

Position statement:

LGIM's Voting Intentions at Sports Direct International AGM, 7th September 2016

Legal & General Investment Management takes seriously our stewardship obligations in helping to bring positive change to the companies in which our clients invest. We use our position as a large shareholder to influence and promote best practice. We held 545 company meetings in 2015. Voting is an important tool for escalating issues which have not been resolved through our engagement activities. We believe the market will react positively if Sports Direct takes active steps to improve its governance and working practices.

How has LGIM been engaging with Sports Direct?

LGIM has been proactively engaging with Sports Direct on its governance, social and risk structures and transparency on these issues since the company listed in 2007. Due to our continuing concerns since this time, we have escalated our engagement with the company by collaborating with other investors and voting against management.

During our engagement we have met extensively with the Chairman, the Senior Independent Director, other board members and management team, both privately and collaboratively with other shareholders. We have also engaged with other major stakeholders.

We are announcing LGIM's voting intentions in advance of the forthcoming AGM of the Company. It is exceptional for LGIM to need to escalate our concerns to this degree; and demonstrates the long-standing and severe nature of our concerns. We also lend support to the statement from the Investor Forum on Sports Direct calling for an independent review of overall governance practices, which was published today, and can confirm our participation in the collective engagement.

How is LGIM voting at the forthcoming AGM?

Due to the reasons set out in this position statement, we will be escalating our concerns at this year's AGM and voting as follows:

- For the third consecutive year we will be **voting against the re-election of the Chairman**. We first voted against the Chairman in 2014 when the share price performance was still strong and were trading around £7.00. Today they are around £3.08.
- We have concluded that Sports Direct needs a stronger body of independent non-executive directors to ensure the business is run in the interests of all shareholders. For this reason we will be **voting against the re-election of all non-executive directors**.
- We believe that the Shareholder Requisitioned Resolution lends support to our escalation process as their management of human capital is also a concern for LGIM. Therefore **LGIM will support the shareholder requisitioned resolution**.

LGIM believes that clients should ask their other managers to be active and to send a strong signal to the company to call for change. In 2015 8.3% of shareholders, including LGIM, voted against the re-election of the Chairman.

What are LGIMs primary concerns?

LGIM has a number of concerns with Sports Direct, many of which we have been raising since our first discussions with the company.

Governance

LGIM has been calling for a refreshment of non-executive board members in order to strengthen and expand the expertise and skill-sets to advise management and provide appropriate oversight on behalf of all shareholders. There have been no new non-executive board appointments to Sports Direct in the last five years.

The company has demonstrated historically a lack of succession planning for key management positions.

For example, Sports Direct operated without a Finance Director for around 18 months. We raised our concerns first with the Chairman privately and then collectively with other investors throughout 2014 and 2015. On each occasion we stressed the need for the introduction of a credible external appointment.

The company also did not have a permanent company secretary to assist the board. A company secretary is an essential role, as they ensure the board receives the information required to make the best decisions on behalf of all shareholders. The company has now informed shareholders that an internal employee was appointed as full time company secretary in 2015.

However, we have concerns over the appointment processes for these two crucial positions.

Related party contracts and conflicts of interest is also a growing issue.

We had historic concerns with remuneration and had a number of meetings with the Chairman both privately and collectively. We questioned the need for the proposed scheme and voted against.

Social

There is a lack of transparency regarding Sports Directs supply chain, health and safety policies and working conditions. This makes it difficult for investors and other stakeholders to assess risks.

Sports Direct is one of the few UK retailers not to sign the Bangladesh Accord on Fire and Safety. We have been raising this in our discussions with the Chairman. The revelation that most of the company's 2000 workers were operating under zero hour contracts was a concern. We raised this with the Senior Independent Director as we wanted the company to re-consider their strategy on this. LGIM have yet to see a significant shift in the number of people on zero hour contracts.

Strategy

Sports Direct has purchased a number of stakes in various listed companies – mostly through derivative positions. Shareholders have a lack of understanding over financing arrangements and the strategic intentions of management in relation to these transactions. This issue has been repeatedly raised on each of our meetings with the Company. We believe that the process still lacks transparency and is questionable and a best practice approach should be adopted by the Company.

Related Documents

Investor Forum Statement on Sports Direct, available on the Investor Forum website:

<http://www.investorforum.org.uk/#!/news-1/fow87>

[Q2 ESG impact report to clients](#)

[2015 Active Ownership Report](#)

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