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Royal London Asset Management Credit & ESG Activity Report

Quarterly Overview

30 June 2026

Overview

Introduction

Evaluation of ESG risks and targeted engagement with debt issuers is a critical element of any effective credit process. RLAM's credit research approach has always focused on the stability of issuers' balance sheets and cash flows, requiring a broad-based understanding of credit risk, whatever the source. Our experienced credit and ESG specialists and an integrated investment process enhance our ability to identify, mitigate and price risk, ensuring RLAM's clients benefit from the established cornerstones of our differentiated credit proposition.

Westfield Stratford City

During the quarter, we participated in a new issuance from Westfield Stratford City Finance No. 3 PLC, a AAA-rated CMBS transaction secured against the Westfield Stratford City shopping centre in East London, adjacent to the Queen Elizabeth Olympic Park. Westfield Stratford is one of the UK's largest retail destinations, spanning over two million square feet and attracting approximately 54 million visitors in 2025. The asset is owned by a joint venture between Dutch pension fund APG, the Canada Pension Plan Investment Board, and Unibail-Rodamco-Westfield – which holds a 50% stake and manages the asset.

As long-term lenders to the asset, the transaction provided us with an opportunity to review its sustainability profile. Environmental considerations are increasingly important within commercial real estate, including for retail assets, given their linkage with tenant demand, operating costs and asset valuations. In this context, Westfield Stratford continues to demonstrate strong environmental performance.

The asset holds a BREEAM In-Use rating of "Excellent", reflecting high standards of operational management and environmental efficiency. Beyond this headline rating, Westfield Stratford reported a 30% reduction in energy use and a 29% reduction in carbon emissions since 2019, achieved through ongoing optimisation and energy efficiency initiatives. This performance is supported by an on-site Combined Cooling and Heating Plant (CCHP) that is 30% more carbon efficient than conventional systems, incorporating a biofuel boiler and supplying cooling and heating to the shopping centre. On waste management, Westfield Stratford has operated a zero waste-to-landfill strategy since opening and achieved a 64% recycling rate in 2025.

Given tenants' own sustainability ambitions, we view these initiatives as key to ensuring that Westfield Stratford remains a key destination for retailers – ultimately mitigating potential risks to cash flow stability and the value of the underlying security. This adds to the benefits of the transaction, which include a low loan-to-value, a highly diversified tenant base, and the backing of owners with a strong track record in retail real estate. We participated in the deal, which came at an attractive spread for the AAA rating, based on credit insights underpinned by our targeted ESG analysis.

London and Quadrant

London & Quadrant (L&Q) is one of the largest housing associations in the UK, providing homes to 250,000 people. We have been long-term lenders to L&Q and the wider social housing sector, and towards the end of the quarter we welcomed the opportunity to speak with management.

In recent years, L&Q has been at the forefront of a range of sector-wide challenges. Its large London presence means it owns a relatively high proportion of tall buildings and is therefore continuing to undertake extensive fire safety remediation works in response to heightened regulatory and safety expectations. At the same time, the sector has seen increases in expectations around the quality of housing and, like other housing associations, L&Q has been making large investments to improve existing homes, including upgrades related to energy efficiency and the remediation of damp and mould.

Overview

London and Quadrant continued

The need for greater investment, combined with a difficult macroeconomic environment, has placed additional strain on L&Q's balance sheet. Positively, following a period of expansion and diversification into more commercial activities, L&Q is now working to refocus its business on social housing activities in its core areas of operation of Greater London and Greater Manchester. The latest development in this process has been the sale of its private rented sector portfolio, with L&Q noting in our meeting that proceeds have already been deployed to reduce leverage.

Another area of focus in our conversation was tenant satisfaction. L&Q's Tenant Satisfaction Measures (TSM) – mandated across the sector – remain relatively low, with overall satisfaction for social housing tenants at below 60%. Management attributes this, in part, to the perception-based nature of the metric, which may capture tenants' views that reflect past interactions rather than recent service levels. In contrast, management noted stronger performance in more transactional satisfaction, which it views as a more accurate indicator of current service quality. Encouragingly, L&Q has made significant progress in developing a better understanding of the quality of its stock, with the proportion of homes surveyed having increased considerably year-on-year, rising to over 90% from just above 70%. This improved coverage provides a more comprehensive understanding of stock condition and sets the foundation for targeted investment to further improve the quality of homes and, ultimately, tenant outcomes.

Social Housing is a great example of the blurred line between ESG and credit analysis. Given the highly politicised nature of the sector it is also incumbent on us to ensure any headlines are contextualised appropriately, both in terms of societal and financial impacts. This critical nuance when it comes to lending to housing associations, means our ongoing interactions with issuers in the sector materially enhance the integrity of our decision making.

EDF and Engie

Electricité de France (EDF) is one of the highest emitters within our investment universe. Consequently, there is real onus on us to understand the nature of this exposure, the company's transition pathway, and the potential for future liabilities to undermine our current lending position. Despite its large contribution to our financed emissions, we continue to view the company as having strong climate credentials, reflecting both the nature of its generation mix – skewed towards nuclear and renewables – and its large investments to support the energy transition. Our understanding of EDF's transition credentials is supported by the qualitative transition assessments carried out by our Responsible Investment team, as well as our regular engagements with the business, framed by RLAM's role as a CA100+ co-lead. Our most recent meeting, held in April, focused on the company's latest annual disclosures and included feedback on its approach to the just transition, confirming our assessment of EDF as being "aligned" to a net zero pathway.

During the quarter we also met with Engie, another French utility. Like EDF, Engie has a relatively high carbon footprint – making our in-house assessment of its transition credentials key to understanding potential climate risks as part of our wider credit evaluation. We currently assess Engie as "aligning" towards net zero, helped by large investments towards scaling up renewable energy production – which now represents half of its energy mix – as well as towards electricity transmission networks to enable greater electrification. Our meeting with the business was useful for getting an update on its coal exposure; following the completion of its phase-out in Europe in 2025, Engie is now planning to exit coal entirely by 2027, with current exposure being minimal.

Our work on EDF and Engie reflects our broader climate approach, with a particular emphasis on higher risk areas of our portfolios, and aimed at understanding the forward-looking credentials of companies rather than relying on point-in-time and largely historic emissions performance.

Disclaimers

Important information

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