Royal London
Fossil Fuel Investments Position

June 2025

Summary

In this statement, we present Royal London's approach to investments in fossil fuel companies. Royal London comprises The Royal London Mutual Insurance Society Limited (RLMIS) and its subsidiary businesses, including our Asset Management business – Royal London Asset Management (RLAM). Royal London believes in an 'engagement-first' approach, where we remain invested so that we can attempt to positively influence and collaborate with companies, encouraging them to support a more sustainable future. However, we recognise it is necessary to take investment actions – which may include divestment – where engagement is likely to be unsuccessful or there is a risk of poor outcomes for customers and clients. We also engage with UK policymakers to support polices that promote low-carbon energy.

During 2025, we are phasing out new and existing investments in companies that generate a significant part of their revenues from thermal coal mining or that hold large thermal coal reserves. We will also increase our engagement with companies involved in oil sands, Arctic oil or that use coal to generate power. We will focus on companies that we assess as not having credible transition plans and where sufficient progress is not made, we will take investment action such as divestment.

Our position takes into account the views of our customers and clients and the responsibilities we have to them. We will provide updates on progress as we evolve our approach.

Introduction

Driven by our Purpose – *Protecting today, investing in tomorrow. Together we are mutually responsible.* – we aim to play our part in moving fairly to a sustainable world. We champion a just transition to a low-carbon economy, because we believe the best future for our customers is one where society collectively achieves the goals of the Paris Agreement, which include reducing global greenhouse gas emissions.

During production and burning, fossil fuels – such as coal, oil and natural gas – release large amounts of greenhouse gases. This means that the transition to a net zero economy requires a substantial reduction in overall fossil fuel use and a shift to low- or zero-carbon energy sources, according to the Intergovernmental Panel on Climate Change[1]. Transitioning away from fossil fuels can also promote energy security[2], by reducing reliance on imported fuels, as well as encourage economic growth through job creation and technological innovation.

Our approach

In this statement, we present our approach to investments related to fossil fuels. This applies to RLMIS segregated mandates and RLAM pooled funds.

We are responsible stewards of the investments we hold for our customers and clients, and aim to influence the transition away from fossil fuel use and towards low-carbon energy sources through constructive dialogue. While we cannot direct the actions of government or the companies we invest in, we do collaborate with them to help advance progress.

How we support the transition away from fossil fuels

We base our approach on looking at different ways the economy can shift from fossil fuels to low-carbon energy sources and how this could impact the investments we manage on behalf of our customers and clients. Progress towards this shift is influenced by multiple factors, including the geopolitical landscape, low-carbon technology development, and energy supply and demand trends. Making progress is, therefore, complex and may not always be linear. By understanding these different ways of transitioning, we can better evaluate the plans of the companies we invest in and identify both risks and opportunities over time.

To support the transition away from fossil fuels, we take the following actions:

1) Integrating climate risks into investment decisions

We expect our investment managers to consider material climate risks in investment decisions, including in relation to fossil fuel companies. We consider climate risks when deciding how we allocate our investments across different asset classes (known as strategic asset allocation), and when buying and selling securities in our funds.

2) Encouraging policymaker action

We support policies that promote low-carbon energy and reduce reliance on fossil fuels by engaging with UK policymakers. We engage directly with the UK government, on subjects such as setting standards for UK businesses, global climate leadership, and creating opportunities for 'blended finance' – an approach that combines private and public capital – to invest in low-carbon energy infrastructure and production as part of accelerating the transition away from fossil fuels.

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[1] IPCC (2022). Summary for Policymakers, Working Group III: Mitigation of Climate Change, Sixth Assessment Report.
[2] Energy security refers to access to reliable and affordable sources of energy.

We use our relationships with trade associations to help shape industry best practice and to amplify our impact by highlighting shared industry concerns to policymakers. In the UK, we are members of the Association of British Insurers, the UK Sustainable Investment and Finance Association, and the Investment Association. For consultations on Irish or European Union policy, we engage through Insurance Ireland. As RLAM manages holdings for clients around the world, this also creates opportunities to influence international policymakers – for example, through our membership of the Institutional Investors Group on Climate Change.

3) Engaging with companies

We believe we should support fossil fuel companies and energy sectors that have credible climate transition plans, or are part of the solution, and move our investments away from those that do not. To do this, RLAM operates a Net Zero Stewardship Programme[3], which aims to be engaging with companies representing at least 70% of its financed emissions by 2030[4].

As all carbon-intensive industries and their value chains[5] need to transition to net zero[6], the Net Zero Stewardship Programme covers engagement on transition plans with a range of sectors, including oil and gas, utilities, mining, general industrials and financial services. Some sectors are broader than fossil fuels.

As part of the Net Zero Stewardship Programme, we assess whether companies have credible climate transition plans. We measure credibility by assessing companies against three overarching expectations: that companies have set emissions reduction targets, support the wider transition to net zero, and are demonstrating action. This is supplemented by consideration of a company's unique circumstances, such as sector- and location-specific factors. We consider a plan to be credible if a company's rating across our expectations demonstrates that, overall, it is aligned or aligning with a net zero pathway.

We use the findings of our assessment to guide conversations with companies and set requirements and milestones where needed. Tangible progress from engagement can take several years, particularly in the fossil fuels sector. Where a company begins to fall behind requirements and milestones, different mechanisms are used to escalate engagement with that company, depending on what is most appropriate for the situation, including:

1. raising concerns to more senior executives or non-executives
2. voting for shareholder proposals
3. voting against management proposals or director elections
4. collaborative engagement with other investors

[3] Professional clients can read more about the Net Zero Stewardship Programme on the RLAM website.
[4] Financed emissions are the total emissions associated with the investments in a portfolio.
[5] The value chain is the series of stages involved in producing a product or service that is sold to consumers, with each stage adding to the value of the product or service.
[6] IPCC (2022). Summary for Policymakers, Working Group III: Mitigation of Climate Change, Sixth Assessment Report.

5. asking questions at the company's Annual General Meeting
6. issuing public statements
7. filing resolutions for shareholder voting
8. participating in investor litigation.

Looking ahead, we are increasing our focus on and engagement with companies involved in oil sands, Arctic oil and thermal coal power generation. See below for further details.

4) Taking investment action

Where we have material concerns about fossil fuel companies and escalation has failed to address the issues, we will take investment action. We consider several options:

1. No new investment – for example, not buying new bonds or equities while continuing to hold existing investments.
2. Underweight investment – intentionally holding less of a stock than is held in a benchmark index.
3. Selective divestment – for example, selling longer-dated bonds or divesting from specific funds or strategies.
4. Full divestment or exclusion – phasing out investment across all in-scope funds and strategies. We consider this a final option to be used once all other options have been ruled out.

The pace and scale of change may vary within different parts of our investment portfolio depending on customer and client requirements, investment and climate time horizons, or practical or legal constraints.

Our investment decisions will support customer outcomes. As well as the outcome of our engagement and escalation, we consider the impacts on investment risk and return over different time horizons. We also review other factors including the evolving geopolitical landscape, trends in energy supply and demand and any potential unintended consequences of our decisions.

Evolving our approach

As part of managing long-term risks to our customers' and clients' assets, we continue to develop our approach to fossil fuel investments. We seek input from an external advisory group, comprising specialists from consultancies and academia, who offer independent guidance and challenge.

We are operating in an increasingly uncertain economic and geopolitical environment, which could present customers and clients with challenges in the short term. We will make investment decisions that balance their long-term and short-term needs and interests.

The production of energy from thermal coal, Arctic oil and oil sands contributes significantly to climate change. While companies involved in these activities are not among those contributing the most to our financed emissions, we will continue to review and evolve our approach to target companies involved in thermal coal, Arctic oil and oil sands.

Thermal coal

Thermal coal has a higher carbon intensity compared to other fossil fuels, meaning that worldwide thermal coal production and consumption must decrease rapidly to support the goals of the Paris Agreement.

Where companies have large reserves[7] or generate a significant part of their revenues[8] from thermal coal mining, we believe they are not in a position to transition their business models in a timeframe that would mitigate the worst impacts of climate change. During 2025, we are, therefore, phasing out new and existing investments in these companies from our investment portfolios, with more than 55 companies no longer eligible for investment. This applies to all RLMIS segregated mandates and all RLAM pooled funds. It covers all asset classes where possible, starting with equities and public credit.

Exposure to companies involved in thermal coal is already very low, with exposure isolated to three underlying RLAM funds. Thermal coal mining companies are mostly held in its Equity Tilt funds, where we have been making active choices since 2021 to reduce carbon intensity relative to the benchmarks.

As we phase out investment in companies with large thermal coal reserves or that generate significant revenues from thermal coal mining, we will manage carefully any impact to customers and clients. If, for any reason, we cannot sell all our holdings within a reasonable period, we will explain this in a future update to this statement.

Oil sands, Arctic oil and thermal coal power generation

Other fossil fuels, such as Arctic oil and oil sands, as well as power producers using thermal coal also pose additional risks and challenges. We expect companies involved in these activities to have credible climate transition plans and we will, therefore, be increasing our engagement efforts with them.

We will evaluate the credibility of these companies' climate transition plans, utilising the three expectation areas described above, to decide whether to engage, escalate or take investment action. Companies with credible climate transition plans will be monitored, with progress assessed approximately once per year. For those without credible plans, we will engage where we believe the company can transition away from fossil fuel activities, or we will take investment action where we think this is unlikely or where a credible plan is not provided following engagement. This

[7] Two billion tonnes or more globally.
[8] 60% or more of a company's total revenues.

assessment and decision process will mirror that of RLAM's Net Zero Stewardship Programme, utilising our in-house team of climate and investment experts.

Reporting on our progress

We will continue to evolve our approach to fossil fuel investments over time, considering the views of our customers and clients and the responsibilities we have to them. We will keep customers and clients updated on progress and the decisions we make on their behalf through periodic updates to this statement and in our annual Climate Report.