# Royal London Asset Management Voting and Engagement

## Quarterly Report

## 31 December 2023

# Executive Summary

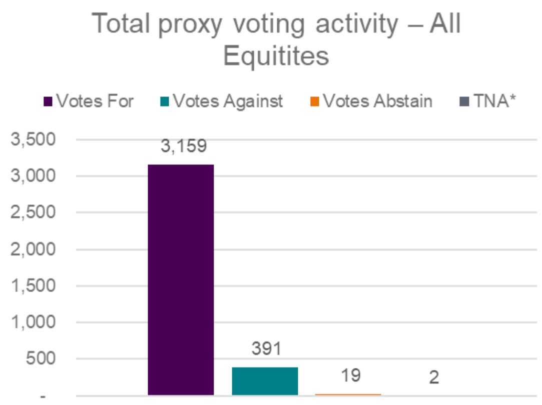
## Q4 Highlights

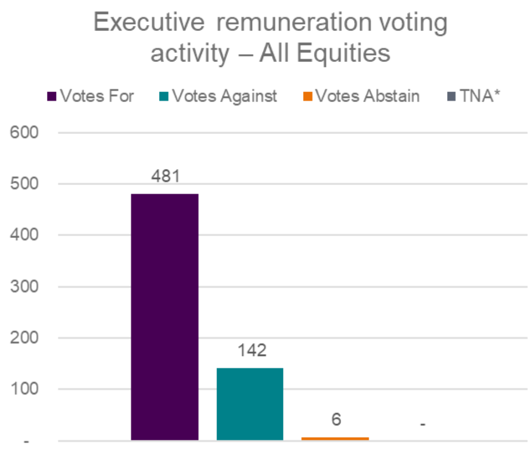
- During this quarter, we have continued with our multi-year thematic engagement programmes across Royal London Asset Management's six themes: climate change; biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology, and society.
- In the second quarter, we published a half year update to the Net Zero Stewardship Programme which shows how we are progressing with our net zero engagement. During the current quarter, we initiated engagement with a total of 18 companies, which constitute our top 50% financed emissions. Multiple engagements were conducted with several companies, including 13 meetings, nine letters, and attendance at four investor events.
- Through the fourth quarter we have continued our engagement with utilities on just transition and will continue with this exercise during the next quarter.
- We are continuing our work on our collaborative engagement on cybersecurity and met with a number of companies this quarter.
- We are currently working on Phase 2 of our water utilities engagement and have met with Severn Trent to discuss its score against our investor expectations.
- Voted "against" a shareholder proposal at Microsoft Corp with regards to a report on median compensation and benefits related to reproductive and gender dysphoria care.
- Voted to "abstain" the remuneration report of Genus PLC on the basis that targets were not sufficiently stretching versus current market expectations.
- Voted "against" the remuneration report at Ashmore Group PLC due to a number of factors.

# Voting Overview

## Royal London Asset Management All Equities

In the quarter, we voted a total of **3,571** resolutions at **431** meetings, voting differently to our internal policy recommendations **4.3%** of the time.




*Take no Action – we endeavour to vote all meetings other than in markets where voting would result in share blocking.

*Voting data as of 31 December 2023*

# Notable Votes

## Microsoft Corp (all equities, sustainable world, sustainable diversified, RL Group, global equity diversified, global equity select, tilted equity)

- **Elect Satya Nadella –** against: We voted against due to the fact that the roles of chair and CEO have been combined.
- **Advisory vote on executive compensation -** against: We noted some improvement in disclosures of certain performance targets; however, concerns remained over the short performance period of long-term incentive awards.
- **Report on median compensation and benefits related to reproductive and gender dysphoria care (SHP) -** against: Given the company's existing disclosures and due to some concerns over the ultimate aims of the proponent, we were not minded supporting the proposal. Further, we acknowledged the company's broad-based policy approach in supporting new parents and women across their workforce and supply chains.
- **Risks of developing military weapons (SHP) -** for: Given the substantial reputational and human-capital-related risks that come from operating in this area, we felt that further disclosure and consideration was warranted.
- **Report on AI misinformation and disinformation (SHP) -** abstain: We noted the company's existing disclosures and Microsoft's commitment to publish an annual transparency repot on its AI governance practices by next year.

## Ashmore Group PLC (all equities, RL Group, UK equities, tilted equity)

- **Remuneration Report –** against: The company awards directors and wider employees under an omnibus variable bonus pool capped at 25% of earnings before variable compensation, with no individual caps for directors. Moreover, the pay plan appears to be geared towards short-term performance, which is contrary to stakeholder interests. Finally, performance conditions are assessed on a discretionary basis, where we would prefer to see clear targets and outcomes.
- **Remuneration Policy –** against: While the pay structure had been somewhat simplified, noting in particular the high level of mandatory bonus deferral and increase in shareholding guidelines, concerns persisted over the lack of individual

caps. The FD was also awarded a salary increase of 17% during the year (20% in the previous year), which is considered significant under Royal London Asset Management policy standards.

- **Elect Helen Beck – against:** The nominee is chair of the remuneration committee and we have long-standing concerns with the company's remuneration.

## Genus PLC (all equities, UK equities, RL Group, tilted equity)

- **Remuneration Report – abstain:** Performance targets under the long-term incentive plan (LTIP) were based 80% on EPS (4% - 12%), 10% on Greenhouse Gas Reductions (3% - 10%) and 10% on a Genetic Improvement measure. We took issue with the future EPS targets for the LTIP, which remained at 4-12% EPS CAGR noting that both the hurdle and maximum award rates are too low. We therefore abstained on the basis that targets were not sufficiently stretching, versus current market expectations.

## Kin & Carta PLC (all equities, UK equities, tilted equity)

- **Scheme of Arrangement – against:** Apax Partners, a private equity firm, has agreed to buy Kin & Carta, a digital transformation company, in a deal that faces some resistance from shareholders. Kin & Carta's board supports the deal, saying that the company needs more capabilities, resources, and capital, which are hard to get on its own. The board also mentions the volatility of the company's financial performance and share price as challenges to its strategy. Some holding fund managers of Kin & Carta oppose the offer, arguing that it is too low and unfair to shareholders. The meeting to vote on the deal was postponed letting Apax review a higher bid from Valtech, another private equity firm. Apax will announce its decision later.

## Kin & Carta PLC (all equities, UK equities, tilted equity)

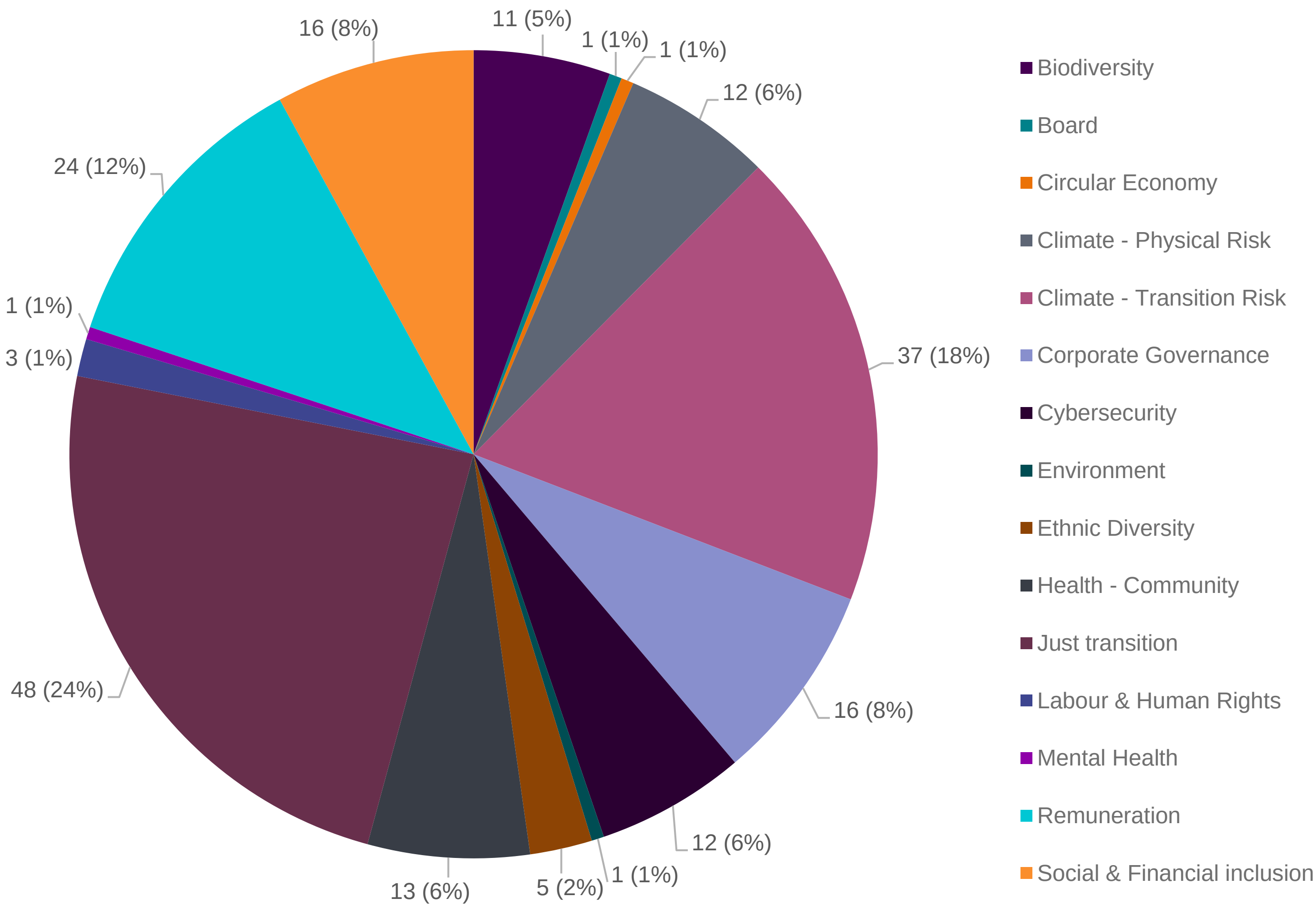
- **Elections of David A. Bell, Maria Gordian, Michelle Maher, and Nigel D. Pocklington** – **all abstain:** Concerns were raised over the terms of the company's acquisition by Apax Partners and the non-executive directors' roles in the decision-making process.
- **Election of John A. Kerr - against:** It was felt that as board chair, the nominee bore a greater responsibility towards the company's strategy. Concerns were hence raised over the chair's role in the decision-making process of the Apax transaction.

# Engagement

## Engagement Overview

- During the fourth quarter of 2023, Royal London Asset Management engaged with 133 investee companies on 170 separate occasions. A breakdown of topics discussed, by percentage of our overall engagement activity, can be seen in the chart below.
- In addition to the above engagement activity, we sent 13 voting engagement letters and emails, advising investee companies of our voting rationale in the instance of an abstain or against management's recommendation vote during the quarter.

## Engagement Activities by Topic




*Note: Engagement data is for the period between 1 October 2023 to 31 December. During this period, we conducted 170 meetings with various companies, addressing 201 different topics.*

# Engagement Progress

## Governance

### Remuneration

**Company:** Johnson & Johnson

**Purpose:** We wanted to engage with Johnson & Johnson to further understand the company's corporate governance and discuss executive compensation.

**Outcome:** Johnson & Johnson has made progress in implementing a racial equity audit following the passing of a shareholder resolution. The board has demonstrated a commitment to providing sufficient oversight and challenge to management, despite the combined Chair/CEO position. During our discussion, we gained valuable insights into the company's approach to board structure, executive compensation disclosure and framework, and broader stakeholder matters, including employee and shareholder resolutions. While we maintain our views on certain topics, the overall tone of the discussion was positive and provided a deeper understanding of Johnson & Johnson's approach.

### Diversity

**Company:** Sabre Insurance Group PLC

**Purpose:** In 2021, we met with Sabre Insurance to discuss its approach to ethnic diversity and workforce engagement. We provided feedback to help the company align with other leading companies in the market. We followed up with the company to understand whether any improvements have been made.

**Outcome**: We have observed significant progress in the company's practices. Sabre Insurance has appointed a new minority ethnic board member, meeting the Parker Review targets. It has also established an ED&I policy and broadened its recruitment pool using a hybrid model to attract talent from London. Overall, the company has made commendable strides in promoting diversity and inclusion at all levels, including senior roles and the board.

## Climate

### Net Zero

**Companies in scope**: Companies contributing to 50% of Royal London Asset Management's financed emissions, please see Net Zero Stewardship programme report and Net Zero Stewardship Programme Update January – June 2023.

**Purpose**: As part of the Net Zero Asset Managers initiative (NZAM), our primary engagement objective is to evaluate and influence companies, which represent at least 70% of Royal London Asset Management's financed emissions by 2030, to adopt emissions reduction targets and climate transition plans that are reinforced by credible science-based methodologies. Our Climate Transition Assessment methodology is based on 12 indicators. Through this approach, we expect to influence real-economy decarbonisation in pursue of Royal London Asset Management's target.

**Update**: During the current quarter, we initiated engagement with a total of 18 companies, which constitute our top 50% financed emissions. Multiple engagements were conducted with several companies, including 13 meetings, nine letters, and attendance at four investor events.

**Company**: Shell PLC

**Purpose:** We, along with other investors and ACCR, met with Shell to discuss the transparency and methodology of its lobbying disclosures. The goal was to understand Shell's prioritisation of lobbying disclosure and provide feedback on the perceived gap in not covering lobbying in emerging markets.

**Outcome**: Since 2019, Shell has improved its transparency and advocacy on climate issues and is considered a sector leader in this regard. Shell has expanded its reporting team, published its policy positions, and reviewed its trade associations for alignment with its climate ambitions. However, Shell acknowledged a disclosure gap in emerging markets and explained that it takes a materiality approach, choosing associations and countries where it has the most influence and spends the most time. We suggested that the materiality assessment should consider where Shell's business operations and key markets are located.

**Company**: Electricite de France

**Purpose**: As part of the CA100+ collaborative engagement, we met with the company's Chief Sustainability Officer and her team to discuss engagement priorities. These included 1) improving EDF's scope 3 emissions targets and reduction levers, 2) improving scope 1 emissions including expanding its renewable and nuclear plans, 3) improving offsetting, residual emissions, just transition, and CAPEX disclosures.

**Outcome**: EDF set new targets to reduce its scope 1 emissions from electricity generation by 60%, 70%, and 80% by 2025, 2030, and 2035, respectively, from a 2017 baseline. The company has already halved its scope 1 emissions between 2017 and 2022. EDF also clarified its Net Zero by 2050 target, confirming that it includes scope 3 emissions (almost 80% of its current emissions) and entails reducing emissions by at least 90%, with the remaining 10% abated through quality carbon removal projects after 2030.

**Company**: Safran SA

**Purpose**: We engaged with Safran’s Group Energy Strategy Coordinator and Investor Relations as part of our net zero engagement programme. We wanted to understand the company’s strategy and progress on scaling new technologies, climate scenario analysis, and address the lack of policy on nature and just transition.

**Outcome**: Safran explained that it follows the aerospace sector’s decarbonisation goals but depends on the “airframers” for engine demand and specifications. The company sees challenges and opportunities in sustainable aviation fuels (SAF), hydrogen, and electric batteries. However, it was unclear how it will meet its 2035 target. The company was reluctant to share more details on the assumptions and results of its scenario analysis but recognised the growing pressure to disclose more on climate issues. Safran has not thought about just transition and it will report more on biodiversity soon. We appreciated the opportunity to learn more about the company and hope to continue the dialogue and have more focused and productive discussions in the future.

**Company:** Drax Group PLC

**Purpose:** We attended a site visit to Drax's power plant to assess the progress of its Bioenergy with Carbon Capture and Storage (BECCS) project.

**Outcome:** From an engineering and technological standpoint, the project appears to be progressing well where Drax has successfully captured carbon on-site, which is a significant milestone. However, there are still significant uncertainties regarding government support for the project.

The company is also exploring alternative sources of biomass to use in conjunction with woody biomass. While no decision has been made on this research, a representative from the finance department indicated that it is likely that Drax will eventually use alternatives to woody biomass. We will continue to monitor the progress of Drax's BECCS project and its sustainable sourcing of woody biomass.

## Just Transition - Utilities

**Company**: National Grid PLC

**Purpose**: Following the release of National Grid’s Responsible Business Charter update, we engaged in a meeting with the Chief Sustainability Officer to offer feedback and suggest further enhancements to the company’s climate transition plans.

**Outcome**: National Grid was receptive to the majority of our feedback and sought additional guidance on their Just Transition plans. We positively acknowledged their improved emission reduction target and renewed emphasis on biodiversity. The company will be improving its lobbying disclosures and developing a Climate Transition Plan. However, they were unable to provide further clarity on forward looking expenditures and maintained that gas will continue to play a vital role in balancing the grid and, most notably, in their heating retail business in the US.

## Environment

### Water Utilities – Phase Two

**Company:** Severn Trent PLC

**Purpose**: As part of the Royal London Asset Management led collaborative engagement with water utilities, we met with Severn Trent to discuss its score against our investor expectations. It was an opportunity for the company to share its investment plans around climate physical risk, biodiversity, and antimicrobial resistance (AMR).

**Outcome**: Our conversation with Severn Trent was productive and informative. The company demonstrated its adherence to best practices within the sector and provided evidence that it has incorporated most of our investor expectations into its long-term capital planning. The topic of AMR remains in the research phase for the company, and it may be several years before it is operationalised, depending on regulatory priorities. Our next steps are to rescore Severn Trent based on the information provided by the company during the engagement against our investor expectations. Using this, we will identify areas of improvement and encourage change.

## Social

### Cybersecurity – Phase Four

**Company**: Standard Chartered PLC

**Purpose**: In a collaborative engagement on cybersecurity led by Royal London Asset Management, we engaged with Standard Chartered about its performance against our investor expectations. We used the opportunity to further understand the company's cybersecurity governance and risk management to assess whether it aligns with best practice.

**Outcome:** Our conversation with Standard Chartered was positive. The company welcomed our feedback on how its practices and disclosures could be improved. Standard Chartered demonstrate best practice on the governance and risk management processes surrounding cybersecurity. We were satisfied that appropriate improvements have been made following a 2021 fine for failure to report breaches and encouraged related public disclosures. The security of the information perimeter is another area for improvement, and we gained comfort that the Company was focused on this area.

**Company**: Expeditors International of Washington Inc

**Purpose**: In a collaborative engagement on cybersecurity led by Royal London Asset Management, we engaged with Expeditors about its performance against our investor expectations. We explored the measures the company has taken to address the vulnerabilities and impacts of its cyber-attack in Q1 2022.

**Outcome**: We were able to further understand Expeditors response to the cyber-attack that occurred, and management shared insights on how they have improved the company's cyber resilience. This included the appointment of a Chief Information Security Officer (CISO) and the implementation of enhanced security measures based on recommendations from cyber experts at Google and Microsoft. While we appreciate the improvements made by the company, we recognise that further alignment with best practices is necessary. We will provide recommendations to the company and continue to monitor their progress against our investor expectations.

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