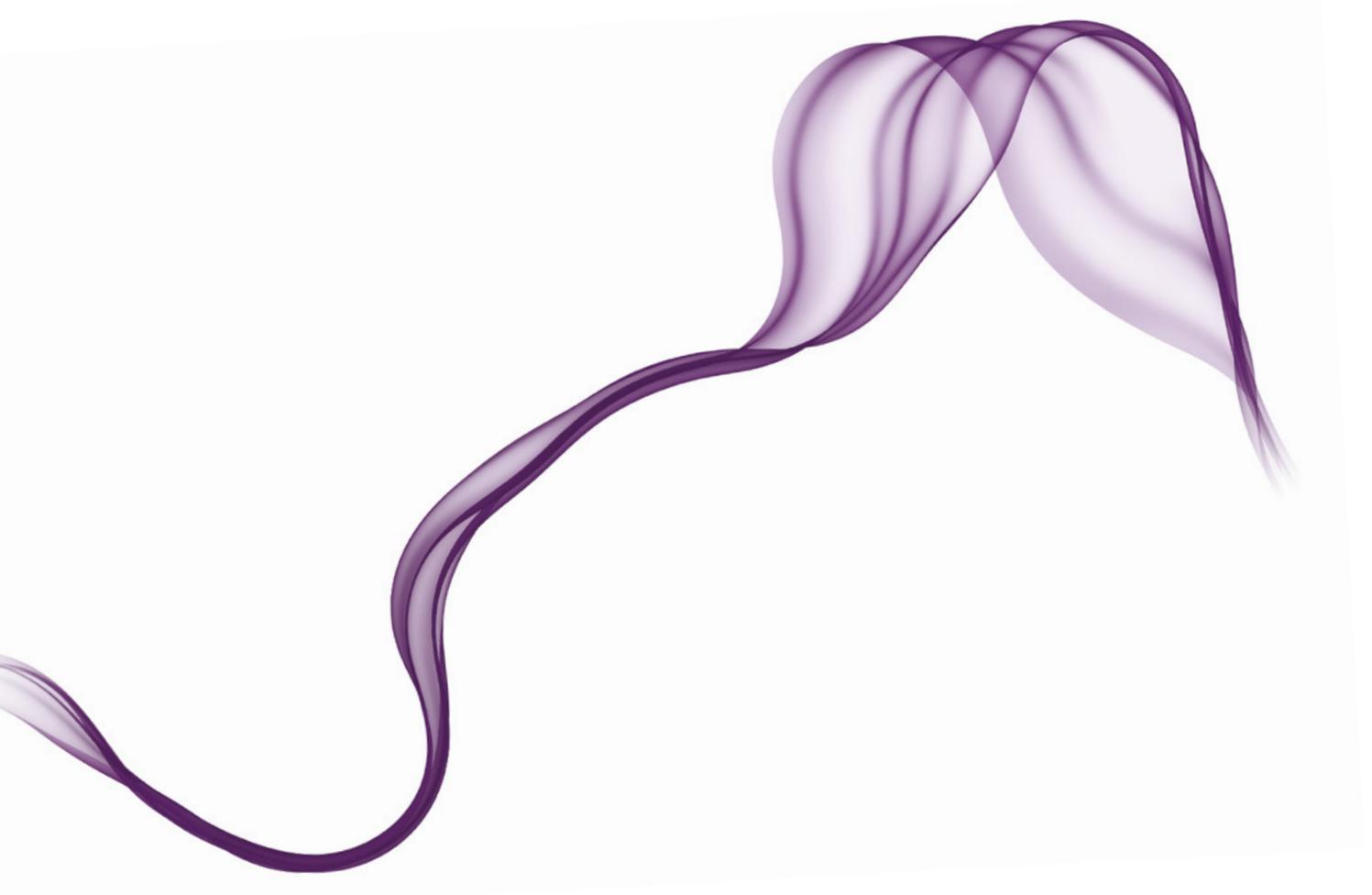


For professional clients only, not suitable for retail clients.

# Responsible investment policy

2022



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## Foreword from Piers Hillier

Our goal at Royal London Asset Management (RLAM) is to be a leader in Responsible Investment. That means being a good steward of our clients' capital and integrating environmental, social and governance (ESG) considerations into our investment decisions. For us, responsible investment needs to benefit companies, investors, society and the economy as a whole.

In many ways, investing responsibly comes naturally to us because it reflects our broader Royal London Group purpose:

“Protecting today, investing in tomorrow. Together we are mutually responsible.”

At RLAM, we focus on providing our investment teams with the appropriate governance, tools, expertise and support to help them identify opportunities and avoid risks that, if unmanaged, would result in poorer outcomes for our customers and society. Having the capabilities to do this is more important than ever, as systemic and emerging ESG risks, such as climate change, will have an effect on long-term performance and, ultimately, our success as a business.

We are also committed to ongoing improvement and transparency, which is where our Responsible Investment Policy comes in. This document expands upon our beliefs, policies and practices, as well as how we monitor our progress and challenge ourselves to make improvements. We'll also review this policy annually and disclose more detail on how we are implementing it in our annual Stewardship and Responsible Investment report.

I want to thank you for taking the time to read our Responsible Investment Policy. And please reach out to your RLAM representative if you have any questions.

**Piers Hillier**  
Chief Investment Officer

## Purpose of this Document

We want to share with you the details of our Responsible Investment policies and practices. We'll be discussing our engagement policy, approach to voting, compliance with applicable regulations or codes of conduct, including the Sustainable Finance Disclosure Regulation (SFDR), and how we integrate ESG into investment decision-making.

Further detailed information on implementation and our activities during the year are published separately on our [website](#) and are referenced throughout. Links to policies available elsewhere on our website and referenced within this document are also provided.

## Our investment beliefs

Our approach to stewardship and investment is governed by the following investment beliefs, which are reflective of our clients' priorities.



### Financial outcomes

By working with our clients to understand their needs and expectations, we create strategies that seek to meet their objectives and deliver optimal outcomes – whether that is a tailor-made solution or a fund that is part of their overall investment strategy.



### Unconstrained thinking

We believe in research-led investing – combining the best of top-down and bottom-up analysis when building active portfolios and tailoring this to suit the underlying investment market. We believe that market benchmarks are useful yardsticks rather than a basis for active portfolio construction.



### Opportunity orientated

We use our understanding of investment markets to focus on areas where we believe there are opportunities to enhance returns. We use a combination of active and passive solutions to exploit these.



### Stewardship and responsible investment

Good investors are good owners. Environmental, social and governance issues are increasingly affecting asset prices. We believe that it is in the best interest of our clients for RLAM, where appropriate, to integrate these issues in our investment process with the aim of improving standards, reducing risk and enhancing returns.



### Client centric risk management

We aim to provide the appropriate mix of risk and return to suit client needs and look to exploit opportunities where risk is being mispriced by the market. Diversification is a powerful risk management tool, but is used for a purpose rather than seen as a goal in its own right.

## Our Approach

Responsible investment is embedded in our investment philosophy and implemented across our business in two ways: Stewardship and ESG Integration.

### Stewardship

Being long-term stewards of our clients' capital permeates every aspect of how we make investment decisions, monitor companies and influence outcomes.

As responsible investors, we have two important tools that we can use to embed and implement our stewardship responsibilities: Engagement and Voting.

### Our Engagement Policy

Engagement is purposeful, targeted communication with an entity on particular matters of concern. The goal of engagement is to encourage change at an individual issuer level and/or address market-wide or systemic risks (in addition to a wider goal of exchanging information or increasing the investor's understanding of business risks and opportunities).

Engagement is a fundamental part of the research process as well as an important tool for encouraging companies to make ongoing improvements, reduce their investment risk, and create better outcomes for our clients and society. We engage with businesses in both our equity and fixed income funds, as we

believe this provides valuable insight for our investment teams and is a key part of our stewardship responsibilities.

We engage with companies in two ways: engagement for information and engagement for change. Both forms of engagement allow us to understand how ESG risks affect our investments and, in turn, the adverse effects our investment decisions may have on the environment and society.

### Engagement for information

Here we speak to company representatives to uncover additional evidence to complement and enhance existing research as part of our investment process. Engagement for information is part of our research process and is often the first step in the engagement process. It is also critical to enhancing our ESG insights and, in turn, improving our investment decision-making. We believe information discovery and disclosure in itself is an important and positive outcome.

### Engagement for change

Here we seek to influence a company's behaviour, policies and practices as a direct outcome of engagement. Engagement for change is often more focussed, sets out clear objectives regarding what change we would like to see and may span many months or years.

### Engagement in property portfolios

We collect and monitor the ESG data of our tenants. We use this as a basis to engage with tenants on how to improve efficiencies, with the aim of cutting carbon emissions.

### Engagement themes

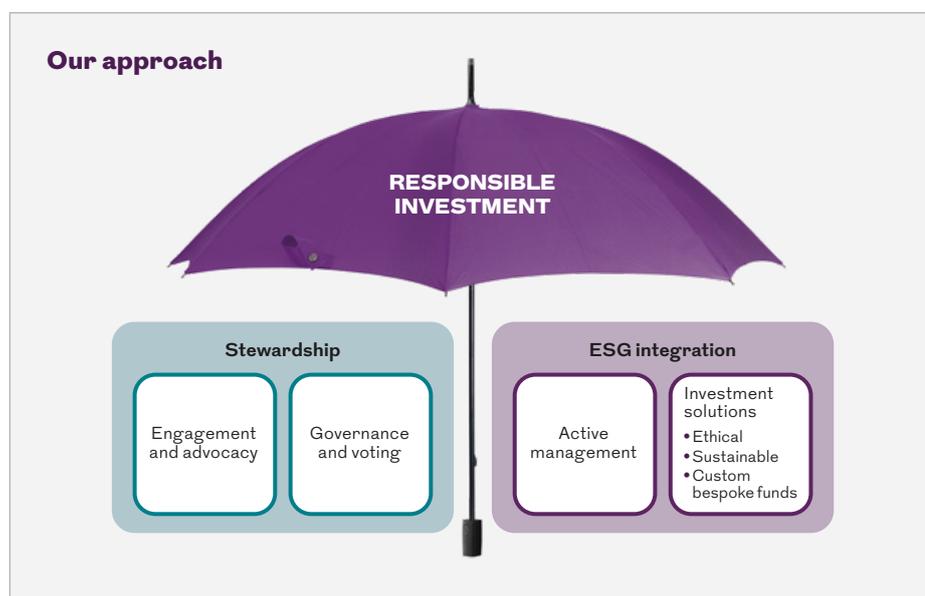
We carefully select our themes to reflect both the ESG risks to our investments and the principal adverse impacts (PAI) of our investment decision making on the environment and society. Our themes must address the broad spectrum of ESG risks, themes and indicators that are most relevant to our investments and our clients. Themes cover climate and environmental matters, as well as a variety of adverse social effects, including employment matters, respect for human rights, anti-corruption and anti-bribery.

We monitor our PAI performance as part of our broader ESG integration strategy (please refer to the ESG Integration section on page 6). Where we feel serious issues need to be addressed, and where it is in the best long-term interests of our customers, we will seek to engage with a company and encourage the management to make improvements.

We describe the actions we are taking to address our PAI's and wider ESG risks, as well as the outcomes we have achieved, in our annual Stewardship and Responsible Investment Report and through quarterly client reports. The former also describes our planned future engagement activities.

### Reviewing our engagement themes

Every two years, we undertake a review of our engagement themes so we can keep up with the ESG risks and opportunities in the market. And although we do engage on other topics, ESG themes are the focus of our two-year review.



The review includes consultations with fund managers, responsible investment analysts, clients and other stakeholders. When choosing our themes, we look at portfolio exposures as well as academic research on new and emerging ESG risks. The desired outcomes of our review are as follows:

- Identify priority engagement themes that are relevant to our most material holdings
- Make sure themes address any poor ESG practises among our holdings
- Ensure we are prioritising themes that fit with our culture and values, and are important to our clients

### Reactive engagements

Reactive engagements are when we respond to a specific market or company event. And although we do not choose these themes in advance, the extent of our engagement in such instances depends upon the following factors:

- The size and nature of any PAIs
- The severity of our concerns
- The level of importance to our clients
- The size of our holding

### In summary

We ask ourselves the following questions when deciding our approach to engagement for any given company:

- Are we addressing a principal adverse ESG impact or poor governance?
- Does this meet the needs and expectations of our clients?
- Is this material and relevant to investment decisions?
- Is this central to a transition thesis that drives beneficial investment and societal outcomes?
- Is this likely to have a positive effect on society and the environment?
- Does this have the potential to impact corporate ESG or financial performance, or reduce risk?
- Could we potentially raise best practice standards within a sector or market?
- Will this advance thought-leadership and good governance?

### Engagement escalation

Some companies are non-responsive to engagement, despite having significant, persistent or intractable ESG issues that we feel pose a significant risk to our clients' assets. In such circumstances, we will escalate to the Heads of Desk, the Chief Investment Officer and the Head of Responsible Investment for discussion and a decision on the next action to take. Decisions and actions will be reported to the Investment Committee for information and noting.

Direct actions we can take include escalating the matter with the chairman or other senior executives of the company, as appropriate. We can also use our shareholder votes to put pressure on the relevant directors or other management personnel at a company's next annual or general meeting. In some instances, when the issue warrants, we may file or co-file a shareholder resolution, or issue a public comment. In extreme cases, we may decide not to invest any additional capital into a company where engagement has failed, or to sell our existing holdings in the firm.

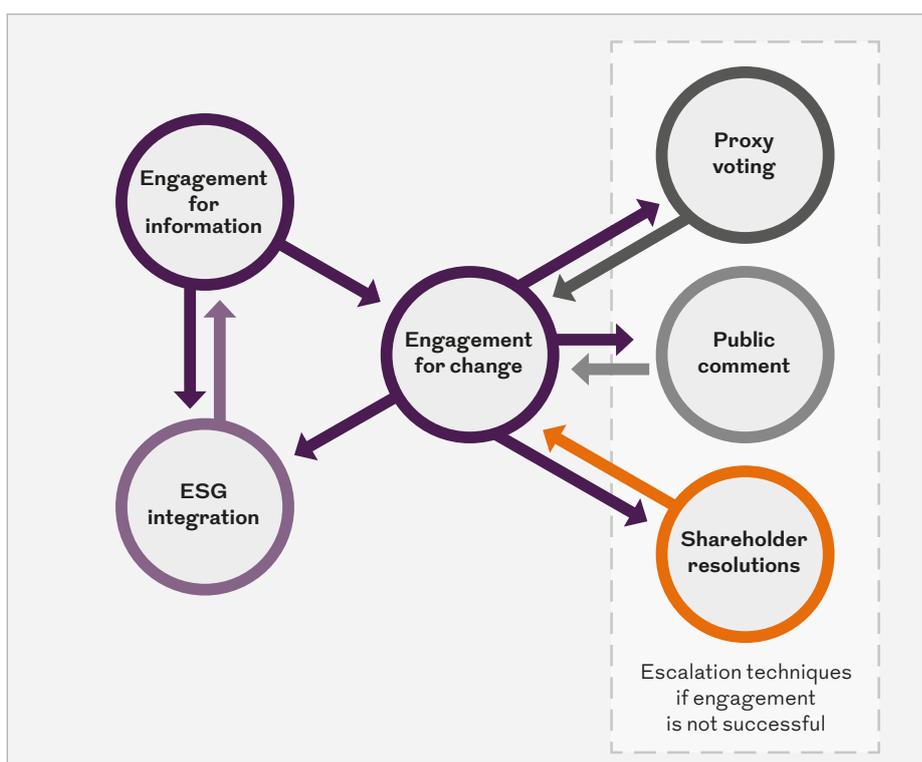
Below, we have illustrated where our escalation process fits into the interaction between engagement and ESG integration.

### Investor collaboration

We prefer to speak with companies directly, but understand that we may need to work with other shareholders or bondholders to effectively influence a company's behaviour. We evaluate the benefits of collaborative engagement on a case-by-case basis and will always comply with relevant regulations, including those governing market abuse and competition law.

We favour collaborative engagement when:

- A company has been unresponsive to private engagement, or where the actions of the company are not sufficient to address our concerns
- The situation is serious enough to warrant a collective meeting
- Partnering with a larger shareholder or bondholder might facilitate greater access to management or the board, or provide us with greater influence
- It is in a jurisdiction where local partners may enhance our ability to engage through their physical presence and/or understanding of local practices



## Regular company meetings and record keeping

We centrally record our ESG engagement meetings, including the objectives of the meeting, attendees, minutes, and the outcomes and key issues discussed. We use this information to monitor and track company improvements, and to report progress to our investment teams and clients. Our investment teams also maintain a high degree of contact with investee companies, often meeting with them on multiple occasions throughout the year to discuss strategy, performance (both financial and non-financial), risk profile, capital structure and other material factors. These financial meetings regularly include discussions of ESG issues and are recorded by each investment team.

## Engagement outcomes

The outcome of our engagements, whether successful or not, represents part of the investment process and our ESG integration strategy. All of our engagements are recorded centrally so that investment teams across the business can consider the outcome of an engagement as part of their investment decisions. In making this assessment, fund managers consider how material the issue is, whether there are mitigating factors that reduce the risk to clients, and the time horizon of the investment, among other factors. We do not advocate a 'one-size-fits-all' approach and believe these decisions must be made within the context of each fund, based on the financial and non-financial objectives set by our clients. As a result, the way in which ESG risks, opportunities, and PAIs affect investment decisions will vary between funds. Fund-specific information is available at [www.rlam.co.uk](http://www.rlam.co.uk).

## Voting

Exercising our voting rights as shareholders is an important part of our stewardship and responsible investment strategy. Voting can be a way of promoting good corporate governance and high ESG standards in investee companies, as well as addressing the ESG risks and adverse effects of our investments on society and the environment.

## Voting oversight and research

Our UK<sup>1</sup> and global<sup>2</sup> voting policies define our overarching approach to exercising our voting rights. These policies are updated annually and signed off by the RLAM Investment Committee to ensure they meet emerging best practice and client expectations. Details of our voting behaviour are available on our website and there is also a summary provided in our annual Stewardship and Responsible Investment Report.

In addition to our voting policies, a great deal of research goes into every vote. For example, RLAM's team of governance experts review all votes ahead of each vote submission. And we consider both external and internal research, alongside the advice of proxy advisory firms, to ensure we are making the best possible decisions.

Our governance team submits votes via an online governance research and proxy-voting platform, which provides us with research, tailored voting recommendations, reporting functionality and vote processing. We also have an annual meeting with our voting-platform provider to review the effectiveness of our voting, determine any improvements that can be made in our approach and review the service we receive.

Meanwhile, we undertake an internal monthly compliance review of our votes to ensure that we are voting in line with our policy. We review any rejected or unprocessed votes and any issues that may occur during the process. Any exceptions, challenges or issues are reported to the Investment Committee.

The Shareholder Rights Directive II (SRD II) regulations state that voting behaviour, significant votes and the use of service providers should be publicly disclosed. At RLAM, we go one step further, publicly disclosing the outcome of all our votes at annual general meetings (AGMs) and extraordinary general meetings (EGMs). This information is available on our website<sup>3</sup> in a searchable online database.

Since October 2020, we have used our proxy votes across RLAM's full equity fund range. We provide quarterly vote

reporting to clients, and a high-level overview of key votes and voting behaviour in our annual Stewardship and Responsible Investment Report. This report, which can be accessed [here](#), also details any service-provider arrangements that support our voting.

## Bondholder votes

The managers of our fixed income funds sometimes have the right to vote on issues that affect our credit holdings. Because we have a high exposure to secured and highly covenanted bonds, we tend to have a greater degree of creditor control than many other managers. We exercise these rights in the best interests of our clients, and, after careful consideration, we instruct our custodian to vote on our behalf. We do not, however, typically use a proxy voting service to execute bondholder votes.

## ESG integration

Integrating, analysing and assessing ESG issues across our funds help us better manage investment risks and opportunities. We believe those companies best prepared for a more sustainable future are more likely to deliver long-term returns for clients, as governments, regulators and consumers continue to focus on delivering a better future for society and the environment. Each investment team is responsible for considering ESG factors in their investment processes, alongside financial and other non-financial factors.

## Making a difference

We aren't just considering the financial implications of ESG criteria. Many clients want their investments to have a positive effect on society and the environment, as well as make long-term returns. Because we consider ESG factors across our investment platform, we can offer a range of solutions to meet client objectives. This includes strategies specifically designed to provide a net benefit to society.

## The role of our Responsible Investment team

Our Responsible Investment (RI) team supports fund managers and provides subject-matter expertise, with the aim

of identifying ESG risks and PAIs and supporting teams to integrate them into investment decision making.

The RI team provide ESG insights, analysis and challenge through informal conversations, formal ESG portfolio reviews, and via proxy voting and governance research. The team's regular reviews provide an opportunity for RLAM to document ESG conversations and are illustrative of our collaborative approach, with both investment teams and the RI team responsible for contributing ideas and agenda items for discussion.

### Internal and external tools

RLAM's proprietary ESG Dashboard is a research tool that allows fund managers to evaluate and monitor PAIs and ESG risks at both a fund and issuer/company level, helping them make more informed investment decisions.

Our fund managers, financial analysts and members of the RI team have access to the ESG Dashboard. RLAM investment professionals can access the latest available issuer-level ESG and climate (ESGC) scores, engagement and voting activity, and commentary. In addition, internal stakeholders can also view relevant PAIs and related metrics at the issuer/company and fund level. The ESG Dashboard is fed by a combination of third-party and in-house data, as well as proprietary scores and analysis.

### Governance and Oversight

RLAM Holdings Board has ultimate responsibility for setting our risk appetite and reviewing our strategic risks. Our Chief Investment Officer (CIO) is a regulated Senior Management Function and is a member of RLAM's Executive Committee, accountable for setting the investment strategy, and overseeing our Responsible Investment function, including our approach to stewardship and climate investment risk. The CIO also chairs the Investment Committee.

Supported by the investment teams, the CIO updates the Board and monitors responsible investment in line with RLAM's risk-tolerance threshold. The CIO is also responsible for ensuring responsible

Role	Responsibility
Head of Asset Class and all investment managers	Responsible for ensuring material ESG risks, including climate change, are considered within investment decisions. Also contributes to engagement and proxy voting decisions.
Head of Responsible Investment (RI) and the RI team	Provides subject matter expertise, support, information, data and analytics to the investment teams, and oversees day-to-day implementation of engagement and proxy voting activities across all asset classes. Product Owner of the ESG Dashboard.
Chief Investment Officer (CIO)	Senior Management Function with Executive Committee responsibility for RI, including climate change.
Responsible Investment Forum	Chaired by the Head of RI. Provides an informal place to discuss best practice, provide feedback and make recommendations to the business on Responsible Investment matters.
Investment Committee	Chaired by the CIO. Responsible for monitoring, oversight and advice to the CIO on investment matters as they relate to RI and climate change.
RLAM Board Risk Committee	Board-level committee responsible for monitoring climate risk on a regular basis, in line with the RLAM risk appetite.
RLAM Board	Overall responsibility for agreeing RLAM's approach to climate risk.

investment, stewardship and climate-change risk management are embedded in RLAM's investment strategies and capabilities.

An overview of roles and responsibilities, and our governance structure, using the example of climate risk, is detailed above.

### Climate Risk

At RLAM, we recognise the science of climate change and believe it can have an impact on our clients' financial outcomes if not managed appropriately. And we understand the role we can play in minimising the impact our investment decisions may have on climate change. We will consider material climate risks and opportunities when making investment decisions on behalf of our clients and evaluate and monitor our investments against the goals of the Paris Agreement, which has the ultimate aim of keeping global temperatures rises to a maximum of 2°C. We have stated our commitment to reduce our climate impact by seeking to be Net Zero across our investments by 2050 and reducing the carbon intensity of our investments by 50% by 2030.

More information about our approach to managing climate risk can be found in our [Climate Risk Policy](#).

### Exclusions

We prefer to address ESG risks within our portfolios through engagement rather than by adopting sector- or stock-specific exclusions. However, we recognise our clients may have their own exclusion requirements, and we work closely with them to design products and solutions that meet their needs and the needs of their end beneficiaries.

However, we do make some exclusions across our fund range. We have an exclusion on controversial weapons, meaning RLAM will not knowingly invest in companies involved in the manufacture of cluster munitions, land mines, chemical and biological weapons. Our Controversial Weapons Policy is available on our [website](#). Some of our funds may apply other explicit exclusions. Where these are applicable, they are detailed in the fund documents on our [website](#).

Where exclusions are applied, we review the list of excluded companies at

least quarterly, and update our order management systems to restrict trading. The RI team is responsible for overseeing the definitions and suitability of exclusions, including:

- Maintaining a list of internal exclusions that detail our definition of each exclusion topic and how the exclusion is applied
- Reviewing the suitability of exclusions applied to pooled funds

## Reporting & Disclosure

We regularly monitor best-practice approaches to reporting and upcoming regulation. And we are proactive in ensuring we are always advancing the quality of our disclosure. The following are examples of the reporting and disclosure we provide as part of our commitment to clients.

### United Nations Principles for Responsible Investment (UN PRI)

As a signatory to the UN PRI, we complete the annual PRI assessment<sup>4</sup>, which details our approach to responsible investment. We are assessed against our peers across modules such as 'Strategy and Governance' and 'Listed Equity Incorporation', and scored accordingly.

### Stewardship and Responsible Investment Report

We produce and publish an annual report outlining our commitment to being a good steward of our clients' assets and our adherence to the requirements of the UK Stewardship Code. The report comprises case studies from within the reporting year, which demonstrates ESG integration across our asset classes. The publication includes statistics from our responsible investing activities throughout the year, specifically in relation to voting and engagements with investee companies. It also includes a more detailed discussion of how we integrate ESG factors into various asset classes and strategies.

### Task Force on Climate-Related Financial Disclosures (TCFD)

We became supporters of TCFD in June 2020. This led to the development of a new Climate Risk Policy. Our first TCFD Report was published in 2021.

### Client reporting

We report our responsible investment activities on a quarterly, semi-annual and annual basis in client reports. We regularly fulfil requests for ad-hoc reporting and questions from clients.

### Thought leadership

We regularly publish webinars, blog posts and articles, all of which are made available via our website. We also participate in panel discussions, conferences and seminars to debate topical ESG issues.

### Voting

We publish our proxy voting policies and disclose the outcomes of all our voting decisions on our website<sup>5</sup>.

### Responsibility Matters

Responsibility Matters is a regular publication highlighting recent responsible investment stories and thought leadership.

### SustainAbility

SustainAbility is a regular RLAM publication featuring our approach to sustainable investing, including industry trends and insights.

### SFDR

We report in line with SFDR requirements. Our aim is to maintain our compliance with regulations and remain transparent with regards our fund-specific PAIs and approach to ESG integration.

## Conflicts of Interest

RLAM's policy is to take all reasonable steps to properly identify and manage conflicts of interest and always to act in the best interests of our clients, so that transactions are effected on terms which are not materially less favourable to the client than if the conflict had not existed. Potential conflicts of interest include: where an investment is also a client, where the interests of two RLAM clients conflict, between RLAM and Royal London Group, or where an employee of RLAM is a director of an investee company.

In the unlikely event that a conflict occurs with respect to our responsible investment and stewardship activities, we will follow

RLAM's Conflict of Interest Policy. In such cases, we will strive to make appropriate and sufficiently detailed disclosures to our clients. The disclosures must include the general nature of the conflict and/or sources of that conflict, and be provided before undertaking the relevant business for the client. If any conflicts occur during the year, they will be described in our annual Stewardship and Responsible Investment Report.

A summary of our Conflicts of Interest Disclosure Statement is available on our [website](#) and the full policy will be made available on request.

## Regulation and Compliance

We will comply with applicable regulations in the jurisdictions where we operate. When industry standards change, we strive to achieve best practice wherever possible.

### SRD II Compliance Statement

As set out in the SRD II regulations, RLAM is required to disclose our Engagement Policy and the engagement activity undertaken in accordance with that policy. We must also disclose our voting policies, voting records, conflicts of interest and investment strategy.

This document outlines our engagement policy and approach to proxy voting, ESG integration and disclosure. Further details on how our voting and engagement policies are implemented, including details of any conflicts of interests and the activities we have undertaken during the year, are disclosed in our annual Stewardship and Responsible Investment Report. Our voting policies are available on our website, along with our searchable voting database.

RLAM's investment strategy is governed by the FOCUS investment beliefs included in this report, which guides the approach of each RLAM fund. Further information on the specific investment approaches taken by each RLAM fund can be found on our website.

### Sustainable Finance Disclosure Regulation (SFDR)

As set out in the SFDR, RLAM is required

to disclose our due-diligence policies with respect to the PAIs of investment decisions on “sustainability factors”.

For the purpose of SFDR compliance, we define “sustainability impacts/risks” as equivalent to “ESG impacts/risks” throughout this, and other, reports.

Our due diligence process for identifying and addressing “principal adverse sustainability impacts” on specific factors is described throughout this policy document, covering the integration of PAIs within our ESG Dashboard, as well as our wider approach to ESG integration within our investment decision-making (see section on internal and external tools).

In addition, we include information on our adherence to internationally recognised standards and responsible business conduct codes throughout this document. And we reference our Climate Policy, which has further information on our alignment with the objectives of the Paris Agreement.

### **Business codes of conduct and industry initiatives**

Integrating advanced ESG practices across RLAM includes adhering to several business conduct codes and initiatives. While the below is not an exhaustive list, these are the codes/initiatives that are most recognisable at an international level and the ones that we participate in:

- UK Stewardship Code
- UK Corporate Governance Code and local market codes (where appropriate)
- Principles for Responsible Investment
- TCFD
- Net Zero Asset Managers Initiative (NZAMI)
- Climate Action 100+
- Investment Association (IA) Sustainability & Responsible Investment Committee
- UK Sustainable Investment and Financial Association

We have committed to NZAMI with the goal of supporting a transition to net zero greenhouse gas emissions by 2050 or

sooner and thus limiting global warming to 1.5 ° Celsius.

## **Notes**

- 1 <https://www.rlam.co.uk/globalassets/media/literature/policies/uk-voting-policy-apr-21-web.pdf>
- 2 <https://www.rlam.co.uk/globalassets/media/literature/policies/global-voting-policy-apr-21-web.pdf>
- 3 <http://www.rlam-voting.co.uk/voting/>
- 4 <https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/89C3E7D9-9130-42B8-8B6D-71E983841EBE/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>
- 5 <http://www.rlam-voting.co.uk/voting/>

## Appendix 1: Terms & Definitions

We understand that RI terminology can feel limitless and sometimes definitions vary from company to company. We want to give you a clear understanding of what these terms mean to us at RLAM. We believe we have adopted the most widely recognised industry standard definitions, based on the UK Investment Association's RI Framework, the UN PRI and the Global Sustainable Investment Alliance (GSIA).

### Engagement

Purposeful dialogue between investors and companies on ESG issues with the intention of influencing (or identifying the need to influence) company behaviour or improving disclosure.

### ESG integration

The systemic and explicit inclusion of ESG factors into investment analysis and decisions.

### ESG risks

The potential exposure of our funds, investee companies and/or related stakeholders to danger, harm, or loss from an ESG related incident/outcome/trend.

### Exclusions/Ethical investing

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

### Impact investing

Investments made with the intention of generating positive, measurable social and environmental impacts alongside financial returns.

### Proxy voting

Using our rights as shareholders to vote at the Annual or Extraordinary General Meetings (AGM/EGMs) of the companies in which we invest, generally by electronic means.

### Responsible investment

Investing clients' money in a responsible way, taking account of material ESG risks and implementing our stewardship responsibilities.

### Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to long-term benefits for the economy, the environment and society. It is our fiduciary duty to be good stewards of our clients' capital.

### Sustainability

Meeting the needs of the present without compromising the ability of future generations to meet their needs.

### Sustainability Factors

Aligned with the European Union's (EU) SFDR definition, sustainability factors is defined as 'environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters'. For the purposes of this document, we use sustainability factors and ESG factors interchangeably.

### Sustainable investment

An investment strategy that seeks to invest in companies that meet sustainability criteria or deliver sustainable outcomes through the products and services they provide and/or their business conduct.

### Sustainability risk

Aligned with the EU's SFDR definition, sustainability risk means an ESG event or condition that, if it occurs, could cause a negative material impact on the value of an investment. For the purposes of this document, we consider sustainability risk to be integrated within our definition of ESG risk and use the two interchangeably.

## Appendix 2 – RLAM’s Principal Adverse Impacts

In accordance with the EU’s SFDR, RLAM recognises the following indicators as its PAIs.

Indicators applicable to investments in investee companies		
Adverse sustainability indicator	Metric	Impact
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>		
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		From 1 January 2023, Scope 3 GHG emissions
		Total GHG emissions
	2. Carbon footprint	Carbon footprint
	3. GHG intensity of investee companies	GHG intensity of investee companies
	4. Exposure to companies active in the fossil fuel sector	GHG intensity of investee companies
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
<b>SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS</b>		
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	13. Board gender diversity	Average ratio of female to male board members in investee companies
<b>ADDITIONAL INDICATORS</b>		
Human Rights	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Emissions	15. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement

## Contact us

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

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### Responsible Investment team

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**For professional clients only, not suitable for retail clients.**

Telephone calls may be recorded. For further information please see the Legals notice at [www.rlam.co.uk](http://www.rlam.co.uk).

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