December 2023

LGIM's Diversity Approach and Expectations

Contents

As a global investor, Legal & General Investment Management (LGIM) is committed to assessing and addressing the diversity of companies. We believe this is firmly part of our fiduciary duty of managing our clients' assets.

Summary

A diverse mix of skills, experience and perspectives is essential for a company and its board to function and perform optimally. Studies demonstrate that a good level of diversity can improve business resilience and decision-making, minimise risks, and improve the sustainability of profit growth which can maximise long-term returns for investors.

LGIM has long been an advocate of the importance of diversity on corporate boards, within both executive leadership teams[1] and management teams, as well as across the wider workforce. We consider this issue is sector agnostic, in that it is financially material across all sectors.

A company's success or failure is largely determined by the quality of its leaders' decision-making and is why the make-up of leadership teams is so crucial. Optimising the balance and structure of a group of individuals with diverse perspectives raises the level of debate, improves business decision-making and creates long-term value for shareholders. We believe a group of people who all share the same characteristics simply cannot be the best forum for debate — the key is cognitive diversity. To determine whether the decision-making process at the most senior levels of a company is diverse, key considerations include where the company is based, where it operates and the stakeholders it represents, such as customers and the entire workforce.

We believe companies should appoint board members based on merit, but must also appraise diversity and ensure their board, executive leadership teams, management teams and wider workforce have a mix of visible and invisible characteristics, including but not limited to, gender, race or ethnicity[2], age, sexuality, culture, experience, and skillset in order to enrich the decision-making process. Tapping into a wider and more diverse talent pool will aid companies to appoint on merit.

Organisations need to work to avoid simply considering one diversity characteristic at a time, and instead should consider diversity holistically, and have a broad focus on creating an inclusive culture which will underpin diversity efforts.

Diversity and why it matters to investors

We understand the importance of diversity for both the companies in which we invest, and for wider society. The business case and evidence are clear; improving diversity allows companies to benefit from harnessing all available talent, with potential positive impacts on performance. More diverse organisations make better strategic decisions, show superior growth and innovation, and exhibit lower risk – all significant measures for investors[3].

By utilising all available talent, companies and economies can be more successful and build more resilient organisations and societies. Additionally, organisations that support a diverse and inclusive culture are increasingly benefitting through the attraction and retention of talent.

Driving diversity at companies is a strategy that we believe is financially material, directly linked to value creation and is a tangible action that investors can encourage.

---

[1] Executive leadership team for the purposes of this document, refers to the level of individuals who are key decision makers, and report directly to the chief executive officer. These teams are often referred to as the Executive Committee, Senior Leadership, the C-Suite, Named Executive Officers.

[2] Ethnicity is defined as the quality or fact of belonging to a population group or subgroup made up of people who share a common cultural background or descent.

[3] Credit Suisse Research Institute, "The CS Gender 3000 in 2019: the changing face of companies" (2019); INVolve, "The Value of Diversity" (2018).

LGIM's approach

We use our influence to raise standards on issues ranging from diversity to climate change across capital markets – first through demanding corporate transparency and disclosure, and then through informed and targeted action to improve practices.

As a responsible investor, we commit to push the companies in which we invest globally to ensure the underrepresented gender makes up **a minimum** of a third of their boards and executive leadership teams. We also commit to encourage companies to include **at least** one person from an ethnically diverse background on their boards, and over time within their executive leadership teams.

When looking to appoint new board members and senior executives, we expect companies to consider the breadth of diversity and to use relevant strategies to seek out candidates with appropriate skills and qualities to enhance the cognitive diversity of the respective group. Specifically with regards to the recruitment of directors, we encourage companies to consider including those from less traditional 'corporate board' backgrounds and to be willing to recruit those without previous board experience - robust induction programmes and incumbent members with sufficient experience in aggregate should be able to support those board members with less direct experience of company director roles.

As a global investor we look to standards in different relevant markets and consider the current status of board and executive leadership diversity in each of these markets, recognising different levels of progress.

For example, in the UK, we support the work and targets set out by UK government-backed best practice benchmark reports, such as the FTSE Women Leaders' Review which has set a goal of 40% women on the board for FTSE 350 companies and is seeking for women to hold at least one of the most senior roles of chief executive officer, board chair, senior independent director or chief financial officer. We also endorse and align our work with the UK's Parker Review, which we see as best practice as its expectations for UK companies continues to evolve to support changing social opinion and business best practice.

We believe in collaboration and regularly work with peers and other stakeholders where relevant. By joining forces with collaborative organisations, we aim to broaden our reach and strengthen our voice in improving the diversity of the companies in which we invest.

Our approach to diversity encompasses several different avenues, including:

Developing our capacity to assess diversity-related risks and opportunities

We see it as our responsibility to provide the framework to address responsible business risks and opportunities, including those related to diversity, in every part of our business.

We have developed a variety of proprietary tools, used across different asset classes and investment strategies, with the ability to incorporate relevant responsible investment metrics. Where relevant and available, diversity metrics are incorporated into tools that are used to support our investment analysts and fund managers, develop new investment solutions, assist the investment stewardship team in its engagements with companies and help our clients understand more about the ESG profile of investment portfolios.

LGIM has been using metrics related to diversity in our proprietary ESG scores since 2018, and while metrics related to diversity are increasing in availability, we recognise that more needs to be done to improve the standardisation and increase the scope and coverage of this data to support assessment across investors' portfolios. We will continue to work with companies, stock exchanges and regulators, and research and data providers to this end.

Working with stakeholders

As a global issue, diversity requires a market-wide approach. That is why a vital part of our approach is engagement with other stakeholders and market participants, such as other investors, regulators, and stock exchanges.

One such stakeholder group is proxy advisory organisations. While LGIM and some other institutional investors implement their own voting policies, many investors wholly adopt proxy advisers' benchmark policies. We therefore seek to engage with these organisations to raise minimum standards on diversity across various markets.

Taking action at companies in which we invest

Through direct engagement, proxy voting and investments, we seek to ensure investee companies' strategies address diversity and inclusion, thereby helping drive the shift towards utilising all available talent, and that this is overseen by the company's board, alongside appropriate public disclosure. Our stance on voting related to diversity issues is set out below.

Reporting to clients

We are committed to communicating our efforts to our clients. This includes publishing thought leadership pieces on the topic to inform investee companies and our clients and to help to drive the conversation forward. In line with our commitment, we will continue to publicly report credible progress, through successful company engagement and voting activity.

Investee company expectations

LGIM has been engaging on the topic of diversity with our investee companies since 2011, and actively voting on the issue since 2015.

We expect our investee companies, globally, to:

- Have at least 40% of the underrepresented gender at board and executive leadership team level
- Have at least one person from an ethnically diverse background on the board
- Be transparent and clearly disclose diversity and inclusion policies and representation data at four levels:
    - Company board (non-executive directors)
    - Executive leadership team
    - Management team
    - Entire workforce
- Disclose their gender and ethnicity pay gap information, where possible, along with actions to close any stated gap.

Corporate disclosure expectations

We consider the below to be best practice corporate reporting on diversity:

- Where legal, companies should annually disclose a breakdown of board directors, executive leadership team, managers and employees, at a minimum, by gender, ethnicity, geographic location, and main skill set.
- Companies should identify and report on the make-up of their executive leadership team – those who are one level below the chief executive officer.
- The setting and disclosure of aspirational goals for gender and ethnic diversity and pay equality, and strategies for reaching them with regular updates towards these goals.
- Disclosure of the gender pay gap, which is different from the equal pay gap[4], and the initiatives in place and action the company is taking to close any stated gap. LGIM also supports the expectation for

[4] Equal pay is the legal obligation in many countries that requires employers to give men and women equal pay if they are employed to do like work. Failing to pay a woman the same pay as a man for doing the same job is likely to be unlawful, whereas having a gender pay gap is not.

companies to understand the ethnicity data of their employees, and to formulate a plan to disclose their ethnicity pay gap, where possible.

- We expect companies to be transparent regarding operational procedures and processes. In this context, to provide investors with a comprehensive understanding of their diversity strategy, to be transparent on the procedures used to find new board members, executive leadership team members, and senior managers, and on how that process ensures a diverse board and executive leadership pipeline.

- Disclosure of an anti-discrimination policy, including specificity on the process for investigating and sanctioning discriminatory or harassing behaviour. We also seek disclosure of the track record and outcome of such breaches and investigations.

- Disclosure of EE01[5] workforce data or equivalent, depending on jurisdiction of company.

Our disclosure expectations above are designed to be aligned with existing global reporting guidance, including the Global Reporting Initiative and International Sustainability Standards Board. We are sensitive to reporting challenges and seek to support standardisation wherever feasible. Thus, we are not prescriptive in terms of the location, frequency, and form of public disclosures, and would encourage companies to refer to standard setters which have extensive guidance.

LGIM voting

In prioritising our engagement efforts, we will focus on companies that have not reached the above expectations. Where companies don't meet our expectations, or where engagement has not proved fruitful, we will escalate our activity through voting. Here, we set out our high-level voting actions by region, recognising that differences exist given the stages at which each company is on this issue:

UK

- Vote against the re-election of the chair of all listed companies where the underrepresented gender makes up less than 40% of the board[6]
- Vote against the re-election of the chair of FTSE100 companies where there are no women on the executive leadership team
- Vote against the re-election of the chair of FTSE100 companies where no board member is of an ethnic minority background
- Vote against the re-election of the chair of FTSE250 companies where no board member is of an ethnic minority background (from 2025).

US

- Vote against the re-election of the chair of the nomination committee of all listed companies where women make up less than a third of the board

[5] https://www.eeoc.gov/data/eeo-1-data-collection.
[6] LGIM may make minor adjustments to our expectations for Small Cap companies or small boards. .
LGIM notes and supports the Financial Conduct Authority's (FCA) comply or explain target for UK listed companies to have 40% women on the board and whilst some of our current voting actions are already aligned to these expectations, we shall adjust other voting actions in due course.
The FCA's targets for UK listed companies, which are applied on a comply or explain basis:
- At least 40% of the board should be women.
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or Senior Independent Director (SID) should be a woman.
- At least one member of the board should be from an ethnic minority background excluding white ethnic groups (as set out in categories used by the Office for National Statistics).

- Vote against the re-election of the chair of the nomination committee of S&P500 companies where there are no women on the executive leadership team
- Vote against the re-election of the chair of the nomination committee of S&P500 companies where no board member is of an ethnic minority background
- Vote against the re-election of the chair of the nomination committee of Russell 1000 companies where no board member is of an ethnic minority background (from 2025).

Japan

- Vote against the re-election of the chair of the nomination committee[7] or most senior member of the board (company chair or CEO equivalent)[8], depending on the board structure, of TOPIX 100 companies where women make up less than 15% of the board
- Vote against the re-election of the chair of the nomination committee or most senior member of the board (company chair or CEO equivalent), depending on the board structure, of TOPIX 500 companies where women make up less than 15% of the board (from 2025)
- Vote against the re-election of the chair of the nomination committee or most senior member of the board (company chair or CEO equivalent), depending on the board structure, of Prime companies where there are no women on the board
- Vote against the re-election of the chair of the nomination committee or most senior member of the board (company Chair or CEO equivalent), depending on the board structure, of all companies excluding the TOPIX 500 companies where there are no women on the board (from 2025).

Developed markets

- Vote against the re-election of the chair of companies where the underrepresented gender makes up less than 40% of the board in France, Iceland, Norway and Sweden[9]
- Vote against the re-election of the chair of companies where less than a third of board members are women in all other countries within the developed markets.

Global markets (markets not included above)

- Vote against the re-election of the chair of all companies where there are no women on the board.

As well as undertaking our voting activity, we may also decide to pre-declare our vote intention ahead of meetings, to draw the attention of the market, clients and other companies to a particular issue, resolution or outcome. The decision to do so can be undertaken as part of an escalation strategy, where we deem the vote to be particularly contentious, or as part of an engagement programme. Additionally, all our voting decisions, including rationales for any votes against management, are published on our dedicated vote disclosure website 24 hours after the date of the shareholder meeting.

More detail on LGIM's actions on diversity can be found in our annual Active Ownership report.

[7] This applies to companies that adopt the US-Style "Board with Three Committees" structure
[8] This applies to companies that adopt the "Statutory Auditor (Kansayaku) Board" structure or "Board with Audit and Supervisory Committee" (hybrid model) structure
[9] These countries have either a quota or a target of 40% women or more. As of 2021 companies in each of these countries have on average a third or more women on the board.

Key risks

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

Important information