LGIM
America

LGIM America
71 South Wacker Drive
Suite 800
Chicago, IL 60606
www.lgima.com

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VIA ELECTRONIC FILING

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File Number S7-07-15 – Reopening of Comment Period for Pay Versus Performance

Dear Secretary Countryman,

Legal & General Investment Management America, Inc. ("LGIM America") would like to thank you and US Securities and Exchange Commission ("Commission") for the opportunity to comment on the Commission's proposed rules requiring disclosure of information reflecting the relationship between executive compensation actually paid by a company and the company's financial performance.

LGIM America is a US registered investment advisor with $275 billion in assets under management (AUM) as of December 31, 2021. We are the US-based affiliate of Legal & General Investment Management Limited (LGIM), a subsidiary of Legal & General Group, a multinational financial services company that is the 4th largest institutional global asset manager with over $1.8 trillion in AUM.[1] As a long-term investor with exposure to the broader market, we engage with our portfolio companies and other stakeholders with the intent of raising the minimum standards of market best practices to promote a more healthy and sustainable capital market system. We believe executive compensation is a key element of a company's corporate governance profile and promoting fair and transparent pay practices at companies is one such method by which we seek to elevate market standards.

Studies conducted by Morgan Stanley provide evidence of a link between failed say on pay votes and underperformance of the company's share price against the S&P 500 over the next 12 months.[2] The study, which was carried out in 2020, showed that companies with failed say on pay votes in 2019 underperformed the market over the next 12 months by an average of 20%. Two-thirds of these companies underperformed by 34% or more. Morgan Stanley has been carrying out this study since 2015, and evidence indicates that over that five-year period, companies with failed say on pay votes underperformed the S&P 500 by an average of 15%.

Given its importance, we strongly believe executive compensation should be disclosed in an effective manner. We are therefore encouraged to see that parts of the proposed rules that could enhance the current market practice of such disclosures. Existing disclosures can otherwise often be unnecessarily complex and verbose, without painting the full picture of pay outcomes and how they relate to company performance. We have outlined our recommendations of how the proposed rule could be strengthened below.

At LGIM America, we have a set of principles when evaluating compensation plans:

- **Structure** – The compensation structure and the payments awarded should be fair, balanced and understandable.
- **Awards** – These should promote long-term decision making and be aligned to and support the company's values and achievement of the business strategy.
- **Transparency** – We expect a full explanation as to how compensation was set for that year.
- **Shareholder alignment** – Executives should have a meaningful direct equity holding while employed and thereafter.

- **Discretion** – Boards should retain ultimate flexibility to apply discretion and 'sense-check' the final payments to ensure that they align with the underlying long-term performance of the business.
- **Quantum** – Companies must consider the current social sensitivities around pay inequality.

We believe the core of the proposed rule aligns well with our principles around awards, transparency and shareholder alignment. The original focus of this proposed rule, and arguably the most critical component, is the required disclosure of how much compensation was "actually paid" rather than how much was granted. A report done by Lawrence Mishel and Julia Wolfe at the Economic Policy Institute found that the increased relevance of stock awards in executive pay leads to a possible understatement of CEO total compensation.[3] When stock awards are granted, any future gains in the value of the stock from the time of the grant to the time they vest are not captured by current company disclosures. The magnitude of this can be shown in another Economic Policy Institute study, which found that the average compensation of CEOs of the 350 largest U.S. firms experienced a 35.7% increase from 2009 to 2019 when measured using granted numbers. However, if measured using realized numbers (i.e., actually paid), then that same cohort of CEOs experienced a pay growth of 105.1% over that same period.[4] This aligns with our experience as shareholders where we have evaluated compensation plans at public companies that often have material differences between what's disclosed and what's taken home. The intricacies of pay plans, which involve vesting periods, a range of performance targets, as well as board discretion, make it difficult for investors to make cross-company comparisons and time series analysis. As such, we are supportive of the Commission's initiative to require this level of disclosure of what is "actually paid."

Regarding the other aspects outlined in the proposed rule, while we understand the intention of the Commission, we believe there may be unintended consequences that may be helpful to consider when taking the proposal forward. Our views on some of those other aspects are explained as follows:

- **Disclosing total shareholder return ("TSR") alongside compensation** – We consider a range of performance measures when determining the appropriateness of an executive's pay. Many companies use total shareholder return as a metric to demonstrate alignment with shareholder interests. Yet, many of these companies also reward management for delivering a performance that is below the median of their chosen peer/benchmark group. LGIM does not support this practice, and we vote against such instances. The inclusion of TSR alongside compensation may help investors identify a pay-for-performance misalignment, but we find it easy to track a company's TSR already. Adding it in the proxy may not provide much value.
- **Adding pre-tax net income and net income as financial performance measures** – In our view, companies should have the latitude to focus on the performance measures that they believe are the most relevant to their business. While pre-tax income and net income may seem like obvious measures to focus on, we recognize the different growth stages a company may find itself in, necessitating different priorities.
- **Mandating the inclusion of other performance measures and labeling their importance** – We expect a company to select performance conditions that drive their own strategy and to ensure that management action takes account of the business's impact on all relevant stakeholders. Mandating companies to explicitly state which measures are of utmost importance could be an interesting data point to provide the market, but we would hope such measures are already being incorporated into a company's incentive plans and being properly disclosed. We also recognize multiple measures may hold equal importance at any given time, making it difficult to rank them. This may be particularly true in situations where performance conditions are a mix of financial and non-financial measures that capture the positive impact of the business on society.

Executive compensation practices at US public companies still have much room for improvement. We appreciate the Commission's interest in evolving the regulatory oversight on this important issue and look forward to the progress that will be made. We thank you for taking the time to consider our views. If the Commission would be interested in further discussion on our comment, please don't hesitate to contact us.
Yours Sincerely,

John Hoeppner
Head of US Stewardship and Sustainable Investments
Legal & General Investment Management America

Alexander Burr
ESG Policy Lead
Legal & General Investment Management

[1] Pensions & Investments (P&I) ranking by total worldwide institutional assets under management, as of June 30, 2021. The AUM disclosed aggregates the assets managed by Legal & General Investment Management (LGIM) in the UK, Legal & General Investment Management America (LGIMA) in the US, and Legal & General Investment Management (LGIM -Asia) in Hong Kong. The AUM includes the value of securities and derivatives positions. Conversion rate: 1 GBP = 1.3838 USD, as of May 31, 2021.

[2] Say-on-Pay 2020: Raising the Red Flag, Morgan Stanley, 6 May 2020.

[3] Mishel, L & Wolfe, J. (2019). CEO compensation has grown 940% since 1978: Typical worker compensation has risen only 12% during that time | Economic Policy Institute. Economic Policy Institute. https://www.epi.org/publication/ceo-compensation-2018/.

[4] Mishel, L & Kandra, J. (2020). CEO compensation surged 14% in 2019 to $21.3 million: CEOs now earn 320 times as much as a typical worker | Economic Policy Institute. Economic Policy institute. https://www.epi.org/publication/ceo-compensation-surged-14-in-2019-to-21-3-million-ceos-now-earn-320-times-as-much-as-a-typical-worker/.