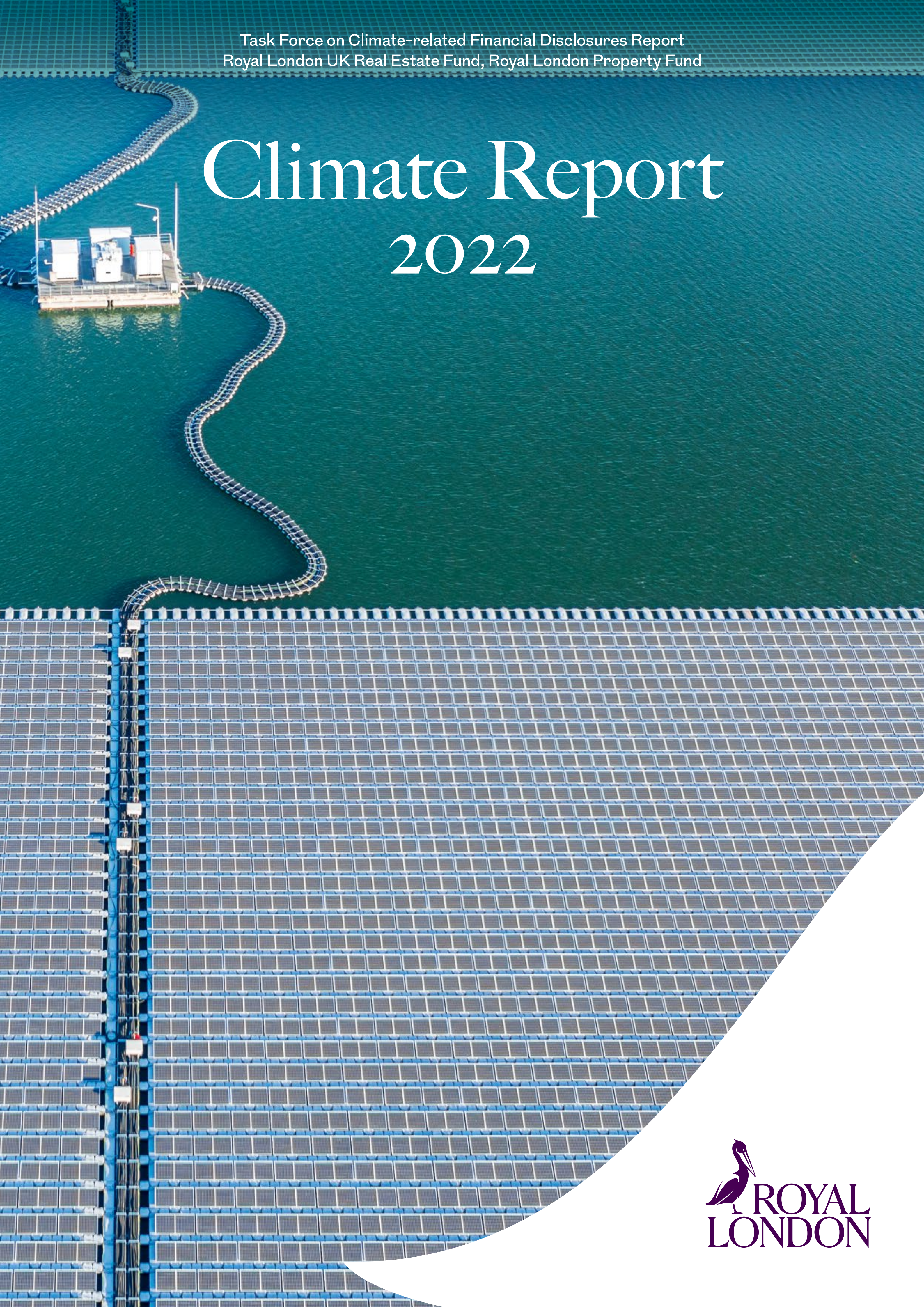
Task Force on Climate-related Financial Disclosures Report
Royal London UK Real Estate Fund, Royal London Property Fund

Climate Report 2022



ROYAL LONDON

Task Force on Climate-related Financial Disclosures (TCFD)

Introduction

Royal London Asset Management has been an official supporter of the Financial Stability Boards (FSB) Task Force on Climate related Financial Disclosures (TCFD) since June 2020, aiming to increase and improve our own disclosure and that of the companies we invest in. This report has been prepared in accordance with the recommendations of the TCFD, which aims to help the investment community build a more in-depth and consistent picture of the impact of climate change.

Governance, Strategy and Risk Management

For more information on our fund's approach to governance, strategy and risk management, please refer to our RLAM 2022 TCFD Report available here.

Royal London UK Real Estate Fund (RLUKREF)

Launched in October 2017, RLUKREF is a Balanced, Core Plus open-ended fund. As at December 2022, the fund held 74 assets predominantly within the office, retail, and industrial sectors plus some leisure and hotel assets, supporting over 680 tenants, with a total assets under management (AUM) of £3,025,034,028.

Royal London Property Fund (RLPF)

Launched in 1999, RLPF is an open-ended investment company managing Royal London Group funds. As at December 2022 the fund held 29 assets, supporting over 140 tenants, with total AUM of £358,085,843.

Climate Change Scenario Analysis

During 2022, Royal London Asset Management Property undertook a qualitative scenario analysis exercise for the first time across its funds, including RLUKREF and RLPF, to understand how resilient the business strategy is under a range of possible climate scenarios, where the outcomes are highly uncertain and will play out over the medium to long term. We will aim to improve on this analysis for future disclosures by adding in a quantitative element to the scenario analysis.

To see a full range of potential impacts on our business strategy, Royal London Asset Management has chosen three scenarios that represent a disorderly transition to 1.5°C, an orderly transition to 2°C and a continued reliance on fossil fuel leading to a 'hothouse' world. The descriptors for these scenarios align with the IPCC's Representative Concentration Pathways (RCPs)[1 2] and the Shared Socioeconomic Pathways[3] (SSPs) to give both a policy and climate outcome under each of the scenarios. As the Royal London Asset Management property portfolio is UK based, the UK Climate Resilience Programme's SSPs[4] have been referenced to develop the scenario narratives for a UK property portfolio focus. The choice of these three scenarios allows Royal London Asset Management to understand how the business might be impacted most by transitional risks under the disorderly scenario, and by physical risks under the hothouse scenario.

Royal London Asset Management has investigated the climate-related risks and opportunities under each of these scenarios in the short term (to 2030), the medium term (2030 – 2050) and the long term (2050 – 2100). The short term horizon captures short term planned and imminent policy transitions, such as the Minimum Energy Efficiency Standard (MEES) requirements, and it aligns with Royal London Asset Management Property's Net Zero Carbon target timeline for directly managed property assets and developments[5]. The medium term captures Royal London Asset Management Property's Net Zero Carbon target timeline for indirectly managed property assets to be Net Zero Carbon by 2040[6] and the UK's commitment to be Net Zero Carbon by 2050. The long term time horizon captures the full lifespan of Royal London Asset Management's property portfolio, modelled as 60 years, as well as ensuring that the impacts of physical risks are investigated as they are expected to manifest in the second half of the decade for the UK.

[1] https://www.ipcc-data.org/guidelines/pages/glossary/glossary_r.html

[2] https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-guidance---representative-concentration-pathways.pdf

[3] https://www.sciencedirect.com/science/article/pii/S0959378016300681

[4] https://www.ukclimateresilience.org/products-of-the-uk-ssps-project/

[5] https://www.rlam.com/globalassets/media/literature/reports/2022/rlam-net-zero-carbon-pathway.pdf

[6] https://www.rlam.com/globalassets/media/literature/reports/2022/rlam-net-zero-carbon-pathway.pdf

To understand how resilient Royal London Asset Management Property's strategy is to the effects of climate under these three scenarios, the evolution of the priority climate-related risks and opportunities have been described under each of the three scenarios. This analysis was done qualitatively but in future years, we will look to progress this to a more detailed quantitative analysis.

For further detail of this climate-related risks and opportunities assessment, please see Royal London Asset Management Property's Net Zero Carbon Pathway Progress Report.

The scenario narratives are outlined in Table 1.

Table 1

Scenario	Transition risk	Physical risk	Why chosen?
Scenario 1: 1.5°C disorderly transition Slow changes in the short term until a drastic step change in policy and consumer demands in the 2030s. Rapid abandonment of fossil fuels and increased investment in renewables and green technology causes the biggest change in regulations and carbon taxes.	High	Low	This meets the TCFD requirement to consider a scenario with warming of below 2°C, and highlights the transition risks associated with a late transition.
Scenario 2: 2°C orderly transition Steady increase of regulations and consumer interest in sustainable development, with business drivers already in the short term. Policy is well thought out and organised so businesses can prepare for upcoming regulations.	Medium	Low	This scenario represents an optimistic outlook for both transition and physical risks.
Scenario 3: Hot House Most businesses and customers continue to favour resource and energy intensive activities, with investments into further fossil fuels. Green environment policy is inconsistent. Current ambition may be reduced, and the physical impacts of climate change will manifest strongest, causing more remediation costs.	Low	High	This scenario represents a pessimistic outlook for physical risks.

Our Property Fund Climate Metrics – Energy and GHG emissions (RLUKREF and RLPF)

We have disclosed a selected number of metrics for the funds as shown in Table 2. A more extensive dataset has been used both in the Royal London Asset Management and RLMIS TCFD reports that help more fully measure position and the effectiveness of Royal London Group strategy. Please refer to both the RLMIS and Royal London Asset Management entity level TCFD reports for details on these aspects.

Table 2: Metrics for property, as at 30 September 2022. Source: Royal London Asset Management

Fund	Absolute (kWh)		Like for Like (kWh)	Energy Intensity (kWh/m²)	GHG Emissions (tCO_2e)				GHG Intensity ($kgCO_2e/m^2$)
	Total Electricity	Total Fuel	Total Like-for-Like Energy	Total Like-for-Like Energy	Scope 1	Scope 2 (location-based)	Scope 3	Total GHG emissions	Total GHG emissions intensity by floor area
Royal London UK Real Estate Fund (RLUKREF)	9,162,166	8,822,894	10,086,613	120	807	1,322	20,670	22,799	32
Royal London Property Fund (RLPF)	1,432,464	583,059	1,631,150	208	96	231	4,491	4,818	34
Total	10,594,630	9,405,953	11,717,763	128	903	1,553	25,161	27,617	32

Methodological and data assumptions, limitations, and disclaimers

Due to the nature of properties' carbon, energy and water data, the data presented in this section is taken from 1 October 2021 - 30 September 2022 (Q4 2021 - Q3 2022). The need to report Q4 - Q3 data is common within the properties management industry and is driven by delays in data availability. **Note:** Like-for-like intensity metrics are calculated only where whole building coverage is available to align with the INREV reporting guidelines. It relates only to internal (Gross Internal Area (GIA)) utilities only. Assets sold or purchased during the reporting period and assets with incomplete data sets have been excluded from Like-for-Like analysis.

Scope 1 is inclusive of emissions from landlord-procured gas (excluding occupier spaces) and fugitive emissions from refrigerants. Scope 2 is inclusive of emissions from landlord-procured electricity (excluding occupier spaces).

Scope 3 is inclusive of:

- Purchased goods and services.
- Capital goods (including development activities).
- Energy transmission and distribution.
- Landlord-procured water emissions.
- Landlord-managed waste emissions.
- End-of-life treatment of sold products.
- Emissions from energy consumption in occupier spaces.

Energy intensity calculations are inclusive of data from assets which have whole building data and full coverage across the reporting period.

Due to a change in GHG methodologies between the previous and current reporting years, it is not possible to raise direct Like-for-Like comparisons. Where data has not been available, GHG emission calculations have utilised benchmarks and averages. Total emissions and intensities therefore cover the Gross Internal Area (GIA) of each fund.

Please see Royal London Asset Management Property's Net Zero Carbon Pathway Progress Report for a full breakdown of Scope 1, 2 and 3 emissions by GHG emission source.

Data quality is crucial when analysing companies' impact on climate. The quality of data available to investors has been historically poor but we expect it will continue to improve. For years, Royal London Asset Management has enhanced the climate data sets to integrate the best available public information into climate-related engagement and investment analysis. Royal London Asset Management will continue developing new integration models and forward-looking metrics.

Contact us

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

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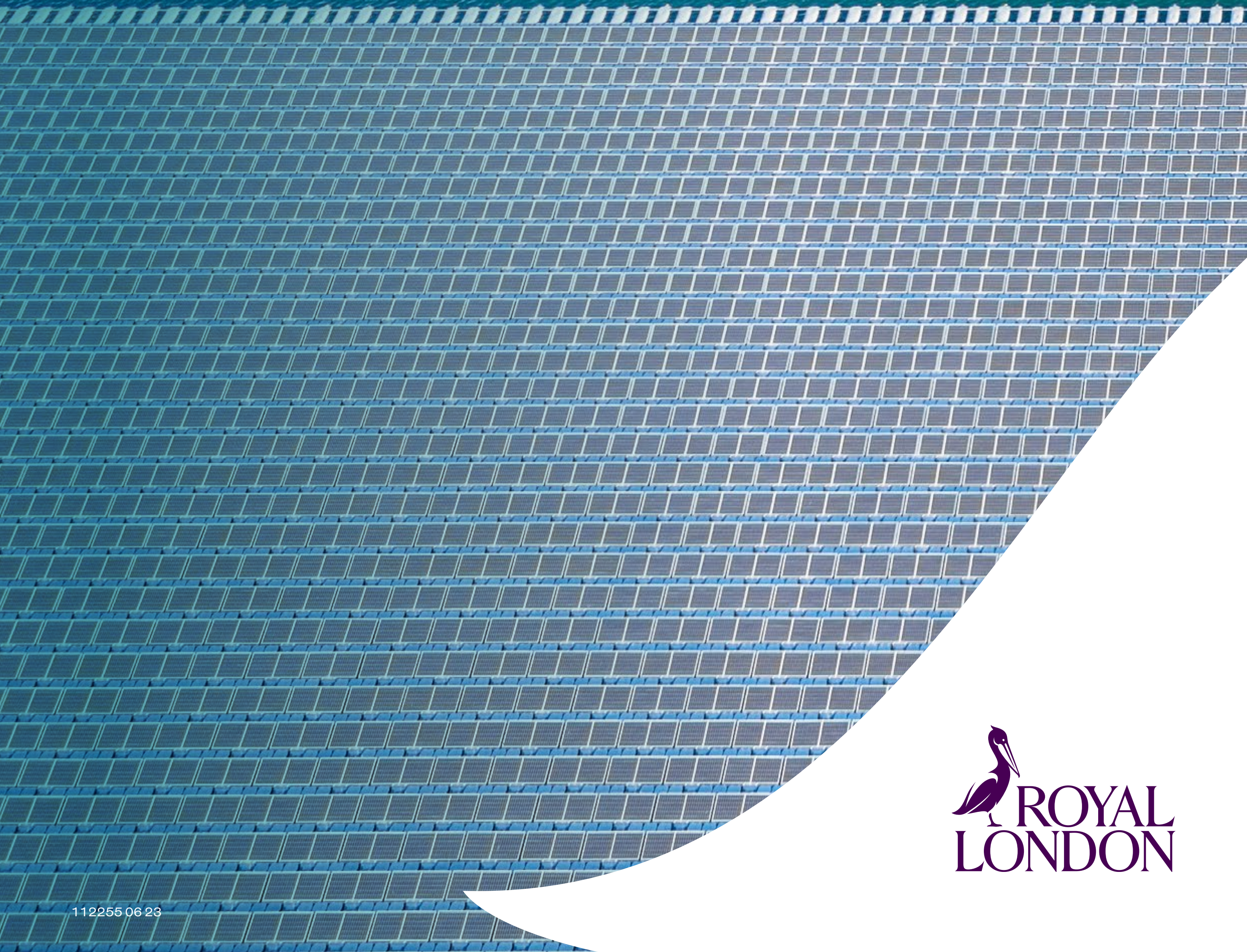

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