Navigating the climate transition

2025 update for clients on our approach to net zero

Published March 2025

ROYAL LONDON ASSET MANAGEMENT

Royal London Asset Management is one of the UK's leading fund managers. We manage £173.4bn AUM[1] for a wide range of global clients including corporate pension schemes, local authorities, insurance companies, charities, universities and financial intermediaries.

As part of the Royal London – the UK's largest[2] mutual life, pensions and investments company – we are driven by our shared purpose: 'Protecting today, investing in tomorrow. Together we are mutually responsible.'

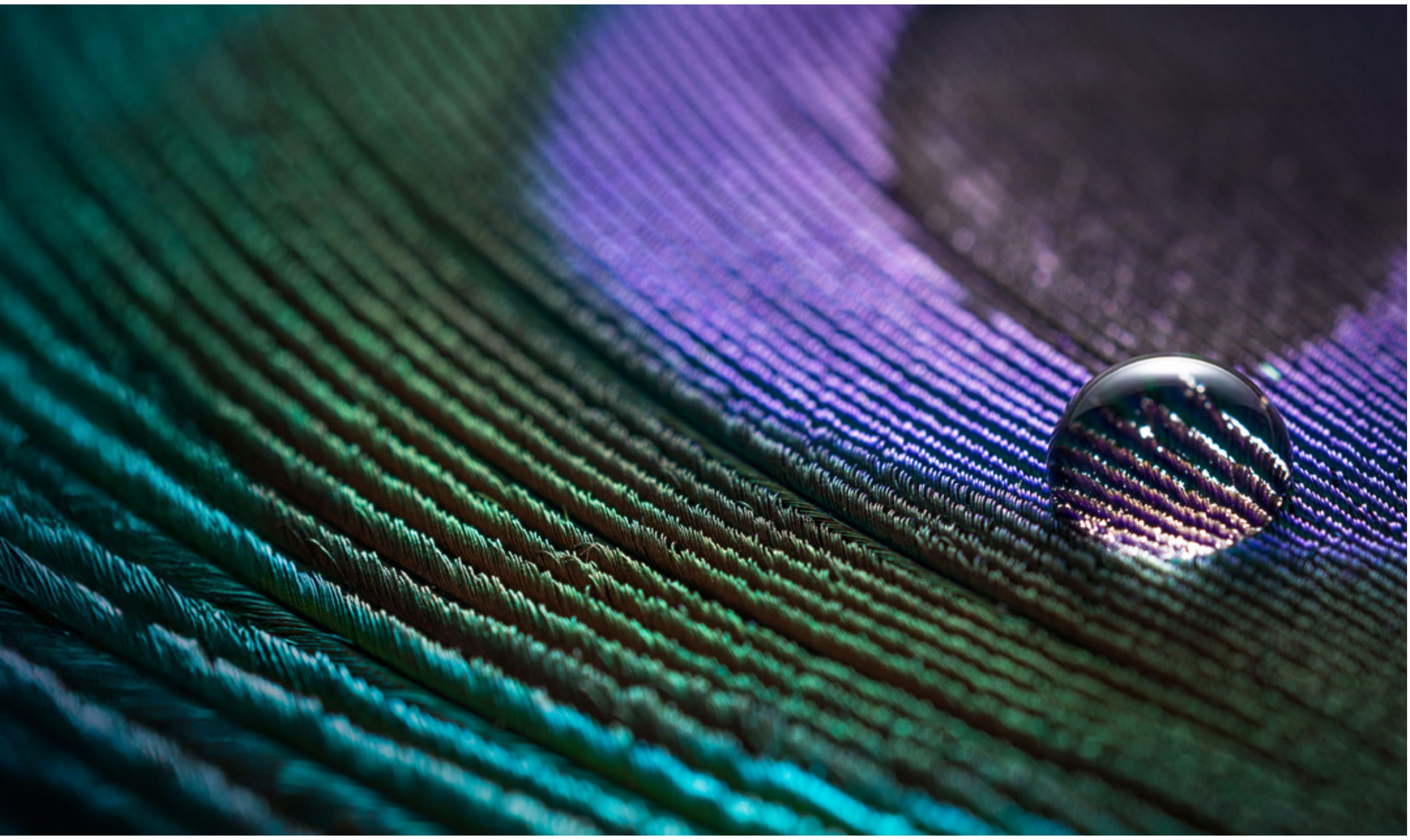
Entrusted with other people's money, we embrace our responsibility as stewards of capital for the mutual benefit of clients and wider society – Building a better future, together.

Responsible investment and stewardship can mean different things to different investors. That's why we emphasise transparency – talking with our clients to ensure we understand their priorities and that they know what our approach is delivering.

We believe that effective responsible investment helps society and produces better results for our investors.

It's asset management excellence with a longer-term perspective.

1 Royal London Asset Management as of 31 December 2024.
2 Based on total [2022] premium income. ICMIF Global 500, [2024]



Contents

A glossary of terms, should you need them, can be found on our **website**.

CIO foreword

Piers Hillier
Chief Investment Officer

This, our second climate transition document, provides clients with an overview of our thinking and progress towards net zero.

It also demonstrates how our approach is rooted in a commitment to stewardship and responsible investment. Science shows that companies, governments and society are responding too slowly to climate change – and we believe that encouraging companies to act for long-term benefit can be good for both society and investors.

While we recognise that we do not have all the answers, we strive to evolve our plan and the steps we are taking as an asset management business as new information becomes available. We remain dedicated to transparency and openness in our approach. Although publishing a climate transition plan (CTP) is not yet mandatory, we are working with our parent company, Royal London, to publish a Group-wide transition plan in 2025 ahead of mandatory requirements. In advance of that publication in June 2025, this document is intended to provide an update to our clients on our approach to climate transition.

We recognise the importance of engagement within climate action and detail our engagement progress through updates on our Net Zero Stewardship Programme. These highlight our dialogue efforts with the largest carbon emitters within our firm-wide equity and fixed income holdings and with policy makers.

Additionally, we provide transparency on our voting and engagement activities via our annual Stewardship and Responsible Investment report while we consistently share our Principles for Responsible Investment (PRI) Assessment outcomes. We also publish a Group-wide Climate report in line with the Taskforce on Climate Related Financial Disclosures (TCFD).

As an asset manager, we believe our best chance of reaching our climate goals and supporting the Paris Agreement is through proactive company and policy engagement, reducing portfolio emissions and managing risks, and supporting our client to invest in climate aware investment solutions.

ENGAGE		MANAGE		INVEST
To drive real-world change	+	Emissions and climate risk	+	To support climate-aware investments

In focus: Climate engagement priorities

Our approach involves engaging with companies to ask them to set clear targets and climate transition plans that align with the global goal of reducing emissions. Focusing our efforts lets us tackle issues more effectively, as detailed in this update. These include:

- **Net Zero Stewardship Programme:** We are engaging with the highest emitters across our investments, which represent more than 50% of our financed emissions. Our goal is to scale this engagement to cover 70% of our financed emissions by 2030 as part of our future transition plans.
- **Just transition:** This is integrated in our climate mitigation to connect climate goals with associated social outcomes. We encourage development of long-term, sustainable change by asking companies to proactively work to mitigate social risks due to climate change and/or climate action, as well as help create new business and employment opportunities.
- **Nature and biodiversity:** We are interrogating biodiversity data and developing on-desk tools to understand nature and biodiversity risks, recognising that nature and climate are interrelated. We will work with our clients and Royal London to incorporate nature into our climate transition approach, as recommended by the Transition Plan Taskforce[3].
- **Just adaptation:** We are developing thought leadership on new issues such as 'just adaptation' and contributing to industry thinking on this critical challenge (see spotlight page 11). Where relevant, we will explore how to integrate this thinking into our future transition plans.

We are dedicated to fulfilling our clients' needs and maintaining transparency in our approach and results as we advance on our climate journey.

Piers Hillier
Chief Investment Officer

> **"At Royal London Asset Management responsible investment is a critical part of our approach. It flows through our firm-wide investment philosophy and is based on being a trusted steward of our clients' assets."**

3 Nature - Transition Taskforce

The challenges

The impact of climate change is one of the greatest challenges facing humanity. It poses an increasing threat to economic growth and financial stability. Royal London Asset Management recognises the significance of climate change and its potential impact on clients' financial outcomes. The human activities that have driven economic growth and standards of living increased (e.g. affordable access to education, healthcare, nutrition or international travel) in parts of society for decades, including fossil fuel energy generation, industrial activity and modern agricultural practices, are contributing to the degradation of the natural world and altering biophysical cycles.

The global goal of climate action is to reduce the direct impacts of climate change – increase in mean global temperature, rising sea levels, droughts, extreme weather and ocean acidification. Building on the scientific consensus, The Paris Climate Agreement and subsequent Conference of the Parties (COP) identified the following long-term goals.

The Paris Climate Agreement[4]

To limit temperature increases to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature rise to 1.5°C and focusing on global actions needed to achieve this.

Increase the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development.

Make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The slow response to climate change is already causing widespread negative effects on society and biodiversity worldwide.

This is why in pursuing climate mitigation and adaptation strategies we are engaging directly with companies, governments and other stakeholders to ensure proper considerations of the just transition, just adaptation and nature in our engagement.

There is growing awareness that although the Paris Agreement represents a long-term goal, failure to act decisively now will make this very difficult and/or disruptive for society to achieve. For many companies, this will be a difficult backdrop, particularly those with high emissions who cannot pivot their or their supply chains' business models. We acknowledge that there are risks to decarbonisation – particularly social risks – and that the interdependency of the physical effects of climate change and our natural environment are not yet fully known. The lack of current comprehensive global action and increasing immediate climate impacts has informed our decision to contribute to industry thought leadership on climate adaptation (particularly 'just adaptation'). All these considerations could have an impact on the long-term investment returns for our clients.

Definition:

Just adaptation is both a government and a corporate strategy to proactively reduce the negative social impacts of adapting to climate change while aiming to maximise the benefits for society.

4 Source: Paris Agreement, United Nations 2015. Article 2. **ADOPTION OF THE PARIS AGREEMENT - Paris Agreement text English (unfccc.int)**

Climate action dependencies

We recognise that we cannot act alone to achieve the changes we need to see in the world. The 2020s are likely to be a pivotal decade in the world's collective response to the climate challenge. From our perspective as an asset manager, there are three key systemic improvements we need in order for our climate transition efforts to be successful.

1. Supportive policy

In the absence of further technological breakthroughs or disruptive changes in demand patterns, the success of our climate strategy is highly dependent on the actions of others. In particular, we are reliant on policymakers to create the policy and regulatory environment to tackle climate change. Therefore, one of the most effective actions we will continue to take is to proactively engage with policymakers on climate-related issues. As part of Royal London, we advocate for supportive policy interventions that make it more feasible and cost effective for us and the companies we invest in to transition to net zero.

2. Data and disclosure

Good quality and comparable data across asset classes and securities is key to helping us understand and evaluate climate opportunities, risks and impacts from an investment perspective. Measuring and managing climate risks is still a relatively new area and data is often nascent, unstructured and incomplete. However, we do not believe this should be an impediment to climate action. To get access to better quality data, we spend time cleaning and augmenting our carbon data and gathering energy and emissions information from our property tenants and investment companies. We are also asking companies to enhance their reporting. We continue to improve our own disclosures and will improve our metrics when methodologies change to provide timely and transparent information.

3. Real economy action

We believe that the dependencies outlined above must progress for the investment industry interventions to result in more than 'paper decarbonisation[5]' but instead to support 'real world impact'. Where we invest in secondary markets, our influence with companies can sometimes be limited.

We pride ourselves in being active, engaged investors, and there are times where we recognise the value of working collectively with others. We need investors across the investment chain to send strong signals to companies asking for credible climate transition plans. We have done this through initiatives like Climate Action 100+, Net Zero Engagement Initiative and the Financing the Just Transition Alliance. We will seek to increase our influence by working with others to amplify our voice. We expect that climate change will impact the physical assets and properties that we invest in and manage. That is why we have developed a net zero pathway for our property portfolio, with full details available in this **report**.

5 Paper decarbonisation refers to the reduction of emissions in a portfolio independent from the real world impact reduction: **Balancing on the net-zero tightrope – speech by Sarah Breeden | Bank of England**

Our commitment

We believe that climate change is a key challenge that will define this generation. Temperatures are on track to rise by around 3°C[6] by 2100 if further immediate action is not taken to curb global carbon emissions.

Royal London Asset Management's approach to climate change is rooted in our commitment to stewardship and responsible investment. This means working closely with our clients, who entrust us with their money, to find a net zero pathway that helps them meet their financial goals whilst also managing climate-related financial risks.

Given the impact climate change may have on our clients and their investments, it is important that we play our part, work with others and support activities to reduce the impacts of climate change on the economy, people and the planet.

Our climate commitment

We are committed to playing our part in achieving net zero through the following actions as part of Royal London:

- **Engaging with policymakers, the companies we invest in, our peers and other stakeholders** to play our part in moving fairly to a sustainable world.
- **Reducing the emissions of our investments** by 50% by 2030 as part of the transition to net zero by 2050[7].
- **Developing investment solutions** that enable clients to invest in the low carbon transition.
- **Achieving net zero operational emissions** by 2030 as part of Royal London.

For further details on Royal London and Royal London Asset Management climate commitments, please see **Royal London Climate (TCFD) report**.

Our commitments are made at the firm-level, and we will report periodically and transparently on the progress we are making. This commitment does not apply to all Royal London Asset Management funds and strategies individually because each will have different investment objectives. Please check the prospectus for details on specific fund-level objectives.

For our property investments, we have committed to achieve net zero by 2030 for directly managed property assets and developments and 2040 for indirectly managed property assets.

Our intention is to decarbonise Royal London Asset Management's in-scope assets under management 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. We will continue reviewing the progress of our implementation and commitments on an annual basis as part of our future climate disclosures.

6 **Temperatures | Climate Action Tracker:** 2.7°C which is the median of low and high ends current policy projections.
7 The term Net Zero means achieving a balance between the amount of greenhouse gases emitted into the atmosphere and the amount removed from it. 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 Management's fiduciary duty to external investors. The commitment is baselined on the year 2020. It includes assets managed and controlled by Royal London Asset Management, but excludes segregated mandates managed on behalf of external clients, unless otherwise instructed.

Royal London Asset Management's efforts are focused on supporting the decarbonisation of the companies we invest in through engagement (and not decarbonising our portfolio, e.g. through direct exclusions, regardless of the real economy)[8]. The commitment is based on the expectation that governments and policymakers will deliver on commitments to achieve the goals of the Paris Agreement. It also assumes this action does not contravene Royal London Asset Management's fiduciary duty to our investors. We will work with others to pursue real-world emission reductions.

Our objective is to evaluate and influence through engagement with issuers representing 70% of our corporate financed emissions by 2030. To this end, we aim to support and invest in companies that have credible climate transition plans. We are asking for climate transition plans and adoption of emissions reduction targets linked to science-based sector specific alignment methodologies (such as the Science-Based Targets initiative or "SBTi"). The proportion of our Assets Under Management (AUM) to be managed in line with net zero may increase or decrease over time as a result of company actions, economic activity, fund launches or closures, client preferences, methodology development in particular asset classes and the development of new technology and climate solutions. We will continue reviewing the progress of our implementation and commitments regularly as part of our future climate report disclosures.

We use shareholder voting (when relevant) and/or engagement to influence positive change on the issues that matter in the companies we invest in across listed equities and fixed income.

Alongside our individual and collaborative corporate engagement, we believe government and public sector advocacy forms a core component of any comprehensive net zero strategy and is therefore central to our approach. For investors, the effectiveness of corporate engagement to encourage the climate transition could be limited by holding size and the resources needed for individual or collective engagement. Public policy intervention can bring widespread, systemic improvements.

Our advocacy approach is typically a collective undertaking. Working in groups with other investors, we encourage public policies focused on achieving net zero emissions.

We recognise that our own operations and value chains contribute to climate change. As part of Royal London, we have committed to reach net zero across our direct operational emissions by 2030. To help towards achieving this, we are committed to purchasing 100% renewable electricity, related to our Scope 2 operational emissions, by the end of 2025. We have also committed to reach net zero in our non-investment related value chain emissions by 2050 with a 50% reduction by 2030[9].

8 Unless this resulted in additional climate risk mitigation.
9 Source: www.royallondon.com/about-us/how-we-are-run/mutuality/our-climate-commitments, as of 15 April 2025.

Our approach

Climate change is a complex and multi-faceted issue and cannot be reduced solely to numbers. When assessing and managing climate risks and opportunities, we are mindful of our many stakeholders, including clients, regulators, end customers and the communities in which we and our investee companies operate.

Investment principles guide our approach to net zero

Different stakeholders and clients have different goals and needs. They also have different time horizons. This means climate change could impact each differently. Some regulatory risks can be more concentrated in the near term and easier to predict. A number of physical climate impacts are having a noticeable effect already (from floods in Afghanistan or Spain, wildfires and extreme hurricanes in the US, to the Arctic loss of ice sheets or extreme heatwaves in Africa), whereas others may take longer to play out.

Differentiated active approach

For this reason, we expect climate change to impact different sectors and geographies in different ways, meaning companies and our clients could be faced with different choices on how best to manage these. At Royal London Asset Management, we believe in research-led investing that underpins an active approach to investing. We feel it is the individual characteristics of companies and or assets that are important when making investment decisions. This drives our approach when building climate-aware stock-picking and quantitative portfolios.

Distinct culture

We do not expect the pathway towards the Paris Agreement's goals to be simple or straightforward. Supporting our stakeholders, including clients, regulators, our people and broader society is an essential element for us to deliver our goals. Our active portfolios are built and developed through a corporate culture that prioritises dedicated, collaborative teams over star-manager culture – we believe that this produces better long-term returns. Being open, honest and realistic about the challenges we face as we work on the solutions, we need to solve this collective problem is critical. As climate science and investor understanding evolves, we will need to learn and improve. Our dedication to continuous improvement and a collegiate investment culture will serve as a driving force in achieving our objectives.

Purpose-driven

Our actions are underpinned by our Royal London Purpose: "Protecting today, investing in tomorrow. Together we are mutually responsible." This guides our strategy, shapes our culture and informs our long-term response to climate change. The trust and confidence of our clients is a key priority as we help them to build their financial resilience. We will clearly communicate the choices we make to deliver our climate strategy. We believe financial resilience and long-term sustainability are complementary, and these aims are best met in a world where the goals of the Paris Agreement are pursued.

Trusted stewards

Putting clients first means listening first. Taking climate change into account can reduce the risk of long-term capital losses on an investment by avoiding 'stranded assets' that were profitable in the past but could become loss-making in the future. We know climate transition takes time and needs to carefully balance financial and longer-term climate outcomes. That is why our approach to climate is focused on supporting companies to transition their business models through focused, effective and proactive stewardship and engagement. We also want our clients to benefit from new investment opportunities that enable them to invest to support the low carbon transition.

Spotlight:

What is 'just adaptation' and why should investors care?

At Royal London Asset Management, we have been supportive of the science of climate change for years, actively engaging with companies through our Net Zero Stewardship Programme and advocating for a just transition that considers the social implications of a shift to a low carbon economy.

Although it has been often overlooked, there is a second global goal established by the Paris agreement on climate adaptation which aims at 'enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change'[10]. As the impacts of global warming continue to become more widespread, severe, and tangible[11,12], it is growing increasingly critical that investors (asset managers and asset owners) put their efforts towards climate adaptation and resilience to address those impacts, while continuing the drive for mitigation.

Climate change is not only a threat to the environment, but also to equality. Vulnerable communities and regions face disproportionate challenges and risks, such as food insecurity, water scarcity, (forced) displacement and health crises[13]. Climate adaptation strategies, like their transition counterparts, stand either to ameliorate or to exacerbate these inequalities. If strategies are developed in a way that disregards the rights and perspectives of affected stakeholders and communities, these may help to manage physical climate risks for the entity, while creating adverse social and environmental impacts at the same time, a phenomenon known as 'maladaptation'[14].

Just adaptation, on the other hand, is an approach that aims to not only minimise the risk of negative social externalities associated with climate adaptative efforts, but also to maximise the adaptation benefits for wider society, especially those that are most affected by climate change.

It is complementary to the just transition approach to climate mitigation, sharing many principles with it. These include recognising the different needs and perspectives of relevant diverse groups and stakeholders and making efforts to ensure their meaningful participation and empowerment in decision-making and implementation processes. It also means to harness the potential of different kinds of adaptation solution[15] to produce co-benefits for affected communities which can include increased biodiversity, carbon sequestration, health benefits, and employment creation[16]. However, most importantly, just adaptation like just transition, ensures that solutions are fair and inclusive, leaving no one behind.

We believe investors can play a key role in driving and supporting a just adaptation by influencing the allocation of resources, the direction of development, and the corporate governance of climate action. By integrating a just adaptation lens into their strategies, policies, and practices, investors can reduce their financial and reputational risks while unlocking new opportunities for value creation, impact generation, and stakeholder engagement.

10 Article 7 of the **Paris Agreement**.
11 A report by The Copernicus Climate Change Service found that average global temperatures had exceeded pre-industrial global temperatures by 1.5°C or more for 12 consecutive months in June 2024.
12 The **IPCC's Sixth Assessment Report (AR6)** states that '[h]uman-caused climate change is already affecting many weather and climate extremes in every region across the globe. This has led to widespread adverse impacts and related losses and damages to nature and people (high confidence).'
13 **IPCC's Sixth Assessment Report (AR6)**.
14 Schipper 2020, **Maladaptation: When Adaptation to Climate Change Goes Very Wrong**.
15 Adaptation solutions are either technological, infrastructural, institutional, behavioural, cultural and/or nature-base. See figure 16.5, p.2434, **IPCC AR6 Chapter 16**.
16 WRI 2022, **The Triple Dividend of Building Climate Resilience**.

> Climate change is not only a threat to the environment, but also to equality.

Our actions

Since we published our climate commitment in 2022, we are making progress in developing our climate transition plan as part of Royal London. This plan will serve as a roadmap to help us set up the practical steps that we need to take so that we can support our clients and work towards minimising climate risks and maximising any available opportunities. As our longer-term transition plan develops, we continue to take steps to evolve our business which will provide us with a strong foundation to build upon.

Our pathway to progress

As an asset manager, we acknowledge that developing a credible and practical long-term pathway to 2050 and beyond will take time and lots of engagement with our clients. During 2024, we have taken some practical steps forward. This involved further evaluating our clients' climate needs and testing the impact of integrating net zero requirements into some of our investment processes.

Our climate transition plan will be further developed and will be informed by best practice, including: the FCA's guidelines supported by ISSB and the UK Treasury's Transition Plan Taskforce sector neutral guidance and the **guidance for asset managers**[17]; Glasgow Financial Alliance for Net Zero **(GFANZ)** best practices for transition plans principles; and the Institutional Investors Group on Climate **(IIGCC)** Net Zero Investment Framework (NZIF) guidelines.

17 **TPT-Asset-Manager-Sector-Guidance.pdf (transitiontaskforce.net)** The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (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.

18 Emissions measured as tCO2e per USD million invested, against a 2020 baseline. These commitments are based on the expectation that governments and policymakers will deliver on the commitments to achieve the goal of the Paris Agreement and that the required actions do not contravene our fiduciary duty to our clients. Our climate commitments include assets managed and controlled by Royal London Asset Management and segregated mandates where clients made explicit commitments to net zero.

Here is a snapshot of what we are working on.

	Our ambition	Our activities and plans
Engagement	We have committed to engage with 70% of our financed emissions by 2030.	We are currently engaging with companies representing at least 50% of our financed emissions across our listed equities and corporate bonds. We plan to increase this to 70% by 2030 to scale up and deepen our engagement at both firm and fund level as we move closer to 2050.
Portfolio emissions	We have committed to reduce the emissions of our investments by 50% by 2030 as part of the transition to net zero by 2050[18].	We plan to evaluate forward-looking net zero alignment metrics to integrate them further into our investment research to support decarbonisation of the companies we invest in, in line with client expectations. Our main area of focus relates to improving our understanding and use of these metrics, as the field, data and knowledge evolves.
Portfolio emissions – property investments	We have committed to achieve net zero by 2030 for directly managed property assets and developments and 2040 for indirectly managed property assets.	We have evaluated the carbon in our property portfolio and projected its emissions forward to understand what reductions and actions will be needed. We plan to make targeted interventions for our embodied carbon impacts, operational energy used, on-site renewable energy capacity, off-site renewable energy procurement and carbon offsetting strategy. We have a detailed delivery plan with concrete actions in our **net zero carbon pathway report**.
Climate aware investment solutions	We have committed to develop solutions that enable clients and customers to invest in the low carbon transition.	We plan to further define and develop climate-aware investment solutions, so that we can evolve our existing products and create new product in this space. Our current focus is on Equity Tilts, Sterling Credit, Equity Transitions, Commodities and Sustainable product offerings.
Operational emissions	Through Royal London, we have committed to net zero direct operational emissions by 2030 (Scope 1 and 2) and net zero in our Scope 3 non-investment value chain by 2050.	We will purchase 100% renewable energy for our operations (Scope 2) by the end of 2025[19]. Our operational net zero strategy includes transitioning to all-electric vehicles, installing solar PV across viable sites and replacing all fossil fuel boilers and equipment. Our value chain net zero strategy is initially focused on the highest emitting categories which are purchased goods and services, business travel, employee commuting and homeworking.

19 Source: www.royallondon.com/about-us/how-we-are-run/mutuality/our-climate-commitments, as of 15 April 2025.

Business operations

1. Improving knowledge and accountability

We continue to work towards embedding responsible investment and climate considerations across our business as part of our climate commitments. In 2024, we delivered a programme to train our Investment and senior leaders on responsible investment concepts including climate. We offered the CFA Certificate in ESG (environmental, social and governance) Investing across the firm. Alongside this, we developed a bespoke formal training scheme on responsible investing and climate change, improving knowledge sharing internally and externally, and creating greater empowerment and accountability for teams within our business to support our climate strategy as it develops. We also have included climate and engagement KPIs into our scorecard.

We believe that understanding climate science requires significant expertise, which is why we have dedicated climate experts within our business. In 2024 we set up a Climate Technical Forum comprising climate specialists across several investment teams. This platform permits the exchange of ideas, shared challenges and proposed solutions. We also set up within Royal London an external advisory group. The advisory group will supplement internal expertise and capability with challenge and additional specialist advice.

2. Managing climate risk

Guided by our Purpose, we're mindful of the role we have in supporting how we move fairly to a sustainable world. Safeguarding our clients' investments as the world moves towards net zero emissions is a key strategic priority. Our clients expect us to manage their assets in a responsible way that meets their financial objectives. We do this by embedding climate risk into our risk appetite framework and risk management system, helping to manage climate risks on behalf of our clients.

We will approach climate risk management in a holistic manner. Climate change creates risks for the companies, issuers, and properties in which we invest, meaning they cannot continue with business as usual.

We evaluate the transition plans and physical risks while supporting a biodiversity-conscious, just transition and just adaptation approach to a low carbon economy. We favour active engagement to address these risks with the expectation that our activity, as well as that of investors across the investment chain, will support not just entity-level decarbonisation but also real-world impact.

3. Improving in-house tools, data and systems

Since 2019, we have continued to build ESG datasets, analytics and technical solutions. In 2022, we developed a Climate Transition Assessment (CTA) methodology comprising 12 indicators. We use this framework to evaluate, engage and monitor the highest emitters in our portfolios. We will carry on enhancing the quality of our climate data and tools, making efforts to augment both our emissions coverage and CTA, as well as building more sophisticated approaches that further support investment decision making. We report our actions and progress of the climate transition assessment through our Net Zero Stewardship programme.

During 2024 we evaluated ways to better align our assessment of climate transition across various asset classes and strategies. We also built a tool to capture our bespoke CTA information in a database, which will help us monitor and track progress more effectively and also allow us to scale up and report this information internally and externally in the future.

4. Reducing our operational emissions

Our operational emissions reductions are managed by Royal London. Updates on energy-savings initiatives, Scope 1 and 2 location-based emissions reduction and renewable electricity contracts can all be found in our most recent **Royal London Climate (TCFD) report**. During 2023 and 2024, we expanded our focus by setting our non-investment Scope 3 emissions net zero strategy as well as continuing to take action to reduce our operational emissions. We have maintained carbon neutrality since 2020 in our direct operational emissions while reducing our use of carbon offsets year-on-year.

Products and services

5. Evaluating net zero approaches

In order to evaluate the progress we make against our climate goals we require good quality and asset-class specific assessment of climate- related risks and opportunities, as well as information about our progress against a net zero pathway. In 2024, we started a deep-dive evaluation of whether adjusting a portfolio holding to align to net zero impacts risk-return expectations across a select group of funds across various asset classes. As we evaluate more investment strategies, this will help us position our business to meet clients' interest in climate-aware investments and net zero products.

6. Innovating and evolving our product range

During 2024 we explored new product ideas that would support our clients to invest in ways that are more aligned with their climate goals. We also held in-depth conversations with clients about how we can evolve our existing mandates to meet their climate needs. Over time, we hope to expand the climate-aware investment solutions that we offer so our clients can, for example, gain exposure to companies and assets that are transitioning to a lower carbon future.

Engagement with value chain

7. Understanding our clients' needs

Our clients' views are not homogeneous but are an essential input into our pathway to net zero. Their support will be integral for us to meet our collective climate goals while also delivering them the financial returns they expect. We continue to have in-depth conversations with clients to understand what they expect from us. In-house research, client surveys and round tables are important inputs into our thinking and our approach to climate transition. Clients identify the need for common definitions around climate, net zero and systematic metrics access and use. They are also challenged by legal and regulatory duties, emerging new labelling regimes and the wide-ranging preferences and beliefs of their own underlying clients.

20 **Transition Plans: Finding a Common Ground for the Financial Sector | Intermediaries | RLAM**

8. Focusing on net zero engagement and stewardship

Our Net Zero Stewardship programme is a core component of our net zero strategy. We believe that encouraging companies to drive down their emissions has a much more direct and 'real world' impact than divesting assets. To support this strategy, we use our CTA mentioned above to evaluate the climate transition plans of our highest emitters. We are currently targeting engagement with companies representing 50% of our financed emissions across Royal London Asset Managements' holdings, and we plan to increase that to 70% by 2030. You can read more detail about our net zero engagement activities and climate reports **here**.

Proxy voting is integral to our stewardship strategy and, together with engagement, is used to reinforce our responsible investment objectives with investee companies. Our analysis and engagement on climate helps 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.

9. Engaging with industry, government and the public sector

To help achieve our climate commitments, we will continue to encourage policymakers to support the transition to a low carbon economy, in a way that considers the impact on society. We continue participating in asset management industry forums and advisory groups and are one of the 20 members of the Climate Financial Risk Forum **(CFRF)**. Our role is to support the objectives of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) to build capacity and share best practice on climate change across financial regulators and industry. We also participated in the guidance developments of HM Treasury's **Transition Plan Taskforce** and contributed to pan-European dialogues in 2024[20].

Spotlight:

Navigating climate transition across asset classes

We manage a diverse array of products that cover various asset classes such as public and private equities and corporate debt, sovereign debt, real estate, cash and commodities, with some exposure through derivatives. This diversity introduces complexities in forming an overarching approach to climate transition across our asset management business but also unveils present and future opportunities. Each asset class may follow a distinct transition path due to differing financial goals, risk profiles, and investment horizons. In some investment strategies, we seek to mitigate climate risk by divesting certain assets or replacing them with investments that exhibit stronger climate governance. In other cases, our most effective approach involves engaging directly with issuers or investing in assets instrumental in the shift to net zero.

As an active manager that values research-led and empowered investment decision-making, we do not subscribe to a uniform approach. Our methods for influencing climate outcomes are tailored to each asset type. For instance, equity investments might require focused engagement and voting efforts, while credit investments might demand attention to debt structures and covenants as well as choosing not to re-invest when lending matures. In the property sector, our priority is to support the long-term value of buildings under various climate scenarios. Additionally, we recognise that for some investments, like commodities and derivatives, frameworks for measuring and reporting carbon emissions are still evolving. For some of these, although we may initiate climate action, this is likely to be a first step into a longer-term evolution. We are collaborating with data providers, partners, and regulatory bodies to tackle these challenges.

Looking ahead

Climate change stands as one of the paramount challenges of the 21st century. Its toll is already evident, and without further technological breakthroughs, intervention from policymakers, companies and investors, the impacts are likely to become more acute and damaging.

The current decade holds immense significance in our collective response to this challenge. We commit to careful planning, prudent action, continuous improvement, and ongoing learning and dialogue. Together, we can forge a path to play our part in moving fairly to a sustainable world.

As we collectively strive for a more sustainable future we invite you to engage in a conversation about how we can work together to help mitigate the worst impacts of climate change.

Carlota Garcia-Manas
Head of Climate Transition and Engagement

Keeping you informed

We are committed to being transparent and open about our approach to responsible investment. You can read about this in detail in our annual **Stewardship and Responsible Investment report**. This includes updates on our net zero stewardship strategy, covering corporate engagement, voting and public policy advocacy. We also regularly publish topical articles research and views on our website **here**. For example, on climate, net zero, Just transition, Just adaptation and the impact of frameworks such as SRD, CSRD on our clients and offerings.

We have published climate-related or **TCFD reports** since 2021, demonstrating how we think about managing climate risk. Since June 2023 we publish our climate (TCFD) reports at both legal entity and **product level**, in line with the FCA UK regulatory requirements. We will continue evolving our disclosures as methodologies progress and clients and regulators request them.

This document describes the evolution of our views and approaches on climate transition and adaptation to support the Paris goals and our ambitions. We are carefully monitoring emerging best practice standards and regulatory requirements, as well as evaluating the recommendations of the Transition Plan Taskforce and the requirements of the FCA in the UK. We expect to publish more details in a Royal London Group Climate Transition Plan in 2025.

To learn more about our work supporting our clients with our climate transition action plans, please contact your Royal London Asset Management relationship manager.

Find out more by visiting www.rlam.com

Climate (TCFD) Report

Net Zero Stewardship programme

Property net zero carbon pathway

What is just adaptation and why should we care

Expectations for energy utilities' just transition

Banking just transitions investor expectations

Important information

Investment risks

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested. Changes in currency exchange rates may affect the value of these investments.

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Contact us

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For further information, please visit **www.rlam.com**

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