been done, and where identified, we have contacted such companies in high-risk sectors with little or no deforestation policies of their own. Since 2023, we have voted against the re-election of the board chair or other board directors of these companies. We also encourage companies and data providers to improve the quality and availability of data on deforestation risk. You can read more about our deforestation policy [here](#).

Although our policy was first published in 2022, we have been engaging with key companies in high impact sectors on the topic of deforestation since 2017 as part of our Climate Impact Pledge under which, the lack of a comprehensive deforestation policy constitutes one of our 'red lines'.

### Circular economy

We believe that the current globalised economic model can be described as 'linear.' Many production processes follow the same route, extraction of raw materials, manufacture, use and disposal ('take-make-waste'). The system does not put a value on the materials that are at the 'end-of-life' stage, or the environmental and social

implications.

We believe this traditional linear system can be reformed and accelerate the 'Just Transition' to net zero and nature-positive economies and help to restore ecosystems. We believe the economic model that can reform our system at scale is the introduction of the 'circular economy'. It is a key component of our approach to nature. It is based on three principles, driven by design: eliminate waste and pollution, circulate products and materials (at their highest value), and regenerate nature.

We will focus our engagement efforts on supporting a transition from a 'linear' economic model to a 'circular economy' model. Our expectation of companies will be increasingly expanded, but includes:

- Strengthened disclosures on the approach to circular economy and reduction of waste and pollution
- A circular economy commitment, strategy, business model and policy across the value chain
- Disclosure of the proportion of raw, re-used, recycled and compostable materials
- Explanation of how the strategy is embedded, any targets and progress
- Existence of board-level oversight
- Activities undertaken to protect and regenerate nature and the ecosystems
- Any lobbying activities

## Water

Globally, we need, in our view, a 'Just Transition' to economies that are both net zero and nature positive, and in which ecosystems are restored. Water is a key element of this, as it is the very essence of life. It permeates our lives and has an impact on all of us, reaching across all sectors, businesses and economies. Water can have a diversified impact across a company's value chain, directly impacting operating risks and financial performance.

In its current form, the water system presents a long-term systemic market risk that will impact our business, the markets that we invest in and our investment returns, and ultimately our clients.

We will focus engagement activities on key areas of the water system, i.e. water scarcity and security, and water quality. Our expectations of companies will be expanded and include: strengthening disclosures on approach to impact on water quantity and quality; whether a commitment, strategy and policy is in place across the value chain; explanation of how the strategy is embedded, targets and progress; board level oversight; protection and regeneration of nature and ecosystems; and lobbying activities. More information can be found [here](#).

# Health

## Antimicrobial resistance (AMR)

The importance of tackling AMR should not be underestimated. It can have a material financial impact on investments. We expect all water utility companies to be aware of the possible risks of AMR from contaminated

water. In addition, we ask pharmaceutical companies involved in antimicrobial manufacturing to manage their effluent waste to reduce the risks of AMR. Additionally, we also ask companies in sectors such as the food industry to apply the WHO guidelines on antibiotic use in food-producing animals.

For more information, please read our [health policy](#) and blogs on [the scale of the AMR problem](#), [why the issue matters to investors](#), and [how we are engaging with water utility companies on AMR](#).

### **Nutrition**

Poor nutrition can have a negative health impact on individuals, workforces, and broader societies. This can create a financial burden on economies from increased healthcare costs, both private and public, and on companies from absenteeism. For consumers to make informed decisions about the food they consume and to promote healthier diets, we encourage companies to be transparent on their nutrition strategies; demonstrate progress on these strategies; commit to disclose the share of the company's portfolio and sales associated with healthy food and drink products (using government-endorsed nutrient-profiling models such as the Health Star Rating or NutriScore); and set targets to increase the proportion of these sales.

For more information, please read our [health policy](#).

## **People**

Employees are one of the greatest assets a company has. We believe that the value they bring to a company's long-term sustainability should not be underestimated. Therefore, our approach to this topic covers issues such as human capital management, employee welfare, human rights, modern slavery, income inequality, diversity and inclusion. We consider these topics to be financially material.

### **Human capital management**

As an investor, it is important for us to understand our investee companies' culture and how this impacts their employees. We expect companies to disclose information that will provide a holistic view of their culture. We ask companies to disclose metrics such as: workforce turnover and how that compares with the sector average, skills and development training, compensation, benefits, workforce demographics including diversity and health and safety.

How much a company values its employees can be measured by the effort it makes to receive and act upon employee feedback. Therefore companies should support workers' rights by allowing participation in freedom of association and collective bargaining.

### **Employee welfare**

Companies should ensure that their workforce have received adequate training to equip them with the appropriate skills to carry out their jobs safely and effectively. Workers should be protected from harassment, discrimination and all forms of forced or compulsory labour. Their working environment should be safe, and annual training on health and safety within the workplace should be compulsory. All workers should receive benefits such as paid sick leave, maternity and paternity leave. Where possible, companies should provide access to services to help workers with any medical issues, such as mental health, private health cover, etc.

For more information on this topic, please refer to our [human capital management policy](#)

## Diversity and inclusion

Just as we believe a diverse mix of skills, experience and perspectives is essential for a board to function and perform optimally, we expect the companies they oversee to embrace different forms of diversity: e.g., gender, ethnicity, and neurodiversity. Our expectations on diversity and inclusion extend beyond the executive level and are of companies' entire workforce. For more information on this topic, please refer to [our diversity policy](#).

## Human rights

We expect companies to respect workers' human rights as set out in the Universal Declaration of Human Rights and the main instruments through which it is codified, such as the International Labour Organization's eight core conventions. In addition, we expect companies to be mindful of and comply with the principles of the United Nations Global Compact; OECD guidelines for multinational enterprises and all local and national laws and regulations relating to the protection of employees.

## Modern slavery

Modern slavery can take many forms, such as child labour, forced labour and human trafficking. Companies should ensure that they are not permitting modern slavery to take place either within their own operations or within their supply chains. As such, we expect companies to adhere to all applicable laws pertaining to modern slavery, which could otherwise result in financial and reputational risks to the company as well as potentially causing distress to those workers involved.

We believe merely putting in place a code of conduct is not enough to ensure that modern slavery does not exist within a company's supply chain. We expect a more rigorous process to be in place that includes, but is not limited to, due diligence audits, local workforce interviews; and technology to provide full traceability of all components of goods or merchandise sourced.

For more information, please read [our human rights policy](#).

## Income inequality

**Real living wage** – we expect all companies to pay employees the minimum wage as mandated by law. However, we believe that to ensure employees are paid a living wage to avoid the poverty trap, which can create hardship, stress and health problems that may have an impact on a company's operational performance.

A living wage should be sufficient to afford a decent standard of living for workers and their families. Elements of a decent standard of living include: food, water, housing, education, health care, transportation, clothing and other essential needs such as provision for unexpected events.

Our expectation that workers receive a living wage extends to all contractors that operate within a company's operational premises. Procurement practices should ensure that workers' pay is ring-fenced from negotiations on price to ensure they receive a living wage. Companies should work with suppliers to ensure wages are transferred electronically.

To better inform investors, we expect companies to disclose in their annual disclosures whether they are paying the living wage to employees. We will also ask companies what steps they take to ensure their suppliers are paying, or working towards paying, their workers a living wage. Additionally, we want to know whether

companies are offering all employees the opportunity to work for a minimum of 15 hours a week and what other benefits are in place to alleviate financial hardship, such as free meals, interest free loans, etc.

**Financial wellbeing training** – it is not only important to ensure that all workers are receiving a living wage, but it is equally important that they receive guidance on issues such as money management and where to get financial help. We encourage all companies to provide their employees with training on this important topic.

**Pensions** – taking into consideration their employees' long-term health and financial wellbeing, where possible, employers should consider increasing the non-contributory element of pension provisions.

**Equity ownership** – we encourage all companies to offer employees the opportunity to participate in equity ownership. We believe that this is a performance motivator and retention tool. To ensure sufficient take-up, we encourage companies to offer free shares to all employees or to those earning below the national median pay level. The offer of shares should be linked to continued service.

**Gender pensions gap/gender and ethnicity pay gaps** – companies should make themselves aware of these inequalities that exist in their organisation, and to take positive steps to reduce them.

### **Why adherence to these principles is important**

We believe that integrating ESG considerations into investment processes can help mitigate risks and improve long-term financial outcomes. For this reason, we embed both top-down and bottom-up ESG analysis into our investment processes. In addition, positive and negative externalities generated by companies can have consequences for the economy and society at large. We believe that investors have a responsibility to a broad set of stakeholders and the market as a whole. We need and expect companies to play their part. Our sustainability principles set out our minimum expectations of companies with regard to the prioritisation, management and disclosure of sustainability issues. These principles naturally feed into our voting and investment decisions, and for certain themes we have very structured processes in place.

## Important information

### Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the amount originally invested.

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