Net Zero Stewardship Programme

Update
January - June 2023

Contents

Introduction

Royal London Asset Management recognises the science of climate change and the impact it can have on financial outcomes for our clients if not managed appropriately. We have been engaging on climate for several years but following our net zero commitment in 2021 and joining the Net Zero Asset Managers initiative (NZAM), we further enhanced our stewardship approach to help achieve our climate goals in 2022.

This is our 2023 half-year update on the progress we have made around our Net Zero Stewardship Programme primarily across our equity and fixed income portfolios. This report provides an update on our research process and the analysis we have undertaken using our Climate Transition Assessment methodology, as well as the associated engagement with companies, climate voting, and advocacy. Our proprietary Climate Transition Assessment is based on three overarching expectations and what we therefore ask companies to do: first, to set targets aligned with the Paris Agreement; second, to bring others to net zero; and third, to demonstrate action now. These requests are supported by 12 underlying indicators which we use to assess whether companies are taking the right steps to align to net zero.

Detailed descriptions of our process and methodology can be found in our Climate (TCFD) 2022 report and our annual Net Zero Stewardship Programme report.

Research: our Climate Transition Assessment

During the first half of 2023 we assessed the climate transition plans of 17 companies, representing approximately 52% of our financed emissions, against our 12 indicators. We use various sources of information to assess the plans, including company disclosures, data providers and academic research, and provide qualitative analysis for each of our ratings which are subsequently shared with our investment teams.

SET EMISSIONS REDUCTIONS TARGETS ALIGNED WITH THE PARIS AGREEMENT

1 Reach net zero emissions in a timeframe aligned with the Paris Agreement.

2 Include emissions from scope 1, 2 and material scope 3 activities in targets.

3 Only offset residual emissions following net zero-aligned offsetting principles.

BRING OTHERS TO NET ZERO

4 Commit to scaling-up technology and solutions required to achieve net zero.

5 Lobby for policies that accelerate the transition.

6 Engage with the business value-chain and communities to ensure a just transition and avoid negative impacts on nature.

7 Invest in adaptation measures to ensure resilience against climate impacts.

DEMONSTRATE ACTION NOW

8 Set and deliver short-term targets, that drive action during this decade.

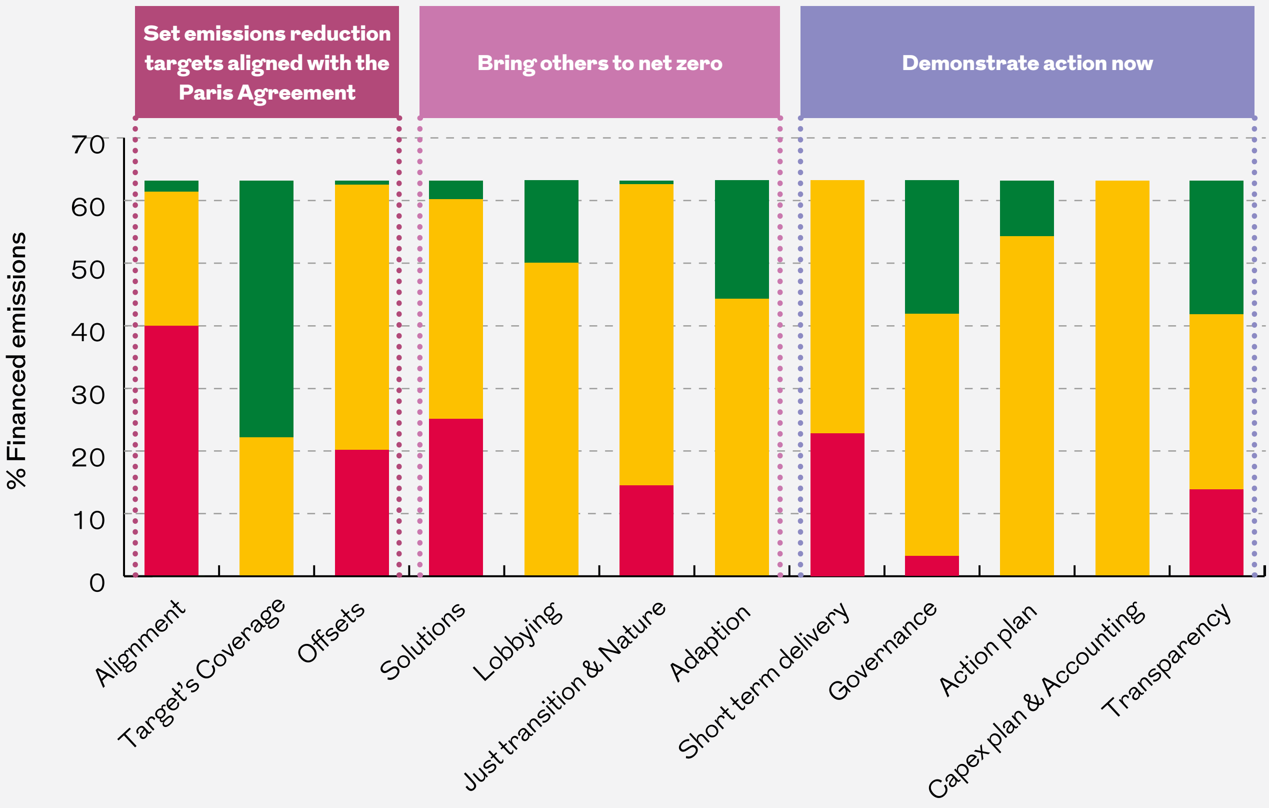
9 Align the board, management, and employees' incentives to achieving net zero targets.

10 Develop an action plan with specific operational implications and business model transformation to deliver net zero.

11 Align capital expenditures and accounting practices to the delivery of net zero.

12 Disclose transparently and consult climate transition plans with stakeholders.

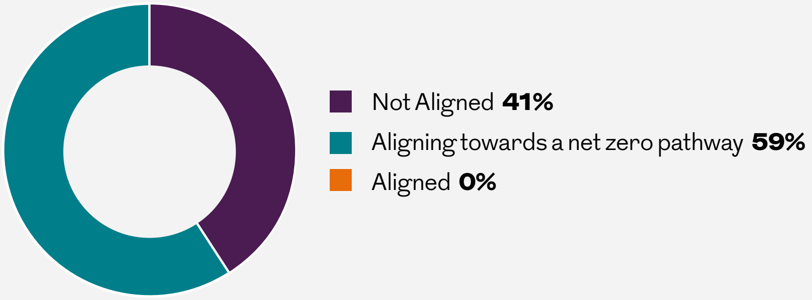
Financed emissions and rating per indicator



Our 12 indicators were selected in alignment with the Climate Action 100+ Net Zero Benchmark CA100+. We created our own set of indicators to build an assessment methodology in line with the Net Zero Investment Framework (NZIF) categories namely, aligned to a net zero pathway; aligning towards a net zero pathway; not aligned.

A significant proportion of the companies analysed are making some progress against our climate transition assessment. Of the 17 companies assessed in the first half of 2023, approximately 10 companies are 'aligning towards a net zero pathway' however none of the companies are aligned to net zero. Further progress is needed as most companies' indicators fall into our amber rating. At this early stage of the engagement process we expect to see more 'laggard' companies ('Not aligned' and 'Aligning' categories) than 'leading' companies ('Aligned').

Companies assessed against Net Zero Investment Framework alignment categories



As in our last report, the area showing the best performance at the moment (i.e. green) still comprises companies' targets covering all scopes of emissions (indicator 2). However, these targets are typically not ambitious enough (not aligned to the Paris Agreement, indicator 1).

Engage: Net zero engagement progress

In 2022 we launched our Net Zero Stewardship Programme and our systematic assessment of companies, and their climate transition plans, to create a baseline that helps us assess improvements in their plans.

In the first half of 2023, Royal London Asset Management has engaged with 308 companies on a variety of environment, social, governance (ESG) topics, these include 145[1] general engagements which were on climate related issues.

Our Net Zero Stewardship Programme is a specific programme focusing on supporting change of the largest emitters. In the first six months of 2023 we have sent letters to and held meetings with 19 companies' sustainability experts, Chairpersons, CEOs and/or board members. We followed up with several of them signalling specific objectives within our Climate Transition Assessment, where we expect to see improvements.

308 Companies under ESG engagement

145 Companies under climate engagement

19 Companies engaged as part of Net Zero Stewardship Programme focus list

This 19 includes the 17 we have actively assessed in the first half of 2023.

Our net zero engagement activity has predominantly focused on companies we hold across both equity and fixed income portfolios. This permits us to use a variety of tools for escalation, including our use of voting rights when we are exclusively shareholders or where we hold both equity and debt. As we include scope 3 emissions in our engagement prioritisation, the largest emitters we engage with are oil and gas companies, energy utilities, diversified miners and banks.

1. This report shows a large number of general climate engagements linked to the letter sending associated with our collaboration with NZEI (see Advocate section). Of these 145 engagements, 19 were linked to our specific net zero engagement programme and they covered the 17 companies referred to in the Research section.

Case studies

Case study: Shell Plc

Leading up to the 2023 Annual General Meeting (AGM), we met Shell's Chairman to discuss the progress of the company's climate transition plans, as well as reiterate our requests for improvements. We discussed Shell's intention to meet its 2030 targets in a non-linear pathway. We highlighted our need for transparency regarding the choice of carbon credits and absolute emissions reductions. The latter are implied but not explicit in Shell's scope 3 emissions targets. This additional disclosure can help to assess Paris Alignment.

In 2022, Royal London Asset Management chose to abstain from voting on Shell's 'Powering Progress' plans as we believed they were insufficient to warrant our support. Instead, we wanted to see the company addressing specific issues to make those plans more robust. In 2023, as we had observed no progress on our requests, we voted against the equivalent AGM proposal. In our voting rationale, we continued to urge the company to disclose the absolute emission reductions implied by its scope 3 emissions targets. We expect this disclosure to allow us to further evaluate the company's alignment with the Paris Agreement. Our voting rationale also requested further clarity in Shell's progress report regarding the use of offsets and the ongoing capital expenditure in new oil and gas exploration.

We also changed our position from 'against' in 2022 to 'abstain' in 2023 on a shareholder proposal filed by Follow This. We continue to provide the rationale for all of votes publicly via our Voting Records database.

Following May's AGM, we met with Shell's Head of Scenario Modelling in June 2023. The main takeaway from this meeting was that the company's most ambitious decarbonisation scenario, based on plausible policy and societal changes, involves a rapid reduction in natural gas demand. However, we expect to see more clarity about the connection between Shell's climate modelling and its decision to continue growing its liquefied natural gas (LNG) segment.

In June 2023, we also attended Shell's Capital Markets Day. The key takeaways from this event were that the 'Powering Progress' plans would decrease investments in power. Furthermore, Shell claimed to have already achieved a 1-2% reduction in oil output through divestment of its shale business. We believe this approach does not support real-world emission reductions, so we downgraded Shell's indicator 8 (short-term delivery). We also noted that the scope 3 target was no longer displayed in the material presented at the Capital Markets Day.

Later that month, we wrote to the Chairman to share our reaction to the Capital Markets Day's announcements and reiterated our requests, which include:

1. Disclosing the implications of Shell's 2030 'net carbon intensity' target (expressed in grams of CO_2 equivalent per megajoule) on the company's absolute scope 3 emissions.
2. Clearly articulating policies on offsetting in line with the Oxford Offsetting Principles and improving disclosures regarding the quality of purchased offsets.
3. Providing further details on existing exploration activities in the context of Shell's commitment to halt new frontier exploration by 2025 and explaining how continued investment aligns with the company's climate targets.

Additionally, in 2023 Royal London Asset Management joined the World Benchmarking Alliance engagement on Just Transition and is co-leading the engagement with Shell.

We will continue engaging with the company throughout 2023.

Month	Stewardship action
March	Collaboration with WBA on just transition
April	Meeting with Chairman
May	AGM Votes
June	Meeting with Head of scenario modelling
	Attend Capital Markets Day
	Letter to Chairman

Shell Plc	2022	2023
NZIF category	Aligning	Not aligned
Set emissions reduction targets aligned with the Paris Agreement		
1. Net Zero alignment	Red	Red
2. Target coverage	Green	Green
3. Offsets	Red	Red
Expand the reach and scale of net zero		
4. Climate solutions	Red	Red
5. Proactive lobbying	Green	Green
6. Just Transition and Nature	Amber	Amber
7. Adaptation ↑	Red	Amber
Demonstrate action now		
8. Short term delivery ↓	Amber	Red
9. Governance	Green	Green
10. Action Plan	Amber	Amber
11. Capex and accounting	Amber	Amber
12. Transparency ↑	Amber	Green

Red Amber Green

Case study: BP Plc

In March 2023, BP released an update on its net zero ambition progress. While the update showcased a number of positive aspects, some of its contents represented a reduction in ambition for the company's short-term climate goals. In 2022, one of our key requests to BP was for the disclosure of a comprehensive baseline for scope 3 targets, including traded emissions. The company has now fulfilled this request, resulting in an upgrade for indicator 2 (target coverage). This disclosure alone would have moved our assessment of the company's plans from "not aligned" to "aligning."

In addition, we upgraded our assessment of indicator 4 (climate solutions) after BP decided that it would no longer promote divestment as a decarbonisation strategy. Notwithstanding these improvements, BP also announced a scaling back of its short-term targets for absolute Scope 3 emissions reduction. Their plans involve expanding underlying production until 2025 and exploring new opportunities in offshore hubs. This resulted in the downgrade of indicator 8 (short-term delivery) and indicator 11 (CAPEX and accounting). Our overarching company assessment has not changed as a consequence of these upgrades and downgrades.

Prior to the 2023 Annual General Meeting (AGM), we had a meeting with BP's CEO and Vice President of Strategy & Sustainability. Changing political sentiment in Europe and the US have led to governments seeking increased oil and gas production to mitigate short-term energy price concerns. We discussed the company's commitment to the transition and their promise of further investments of up to $8 billion in cleaner technologies, including hydrogen and biofuels, while acknowledging challenges in EV charging and offshore wind. The company's view is that the decisions disclosed in 2023 do not represent a change in strategy. While these have resulted in a changed trajectory in the journey to net zero, retaining assets and focusing on high-quality and efficient ones could lead to a further reduction of global emissions.

Prior to the 2023 AGM, in a meeting with BP's Company Secretary, we explained our voting rationale and discussed concerns regarding the remuneration report and the absence of shareholder consultation on changes to BP's climate plans.

As a consequence of these meetings, and following significant internal discussions, we voted against the re-election of the company's Chairman. This was primarily because we believed shareholders should have had the opportunity to vote on the new climate plan and the changes it includes following its release early in the year. We also abstained on the proposal submitted by Follow This, which we voted against last year. In our rationale, we noted that there were still several areas of BP's climate plan that required further improvement.

In June 2023, we wrote a letter to the CEO restating two requests we made in 2022 that have not yet been addressed, but also, following the recent changes to short-term targets, adding a third:

1. Clearly defining a position on 'responsible divestment.'
2. Addressing concerns about continued investment in exploration.
3. BP should assess the financial implications of its changes to 'Aim 2'.

The new request means looking at increased oil production, against scenarios with lower demand and oil prices. Furthermore, we believe that the company should review the alignment of its revised targets with Paris-aligned scenarios with limited reliance on Direct Air Carbon Capture (DACC) or Bioenergy and Carbon Capture (BECC).

BP currently asserts that its targets remain aligned with below 1.5°C scenarios, as defined in the Paris Agreement. And we note, it is still the only oil and gas major with absolute scope 3 targets.

Throughout 2023, we will continue to hold discussions with technical members of BP's Strategy & Sustainability team to address our requests.

Month	Stewardship action
February	Remuneration policy consultation
April	Meeting with Company secretary
April	Meeting with BP CEO and VP Sustainability
April	Meeting with Company secretary
June	Letter to CEO on climate transition plan

BP Plc	2022	2023
NZIF category	Not aligned	Not aligned
Set emissions reduction targets aligned with the Paris Agreement		
1. Net Zero alignment	Red	Red
2. Target coverage ↑	Red	Green
3. Offsets	Amber	Amber
Expand the reach and scale of net zero		
4. Climate solutions ↑	Red	Amber
5. Proactive lobbying	Amber	Amber
6. Just Transition and Nature	Amber	Amber
7. Adaptation	Amber	Amber
Demonstrate action now		
8. Short term delivery ↓	Amber	Red
9. Governance	Green	Green
10. Action Plan	Amber	Amber
11. Capex and accounting ↓	Green	Amber
12. Transparency ↑	Amber	Green

Red Amber Green

Vote: climate at companies annual general meetings

How did we vote on climate in H1 2023?

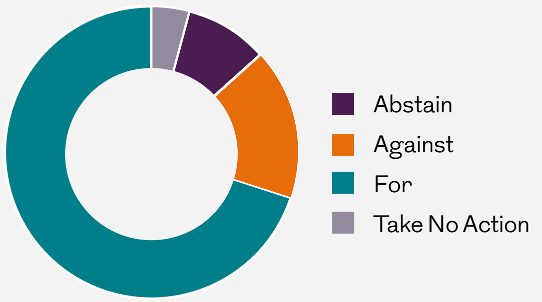
During the first half of 2023, we voted on 22 management proposals and 129 shareholder proposals on climate. For more information around our rationales, please see our voting records .

In the last few years, alongside shareholder resolutions on climate issues, there are a growing number of companies proposing votes on climate transition plans ('say on climate' votes). Climate transition plans are a useful company disclosure and we acknowledge that they will become mandatory for certain companies and investors in the UK.

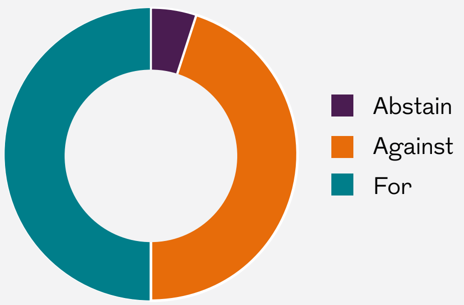
Throughout the first half 2023, our support for climate-related resolutions put forward by management increased. This marks a departure from 2022 when we chose to abstain on multiple occasions. On balance, we were satisfied with the level of ambition and progress demonstrated by companies so far this year, particularly in their efforts to reduce emissions. However, where we opposed a management proposal, it was typically due to a misalignment of the company's short- and medium-term targets with the more ambitious goals outlined in the Paris Agreement.

In terms of climate-related shareholder resolutions, we voted in favour of a majority of these votes which are usually advisory and non-binding. Many shareholder proposals requested increased transparency and disclosure which we typically support. On rare occasions when we voted against a shareholder proposal, it was typically because we wanted to provide the company with an opportunity to fulfil its climate strategy or because we believed that further engagement with the issuer would provide more valuable results.

Shareholder Climate resolutions H1 2023



Climate Management resolutions H1 2023



Advocate: Partnering to shape policy

For investors, climate transition via corporate engagement is limited by holding size and the resources needed for individual engagement.

In addition to our net zero engagement programme as individual investors we continue supporting several investor collaborative engagement initiatives, including as co-leads for E.ON and EDF in the Climate Action 100+.

Furthermore, in the first half of 2023 we joined collaborative engagements such as:

- the Net Zero Engagement Initiative (NZEI) launched by the Institutional Investors Group on Climate Change (IIGCC). 107 companies received letters seeking confirmation that they intend to develop a net zero transition plan.
- the World Benchmarking Alliance engagement collaboration on just transition for the oil and gas sector. We joined as co-leads for Shell's engagement.

We believe government and public sector advocacy forms a core component of any comprehensive net zero engagement strategy and could 'level the playing field' across and within the economy.

The social implications of climate change have been a priority for our engagement since 2019. We continued to be highly engaged on just transition through investor networks.

So far in 2023, our activity on this front was mostly done through our membership in industry initiatives. You can see a full list of the initiatives we are associated with in our previous Net Zero Stewardship Programme report.

Further notable action in the first half of 2023 includes:

- **UK government Transition Plan Taskforce:** we were invited to join the Transition Plan Taskforce's Asset Management and Just Transition working groups. These groups are developing sector-specific guidelines to climate transition plans for Asset Managers and embedding just transition into the general framework for climate transition plans.
- **United Nations Environment Programme – International Labour Organization:** we were invited to join the advisory working group of a programme to develop further guidelines on just transition for the Banking and Insurance sector
- **Climate Financial Risk Forum (CFRF)**, we continued participating in the general forum during the first half of the year.

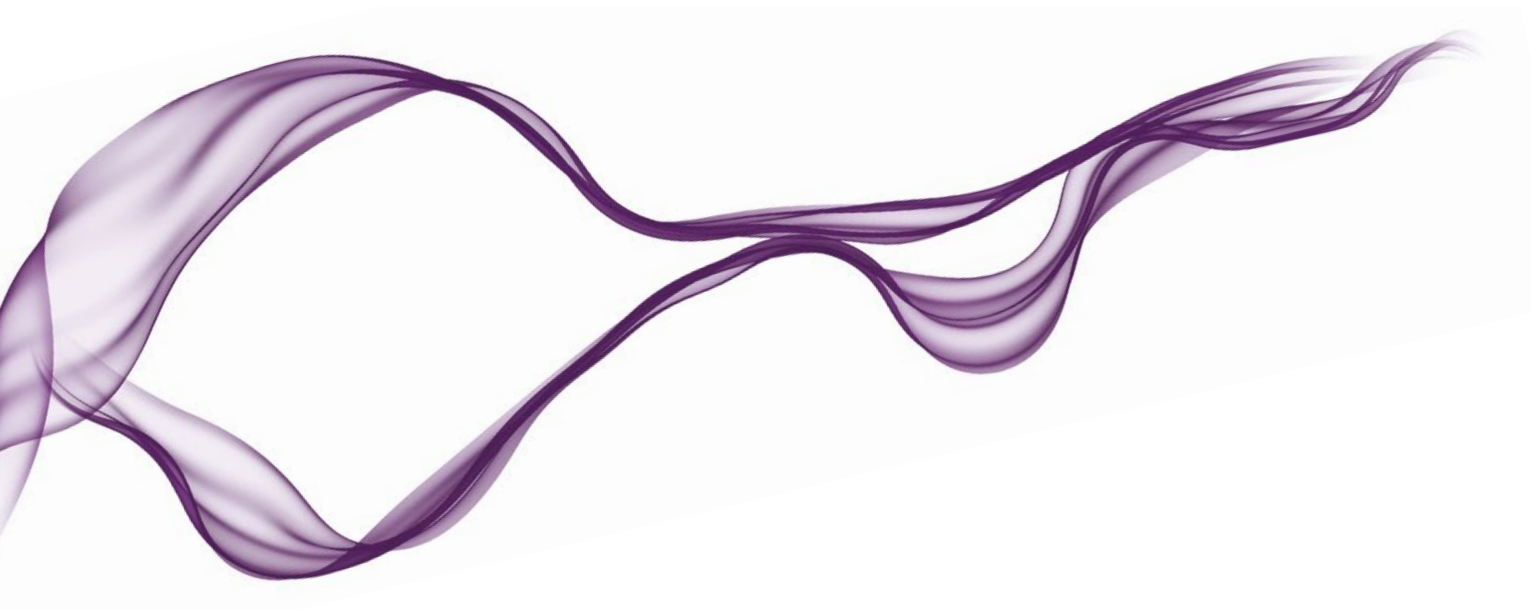
In our work as co-leads of the energy utilities working group for CA100+ companies in Europe, we signed on two advocacy letters with other investors related to energy utility sector:

- Letter to Economy Ministry of Italy asking the Italian government to continue Enel's strategy when electing new CEO.
- Letter to the UK Secretary of State of the Department for Energy Security and Net Zero to support the intention to reform Ofgem's mandate to include the delivery of net zero goals.

When things are hard, try harder

Although progress is slow, and the pace of change is insufficient, sustained pressure through engagement, voting and advocacy is crucial to achieving our climate goals. Our Climate Transition Assessment tests companies' plans — not just based on their ambition but also on the credibility of their plans and actions, examining key issues such as reliance on offsets, capex and scaling of climate solutions. We will continue to engage on these points with companies to promote best practice.

By engaging on the supply and demand sides of the energy system together we attempt to understand barriers to decarbonisation. We cannot overcome these on our own and we will continue to partner and advocate to attempt to tackle these barriers and make systemic change happen faster.



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Important Information

All information correct at 30 June 2023 unless otherwise stated. Source for all data Royal London Asset Management unless otherwise stated.

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