# Stewardship and responsible investment

# **Activity report 2019**

ROYAL LONDON

ASSET MANAGEMENT

# CONTENTS


**3 Introduction**

**4 About RLAM**
- 4 Our values and commitments
- 5 History of responsible investing at RLAM

**6 Our approach**
- 7 How Responsible Investment is governed at RLAM
- 7 Our in-house team
- 8 Market trends
  - 9 What does this mean for 2019 and beyond?

**10 Company engagement**
- 10 Overview
- 12 Examples – equities
- 14 Examples – fixed income
- 17 Collective engagement

**19 Proxy voting**
- 20 Voting highlights

**23 Bondholder voting**

**24 ESG integration in equities**
- 25 Sustainable funds
- 27 Global equity funds
- 28 European equity funds

**30 ESG integration in Fixed Income**
- 31 Investment Grade Credit (IG)
- 32 Sub investment grade credit (high yield)
- 32 Government bonds
- 32 Cash and money market (cash)

**33 Property**
- 33 Our approach
- 34 Property management
- 35 Property development

**37 Policy and advocacy**

**38 List of Company Engagements**

**39 Useful links**

> “RLAM has a strong reputation as an active fund manager. Perhaps less well-known is that we are active owners too.”

**Piers Hillier,**
**Chief Investment Officer**

# INTRODUCTION

The purpose of this document is to highlight our stewardship and responsible investment activities in 2018, including our voting and company engagement activity. It should be read in conjunction with our Stewardship and Responsible Investment Statement, which provides more detail around our approach to stewardship, how and why we undertake engagement with companies, and a description of how we integrate environmental, social and governance (ESG) issues into our investment decision-making.

The Stewardship Code is a sensible, responsible way to develop a common framework for shareholders and company management to work together. This common framework has a simple underlying belief – that ‘effective stewardship benefits companies, investors and the economy as a whole’.

RLAM has a strong reputation as an active fund manager. Perhaps less well-known is that we are active owners too. As a part of the UK’s largest mutual insurance and pension provider, doing the right thing for the owners of assets is a natural fit for us.

This isn’t easy. Although the first thing that we get asked about is voting, this really only touches the surface of what we think effective stewardship is all about. Ongoing engagement, while less visible than voting or media interviews, is tremendously useful work. By talking to management, relaying our concerns over a wide variety of areas from more obvious ones such as pay, to less glamorous but equally important areas such as cyber security or succession planning, we believe we can enhance long-term investor returns.

The importance we place on this is obvious. As part of the takeover of the Co-op Asset Management in 2013, we gave our environmental, social and governance capabilities a material boost. It is also reflected in the fact that our Responsible Investing team report direct to me, and are therefore independent of the fund management teams.

Our approach to responsible investing continues to evolve, as does the Stewardship Code that underpins our industry’s activities. We believe that despite the amount of change seen in recent years, we can expect to see material change in the treatment and acceptance of this key aspect to investing over the coming years.

**Piers Hillier, Chief Investment Officer**

# ABOUT RLAM

Royal London Asset Management (RLAM) was established in 1988 and is a wholly-owned subsidiary of the Royal London Group. Founded in 1861, Royal London Mutual Insurance Society is the UK's largest mutual life, pensions and investment company.

Royal London Asset Management is focused on providing asset management services to our clients. We offer a broad range of investment strategies across a range of core asset classes. Within our broad range of equity and fixed income strategies we also offer funds managed using an ethical or sustainable approach.

As mentioned, RLAM is a fundamental component of the Group, managing Group assets in addition to successfully providing active investment management services to a wide range of external clients.

RLAM continues to evolve and grow, focusing on our aim of delivering long-term investment success for our clients.

## Our values and commitments

**We are trustworthy**

We build trust with members and clients by being good stewards of their assets and by being willing to speak up on their behalf. We pride ourselves in being consistent and fair in our approach to voting, advocacy and company engagement.

**We achieve**

We are focused in our company engagement approach, seeking to prioritise the issues where we can genuinely engage and make a positive contribution. We do not sign up to a large number of initiatives or collective letters, rather we are selective in what we chose to undertake. What we chose to do, we do well.

**We collaborate**

Voting and engagement is a collaboration between fund managers, analysts and responsible investment experts. We do not view this as a tick-box exercise, but rather a fundamental aspect of our investment approach. Efforts are led and coordinated by the Responsible Investment Team ensuring that RLAM has a consistent message and all stakeholder views are taken into account.

**We are empowered**

Our analysts are empowered to take a nuanced view of governance issues and voting. We do not adhere to strict voting guidelines or external recommendations; we are cognisant of each company's unique circumstances and approach. Our analysts are encouraged to bring any and all relevant issues to fund managers' attention in both formal and informal ways, and speak up whenever there are ESG concerns, and conduct company engagement.

## History of responsible investing at RLAM

- **1988** — **RLAM is created**
- **1990** — Cooperative Asset Management launches its **first sustainable fund** – Sustainable Leaders
- **1999** — Cooperative Asset Management adopts a new **sustainable investment research process** and launches more funds
- **2002** — Cooperative Asset Management starts publishing its **voting record online**
- **2008** — RLAM becomes a signatory to the UN-supported **Principles for Responsible Investment** (PRI)
- **2009** — RLAM launches **Ethical Equity Fund**
- **2012** — RLAM signs up to the **FRC's Stewardship Code**
- **2013** — RLAM acquires the Cooperative Asset Management, including its **sustainable fund range** and in-house team of **responsible investment experts**
- **2014** — RLAM publishes its first **Stewardship Statement**
- **2015** — RLAM centralises proxy voting under one team and issues a **new Proxy Voting Policy**
- **2017** — RLAM launches two **Global Equity** funds that integrate ESG issues into their investment decisions

  RLAM launches an **Emerging Markets Tracker Fund**, which tracks an ESG benchmark
- **2018** — The sustainable fund range passes **£2.3bn AUM** (at 31 March 2019)

## OUR APPROACH

RLAM is committed to being a responsible investor. This means being a good steward of our clients' assets and promoting responsible investment (RI) and good governance across all asset classes. As part of that commitment RLAM seeks to understand and integrate environmental, social and governance (ESG) risks and opportunities into the investment process in order to support and enhance risk-adjusted returns.

We are a signatory to the Principles for Responsible Investment (PRI) and in the latest annual assessment we scored A+ in Governance and Strategy. We are also signatories to the UK Stewardship Code and are rated 'Tier One' by the Financial Reporting Council (FRC) for our approach to Stewardship. We vote our shares* (and where relevant, our bonds) and actively engage with the companies we own (both as equity holders and bond holders).

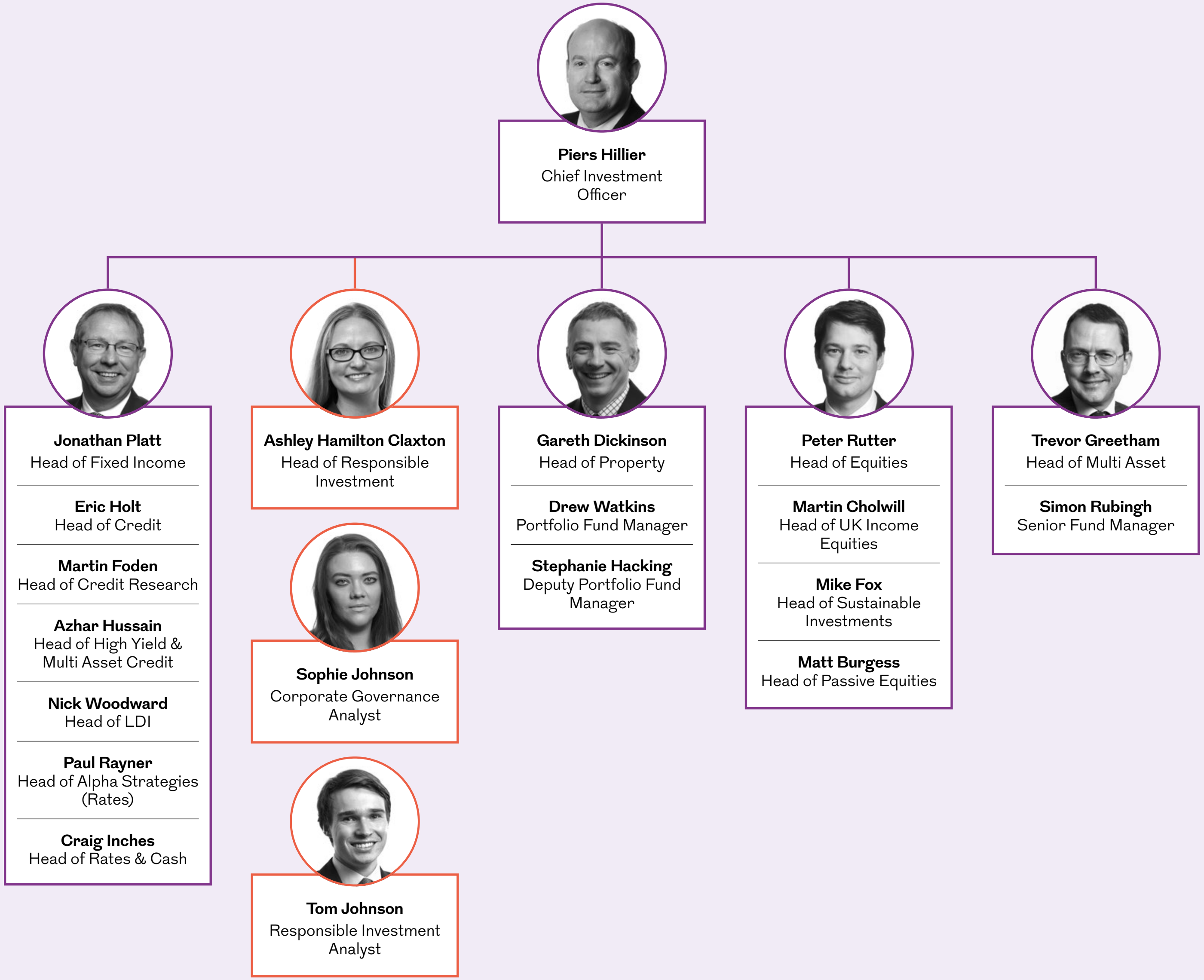
* We vote all of our UK holdings, plus our actively managed global funds. We do not currently vote our passive global funds.

## How Responsible Investment is governed at RLAM

RLAM has a dedicated in-house team of Responsible Investment experts whose role is to support our investment teams in analysing ESG issues and implementing responsible investment and stewardship at RLAM. The team is also responsible for leading and coordinating our proxy voting and engagement activity, working in partnership with our fund managers and analysts. Our responsible investment function reports to the Chief Investment Officer (CIO) as a dedicated Front Office function. The team has daily interactions with equity and fixed income fund managers and credit analysts, both on security specific issues and on broader thematic or strategic ESG issues.

Our Voting Policies and Stewardship and Responsible Investment Statement are signed off annually by the RLAM Board. Our policies and practices around voting and stewardship are subject to AAF controls and are reviewed by our auditors on an annual basis.

## Our in-house team



> Our ultimate goal is to have a positive influence on behaviour and assist the company in improving internal practices, governance and oversight, and their impact on society and the environment.

**Ashley Hamilton Claxton,**
**Head of Responsible Investment**

## Market trends

As you might have guessed from the myriad of conferences and newspaper articles, 2018 was arguably the year where the concept of 'ESG investing' truly entered into the mainstream. While RLAM (and other asset managers) were keen to stress our much longer pedigrees in this space, last year saw us talking more to our clients than we ever had before about environmental, social and governance risks and opportunities impacting their investments.

The corporate governance agenda was a classic case in point, as while 2018 saw a number of high profile issues hitting the headlines, the seeds of several of these were sowed many years before. Housebuilding firm Persimmon faced a heavy vote against the firm's pay report, accompanied by lurid headlines about the amounts being paid to, then partly given away by CEO Jeff Fairburn.

But the reasons for the scale of the pay-out stemmed from a legacy long-term incentive scheme implemented several years previously. The uncapped nature of the scheme didn't account for the significant tailwinds the company then received from the Help to Buy programme in the coming years. While we'd spoken out against the plan for several years in relation to this structure, as the full extent of the pay-out became known and after non-executive directors responsible for the scheme resigned at the very end of 2017, the die was arguably already cast.

Likewise, while climate change is hardly a new concept, increasing environmental concerns rose up the agenda, with shareholder resolutions demanding coherent strategies for dealing with climate change and the prospect of stranded assets. While oil and gas companies have largely fended off shareholder resolutions on climate change over a number of years, Royal Dutch Shell capitulated to investors in December of 2018 by strengthening their carbon emission reduction targets and committing to link these to their senior executives' pay. The company has since gone further, committing to apply carbon reduction to a percentage of the bonuses of 16,000 workers from 2020 onwards.

The year's most dramatic battles were focused on the role of management themselves. Activist investors teamed up with directors in various combinations to attempt to oust management. The executives of Petropavlovsk succumbed to a shareholder revolt, Premier Foods was subjected to a fierce battle with a hedge fund; and at Stobart Group, months of increasingly public arguments saw the Chairman narrowly survive an attempt by the former CEO to overthrow him.

Even institutional investors became more vocal in their displeasure with specific directors, with the percentage of votes cast against individual board members increasing dramatically. This is a trend which we see continuing over the long term as the demands of positions increase and companies face a less benign external environment. Directors will no longer be able to get away with holding an unreasonable number of positions or with consistently making poor decisions around remuneration or succession planning.

Recruitment difficulties and status quo are no longer an excuse for a lack of diversity, from the boardroom to the shop floor. The collapse of Carillion, Patisserie Valerie and now a similar fate at Interserve will mean a more focused lens on the auditors and audit committee members who sign off on these Companies' Accounts.

## What does this mean for 2019 and beyond?

In short, greater scrutiny from both investors and regulatory regimes, and greater accountability for companies and their directors. The newly updated UK Corporate Governance Code, the upcoming changes to the UK Stewardship Code, and a replacement for the FRC will lend additional clout to asset managers seeking change for the better at the companies where we invest. For asset managers like ourselves, given the broad lack of trust in business and shifting public opinion, we owe it to our underlying clients to step up to the plate and act as the best possible stewards of our client's capital.

**Ashley Hamilton Claxton,**
**Head of Responsible Investment**

# COMPANY ENGAGEMENT

## Overview

As a responsible investor we carry out company engagement work in order to support better standards of behaviour, risk management, good governance, and sustainable economic growth. We also engage to reduce the negative social and environmental impact that our assets have on the environment and wider society. Please refer to our Stewardship and Responsible Investment Statement for more information on our approach to engagement, how we set priorities, collective engagement with other investors and methods of escalating engagement.

While traditionally investors have engaged their equity holdings on ESG issues, we view bondholder engagement as an important part of our Stewardship commitment to our clients. It helps us assess risk and make better investment decisions. It also gives us an opportunity to advocate for change at companies where ESG risks are higher or where company performance or behaviour does not meet our expectations.

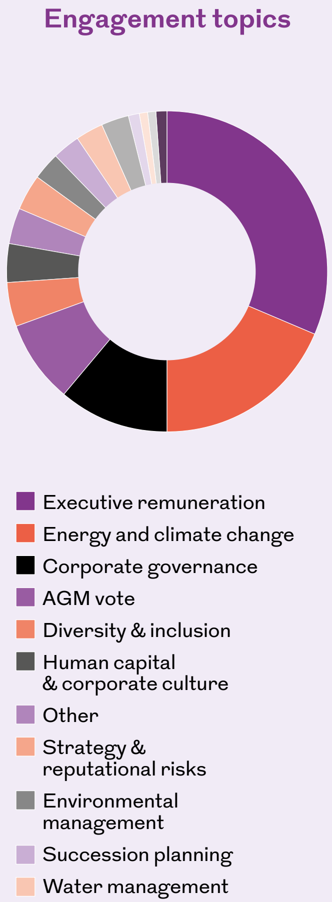
During the course of 2018 we have undertaken 168 engagements with 123 companies. This covers all substantive interactions with investee companies on ESG issues across equities and fixed income, through letters, emails, telephone calls and meetings.

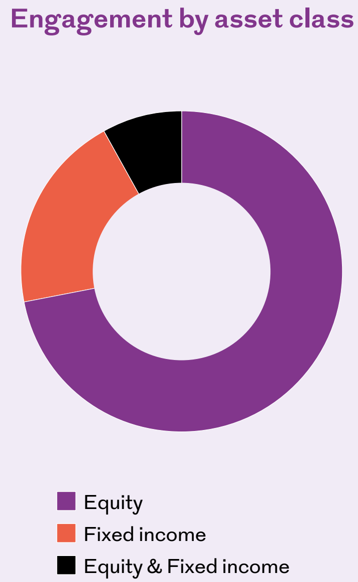
In addition, we have also sent 106 letters to companies outlining our reasons for voting against or abstaining on proposals at AGMs. We think sending letters to companies to explain our votes is a great way of providing feedback to companies and inviting further engagement. Companies appreciate receiving an explanation and often ask for follow up meetings.

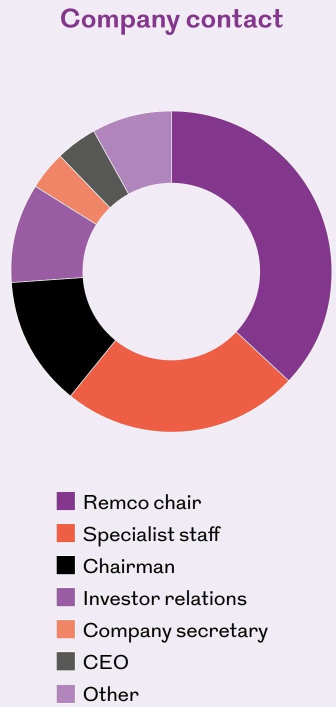
We aim to be focused when choosing when and how we engage with companies. That's why we don't sign up to lots of initiatives, but rather choose to focus on a few issues where we feel we can make a difference and where it can have an impact on investment decisions. Company engagement is sometimes initiated at our fund managers' request, by the company, or through our regular ESG portfolio reviews. You can read more about our approach to engagement in our Stewardship and Responsible Investment Statement.

Corporate governance is always an important topic for us, and we dedicate a lot of our time to engaging with companies, particularly in the UK as this is where we hold the majority of our equity assets. In 2018, we continued engaging companies on the themes of remuneration, succession planning, board balance and structure, corporate strategy and diversity.

Below are a few examples of research and engagement projects we've undertaken in the year, along with some specific company engagement examples in both equities and fixed income.



## Examples – equities

### STOBART GROUP

Stobart Group, a Guernsey incorporated UK company, provides infrastructure and support services in renewable energy, aviation, and rail and civil engineering sectors in the UK and Europe. Its principal business elements are Southend Airport and a biomass business spread across the UK.

As a large independent shareholder in the Company, we were directly involved in events as they unfolded at Stobart over the course of summer 2018. The founder and substantial shareholder published a statement on 25th May outlining his intentions to oppose the re-election of the Chairman and ultimately the executive team. This initiated a very public battle between the founder and his supporters on one side, and those who sided with current management over the future strategic direction of Stobart Group on the other. We felt it was important for us to get involved, with the aim of stabilising the situation and ultimately protecting the long-term interests of both the Company and our clients.

We had numerous calls, emails and face-to-face meetings with both sides prior to the AGM on 6th July. After this extensive engagement and internal debate we decided to support the current strategic direction and management of the Company. Due to the very public nature of this dispute, taking place in the national press and the seriousness of some of the allegations, we felt a public statement outlining our support for management was warranted.

Following the narrow re-election of the Chairman, with only 51%, we sent a letter to the Board outlining the steps we wished them to take following a difficult six weeks. We asked that they conduct a full external Board evaluation, appoint at least one new independent non-executive director and appoint an external independent firm to undertake an investigation into allegations of staff bullying.

The Company responded the following day agreeing to two items immediately; with an external Board evaluation to follow in 2019 once a succession process for senior Board members had been undertaken.

A recent meeting with management confirmed that these issues are being addressed, with an external advisor finding no evidence of staff bullying but making a number of suggestions for improvement. We will continue to closely monitor the company, particularly over the course of the next few months during the process of board transition.

### METRO BANK

Metro Bank is a UK challenger bank launched in 2010 and based primarily in London offering retail and corporate banking services. It was the first new UK bank launched in 150 years and aims to differentiate itself through its customer focused approach and services such as safety deposit boxes and extended branch opening hours.

We have had concerns with the corporate governance of the Company for a number of years, primarily regarding the influence of the founder and his family on the Board; the presence of a number of related party transactions and executive remuneration.

At the AGM in April 2018 we voted against the remuneration report, as well as the re-election of the Chairman/Founder, in addition to the Chair of the Audit Committee and Chair of the Nominations Committee. Our most pressing concern was regarding the substantial related party transactions undertaken by the Board with InterArch, a company run by the wife of the Chairman/Founder, for design and branding services.

At the time of the AGM we sent a letter to the company outlining these concerns and also spoke publicly on the issue. We met with the Senior Independent Director and the Chair of the Audit Committee in June to further discuss our concerns. The directors provided an overview of the InterArch relationship and touring the offices, the outcomes of this arrangement are evident in the quality of the branches. The meeting went some way towards assuaging our concerns, and we offered them a number of suggestions to improve shareholder communication and disclosure.

We held a follow-up call with the company in November specifically on how to improve their Annual Report disclosure, in the hopes of addressing the issues we and other shareholders have raised. We do however intend to continue to closely monitor the function of the Audit Committee to ensure that the Company is improving.

## UNILEVER

Unilever is a global consumer goods company providing personal care, home care, foods and refreshment segments. Major brands include Dove, Hellmann's, Ben & Jerry's and Domestos. The company is dual listed in London and the Netherlands.

In March 2018, the Company announced their intention to scrap their dual Anglo-Dutch structure, and move to a single holding company structure based in the Netherlands. The intention was to continue to be listed on the London, New York and Amsterdam Stock Exchanges. Following this announcement we engaged extensively with the Company over their plans to move to the Netherlands.

The Company's plans would have very likely resulted in the Company, one of the largest in the UK, leaving the FTSE 100 index and forcing many of RLAM's funds along with other investors to sell their shares. In addition to this, certain aspects of the Dutch governance code provide greater takeover protections and less stringent governance requirements than those required in the UK.

Despite engagement with the Company, we remained unconvinced by the merits of the move and joined other major investors in publicly opposing the plans and voicing our intention to vote against. On 5th October, two weeks before the planned meeting to approve the move, the company backed down and pulled the proposal, acknowledging the opposition from UK investors.

## Examples – fixed income

### AKELIUS (AKFAST)

Unlike many other property companies which, whether public or private, are usually held by a range of shareholders, Akelius Residential AB is primarily owned by a charity – the Akelius Foundation.

The Company's Founder donated 85% of the company to the Foundation, which uses the profits the Company generates to support a number of worthy causes, in particular, SOS Children's Villages, a global charity which supports children without parental care and families at risk.

Although the altruistic nature of the Company's origins and ownership are welcome, we had a number of questions in relation to the limited level of public disclosure. Particularly what incentives might be appropriate for the Property Company's executives.

Ahead of lending to the Company, we engaged directly with them on a number of areas including compensation practices, governance structure and interaction between the charity and the corporate arms.

Our analysis concluded that the Company's comprehensive Code of Conduct, combined with the protective covenants in the bond and the additional spread premium on offer compared to its peers, made it an attractive opportunity.

### GROSVENOR

Despite being unrated, bonds issued by property company Grosvenor Group are a core holding of many RLAM credit portfolios, thanks in part to their protective covenants and their security over high quality collateral. However, as a privately held company, Grosvenor's historic disclosures on the environmental and social impacts of their portfolio have been less detailed than many of their listed peers.

As part of our wider work on Minimum Energy Efficiency Standards regulation (MEES) at a number of our fixed income issuers, we engaged with Grosvenor on their approach. As a consequence of this initial project, we spent additional time with the Company's Treasury and Operations Team to discuss the tangible initiatives they were undertaking to ensure the longevity of their asset base.

It was clear from these subsequent discussions that the Company's disclosures clearly undersold the significant practical impacts the environmental initiatives were having, including landmark projects such as the first 'outstanding' BREEAM and the first 'Enerphit Passivhaus' certified residence in London (meaning that less than 10 watts per metre of living space is required to heat the building).

The schemes which Grosvenor undertake demonstrate the economic feasibility of improving energy efficiency of their listed buildings, a critical factor given the legacy nature of much of the Grosvenor estate. Our wider MEES project helped us to enable more effective evaluation of the mitigation we require as debt investors. However, in the case of Grosvenor, engaging directly with the company also uncovered the fact that the company is a leader in environmental design, despite our initial concerns it was lagging its peers. It also helped us develop a stronger working relationship, and gain deeper insights into, a key issuer for our credit funds.

### ARSENAL

As part of their move from Highbury to the new Emirates Stadium and the development of the site around it, Arsenal Football Club issued bonds to help finance the construction of the project.

Following an announcement that the club was being wholly acquired by US sports entrepreneur Stan Kroenke, we used this as an opportunity to reassess the Club's corporate governance practices, along with the wider environmental and social impacts of the redevelopment we helped finance.

As part of the takeover, the Company which controls the club is being reconstituted as a private holding company, which might have led to lower standards of corporate governance. Following discussions with the Company it was confirmed that it would maintain its Audit and Remuneration Committees, and that there were no changes to the Board of Directors related to the Company being taken private.

In addition, we got a welcome update on the wider impacts of the development work. The stadium currently provides 1,800 long-term jobs in a relatively deprived area of North London. As part of the project the Company created nearly 2,500 new homes, of which 33% were social housing, along with some development in relation to key-worker housing schemes. An independent study suggested that the whole stadium project yielded over £30m of community benefits, and in recent years the Club has introduced a number of schemes to lower the wider environmental impact of the Emirates Stadium.

We will continue to monitor for any future changes in corporate governance which might be detrimental to us as bondholders, but are reassured by our engagement with the Club and the secured nature of our lending.

#### The energy transition

The UK energy sector is undergoing a period of transformation. Decentralisation of power production and storage, democratisation of power ownership and decarbonisation of the country's generation portfolio are slowly but surely bringing the country's energy networks into the 21st century.

This energy transition will have far reaching consequences for consumers, for regulation, and for us as investors. As bond investors, we are potentially exposed to these companies for another several decades, and so their strategies for tackling this transition are key parts of their business model.

Most recently, in collaboration with the Friends Provident Foundation, we have been reaching out to the Big 6 energy providers, along with a number of other players in the UK energy sector, to better understand how they are planning to manage this transition.

This engagement is still in progress, and we will have more detailed findings to share during 2019.

## ESG risks for water utilities

During the first half of this year, we carried out a detailed piece of research and engagement into the ESG risks within the UK's water sector. We own water utilities in our corporate bond funds and also have some exposure through our UK equity holdings. Whilst the sector is highly regulated, opportunities to differentiate between firms and across capital structures do exist.

Ofwat, the regulator for water utilities in the UK, has sent a clear message to water companies that they need to keep customers at the heart of their business. In addition, growing dissatisfaction, higher rates of complaints from customers, and rumblings in the press about re-nationalisation are red flags that water companies need to re-focus on the customer.

Our report also found that of all the ESG risks facing the sector, companies' approach to leakage and managing water scarcity was the most important issue from a credit perspective. While water often seems abundant in the UK, the hot, dry weather across the summer of 2018 should remind us that water is a vital and precious resource that requires conservation and proper management. We wanted to assess which companies are taking the lead on water conservation through metering.

Our research found that sound management of these risks tended to lead to less volatile and marginally higher profitability, stronger climate resilience and greater social performance. When looking from a credit perspective, these factors are most financially relevant for subordinated, or junior, company debt; which is most sensitive to changes in company operating performance.

The outcomes from the research included insights into opportunities to switch some of our fixed income investment from lower-rated ESG companies into higher-rated ESG companies with no loss of return for our clients. It also informed our engagement and voting at companies in our equity funds.

More recently, representatives from RLAM have had a chance to see some of the UK's key water assets and learn more on the ground (and even under it) about some of these sustainability initiatives. We attended a wide-ranging site visit at Anglian Water's operations around Newmarket, and got a chance to look around part of the new Thames Tideway Tunnel currently being built under London.

https://www.unpri.org/download?ac=5699

## Collective engagement

We are selective in choosing when to work with others because sometimes collective engagement can result in a 'lowest common denominator' approach or get bogged down in administration. We do see the value in working with others on some projects however, for example when it makes sense to pool resources, share information and create greater momentum for change.

This year, we've done this with the 30% Club on **diversity** (see box opposite). We've also used collective engagement to tackle tricky topics like tax where we are asking companies to be transparent in their tax strategy and encouraging country-by-country tax reporting. We are currently targeting four companies, working alongside a number of other investors. Due to the size of the target companies, collaborative engagement with other investors is, in our view, the most efficient way of approaching this issue. Similarly, we signed a collective investor letter to 17 **pharmaceutical** companies to request they participate in the Access to Medicines Index, an initiative that asks companies to make medicines, vaccines and diagnostics more accessible for people in low- and middle-income countries. We also co-signed a letter to 41 companies on plastic pellet pollution to help bring attention to the issue of **plastic pollution** in our oceans.

We also sometimes work with other investors to engage with individual companies. For example we did this over several years at **WPP** (see box, page 18). In 2018 we signed a joint letter to **Glencore** to express concerns with ongoing corruption allegations, and supported a letter to **Volkswagen** requesting the company make key governance changes in advance of its AGM.

### Focus on diversity

Like other investors, diversity is a topic we've been focussed on for a number of years. RLAM has signed the Women in Finance Charter and is a founding member of the CFA Gender Diversity Partner Programme. We are also active members of the 30% Club Investor Network, where we collectively engage with companies alongside other investors to promote change. During 2018 we participated in four group meetings, and also raised diversity as a concern in 12 one-to-one meetings.

Diversity for us goes beyond gender and we fundamentally believe that a more diverse team is a stronger team; ultimately making sounder decisions, resulting in a better working environment for all employees and providing us with better returns as investors. This is a concern across industries, and many companies we engage with are making strides to address the diversity imbalance. Change will come by addressing the entire pipeline of talent, starting at the shop floor through to graduate recruitment and up to the executive team.

While the Boardroom gender balance is not always reflective of the company itself, we have found it to be an effective way to communicate our concerns and dismay at the lack of progress a company is making. In line with this we changed our voting policy at the start of 2018 and have abstained against the Chairman of every company where there was a concern. This has amounted to 140 votes and 46 engagement letters issued to the companies in question highlighting our concerns.

### WPP — succession on track

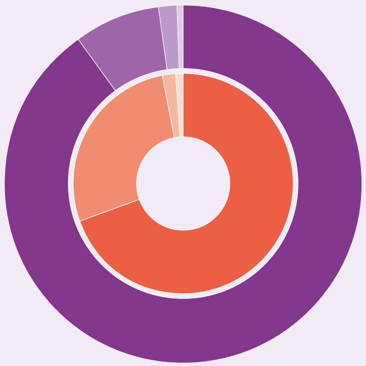
Our collaborative engagement with WPP spans several years, but is a good example of how collective engagement can be effective at changing company behaviour and protecting shareholder value. We worked diligently with other shareholders to challenge the WPP Board over concerns about succession planning. The Company had an ageing, charismatic founder-CEO presiding over an exceptionally complex business model, with no clear signal about the future leadership team. Over three years, the Board made slow but meaningful progress on putting in place a more credible and acceptable succession plan. Much to our surprise, this plan was put into action in 2018 when the CEO, Sir Martin Sorrell, resigned suddenly. We believe our collective efforts to continually challenge and the Board on its succession plan helped ensure a more orderly succession than what could have otherwise occurred. We also believe that joining with other shareholders to send a strong collective message was critical in our success.

### Workforce Disclosure Initiative (WDI)

RLAM is a signatory to the Workforce Disclosure Initiative (WDI), which encourages companies to share meaningful data on how they manage their employees and those involved in their wider supply chain, along with sharing how this is approached in the context of the company's overall business strategy.

During the year, we wrote to a number of companies where we hold equity stakes including Direct Line, Persimmon, United Utilities, Severn Trent, Croda, Rentokil and Johnson Matthey, encouraging them to take part. Although the WDI has not yet published its full report, overall 90 companies responded to the survey during the year.

| | |
|---|---|
| Total number of meetings | **1,115** |
| Total number of proposals | **15,009** |



### Overall voting

| | |
|---|---|
| Votes for | **90%** |
| Votes against | **8%** |
| Abstain | **1.5%** |
| Take no action* | **0.5%** |

### Remuneration

| | |
|---|---|
| Votes for | **69%** |
| Votes against | **27%** |
| Abstain | **2%** |
| Take no action* | **1%** |

* We endeavour to vote all positions but in markets subject to shareblocking we may elect not to vote due to the implications of our shares being temporarily blocked from trading.

# PROXY VOTING

At RLAM, voting is an integral part of what we do. We have customised voting policies with our voting service platform (Glass Lewis) which means we don't blindly follow proxy voting advice from third parties. For companies in our actively managed portfolios, we apply rigorous analysis before deciding how to vote. This includes taking account of our engagement with the company and speaking to the fund managers and analysts who know the companies best. Our governance analysts are empowered to take a nuanced view and incorporate all of this research when voting, and speak up whenever there are any issues or governance concerns.

This approach results in a meaningful and bespoke voting service for our clients. We believe that the most effective voting activities go beyond the use of a standard rules-based template given the nuances and specifics of each individual case. We vote through principles rather than rules. For example, we voted differently to Glass Lewis' recommendations 7.5% of the time, and we voted differently from our own custom policy recommendations on 889 occasions. In respect of executive remuneration we voted differently to our voting guidelines 26% of the time. Some key highlights from the year are on the next three pages.

## Key voting stats

| Country of origin | Voted |
|---|---|
| United Kingdom | **688** |
| United States | **102** |
| Guernsey | **72** |
| Jersey | **43** |
| Japan | **23** |
| France | **22** |
| Germany | **19** |
| Ireland | **18** |
| Netherlands | **17** |
| Switzerland | **10** |
| Luxembourg | **9** |
| Australia | **9** |
| Canada | **7** |
| Italy | **7** |
| Denmark | **6** |
| Spain | **6** |
| Bermuda | **6** |
| Hong Kong | **5** |

| Country of origin | Voted |
|---|---|
| Belgium | **5** |
| Isle of Man | **5** |
| Singapore | **3** |
| Finland | **3** |
| Sweden | **3** |
| Cayman Islands | **3** |
| Austria | **2** |
| Portugal | **2** |
| Netherland Antilles | **2** |
| Korea, Republic of | **1** |
| Taiwan | **1** |
| Gibraltar | **1** |
| Norway | **1** |
| British Virgin Islands | **1** |
| New Zealand | **1** |
| **Total** | **1115** |

## Voting highlights

Below we highlight a number of notable votes in the year and the rationale for how we voted.

### ROYAL MAIL PLC

We along with over 70% of other investors voted against the Remuneration Report at Royal Mail in July. Our concerns centred on the appointment of a new CEO, Rico Back. Mr Back was awarded almost £6 million before his appointment as CEO by Royal Mail to buy him out of his employment contract as head of their European Parcels Division. This arrangement dated back to when Royal Mail, then a state owned business, purchased a German parcel company where Mr Back served as managing director.

In addition to the above he was appointed on a salary markedly above that of his predecessor. His pension provision was reduced to result in a similar level of fixed pay, however by increasing the salary this will have a marked effect on the outcome of any bonus or long-term share award that may be granted in the future.

The outgoing CEO was also paid a bonus award solely in cash rather than in deferred shares as per the company policy. This payment, while contractual and again dating back to her initial employment contract, was equal to 12 months bonus at target levels rather than pro-rated and based on company performance during the period.

### PLAYTECH PLC

Incorporated in the Isle of Man, Playtech develops and sells software for the gambling industry worldwide through online and mobile platforms and physical casinos. We have long-standing serious concerns with the board and particularly executive pay at the Company.

In 2017 a majority of shareholders rejected a proposed one-off share grant to the CEO of over 1.5 million shares. The company proceeded to grant the CEO a nearly 67% salary increase to compensate for no longer being able to grant the share award. Additionally we were concerned that despite the length of time in office the CEO has a very low shareholding level, below that required by the Company's policy.

This shows a worrying trend of disregarding the views of shareholders and as such we voted against both the remuneration report and all members of the Remuneration Committee. 60% of investors overall opposed the pay resolution at the shareholder meeting.

## PERSIMMON PLC

Persimmon Homes, the house builder based in the North East of England is one of the largest in the UK, providing reasonably priced homes from one to five bedrooms.

The Company's executive pay structure has, despite positive financial performance, long been of concern to us. A remuneration policy was approved by a majority of shareholders back in 2012 based solely on the achievement of dividend targets per share, and was essentially uncapped in its upwards potential for the executives should they hit the targets within the life of the plan. In subsequent years, thanks in large part to government initiatives such as Help-to-Buy, the company has performed extremely well and has easily hit these targets.

Despite some limited efforts by the Company to address investor concerns with the policy, we have continued to consistently vote against pay and 2018 was no exception. 48% of shareholders voted against the remuneration report and a further 31% abstained. Substantial share awards under the plan vested during 2018, and despite the company reducing these, they still amounted to between £19 million and £44 million per executive.

Due to the degree of press attention, shareholder and wider stakeholder reactions, two members of the board resigned late in 2017 and were followed by the CEO in November 2018. We have been vocal in our opposition to the pay arrangements at Persimmon, commenting publicly multiple times over the last two years.

## SAFESTORE HOLDINGS PLC

A self-storage company operating in the UK and France, the company caters for both business and personal use.

In March 2018 we, along with 48% of shareholders, opposed the Chair of the Remuneration Committee at the Annual Meeting. In addition to this we voted against the other three members of the Remuneration Committee and the remuneration report due to substantial concerns with pay.

At a General Meeting in 2017, 49% of shareholders opposed the Committee's plans to grant one-off share awards equal to over 20 times base salary. As this was very narrowly passed by shareholders, the committee pressed ahead with their plans unaltered. In our view considering the extent of shareholder opposition, the Company, and more specifically the Remuneration Committee, should have re-considered the plans, engaged with shareholders and undertaken a dialogue with those who had opposed the vote.

Due to the lack of meaningful response from the Company on this issue, we felt obliged to oppose the pay vote for the second consecutive year along with the board members responsible for implementing the plan. We also issued a press comment highlighting our views, which triggered further engagement with the company in mid 2018.

## FACEBOOK INC

At the shareholder meeting in May 2018, we opposed the re-election of all three members of the Company's Audit Committee.

In the Company's Terms of Reference, it is made clear that the Audit Committee is responsible for the oversight of matters including the monitoring of compliance with legal and regulatory requirements. In light of the Cambridge Analytica scandal, in our view the Committee failed to effectively fulfil their obligations. The private data of up to 87 million people was harvested from Facebook and used for targeted advertising and political party campaigning. The company also has a long track record of insufficiently addressing concerns over users' privacy.

At the meeting we also supported a number of shareholder proposals. These proposals called for the implementation of a one-share one-vote system and the removal of the supermajority vote standard to improve shareholder rights. Other proposals asked for the formation of a Risk Oversight Committee, the creation of an Enforcement of Content Policy to better remove all offensive and extremist material from the site, and greater disclosure on Facebook's approach to taxation.

## CARNIVAL INC

Carnival is a USA based and UK listed leisure travel and cruise company, operating 10 cruise line brands including Cunard, P&O, Princess Cruises and Carnival Cruise Line.

In April 2018, we opposed the re-election of five members of the board. The Chairman, as the former CEO is not independent, and the Board in our view has insufficient overall independence. Two more directors are not independent due to the length of time they have served on the Board. In addition to this, we opposed the re-election of members of the Remuneration Committee due to our long standing concerns with remuneration at the company.

Remuneration, which we also voted against, is in our view, overly complex and with a high level of discretion granted to the Committee in setting awards and targets. Due to these factors remuneration is also excessively high. Finally we also voted against the reappointment of the Auditor, who has served the company for 32 years. In our view this has the potential to impact the independence of their judgement and their efficacy as Auditors.

## ORACLE CORPORATION

Oracle, a US technology company, develops and manufactures IT infrastructure solutions for clients worldwide. We had a number of concerns at the Oracle AGM in November 2018.

Firstly we voted against the Chairman of the Board, although the roles of CEO and Chair have been separated; the Chairman is both the founder of the Company and currently serving as Chief Technology Officer. While we are cognisant that his experience may be of great value to the Company, he is evidently not independent and we feel the company would benefit from the appointment of an independent Chair. In addition, the current arrangement of maintaining co-CEOs, along with the non-independent Chairman raises a number of concerns with the balance of power in the Boardroom.

We also opposed the re-election of a number of members of the Compensation Committee. We take issue with the current compensation structure and question the connection between pay and performance. These are longstanding concerns, and only 48% of shareholders supported pay in 2017.

Lastly there are also serious concerns with the quantity and severity of a number of ongoing lawsuits filed against the company. These lawsuits range from breach of fiduciary duties over the purchase price paid for an acquisition, unfair practices relating to a contractual arrangement with another technology company, and discriminatory practices alleged by the U.S. Department of Labor. We supported all shareholder proposals at the AGM, calling for gender pay gap reporting, disclosure of political expenditure, lobbying and the appointment of an independent Chair.

## BONDHOLDER VOTING

As a bondholder, we sometimes have the right to vote on issues that affect our credit holdings. There were three notable cases in 2018 where we exercised our voting rights as bondholders.

During 2018, following public pressure and engagement from debt investors, Yorkshire, Thames and Affinity Water all sought to move their financing entities from the Cayman Islands to the UK. Thames Water and Yorkshire Water are regulated water utilities, providing essential water and wastewater services within their respective areas. Affinity water is a regulated 'water only' company which operates in a range of locations across the South of England.

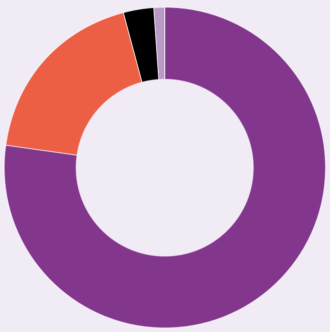
Due to the significant lender protections within the bonds we held in these companies, consent was required for this move to occur. Following a detailed review, we believed that the proposals would not have an impact on the credit quality of the companies, while also removing a key source of public scepticism that has afflicted the sector, and voted in favour of the substitutions.

These three motions were all passed, and these companies are now in the process of moving their financing entities to the UK.

## ESG INTEGRATION IN EQUITIES

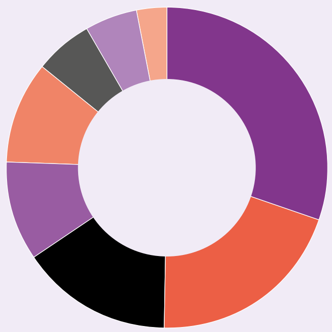
Our Stewardship and Responsible Investment Statement provides a general overview of how we approach ESG integration in equities. Our approach recognises the potential impact that ESG issues may have on long-term investment value. How we ultimately apply this in practice is driven primarily by each investment strategy and the commitments we have made to our clients. Corporate governance is a strong consideration across our funds, and there is regular, proactive dialogue between the Responsible Investment team and the fund managers. Below we have provided some more detail on how some of our equity strategies integrate ESG issues into their investment decisions. For more detail on these equity strategies or other strategies not listed, please contact us communications@rlam.co.uk

## 2018 sustainable fund screens




## Sustainable screening by theme

161 companies evaluated for sustainable funds in 2018




## Sustainable funds

The funds have an explicit mandate to invest only in companies that either provide a positive Net Benefit to Society or are ESG Leaders relative to their peers. ESG issues are often a driver of investment opportunity and therefore are intrinsically factored into our financial analysis and portfolio weightings. Bespoke ESG scores and analysis are recorded on stocksheets alongside our financial analysis and companies that meet our high standards for ESG performance will become part of our investible universe.

A few examples of companies we have looked at in the year:

### ORSTED A/S

A Danish energy company that has transformed itself from being an oil and gas business to a pure play renewable energy company. Due to its scale in offshore wind and the fact that the technology is set to grow at a much faster rate than either solar or onshore wind, Orsted is very well placed to benefit. Strong cost reductions in offshore wind driven by increasing turbine sizes, industrialisation of the supply chain and innovation are buoying the sector and cementing government support. This in turn should mean that offshore wind could start to make a meaningful contribution to the global energy mixes whilst at the same time offering attractive returns to investors. We started a new position in Orsted in our Sustainable World Fund in 2018.

### ILLUMINA INC

As the global leader in DNA sequencing technology, USA based Illumina is fuelling advancements in life sciences, oncology, reproductive health, genetic disease, agriculture and microbiology. Genetic sequencing is hoped to have a huge influence over our understanding and treatment of cancer, as well as having applications for rare genetic diseases, preventing disease outbreaks and safe guarding food supply. The Company's principal competitive advantage is its market dominance but it also has an extensive intellectual property portfolio and continues to invest substantial sums in research and development. As genetic sequencing reduces in cost, the potential for Illumina to grow rapidly, to the benefit of society and investors, is significant. We started a new position in Illumina in our Sustainable World, Diversified and Managed Growth Funds in 2018.

### CORBION N.V

A Dutch fermentation company built primarily around the production of lactic acid. Every aspect of the Company's operations are built around sustainability and it's products address issues such as our reliance on fossil fuels, plastic waste and the provision of food. It sells naturally derived ingredients that inhibit the bacterial contamination of food and extend the shelf life of bakery and dairy products, thereby reducing food waste. Future value creation is based on newer, early stage initiatives that the Company is undertaking and these are what make Corbion especially exciting. Corbion is applying its lactic acid expertise to the production of polylactic acid (PLA): a biodegradable plastic made from sustainable inputs. The market for this is seeing strong growth and in helping solve the problem of single use plastics. We started a new position in Corbion in our Sustainable World, Diversified and Managed Growth Funds in 2018.

### DANONE

Despite having a strong focus on sustainability and nutrition, the market backdrop for the French food company Danone has changed. The Company's main product categories are dairy products, baby food and bottled water which have historically been high demand growth areas relying upon the power their brands have exerted. However, the demand growth now for consumer packaged goods is coming from small and local brands as consumer tastes shift. When combined with the fact that large baby food companies are continuing to receive negative attention for their marketing practices in emerging markets and the environmental impact of bottled water/ plastic packaging, the outlook for the company does not seem as encouraging as in the past. For these reasons we made the decision to sell our holding in the company from our Sustainable World Fund during 2018.

### SYMRISE AG

As consumer tastes and habits change, Symrise, the German flavours and fragrances company, is well placed to benefit. Greater emphasis is being placed by consumers on the sustainability of ingredients and about raw materials being from natural sources rather than being derived from petrochemicals. With the obesity epidemic placing such financial strain on health services, food and beverage companies are being compelled by government intervention to reformulate their products to reduce salt, sugar and fat. This provides attractive growth opportunities for Symrise as they add value to their customers and consumers. We started a new position in Symrise in our Sustainable World, Diversified and Managed Growth Funds in 2018.

**“We have an explicit mandate to invest only in companies that provide a Net Benefit to Society, either through the products and services they provide, or by demonstrating ESG leadership relative to their peers. ESG issues therefore are intrinsically factored into our analysis.”**

**Mike Fox,**
**Head of Sustainable Investments**

## Global equity funds

The funds factor ESG issues into investment decision-making, via qualitative and quantitative assessments of ESG risks and opportunities as part of an individual Company's 'shareholder wealth creation' analysis, and in 'bull' or 'bear' valuation scenarios. Consequently, ESG factors influence every investment decision through the initial stock selection and the valuation analysis. ESG issues are routinely considered, discussed and evidenced.

### SUNCOR ENERGY – ENVIRONMENTAL

There is a risk that future carbon emission taxes could materially impact the valuation of companies like Suncor Energy, the Canadian oil sands company. The team incorporated analysis on sensitivity to different shadow carbon prices, based on Scope 1 & 2 emissions and varying cost per ton of carbon, and its impact on Suncor's return on capital and valuation. At current price and outlook, the team determined that Suncor could withstand a tax of approximately $60 per ton before there was likely to be a meaningful impact on the valuation pay-off. This was incorporated in our decision to continue holding the shares. We have noted in our analysis that, in recognition of the potentially increased cost of carbon management, the Company is developing management and reduction strategies. If pursued successfully the reduction in carbon risk will further support shareholder value creation.

### PROVIDENT FINANCIAL – SOCIAL

The team conducted analysis on the wealth creation associated with Provident Financial and this highlighted the social risks associated with key elements of the business model and sub-prime lending. The investment team conducted analysis of global peers in other countries to understand the range of regulatory and social pressures that might occur and the impact this has had on similar business models. Japan was a particularly useful case study. Factoring this analysis into the assessment of shareholder wealth creation led to a reduction in the 'rating' ascribed by our investment process. In addition, factoring in bear cases associated with increased regulation completely changed the valuation pay-off (upside potential versus downside risk) associated with the shares. Consequently, what looked like a strong investment case from a pure economic perspective was radically changed after considering ESG factors.

### VIACOM – GOVERNANCE

During a review of Consumer Media companies, Viacom showed some potentially interesting attributes from a financial and valuation perspective. However due to broad governance concerns, including unequal voting share classes which gave family control despite minority economic interest, and acrimonious family involvement in management succession, the team considered governance risks material enough to skew the valuation pay-off negatively. As a result the team decided not to invest in Viacom.

> **"ESG issues are factored into investment decision making, via qualitative and quantitative assessments of risks and opportunities, as part of our initial financial and ongoing company shareholder wealth creation analysis."**
>
> **Peter Rutter,**
> **Head of Equities**

> **“We consider ESG issues when making any investment decisions, conduct regular portfolio reviews with the RI team and in several cases ESG issues have materially contributed to decisions to buy, sell or downsize a holding.”**

**Steve Bolton,**
**Fund Manager, European Equities**

## European equity funds

The investment team considers ESG issues when material to the investment decision. In some cases, ESG issues have contributed to decisions to buy, sell, or downsize our holding. The Responsible Investment Team conducts an ESG review meeting at least quarterly with the Fund Managers to discuss specific companies or emerging issues of concern, with ad hoc discussions in between as issues arise. We conducted five formal ESG risk review meetings with the fund managers in 2018 where we discussed a number of ESG issues. In some cases this led to further analysis or engagement with the company.

### RYANAIR HOLDINGS PLC

Ryanair is the Irish listed, low-cost airline which operates primarily within Europe. The Company's CEO Michael O'Leary remains a key driving force within the business, and retains a 4% shareholding. Ryanair had been a holding within the funds for a number of years, and the somewhat unique approach of the CEO was well known and priced into our view of the company.

However, due to a number of historic governance concerns and more recent reputational issues such as pilot strikes during the summer of 2018, we sought to engage with the company and seek reassurance. As UK investors in European companies, we engaged with the firm to ascertain the extent to which the board could provide effective challenge to decisions taken by management. In addition, in light of EU rules on local share ownership for airlines, we questioned the Company's proposal to remove voting rights for UK shareholders post-Brexit. Following an unsatisfactory response from the company, we decided the governance risk was too high and the Company was no longer an attractive investment and subsequently sold our Ryanair positions in our active European funds.

### SAP SE

SAP is a German multinational software company, developing business software used by over 300,000 companies in 190 countries in addition to building out its expertise in the cloud computing space. As part of a regular review of the European funds' ESG profile, SAP was flagged for further investigation.

Despite the Company's EU listing, its business model operates along similar lines to other US technology companies, which extends to its executive pay and benefits for senior management. While we recognise the need for SAP to compete with other international software companies for management talent, the CEO receives a high number of restricted share awards, which are uncommon in Europe and a very high overall level of pay.

Additionally, we investigated a number of related-party transactions, such as sponsorship deals and consulting contracts for entities controlled or owned by the Company's Chairman. Following discussions between the fund managers and the Responsible Investment Team, it was concluded that pay in this instance had no detrimental impact on the investment case. While also not currently material, the related party transactions are something that we will be monitoring closely going forward.

## VOLKSWAGEN AG

Volkswagen was identified as a potential investment for the funds given an attractive valuation reflecting a generally overly pessimistic view of cyclical and structural issues facing the car industry.

Two issues present themselves with VW – the 'dieselgate' scandal and the ownership structure of the group. We engaged directly with the Company on both of these. We were comforted that the diesel scandal has led to some degree of cultural change within the group, with enhanced whistle-blowing procedures and greater challenge encouraged internally. On the ownership structure and governance of the Company we didn't take much comfort that anything has really changed.

Whilst accepting the Company's stance that they are fully compliant with German rules, we remain of the view that we would like to see more independent representation on the Board to balance the influence of the majority investors.

# ESG INTEGRATION IN FIXED INCOME

There are a number of important factors that set fixed income apart from equities when it comes to integrating ESG information into financial analysis. The first element to understand is the skewed nature of the risk. Whereas in Equities we search for opportunities, there is no upside potential in fixed income ESG analysis, rather we focus on likely downside loss or risk of default. The second is the particular risk characteristics of how you are lending, for example where the debt sits in the capital structure, and any security or protections you might have. The duration of your position is also important to consider, because understanding when the bonds you are holding will mature will affect the types of ESG risks they may face.

Using this as our starting point, we have developed an approach that is both credible and realistic, with a strong emphasis on redressing bondholders' traditionally weak control.

Below are a few examples of how this works in practice in some our main fixed income investment strategies.

## Investment Grade Credit (IG)

Identification and evaluation of ESG issues and their potential impact on the security of company cash flows and balance sheets is a key element of our corporate bond investment process and is embedded in our approach to portfolio construction. RLAM's Credit Team pays close attention to the covenants in issuances often overlooked by the market, as these can offer unpriced protections. This often acts as a proxy for conventional governance. Our Responsible Investment Team works closely with our credit team to identify and evaluate the ESG issues that could plausibly affect their outlook on a sector, or help distinguish securities with lower risk. We believe the inclusion of ESG criteria should increase risk adjusted returns compared to a passive approach.

### VICINITY CENTRES

Vicinity is a leading retail property company and part owns the largest shopping centre in Australia. With such a large portfolio of property assets, Vicinity has a broad environmental and social footprint in the region. The quality of the disclosure it provides on the environmental performance of individual properties and its efforts to incorporate sustainable design briefs into major capital expenditure on both new and existing assets, mean that we assess the company as an environmental leader within its sector. Validating this research, the firm has also recently been awarded the accolade of Australia's 'most sustainable' retail property business across Asia Pacific, as per the Global Real Estate Sustainability Benchmark.

### SCOTTISH POWER

Scottish Power (SP) has historically scored poorly under third party ESG criteria due to the performance of its parent company, Iberdrola. Following the disposal of its fossil fuel generation portfolio, SP is the only major UK energy provider with a fully green generation portfolio, including over 2,000MW of onshore and offshore wind generation. By lending directly to SP, we helped to finance the recent completion of WesternLink, a major subsea cable connecting Hunterston and Deeside, to help bring renewable generation from Scotland to England and Wales, as well as the build out of an additional 2,700 MW of planned renewable capacity, primarily off the East Anglian coast. This combination of clear green efficacy, coupled with the strong bondholder protections of lending directly into the regulated licence operator, lets us focus directly on the outputs and risks of the subsidiary issuer.

### UNITED UTILITIES

As part of our ongoing engagement with borrowers, during 2018 our credit and ESG teams met jointly with the Chair and Company Secretary of United Utilities. The meeting focused on the governance of the business, a growing focus for regulated water companies, as well as its operating performance in the current regulatory period, and its thoughts ahead of entering the next period, AMP7. The meeting also presented a good opportunity to discuss the impact of potential nationalisation on the sector, currently a key focus for bondholders,and a theme considered in our recent Water Utility ESG paper.

**"… we have developed an approach that is both credible and realistic, with a strong emphasis on redressing bondholders' traditionally weak control."**

**Martin Foden,**
**Head of Credit Research**

**"We believe that ESG considerations are just as important in High Yield as in Investment Grade Credit, helping us ensure the long term sustainability of cash flows in the companies in which we invest."**

**Azhar Hussain,**
**Head of High Yield and Multi Asset Credit**

## Sub investment grade credit (high yield)

While many investors may not see a place for consideration of ESG factors in the management of High Yield (HY) assets, arguing that their higher yield spreads reflect and reward higher risk, we believe that such considerations are just as important in HY as in Investment Grade(IG). They help ensure strong corporate citizenship and integrity, and the longer term sustainability of cash flows of the companies in which they invest. Governance, in particular, being a key part of rigorous fundamental credit analysis.

Two core principles guide the incorporation of ESG into HY investment. Firstly – engagement, not avoidance. A realistic engagement effort with companies with poorer ESG practices, avoiding the use of basic exclusions that only avoid weaker ESG-ranked companies. Secondly – financial impact assessment. While ESG analysis is simply an additional perspective on credit analysis, we recognise that governance issues may pose the greatest near term financial risk in HY, while ethical and social issues may have longer term regulatory impacts. However, unlike in IG, we do not tend to have the option to focus on secured issuances to mitigate the impact of ESG related credit losses.

## Government bonds

We take a risk-based approach to considering ESG issues for our government bond funds. The majority of our government bonds are in G10 countries plus Spain, Australia and Norway. We have very little exposure to government bonds outside of these jurisdictions. Using ESG research from Moody's and S&P which identifies country ESG risk characteristics, we have classified our government bond portfolios as low ESG risk. For this reason, we do an annual ESG review to check for any notable changes or ESG concerns.

## Cash and money market (cash)

These funds invest in short-dated and cash instruments like floating rate notes (secured on pools of residential mortgages) and certificates of deposit. All of our investments are with large, mainstream banks and financial institutions. We have undertaken an ESG review of these financial counterparties to identify any high-level ESG risks that could affect the safety, security or viability of these cash investments. This includes reviewing issues like governance, cyber security, mortgage and other underwriting standards, customer service and complaints, and controversial business activities.

We have three cash funds and one short-dated credit fund that do not invest in any companies or instruments that derive more than 10% of revenue from tobacco or weapons.

# PROPERTY

## Our approach

RLAM's Property Team are committed to being a responsible and sustainable investor, manager and developer of property, through our acquisitions, developments and management of commercial and mixed use real estate assets in the UK.

This means upholding the aims of sustainable property development:

- To enhance the economic, social and environmental benefits of our work.
- To reduce, as far as is viable, the environmental impact of our developments.

On the next page is a high level overview of our approach to responsible property management and development. For more detailed information, please refer to our Property Statement of Achievement for our development projects, and Property Sustainability Report for our managed assets.

## Property management

We manage 260 properties in the UK with a value of £7.5bn. The RLAM Property Team commit to being a responsible and sustainable investor, manager and developer of property across our mixed use real estate assets in the UK. We respond annually to the Global Real Estate Sustainability Benchmark (GRESB). In our most recent assessment (September 2018) we had an overall score of 62 out of 100, including a score of 81 on Management and Policy and 54 on Implementation and Measurement. Overall we scored 3 out of 5 Green Stars under the GRESB rating system.

We have an Environmental Management System (EMS) that covers our largest and highest impact commercial assets. Our EMS is aligned with ISO14001 and helps ensure RLAM complies with relevant environmental legislation and other requirements. The EMS follows a clearly defined and audited procedure to meet objectives and targets for environmental improvement.

### Electric vehicle charging

With the increasing adoption of Electric Vehicles (EVs), RLAM has been looking at the opportunities to incorporate them in a number of suitable retail sites. We undertook a project during the year to assess the practical viability of installing chargers on a site by site basis and engaged a specialist consultant to produce a report, considering the best and worst case scenario for payback periods as well as the availability of power and car spaces.

The rationale for undertaking the project was as follows:

**Sustainability**: factoring in the Paris Agreement to combat climate change and reduce emissions, it vitally important to improve the sustainability of the transport sector. At the moment, one of the predominant reasons consumers report for not buying electric vehicles is the lack of charging points.

**Increase in dwell time**: installing EV chargers in retail sites means that whilst customers' cars are charging, they need to spend more time (and money) on the site. This is an opportunity for retail parks to increase footfall on site.

**Profit**: the EV charging industry can be profitable. Where existing infrastructure on site can already accommodate the chargers, the set-up cost of the individual units is easily recoverable. Once past the payback period, management costs are low and each EV charger can start making a profit.

**Competition**: as the market is increasingly and undeniably moving towards greener energy sources, there is the potential for loss of business by not responding to growing demand.

Our work highlighted over a dozen locations where we can and should install EV charging points. All sites in this first phase of installation will meet local demand and generate a profit. If successful we will extend this project to the remaining locations identified by our investigations.

In 2018 during the refurbishment of our Thames Valley Park Four10 Office building (77,000 sq ft) we installed electric car charging points in the car park for office users. These were integrated into the landscape and positioned adjacent to the main reception.

## Property development

We have around 50 current construction projects within the property portfolio, the majority are for commercial use, both new build and refurbishment projects. This includes offices, retail, industrial and residential developments of various size and complexity across the UK, and all at different stages of the development process from inception to completion.

In 2018 we commenced construction of 90,000 sq ft of offices and a 200 bed hotel in Bristol and a 45,000 sq ft office refurbishment in Hammersmith, West London. We completed the refurbishment of 24,000 sq ft of offices in Soho, London and received planning permission for a significant (250,000 sq ft) mixed use development in London's West End comprising offices, shops and restaurants.

For our property development activities, we aim to achieve ratings of 'Excellent' for all new office building developments under BREEAM 2008 standards, and a rating of 'Very Good' for all refurbished office buildings. We ensure that all timber and timber products are from certified sustainable sources and that our buildings achieve an Energy Performance Certificate (EPC) rating of B for new developments or D for refurbishments. We are also targeting a 15% reduction of $CO_2$ emissions below Building Regulations 2016 Part L requirements, and commit to undertaking a feasibility study of renewable energy options and tailored travel plans for every development site. Finally, we register all of our sites under the Considerate Constructors Scheme.

### Highlights in 2018 include:

- All projects were delivered under the RLAM Sustainability Strategy in 2018, across a range of building types.
- BREEAM Certification was achieved on all projects, with Tamesis 1 (completed in 2017 with final BREEAM Certification in 2018) achieving a final BREEAM rating of 'Very Good' (60.40%) and 5-8 Warwick Street also achieving 'Very Good' (58.20%).
- Warwick Street's improved energy performance allowed an EPC rating of 55 (Very High Band 'C') to be achieved.
- All projects ensured at least 94% of construction waste was diverted from landfill, with 99.7% achieved at Tamesis 1.
- Site-specific travel plans were provided for all projects.

### Bristol

A 90,000 sq ft office development is currently under construction and due for completion in Q1 2020. The building will provide air conditioned offices over nine storeys which have been specifically designed to provide modern flexible office accommodation with a BREEAM "Excellent" rating. The project is targeting full compliance with our sustainability policy in all respects. All timber will be from sustainable sources, we are targeting an EPC rating of A and $CO_2$ emission at least 15% below the requirements of the Building Regulation Part L (2016).

A 200 bedroom hotel is under construction adjacent to the above office development in Bristol. We have used the same contractor to ensure resource efficiencies between the projects. The hotel is pre-let to a four star operator and will also achieve BREEAM "Excellent" and is targeting full compliance with our Sustainability Policy.

### London

Hamersley House in Soho is a 24,000 sq ft office refurbishment that was completed in early 2018 and included replacing the façade, to significantly improve the appearance of a dated building to provide modern light and airy, air conditioned offices. The development achieved BREEAM "Very Good" rating in accordance with our Sustainability Policy and EPC rating of C. A project specific travel plan was published and made available to all tenants.

200 Hammersmith Road is a 45,000 sq ft office refurbishment that is currently under construction and due for completion in Q2 2019. A significant portion of the building services plant and equipment has been replaced with modern, more efficient equivalents. The completed project will achieve BREEAM "Very Good" rating, and is targeting an EPC rating of C or better. The building will have a travel plan specifically tailored to the site location and this will be made available to all tenants to encourage more sustainable modes of transport for occupants to get to and from the property.

Castlewood House on New Oxford Street received planning permission in 2017 for a mixed use development comprising 139,000 sq ft office space and 27,000 sq ft retail space. The project will commence on site in 2019 and is due for completion in 2022. The new building replaces outdated and obsolete office accommodation and has been designed to achieve BREEAM "Excellent" rating, with an EPC rating of A and full compliance with our Sustainability Policy. The building will also be targeting a Well Building Gold standard. The project includes the provision of 18 apartments for affordable social housing.

### Chatham

Horsted Retail Park, Chatham is the regeneration of a tired retail park where the main tenant went into receivership. We are building a new 20,000 sq ft food store, drive through fast food outlet and refurbishing and subdividing the existing retail unit to make to suitable for modern retailers. All four units are pre-let to suit the Retailer's specific requirements. The scheme will achieve BREEAM "Very Good" rating and we will work with the retail tenants to ensure their outfitting work fits into and achieves our sustainability objectives. The fast food retailer was selected partly due to their environmental polices ensuring that litter is cleaned up, and responsible advertising policy ensuring that school children are not targeted.

## POLICY AND ADVOCACY

This year we joined with 414 investors with a total of US $31 trillion in assets to sign a joint investor letter to governments on climate change ahead of the COP 24 summit in Poland. This is the most supported investor statement on climate change to date, and sent a powerful message to governments and regulators about investor concern over climate risk.

Also on the climate theme, at the end of the year we provided feedback to the Investment Association (IA) and Association of British Insurers (ABI) on consultations issued by the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) on climate risk in the financial sector. We are broadly supportive of the PRA and FCA providing guidance to the sector to help us better assess our climate risks. We also raised some concerns about the limited availability and poor quality of data which could limit our ability to undertake meaningful scenario analysis. This is particularly the case where we hold significant fixed income investments.

We responded to a consultation on changes to the Corporate Governance Code issued by the Financial Reporting Council (FRC). We also participated in a number of roundtables to give feedback on some of the initial drafts of proposed changes to the Stewardship Code. The Stewardship Code is now under consultation and we will be responding in 2019.

# LIST OF COMPANY ENGAGEMENTS

**Below is a list of companies we engaged with in the year, including companies where we have sent letters explaining the rationales for our proxy voting decisions.**

A2 Dominion
Adidas
Affinity Water
Aggreko
Akelius (AKFAST)
Alpha Financial Markets Consulting
Amazon
Anglian Water
Anglo American
Aptiv
Aroundtown
Arsenal
Ascential
Ashtead Group
AstraZeneca
Aveva Group
Aviva
B&M European Value Retail
BAE Systems
Barclays
Bayer
BCA Marketplace
Bellway
Berkeley Group
BHP Billiton
Big Yellow Company
Bodycote
Bovis Homes
British American Tobacco
BT Group
BTG
Bunzl
Burberry
Cairn Energy
Carnival
Centrica
Charter Court
Chelmer
Cineworld
Clarkson
Clinigen Group
Close Brothers
Compass Group
ConvaTec Group
Crest Nicholson Holdings
CRH
Croda
DCC
De La Rue
Dechra Pharmaceuticals
Diageo
Direct Line Insurance
discoverIE
Domino's Pizza Group
DS Smith
Dunelm
E.ON
Easyjet
Eco Animal Health Group
EDF
Elior Group
Essentra
Experian
Faroe Petroleum
Ferguson
Games Workshop
Gamma Communications
Genus
Glencore
Go-Ahead Group
Gocompare.com Group
Greencore Group
Grosvenor
Hexagon
HICL Infrastructure Company Limited
Hikma Pharmaceuticals
Hill & Smith
Hyde Housing
IMI
Informa
ING Group
Innogy
Intermediate Capital Group
Investec
ITV
John Menzies
Johnson & Johnson
Johnson Matthey
Johnson Service Group
Just Group
Kingspan Group
Lancashire Hldgs
Lloyds Banking Group
London & Quadrant
London Stock Exchange Group
Longhurst
Lvmh Moet Hennessy Vuitton
Marlowe
McCarthy & Stone
McColls
Mediclinic
Melrose Industries
Metro Bank
MJ Gleeson
National Grid
Northumbrian Water
Nos SGPS
Notting Hill Genesis
Novartis
Novozymes
On the Beach
Oracle Corp
Orange
Orbit Homes
Page Group
Paragon Banking Group
Partners Group Holding
Patisserie Holdings
Peabody
Penarian (Pennaf Ltd)
Pennon Group
Persimmon
Personal Group
Places for People
Playtech
Polymetal International
Prudential
Reckitt Benckiser Group
RELX
Renewi

## USEFUL LINKS

Conflicts of interest policy

Stewardship and Responsible Investment Statement

Voting database

PRI assessment

Responsibility Matters

**Contact us**

For more information, please contact us.

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All information is correct at May 2019 unless otherwise stated.



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