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Climate Transition Journey

September 2023

Contents

Overview	4
Our challenge	5
Our commitment	7
Our approach	8
Our plan	9
Our actions	10
Conclusion	13
Keeping you informed	13

Our approach to climate transition

At Royal London Asset Management, our responsible investment philosophy flows through everything we do. It is based on being a trusted steward of our clients' assets. We were set up in 1988 as an asset management business by Royal London, established in 1861 and now the UK's largest mutual life, pensions and investment company.

This is the first step in our Climate Transition Plan. It sets out some of the actions we are taking to pursue our climate ambitions. However, we recognise that we do not have all the answers and that our plan and the steps taken to deliver this will evolve over time as new information becomes available. We expect our overarching priorities to remain the same: targeting improved market standards and engaging with companies to reduce their emissions by asking for credible targets and climate transition plans, in the context of our fiduciary duty to clients.

In brief: Our plan



“ We prioritise targeting improved market standards and engaging with companies to reduce their emissions, in the context of our fiduciary duty. ”

Our challenge

Climate change is one of the greatest challenges facing humanity. It poses an increasing threat to economic growth and financial stability. Royal London Asset Management recognises the significance of climate change and its potential impact on clients' financial outcomes. The human activities that have driven economic growth and reduced poverty for decades, including fossil fuel energy generation, industrial activity and modern agricultural practices, are contributing to the degradation of the natural world and altering biophysical cycles. As more people are set to be living in urban areas, we need to invest in buildings, infrastructure and economic activities that are fit for a sustainable and resilient future.

The goal of climate action is to reduce the direct impacts of climate change – rising sea levels, droughts, extreme weather and ocean acidification. Building on the scientific consensus, the Paris Agreement and subsequent Conference of the Parties

(COP) pacts identified a long-term goal. This was to limit temperature increases to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature rise to 1.5°C and focusing on global actions needed to achieve this. Failure to do so will have adverse far-reaching effects across the globe, for example on society and biodiversity.

There is growing awareness that although the Paris Agreement represents a long-term goal, failure to act decisively now will make this very difficult and/or disruptive for society to achieve. For some companies, this will be a difficult backdrop, particularly those with high emissions who cannot pivot their business models. We acknowledge that there are risks to decarbonisation – particularly social risks – and that the interdependency of the physical effects of climate change and our natural environment are not yet fully known. This will likely have an impact on the long-term investment returns for our clients.

Working with others

We recognise that we cannot act alone to achieve the changes we need to see in the world. There are three key systemic improvements we need to support to ensure our climate transition plan is successful.

Public policy – In the absence of further technological breakthroughs, we are reliant on policymakers to create the policy and regulatory environment to tackle climate change. We believe the investment community can be an engine for positive change. That is why we engage with policy makers to help them understand what investors need to embed climate considerations into investment decisions and shift assets to climate solutions. As we continue defining our public policy strategy and activity, we will look to enhance the quality of disclosure across the asset classes we invest in and support the development of more sustainable financial markets to help us move fairly to a sustainable world.

Data & disclosure – Good quality and comparable data across asset classes and securities is key to helping us understand and evaluate climate opportunities, risks and impacts. Measuring and managing climate risk is still a relatively new area and data is often nascent, unstructured and incomplete.

However, we do not believe this should be an impediment to climate action. In order to get access to better quality data, we spend time cleaning and augmenting our carbon data and gathering energy and emissions information from our property tenants and investment companies.

We are also asking companies to improve their disclosures, and for regulators and standard setters to make climate data more robust, transparent and accessible.

Collective engagement – Where we invest in secondary markets, our influence with companies can sometimes be limited. We pride ourselves in being active, engaged investors, and there are times where we recognise the value of working collectively with others. We need investors across the investment chain to send strong signals to companies asking for change. We do this through initiatives like [Climate Action 100+](#) and the [Financing the Just Transition Alliance](#), and we will seek to increase our influence by working with others to amplify our voice.

We expect that climate change will impact the physical assets and properties that we invest in and manage. The 2020s are likely to prove to be a pivotal decade in the world's collective response to the climate challenge. We believe that real estate and the built environment in its entirety have a transformational role to play in responding to climate change. This will impact our decision-making within our property portfolio — from how we construct and manage buildings to how we engage with tenants, investee companies and policy makers. Equally, we believe that companies that understand the challenges and can adjust their strategy and practices to reflect a changing social, political and regulatory environment will be better placed to benefit from the financial opportunities that will arise as society moves towards net zero.

At Royal London Asset Management, safeguarding our clients' investments as the world moves towards net zero emissions is a key strategic priority. Our clients expect us to manage their assets in a responsible way that meets their financial objectives. They expect us to be trusted stewards of their capital and we are focussed on ensuring our business remains sustainable and best serves our clients. Therefore, we use our risk management system to help us to clarify our risk appetite and identify and manage these risks on behalf of our clients.

Our ambition is to approach climate risk management in a holistic manner. We aim to support a just transition to a low carbon economy, a process that minimises the negative impacts on nature and society. Climate change creates risks for the companies, issuers, and properties in which we invest, meaning they cannot continue with business as usual. We favour engagement for change to address these risks with the expectation that our purposeful engagement will result not just in portfolio decarbonisation but also in real-world impact.



“ At Royal London Asset Management, safeguarding our clients' investments as the world moves towards net zero emissions is a key strategic priority. ”

Our commitment

We have committed to support the goal of net zero greenhouse gas emissions by 2050 and to reduce our financed emissions by 50% by 2030. This means working closely with our clients, who entrust us with their money, to find a net zero pathway that helps them meet their financial goals whilst also managing climate-related financial risks. Given the impact climate change may have on our clients and their investments, it is important that we play our part, work with others and support activities to reduce the impacts of climate change on the economy, people and the planet.

Our net zero commitment*

At the heart of our approach is our commitment to achieving net zero by 2050¹ and reducing our carbon equivalent emissions by 50% by 2030 for our in-scope assets, using 2020 as the baseline year. Our in-scope assets are those in funds managed and controlled by Royal London Asset Management and segregated mandates where clients have made explicit commitments to net zero.

Our commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the goals of the Paris Agreement and that this action does not contravene our fiduciary duty. We are actively working to support our external clients with assets in segregated mandates where they have made an explicit commitment to achieving net zero.

* For further details on Royal London and Royal London Asset Management climate commitments, please see: [Royal London TCFD report](#) and [Royal London Asset Management TCFD report](#).

Our objective is to evaluate and influence through engagement with issuers representing 70% of our corporate financed emissions by 2030. We are asking for climate transition plans and adoption of emissions reduction targets linked to science-based sector specific alignment methodologies (such as the Science-Based Targets initiative or “SBTi”). We also expect the proportion of our Assets Under Management (AUM) to be managed in line with net zero to increase over time as a result of client engagement, methodology development in particular asset classes and the development of climate solutions. We will continue reviewing the progress of our implementation and commitments on an annual basis as part of our future Climate Report disclosures.

The net zero commitment above covers our equity and fixed income assets. We also manage significant property assets for our clients. For property, we have committed to achieve net zero by 2030 for directly managed property assets and developments and 2040 for indirectly managed property assets.

We recognise that our own operations and value chains contribute to climate change. We have committed to reach net zero across our direct operational emissions by 2030. To help towards achieving this, we are committed to purchasing 100% renewable electricity for our scope 2 operational emissions. We have also committed to reach net zero in our non-investment related value chain emissions by 2050 with a 50% reduction by 2030.

“ Given the impact climate change may have on our clients and their investments, it is important that we play our part. ”

1. Our efforts are focused on supporting the decarbonisation of the constituents of our funds through engagement (and not decarbonising our portfolio regardless of the real economy). The commitment is baselined on the year 2020 and is being tracked using Scope 1 and 2 carbon footprint (using EVIC as an attribution factor tCO₂e/\$m invested) for our corporate fixed income and equities portfolios.

Our approach

Climate change is a complex and multi-faceted issue and cannot be reduced solely to numbers. When assessing and managing climate risk, we are mindful of our many stakeholders, including clients, regulators, members of Royal London and the communities in which we and our investee companies operate.

Client-driven

Putting clients first means listening first. We see increasing demand for investments that are sustainable from a financial, social and environmental perspective. Taking climate change into account can reduce the risk of long-term capital losses on an investment by avoiding 'stranded assets' that were profitable in the past but could become loss-making in the future. Climate considerations can also identify opportunities in new technologies and those businesses that have invested earlier for climate resilience and adaptation. We will consult and discuss these points with our clients.

Embracing complexity

Different stakeholders and clients have different goals and needs. They also have different time horizons. This means climate change will impact each differently. Some regulatory risks can be more concentrated in the near term and easier to predict. A number of physical climate impacts are beginning to have a noticeable impact now, whereas others may take longer to play out. We expect climate change to impact different sectors and geographies in different ways, meaning companies and our clients could be faced with different choices on how best to manage these.

As a result, our approach is to recognize complexity whilst seeking to understand how we can reduce our risks and improve our ability to capture opportunities.

Continuously improving

We do not expect the pathway to achieving the Paris Agreement to be simple or straightforward. Supporting our stakeholders – including clients, regulators, our people and broader society – is an essential element for us to deliver our goals. Being open, honest and realistic about the challenges we face as we work on the solutions we need to solve this collective problem is critical. As climate science and investor understanding evolves, we will need to learn and improve. Our dedication to continuous improvement will serve as a driving force in achieving our objectives.

Supporting society and nature

We have been a leading advocate of the just transition since 2019. In the words of the London School of Economics (LSE) this can be a driver of material value, uncover investment opportunities and contribute to societal goals. Paying attention to the communities and environments in which we and our investee companies operate is inherent in being responsible investors. That includes being alert to how climate change will impact our joint wellbeing and future. We focus a lot of our attention on the potential social impacts of the transformation to a lower carbon economy and will further focus on the interdependencies with nature. There will be winners and losers from this transition, and we want companies to help prepare their employees, customers and other stakeholders for this change.



Spotlight: Challenges across asset classes

We manage products that span multiple asset classes, including equities, corporate credit, sovereign and private corporate debt, property, cash and commodities, with some exposure accessed via derivatives. This creates challenges and complexities for us when developing an overall climate transition plan for our whole business. Each asset class will have a different transition pathway as the financial objectives, risk profiles and time horizons differ. In some funds, we can significantly reduce climate risk by selling some assets or swapping them for companies with stronger climate governance. In others, we know that our best route for change is through engagement with underlying issuers or by investing in assets involved in the transition to net zero.

Our means of influencing climate outcomes also vary depending on the type of asset. For example, in equities we may need to focus on engagement and voting, in credit we may need to look at debt structure and covenants and in property we may need to focus on future proofing the value of our buildings under various climate scenarios. We don't believe in a one-size-fits-all approach. We also know that for some investments like commodities and derivatives, there is not yet an agreed methodology for calculating and reporting our carbon emissions. We are working with data providers, partners and regulators to address these challenges.

Our Plan

We acknowledge that developing a credible and practical long-term plan and pathway to 2050 will take time. We have started the process, but it is not complete. Developing our plan involves working with many stakeholders; undertaking deep, fund-specific climate analysis and scenario modelling; holding in-depth discussions with our investment teams; and thinking innovatively about our clients' present and future needs.

Our plan will be developed in line with the UK Treasury's Transition Plan Taskforce [guidelines](#), Task Force on Climate-Related Financial Disclosures' (TCFD's²) recommendations, Glasgow Financial Alliance for Net Zero ([GFANZ](#)) best practices for transition plans principles, and the Institutional Investors Group on Climate ([IIGCC](#)) guidelines. Here is a snapshot of what we are working on.

	Our ambition	Our plan
Engagement	We have committed to engage with 70% of our financed emissions by 2030.	We are currently engaging with companies representing at least 50% of our financed emissions across our AUM. We plan to increase this to 70% by 2030 to scale up and deepen our engagement at both firm and fund level as we move closer to 2050.
Portfolio emissions	We have committed to reduce the emissions from our investment portfolio by 50% by 2030 as part of the transition to net zero by 2050 ³ .	We will evaluate more forward-looking and net zero alignment metrics to integrate them further into our investment research to support portfolio decarbonisation in line with client expectations. We have two areas of focus: <ol style="list-style-type: none"> 1. To improve our understanding and use of forward-looking metrics, recognising that this is an evolving field, and that data and knowledge is changing rapidly. 2. To evolve our ability to do stress testing under different temperature scenarios, including a 1.5°C scenario, 2°C scenarios, and a 'hot house' scenario.
Portfolio emissions – property investments	We have committed to achieve net zero by 2030 for directly managed property assets and developments and 2040 for indirectly managed property assets.	We have evaluated the carbon in our property portfolio and projected its emissions forward to understand what reductions and actions will be needed. Based on this assessment we have identified targeted interventions for our embodied carbon impacts, operational energy used, on-site renewable energy capacity, off-site renewable energy procurement and carbon offsetting strategy. We have developed a detailed delivery plan with concrete actions in our net zero carbon pathway report .
Operational emissions	Through Royal London, we have committed to net zero direct operational emissions by 2030 (scope 1 and 2), net zero in our scope 3 non-investment value chain by 2050.	We will purchase 100% renewable energy for our operations (scope 2) by 2025. Our operational net zero strategy includes transitioning to all-electric vehicles, installing solar PV across viable sites and replacing all fossil fuel boilers and equipment. Our value chain net zero strategy is initially focussed on the highest emitting categories which are purchased goods and services, business travel, employee commuting and homeworking.
Climate solutions	We have committed to develop solutions that enable clients and customers to invest in the low carbon transition.	We launched our Global Equity Transitions fund which invests in companies seeking to help the world transition to a more sustainable and lower carbon future. We are actively speaking to our clients and surveying prospects about their future product needs and requirements. We are developing new product ideas to help support the transition to a lower-carbon economy.

2. The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) was set up to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

3. Through Net Zero Asset Manager Initiative (NZAM): Emissions measured as tCO₂e per USD million invested, against a 2020 baseline. These commitments are based on the expectation that governments and policymakers will deliver on the commitments to achieve the goal of the Paris Agreement and that the required actions do not contravene our fiduciary duty to our clients. Our climate commitments include assets in funds managed and controlled by Royal London Asset Management and segregated mandates where clients made explicit commitments to net zero.

Our actions

In 2022, we made significant progress in developing our longer-term climate strategy and started to embed it into our business. First, we disclosed our climate targets as part of our support of the Net Zero Asset Managers (NZAM) initiative⁴. This disclosure serves as a guiding principle, and is something we are working with our clients, our colleagues and other stakeholders to achieve. We are also highly aware that the world around us is changing, client preferences are evolving and our approach to achieving our targets will also evolve and change.

Second, as outlined above, we have started working to develop our climate transition plan which will serve as a roadmap to help us set up the practical steps and activities that we need to take so that we can support our clients and work towards meeting our climate ambitions. We have identified a number of activities we need to focus on in order to achieve our goals. These activities will provide us with a strong foundation to build upon as we establish our transition plan.

1. Understanding our clients' needs – Our clients are an essential part of our pathway to net zero, and their support will be integral for us to achieve our ultimate goals. We are having in-depth conversations with clients to understand what they expect from us. In-house research, client surveys and roundtables are important inputs into our thinking and the next iteration of our climate transition plan.

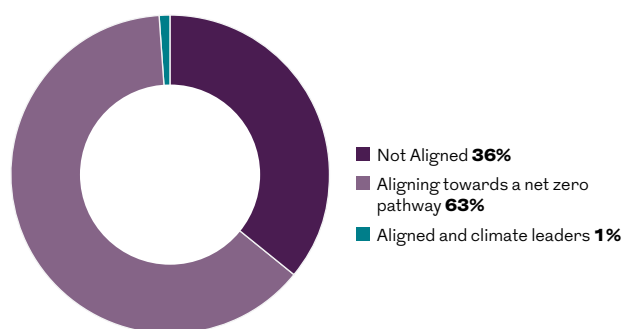
2. Embedding climate analysis into investment decisions – Good quality and asset-class specific assessment of climate-related risks and opportunities is essential to meeting our goals. We have an established process of learning, adapting and driving continuous improvement in how we look at climate in an investment context. In 2022, we undertook a deep-dive evaluation of how climate change impacts performance across a select group of funds. We will use this to carry out further analysis of the financial impact of climate change ([see Spotlight: challenges across asset classes on page 8](#)).

3. Improving proprietary tools, data and systems – Since 2019, we have invested greatly in building out a set of proprietary environmental, social and governance (ESG) data and analytics. We have continued to enhance the quality of our climate data and the tools, making efforts to carefully map correct carbon emissions data to the appropriate entity for our fixed income issuers, and fill in gaps in data where traditional data providers have failed to accurately capture emissions disclosures.

4. Focusing on net zero engagement – We believe that one of the strongest aspects of our plan to date is our net zero stewardship programme, which lies at the heart of our net zero strategy. We believe that driving down company emissions has a much more direct and 'real world' impact than divesting assets. To support this strategy, we have developed 12 climate transition indicators that we use to evaluate, engage and monitor with the highest emitters in our portfolios. We are currently targeting engagement with companies representing 50% of our financed emissions, and we plan to increase that to 70% by 2030. You can read more detail about our net zero engagement activities [here](#).

Assessment of NZIF⁵ alignment

Figure 3: Assessment of NZIF alignment



Source: RLAM as at 31 December 2022⁶

4. The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions.

5. Net Zero Investment Framework provides guidelines to assess alignment of companies' with the goals of the Paris agreement.

6. For rated instruments (see more details in the [TCFD report](#))

5. Improving knowledge and accountability – Our Executive Committee approved our net zero commitment in early 2021. Its members are involved in setting out our climate strategy and tracking progress against targets. We are making continuous investment to further embed responsible investment, climate accountability and transparency across our business. We are undertaking a programme of work internally which is focussed on investing in and upskilling our people. This includes a formal training programme on responsible investing and climate change, improving knowledge sharing internally and externally, and creating greater empowerment and accountability for teams within our business to support our climate transition plan.

6. Innovating and evolving our product range – We have a well-established Sustainable fund range that invests in companies that make a positive contribution to society. We have transformed nearly all our passive equity funds into quantitative funds (Tilts) with an objective to have a lower carbon intensity than the benchmark. Our property funds have set out an ambitious net zero carbon pathway (see spotlight bottom left). Furthermore, we have launched our new Transitions strategy to focus on investing in companies that are making meaningful improvements in climate and sustainability factors (see spotlight bottom right). We are looking for opportunities to innovate further to create more products that support our clients as they move towards net zero.

Spotlight: Property

The built environment generates 40% of carbon emissions, so property is a crucial asset class for addressing climate change. We have a target of achieving net zero carbon by 2030 for our directly managed property assets (those over which we have complete operational control), for our developments and by 2040 for our indirectly managed property assets (those managed wholly by the occupier). We have published a property net zero carbon pathway setting out seven steps to achieve those goals. These begin with understanding the drivers for net zero in property, including investors' own net zero commitments and occupiers' desire to reduce their carbon footprint and energy costs. Other steps include identifying the carbon footprint and trajectory of our properties, reducing embodied carbon, and increasing operational efficiency and renewable energy supply. We have set out our trajectory, backed by far-reaching targets, to enable us to achieve our net zero vision. For example, we are currently undertaking net zero carbon audits across our directly managed property assets, comparing their operational performance against the Carbon Risk Real Estate Monitor (CRREM) 1.5°C pathway. We also recognise that the net zero carbon landscape is fast evolving. There will be new opportunities and barriers for us to capitalise on and overcome as we move together towards this goal that is right for both our property business and the environment that supports it.

Spotlight: Transitions and Tilts

Our ambition is to offer our clients a choice of paths towards net zero to suit different needs and risk profiles. Our transitions and tilt strategies offer two alternatives for climate-conscious equity investors. Tilt strategies, like traditional passive strategies, seek similar risk and return profiles to underlying equity indices. However, they have a second set of objectives based around carbon intensity reduction, responsible investment, stewardship and other ESG criteria.

Since the ESG tilts were introduced into our passive equity funds in August 2021 we have transformed our passive funds into tilt funds (see 'Our actions', item 6 above). In aggregate, these have reduced their weighted average carbon intensity (WACI⁷) by approximately 22% (to 31 December 2022).

Our Transition funds aim to support climate transformation by investing in companies pivoting their business to a more sustainable path ('improvers'), or enabling someone else's transition ('enablers'), or both. This approach will become increasingly important as it gives clients an opportunity to support companies who seek to benefit from the transition, and those who are making the necessary decisions to help decarbonise their business activities.

7. WACI: For a description of this and other metrics please see Appendix I of our [TCFD report](#).

7. Developing best practice — At Royal London Asset Management, we believe that climate is an area of science that requires significant expertise, which is why we have dedicated climate experts within our team. We know that to create change, we need to work with others to create more lasting systemic shifts. We are actively participating in industry forums and advisory groups and are one of the 20 members of the Climate Financial Risk Forum ([CFRF](#)). Our role is to support the objectives of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) to build capacity and share best practice on climate change across financial regulators and industry. We are also participating in HM Treasury's [Transition Plan Taskforce](#) to develop guidelines for asset managers and to embed just transition in transition plans.

8. Reducing our operational emissions — Our operational emissions reductions are managed by Royal London. Through implementing energy-savings initiatives, our Group scope 1 and 2 location-based emissions have reduced by 72% in 2022 from our 2019 baseline. Our market-based scope 2 emissions have decreased by 99% through purchasing renewable electricity contracts. During 2022, we expanded our focus by setting our non-investment scope 3 emissions net zero strategy as well as continuing to take action to reduce our operational emissions. We have maintained carbon neutrality since 2020 in our direct operational emissions while reducing our use of carbon offsets year-on-year.



“ We have maintained carbon neutrality since 2020 while reducing our use of carbon offsets year-on-year. ”

Conclusion

Climate change stands as one of the paramount challenges of the 21st century. Its toll is already evident, and without further intervention from policymakers, companies and investors, the impacts are likely to become more acute and damaging. As we collectively strive to embrace a more sustainable future, we invite you to engage in a conversation with us about how we can work together to help mitigate the worst impacts of climate change.

The upcoming decade holds immense significance in our collective response to this challenge. We wholeheartedly commit to careful planning, prudent action, continuous improvement, and ongoing learning and dialogue. Together, let us forge a path to play our part in moving fairly to a sustainable world.

“As we collectively strive to embrace a more sustainable future, we invite you to engage in a conversation about how we can work together to help mitigate the worst impacts of climate change.”

Read more

[2022 Climate Report \(TCFD disclosure\)](#)

[Net zero stewardship update](#)

[Climate risk policy](#)

Keeping you informed

We are committed to being transparent and open about our approach to responsible investment. You can read about this in detail in our annual [Stewardship and Responsible Investment report](#). In addition to this, we are publishing regular updates on our net zero stewardship strategy, covering corporate engagement, voting and public policy advocacy. You can read the latest report [here](#).

We have published TCFD reports in both 2021 and 2022, showcasing how we think about managing climate risk. In June 2023 we published our [Climate TCFD reports](#) at both legal entity and product level, in line with UK regulatory requirements. This document sets out our initial thoughts on our climate transition plans and activities to support our net zero ambitions. We are carefully monitoring emerging best practice standards and regulatory requirements, as well as evaluating the recommendations of the Transition Plan Taskforce. While we await further guidance we are committed to updating our clients and key stakeholders regularly on our progress against our commitments.

To learn more about our work supporting our clients with our climate transition action plans, please contact ESG@rlam.co.uk

Important Information

The views expressed are those of the author at the date of publication unless otherwise indicated, which are subject to change, and are not investment advice.

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