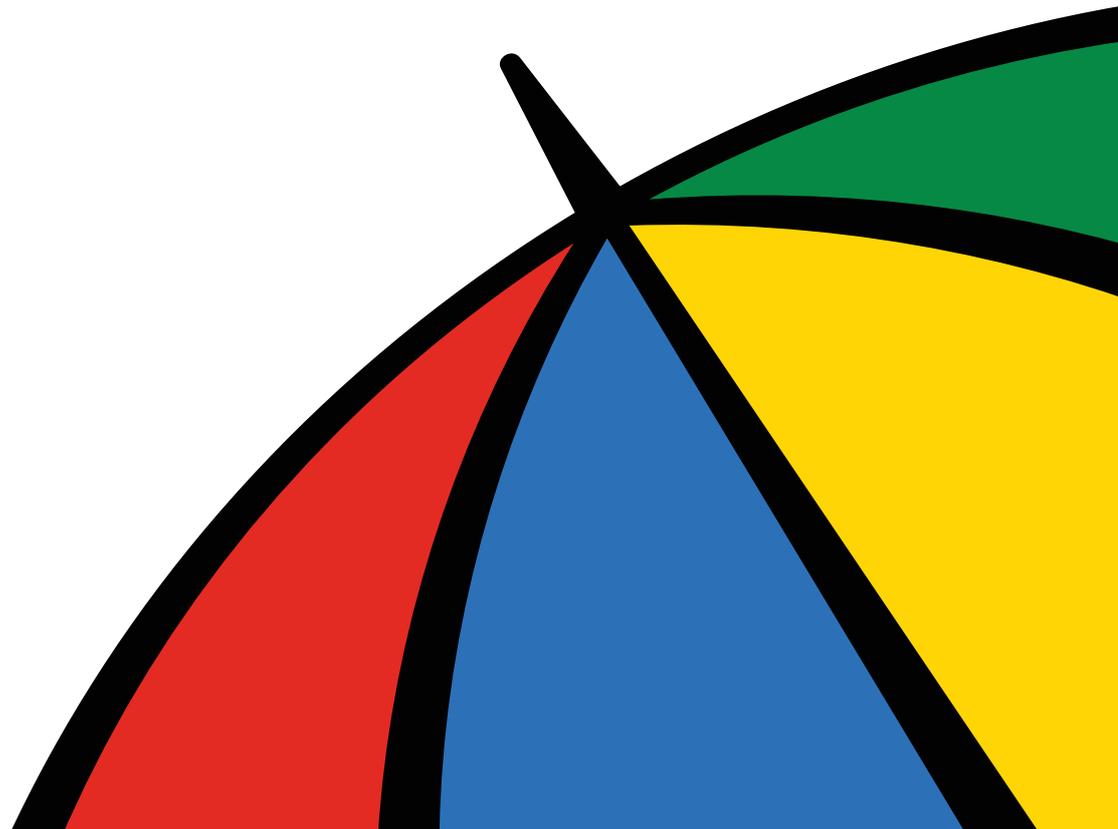


Japan Stewardship Code

LGIM Response to Japan
Stewardship Code Principles



Introduction

At LGIM we take our stewardship responsibilities seriously and devote significant resource to ensure our clients' assets are protected.

This policy paper sets out the approach to stewardship by Legal and General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiary companies that are in the institutional investment and/or asset management business. Any references to "LGIM" in this document includes LGIM(H) and such subsidiaries.

We believe that real change is achieved by being an engaged and active owner. We are active proponents of the benefits of stewardship codes globally to improve the quality of stewardship and ownership across the markets in which we invest.

As a strong supporter of the Japan Stewardship Code from inception, LGIM feels that it is our duty to be accountable for our clients' assets and ensure that we uphold the highest ESG and sustainability standards in the global financial market.

Below we demonstrate how LGIM complies with the principles and guidance of the 2020 Japan Stewardship Code.

“Stewardship responsibilities’ refer to the responsibilities of institutional investors to enhance the medium- to long- term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge on the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

Principle 1

“Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.”

Japan Stewardship Code, FSA, 2020

LGIM’s “Global Corporate Governance and Responsible Investment Principles” sets out its minimum expectations of investee companies in terms of corporate governance and other ESG and sustainability issues and outlines how LGIM exercises its voting, engagement and monitoring activities. As this applies to companies globally, it should be read in conjunction with the region-specific policy for Japan. LGIM has also developed region-specific policies for the UK and North America markets.

All stewardship policies are publicly disclosed and can be found on LGIM’s website:

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

These policies apply to all of the funds that hold shares and where the client has given discretion to LGIM to vote on their behalf. Some of the clients may give specific voting instructions for their underlying assets.

Voting decisions are based on knowledge of investee companies globally and acquired by LGIM through dialogue and constructive engagements with the management of companies and market leaders on a wide range of topics, including governance, financial performance and strategy.

LGIM’s stewardship responsibilities extend to all assets globally including equities, fixed income and real assets. For further information on the ESG policies and initiatives undertaken in LGIM’s fixed income and real assets businesses, please refer to the annual Active Ownership Report, Engagement Policy, and Insights publications:

<https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>

<https://www.lgim.com/uk/en/insights/our-thinking/market-insights/esg-in-lgims-active-emd-investment-process/>

Principle 2

“Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.”

Japan Stewardship Code, FSA, 2020

LGIM's conflicts of interest policy outlines practical processes in place to identify, manage and mitigate potential conflicts. The policy also details historical case studies to provide further explanation of where such conflicts have arisen in the past, and how LGIM dealt with that risk to act in the best interests of its clients.

Managing both actual and perceived conflicts is essential to LGIM's activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which LGIM invests; in order to drive change and have an impact on the market, it needs to be seen as a trusted, fair and transparent investor.

There are a number of potential conflicts of interest inherent in the stewardship activity at LGIM. The Investment Stewardship team sometimes receives and processes 'inside', or price sensitive information relating to a company's activity, such as management succession, financing or merger and acquisition (M&A) activity.

Identification of conflicts

The early identification of potential or actual conflicts of interests is essential in order to implement effective mitigation strategies or processes which help to manage that conflict before it is realised.

- Staff training to identify and manage conflicts of interest adequately
- Annual review to identify any new conflicts and to review controls around existing conflicts
- The Investment Stewardship team or the Investment Stewardship Director meets regularly with the equity, fixed income and index teams, LGIM management and Legal & General Group plc (LGIM's listed parent company (L&G)) to assist in the identification in potential future conflicts.

Mitigation of conflicts

LGIM has implemented a number of structures and process to avoid potential conflicts, to reduce the risk of an actual conflict arising and to mitigate the impact of such conflicts where they do arise.

While non-price sensitive knowledge is shared between the Investment Stewardship team and fund management teams, 'Chinese walls' ensure the independence of the Investment Stewardship team. The director of Investment Stewardship, who reports directly to LGIM's chief executive officer (CEO), is a member of the LGIM board and regularly communicates with the LGIM(H) non-executive directors. The Investment Stewardship team does not have any management reporting lines with any of the LGIM Investment Desks. This independent reporting line to the board allows the team to form a view and take decisions that are in the long-term interests of LGIM clients, notwithstanding the investment time horizon and strategy of the underlying portfolio.

L&G shares are held externally and voted independently of LGIM. For L&G shares held by trusts and segregated funds, should any conflicts of interest arise, it would inform the client and seek instruction. As part of the

investment policy, LGIM is not permitted to buy L&G bonds in its active fixed income portfolios. For index fixed income products, L&G bonds are held in accordance with their benchmark weight.

LGIM's corporate governance, stewardship, voting and conflicts of interest policies are publicly available on the LGIM website. All policies have been approved by the LGIM Investment Stewardship Committee (please see below) and are regularly reviewed. The transparency and governance of these policies ensures they are fairly and consistently applied, thereby assisting in the mitigation of potential conflicts.

Management of conflicts

On the occasions where conflicts are identified and cannot be fully mitigated, LGIM has clear structures in place to ensure the proper and right decision will be taken in the interests of its clients, notwithstanding any conflicts of interest with them.

LGIM's Investment Stewardship Committee meets quarterly and has explicit responsibility to provide oversight in relation to potential conflicts of interests and contentious corporate governance issues. The committee is chaired by an LGIM independent non-executive director and comprises a further independent director, and the CEO, chief investment officer, and the chief risk officer. The Conflicts of Interest Committee is a committee of LGIM(H). Its purpose is to provide independent oversight of LGIM(H) firms' identification, management and disclosure of conflicts of interest and potential conflicts of interest. The Committee is chaired by a non-executive director and membership is drawn from the second line functions.

Where conflicts are identified outside the Investment Stewardship Committee, the two independent non-executive directors of LGIM(H) are available to the Investment Stewardship team for the escalation of how a (potential or actual) conflict should be addressed and to oversee this process. Additionally, the CEO of LGIM may be informed, if not linked to the conflict. This ensures any conflict is always managed in the long-term interests of clients.

For more details on LGIM's conflicts of interest policy, please refer to:

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/conflicts-of-interest.pdf

Principle 3

“Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards sustainable growth of the companies.”

Japan Stewardship Code, FSA, 2020

LGIM actively monitors investee companies in order to ensure they are positioned for sustainable growth and in turn are able to create long-term value for LGIM's clients.

There are a number of resources which the Investment Stewardship team draws on to form the basis of LGIM's monitoring process. These include company disclosure, external corporate governance and other ESG networks, concerns raised by proxy voting advisors, collaborative engagement with other shareholders, market news and meetings with the internal investment teams. Actions that may follow include private one-to-one meetings with management, collaboration with other investors, and voting decisions. LGIM also monitors companies objectively by using its proprietary and quantitative ESG assessment tools, the LGIM ESG scores¹ and the Active ESG View².

The engagement activity is recorded in a dedicated data management system to support the Investment Stewardship team's work. This not only provides a clear audit trail of the engagement process, but also allows LGIM to record successes in effecting positive change. The tracking of engagement successes assists in the evaluation of LGIM's stewardship approach and performance.

¹ LGIM's ESG scores capture minimum standards on environmental, social and governance metrics - as well as companies' overall levels of transparency. These scores are used to help prioritise engagements and for use in index construction across LGIM's Future World ESG-tilted indices. LGIM has applied this tool to score approximately 17,000 global companies. The score uses a limited number of indicators that LGIM believes are universal and are relevant and consistent across sectors globally. These scores are publicly available on LGIM's website.

² The Active ESG View tool goes further than the LGIM ESG Score, incorporating additional granular quantitative and qualitative inputs and assessments in order to reflect a full picture of the ESG risks and opportunities embedded within each company. This is used as an essential component of the research and portfolio management process for LGIM's Active Equity and Active Fixed Income teams.

Principle 4

“Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.”

Japan Stewardship Code, FSA, 2020

As a long-term shareholder, LGIM aims to be trusted advisors to the management and boards of the companies in which it invests on behalf of clients. LGIM's engagement conversations involve high-level strategic discussions on ESG, sustainability and other matters that affect companies' long-term financial returns. LGIM therefore expects engagement to take place with the board chair or independent lead non-executive director.

LGIM's approach to engagements is to have an open dialogue that is constructive and helpful, and aimed at deepening knowledge of investee companies, as well as offering helpful advice to investee companies. LGIM uses various sources to monitor companies' performance, such as independent research providers, rather than relying exclusively on company disclosures.

Collaboration

Collaboration with other like-minded investment institutions on specific topics is a key form of how LGIM encourages investee companies to improve their management of ESG issues. The advantage of collective engagement is that there is greater leverage over investee companies due to the pooling of holdings. This increases the power and influence of investors to push for change. Collaborative engagement with other investors may be on topics that are specific to a company or in response to an industry consultation. It should not, however, be confused with consortiums, as each investment house would retain the decision-making power to act in the best interests of its own clients.

Escalation

LGIM has an established policy based on the escalation of engagement. If constructive engagements fail to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue. Escalation can take the form of voting against the company, adjustments to capital allocation in certain funds, use of public pressure, and engaging with policymakers and regulators. Escalation of engagement can also result in a collaborative initiative which allows LGIM to forge alliances with other investors on common goals. Escalation is a vital component in making engagements effective.

Internal communication

While the Investment Stewardship team is independent of active fund managers, on-going communication is maintained to share knowledge and information. The team is structured such that the analysts have specialist ESG knowledge under specific themes and in their dedicated sectors. This enables the analyst to have constructive conversations in-house with fund managers or with issuer companies in the same industry to discuss similar ESG topics that may be more or less relevant in the specific sector.

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For more details on LGIM's engagement policy, please refer to:

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Principle 5

“Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.”

Japan Stewardship Code, FSA, 2020

As an institutional investor, LGIM has a fiduciary duty to clients to exercise its voting rights responsibly. The right to vote represents a basic privilege of share ownership and is important, given the division of control between the owners of a company (shareholders) and the agents appointed to manage the company in their interests (directors). In addition, voting is a fundamental tool used by investors to signal support or concern with management actions. This mechanism is one of the valuable methods of promoting good corporate governance and other ESG standards in the marketplace.

Voting policy

LGIM has put in place a global custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers to be minimum best practice standards.

In addition, LGIM has also set specific, custom voting policies at an individual market level for those markets in which LGIM adopts a stricter stance. LGIM's voting policy is developed to reflect the economic, political and cultural differences in corporate governance and other ESG practices. LGIM recognises that the move towards strong ESG standards begins with compliance with national legislative and regulatory frameworks. Beyond this, LGIM ensures that the voting policy adheres to its overarching goal in contributing to the sustainable growth of investee companies and establishes a progressive but feasible stance.

Where LGIM has submitted a vote against a resolution at a listed company, the concerns raised are often discussed at a future meeting with the company. Such conversations have proved to be encouraging. For example, in relation to board independence in Japan, many companies talk of actively looking for fully independent directors to join their boards, as they claim to have benefited from having more independent outsiders.

Disclosure of voting activity

LGIM discloses country-level aggregate voting records through its annual Active Ownership Report and more granularly at issuer level on the public website. In addition, clients receive quarterly reports on LGIM's voting and engagement activities.

LGIM publishes voting records on its public website monthly in arrears for all major markets including Japan, UK, US, Europe, Asia Pacific and Emerging Markets. These records also include full disclosure of LGIM's voting rationale for each resolution where an instruction has been cast against management. The voting disclosures can be found by selecting 'Voting Report' on the following page:

<https://www.lgim.com/uk/en/capabilities/corporate-governance/policies-and-voting-disclosures-uk-en/>

LGIM is also committed to providing its clients access to 'significant vote' information in alignment with the EU Shareholder Rights Directive II.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes, but is not limited to:

- A high profile vote which has a degree of controversy such that there is high client and/or public scrutiny
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM notes a significant increase in requests from clients on a particular vote
- A sanction vote as a result of a direct or collaborative engagement
- A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes

LGIM will provide information on significant votes in the format of detailed case studies in its quarterly ESG Impact Report for clients and Active Ownership publications.

Proxy voting advisor

Given the scale of LGIM's holdings, LGIM cannot be physically present at every company shareholder meeting to cast these votes. LGIM instead votes by proxy through the Institutional Shareholder Services (ISS) voting platform. LGIM's custom voting policy with specific voting instructions (details above) ensures that the proxy provider votes in accordance with LGIM's position on ESG. All decisions are made by LGIM's Investment Stewardship team and in accordance with LGIM's relevant Corporate Governance & Responsible Investment Policy document.

For more details on why and how LGIM uses proxy advisory services please refer to:

<https://www.lgim.com/landg-assets/lgim/document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf>

Principle 6

“Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.”

Japan Stewardship Code, FSA, 2020

LGIM believes it is important to keep clients informed about ESG matters that may affect their portfolios.

LGIM discloses its stewardship activities through the annual [Active Ownership Report](#), and [thought pieces](#) on ESG and engagement-related topic as well as via [blogs](#) and [podcasts](#). These publications are publicly disclosed and can be found on LGIM’s website. For details on how LGIM discloses its voting activity, please refer to Principle 5.

In addition, clients receive quarterly reports on LGIM’s stewardship activities carried out during the previous quarter. LGIM also provides trustee education seminars throughout the year to help clients better understand current issues and to highlight what LGIM is doing to reduce risks and to promote best practices.

Principle 7

“To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

External resources

LGIM makes use of a number of external resources to deepen its knowledge of investee companies, including daily market news, media, external corporate governance and other ESG networks, proxy voting advisors, and collaborative engagement with other shareholders (details in Principle 4).

Internal resources and skills

When building the Investment Stewardship team, LGIM has deliberately hired members with diverse experience and expertise: the result is a strong and cohesive set of professionals who possess complementary skills and experience including stewardship, fund management, responsible investment, financial analysis, corporate governance, ESG, sustainability, public policy and regulation. This ensures that the team is well-positioned to understand and keep abreast of the latest regulatory and industry developments.

The Investment Stewardship team is predominantly based in London, but has a global remit with staff also based in Japan and the US. While the Investment Stewardship team is independent of the in-house investment team, on-going communication is maintained to share knowledge and information.

Policies and compliance

The LGIM policies, such as LGIM’s Corporate Governance & Responsible Investment Policy, LGIM’s Principles on Executive Remuneration, and the LGIM Conflicts of Interest Policy are available on LGIM’s website. These policies are reviewed on a regular basis, with most policies updated annually. Any changes undergo internal review and detailed scrutiny, and require the approval of the LGIM Board.

LGIM is subject to internal audit on its stewardship and voting processes for compliance with the principles and guidance in the Japan Stewardship Code.

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