Stewardship and responsible investment **2020 report**

ROYAL LONDON
ASSET MANAGEMENT

CONTENTS

> We are best-known for our vocal stance on corporate governance, but public statements and voting are only a small part of our stewardship approach as we look to enhance long-term investor returns.

Piers Hillier,
Chief Investment Officer

Foreword

The purpose of this document is to highlight our stewardship and responsible investment activities in 2019, including our voting and company engagement activity, and our compliance with the UK Stewardship Code. It also 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.

Royal London Asset Management Limited (RLAM) is committed to being a responsible investor and a good steward of our clients' capital. This common framework has a simple underlying belief – that 'effective stewardship benefits companies, investors and the economy as a whole'.

RLAM has always had a strong reputation in this area – for many investors we are best-known for our vocal stance on corporate governance. But public statements, as well as voting, are only a small part of our stewardship approach as we look to enhance long-term investor returns. This is a key point and one we would like to emphasise - stewardship and engagement activities not only support the scrutiny and challenge that fund managers need to identify investment opportunities, but also help to deliver enhanced outcomes for our customers and society as a whole.

In our view, stewardship and engagement requires resources and expertise, and we have been happy to increase our capacity in the last year, with a number of experienced hires into our Responsible Investment team, bolstering our ability to hold companies to account. We want and expect to be held to account as well – after all, these are your assets, not ours. We continue to update our voting record, and in addition to this annual report we update clients every quarter on our thinking within equity and fixed income.

Recent months have seen investment concerns shift to understanding the short and long-term impact of the coronavirus outbreak. We don't see this as a reason to put ESG on the back burner – in fact we think that the relevance of this is only going to accelerate given the major societal and economic changes that this could bring. At this point, an integrated approach to responsible investment becomes ever more important – not as a task that you delegate to one team, but a way of thinking and acting that is reflected right across the business.

Piers Hillier, Chief Investment Officer

“We believe in the long-term value of active portfolio management, with all of our active strategies drawing on research-led investing – combining the best of top-down and bottom-up analysis.”

Andrew Carter, CEO

About RLAM

Our purpose and strategy

At RLAM, our ambition is to be the most trusted and recommended asset manager. As part of the UK's largest customer-owned pensions and investments provider, we put our valued clients at the heart of everything we do. From striving for exceptional customer service, to developing investment solutions and products that deliver repeatable performance, we aim to deliver the best outcomes for our clients.

We believe in the long-term value of active portfolio management, with all of our active strategies drawing on research-led investing – combining the best of top-down and bottom-up analysis when building active portfolios and tailoring this to suit the underlying investment market. We believe that market benchmarks are useful yardsticks rather than a basis for active portfolio construction.

In addition, we are long-time advocates of the need for asset management firms to be good owners of assets. Environmental, social and governance issues are increasingly affecting asset prices. We believe that it is in the best interest of our clients for RLAM to integrate these issues in our investment process with the aim of improving standards, reducing risk and enhancing returns

AUM
£138.9 billion
(at 31.12.2019)

Founded
1988

We are one of the UK's **leading fund management** companies.

We practise **responsible investment** across **fixed income, equities and property**.

We are a wholly owned subsidiary of the **Royal London Group**, **the UK's largest** mutual life pensions and investment company.

> Greater public awareness and concern has resulted in us as investors being asked more and more challenging questions about how we are being responsible stewards of our clients' capital.

Ashley Hamilton Claxton,
Head of Responsible Investment

Our approach to stewardship and responsible investment

This has been an exciting year for stewardship and responsible investment generally and a very busy year for the RLAM Responsible Investment team. I think it's safe to say we've hit a watershed moment this year, with responsible investment truly going 'mainstream'. Wherever you look, ESG issues were front and centre in the public discourse: whether it was Greta Thunberg raising global awareness about climate risk, David Attenborough showing us the terrible plight of our oceans due to plastic pollution, or large companies pledging to consider their impacts on wider stakeholders when setting corporate strategy.

We always knew this moment was coming, and now it's here. Greater public awareness and concern has resulted in us as investors being asked more and more challenging questions about how we are being responsible stewards of our clients' capital. Our regulators are starting to look more seriously at the impact of climate risk on financial outcomes, and our clients are facing new disclosure regulations on how they are addressing ESG risks. And of course, the Financial Reporting Council (FRC) has set out new requirements for us to report on our strategy and activities as part of the new 2020 Stewardship Code.

RLAM is well-placed to respond to these trends, building on our long track record of managing award-winning Sustainable funds, our strong commitment to good corporate governance, our pioneering work on ESG in sterling credit, and our ability to attract and retain talented fund managers that integrate ESG into their investment process, such as our Global Equity team.

In 2019, our Responsible Investment team grew from a team of three to a team of eight at the end of the year. Our Governance team, headed by Sophie Johnson, has responded to a record number of remuneration consultations this year, and has worked diligently alongside the fund managers to provide feedback and challenge to companies on executive pay. We hired Carlota Garcia-Manas from the Church Commissioners to take the lead on our company engagement strategy and undertook a comprehensive review of our engagement themes. Under Carlota's leadership, we have also significantly stepped up our involvement in the Climate Action 100+ (CA100+)[1] initiative this year. Beth Goldsmith joined us from KPMG and worked closely with our Sterling Credit team on our engagement with Southern Water and on an exciting collaborative project on the future of the UK gas network. You can read more about our new colleagues and our team biographies on page 66.

I'm exceptionally proud that RLAM was awarded Investment Week's 'Best ESG Fund Management Group' in 2019. With the arrival of our new colleagues, we have seen a 55% increase in the number of company engagements we've undertaken in the last quarter of the year. We signed up to the Just Transition supporting statement on climate change. We've also spent a significant amount of time working with our Group colleagues on our social impact themes, and to help them articulate their asset owner perspective on responsible investment. You can read more about the Group's approach in our Group Responsible Investment Policy[2] and Climate Change Framework[3].

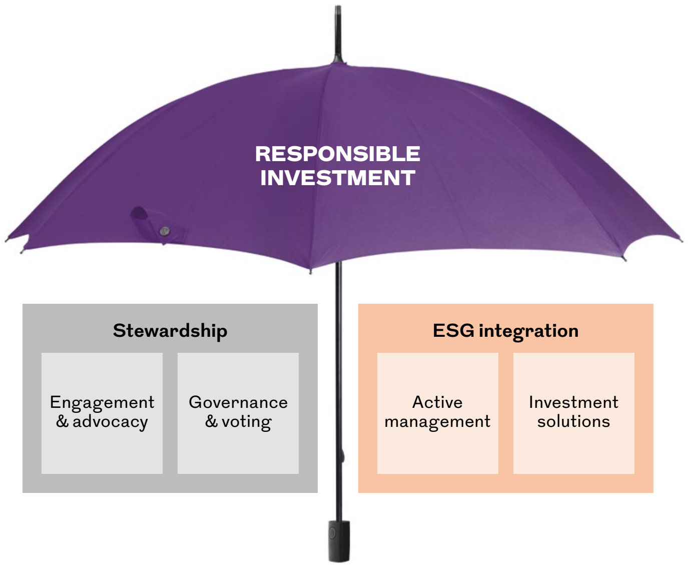
Fundamentally, we believe that considering environmental, social and governance (ESG) issues in the investment process can help us deliver better returns for our customers and clients. In 2018, Royal London Group[4] commissioned external research which validated that view. This research found sufficient academic evidence and consensus to conclude, on balance, that:

- Companies with good ESG performance have a tendency to be less volatile, more profitable, pay higher dividends and outperform peers on key financial metrics as well as on stock price performance.
- Companies with good ESG ratings tend to benefit from lower cost of capital and result in lower credit spreads; they are also less likely to have their credit rating downgraded.

This research has given us further confidence that being a responsible investor and seeking to integrate material ESG information into decision-making is in the best long-term interests of our clients.

Our approach is set out in line with our commitments to the UN supported Principles of Responsible Investment (PRI)[5] and the Stewardship Code of the UK FRC. This year, we have aimed to align our report with the new requirements under the 2020 Stewardship Code, ahead of our first official report due in 2021. Details on how we have implemented our stewardship and responsible investment policy during 2019, including examples of voting and company ESG integration across our asset classes, can be found within this report.

The enclosed appendix provides an index referencing the alignment between our report and the 2020 Stewardship Code and PRI principles.



2019 highlights

Awarded Investment Week's **Best ESG Fund Management Group**

Supported the **Just Transition on Climate Change**

Formed a **new** Group **RI policy** and a **new** Group **climate change framework**

Five Responsible Investment team members and one **new RI manager** in property

55% increase in engagement activity

27% votes against pay

82 remuneration consultation responses

Our investment beliefs

As a member-owned organisation, our investment philosophy is centred on our customers and clients – our **FOCUS**:

Financial outcomes

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

Opportunity orientated

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

Client-centric risk management

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

Unconstrained thinking

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

Stewardship & responsible investment

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

Our commitments

As outlined in our FOCUS investment philosophy, RLAM is committed to being a responsible investor. This means being a good steward of our clients' assets and promoting responsible investment 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 engage with the companies we own and pride ourselves on taking an active approach to corporate governance and proxy voting. We often provide thought leadership on important ESG issues and speak publicly where necessary. We disclose our voting record[6] and write to companies in our active funds to explain our voting rationale when we vote against management.

In 2008, RLAM became a signatory to the United Nations supported PRI. We received a score of A for Strategy and Governance in our most recent PRI assessment. This is down from our 2018 rating of A+, which is disappointing, although we maintained our A ratings across all of the other sections of the PRI survey and improved our Fixed Income – SSA score from B to A. We undertook a full review of the reasons for the Strategy and Governance downgrade and determined that it is not a result of a reduction in the quality of our responsible investment practices, but a recalibration of the PRI methodology. We have engaged with the PRI to understand these changes, made adjustments to how we capture information and data on our responsible investment' activities, and responded to the PRI consultation on methodology changes to the assessment. We are hopeful that this will result in an improvement in our scores next year.

PRI Module	RLAM 2018	RLAM 2019	PRI Median 2019
Strategy & governance	A+	A	A
Listed equity – incorporation	A	A	B
Listed equity – active ownership	A	A	B
Fixed income – SSA	B	A	B
Fixed income – corporate financial	A	A	B
Fixed income – corporate non-financial	A	A	B
Fixed income – securitised	A	A	C
Property	A	A	B

We are members of the UK Sustainable Finance Association (UKSIF), the Institutional Investors Group on Climate Change (IIGCC), and sit on a number of committees at the Investment Association, including Stewardship, Sustainable and Responsible Investment, and Climate Change.

We are also a top-rated 'Tier One' signatory of the 2016 UK Stewardship Code[7]. In October 2019, the FRC released its newly revised 2020 UK Stewardship Code. RLAM is working towards implementing and reporting against the new Principles over the course of 2020. While our first official report against the new 2020 Code is not due until early 2021, we have endeavoured to report against the new standard wherever possible this year. We hope that by being proactive, we are providing our clients with insights into where we already meet best practice standards, and where we are seeking to make improvements over the coming months.

Climate change

Financial institutions' businesses are directly impacted by the effects of climate change. Unmitigated climate risks present a systemic threat to financial stability over coming years and asset owners and asset managers must respond.

In 2019, the Prudential Regulatory Authority (PRA) outlined plans for climate risk stress tests for banks and insurers. During the year, RLAM provided technical support to our parent company, the Royal London Group, with their climate stress test of the Group portfolio of assets. This was an assessment of assets' Value at Risk (VaR) under three scenarios set up by the PRA based on speed of climate policy implementation. The results indicated which sectors and assets are at greater physical and transition risk. We also supported Royal London Group in developing its Climate Change Framework[8], and our first Group Taskforce on Climate-related Financial Disclosures (TCFD)[9] report, which will be published in our annual report in April 2020. RLAM is looking to develop its own TCFD disclosures during 2020.

In addition to this risk-related work, we have incorporated both climate transition and physical risk as one of the six priority areas for engagement. We undertake the majority of climate transition risk engagements as members of the CA100+ investor coalition. We also supported the Just Transition to a low carbon economy, as reflected in the Paris Agreement and the UK Green Finance Strategy. You can read more about this work in our Engagement and advocacy section which starts on page 13.

Responsible Investment team values

Here is how the Responsible Investment team lives the Spirit of Royal London values:

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 choose to undertake. What we choose 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

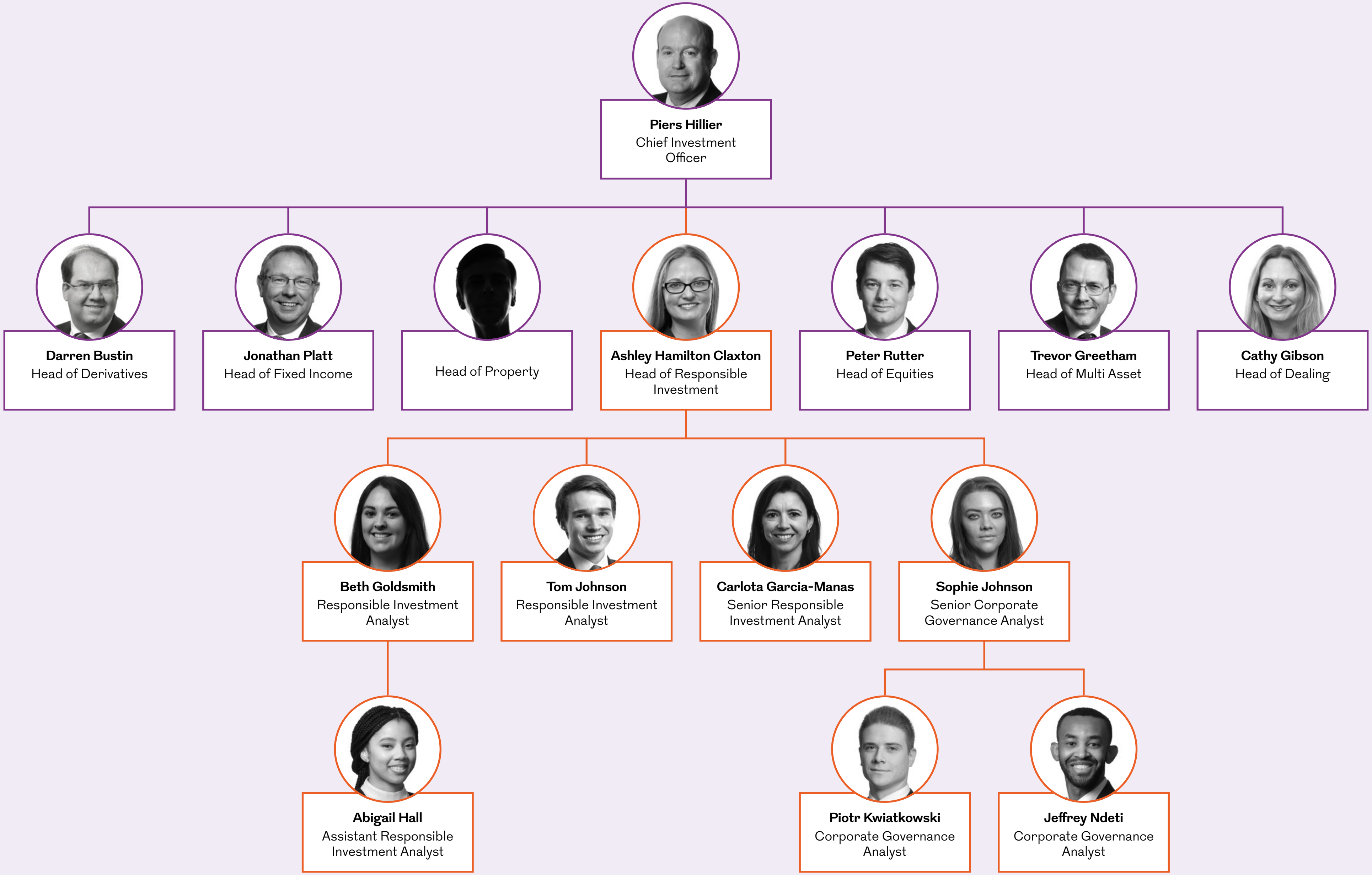
Our analysts are empowered to take a nuanced view of governance issues and voting. We do not adhere to strict voting guidelines or external recommendations; we are cognisant of each company's unique circumstances and approach. Our analysts are encouraged to bring any and all relevant issues to fund managers'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

Our Responsible Investment team

As of the end of 2019, RLAM had an in-house team of eight dedicated governance and responsible investment experts who help implement our stewardship and responsible investment activities and support Front Office investment teams in ESG integration and company engagement. The team is led by the Head of Responsible Investment who directly reports to the Chief Investment Officer and is a member of the Front Office leadership team. The Responsible Investment team have 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, or company engagement projects.

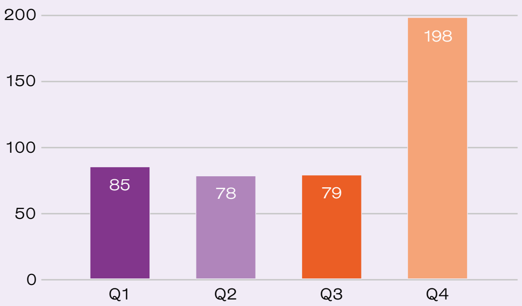
All Senior members of the Responsible Investment team are certified under the Financial Conduct Authority's (FCA) Senior Management Certification Regime (SMCR). Our Responsible Investment team members bring a wide variety of experience and diversity of thinking to RLAM, coming from different work experiences and cultural backgrounds. You can read more in our biographies on page 66.

We were also pleased to create a new full-time role in Property in 2019 for a Responsible Property Investment Manager. This role is dedicated to supporting our property fund management and development staff in embedding best practice standards within our property funds.


Piers Hillier
Chief Investment Officer
Darren Bustin
Head of Derivatives
Jonathan Platt
Head of Fixed Income
Head of Property
Ashley Hamilton Claxton
Head of Responsible Investment
Peter Rutter
Head of Equities
Trevor Greetham
Head of Multi Asset
Cathy Gibson
Head of Dealing
Beth Goldsmith
Responsible Investment Analyst
Tom Johnson
Responsible Investment Analyst
Carlota Garcia-Manas
Senior Responsible Investment Analyst
Sophie Johnson
Senior Corporate Governance Analyst
Abigail Hall
Assistant Responsible Investment Analyst
Piotr Kwiatkowski
Corporate Governance Analyst
Jeffrey Ndeti
Corporate Governance Analyst

2019 engagement activity

In 2019, we engaged with 175 companies on 260 occasions, addressing 440 ESG topics.

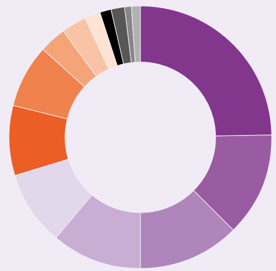


Engagement per quarter

Proportion of engagement interactions per quarter during 2019. The surge in activity during Q4 can be attributed to increased engagement by our team, in particular with UK companies ahead of binding pay votes in 2020.

Engagements by topic

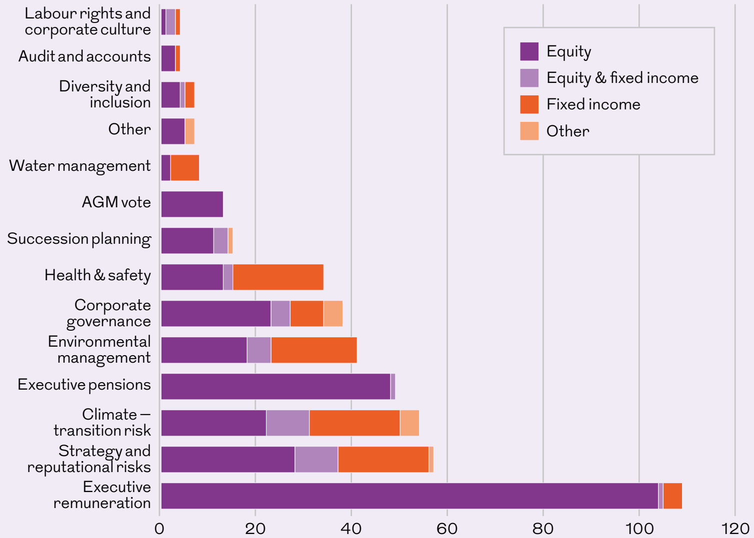
Number of engagements undertaken by RLAM during 2019 by ESG topic.



- Executive remuneration **109**
- Strategy and reputational risks **57**
- Climate – transition risk **54**
- Executive pensions **49**
- Environmental management **41**
- Corporate governance **38**
- Health & safety **34**
- Succession planning **15**
- AGM vote **13**
- Water management **8**
- Other* **7**
- Diversity and inclusion **7**
- Audit and accounts **4**
- Labour rights and corporate culture **4**

* Other contains miscellaneous classifications including data, tobacco, innovation risk and corporate tax.

Engagement by asset class



	Equity	Equity & fixed income	Fixed income	Other
Labour rights and corporate culture	**3**		**1**	
Audit and accounts	**1**	**2**	**1**	
Diversity and inclusion	**5**			**2**
Other	**4**	**1**	**2**	
Water management	**2**		**6**	
AGM vote	**13**			
Succession planning	**11**	**3**		**1**
Health & safety	**13**	**2**	**19**	
Corporate governance	**23**	**4**	**7**	**4**
Environmental management	**18**	**5**	**18**	
Executive pensions	**48**	**1**		
Climate – transition risk	**22**	**9**	**19**	**4**
Strategy and reputational risks	**28**	**9**	**19**	**1**
Executive remuneration	**104**	**1**	**4**	

Engagement and advocacy

Engagement and advocacy is one of our four pillars of responsible investment, and are crucial tools we use to change behaviours and improve outcomes for our customers. We recognise that being a good steward of our clients' capital means that not all investment decisions are black and white – when a company's ESG practices don't meet our expectations, it's not always in our clients' best financial interests to sell or divest. We firmly believe that engaging with management and the board can help to improve ESG practices and protect and enhance our investments.

We define Engagement as:

"Purposeful dialogue between investors and companies on environmental, social and governance (ESG) issues with the intention to influence (or identify the need to influence) company behaviour or improve disclosure."

We also recognise that we must work with others to change the systems, expectations and rules that influence company and investor behaviour. Advocacy refers to our dialogue with government, regulators, non-government organisations (NGOs), and standard-setters to improve practices and industry-wide standards.

Remuneration consultations

In the UK, companies must submit their remuneration policy for binding approval by shareholders every three years. In 2019, the majority of companies in the UK were preparing their new pay policies. Because the approved policy will form the underlying structure for executive pay for the subsequent three years, it is essential for companies to get it right and they will often undertake extensive consultations with shareholders like RLAM.

We had a total of 109 company engagements with 82 companies during the year on changes to companies' remuneration schemes. These engagements can take the form of letters, phone calls, email exchanges and face-to-face meetings. Remuneration consultations can have two outcomes. They can help us understand their approach to pay and how this supports (or in some cases does not support) the corporate strategy, which can help inform our investment decisions. Or they can become an opportunity to influence company behaviour and improve outcomes for our customers. Where we believe a pay structure is inappropriate, too generous, or not aligned with strategy, we will give direct feedback and ask companies to make changes.

We have had a number of successes in 2019, with companies moving towards best practice, or agreeing to change controversial elements of their remuneration scheme. 45 of our engagements on pay were on executive pensions. There have been a number of commitments to reduce executive pension provisions, or at a minimum freeze them relative to salary, so they will slowly reduce over time. We have also been encouraged to see some companies commit to raising the minimum pension level

"We pride ourselves on building relationships with the companies we hold on behalf of our clients, based on trust and pragmatic challenge."

Carlota Garcia-Manas, Senior Responsible Investment Analyst

for the workforce, as internal reviews during the year have revealed discrepancies.

Some companies however have put forward more problematic pay schemes, substantially raising the levels of bonus or long-term incentive awards without an adequate explanation, and even proposing one-off transactional awards which can encourage short-term behaviour. We have pushed back strongly on a number of these and were happy to see that some companies have abandoned these plans in response to our feedback. Other companies have not heeded our advice and have pressed ahead with their plans. OneSavings Bank, a specialist mortgage lender, contacted us in November 2019 on proposed pay increases for its executives, totalling nearly 25% over two years. The company proceeded with these plans, despite us informing them that we could not support pay increases of this scale. A further example was Rotork, designer and manufacturer of valves and gearboxes. The company failed to respond to our questions in October 2019 over the rationale for increases in pay and whether it could commit to increased personal performance disclosure.

Cladding risks

The tragic events at Grenfell Tower in 2017 highlighted the need to address the risks of flammable cladding and insulation used on high-rise buildings. In the wake of the tragedy we contacted companies expressing our concern and desire for them to address any potential future risk of it happening again. Unfortunately, in November 2019 another fire broke out at The Cube in Bolton, a student housing block. Although a different combination of cladding and insulation was used there, there were many similarities between the two events; although thankfully there were only minor injuries at the Bolton incident.

We contacted 19 companies in which we have exposure either through our equities or fixed income investments to determine whether they still had buildings exposed to this type of fire hazard. Our goal was to reiterate both our and the public concerns around this, and understand where companies may have future risks and liabilities, and how they were fulfilling their duties of care to the residents. We received an encouraging response rate with 17 responses with varying levels of detail. Reassuringly most appear to have led detailed reviews of their portfolios and where there were defects, some companies were very proactive in addressing any exposure. They provided us with extensive explanations of which buildings had the cladding, works in progress or completed to remove it, expenditure on increased fire safety measures and additional staff training.

In some cases, companies noted that they would be carrying out more detailed work in light of the Cube fire, and we will be following up with the companies in due course.

Carnival

Carnival Corporation, the operator of numerous cruise liners, has a legacy of environmental violations and corporate governance practices which contravene UK market norms due to its dual-listing in the UK and US.

We have in the past concentrated on voting against the company for these issues but during 2019 we had the opportunity to engage directly with the company on a number of our key concerns. We sought to understand how they were looking to improve their environmental performance given greater emissions regulations facing the industry, and whether the business might be underestimating its environmental risks over the medium term. During our discussions, the company was unable to answer questions about the impact of a carbon tax on its business. The company was planning to burn more high carbon marine gas oil despite many ports and waters banning the use of 'open-loop scrubbers'. The company had installed these open-loop scrubbers on their ships as a cheaper alternative to the cleaner closed-loop or hybrid scrubbing systems, which are still allowed in most ports. These scrubbers are the industry's attempt to capture emissions and reduce CO_2 from the fuel used in these ships until viable alternatives are developed and marketed on a large scale.

Despite repeated fines and a long history of violations, the business has only just appointed a Chief Compliance Officer, suggesting that policies and practices will take time to catch up to market norms. Overall, following the Responsible Investment team's in-depth ESG analysis of the company and industry, we concluded that Carnival would continue to face material ESG risks and stricter regulations. As a result of this analysis and engagement, we reduced our exposure to Carnival Corporation in 2019. Subsequent to these trades, Carnival has continued to underperform against the market.

Johnson & Johnson

The healthcare and pharmaceuticals company, perhaps most well-known for its baby products, has been the subject of major controversies in its home market of the US over the last few years. The company is facing accusations that it played a role in the opioid crisis sweeping the US, and it continues to face claims and lawsuits that their talcum powder may cause cancer. Johnson & Johnson also recently granted a large discretionary bonus to its executives, despite these ongoing controversies, and continue to exclude legal costs from their performance measures used to calculate executive pay. The company has historically been one of the most employee focused, sustainability driven companies in the market which is at odds with the news reports that were emerging on these issues.

In a first for the company, they held a group ESG investor meeting in London in September 2019, to address the growing investor concerns.

The company confirmed that they no longer market opioids in the US and when they did they were expressly developed to prevent abuse. The company claimed it had the lowest abuse rates in the market. Regarding talcum powder they were very clear that asbestos had never been found in any products or the source mines. The company is fighting all of the litigation, and despite the high profile and extensive damages that have been awarded to the claimants, all cases that have reached the appeal stage have been found in favour of the company.

RLAM and other investors made it very clear that we expect more from the company in terms of dealing with these issues, and that we expect increased engagement with their investor base outside the US. We were encouraged by the frank discussion in the room and the openness of the company. We received an extensive follow-up from the company after the event and will continue to engage and review our position as the situation develops.

Tailings dams

Tailings dams pose a material environmental risk in the UK's mining sector. Often located closely to mining sites, tailings dams are used to store the by-products of mining activity within natural barriers or man-made walls. The substances stored here can, and do, become toxic over time, and in the event of collapse or failure, the lives of workers and local communities are put at extreme risk.

There have been several high profile collapses of tailings dams operated by large mining companies in recent years, notably at Samarco in 2015 (operated by Vale and jointly owned by BHP Billiton) and Brumadinho in 2019 (operated by Vale). The collapse of these dams led to loss of life in workforces and local communities, severe environmental damage, significant clear-up costs and the potential for fines and even criminal prosecutions. Although we have a relatively small exposure to mining companies across our portfolios relative to other sectors, the risk of high profile disasters means that it is an important engagement topic.

Our first course of action saw us co-sign a letter authored by the Church of England's investment arm following the Brumadinho mining tragedy. The letter was signed by a number of other institutional investors, and called on mining companies to standardise disclosure of their exposure to tailings dams.

From the data published, we built our own comparable database of the tailings data published by the UK's four largest mining companies (Anglo American, BHP Billiton, Glencore and Rio Tinto) - which constitute almost all of RLAM's mining exposure — and analysed the disclosures to determine the level of risk posed to each. Between them, these four miners actively used over 200 dams to store waste from their operations every day. Subsequently, we held one-on-one meetings with each of the companies to assess the management of their tailings assets.

In undertaking this work, the key questions for us are: how well are the mining companies placed to embed and monitor standards rigorously and consistently across their tailings facilities, and what is the financial impact of tailings dam failure? How can companies foster the right culture to reinforce practices and procedures, especially in joint ventures?

Through our engagement efforts we identified three of the four target companies as operating in line with the best parts of international standards, namely the Canadian Dam Association (CDA) or the Australian National Committee on Large Dams (ANCOLD). The remaining company was considerably further behind on that journey. We questioned companies on stability test results, classifications assigned to tailings dam sites, and the risk of third party management of tailings facilities. We also took a closer look at the management of closed or inactive tailings dams and the threats these might pose. We have followed up with the fourth company, which has higher risk assets, to prompt them to better embed best practices across their sites.

Forward looking, we will monitor the progress made by these companies in their 2020 disclosures to see whether they have lowered the consequential risks of tailings operations. We will also review the new International Council of Metals & Mining (ICMM) tailings standards when they are published in 2020.

Our approach to engagement

Engagement with companies on strategic, governance and environmental and social risk management issues forms a core part of our stewardship responsibilities. It is an activity that many of our clients have come to expect from us as a long-term asset manager. Engagement may also help us select and monitor companies in our funds.

We take the view that good company engagement has a positive cumulative effect. It is through successive meetings with either management or the board that we can build a better understanding of the direction of travel, discuss our perspective with them and hopefully build a mutually beneficial relationship. 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.

Setting engagement priorities

Choosing which topics and companies to prioritise for engagement can be a challenge, because we are faced with an ever growing list of ESG issues and company requests. In order to achieve the best outcomes for our customers, we have to focus our time and attention on the topics that are most material to our investments and can have the most impact on environmental and social outcomes.

We engage with companies on both a reactive and proactive basis. Our reactive engagement is largely driven by market events such as rights issues or breach of covenants, or governance issues, like remuneration consultations or board changes. It is also driven by company announcements, ESG risk events or company requests. In these circumstances, we endeavour to respond to as many of these engagement requests as we can; but on occasion we must prioritise either by the size of our holding or the severity of our concerns.

In 2019, we undertook a full review of our engagement themes to set new priority areas. This process was led by Carlota Garcia-Manas over a three month process, and involved extensive consultations with fund managers, responsible investment analysts, clients and other stakeholders. We also assessed our portfolio exposures, reviewed academic evidence on engagement, and surveyed external research on new and emerging issues and risks. We created a long list of topics, then selected six themes that we felt were most material to our holdings, fit with our culture and values as a company, were of importance to our clients, and where we had significant exposure to reputational, operational or financial risks.

Engagement criteria

Our engagement topics must meet the following criteria:

- Meet the needs and expectations of clients
- Material and relevant to investment decisions
- Has the potential to impact corporate ESG or financial performance or reduce risk
- Raises best practice standards within a sector or market
- Adds value in advancing thought-leadership and good governance

Our engagement themes

In 2020 we will engage around the following six thematic priorities defined by our 2019 consultation:

Climate risk

The climate is changing. Companies need to prepare for the energy transition and physical impacts of climate change.

Circular economy

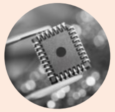
Reduce, reuse, and recycle. Companies need to be designing products and processes of the future that don't hurt our planet.

Financial and social inclusion

Leave no one behind. Companies succeed when everyone has an opportunity to participate and be a productive member of society.

Governance

Checks and balances. Successful companies need strong boards, appropriate pay, and be accountable to their stakeholders.



Innovation, technology & society

Technology is advancing, jobs are changing. Companies need to be cyber resilient, tech-savvy, and responsible users of data.

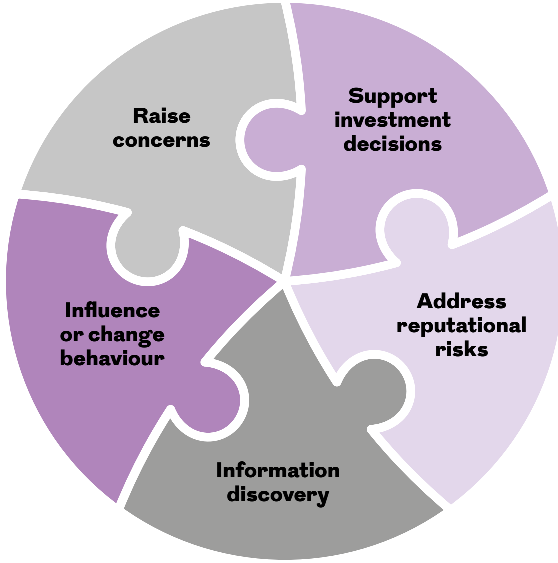
Diversity

Avoid group-think. Diverse companies are more innovative and create better outcomes for customers.

Scope and process

Our engagement spans both our equity and fixed income funds because we think good stewardship should be applied regardless of asset class. This requirement is now included in the 2020 UK Stewardship code and is understood as global best practice.

Engagement should serve a clear purpose, meet the needs of our clients, and have clear outcomes. For us, the purpose of engagement is summarised in this graphic:



Opportunities to engage with a company or on a topic are reviewed by the Responsible Investment team in consultation with our fund managers. New opportunities for engagement arise through a variety of sources, including from internal ESG research or portfolio reviews, client requests, fund manager queries, regulation or company requests. We apply the following filter process when choosing whether and how we engage with companies.

1 Is there a potential material financial or ESG impact?

2 Do we have a significant holding?

3 Is there a significant reputational risk?

4 Does it fit with our engagement themes?

New engagement projects or requests to sign joint letters or public initiatives are approved by the Head of Responsible Investment to ensure it meets our stewardship and responsible investment strategy. We select the companies we engage with based on:

- Evidence of poor performance (or outperformance) on ESG issues relative to peers
- Evidence of ESG risk that has the potential to cause value destruction or significantly affect the reputation of the company or of RLAM and its clients
- Percentage of gross exposure within our holdings
- Percentage of the outstanding shares or bonds held by RLAM relative to other companies
- Fund manager or client recommendations

Engagement can take two forms:

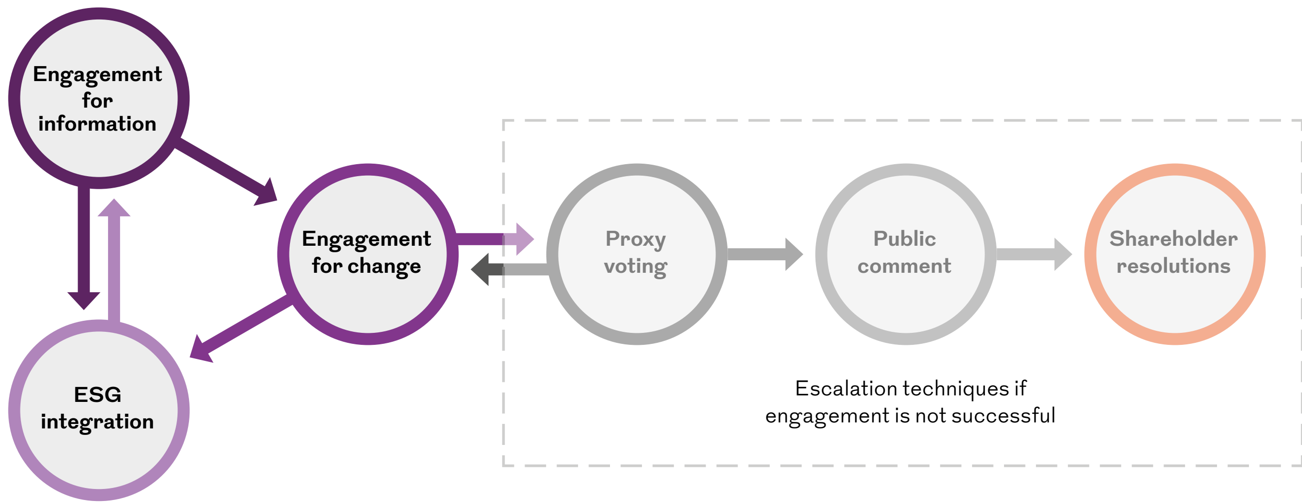
- **Information discovery**: Engagements that seek to uncover additional information about company practices, or to identify the need to change or influence behaviour. This type of engagement is less intensive and designed to feed information back into our investment, voting and engagement activities in a dynamic and nimble way.
- **Change and influence**: Engagements that seek to influence company decisions and change behaviour. These engagements are resource intensive, time consuming and can take place over months or years, but may lead to significant changes to company behaviour and ultimately customer outcomes.

We believe both types of engagement are crucial to being a good steward of our clients' assets. The chart below summarises our engagement process.

Escalation and public comments

Should we feel that an issue has not been sufficiently addressed by management, we will seek a meeting with the chairman, senior independent director or other senior executives as appropriate. We may also translate our concerns into votes against relevant directors or other management proposals at the next annual or general meeting. In some instances, when the issue so warrants, we may file or co-file a shareholder resolution.

We will on occasion attend a company Annual General Meeting (AGM), or escalate our concerns to other institutional investors who we believe may share our views (see Investor collaboration on page 20). We may also voice our concerns through public statements, where



we feel the issue is significantly grave enough to warrant this action, or where the company has been unresponsive or has not made sufficient progress on an issue. We will respond to press enquiries where appropriate and use public comments as a tool for improving stewardship and good governance.

We will utilise the full range of tools at our disposal if we judge that value is or may be undermined, while ensuring we are always acting in the best long-term interests of our clients.

Investor collaboration

While our preference is often to engage with companies one-to-one, we understand that there may be a need to work together with others to be more effective in influencing company behaviour. We evaluate the benefits of collaborative engagement on a case-by-case basis. We will favour collaborative engagement with other shareholders when:

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

Advocacy and public policy

As part of our commitment to being a responsible investor, we will engage with regulators, governments, standard-setters and NGOs to advance good governance and responsible investment. This includes providing responses to consultation requests, surveys, and meeting with regulators or others to express concerns or support for policies and practices in relation to good governance. The majority of our public policy work is focused in the UK where we have the greatest asset exposure, but we may undertake advocacy in other markets where it is considered important for our clients or material to our investments.

We will also commit our time and expertise as advisors to trade associations or bodies that advocate good stewardship practices, such as the PRI, the Investor Association (IA), the FRC, IIGCC, and the Investor Roundtable for Tailings Dams (IRTD).

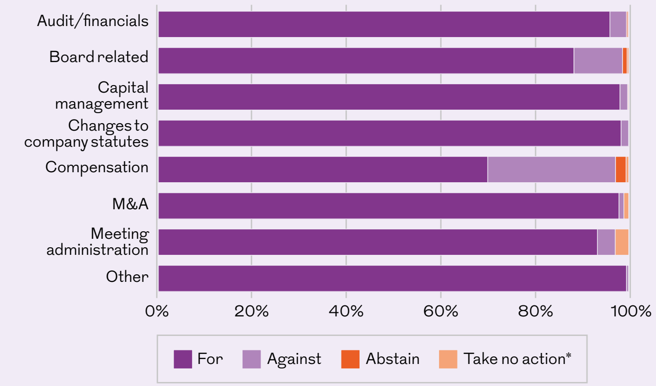
We are members of the FRC Advisory Group for the future of corporate reporting. In 2019, we collaborated with the FRC in their work on climate risk in financial services, Stewardship Code consultation and the future of digital company reporting mechanisms. We also responded to the PRI consultation on their Active Ownership 2.0 guidelines and contributed to the 2020 sustainable reporting framework for International Petroleum Industry Environmental Conservation Association (IPIECA), the global oil and gas industry association. As members of CA100+, we also participated in the IIGCC's Portfolio Alignment initiative.

In 2019, we signed up to the Just Transition institutional investor statement, which calls on companies and investors to consider the impact on workers, communities and countries as the shift to a low carbon economy takes place. We also supported a letter in the US highlighting investor concerns about legislation that weakened the requirements for oil and gas companies to manage their methane emissions. As an active participant in the IRTD, we contributed to the 2019 global tailings review.

2019 voting activity

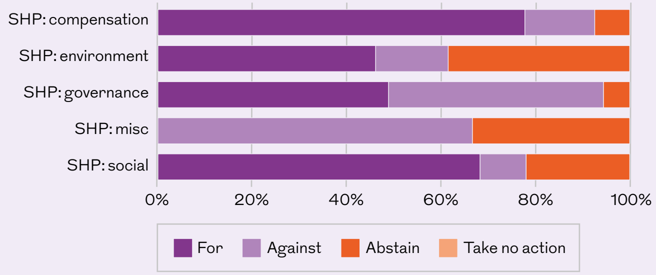
Total voting record

Proportion of voting outcomes for all resolutions in 2019



	For	Against	Abstain	Take no action*
Audit/financials	**2926**	**108**	**8**	**6**
Board related	**6290**	**736**	**69**	**24**
Capital management	**2703**	**45**	**1**	**5**
Changes to company statutes	**671**	**11**	**0**	**0**
Compensation	**1026**	**398**	**33**	**8**
M&A	**95**	**1**	**0**	**1**
Meeting administration	**98**	**4**	**0**	**3**
Other	**217**	**1**	**0**	**0**

Shareholder proposal votes

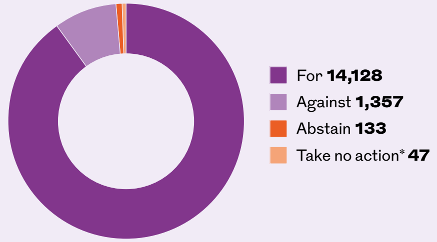


	For	Against	Abstain	Take no action*
SHP: compensation	**21**	**4**	**2**	**0**
SHP: environment	**6**	**2**	**5**	**0**
SHP: governance	**44**	**41**	**5**	**0**
SHP: misc	**0**	**2**	**1**	**0**
SHP: social	**28**	**4**	**9**	**0**

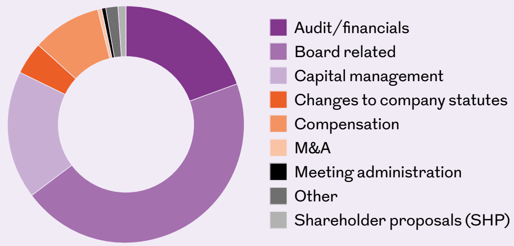
* Take no action – we endeavour to vote at all meetings other than in markets where voting would result in shareblocking

Summary

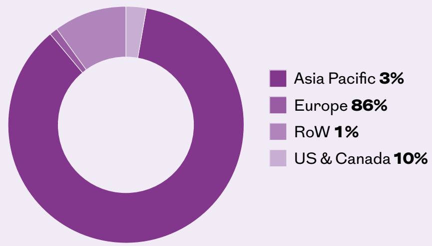
Proportion of voting outcomes for all resolutions in 2019



Votes by category



Votes by geographical region



Governance and voting

Exercising our voting rights at the companies in which we invest is an important pillar of our stewardship strategy. We use our voting rights to promote good corporate governance in investee companies. In 2019, we voted all of our actively held stocks across our UK, EU, Sustainable and Global Equity funds where local market conditions permit. We also voted all of our passive UK equity holdings. We will vote on our fixed interest holdings where the occasion arises. While we haven't previously voted our global passive holdings we will start voting these in 2020.

While all our votes and rationales for when we vote against management are available on our website, the following are some examples illustrating where and importantly why we have chosen to vote for or against certain proposals.

Stobart Group

We engaged with Stobart, the infrastructure, aviation and energy company in 2018 around the issues of poor corporate governance, allegations of bullying and internal conflict with the founder and ex-CEO. Following this difficult period, we were back in touch in 2019 before the AGM, seeking further information on remuneration and board related issues.

At the AGM, we noted that there was no direct industry experience on the board and our policy was suggesting voting against the chairman. Upon review and consultation with the fund managers, we felt that given the recent high profile issues at the company and the replacement of a high number of board directors, Stobart should be given some more time to recruit directors and rebalance the board.

Another potential issue was remuneration. Our policy suggested voting against pay because the CEO was granted awards prior to his promotion to the board. After discussing internally, we noted that Stobart was active in communicating this to shareholders. The board also made a number of changes to the awards to bring them into closer alignment with best practice. We also noted that the awards were granted before the CEO joined the board and his remuneration at the time was not subject to shareholder approval. On balance, we voted for all items at the AGM given the significant amount of change at the company. However we have made it clear that we expect these concerns to be addressed in the future.

Metro Bank

Metro Bank is not held in our active strategies, but our concerns with governance at the company became sufficiently grave over the past 18 months to warrant repeated engagement and voting. Our objectives were to encourage the company to address our significant concerns with board oversight and governance.

We engaged with Metro Bank on three separate occasions in 2019. A meeting in March followed up by a formal letter, voting at the AGM and following up with another letter in May, and taking part in a remuneration consultation in November. Whilst these conversations have become increasingly constructive and we have welcomed the company's willingness to engage with us, we remain concerned over the the quality of governance and audit at the company given the events over the last

> "By taking the time to assess each proxy vote ourselves, rather than outsourcing this process, it offers us an invaluable opportunity to understand each company and the unique issues they may be facing."

Sophie Johnson, Senior Corporate Governance Analyst

18 months. We voted against a number of proposals at the AGM. We opposed the re-election of the founder and non-independent chairman, the CEO, and all Audit Committee members following the disclosure of accounting issues and investigations in January. We also voted against a non-independent member of the board and the chair of the Nominations Committee for independence and diversity concerns. We also opposed the remuneration report for the buy-out award granted to the CFO during the year which had no performance conditions.

We issued a press statement in May 2019 highlighting these concerns ahead of the AGM. Subsequently the chairman/founder, Vernon Hill, agreed to step down from the board and the company appears to be bringing the board into line with UK market practice. We issued a second press statement in October 2019 welcoming these changes. Metro Bank is a good example of where engagement can lead to positive outcomes and improved governance.

Amazon

Amazon is held across a number of our funds for the many positives of its marketplace model and web services business, but we do have concerns over the much publicised issues with workers' rights and factory conditions at the distribution centres. Unfortunately due to our small holding size relative to the size of the company, engagement has proven difficult on these subjects. We visited an Amazon distribution centre in early May 2019, to gain some insight into working conditions and the nature of the roles undertaken by the lowest paid staff. Our objectives were to ascertain for ourselves the realities of working there and where we can push for positive change.

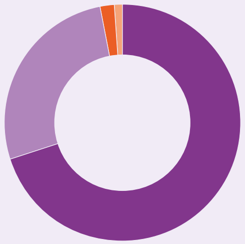
At Amazon's AGM in May, there were 12 separate shareholder proposals. We supported the majority of these, including the right for shareholders to call special meetings, the appointment of an independent chair, the publishing of a gender pay gap report covering its global operations and a request for the company to count abstentions in the voting results. We voted against a non-independent member of the Audit Committee, one Non-executive director (NED) regarding time commitments, and Jeff Bezos because he serves as both CEO and chairman. We have consistently voted against Bezos over the past few years and feel strongly that the company would benefit from having a fully independent chairman to oversee the board.

TI Fluid Systems

TI Fluid Systems was listed on the London Stock Exchange in late 2017 and not unusually was backed by private equity who maintained a substantial stake and presence on the board. Our objectives were to work with them to understand plans to address the low independence and diversity levels.

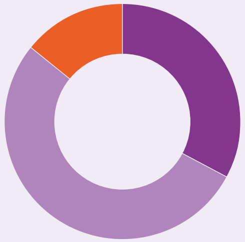
At the AGM in 2018 we voted against six of the eight members of the board, five for non-independence and the chairman for the lack of diversity and concerns with the overall board balance. We also voted against the Remuneration Report and Policy. We met with TI Fluid Systems numerous times in 2018 and followed up in February 2019 as part of a collaborative engagement project on diversity. At the meeting, we discussed the steps the board was taking to address these shortfalls and were satisfied that it was taking these concerns seriously. By the time of the 2019 AGM in May, two new independent NEDs had been appointed, bringing the level of independence to 50%; remuneration had reverted to an acceptable structure; and while progress on diversity was slow, there were now two female directors on the board. As a consequence we were able to support all resolutions at the 2019 AGM. Another director joined the board in December 2019.

Executive remuneration votes



- For **70%**
- Against **27%**
- Abstain **2%**
- Take no action* **1%**

Diversity votes



- For **33%**
- Against **53%**
- Abstain **14%**

* Take no action – we endeavour to vote all meetings other than in markets where voting would result in shareblocking.

Executive remuneration

As a large percentage of our active equity AUM is in UK listed companies, we focus much of our efforts around reviewing the executive remuneration of these companies, whether they are FTSE 100, FTSE 350, Small Cap or AIM listed. During 2019, we voted against or abstained at 52 out of a possible 193 companies in this group; or 27% of the time. We wrote to all of these companies at the time of the AGM to express our concerns with the remuneration report and/or policy and offered to engage with us further. Of these 52 companies, 22 responded either directly to our letter, with a remuneration consultation or with a formal meeting to discuss our concerns. Several others have written to us at the start of 2020. The majority have attempted to address our concerns and have made changes in response to our feedback to align their remuneration policies with best practice.

Gleeson

Immediately prior to the 2018 AGM in December we spoke to the company regarding our concerns with the remuneration structure and the fact the CFO serves as the company secretary. During 2019 we wanted to understand what steps the company was taking to address this.

We met the company three times during the year, in a combination of financial and governance meetings. In the first of these meetings we discussed succession planning and the company secretary arrangements, where we failed to receive any reassuring information. The second meeting was immediately after the unexpected departure of an executive over a pay dispute, where again we received little reassurance the company was addressing our concerns. The final engagement was part of a remuneration consultation, where the company did address the policy concerns and brought it closer into line with best practice. At the AGM towards the end of 2019, we were able to support the new remuneration structure which we felt was a good outcome. However we decided to oppose the re-election of the CFO/company secretary as they had not addressed the dual role as we had asked.

Diversity

As part of our work promoting diversity both in the boardroom and throughout the wider workforce, we committed to vote against any UK listed company that did not meet 25% boardroom diversity in line with the recommendations of the Hampton-Alexander review.

As part of our voting activities in 2019, 94 companies were flagged for diversity concerns out of a possible 573 companies voted across the UK during the period. Of this number we voted against or abstained on the re-election of the chairman of the Nominating Committee at 63 separate companies, due to our concerns that diversity was not being adequately addressed. We abstained on 13 of these occasions, largely as these were small cap companies which have smaller boards resulting in more challenging succession planning. The companies where we did not oppose the director re-election were primarily due to satisfactory disclosure from the companies in question; either that another appointment was soon to be announced, a recent unexpected departure, or a detailed plan of action was presented to shareholders.

Health & safety

Health & safety is top of mind in the mining sector, particularly following the Brumadinho tailings dam disaster in early 2019 (see the feature on page 16). A sustained period of engagement with mining companies, in particular **Anglo American**, **Glencore** and **Rio Tinto** has continued throughout the year both on an individual and collective basis. Our objective was to understand how the companies were responding and prioritising these issues.

We voted against the remuneration report at Anglo American in part over health and safety concerns; and the decision by the company to cap the value of long-term incentive plan (LTIP) that was awarded in 2016 and vested in 2019, as executive awards were previously uncapped. However we objected to the level of payout under the bonus considering 75% of the health and safety element vested during a year where there were five fatalities. The company did apply a safety deduction, but we did not view it as sufficient given the number of fatalities.

Similar issues arose at Glencore and Rio Tinto, both of which had rising numbers of fatalities despite assurances that these issues were being addressed. At Glencore we voted against the chairman due to concerns with the board structure and the rise from 9 to 13 fatalities during the year under review. At Rio Tinto, the safety metric also paid out under the bonus despite a rising number of fatalities, leading to our decision to vote against the remuneration report.

Our approach to voting

Our UK and Global Proxy Voting Policies are publicly disclosed on our website[10]. In applying these policies, we use discretion and have due regard for the particular circumstances of the company whilst vigorously pursuing the interests of our customers and clients. We do not automatically support the board, but will analyse each resolution to determine if the company is acting in accordance with our policy and with local best practice. In making our voting decisions, we aim to be consistent from year to year. If we have previously abstained or voted against a resolution, we will change our vote to support management only where we feel the company has made a significant change in its policy or approach. We will also consider any engagement we have had with the company in the year, and reflect our thoughts on the progress of this engagement in our vote and our public and private comments to the company.

Our Voting Policies are reviewed on an annual basis and signed off by the RLAM Investment Committee. In updating our Voting Policies, we will incorporate new and emerging best practice, feedback from clients, changes in local governance or stewardship codes, and our own evolution in thinking.

We are strong advocates of good corporate governance, and our preference is to vote ‘as a house.’ As a result, all of our funds are voted in the same way. No one fund or fund manager may single-handedly change a vote for their fund; any recommendations to change a vote is considered and discussed as a house. This is consistent with our ‘Collaborate’ corporate value, whereby we believe that collaboration and discussion across teams on governance and voting issues will result in the best outcomes for customers. We believe this ‘house views’ approach also helps send a clear and consistent message to companies on our governance expectations. It also allows us to engage more effectively to seek improvements to governance standards.

Voting policies – our updates for 2020

At the end of 2019 we updated our voting policies to align with emerging best practice, market reviews, targets and developments in our thinking and approach. Our full voting policies for 2020 are available on our website[11] but here we have highlighted the most substantive changes for the next voting season.

Executive pensions

Pensions have always been a subject we have taken interest in. During 2019 executive pensions emerged as a significant issue, in part driven by the position statement released by the Investment Association which called on companies to align executive pensions with the pension benefits provided to employees. We have engaged extensively behind the scenes with companies during 2019 over changes to their pension provisions and are encouraged by the degree of change we have seen. There are however a number of companies who have not addressed these inequalities and we believe it will be a major focus of investor discontent during the upcoming proxy season. This year we have spelled out in detail our expectations that companies should strive to achieve parity between pension payments for executives and the workforce.

Climate risk

As climate risk has rapidly moved up the agenda for companies, investors and regulators, we have outlined our approach with regard to voting. We are seeing an increase in shareholder proposals on climate change, and our approach is to focus on businesses where there is a material risk and where efforts to engage have yielded disappointing results. We will focus primarily but not exclusively on companies captured by the CA100+ group. We acknowledge this is a highly complex issue and rather than being prescriptive in our approach we will look at each on a case-by-case basis. We will also support shareholder proposals asking for increased disclosure or the production of a TCFD report, or other climate change issues if judged to be in the best interests of our clients and all stakeholders.

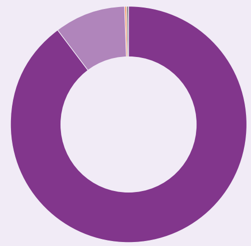
Diversity

We have upgraded our board gender diversity target to 33%. This new target is in line with the Hampton-Alexander Review and our work as part of the 30% Club Investor Group. We will continue to apply a degree of pragmatism when casting these votes, looking beyond the headline percentages to those who have shown real progress addressing diversity both in the boardroom and throughout senior management. Only the most compelling rationales for missing the targets will be accepted. We have also referenced the Parker Review in our update. While this will not be a voting item in 2020 we will begin assessing companies subject to the requirement to have at least one person of colour on the board by 2021.

Expansion into global voting

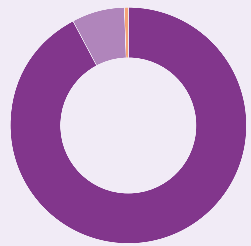
During the course of 2020 RLAM will be adding all of our global passive funds to our proxy voting programme, more than doubling the number of companies we cover. This will cover Europe, the USA, Japan, Asia Pacific and our Emerging Markets ESG fund. As such we have greatly expanded our Global Voting Policy to provide an overview of how we approach these markets. While we had established approaches for some of these markets, others have been newly developed for 2020. We have aimed to combine RLAM's strongly held beliefs around remuneration practices, board independence levels, diversity and shareholders' rights with local best practice to develop an approach that is both practical and aspirational.

Votes with or against company management



- With management **89.5%**
- Against management **9.7%**
- Take no action* **0.3%**
- N/A **0.1%**

Votes with or against Glass Lewis recommendation

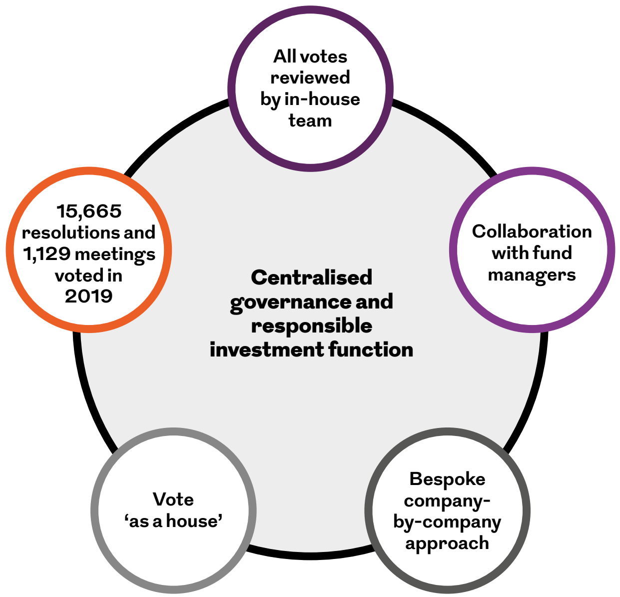


- With Glass Lewis **92.2%**
- Against Glass Lewis **7.4%**
- Take no action* **0.3%**
- N/A **0.0%**

* Take no action – we endeavour to vote all meetings other than in markets where voting would result in shareblocking.

The proxy voting process

The Responsible Investment team is responsible for executing equity proxy votes on behalf of RLAM according to our Standard Operating Procedures. We use Glass Lewis' Viewpoint as our voting platform. All ballots are sent to Viewpoint by our custodians or our clients' custodians. For each agenda item, Glass Lewis applies RLAM's custom voting template which suggests a voting recommendation that reflects RLAM's high level Voting Policies and best practice standards. The Responsible Investment team then conducts its own review of every vote, considering any unique circumstances facing the company, any engagement we have undertaken with the board, and any discussions with the fund managers. The vote is then approved by a member of the Responsible Investment team prior to being dispatched.



Because we vote as a house, the Responsible Investment team will take care to consider internal views on voting issues prior to executing a final vote. We routinely flag any controversial votes to fund managers prior to confirming a vote, to allow time for discussion. Controversial votes may include votes where we are voting against a resolution for the first time or where we have serious governance concerns. Voting recommendations for our actively held stocks are circulated to fund managers (for their own funds), internal governance experts and the Head of Responsible Investment prior to being executed. This provides full visibility of our votes and an opportunity to raise any objections. In the vast majority of cases, any differences of opinion on proxy votes are discussed and agreed collaboratively. In the rare instance where the Responsible Investment team and the fund managers cannot agree on a vote, it is escalated to the Head of Equities, or the Chief Investment Officer when the vote is concerning funds where the Head of Equities is the named fund manager.

Informing companies of our vote

In cases where we abstain or vote against management in our actively managed funds, we will use our discretion to write to the companies to inform them of the rationale for our vote. We feel this is an effective tool for sharing our views with the board on key issues where we have concerns, and helps encourage dialogue with non-executive directors on important corporate governance matters.

The scope of voting at RLAM

We make reasonable endeavours to vote all of our eligible shares in the funds where we vote[12]. However there are occasions where we are unable to vote, or choose not to vote, for example if shareblocking is in place, or if the local market requires us to arrange a local Power of Attorney (POA). We have controls in place to ensure that voting is accurately executed in line with our Voting Policies, and that votes are submitted in a timely manner. There are occasions where we have to submit votes late, after the Glass Lewis deadline date. For example this may occur if we receive late ballots due to transactions in the funds. In such cases, we will vote at the first reasonable opportunity after we receive our custom recommendation from Glass Lewis. Any late votes or vote rejections are noted and investigated on a monthly basis.

Client-directed voting

Our preference is to apply a consistent approach to voting across all funds where we retain the voting rights. We value the importance of our clients' views on voting matters and we work with our clients to incorporate their views and speak with one voice on key voting issues. Some clients choose to retain their own voting rights and we can advise them on the rationale for our votes so they can consider this when executing their own votes.

In accordance with our 'house views' approach to voting, we do not provide underlying clients the ability to vote their share of pooled funds because we believe this would dilute RLAM's strong governance views. We also believe it could send confusing and conflicting messages to companies when we try to engage. We note that 'split voting' in pooled funds is still not technically possible in some European and Emerging markets.

Vote disclosure

We think transparency is important. Our votes are disclosed monthly in arrears in an online searchable database[13] on our website[14]. We proactively disclose the rationale for any votes against management or where we abstain on a resolution. We do not routinely disclose our voting rationale when we vote in favour (for) a resolution, but we are happy to provide an explanation to clients or other stakeholders upon request.

Proxy voting research

We utilise the services of Institutional Voting Information Service (IVIS) and Glass Lewis to provide information, highlight controversial ballot items, and provide a platform to execute our proxy votes. However these voting services are there to inform only; RLAM will use its own voting policy to make the final voting decision, reviewing all votes before execution. We do not rely on external proxy voting advice; we apply our own custom voting policies and each vote is reviewed by a member of the Responsible Investment team.

Stock lending

We lend stock on a number of our equity and fixed income funds. We have a standing instruction with our custodian, HSBC, to recall all shares prior to a vote to ensure that we are exercising our full voting power at shareholder meetings.

Bondholder voting

As a bondholder, we sometimes have the right to vote on issues that affect our credit holdings and given our disproportionate exposure to secured and highly covenanted bonds this tends to give us a greater degree of creditor control than is typical. There were 17 companies where we either gave some form of consent or we exercised our voting rights as bondholders in 2019. Often, due to the nature of our lending position, we were also able to engage ahead of any solicitation activity.

Notable examples of this include actions to pre-empt the removal of LIBOR as the conventional benchmark for floating rate assets, including floating rate corporate bonds which RLAM held. During the year, we engaged with a number of key financial floating rate note (FRN) issuers including Santander and Lloyds to discuss different methods for re-basing the coupons on a SONIA benchmark. Our initial interactions and engagement here helped to inform the eventual consent solicitations for these bonds. Following this, when faced with the final solicitations, we as bondholders provided consent for the proposed changes.

Another example of this during the year was THPA Finance, where our secured lending position meant that the owner, PD Ports, was required to engage with us prior to plans to increase leverage in the business. Our engagement led to the company modifying the documentation for the bonds we held in order to allow the company to buy back these bonds at a pre-agreed price substantially in excess of the bonds' market price. This control and engagement helped to mitigate the transition risk surrounding the potential new corporate strategy for us as bondholders.

ESG integration

In addition to our proactive and well-established stewardship, engagement and proxy voting activities, we are making continual progress on ESG integration. Our goal is to ensure that all fund managers and analysts across the different asset classes at RLAM are empowered and enabled to integrate ESG analysis into their investment processes in order to support both investment outcomes and client propositions. The Responsible Investment team is a dedicated resource to support this. As a business we approach this integration from a practical perspective, considering ESG against the backdrop of materiality, investment advantage, investment time horizon, the specific mandate, goals of each fund, and client needs.

Use of research

RLAM has an in-house team of professionals that are dedicated to responsible investing and ESG analysis. This team has demonstrated its knowledge and expertise in responsible investing, and are experts at helping fund managers and analysts think about ESG risks and opportunities, and integrate these considerations across both equity and fixed income investment processes. The knowledge and expertise of this team supports and enhances the financial and ESG analysis conducted by our fund managers and analysts. Having an in-house team is essential for providing effective and relevant ESG analysis. In our experience, 'off the shelf' ESG research from third party providers does not provide sufficient nuance or context, which is required to ensure ESG analysis is additive to the investment process and not simply a 'tick box' process.

In 2019, we started investing heavily in building internal capacity to consume, analyse and interpret a number of new data sources to help support our investment decisions. In line with our 'unconstrained' investment philosophy, we are keen to consume a wide variety of information and in different formats. Given that many ESG issues are qualitative in nature, there is a significant benefit in being able to quickly search and filter information that is most relevant to us. New technologies such as machine learning have the potential to unearth new ESG insights faster, more efficiently, and at a lower cost. We have started exploring these new technologies because we believe they will bring significant benefits to all our customers and ultimately lead to better investment decisions.

We use a mix of internal and external ESG research to inform our investment decisions. For external research we use various third party service providers and sell-side broker research. We monitor the quality of our investment research providers quarterly as part of our Markets in Financial Instruments Directive II (MiFID II) commitments, including our core ESG research providers. Fund managers and analysts vote each quarter on the brokers or research firms that provide the most value to them. This is done through a systematic and transparent process managed by our Front Office Operations Manager. If providers do not deliver good quality research, contracts will be reviewed with a view to altering or cancelling them. This ensures we are getting the best value for money from our brokers and research providers.

Equities

Corporate Governance is an investment consideration across all actively managed equity funds. It forms part of our qualitative assessment of company performance and value. In some cases, fund managers may apply a discount in their valuation or alter the forecast scenarios to capture potential governance risks. In other cases, governance considerations help provide investment certainty that management and the board will act in our best interests.

We acknowledge that not all environmental or social issues are relevant or material to all companies, and that the materiality of these issues can vary significantly depending on our investment horizon. For this reason, we take a pragmatic approach that is bespoke to each team's investment process. Research and analysis prepared by our in-house Responsible Investment team is shared with active equity fund managers to be used as a factor in their investment decision-making. The Responsible Investment team and fund managers regularly debate the pros, cons, and relative performance of key ESG indicators, and the added-value and competitive advantage of the company as part of the investment process (both pre- and post-investment). All of this allows us to build a unique perspective of each potential holding that is relevant to our investment mandates or client requirements.

Because we don't believe in a one-size-fits-all approach, we have provided insight into how we think about ESG integration across our core equity teams below.

> "Our ESG integration supports and adds value to our stewardship practices. This is especially true for effective engagement activities – we help our clients' assets make a tangible difference by engaging with companies to improve our environment and communities."

Peter Rutter, Head of Equities

Sustainable equities

In the Sustainable Equities team we believe that owners and managers of capital play a strong role as a catalyst for positive social and environmental change. We can support a sustainable economy through providing capital to leading businesses and through proactive engagement. We also believe that sustainable investing focuses on an exploitable market inefficiency and that, through a focus on socially and environmentally beneficial products and services, and high standards of ESG management within a company, we can identify investment insights that others may miss. The themes we focus on in the funds can and do change overtime, and are a consequence of our investment process rather than the goal. We think it is important to have the flexibility to evolve as society evolves too, ensuring that at all times we are investing in the most relevant sustainability themes and the ones most likely to deliver strong investment returns.

Our current sustainable equity themes

Industry 4.0

Steam was industry 1.0, electricity 2.0, and the computer 3.0. Industry 4.0 is about data and using it to bring together the physical and digital worlds to enhance the efficiency of a range of existing industries.

Agriculture and naturalness

Demands on food production will continue to grow as demand for protein is linked to rising wealth, particularly in developing countries. The current system, based on the use of chemicals to enhance production, needs to be changed for smarter, more natural methods of food production.

Artificial intelligence and cloud computing

The exponential growth in the amount of data in existence, and in computing power, is allowing data to be used to make better decisions in areas such as healthcare diagnosis and energy usage.

Electric/autonomous vehicles

Transportation remains one of the major sources of pollution through the use of the combustion engine. Cars are also the source of many deaths and injuries. Electric and autonomous vehicles offer the opportunity to move transportation into a cleaner, safer future.

Next generation medicine

The current healthcare system is based on diagnosis methods and drug treatments that are both slow and often ineffective. The ability to extract more accurate and timely health information from our bodies, and the ability to obtain our individual genetic profile offer the opportunity to significantly enhance the standard of healthcare.

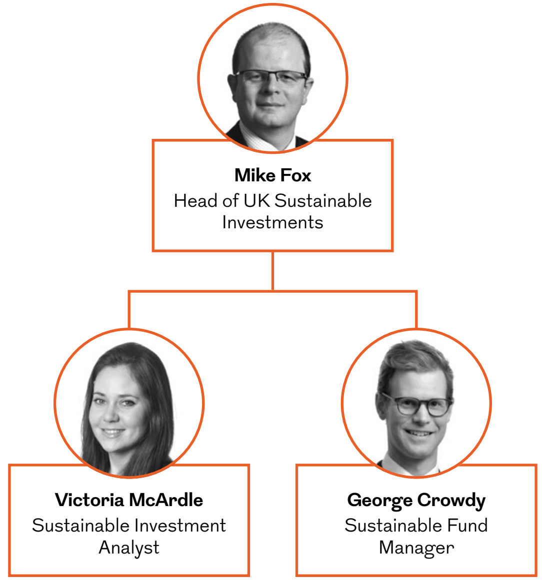
Social infrastructure

Areas such as water and electricity still require significant investment in the future to connect developing countries to these basic utilities and also improve the way they are delivered in developed countries. Other areas such as social housing are relevant to this theme too.

Energy transition

The way we have extracted energy from the sun recently is via fossil fuels. Renewable energy, such as solar and wind, offer the opportunity to extract energy directly from the sun in a cleaner more sustainable manner.

The Sustainable Investment team



As a team we have a bottom-up approach to investing, extensively researching the credentials of each and every potential new investment. We do not rely on external ESG research. We equally weight the governance, ESG leadership or positive net benefit case with our financial analysis and draw heavily on the expertise of the fund managers and analysts who run the Sustainable Funds, the Responsible Investment team and our external Advisory Committee. Everyone has input and an equal voice in the approval process. The Advisory Committee meets at least three times annually and provides us expert external insight and challenge on the companies we screen, emerging ESG topics, considerations for the funds, and performance.

The following are examples of companies we have screened during the year and why we believe they are worth holding in the Sustainable Funds.

Ball Corp

As the world's largest maker of aluminium cans, Ball Corp will be a beneficiary of the increasing scrutiny and criticism of plastic packaging. Aluminium itself is very energy intensive to produce however, so merely switching from plastic bottles to aluminium cans is not a solution on its own to society's waste issue. However, unlike plastic, aluminium is infinitely recyclable and the company places great emphasis on creating a circular economy. Aluminium has the highest scrap value of recyclable materials and so subsidises the collection and recycling of other materials. Furthermore, aluminium is recycled at a much higher rate than other packaging products; with nearly 75% of what has been produced historically still in use. Recycling aluminium reduces the energy required to produce it by 95%. Ball is involved with initiatives to improve recycling rates and also works with suppliers to reduce their environmental impact. Whilst the demand for beverage cans has been stable, the move away from plastic is likely to increase it. In addition, as the market leader, its competitive dynamics are favourable. We started a new position in Ball Corp in our Sustainable Diversified, World, Managed Growth and Global funds in December 2019.

Ansys

As a design and simulation software company, Ansys offers its customers the opportunity to significantly improve their operational and environmental efficiency. Its software is used to reduce energy usage and emissions, and improve fuel efficiency and safety. The development of simulation technology can be used by engineers in design and manufacturing to reduce environmental impacts. Its products facilitate real-time analysis of operational data, which helps increase machine efficiency and reduce operational costs. Examples of improved environmental performance include the ability to boost the power density of the motor of an electric vehicle, thereby increasing energy efficiency by 12% and the development of composite aircraft pallets 18% lighter than traditional ones (reducing cargo weight increases aircraft fuel efficiency). Simulation allows the design of better fuel injector nozzles which are crucial to determining fuel economy, emissions and performance. Simulation is expected to become increasingly important within product testing, at the expense of physical prototyping, with demand being driven by the digital revolution. We increased our position in Ansys in our Sustainable Leaders, World and Diversified funds throughout 2019.

Edwards Lifesciences

Edwards is a medical device company that is solely focused on cardiovascular disease, which is the leading cause of death in many countries. One in every four deaths in the US occurs as a result of heart disease.

Heart valve disease, an umbrella term and subset of heart disease, affects more than 5 million people in the US and causes roughly 25 thousand deaths per year. If sufficiently serious, the surgical treatment options are repair and replacement, which can be with an artificial or animal valve via open heart surgery, or less invasively, with a transcatheter procedure, typically using a small tube inserted into the leg. Surgeons are increasingly accepting transcatheter surgery as becoming the standard of care in place of open heart surgery but it is not widely practised outside the US and Germany. As the leading provider in this space, Edwards is transforming the standard of care in lifesaving heart surgery. Barriers to adoption are mainly around lack of physician and patient awareness of the benefits of these procedures,

which Edwards is investing in. We think that Edwards is addressing a huge unmet medical need and should benefit as the leader in its niche. We started new positions in Edwards Lifesciences in our Sustainable World and Global funds in December 2019.

Thermo Fisher Scientific

Thermo Fisher sells analytical instruments, laboratory equipment and lab products to pharma/biotech companies, hospitals and clinical labs, universities, research institutions and government agencies. Its mission is to make the world healthier, cleaner and safer through accelerating life sciences research, solving complex analytical challenges, improving patient diagnostics, delivering medicines to market and increasing laboratory productivity. Thermo Fisher is not only searching for ways to provide its customers with products that are less hazardous, more energy efficient, create less waste or use sustainable packaging and shipping materials, but it is also reducing its own environmental impact. Although not considered a leader in managing its own ESG impacts, it targets CO_2 emissions, energy and water usage and waste. It has an effective acquisition strategy which will help guarantee future revenue streams, and its focus on cell/gene therapy, biomanufacturing, molecular diagnostics and next generation sequencing is attractive from an investment perspective. We believe the company will be the beneficiary of the trend towards more outsourcing by pharma companies. We started a new position in Thermo Fisher in our Global Sustainable fund in November 2019.

Xylem

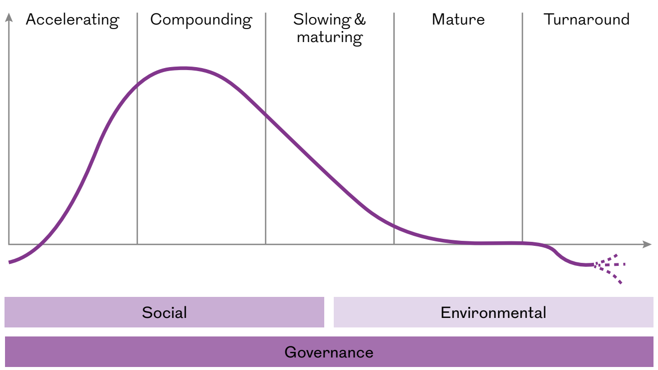
Xylem is a leading global water technology company committed to developing innovative technology solutions to the world's water challenges. Growing populations as well as climate change are exerting increasing pressure on natural resources and water in particular. Therefore efforts to use water more responsibly are both socially and environmentally positive. Xylem's products help customers reduce their environmental footprint by reducing their energy and water use. Xylem is very well positioned to become a leading player in the fast growing areas of smart infrastructure and smart water networks. In emerging markets, improving sanitation and the provision of clean/safe drinking water and effective irrigation should continue to benefit Xylem. In addition, Xylem is often a beneficiary of new regulations on water quality, efficiency and usage due to its comprehensive suite of water technologies. Challenges include convincing utilities to adopt the latest technologies and software, but the company is building pilot projects to address this. The company has exemplary sustainability credentials both itself as a company and in terms of its products and services. We increased our positions in Xylem in our Sustainable World, Diversified, Managed Growth and Global funds throughout 2019.

Global equities

The Global Equity team believes integrating ESG issues into our investment process strengthens both investment performance and our commitments to be a responsible investor and good steward of our clients' capital.

- **Investment performance – lower risk, higher returns**
  Future wealth creation and valuation are directly impacted by ESG issues, often in a complex and hard to measure way.
- **Responsible Investment – be the change**
  ESG assessments support more effective engagement, which in turn can influence a better future for our environment and communities. Our ESG integration also enables bespoke client solutions and reporting.

Dominant issues tend to vary by life cycle category



We integrate ESG issues into all stages of our investment process and collaborate extensively with the Responsible Investment team. We use shared ESG data providers, review thematic ESG research to support our stock specific expertise, and participate in independent responsible investment portfolio reviews focused on ESG risks. We work closely with the Responsible Investment team on voting and engagement to support our client propositions.

1. **Measure & classify** – data and technology drive investment insights, idea generation efficiency, and the foundation for our investment approach. The team integrates an increasing breadth of ESG data with its proprietary life cycle analysis.
2. **Identify & value** – the team spends most of its time and energy in these stages, doing deep-dive qualitative and quantitative fundamental analysis to evaluate future wealth creation potential, and value the most attractive stock specific opportunities.

Investment process	ESG focus
Measure 3,500+ companies	ESG 3rd party data Sustainability Accounting Standards Board (SASB) framework
Classify 3,500+ companies	Risk flags Climate – transition + physical Life cycle specific
Identify c.600 companies	Stock specific + thematic Materiality – E/S/G assessments Wealth creation test – positive, challenging, avoid
Value c.200 companies	Fundamental valuation – scenario analysis
Implement Portfolio	Key ESG risks including climate Client reporting & attribution Bespoke solutions
Monitor Portfolio	Stock reviews Portfolio reviews

Wealth creation – ESG factors can have a critical impact on the wealth creation analysis. We believe that ESG *materiality* is both key to the evaluation and very complex in practice – our life cycle concept and qualitative analysis can add nuance and value where simple quantitative ESG data struggles. In situations where ESG risks are deemed very material, and the company is unwilling or unable to mitigate this, ESG factors can be a 'deal breaker' – the company will be avoided in client portfolios.

Valuation – many businesses with attractive forward-looking wealth creation potential also have material ESG risks or rewards. We incorporate these ESG factors into valuation scenario analysis. For example carbon transition risks and carbon taxes can be explicitly modelled into 'bear' valuation cases, and this can directly change our ultimate investment decision.

Challenging but attractive – in global equities, we believe companies with material ESG risks can be attractive investments if:

- Risks are understood and acknowledged
- Company is willing and able to mitigate them in future
- Material ESG rewards also exist
- Overall wealth creation potential is attractive
- Valuation is attractive even when risks incorporated in 'bear' scenarios

In addition, these companies are often excellent candidates for company engagement. This supports our clients' desire for RLAM to be a responsible investor, and can also lead to better outcomes for our environment and communities.

Positive | Challenging but attractive | Avoid

Progressive Corp
Governance focus

Progressive is a leading US auto insurance company. It has a long track record of taking market share, via low cost operating model, embracing technology to improve customer service, and a reputation for value-for-money and fair pay-outs. We believe a key element of its success is due to its governance structure and linked employee alignment. All employees, from CEO to most junior employee, have access to a company-wide bonus scheme called "Gainshare". This incentivises profitable policy growth, aligns employees with good customer outcomes, and strengthens corporate culture. The intangible value of this long-term alignment is arguably underestimated by the market and forms a core component of our positive investment case.

Anglo American
Environmental & social focus

Anglo American is a leading diversified mining company. The team believes Anglo is a good example of a business facing material environmental risks *and* rewards; it has legacy thermal coal assets which may well be impacted by fossil fuel transition and obsolescence risk; equally it produces large quantities of rare earth metals essential for renewable and carbon capture technologies. As part of ongoing engagement on transition risks, when the team met management in September 2019 we emphasised the importance to our clients of focusing future investment in products aligned with positive environmental impacts. On balance, even when we factor future asset obsolescence and profitability risks into our 'bear case' valuations, we still consider the risk/reward to be attractive, and currently hold Anglo American shares. This highlights an investment where there are material ESG risks, the team has engaged with management to promote better outcomes, and when incorporated in our wealth creation and valuation analysis, we still consider the investment case attractive.

Aaron's Inc
Social focus

Aaron's is a US furniture and consumer electronics retailer. Despite operating in a very competitive industry it has delivered relatively strong profit growth historically. However, underpinning this success is a business model that charges high APR interest rates for customers seeking to borrow money to purchase Aaron's products. We found the company's disclosures to be opaque and confusing, which increased the risk that vulnerable customers could misunderstand the lending terms. Although many of Aaron's quantitative financial attributes look attractive, we believe the company's lending practices created additional material social and regulatory risks, which could impact its long-term commercial success. These risks were not reflected in Aaron's valuation, and as a result we decided not to purchase the shares.

“My preference has always been to engage with management for change rather than just sell their shares at any price. For me this is a cornerstone of embedding ESG into an investment process.”

Martin Cholwill,
Senior Fund Manager

Martin Cholwill on ESG in UK equity income

Many elements of ESG have existed for a long time, even before the name was conjured up. When reflecting on how ESG is embedded in the equity income process, I have always included a number of elements that would now be labelled ‘ESG’ and will continue to do so. My focus at all times is trying to achieve the best possible longer term risk adjusted returns for our clients.

Governance

Governance is a good example of something that I have always focused on. I attach great importance to management teams within companies, as well as appropriate board structures that provide robust challenge to the executive team. Good governance is no guarantee of success, but poor governance often leads to poor outcomes for shareholders. I have always tried to avoid investing in companies that are run by mistrustful management teams, ones who have criminal records (yes, they do exist!), those that are not aligned with shareholders, or where there is a material conflict of interest. This is partly subjective as well as being evidence based.

In my experience, the use of creative accounting has always been an issue for investors, as well as management misleading through omission, all using perfectly legal accounting techniques. Good governance significantly reduces the risk of poor shareholder outcomes in my opinion. Because of the element of subjectivity in all of this, meeting company management teams on a regular basis has always been very important to me. Talking about strategy with management inevitably draws out ESG issues.

Environmental

I have always been aware of environmental issues. This is not for altruistic reasons, but because it matters to shareholder returns. I avoided British Energy, when it was a quoted company, because of decommissioning costs being underestimated and not fully understood by the market. I saw early in my career how asbestos liabilities took down a number of very large companies, e.g. Cape Industries and Scapa. Companies potentially face large liabilities and government regulation on environmental issues and this can seriously damage shareholder wealth.

I don’t simply avoid all companies that have potential environmental challenges; I merely need to gain comfort that the risks are fully factored into share prices. Strong balance sheets can be an important consideration for me here. I am also of the view that governments will increasingly focus on the longer term cost of environmental damage caused by companies and making them pay appropriate restitution when it happens, which will be increasingly expensive for shareholders.

Social

Social issues are important to me when they might impact shareholder returns, but I do not take a moral stance or project my own political views when constructing portfolios. In the UK, democratically elected governments pass laws to regulate and control markets, and I take the view that as long as companies follow the law and are ahead of the curve in understanding what might be around the corner, then that is enough for me. Most companies understand how the rules affect them and will always lobby politicians for change, when they think it necessary.

As an example of how social issues have been reflected in stock selection, I have always been wary of pay day lenders and pawnbrokers, such as Wonga, because the usury APRs charged to customers would eventually catch the eyes of government and the regulator. There is an easy read across to the likes of Provident Financial, with their high APRs, and it has felt appropriate in recent years to avoid these stocks on the grounds of current and future regulatory risk concerns. Poor corporate behaviour on the social front often costs shareholders dear. This recently happened with certain house builders selling new homes with poor build quality, as well as charging high and fast escalating ground rents. Fresh legislation was duly passed and the restitution bill for these housebuilders has been large.

I do not take a moral stance on overseas laws and customs directly, but I am mindful of the potential impact should a UK company be caught out using an overseas supplier who employs dubious labour practices. Bad publicity can quickly lead to negative social media campaigns and customer boycotts that would seriously damage a brand and shareholder interests. Good management will always be aware of this sort of angle and have appropriate policies and practices in place.

Best possible risk adjusted returns

My preference has always been to engage with management for change rather than just sell their shares at any price. For me this is a cornerstone of embedding ESG into an investment process. However, I am also realistic enough to know that engagement often doesn't work.

It is probably also worth briefly touching on what the fund is not. There is no positive screening of stocks for inclusion in the portfolio and there is no restrictive investment list. This is not a sustainable fund. I have always tried to avoid rules-based investment decisions, as judgement and pragmatism are key attributes for success in my opinion. I believe the job of a fund manager is to see and understand the political and regulatory environment in which companies operate and construct portfolios accordingly. For me, ESG is not about compromising on investment returns.

Capitalism is evolving

It could be argued that ESG has moved from the fringes of the investment world to the mainstream in recent years, in part as an additional framework for systematically thinking about risk and how it manifests itself. Over the next few years, I expect many UK quoted companies will come up with their own ESG mission statement, including targets for achieving net zero carbon emissions. Companies need the time and space to adjust their business models and many industries will need an element of purchasing carbon offsets to meet these objectives.

Successful companies periodically reinvent themselves. Christian Salvesen was originally a whaling company before reinventing itself as a logistics company. There is a need to avoid being overly simplistic about the issue of climate change; UK companies divesting coal assets cheaply to the Chinese does nothing to address climate change, as the coal will continue to be consumed, just in a different part of the world. It is surely far better to make clean energy that is cheaper than coal without subsidy, through research and investment in new technologies, so that coal becomes just straightforward uneconomic and obsolete.

Conclusion

In conclusion, the UK Equity Income fund process has had an ESG awareness embedded within it for many years. It is one of the reasons why I have always put a high level of importance on meeting management teams on a regular basis, as these issues are often nuanced. A deep understand of individual companies helps to contextualise the ESG challenges that companies face in determining strategy and putting in place appropriate ESG policies and practices.

UK Equity Alpha

In the UK Equity Alpha team, we invest mainly in small and mid cap UK companies. Our focus at all times is trying to achieve the best possible longer-term risk adjusted returns for our clients.

In thinking about ESG, our objective is not to exclude stocks from our potential universe, but to think about how some of these factors might influence our investment thesis and contribute to the ultimate success or failure of an investment. In the small and mid cap universe this is complicated by the nature of the companies we invest in, which are often less mature, more entrepreneurial, have smaller cost infrastructures and a higher cost of capital.

Many such companies might not score highly on traditional ESG measures, but they may be on a path to improving their credentials. We believe that as responsible investors, we can help influence and shape their consideration of such factors as they grow.

We acknowledge that companies which thoughtfully consider issues including board representation, remuneration structures, supply chain efficiency, the working environment and other ESG factors can, in some cases, create greater and more sustainable growth.

Environmental considerations

In the small and mid cap universe, some of the traditional polluters are less prevalent. The index weighting towards oil & gas and mining sectors is approximately 5% (much lower than the FTSE 100 index). This fact, combined with our investment strategy and process that avoids certain high risk jurisdictions, poor corporate governance, capital intensive business models and loss making companies, means that we have always been underweight oil, gas and mining stocks. For these reasons, we have tended to avoid investing in these sectors almost completely.

For the UK Opportunities Fund, historically there have been holdings in both the oil and gas and mining sectors. The FTSE 100 companies the fund invests in, such as BP, Royal Dutch Shell and Rio Tinto, have publicly acknowledged there is more to do in terms of moving towards net zero carbon emissions for example. While this may take many years to achieve, they are typically at the forefront of changing behaviours within their industries, and we work with the Responsible Investment team to engage with company management to encourage further change. Remuneration packages are also beginning to be tied to the achievement of environmental targets.

However, we believe that these companies should not necessarily be excluded from our investment universe on the basis of environmental concerns alone. They ought to, however, demonstrate a consideration of the long-term environmental impacts of their operations, which might be detrimental not only to the environment but could also give rise to decommissioning/clear-up costs, legal and regulatory ramifications. We believe that failure to recognise these issues will likely affect future shareholder value.

Social and employee matters

One factor we consider with every company is employee turnover. Companies who consider the needs of their workers are more likely to retain their talent and thus lower costs associated with re-hiring and re-training. For fast-growing companies in small and mid cap markets, this is essential to ongoing success. Companies that have a positive corporate culture will have an engaged and motivated workforce with more effective lines of communication. Furthermore we believe diversity in the workforce can also lead to better strategic and operational outcomes and ultimately more successful companies. A broader and more varied management team should result in more considered actions and could therefore lead to better customer outcomes.

The importance of governance

The majority of our time, from an ESG perspective, is spent on assessing corporate governance and appropriate remuneration structures. It is also where we have the most transparency in terms of the information that we can access. The Responsible Investment team work closely with us to review and scrutinise the details of upcoming proxy votes, to seek our views on governance or pay changes, and participate in meetings with the non-executives on ESG issues. We attend a large number of these meetings.

Ideally, we try to make sure that there is appropriate challenge to the executive directors on the board and ensure that management are rewarded for delivering and exceeding market forecasts, rather than being rewarded handsomely for failure. When analysing potential remuneration structures, we therefore check the implied targets relative to market forecasts and provide feedback to companies where appropriate.

Engagement, not exclusion

There is no positive screening of stocks for inclusion in the portfolio and there is no restrictive investment list. This is not a sustainable or a labelled ESG fund (in the strictest sense) and we avoid rules-based investment decisions, as judgement and pragmatism are key attributes for success in our opinion. ESG is not about compromising on investment returns; it is about protecting and enhancing them. In this way, ESG awareness is an implicit part of the UK Alpha Equities investment process and we consider ourselves to be responsible investors, taking our stewardship responsibilities very seriously.

We engage with management teams on a regular basis (400-500 times p.a.) as part of our regular financial due diligence, and discuss ESG issues amongst many others. This year we engaged with 31 companies in our Mid Cap and Smaller Companies portfolios on ESG issues specifically. The vast majority of these were on remuneration, or issues related to governance or our vote at the AGM. However we also engaged with companies in our portfolios on succession planning, environment, climate change and health and safety.

Finally, it is worth noting that increasingly UK quoted companies are formulating their own ESG agenda and trying to use it to differentiate themselves from peers. Factors such as traceability, working conditions and recyclable products may allow these companies to ultimately grow by taking market share off their smaller, less dynamic competition. Indeed, customers of these corporates are increasingly demanding that their supply chain consider ESG issues and relevant certifications are becoming the norm.

The following are a few examples of where we have engaged with companies during the year or where ESG considerations have contributed to our investment decision.

> "We want to ensure that there is appropriate challenge to the executive directors on the board and that management are rewarded for delivering and exceeding market forecasts."

Henry Lowson,
Senior Fund Manager

Bodycote

Bodycote is a world leader in specialist heat treatment. Their services improve the properties of metals and metal alloys, typically extending the life of components or strengthening them to allow lighter-weight components. Technologies in material bonding, whether electron beam welding or 3D printing, also allow for more efficient manufacturing with less energy waste and raw material waste. Bodycote's customers are increasingly under pressure to manufacture with less waste and produce goods which are more energy efficient and have longer useful lives. This structural demand provides a greater degree of confidence in the company's ability to grow above long-term GDP trends and deliver attractive returns, one of the key reasons we invest.

A chemicals company

We initially received a remuneration consultation letter in October 2019 from a company in which we have a significant long-term shareholding. The proposal outlined a number of small changes, but included a proposed 'one-off' award over and above that available under the current policy, and was based on the completion of a single transaction. We strongly oppose these types of awards that reward single events and will only support them in very limited circumstances. After many internal conversations between the Responsible Investment team and fund managers, we agreed that the award wasn't appropriate and responded to the company as such. We had a number of calls and email exchanges with the company expressing our serious concerns and debating the terms of the proposed awards. We received a follow-up letter to the consultation where the company had removed the proposed one-off award. Instead there were a small number of changes to the current structure incorporating additional performance metrics, which we were much more comfortable with and provided better alignment with the relevant stakeholders.

Clinigen

An example of a fast growing company, back in 2018 this AIM listed company proposed a very significant increase to the CEO's salary of close to 50%. We abstained on this as we engaged with the company, appreciated the rationale, and did not view the resulting salary as excessive for the size of the company. However a large portion of the shareholder base voted against this.

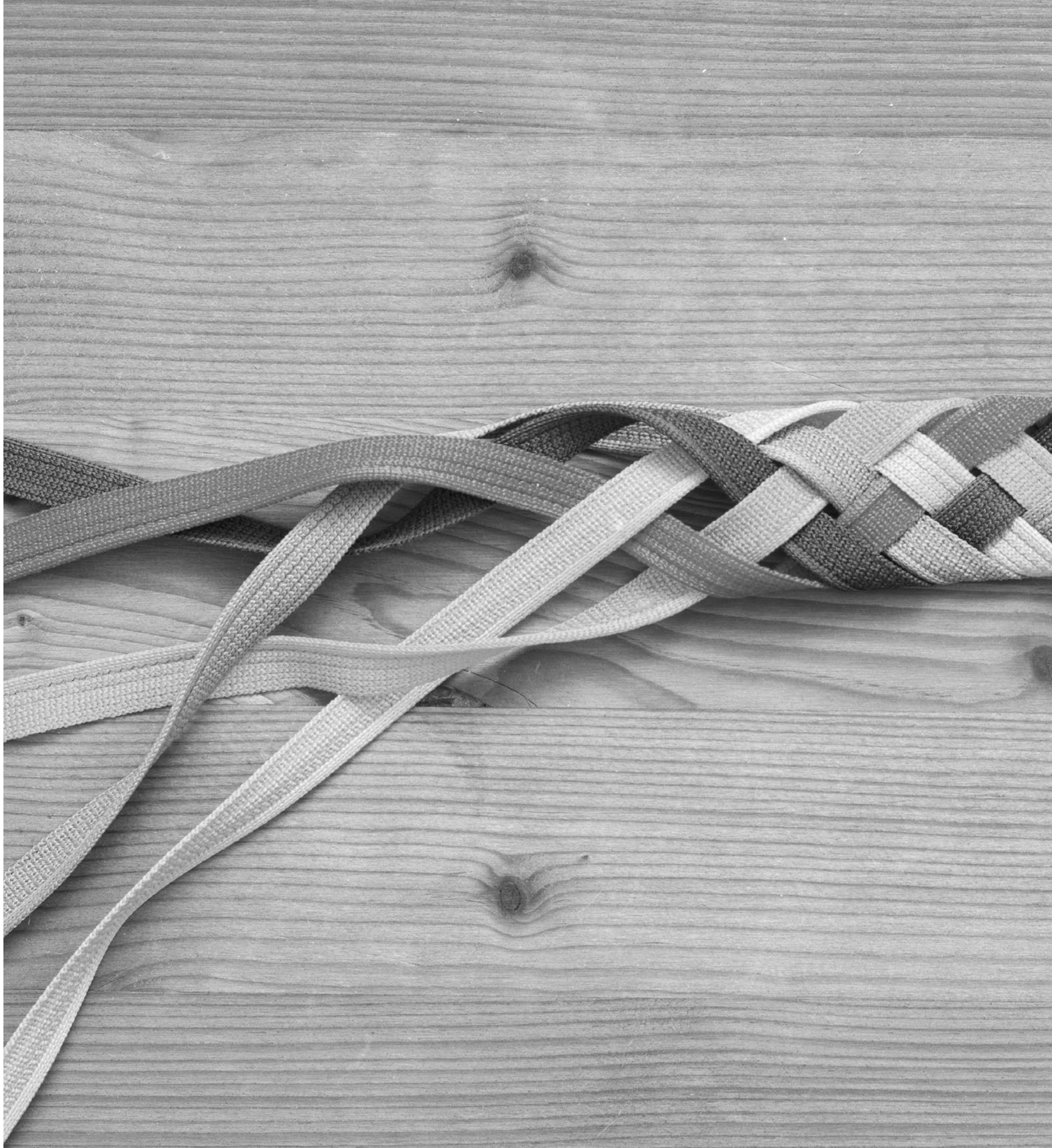
Another potential concern we had was the overboarding of the chairman who serves as chair at a number of companies, all of whom RLAM is invested in. We have kept in close contact with the company during 2019, holding meetings in January and then again in October to discuss these issues. While we are relatively satisfied with the responses from the company and the level of engagement we receive, we are keeping a close eye on developments around the succession process of the board, remuneration structures and associated governance disclosures.

Euromoney

The company's Remuneration Committee contacted shareholders in December to communicate planned changes to the remuneration policy. The LTIP targets were to be changed from earnings per share (EPS) growth to a combination of total shareholder return (TSR) and revenue growth. We did not believe revenue growth was the correct target measure given the company's stated acquisition strategy and were concerned about the behaviours and direction that this new plan could incentivise. The Responsible Investment team and the fund managers jointly engaged with the company's Remuneration Committee and challenged the rationale for the change and whether EPS growth targets could be included in the scheme. At the conclusion of this engagement process we received notification from the company that a compromise had been agreed by the Remuneration Committee to provide equal weighting to the revenue growth and EPS performance measures.

A logistics company

This company at the time of investment had an executive chairman with a substantial shareholding in the company, a not uncommon occurrence in the small & mid cap universe. While we were aware of this at the time of investment and it was flagged as a corporate governance concern, it was felt that this provided direct alignment with shareholders and could be a positive impact on executive decision making. During 2019 however it emerged that the chairman had been involved in numerous related party transactions between the company and other businesses in which he had an interest. We reassessed the governance risk at the company in light of this, which contributed to the decision to sell in late 2019.



> We use ESG analysis to uncover information that credit rating agencies and other market participants may miss, which helps us make better investment decisions for our clients.

Jonathan Platt,
Head of Fixed Income

Fixed income

Our approach to ESG is built off the back of our long-standing investment philosophy which fundamentally believes that credit markets do not accurately price idiosyncratic risk. We use ESG analysis to uncover information that credit rating agencies and other market participants miss, which helps us make better investment decisions for our clients.

We integrate ESG information into our financial analysis, as we see ourselves as long-term lenders of our clients' money rather than short-term traders of bonds. The sustainability of our lending position is therefore critical. We have tailored our approach both to the specifics of fixed income investing, as well as the particular risk characteristics of each sector or issuer. In particular, we identify those sectors where we feel there is most ESG risk and/or limited third party ESG research, and prioritise engagement and analysis on that basis.

Sterling credit

ESG integration in fixed income is less established than in equities and best practice is continually evolving, including how we apply this in our investment grade corporate bond portfolios. Replicating the approach taken by the equity market ignores the fact that in credit markets, we can lend to the same company in many different ways, such as lending to a ring-fenced part of the company or secured over specific assets.

As sterling credit investors, we believe it is hard to effectively outsource the analysis of ESG risks to third parties. As well as the limited scope of equity-based platforms, the apparent simplicity and convenience of an 'ESG score' often fails to capture the vagaries of the real world and the sheer idiosyncrasies of credit. We know this inefficiency well from the role of credit ratings in the market; while broadly helpful, the over-distillation of information into one rating creates distortions that active investors can exploit. The only credible solution in this space is proper, bottom-up research and an investment process that acknowledges the false distinction between credit analysis and ESG analysis.

Our long established credit philosophy is to focus on the sustainability of our issuers' balance sheets given the skewed nature of credit risk and return. We believe that RLAM's core philosophy and considerable experience of corporate bond investing provides an excellent framework for administering a truly bond-centric ESG approach.

Ultimately, effective collaboration between our Responsible Investment and Credit teams is a vital component of our initial and ongoing risk identification, which then allows our Credit team to mitigate and evaluate the credit risk in as informed a manner as possible. Our approach allows each team to feed in to the research process based on their particular expertise and experience; our Responsible Investment team will provide an assessment of the quality and credibility of an issuer's ESG impact, to understand where the risks and opportunities may lie within a business model prior to investment, and follow this up as information changes. Our Credit Research team will then incorporate this analysis into their ongoing assessment of the relative value of the credit, including how the materiality of these factors may be mitigated by our lending position in a company's capital structure and the price we need to be paid for the overall credit risk.

The collaboration between these two teams improves information discovery and dissemination, but getting the right decision-making sequence is key. Ultimately, the final decisions to buy or sell and portfolio positioning are still made by fixed income specialists, given their experience of evaluating and mitigating credit risk.

The future of the UK's gas networks

Climate change risk, both relating to the physical risks to assets and the risks to company business models forms a key part of our engagement strategy with bond issuers. As part of this, in 2019, we undertook a research and engagement project looking into the UK gas network and distribution sector to identify future risks around decarbonisation and decentralisation of energy markets. Whilst current bond pricing and ratings do not differentiate between gas and electricity distribution and transmission issuers, we felt it was right to look at the risks based on changes in government-led climate commitments. Throughout the engagement, we met with a range of gas distribution and transmission companies and the regulator Ofgem, to discuss future strategies around the use of gas in the UK to 2050 and beyond.

As a result of our work on this project, we have reduced our exposure in long-dated bonds issued by gas distribution and transmission companies across our UK sterling credit funds. In doing so, we believe that we have reduced our exposure to any credit downside risk that may occur as a result of a country-level move away from gas use in domestic heating, towards renewable energy and other sources of electricity, without compromising returns or diversification.

Southern Water

In June 2019, Southern Water announced it was fined a record amount and found guilty of not reporting all of its leakage incidents. This incident confirmed some of our conclusions from our updated 2019 research into the water sector (see page 47), which identified Southern Water as having relatively high leakage rates and poor

Paola Binns
Senior Fund Manager

Paola Binns is a Senior Corporate Bond Manager on the Fixed Income team and is responsible for the management of multiple corporate bond portfolios at RLAM. Citywire AAA-rated and winner of the 2018 Alpha Female award, Paola brings over 30 years of experience in bond markets to RLAM. Paola has developed a strong track record across a wide range of bond asset classes. Her experience lends to the validity of our work in assessing the sustainability of our lending position in credit markets. Applying ESG analysis to her funds has long been a part of our approach to the rigorous risk analysis applied to our credit investments.

governance. Fraud investigations were launched, and the company's credit ratings were downgraded.

In response to the incidents and as part of a review of the company for our Sustainable funds, we engaged with Southern Water to understand the root causes of the incidents and oversee the steps taken to improve performance. The company has since removed the individuals that were misreporting information to the regulator, and the company's newly appointed chairman and other key directors have been part of an open dialogue with RLAM about our expectations to promote a more positive corporate culture. We also continue to engage with the company on corporate governance practices, with a view to strengthening independent oversight.

Teesport and Hartlepool Port (THPA)

RLAM owns bonds which are secured against THPA, a pair of key UK logistics assets run by PD Ports. As a privately held company, off-the-shelf third party ESG research here is very limited. Therefore we carried out an in depth ESG review of the port assets during the year.

Our review identified that the company's commercial practices relating to waste management was good and the company was effectively managing its day-to-day environmental risks. Moreover, we were impressed by some of the work which the company had done to assess its climate change risk over a 10 year period, including construction work and new climate adaptation strategies. We also noted that the company was required via regulation to maintain a number of sea defences in its role as the statutory harbour authority (a potential hidden liability).

In our mainstream sterling credit funds, the Credit team concluded any environmental risks would be mitigated by the security over the business (as a whole business securitisation), the protective covenants and the accelerated repayment profile was unlikely to be materially affected by environmental risks relating to the port assets. However for our Sustainable funds, which apply a higher environmental threshold before we invest, the proximity of the assets to a large portion of the UK's chemical industry, the proportion of revenues linked to petrochemicals, along with some coal exposure gave us cause for concern. In addition, a number of THPA's largest corporate customers were oil and gas companies who had already been excluded from our Sustainable universe. As a result, our Sustainable funds did not buy the bonds.

ESG in mortgage backed securities

While ESG analysis for corporate fixed income securities can sometimes be straightforward, applying an ESG approach to financial securitised and securitised bonds can be an interesting challenge. For any new securitised bonds, RLAM's Responsible Investment team examines both the pool of securitised lending assets and the policies and practices of the originators of those loans. In practice, this means that in a Residential Mortgage Backed Security (RMBS) we examine the underlying lending policies and practices of the bank writing the mortgages, including the processes for dealing with arrears and default events. We also consider how this relates to the specific make-up of the pool, such as placing greater scrutiny over a lender's governance and oversight framework if the pool contained a greater proportion of interest-only or high loan-to-value lending.

Similarly, for a Commercial Mortgage Backed Security (CMBS), we consider the ESG performance of the underlying assets. These assets can vary from city office buildings to retail parks or industrial units. We also now regularly engage with new issuers prior to investing to understand how they are managing their environmental impact. In particular we are interested to understand how they are preparing their assets to cope with climate change. We are also encouraged that certain issuers are now building explicit ESG related covenants (such as on cladding on student and hotel properties) into bond documentation. Our Credit Research team are experts at understanding the strength of these covenants and whether they can protect our clients' capital against potential risks or minimize financial losses in the case of a default.

Go with the flow: does ESG matter when investing in water?

Water is, by its very nature, everywhere. Even in investor portfolios. As a result, we believe that if any sector was an obvious candidate for ESG analysis, it is water.

For a bond investor, the risk of a borrower deteriorating after funds have been lent is crucial to understand. In the context of the heavily regulated UK water sector, it is valid to ask whether ESG analysis matters. Our view is that if you are not looking at ESG issues when assessing credit risk, you are not assessing credit risk properly. You are simply ignoring valid risks that can cause borrowers to deteriorate.

Southern Water was the most high profile example of this occurring in practice. In 2019 it was hit with a record £126m fine for spilling wastewater from its sewage plants and for deliberately misreporting leakage performance. As a result of the fines, Moody's and S&P downgraded their credit ratings, potentially making it harder or more expensive for the company to borrow money.

As Southern Water shows us, even in a highly regulated market, there is opportunity to differentiate between companies and across capital structures. We evaluate the water sector using the Sustainability Accounting Standards Board's 'Materiality Map' for guidance, and supplement it with metrics that are more significant for the UK market. This led us to look at a number of areas:

- Energy management
- Climate scenario analysis
- Water scarcity strategy
- Water stress
- Environmental performance
- Leakage
- Access and Affordability
- Customer satisfaction
- Governance

In 2019, we updated our 2018 research on the UK's regulated water utilities. We found a significant variation between companies' ESG scores, which has helped us differentiate between a relatively homogenous set of fixed interest bonds. Leakage is the ESG factor with the most direct link to short-term company performance, as leakage fines directly impact performance through the regulatory framework. Governance and metering on the other hand are good leading indicators of a company's overall ESG performance. Effective ESG management can also bolster a water company's social licence to operate, which is critical for a sector under significant public and political scrutiny.

Overall, the conclusions from our research, gave us an opportunity to identify where we believe risk is being priced incorrectly and which companies are most attractive from a long-term investor perspective. This helps us avoid any unidentified downside risk. It's a good example of stewardship in action.

You can read more about our approach to ESG integration in sterling credit on page 44.

Global credit and high yield

We believe consideration of ESG risks ensures strong corporate citizenship and integrity, and provides longer term sustainability of cash flows from the companies in which we invest. Governance, in particular, is a key part of rigorous fundamental credit analysis in the Global Credit team. Two core principles guide the incorporation of ESG factors into Global Credit and High Yield investment.

Engagement, not avoidance

Our preference is to engage with companies with poorer ESG practices. We don't use exclusions because they tend to avoid weaker ESG-ranked companies, often with no consideration of the financial trade-off. Collaboration with the Responsible Investment team and credit analysts enhances information discovery and analysis, and supplements third party data where quality and coverage of data is often low.

Rigorous financial impact assessment

ESG analysis provides us with an additional perspective on our traditional credit analysis. We recognise that governance issues may pose the greatest near-term financial risk to companies in high yield markets, while environmental and social issues may have longer-term regulatory impacts.

Our rigorous credit research process leads to an overall internal rating score which incorporates nine fundamental factors (e.g. free cash flow, growth prospects, etc). As one of our nine factors, ESG issues can move the rating in our internal model up or down one notch. We work closely with the Responsible Investment team to investigate and understand any significant ESG risks, but the final investment decision resides with the fund manager and takes into account relative valuation.

AkerBP

During the year RLAM's Responsible Investment team carried out a deep dive into the environmental and governance attributes of a number of high yield issuers whose core business line is the exploration and production of oil and gas. As a sector under significant scrutiny due to climate change risks and legacy health and safety issues, we felt further analysis would help us understand which companies were leaders and which were laggards so we could consider this when investing.

Despite operating in the oil sector, AkerBP is a leader in terms of mitigating its own environmental impact. The company has already set specific emissions targets from its own operations per barrel of oil equivalent, and is currently setting absolute CO_2 emission reduction targets, making it a leader in this space. Work on electrification of new drilling rigs will further help to mitigate the company's operational emissions. Oil spills to the sea were low in recent years, and the company has received no recent fines. The company has also set and published market-leading policies on hazardous materials, waste and chemicals to limit harm to biodiversity, as well as on safety management. Although our detailed ESG analysis identified a few concerns regarding corporate governance, we didn't feel this was material to the investment case and therefore we continued to hold the company's bonds in 2019.

Geo Group

A core part of Geo Group's business model is the operation of US private prisons and immigration centres. Our Responsible Investment team was initially tasked with assessing the social and reputational risks surrounding the company given its high profile business. What we found at both Geo's US and UK operations confirmed our initial suspicions. While US media coverage had focused on the separation of children from their parents during recent immigration crack-downs, we also found evidence of concerning practices with regard to immigrant detainee wages, and further concerns about corporate governance.

In particular we were concerned about the number of family members of the CEO in senior roles within the business. Other concerns included the granting of discretionary performance awards, consultancy relationships with board members and an unusual 'blank check' preferred stock provision which had the potential to significantly change the level of control management could exert over the company.

Therefore, in light of the ESG risks identified, the Global Credit team decided that Geo Group was not suitable for investment.

Cash and government bonds

Although effective integration of ESG factors in the government bond market is still in its infancy relative to other bond markets, we do use our position to engage with issuers. For example, we have regular contact with senior figures at the Debt Management Office (DMO) for the UK government. In addition, we hold occasional one-to-one meetings with representatives from other DMO entities for countries including Australia, New Zealand, Canada and Sweden to discuss our thoughts and raise potential issues surrounding these markets.

We are also increasingly considering ESG factors when evaluating our exposure to financial counterparties, and will be further developing our thinking on this in 2020. Applying high standards of corporate governance to banks aligns closely with the interests of clients. For example, we have concerns about Chinese banks as many are ultimately owned and controlled by the Chinese government, which is less transparent and investor-friendly than other ownership and regulatory regimes. While we do lend to Chinese banks, we restrict the maturity and hold much smaller percentages than similarly rated financial institutions.

Within our Cash fund range, there is significant client demand to exclude certain sectors from our investment universe. We therefore apply a number of exclusions as standard, and now exclude companies which generate over 10% of their turnover from one or more of armaments, tobacco and fossil fuel extraction.

Westpac Banking Corporation

In November 2019, regulators took action against Westpac Banking Corporation for an alleged 23 million breaches of counter-terrorism financing and money-laundering laws. Most of the offences concerned the late reporting of overseas transactions, but the Australian Transaction Reports and Analysis Centre (Austrac) said some of the transactions were also potentially linked to "child exploitation risks".

As one of the financial counterparties our Cash team invests with, we felt it was prudent to engage with the company, to see what action had been taken and to explore whether we were confident enough to continue investing with them. The engagement took the form of a meeting and was attended by both a Responsible Investment Specialist and one of RLAM's senior cash fund managers.

Since our engagement with Westpac, we are better informed on the measures the company has adopted to rectify historic breaches and prevent future occurrences. Reassuring measures include, but are not limited to, the setting-up of a Financial Crime Committee within the bank and a commitment to doubling the number of employees working in the area of the business associated with the incident, the CEO also resigned from his role soon after the breaches came to light. As a result of these measures and our discussions, we felt comfortable maintaining our holdings in the bank; however we agreed not to increase our exposure beyond short-term holdings (up to 6 months) until more action had been taken and positive changes could be witnessed in action.

"It's our duty as an owner to reduce the impact our properties have on the environment, and so we are assessing the active role we play in the journey towards net zero carbon."

Tim Coffin, Responsible Property Investment Manager

Property

The Intergovernmental Panel on Climate Change (IPCC) has declared a climate crisis and that we must limit global warming to reduce the risks associated with long-lasting or irreversible changes to the earth's atmosphere and ecosystems. To achieve this, global net human caused emissions of carbon dioxide would need to reach net zero carbon by 2050.

We aspire to be a leader and have developed a Responsible Property Investment strategy which enables us to achieve this. This includes targets and objectives, procedures, and the monitoring of progress to ensure we maintain a programme of continual improvement. This applies throughout our acquisitions, developments and management of commercial and mixed use real estate assets in the UK.

Our approach

As at December 2019, we managed 260 properties in the UK with a value of £7.5bn. We are committed to being a responsible and sustainable investor and manager, and strive to minimise the impact our properties have upon the environment.

In recognition of the global climate crisis we acknowledge that buildings will have to be net zero carbon by 2050, if not before. We are currently assessing the impact of making this commitment which would include the development of a net zero carbon plan.

Property management

Our Property Management team supports us by playing an integral role in supporting our Responsible Property Investment programme. This includes engaging with our tenants on environmental issues and running our buildings efficiently.

We respond annually to benchmarks including:

- Global Real Estate Sustainability Benchmark (GRESB). This has become widely recognised as a measure of sustainability performance. Environmental, social and governance (ESG) performance is assessed against seven sustainability aspects, including information on performance indicators, such as energy, carbon emissions, water and waste. In our most recent assessment (September 2019) we received green star awards for each of our property funds.
- United Nations PRI. 'Property' received an overall A rating in 2019.

We are now active members participating and contributing to the Better Buildings Partnership (BBP), the UK Green Building Council (UK GBC), the British Property Federation (BPF) and the Investment Property Forum (IPF) Sustainability Interest Group.

In 2019 we complied with the Energy Savings Opportunity Scheme (ESOS) and the Heat Network Regulations. In 2020 we will need to comply with the Streamlined Energy & Carbon Reporting (SECR) scheme, this superseded the Carbon Reduction Commitment (CRC).

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.

In 2019 we received Green Apple awards for a community regeneration project and two wildlife habitat and planting schemes.

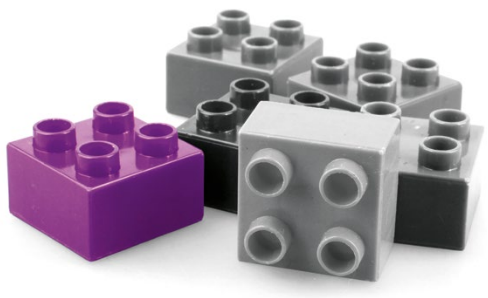
Property development

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

In 2019 we continued the construction of 90,000 sq ft of offices and a 200-bed hotel in Bristol, and achieved Practical Completion of a 45,000 sq ft office refurbishment in Hammersmith, West London. Following receipt of planning permission in 2018, we have now commenced demolition in preparation for a significant (250,000 sq ft) mixed use development in London's West End comprising offices, shops and restaurants. We plan to begin the new build construction in Q4 2020.

For our new and future property development activities, we aim to achieve ratings of 'Excellent' for all new office building developments under Building Research Establishment Environmental Assessment Method (BREEAM) 2018 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 A for new developments or B 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.



2019 highlights

BREEAM **Very Good rating** (design stage) achieved for our refurbishments at 200 Hammersmith Road and The Carbon Building in Reading. **EPC ratings received** of C and B respectively.

BREEAM **Excellent rating** (design stage) expected for our new office building in Woking.

BREEAM **Excellent rating** targeted for our 90,000 sq ft office and 200-bed hotel developments in Bristol.

All construction sites achieved a **score of 37 or higher** for the **Considerate Contractors Scheme**.

At least **98%** of construction waste was **diverted from landfill** at refurbishment sites.

Bristol

A 90,000 sq ft office development is currently under construction and due for completion in Q3 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.

London

200 Hammersmith Road is a 45,000 sq ft office refurbishment that completed in Q2 2019. A significant portion of the building services plant and equipment has been replaced with modern, more efficient equivalents. The completed project has achieved a BREEAM Very Good rating at the design stage, and an EPC rating of C. The building has 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 has commenced demolition of the existing building 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. 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 it suitable for modern retailers. All four units are pre-let to suit the retailer's specific requirements. The scheme will achieve a BREEAM Very Good rating and we will work with the retail tenants to ensure their outfitting work 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.

Woking

Woking is a speculative new build office development over seven storeys delivering 85,716 sq ft of flexible floor space. The development completed in 2019 and has achieved an EPC of A and a design stage BREEAM certificate of Excellent. The scheme includes a number of amenities in order to improve occupant satisfaction such as green roof space, cyclist facilities and electric car charging points. A 42% reduction in water use was also achieved as well as all timber being from sustainable sources.

Multi asset

Our multi asset funds serve a range of clients and are the backbone of our Group parents' workplace pension proposition. Many of our clients invest with us to take advantage of our active tactical asset allocation (TAA) investment process, which makes tactical choices about where we allocate capital depending on various economic and financial factors. The Multi Asset team does this by applying a systematic framework for allocating to various asset classes and regions, with investment decisions informed by a range of quantitative models. Our strategy aims to provide excellent long-term value to our clients by taking advantage of low cost investing options, such as passive equity funds and futures overlays.

Asset allocation rather than stock selection is the main driver of our multi asset proposition, and therefore ESG integration is achieved through investing in RLAM's range of active and passive funds. The fixed income portion of our multi asset proposition is invested in RLAM's active fixed income funds where ESG is integrated through targeted credit analysis, and is reviewed regularly by the Responsible Investment and Credit teams. The equity portion of our multi asset funds is predominantly invested in passive tracker funds, including our Emerging Markets ESG Leader Tracker fund, which tracks an ESG benchmark. As described in detail in this report, RLAM takes an active approach to voting and engagement, and clients that are invested with us through our multi asset propositions benefit from our efforts to improve outcomes for customers by reducing ESG risks and encouraging improved behaviour by companies.

We are currently investigating how we can consider ESG factors when investing in derivatives such as futures contracts. Product development in this space is in its infancy and we will continue to seek opportunities that allow us to further integrate ESG into our multi asset portfolios while delivering great customer value.

Private equity

RLAM's involvement in private equity is purely as a Limited Partner (LP). ESG issues often have both greater impact, and offer more opportunity for direct management, while under private ownership. Private equity holding periods are longer than average public equity holdings, and the level of ownership by the general partner as a majority shareholder is enough to give it special rights and influence. Formal ESG policies are increasingly an inherent part of our private equity managers' operations both at the management company and portfolio company level.

We have reviewed our existing private equity relationships for any risk outliers. As part of RLAM's due diligence in deciding whether to commit to a new fund, we will review the adequacy of the general partner's ESG policy and its resourcing to execute on the policy.

External managers

The vast majority of our assets are managed internally. In the rare instances where we outsource investment management to a third party we consider whether bidding parties meet a high minimum standard on integrating a responsible investment approach. Our requirements regarding responsible investment and ESG are made clear in the Investment Management Agreement and the manager must report to us regularly on implementation.

Disclosure and transparency

Reporting our progress

In keeping with our corporate values, we are committed to being transparent and open about our approach to stewardship and responsible investment. We regularly disclose our voting and company engagement activity via publications such as this Stewardship and Responsible Investment report, "Responsibility Matters"[15] and on our website[16] through blog posts, articles and press comments.

Our Proxy Voting Policies[17] are reviewed annually by the RLAM Investment Committee and published on our website. We have a comprehensive online database[18] disclosing our proxy votes monthly in arrears, explaining where we vote against management or abstain

Our clients receive quarterly reports which provide details on how we have implemented responsible investment and stewardship within their fund. These reports may include voting data, engagement examples and case studies, and investment commentary highlighting how ESG considerations were factored into investment decisions in the quarter. We also regularly meet to discuss ESG issues with clients, and we make our investment staff and Responsible Investment team available to provide their expert insights.

In addition, we disclose our annual PRI Assessment results on our website.

We are happy to respond to any specific requests for information on our stewardship and responsible investment activities.

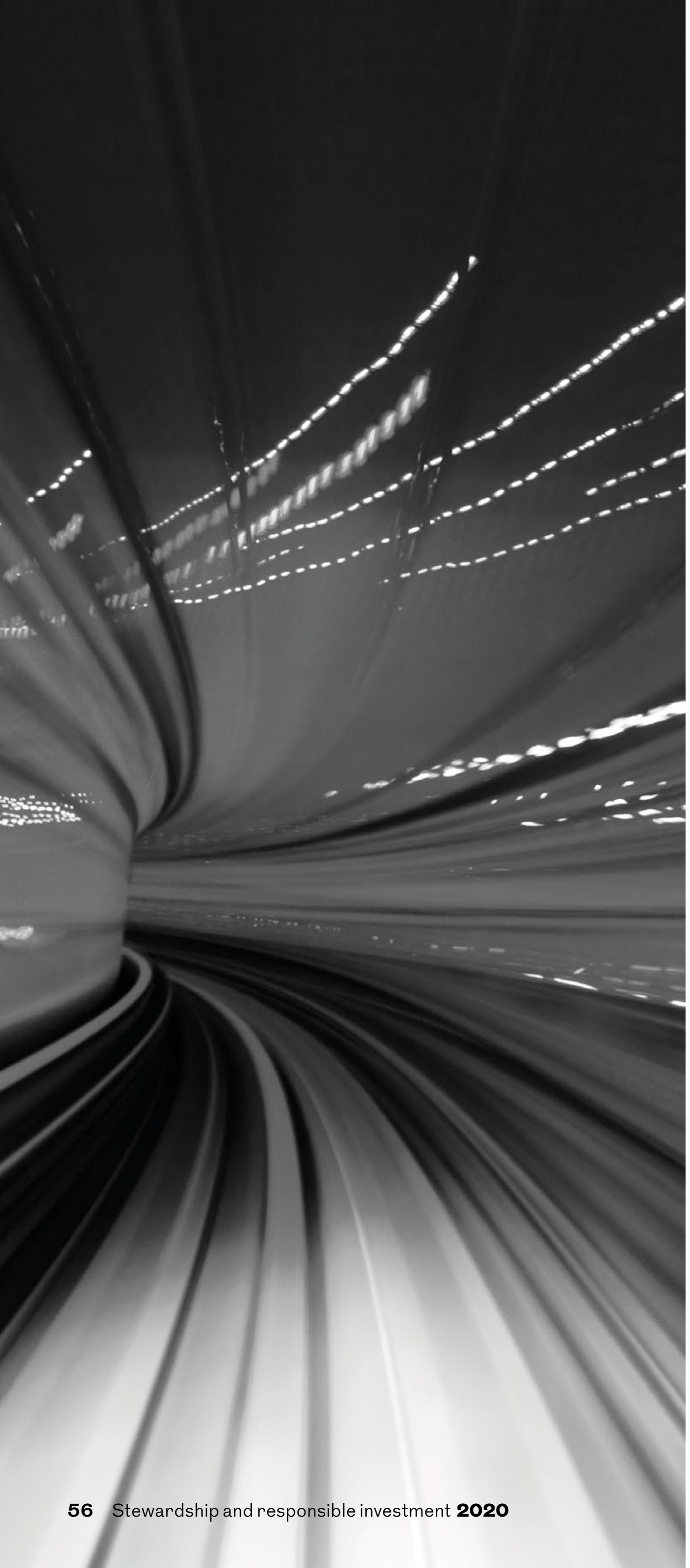
Review and assurance

RLAM's Investment Committee, Executive Committee and Board reviewed and approved this Stewardship and Responsible Investment Report in April 2020. In doing so, they consider the report to provide a fair and balanced view of our approach to stewardship and responsible investment.

Our Board has also considered whether our stewardship activities are effective and where we can make improvements. As mentioned above, RLAM is working closely with our parent, Royal London Group, to make a significant investment in improving the scope, depth and quality of our stewardship and responsible investment activities in 2020. We believe this will result in RLAM being able to deliver better company engagement on a wider variety of topics and improved engagement outcomes. We have hired more staff in 2019 to help expand our proxy voting to cover our global passive funds, and we are working with our investment teams to deliver more consistent ESG integration across our funds.

The external auditors regularly review our procedures and controls as part of our Audit and Assurance Faculty (AAF) Control review to ensure we are meeting the standards we have agreed with our clients. The external auditors last completed an AAF Control review in March 2020.

Outside of the AAF, we do not seek specific external assurance for our stewardship activities. We do however have internal controls in place to ensure we follow our own procedures and policies, in particular regarding Proxy Voting, Conflicts of Interest, Personal Account Dealing, Execution and Allocation, and Gifts and Benefits. These policies and procedures are monitored by the Risk and Compliance team and periodically subject to review by Internal Audit.



What's next? Our plans for the future

RLAM has been working closely with our Group parent, Royal London, on a project to invest in and significantly expand our capacity and resources to support our approach to stewardship and responsible investment. In 2020, the budget allocated to responsible investment activities is set to quadruple. Our ambition is to build on our strong foundations to become 'advanced' in responsible investment by the end of 2020. This means expanding our voting to cover all global passive equity funds, investing in new technology and data to facilitate ESG integration, and increasing the scope and depth of our company engagement activity.

As part of this project, we hired seven additional people in 2019 with expertise in governance, climate risk, corporate sustainability consulting, responsible property investing, quantitative modelling, and marketing. The new roles were allocated to the Responsible Investment, Passive Equities, and Property teams.

As responsible investing goes mainstream, we have a significant opportunity to take advantage of this rapid change and uncertainty in our marketplace. We believe that active management, combined with good quality, in-depth company research and ESG analysis is the best strategy for creating good financial outcomes for our clients. The move towards passive funds and downward pressure on fees, combined with the explosion in new sources of ESG data, creates an interesting market opportunity to explore. Our vision is to develop proprietary active ESG tilting and 'Smart Alpha' investment solutions that meet client financial and ESG needs, while taking advantage of our in-house active management, ESG analysis and stewardship capabilities. We have hired two quantitative analysts into our Passive Equity team, and will have more to report on our progress next year.

MORE ABOUT US

In this section, we provide more detail about our business and the important factors that support us in being good stewards of our clients' capital and that help us deliver good customer outcomes. Our culture and values underpin everything we do at Royal London, and as a mutual, they support our core purpose which is to deliver great financial outcomes for our clients, many of whom are also members of the mutual. This is reinforced by our governance structure, strong policies on managing conflicts of interest and insider information, a commitment to be transparent and honest about our progress, and a desire to make continual improvements through training and performance management.

Our culture and values

Our values are a reflection of the culture we are cultivating internally. Our aim is to deliver a great experience for our people, members and customers where our shared values shine through. These shared values are described through the Spirit of Royal London, our culture.

We are empowered
We enable, challenge, support, we are responsible

We are trustworthy
We are reliable, open, we build relationships

We achieve
We deliver, we improve, we celebrate success

We collaborate
We learn, enjoy, we are a team

At RLAM, we recognise the importance of creating an inclusive culture. Across RLAM and the Royal London Group, we have designed a people strategy that we believe will help our people perform at their best, a strategy we are confident will contribute to us achieving our collective vision to become the most trusted and recommended life assurance, pensions and investment provider.

Our people strategy

Our people commitments

Gender pay gap

In March 2020, Royal London Group published our updated gender pay gap figures for the Group. RLAM's mean pay gap improved between 2017 and 2019 moving from 49.8% to 45.6%. RLAM's mean bonus gap also improved significantly from 63.9% to 54.8% over two years. However our median pay and bonus gaps widened slightly during this same period. The main cause of our pay gap is having more men than women in senior roles, as is common in many organisations, especially in the finance sector. Our commitment to the Women in Finance Charter, enhanced family-friendly policies and a thriving new Women's Network are all actions we've taken to help this situation. We have also been working with industry peers and colleagues to find better ways to improve the number of women starting and continuing careers in asset management, so RLAM can continue to be a diverse and dynamic place to work and so we can continue to attract great talent.

Mean pay gap
45.6%
(2018: 44.5%)

Median pay gap
49.5%
(2018: 47.9%)

Mean bonus gap
54.8%
(2018: 67.8%)

Median bonus gap
80.2%
(2018: 80.6%)

You can read the full report on our website[19].

Employee engagement survey

To measure how well we are meeting our people commitments, we conduct an annual survey that addresses the following areas; performance, feeling valued, customer centricity and health and wellbeing.

Our 2019 results for our front office staff were as follows:

79% employee engagement

79% customer centricity

Diversity networks

Royal London Women's Network

Royal London Pride Network

Royal London Black and Minority Ethnic (BAME) Network

Workplace initiatives

Eco champions

Mental health first aiders

Employee Engagement committee

How we are governed

We are regulated by the FCA and comply with the SMCR. Our Chief Investment Officer is a regulated Senior Management Function (SMF) and is accountable for our Responsible Investment function. He is a member of RLAM's Executive Committee and chairs the Investment Committee.

The Chief Investment Officer is supported by the Investment Committee which meets monthly to discuss investment issues. The Head of Responsible Investment attends these meetings and presents papers for discussion.

Our Stewardship and Responsible Investment Statement is signed off annually by the RLAM Board. Our proxy voting policies are approved annually by the RLAM Investment Committee, and our policies and practices around voting are subject to AAF controls and are reviewed by our external auditors on an annual basis (see Assurance section).

Supporting our clients' needs

Our clients will naturally have different needs and time horizons, and our investment strategies are aimed at supporting these; whether it is for meeting shorter-term cash requirements, such as for universities or charities, or for very long-term requirements like saving for retirement. We offer a variety of investment options to our clients and engage with them to help them find the proposition that best meets their requirements. However, we fundamentally see ourselves as long-term investors and we look for ways to enhance our clients' capital over the long-term.

Royal London Group

Our largest client is our parent company, Royal London Mutual Insurance Society (RLMIS). We manage approximately £94.4bn of assets for RLMIS and work closely with our colleagues in the Group Investment Office to ensure our investment strategy and responsible investment activities meet their needs. As discussed throughout this report, we have been working very closely with Royal London Group throughout the year on stewardship and responsible investment. You can read more about Royal London Group, its investment strategy and governance in our Annual Report, which is available on our website.

All of our other clients are split into two segments; institutional and wholesale.

Institutional

We manage £25bn in assets for approximately 250 external institutional clients. These include local authorities, charities, universities, corporate pension schemes, and insurance companies. The vast majority of these clients are UK-based, with only 4-5 clients located outside the UK.

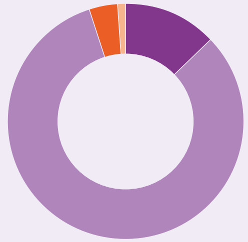
We work closely with our institutional clients to understand their stewardship and responsible investing preferences and to ensure our propositions are aligned with the needs of their underlying beneficiaries. Our Responsible Investment team is available to help answer client questions and address any specific stewardship, ESG or exclusion requirements. We have seen a significant increase in the number of clients engaging with us on responsible investment issues, which we have used as an opportunity to review and further refine our approach.

Wholesale

We manage approximately £16bn in assets for wholesale clients. Again, these clients are predominantly based in the UK.

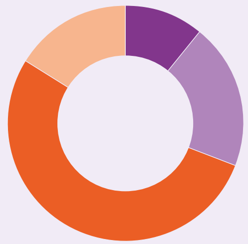
All of our clients through the wholesale channel are advised, meaning they come to us through a professional financial advisor or a discretionary fund manager. Once a client is invested with us, we ensure their assets are managed in line with their goals and expectations through ongoing due diligence responses, update meetings, and access to fund managers and responsible investment staff. Knowledge and awareness of responsible investing is arguably less mature in the Wholesale market than in the Institutional market, and we spend a lot of time working with clients to enhance their knowledge on these topics. We have held numerous webinars and videos through Bright Talk, and have sponsored educational sessions on Asset TV, where clients can gain professional development credits for listening in.

Institutional AUM split



- Cash **13%**
- Fixed income **82%**
- Equity **4%**
- Multi asset **1%**
- Property **0%**

Wholesale AUM split



- Cash **11%**
- Equity **20%**
- Fixed income **53%**
- Multi asset **16%**
- Property **0%**

Product development

We have a structured product development process which we use to bring new solutions to the market. The first stage of this is to complete an idea proposal, for which target market and client needs are among the key requirements. Target market and client needs, along with the business case are at the core of the product design phase. During this phase, heads of investments desks, distribution teams and marketing challenge the investment philosophy, drawing on direct client experience and interaction. It is this process that helps to shape an idea into a viable proposition that addresses a client need. Once the concept is defined, we undertake direct client testing conducted through our existing client base. Where we may introduce a product offering very different from our current product suite, we seek to target and engage with potential clients on the concept and materials that will support the potential launch.

Whilst the above is all conducted prior to a launch, it is equally important to ensure that the product continues to meet the needs of clients once it is available to the market. We undertake a substantial review after the first year of a product launch. More broadly, we conduct annual reviews on all funds. In compiling the annual review, we consider any feedback we have received from clients and distributors; sales numbers, client types and investment performance are amongst other metrics. Furthermore, we are about to embark on the production of our first Assessment of Value report – a requirement that came out of the FCA's Asset Management Market Study, whereby the RLAM Board is asked to act on behalf of clients to ensure that products provide value for money. The Board will review our service, pricing and value added benefits and make recommendations on where we can improve customer outcomes.

Through the annual reviews and the assessment of value, we continue to challenge ourselves internally and invite our clients to do the same. Given the competitiveness of the market we recognise that to retain our client base we must ensure we are continually meeting the needs of our clients by developing and evolving our products to deliver expectations.

Performance management and reward

As we are a member owned business, we have a natural alignment with our clients. We aren't seeking to maximise quarterly returns to shareholders, but rather are focused on building our business in the best long-term interests of our members. Remuneration for our people, including fund managers and analysts, is intimately tied to our successful delivery of better outcomes for our customers through a scorecard approach to bonus delivery, which considers a wide range of metrics. The continued development of RLAM's responsible investment strategy is a key pillar of our strategic vision for 2025. As such, our progress on responsible investment is tracked through the RLAM Business Scorecard. This has a direct link to the calculation of discretionary bonuses for all staff, dependant on year-end outcome.

We evaluate our people's performance on both 'what' they deliver as well as 'how' they deliver it – paying particular focus to how they deliver good customer outcomes and demonstrate the Royal London values. Remuneration plans for our investment specialists and the wider senior population are tied to the long-term financial performance of our funds. RLAM's remuneration is structured in a way that incentivises our people to deliver the best outcomes for our customers over the short- and long-term without taking excessive risk to do so.

Training and education

Our investment teams receive a mix of practical on-the-job and formal training on stewardship and responsible investment. Daily engagement and interaction between our investment teams and ESG specialists provides ongoing practical training for fund managers and credit analysts on what types of ESG issues to look out for and what questions to ask management. In addition we undertake regular ESG portfolio reviews with a number of our investment teams, which provide a formal opportunity to sit down and highlight specific ESG risks or opportunities within the investment fund and have a discussion about the relative risk to the fund from a financial perspective. Finally, we undertake other formal training sessions, such as workshops, with our specialist research providers, or internal training conducted by our Responsible Investment team.

Risk management and monitoring

RLAM employs a decentralised risk management model under which risk management framework is integrated into our business processes. We have a clear and well-documented organisational accountability covering the Board, committees, functions and individuals which are laid out in terms of reference for the Board and committees, as well as in policies and procedures. RLAM's approach to risk management recognises the fiduciary nature of our business and our duty to act in the best interest of clients and members at all times.

There are two integral components of our risk management framework; enterprise risk and portfolio risk. The Board Risk Committee has an oversight of the overall risk management framework to ensure it is appropriate for the services we provide to our customers, interests of our Group parent and aligned to industry-wide practices.

Enterprise risk management is based on the Royal London Group-wide risk taxonomy and covers RLAM's proprietary risks which can be financial, operational or strategic in nature. As part of a forward-looking enterprise risk management approach we monitor emerging risks, geopolitical developments, as well as the overall market landscape. This allows timely identification of any market-wide or systemic issues and supports our commitment to stewardship and responsible investment. Identified risks are swiftly escalated internally in line with the risk management approach and an adequate response is defined by the business.

> The coronavirus outbreak has demanded swift and material responses from policymakers that could have dramatic impacts on long-term economic activity.

Melanie Baker, Economist

Our in-house economist, Melanie Baker, provides support to portfolio managers in making strategic investment decisions, whilst the Investment Risk team carries out an independent monitoring of risk exposures in the portfolios we manage. In case of any wider market events, it is the responsibility of portfolio managers to take adequate actions with regards to portfolio allocation and any potential restructuring or strategy adjustments. This includes a review of risk tolerance levels and investment objectives to identify and appropriately address unintended sources of risk resulting from market developments and forecasts.

Risks we reviewed in 2019

Two recent instances of market-wide and systemic risks relevant to RLAM were Brexit and the suspension of the Woodford Equity Income fund.

- RLAM implemented a formal Brexit monitoring programme and held monthly monitoring meetings ahead of key Brexit decision dates. Our investment teams and in-house economist provided ongoing analysis of the potential implications of various Brexit scenarios on our customers' assets. The impact of ongoing Brexit negotiations was particularly visible with regards to sterling devaluation and changes in demand in the UK property market, and these were monitored closely to ensure we were acting in the best interests of our clients, no matter what the outcome was.
- The suspension and consecutive wind-down of Woodford Equity Income fund and Woodford Investment Management caused disquiet about how asset managers approach fund liquidity. RLAM's approach is to maintain adequate levels of liquidity in the funds we manage to ensure the expectations of our clients are met and that we deliver on our commitments. Our funds had sufficient liquidity levels all the way through 2019; nonetheless in the aftermath of this event RLAM liaised with the relevant regulators and introduced additional enhancements to our fund liquidity monitoring and reporting processes. Throughout this systemic event, we maintained a detailed reporting to the Board Risk Committee and ensured that we respond timely to inquiries of our clients, regulators and other stakeholders.

Managing conflicts of interest

RLAM is fully committed to the highest degree of professionalism, integrity and governance in doing business and ultimately to treating our customers in a fair and consistent manner. RLAM has a detailed conflicts of interest policy that all members of staff are required to read and adhere to. Overall responsibility lies with RLAM's senior management who are responsible for ensuring that RLAM systems, controls and procedures are adequate to identify, manage and monitor conflicts of interest. RLAM's senior management has responsibility for ensuring that RLAM staff are aware of the aspects of the policy relevant to them. The policy is updated annually by the Risk and Compliance team.

The Group's Board is ultimately accountable for the management of risk within the Group and reviewing the effectiveness of internal control, including those related to conflicts of interest. Failure to adhere to our policies may be held to be a breach of an employee's contract. Failure of a person to declare an interest will be regarded as misconduct and may lead to disciplinary action being taken against the individual concerned.

Potential conflicts of interest:

- Where an investment is also a client
- Where the interests of two RLAM clients conflict
- Between RLAM and Royal London Group
- Where an employee of RLAM is a director of an investee company

The policy provides detailed guidance with respect to management of conflicts that might arise in relation to the order and execution of trades, access to inside information, management of client accounts, voting and engagement, confidential client information, gifts and entertainment, additional employment or consulting activities, and new product launches.

RLAM's policy is to take all reasonable steps to properly identify and manage conflicts of interest and always to act in the best interest of our clients, so that transactions are effected on terms which are not materially less favourable to the client than if the conflict had not existed. The business maintains a Conflicts of Interest Register and a Conflicts of Interest Events Log.

Should a conflict be unavoidable, RLAM will strive for appropriate and sufficiently detailed disclosure to the client. The disclosure must include the general nature of the conflict and/or the sources of that conflict and be provided before undertaking the relevant business for the client. This will allow the client to make an informed decision on whether to accept the conflict or terminate the activity.

A summary of our Conflicts of Interest policy is available on our website and the full policy will be made available on request.

Inside information

When engaging with companies, it is our strong preference to not be made an insider, as this restricts our ability to trade. However, on occasion, we will voluntarily agree to be given inside information in order to aid in our discussion with management or the board. Should we agree to be taken inside, the company is immediately put on our Restricted Stock List. The List is programmed into our trading systems and all fund managers in the business will be unable to trade the security. Once the information is made public, a member of the Executive Committee will provide sign-off to allow the fund managers to lift the trading restriction.

There are occasions where we have been taken inside involuntarily or inadvertently in our discussions with a company. In accordance with our Market Conduct policy, RLAM staff are required to immediately put the stock on the Restricted Stock List, as described above, if they feel they were provided information that is not in the public domain. Staff are provided training and assistance by our Compliance Advisory and Legal teams to help identify and understand what constitutes inside information. If the situation is unclear as to whether the information disclosed to us is considered inside information, we err on the side of caution and place the company on the Restricted Stock List.

Glossary

We recognise that not everyone uses the same language or terminology when talking about stewardship and responsible investment, so we've provided a glossary below to explain how RLAM uses these terms. We have adopted the most widely recognised industry standard definitions, based on the UK Investment Association's responsible investment Framework, the Principles for Responsible Investment and the Global Sustainable Investment Alliance (GSIA).

Engagement

Purposeful dialogue between investors and companies on environmental, social and governance (ESG) issues with the intention to influence (or identify the need to influence) company behaviour or improve disclosure.

ESG integration

The systemic and explicit inclusion of environmental, social and governance (ESG) factors into investment analysis and investment decisions.

Exclusions/Ethical investing

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

Impact investing

Investments made with the intention to generate positive, measurable social and environmental impact alongside financial return.

Proxy voting

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

Responsible investment

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

Stewardship

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

Sustainability

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

Sustainable investment

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

Notes

1 CA100+ is a coalition of over 400 global investors with nearly $40 trillion in AUM focused on engagement with largest emitters for enhanced governance, strategy, actions and disclosure around climate change.

2 www.royallondon.com/about-us/responsible-investment/

3 www.royallondon.com/about-us/climate-change-commitments/

4 Royal London Mutual Insurance Society

5 www.unpri.org

6 www.rlam-voting.co.uk/voting/

7 www.frc.org.uk/investors/uk-stewardship-code

8 www.royallondon.com/about-us/climate-change-commitments/

9 Financial Stability Board's Taskforce for Climate-related Financial Disclosure.

10 www.rlam.co.uk/Home/Institutional-Investor/our-capabilities/Responsible-investment/

11 www.rlam-voting.co.uk/voting/

12 For 2019 this included all of our active equity funds globally, plus our passive and active UK equity funds. RLAM will start voting its global passive equity funds in 2020.

13 www.rlam-voting.co.uk/voting/

14 The voting database includes RLAM's voting record from January 2015. It also includes the voting records of The Co-operative Asset Management (TCAM) for the period of January 2002 to December 2014. The voting record is only available for the funds where we vote. For 2019 this included all of our active equity funds, plus our passive and active UK equity funds. RLAM will start voting its passive equity funds in 2020.

15 issuu.com/royallondonassetmanagement/docs/12994_responsibility_matters_oct_20?e=16942721/65328091

16 www.rlam.co.uk/Home/Institutional-Investor/our-capabilities/Responsible-investment/

17 www.rlam.co.uk/Home/Institutional-Investor/our-capabilities/Responsible-investment/Voting/

18 www.rlam-voting.co.uk/voting/

19 https://www.royallondon.com/siteassets/site-docs/careers/royal-london-gender-pay-gap-report-2019.pdf

APPENDIX

2019 engagements

Below is a list of companies we engaged with in the year.

3i Infrastructure
Accesso
AES Corporation
AJ Bell
Alpha FMC
Alphabet
Amazon
AMPILT
Anglo American
Apple
Aroundtown
Ashtead
Assura
BAE Systems
Barclays/Sherborne Investors
Barratt Developments
Bellway
Berkeley Group
BHP Group
Biffa
Bovis Homes
BP
Brewin Dolphin
British Land
BT
Bunzl
Bureau Veritas
Cadent
Caisse des Depots / La Poste
Carnival
Centrica
Clarkson
Clinigen
Coats
Cold Finance
CRH
Croda
Danone
De La Rue
Deloitte
Derwent London
Diploma
discoverIE Group
Drax
DS Smith
E.On
Empiric Student Properties
ERG
ESB
EssilorLuxottica
Euromoney Institutional Investor
Experian
EY
Ferguson
Fidelity National Information Services
Freeport McMoran
Future
Futures Housing Group
Galp
GCP Student Living
GlaxoSmithKline
Glencore
Great Portland Estates
Greencoat Renewables
Greencoat UK Wind
Greencore Group
Halma
HSBC
Ibstock
IG Group Holdings
IMI
Incommunities Group
Infineon
Informa
Intercontinental Hotel Group
Intertek Group
ITV
Johnson & Johnson
Just Group
Kingfisher
Lancashire Holdings
LandSec
Lloyds Banking Group
Londonmetric Property
Marshalls
McCarthy & Stone
Melrose
Metro Bank
Micro Focus
Millennium & Copthorne Hotels
MJ Gleeson
Murphy USA
National Grid
Newmont
Northern Gas Networks
Northrop Grumman
Numis Securities
OneSavings Bank
PageGroup
Paragon
Patisserie Holdings
Pennon
Primary Health
Prologis
PRS REIT
Prudential
PWC
Reckitt Benckiser
Relx
Renewi
Renold
Rentokil Initial
Repsol
Restaurant Group
RHI Magnesita
Ricardo
Rio Tinto
Rotork
Royal Dutch Shell
Royal Mail
Royal Schiphol Group
RWE
Safestore
Saga
Sanne
Santander UK
Sapphire Partners
Scapa
Scorpio ELOC
Scotia Gas Networks
Segro
Senior
Severn Trent
Smith & Nephew
Softcat
Sophos
Southern Water
SP Transmission
Spectris
Spirax Sarco
SSE
SSP Group
St Modwen
Standard Chartered
Standard Life Aberdeen
Stobart
Suez
Suncor
Swedbank
Synthomer
Tate & Lyle
Taurus 2019-2 UK
Taurus 2019-3 UK
Taylor Wimpey
Teekay Shuttle Tankers
Textron
TI Fluid Systems
Town Centre Securities
Tritax Big Box
Tyman
UDG Healthcare
Unite Group
United Utilities
Vattenfall
Vestas Wind Systems A/S
Victrex
Vitec
Volkswagen
Wales & West
Warren Partners
Watches of Switzerland Group
Whitbread
William Hill
Workspace
Yorkshire Water

Our Responsible Investment team

Piers Hillier
Chief Investment Officer

Piers joined RLAM in January 2015 as Chief Investment Officer, with responsibility for managing and developing RLAM's investment capabilities. Piers has over 25 years of investment experience, including roles as Head of International Equities and a member of the Strategic Policy Group responsible for setting Asset Allocation for multi asset portfolios at Kames Capital. Prior to this, Piers was CIO and Head of Asset Allocation for LV= Asset Management and previously CIO European Equities for WestLB Asset Management. He also previously held the position of Head of European Equities at Deutsche Bank and Schroders. In his current role, Piers is a director of RLAM Ltd, Royal London Unit Trust Management, a member of the RLAM Executive Committee, and chairs the RLAM Investment Committee. Piers holds a Bachelor's degree from the University of Bristol and Masters degree from the University of Oxford.

Ashley Hamilton Claxton
Head of Responsible Investment

Ashley joined RLAM in November 2013 following the acquisition of The Co-operative Asset Management (TCAM) by the Royal London Group. Ashley is responsible for RLAM's responsible investment strategy across all of our asset classes. She oversees a team of seven people, and has management responsibility for our company engagement, ESG analysis, and proxy voting. Before joining RLAM, Ashley worked with the UK's local authority pension funds on company engagement as a Shareholder Engagement Executive at PIRC and the Local Authority Pension Fund Forum (LAPFF). Ashley is Canadian, and started her career working with Canadian pension funds, foundations and mutual funds as a research analyst and corporate engagement consultant for SHARE, a non-profit based in Vancouver, Canada. She has a Master of Arts degree (Political Science) and a Bachelor of Arts degree (Political Science and Sociology) from the University of British Columbia. Ashley is RLAM's subject matter expert and spokesperson on responsible investing and corporate governance, and provides regular press commentary. She sits on the Sustainability and Responsible Investment committee of the Investment Association.

Sophie Johnson
Senior Corporate Governance Analyst

Sophie joined the RLAM Sustainable Investment team as an analyst on a fixed term contract in March 2016. After a brief period working for another wealth manager, she returned to RLAM in November 2017. She is responsible for managing the proxy voting process, corporate governance analysis and focuses on company engagement on governance and social issues. Sophie joined from Institutional Shareholder Services (ISS) where she worked in both the Client Account Management and Custom Research teams. She holds a GDL and LPC from the University of Law Bristol; a LLM in International Corporate and Commercial Law from the University of York and a BA (Hons) degree in History and Archaeology. Prior to this Sophie lived in Grenoble, France for seven years and attended the international school, CSI Europole.

Tom Johnson
Responsible Investment Analyst

Tom joined the team as a Responsible Investment Analyst in May 2018. He carries out a lot of the day-to-day company research, particularly in the investment grade and high yield fixed income space, both for RLAM's sustainable funds and more broadly. He also works closely with a number of equity teams and provides corporate governance support when required, particularly during proxy season. Before this Tom spent nearly three years working in Royal London's Group press office, focusing in particular on the asset management business. Tom spent a number of years growing up in Singapore, Malta and Hong Kong and has a degree in Politics and Philosophy from Cardiff University.

Beth Goldsmith
Responsible Investment Analyst

Beth joined the team as a Responsible Investment Analyst in June 2019, to work on the expansion of RLAM's responsible investment strategy and to provide support on company screening and ESG engagement. Prior to this, Beth spent five years working at KPMG, working with FTSE 250 companies on ESG disclosure and risk management. Beth holds a BA in Environmental Management from the University of Leeds.

Carlota Garcia-Manas
Senior Responsible Investment Analyst

Carlota joined from the Church of England National Investing Bodies, where she spent three years running high profile corporate engagements focused on climate change, international corporate tax, and board diversity (among others). Before joining the Church of England, she was the Director of Products and Services at a tech start-up (Datamaran, formerly eRevalue) where she led the research team to develop software for sustainability benchmarking. Prior to that, she spent 10 years and was Head of Research at EIRIS (now Moody's following its merger with Vigeo) where she led global ESG research and product development. Carlota has a deep interest in analytics and the integration of externalities (environmental and social) in corporate assessment. She uses techniques learned during her business development and sales role at eRevalue in her company engagements. Carlota has studied Corporate Governance at The Chartered Governance Institute (ICSA), she is a Civil Engineer with an MSc in Environmental Economics.

Jeffrey Ndeti
Corporate Governance Analyst

Jeff joined the Responsible Investment team in October 2019 as an analyst working on proxy voting, company engagement and corporate governance analysis. Previously, Jeff spent nearly three years at ISS where he worked as a custom research analyst in providing bespoke proxy voting solutions and corporate governance consultations to several institutional investors. While Jeff currently resides in the UK, he often travels to his birthplace country of Kenya to connect and spend time with his extended family. He holds a Masters in Economics from the University of Exeter and a BSc (Hons) Economics degree from Swansea University.

Piotr Kwiatkowski
Corporate Governance Analyst

Piotr joined the team as a Corporate Governance Analyst in October 2019, to work on the expansion of RLAM's proxy voting and governance activities. Piotr has joined from ISS, where he worked as a custom research analyst, providing institutional investors with bespoke vote recommendations. Piotr has a Masters degree in Business Law and LLM in Corporate and Commercial Law from Maastricht University. Prior to moving to the UK, Piotr spent almost seven years gaining his educational and work experience across continental Europe while living in Poland, France, Netherlands, Portugal and Belgium.

Abigail Hall
Assistant Responsible Investment Analyst

Abi joined the Responsible Investment team in November 2019 as an Assistant Responsible Investment Analyst. She moved over from the RLAM Marketing team where she had spent the last three years as a Marketing Executive, servicing both institutional and wholesale channels. Prior to joining RLAM, Abi held sales support and project roles at Schroders and EY respectively. Abi provides general support to the Responsible Investment team in terms of research and data analysis, and assists in providing more agile and effective responses to client queries, due diligence questionnaires, and RFPs. She is also responsible for helping the team to convey its 'story' to key stakeholders through the effective use of communication channels. Abi has a BA (Hons) degree in Business Management from the University of Greenwich.

Tim Coffin
Responsible Investment Property Manager

Tim joined the RLAM) Property team in 2019 as Responsible Property Investment (RPI) Manager. His primary focus is to ensure the funds actively integrate environmental, social and governance property investment and management (ESG) considerations into the entire process. He also acts as the RPI champion and expert within the RLAM Property team, bringing technical experience in resource (energy, waste and water) efficiency, transactions, compliance/regulation and benchmarking.

Prior to joining RLAM, Tim worked for 9 years at the pension fund USS, within the Property team as their RPI Manager. Tim holds a BA (Hons) in Business Environmental Management from Brunel University. He is a Practitioner Member of the Institute of Environmental Management & Assessment (IEMA).

The UK Stewardship Code

Principles for asset owners and asset managers	Document reference
Purpose and governance	
1 Purpose, strategy and culture	Our purpose and strategy, page 4 Our culture and values, page 57
2 Governance, resources and incentives	How we are governed, page 58 Our Responsible Investment team, page 10 Performance management and reward, page 61
3 Conflicts of interest	Managing conflicts of interest, page 63
4 Promoting well-functioning markets	Advocacy and public policy, page 20 Product development, page 60 Risk management and monitoring, page 61
5 Review and assurance	Review and assurance, page 55
Investment approach	
6 Client and beneficiary needs	Supporting our clients' needs, page 58
7 Stewardship, investment and ESG integration	Our approach to stewardship and responsible investment, page 6 ESG integration, page 30
8 Monitoring managers and service providers	Proxy voting research, page 29 Use of research, page 30

Principles for asset owners and asset managers	Document reference
Engagement	
9 Engagement	Engagement and advocacy, page 13
10 Collaboration	Investor collaboration, page 20
11 Escalation	Escalation and public comments, page 19
Exercising rights and responsibilities	
12 Exercising rights and responsibilities	Our approach to voting, page 26 Bondholder voting, page 29

The UN Principles for Responsible Investment

The UN Principles for Responsible Investment	Document reference
1 We will incorporate ESG issues into investment analysis and decision-making processes.	ESG integration, page 30
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.	Engagement and advocacy, page 13 Governance and voting, page 23
3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Engagement and advocacy, page 13
4 We will promote acceptance and implementation of the Principles within the investment industry.	Escalation and press, page 19 Advocacy and public policy, page 20
5 We will work together to enhance our effectiveness in implementing the Principles.	Investor collaboration, page 20
6 We will each report on our activities and progress towards implementing the Principles.	Disclosure and transparency, page 55

Useful links

[RLAM Responsible Investment web page]

[RLAM Sustainable Investing web page]

[Investment Association (IA) Responsible Investment Framework]

[2019 UK Stewardship Code]

[PRI Definitions and Terminology]

Contact us

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

Royal London Asset Management

55 Gracechurch Street, London EC3V 0RL

020 7506 6500
www.rlam.co.uk

Responsible Investment team
esg@rlam.co.uk

RLAM Marketing
communications@rlam.co.uk

Ref: PDF RLAM PD 0032

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