Task Force on Climate-related Financial Disclosures - RLUTM

Climate Report 2022

ROYAL LONDON
ASSET MANAGEMENT

Contents

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Compliance Statement:

The disclosures for Royal London Unit Trust Managers Limited, including any third party or group disclosures cross-referenced, comply with the requirements under the FCA's Policy Statement PS21/24.

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Executive Summary

Climate change is one of the biggest risks facing our society today. The effects of climate change and the actions taken to mitigate it will have a major impact on our society — socially, politically and economically. Finding information on which companies are most at risk from climate change and which are making changes in how they behave is not easy.

Reflecting on current climate action in the asset management sector, we see that the focus is primarily on emissions measurement and scenario analysis. While we agree that these are useful climate risk management considerations, we believe that the actions taken by investors and companies are at least as important to reach net zero and to effectively manage climate risk. Carbon-related metrics and climate modelling will continue to evolve and improve through bold leadership.

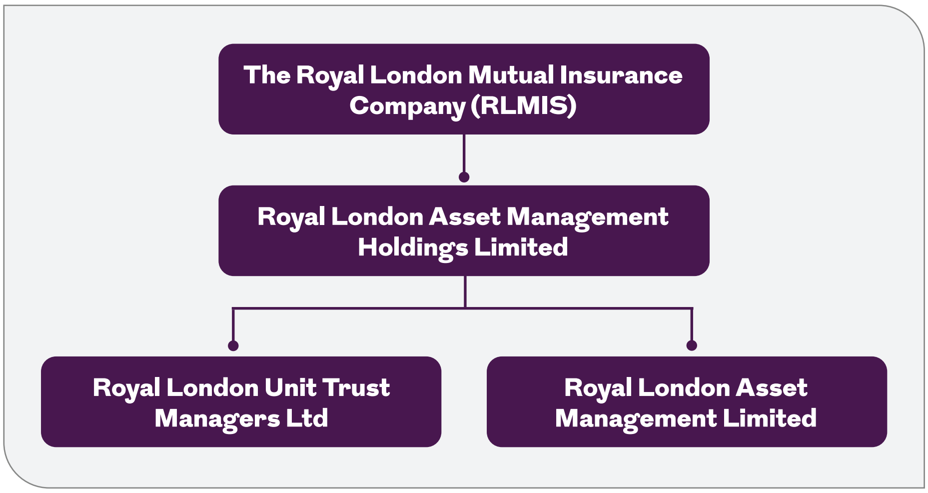
The Task Force on Climate-related Financial Disclosures (TCFD) recommendations are designed to help the investment community build a more in-depth and consistent picture of the impact of climate change.

We are pleased to present our 2022 Royal London Unit Trust Managers Climate Report, which has been prepared in accordance with the recommendations of the TCFD.

About RLUTM

Royal London Unit Trust Managers Limited (RLUTM) is a Financial Conduct Authority (FCA) regulated Fund Management Company offering a broad range of funds for investment opportunities. RLUTM has appointed its affiliated company Royal London Asset Management Limited to manage the funds in line with an investment management agreement between both companies.

RLUTM relationship to Royal London Asset Management Limited & The Royal London Mutual Insurance Society



In addition, both companies are ultimately owned by The Royal London Mutual Insurance Society (RLMIS) via Royal London Asset Management Holdings Limited (RLAM Holdings Ltd).

RLUTM does not have any direct employees or premises, with all activity carried out by Royal London Asset Management staff in Royal London Asset Management premises.

TCFD reporting requirements

The Publication of a TCFD report is a regulatory requirement, as set out in the FCA's Policy Statement PS21/24[1] published in 2021. The FCA has suggested that the Financial Stability Board's TCFD be used as a guideline for reporting. The TCFD was set up to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

This report follows the TCFD recommendations and as suggested by UK regulators including the FCA. These enhanced disclosures are expected to help clients and consumers make more informed financial investment decisions.

TCFD covers 4 key themes (with 11 disclosure recommendations within those themes) for organisations to include in their climate reporting.

Our climate disclosures are subject to internal governance in conjunction with our parent company RLMIS and Royal London Asset Management.

Governance, Strategy and Risk activities are carried out by Royal London Asset Management on behalf of RLUTM, under the oversight of the RLUTM board. For these activities we refer investors to The Royal London Asset Management TCFD report located here which provides full disclosure on how these activities which cover RLUTM are carried out.

RLUTM's activity is carried out on our behalf by Royal London Asset Management staff in its own premises. As such, our operations form part of Royal London Asset Management and the wider RLMIS operations, and any metrics and targets from an RLMIS operational perspective will include our activity. Please refer to both the RLMIS and Royal London Asset Management entity level TCFD reports for details on these aspects. RLUTM-specific activity is disclosed in this report; see 'RLUTM Climate Metrics' section.

Key TCFD Themes	Disclosure requirement
Governance	How is the board's oversight of climate-related risks and opportunities carried out and what is the management's role in assessing and managing climate-related risks and opportunities.
Strategy	What climate-related risks and opportunities has the organisation identified over the short, medium and long term. What is the impact of climate-related risks and opportunities on the organisations business, strategy and financial planning. What is the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario.
Risk Management	What are the organisation's processes for identifying and assessing climate -related risks. What are the organisation's processes for managing climate-related risks. How are the processes for identifying, assessing, and managing climate-related risks integrated into the organisation's overall risk management.
Metrics and Targets	What metrics are used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and if appropriate Scope 3 Greenhouse Gas (GHG) emissions, and the related risks. What are the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

[1] https://www.fca.org.uk/publication/policy/ps21-24.pdf

RLUTM Climate Metrics

We have disclosed a selected number of metrics across the RLUTM portfolio, as shown in Table 1 and 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.

Greenhouse Gas (GHG) comprise the seven gases included in the United Nations Framework Convention on Climate Change (UNFCC) as drivers of climate change: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3).

GHG Emissions are classified into three 'distinct' scopes, which cover the different kinds of carbon emissions a company creates in its own operations and in its wider value chain.

Financed emissions (Scope 1 and 2) are related to the emissions that a company (in this case holding companies within investment portfolios) makes directly, for example, while running its boilers or vehicles, and those made indirectly, like when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf. Financed emissions (Scope 3) are those that are more external to a specific organisation, upstream and downstream in its value chain.

Carbon footprint is the emissions intensity of the total of RLUTMs funds whilst WACI (Weighted Average Carbon Intensity) is the total of all the funds exposure to emission-intensive companies.[2]

The table below details the total emissions from all RLUTM non-property fund holdings.

Table 1: Metrics for corporate equity and fixed income, as at 31 December 2022. Source: RLAM and MSCI

Metric	Units	Value
Financed emissions (Scope 1 GHG)	$MtCO_2e$ [3]	2.1
Financed emissions (Scope 2 GHG)	$MtCO_2e$	0.6
Financed emissions (Scope 3 GHG (reported))	$MtCO_2e$	27.9
Financed emissions (Scope 3 GHG (estimated))	$MtCO_2e$	23.4
Financed emissions (Scope 1, 2 & Estimated Scope 3)	$MtCO_2e$	26.0
Carbon footprint [4]	tCO_2e / $M invested	44.3
Weighted Average Carbon Intensity (WACI) [5]	tCO_2e / $M revenue	83.9

[2] This entity level TCFD report is a standalone report and metrics stated here are not an aggregation of those in fund-level reports.
[3] Million tonnes of CO_2 equivalent
[4] Scope 1 and 2
[5] Scope 1 and 2

For our real estate funds, the impacts of climate change, the metrics used to measure climate change and the management response required differ significantly from all other asset classes; thus we disclose these separately.

Energy and GHG emissions for our property funds

Table 2: Metrics for property, as at 30 September 2022. Source: RLAM

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 building energy intensity by floor area	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

Note: 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.

Note: 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.

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

Note: 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.

Note: Please see Royal London Asset Management Property's Net Zero Carbon Pathway Progress Report (2022) 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.

See Appendix 1 for Methodological and data assumptions, limitations and disclaimers

TCFD disclosures for RLUTMs funds

Non property funds are available on the Royal London Asset Management Fund Centre website located here and for institutional investors our property funds disclosure is available here.

Appendix

Methodological and data assumptions, limitations, and disclaimers

For a full description of the methodologies used to calculate the metrics in the table above (e.g. financed emissions, carbon footprint and WACI) please see the Appendix on Definitions, metrics descriptions and methodologies in Royal London Asset Management entity-level disclosure.

Our disclosed metrics are subject to limitations due to the emerging nature of climate data applications and methodologies in finance. Low levels of data coverage may give inaccurate portfolio statistics. All data is supplied for informational purposes only and should not be relied upon for investment decisions. We endeavour to improve climate data in finance through public information from our engagement with companies and data providers. We believe that technological innovations will make data more easily accessible and auditable in the future. Royal London Asset Management are also working with regulators, such as through the FCA's Climate Financial Risk Forum (CFRF) in the UK, to support disclosure standardisation.

Although Royal London Asset Management's information providers, including but not limited to, MSCI ESG Research LLC and its affiliates (the ESG parties), obtain information from sources considered reliable, none of the ESG parties warrants or guarantees the originality, accuracy and/or completeness of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose.

Four areas applicable to RLUTM have been found where limitations are most evident:

1. Issuers' carbon emissions data is incomplete and can be inconsistent across sectors, asset classes and regions.

Most GHG disclosures are voluntary, relative to financial data and are subject to less rigorous auditing. Issuers disclose emissions with different levels of transparency, coverage and methodologies, making disclosures less comparable. For example, they may aggregate all GHGs into CO_2 equivalent values or reveal their operations' carbon intensity and not the absolute emissions. Furthermore, there are instances in which emissions are inherently hard to monitor and measure, such as methane emissions that leak from oil and gas infrastructure. Specific countries, such as the US and China, are relatively further behind in disclosure compared to European institutions.

When issuers don't report Scope 1 and 2 emissions, estimation methodologies that allow for further coverage can make emissions data less reliable. Methodologies to estimate emissions can be based on a company's production data, historical companies' emissions reports or by using the subindustry segment intensity average. We have enhanced Scope 1 and 2 emissions with in-house research for fixed income sterling credit instruments based on detailed knowledge of the issuers, capital structure considerations and underlying assets.

Given the lack of issuer data and inconsistencies in reporting we selected to disclose our holdings' Scope 3 emissions as estimated by data providers following the GHG Protocol methodology. The Scope 3 estimation methodologies cannot follow entirely the GHG Protocol as it would require complete understanding of each company's entire value chain and market. Nonetheless, the methodologies are based on bottom-up company-specific data when available but can also use top-down sector intensities. We note that the Scope 3 emission estimates are particularly weak for financials. This is mostly as methodologies for financials are only recently being supplemented by the Partnership for Carbon Accounting Financials (PCAF), disclosures are more complex and estimations involve using reference proxy portfolios and subindustry average emissions which are less accurate in nature than estimations for sectors where activities can be tracked by revenue split or assets.

The comparability and timeliness of companies' disclosures is limited by data providers' research cycles and the rapidly moving landscape of corporate and policy climate pledges. Timing of disclosure varies across jurisdictions and companies, with announcements on climate strategy or emissions targets not necessarily following the financial disclosure schedules. This is compounded by work and research update schedules (the workflow by which they prioritise companies' research) of both our data providers and Royal London Asset Management. The result is that carbon data is often 12-18 months out of date. Royal London Asset Management endeavour to use the most up to date data available to us at the time of calculation.

2. Issuers' financial data can be inconsistent.

The financial data standardised by ESG data providers used in this report may differ to data used in our internal financial analysis. For example, conversion rates and differences in tax system reporting make data less comparable. To assess companies' performance, Royal London Asset Management use the financial data from various data providers, including the ESG data vendors used in this assessment. This includes revenue, market capitalisation and enterprise value.

3. Aggregation and coverage

Royal London Asset Management relies on asset tagging to perform the aggregation calculations. This means there may be, on occasion, incidents where there are excluded instruments with available carbon data as they are not considered to be corporate fixed income or equity instruments. The impact this methodological approach has on our entity carbon emissions is immaterial.

4. Data sources and quality

For our equities and corporate bond portfolio the following applies:

Financial data:

Portfolio data and benchmark data is from Royal London Asset Management's financial data systems with values as at end of year 2022.

Emissions data:

Equity emissions data comes wholly from MSCI.

For fixed income securities, Royal London Asset Management have developed their own emissions research process which provides more carbon emissions data that is more granular and more relevant to our fixed income issuers. The emissions figures are calculated using a formula which uses the sourced data as a preference where this data is available, supplementing with MSCI data or estimates where they have not gathered proprietary data. Royal London Asset Management's data for emissions includes a combination of company disclosures through annual reporting, sustainability supplements, filings to the carbon disclosure project and primary research by Royal London Asset Management's Responsible Investment and Credit teams. Where we lend to ring-fenced subsidiaries, Royal London Asset Management have tried to source carbon data and revenues specific to those subsidiaries.

All Scope 3 data is sourced from and estimated by MSCI for both fixed income and equities.

For property assets a description of the methodology and sources used is included with Table 2 and also in Royal London Asset Management's entity level report.

Important information

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

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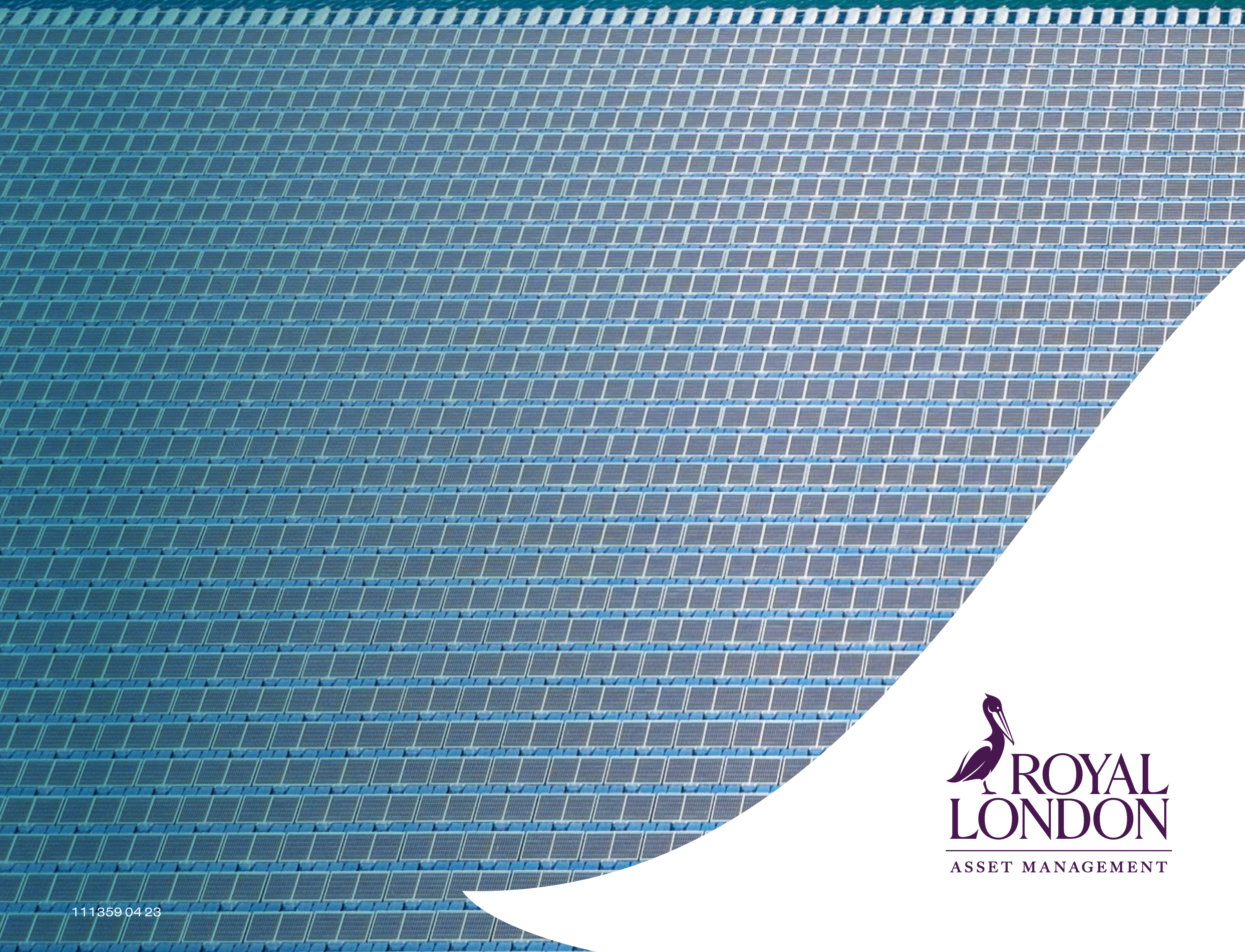

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