

# Credit & ESG Activity

31 March 2026

## CREDIT AND ESG ANALYSIS – Q1 2026 OVERVIEW

### Introduction

Evaluation of ESG risks and targeted engagement with debt issuers is a critical element of any effective credit process. Royal London Asset Management'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 our clients benefit from the established cornerstones of our differentiated credit proposition.

### Sage Homes

During the quarter, Sage Homes (Sage) issued a new securitisation. Set up as a joint venture between private equity firm Blackstone (the controlling shareholder) and property investor Regis Group, Sage is the largest 'for-profit' registered provider of social housing in the UK, with a portfolio of over 18,000<sup>1</sup> homes comprising primarily affordable rent and shared ownership units. As a registered provider of social housing, Sage is subject to oversight by the Regulator of Social Housing – which assigns it the highest governance grading of G1 and a compliant viability grading of V2. While Sage does not yet have a regulatory consumer grading, it reports adequate tenant satisfaction – including strong safety-related tenant satisfaction and good performance of its repairs service. Like other registered providers of social housing, Sage has a commitment to the wellbeing of its residents and recognises its social role in communities. As an example, Sage has a dedicated financial wellbeing team for helping households with their finances. During 2024 it reports having helped over 500 households access £2 million in unclaimed benefits.<sup>2</sup>

Sage has issued a few securitisations in recent years, raising finance in the capital markets against pools of existing assets to reinvest the proceeds into the development/acquisition of new affordable homes. This most recent transaction is backed by a portfolio of 3,885 social housing units, with over 90% of these being affordable homes rented at an average of 65% of market rent. Importantly, with all its homes being of recent construction, a key feature of Sage's housing stock is the high energy efficiency ratings relative to the wider social housing sector. The company reports that 98%<sup>3</sup> of its stock is rated EPC B or higher, resulting in an average saving of £430<sup>4</sup> in annual energy costs for tenants. Sage has also committed to decarbonisation through the integration of low-carbon technologies such as heat pumps and solar panels. Given our lending is directly secured on these homes, as well as the clear societal benefit, enhanced environmental performance directly impacts both the sustainability of cash flow generation and future collateral values. In turn this support on-going debt service and ability to refinance and is an example of the clear correlation between ESG and credit analysis.

We have been long-term lenders to the 'not-for-profit social housing sector, recognising a useful blend of social impact, supportive lending structures and yields that reflect the lower profile nature of the industry. It is important that we hold the 'for-profit' sector to a higher account and the insights from our analysis gave us comfort that Sage is effectively delivering on its clear responsibilities as a provider of social housing.

We purchased the most senior tranche of the securitisation, offering lower leverage than is typical from non-securitised social housing bonds. Despite the bond's AAA rating we are being paid a credit spread in excess of unsecured BBB corporate bond levels, largely reflecting the less conventional issuing structure.

1. Sage AR Funding 2026 No.1 plc Investor Presentation Jan-26.

2. Sage Homes RP Limited Annual Report 2024, p.3

3. Sage Homes RP Limited Annual Report 2024, p.2

4. Sage Homes RP Limited Annual Report 2024, p.3

## ØRSTED

Ørsted has historically demonstrated strong transparency and focus on health and safety, with clear disclosures and improving performance. Notably, Total Recordable Injury Rates (TRIR) for both employees and contractors combined have declined in each of the past five years. However, in reviewing Ørsted's 2025 Annual Report, we were saddened by the fatal incident involving two subcontractors at the Plum Creek Wind onshore site in the US. Given the seriousness of the incident, we engaged with the company to seek further detail on the circumstances, remedial actions, and broader health and safety governance.

Ørsted confirmed that it conducts frequent contractor and subcontractor site inspections and has strengthened supervision and dialogue, including the use of software to verify and document correct use of safety equipment. One improvement now requires technicians undertaking blade repairs to use an independent lifeline in addition to the basket's primary and secondary wires, which we view positively.

Ørsted also confirmed that TRIR is monitored monthly and reported to senior management, the Group Executive Team, and the Board. The company met its 2025 TRIR target of 2.5 and is working towards a reduced target of 2.3. Management indicated that any deterioration in safety performance would prompt immediate leadership attention and allocation of appropriate resources.

While health and safety risks are inherently elevated given Ørsted's activities, our engagement provide reassurance that these risks continue to be actively monitored and addressed.

### John Lewis

Towards the end of the quarter, we met with John Lewis, the UK retailer, as part of our engagement project focusing on human rights in the food and agricultural sectors.

The purpose of our engagement was to discuss how John Lewis identifies and prioritises salient human rights risks across its supply chains, how these risks feed into business decision-making, and how effectiveness is monitored over time. Particular focus was placed on remediation and grievance mechanisms, audit effectiveness, land rights, and health and safety.

Overall, John Lewis demonstrates a UNGP-aligned due diligence process, underpinned by long-term supplier relationships, that supports the effective tracking of human rights impacts over time. Its approach shows a clear understanding of where the most severe risks sit and how they evolve. It puts an emphasis on remediation of disengagement, addressing root causes rather than treating issues as isolated supplier failures.

Human rights are significant for companies with extensive supply chains like John Lewis and our engagement was a key opportunity to gain additional information in this critical area. While areas for improvement remain, we believe that these risks are given the necessary focus and are adequately taken into account in the company's wider business decision-making.

Operating in a sector that has historically demonstrated significant creditor volatility, John Lewis' unusual employee-ownership structure infers a longer-term and lower risk approach that can dampen credit risk. The unrated nature of their bonds also provides opportunity for investors to be over-paid for fundamentals. However, it is vital that we form their own credit views and, as part of this, the interaction with John Lewis reflects our engagement focus on lower profile borrowers where third party information is less accessible.

### Just adaptation RI research

Towards the end of 2025, our Responsible Investment team published a Just Adaptation report, setting out investor expectations as a framework for evaluating companies' climate adaptation strategies. As climate change accelerates, adaptation (e.g. resilience building) is becoming as critical as mitigation (e.g. emissions reductions). In this context, Just Adaptation refers to climate adaptation strategies that are designed to maximise positive outcomes for both society and nature, while minimising the risk of social, environmental or economic harm. This chimes with the ethos behind our support for Just Transition, which forms a central tenant of our approach to the Climate Transition Assessments of high emitting bond issuers.

The report recognises that adaptation is complex and inevitably involves trade-offs but surmises companies should work with stakeholders to design strategies that reflect local social and ecological contexts – minimising the risk of "maladaptation" i.e. avoiding the inadvertent harm to local communities from actions intended to build resilience. We believe that inclusive and well-designed adaptation is capable of delivering a "triple dividend"; reducing physical climate risk, enhancing social and economic wellbeing, and supporting biodiversity.

One of the case studies in the report covers South East Water. An example that amply demonstrates some of the complex trade-offs inherent in adaptation, within a sector that engenders real contention, demanding significant investor understanding and nuance.

The full report is available at this [link](#).

## Contact us

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