Good Governance Policy

Scope

This policy applies to all RLAM funds that are classified as Article 8 or 9 under the EU SFDR, tilted strategies, and/or funds that specify within their disclosure documents that they apply the Good Governance Policy. Please check your prospectus for details on specific fund-level objectives.

Good Governance Principles

Royal London Asset Management (RLAM) is dedicated to encouraging long-term wealth creation and sound management within the companies we invest for the benefit of the company, investors and society. Corporate governance is a prerequisite for creating and protecting investment value and plays a role in ensuring companies are in good standing with their stakeholders. We believe it is the responsibility of institutional investors to act as good stewards of the companies in which they invest. We do this through engagement and the use of voting rights (where applicable) to promote good corporate governance in investee companies and through investment analysis that incorporates Good Governance Principles. We recognise that an assessment of good governance is inherently subjective and should be made in the context of RLAM's duties to our clients. Good governance standards may vary by country, asset class, and corporate legal structure and may be informed by data that is incomplete, not available or out of date. We will make our assessment based on a balanced view against the Good Governance Principles as a whole. We have a team of governance experts that provide internal analysis, guidance and advice ongovernance to assist investment teams in making this determination.

Within this context, when assessing good governance, investment teams will have due regard to:

1. Local market corporate governance standards and best practices

    We expect companies to strive to apply best corporate governance practices within their local markets or provide a robust and credible explanation for why they cannot.

2. Instances where companies consistently receive significant votes against management resolutions at annual or general meetings (public equities)

    We expect companies to engage proactively with investors and address concerns raised by investors, particularly where a significant number of shareholders consistently vote against management at annual meetings.

3. Whether the Board provides sufficient challenge to management

    We expect the board to have the appropriate level of skill, independence and diversity for its ownership structure, and for directors have sufficient time to devote to their role.

4. Whether remuneration is fair, balanced and effective at incentivising behaviour consistent with these Good Governance Principles and positive stakeholder relations

    We expect remuneration to be designed to promote the long-term success of the company and to be commensurate with performance and not excessive.

5. Whether the Board and management appropriately consider, monitor and manage ESG issues in the interests of all stakeholders

    We expect companies to consider the impact of business activities on key stakeholders, including shareholders, bondholders, employees, customers and communities and to manage and reduce their adverse impacts.

6. Whether the company has sound accounting practices and suitable audit and financial oversight and control

    We expect the auditors to be independent and financial reporting to be transparent and give a true and fair view of the company's accounts.

7. Any serious reputational or business ethics concerns, including but not limited to systemic and persistent instances of corruption, fraud, tax evasion or illegal behaviour

    We expect companies to act with integrity and in the best long-term interests of the company and its stakeholders.

8. Whether disclosure by the company is clear, transparent and timely

    We expect the company to be honest and truthful in its disclosures and communications with investors and other stakeholders.

More detailed guidance on the above factors, including what is considered good governance practice is outlined in detail in RLAM's Proxy Voting Guidelines (link).

Resources and tools

Investment teams are responsible for assessing and monitoring good governance practices of the companies they invest in. Investment teams are provided with a number of tools, systems, data and internal expertise to help fund managers assess good governance. This includes, but is not limited to:

1. A dedicated Responsible Investment team with expertise on good governance
2. Proxy voting analysis for equity securities, including notes of any significant governance issues circulated prior to annual or general meetings
3. An historical record of proxy votes at companies with equity listings where RLAM has voted (publicly available)
4. Internal governance data and proprietary RLAM governance scores (see below)
5. Governance and controversy data and scores from third party vendors
6. Qualitative internal analysis and commentary on governance
7. Regular ESG portfolio reviews with the RI team that assess good governance and flag any significant governance concerns
8. A central engagement tracker that details all ESG-related engagement with a company, including the topic, findings and outcomes

Using RLAM's Governance Score

RLAM has developed a proprietary governance score that may be used by investment teams to help evaluate if a company has good governance. While practices may differ between companies in different regions and between private and public companies, our guidance is that companies scoring 2 or below on our governance score are considered to not meet the Good Governance Principles. Where investment teams make an assessment of good governance that materially differs from this guidance, the rationale for this divergence should be documented. Where no score is available, investment teams should review the company in the context of the Good Governance Principles above.

Documentation

Investment teams are required to document their assessment of Good Governance. Investment desk procedures will explain:

1. How governance is assessed according to the Good Governance Principles outlined above
2. The sources of governance data and how it is used
3. Where governance information is recorded and evidenced when making investment decisions
4. Where applicable, how quantitative models consider and incorporate the Good Governance Principles into their data, models and systems for security selection and portfolio construction
5. How governance is reviewed and monitored by investment teams
6. The process undertaken if a company is found to not comply with RLAM's Good Governance Principles
7. The process to identify and escalate cases where the investment team assessment differs from the RLAM Governance score

Standards

For actively managed strategies:

During the research phase, if a company or issuer is found to not comply with the above Good Governance Principles, actively managed strategies are not permitted to invest in the company or issuer, including any debt, equity or short-term cash instruments.

If a company or issuer is currently held in a fund, and governance practices deteriorate to a point where it is no longer considered to meet the Good Governance Principles, the investment teams are required to:

1. Document the issue and why the company diverges from the Good Governance principles; and

2. Inform the Responsible Investment team of the assessment

and either:

3. Sell the security within a reasonable time period, normally six months;

OR

4. Initiate an engagement plan to bring the company into compliance with RLAM's Good Governance Principles.

For quantitative or tilted strategies:

If company is found not to comply with the Good Governance Principles, investment is not permitted unless continued investment in the company is required to remain within the fund's mandated objectives. In such cases, exposure to companies should be minimised, for example through applying a negative tilt (i.e. keeping the holding below the benchmark weight). In addition, they should ensure that overall exposure to companies with poor governance is kept to a minimum (i.e. companies scoring less than 2 on RLAM's governance score should make up no more than 30% of the value of the fund) so that the strategy continues to meet the overall spirit of the policy.

If a company is currently held in the fund, and governance practices deteriorate to a point where it is no longer considered to meet the Good Governance Principles, the investment teams are required to:

1. Document the issue and why the company diverges from the Good Governance principles;

and:

2. Sell the security, or apply a tilt to minimise exposure to the security whilst remaining withing the fund's mandated objectives, within a reasonable time period, normally six months;

Engagement

Where we seek to engage with a company to comply with our Good Governance Principles, the investment teams, working with the Responsible Investment team, will:

1. Set a clear engagement objective

2. Establish timelines and milestones of improvement, and record progress in our engagement tracker

3. Use escalation techniques where appropriate, such as voting against resolutions at the AGM, meeting with the management or Board, issuing press statements, or filing shareholder resolutions.

Standard operating procedures will explain how each investment team uses engagement, as well as their approach to selling companies that do not meet the Good Governance Principles.

4. For actively managed strategies, if the company has not met the Good Governance Principles after two years, then the investment team will sell the security within a reasonable time period, normally six months.

5. For quantitative tilted strategies, if the company does not show improvement to meet the Good Governance Principles after three years, then the investment team will sell the security within a reasonable time period, normally six months.

Monitoring

Investment teams are required to undertake ongoing monitoring of Good Governance, in line with standard operating procedures and processes for investment monitoring.

In addition, the investment and RI teams jointly hold ESG portfolio reviews where governance issues are discussed, engagement progress is tracked, and any poor governance practices are flagged. Significant discrepancies between teams on what constitutes Good Governance, or significant divergence from RLAM's Governance scores, should be escalated if required (see Escalation below).

The RI team is responsible for providing research and documentation on good governance for the portfolio review and any notable issues. Investment teams are responsible for documenting the discussion, any divergence of opinion, and any investment decisions arising.

Investment teams are ultimately responsible for the investment decision.

Escalation

Due to the subjective nature of assessing governance issues, we acknowledge that on some occasions, there may be divergent views between teams regarding what constitutes good governance. As active managers, we welcome this debate.

Any significant or material issues relating to the assessment of good governance will be escalated and discussed by the Head of Desk, the Chief Investment Officer, and the Head of Governance and Proxy Voting for resolution. Any material discrepancies will be reported periodically to the Investment Committee for information and noting.

Exceptions Process

If an investment team is unable to meet the objectives of this policy because it will contravene their ability to meet mandated investment objectives or would pose a detriment to client outcomes, this will be documented and escalated to the Head of Asset Class and the Chief Investment Officer.

Contact us

For more information about our range of products and services, please contact us.

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For further information, please visit **www.rlam.com**

We are happy to provide this document in braille, large print and audio.

Important information

For professional clients only.

Telephone calls may be recorded. For further information please see the Legals notice at **www.rlam.com**.

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