For professional clients only, not suitable for retail clients.

Net Zero Stewardship Programme

ROYAL LONDON
ASSET MANAGEMENT

Contents

Our net zero commitment

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 (NZAMI), we have further enhanced our engagement approach to help achieve our climate goals.

At the heart of our approach to climate change is our commitment to achieving net zero by 2050 and reducing emissions in our investments[1] by 50% by 2030 for our in-scope assets, using 2020 as the baseline year.

Our objective is to evaluate and/or influence through engagement issuers representing 70% of our financed emissions, pushing for adoption of emissions reduction targets linked to science-based sector specific alignment methodologies (such as SBTi, the Science-Based Targets initiative) and climate transition plans.

Our in-scope assets are those in funds managed and controlled by Royal London Asset Management, excluding segregated mandates managed on behalf of external clients. We are actively working to support our external clients with assets in segregated mandates where they have made an explicit commitment to achieving net zero.

Our efforts are focused on supporting the decarbonisation of the constituents in our funds through engagement, rather than simply decarbonising our portfolio through sales and disregarding the real economy. The commitment is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement. It also assumes this action does not contravene our fiduciary duty to external investors.

1. Our intention is to decarbonise our in-scope directly managed funds in line with the real economy. We will also work closely with our segregated clients towards this goal where they have made explicit public commitments to net zero. Our efforts are focused on supporting the decarbonisation of the constituents of our funds through engagement (and not decarbonising our portfolio regardless of the real economy). The commitment is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement. It also assumes this action does not contravene Royal London Asset Managements's fiduciary duty to external investors. The commitment is baselined on the year 2020 and is being tracked using scope 1 and 2 carbon footprint using EVIC as an attribution factor (tCO2e/$m invested) for our corporate fixed income and equities portfolios.

Our net zero stewardship framework

What are we doing?

As part of our programme, we will evaluate the progress of companies in our portfolio in the delivery of decarbonisation plans each year until 2030. To achieve this, we have adopted the following framework:

Research: Assess companies' plans against 12 specific indicators (shared below) that, in our view, are parts of a climate transition plan and underpin companies' willingness and ability to transition.

Engage: Conduct engagement with companies to improve their climate transition plans, partnering with CA100+ and other investor networks where beneficial.

Vote: All our votes are carried-out in house, we will use our active voting position and other escalation techniques to progress our net zero objectives.

Integrate: Ensure data from climate engagements is flowing and distributed to investment teams for their assessment of materiality and appropriate integration into investment processes.

Advocate: Add our voice to collective advocacy efforts to ensure policies adopted facilitate the achievement of net zero.

Report: Twice a year we will report progress to clients and relevant stakeholders.

How have we prioritised companies for enhanced net zero stewardship?

To establish which companies to prioritise in our 2022 engagement efforts, we assessed the financed emissions data across our equities and corporate fixed income holdings across all portfolios as at the end of 2021.

We prioritised our investee companies based on their scopes 1, 2 and 3 emissions, to ensure we encompass all activities and target companies with the most impact.

We will conduct annual reviews in the first quarter of each year (Q1) and update our target companies to reflect changes in portfolio holdings weightings and/or emissions. However, we intend to pursue our long-term engagement with the highest emitters we finance.

Just transition is embedded in our expectations as indicator 6 and we routinely address this issue within our net zero engagement programme. However, to ensure that we give this topic the right focus, we have a more specific engagement programme dedicated to the social impacts of climate change. You can read more about our work on just transition with energy utilities, banks, and social housing sector **here**.

What are we asking companies to do? Our expectations on credible climate transition plans

Our net zero engagement and voting are based on three overarching expectations, which are supported by 12 underlying indicators. We share these expectations with the companies we invest in as part of our net zero engagement programme.

We systematically research the companies based on our indicators and apply our expectations to each company while considering the specificities faced by sectors, geographies, and business models to reflect the latest available science and best practice.

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.

We have a specific set of expectations and indicators for banks and other financial entities as the impact of the finance sector on climate is largely as enablers of real economy activity (see Annex I).

We will keep our expectations under review to follow the latest available science and best practice.

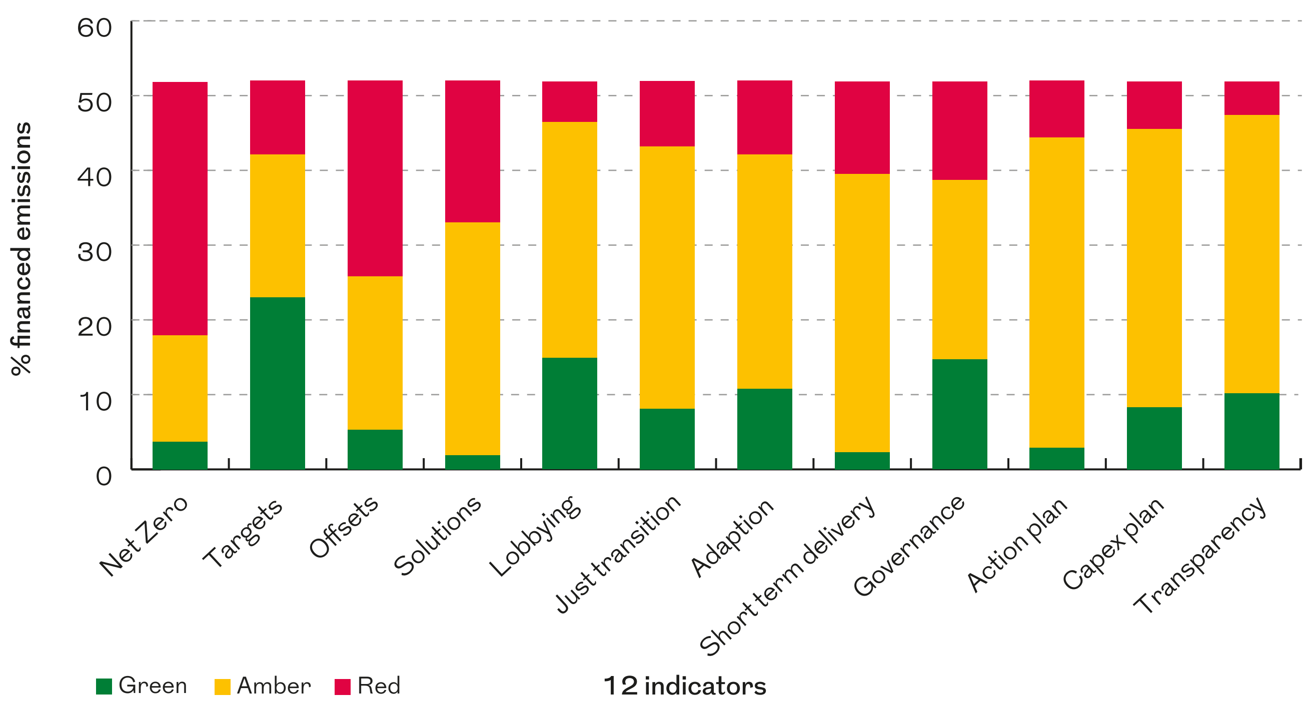
Research: Assessing climate plans against our 12 indicators

We have assessed the transition plans of 80 companies, representing approximately 52% of our financed emissions, against our 12 indicators.

Each of these indicators are assessed using a 'red / amber / green' rating based on proprietary criteria which factors in sector-specific considerations. An indicator will be rated 'red' for companies with plans that do not meet minimum standards, for example for indicator 5, a company with recent evidence of negative lobbying. To be rated 'green' the company must meet our highest threshold, for example evidence of recent proactive lobbying supporting the policies needed for its sector to transition to net zero.

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.

Financed emissions and rating per indicator



Additionally, our indicators align with the CA100+ Net Zero benchmark. We use our own indicators to build a categorisation 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 based on our assessed indicators. Of the 80 companies assessed approximately 49 companies are 'aligning towards a net zero pathway' and one company is aligned to net zero. However, further progress is needed as a large portion of companies' indicators falls in our amber rating. At this early stage of the engagement, it is important to note that there are more 'laggard' companies with most indicators red, than 'leading' companies with most indicators green.

The area of greatest acceptable performance (green) is related to companies' targets covering all scopes of emissions (indicator 2). However, these targets typically are not ambitious enough (not aligned to the Paris Agreement) as measured by indicator 1 and not delivering in the short term (indicator 8). Climate solutions (captured by indicator 4) and action plans (indicator 10) present substantial room for improvement across our sample. This is typically because of vagueness on how companies will reduce emissions and reduced evidence about the benefits of products or services that are considered climate solutions.

Unsurprisingly, the sector that performed worst in our analysis was the energy sector, where 7 of the 12 companies assessed were 'not aligned' to a net zero pathway. Oil and gas companies have the most difficult transition pathway with their current business' models dependant on increasing exploitation of fossil fuels. Some oil and gas companies we assessed are still opposed to any climate action, with all 12 of our indicators marked as red.

Most companies are taking marginal steps of improvement, with a few European majors providing detailed and well-researched climate plans, but each having different aspects that reduce their credibility, excessive dependence on offsets to decarbonise the business, continued investment on exploration including new frontiers or lack of transparency in methodologies for setting scope 3 baseline for targets.

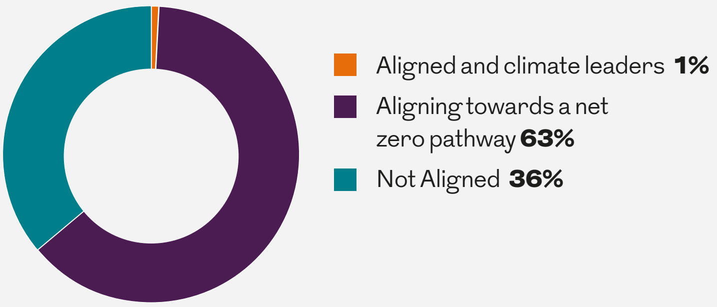
2022 was our first year of systematically reviewing companies' climate transition plans against our indicators. We only captured changes in our indicator assessment for two issuers, namely Rio Tinto and Lloyds Banking Group.

For Rio Tinto, we saw improvements in lobbying, adaptation measures and disclosure. These improvements were due to the completion of an asset level assessment into their exposure to physical climate risk as well as commitments to improved disclosures on policy positions.

We saw Lloyds publish improved sector targets for its portfolio in October 2022, aiming to reduce emissions intensity by 2030. They highlighted that six of their seven targets use scenarios that limit global warming to 1.5°C by the end of the century.

We expect to see more changes across all companies in the future because of policy changes, technological improvements, and investors' engagement.

Companies assessed against Net Zero Investment Framework alignment categories



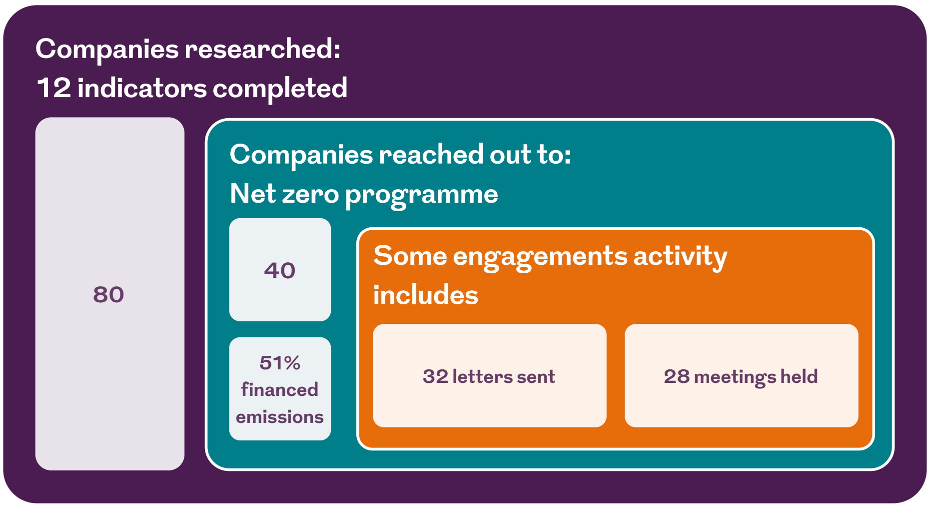


Figure 1: Net zero activity in 2022: Research (80 companies representing 52% financed emissions) and engagement (40 companies representing 51% financed emissions).

Engage: Net zero engagement progress

During 2022, we engaged with 393 companies, of which 175 were on climate related issues (see figure 2). We launched our net zero stewardship programme and our systematic assessment of companies and their transition plans, to create a baseline for us to assess improvements in their plans. This is a targeted programme focusing on change of the largest emitters. This year we reached out to 40 companies as part of our net zero engagement programme representing 51% of our financed emissions. Annex II details outcomes of our interactions with each of these 40 companies, how we assessed their 12 indicators, and our key asks for improvement.

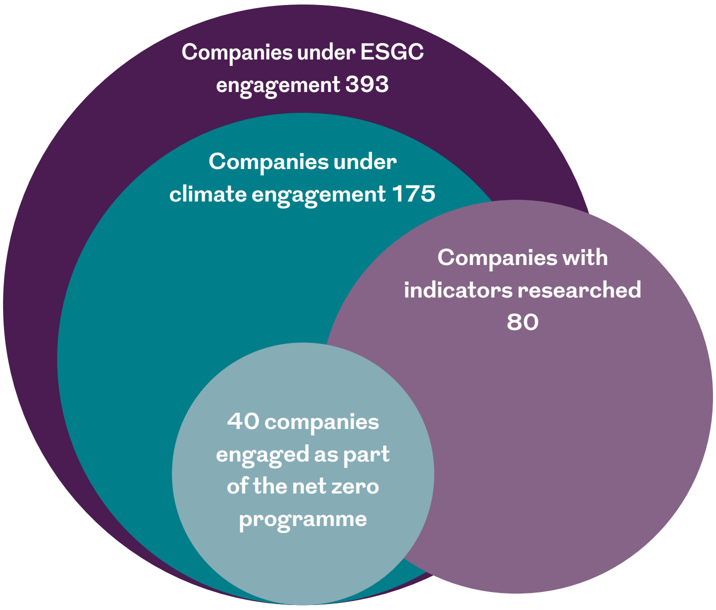
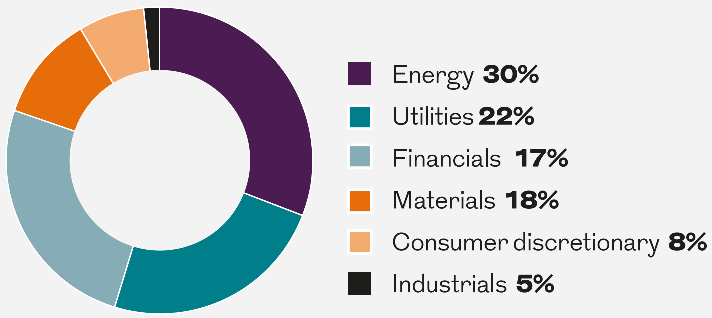
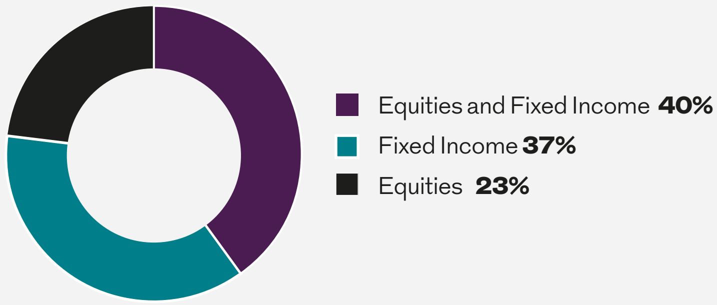


Figure 2: Companies engaged and researched as part of our net zero programme

Sector Breakdown



Asset class breakdown



In 2022, we sent 32 letters to companies with our expectations on credible climate transition plans. We held meetings with companies' sustainability experts, Chairpersons, CEOs and/or board members. We followed up with several companies signalling specific objectives within our 12 indicators where we expect improvements. Our net zero engagement activity has been predominantly among companies we hold across both equity and fixed income portfolio. This permits us to use a variety of tools for escalation, including our use of voting rights when we are exclusively shareholders or holders of 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.

Case studies of specific net zero meetings

Shell Plc

We met with Shell's Chairman to discuss our expectations on credible climate transition plans and the upcoming climate plan progress report vote ahead of the company's AGM. Additionally, we held two follow up meetings on climate with Shell's Investor Relations team for in-depth discussions of our net zero expectations. We also reached out with a letter specific to just transition and held two further meetings on the company remuneration consultation.

We discussed our indicators and scenario testing. The company expressed that should the world align to 2°C policies, they would need to write down $17bn and $16bn from the upstream and natural gas businesses, respectively, as noted in the company's annual report and accounts. Shell suggested these figures were not material and that the bulk of stranded asset risk was concentrated downstream, where they have already divested.

Our main asks to support Shell's climate plans were to halt new frontier exploration, reduce heavy reliance on offsets, and set absolute scope 3 targets. Shell's belief is that both investors and policy should focus on demand-side decarbonisation. The company emphasised its commitment to transitioning through offering lower carbon products. Accordingly, the company resisted our request to set absolute scope 3 emission targets. We raised our concerns over Shell's continued new frontier exploration, which is set to continue until 2025 and its compatibility with the Paris goals. Shell has stated that it believes its climate targets are aligned with the more ambitious goal of the Paris agreement to limit the increase in the average global temperature to 1.5°C above pre-industrial levels.

The company clarified its preference for nature-based offsetting was due to the associated positive externalities (such as for indigenous communities) but were receptive to our preference for more permanent removal of residual emissions projects offered through carbon capture, utilisation, and storage (CCUS). The company also agreed with our request for a further focus on clean energy for emerging markets. They explained that there would be additional announcements on this front (we later learned of the acquisition of Spring Energy4, an Indian solar and wind power distributor).

During our 2022 meetings, we also discussed exposure to Russia. The company showed strong support of Western democracies. The company considered it preferable to write-off the asset value of joint ventures and gradually wind down their purchase of oil and gas due to pressures to ensure supplies for Europe.

BP Plc

We met with BP's CEO and Vice President of Strategy & Sustainability to discuss our expectations on credible climate transition plans and the upcoming voting resolution on its net zero report. During the year, we also met their Vice President of ESG transformation to follow-up on our asks, including those included in a letter asking for the company's just transition strategy.

We raised our concern that divesting, while positive for an individual company's profile, does not reduce overall emissions. BP argued that the approach was necessary to fund the business transformation and allow it to provide low-carbon alternatives, where these could have most impact in reducing emissions. Moreover, BP believed the most effective strategy to preserve value for shareholders was offloading these assets earlier in the decade, and then maintain flat hydrocarbon production thereafter. Demand-side decarbonisation was an important topic of conversation, and the company pointed to BP's investments in electric vehicle (EV) charging points as well as developing hydrogen and biofuel value chains as examples of BP's commitment here.

During our 2022 discussions we expressed our view that BP's scope 3 emissions disclosures could not be considered a fair assessment of its emissions. We explained then our support of the company's proposition to include emissions from traded products within its scope 3 targets, but we also asked for the company to restate its scope 3 baseline to include physically traded and oil and gas sales.

We discussed the Russian invasion of Ukraine, and that the unfolding energy security crisis reinforces the urgency of the climate transition. BP's net zero plan was described as a triple goal in operations, production (upstream) and product sales.

During our meetings in 2022, we shared our climate expert views on the benefits of fossil fuel companies shifting away from upstream fossil fuel production and their investment in demand

	Shell Plc	BP Plc
Positives	• Targets encompassed all scopes of emissions and the full business value-chain • Robust and transparent scorecard for remuneration that covered approximately 300 people	• BP was not exploring new frontiers, and was reducing upstream production • Targets were on an absolute basis and did not rely on carbon offsets • Capital allocation strategy and stress-testing were clear and transparent
Negatives	• Continuing new frontier exploration – opened 3 new basins in 2021 • Heavy reliance on nature-based offsets – 30% by 2030 of scope 1 & 2 target • Did not have an absolute emissions target for scope 3	• Relied on divestment to fund the pivot of the business • Did not incorporate emissions from traded products (introducing next year)

Table 1: Comparison of Shell and BP climate plans as of end of year 2022.

side transition. Additionally, our concerns about scope 3 emissions disclosure, and use of divestments for decarbonisation were highlighted in our analysis and underpinned our abstain vote for the company's climate action plan AGM proposal. We followed this vote with a letter to the CEO clearly outlining which improvements could shift our views to vote in favour of a future strategy. These were restating the company's scope 3 disclosures, articulating a stance on 'responsible divestment' and addressing concerns over continued investment in exploration.

Following the AGM, we received positive feedback from the company, expressing gratitude for the constructive dialogue so far. Changes to BP's strategy in Q1 2023 are being reviewed by our Responsible Investment and investment teams.

Ferguson Plc

Ferguson (an industrial distributor with solutions for plumbing and heating) is one of the few holdings in our sustainable funds that appear in our 50% financed emissions list. This is due to our inclusion of their estimated scope 3 emissions, which comes from the use of the products they sell.

Ferguson is increasing focus and efforts on solutions for adaptation and extreme weather events in the United States: with 18% of Ferguson's revenues generated from water management the company is in a strong place to look at water scarcity and sanitation. The company is currently working with municipalities on preparation for increased storm water, erosion control and leak detection. Within waterworks, Ferguson provides a range of solutions such as sub-surface water storage and biofiltration. Through its water management, the company is also addressing biodiversity risk as shown through treatment equipment which filters non-point source nutrient pollution in stormwater runoff before it reaches bodies of water.

Furthermore, through our engagement we learned they are committed to assess their full scope 3 emissions and should be in a unique position in their level of reach as they have over 37,000 suppliers and over one million customers. Of these suppliers, Ferguson is targeting those which they believe can have the largest impact. And with customers, Ferguson is starting to develop an approach for influencing customers on sustainability and want to become a trusted advisor in this space. The company ultimately believes they can have the greatest impact by influencing others.

Vote: How does Royal London Asset Management assess climate issues when voting

Proxy voting is integral to our stewardship strategy and, together with engagement, is used to reinforce our responsible investment objectives at investee companies.

Our analysis and engagement on climate help to inform how we vote. We publish our voting policies publicly and disclose the rationale behind each vote on our **website**. Proxy voting can serve as an escalation technique in our net zero engagement or as a trigger for specific feedback on companies' climate plans.

As mentioned earlier, we assess companies against 12 indicators to evaluate their climate plans. For each climate resolution where we are eligible to vote, we apply a 'decision tree', embedded within this framework. This allows us to cast our votes fairly and consistently across company AGMs that put forward climate proposals to a vote.

In efforts to evaluate the impact and effectiveness of management and climate transition plans, we specifically look at:

1. Reporting: we expect companies to regularly review and report their approach to managing their climate risks and opportunities, particularly for companies in high-impact sectors.
2. Climate transition plans (when put to shareholder vote): we assess a company's climate disclosures and targets against our 12 indicators that help us identify any gaps or issues.

We are still considering whether and how often climate transition plans should be put to a shareholder vote, as the FCA makes their publication mandatory for certain entities in the UK. But some issues we take into consideration are:

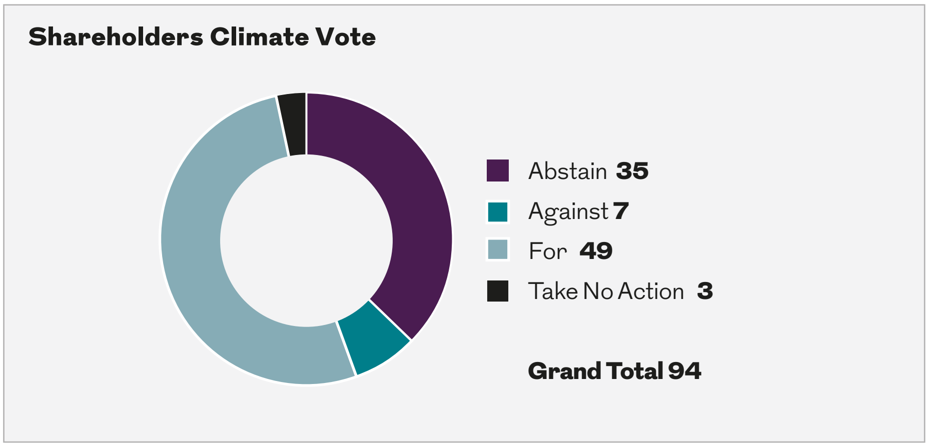
- the accountability and focus of a shareholder vote to hold management's attention;
- its openness and transparency as a point for gathering feedback;
- the resource and effort required of both companies and investors – we note the latter is exacerbated by a lack of clear regulatory context or guidelines to evaluate each proposal's adequacy and timing (i.e. short time frames in proxy season);
- the proliferation of votes on many different topics, as this could be distracting for management; and
- the immediate quality of proposals with our tactical approach to voting as part of the stewardship continuum and the expectations of our stakeholders.

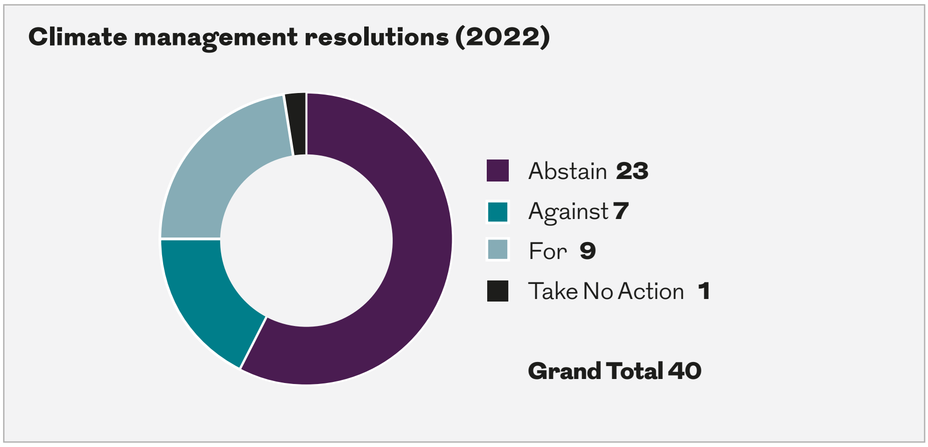
Given the evolving proxy voting agenda and climate space, we will continue to enhance our voting and engagement framework to help steer investee companies toward a net zero alignment.

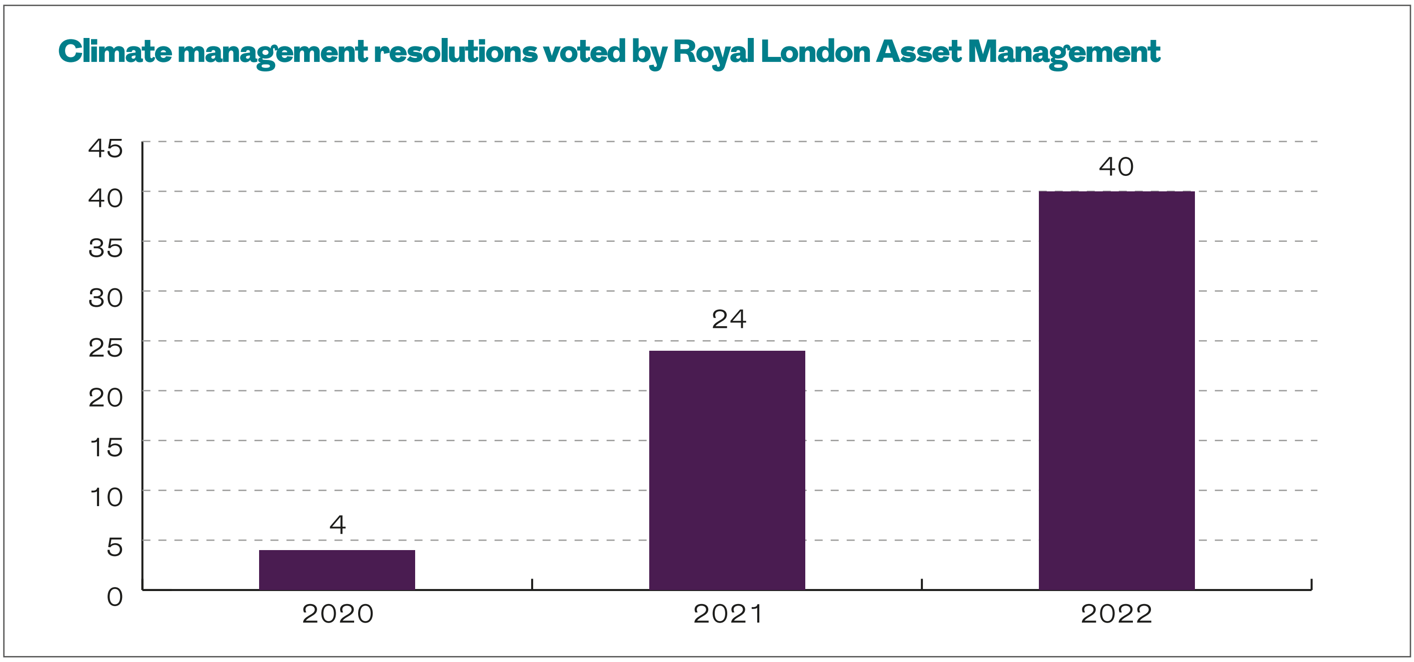
How did we vote on climate in 2022?

During 2022, we voted on 40 management proposals and 94 shareholder proposals on climate.

In the last few years, alongside broader shareholder resolutions on climate issues, there is a growing number of climate transition plans (e.g. 'Say on climate' or requests for shareholder support for the publication of future climate transition plans) and climate progress reports submitted for a vote (see chart below). Climate transition plans are a useful tool for preparing a company's disclosure and we acknowledge they will become mandatory for certain companies and investors in the UK.







We abstained on most resolutions regarding management climate transition plans because we felt the strategies were not aligned to the Paris Agreement and essential elements in our indicators were absent. We voted against plans that were significantly lacking or when we did not plan on meeting a company's management team.

Royal London Asset Management's use of abstain

We believe the option to abstain is an often-overlooked element of stewardship. We see the decision to abstain as an active one. It enables us to communicate concerns or views to management without either supporting the status quo, or wholly disregarding any progress that has been made.

This approach can, and has, led to further engagement with companies on areas where companies are making progress, but where improvements are still required. We often write to companies in our actively managed funds when we abstain to explain the reason for our vote. Often companies are more receptive to engaging with us after we abstain, recognising our concern and offering a dialogue on how the company can improve. This option also leaves us with the ability to escalate our vote, if necessary, in future years.

On climate, we hope our 'abstain' votes trigger engagement on specific issues within our 12-indicators framework, which we want management to improve upon. Additionally, abstentions would typically be because we agreed with the spirit of the shareholder resolution, but we found the demands non-additive to management's plans, too specific or prescriptive.

We voted favourably for most shareholder resolutions on climate, particularly in the US, generally because they proposed to increase the level of disclosure.

When we decided to vote against shareholder resolutions, this would typically be because there is a sufficiently detailed plan and/or we preferred management to focus on improving and delivering their climate strategy over the proponents' requests for new plans.

Climate vote examples

The following are examples of votes we made in 2022, including whether the votes were related to management or shareholder proposals.

Barclays Plc: Against (management)

The company put forward a resolution seeking approval of the Climate Strategy, Targets and Progress Report 2022. We voted against the management resolution using the following rationale:

"We question whether the financed emissions targets are comprehensive as they do not include all financed activity. Moreover, we note that Barclays uses the IEA net zero scenario to set targets but argues against its conclusion that there is no room for new oil and gas fields in this net zero pathway. Additionally, Barclays' coal policy is considered to have loopholes despite being updated this year. They are only one of two mainstream European banks that has not committed to excluding financing for oil sands projects."

SSE plc: For (management)

The company put forward a net zero transition report, updating investors on activities in line with their transition plan. We voted in favour of this report, citing:

"The company is a clear industry leader and has passed our milestones assessment for climate transition plans. The ambitious targets are backed with clear disclosures and a record of strong performance. We are engaging with the company to achieve further clarification on the company's offsetting plans, defining residual emissions and further understanding potential reliance on offsets."

BP Plc: Abstain (management)

At BP's AGM the company put forward its climate transition plan – net zero: from ambition to action – to meet net zero across its operations. On review, we ultimately decided to abstain on the proposal with the following rationale:

"We cannot fully support the plan in its current state as emissions from traded products are not included and there is a reliance on divestment. Following engagement with the company on their climate plan and discussion of our 12 indicators on climate, we are encouraged by the company's commitment and expect to see some of our concerns addressed in the 2023 report."

Shell Plc: Against (shareholder resolution)

A group of shareholders filed a shareholder proposal regarding greenhouse gas (GHG) reduction targets. On review, we ultimately decided to vote against the resolution with the following rationale:

"While we appreciate the aims of the proponent, we believe there is greater value in engaging with the company on their current plan to bring it into line with investor expectations rather than requiring the company to start again from scratch."

Berkshire Hathaway Inc.: For (shareholder resolution)

A group of shareholders filed a resolution at Berkshire Hathaway requesting the company produces a climate report. We decided to vote favourably, citing:

"We consider climate change to have material implications for businesses. Given the company's lack of sufficient climate information in the public domain that would permit shareholders to evaluate its climate risk, compounded with the complex holding structure, which increases the exposure to unforeseen risks, we are supportive of the proponent's call for improved disclosures in this area. We will continue our attempts to engage with the company and consider all alternatives available to influence further disclosures."

Morgan Stanley: Abstain (shareholder resolution)

A group of shareholders filed a resolution requesting a fossil fuel underwriting policy. We decided to abstain and provided the following rationale:

"We believe that financing and underwriting new fossil fuel projects and expansions is inconsistent with the goals of the Paris Agreement that the company seeks to support and enable through their climate strategy. While we are supportive of the proponent's general position, the shareholder proposal imposes an overly prescriptive framework in approach. Given such, we have moderated our support at this time."

Advocate: Partnering to shape policy

For investors, climate transition via corporate engagement is limited by holding size and the resources needed for individual and/or collective engagement. Public policy intervention is capable of 'raising all boats' or 'levelling the playing field' in a systematic way. We believe government and public sector advocacy forms a core component of any comprehensive net zero engagement strategy. During 2022, our activity on this front was mostly done through our membership in the following industry initiatives:

- **Climate Financial Risk Forum (CFRF),** led by the Bank of England's Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), we contribute as members of the forum and participants in its transition to net zero working group.
- **Investment Association (IA),** we sit on their Stewardship and Sustainability and Climate Change Working Groups.
- **Institutional Investor Group on Climate Change (IIGCC),** we are active members and also co-chair the energy utilities working group.
- **Net Zero Asset Management Initiative (NZAMI),** we are members and submitted our inaugural net zero commitment in 2022.
- **Climate Action 100+ (CA100+),** we are co-leads of engagements with E.ON, EDF and Glencore.

We continued to be highly engaged on just transition through investor networks. The social implications of climate change have been a priority for our engagement since 2019. Specifically in 2022 relevant partnerships included:

- **Financing the Just Transition Alliance (FJTA),** we contributed to the report Making Transition Plans Just.
- **International Labour Organisation (ILO),** we supported the publication of the Tool for Finance sector integration of just transition.
- **Interfaith Centre of Corporate Responsibility (ICCR),** we joined US investors on engagement with energy utilities.
- **Ceres Investor Network,** we participated in their just transition working group, showcasing our investor expectations in just transition for the power utilities.
- **World Benchmarking Alliance (WBA),** we supported their engagement initiative on just transition and oil and gas companies.
- **Friends Provident Foundation (FPF),** we continued collaborative engagements on energy utilities, banks and social housing.

Furthermore, our work on biodiversity and broader responsible investment agenda has cross-overs and supports our climate advocacy. This is mostly conducted through our membership in:

- United Nations Principles for Responsible Investment (UNPRI)
- FAIRR initiative on intensive livestock production where we are specifically working on biodiversity loss due to waste and pollution.

We are also part of, or support the following organisations focused on improving disclosures, specifically on climate change:

- The Climate Disclosure Project (CDP)
- The Task force on Climate-related Financial Disclosures (TCFD)
- The Global ESG Benchmark for Real Assets (GRESB)

Aside from the policy engagement conducted through partnership with the above organisations we also respond to consultations individually. During 2022, we have provided feedback to the following consultations and/or become signatories of public letters on climate change:

- Call for Evidence of the Department of Business, Energy and Industrial (BEIS) Strategy UK net zero review.
- Her Majesty's Treasury Transition Plan Taskforce (TPT) call for evidence on climate transition plans and climate transition plan online sandbox.
- Glasgow Financial Alliance for Net Zero (GFANZ) consultation on its guidance on credible net zero transition plans.
- International Sustainability Standard Board (ISSB) consultation on their proposals for sustainability disclosure standards.
- Climate Action 100+ Strategy for period post 2023.
- Institutional Investor Group for Climate Change (IIGCC) consultation on benchmark for assessing banks' net zero and climate transition plans.
- IIGCC consultation to the offsetting principles for investors and their portfolio companies.
- Investment Association (IA) statement on the energy security and net zero in the United Kingdom (IA).
- Interfaith Centre for Corporate Responsibility (ICCR) statement on investor expectations for job standards and community impacts in the just transition.
- World Benchmark Alliance (WBA) statement on just transition and the oil and gas sector.
- 2022 Global Investor Statement to governments on the climate crisis for COP27 from the Investor Agenda.

Annex I. Royal London Asset Management expectations on credible climate transition plans for banks and financials

SET EMISSIONS REDUCTIONS TARGETS ALIGNED WITH THE PARIS AGREEMENT

1 Reach net zero emissions for operations and financed emissions in a timeframe aligned with the Paris Agreement.

2 Sets targets encompassing all financing across different asset classes and sectors, including lending, investment, and underwriting activities.

3 Explicitly renounce offsetting of financed emissions and encourage clients to only offset residual emissions following net zero aligned offsetting principles.

BRING OTHERS TO NET ZERO

4 Commit to financing the scaling-up of technology and solutions required to achieve net zero and to adapt to the locked-in climate impacts.

5 Lobby for policies that accelerate the transition to net zero.

6 Consider and address through financing activities and engagement with clients the social and biodiversity impacts of net zero to ensure a just transition.

7 Engage with financed clients to implement net zero commitments and encourage good practice, where client is not showing demonstrable evidence of transitioning consider withdrawal of finance.

DEMONSTRATE ACTION NOW

8 Set and deliver short-term targets and consider halting financing for new fossil exploration and production.

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

10 Developing an action plan to implement targets with specific operational implications to deliver net zero, including policy updates on fossil fuels.

11 Conduct climate scenario stress-testing and align accounting practices to what is required to deliver net zero.

12 Disclose transparently and consult climate transition plans with stakeholders.

Annex II. Climate plans assessment and meeting outcomes for the 40 companies we reached out to as part of our net zero engagement*

Company	Meeting outcomes											
Oil and gas exploration and production												
BP	We met with BP twice during the year, including ahead of their AGM and vote on their climate report. In response to our request, it was confirmed that BP would amend the baselines of its scope 3 emission target in 2023 disclosures. Additionally, the company agreed it would consider how to suitably demonstrate that cashflow from divestments are being reinvested in demand-shifting technologies.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Red	Amber	Red	Amber	Amber	Amber	Amber	Green	Amber	Green	Amber
DNO	We sent a letter regarding the company's net zero commitment and climate transition plan, however, we did not receive a response. We will continue to reach out to the company.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Amber	Red	Amber	Amber	Red	Red	Red	Red	Red	Amber	Amber
Equinor	Equinor explained their energy transition plan is tackling the climate challenge, energy supply, and security. The company stated they plan to continue with oil and gas production increase up to 2026 then keep it flat until 2030 after which they expect a decline. We offered feedback on their just transition plans. We expressed our expectations on the reduced role of divestment for decarbonisation, while halting new frontier oil and gas exploration and further disclosure on capital allocations.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Amber	Amber	Amber	Amber	Amber	Green	Amber	Amber	Amber	Amber	Green
Exxon Mobil	Exxon welcomed our feedback to use the net zero offsetting principles to provide investors with further clarity around their use of offsets. Offsetting was not part of their primary strategy, but they were developing carbon capture utilisation and storage (CCUS) solutions. The company believes their level of investment in low carbon business is aligned with the amount that the world requires to reach net zero. They explained they have a bigger role to play by focusing on low carbon solutions, such as hydrogen and bioenergy and therefore prefer to focus on setting targets for this rather than targets for reducing their scope 3 emissions. In the future we will continue to monitor the company's disclosures and engage with them on their scope 3 targets, capital expenditure and lobbying.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Red	Red	Amber	Red	Red	Amber	Red	Red	Amber	Red	Red

*All comments are for assessments made on or before 31 December 2022

Setting targets aligned with the Paris Agreement — 1 2 3
Bring Others to net zero — 4 5 6 7
Demonstrate action now — 8 9 10 11 12

Red: **Does not meet minimum standards**
Amber: **On track**
Green: **Meets highest standards**

Kosmos Energy	Kosmos Energy was clear in its interest to work with us to better understand what credit investors want to see from oil and gas companies. We were pleased to hear plans to move to an equity-based approach to emission allocation. By disclosing all emissions, we believe Kosmos has an opportunity to differentiate themselves from less efficient competitors. The company has requested that we share our methodology of 12 indicators assessments with them and have an informal meeting to discuss its transition plan.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
Range Resources	We sent a letter regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
Shell	We met Shell three times specifically to discuss our net zero expectations and their climate plans and communicated our intention to abstain on the voting resolution to approve its climate progress report on the basis that we wanted the company to progress on several key issues: for example, their 1.5°C aligned targets, particularly for scope 3, halting exploration of new fossil fuels, ensuring permanent removals of offsets. Shell was positive about our requests for an enhanced focus on emerging markets from the company as well as our request for clearer plans on carbon capture and storage (CCUS). The company will continue exploration and disagreed that this was incompatible with a 1.5°C pathway. The company believes investors should focus further downstream to change demand.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
Sunoco	We sent a letter regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
Talos Production	We sent a letter regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12

Setting targets aligned with the Paris Agreement 1 2 3

Bring Others to net zero 4 5 6 7

Demonstrate action now 8 9 10 11 12

Red: **Does not meet minimum standards**

Amber: **On track**

Green: **Meets highest standards**

Total Energies	We met Total Energies twice this year to discuss our expectations on net zero and their climate plans. The level of investment in renewables, electricity and "new molecules" is encouraging but we did not gain any further clarity through our engagement on aspects of their strategy where we found inconsistencies. The company maintains the view that exploration is necessary and increased new frontier exploration in 2022. They consider the carbon intensity of new oil production sites to fit within their scope 1 and 2 targets and see no or limited issues of stranded assets. We suggested that Total should use the net zero offsetting principles for their disclosures to enhance their clarity around offsets. We will continue engaging with the company on the issues identified and will be requesting more progress.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Green	Amber	Red	Green	Amber	Amber	Amber	Amber	Amber	Red	Amber
Tullow Oil PLC	Tullow Oil does not have energy transition plans and was not receptive to suggestions of running down assets. However, the company did agree it could work to improve disclosure around scope 3 emissions, mitigation of climate risks, and use of offsets. We have agreed to share our methodology on how we assess their plans.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Amber	Red	Red	Amber	Red	Amber	Red	Red	Amber	Amber	Red
Vermilion Energy	We sent a letter regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Amber	Amber	Red	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
Electric utilities and multi utilities												
Centrica	Centrica will consider ways to quantify the different levers of decarbonisation shown in its transition plan but suggested the large number of uncertainties may limit the usefulness of the exercise. The company took on board our requests for further disclosure on the oil assets they retain as a segment of the business, including with regards to methane management. The company asked about our interest in further data that would allow us to assess progress in the delivery of a just transition.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Red	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red	Green
CLP Holdings	We were pleased to hear that the company's CEO did not see any barriers to decarbonisation with respect to policy development in Hong Kong, India, China or Australia but did recognise the Australian policy landscape was less supportive. We suggested that they could describe more clearly 'how' they planned to achieve their revised commitments and could consider putting a climate transition plan to shareholders to vote.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
	Amber	Green	Amber	Amber	Amber	Amber	Green	Red	Amber	Amber	Amber	Amber

Setting targets aligned with the Paris Agreement 1 2 3
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Amber: **On track**
Green: **Meets highest standards**

E.ON	We met E.ON twice this year to discuss their climate transition plans and our net zero expectations. They provided important clarifications on aspects of its plans and shared views that the company can be considered a critical infrastructure provider enabling the energy transition and net zero. However, E.ON does not accept comparison with the broader utilities sector with their big scope 1 emitting assets, as they no longer operate generation, but only transmission and distribution assets. They pointed to a fragmented policy landscape on heating in Europe as a key requirement to address its scope 3 emissions. Our key asks going forward include understanding of the company's solutions for scope 3 and a clearer proactive advocacy stance.

Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Amber	Green	Amber	Amber	Green	Green	Green	Amber	Amber	Amber	Amber	Amber

EDF	We met EDF twice this year to discuss our net zero expectations and their climate transition plans. We were reassured the nationalisation process and the energy crisis would not impact the company's climate plans. They are working hard to bring back reactors and maximise capacity of all assets. We provided feedback that new assets had better adaptation disclosures than old plants. Nuclear expansion is still to be determined; renewables will also have a role and the new CEO has brought further focus on decentralisation. French government requested the company compensates increased emissions from 2022 coal with 'offsets' which is suboptimal.

Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Green	Green	Amber	Amber	Green	Green	Green	Green	Red	Green	Amber	Green

Engie	We sent a letter regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.

Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Amber	Green	Amber	Amber	Amber	Green	Amber	Amber	Green	Amber	Amber	Amber

Iberdrola	Iberdrola accepted our concerns around their offsetting strategy and said they are working to make their approach more explicit. They are confident they will meet their targets but do not know which decarbonisation pathways will take them there and are considering all options including divestment. Iberdrola appreciated our feedback on the lack of real-world impact if divestment is used as a decarbonisation strategy and accept the desire for clarification on their approach.

Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
	Green	Green	Amber	Green	Amber	Amber	Amber	Green	Amber	Amber	Amber	Green

Setting targets aligned with the Paris Agreement ____ 1 2 3
Bring Others to net zero ____ 4 5 6 7
Demonstrate action now ____ 8 9 10 11 12

Red: **Does not meet minimum standards**
Amber: **On track**
Green: **Meets highest standards**

National Grid	National Grid informed us it is working on a separate generation target as part of SBTi 1.5°C aligned target setting process. The company stated that instead of divesting from the generation assets and allowing another company to continue operating they would rather find a more sustainable solution to go in its place. National Grid welcomed our request to further disclosures on their lobbying practices, particularly in the US, this will be a priority in improving their climate transition plan. We provided further detailed feedback on their just transition strategy.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
Scottish Power	Scottish Power, part of Iberdrola but issuing separate debt, hosted an event where they released an update to their just transition strategy. The company remains committed to its climate change and just transition policies even through the current challenges posed by the cost-of-living crisis. The company explained the wave of investment needed in energy efficiency to reduce the demand on the grid and lower the costs of household bills while also increasing the number of homes that have heat pumps and solar panels. We are planning to meet with the company in 2023 to focus more on a just transition .											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
SSE	We met with SSE twice this year and attended their AGM. With their CEO we discussed the changed business environment and potential barriers to the delivery of their ambitious net zero strategy and scaling up of climate solutions. SSE believes the government will have to do more on Contracts for Difference to ensure the long-term investment plan for renewables isn't affected by windfall taxes. We will continue to engage with the company on the delivery of their climate plan and aim to focus on carbon capture utilisation and storage (CCUS) and developing a net zero aligned offsetting policy. We continued our close engagement on just transition and will focus on KPIs for measuring progress on the delivery of their goals.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12

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Demonstrate action now 8 9 10 11 12

Red: **Does not meet minimum standards**

Amber: **On track**

Green: **Meets highest standards**

Diversified metals and mining	
Anglo American	The company agreed it should provide further clarity on the actions around its scope 3 target; specifically with regards to further disclosure on the composition of its customers, their location, and the proportion of their clients that adopt net zero targets. Anglo American also agreed that further clarity on the reasoning behind its selection of metrics for long-term incentive plans (LTIPs) should be provided. The company welcomed our proposal of creating a 'lessons-learnt' document on the spin-off of its coal mining to Thungela.
Aligning towards a net zero pathway	1 2 3 4 5 6 7 8 9 10 11 12
BHP Group	The company was keen to partner with us to improve its disclosures, particularly with regards to its scope 3 decarbonisation plans and percentage contribution to net zero. BHP Group welcomed our offer to provide feedback on its just transition principles and disclosures. The company did not have a solid response to what 'responsible divestment' looks like and requested our feedback on managed decline (later BHP announced they would no longer sell Mt Arthur Coal business but committed to close it by 2030) and that they would add climate and sustainability considerations in relation to their mergers and divestments taking place. BHP is concerned that increased sustainability disclosure pressure may hinder the company's ability to set ambitious plans. Additionally, the company is exploring better ways of capturing its capital expenditure alignment and offsetting strategy and are seeking ways to move forward to more progressive climate lobbying.
Not aligned	1 2 3 4 5 6 7 8 9 10 11 12
Glencore	Glencore has continued to invest in minerals and metals that are supportive of the energy transition. Both through individual letters and through CA100+ we have asked the company to clarify the alignment of 2026 and 2035 targets with 1.5°C scenarios specific to coal; halt thermal coal segment expansionary capex and conduct proactive climate policy advocacy. We communicated to the company that future votes on climate-related resolutions are conditional on the progress made on some of these requests.
Not aligned	1 2 3 4 5 6 7 8 9 10 11 12
Rio Tinto	Rio Tinto's approach to scope 3 is robust but further quantification of the progress of partnerships on steel decarbonisation is key, particularly as it is linked to executive remuneration. We asked for quantifiable scope 3 targets on the decarbonisation work they are doing through partnerships and emphasised this did not need to be an emissions target and accepted their point on the difficulty of accurately reporting these emissions due to a lack of access to their customers' emissions data. We provided feedback on their capex disclosures and offsetting policy with the company stating their position on offsets is not settled.
Aligning towards a net zero pathway	1 2 3 4 5 6 7 8 9 10 11 12

Setting targets aligned with the Paris Agreement 1 2 3
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Demonstrate action now 8 9 10 11 12

- **Red:** **Does not meet minimum standards**
- **Amber:** **On track**
- **Green:** **Meets highest standards**

Construction materials												
Cemex	Cemex agreed on the need for more transparency in the commercial case for their climate goals and on CAPEX expenditures. The company has effectively substituted fossil fuels with waste in their cement making process, particularly in emerging markets. The company agreed their marketing needed to make a clear distinction between carbon neutral and net zero products. We will continue to further monitor progression and engage with Cemex's sustainability team particularly on just transition and on ways of tackling barriers for the construction sector adoption of lower carbon cement mixes.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
Heidelberg Cement	Heidelberg Cement was positive towards our stance on decarbonisation and our indicators on climate transition plans. The company is focused on becoming a market leader in low carbon cement for Europe, and has made significant investment in carbon capture, utilisation and storage (CCUS) technology with the support of the Norwegian government.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
Other												
Ferguson	Ferguson (Industrial Distributor) was committed to improving its climate-related targets and disclosures, but ambition from the company appeared limited. Representatives at Ferguson were receptive to our feedback and were eager to use their unique position to influence both suppliers and consumers. We welcomed the focus on products as it reflects the largest impact the company can have across society. We will follow up with request to meet the Sustainable Product Lead.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
General Electric	We sent a letter regarding the Industrial Conglomerate's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
Not aligned	1	2	3	4	5	6	7	8	9	10	11	12
Inter-continental hotels	We sent a letter regarding the company's net zero commitment and climate transition plan however did not receive a response. We will continue attempting to reach out to the company.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12

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Red: Does not meet minimum standards

Amber: On track

Green: Meets highest standards

Jaguar Land Rover	The auto manufacturer was somewhat unaware of our methodology and the logic behind our demands but accepted our constructive feedback on the sustainability disclosure we desire. Additionally, the company committed to arranging a future follow-up meeting with its sustainability team.											
	1	2	3	4	5	6	7	8	9	10	11	12
Aligning towards a net zero pathway	Red	Green	Red	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red	Amber
Novelis	We sent a letter to the aluminium company regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
	1	2	3	4	5	6	7	8	9	10	11	12
Aligning towards a net zero pathway	Red	Green	Red	Amber	Amber	Amber	Red	Amber	Red	Green	Amber	Amber
Volkswagen AG	We sent a letter to the auto manufacturer regarding the company's net zero commitment and climate transition plan, however, did not receive a response. We will continue to reach out to the company.											
	1	2	3	4	5	6	7	8	9	10	11	12
Not aligned	Amber	Green	Amber	Amber	Amber	Amber	Green	Red	Amber	Amber	Amber	Amber
Financials												
HSBC	The bank published an energy policy outlining its position on oil, gas, hydrogen, renewables, hydropower, biomass and nuclear, which supplements the Group's coal policy. We engaged with HSBC during 2021 and 2022 on its net zero commitment and climate transition plans, and to discuss embedding just transition into this plan. We provided detailed feedback on this policy which was partly incorporated in the published draft. The policy prevents HSBC from financing new oil and gas exploration activities and any activity in the most polluting and sensitive types of oil. Following our feedback, the bank improved definitions for 'existing' and 'new' oil field and clarified wording of the commitment. The notion of just transition is incorporated as one of HSBC's three policy objectives: 'support a just and affordable transition, recognising the local realities in all the communities we serve'. Just transition was also included as a factor when assessing oil and gas clients' climate plans.											
	1	2	3	4	5	6	7	8	9	10	11	12
Aligning towards a net zero pathway	Amber	Amber	Green	Amber	Green	Amber	Amber	Amber	Amber	Amber	Green	Green
Legal & General Group	L&G believe we have shared challenges and highlighted they are reliant on the economy to decarbonise to achieve net zero. The company discussed solvency II and how it impacts their climate plans, they are engaging with the UK government as they believe that small changes in regulation could allow them to invest further on net zero infrastructure. The board has good oversight on climate risk, has incentives for management and across the board to deliver their targets however they don't plan to expand the percentage of AUM under net zero commitment. They shared a first proposal for a climate transition plan for our feedback which they took onboard.											
	1	2	3	4	5	6	7	8	9	10	11	12
Aligning towards a net zero pathway	Amber	Amber	Green	Amber	Green	Green	Amber	Amber	Amber	Amber	Amber	Green

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Lloyds	The bank's net zero activity update meets our expectations, and they now cover their most material financed emissions. A significant proportion of the company's lending book is from residential mortgages, the company spoke of how this sector in addition to the agriculture sector are harder to develop transition approaches due to less government guidance/policy existing. We will continue to engage with Lloyds and monitor their progress, including on our focus area of just transition.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
M&G	The investment manager continues to work on their transition strategy and will continue to update shareholders on progress. We abstained on their climate transition plan as we didn't consider it addressed sufficiently our expectations. We discussed the opportunity to collaborate on bi-lateral engagements with high priority holdings where engagement has proven challenging and have since met to discuss the next stages of collaboration.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
Nationwide Building Society	Nationwide has recently published intermediate science-based targets and a report which references just transition principles in the delivery of the targets. We had engaged and shared our expectations on net zero in 2021. The company now clearly articulates its targets, levers, sphere of influence and dependencies on policy which displays best practice for the retail finance sector in the UK. Within this document it explains the basis for their targets with clearly outlined actions and timeframe throughout all scopes of emissions, particularly within their mortgage book.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12
NatWest Group	NatWest discussed the methodological approaches to reaching net zero, how they had mapped financed emissions to four sectors and were now in the process of expanding to another other four. They have linked management incentives to the delivery of targets. They are aware of potential negative social implications and said they would work with LSE and Lord Stern, who is on the Bank's advisory board on how to operationalise a just transition in banking.											
Aligning towards a net zero pathway	1	2	3	4	5	6	7	8	9	10	11	12

Setting targets aligned with the Paris Agreement 1 2 3

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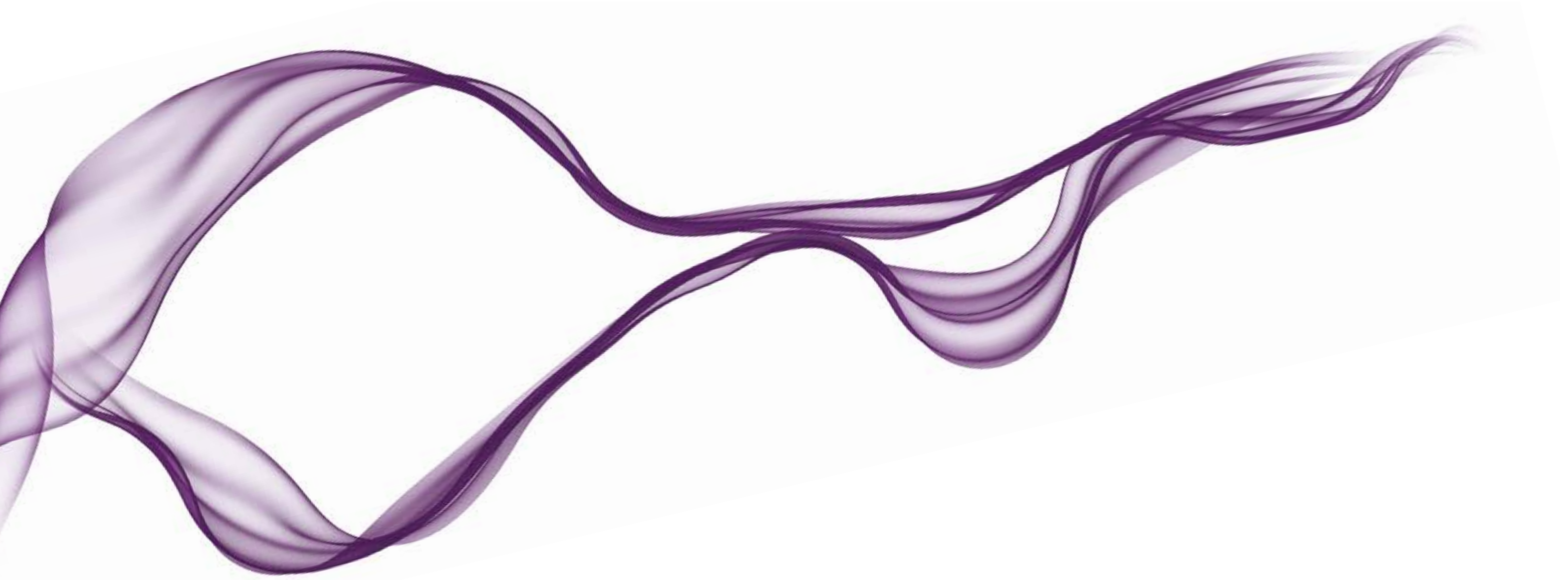

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